

Why budget?

A budget is the most fundamental and most effective financial management tool available to anyone. It is extremely important to know how much money you have to spend, and where you are spending it. A budget is the first and most important step toward maximizing the power of your money.

What is a budget?

A budget is a money plan. With it, you can organize and control your financial resources, set and realize goals, and decide in advance how your money will work for you. A budget can be as simple as it is powerful. The basic idea behind budgeting is to save money up front for both known and unknown expenses.

Five benefits of budgeting

So what benefits, specifically, can you expect if you set up a budget? Naturally, the answer to this question will be different for everyone. But here are some of the most common benefits that people see when they start a budget:

1. Know what is going on. Personal budgeting allows you to know exactly how much money you have—even down to the penny, if you so desire. Furthermore, a budget is a self-education tool that shows you how your funds are allocated, how they are working for you, what your plans are for them, and how far along you are toward reaching your goals. "Knowledge is power," as the often quoted saying of George Eliot goes, and knowing about your money is the first step toward controlling it.

2. Control. A budget is the key to enabling you to take charge of your finances. With a budget, you have the tools to decide exactly what is going to happen to your hard-earned money—and when. You can be in control of your money, instead of having your money limit what you do. This bears repeating: you can be in control of your money, instead of letting it control you!

3. Organization. Even in its simplest form, a budget systematizes, or divides, funds into categories of expenditures and savings. Beyond that, however, budgets can provide further organization by automatically providing records of all your monetary transactions. They can also provide the foundation for a simple filing system to organize bills, receipts, and financial statements.

4. Take advantage of opportunities. Knowing the exact state of your personal monetary affairs, and being in control of them, will allow you to take advantage of opportunities that you might otherwise miss. Have you ever wondered if you could afford something? With a budget, you will never have to wonder again—you will know.

5. Extra money. This might well be everyone's favorite benefit. A budget will almost certainly produce extra money for you to do with as you wish. Hidden fees and lost interest paid to outsiders can be eliminated forever. Unnecessary expenditures, once identified, can be stripped out. Savings, even small ones, can be accumulated and made to work for you.

How do you begin?

- Start with a canned budget worksheet (see worksheet).
- Go through your checkbook or bills for the last two to three months and add and delete categories from the worksheet to fit your expenditures.
- Think about your hobbies and your habits and be sure to add categories for these expenses.
- Go through your pay stubs and calculate your average monthly gross pay.
- For each expense category, try to determine a budget amount that realistically reflects your actual expenses while setting targeted spending levels that will enable you to save money.
- Once you're comfortable with your expense categories and budgeted amounts, enter expenditures from your checkbook from the last month.
- Keep track of cash expenditures throughout the month and total and categorize these at the end of each month.
- Subtotal the income and expense categories.
- Subtract the total expenses from the total income to arrive at your net income.
- If the number is negative, your expenses are greater than your income. Your situation can probably be greatly improved by changing your spending habits.
- If you have a positive net income, transfer most of it to a savings at the end of each month. Extra cash left in a regular checking account has a way of getting spent.
- After you've tracked your actual spending for a month or two, analyze your spending to identify where you can comfortably make cuts.
- Once you've got the budgeting process in place, take an in-depth look at your largest spending categories, brainstorm about ways to reduce spending in specific categories, and set realistic goals
- Update your budget and expenses monthly.



Tips:

- Don't try to fit your expenses into somebody else's budget categories. Tailor the categories to fit your own situation.
- Make your categories detailed enough to provide useful information, but not so detailed that you become bogged down in trivial details.
- Think of your budget as a tool to help you get out of debt and save money, not as a financial diet.

Myths about Budgeting



Many people never even consider starting a budget because they are afraid they will have to “give up” something. To some, a budget is like a diet that may force them to forgo a favorite treat. In our experience, a diet is the wrong metaphor to use when thinking about budgeting.

Myth #1: You have to suffer to use a budget.

The truth is, you are following a budget whether or not you have consciously implemented one. Unfortunately, the “budget” you end up with by doing nothing is almost certainly an endless cycle of reactions, as opposed to a dynamic, proactive strategy. A reactive mode contains the double whammy of the anxiety of wondering when the money will run out, and then feeling deprived when it does. A budget will actually reduce your aggravations.

Myth #2: You have to be in debt to budget.

Another popular misconception is that budgets are only for people who are in real financial trouble—individuals who are severely in debt or currently living way beyond their means. While it is true such circumstances require a budget overhaul (or, more likely, implementation), the truth is that everyone can benefit from budgeting.

Successful companies, operating solidly in the black and generating millions of dollars in annual revenue, all maintain budgets. Some companies have entire departments, with dozens of employees, whose sole purpose is to run the budgeting process. These companies don't do all of this because they are in financial trouble or are spending beyond their means. They do it because budgets work.

Myth #3: You have to spend extra hours doing paperwork.

Another common fear is that budgeting will take huge amounts of time. With some older budgeting systems, this is certainly true. Even with the newer systems, there is certainly an investment of time up front to get things rolling.

However, once you have your budget set up and in place, bill-paying sessions turn into stress free, time-efficient moments. You've eliminated the month-in and month-out agonizing (or arguing) about priorities. You also no longer wonder where the money will come from for the next bill that crosses your desk. All of that negative energy and time will have been turned into a positive routine experience!