

Your name \_\_\_\_\_

Assignment # 5 Points 15

Business Math Off-site Instruction Packet Cover Page (Periods 5, 7,8)

Students, You can contact me with questions or just to say hi.

Email: [LEWISJU@mwood.cc](mailto:LEWISJU@mwood.cc) (Put your name in the subject line so I know who you are!!). I will be checking mail multiple times each day.

Topic of this assignment: Creating a Budget

What you need to know: We are going to calculate % of income spent on expenses.

What you need to do: Read the notes. Go over examples. Complete Classwork.

Mrs. Lewis

## 8.2 Creating a Budget

### Instructional Objective(s):

#### 8.2 Creating a Budget

1. Students will be able to calculate the percent of income spend on expenses with 80% accuracy.
2. Students will be able to prepare a budget with 80% accuracy.

### ~Evaluate Spending

After you have tracked expenses and calculated average monthly expenses, you can take the next step in the budget process, evaluate spending habits. It is helpful to answer the following questions about your spending:

- Am I spending more than I earn?
- Am I spending too much in a certain area?
- Am I saving at a rate that will meet my goals?

When you track your expenses, you may find categories in which you spend more than you realized. After examining spending habits, if you are spending more than you earn or more on a category than you want, you need to adjust your spending habits. If you want to save money for a large purchase, college or other future expenses, you must be saving money at a rate that will enable you to meet your goals.

Another way to evaluate your spending habits is to evaluate the percent of income spent in each category. Many financial advisors suggest the following spending guidelines:

- Save 10-20% of your income in a savings account or other investments.
- Spend no more than 25-30% of your net pay on housing.

- Spend no more than 20% of your net pay on transportation, including car payment, insurance, service and gasoline, tolls, and parking.

Example:

1. The Tracer family has tracked their expenses and accounted for annual payments. The table represents their average monthly income and spending. Find the percent of income that the Tracers spent on housing. Using the guidelines above, do the Tracers spend a reasonable amount on housing expenses?

$$\text{Housing} \div \text{income}$$

$$650 \div 2600$$

$$= .25$$

$$25\%$$

Tracer Monthly Category	Spending + income monthly Ave.
Housing	\$650
Utilities	\$175
Life insurance	\$280
Transportation	\$550
Food	\$450
Clothing	\$55
Entertainment	\$85
Savings	\$20
Health care	\$150
Miscellaneous	\$185
<b>INCOME</b>	<b>\$2600</b>

2. Find the percent of income that the Tracers spend on transportation. Based on the guidelines above, is this amount reasonable?

$$550 \div 2600 = .2115 \quad 21.15\%$$

They are over the 20% that is suggested.

~ Budgeting

Budgets are your future spending plans. They help you allocate your future income to meet your future needs and save for the things you want.

A budget should reflect your average monthly spending analysis as well as incorporate any changes that you want to make in your spending based on your evaluation of your spending habits.

A budget may include the categories of your choosing. If you are focusing on reducing spending in a certain area, it may help to make several, very specific categories. However, if your budget includes too many specific categories it will be time-consuming to work with your budget.

Example:

3. Last year the Tracers did not save much of their income. In the coming year, they want to save 15% of their income. How much should they budget for savings if their expected income is \$3,000 per month?

$$15\% \times 3000 \times 12 \text{ months}$$
$$\$ 5,400$$

4. Tri-county Supply budgets 5% of the previous year's total revenue for utilities. The receipts from last year showed revenue of \$4,500,000. How much will be budgeted for utilities for the year?

$$5\% \times 4,500,000$$
$$\$ 225,000$$

To develop a budget you must identify not only your past income and expenses but estimate your expected future income and expenses.

You should also try to plan for income and expenses that cannot be scheduled or accurately predicted, such as income tax refunds and car repairs.

Budgets include fixed income and Expenses  
and Variable income and expenses.

With fixed income and expenses, a set amount of money is allocated each month for that income or expense.

Fixed income may include weekly wages or monthly salary. Fixed expenses may include money set aside to pay the insurance, mortgage, rent, car payment, or a savings plan.

Other expenses, such as telephone bills, transportation expenses, and personal expenses, while they occur regularly, vary in amount. Those expenses are

called variable, or flexible, expenses.

Budgets can be written to cover a month or a year. Typically a budget for a business would be expressed as a yearly budget, while a family will often find a monthly, or quarterly, budget more helpful.

Example:

5. For the next year, the Tracer's expect to make \$3,000 per month. Based on their past spending and their future goals, the Tracers have identified the percentage of their monthly income that they would like to budget for each category of expenses. How much money have they budgeted monthly for housing?

$$25\% \times 3000 = \$750$$

If you can't read this email me!

Tracer Family Budget	
Category	Percent of Income
Housing	25%
Utilities	5%
Life Insurance	10%
Transportation	15%
Food	15%
Clothing	2%
Entertainment	3%
Savings	15%
Health Care	5%
Miscellaneous	10%
Income	\$3,000

6. Find the amount of money budgeted per month for clothing.

$$2\% \times 3000 = \$60$$

Review:

1. Find the percent of income that the Tracers save. Draw a conclusion about the amount the Tracers save.

See example page 2!

2. The news reports that next year, gasoline prices will increase. Mr. Jones knows that he needs to increase the auto budget to 15% of his monthly income to cover the increase. Mr. Jones' gross pay each month is \$5,489. What will his monthly auto budget be to the nearest dollar?

15% of 5489

3. Find the amount of money budgeted per month for food the Tracer's.

See page 5

Classwork:

1. The Bernard family has tracked their expenses and accounted for annual payments. The table represents their average monthly income and spending. Find the percent of income that the Bernards save. Based on the guidelines, is this amount reasonable?

2. Find the percent of income that the Bernards spend on housing. Based on the guidelines, is this amount reasonable?

Category	Monthly Average
Housing	\$1,400
Utilities	\$220
Life Insurance	\$180
Transportation	\$400
Food	\$350
Clothing	\$100
Entertainment	\$150
Savings	\$500
Health Care	\$75
Miscellaneous	\$125
Income	\$3,500

2. In the coming year, the Richards family expects their monthly income to be \$3,200. The table shows the percentage of income they budgeted for each category.

Category	Percent of Income	Budgeted Amount
Housing	25%	
Utilities	5%	
Insurance	8%	
Transportation	10%	
Food	15%	
Clothing	4%	
Entertainment	6%	
Savings	12%	
Health Care	9%	
Miscellaneous	6%	