

THE BASICS OF BUDGETING

An important and useful financial tool is a **budget**. A budget is simply a plan for saving and spending money. Budgets are designed to meet all your **needs**, or requirements for living, as well as some of your **wants**. The money earned from a job (**wages**) and from allowance, chores, or gifts serve as the core of the budget. All money received or earned is considered **income**.

In addition to income, most people also have **expenses**. Expenses can be bills, emergencies, or other types of payments. With a budget, you can determine how your income will be spent. What expenses are necessary? Do these expenses happen on a regular basis or randomly?

Budgets allow people to save for future goals. These goals can be **short-term**, like setting aside money for gas weekly. A **medium-term goal** might be to save for a new cell phone in a few months. A **long-term goal** could be to save for a new car. Determining whether you save for a short-term, medium-term, or long-term goal will depend on how much money you can set aside for that goal while meeting your expenses.

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Saving is also important for emergencies or unexpected costs. What happens if your car has a flat tire? Will you have enough money to cover the cost?

By **tracking** your money daily, you can begin to see **patterns** of how your money is spent. Budgets that include categories allow you to see patterns in your spending almost immediately. For example, if you buy your friend a birthday present, you may wish to track the expense as a **social reason** or **friend** expense. If you need school supplies, you might track that expense as **school** or **required**. Some budget templates have suggested categories. The categories are up to you. Here is an example of a simple budget:

Date	Income (Money Earned)	Expenses (Money Spent)	Expense Category	Balance	Savings
March 1	\$40.00 lawn mowing				
March 2		\$5.00 poster board	School	\$35.00	
March 2		\$4.75 lunch (pizza slice)	School	\$30.25	

March 5		\$10.25 movies	Friends/Social	\$20.00	
March 5	\$20.00 allowance			\$40.00	
March 5		Save \$5.00 (new cell phone plan)	Savings	\$35.00	\$5.00
March 6		\$18.00 gas for car	School	\$17.00	

Patterns can be changed. Notice that in this budget, there is a pattern, and most of the expenses are related to school. If you do not wish to spend that much money for school, how could you save? Can you pack your lunch rather than spend \$4.75? Can you ask friends for gas money if they are relying on you and your car for transportation to school? Would you be willing to ride the bus to school and use your car less? The decisions of how to spend or not spend money are based upon your choices and recognizing the patterns of spending you may wish to change. A budget allows you to see where and how your money is spent.

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A good rule of thumb for beginning budgets is that 50% of your money is spent on needs or required living expenses. Examples include items like gas, cell phone bill, rent, or food. Another 30% of your money is spent on wants like going out to eat, movies, or other forms of entertainment. Twenty percent of your money is then saved for emergencies or saving for medium or long-term goals.

If the monthly income is \$60.00 as in our student budget example, then \$30.00 is needed for required expenses; \$18.00 is allowed for wants or entertainment; and \$12.00 is left for savings, reserved for emergencies, or for repaying debt. In our example above, the student has not set aside enough money for savings.

Budgeting can take many forms. One of many systems is the **envelope system**. Once you have your income for the week or month, money is placed into different envelopes. One envelope is labeled for needs or required items like gas or school expenses; another envelope is labeled for wants or entertainment, and a third envelope is for savings or emergencies.

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Let's say you have a 20% envelope for wants or entertainment. In the example of the student budget, you would place \$18.00 in this envelope. If you take out \$10.25 for a movie, then you would only have \$7.75 left in this envelope for the rest of the month. To stay on budget, you could not borrow from any other envelopes but would have to live

within your means or find a way to create more income. If you have money left over from any of the envelopes by the end of the monthly budget and all bills or expenses are paid, then you could transfer the extra money to savings or emergencies.

Month to month, your budget will look slightly different. You may have school expenses in August and September. There might be birthday presents to buy in another month or holiday expenses in December. There might be an emergency expense in May. It is important to anticipate and plan for both expected and sometimes unexpected expenses.

Budgeting takes time, persistence, and mindfulness. While is not stress-free, it may help you achieve your goals, prepare for emergencies, or prevent overspending. Some people that use budgets report that they feel less stressed and better informed about making money decisions. Budgeting helps you make the most of your money and allows you to take charge of how it is spent.

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Sources:

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