This NebGuide covers steps for developing a college student’s budget, including personal factors to consider and income and expense categories to include.

The word “budgeting” often gets a negative first reaction, but in fact, this process and the resulting budget are quite beneficial. A budget is a financial plan for spending, a tool you can develop to help you use the money you have more effectively.

The Budgeting Process

Successful budgeting follows these steps:

1. Communicate
2. Consider personal or family situation
3. Set goals
4. Estimate income
5. Estimate expenses
6. Balance the budget plan
7. Put the budget into action
8. Keep track of income and spending
9. Adjust the budget as necessary
10. Use for future planning

Communication

As with many things in life, communication is key to developing an effective budget. If single, this involves honest thinking and communicating with yourself. If you share financial resources with at least one other person, it takes communication and teamwork to make financial planning work. Research says there is considerably less argument when everyone shares in making financial decisions and where parents openly communicate with the children about the financial situation. When people have different values and attitudes about spending and saving money, or when people strive for unrealistic goals, there is the potential for conflict. If you don’t talk, even the most workable spending plan may not work.

Communication isn’t always easy, but it is important. Generally, the more open the communication about finances, whether it’s just with yourself or with other people, the better the quality of the financial decisions.

Budgeting Tips

- **Keep it simple.** Unless absolutely necessary, don’t detail your plan to the penny. Keep track to the nearest dollar.
- **Be realistic.** Consider all expenses, including vacations, spending money, alcohol, tobacco, and hobbies.
- **Build in a margin of safety** in the budget plan by overestimating anticipated expenses and underestimating probable income.
- **Keep working with your budget planning and record keeping** until you find a system that works well for you.
- **Provide for personal allowances for everyone in the budget plan.** A personal allowance, no matter how small, tells you what money is available to “blow” when the urge comes.
- **Don’t try to use someone else’s budget and expect it to work for you.** Realize that those budgets on the Internet and in magazines are for a particular situation that does not match yours. Tailor your own budget.
- **Distinguish between wants and needs.** Buy what you need first. Put wants in the “what’s left over” category.
- **Borrow with care.** Remember, you create a fixed expense each time you charge something.
- **Develop an emergency fund** to help with unexpected expenses.
For effective communication about money:

- Arrange a regular time to talk about money in a location where you won’t be interrupted.
- Clarify the issue at hand and stick to the subject.
- In group situations, recognize that whoever earns the money does not have the right to dictate how it is spent. Make money decisions as a team. Let each person freely state personal wants, needs, and feelings. Avoid judging or criticizing others.
- Be willing to negotiate and compromise.

Personal Situation

Situations differ from person to person and from household to household. No two people or two households are exactly alike in terms of family size, ages, tastes, lifestyles, income and expenses, and potential changes. These characteristics make a difference in the way money is thought of and how financial decisions are made. Tailor the money plan or budget to your specific situation.

Family Size and Type. The number of people included in the plan makes a difference.

Ages. The age of each person in the household impacts the budget because of different potential expenses. A college student with children will need to include childcare as a major expense.

Lifestyles. Each person’s occupation, tastes, talents, skills, values, and attitudes also make a difference in the total budget. For example, using a cooking talent may help cut food expenses but will require spending for tools and supplies.

Income and Expenses. Whether income is regular, such as a paycheck every two weeks, or irregular, such as from tips or income from your own business, determines how a budget is set up and followed. Likewise, whether expenses are regular or irregular affects the budget.

Potential Changes. Are you planning a major change in the coming year such as moving to a new location, changing jobs, buying a house, getting married, having a child, entering the job market, or buying a new room of furniture? Every major change affects the budget plan.

Setting Goals

Short-term goals are what you want to have or do within one year, while long-term goals are what you can achieve during the years to follow. People who set goals are often more successful than those who don’t — they know where they’re going and what they want to achieve.

Follow these steps to set your financial goals:

1. Write down your goals.
2. Estimate how much each goal will cost.
3. Determine when you want to achieve the goal.
4. Estimate how much money you need to set aside each month or each year to reach the goal.
5. Set aside the amount of income needed to meet your goals before you use income to meet expenses.

Estimate Income

Add together all sources of income including take-home pay, interest, dividends, bonuses, etc. If you have a regular income, plan your budget so expenses do not exceed income each month.

If you have an irregular income, consider these suggestions for budgeting:

- Conservatively estimate income and overestimate anticipated expenses.
- Develop a budget for minimal living expenses or for the smallest predicted monthly income amount. If income is more than the minimum, put it in a savings or money market account and draw it out to cover necessary expenses beyond the minimum.
- Resist the temptation to use “extra” income to buy something you want but don’t need. That money may be needed to cover future necessities for longer than you think.

Estimate Expenses

The next step in the budget process is to decide how income will be spent during the year. Think of expenses as fixed, flexible, or irregular.

Fixed Expenses. These include rent or mortgage payments, utilities, installment loans, or credit card minimums. Savings for goals and an emergency fund also should be considered as fixed expenses. Experts recommend keeping an amount equal to at least two months of living expenses in an emergency fund, a liquid, interest-bearing account that is readily available. An amount equal to an additional one to four months of living expenses might be kept in funds that are slightly less available such as certificates of deposit, money market funds, or mutual fund. The exact amount needed in an emergency reserve fund depends on insurance coverage and how stable your income is.

Flexible Expenses. These expenses vary from day to day to cover food, clothing, household costs, medical care, entertainment, and utility bills. This is the part of the budget where the greatest adjustments can be made. If you don’t have any expense records to help estimate flexible expenses, keep track of them for two or three months to get a better idea.

Irregular Expenses. These come up periodically throughout the year. College tuition and insurance premiums are good examples. So are organization dues and holiday gifts. Such expenses will be flexible in amount and/or timing. Look over past records and make “educated guesses” as to when irregular expenses are likely to occur and what amount will be needed. Total the amount likely needed during the year. Divide that figure by 12 to get the amount you’ll need to set aside each month for irregular expenses.
**Balance the Budget**

Total expenses must equal or be less than total income. If you need to cut back on your expenses, start with the flexible expenses, then consider irregular expenses, and finally fixed expenses. If you have a surplus after subtracting expenses from income, consider adding more to savings.

**Put Your Budget Plan into Action**

This is probably the hardest step in using a budget. Keep records of actual spending and compare them with your budget plan at the end of the month. Note expenses as they occur so you’ll be more aware of what you’re actually spending so you can make adjustments during the budget period, not just at the end.

**Keep Track of Actual versus Planned Income and Expenses**

Records of actual income and spending will be needed at tax time. Complete records make filling out income tax forms easier and quicker.

**Use income and spending records to:**

- Maintain control of expenses by tracking where the money is going.
- Pinpoint potential trouble spots and spending leaks before they occur.

**Fine-tune Your Budget and Use for Planning**

Adjust budget plan figures when necessary. Don’t give up if the plan does not work perfectly the first time. It may take several months of adjusting and re-adjusting before your budget plan works smoothly.

The real payoff for using a budget and tracking actual income and expenses comes when you use both records to help plan for the future.

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**This publication has been peer reviewed.**

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