

# Budgeting Basics

A Companion Guide to

Keeping It Real: How to Get

the Support You Need for the Life You Want

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## Earning and spending

It feels great to earn a paycheck. Whether you work part time at the mall, baby-sit on weekends, or cut lawns in your neighborhood, having a job is a big step towards your personal growth, independence, and buying things for yourself.

However, sometimes it seems that even when you have a job you still may find you don't have enough money to buy all the things you want. A new jacket, concert, ball game ticket, or music player may be things you have wanted. Having a savings plan and a budget can help you save for both purchases like buying a jacket and bigger purchases like saving for new computer.

Budgeting is a very important step when it comes to successful money management. It allows you to see how much money you earn and spend over a period of time, and helps you to make good choices for both spending your money on what you need or want now, and saving your money for what you think you'll need or want in the future.

On the next page is an example of David's income (the money he earns) and his expenses (the money he spends) for a given month. Pay close attention to David's spending habits. Think about your own spending habits. Are they similar to David's? Do you sometimes spend more money on things that you want but do not really need?



## David's Income & Expenses For the Month of May

	<b>INCOME</b>	<b>EARNED</b>
	Part-time job at the mall	\$240.00
	Weekend work at Uncle Jim's barber shop	\$110.00
	Monthly allowance for doing chores at home	\$60.00
<b>TOTAL INCOME:</b>		<b>\$410.00</b>

	<b>EXPENSES THIS MONTH</b>	<b>SPENT</b>
	Buying school lunch	\$60.00
	Purchasing a new video game	\$65.00
	YMCA club dues	\$15.00
	Buying new pair of sneakers	\$75.00
	Getting a haircut	\$15.00
	Going to movies with friends	\$25.00
	Paying for cell phone bill	\$75.00
	Buying birthday present	\$40.00
	Food for pet dog	\$20.00
	Monthly savings goal	\$40.00
<b>TOTAL EXPENSES :</b>		<b>\$430.00</b>

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<b>DIFFERENCE</b>	-	(\$20.00)
(Income minus Expenses, or Net Income)		

## Activity:

What was David's total income for the month?

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What were David's total expenses for the month?

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What is David's net income? (*Net income* is income minus expenses.)

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Is David's net income more than, less than, or equal to his expenses for the month?

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If his expenses are greater than his income, what expenses do you think he can reduce or eliminate? Why?

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What expense should David not reduce or eliminate? Why?

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## What are my own income and expenses?

Now that you've learned about David's earning and spending habits it's time to learn about your own. Use the table on the next page to keep track of your income and expenses for a period of one month.

*Real World Math* authors Donna Guthrie and Jan Stiles, suggest the following key steps for tracking your income and spending.

1. **Include all sources of income.**

Identify where you get your money - allowance, part-time jobs, gifts, etc. What you make may vary from month to month so try to look for trends. For example, you may have more income on the month of your birthday or around special holidays.

2. **Don't forget about taxes!**

Make sure you base your earnings on the money that you actually take home (net salary) and not on your total salary (gross salary). Don't forget that income taxes and Social Security taxes are deducted from what you earn. If you like to learn more about taxes and how it affects your earnings refer to the resources section at the end of this chapter.

3. **Keep track of everything you spend.**

Keep tabs on everything you spend - even the littlest things. Keeping an accurate record of your spending habits will go a long way towards helping you understand where your money is going. Also, be sure to save your receipts for everything you buy. This will also help you to keep better track of your expenses.

**My Income & Expenses for the Month of \_\_\_\_\_**

INCOME	EARNED
	\$
	\$
	\$

**TOTAL INCOME: \$**

EXPENSES THIS MONTH	SPENT
	\$
	\$
	\$
	\$
	\$
	\$
	\$
	\$
	\$
	\$

**TOTAL EXPENSES: \$**

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**DIFFERENCE: \$**  
**(Income minus Expenses, or Net Income)**

## Activity:

What was your total income for the month?

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What were your total expenses for the month?

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What was your net income? (*Net income* is income minus expenses.)

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Was your net income more than, less than, or equal to your expenses for the month?

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If your expenses were greater than your income, what expenses do you think you could reduce or eliminate? Why?

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What expense should you most likely not reduce or eliminate? Why?

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## **Understanding my needs and wants**

An important concept in budgeting and money management is to understand the difference between things that you need and things that you want.

**Needs** are things you must have for survival. Examples include food, water, your home, and clothing. Without food, you would not be able to live. Needs can also represent things that are key for helping you succeed at something that is important to you. One example may be having baseball cleats for playing on your high school varsity team. **Wants** are something that you would like to have, but are not necessary. Wants are things you could put off having right away or you could do without completely. Some examples of wants would be a video game, music player, or the latest cell phone.

### **Sometimes a need seems like a want, and a want seems like a need**

Needs and wants may sometimes seem to overlap. For example, although cake is a food, it is a want and not a need. In general, you need a basic diet to survive, but that diet does not need to include cake.

# Activity:

Either on your own or with your classmates decide which item you think is a need or want by circling one of the words for each item shown. Remember, something you *need* usually means you must have it for your survival, personal health and safety, or personal success. Something you *want* is not necessary to have right away or at all.

<p>1. <u>Skateboard</u></p>  <p>Need    Want</p>	<p>2. <u>Eyeglasses</u></p>  <p>Need    Want</p>	<p>3. <u>Music Player</u></p>  <p>Need    Want</p>	<p>4. <u>Lunch</u></p>  <p>Need    Want</p>
<p>5. <u>Winter Clothing</u></p>  <p>Need    Want</p>	<p>6. <u>Cell Phone</u></p>  <p>Need    Want</p>	<p>7. <u>Video Game</u></p>  <p>Need    Want</p>	<p>8. <u>School Supplies</u></p>  <p>Need    Want</p>
<p>9. <u>Diamond Ring</u></p>  <p>Need    Want</p>	<p>10. <u>Ice Cream Cone</u></p>  <p>Need    Want</p>	<p>11. <u>Watch</u></p>  <p>Need    Want</p>	<p>12. <u>Umbrella</u></p>  <p>Need    Want</p>

## Activity:

Use the table below to list some things that you believe are needs and wants. Then explain briefly why you feel that way.

Needs	Wants	Why

## Saving for Those Items You Really Want

As you can see by tracking your income and expenses you can begin to learn to **save** towards buying things that you really **want**. The key is to have a clear idea of what you are saving for and why. Knowing this information you will be less tempted to spend on other things while trying to reach your savings goal.

- **To help you save money, you may want to start by opening a personal savings account at your local bank.** This is not difficult to do and with the help of your parents and bank representative you'll be set up in no time. Having a personal savings account can be especially helpful if your long-term goal is to save for something expensive.
- **Putting money in the bank as opposed to a shoebox under your bed** makes it less likely that you will spend this money on impulse, and you will also earn interest. This means that the amount you have saved grows slowly over time, because the bank pays you a small amount for keeping your money with them.
- **Get to your goal faster by using pictures as reminders...**  
Let's face it, saving money is not as easy as it sounds. Some people find it helpful to keep a picture of the item they are saving for so they can look at it to help them stay motivated and not get distracted. Another way to visualize your way to successful savings may be to make a chart that shows you how much you have saved, and how far you have to go to achieve your goals.
- **Don't give up – small steps can take you a long way...**  
You'll be surprised at just how quickly your savings can add up once you begin to save money. Start by saving for smaller items, such as a CD or a video game. Then move on to bigger things, such as a music player, video game system, or a bicycle.

# Creating a Budget

Now that we've identified what you earn and how you spend your money the next step is to decide how much money you want to spend and save each month. That's what it means to create a budget.

## Creating a successful budget is easy as 1..2..3

### 1. Make categories and sub-categories for your budget.

You may want to group school lunches, snacks, and meals with friends under a category titled food. Other categories may include clothing and personal items (haircuts, cosmetics, jeans), entertainment and recreation (movies, video game purchases, DVD rentals) and telephone (cell phone, home phone). The key is to organize expenses by what makes sense for you.

**2. Decide what you will need or be able to spend in each category.** Now decide how much money you will need to spend in each category. Look back on the period you already tracked (page 5) to get an idea of some of the items and their expenses. Some key things to remember when doing this are the following:

- Always include categories that you are most likely to spend money in even if you do not spend money in these categories every month. For example, if you got a haircut last month but not this month, still keep it as a category or sub-category. Just put \$0 down for the planned amount for this month.
- Don't forget to include a category on taxes for income earned
- Also, be sure to include a separate category under expenses for money you want to save.

**3. You may need to adjust your budget to fit your spending needs.** If you find that you have not budgeted enough money for a certain category, you can shift your monthly budget to reflect your spending pattern. However, remember that if you increase one category you need to decrease another, or increase your monthly income.

Now let's take a look at David's budget. Remember, David has already tracked his income and expenses for the month of May (see page 2.). He's now ready to begin planning his monthly income, spending, and saving amounts. Let's take a look to see how he has done.

**David's Income & Expenses For the Month of May**

<b>Category</b>	<b>Planned Amount</b>	<b>Actual Amount</b>	<b>Difference Amount</b>
<b>INCOME</b>			
Job 1: Mall job	\$240.00	\$210.00	\$30.00
Job 2: Job at Uncle's barber shop	\$110.00	\$90.00	\$20.00
Other: Allowance	\$60.00	\$60.00	\$0
<b>INCOME TOTAL:</b>	<b>\$410.00</b>	<b>\$360.00</b>	<b>\$50.00</b>
<b>EXPENSES</b>			
Taxes on income/wages	\$55.00	\$55.00	\$0
Buying school lunch	\$60.00	\$56.00	\$4.00
Cell phone	\$50.00	\$48.00	\$2.00
Pet food	\$20.00	\$18.00	\$2.00
Movies with friends	\$30.00	\$24.00	\$6.00
Clothing	\$20.00	\$32.00	(\$12.00)
Meals with friends	\$20.00	\$26.00	(\$6.00)
Sneakers	\$0	\$0	\$0
New video game	\$0	\$0	\$0
Gifts	\$35.00	\$28.00	\$7.00
Haircut	\$0	\$0	\$0
YMCA dues	\$40.00	\$40.00	\$0
School supplies	\$0	\$0	\$0
<i>Savings</i>	\$80.00	\$33.00	\$47.00
<b>EXPENSES TOTAL:</b>	<b>\$410.00</b>	<b>\$360.00</b>	<b>\$50.00</b>
<b>DIFFERENCE:</b> (Income minus Expenses, or Net Income)	<b>\$0</b>	<b>\$0</b>	

## Activity:

Did David earn more or less income than he planned for the month?  
What was the difference?

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List the categories for which David spent more than he planned?

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List the categories for which David spent less than he planned?

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Did David save as much money as he planned for the month of June?  
If not, then choose two categories for which you think he should have spent less money? Why did you select these categories?

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One of David's short term saving's goal is to buy a new video gaming system that cost \$320. Based on his *planned* monthly savings amount how long would it take for him to save up for this purchase?

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How long would it take for him to buy the same gaming system based on his *actual* savings amount for the month?

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# Activity:

Try creating your own budget for the next month:

Category	Planned Amount	Actual Amount	Difference Amount
<b>INCOME</b>			
<b>INCOME TOTAL:</b>			
<b>EXPENSES</b>			
<i>Savings</i>			
<b>EXPENSES TOTAL:</b>			
<b>DIFFERENCE:</b> (Income minus Expenses, or Net Income)			

## Activity:

Did you earn more or less income than you planned for the month?  
What was the difference?

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List the categories for which you spent more than you planned?

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List the categories for which you spent less than you planned?

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Did you save as much money as you planned? If not, then choose two categories for which you think you could have spent less money? Why did you select these categories?

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Think of one short term savings goal. Based on your *planned* monthly savings amount how long would it take for you to save up for this purchase?

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How long might it take for you to save for this short term goal based on your *actual* savings amount for the month?

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## Activity (cont.):

Think of one long term savings goal. Based on your *planned* monthly savings amount how long would it take for you to save up for this purchase?

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Based on your *actual* monthly savings amount how long would it take for you to save up for this purchase?

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## Activity:

The following are some reasons to start a budget. Fill in the missing words, then try to think of your own reasons.

- Helps you determine how much money you have to spend.
- Helps you prioritize your "wants".
- Helps put you in control of your money
- Helps prevent you from over \_\_\_\_\_.
- Helps you decide what you \_\_\_\_\_ and \_\_\_\_\_ afford.
- Helps you to keep track of how you \_\_\_\_\_ your money.
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## Finding a “Money Mentor”

We’ve covered some of the basics about how to handle your money such as income, creating a budget, saving money, over spending (spending too much), and separating purchase needs and purchase wants.

There are many other great ways to learn more about how to manage your money. Besides reading books, magazines and articles another great money resource is someone called a **“money mentor.”** Basically, a money mentor is an adult who you can look to for advice and guidance when it comes to money matters. These individuals, who are already in your life, can really help you make the most of your hard earned money.

So who could you ask to be your money mentor? A good mentor is someone you know well and can trust, knows something about money, and shows a genuine interest in your success. Your parents are probably the first choice for helping teach you a thing or two about money, but there are other possibilities. For starters let’s consider the following:

An older sibling, a grandparent, aunt, uncle or other family member can all make great choices as mentors. You've probably noticed that many older relatives, including an older brother or sister, like to give you advice about things they know well. So asking them to teach you about managing money may make a lot of sense.

A local business owner, neighbor, or your favorite teacher can also be helpful. With your parents' permission, you might enlist the help of a trusted adult to teach you what they know about money. Many banks have young adult banking services. Such programs are helpful resources that are made available to you right in your own community.

## **Additional Resources:**

### **Internet:**

<http://www.studentsavvy.com>

<http://www.kidsmoney.org/>

[http://www.kids.gov/k\\_money.htm](http://www.kids.gov/k_money.htm)

<http://www.jumpstart.org/>

### **Books:**

Ultimate Kids Money Book by Neale S. Godfrey and Randy Verougstraete

The Kid's Guide to Money: Earning It, Saving It, Spending It, Growing It, Sharing It  
by Steven Otfinoski

Real World Math: Money and Other Numbers in Your Life by Donna Guthrie and  
Jan Stiles

The Totally Awesome Money Book for Kids, Second Edition by Adriane G. Berg and  
Arthur Berg Bochner