

QUICK GUIDE TO LIVING ON A BUDGET

by Jenny Crooks-Johnson





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CREATING A BUDGET

A budget is a plan for spending money. Budgets let people know where their money is going. Tracking their money can keep people from spending too much. This helps them avoid harmful debt.

Budgets also help people meet their goals. Most of all, living on a budget creates financial freedom. Money expert Dave Ramsey says, “You must gain control over

Bank and credit card statements show a person’s transactions during a specific period, usually a month.



Spreadsheets can make automatic calculations. This makes them especially helpful for creating budgets.

your money, or the lack of it will forever control you.”¹

ON AVERAGE

Many people create monthly budgets. They figure out their average monthly income and expenses. Using records from the past year will help in getting accurate numbers.

not spend that much each month. But leaving room in the budget will help if he has surprise expenses.

CREATE THE BUDGET

Mary wants to create a budget. She can do this by using paper or a computer program. First, Mary calculates her average income

The Cash Envelope Budget Method

Studies show that people spend less money when they use cash instead of a credit or debit card. The cash envelope method takes advantage of this. To use this method, people put cash into envelopes labeled for each of their spending categories. During the month, they use only the cash in each envelope to buy items in that category.

MARY'S MONTHLY BUDGET

Average Monthly Income			
Net vet tech salary (after taxes and insurance)		\$3,036	
Savings account interest		\$5	
Net Etsy business income (after expenses)		\$100	
Total Average Monthly Income		\$3,141	
Fixed Expenses		Variable Expenses	
Renters insurance	\$15	Portion of gas/electric & water	\$75
Portion of rent	\$850	Haircuts	\$30
Portion of garbage service	\$20	Medical/dental/vision care	\$50
Portion of internet	\$31	Groceries	\$350
Cell phone bill	\$144	Clothing	\$25
Student loan payment	\$250	Gifts	\$25
Bus pass	\$52	Entertainment	\$100
Car savings fund	\$100	Miscellaneous	\$25
Emergency fund	\$50	Credit card interest	\$52
Retirement account	\$50	Total Average Variable Expenses	\$732
Monthly charity donation	\$25		
Total Average Fixed Expenses	\$1,587		
Total Variable + Fixed Expenses			\$2,319
Average income - Average expenses =			\$822 left over

Mary can use the leftover money in her budget to pay off extra debt or build a savings fund.

and expenses. She includes all income sources, such as paychecks or bank interest. Then Mary adds them up to get a total monthly income. Now she writes her average income at the top of the sheet.

Next, Mary lists the averages for each fixed expense category. These are followed by the averages for variable expenses. This makes it easier to see where her money is going. Finally, Mary adds up all her expenses. She subtracts the total expenses from her income. If the number is positive, she has money left over. But if the number is negative, she needs to start balancing her budget.

GLOSSARY

apprenticeship

a program where a person learns a skill or trade

impulse spending

when a person makes a sudden unplanned purchase without thinking it through

insufficient

not enough

net

a person's income after taxes, insurance, and other deductions are taken out

overdraft fee

a fee charged when an account lacks enough money to cover all transactions

spreadsheet

an electronic document that uses rows and columns to arrange and calculate data

statements

documents that report all the activity in an account

stigma

a negative attitude about an idea or person

SOURCE NOTES

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