

## 1.2: Creating Your Budget

Creating a *budget* may sound complicated, but all you need to do to get started is set aside some time and get organized—the benefits will make the effort worthwhile. The following steps will help you set up your budget and manage your finances by helping you track your income and expenses.

Determine a Time Span for Your Budget

Choose a Tool to Help You Manage Your Budget

Review Your Monthly Income

Identify and Categorize Your Expenses

Save for Emergencies

Balance Your Budget

Maintain and Update Your Budget

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### Determine a Time Span for Your Budget

You can create your budget for a month, *academic year*, or calendar year. If you are currently attending college or career school, you may want to consider creating a monthly budget for an academic term, such as your fall semester. Keep in mind that your income may vary from month to month, and not all of your expenses will be the same each month. Larger expenses (such as car insurance and books) and seasonal expenses (such as a trip home at the holidays or a higher electricity bill in summer when the air conditioning is on) need to be incorporated into your budget.

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### Choose a Tool to Help You Manage Your Budget

To create a budget, you'll want to use a tool for tracking your income and expenses. You can use pen and paper, a simple automated spreadsheet, or a budgeting app. Many banks offer budgeting tools, so see what works best for you.

The Financial Awareness Counseling Tool (FACT) is a free interactive tool that can help you manage your finances. FACT covers topics ranging from managing your budget to avoiding *default*. Plus, you can access your loan information and receive personalized feedback to help you better understand your financial obligations.

### Review Your Monthly Income

First, estimate how much money you will have coming in each month. Here are some tips for assessing your income:

- Your income may come from sources such as your pay from work, financial contributions from family members, or financial aid (scholarships, grants, *work-study*, and loans).
- If you're working while in school, review your records to determine how much your take-home pay is each month. If you earn most of your money over the summer, you may want to estimate your yearly income then divide it by 12.
- Include income from any financial aid credit balance refunds—money that may be left over for other expenses after your financial aid is applied toward tuition and fees.

#### Monthly Income Tracking Example

Income Source	Monthly Income
Income from work	\$1,200
Tax refund (\$360 total divided by 12)	\$30
Estimated financial aid credit balance refund (\$2,100 total divided by 12)*	\$175
Monthly support from parents and/or family member	\$250
Other income	
<b>Total Monthly Income</b>	<b>\$1,655</b>

\*Note: If you are getting ready to attend school, you'll want to estimate your federal aid credit balance by taking your estimated financial aid and subtracting your expected tuition and fees. If you have not yet received an aid offer from your school, you can use

FAFSA4caster to get an early estimate of your eligibility for *federal student aid*.

## Identify and Categorize Your Expenses

To estimate your monthly expenses, you'll want to start by recording everything you spend money on in a month. This may be a bit time-consuming but will definitely be worthwhile in helping you understand where your money is going and how to better manage it. After that, gather your bank records and credit card statements that will show you other expenditures that may be automatically paid.

If you are currently attending college or career school or getting ready to go, you'll also need to estimate your college costs. In addition to tuition and fees (unless covered by financial aid), you'll want to make sure to include books and supplies, equipment and room materials, and travel expenses. Find details on what's included in the cost of college and tips on how to reduce college costs.

If you are still researching your school options, keep in mind that college and career school costs can vary significantly from school to school. We have resources to help you estimate and compare school costs.

Once you've identified your expenses, you should group them into two categories—fixed expenses and variable expenses.

- Fixed expenses stay about the same each month and include items such as rent or mortgage payments, car payments, and insurance. These obligations are generally nonnegotiable until you realize that you are spending too much money on rent and take steps to find a cheaper place! When creating a monthly budget, divide the amount due by the number of months the bill covers. For example, take your yearly \$1,200 insurance bill that's paid in two \$600 installments six months apart, and divide it by 12 to know you need to set aside \$100 per month.
- Variable expenses are those that are flexible or controllable and can vary from month to month. Examples of variable expenses include groceries, clothing, eating out, and entertainment. You'll want to examine these expenses to make sure they stay under control and don't bust your budget at the end of the month.

### Monthly Expenses Tracking Example

Fixed Expenses	Projected Cost
Rent or dorm fee	\$500
Books	\$70
Electricity	\$35
Gas and water	\$22
Cable and Internet	\$50
Car insurance (\$600 divided by 12 months)	\$50
Parking fee (\$84 divided by 12)	\$7
Car maintenance and repairs (\$480 divided by 12 months)	\$40
Cell phone (basic charges)	\$60
Car loan payment	\$125
Money set aside for savings	\$50
<b>Total Fixed Expenses</b>	<b>\$1,009</b>
Variable Expenses	Projected Cost
Groceries	\$250
Dining out	\$50
Entertainment (example: concerts)	\$50
Music downloads	\$20
Movies (theater and downloads)	\$48

Fixed Expenses	Projected Cost
Medical (including prescriptions)	\$40
Hair and nails	\$40
Clothing	\$50
Laundry and dry cleaning	\$10
Health club	\$40
Credit card monthly payment	\$25
Public transportation	\$25
Gas for car	\$60
<b>Total Variable Expenses</b>	<b>\$708</b>
<b>Total Expenses</b>	<b>\$1,717</b>

## Save for Emergencies

Include “Savings” as a fixed expense in your monthly budget. Pay yourself first every month! Your savings can be used as an emergency fund to help you deal with unexpected expenses. The ideal amount of an emergency fund typically covers three to six months of your expenses.

## Balance Your Budget

Now that you’ve identified your sources of income and expenses, you’ll want to compare the two to balance your budget. To do so, you simply subtract your expenses from your income.

Total Monthly Income	\$1,655
Minus Total Expenses	\$1,717
= + / – Difference	(\$62)

If you have a positive balance, then your income is greater than your expenses. In other words, you’re earning more money than you’re spending. If you have a positive balance, you shouldn’t start looking at new ways to spend your money. Instead, focus on putting the extra money toward your savings to cover your emergency fund or to support future goals such as buying a car. Also, if you have a positive balance but you’ve borrowed student loan funds, pay back some of your loans and consider borrowing less in the future.

If you have a negative balance, then you are spending more money than you have. You’ll want to balance your budget and make sure your expenses don’t exceed your income. Balancing your budget may include monitoring your variable expenses, reducing your expenses, and/or finding ways to increase your income. Spending less can be a lot easier than earning more. Consider eating out less frequently and making your own lunch. Rent books rather than buying them, or buy books to download to your computer. Use a shopping list when grocery shopping, and buy only what you need. Ask yourself before buying anything, “Do I really need this?”

Get budgeting tips to keep in mind as you create and maintain your budget.

## Maintain and Update Your Budget

Now that you’ve created your budget, you’ll want to make sure it remains a living document and you update it over time. Here are some smart practices to keep in mind:

- **Review your budget on a monthly basis.** Regular review and maintenance of your budget will keep you on top of things and may help you avoid being blindsided by something unexpected.
- **Forgive yourself for small spending mistakes and get back on track.** Most people overspend because they buy things on impulse. The next time you’re tempted to make an impulse buy, ask yourself the following questions:

- What do I need this for?
- Can I afford this item?
- If I buy this item now, will I still be happy that I bought it a month from now?
- Do I need to save this money for a financial goal?
- Will this item go on sale? Should I wait to buy it?
- Does it matter if I buy brand-name or can I get by with generic?

If you take a moment to think about what you're buying, you're more likely to make a choice that fits your budgeting goals.

## Quick Links

- [Budgeting](#)
- [Budgeting Tips](#)

## Glossary

### Budget

A financial plan that helps you track your money, make informed spending decisions, and plan for your financial goals.

### Academic Year

This is the amount of the academic work you must complete each year, and the time period in which you are expected to complete it, as defined by your school. For example, your school's academic y...

### Default

Failure to repay a loan according to the terms agreed to in the promissory note. For most federal student loans, you will default if you have not made a payment in more than 270 days. You may ...

### Work-Study

A federal student aid program that provides part-time employment while you are enrolled in school to help pay your education expenses.

### Federal Student Aid

Financial aid from the federal government to help you pay for education expenses at an eligible college or career school. Grants, loans and work-study are types of federal student aid. You must com...

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