

Budgeting Basics

A budget, or spending plan, is the best way to get control of spending and review if your money is used the way that will benefit you best. Managing money is a skill, and like most skills it requires a bit of discipline and lots of practice.

STEP 1: Journalize your spending. Using a spending diary can help identify areas where you can reduce unnecessary expenses. Logging your spending trends, such as the daily coffee and donut, the daily newspaper, or even the soda for lunch, can be a rude awakening. The coffee and donut can cost you \$1,092 a year (assuming you are spending \$3 for a medium coffee and a donut..\$3 x 7 days a week = \$21, \$21 x 52 weeks per year = \$1,092).



STEP 2: Estimate your monthly take-home income and expenditures. Gather all your bills including credit card statements, receipts for groceries, gas or anything else that you buy with cash. You should also have your checkbook register available to review additional expenditures. Write down all of your expenses, broken down into categories for (1) fixed expenses like the house payment, credit card payments and car payments; (2) flexible expenses that vary each month, including the phone and electric bills; and (3) discretionary

expenses, such as a gift for someone's birthday or a scheduled outing. To simplify this step, use the Personal Budget Form on the back of this brochure. Add up your total monthly expenses and total monthly income. Then subtract the total expenses from the total income. The difference is available for you to use as you desire. If the total difference is a negative amount, then you are spending more than you are earning. In this case you should take immediate action to adjust your lifestyle and expenses so you do not continue to accumulate more debt.

STEP 3: Plan. It is comforting and almost second nature to think that you will have more money next year. But it will not happen without some serious commitment. Before making any promises and thinking that your financial situation will change automatically, plan for change.

Sit down and make some goals. Goals give you direction to realize your dreams. Establishing goals for the short, mid and long term will help you achieve financial security. Short-term goals can be met within a year, mid-term goals would probably take a little longer, perhaps five years, and long-term goals may take ten to fifteen years to achieve. Be descriptive and define the means to the end. If your goals are specific enough, you will be motivated to cut down on your spending to reach those goals. For example, you can use this tactic:

- ★ GOAL(S) _____
- ★ ESTIMATED COST _____
- ★ TARGET DATE _____
- ★ MONTHLY SAVINGS _____

STEP 4: Reduce your spending. The hardest part of the budgeting process is over. Now comes the commitment. Although it may seem impossible to cut your ties with some of your expenditures, you will soon become comfortable with your new spending plan.

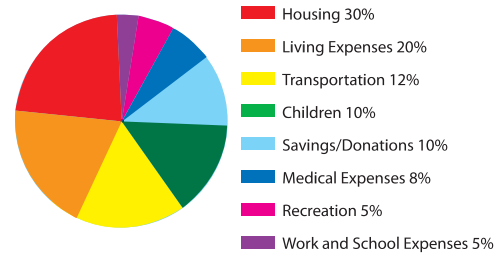
Cutting expenses is perhaps the biggest challenge people face. This can be because they are already just meeting their financial responsibilities. However, it can be accomplished.

There are a few suggestions to consider:

- Pay with cash instead of writing checks or swiping your credit card. It is so easy to just write out a check or to pay with plastic. The after effects are not felt until it is too late.
- Withdraw a set amount of money every week. If you only have \$50 to spend in one week, you will monitor and perhaps be a little more frugal when it comes to buying something you do not need.
- Do not create more debt. If you cannot pay for it up front, do not buy it. Should you come across something you think you cannot live without, step back and think. Do you really need the extra stress of one more bill? How is making that purchase going to affect your planned goals? Even when you know you deserve something, put your wants on hold until you have the cash to pay for them up front.
- Remember your weakness. If you like to shop for clothes on a weekly basis, try to avoid going to the mall or places of temptation. If you find yourself somewhere and you want to shop, only spend the allotted amount you budgeted for.
- Rethink your shopping style. Comparison shop! Plan your purchases before you buy. Make a list of things you need before you go into the grocery store - and stay within the list.

STEP 5: Pay yourself first. The easiest way to save is to think of this category as an expense. Try not to wait until the end of the month to see if you will have money left over to put into savings. Set up a separate bank account for this savings plan, then, watch your money grow. Following are the guidelines that financial planners

use as a point of reference when reviewing a budget. Please remember these are only guidelines. Your expenses are different from anyone else's, so you should budget accordingly. Tailor the categories to fit your situation.



To express your expenses as percentages, take your total expense in a particular category and divide by your total income, then multiply by 100. For example: Your housing costs \$600 per month, your income is \$3,000 per month...

$$\$600 / \$3,000 = 0.2 \quad 0.2 \times 100 = 20\%$$

Your housing percentage is 20%.

It is very important to routinely compare your budget to how much you are actually spending. Once you become comfortable with the process you will be able to alter your categories and perhaps put a little more into savings.



PERSONAL BUDGET

Monthly Income Amounts

WAGES
 (Take Home Pay) \$ ____/____
 Retirement Pay \$ ____/____
 Investments \$ ____/____
 Child Support/ Alimony \$ ____/____
 Disability Income \$ ____/____
 Other Income \$ ____/____

TOTAL INCOME \$ ____/____

Monthly Expense Amounts

HOUSING
 Mortgage/ Rent Payments \$ ____/____
 Insurance \$ ____/____
 Improvements/ Repairs \$ ____/____
 Water/ Sewr/ Trash \$ ____/____
 Cable/ Satellite/ Internet \$ ____/____
 Property Taxes \$ ____/____
 Association Fees \$ ____/____
 Electricity & Gas \$ ____/____
 Telephone \$ ____/____

Total Housing Expenses \$ ____/____

TRANSPORTATION
 Loan/ Lease \$ ____/____
 Insurance \$ ____/____
 Gas \$ ____/____
 Repairs/ Maintenance \$ ____/____
 Other \$ ____/____

Total Transportation Expenses \$ ____/____

MEDICAL EXPENSES
 Exams & Treatments \$ ____/____
 Insurance (Medical, Life, Disability) \$ ____/____
 Medication \$ ____/____
 Other \$ ____/____

Total Medical Expenses \$ ____/____

CHILDREN

Child Support Payment \$ ____/____
 Day Care \$ ____/____
 Othe Expenses \$ ____/____

Total Children Expenses \$ ____/____

LIVING EXPENSES

Groceries \$ ____/____
 Grooming \$ ____/____
 Clothing \$ ____/____
 Other \$ ____/____

Total Living Expenses \$ ____/____

WORK AND SCHOOL EXPENSES

Tuition & Books \$ ____/____
 Student Loan \$ ____/____
 Work Expenses \$ ____/____

Total Work & School Expenses \$ ____/____

RECREATION

Entertainment \$ ____/____
 Cigarettes/ Alcohol/ Gambling \$ ____/____

Total Recreation Expenses
\$ ____/____

CREDIT CARD DEBT

Monthly Payments \$ ____/____

Total Credit Card Expenses \$ ____/____

SAVINGS AND DONATIONS

Savings Deposits \$ ____/____
 Charitable Donations \$ ____/____

Total Savings & Donations Expenses
\$ ____/____

TOTAL EXPENSES \$ ____/____

* The subject matter contained in our educational publications is for informational purposes only. We suggest that you consult your financial or other advisors when planning for your specific needs or requirements.

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