

How do I make my income cover my expenses?

Chapter 24

Budgets

Key Terms

budget
fixed expense
flexible expense

Chapter Objectives

After studying this chapter, you will be able to

- **identify** sources of income.
- **list** fixed and flexible expenses that may be included in a budget.
- **develop** and evaluate a spending calendar.
- **prepare** a want list with both short-range and long-range goals.
- **plan** a budget.

Key Concepts

- Managing your money wisely will help you live within your income.
- Identifying your income and expenses can help you in making a budget.
- A spending calendar can help you to know where your money goes.
- Preparing a “want” list can help you to reach your goals.
- An effective budget can guide your spending and saving.

The Need for Money Management

You need money to buy the things you need and want. The amount of money you earn affects what you are able to buy. However, how you spend your money can have just as much effect as how much you earn.

In Chapter 1, you learned that people work to fulfill their needs and wants. *Needs* are what you must have to survive. Examples of needs include food, clothing, and shelter. *Wants* are what you would like to have but do not need to survive. Examples of wants might be designer clothes, a luxury apartment, or vacations.

No matter how much money they earn, some people find it difficult to live on what they make. The more they earn, the more they spend. On the other hand, others seem to have few money problems. They usually have enough money for what they need. They are even able to save money.

You must learn to manage your money wisely in order to live on what you earn. If you do not, you will probably have money problems. Wise planning will help you live within your income. Planning will help you buy what you really need and still have money left to get the things you want. See 24-1.



24-1

People need money to buy food and other basic daily needs.



Your Reading

How can a budget help you to manage your money?

budget

A plan for the use or management of money.



Community Connections

Search the classified section of the local newspaper to locate a part-time job that interests you. Find a job that states a wage. Calculate your income if you held that job for an entire year, working 15 hours per week.



Your Reading

How does knowing your expected income help you in making a budget?

fixed expense

Something for which a set amount of money must be paid regularly, such as rent, insurance, or tuition.

A plan for the use or management of money is called a **budget**. An effective budget helps you maximize your earnings and manage your spending. Now is a good time to start following a budget. Learn to manage the money you earn now. As your income grows, you will be able to adjust your money management decisions.

Sources of Income

The first step in making a budget is to identify your sources of income. You need to know how much money you can expect to receive within an average week, month, and year. Knowing your expected income will help you plan how to manage your money.

Start identifying your sources of income by listing the money you are sure to receive. If you work, you should list your average monthly take-home pay. Include tips you receive on a regular basis in your budget plan. Since no two days or weeks are exactly alike, you cannot always accurately estimate an exact figure on tips. Use a conservative average and plan on a minimum amount.

Some additional sources of income are bonuses, commissions, and overtime pay, which are offered by some jobs. Interest on savings and dividends from investments are also sources of income. Cash gifts for birthdays and special occasions count as income, too. Such sources of income generally vary from month to month. Including them in a budget may be risky. It is safer to base a budget on sure and steady sources of income.

Types of Expenses

The next step in making a budget is to list your expenses. Expenses are usually described in terms relating to how often they are paid. If you pay bus fare every day, it is a daily expense. Many expenses are paid weekly or monthly. See 24-2. Quarterly expenses are paid four times a year. *Semiannual* expenses are paid twice a year. *Annual* expenses are paid once a year.

Fixed and flexible are other terms used to describe expenses. A **fixed expense** is a set amount of money due on a set date. Examples of fixed expenses include the following:

- rent or mortgage payments
- insurance premiums

**24-2**

Paying back the loan for a new or used car usually involves several years of monthly payments.

- tuition
- membership dues
- property taxes
- installment payments (for a car loan, major purchase, or credit card balance)

As a rule, fixed expenses must be paid when due. They cannot be changed, delayed, or reduced. Therefore, they are considered first when making a budget. (To encourage saving, some people include savings as a fixed expense. However, since amounts you may be able to save can vary from month to month, savings is listed under flexible expenses.) **Flexible expenses** are expenses that vary in amount. The most common flexible expenses include the following:

- food
- clothing
- home furnishings

flexible expense

An expense that varies in amount and does not occur on a regular basis, such as food, transportation, or entertainment.



Your Reading

What is the difference between a fixed expense and a flexible expense?

- utilities
- transportation
- medical needs
- savings
- recreation and entertainment

You have more control over flexible expenses than fixed expenses. Some flexible expenses vary with your wants. You can often adjust how much money you spend for these expenses. For instance, suppose you want to eat in nice restaurants. This will make your food expense higher than eating at home. However, if you adjust this expense by eating more meals at home, you can save money. This money might be used for another flexible expense, such as clothing or recreation.

As you manage your money, try to keep your fixed expenses to a minimum. Plan ahead and save for major purchases instead of making installment payments. This will keep your money available for flexible expenses. As a result, you will have more control over the use of your money.

How Do You Spend Your Money?

Do you know where your money goes? How much of your income goes toward fixed expenses? How much goes toward flexible expenses? In order to use your money wisely, you must know how you spend it.

A Spending Calendar

Use a spending calendar like the one shown in 24-3 to find out how you spend your money. Start the calendar when you receive your next paycheck. Record all your expenses for each day on your calendar. Total your expenses for each week. Use the column at the far right to record your weekly totals.

How you spend your money will vary from week to week. No two weeks of spending are exactly alike. Using a spending calendar for a full month will help you get a pattern of your spending habits. At the end of the month, you will have a

Spending Calendar							
Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Weekly Totals
1 Charity \$5.00	2 Lunch \$4.50	3 Lunch \$5.45 Stamps \$8.20	4 Lunch \$4.95	5 Lunch \$4.50	6 Lunch \$5.50 Movie \$9.00 Pizza \$11.00	7 Hamburger, fries, drink \$6.75	\$64.85
8 Charity \$5.00	9 Lunch \$4.25	10 Lunch \$5.35 Birthday Card \$4.25	11 Lunch \$4.25	12 Lunch \$3.95 Computer Repair \$65.90	13 Lunch \$4.75 Ball Game \$10.00	14 New shirt \$18.00	\$125.70
15 Charity \$7.00 Movie \$9.00	16 Lunch \$4.65	17 Lunch \$4.75	18 Lunch \$4.25 Greeting Card \$4.50	19 Lunch \$5.15	20 Lunch \$5.45	21 CD \$12.00	\$56.75
22 Charity \$5.00	23 Lunch \$4.25	24 Lunch \$4.95	25 Lunch \$5.15 DVD \$19.00	26 Lunch \$4.95	27 Lunch \$4.25 Hair- cut \$18.00	28 Pizza \$9.50 Movie \$9.00	\$84.05
29 Charity \$8.00 Ice Cream \$3.50	30 Lunch \$4.25						\$15.75

24-3

A spending calendar can help you keep track of what you do with your money.



Your Reading

What is the purpose of a spending calendar?

good idea of where your money was spent. You will have taken a big step toward controlling your money. This is how to make your money work for you.

How Do You Want to Spend Your Money?

A good money management system helps you use your money to get what you want. Do you know what you want? Are you putting your money to work for you? Are you using it to reach your goals?



Community Connections

Collect sales brochures from local stores and use them to cut items for a pictorial “want list.” Record the prices shown in the ads as you “shop” and make lists of items you want now and want later. Total the costs of items on the lists and write goals, indicating how you plan to acquire the money.



Your Reading

How does a “want” list help you set priorities?

24-4

Deciding what things are important to you now and in the future will help you set goals for budget planning.

A “Want” List

As you prepare to plan a budget, develop a list of things you want. Make two columns on your “want” list. Label one *now* and the other *later*. Estimate the cost of each item you list to help you plan your savings goals.

Your *now* column is for those things you want quickly. You should be able to obtain these items in a year or less. Such items might include new clothing, membership at a sports club, and a DVD player.

Your *later* column is for your long-range goals. This column is for items you want that may take more than a year to get. This list might include continuing your education, buying a car or a home, and taking a trip to Europe. See 24-4.

Look at your completed “want” list. Remember that you can’t afford to buy everything at once. You will need to set priorities for your spending. What is most important to you now and in the future? What can you afford to buy with the money you have now or will earn? What can you do without? What don’t you need? How can you trim expenses to get what you want? Could you delay some purchases? Are you beginning to think about opening a savings account?

By asking yourself these questions, you are developing money management skills. You are learning how to make your money work for you.

Planning a Budget

A budget helps you make wise money decisions. It is your personal guide to spending and saving. You develop it and make it work.

“Want” List			
Now	Cost	Later	Cost
jacket	\$ 85	laptop computer	\$ 2,000
digital camera	\$125	trip to Europe	\$ 5,000
cell phone	\$150	car	\$11,000

A review of your spending calendar can help you plan a budget. It shows how you are spending your money. It helps you see your options for flexible expenses. Your spending calendar helps you identify areas where you can make changes in your use of money.

A review of your “want” list can also help you plan a budget. It gives you direction. It helps you focus on your goals.

You don't need to account for every penny in your budget. Instead, work with estimates and follow this guide:

1. Estimate your income.
2. List your fixed expenses.
3. Review your short-range and long-range goals.
4. Estimate your flexible expenses.
5. Set aside a portion of each paycheck for savings and miscellaneous expenses.

Different people plan for different time periods in their budgets. Some plan weekly budgets. Some who are paid every two weeks set up two-week budgets. Others prefer monthly budgets because most of their fixed expenses are paid monthly.

How you set up your budget is up to you. Just be sure to be consistent. If you set up a monthly budget, convert all income and expenses to monthly figures. The following formulas may help you:

- $\text{Weekly income} \div 52 \text{ weeks} = \text{yearly income.}$
- $\text{Yearly income} \div 12 = \text{monthly income.}$
- $\text{Quarterly expense} \div 3 = \text{monthly expense.}$
- $\text{Semiannual expense} \div 6 = \text{monthly expense.}$
- $\text{Annual expense} \div 12 = \text{monthly expense.}$

Once you set up a budget, make a sincere effort to follow it. Review your budget often. Make adjustments for changes in income or expenses.

A monthly budgeting guide for a young person just entering the workforce is shown in 24-5. You can use a budget-planning guide, such as this one, as you design your own budget. Remember, this is your money-management plan. Your budget should help you reach your goals. It should

24-5

This could be a typical budget for a young person beginning a career. To have a workable budget, the total estimated income must be equal to, or greater than, the total estimated expenses.

Monthly Budgeting Guide		
Estimated Income		Estimated Flexible Expenses
Net income (wages)	\$2765	Food
Tips		At home \$140
Other		Away from home \$80
Total	\$2765	Clothing and Accessories
Estimated Fixed Expenses		New clothes \$70
Housing		Cleaning and laundry 20
Rent or mortgage payments	\$650	Accessories 20
Maintenance fees		Grooming aids 30
Other <i>Garage Rental</i>	45	Household
Insurance Premiums		Home furnishings 35
Life	35	Maintenance and repair
Health/medical	75	Gas 45
Automobile	95	Electricity 60
Home		Water
Other		Telephone 65
Debts and Obligations		Transportation
Automobile loan payments	220	Gasoline 120
Other installment loan payments	45	Automobile maintenance 30
Contributions	45	Public transportation
Tuition		Medical Needs
Membership dues	20	Doctor 50
Other		Dentist 50
Taxes and Licenses		Other
Property taxes	120	
Automobile registration/plates	5	Savings
Other		Savings account 100
Total	\$1355	Other <i>IRA</i> 100
		Recreation and Entertainment
		Movies 36
		Vacation 90
		Sport events 25
		Books and magazines
		Other
		Total \$1166

Summary

Total estimated income	\$2765.00
Total estimated expenses	
(\$1355 fixed + \$1166 flexible)	<u>-\$2521.00</u>
Balance (income minus expenses)	\$244.00

not force you to live by strict rules that do not work for you. Be patient. Learning to use a budget takes time, but it is worth the effort. A workable budget will help you manage your money. The main goal of a budget is to help you get the greatest satisfaction from your money.

Using Personal Finance Software

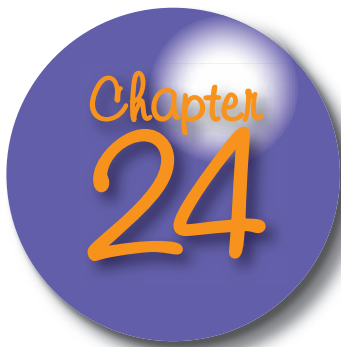
Using personal finance software is another way to prepare a budget. The programs feature budget forms that can provide reports and graphs, giving you a clear illustration of where your money is and where it is going. It allows you to plan financial goals and provides financial calculators to help you estimate costs and plan for expenses and savings.

Many personal finance software programs allow you to manage your finances by allowing transactions to be downloaded from your online bank account. You may also be able to use the software to view current account balances, pay bills, and transfer funds.



Your Reading

Why should you review your budget often?

A circular graphic with a purple background and a white glow effect. The word "Chapter" is written in a light blue, sans-serif font at the top. Below it, the number "24" is written in a large, bold, orange font with a slight shadow.

Summary

Learning to manage money is an important skill. No matter how much money you earn, it may not be enough if you don't use it wisely.

A plan for the use of money is called a budget. Its purpose is to help you manage your money so you can reach your goals. To design a budget, you must know your total income and total expenses. To have a workable budget, your income must be equal to or greater than your expenses.

A spending calendar and a want list will help you design a budget that will work for you. They will help you see your options and focus on your goals.

Reviewing Key Concepts

1. Name five sources of income.
2. List five fixed expenses.
3. List five flexible expenses.
4. True or false. You have more control over fixed expenses than flexible expenses.
5. Why should you try to keep fixed expenses to a minimum?
6. What is the benefit of developing and using a spending calendar?
7. How can a "want" list help you plan a budget?
8. List five steps to use as a guide for setting up a budget.
9. Convert each of the following amounts to monthly figures:
 - A. weekly income of \$150
 - B. quarterly expense of \$120
 - C. semiannual expense of \$60
 - D. annual expense of \$72
10. What is the purpose of planning and using a budget?

Building Academic Skills

1. **Speaking, listening.** Prepare interview questions for your parents or other adults. Ask them to give you tips on managing money and budgeting. What works for them? What doesn't work? Share the responses with the class.
2. **Math.** Describe your desired income and goals. Prepare a budget, estimating your fixed and flexible expenses. Does your budget balance? What adjustments were necessary?

Building Technology Skills

1. Go to the Web site about.com to search *budgets*. Read several of the articles available, summarize how to set up a budget, and list the top five tips you found most helpful for following budgets.
2. Use a software program to develop a survey to find out how much money the average student spends in one month. (Make the surveys voluntary and the findings private, but report the average monthly dollar total.) Document the types of jobs held to earn money.
3. Conduct an online search using the term *car buying*. Develop a list of helpful hints for buying a first car and create a list of Web sites helpful for comparing car features, prices, and performance ratings.
4. Use the Internet to research different brands of personal finance software. Create a spreadsheet to compare the different features of each program, including the ability to create budgets, pay bills electronically, balance checkbooks, create financial reports, and access online bank accounts. Also evaluate the cost and operating system requirements. Based on your research, decide which program would be best for you and share your decision with the class.

Building Career Knowledge and Skills

1. Write a fictional story about money management skills. If the character has money problems, explain why and suggest solutions. If the character has no money problems, describe the management techniques he or she uses to achieve money-management success.
2. Ask a financial counselor to talk to your class about money management and budgets. Be prepared to ask questions.
3. Collect several printed budget forms. Discuss their usefulness in class.
4. Discuss options that are generally available for handling the flexible expenses of a budget.
5. Identify ways that you or others waste or mismanage money. List your observations and determine solutions for change.
6. Research strategies to manage your money wisely. Record your findings and identify the strategies you believe will work for you. Try out one or more of the strategies and summarize your experience.

Building Workplace Skills

Following the examples in this chapter, develop a spending calendar, “want” list, and monthly budgeting guide. Begin by creating a spending calendar that describes and itemizes everything you buy for one month. Include short-term and long-term goals in your “want” list. With that information, prepare a monthly budgeting guide that addresses your income, expenses, and selected “wants” for which you plan to begin saving. Use a calculator to total and check your figures. Also estimate when you believe you will achieve each of the short-term and long-term goals in your “want” list. Describe in a one-page report what you learned from this exercise.