

Lesson 5: The Zero-Based Budget

Student Guide Pages: 38-44

Lesson Objectives: By the end of this lesson, your students should be able to:

- list all their expenses
- list all their sources of income
- plug these into a zero-based budget

Lesson Summary:

A great budget is the *zero-based budget*, which has just seven steps:

1. Recognize all the expenses you already know, such as bills, rent, taxes, etc. We did most of this work in Unit 1. Start plugging these into the zero-based budget. Be sure to convert any yearly expenses to monthly expenses.
2. Next, fill in the costs for everything you wrote down for List 3.
3. Now, fill in your total income. If Granny gives you \$20 for your birthday, that's part of your income!

4. Total your expenses, first by sub-category, then the grand total.
5. Add up your total income.
6. Subtract your total expenses from your total income. If the answer is zero or higher, congrats! Use the leftover money for savings or to pay down debt.
7. If the answer is negative, keep working on those expenses until it works. Future lessons in this program will help.

Review Questions:

- If you compile a zero-based budget and the last amount is negative, what are some things you can do?

Answer:

- ✎ Sell some of your depreciable assets, like furniture or a guitar.
 - ✎ Increase your income temporarily. Maybe get a weekend job for a few weeks.
 - ✎ Ask your vendors (cellphone company, etc.) if you can be a month late on your payment without incurring any fee.
- If you compile a zero-based budget and you have a lot of money left over, what does that mean? (This is not mentioned in the video but is a great question for discussion.)

Answer: This typically means one of two things: Either you are great at budgeting and deserve congratulations or you forgot something. For most people, it's the latter, so be sure to comb through your expenses again. What did you forget?

Homework Assignment:

Have students compile a zero-based budget using the worksheet in this chapter.

Class Activity:

After the homework assignment is complete, open a class discussion on their zero-based budgets. Were there any surprises? Did anyone come up with a creative way to cut back?

Additional Information:

www.mint.com: This is a great free website to track their spending. Remember that a budget might not work right away, so keep working it!

Fun Facts:

The origin of the word *budget* is the Latin *bulga*, which literally means “a little pouch or knapsack,” such as a wallet or purse.

Whatever money is in there, that’s your budget!

Notes: _____

Zero-Based Budget

All expenses should be monthly. So you may have to divide by 12 to figure out the monthly number for some expenses. Be sure to write a zero on a blank line if it does not apply to you. The reason we listed so many budget categories is because people often forget what they spend their money on, so the categories help to spark your imagination. It's completely okay to have a lot of zeroes in your budget.

Income:

Paychecks	_____
Bonus	_____
Dividends	_____
Interest	_____
Rental income	_____
Capital gains	_____
Gifts	_____
Social Security	_____
Pension	_____
Total Income:	_____

Expenses:

Food

Grocery bill	_____
Lunches out	_____
Bar bill	_____
Takeout bill	_____
Morning coffee	_____
Restaurant bill	_____
Midday snacks	_____
Other	_____
Total Food:	_____

Insurance

Homeowner's insurance _____
Renter's insurance _____
Car insurance _____
Health insurance _____
Dental insurance _____
Life insurance _____
Disability insurance _____
Other _____
Total Insurance: _____

Shelter

Rent payment _____
Cable _____
Internet _____
Water bill _____
Trash removal bill _____
Heat _____
Hot water _____
Telephone _____
Electricity _____
Cleaning _____
Other _____
Total Shelter: _____

Family

Childcare _____

Gifts (averaged monthly) _____

Allowance payments _____

School expenses _____

Other _____

Total Family: _____

Clothing

Clothes _____

Cleaning/maintenance _____

Other _____

Total Clothing: _____

Entertainment

Movies out _____

Rental videos _____

Sporting events _____

Amusement parks _____

Ski resorts _____

Golf _____

Pet expenses _____

Clubs _____

Bowling _____

Arcade _____

Pool hall _____

Music CDs _____

DVDs/videos _____

Health club membership _____

Other _____

Total Entertainment: _____

Transportation

Gasoline _____
Cleaning _____
Maintenance _____
Car repairs _____
Bus/subway/train _____
Tolls _____
Taxi _____
Parking _____
Other _____

Total Transportation: _____

Loans

Student loans _____
Car loans _____
Credit card payments _____
Mortgage payment _____
Other _____

Total Loans: _____

Personal Expenses

Eye care _____
Skin care _____
Dental care _____
Hair care _____
Remedies (aspirin etc.) _____
Barber/beauty _____
Other _____

Total Personal: _____

Once a Year Expenses:

Total federal tax bill	_____
Total state tax bill	_____
Social Security/Medicare	_____
Property taxes	_____
Union/membership dues	_____
Vacation expenses	_____
Donations	_____
Other	_____
Yearly Total	_____
(Divide by 12)	_____

Total Monthly Income: _____

Total Monthly Expenses: _____

Net Result: _____

If your net result is positive, congratulations! Use this money for savings or to pay down debt. If it is negative, go back through your expenses and see what you can cut back on. Remember that it takes the average person three months to make this work, so stick with it!