

Creating and Using a Budget

Objectives

In this lesson you will:

- ✓ create a monthly budget
- ✓ use a monthly budget
- ✓ track actual expenses and compare to the budgeted amount



Budgeting is one way to make good money decisions. Your **budget** is a personal plan for spending your income. It can help you better manage your money and avoid buying goods and services that you do not need or cannot afford. It can also help you limit your spending so that you do not have financial problems.

Check your budget and adjust it to make sure that what you set aside in each category is reasonable. For example, you may find after a month that you have not set aside enough money for groceries. If you find that a category does not show your actual spending, adjust it. One great thing about a budget is that it shows where you are spending your money.

Anticipated or Budgeted Income and Expenses

Look at the example budget on the next page. Chen Hao filled out his budget for November at the beginning of the month. He listed his anticipated income and expenses in the “Budgeted” column.

BUDGET WORKSHEET			
Name: <u>Chen Hao Yung</u>		Month: <u>November</u>	
INCOME	Budgeted	Actual	Difference
Job #1	\$2835		
Job #2	--		
Other	--		
Total Income	\$2835		
FIXED EXPENSES			
Rent	\$850		
Car payment	\$335		
Car insurance	\$90		
Other insurance	\$85		
Loan payment	\$165		
Total fixed expenses	\$1525		
FLEXIBLE EXPENSES			
Utilities	\$125		
Food	\$300		
Savings	\$400		
Gas, oil, and car repairs	\$130		
Clothing	\$115		
Entertainment	\$120		
Medical expenses	\$40		
Miscellaneous	\$80		
Total flexible expenses	\$1310		
TOTAL EXPENSES	\$2835		

The Ramos Family

In this lesson, you will have an opportunity to start budgeting for the Ramos family. Miguel and Anita Ramos have a 3-year-old daughter named Rosita. They are buying a house and two cars. Miguel and Anita both have jobs. Rosita goes to daycare four days per week.

Example 1

Miguel Ramos works 40 hours per week and makes \$22.50 per hour. What is his monthly income?

Solution

First find Miguel's weekly income.

$$\begin{array}{r} \$22.50 \text{ — hourly rate} \\ \times \quad 40 \text{ — hours per week} \\ \hline \$900 \text{ — weekly income} \end{array}$$

Now find his yearly income by multiplying by the number of weeks per year.

$$\begin{array}{r} \$900 \text{ — weekly income} \\ \times \quad 52 \text{ — weeks per year} \\ \hline \$46,800 \end{array}$$

Finally, find his monthly income by dividing by the number of months per year.

$$\frac{\$46,800}{12} = \$3,900$$

Miguel's monthly income is \$3,900.

Now we know Miguel's **gross income**. However, he must still pay taxes. The income that he takes home after taxes and any other deductions is his **net income**. This is the amount that he must list on his budget.

Fast Fact

As part of the Federal Insurance Contributions Act (FICA), all workers must pay part of their income to the federal government for Social Security and Medicare. If you work for an employer, 7.65% of your income goes to FICA.

Example 2

Miguel must pay 18% of his wages in federal income tax and 7.65% in FICA. After taxes, Miguel also has \$110 deducted for health insurance. What is his net income? (Round to the nearest dollar.)

Solution

First the amount of the deductions for federal income tax and FICA.

\$3900	— gross income	\$3900	— gross income
<u>x 0.18</u>	— tax rate	<u>x 0.0765</u>	— FICA rate
\$702	— tax deduction	\$298.35	— FICA deduction

$$\$702 + \$298.35 = \$1,000.35$$

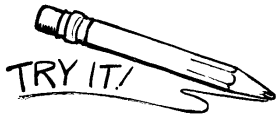
Now find his income after tax and FICA deductions.

\$3900.00	— gross income
<u>– 1000.35</u>	— tax and FICA deduction
\$2899.65	

Finally, find his net income. Subtract the deduction for health insurance.

\$2898.65	— gross income
<u>– 110.00</u>	— health insurance
\$2789.65	

Miguel’s monthly net income is \$2790 (rounded to the nearest dollar).



Answer the following questions.

- 1.** Anita Ramos works 30 hours per week and makes \$21 per hour. What is her gross monthly income?
- 2.** Anita must pay 18% of her wages in federal income tax and 7.65% in FICA. What is her net income? (Round to the nearest dollar.)
- 3.** Add Anita's net income to Miguel's net income. What is the total monthly income for the Ramos family?

4. Write the net incomes in the budget. Then find the total income. List the fixed expenses and flexible expenses in the budget. Find the total expenses.

House payment	\$1020	Utilities	\$140
Car payment #1	327	Food	580
Car payment #2	263	Savings	600
Car insurance	130	Gas, oil, & car repairs	150
Day care	450	Entertainment	210
Clothing	200	Medical expenses	100

BUDGET WORKSHEET			
INCOME	Budgeted	Actual	Difference
Miguel's Job			
Anita's Job			
Total Income			
FIXED EXPENSES			
House payment			
Car payment #1			
Car payment #2			
Car insurance			
Total fixed expenses			
FLEXIBLE EXPENSES			
Utilities			
Food			
Day care			
Savings			
Gas, oil, and car repairs			
Clothing			
Entertainment			
Medical expenses			
Total flexible expenses			
TOTAL EXPENSES			

Extra Expenses

Let's go back to the Ramos family. It looks like the family's finances are in good shape. According to the budget that you started, they have several hundred dollars in extra income. However, if you look closely at their budget, you may find that the Ramos family has left out some possible expenses.

Think about the expenses that you and your family pay each month. Did the Ramos family consider these expenses in their budget? Keep in mind that the hardest expenses to track are not the big expenses like rent or car payments, but the smaller expenses like toothpaste, shampoo, pet food, etc.



Below are some categories that the Ramos family forgot to include in their budget. Calculate the total expense for each category.

5. Personal expenses

Haircuts and hair products — \$80

Toiletries, make-up, etc. — \$60

6. Household items

Cleaning supplies — \$15

Laundry and dry cleaning — \$55

Television and Internet service — \$100

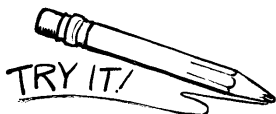
7. Miscellaneous

Pet supplies — \$20

Gifts and charities — \$180

Actual Income and Expenses

The budget for the Ramos family shows what they expected to make and spend at the start of the month. However, at the end of the month, they will need to compare the “budgeted” amounts to the “actual” amounts. Then they can list the difference and adjust their budget for the next month.



Finish filling out the budget for the Ramos family.

8. Write in the expenses that the family forgot in the blank rows below. Then find the difference between the budgeted and actual amounts. Recalculate the totals for flexible expenses and all expenses. Is there still extra income at the end of the month?

BUDGET WORKSHEET			
INCOME	Budgeted	Actual	Difference
Miguel’s Job	\$2790	\$2790	
Anita’s Job	\$2030	\$2030	
Total Income	\$4820	\$4820	
FIXED EXPENSES			
House payment	\$1020	\$1020	
Car payment #1	\$327	\$327	
Car payment #2	\$263	\$263	
Car insurance	\$130	\$130	
Total fixed expenses	\$1740	\$1740	
FLEXIBLE EXPENSES			
Utilities	\$140	\$140	
Food	\$580	\$603	
Day care	\$450	\$465	
Savings	\$600	\$600	
Gas, oil, and car repairs	\$150	\$170	
Clothing	\$200	\$210	
Entertainment	\$210	\$217	
Medical expenses	\$100	\$100	
	--		
	--		
	--		
Total flexible expenses	\$2430		
TOTAL EXPENSES	\$4170		



Practice Problems

Directions: For this activity, you will need to do independent research at your school or local library. Imagine that you are just starting your future career and living on your own. Follow the steps below to create a budget like the budget shown on the worksheet in this lesson.

1. *Income*

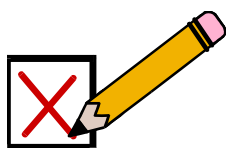
Use a local newspaper or the Internet to find job listings or career information. Estimate the monthly income from your future career. Be realistic. Since you are just starting in this career, you will likely make beginning wages. If the job you choose requires a college or trade school education, estimate a student loan payment as one of your fixed expenses.

2. *Fixed Expenses*

Use a local newspaper or the Internet to find rental listings and car sales. Estimate your expenses for rent, car payments, car insurance, and other insurance.

3. *Flexible Expenses*

Estimate your expenses for utilities, food, clothing, entertainment, medical care, and misc. If you are unsure how much you would spend in each category, do more research or ask your PASS Mentor or a parent to help you.



Review

1. Locate and highlight the vocabulary words and their meanings in this lesson.
2. Do you think that Miguel and Anita Ramos need to change their budget for the next month?
If so, what should they change?

3. Write one new thing that you learned from this lesson or one question that you would like to ask your mentor.



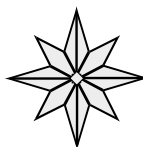
1. \$2,730 2. \$2,030 3. \$4,820 4. As shown below

BUDGET WORKSHEET			
INCOME	Budgeted	Actual	Difference
Miguel's Job	\$2790		
Anita's Job	\$2030		
Total Income	\$4820		
FIXED EXPENSES			
House payment	\$1020		
Car payment #1	\$327		
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Car insurance	\$130		
Total fixed expenses	\$1740		
FLEXIBLE EXPENSES			
Utilities	\$140		
Food	\$580		
Day care	\$450		
Savings	\$600		
Gas, oil, and car repairs	\$150		
Clothing	\$200		
Entertainment	\$210		
Medical expenses	\$100		
Total flexible expenses	\$2430		
TOTAL EXPENSES	\$4170		

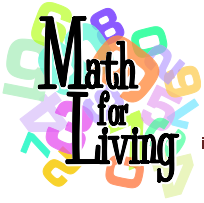
5. \$140 6. \$170 7. \$200

8. The Ramos family has \$65 in extra income at the end of the month.

BUDGET WORKSHEET			
INCOME	Budgeted	Actual	Difference
Miguel's Job	\$2790	\$2790	0
Anita's Job	\$2030	\$2030	0
Total Income	\$4820	\$4820	0
FIXED EXPENSES			
House payment	\$1020	\$1020	0
Car payment #1	\$327	\$327	0
Car payment #2	\$263	\$263	0
Car insurance	\$130	\$130	0
Total fixed expenses	\$1740	\$1740	0
FLEXIBLE EXPENSES			
Utilities	\$140	\$140	0
Food	\$580	\$603	\$23
Day care	\$450	\$465	\$15
Savings	\$600	\$600	0
Gas, oil, and car repairs	\$150	\$170	\$20
Clothing	\$200	\$210	\$10
Entertainment	\$210	\$217	\$7
Medical expenses	\$100	\$100	0
<i>Personal expenses</i>	--	\$140	\$140
<i>Household items</i>	--	\$170	\$170
<i>Miscellaneous</i>	--	\$200	\$200
Total flexible expenses	\$2430	\$3015	\$585
TOTAL EXPENSES	\$4170	\$4755	\$585



End of Lesson



Creating and Using a Budget
Pre-Assessment

Date: _____

Name: _____

1. Is budgeting a good way to make money decisions?

Circle the correct answer.

Yes

No

2. Which of the following may your employer take out of your paycheck?

a. taxes

b. FICA

c. insurances

d. all of the above

3. What is a personal plan for spending your income called?

a tax

a budget

4. A *flexible* expense costs you the same amount of money each month.

True

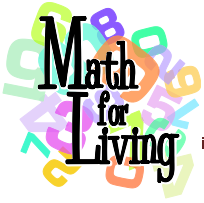
False

5. Do you need to adjust your budget because of a change in your income or expenses?

Yes

No

Total Correct: _____



Creating and Using a Budget
Post-Assessment

Date: _____

Name: _____

1. Is budgeting a good way to make money decisions?

Circle the correct answer.

Yes

No

2. Which of the following may your employer take out of your paycheck?

- a. taxes
- b. FICA
- c. insurances
- d. all of the above

3. What is a personal plan for spending your income called?

a tax

a budget

4. A *flexible* expense costs you the same amount of money each month.

True

False

5. Do you need to adjust your budget because of a change in your income or expenses?

Yes

No

Total Correct: _____

What are some examples of your fixed and flexible expenses? Identify each as being *fixed* or *flexible*. (not scored) _____
