SOUTH DAKOTA STATE UNIVERSITY EXTENSION

Developing a Budget/Spending Plan

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A budget is simply a spending plan that determines how you will use your income for your expenses. Budgets are individualized and dynamic. Individualized means that the budget is based on your financial goals, needs and wants, not anyone else's. Each of us has differences in what we see as financial priorities. It may be the needs of family members, education or employment. All of these differences will impact how we approach the spending plan. A dynamic budget is changing. When developing the spending plan for the month, you will address the income and expense needs that you have. Throughout the month, events may occur that impact the plan. That doesn't mean taking time to make a spending plan is unnecessary, but having a plan will help you address the unexpected expenses better.

When developing a budget/spending plan for the first time, the task may seem overwhelming. Remember that anytime you are learning a new skill, there is an adjustment period. You also have to develop a plan that works for you and your situation. Get started by following the steps outlined below, then from month to month adapt the plan so it meets your financial needs.

Step 1 – Calculate your income

It is easiest to start by creating a budget for one month. Make a list of all your sources of income for the month. Income is any money you receive regularly from salary or wages, child support, unemployment benefits, public assistance, and interest and dividends. If you receive wages or salary, use the net amount received (amount after taxes and other deductions) to plan your budget. If your income is irregular or varies from month to month, use the average or a lower amount for planning.

Monthly Income

Salaries and Wages Use net amount (take-home pay)	$
Public Assistance and Unemployment Benefits (include SNAP, housing, child care and/or utility assistance, etc.)	$
Interest and Dividends (include any interest or dividends received from bank accounts and investments.)	$
Other Income (include child support, alimony and any other income received.)	$
TOTAL MONTHLY INCOME	**$**

Step 2 - Calculate your expenses

Either estimate your expenses or review past spending to determine the amount and categories. Expenses are fixed (same amount due each month – i.e. rent, utilities, debt payments), flexible (amount spent each month will vary or can be adjusted – i.e. groceries, transportation, entertainment), and occasional (may be fixed or flexible, do not occur every month – i.e. medical bills, insurance payment, gifts). Savings can be added to the fixed expenses category if there is a plan to save a specified amount each month. To calculate occasional expenses, take the total spend yearly and divide by 11 to find the monthly amount to save (use 11 months instead of 12 to give a little cushion). Unexpected expenses can throw off your budget. When you develop your first plan, you may miss or forget to include an expense. Don't get discouraged when this happens. Make adjustments for the month and then remember to include the expense for the next month.

Monthly Expenses

Fixed Expenses

Savings (Pay yourself first)	$	Car loan	$
Rent/Mortgage	$	Telephone/Internet	$
Property Insurance	$	Car Insurance	$
Health Insurance	$	Personal Property Taxes	$
Real Estate Taxes	$	Other vehicle loans	$
Other Loan(s)	$	Other Debt	$
Emergency Fund	$	Childcare (include child support paid)	$
Other:	$	Other:	$
Other:	$	Other:	$
Fixed Expenses Subtotal:		**$**	

Flexible Expenses

Food at home	$	Food away from home	$
Clothing	$	Laundry/clothing maintenance	$
Home/office supplies	$	Personal care	$
Streaming/subscription services	$	Recreation/entertainment	$
Transportation	$	Household maintenance	$
Educational expenses	$	Children's expenses	$
Utilities	$	Medical expenses	$
Other:	$	Other:	$
Other:	$	Other:	$
Flexible Expenses Subtotal:		**$**	

Occasional Expenses

Travel/vacation	$	Gifts	$
Holidays	$	Licenses	$
Contributions	$	Other:	$
Other:	$	Other:	$
Occasional Expenses Subtotal:		**$**	
TOTAL EXPENSES		**$**	

How Much Should Expenses Be?

There are some general rules of thumb for the amount to spend in each expense category every month. Keep in mind, everyone family has different needs and wants. Table 1 provides general monthly spending guidelines.

Table 1

Housing (including utilities, taxes and maintenance)	32 – 35%
Food (at and away from home)	16 – 20%
Transportation (including insurance)	17 – 19%
Clothing and services	5 – 7%
Healthcare (including insurance)	5 – 9%
Savings (including retirement)	2 – 10%
Other expenses	7 – 12%
Source:	

Step 3 - Analyze the balance and make needed adjustments

Once you have calculated your income and expenses, compare the amounts. Income should be equal to or more than the expenses. If this is not the case, review your expenses to determine where you can make adjustments. Flexible expenses such as food, transportation and entertainment can be more easily adjusted than fixed expenses such as housing costs and debt payments.

Total Income	$
- (minus)	
Total Expenses	$
= (equal)	
Difference	$

Step 4 - Track spending and expenses

Once you have a balanced budget, you need to track your spending for the month. Keep track of your expenses so you know how much you have to spend for each category. Tracking flexible expenses is important because it is easy to overspend. For example, if you have budgeted $100 for transportation but quickly spend that amount before the end of the month, then you will either need to adjust spending in another category or not spend any more on transportation for the month. Tracking your spending will help you develop your spending plan for the next month because you can make adjustments based on experience.

A budget is an individualized and dynamic financial tool. Having a plan for your spending will help you to be more in control of your finances.

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