

## Lesson 2: Creating a Budget



In the previous lesson you thought about living independently, and you began thinking about what living on your own might cost you. In this lesson you will examine how to create a financial plan for independent living and you will discuss why a **budget** is important. You will also consider issues surrounding budgets.

*budget: an itemized summary of probable income and expenses for a given period of time*

### Why a Financial Plan Is Important



Many people think that financial planning is all about retirement. However, budgets are important at all stages of your life. The following article answers these questions: What is a budget? Why budget? Who should budget?

## Budget, Budget

### What Is a Budget?

Don't be intimidated by the "B" word. It's simply an organized way of managing your money. It can be as simple or as complicated as you wish. Basically, it gives you an overall picture of where your money is coming from, when it's coming in, and how it's being spent. Above all, a budget should be flexible, changing according to your situation.

### Why Budget?

You work hard for your money, so you want to get the most from it. Budgeting helps you afford short-term goals like buying clothes, going to the movies, or taking a friend to that trendy new restaurant. It's also useful for long-term financial goals like buying a home, a car, paying for an education, a wedding, or a holiday. When you take control of your financial affairs, you're more confident about the future.

### Who Should Budget?

Everyone. A budget is key to financial control. It gives you a snapshot of where you stand financially and where you're headed. Don't rely on anyone else to do your budgeting—take control of your own finances. A budget makes you realize the importance of saving and how challenging it can be sometimes to achieve your own personal goals. You have to start somewhere, so budget to buy that new mountain bike or pair of roller blades.



<sup>1</sup> Canadian Bankers Association, 2001. *Budget, Budget* (Ottawa: Canadian Bankers Association, 2001), <<http://www.yourmoney.cba.ca/eng/tsamprogram/budget/index.htm>> (19 April 2002). Reproduced by permission.

# Issues Surrounding Budgets



When it comes to finances, some people find it difficult to budget. Following are some of the issues surrounding budgets.

## Getting Started

Some people hesitate to start a budget because they think it will be time-consuming, difficult, or boring. What do you think? In fact, you will find that budgeting is easy and it takes only minutes. As for boring, budgeting is simply planning what to do with your money, and that can even be fun!

Your budget is personal, so make it fun; include some of your favourite themes and activities. Are you interested in music, sports, fashion, or animals? What is your favourite colour? Do you like reading? Apply your personal touch by choosing some activities from the following list:

- Computer activities
  - Buy budgeting software, or search the Internet for free material.
  - Design your own electronic budgeting system.
  - Enter your budget information electronically.
- Art and craft activities
  - Customize a budget binder, notebook, folder, or file for your receipts.
  - Write each category of your budget in a different colour ink.
  - Illustrate pages and section dividers for your budget book.
- Learning activities
  - Explore the money section of a library, bookstore, or newsstand.
  - Monitor financial news in the media—TV, radio, and newspapers.
  - Read financial articles on the Internet and in magazines.
  - Gather free brochures from financial institutions.

*template:  
a model  
or pattern  
to copy; a  
computer file  
that stores a  
document's  
format and  
styles*

- Organizing activities
  - Go to a stationery store and select a ledger book with columns and lines.
  - Create your own budget **template** based on samples from books or websites.
  - Sort your receipts in a system of file folders, boxes, bins, or envelopes.

## Getting the Facts

You need your monthly income and expenses to write your budget. If you are just starting out you can use your first month to collect that information.

For your first month, carry a notepad and record all the money you receive or spend. Do normal activities, but keep track of every financial transaction. If you receive a pay stub, write down the figures for salary and deductions. If you get a student loan and pay tuition and residence fees, record those. If you live at home, list your allowance and how you spend it.

Just watch where your money goes; do not judge whether it should go there or not.

Following is Jamal's record-keeping month as an example.

<i>October</i>	<i>1</i>	<i>advance on allowance</i>	<i>+\$20.00</i>
	<i>6</i>	<i>gym fee (cheque # 12)</i>	<i>-\$15.00</i>
	<i>14</i>	<i>chips, drinks (vending machine)</i>	<i>-\$5.50</i>
	<i>15</i>	<i>October allowance (remainder)</i>	<i>+\$80.00</i>
	<i>16</i>	<i>hockey game, burger</i>	<i>-\$13.25</i>
	<i>17</i>	<i>birthday gifts received (cash)</i>	<i>+60.00</i>
	<i>18</i>	<i>new CD (credit card)</i>	<i>-\$17.67</i>
	<i>30</i>	<i>gas up and wash Mom's car</i>	<i>-\$31.71</i>

## Understanding Your Financial Situation

At the end of your first month, list your income on one side of a page and your expenses on the other. Total both columns and subtract your expense total from your income total to see how they balance. Following are Jamal's calculations.

Income		Expenses	
advance on allowance	\$20.00	gym fee	\$15.00
monthly allowance	\$80.00	snacks	\$5.50
birthday gifts	\$60.00	hockey game	\$13.25
		CD	\$17.67
		gas, car wash	\$31.71
<b>Total</b>	<b>+ \$160.00</b>	<b>Total</b>	<b>- \$83.13</b>



Balance	
Income	\$160.00
Expenses	- \$83.13
<b>Difference</b>	<b>+ \$76.87</b>

Do you see how Jamal had \$76.87 left at the end of October? That is his picture for one month. It will not be accurate for every month, but it is a tool to start his budget. Do the same calculation with your numbers. Then compare your sample month to your “big picture.” Think back and ahead to the rest of your year:

- Review your cheque book and monthly bank or credit-card statements.
- Look for hidden amounts like bank fees and interest payments.
- Write down your payment schedule for regular bills like Internet or cell phone.

Ask yourself: Is every month the same? Do I have large expenses like tuition or annual costs like car insurance that I pay monthly? Do I buy gifts in certain months? Do I have a schedule for saving? Do I have a lot left over? Did I get any surprises?

Some people are shocked to notice bills piling up, or small amounts trickling away, or huge amounts accumulating in bank accounts. What did you learn about your financial situation? If you learned that you had “too much month left at the end of your money,” you will discover practical help as you continue this lesson.

## Finding a System That Works for You

Once you have your numbers, you can create your budget. Whether you choose computer spreadsheets or paper charts, you need a *template*—a basic page to copy for each month. When each page looks alike, you know what to expect, your budget is easy, and you can quickly total monthly amounts.

You will find sample budget templates online, in software, or in books, or you could design your own. As your needs change (for example, if you go to university, change jobs, or get married), you can adapt your template to suit.



To view a basic budget template, click the *Make a Budget* tab on this website:

<http://moneyproblems.ca/>

Create your budget template on the computer, in a notebook, or on loose-leaf paper. To use the basic one shown below, make a short top section for Income and a longer bottom section for Expenses. Draw four columns titled Items, Budget, Actual Amount, and Difference. Customize your system as follows:

Items	Budget	Actual	Difference
Income			
<b>Total Monthly Income</b>			
Expenses			
<b>Total Monthly Expenses</b>			

- **The Items column.** Estimate your income and expense items for the next year. If you are a student living at home, you might list allowance income and hobby expenses. If you are working, you might list employment income, rental expenses, and taxes. Leave some empty lines below both Income and Expenses to add unexpected items during the year.
- **Monthly pages.** Once your Items column is complete, make 12 copies of your template page. Label one page for each month.
- **The Budget column.** Use what you have learned about your personal financial situation to forecast your income and expenses, month by month, for the next year.

After a few months you will notice a pattern emerging. Projecting your spending then gets easier and easier—but remember, your budget is not “set in stone.” You may need to make adjustments, such as rent increases, as the year goes on.

## Paying Yourself First

An important budget concept is planning for savings, or “paying yourself first.” Spending every dollar you get could feel like paying yourself, but how will you cover unplanned costs like car repairs or rent increases? What will you do when you need money for an education, a trip, a vehicle, or a house? As you consider your expenses for each month, paying yourself first should be at the top of your list.



## Working with Your Budget

You will encounter the following as you work on your budget:

- **Items paid once a month.** Enter expenses such as rent or utilities in the Actual Amount column beside your corresponding Budget column entry.
- **Items purchased several times a month.** Save receipts such as food or gasoline in files, envelopes, or boxes, and total them once a month. Transfer the monthly total to your Actual Amount column.
- **Receipts and bills.** Match these with credit-card or bank statements, and pay your bills monthly.
- **Your Difference column.** Complete this monthly if you are not using a software program that calculates automatically.
- **Lines where you have no expenses.** Enter zero when this happens. For example, if your budget shows student fees and transit pass during the university year, enter “0” for those items during the summer months.

## Staying on Budget

Staying on budget means spending close to the amount you budget in each category. If you find yourself struggling to do that every month, you could be trying to control your spending with a budget that is too “tight.”

### Did You Know?

A tight budget does not leave room for flexible or unexpected expenses. Don't be discouraged if your budget is that way at first. Budgeting is a new skill and you need time to get it right. You did not learn to read or swim or drive in a day, did you? Part of staying on a budget is re-assessing when it is not working.

The following budget questions can help you determine what you need to change:

- Did you set realistic figures for categories that rise and fall, such as food or personal-care items? It is possible you budgeted too little. Perhaps the month you kept records was not a typical month. For example, maybe you did not spend much on groceries because your mom gave you food from home. Set a higher budget amount, now that you know your real expenses.
- Did you set your savings goal too high? Saving is good to a point, but if you are running short in other areas, maybe you should lower your savings plan until your income rises or your expenses go down.
- Are you being too hard on yourself? If you did not budget for fun as well as bills, you will feel guilty when you go out with friends, and your money is not meant to cause that. You do need to socialize. If your money is restricted, try some low-cost entertainment ideas from the websites that follow.
- Are all your expenses reasonable? For example, perhaps you took on rent or car payments that are too high for your income. If so and you are willing to live with it, be sure the rest of your budget reflects that with realistic numbers.
- Do you constantly borrow money, spend your savings, charge interest on credit cards, or otherwise fall behind each month? Then you may have to face hard choices: Where can you cut back—clothing, cell phone, gas, meals out? Could you carpool, ride public transit, carry a bag lunch, or find a roommate to share expenses? Have you items you could sell? The websites that follow offer many more practical suggestions to help you stay on budget.

## Reviewing Your Budget

Staying on budget includes reviewing your financial plan periodically. Many students say the best use of their budget is allowing them to re-examine their expenses and separate the essentials from the non-essentials.

For example, if your parents were supporting you but now you are independent and on a limited income, you might reconsider expenses you took for granted at home. You may willingly give up ski weekends, cable TV, pets, or weekend shopping in order to buy groceries or pay your heating bill!

About twice a year, check that you are keeping up your savings and not overspending. If you spend more than your income on a regular basis, you need to increase your income or trim your expenses. What are the chances of increasing your income? For most people, trimming expenses is a more realistic option. Fortunately, there are many books and websites to help you do this.



Explore the following websites for links, personal-profile quizzes, and cost-cutting ideas designed especially for young people:

- There's Something About Money (Canadian Bankers Association)  
<http://www.yourmoney.cba.ca/>
- Red Deer College  
<http://www.rdc.ab.ca/>

Click on Current Students, then Budgeting Information, then scroll down and click on Budget Worksheet.

You do not have to wait for January to start your budget. It can begin any month; it might also end any month. Budget changes could happen when you adapt your budget template to fit life changes. For example, you may need a student budget from September to June and then a work budget that starts in July with a full-time job.



View Segment 16: Meeting Financial Goals on your Student Support CD. This segment reviews budgeting strategies such as keeping track of expenses, setting up a spending plan, and paying yourself first.

Before you create your own budget, get some practice with someone else's money. Read the following case study and answer the questions that come after it.

Gabrielle works part-time at a greeting card company and part-time at a deli. The net monthly income from her first job is \$600. The net monthly income from her second job is \$800.

Her planned fixed monthly expenses include:

- \$200 for rent (she shares an apartment with two friends)
- \$220 for car payment
- \$175 for car insurance

Her planned flexible expenses include:

- \$100 (to save for going to trade school)
- \$150 for food
- \$40 for gas and oil
- \$50 for clothes
- \$60 for entertainment
- \$30 for personal items

#### **How her month actually went**

What she actually made in income:

- Gabrielle's net monthly income from her first job was \$600. The net monthly income from her second job was \$800. In addition, Gabrielle made \$45 in overtime pay this month.

What her fixed expenses actually were:

- Rent went up to \$225, starting this month.
- Her monthly car payment was \$220.
- Her monthly car insurance premium was \$175.

What her flexible expenses actually were:

- \$190 for food (she had a dinner party for which she hadn't budgeted)
- \$60 for gas and oil (her car needed an oil change)
- \$34 for parking
- \$220 for car repairs
- \$80 for a new pair of running shoes
- \$70 for entertainment
- \$60 for personal items
- \$36 for a birthday present for her mother

Unforeseen events:

Gabrielle got two speeding tickets in one week. The total cost of both tickets is \$230.

<sup>1</sup>“Rework a Budget” in The Art of Budgeting, *Practical Money Skills for Life*. VISA U.S.A. 2000-2007, <[http://www.practicalmoneyskills.com/english/pdf/teachers/lev\\_3/lesson\\_03/3\\_5.pdf](http://www.practicalmoneyskills.com/english/pdf/teachers/lev_3/lesson_03/3_5.pdf)> (15 May 2007). This material has been reproduced with the permission of Visa Canada Association (“Visa”). Any other use of this material is expressly prohibited without permission from Visa. Visa® is a registered trademark of Visa International Visa. Visa Canada is a licenced user.

1. Recreate the following chart in your notebook. Then use Gabrielle's information to complete her budget.

Items	Budget	Actual	Difference
<b>Income</b>			
Job 1			
Job 2			
Other			
<b>Total Monthly Income</b>			
<b>Expenses</b>			
<b>Fixed Expenses</b>			
Rent			
Car Insurance			
Car Payment			
<b>Flexible Expenses</b>			
Savings			
Food			
<b>Transportation</b>			
Gas and Oil			
Parking			
Repairs			
<b>Personal</b>			
Clothing			
Entertainment			
Personal Items			
Gifts			
Other			
<b>Total Monthly Expenses</b>			

2.
  - a. What is the difference between Gabrielle's planned and actual expenses?
  - b. In what areas did Gabrielle overspend?
  - c. In what areas did she spend less than she planned?
  - d. How much did she spend for her car? How much did she budget for that?
  - e. How much money did she have at the end of the month to put into savings?

Compare your answers with the Suggested Responses at the end of the lesson.

Gabrielle planned to save \$100 for her goal of trade school, but she had a dinner party for which she did not budget. This may indicate a lack of commitment to her goal. Financial experts agree that the most important element of financial planning is personal commitment. It takes time, attention, and effort to follow through on financial choices. Once you move out on your own, this commitment is twice as important. If you miss a bill or forget to pay rent, that could have disastrous consequences, including a poor credit rating or eviction from rental accommodation.

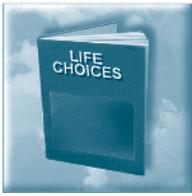
If you say that financial planning is important, but there is always something more demanding, the commitment is not there. If you always put your plan aside, it does not matter how good your intentions are, your financial plan will not succeed.



Another budgeting error of Gabrielle's was failing to plan for unexpected expenses. In her case, it was speeding tickets, an oil change, and a rent increase. Financial experts advise that you have a cash reserve—an emergency fund—set aside for unexpected expenses. Your emergency fund may not cover a whole *budget buster*—an unexpected expense that wrecks your plan; it depends on how much you have saved. If you have at least some money on hand, that is better than having none at all.

3. Gabrielle budgeted for car payments, but she failed to budget for an oil change or parking. Brainstorm a list of expenses that you need to budget for when you maintain and operate a vehicle.
4. Suggest some actions that Gabrielle could take in the next two or three months to cut back her expenses, balance her budget, and help make up for the debt she incurred this month.

**Compare your answers with the Suggested Responses at the end of the lesson.**



One final issue in financial planning is debt. For more specific information on debt and setting up budgets, read the following articles in *Venturing Out*:

- “What Are You Waiting For?” on pages 11 and 12
  - “Building a Budget” on pages 80 and 81
  - “A Budget Fails Because . . .” on page 82
5. The article “What Are You Waiting For?” compares the cases of Joe and Sally. Each lives at home and works at Wal-Mart. What do these two cases illustrate about the effect of debt on a budget?
  6. A working budget provides a person with the information to control and even alter spending. Give some tips for making budgets more helpful.
  7. What are four reasons why a budget could fail?

**Compare your answers with the Suggested Responses at the end of the lesson.**

Go to page 10 of Assignment Booklet 2B and respond to question 4 of Section 2.

## Looking Back; Looking Ahead



In this lesson you were introduced to budgeting. In the Assignment Booklet you will create a personal budget.

# Glossary

**budget:** an itemized summary of probable income and expenses for a given period of time

**template:** a model or pattern to copy; a computer file that stores a document's format and styles

## Suggested Responses

1.

Items	Budget	Actual	Difference
<b>Income</b>			
Job 1	\$600	\$600	
Job 2	\$800	\$800	
Other		\$45	
<b>Total Monthly Income</b>	\$1400	\$1445	+ \$45
<b>Expenses</b>			
<b>Fixed Expenses</b>			
Rent	\$200	\$225	\$25
Car Insurance	\$175	\$175	\$0
Car Payment	\$220	\$220	\$0
<b>Flexible Expenses</b>			
Savings	\$100	\$0	– \$100
Food	\$150	\$190	\$40
<b>Transportation</b>			
Gas and Oil	\$40	\$60	\$20
Parking		\$34	\$34
Repairs		\$220	\$220
<b>Personal</b>			
Clothing	\$50	\$80	\$30
Entertainment	\$60	\$70	\$10
Personal Items	\$30	\$60	\$30
Gifts		\$36	\$36
Other		\$230	\$230
<b>Total Monthly Expenses</b>	\$1025	\$1600	\$675

2.
  - a. Gabrielle budgeted for expenses totalling \$1025. Her actual expenses added up to \$1600 for a difference of \$675, and that is without putting anything away in her savings.
  - b. Gabrielle overspent in the areas of rent, food, transportation, clothing, entertainment, gifts, and personal items. She also spent for unexpected speeding tickets.
  - c. She spent less than she planned to on savings.
  - d. In total this month for the use of her car—including speeding tickets—she spent \$939. She had budgeted \$435.
  - e. She had no money at the end of the month to place in savings. In fact she appears to be in debt.
3. Budget expenses related to owning a vehicle can include the following:
  - purchasing or leasing a vehicle
  - insurance and registration
  - operation and maintenance (fuel, oil changes, tires, repairs)
  - driver's licence
  - parking and toll charges
4. The actions you suggested to help Gabrielle will vary. Did you suggest any of the following?
  - try to work more overtime hours
  - host a pot-luck meal instead of a dinner party
  - take public transit instead of using her car
  - find free or low-cost entertainment activities
  - make gifts instead of buying them

If Gabrielle takes these actions for a few months, she should be able to get out of debt and meet her savings goals.

5. “What Are You Waiting For?” shows that having a large debt load will drive your budget. Because he is saddled with debt, Joe is unable to make any plans to save for the future. Without any debt, Sally can easily budget to save, and her future is more secure as a result.
6. Following are some tips to make budgets more helpful:
  - Record expenses regularly in order to track what you spend.
  - Be clear and accessible so that the budget can be referred to easily.
  - Review the budget regularly to see if it is on target with your plans.
  - If necessary, make changes to the budget so that it is more realistic.

7. You may have identified some of the following reasons. A budget can fail if it

- is too complicated
- has confusing categories
- is not taken seriously
- is too tight
- includes inaccurate expense estimates
- does not present a realistic picture of an individual's spending
- is not recognized as being important
- has never been tried before it is needed
- is used by a person with a negative attitude toward budgeting
- contains inaccurate spending records

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