UNIT 3

Budgeting



Learning how to budget is crucial as it equips you with essential financial skills that are relevant throughout your life. Here are some key reasons why it is important to learn how to budget:

- **Financial Responsibility and Independence:** Budgeting helps you understand the value of money, the importance of saving, and the consequences of overspending. By learning to live within your means and prioritize spending, you can avoid relying on others for financial support.
- **Goal Setting and Planning:** Whether you are saving for college, purchasing a car or planning a trip, budgeting helps you prioritize your spending and allocate funds towards your goals.
- **Debt Avoidance**: Budgeting helps you avoid excessive debt and establish a healthy credit history and maintain financial independence.
- **Building a Savings Habit and Financial Preparedness:** Budgeting encourages you to develop a savings habit and set aside money for emergencies and responsibilities that lie ahead such as education, rent, utilities and other financial obligations.

3.1 Multiple Purchases and Budgeting

Let's try some questions budgeting questions.

1 Mariam wants to buy a dress for $45, a handbag for $30, and a pair of earrings for $20. If she has $100, will she have enough money to buy all three items?

2 Ahmed wants to purchase a laptop for $800, a printer originally priced at $120 using a coupon of 15% off, and a mouse originally priced at $30 at a discount of 10%. If he has $900, will he have enough money to buy all three items?

3 Alia wants to buy a sweater for $25, a scarf for $15, and a pair of gloves for $10. If there is a sale of 17% off on all the items and she has $40, will she have enough money to buy all three items?

4 Diala wants to buy a bike for $250 and a helmet for $40. If they are discounted at 25% off and she has $200, will she have enough money to buy both items?

5 Abdullah wants to purchase a concert ticket that costs $100, plus 1% tax and a shipping fee of $15. He currently has $50. How much more money does he need to save to afford the ticket?

6 Samir receives $400 for his birthday. He decides to spend 40% of it on a concert ticket, save 30%, and donate 10%. How much money will he have leftover to buy anything else?

7 You have $1,000 in your bank account. Your monthly expenses include $400 for rent, $200 for groceries, $100 for utilities, and $150 for transportation. Will you have sufficient funds to purchase a concert ticket for $149?

8 You have $300 and want to buy a new phone that costs $250, plus 12% tax. However, you also need to save at least $25. Can you afford to buy the phone and still meet your savings goal?

9 Maria receives $500 as a gift. She decides to allocate 30% to savings, 40% to spending, and the rest to donating. How much money will she allocate to each category?

10 You have $1,000 to spend on a vacation. You want to spend 40% on accommodation, 25% on transportation, and the rest on activities. How much money will you allocate to each category?

11 Isabelle has $600 to spend on groceries, dining out, and entertainment. She wants to allocate 50% to groceries, 30% to dining out, and the rest to entertainment. How much money will she allocate to each category?

12 You have $800 and want to spend it on clothes, shoes, and accessories. You want to spend 60% on clothes, 25% on shoes, and the rest on accessories. How much money will you allocate to each category?

13 You receive $400 from a part-time job. You want to allocate 30% to savings, 40% to spending, and the rest to charity. How much money will you allocate to each category?

14 Byungoon has $1,200 in his bank account. He wants to spend 20% on clothes, 30% on electronics, and the rest on books. How much money will he allocate to each category?

15 You have $500 and want to allocate it toward saving for a concert ticket, buying a new phone, and going out with friends. You decide to save 40% for the concert ticket, spend 30% on the phone, and the rest on going out. How much money will you allocate to each category?

16 You have $1,000 and want to allocate it toward buying a new computer, saving for a car, and donating to charity. You decide to spend $780 on the computer, save 10% for the car, and the rest on donations. How much money will you allocate to donations?

17 John receives a monthly allowance of $500 while in college. He needs to allocate his allowance towards buying books, meals, entertainment, and other monthly expenses. He wants to spend 30% of his allowance on books, 40% on meals, 20% on entertainment, and the remaining amount on other expenses. How much money should he allocate for each category?

18 Emily has a monthly allowance of $700 while in college. She wants to allocate 35% for meals, 20% for entertainment, and the rest equally between books and other expenses. How much money should she allocate for each category?

19 Sajida has a monthly income of $1,500. She wants to budget her expenses and has identified necessary items such as rent ($500), food ($300), and utilities ($150). She also wants to allocate some money for entertainment and clothes shopping. If she wants to save at least $200 per month, how much should she limit her budget for entertainment and clothes shopping?

20 David spends $30 per week on eating at restaurants. If he limits his restaurant expenses to $15 per week, how much money can he save in one year?

21 Sophie has a monthly income of $1,200. She needs to budget for rent ($500), utilities ($100), groceries ($200), and transportation ($100). She also wants to allocate money for entertainment and hobbies. How much should Sophie budget for entertainment and hobbies if she wants to save at least 20% of her income per month?

22 Alex has a monthly income of $2,000. He has monthly expenses of $1,500, including rent, utilities, and food. How much money can Alex save in a year if he allocates 20% of his income towards savings?

23 David is on a tight budget and needs to plan his grocery shopping for the week. He wants to allocate 30% of his weekly income to groceries. If David earns $500 per week, how much should he allocate for grocery shopping per month?

24 Dana wants to create a budget for her grocery shopping. She has a list of items she needs to buy, along with their prices. If Dana wants to stick to a budget of $20 per week, can she afford all the items on her list?

- **A** Milk: $2.50
- **B** Bread: $3.00
- **C** Eggs: $2.20
- **D** Chicken: $8.50
- **E** Vegetables: $4.00

3.2 50/30/20 Rule

The 50/30/20 budgeting rule is a popular method of allocating your income to different categories in order to achieve a balanced financial plan. It suggests dividing your after-tax income into three

broad categories: needs, wants, and savings/debt repayment. Here's a detailed breakdown of each category:

Needs (50% of your budget): This category includes essential expenses that are necessary for your day-to-day living. It typically encompasses fixed costs that are relatively inflexible and must be paid regularly. Here are some examples of needs:

A Housing: This includes rent or mortgage payments, property taxes, and homeowners' or renters' insurance.

B Utilities: Expenses like electricity, water, heating, and internet bills.

C Transportation: Monthly car loan payments, fuel costs, insurance, and maintenance expenses.

D Groceries: The amount you spend on food and essential household supplies.

E Health care: Health insurance premiums, prescription medications, and medical bills.

F Minimum debt payments: The required payments for any outstanding loans or credit card debts.

Ideally, you should aim to allocate around 50% of your after-tax income toward meeting these essential needs.

Wants (30% of your budget): This category includes discretionary expenses that enhance your lifestyle but aren't vital for survival. These are expenses that you have some control over and can adjust as needed. Examples of wants include:

A Dining out: Eating at restaurants, ordering takeout, or enjoying social outings.

B Entertainment: Movies, concerts, streaming services, hobbies, and vacations.

C Shopping: Non-essential clothing, electronics, gadgets and other personal items.

D Subscriptions: Magazine subscriptions, gym memberships, or other non-essential services.

E Travel: Weekend getaways, family vacations or exploring new destinations.

It is recommended to allocate around 30% of your after-tax income for these discretionary expenses.

Savings and Debt Repayment (20% of your budget): This category focuses on securing your financial future and managing existing debts. It includes saving for emergencies, retirement, and paying down debts faster. Here is what you can allocate within this category:

A Emergency fund: Building and maintaining a fund to cover unexpected expenses or job loss.

B Retirement savings: Contributing to retirement accounts or pension plans.

C Debt repayment: Accelerating payments towards loans, credit card debt or student loans.

D Long-term savings: Investing in stocks, mutual funds, real estate or other long-term goals.

It is advisable to allocate at least 20% of your after-tax income toward savings and debt repayment to foster financial stability and work towards your future goals.

Remember, the 50/30/20 budgeting rule serves as a general guideline. Depending on your unique circumstances and financial goals, you can adjust the percentages to better suit your needs. Regularly reviewing and adjusting your budget is crucial to maintaining financial balance and adapting to changing circumstances.

Let's try these questions to see how the 50/30/20 rule works.

1 John's after-tax monthly income is $3,000. Apply the 50/30/20 rule to determine how much he should allocate to each category (needs, wants and savings & debt repayment).

2 Mary earns a monthly after-tax income of $5,000. Apply the 50/30/20 rule to determine the amounts for each category (needs, wants and savings & debt repayment).

3 Sara's after-tax monthly income is $2,500. Apply the 50/30/20 rule to determine how much she should allocate to each category (needs, wants and savings & debt repayment).

4 Tom's after-tax monthly income is $4,500. If he wants to spend $1750 on a beach holiday in Hawaii, will he be within the limits of the 50/30/20 rule?

5 Nafisa's after-tax monthly income is $6,000. If Nafisa requires braces that will cost her $2,500, will she be able to pay for the braces within the 50/30/20 rule?

6 Place the following items into the Needs, Wants or Savings/Debt Repayment categories: Rent, groceries, dining out, Netflix subscription, retirement fund, new iphone 13.

7 Place the following items into the Needs, Wants or Savings/Debt Repayment categories: Health insurance, movie tickets, emergency fund, gym membership, vacation savings, utility bills.

Let's Explore

8 You've been diligently following the 50/30/20 rule to manage your finances. Your monthly income is $3,000. As part of this rule, you allocate $1,500 (50%) to cover your needs, $900 (30%) for your wants, and $600 (20%) for savings and debt repayment. You've planned to purchase a new gadget for $300 and go on a weekend getaway with your friends for $600, both of which fall within your "wants" category. Suddenly, you're faced with an unexpected car repair bill of $800 and have already used up funds from the "needs" category.

- **A** How might this unexpected expense impact your original plans to purchase the gadget and go on vacation?
- **B** What factors should you consider when deciding whether to use your "wants" money for the car repair or to continue with your original plans?
- **C** How can having an emergency fund in place help you make these decisions more confidently and responsibly?