



How to Make a Budget and Stick to It

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If you want to keep your spending under control, it's essential that you make a budget. A budget allows you to get a handle on the flow of your money—how much is coming in and where it goes out. With that information in hand, you can make intelligent choices about how to spend.

Make a List of Your Expenses

The first step in making a realistic budget is figuring out where your money goes. To keep track, you should make an expense record.

Limitations of computer programs.

Unfortunately, most computer programs that track expenses only analyze your check or credit card payments—they don't record your cash outlays.

Make your own expense record. Rather than relying on a computer program, you can keep track of your expenses in an extremely low-tech but comprehensive way: with some paper and a pen. Here's how:

1. Use one sheet of paper per week to record your expenses for two months. By doing this, you'll avoid creating a budget based on a week or a month of unusually high or low expenses.
2. Begin recording your expenses on the first day of a month.
3. Create seven columns on the page, one for each day of the week. Record the date at the top of each column.
4. Carry that sheet with you at all times.

5. Record every expense you pay for by cash or cash equivalent—check, ATM or debit card or automatic bank withdrawal. When you make a payment on a credit card bill, however, list the items paid for.
6. At the end of the week, put away the sheet and take out another. Go back to Step 3.
7. At the end of the two months, list seasonal, annual, semi-annual or quarterly expenses you incur but did not pay during your two-month recording period. The most common are property taxes, car registration and maintenance, magazine subscriptions, tax preparation fees, insurance payments, and seasonal expenses such as summer camp fees or holiday gifts.

Total Your Income

Your expenditures account for only half of the picture. You also need to add up your monthly income.

On a blank sheet of paper, list the jobs for which you receive a salary or wages. Then, list all self-employment for which you receive income, including farm income and sales commissions. Finally, list other sources of income, such as the following:

- ◆ bonus pay
- ◆ dividends and interest
- ◆ alimony or child support
- ◆ pension or retirement income; and
- ◆ public assistance

Record net income. Next to each source of income, list the net (after deductions) amount you receive each pay period. If you don't receive the same amount each period, average the last 12.

Next to each net amount, enter the period covered by the payment—such as weekly, twice monthly (24 times a year), every other week (26 times a year), monthly, quarterly or annually.

Determine monthly income. Finally, multiply or divide the pay period into the net amount to determine the monthly amount. For example, if you are paid twice a month, multiply the net amount by two. If you are paid every other week, multiply the amount by 26 (for the annual amount) and divide by 12.

When you are done, total up all the amounts. This is your total average monthly income.

Make Your Budget

After you've kept track of your expenses and income for a couple of months, you're ready to create a budget. Your goals in making a budget are to:

- ♦ control your impulses to overspend, and
- ♦ help you start saving money.

To create your budget, follow these steps:

1. Determine the categories into which your expenses fall. (See the chart below for suggested categories.) List your categories of expenses down the left side of a piece of paper (or Excel spreadsheet). Use as many sheets as you need to list all categories. These are your budget sheets.
2. On the sheets containing your list of categories, make 13 columns. Label the first one "projected" and the remaining 12 with the months of the year. Unless today is the first of the month, start with next month.
3. Using your total actual expenses for the two months you tracked and the other expenses you added, project your monthly expenses for the categories you've listed. (Make a note of when smaller expenses, such as magazine subscriptions, are due so you can adjust your budget for that month. These temporary adjustments make more sense than trying to save \$1.23 each month so you can pay for your magazine subscription once a year.)

4. Enter your projected monthly expenses into the "projected" column of your budget sheets.
5. Add up all projected monthly expenses and enter the total into a "Total Expenses" category at the bottom of the projected column.
6. Enter your projected monthly income below your total projected expenses.
7. Figure out the difference.

Decreasing Expenses

If your expenses exceed your income, you will have to cut expenses or increase your income. If finding more income is not realistic, focus on decreasing your expenses. The trick is doing this without depriving yourself of items or services you truly need.

Reduce the amount you spend in each category.

Review your expenses and look for categories you can comfortably reduce slightly. For example, let's say you need to cut \$175 from your budget. You had also planned on spending \$100 a month to eat out dinner, but are willing to decrease that to \$50, thereby saving \$50.

Preserve things you cannot live without. Make a list of things you feel you can't live without, and whittle down your other expenses to accommodate them. For example, you may decide to give up most of your magazine and newspaper subscriptions because you know you'd go nuts if you couldn't go to the movies once a week. If you make room for at least some of the things you love most, you're much more likely to succeed at your plan.

Staying on Track

Don't think of your budget as etched in stone. If you do, and you spend more on an item than you've budgeted, you'll only find yourself frustrated and be more likely to scrap the budget altogether.

Review your budget and make adjustments.

Check your figures periodically. If you never have enough money to make ends meet, it's time to adjust some more. Or, if you constantly overspend

in an area, change the projected amount for that category and trim the money from another category.

Consider larger financial changes. If you continually come up short, you may need to consider some larger changes. For example, you might sell your newer car for an older used car to free yourself from car payments. As you make adjustments to your budget, give careful thought to your priorities. Everyone has different ideas about what luxury is, and different feelings about what they're willing to give up and what they just can't live without. Think about what you value, and be honest with yourself.

Be willing to sacrifice. You may have to sacrifice some things that feel important to you, but don't expect to stick to your budget if you've taken away all but the essentials. Be realistic.

Categories of Expenses

Home

- ♦ rent/mortgage
- ♦ property taxes
- ♦ homeowner's insurance
- ♦ homeowner's association dues
- ♦ telephone
- ♦ gas & electric
- ♦ water & sewer
- ♦ cable Internet service
- ♦ garbage
- ♦ household supplies
- ♦ housewares
- ♦ furniture & appliances
- ♦ cleaning
- ♦ yard or pool care
- ♦ snow removal
- ♦ maintenance & repairs

Food

- ♦ groceries
- ♦ breakfast out
- ♦ lunch out
- ♦ dinner out
- ♦ coffee/tea
- ♦ snacks

Clothing

- ♦ clothes, shoes & accessories
- ♦ laundry & dry cleaning
- ♦ mending

Self Care

- ♦ toiletries & cosmetics
- ♦ haircuts
- ♦ massage
- ♦ health club membership
- ♦ donations

Health Care

- ♦ insurance
- ♦ medications
- ♦ vitamins
- ♦ doctors
- ♦ dentist
- ♦ eyecare
- ♦ therapy

Transportation

- ♦ car payments
- ♦ insurance
- ♦ road service club
- ♦ registration
- ♦ gasoline
- ♦ maintenance & repairs
- ♦ parking & tolls
- ♦ public transit & cabs
- ♦ parking tickets

Entertainment

- ♦ music
- ♦ movies & rentals
- ♦ concerts, theater & ballet
- ♦ museums
- ♦ sporting events
- ♦ hobbies & lessons
- ♦ club dues or membership
- ♦ film development
- ♦ books & magazines
- ♦ newspapers
- ♦ software & games

Dependent Care

- ♦ child care
- ♦ clothing
- ♦ allowance
- ♦ school expenses
- ♦ toys & entertainment

Pet Care

- ♦ grooming
- ♦ vet
- ♦ food, toys & supplies

Education

- ♦ tuition or loan payments
- ♦ books & supplies

Travel

Gifts & Cards

Personal Business

- ♦ supplies
- ♦ copying
- ♦ postage
- ♦ bank & credit card fees
- ♦ legal fees
- ♦ accounting fees

Taxes

Insurance

Savings & Investments

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