



Family Budgets

Curriculum Guide

I. Goals and Objectives

- A. Understand the benefits of a family living budget.
- B. Understand the importance of setting farm and family goals and their relationship with the family living budget.
- C. Learn the steps involved with building and managing a family living budget.

II. Description/Highlights

- A. Family living expenses is often an area of low priority for many farm and ranch families. As a result, family living expenses may occur that exceed the available income resulting in a conflict with the overall financial goals of the farm and family. Some reasons producers do not devote more time to managing family living expenditures are: 1) they are not tax deductible, 2) family living budgeting is difficult and time consuming, 3) compared to my farm/ranch expenses, family living expenses are too small to worry about, and 4) non-farm income pays for our family living costs so it doesn't matter.
- B. There are many reasons to develop and follow through with a family living budget. Budgeting for family living expenditures is the foundation of a sound financial management plan. When used in conjunction with your actual family living records, a family living budget allows you to pinpoint areas of unnecessary spending, and areas where actual expenses may be higher or lower than you previously thought.
- C. Before developing your family living budget, you must first determine your farm and family goals and the standard of living your family desires. It is important that all members of the family be involved in this goal setting process. Family goals need to reflect the perceptions and ambitions of each member of the family if they are to truly reflect the goals of the family.
- D. Open lines of communication here will go a long way towards defining a finely tuned family living budget that is best for your family's situation. When establishing these family goals, be as realistic as possible and consider the income you have available for family living.

- E. The financial goals for your family can be broken into two categories, short-term and long-term. Short-term goals are those you hope to achieve in the coming year while long-term goals are those you hope to achieve beyond the coming year and usually require substantial financial resources.
- F. Standard of living is mostly perception. What one person or family perceives as being a lavish lifestyle may be perceived as being frugal by someone else. The standard of living your family desires can be something you want now, or it can be a goal to strive for in the coming years.
- G. The best way to develop an accurate family living budget is to be very familiar with your current and past family living expenses. If you have not been keeping family living records, try to estimate what you think your current family living expenses are. Start with estimating the total amount of money spent on family living expenses. Once this amount is determined, subtract the “known” expenses - such as mortgage payments, car payment(s), child-care, insurance, etc. The remainder will need to be allocated to variable expenses such as groceries, dining out, gifts, utilities, entertainment, medical, etc.
- H. Whether you are building the budget based on an estimate of past family living expenses or actual family living expenses, keep in mind that your past lifestyle, goals, and standard of living may or may not be the same as how you plan to live in the future.
- I. A family living budget can be on an annual basis, monthly basis (cash flow), or a monthly average. Use a method that is most useful to you. If your income fluctuates from month to month, a monthly budget will probably be most useful. If your income is fairly stable from month to month, an annual family living budget may be most useful.
- J. To start building your family living budget, list all sources and estimated amounts of income available for family living you expect during the year. These include salaries, interest income, rental income, non-farm business income, etc. If some portion of farm income is to be used for family living (which is typical), estimate an amount you plan on setting aside for family living.
- K. Since there are so many types of family living expenses, determine a set of expense categories that is meaningful to you and your family. For simplicity, they should be consistent with the categories you use in your record keeping system . The next step is to budget an amount for each of your expense categories that reflects the goals, lifestyle, and desired standard of living you have established.
- L. Review the example monthly average budget.
- M. The next step is to subtract the total expenses from projected income to determine if you have a budget deficit or surplus. If you have a surplus, consider doing some or all of the following: 1) make sure you have not underestimated some of your

expenses or overestimated income, 2) apply the surplus to debt, reinvest the surplus back into the farm, 3) invest the surplus, and 4) increase your standard of living and/or family goals.

- N. If you have a deficit, the steps below will help you in determining how to alleviate the deficit: 1) make sure you have not erroneously overstated any of the expenses or underestimated income, 2) reevaluate your family's goals and desired standard of living - you may need to lower them, 3) determine if you can decrease expenses while still meeting your goals and standard of living - you will more than likely have to make some tough choices to accomplish this, and 4) determine if you have access to more income - if you do have this luxury, convince yourself that you're satisfied with the expense amounts you have budgeted.
- O. Working with family living budgets can be interesting and very rewarding if you perceive it as a challenge, and recognize the personal economic benefits achieved from a successful budget. Budgeting is not a one time event, but rather an on going exercise in pursuit of your financial goals. To accomplish the goals you have set forth with the budget, you should monitor your actual expenditures and compare them to your budget once or twice a month.

III. Potential Speakers

- A. County Extension Agent
- B. Extension Economists
- C. Personal financial representative with local investment firm or bank

IV. Review Questions

- A. What is the benefit to using a family budget?

A family living budget allows you to pinpoint areas of unnecessary spending, and areas where actual expenses may be higher or lower than you previously thought.

- B. What needs to be done prior to building the family budget?

Establish family goals and determine your desired standard of living.

V. For More Details

No publications available at this time.



! Common Reasons for Not Using a Family Living Budget

- ☞ They are not tax deductible
- ☞ Family living budgeting is time consuming
- ☞ Family living expenses are too small to worry about
- ☞ Non-farm income pays for our family living expenses

! Advantages to Using Family Living Budgets

- ☞ Foundation for a sound financial management plan
- ☞ Use in conjunction with record keeping system
 1. Pinpoint areas of unwise spending habits
 2. Pinpoint areas of unexpected cash surplus
- ☞ Could provide a financial boost in times of tight farm/ranch profit margins



! Establishing Farm and Family Goals/Standard of Living

- ☞ Set goals prior to budgeting
- ☞ All family members need to be involved
- ☞ Be realistic and consider available income
- ☞ Short-term and long-term family living goals
- ☞ Standard of living is one's own perception

! Family Living Records

- ☞ Historical family living expenses simplify the budgeting process
- ☞ If you have not been keeping family living records:
 1. Estimate expenses for family living (past 6-12 months)
 2. List known expenses
 3. Allocate the difference in total expenses and known expenses to variable expenses



! Developing a Family Living Budget

- ☞ Past vs. future family goals, lifestyle, and standard of living
- ☞ Budget format - monthly cash flow, average monthly, and/or annual
- ☞ Estimate sources and amounts of expected income
- ☞ Budgeting expenses
 1. Determine expense categories
 2. Variable and fixed expenses
 3. Based on family goals/standard of living

Family Budgets



Example Monthly Average Family Living Budget

	Monthly Average	Annual
Income		
Salary (net take home)	\$2,500	\$30,000
Farm Income available	\$1,000	\$12,000
Interest	\$42	\$504
Total Income	\$3,542	\$42,504
Variable Expenses		
Auto Fuel	\$150	\$1,800
Auto Repair	\$75	\$900
Clothing	\$150	\$1,800
Contributions	\$200	\$2,400
Dining Out	\$150	\$1,800
Entertainment/Travel	\$75	\$900
Gifts	\$50	\$600
Groceries	\$275	\$3,300
Medical	\$50	\$600
Telephone	\$75	\$900
Utilities	\$125	\$1,500
Household-Furniture	\$100	\$1,200
Savings/Investments	\$325	\$3,900
Total Variable Exp.	\$1,800	\$21,600
Fixed Expenses		
Car Payment	\$200	\$2,400
Child Care/Child Exp.	\$400	\$4,800
House Payment	\$963	\$11,556
Insurance	\$200	\$2,400
Taxes	\$250	\$3,000
Total Fixed Expenses	\$2,013	\$24,156
Total Expenses	\$3,813	\$45,756
Net Surplus/Deficit	(\$271)	(\$3,252)



! Budget Surplus or Deficit

- ☞ Budget surplus
 1. Underestimated expenses or overestimated income
 2. Apply the surplus to debt
 3. Reinvest the surplus back into the farm
 4. Invest the surplus
 5. Increase your standard of living and/or family goals
- ☞ Budget deficit
 1. Overstated expenses or underestimated income
 2. Reevaluate family's goals and desired standard of living
 3. Determine if you can decrease expenses while still meeting your goals and standard of living
 4. Determine if you have access to more income. If so, convince yourself that you're satisfied with the expense amounts you have budgeted



! Following Through With The Budget

- ☞ Approach the budget as a challenge
- ☞ Recognize the financial benefits and rewards
- ☞ Not a one time event
- ☞ On going process
- ☞ Monitor your budget by comparing to actual records
- ☞ Avoid watching every penny and being distracted by too much detail