

Creating a Budget

A budget is a plan to manage your money by tracking what you earn and spend. Just as a speedometer tells you how fast you are going so that you can stay under the speed limit, a budget can help you recognize your spending limit.

Why create a budget?

A budget helps you have enough money each month to pay for necessary expenses. It allows you to clearly see what you are spending your money on. With a budget, you can see where you can trim costs to pay bills and to save for unexpected expenses, as well as for short- and long-term goals.

How do you create a budget?

Creating a budget does not have to be complicated. You need to develop a method that helps you identify and track income and expenses. Choose a system that works for you. You may choose to set up your budget in a notebook or on the computer using money-management software. There are also many free websites and apps that provide budget worksheets and systems. The important thing is to feel comfortable with your system so that you use it on an ongoing basis. The guide on the next page will help you create a budget.

- 1 Track your income and expenses.** Most people use monthly budgets, but you can use a weekly budget if that is easier. Whatever you decide, first list all your sources of income, including allowance, monetary gifts, and money from jobs and projects. Then, identify all the ways you spend money. Start with the expenses you are responsible for, which might include your monthly cell phone bill or school supplies. Then, list nonessential items such as eating out or movies with friends. Track your income and expenses by keeping items such as pay stubs and receipts (print or digital).
- 2 Create budget categories.** A budget is a personal thing, so individualize yours by using spending categories that fit your lifestyle. Revise them as your needs change. Categories might include “Transportation” for car expenses and public transportation costs; “Personal” for clothes, shoes, and gifts; and “Entertainment” for movies, concerts, and video games. Other useful categories might be “Savings” and “Emergencies.”
- 3 Set realistic budget goals.** If your spending is preventing you from paying bills or setting aside money for long-term goals, you will need to find ways to trim expenses or increase your income. Start with small changes. You may have to revise your budget a few times to find what works. Be sure the goals you set to meet expenses and save for future plans are reachable. Examples of goals include saving for college, setting aside money for emergencies, and spending money more wisely.
- 4 Maintain your budget.** After you set your budget goals, get in the habit of tracking your expenses on a regular basis. If you use a credit card or debit card, watch carefully to make sure that paychecks are deposited. Also check that charges from restaurant and other merchants match your receipts. You want to ensure that your spending does not begin to overshoot your budget limits and impair your longer-term goals.

Creating a Monthly Budget

Follow these steps to create a monthly budget for yourself. You may use a notebook or a computer to create your budget. Consider using the template at the bottom of the page to help you.

Step 1 Identify your monthly income and expenses. List the sources and amounts of regular income for the month, such as an allowance or a job. Total your monthly income. Then, list any monthly bills you are responsible for (such as for a cell phone or car insurance).

Step 2 Keep a log of your spending for at least one week. Record each expense.

Step 3 Create budget categories for your expenses using the information you have gathered. Group similar expenses together in specific categories. For example, you might group spending on gasoline, parking, car insurance, and bus tickets under “Transportation.” Other categories you might use are “Savings,” “Entertainment,” “School Supplies,” and “Personal Care.”

Step 4 Create a working monthly budget by setting a realistic amount for each expense category. Your total expenses should not exceed your total income.

Step 5 Maintain your working monthly budget for at least one month. Record your income, and keep a log of your spending in each category. At the end of the month, total the amounts.

Step 6 Analyze your working monthly budgeting by comparing your budgeted amounts to your actual amounts. Then, answer these questions on a separate piece of paper.

- Was your system of recording easy and useful? Why or why not?
- Were your categories clear and helpful? Why or why not?
- How well did you do in meeting your budgeted amounts?
- What changes and improvements will you make for next month?

Category	Budgeted Monthly Amount	Actual Monthly Amount
Savings		
Transportation		
Entertainment		