Unit 2 · Budgeting & Spending Cheat Sheet

Unit 2 focus: turn take-home pay into a realistic monthly plan

1 BUDGET VOCABULARY

Term	Meaning / quick example
Budget	A plan for income, spending and saving.
Cash flow	Income minus outflows for the same period.
Opportunity cost	Best alternative you give up.
Sinking fund	Money saved gradually for a known future bill.

2 CLASSIFY COSTS TWICE

	Need	Want
Fixed	Rent, loan payment	Streaming contract
Variable	Groceries, utilities	Dining, entertainment

Fixed means predictable, not essential. Needs and wants depend on circumstances. A minimum debt payment is an obligation; extra repayment is a separate goal.

3 MONTHLY INCOME

Use net pay. Biweekly means 26 standard checks per year, not 24.

Example: $1,300 take-home every two weeks.

Annual net: $1{,}300(26) = 33{,}800$

Monthly average: $\frac{33{,}800}{12} \approx 2{,}816.67$

Answer: $2,816.67 average per month

4 A FLEXIBLE STARTING POINT

Category	50–30–20 guideline
Needs	About 50% of take-home
Wants	About 30%
Saving & extra debt	About 20%

For $3,000 monthly net: $1,500 needs, $900 wants, $600 saving and extra debt. Adjust for rent, dependents and priorities; this is a starting model, not a rule.

5 IRREGULAR BILLS COUNT

Assume the $2,640 expenses below exclude the upcoming insurance bill.

Example: Monthly income $2,816.67; insurance $780 every 6 months.

Before insurance: $2{,}816.67 - 2{,}640 = 176.67$

Set aside: $\frac{780}{6} = 130$ each month

Cash left: $176.67 - 130 = 46.67$

Answer: $46.67 monthly cushion

6 BUILD A WORKABLE PLAN

Net income → essentials → minimum debt payments → reserves and goals → flexible spending.

- Assign every dollar a purpose, including savings.
- List annual bills and their due dates.
- Compare planned and actual spending monthly.
- Adjust the plan when income or costs change.

Saving is not “leftover spending money.”

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More practice: compare spending choices and protect your cash buffer

1 WHICH GYM IS BETTER?

Assume equal access and no other fees. A costs $30 monthly; B costs $8 per visit.

Example: Expect 5 visits per month.
A: $30
B: $8(5) = 40$
Threshold: $\frac{30}{8} = 3.75$ visits

Answer: A saves $10 at 5 visits

2 USE THE BREAK-EVEN POINT

For the gym comparison, A costs less at **4 or more visits**; B costs less at 0–3 visits.

Before choosing, ask: Will I actually go? Can I cancel? Is the cheaper location convenient?

A membership that goes unused may be worse than paying more per visit. Match the plan to likely behavior, not an ideal month.

3 UNIT PRICE BEATS LABELS

Assume identical quality and all of the food will be used. Ignore sales tax.

Example: 12 oz for $3.60 or 20 oz for $5.00?
Small: $\frac{3.60}{12} = 0.30$ dollars per oz
Large: $\frac{5.00}{20} = 0.25$ dollars per oz

Answer: Large pack is 5¢ less per oz

4 SMALL HABITS ADD UP

Assume 52 weeks and exactly 4 purchases each week.

Example: A $6 purchase, 4 times per week.
Weekly: $6(4) = 24$
Annual: $24(52) = 1{,}248$
Monthly average: $\frac{1{,}248}{12} = 104$

Answer: $1,248 per year

5 STRESS-TEST THE BUDGET

- What happens if one paycheck is delayed?
- Which costs can I cut this week?
- Can I cover an urgent repair without new debt?
- Does my bill calendar match actual payday dates?
- Am I counting an automatic savings transfer twice?
- Use an average for planning, but check actual cash available before paying bills.

6 REMINDERS & MISTAKES

✓ Do remember

- Compare costs over the same period.
- Bulk buying helps only if it fits your cash and storage.

✗ Common mistakes

- Gross pay budget: use money actually received.
- “Biweekly = twice monthly”: 26 versus 24 standard checks.
- Sale equals savings: only if the purchase was needed.
- Positive average cash flow: still check the timing of bills.