

How to Make a Budget

It's all about attitude!

Most people have attempted to budget at times in the past and given up out of frustration or discouragement? There are three reasons why people give up on budgeting; attitude, financial knowledge, money. They have the wrong attitude from the beginning, they don't have the knowledge required to complete the budgeting process, or there isn't any money at the end of the month and they quit out of disgust. The following paragraphs discuss attitude and financial knowledge. They will provide you with the knowledge needed to lay out exactly how to make and follow through with a budget as well as review attitude and the part it plays. By figuring out the reason your budget attempt failed, you will be able to establish a successful spending plan and follow through with it. What truly determines whether a budget is working for you?

As I mentioned, one of the main reasons so many people fail when attempting to budget is due to their attitude. Most think of it as a penny-pinching ordeal as opposed to believing it is a way to achieve your financial goals and dreams. It's similar to the difference between dieting versus eating healthy meals. The first sounds negative and restrictive, while the latter is positive and allows you occasional indulgences. In order to increase your chance of succeeding, you must first work on your attitude.

Many people stay away from budgeting because of the negative connotations associated with it. If you are one of them, think of it more like a "spending plan" instead of a "budget." Once you have attempted a budget and failed, those bad feelings associated with failure can make you want to avoid trying again. Don't give up just yet!

More than likely, your lifestyle is not exactly like that of anyone else. You will learn that there is no one-size-fits-all spending plan, but there are several concepts that every successful budget will include. One of the nice features of preparing a budget is that you can customize it to your needs. Don't try to force your situation into a box, no one is the same. If setting up a plain and simple plan makes it easy for you to stay committed, then keep it simple. The alternative is that you can also become as in-depth as you like. By sticking with a realistic budget, the rewards will keep you motivated. Until you get to feeling motivated, do whatever it takes to stick with it. A successful budget will include categories that reflect how YOU spend money. If you regularly eat out at work, you will want a subcategory under "Food" for "Lunches Out." Think about your hobbies (golfing, crafts, gardening) and your habits (smoking, drinking, buying a cup of coffee every day) to identify other spending categories. The idea is to become more aware of where your money goes so you can make conscious decisions about spending.

One crucial aspect of building a successful, long-term relationship is working toward a common goal. A budget is definitely a goal worth working toward and a means of achieving successful relationship. Couples who have trouble coming to an agreement on saving towards a common goal must sit and discuss calmly. A rational compromise must eventually be made in order to resolve this disconnect in their relationship.

Having individual goals that your spouse/significant other don't share is not a problem, but it's critical to have basic financial goals that you can both agree to and are motivated to work toward. You will

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constantly be in conflict if you can't agree about saving toward those common goals. A budget centered on conflict and resentment is doomed to fail.

If you are still having trouble discovering why your budget just won't work, consider the following psychological questions:

- What does the money you earn mean to you?
- For what reasons do you use money other than its obvious purpose?
- Is it a self-esteem booster to make you feel worthwhile?
- Do you enjoy the rush of making purchases?
- Do you use money as a sign of power or control in a relationship?

Numerous quality books have been written about the psychological aspects of having and spending money. By reading them you can help yourself identify and work with these factors. If you begin a budget without a positive attitude, it's highly likely that you will give up before seeing the changes that a plan can make in your life. The first step is to fix your attitude!

Finally, how to make a budget!

1. Calculate how much money you (and your spouse, if married) earn in one month after taxes. For the purpose of planning, use your take home pay. Income can come from many different places depending on what type of work you perform. Include tips received, supplemental income, side-jobs, investments, etc. All of this is considered to be income.
2. Calculate your expenses. There are two ways to do this; save every receipt for a month or two is the most accurate. The alternative is to review your bank statement from the previous month. Your bank statement will only include money that entered/exited your account, not tips or cash. Keeping track of how much you spend monthly on groceries or gas makes the next few steps much easier. If you want to start writing your budget today and don't have receipts, it will be easiest to use the second method.
3. Set goals. Why are you budgeting? What are you planning to do with nonessential money? Maybe you plan to save for a child's education, or maybe you just want out of debt. Consider this a journey of self-discovery. Most people don't have a clear idea of where their money goes each month until they begin tracking what they spend, and they are usually quite surprised at the amount they spend in certain categories over a month's time. Define your

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goals clearly in order to determine if you are meeting them. Remember, a goal should be SMART:

S – Specific

M – Measurable

A – Attainable

R – Relevant

T – Time-bound

4. Break your budget into basic categories. Some categories you should consider using are: Giving, Housing, Utilities, Food, Auto, Clothing, Entertainment, Savings, Clothing, Personal, Medical, and Other Miscellaneous. Consider organizing your expenses into “needs” and “wants” as follows: (sample list, not all-inclusive)

Needs

Mortgage

Electric Bill

Auto

Wants

Clothing

Hi-speed internet

5. List all spending under the proper category. Let's take Auto as an example: \$300/month car payment, \$70/month insurance, \$175/month on gas, \$50/month on maintenance, 10\$/month on fees such as registration. Your total Auto budget for the month would be \$605/month. Try to make close estimates if you don't know exactly how much is spent monthly. The more accurate you are on your figures, the better chance you have at making your budget work.
6. Once all spending has been broken into basic categories, add it all up. This figure will give your total monthly spending. Compare this figure to your total monthly income from Step 1.
7. Obtain a method of recordkeeping in order to keep track of your budget. There are different ways to track your spending; some high-tech and others that are not very technical at all. Some people use software programs like Quicken or Microsoft Money; others try to save

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money by using a simple ledger book. Also, a family budget spreadsheet can be downloaded for free if you have access to Microsoft Excel.

8. For our budget we will assume you are using a ledger book or Microsoft Excel. Set up your ledger as recommended in Step 4. Skip the first few pages for later; we'll come back to it later. Divide the rest of the ledger into as many sections as you have main categories. Put each main category on the first page of each section. This will give you plenty of room for multiple entries in each category. Some categories (food) are going to need lots of pages.
9. Decide the time frame you want your budget set up for. Monthly seems to be the most useful, since that is how most bills are sent. However, you can decide to make the deposits to budget categories twice monthly since that is typically how people are paid. For example, if the Auto budget for the month is \$605, show "deposits" of \$302.50 in the Auto section on the 1st and 15th each month.
10. Show a deposit in each category at the start of each period, and then show all the expenditures from that category throughout the period. Start off with \$605 for the month in the Auto category, then show several expenditures for gas, one expenditure for car payment, possibly one expenditure for insurance (depending on the frequency of your insurance payment).
11. Use the first section of the ledger book (what was skipped) to record income and then show the budget being subtracted from it each period. For instance, you likely get paid every other Friday, so there are corresponding entries in the income section showing income deposits every other Friday.

If you plan to use Microsoft Excel, templates can be downloaded for free on the [Microsoft website](#). The template provided is very in-depth and the one below has had a number of items removed; just remember that it can be customized to fit your needs. Also, if you don't have animals, remove the section labeled "Pets" and so on. Feel free to print multiple copies of the spreadsheet below for use throughout the year, you will need to make updates from time to time.

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Family Budget

Date: __/__/____

Housing	Cost
Mortgage / Rent	
Second Mortgage	
Phone	
Electricity	
Gas	
Water & Sewer	
Cable	
Garbage	
Maintenance	
Supplies	
Insurance	
Subtotals	

Auto	Cost
Car #1 payment	
Car #2 payment	
Bus / Taxi fare	
Insurance	
Licensing	
Fuel	
Maintenance	
Miscellaneous	
Subtotals	

Insurance	Cost
Health	
Life	
Miscellaneous	
Subtotals	

Food	Cost
Groceries	
Dining out	
Miscellaneous	
Subtotals	

Children	Cost
Medical	
Clothing	
Tuition	
School Supplies	
Organization Fees	
Lunch	
Child care	
Toys / Games	
Miscellaneous	
Subtotals	

Pets	Cost
Food	
Medical	
Grooming	
Toys	

Monthly Income	Cost
Income #1	
Income #2	
Extra Income	
Total Monthly Income	

Balance (Income - Expenses)	
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Entertainment	Cost
Video / DVD	
CDs	
Movies	
Concerts	
Sporting events	
Theater	
Other	
Subtotals	

Loans	Cost
Personal	
Student	
Credit Card #1	
Credit Card #2	
Credit Card #3	
Subtotals	

Savings or Investments	Cost
IRA #1	
IRA #2	
Investment Account	
College Fund	
Savings Account	
Subtotals	

Tithe, Gifts, Donations	Cost
Tithe	
Charity #1	
Donations	
Subtotals	

Personal Care	Cost
Medical	
Hair / Nails	
Clothing	
Dry Cleaning	
Fitness Center	
Organization Fees	
Miscellaneous	
Subtotals	

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<i>Subtotals</i>	
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Final Budgeting Thoughts...

This will sound harsh, but there is a great possibility that your spending plan won't succeed the first month. This can be attributed to the fact that you've never kept track of this stuff before, you won't magically know how much to put in each category. Don't let this get you discouraged! The second month should be a little better, but you probably won't have a working budget until the third or fourth month. When you began trying to ride a bike you needed training wheels, and you likely weren't hitting homeruns the first time you picked up a baseball bat either. Practice makes perfect!

Sometimes there are pay periods where make extra money or there are three pay periods in a month instead of two. When this happens there is a surplus! You must know how to use this surplus before you receive it or it could be wasted. It could be allocated directly toward your goal, or it could sit in your savings / money market account as an emergency fund.

In time you will learn that your initial budget is flawed. Some areas were underestimated, some areas were overestimated, and some things come up that you didn't even account for in the first place. This is not a problem; simply make revisions as you get a clearer picture of your monthly expenditures. Priority one is keeping overall spending less than earnings.

The first time most people try budgeting their spending is more than what they earn, and they wonder where their money is going! If this happens to you, be an adult about it and make the tough decision about what to cut in your spending plan. If you have \$150/month for clothing in your initial budget, you might want to consider changing this to \$80/month for a while. You could be required to make numerous undesirable changes in order to accomplish your goals.

If your emergency fund is kept in your checking account, it will be hard to avoid spending it when you see the "exactly what I've been wanting" item. Find a savings or money market account with a good interest rate (2-5%) and check-writing privileges so you can stay ahead in the budgeting game.

One common problem people have when preparing a spending plan is that they come up with a great plan, then the furnace goes out and the budget does to. This is the perfect reason for having an emergency fund. If you use this money for an emergency, don't forget to budget for replacing the money you spent.

Another common problem most people have is not having a "Blow" category. As I mentioned before, a budget doesn't restrict you, it merely make you wiser about where your money is going. When you see the "exactly what I've been wanting" item and buy it, it won't wreck your budget if you don't spend all of your "Blow" money. This is the category for impulse purchases and is highly recommend.

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Try not to begin a budget the month after a big-expense event, such as a vacation or relocation, or coming into an inheritance or winning the lottery. Wait until your finances are "normal" or at a steady pace for three to six months and you can start fresh.