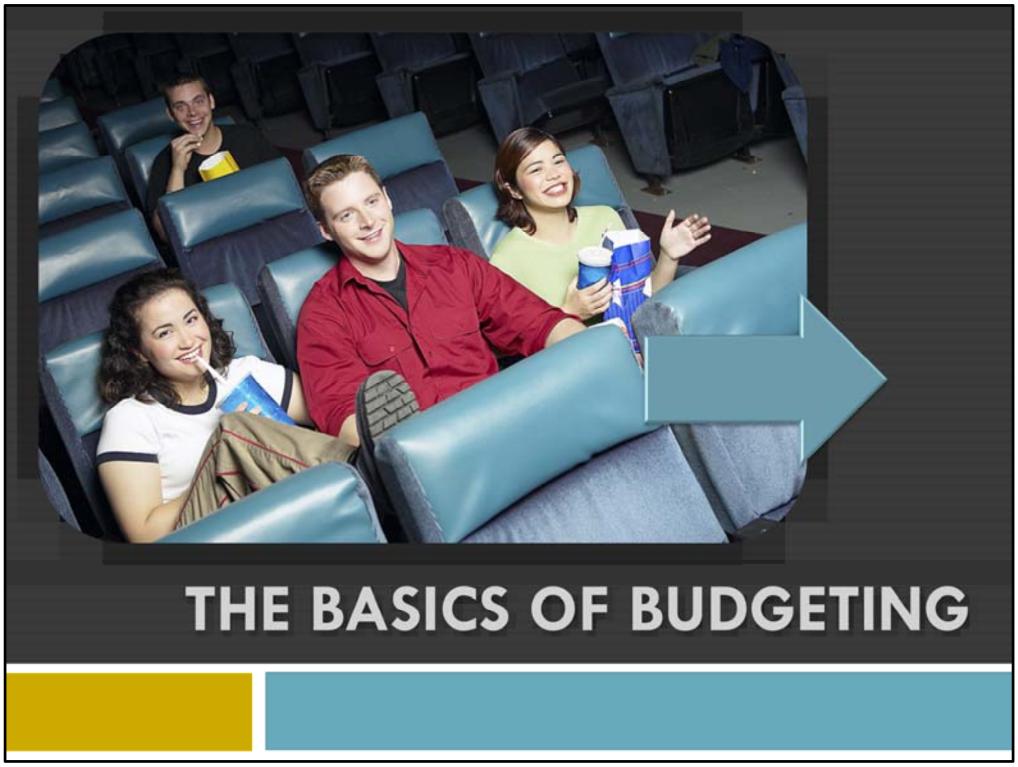


How much did you make last month? What did you spend on things that were purely for your entertainment, like movies? Was there anything you wanted to buy, but couldn't because you ran out of money?

All of these questions and issues can be addressed by creating a monthly budget which tracks your money coming in, or your income and the money going out, or your expenses. By keeping track of your money, you can prioritize your spending and make the most of it.

Before you start a budget, you should use what you have learned about setting financial goals to write a statement of short-term and long-term goals. How will you know how much you need to earn, spend, and save each month until you know what your goals are? Creating a budget can present a plan for managing your money in a short-term period, like a month, and lead to success with long-term financial planning.

First, you will need to determine your anticipated income and list it by source and amount. Do you get an allowance? Do you have a job? How much do you earn each week or month?

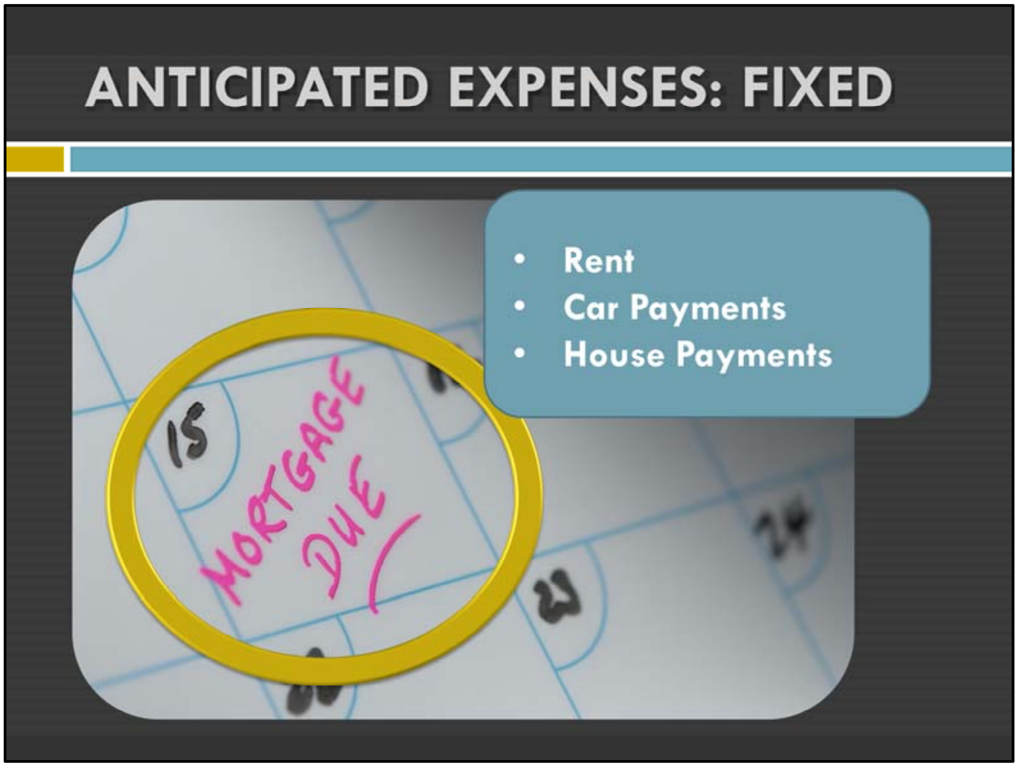
Determining your anticipated income is pretty easy because it's the same each month and usually comes at the same time. Your paycheck is a regular source of income, if you work the same number of hours every week. You can look at your pay stubs to determine your monthly income. Your allowance is also a fixed amount. Your parents probably don't give you a pay stub for your allowance, but at least it's not taxed, and it is pretty consistent.

You also need to include unanticipated income in your budget. This includes things like birthday money, tips, bonuses, and interest on savings. It's called unanticipated because it comes at different times and in different amounts. It's not a steady source of income – it may fluctuate from month to month.

Since you can't predict how much unanticipated income you make every month, you will need to estimate this number based on past experience. Say your grandmother always gives you twenty-five dollars for your birthday. You can be pretty sure you'll get at least that much in your birthday month. Suppose you earn tips at your job. You can estimate this income by getting an average of your tips over several weeks.

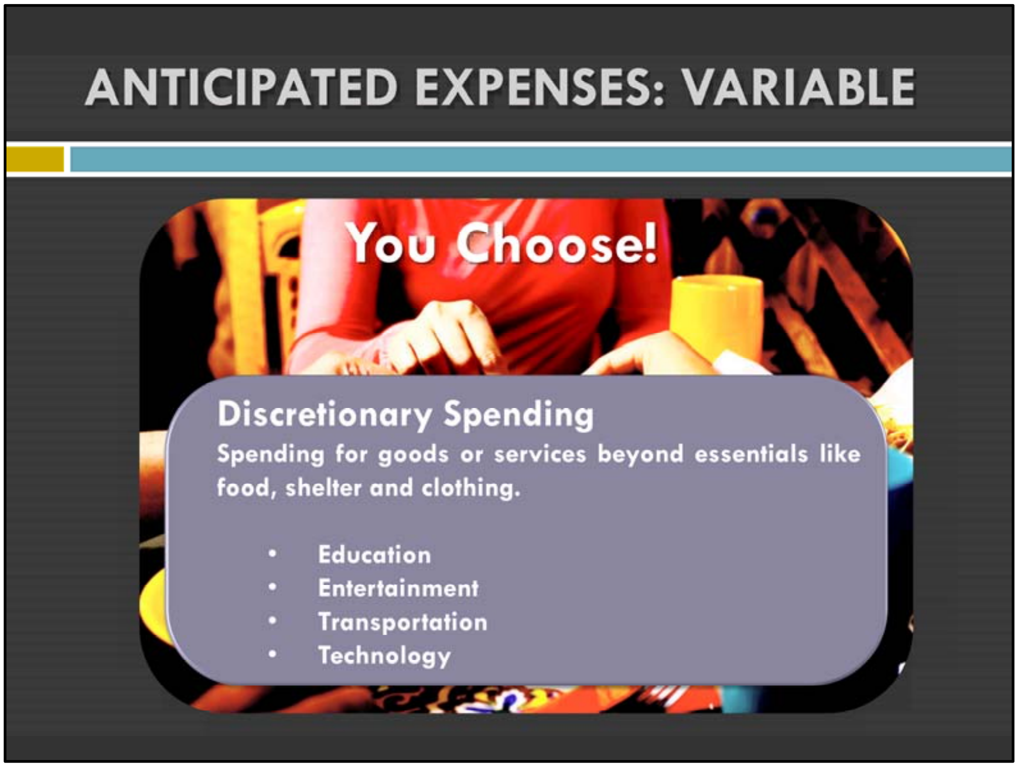
Be sure to try to accurately estimate unanticipated income. You can't spend or save what you don't have, so you should include only income that you actually expect to receive. If you include fifty dollars a week for babysitting, be sure that you will really be babysitting enough every week to earn that money, because your spending will be based on it.

For any estimates you make for unanticipated income, be sure to go back at the end of the month and adjust your budget with the actual amounts. Over time, you will have a more predictable number to use as an income.



Now let's look at your expenses which fall into two categories—anticipated and unanticipated.

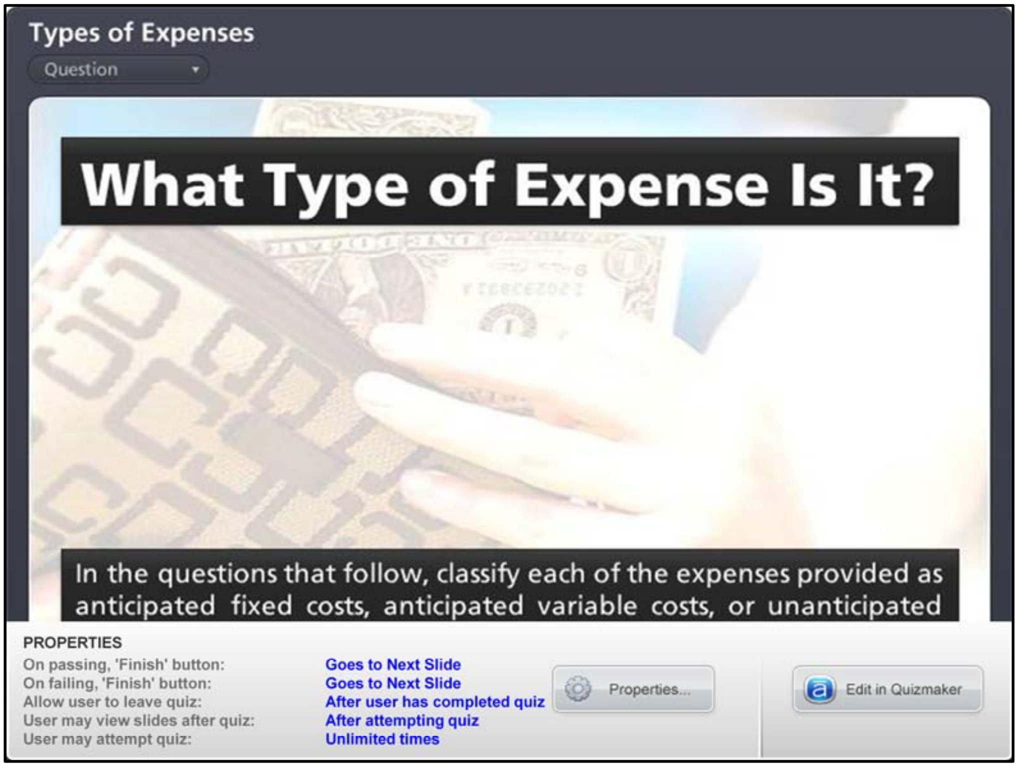
Anticipated expenses are ones that you have committed to pay and are usually the same every month. Some examples of anticipated expenses are fixed costs like rent, car payments, and house payments. Over time, you will have more fixed costs than you probably do now. These expenses are relatively easy to budget because you know exactly how much you will have to pay and when.



At this time in your life, most of your anticipated expenses are probably variable costs like video rentals, restaurant meals and sports activities. Variable expenses fluctuate based on your choices, so you have more control over how much they will be. This is called discretionary spending. Discretionary spending is spending for goods and services beyond the essentials like food, shelter, and clothing. Discretionary spending allows you to choose what to purchase and how much to spend on such things like education, entertainment, transportation, and technology.

For example, if you go to the movies a lot this month, your entertainment expenses will be high. You have other options, like renting videos, which would keep these expenses down. By definition, you can weigh the costs and benefits of different spending choices and adjust your discretionary spending expenses to keep your spending within your budget.

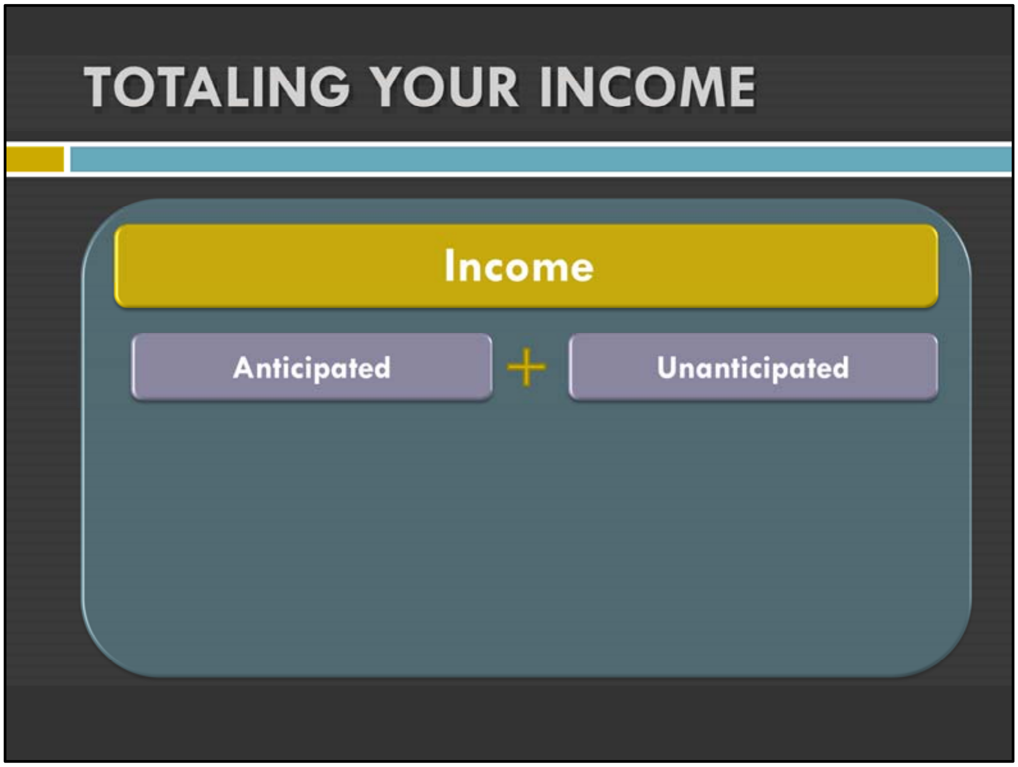
Unanticipated expenses are expenses that you don't pay every month and cannot always plan. An example of an unanticipated expense is car repairs. Hopefully, you only have to bring your car into the shop a couple of times a year, if you have one. Depending on the fix, your bill can vary greatly. With unanticipated expenses, like medical bills and loss from theft or natural disaster, you only spend the money when it happens. These expenses can be hard to budget, since you can't predict them.


Types of Expenses
Question
What Type of Expense Is It?
In the questions that follow, classify each of the expenses provided as anticipated fixed costs, anticipated variable costs, or unanticipated
PROPERTIES
On passing, 'Finish' button: Goes to Next Slide
On failing, 'Finish' button: Goes to Next Slide
Allow user to leave quiz: After user has completed quiz
User may view slides after quiz: After attempting quiz
User may attempt quiz: Unlimited times
Properties...
Edit in Quizmaker

One expense that should be part of every budget is savings. Do you save each month now? How much?

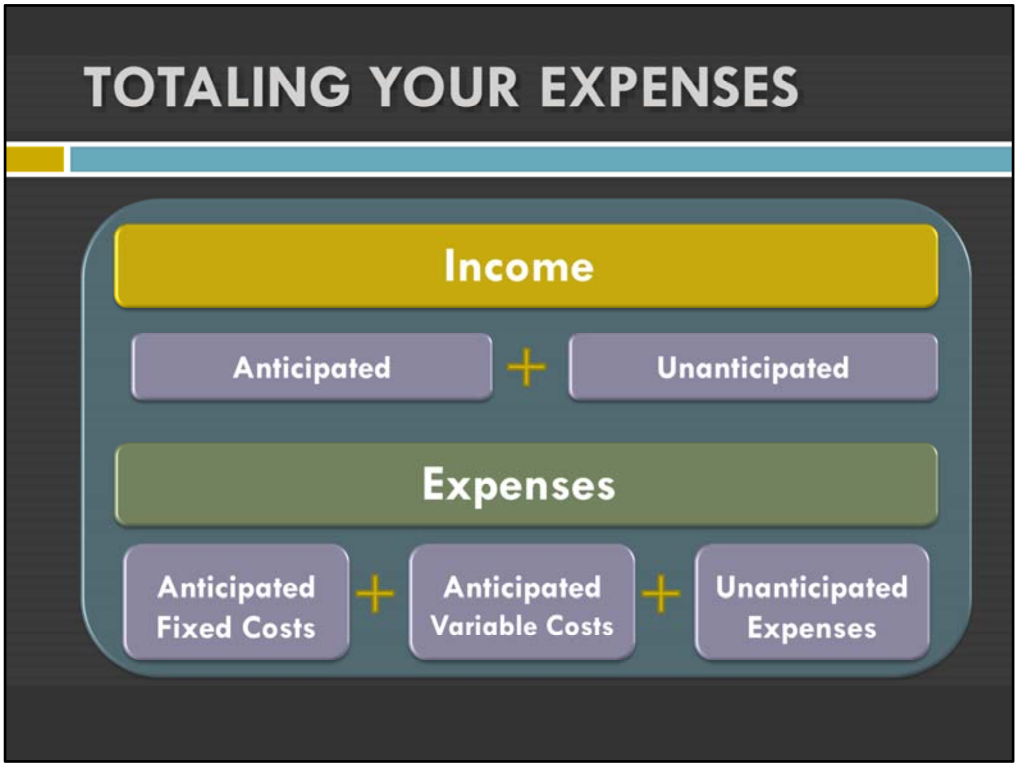
Financial experts say that saving should be the first money you spend every time you receive income. By "paying yourself first" and thinking of savings as a regular expense, you won't be tempted to spend the money instead of saving it. When you do this, you don't even miss the money because it is like you never had it in the first place. Try to save at least ten percent of every dollar you receive. By saving, you are protecting your money by being prepared for the unexpected. When something unexpected happens, you will have an emergency fund and won't have to worry about going into debt.

Through saving, you are much more likely to reach your short- and long-term goals because you are consistently saving for them. You'll be surprised how quickly your money starts to add up! Without the discipline of self-enforced saving, your future goals will be tough to meet.



Now that we have identified all of the parts of a budget, we're ready to make one.

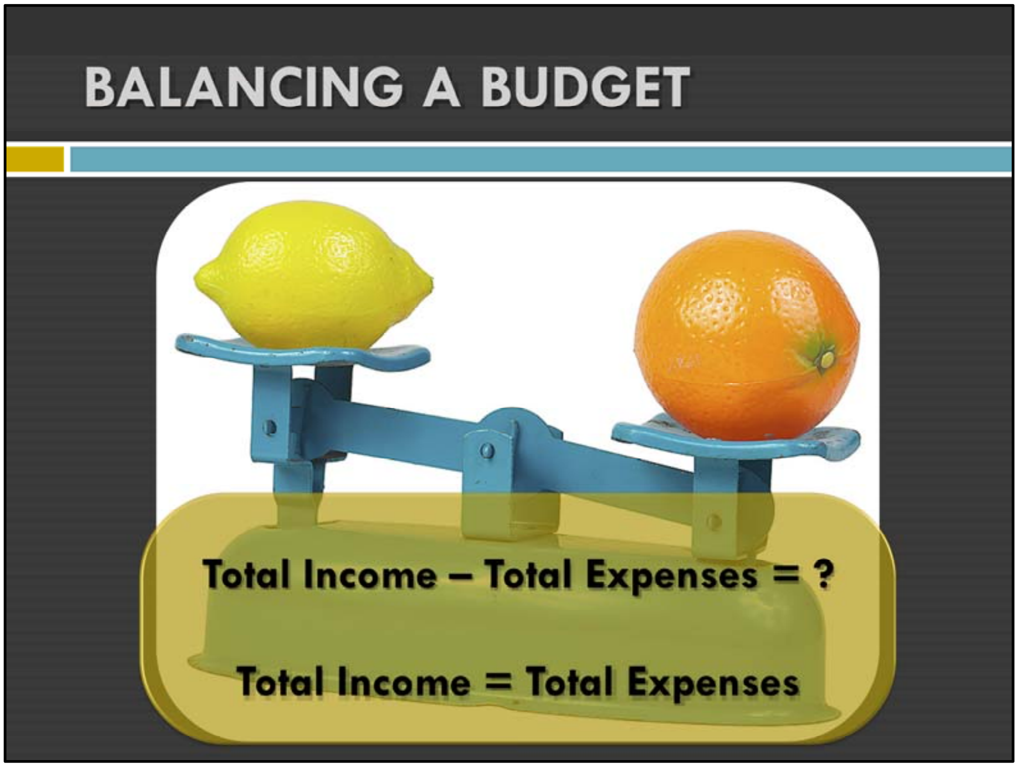
Start by figuring out how much income you receive every month. List all of your income and break it into the two types: anticipated and unanticipated. Estimate your unanticipated income based on your past experiences. Suppose you make an hourly wage and don't get paid the same amount every week. Add up your paychecks for the last six months and then divide by six to get an average. Try to make your estimates as close as possible or your budget won't be accurate. Total all of your income.



Now list your expenses by type: anticipated and unanticipated. List your fixed cost expenses first because you are already committed to pay these amounts. Include savings in your anticipated expenses.

Next list your variable expenses. Since these vary, you will have to estimate them using an average. After you have your list, group the expenses into categories. For example, entertainment includes eating out, going to the movies, and buying concert tickets. Some expense categories you might use are transportation, charity, school supplies, entertainment, and miscellaneous.

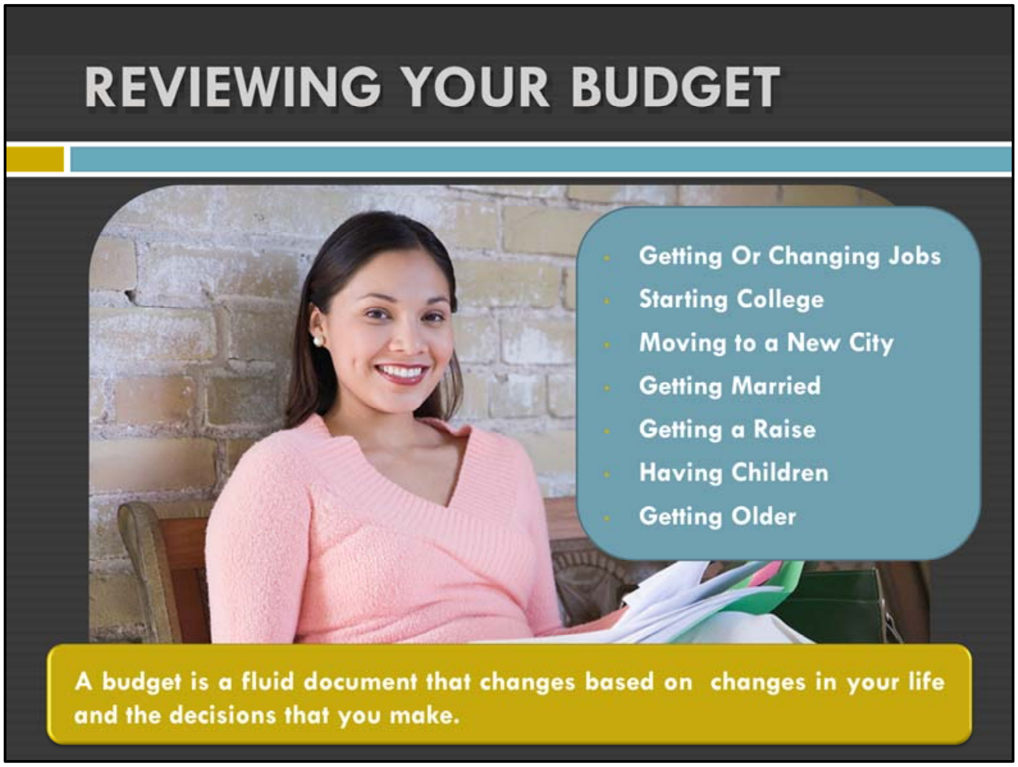
Don’t forget your unanticipated expenses! If you pay your car repair bills or other unanticipated expenses, break it down into a monthly amount for your budget and prioritize your expenses. Put your needs first then work down to the things you can do without if necessary. Your financial goals are the most important expenses, so treat them that way; otherwise you’ll be tempted to spend on other things. Total all of your expenses.



Is your budget balanced? Take your total income and subtract your total expenses.

The goal is to have income equal expenses. In other words, you need to put every single dollar you earn into an expense category. If you end up with a positive number, you're in good shape, have money left over, and you can put more money into your savings.

If you end up with a negative number, you are spending more than you earn. If you continue doing this, you will end up in debt! Your budget gives you the opportunity to see how you are spending your money and make choices about how you *plan* to spend your money. If necessary, adjust your expenses, or cut back on some things to bring your budget into balance.



At the end of the first month, go through your budget and check to see which amounts you estimated correctly and which ones you didn't, then make the necessary changes. Don't expect to get your budget right the first time! It takes practice. It may take you three or four months of adjusting to get it right. That's okay.

A budget is a plan. It isn't written in stone. It's a fluid document that should change as things in your life change. You may have unexpected obstacles or expenses. Your goals may change. Your resources may vary. You may even get some money that you didn't expect. That's life! It's normal! Check your budget regularly to ensure that you are staying on track. The more often you review it, the faster you will catch yourself if you start to stray.

Be sure to review your budget whenever you have a significant change in your life, like getting or changing jobs, starting college, moving to a new city, getting married, getting a raise, having children, or just getting older. Your goals will change throughout your life and your budget should change accordingly.

Even though everyone can benefit from having a realistic budget, few people actually have them. Why? Many people make the following common mistakes:

The budget is too complicated. Don’t put so much detail into the budget that you can’t keep up with it. Keep your budget simple, and it will be easier to maintain.

The budget incorrectly predicts variable expenses. It’s hard to know at first what these expenses are, so you need hard data. One way to do this is to save all of your receipts for a month and total them. When you start out, overestimate your expenses so that you don’t get surprised. It’s easy to adjust them downwards as you get more real data over a few months.

Too many of the budget expenses are placed into a miscellaneous category, instead of more specific groups. When you have your entertainment, food, and clothing in one category, planning your spending is difficult because you don’t have enough information about where your money is going. The miscellaneous category should be for things that won’t fit into any other group, like unexpected or one-time expenses.

Some people give up on budgets because they think it takes too much time and work to create and maintain them. If you take the time each week, instead of waiting until the end of the month, you can easily maintain your budget. It does take commitment, but it will help you achieve your financial goals!

Don’t give up on the budget process! Remember, your budget does not have to be 100% correct the first time you create it. You can make changes and adjustments as necessary. Once you have evaluated your budget and its ability to assist you in meeting your short-term goals, you can use it to outline a long-term plan for managing your money. If you stick to your budget, it can help you achieve many of your life’s financial goals.