

Creating a Budget

Many people are not fully convinced that they have a need for a budget. Their reasoning goes something like this. "All I need to do is spend less than I make, and that's just common sense, so why in the world do I need a budget?" Other people fully realize their need, but they simply have no idea where to start. With this in mind let's walk through the basic steps of creating a personal budget.

Budgetary Steps

Create a list of all of your monthly income. If you have any sources of income that are received annually then simply divide this number by 12. It is important to list all sources including alimony, child support, side jobs, etc. This figure will set the cap on your total budget.

Create a list of all your monthly expenses. If an expense occurs less frequently, simply prorate it to fit a monthly format. Be sure to include such expenses as; housing, food, transportation, utilities, entertainment, etc. It is wise to track your spending for a full month during this stage of budgetary planning. Save your receipts and each evening write down your expenses for the day. This is the best way to gain an accurate reflection of actual expenses.

Determine if your income covers all of your current expenses. If the answer is no, then expenses need to be reduced.

Adjust expenses. This can be done in a variety of ways. Depending on the amount of the shortfall, it may be a simple matter of reducing some discretionary spending, such as entertainment, or food.(i.e. the number of times you eat out in a given month) If the deficit is larger then it may be a matter of downsizing your vehicle or your living arrangements. If your income covers all of your expenses then this is still a good opportunity to trim some of the fat off of your spending habits. This can help free up extra money for a variety of reasons ranging from, college educations for the kids, to a nice anniversary trip with your wife.

Add new categories if necessary. Three areas that are often overlooked are 1) debt reduction 2) retirement savings and 3) emergency savings. An emergency fund will ensure that there is an adequate amount available to cover an unforeseen even (i.e. the car breaks down) should it arise. This will prevent the use of credit which can quickly break a personal budget.