

What is a Budget?

A budget helps you manage your money and make good decisions. It's a plan that helps you see how much money you have coming in each month and how much money is being spent. Budgeting helps you understand exactly what you are spending your money on. Budgets are commonly used in businesses, hospitals, government, and even schools to help make good financial decisions.

For individuals, budgets track both the income they receive and the expenses or payments that need to be made. An easy way to remember it is money flows in and money flows out. A budget helps you keep track and monitor that flow. Always be sure to have more money flowing in than what is flowing out. That is managing your money wisely!

Let's look at some specific items that are commonly found in a budget. We will begin by looking at **income**. Individuals may work at one job and receive income from the work they do. Other individuals may work more than one job and receive two or three separate incomes. In a budget, you will want to track



all of the income that you typically receive each month. But, there's something important to remember – focus on the money you can count on receiving each month. In some jobs, people receive additional money for extra hours they work, called overtime pay, or tips they receive for a service they provided, or commissions based on how many products someone has sold.

You want to be cautious including additional pay in your budget because it is not part of your regular income and can fluctuate up and down each month. Instead, you want to focus on the money you regularly expect to receive since extra pay is not guaranteed or constant. If you work in a job in which tips make up a lot of your pay, then you will want to determine what are the average tips you make each week and include that figure as income.

Now let's look at **expenses**. A good budget tracks the type of expenses by listing them in categories, so you know exactly how much is being spent on certain



items, such as eating out or your cell phone service. A budget can also help you plan for occasional expenses that are not routine, such as a vacation. By planning ahead, you can save enough money to pay for the occasional expense.

Some common terms associated with expense include fixed and variable. A **fixed** expense is something that regularly occurs, and you don't have a lot of control over. Housing costs (rent or mortgage payments) are an example of a fixed expense. **Variable** expenses fluctuate. They can include gas for the vehicle you drive or seeing a movie at the local theatre. There are also **occasional** expenses that occur either one time or a few times throughout the year. This can be a visit to the doctor or dentist, vehicle insurance, or even repairs to your vehicle.



An easy way to start making a budget is to list fixed expenses that you know you will pay every single month. This commonly includes rent/mortgage payments, cell phone service, car payments, internet and/or cable service, and student loans. Then start looking at other types of expenses such as eating out, grabbing coffee at Starbucks, buying clothing, gas, and movies. After you have written down your other types of expenses, see if you can group them into categories. This step can help you determine if you are spending too much in one area and need to scale back or reduce that particular expense.

Once you have listed both the income and expenses, now you can analyze the information. How are your spending patterns? Are you earning more money than you are spending? Or is more money being spent than what is being earned?

You can create a budget at any age. If you do chores around the house, mow the lawn, or babysit, then you have income coming in. Creating a budget can help you control your expenses and save up for something that is really important to you. As a teenager, your income will likely fluctuate more than when you are an adult. But if you start this practice now, it will be part of your regular routine as you incur more expenses.

Remember, budgeting helps individuals make sound decisions and manage their money. It can help you too!