

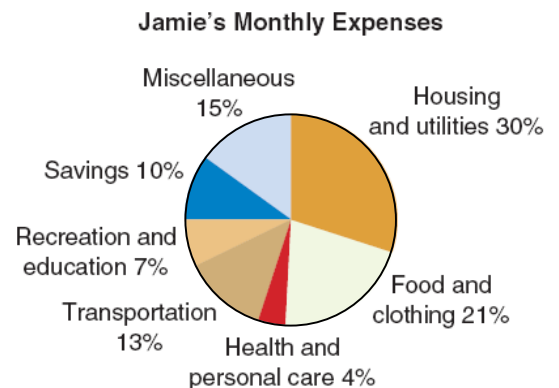
## Lesson 6.4 Designing a Budget

**Goal: Interpret and create a monthly budget**

- \_\_\_\_\_ is the money you earn. \_\_\_\_\_ are the money you spend.
- A **BUDGET** is an organized list that \_\_\_\_\_ income and expenses.
- Budgets are used as a tool in **financial planning**:
  - To make sure you don't \_\_\_\_\_ more than you \_\_\_\_\_
  - To help you understand exactly where your money is \_\_\_\_\_
  - To help you focus your spending on the things that are most \_\_\_\_\_ to you
  - To help you save to meet a financial \_\_\_\_\_
- **Personal budgets** are usually planned \_\_\_\_\_. Monthly amounts can then be multiplied by \_\_\_\_\_ to determine annual amounts.
- Income and expenses are recorded by type of income or expense. Money set aside for the future is called \_\_\_\_\_ and is shown as an **expense**.
- The \_\_\_\_\_ of a budget is the difference between total expenses and total income.
- If the balance is **negative** you are spending \_\_\_\_\_ than you earn. You need to adjust some expenses so that the balance is zero. This is called \_\_\_\_\_ the budget.

### **Example 1 Interpreting a Budget**

This pie chart shows Jamie's expenses for one month. The total dollar value of Jamie's monthly expenses was \$3 000.



- a) How much did she spend on transportation?
- b) How much did she spend on her top two expenses combined?

**Example 2 Designing a Budget**

Anika needs to save \$7 500 over the next 12 months to start her own small business. Her monthly income after payroll deductions is \$3 000. She earns an average of \$50 a month from investments. She prepares the following list of her expenses.

a) Which costs are fixed? Which costs are variable? Label them on the list.

b) Convert all amounts to monthly amounts.

**ROUND** all values to the nearest **DOLLAR**.

Anika's Expenses	
Housing	
•	\$850 for rent each month, which includes heat and water
•	an average of \$75 each month for electricity
•	\$105 a month for a phone/cable/Internet bundle
Transportation	
•	monthly car payment of \$420
•	annual vehicle licence fee of \$75
•	\$420 for car insurance twice a year
•	\$150 a month for gas
•	\$30 every three months for oil changes
•	\$450 per year for maintenance and repairs
Other	
•	\$250 for groceries
•	\$200 for clothes and personal care
•	\$100 a week for restaurant meals
•	\$20 automatically deducted from her bank account for charitable donation

c) Are there expenses that you think Anika has forgotten to include? Explain. Estimate the monthly amount for any missing expenses.

d) Create a monthly budget that shows fixed and variable expenses in each budget category. Group items where appropriate. Include any estimates from part c.

e) What percent of Anika’s costs are fixed? Why is this important?

f) Can Anika meet her savings goal with her current income and expenses? If not, in which categories might she be able to cut back on costs?

	Monthly Amount (\$)		
<b>INCOME</b>	<b>Fixed</b>	<b>Variable</b>	<b>Total</b>
Salary			
<b>Investments</b>			
<i>Total Income</i>			
<b>EXPENSES</b>			
<b>Housing</b>			
Rent			
Utilities			
Phone/Cable/Internet			
<i>Subtotal</i>			
<b>Transportation</b>			
Car Payment			
Fuel Costs			
Insurance			
Other			
<i>Subtotal</i>			
<b>Food</b>			
Groceries			
Eating Out			
<i>Subtotal</i>			
<b>Other</b>			
Clothing/Personal			
Entertainment			
Charitable Donations			
<i>Subtotal</i>			
<b>Savings</b>			
<b>Total Expenses</b>			
<b>BALANCE = Total Income – Total Expenses</b>			

g) How did the budget help you answer parts e and f? Explain.