



Learning at Your Fingertips

Budgeting 101



In this module:

- Overview
- Tracking Your Income and Expenses
- Creating Your Budget



Overview

A budget can help you crush your outstanding debt, take charge of your financial future, and even become a happier, more relaxed person. Depending on your circumstances, a proper budget may not require that you spend less. Instead, you may simply have to make more effective financial decisions.



Tracking Your Income and Expenses

1. Gather what you need to start tracking your spending history. Collect past bills, bank and credit card statements, and receipts that can allow you to put together an accurate estimate of how much money you spend every month.



Tracking Your Income and Expenses

2. Consider using software to help you budget. Personal finance software is quickly becoming the new trend in finance. These programs have built-in budget making tools that can help customize your budget, along with analytics that help you project cash-flow into the future and better understand your spending habits.



Tracking Your Income and Expenses

Some popular personal finance software include:

- Mint
- Quicken
- Microsoft Money
- AceMoney
- BudgetPulse



Tracking Your Income and Expenses

3. Create a spreadsheet. If you choose not to use a budgeting software, you can determine your own budget by using a simple spreadsheet.



Tracking Your Income and Expenses

Your goal is to chart all your expenses and income during the course of a year, so make a spreadsheet that shows all your information clearly, allowing you to quickly identify any areas where you can spend smarter.



Tracking Your Income and Expenses

- Label the row of cells across the top (starting with cell B1) with the 12 months of the year.
- Create a column of expenses and revenues in column A. You can list either revenues or expenses first, but try to group expenses together and revenues together to avoid confusion.



Tracking Your Income and Expenses

- You may want to group expense together with category headings. For example, you might have a category of “utilities” that includes your electric, gas, water, and telephone bills.



Tracking Your Income and Expenses

- Decide whether you want to include items that are deducted directly from your paycheck such as insurance, retirement savings, or taxes. If you do not include them on your spreadsheet, be sure that you list your net (post-deduction) income rather than your gross (total, pre-deduction) income under the “revenue” section.



Tracking Your Income and Expenses

4. Document your historical budget data for the last 12 months. Add all of your expenses and revenues for the past 12 months, using data from your bank and credit card statements to provide an accurate representation of all of your revenues and expenses.



Tracking Your Income and Expenses

5. Determine your overall monthly revenue history. Are you on a fixed salary where you know for certain how much you're taking home each week? Are you a freelancer whose salary varies each month? Documenting a year's history can help you get an accurate view of your average monthly revenue.



Tracking Your Income and Expenses

6. List all of your monthly expenses on the spreadsheet. What are the bills that you have to pay every month? How much do you spend every week on groceries and gasoline? Do you go out to dinner with friends every Friday night or to the movies once a week? How much money do you spend on shopping?



Tracking Your Income and Expenses

Tracking a year of actual spending will help you develop an accurate view of your spending habits, since most people underestimate the amount they believe they spend every month.



Tracking Your Income and Expenses

7. Analyze your revenue and expenses. If your expenses are greater than your revenue, you are living way beyond your means.

Your budget should be divided into two groups:

- *Fixed Expenses*
- *Discretionary Expenses*



Tracking Your Income and Expenses

- *Fixed Expenses.* These include regular monthly expenses such as bills, insurance, loan debts, food, and necessary shopping items like clothing and household products.



Tracking Your Income and Expenses

- *Discretionary Expenses.* Discretionary expenses are unfixed expenses that may be “optional.” Items that fall into this category include savings, entertainment, vacation funds, and other luxuries.



Creating Your Budget

1. Create a preliminary budget. The history established in Part 1 will help you create an accurate preliminary budget. You should calculate your fixed expenses and revenue, then decide how you want to spend your discretionary money.



Creating Your Budget

- To calculate fixed expenses, take an average for each month over the past year, then add about 5%. For example, if your power bill varies seasonally but averages to \$210 per month, you should estimate the bill at \$220 per month.



Creating Your Budget

- Be sure to account for changes to fixed expenses, such as paying off a student loan or adding a payment for a new car.



Creating Your Budget

2. Set goals for the bulk of your discretionary spending. Now that you have determined how much discretionary money you should have leftover every month, decide how you want to spend that money.



Creating Your Budget

Your goal should be clear, explicit, and actionable. Some short-term goals may be:

- Save \$8,000 in an emergency savings fund
- Put 5% of each paycheck in a savings account
- Pay off credit card balances in 12 months
- Save \$6,000 for an anniversary vacation



Creating Your Budget

3. Maximize tax advantages. There are ways of saving money that can offer tax benefits. If you put money directly from your paycheck into a 401(K) or personal IRA, the money can be deducted prior to being subject to taxes. Some companies even offer partial matching for retirement contributions, which can make your savings go even further.



Creating Your Budget

4. Budget out the rest of your discretionary spending. This part of your budget is all about identifying values. What values do you have and how do you want to spend your money to realize them? Money, after all, is a means to an end, not an end in itself.



Creating Your Budget

- What sort of a person are you, and what do you like to do? Many people end up spending money on hobbies, interests, or charities. Think of this as investing in an experience or feeling of satisfaction.



Creating Your Budget

- Think about what makes you really happy. A popular theory is people who spend money on experiences are actually happier than people who spend money on possessions.
- Consider setting aside more money for travel and vacation.



Summary

Optimizing your productivity puts you in control of your day, instead of putting you at the mercy of the ebb and flow of all incoming requests. Without a routine, we have no good way of saying “no” to requests as they come in, and we are at the beck and call of every person who wants our time and every website that wants our attention. That’s not a good thing, not if you want to get the important things done.

