

# budgeting

CONTROL YOUR MONEY



**Financial Literacy**

MONEY MANAGEMENT EDUCATION



## **Financial Literacy: Money Management Education**

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## LEARNING GOALS

- 1 Understand how needs and wants impact our spending habits.
- 2 Learn how to identify and track expenses.
- 3 Build a budget based on income and expenses.
- 4 Set short- and long-term goals that fit within a budget.

FINANCIAL LITERACY



BUDGETING



# your relationship with money

What do you think of when you hear the word “money”?

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What do you think of when you hear the word “budget”?

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How did your family/caregiver manage money?

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What did you learn from their management?

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How do you manage your money now?

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What is your biggest fear around money?

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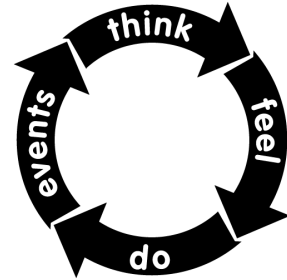


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## Think-feel-do



How we think about money impacts how we feel about money, which leads us to do certain things with our money. What we do leads to other events, which impact how we think and feel all over again. Change occurs through awareness of our thoughts, feelings and actions. How will you create new possibilities for yourself?

A negative think-feel-do example is: “I think a person needs a lot of money to save. I feel hopeless and discouraged about my situation. So I cannot start saving.”

A positive think-feel-do example is: “I think savings can build a little at a time. I feel confident I can find some money to start saving. I will save \$1.50 per day by cutting back to one take-out coffee per day.”

Be aware of any negative thoughts and feelings you have about money! When you think positively, you are more likely to make changes to improve your financial situation.



## MY LAST 10 PURCHASES

Budgeting requires you to become more aware of where your money goes. List the last 10 items you spent money on, such as: groceries, jeans, rent, coffee, cigarettes, utility bill and pop.

### ITEM

1

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2

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3

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4

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5

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6

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7

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8

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9

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10

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# needs and wants

Needs are the essentials required for everyday living.

Wants are the things that would be nice to have, but are not necessary for everyday living.

Telling the difference between a need and a want is not always easy. Nowadays you need to be honest when you ask yourself: “Would I be able to survive if I didn’t have this item?” If the answer is “no,” the item is likely a need. If the answer is “yes,” then that item is a want.

For example, we can probably easily agree that paying rent would be a need and diamond earrings would be a want. However, in our society, there are many different ways to meet each of our needs.

Make sure your need isn’t just a want in disguise!



|                        | Needs   | Wants   |
|------------------------|---|---|
| <b>Personal items</b>  | <ul style="list-style-type: none"> <li>• Jeans</li> <li>• Haircut</li> </ul>      | <ul style="list-style-type: none"> <li>• Designer jeans</li> <li>• Haircut and highlights at a fancy salon</li> </ul> |
| <b>Household items</b> | <ul style="list-style-type: none"> <li>• Frying pan</li> <li>• Blanket</li> </ul> | <ul style="list-style-type: none"> <li>• Deluxe grill</li> <li>• Electric blanket</li> </ul>                          |
| <b>Food and drink</b>  | <ul style="list-style-type: none"> <li>• Meals</li> <li>• A cold drink</li> </ul> | <ul style="list-style-type: none"> <li>• Eating out regularly</li> <li>• Slurpee®</li> </ul>                          |
| <b>Transportation</b>  | <ul style="list-style-type: none"> <li>• Bus or train</li> <li>• Car</li> </ul>   | <ul style="list-style-type: none"> <li>• Taxi</li> <li>• Expensive car bought with a loan</li> </ul>                  |

It’s important to understand that needs and wants are different for everyone, even for different people in the same family. For example, would you consider smoking a need or a want? What about TV? What about a pet? The better you are at knowing what is a need and what is a want for you (and your family), the more control you will have over your finances.

You should also think about how much you really “need” one item, like shoes or jeans. For example, do you really need 20 pairs of shoes or 5 pairs of jeans?

Look back at your list of last 10 purchases. Which items on your list are needs and which are wants? Look at your wants and think about why you wanted those items. What made you decide to buy them? Some reasons might be “they were cool,” “cheer myself up,” “someone I admire had the same thing” or even, “I was hungry.”

Write down some of your reasons for buying your wants:




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Can you think of some cheaper substitutes for your wants? For example, could you bring a container of coffee from home instead of buying a coffee?



# spending habits

Our needs, wants and lifestyles lead us to develop certain spending habits. Some spending habits make it difficult to control money.



Find out if you have any spending habits that might affect your ability to budget.

Be honest and ask yourself these questions:

|   |  |
|---|--|
| 1 Do I eat out a lot?   | <input type="checkbox"/> Yes <input type="checkbox"/> No |
| 2 Am I an impulse buyer?  | <input type="checkbox"/> Yes <input type="checkbox"/> No |
| 3 Do I buy something because I like it even if I don't need it?   | <input type="checkbox"/> Yes <input type="checkbox"/> No |
| 4 Do I buy only known brand names instead of the cheaper no-name or store brands?                       | <input type="checkbox"/> Yes <input type="checkbox"/> No |
| 5 Do I spend more than I should on entertainment, like eating out, movies and other leisure activities? | <input type="checkbox"/> Yes <input type="checkbox"/> No |
| 6 Do I believe it is a waste of time to shop around or wait for sales?                                  | <input type="checkbox"/> Yes <input type="checkbox"/> No |
| 7 Do I buy an item on sale just because it's a good deal?   | <input type="checkbox"/> Yes <input type="checkbox"/> No |
| 8 Do I get attracted to an ad for a product and then feel I must buy it?                                | <input type="checkbox"/> Yes <input type="checkbox"/> No |
| 9 Do I love to buy the newest technology that comes out on the market?                                  | <input type="checkbox"/> Yes <input type="checkbox"/> No |
| 10 Do I often say: "I deserve this!"?   | <input type="checkbox"/> Yes <input type="checkbox"/> No |

If you answered "Yes" to most of these questions, you may be having a tough time controlling your money because of your spending habits.



The **CONSUMERISM** workshop has more information about some reasons you spend money and ways you can spend less and still feel good.





### ADD IT UP

Think about how much you spend each week, each month and each year on small items. For example, \$1 spent on coffee every workday adds up to \$5 a week, \$20 a month and \$240 for a year!

|             |   |
|-------------|---|
| In column A | Write down the items that you regularly spend money on (e.g. coffee, videos, snacks, cigarettes, lottery tickets).                            |
| In column B | Record how much the item costs.   |
| In column C | Enter the number of times per week you purchase the item.   |
| In column D | Multiply B x C to find out how much you spend per week on this item.  |
| In column E | Multiply D x 4 to find out how much you spend each month on this item.  |
| Total       | Add up your monthly costs in column E. Multiply that x 12 to find out how much you spend every year on what you might consider “small items.” |



Complete this table to find out how your “small ticket items” add up.

| A: Item         | B: Cost | C: # / week | D: Cost/week | E: Cost/month |
|-----------------|---------|-------------|--------------|---------------|
| Example: Coffee | \$2.00  | 5           | \$10.00      | \$40.00       |
|                 |         |             |              |               |
|                 |         |             |              |               |
|                 |         |             |              |               |
|                 |         |             |              |               |
|                 |         |             |              |               |
|                 |         |             |              |               |
|                 |         |             |              |               |
|                 |         |             |              |               |
| Total / month   |         |             |              |               |
| X 12            |         |             |              |               |
| Total / year    |         |             |              |               |

When you are trying to find extra money to save, this is probably where you will find it!



### Remember!

Cutting out all your wants is like going on a crash diet! It works for a little while, but soon you feel so deprived you overindulge. The trick is to take care of your needs and then find ways to satisfy your wants without spending too much.



## IMPULSE BUYING

Impulse buying is seeing something and wanting it so much you decide to buy it right then and there, even though you had no plan to buy it.

It is making a purchase without thinking about it.

Advertisers know how to attract you to their impulse-buy products. Think about the last time you went to a store. What were the impulse items? Where were they located?

You probably remember the impulse items very well. They are usually at the front by the cashier. As you stand in line waiting to pay for your purchases, you can't help but look at the magazines, gum and other small items just asking to be picked up. What do you do in that situation? Because you are feeling bored and impatient, you may be tempted to indulge, but wait!

### Stop, look and listen

Before you buy something on impulse, **Stop** and ask yourself:

- Is this good value for my money?
- Is there something else I will not be able to buy if I buy this now?
- How many hours will I have to work to pay for this?

**Look** around. Compare the item with products in other stores before you buy.

**Listen** to yourself. If you feel nervous or guilty about making the purchase, listen to your gut instinct and wait before buying.



## Remember!

Keep the **Stop, Look and Listen** card in your wallet as a reminder to think before you buy.

### Stop, Look & Listen!

**If you are about to spend money on impulse, ask yourself and answer:**

- Do I **WANT** or **NEED** this?
- Am I buying this **ONLY** because it's on sale?
- Would I buy this if I had to pay cash?
- Am I buying because I'm upset or feeling down?
- Tomorrow, will I be happy I bought this?
- If I charge this to my credit card, will I be able to pay it off at the end of the month?
- How else can I make myself feel better **NOW**?



## Remember!

Think of the money you spend as hours at work. If you earn \$12 per hour, think of every \$12 you spend as one hour of work. That means one \$40 pair of jeans is worth more than 3 hours of work!



# budgeting

**Budget:** Overall picture of where your money is coming from (income) and where it is going (expense)!

## Why budget?

Budgeting helps you:

- Control your money.
- Get the most out of your income.
- Save for the future.
- Meet your needs and plan for your wants.
- See where you have made progress and areas where you can still improve.
- Set and meet financial goals.
- Take control of your life!

## INCOME

Your income is the money you receive regularly from all sources, including: wages, salary, tips, commissions, self-employment, student loans, disability insurance, child support, alimony, government income assistance, GST rebates and pensions.

Your income may be regular or irregular.

- **Regular income:** You receive the same amount of income each month.
- **Irregular income:** Your income is different each month.

## Calculating your income

To record your monthly income in your budget if you are paid:

|                      |   |
|----------------------|---|
| <b>Monthly</b>       | Simply write in the amount of your cheque (your net pay).   |
| <b>Weekly</b>        | Multiply your net pay by 4.333.   |
| <b>Bi-weekly</b>     | If you receive a cheque every two weeks, multiply your net pay by 26 (# of cheques you receive per year) and divide by 12 (months in the year). |
| <b>Twice a month</b> | Multiply your net pay by 2 if you are paid on the 1st and the 15th of each month.   |
| <b>Irregular</b>     | If you are self-employed or work off and on, add up your total annual income and divide it by 12.   |



## Did you know...

Budgeting is a skill! To be good at it, you need practice. Luckily, you will get plenty of practice because your budget will change over time. Review your budget from month to month to make sure it correctly reflects your income and expenses.



## EXPENSES

### Types of expenses

| Monthly expenses  | Irregular expenses   |
|---|--|
| <p><b>Monthly expenses</b> occur every month. They can be <b>fixed</b> or <b>variable</b>:</p> <ul style="list-style-type: none"> <li>● <b>Fixed</b> expenses are the bills that stay the same each month, such as rent/mortgage, loan or car payment, day care, insurance and perhaps savings.</li> <li>● <b>Variable</b> expenses vary from one month to another, such as utilities, groceries, entertainment and long distance calls. You have the greatest control over these types of expenses.</li> </ul> | <p><b>Irregular expenses</b> occur occasionally but not necessarily every month. However, you are aware of these expenses. These expenses include items such as:</p> <ul style="list-style-type: none"> <li>● Clothing, emergency, car and household maintenance, licenses, gifts, taxes, school and vacations.</li> </ul> |



### Tracking your expenses

By tracking your expenses, you can find out exactly what you are spending your money on. Here are some tips for tracking expenses:

- Save receipts from all your purchases and monthly bills. Manage your receipts by putting them into:
  - ▶ Envelopes, file folders, an accordion file, index card holder or coupon holder, labelled for each type of expense, such as entertainment, food, utilities, clothing or household items. You can buy any of these items at a dollar store.
  - ▶ A shoe box until you sort them at the end of each week.
- If the purchase is too small for a receipt, keep a list of what you spent or write what you spend each day in a transaction register, calendar, journal or notebook.
- Use your bank account and credit card statements to track your large expenses.
- Use a calendar or sticky notes to keep track of when bills are due to avoid late payment charges and a bad credit record!
- Buy yourself a gift card from the grocery store, for the amount of your monthly grocery budget. Use the gift card each time you buy groceries, so you always know how much you have left for groceries that month. You can buy these cards from other stores too, to help you track your expenses. Just make sure you get cards from stores that have items you need, not just items you want.



### Remember!

Staying organized is important for budgeting. Find a way to track expenses that works for you and use it every month to keep control of your spending.



## MONTHLY BUDGET

### Building your own budget

When you know your income and expenses, you can work out your own monthly budget. Here are the main steps to building a budget:

1. **Add up your income.**  
(See the calculations on page 7.)
2. **List your monthly expenses.**  
(Variable and fixed.) Include your monthly savings as an expense!
3. **List your irregular expenses.**  
Add them up and divide by 12 to get a monthly amount.
4. **Add up all your expenses and subtract them from your income.**
5. **Review your budget.**  
If your expenses are higher than your income, you have to find ways to cut your expenses or increase your income. Set goals and decide priorities then make changes.
6. **Finalize your budget.**  
Make a good copy of it to keep.
7. **Keep tracking.**
8. **Review your budget regularly.**  
Make changes as necessary to make sure the budget still fits your needs, life circumstances and future goals.

### Cutting back

If your expenses are more than your income or you are having difficulty reaching your savings goals, you need to do a serious review of when, where and how you spend your money.

Prioritize your spending so you can figure out where to cut your budget. Think about your needs and wants. For example, first you have to have food and shelter. Second you need utilities, phone, transportation and insurance. Then you need to pay any secured debts, like a car loan. All your other expenses come after these priorities.

When you make cuts, be realistic. Make sure you create a budget you can stick to. Be creative in finding ways to satisfy your wants without spending a lot of money.



### Did you know...

It's a good idea to budget for an emergency fund. Keep enough money in a savings account to pay your rent and other bills for about three months. Having an emergency fund is very useful if you lose your job, get injured or face any other unexpected situation. If you can't save enough for three months of expenses, aim for one month or even one week.

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### Remember!

The easiest area of your budget to make changes is in the variable expenses category. You have more flexibility there on what and how much you spend.

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## Ways to Spend Less

- Compare prices, watch flyers and shop on sale days.
- Buy second-hand goods at consignment stores, garage sales or through the classified ads.
- Repair damaged items.
- Borrow books, magazines, CDs and DVDs from the library.
- Borrow tools from neighbours or share ownership of some items.
- Have potluck dinners at home instead of going out to eat with friends.
- Watch TV instead of going to a movie.
- Make your own gifts or give the gift of time, like babysitting, gardening or running errands.
- Make coffee, tea, cold drinks and lunch at home, instead of getting take-out.
- Reduce your addictions to cell phones, snacks, cigarettes, coffee or lottery tickets.
- Stay out of malls and stores. Shop for groceries just once a week.
- When you go shopping, take only cash. Bring a shopping list and buy only what's on the list.
- In the grocery store, avoid the middle aisles where the more expensive, packaged goods are. Remember that the more expensive items are placed at eye level, so try to look at the top and bottom of each aisle when you shop.
- Buy in bulk and split large amounts with others.
- Buy no-name brands when you can.
- Clip and use coupons, but be cautious. Some coupons tempt us to buy things we wouldn't normally put on our grocery list.
- When possible, pay with services, such as doing yard work or cleaning, instead of money.
- Return cans and bottles.
- Turn off the lights when you leave a room and turn down the heat at night.
- Check local fee assistance programs for recreational activities.
- Watch fewer TV commercials.
- Focus on what's important in your life. You will probably find that your best memories come from times when you weren't spending money, like going to the park with family and friends on a sunny afternoon.



# budget planner

## MONTHLY INCOME

(List your family's monthly income after deductions)

|                                       |          |
|---------------------------------------|----------|
| Wages or salary                       |          |
| Other monthly income                  |          |
| Child tax credi                       |          |
| <b>Total monthly take-home income</b> | <b>1</b> |

## MONTHLY EXPENSES

|                                      |                          |  |
|--------------------------------------|--------------------------|--|
| <b>Housing</b>                       | Rent                     |  |
|                                      | Mortgage                 |  |
|                                      | Condo Fees               |  |
| <b>Utilities</b>                     | Power                    |  |
|                                      | Gas/Heat/Water           |  |
|                                      | Phone                    |  |
|                                      | Internet/Cable TV        |  |
| <b>Food &amp; Grocery Items</b>      |                          |  |
| <b>Transportation</b>                | Gas                      |  |
|                                      | Bus                      |  |
|                                      | Insurance                |  |
|                                      | Other                    |  |
| <b>Personal allowances</b>           | Entertainment/Recreation |  |
|                                      | Other                    |  |
| <b>Savings</b>                       | Emergency Fund           |  |
|                                      | RESP, RRSP, RDSP         |  |
|                                      | Other                    |  |
| <b>Other Monthly Expenses</b>        | Child Support/care       |  |
|                                      | Family Support           |  |
|                                      | Other                    |  |
| <b>Debt Payments</b>                 | Loan/Credit Card         |  |
|                                      | Other                    |  |
| <b>Total monthly living expenses</b> |                          |  |

## IRREGULAR EXPENSES

These expenses occur one or more times a year.

Irregular expenses can include clothing, gifts, vacations, education, donations, taxes, etc.

**Do not include anything already in your Monthly Expenses.** You may have to estimate amounts.

## IRREGULAR EXPENSES

|  |          |
|--|----------|
|  | /yr      |
|  | /yr      |
|  | /yr      |
|  | /yr      |
|  | /yr      |
|  | /yr      |
| <b>Total irregular expenses</b>  |          |
| Divide the total by 12 to get your monthly amount for irregular expenses | <b>3</b> |

## CALCULATE YOUR BALANCE

|  |     |  |
|--|-----|--|
| Total monthly take-home income                                       | (1) |  |
| <b>SUBTRACT:</b> Total monthly expenses                              | (2) |  |
| <b>SUBTRACT:</b> Monthly irregular expenses                          | (3) |  |
| <b>Amount left for additional savings and/or extra debt payments</b> | =   |  |

If Income minus your Expenses equals a positive amount, that money can go to additional savings or power payments on your debt.

If Income minus your Expenses equals a negative amount, review your budget to find ways to increase your income or reduce your expenses.



## SETTING GOALS

Goals give your life direction and motivate you to create and stick to a budget. You should set both short-term and long-term goals.

An easy way to remember how to write goals is to think SMART.

**SMART** goals are:

- **Specific:** Define what you are going to do and how you are going to do it.
- **Measurable:** Use numbers and dates.
- **Attainable:** Make the goal achievable, but not too easy.
- **Relevant:** Make the goal fit your needs.
- **Timely:** Set a deadline for the goal.



**Remember!**

Budgeting is not a sacrifice.  
It's an accomplishment!



Reduce the amount I spend on clothing by 20% over the next three months.



**Short-term goals** are for the next one to six months. Here are a few examples:

- Pay rent and bills on time each month.
- Have \$5 in my wallet at the end of the month.
- Put \$25 each month into a savings plan.

**My short-term goals:**

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**Long-term goals** are for the next six months and beyond. Here are a few examples:

- Build an emergency fund in one year.
- Go back to school next year to learn a trade.
- Start a family within three years.
- Buy a condo within five years.

**My long-term goals:**

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# resources

## Online

**Canadian Bankers Association:**

[www.cba.ca](http://www.cba.ca)

**Canadian Foundation for Economic Education:**

[www.cfee.org](http://www.cfee.org)

**Consumer's Association of Canada:**

[www.consumer.ca](http://www.consumer.ca)

**Financial Consumer Agency of Canada:**

[www.fcac.gc.ca](http://www.fcac.gc.ca)

**Money Habitudes Activity:**

[www.moneyhabitudes.com](http://www.moneyhabitudes.com)

## Books

***Debt-Free Forever***

Gail Vaz-Oxlade, 2009.

***Money Rules.***

Gail Vaz-Oxlade, 2012.

***Money-Smart Kids.***

Gail Vaz-Oxlade, 2011.

***The Smart Canadian's Guide to Saving Money***

Pat Foran 2nd ed. 2009

***The wealthy barber: The common sense guide to successful financial planning.***

David Chilton, 2002.

***The Wealthy Barber Returns.***

David Chilton, 2011.

***Wealth Happens One Day at a Time.***

Brooke M. Stephens, 2001.