

Name _____



Date _____

Making a Budget

By Cindy Grigg

Do you ever wonder what happens to all your money? You thought you had plenty, and then, all of a sudden, it is gone? There are some easy ways you can find out what happens to your money.

First, figure out your cash flow. Add up all your income. This is money you receive on a regular basis; it could come from an allowance, pay from a job, or birthday gifts.

Then subtract your regular expenses. You should include things like bus fare, lunches, snacks, drinks, movie tickets, arcade games, or anything you regularly spend money on. What you have left (Here's hoping you have something left!) is the money you have available to do extra things. You could donate it to a good charity, save it, spend it for something special, or use it to buy gifts for your family or friends.

Maybe you don't know how you spend your money. Carry a small pocket notebook and pencil around with you. Whenever you spend money, write it down in the notebook. Just jot down the amount and what you bought with it. Do this for one week. At the end of the week, total each type of spending.

You may not be able to control how much money you have coming in. But you can control what goes out. How? You can make a budget. This is the number one thing you can do to get the most out of your money. A budget is a record of your income, how much you spend, and what you spend it on. What you spend your money on are your expenses. A budget also records your savings.

Is your cash flow more than zero? Great! You already have extra money to save or spend. If it isn't, go back to where you figured out your cash flow. Cut some of the expenses until the number is more than zero.

Next, find ways to save. Look at your expenses and sort them into "needs" and "wants." Needs are just that-things you can't do without. Wants are things that you CAN do without.

Look at your list of "wants." Try to figure out what you can cut back on or cut out altogether so you'll have more money to save for stuff you really want. Figure out your new cash flow, including how much money you can save each week or month. Pay yourself first. Put this money aside first whenever you have income. Otherwise, you might not have money left to save if you don't put it aside first. The idea is to cut out stuff you're spending money on that really isn't important to you. Then you can afford to get what is important to you.

Make a plan to get the first goal on your list. Let's say your first goal is to get a new video game that costs \$50. Setting a financial goal helps you plan to save. Some goals may be short-term. You can save enough in a short time to reach these goals. Some financial goals may be intermediate. They take a little longer time to reach. Long-term goals may take years to reach. Without planning for them, you might never reach them.

Plan how much money you can save each week. Plan for any other income you will receive, and then see how many weeks you'll need to save. For example:

Video game: \$50

Savings each week: \$ 5

Pay for dog walking next month: \$20

Subtract: price - savings - income = money still needed ($\$50 - \$5 - \$20 = \25)

Money still needed ($\$25$) \div savings per week = number of weeks to save
($\$25 \div \$5 = 5$ weeks to save)

Now, carry out your plan! Save money until you have enough to buy your first goal. Buy it and celebrate! Then start saving toward your next goal.





But keep in mind the opportunity cost of spending your money. The opportunity cost is what you'll give up when you make one choice over another one. Let's say you have \$100 saved. If you put \$100 in a savings account that pays 6% interest, in one year you'll have \$106. If you choose to spend the \$100 on clothes, you will lose the \$6 you could have earned in interest. You'll still have the clothes in one year, but they might not fit anymore. If you sell the clothes, you probably won't get very much money for them. The difference in what you paid for the clothes and what you actually sell them for is your opportunity cost. Of course, you might spend the \$100 on soft drinks, snacks, or movies. When the money is all spent, you won't have anything to show for it.

Let's say you put the \$100 in a savings account that earns 6% interest per year. If you leave the money plus the interest it earns in the account, in twelve years your money will double! You will have \$200 when you only deposited \$100. Now, that's INTERESTing!

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Questions

- _____ 1. How do you figure out your cash flow?
- A. it's too hard to figure out
 - B. list all of your expenses
 - C. add all the money you have as income and subtract your regular expenses
- _____ 2. What is a budget?
- A. adding all income, and subtracting all expenses
 - B. keeping a record in a notebook of what you spend for a week
 - C. a record of income, expenses, and savings
- _____ 3. What is the number one thing you can do to get the most out of your money?
- A. list all your expenses for a week
 - B. make a budget
 - C. figure out your cash flow
4. What's the difference between needs and wants?
- _____
- _____
- _____ 5. What is opportunity cost?
- A. the time it will take your money to double in a savings account
 - B. the cost of something you want to buy
 - C. what you'll give up when you make one choice over another
- _____ 6. Which of these might be a short-term goal?
- A. saving \$300 for a new wii game system
 - B. saving \$10 to go to the movies
 - C. saving \$75 for a new bike

