**Budgeting Basics: Managing Money Wisely**

**Purpose**

Budgeting is a powerful tool for managing your finances, reducing stress, and achieving your goals. This worksheet introduces you to the basics of budgeting, helping you understand how to track your income, control expenses, and make informed financial decisions.

**What is a Budget?**

A budget is a plan that outlines your income and expenses, helping you allocate money to essentials, savings, and other goals. It allows you to see where your money is going and make adjustments to avoid overspending.

**Step 1: Understand Your Income**

Your income is the money you receive regularly. It could include:

* Your salary or wages.
* Freelance or side hustle earnings.
* Benefits or financial aid.

**Exercise:** Write down your monthly income sources and their amounts.

| **Income Source** | **Amount ($)** |
| --- | --- |
| Salary/Wages |  |
| Freelance/Side Hustle |  |
| Other |  |
| **Total Income** |  |

**Step 2: Track Your Expenses**

Expenses are where your money goes. They can be divided into:

1. **Fixed Expenses**: Regular, predictable costs (e.g., rent, utilities, insurance).
2. **Variable Expenses**: Costs that change monthly (e.g., groceries, gas, entertainment).
3. **Discretionary Expenses**: Non-essential spending (e.g., dining out, hobbies).

**Exercise:** List your monthly expenses and categorize them.

| **Expense** | **Type** | **Amount ($)** |
| --- | --- | --- |
| Rent/Mortgage | Fixed |  |
| Utilities | Fixed |  |
| Groceries | Variable |  |
| Transportation | Variable |  |
| Entertainment | Discretionary |  |
| Other |  |  |
| **Total Expenses** |  |  |

**Step 3: Calculate Your Budget**

Now, subtract your total expenses from your total income to see if you have a surplus or deficit.

**Formula**:  
**Income ($)** - **Expenses ($)** = **Surplus/Deficit ($)**

If you have a **surplus**, you can allocate it to savings or extra debt payments. If you have a **deficit**, review your expenses to identify areas to cut back.

**Step 4: Allocate Savings**

Savings are essential for financial security and achieving long-term goals. Experts recommend the 50/30/20 Rule:

* **50% Needs**: Essentials like housing, utilities, and groceries.
* **30% Wants**: Non-essential items and leisure.
* **20% Savings/Debt Repayment**: Emergency funds, retirement accounts, or paying off debt.

**Exercise:** Use the 50/30/20 Rule to categorize your income.

| **Category** | **Percentage (%)** | **Amount ($)** |
| --- | --- | --- |
| Needs | 50% |  |
| Wants | 30% |  |
| Savings/Debt | 20% |  |

**Step 5: Build Emergency Funds**

An emergency fund is a savings account reserved for unexpected expenses, such as medical bills or car repairs. Aim to save at least 3–6 months' worth of essential expenses.

**Exercise:**  
If your monthly essentials cost $2,000, your emergency fund goal would be $6,000–$12,000.  
**Your goal**: $\_\_\_\_\_\_\_\_\_

**Step 6: Tips for Sticking to Your Budget**

1. **Track Your Spending**: Use apps or a journal to log daily expenses.
2. **Avoid Impulse Purchases**: Wait 24 hours before making unplanned purchases.
3. **Review Regularly**: Adjust your budget as your income or expenses change.
4. **Automate Savings**: Set up automatic transfers to a savings account.

**Common Pitfalls and Solutions**

* **Problem**: Overspending on wants.  
  **Solution**: Use cash for discretionary expenses or set spending limits.
* **Problem**: Irregular income.  
  **Solution**: Budget based on your lowest monthly income and save surpluses for lean months.
* **Problem**: Forgetting irregular expenses (e.g., holidays, annual subscriptions).  
  **Solution**: Create a sinking fund—set aside a little each month for predictable irregular costs.

**Reflection Questions**

1. What are your biggest challenges with budgeting?
2. How can creating a budget help you feel more in control of your finances?
3. What is one change you can make today to improve your financial habits?