

Making a Budget



Objective

In this lesson, you will

Creating a Budget



Key Term

net spendable income = money that can be spent

Once workers have calculated their net spendable income, they must determine what _____ they have.

Workers who earn money must pay income tax.

If not deducted automatically (withheld) from regular paychecks, the workers must calculate and set it aside themselves.

Major Expense Categories

- Housing – all expenses having to do with a _____, including:
 - ✓ rent or _____ payments
 - ✓ electricity, _____, gas
 - ✓ sanitation (_____ collection)
 - ✓ insurance and property taxes
 - ✓ telephone and internet bills

→ should add up to no more than 30% to 36% of the net spendable income
- transportation – anything having to do with _____, including:
 - ✓ bus and train fare
 - ✓ car payments, gas, license fees
 - ✓ automotive insurance, savings for repairs

→ should be between _____% and _____% of the net spendable income
- food – food prepared at home
 - does not include eating at a _____; considered a _____ and entertainment
 - should be between _____% and _____% of the net spendable income

In addition, money for life insurance and possibly health insurance (depending on employment benefits), _____, entertainment, clothing, savings, _____ expenses, and miscellaneous purchases may need to be accounted for in a budget. Each of these major expenses will become an expense category in the budget.

	Percent
Net Spendable Income	100%
1. Housing	(30% - 36%)
2. Food	(12% - 17%)
3. Transportation	(15% - 20%)
4. Insurance	(3% - 7%)
5. Debts	(5% - 6%)
6. Entertainment	(5% - 8%)
7. Clothing	(5% - 6%)
8. Savings	At least 5%
9. Medical Expenses	(4% - 8%)
10. Miscellaneous	(5% - 10%)

Expense Subcategories

Subcategories help clarify the specific costs and can be broken into two categories:

_____ expenses = may vary from month to month

_____ expenses = constant expenses that do not change from month to month

_____ Fixed _____ Variable expenses are easier to plan for.

Example:

Anton budgets \$350 a month for transportation. He has monthly loan payments of \$100. He also must pay \$600 for insurance, \$180 in taxes, and \$60 for registration and license renewal annually (once per year).

Anton divides the annual costs by _____ so that he can save enough money each month to cover them at the end of the year.

Look at Anton's transportation budget:

He budgeted \$350 and divided it among six different categories.

❖ _____ expenses:

✓ *car payments*

✓

✓ *license/registration*

✓ *taxes*

❖ _____ expenses:

✓

✓ *maintenance/repair*

	Percent	Amount Budgeted
3. Transportation	(15% - 20%)	
a. Car payments		
b. Gas/Oil		
c. Insurance		
d. License/Registration		
e. Taxes		
f. Maintenance/Repair		

The amount of money spent on gas or oil each month will vary depending on the amount of driving Anton does. Maintenance costs may not be needed at all one month but could be expensive in another.

To determine how much money to budget for fuel, Anton should _____ the amount of money he will need. By _____, Anton will still have enough money to cover the costs.

When making a budget, the major expense categories and their subcategories are mapped out.

Examples:

1. Housing
a. <i>Mortgage (rent)</i>
b.
c. <i>Insurance</i>
d. <i>Electricity</i>
e.
f. <i>Water</i>
g.
h. <i>Sanitation</i>
i. <i>Other</i>

4. Insurance
a.
b. <i>Medical</i>

9. Medical Expenses
a. <i>Doctor</i>
b.
c. <i>Prescriptions</i>

10. Miscellaneous
a.
b. <i>Beauty/Barber</i>
c. <i>Laundry/Clothing</i>
d. <i>Subscriptions</i>

One reason people do not stick to a budget is that it feels too _____. However, including _____ as a budget category rewards budgeting and makes it easier to stick to a budget.

Calculating Amounts for Expense Categories

Use percentages to calculate how much should be spent in each category.

Example:

Sylvia has a net spendable income of \$1,600 per month. She is considering buying a car and determines that the monthly costs will be \$350.

To decide if this kind of a purchase is wise:

_____ the monthly costs by the total net spendable income.

$$\frac{350}{1,600} = 0.21875 = \text{_____}\%$$

The maximum recommended percentage for transportation is _____%.

So, Sylvia should look for a car with _____ lower _____ higher monthly costs.

Before considering a different car, Sylvia should calculate the recommended amount she should spend on transportation: between 15% and 20% of her net spendable income.

$$1600 \times 0.15 = \text{_____} \qquad 1600 \times \text{_____} = \text{_____}$$

Sylvia should plan to spend between \$_____ and \$_____ on all of her transportation expenses.

To convert a decimal to a percent, move the decimal point two spaces to the right.

0.45 → 45%

To find a specific percent of a number, convert the percent to a decimal and multiply it by the number.

Example: $0.30 \cdot 1,400 = 420$

So, 30% of 1,400 is 420.

Setting Up and Using A Budget

To ensure spending does not exceed what money is budgeted for a category, spending must be recorded. For example, Ayumi budgets \$100 each month for her miscellaneous expenses.

	Percent	Amount Budgeted	Amount Spent	Amount Over/Under Budget
10. Miscellaneous	(5% - 10%)	100	85	15
a. Toiletries			10	
b. Beauty/Barber			40	
c. Laundry/Cleaning			15	
d. Subscriptions			20	

The first row shows the entire category, and the following rows break down the category into subcategories.

At the end of the month, Ayumi has \$_____ left.

This money should stay in miscellaneous in case of higher expenses in a later month.

If a subcategory is a variable but small large expense, like gas for a car, _____ the amount of money that will be spent each month.

Prioritizing Budget Items

Most expense categories have a _____ for the percent of net spendable income that should be used to cover costs for the category.

- Adding up the lowest percentage in each category equals _____%.
- Adding the highest percentage in each category would mean spending _____%.
- The percents of net spending income given to each category must add up to _____%.

The three largest expense categories in a budget are housing, _____, and _____.

The decisions made for these categories will determine how much money is left for the rest of the budget.

If the maximum recommended percentages are spent on the housing and transportation expense categories, those categories will take up more less than half the net spendable income.

The debt category:

- can also be problematic for some people
- refers to any debt that is not part of housing or transportation
 - Credit cards and student loans are common examples.
- a fixed variable expense
- recommended to take no more than _____% of the net spendable income

Example:

Jerry is spending more than the recommended percentage on housing, transportation, and debts.

- Jerry cannot change the minimum payments required for his _____
- Jerry needs to find a way to decrease increase his housing or transportation payments.
 - If Jerry is renting, he needs to find a _____ apartment.
 - If Jerry owns his home, he may need to consider _____ it.
 - Jerry may need to consider getting a car that does not require such low high payments.

Making Wise Personal Financial Decisions

While buying something that is cheap may save money _____, it may cost more money _____.

Example:

Tabitha is looking for a new car. Finding the cheapest car possible is not necessarily going to save money. If the car needs a lot of _____, it will be significantly less more expensive to operate.

A budget:

- shows how much can be _____
- does not say how to _____ the money or what purchases to make

When making a _____ purchase, it is important to have a budget to determine how much money can be spent on that purchase without affecting the other _____ in the budget

Connections to Government

Federal Budgets

- *budget deficit* = when the government spends more less money than it collects in taxes
 - also referred to as "_____ spending"

Summary

When making a budget, what are some differences in the way fixed and variable expenses are handled?