

Lesson 1: What is budgeting and why does it matter?

Understanding the Concept of a Budget

A budget is a plan for how you will spend your money each month. It helps you see where your money is going so that you can take control of it. You can use a budget to make sure that you don't spend more than you earn. *It is especially useful if your income is limited, or if you want to save money for something important!*

Key Terms:

- **Income:** Money you receive (like your salary, allowance, or business earnings).
- **Expenses:** Money you spend (like food, rent, transport).
- **Savings:** Money you set aside and do not spend.
- **Debt:** Money you owe to someone else.

Why budgeting matters:

- Helps avoid debt
- Ensures you have money for your needs
- Helps you save for future goals
- Reduces financial stress

Types of Expenses and Income

To start budgeting, you need to know what types of income and expenses you have.

Types of Income:

- Wages or salary
- Government assistance (like benefits)
- Side jobs (freelance, tutoring, selling items)
- Gifts or allowances

Types of Expenses:

- **Fixed expenses** (stay the same every month)
 - Rent
 - Internet bill
 - Loan payments
- **Variable expenses** (can change month to month)
 - Groceries

- Electricity bill
- Transportation
- Entertainment
- **Unexpected expenses**
 - Medical costs
 - Car repairs

Exercise: List all your sources of income and estimate how much you get from each. Then, list your monthly expenses under the categories above.

Common Budgeting Methods

There are many ways to make a budget. Here are three simple methods:

1. The 50/30/20 Rule:

- 50% of your income goes to needs (rent, groceries)
- 30% goes to wants (movies, dining out)
- 20% goes to savings or debt repayment

2. Envelope System:

- Use cash and put it into envelopes labeled for each category (food, rent, etc.)
- Spend only what is in each envelope

3. Zero-Based Budget:

- Assign every dollar of income a job until nothing is left unassigned
- Example: if you earn \$1,000, you might assign \$500 to rent, \$200 to groceries, \$100 to savings, \$100 to transport, and \$100 to other expenses

Tips to Get Started:

- Start simple with a notebook or budgeting app
- Track everything you spend for one month
- Review and adjust your budget monthly

A budget is like a map. It shows you where your money is going and helps you reach your goals. Keep practicing and it will get easier.