



# Lesson 42

## Balance a Budget

- 5.10(D) Develop a system for keeping and using financial records.
- Ⓢ 5.10(E) Describe actions that might be taken to balance a budget when expenses exceed income.
- Ⓢ 5.10(F) Balance a simple budget.



### Understand the TEKS

“Live within your means” is an old saying that advises people how they should manage their money. It means that people should spend less money than their financial resources, or **means**. Most people do not have the means to spend their money on whatever they like, whenever they like. They need to think about how much money they have to spend. They also have to think about what they plan to buy. Some things people buy are things that they must have, such as food and clothing. Other things are nice to have, but not necessary.

#### Words to Know

- means
- budget
- income
- expense
- fixed
- flexible



Fill in the following chart with some things that you buy that are necessary and some that are not. In a small group of three or four, discuss your lists. What items do you agree about? Which cause you to disagree?

Necessary	Nice to Have, But Not Necessary

People use **budgets** to keep track of their spending. A budget is an estimate of **income** and **expenses** for a specific amount of time, usually a month. Income is how much money will be earned, or “come in.” An expense is an amount of money that is spent. Some expenses occur regularly. For example, one of your daily expenses might be to buy lunch in the school cafeteria. Other expenses might occur rarely. Some expenses are expected, while others are not.



### Guided Instruction

#### Problem 1

In order to earn his allowance, Tony needs to do some basic chores, like do his homework, make his bed, and clean his room. His parents give him \$1 each time he does an extra chore, like washing dishes, weeding the garden, washing the car, or taking out the garbage.

Tony’s parents told him that if he wants to continue getting an allowance, he will need to make a budget. To get started on his budget, Tony made a list of all the things he did in the past week that involved earning and spending money. What was his total income? What were his total expenses?

**My Money Stuff - by Tony**

Allowance - \$20/week

Savings - \$10

Lunch money - \$2/day, 5 days

Lunch - \$2/day, 5 days

Library fine - 25¢

Washed dinner dishes - 2 @ \$1

Took out garbage - 1 @ \$1

Music downloads - 4 @ \$1

Afterschool snacks - \$2/day, 3 days

Walked Mrs. Lee's dog - \$2/day, 6 days

Movie - \$7

Popcorn - \$3

Baseball Cap - \$10

"@ \$1" means "at \$1 each"

**Step 1**

Identify which items on the list are income and which are expenses. Multiply to find the total for items that happened more than once. Complete the table below.

Income		Expenses	
Allowance	\$ _____	Savings	\$ _____
Lunch money \$ _____ × _____ =	\$ _____	Lunch \$ _____ × _____ =	\$ _____
Extra chores \$1 × _____ =	\$ _____	Library fine	\$ .25
Dog walking \$ _____ × _____ =	\$ _____	Music \$ _____ × _____ =	\$ _____
		Snacks \$ _____ × _____ =	\$ _____
		Movie	\$ _____
		Popcorn	\$ _____
		Baseball Cap	\$ _____
<b>TOTALS</b>	\$ _____		\$ _____

**Step 2**

Find the total income and expenses. Write them in the table above.

Did Tony have to ask his parents for extra money this week? Explain.

Why do you think Tony's parents want him to make a budget?

What does Tony need to do in general to "live within his means"? What are some specific ways he can accomplish this?

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**Solution**

Tony's income for the week was \$\_\_\_\_\_. Tony's expenses for the week were \$\_\_\_\_\_.

**Problem 2**

Marshall earns \$36,000 per year at his job. He started to make a monthly budget by listing his fixed expenses. **Fixed** expenses, like rent, occur every month and are the same every month. In contrast, **flexible** expenses can differ every month.

Help Marshall complete his budget by setting realistic amounts for the flexible expenses in his budget. Then explain how Marshall will use his budget.

<b>Total Budget:</b>			
	_____		
<b>Fixed Expenses</b>	<b>Budget</b>	<b>Fixed Expenses</b>	<b>Budget</b>
Rent/Utilities	\$975	Car Insurance	\$60
Car Payment	\$180	Cell Phone	\$60
Student loans	\$100	Health Insurance	\$55
Pet Food/Supplies	\$70	Health Club Membership	\$30
Cable/Internet	\$65	Trash Collection	\$5
<b>Flexible Expenses</b>	<b>Budget</b>	<b>Flexible Expenses</b>	<b>Budget</b>
Food/Groceries	_____	Recreation/Entertainment	_____
Fuel/Gas	_____	Savings	_____
Clothing/Laundry	_____	Hobbies/Sports	_____

**Step 1** Determine how much Marshall earns each month. Divide his annual salary by 12 to determine his monthly earnings. Write Marshall's total monthly balance in the table.

**Step 2** Determine how much Marshall's fixed expenses are.

Add Marshall's fixed expenses. What is the monthly total? \_\_\_\_\_

Rent is usually a person's biggest fixed expense. In general, rent should be about one-third of a person's income. Is Marshall's rent too high, too low, or just about right?

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**Step 3** Determine how much Marshall has for flexible expenses by subtracting fixed expenses from income.

$$\$_{\hspace{1cm}} - \$_{\hspace{1cm}} = \$_{\hspace{1cm}}$$

After determining income and fixed expenses, add categories of flexible expenses to the budget.

**Step 4** The largest flexible expense is food. On average, a person will spend one-sixth of an earned income on food. This includes groceries and dining in restaurants. Write a reasonable amount for Marshall's food budget in the table.

**Step 5** Another major expense is fuel. Marshall owns a car. The average car owner will buy 40 gallons of gas per month. Determine a reasonable budget for fuel if one gallon of gas costs \$4.00 per gallon. Write the amount in the table.

**Step 6** The remaining expenses can vary dramatically. Ideally, the budget for savings should be set. This should be at least 10% of income. However, if Marshall is a reasonable spender, the savings category can include whatever money is left over. Write reasonable amounts for the remaining categories in the table.

What do the numbers for the flexible expenses mean?

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**Step 7** Review the budget. Think about its purpose. Make sure the amounts seem realistic. How does keeping records of expenses help people "live within their means"?

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How is Marshall is going to use his budget? What should Marshall do to avoid going over budget?

**Solution**

### Another Example

Marshall's car needs to be repaired immediately. The bill for the repair is \$275. How should Marshall adjust his other expenses for the month?

Which of Marshall's expenses would be the most difficult part of his budget to adjust? Which would be the easiest? Explain.

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Subtract amounts from the most flexible expenses to pay for the car repair. What are the new amounts for these categories? \_\_\_\_\_

Category	Monthly Budget	Assign to Car Repair	New amount
		_____	
		+ _____	
		+ _____	
		+ _____	
		= \$ 275	

**Other Example**

Tony has a twin sister, Tara. Tara's weekly income consists of \$20 allowance, \$10 lunch money, and \$5 earnings from extra chores. Every week, she puts \$10 in a savings account and spends \$10 on lunch. Draw a circle graph to show how Tara's fixed expenses compare to her possible spending money. How would this graph change if Tara started to put aside half her spending money so she could buy a new soccer ball?

Subtract fixed expenses from income to obtain spending money.

$$\text{\$} \underline{\hspace{2cm}} - \underline{\hspace{2cm}} = \text{\$} \underline{\hspace{2cm}}$$

Create circle graph.

Answer: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_



## Critical Thinking

Solve each problem.



Real World  
Connection

1. A personal budget is very different from a budget for a business. What are some expenses that a retail business (such as a department store) might have to include in its budget? Which do you think would be the greatest expense? Explain why.

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Elevate

2. Devise a way to keep track of and use financial statements such as bank statements, receipts, and bills. Explain why your system would be a good one.

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Financial  
Literacy

3. Tanya earns \$20 each weekend for babysitting. She wants to save enough money to buy a music player that costs \$117. Tanya budgets \$7 per week for music downloads. In how many weeks will Tanya have enough money to buy the music player? Explain how you found your answer.

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Collaborative  
Learning

4. Shopping on a budget can be like a game. Compete with your classmates to come up with the best possible meal for less than \$4 per person. As a class, collect the weekly flyers from several different grocery stores. Then work in pairs to plan a dinner that includes a meat, side dish, and vegetable from the items in the supermarket flyers (you can assume that you already have salt and some spices in your kitchen). You may need to visit a grocery store or use store websites to determine the prices of ingredients that are not in the current flyers. Be sure to compare prices among different grocery stores. With your partner, create a poster with your menu, recipes, and cost for the entire meal. Create a class display. Discuss your findings. Vote on who has the first-place meal.



Media  
Connection

5. There are many electronic tools that people can use to track their budgets. Use a spreadsheet program on a computer and open up a household budget template under the "Personal Finance" menu. Have students enter in the amounts they used from the guided instruction question. Compare the budget report and budget details when the values are adjusted.



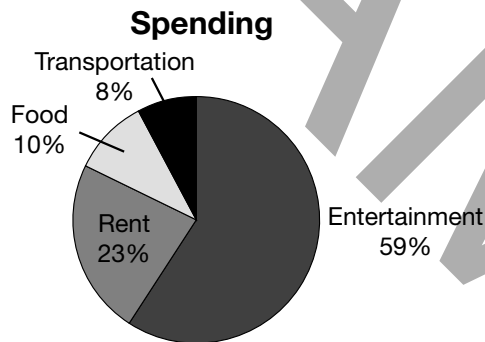
## ★ Practice

**DIRECTIONS** Read each question. Then circle the letter for the correct answer.

- 1 Which of the following might be considered an unexpected expense?

**A** Rent                      **C** Food  
**B** New appliance        **D** Transportation

- 2 Hank's spending patterns are shown in the budget below. Last week Hank did not have enough money to pay his rent.



Why do you think Hank could not afford his rent?

- F** He spent too much on entertainment.  
**G** He did not spend enough on transportation.  
**H** Hank's rent is too high.  
**J** Hank's food budget is too low.

- 3 Faye earns \$500 per week. How much is a realistic budget for rent each month?

**A** \$500                      **C** \$1,330  
**B** \$660                      **D** \$2,000

- 4 The table shows Pablo's income and expenses.

Income	Expenses
Paycheck: +\$1,250	Rent: -\$900
Gift: +\$500	Food: -\$375
	Car: -\$325

What is Pablo's current balance?

**F** Owes \$125  
**G** Has \$125  
**H** Owes \$150  
**J** Has \$150

- 5 Ginny is paid every other week. She wants to save at least \$500 per year. How much money does Ginny need to save from each paycheck?

**A** \$5  
**B** \$10  
**C** \$15  
**D** \$20

- 6 Roger deposited his paycheck into his bank account and the bank gave him a receipt. How long should Roger keep the receipt?

**F** Until he leaves the bank  
**G** Until his balance shows the deposit  
**H** He should keep it for 2 weeks.  
**J** He should keep the receipt forever.





★ **Assessment**

**DIRECTIONS** Read each question. Then circle the letter for the correct answer.

- 1** The table shows the monthly payment for various loan amounts.

Loan	Monthly Payment
\$5,000	\$96
\$10,000	\$193
\$15,000	\$289
\$20,000	\$386

Derek can afford to budget no more than \$3,000 per year for loan repayment. Which is the greatest loan he can afford to pay back?

- A** \$5,000
- B** \$10,000
- C** \$15,000
- D** \$20,000

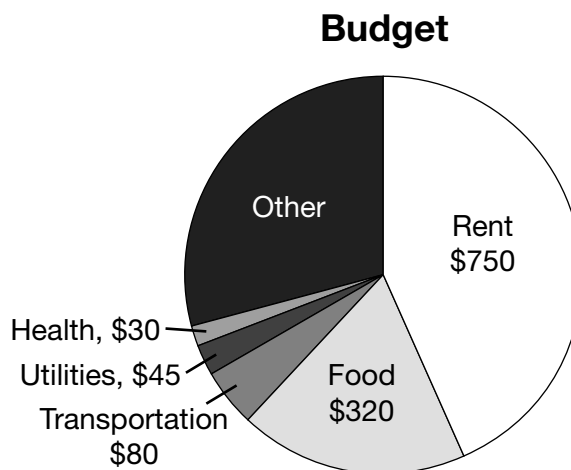
- 2** Jack wants to buy a new car. He has \$5,000 saved and half his earnings from his summer job. If he earns \$4,500 in one summer, what is his budget for a new car?

- F** \$2,250
- G** \$2,275
- H** \$7,250
- J** \$9,500

- 3** Amanda spends \$120 per week on groceries, \$40 per week on gas, and \$800 per month on rent. If she earns \$1,200 every two weeks, how much money does she have left at the end of the month?

- A** \$200
- B** \$240
- C** \$960
- D** \$1,440

- 4** Alex earns \$431.25 per week. The chart shows Alex's monthly budget.



How much money is budgeted in the "Other" category each month?

- F** \$500
- G** \$793.75
- H** \$1,225
- J** \$1,725

- 5** Alice wants to take a trip to Spain that costs \$2,100. Alice is paid twice per month. Suppose she sets aside \$150 from each paycheck. How many months will it take to have enough money for her trip?

Record your answer and fill in the bubbles on the following grid. Be sure to use the correct place value.

0	0	0	.	0	0
1	1	1		1	1
2	2	2		2	2
3	3	3		3	3
4	4	4		4	4
5	5	5		5	5
6	6	6		6	6
7	7	7		7	7
8	8	8		8	8
9	9	9		9	9