

# How To Create a Budget

By Jeremy Vohwinkle, About.com Guide

Creating a budget may not sound like the most exciting thing in the world to do, but it is vital in keeping your financial house in order. Before you begin to create your budget it is important to realize that in order to be successful you have to provide as much detailed information as possible. Ultimately, the end result will be able to show where your money is coming from, how much is there and where it is all going.

*Difficulty: Easy • Time Required: 30 minutes to 1 hour*

Here's How:

**1. Gather every financial statement you can.** This includes bank statements, investment accounts, recent utility bills and any 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.

**2. Record all of your sources of income.** If you are self-employed or have any outside sources of income be sure to record these as well. If your income is in the form of a regular paycheck where taxes are automatically deducted then using the net income, or take home pay, amount is fine. Record this total income as a monthly amount.

**3. Create a list of monthly expenses.** Write down a list of all the expected expenses you plan on incurring over the course of a month. This includes a mortgage payment, car payments, auto insurance, groceries, utilities, entertainment, dry cleaning, auto insurance, retirement or college savings and essentially everything you spend money on.

**4. Break expenses into two categories: fixed and variable.** Fixed expenses are those that stay relatively the same each month and are required parts of your way of living. They included expenses such as your mortgage or rent, car payments, cable and/or internet service, trash pickup, credit card payments and so on. These expenses for the most part are essential yet not likely to change in the budget.



Variable expenses are the type that will change from month to month and include items such as groceries, gasoline, entertainment, eating out and gifts to name a few. This category will be important when making adjustments.

**5. 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 prioritize this excess to areas of your budget such as retirement savings or paying more on credit cards to eliminate that debt faster. If you are showing a higher expense column than income it means some changes will have to be made.

**6. Make adjustments to expenses.** If you have accurately identified and listed all of your expenses the ultimate goal would be to have your income and expense columns to be equal. This means all of your income is accounted for and budgeted for a specific expense.

If you are in a situation where expenses are higher than income you should look at your variable expenses to find areas to cut. Since these expenses are typically essential it should be easy to shave a few dollars in a few areas to bring you closer to your income.

**7. Review your budget monthly.** It is important to review your budget on a regular basis to make sure you are staying on track. After the first month take a minute to sit down and compare the actual expenses versus what you had created in the budget. This will show you where you did well and where you may need to improve.

## **Budgeting 101** *Underpaid and overdrawn? Wondering how your friends managed to buy a house while you're still renting? You need a budget — fast.* By Kira Vermond

Listening to her now, you would never know Katrina Carroll-Foster ever worried about paying her bills. The 34-year-old Vancouverite, who works in marketing for an upscale hotel chain, throws around terms like “self-directed RSP account” and “leveraging my mortgage” like a born financial whiz.

But five years ago, Carroll-Foster was sinking in a swamp of debt. She tried to knock down the amount of money she owed, throwing \$500 at her bills from every paycheque, but the payments hardly made a dent in her \$10,000 debt.

Carroll-Foster kept spending, too. “You’re thinking, Oh well. If I drop another few hundred, it doesn’t matter. It’s just tacked onto this enormous debt,” she admits now. Finally, after watching her first RSP double in value, Carroll-Foster realized what compound interest could do when it actually worked in her favour. It was time to take an unflinching look at her money, make a budget — the dreaded monthly plan for spending and saving based on income and costs — and stick with it.

“As a reasonably successful, independent woman, I didn’t want to be saddled with debt. I wanted to take control of my finances,” she says.

Before she turned her financial picture around, Carroll-Foster was the poster child for the average debt-ridden Canadian consumer. In 2005 our household debt soared to \$916 billion, according to a 2007 Statistics Canada report. Meanwhile, a recent InCharge Debt Solutions study reveals that 14 percent of Canadians say they always use credit cards for basic living expenses such as groceries and gas.

To buck the trend, Erika Penner, a certified financial planner in Richmond, B.C., says you’ve got to be aware of cash flow. “If you want to control your money, as opposed to your money controlling you, you need to have a budget,” she says. But how do you start? It’s helpful to remember that a budget can be as simple as you need it to be. In fact, for most people, straightforward is the way to go. Detailed or not, a budget generally involves just three steps:

- 1. Figure out how you’re spending your money now.**
- 2. Evaluate that spending and come up with goals for saving.**
- 3. Continue to track your spending and try to get it to stay within the guidelines you’ve set out.**



To track your current spending, first gather up all your routine expenses from the last few months. Think telephone bills, hydro, auto insurance, child care and anything else you pay regularly. Then, collect your variable expenses, such as dry cleaning or coffee on the way to work. Some people like to write these amounts into a notebook or punch them into their computer. Others grab bills and receipts and stuff them into an envelope to be tallied at the end of the month. Just don’t change your spending habits yet. Be Zen about it: Simply observe.

All this tracking and calculating can seem like drudgery, but it has to be done, says Amanda Mills, a financial therapist in Toronto and owner of Loose Change, a company that helps people tackle their emotional bugaboos about money. “People try to make a plan without knowing what they did last year and they can’t stick to it,” she says. “Making a budget without knowing where you actually sit is tricky. It’s almost useless, actually.”

After tracking, evaluate the results: What are you spending and why? Is there anything you would like to spend more money on? Is there anything you can spend less money on? Most people severely underestimate what they



spend on items such as groceries, a night's entertainment or their cellphone bills. Can you shop at a cheaper grocery store? Maybe take in a movie at a second-run cinema instead of the multiplex? Or perhaps it's time to call the cellphone provider and switch to a cheaper plan.

Tracking and evaluating expenditures serves another purpose, says Mills. When people think about how much money they spend as they're spending it, they gradually and naturally start to shift away from buying things they want, to buying things they need. Mills herself started tracking how much money she was spending on lattes about six years ago and discovered that figure was coming in at \$300 a month, or \$3,600 a year. Simply by evaluating one expenditure, Mills realized she could buy a machine to

make her lattes at the office and save a lot of money.

The last step to becoming budget-wise is the most difficult: Follow your plan. Esmaralda and Matthew Pitman from Brampton, Ont., use the jar system, something they learned from the television show *Til Debt Do Us Part*. The couple have three small children and want to move to a larger house in the next couple of years. To make it happen, they have to save up some cash and tackle their debt.

The jar system is as easy as it gets. After the Pitmans determined how much money they were spending, they pinpointed the places they could cut back – no more big splurges at the grocery store, for instance – and stuffed the correlating amount of cash in a jar. Once that hundred bucks for food and diapers is gone, it's gone.



The system works only because both spouses are on board, though. "It has to be a two-way street," says Esmaralda. "Matthew can't just go out and use his debit card because he wants something. We're both committed to this."

One last word of advice: Don't be too hard on yourself. Budgeting isn't about being punitive or blaming someone (especially important when you're going through the process with a husband or partner). It's about making informed decisions. Besides, that daily chocolate bar might be giving you as much pleasure as your Aunt Marla's season's tickets to the opera give her.

"A budget is a lifestyle choice," says Penner.



## My Thoughts about all this...

# BUDGET WORKSHEET From Financial Planning at About.com

<b>CATEGORY</b>	<i>BUDGET</i>	<i>ACTUAL</i>	<i>DIFFERENCE</i>
<b>INCOME:</b>			
Wages and Bonuses			
Interest Income			
Investment Income			
Miscellaneous Income			
Income Subtotal			
<b>INCOME TAXES WITHHELD:</b>			
Canadian Income Tax			
Provincial Income Tax			
Income Taxes Subtotal			
<b>Spendable Income</b>			
<b>EXPENSES:</b>			
<b>HOME:</b>			
Mortgage or Rent			
Homeowners/Renters Insurance			
Property Taxes			
Home Repairs/Maintenance			
Home Improvements			
<b>UTILITIES:</b>			
Electricity			
Water and Sewer			
Natural Gas or Oil			
Telephone (Land Line, Cell)			
<b>FOOD:</b>			
Groceries			
Eating Out, Lunches, Snacks			
<b>FAMILY OBLIGATIONS:</b>			
Child Support/Alimony			
Day Care, Babysitting			
<b>HEALTH AND MEDICAL:</b>			
Insurance (medical,dental,vision)			
Out-of-Pocket Medical Expenses			
Fitness (Yoga,Massage,Gym)			

<b>TRANSPORTATION:</b>			
Car Payments			
Gasoline/Oil			
Auto Repairs/Maintenance/Fees			
Auto Insurance			
Other (tolls, bus, subway, taxi)			
<b>DEBT PAYMENTS:</b>			
Credit Cards			
Student Loans			
Other Loans			
<b>ENTERTAINMENT/RECREATION:</b>			
Cable TV/Videos/Movies			
Computer Expense			
Hobbies			
Subscriptions and Dues			
Vacations			
<b>PETS:</b>			
Food			
Grooming, Boarding, Vet			
<b>CLOTHING:</b>			
<b>INVESTMENTS AND SAVINGS:</b>			
RRSP			
Stocks/Bonds/Mutual Funds			
College Fund			
Savings			
Emergency Fund			
<b>MISCELLANEOUS:</b>			
Toiletries, Household Products			
Gifts/Donations			
Grooming (Hair, Make-up, Other)			
Miscellaneous Expense			
Total Investments and Expenses			
Surplus/Shortage (Spendable income minus expenses & investments)			