**Creating a Budget**

**Major Expense Categories**

Housing includes all expenses having to do with a residence. The housing expense category includes rent or mortgage payments, electricity, water, gas, sanitation (garbage collection), homeowners or renters insurance, property taxes, telephone and Internet bills, and home maintenance. Depending on whether a home is rented or owned, some of these expenses may not apply. For example, some apartments may have sanitation, water, or electricity costs included in the rent. Payments for housing should add up to no more than 30% and 36% of one's net spendable income.

Transportation expenses include anything having to do with daily travel. Transportation expenses range from bus and train fare to car-related expenses, such as car payments, gas, license fees, automotive insurance, taxes, and savings for maintenance and repairs. Transportation expenses should be between 15% and 20% of one's net spendable income.

Food expenses are for food. However, food expenses should not include eating out at a restaurant, which is considered a luxury and entertainment. Food expenses should be between 12% and 17% of one's net spendable income.

The debt category refers to any debt that is not part of housing or transportation. Credit cards and student loans are common examples of this kind of debt. Many students leave school, especially college, with significant debt. Debts are a fixed expense; there are minimum payments that must be made each month. While it is recommended that debt take no more than 6% of the net spendable income, sometimes a larger percentage must be budgeted towards debt depending on the amount of debt that needs to be paid off.

## Expense Subcategories

Since the expense categories are so broad, subcategories help clarify the specific costs being made. For example, Anton has a car and has to budget for a number of different costs for transportation. In addition to payments on a car loan, there are other costs such as gas, insurance, maintenance, and taxes. Some of these expenses, such as loan and insurance payments, are fixed expenses. Fixed expenses are constant and do not change from month to month. Other expenses, like fuel, are called variable expenses, as they may vary from month to month. Fuel expenses will vary depending on gas prices or how much driving is done in a given month. Fixed expenses are easier to plan for, but varying costs should also be planned for as much as possible.

## Calculating Amounts for Expense Categories

When creating a budget, use percents to calculate how much money should be spent in each category. Remember that to convert a percent to a decimal, the decimal point must be moved two spaces to the left.

34% → 0.34

To convert a decimal to a percent, move the decimal point two spaces to the right.

0.45 → 45%

To find a specific percent of a number, convert the percent to a decimal and multiply it by the number. For example, what is 30% of 1,400?

* Convert 30% to a decimal.
* 30% = 0.30
* Multiply 1,400 by 0.30.
* 0.30 • 1,400 = 420
* So 30% of 1,400 is 420.

Sylvia has a net spendable income of $1,600 per month. She is considering buying a car and determines that the monthly costs will be $350. Based on the percent of net spendable income that should normally be used for transportation, is this a wise purchase?

* To decide if this kind of a purchase is wise, determine what percent of Sylvia's net spendable income will go toward transportation.
* Divide the monthly costs for the car, $350, by the total net spendable income, $1,600.
* Convert 0.21875 to a percent.
* 0.21875 = 21.875%

Sylvia would be spending 21.875% of her net spendable income on transportation. Since the maximum recommended percentage for transportation is 20%, Sylvia should look for a car with lower monthly costs.

**Creating a Budget**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Percent** | **Amount Budgeted** | **Amount Spent** | **Amount Over/Under Budget** |
| Net Spendable Income | 100% |  |  |  |
| 1. Housing
 | 30% - 36%  |  |  |  |
| a. Mortgage (rent) |  |  |  |  |
| b. Insurance |  |  |  |  |
| c. Electricity |  |  |  |  |
| d. Gas |  |  |  |  |
| e. Water |  |  |  |  |
| f. Telephone |  |  |  |  |
| e. Other |  |  |  |  |
| 1. Food
 | 12% - 17% |  |  |  |
| 1. Transportation
 | 15% - 20% |  |  |  |
| a. Car Payments |  |  |  |  |
| b. Gas/Oil |  |  |  |  |
| c. Insurance |  |  |  |  |
| d. Registration |  |  |  |  |
| e. Repair or Maintenance |  |  |  |  |
| 1. Insurance
 | 3% - 7% |  |  |  |
| a. Life |  |  |  |  |
| b. Medical |  |  |  |  |
| 1. Debts
 | 5% - 6% |  |  |  |
| 1. Entertainment
 | 5% - 8% |  |  |  |
| 1. Clothing
 | 5% - 6% |  |  |  |
| 1. Savings
 | At least 5% |  |  |  |
| 1. Medical Expenses
 | 4% - 8% |  |  |  |
| a. Doctor |  |  |  |  |
| b. Dental |  |  |  |  |
| c. Prescriptions |  |  |  |  |
| 1. Miscellaneous
 | 5% - 10% |  |  |  |
| a. Toiletries |  |  |  |  |
| b. Beauty or Barber |  |  |  |  |
| c. Laundry |  |  |  |  |
| d. Subscriptions |  |  |  |  |
| **Totals:** |  |  |  |  |

## Making Wise Personal Financial Decisions

It may seem like the best financial decisions involve buying the cheapest things available. However, it is not always best to buy the cheapest item. While buying something that is cheap may save money initially, it may cost more money later. For instance, suppose Tabitha lives 40 miles from where she works and is looking for a new car. While Tabitha needs to find a car that will fit in her budget, finding the cheapest car possible is not necessarily going to save her money. If the car needs a lot of repairs, it will be significantly more expensive to operate.

A budget shows how much can be spent. It does not say how to spend the money or what purchases to make. When making a large purchase, it is important to have a budget to determine how much money can be spent on that purchase without affecting the other expenses in the budget.