People use personal budgets to fill two needs. First, budgets measure or report, allowing people to assess how much they are spending and what they are spending money on. Second, budgets forecast or predict, allowing people to evaluate where their finances are headed and make changes if necessary. A budget is much like an annual checkup for finances and can be simple or complex. The simplest budget consists of two columns labeled "In" and "Out."

"In" And "Out" Columns

The first step to making a budget is filling the "in" column with all sources of income. Such items include wages, bonuses, interest and miscellaneous income. In some cases, income is received more frequently, such as weekly paychecks. In other cases, the income is less frequent, such as a quarterly bonus. One must convert the income to a monthly basis for budget purposes, with quarterly items being divided by three and weekly items multiplied by four. In the case of semiannual items, such as auto insurance premiums, the amount is divided by six.

Next, in the "out" column, list all identifiable outflows or expenses. Such expenses include mortgage or rent payments, utilities like electricity, gas or water, car payments and gasoline,
interest expenses like credit card charges, health care, charitable donations, groceries, and entertainment, like movie tickets. The details of this list will vary from person to person. However, an effort should be made to include all expenditures. In particular, pay attention to seemingly small purchases, such as soft drinks and snacks, cigarettes, and small items bought with cash. For accuracy, any purchase costing over $1 should be included.

The third step is to add up each column and find the difference between them. In simplest terms, if the "out" column is larger than the "in" column, then more money is flowing out than in, the budget is out of balance, and the family's money reserves are being depleted. If more money is flowing in than out, the family's budget is working and attention should be paid to maintaining this state.

The fourth step in this process is evaluating the specific spending categories to determine whether each one is consuming a reasonable proportion of the spendable income. For instance, each individual category can be divided by the total amount to determine the percentage spent. A family spending $700 of their monthly $2,000 on car payments, gas and insurance should probably conclude that this expenditure, $700/$2000 = 35 percent, is excessive and needs to be adjusted. In many cases, families creating a first-time budget find that they are spending far more than they realized at restaurants. By cooking more of their own meals, they can almost painlessly reduce their monthly deficits.

**Setting Goals**

The previous four steps of this process ask "What are you spending money on?" The fifth and final step asks, "What should be spent?" or "What is the spending goal?" At a minimum, efforts should be made to bring the entire budget into balance by adjusting specific categories of spending. Ideally, goals can be set for each category and re-evaluated at the end of the month. A budget provides a simple, inexpensive tool to begin taking control of one's personal finances. W. Edwards Deming, the genius who transformed the Japanese from makers of cheap trinkets into the worldwide experts on quality manufacturing, is often paraphrased as saying, "You can't change what you can't measure." A simple three-column budget provides the basic tool to begin measuring one's saving and spending habits and changing one's future.
Quiz

1. How do the first and final paragraphs of the article relate to each other?
   (A) They both emphasize the purpose of personal budgeting.
   (B) They both explain how to itemize budget expenditures.
   (C) They both reference influential economists.
   (D) They both describe how to adjust spending categories.

2. Read the following sentences from the section "In And Out Columns."

   In many cases, families creating a first-time budget find that they are spending far more than they realized at restaurants.

   By cooking more of their own meals, they can almost painlessly reduce their monthly deficits.

   Which answer choice BEST describes the relationship between the two sentences?
   (A) The first sentence describes a hypothetical problem, and the second sentence offers a realistic solution.
   (B) The second sentence describes a hypothetical cause, and the second sentence describes its expected effect.
   (C) The first sentence states an argument, and the second sentence provides a counterargument.
   (D) The second sentence highlights a contrast, while the first sentence provides a comparison.

3. Read the following statement.

   The goal in personal budgeting is to have income exceed spending.

   Which sentence from the article BEST supports the statement above?
   (A) First, budgets measure or report, allowing people to assess how much they are spending and what they are spending money on.
   (B) One must convert the income to a monthly basis for budget purposes, with quarterly items being divided by three and weekly items multiplied by four.
   (C) In particular, pay attention to seemingly small purchases, such as soft drinks and snacks, cigarettes, and small items bought with cash.
   (D) If more money is flowing in than out, the family's budget is working and attention should be paid to maintaining this state.
Is the author of the article suggesting that people review and update their budgets frequently? Which selection from the article BEST supports your answer?

(A) No; "Second, budgets forecast or predict, allowing people to evaluate where their finances are headed and make changes if necessary. A budget is much like an annual checkup for finances and can be simple or complex. The simplest budget consists of two columns labeled 'In' and 'Out.'"

(B) Yes; "The first step to making a budget is filling the 'in' column with all sources of income. Such items include wages, bonuses, interest and miscellaneous income. In some cases, income is received more frequently, such as weekly paychecks. In other cases, the income is less frequent, such as a quarterly bonus."

(C) Yes; "At a minimum, efforts should be made to bring the entire budget into balance by adjusting specific categories of spending. Ideally, goals can be set for each category and re-evaluated at the end of the month. A budget provides a simple, inexpensive tool to begin taking control of one's personal finances."

(D) No; "W. Edwards Deming, the genius who transformed the Japanese from makers of cheap trinkets into the worldwide experts on quality manufacturing, is often paraphrased as saying, 'You can't change what you can't measure.' A simple three-column budget provides the basic tool to begin measuring one's saving and spending habits and changing one's future."