Determining Income- Where is your money coming from?

The most important step to establishing a budget is to look at how much money you have coming in. You typically know how much your paycheck is every week, that’s the easy part. Do you have any other sources of income that you can include like financial aid, loans, alimony, child support, or government assistance? A lot of people will look at this as “found” money and will use this frivolously. However, if you are in debt or are struggling from paycheck to paycheck, even this money should be set aside to pay bills or set aside in a savings account for emergencies. This can be tracked on your own personalized budget spreadsheet.

Determining Expenses- Where is your money going?

This is a hard part for a lot of people. Be honest as to where your money goes- it may be tough to admit that you are spending $100 a month on eating out or $150 for clothes. You need to start keeping track of every single purchase that you make. If you buy a pack of gum, write it down. Get the car washed, write it down. Keep a notebook, journal, or even a small scrap of paper with you at all times so that you can write down unexpected purchases. Every time money leaves your purse or wallet, credit card or bank account, it should be recorded under the proper category. Keeping track of where you are spending your money will alert you to possible areas where you can start cutting back.

Determining Needs- How much should you be spending?

How much should you be spending on groceries or housing? There are not any hard rules about how much you should be spending in each category, but the less you make, the less you have to spend on extras. After determining how much you can spend in each category, enter those amounts into the “Budget” tab of your budget spreadsheet. Fixed expenses such as housing and car payment should be entered first. The flexible expenses can be manipulated to fit after the fixed expenses are entered.

Tips to Remember:

1.) Do not spend more than you earn.

2.) You should never put anything on a credit card that you know you can not pay off at the end of the month. Emergencies happen, but be prepared with savings to handle them.

3.) Remember to pay yourself first. You should include in your budget money that needs to be set aside into your savings. You should have at least three months salary set aside for emergencies. Having one year set aside is preferable.

4.) Do not forget to budget for those items that may not occur every month, such as car repairs or Christmas gifts.

5.) Budget for entertainment. It is ok for you to have a life. Just do it sensibly. Put in your budget money for a night out, dinner and a movie, or a hockey game. Just make sure that you stay within your means and do not get carried away with it. Also, look for less expensive alternatives. Maybe get take-out and rent a movie instead.