

Spending Plans



What is a spending plan?



- A tool used to record and track projected and actual income and expenses over a period of time.
- Also called a budget.

Spending Plans



- Are simply road maps that help people reach financial goals
- Need to be flexible to change with various life stages
- Are not difficult to establish but do take **time** and **commitment**.
- ***Recommended to track spending prior to creating a budget.*
- NOTE: There should not be any money left over in a budget. If there is, it should be put into the savings or charitable giving column.

Benefits of Spending Plans



A spending plan can help you:

- Put aside money for savings goals
- Prepare for regular expenses
- Prepare for unexpected expenses
- Control how you spend money
- Reduce stress and increase confidence
- Provide an excuse to calm excessive spending



Consequences of NOT Using a Spending Plan

- No idea where money has been spent
- Bad spending habits are unidentified
- Unprepared for emergencies
- Strained relationships
- Lack of savings plan
- Wasted money
- Stress

Opportunity Cost of Spending Plans



- Consumers may feel like having a budget is confining or restrictive, but it actually gives them more freedom and more options.
- By paying attention to where money is spend, wiser choices can be made.
- With more freedom, more options, wiser choices, more money can be spent on items of value.

Before creating a spending plan...



- Track your spending.
 - Before making a budget, spend a couple of weeks writing down every penny you spend.
 - This will help you have a better idea of where your dollar amounts should be when making a budget.

How do I make a spending plan?



1. Assess your personal financial situation (needs, values, life situation).
2. Set personal and financial goals.
3. Create a budget for fixed and variable expenses based on projected income.
4. Monitor current spending (saving, investing) patterns.
5. Compare your budget to what you actually spent.
6. Review financial progress and revise budget amounts.

Name _____ Date _____

SPENDING PLAN

FOR MONTH OF: _____

	PLAN	ACTUAL
MONTHLY INCOME		
Earned Income	\$ _____	\$ _____
Unearned Income	\$ _____	\$ _____
TOTAL INCOME	\$ _____	\$ _____

	PLAN	ACTUAL
MONTHLY EXPENSES		
Fixed Expenses		
Pay Yourself First	\$ _____	\$ _____
Car Payment	\$ _____	\$ _____
Car Insurance	\$ _____	\$ _____
Other _____	\$ _____	\$ _____
Other _____	\$ _____	\$ _____
Total Fixed Expenses	\$ _____	\$ _____
Variable Expenses		
Savings	\$ _____	\$ _____
Gas	\$ _____	\$ _____
Food	\$ _____	\$ _____
Clothing	\$ _____	\$ _____
Entertainment	\$ _____	\$ _____
School Supplies	\$ _____	\$ _____
Activities	\$ _____	\$ _____
Charitable Giving	\$ _____	\$ _____
Other	\$ _____	\$ _____
Total Variable Expenses	\$ _____	\$ _____

TOTAL EXPENSES (Fixed + Variable Expenses) \$ _____

PROFIT OR LOSS (Income - Total Expenses) \$ _____

ADJUSTMENTS FOR NEXT MONTH: _____

Earned income

Money generated from employment or retirement funds.

Unearned income

Money received for no exchange, such as a gift.

Pay Yourself First®

The idea that savings should be a regular part of a spending plan and should happen before variable expenses.

Fixed expenses

Occur every period and are typically about the same amount.

Variable expenses

May or may not occur every period and do not have a constant value.

More expenses than income?



- **Negative cash flow**
- Negative cash flow typically results in debt.
- Part of being financially independent is spending less than you earn.

Unearned Income	\$ _____	\$ _____
TOTAL INCOME	\$ _____	\$ _____
TOTAL EXPENSES (Fixed + Variable Expenses)	\$ _____	\$ _____
PROFIT OR LOSS (<u>Income</u> - Total Expenses)	\$ _____	\$ _____
ADJUSTMENTS FOR NEXT MONTH:	_____	

To Reduce Negative Cash Flow:



- Reduce Spending
 - Doing comparison shopping
 - Using coupons
 - Avoiding impulse purchases
 - Buying items “on sale”
 - Carpooling, walking, or riding a bike
 - Eating at home
 - Eliminating/reducing impulse purchases – vending machines, convenience stores, etc.
 - Shopping at thrift stores
 - Wearing hand-me-down clothes
 - Using “frequent shopper” cards

To Reduce Negative Cash Flow:



- Increase Income
 - After school/weekend job
 - Additional chores around the house
 - Yard work
 - Babysitting
 - Summer job
 - Dogwalking
 - Housesitting
 - Garage sale
 - Provide a service

Guidelines for a Budget



- Housing & Utilities 30%
- Food & Household 20%
- Clothing & Personal 10%
- Transportation 10%
- Saving & Investing 10%
- Miscellaneous 20%

What tools help in budgeting?



- Envelope System
- Computer Programs
- Paper Tracking



Envelope System



- Each envelope is labeled for the category of spending.
- Each pay period, a pre determined amount of money is placed in each envelope for each category.
- Each time money is spent from an envelope, the transaction details (date, vendor, amount, etc.) is recorded on the outside of the envelope.
- When the envelope is empty, spending ceases!

Computer Program



File Edit Tools Online Cash Flow Investing Property & Debt Planning Tax Reports Help

Back Update Reports Services Quicken.com Calc Port Budget Customize

Quicken Home

Cash Flow Center

- Checking 1,385.56
- Savings 23,560.00
- Credit Card -203.45
- \$24,742.11**

Investing Center

- ABC Brokerage 43,515.45
- Rob's 401k 34,943.02
- Stephanie's IRA 2,593.88
- \$81,052.35**

Property & Debt

- Home 290,000.00
- Home Loan -221,564.39
- \$68,435.61**

Net Worth \$174,230.07

Financial Overview

Customize Hide Amounts

Checking Register Overview

Delete Find Transfer Reconcile Write Checks Update Now Report Options How Do It?

Date	Num	Payee/Category/Memo	Clr	Deposit	Balance
5/2/2003	1104	Credit Card [Credit Card]	787 50		2,058 65
5/4/2003	1105	Home Mortgage --Split--	1,342 49		716 16
5/8/2003	1106	Electric Company Utilities:Gas & Electric	198 15		518 01
5/9/2003	1107	Telephone Company Utilities:Telephone	47 30		470 71
5/10/2003	DEP	Rob's Paycheck --Split--		1,697 09	2,167 80
5/10/2003	1108	Golf Warehouse Entertainment Golf	782 24		1,181 28
5/21/2003	Num	Gas Company Category Memo	Payment	Deposit	

Enter Edit Split

Online Balance: 399.57 **Ending Balance:** 1,385.56

Downloaded Transactions (20) Scheduled Transactions (0)

Download Transactions Make an Online Payment (Last download on 5/21/2003)

Anytime

CHECK REGISTER			DEBITS (-)		CREDITS (+)		BALANCE
NUMBER	DATE	DESCRIPTION OF TRANSACTION	CHECKS FEES	✓	DEPOSITS INTEREST		\$
							105 26
214	12 03	Patton Auto Shop	32 67				-32 67
		Car Mats					72 59
	12 05	Deposit			150 47		+150 47
		Paycheck					223 06
215	12 07	Computer Outlet	45 29				-45 29
		Laser Cartridges					177 77
216	12 11	Pay-by-Phone Tele. Bill	26 14				-26 14
		December Phone Bill					151 63
217	12 15	Photo Mart	14 80				-14 80
		Camera Film					136 83
218	12 16	The Gallery	64 75				-64 75
		Clothes					72 08
219	12 16	Debit Card	23 90				-23 90
		Tri-State Mall/CD					48 18
	12 20	Deposit			636 05		+636 05
		Paycheck					684 23
		Fee					5 00
							679 23



RECONCILE

ACCOUNT STATEMENT			
Account Summary			
BEGINNING BALANCE	105.26 (+)	ACCOUNT NUMBER	207983
DEPOSITS/CREDITS	150.47	STATEMENT DATE	12 31 20--
CHECKS/DEBITS	102.51 (-)		
ENDING BALANCE	153.22		
Checking Summary			
12/03	CHECK 214		32.67 -
12/05	DEPOSIT		150.47 +
12/15	CHECK 217		14.80 -
Other Account Activity			
12/11	PAY-BY-PHONE - National Electric Co.		26.14 -
12/16	DEBIT CARD PAYMENT-Tri-State Mall		23.90 -
12/31	SERVICE CHARGE		5.00 -

HOW TO BALANCE YOUR ACCOUNT	CHECKS OUTSTANDING	
1. Check off entries in the register that match entries on the statement.	No.	\$
	215	45 29
	218	64 75
2. List the checks and other payments that are still outstanding.		
3. Subtract bank charge(s) from your checkbook.		
4. Complete the reconciliation form shown below.		
	TOTAL	110 04
BALANCE SHOWN ON STATEMENT		\$153 22
ADD DEPOSITS NOT SHOWN		636 05
SUB-TOTAL		789 27
SUBTRACT CHECKS OUTSTANDING		110 04
BALANCE		679 23



Paper Tracking



- Always record transactions in a check register or on the outside of the envelope for each category.

Check Number	Date	Description of Transaction	Payment/ Debit (-)	Fee	Deposit/ Credit (+)	Balance
	2/20	Opening Deposit	\$		\$200 00	\$200 00
105	2/26	Coffee Mart	19 75			19 75
						180 25
	3/12	ATM	100 00			100 00
						80 25
	3/22	Deposit			30 00	30 00
						110 25
	3/23	Deposit			50 00	50 00
						160 25
	3/23	Cash Back from Deposit	25 00			25 00
						135 25
	3/18	Monthly Fee		2.00		2 00
						133 25

REMEMBER!!!



- It is important to remember that budgets can and should change from time to time.
- After following a budget for a month, re-evaluate it and make changes as necessary.



Large purchases



- When adjusting a budget, consider future large purchases and consider saving up for that item and paying cash for it.
- When a home or automobile is purchased, other budget categories, such as entertainment and clothes, may need to be cut back in order to compensate for the larger



Review



Financial independence is achieved by reducing spending, earning more, saving more, and avoiding negative cash flow.

A **spending plan** is a tool to assist one in tracking and monitoring income and expenses and avoiding negative cash flow.