

Budgeting

Do you know where your money is going? Do you feel helpless since you seem to have no money before the next pay date? Do you find that your money seems to slip through your fingers? Well it is time to stop and examine where your money is going. What are you spending it on?

An easy aid to help you know and control your finances is a **BUDGET**. A budget is a spending plan that you decide upon. It is based on all your income and all of your expenses. A budget could be made for any period but for our purpose it would be a monthly budget. By understanding your monthly income and expenses, you will be better able to manage your cash flow and determine how much debt, if any, you can assume. The budget helps you to know where your money is going and helps you reach financial goals, whether it is a new home, a comfortable retirement or just making it to your next pay cheque.

How to create a budget

- (a) Gather every financial statement you can, including pay slips, bank statements, investment accounts (if any), recent utility bills (electricity, telephone, water, and internet among others), and any other information regarding a source of income or expense. The key for this process is to create a monthly average so the more information you can dig up the better.

- (b) Record all of your sources of income including your net salary or wages (amount you take home), bonuses and allowances. If you have sources of income outside of your main job, record these as well. Note that some income such as interest on your bank accounts will only be received at certain time during the year and that could be factored in depending on the budget period. Write down what you actually would earn as income, not what you think you might earn.

- (c) Create a monthly list of expenses by writing down all the expected expenses you plan on incurring over the course of the month. This includes your rent, mortgage payment, car payments, insurance, groceries, utilities, entertainment, transportation cost, medical cost and essentially every thing you spend your money on. Remember that such costs such as insurance are not incurred every month. Record those expenses for the month in which they are due. Write down what you spend on things, not what you think you should spend.

- (d) Total your monthly income and monthly expenses. If your end result shows more income than expenses you are off to a good start. This means you can prioritise this excess to areas of your budget such as saving for home or retirement, or paying down debts such as your mortgage. If you are showing a higher expense than income it means you will have to make changes in spending to eliminate some of your expenses.
- (e) If you have identified and listed all your income and expenses accurately, the ultimate goal would be to have your income column higher than the expense column, so you could have some money to save. If you are in a situation where your expenses are higher than your income you should find areas to cut. Shaving a few dollars in some areas may bring your expenses in line with your income.
- (f) You should review your budget monthly to ensure that you are staying on track. After the first month take a minute to sit down and compare the actual versus what you created in the budget. This will show you where you did well and where you need to improve.

Income	-	Expenses	=	Excess
Income	greater	Expenses	=	Excess Income
Income	less	Expenses	=	Shortage