

- Income is the money you earn. Expenses are the money you spend.
- * A **BUDGET** is an organized list that tracks income and expenses.
- Budgets are used as a tool in **financial planning**:
 - To make sure you don't spend more than you earn
 - To help you understand exactly where your money is going
 - To help you focus your spending on the things that are most important to you
 - To help you save to meet a financial goal.
- **Personal budgets** are usually planned per month. Monthly amounts can then be multiplied by 12 to determine annual amounts.
- Income and expenses are recorded by type of income or expense. Money set aside for the future is called savings and is shown as an **expense**.
- The balance of a budget is the difference between total expenses and total income.
- If the balance is **negative** you are spending more than you earn. You need to adjust some expenses so that the balance is zero. This is called balancing the budget.

KEY WORDS

- income
- expenses
- tracks
- spend
- earn
- going
- important
- goal
- per month
- 12
- savings
- balance
- more
- balancing

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?

According to the chart, 13% of her ^{total} monthly expenses is spent on transportation.

$$= 3000 \times 13\%$$

$$= 3000 \times 13 \div 100$$

$$= \$390.00$$

∴ Jamie spent \$390 on transportation

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

Top two = Housing and utilities and Food & Clothing
= 30% + 21%
= 51%

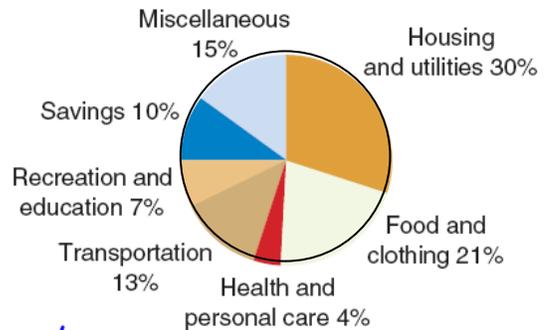
$$= 3000 \times 51\%$$

$$= 3000 \times 51 \div 100$$

$$= \$1530$$

∴ Jamie spent \$1530 for those top two expenses.

Jamie's Monthly Expenses



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.

Rent: \$850/month

Hydro (Electricity): \$75/month

Phone/Cable/Wifi: \$105/month

Car payment: \$420/month

Licence fee: \$75/annual $75 \div 12 = \$6.25/\text{month}$

Car Insurance: \$420/semi-annual $\times 2 \rightarrow \$840/\text{annual} \rightarrow \div 12 \rightarrow \$70/\text{monthly}$

Gas: \$150/month

Oil change: \$30/3 months $\div 3 \rightarrow \$10/\text{month}$

Maintenance & Repairs: \$450/annual $\div 12 \rightarrow \$37.5/\text{monthly}$

Groceries: \$250/month

Clothes & Personal Care: \$200/month

Restaurant: \$100/week $\times 52 \rightarrow \$5200/\text{annual} \rightarrow \div 12 \rightarrow \$433.33/\text{monthly}$

Donation: \$20/month

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

- * Going out
- * Entertainment
- * Member Ships
- * Medication

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

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

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