



# Budgeting:

## Managing Your Money with a Spending Plan



## Budgeting: Managing Your Money with a Spending Plan

Are you making the best use of your money? Do you have a handle on how much comes in each month and where it all goes? Is there any money remaining for your savings and goals?

A budget can answer these questions, help you find ways to free up more money and give you the peace of mind that comes from being in control of your financial life. This guide, from the Financial Planning Association® (FPA®), will help you get started. We'll look at:

- [What's a Budget?](#)
- [How Can You Benefit from a Budget?](#)
- [Creating a Budget](#)
- [Using a Budget to Reduce Your Expenses and Reach Your Goals](#)
- [How a Financial Planner Can Help](#)
- ["My Monthly Budget" Worksheet](#)

### What's a Budget?

A budget, or spending plan, shows where you stand financially. It itemizes all of your income and expenses for a month, or given time-frame. A budget is a basic part of a good [financial plan](#). We've provided a budgeting worksheet at the [end of this guide](#). Feel free to print a copy to use, or modify it to fit your situation.

## How Can You Benefit from a Budget?

Anyone who wants to take control of their financial life can benefit from a budget. It can uncover spending and earning patterns that may be creating problems for you financially so you can decide what you want to change.

Budgeting can be a very rewarding process, particularly when it relieves the stress that comes from worrying about how to make ends meet. It also frees up cash to put toward goals that will improve your life. With a budget, you take control of your money — and that provides great peace of mind.

Think of it this way: Businesses have budgets so they can track their money and make the best use of their resources. You should have a budget for the same reasons. If you're part of a couple, do a budget together and talk about it.

## Creating a Budget

There are many ways to create a budget. You could do something as simple as cashing your paycheck and putting the money into envelopes marked for different purposes, such as food, rent, utilities, transportation, entertainment, and so on. When the money is gone, you know you can't spend any more on that item until the next payday.

Or, you could set up a spreadsheet on your computer, download budget forms from nonprofit Web sites or use the [budget worksheet](#) found at the end of this guide. The key is to set up a system that works for you and then use it.

Here are a few more tips for creating a budget:

- If you're not sure where you spend your money, review your checkbook register and credit card statements. Or, keep receipts of all your purchases during a month. Another idea: Get a small notebook and write down everything you spend.
- For expenses that vary, such as the heat bill, estimate an average cost per month. For expenses that don't occur every month — for example, a quarterly life insurance premium or holiday gifts — divide the total by 12 to estimate a monthly cost.
- If your "miscellaneous" spending is a large part of your budget, add more categories so you can better track where your money is going.
- Make "savings" a line item on the expense side of your budget. When you think of saving money as a regular monthly expense, you'll be more likely to get into the savings habit. To help build your savings, you may want to automatically transfer a certain dollar amount from your checking account to your savings account each month.



- Add other goals to your list of expenses. For example, if your goal is to save for a down payment on a home, add it to your list of monthly expenses.
- Total your monthly expenses and subtract them from your income. If you have money left over, congratulations! You can afford your current lifestyle and perhaps some extras like a nice vacation. If you come up short, learn some ideas on how you can use a budget to reduce your spending and reach your goals.

## Using a Budget to Reduce Your Expenses and Reach Your Goals

You may find that the very process of creating a budget will raise awareness of your spending habits and prompt you to make changes. Suddenly you'll see in black and white where you're spending money, and sometimes that can be quite a surprise.

As you analyze your cash flow, make notes of what you want to change. Ask yourself if your spending reflects your values and priorities. Does your spending take you closer to your goals? Is your income adequate to pay basic expenses with some money remaining to put toward your goals? If the answers are no, you may want to look for ways to increase your income and plug spending leaks that are draining your cash with little to show in return.

Here are a few ideas:

- Hold a family meeting. Ask everyone where they can save a little by cutting back on things they don't need.
- Make choices about what will give you the most pleasure or will be better for you and your family in the long run. For example, is an expense like eating out every day something you really want to fund, or would you prefer to direct that money to a family vacation or a class at your community college?
- Put the brakes on impulse buying by staying away from shopping malls or leaving your credit cards at home.
- Wait 24 hours before making a large purchase to decide if it's really worth it.
- Before you pull out a credit card to buy something, ask yourself if you would take out a bank loan to get it.



- Whenever possible, pay your credit card balance in full each month, or at least pay more than the minimum due to minimize interest charges. Pay off your higher interest rate debts first. Or, some planners suggest paying off your smallest credit card balances first so that you have fewer bills to manage and a sense of accomplishment.
  - Lower your utility bills by setting back your thermostat, adding insulation to the attic, using compact fluorescent bulbs, and washing clothes in cold water.
  - Shop for groceries using a list and coupons.
  - Once a year, check for the best deal on your car and homeowners insurance.
  - Avoid late fees by marking due dates on your calendar, programming your cell phone to remind you of bill payments, or automatically paying bills from your checking account.
  - Before spending money on entertainment, ask yourself what else you could do that would be just as much fun but free.
  - If your debt feels overwhelming, enlist the help of a nonprofit debt counseling agency.
- Learn more:** [Overcoming the Credit Barrier: Clearing the Way to Your Financial Goals](#)

## How a Financial Planner Can Help

You can create a budget on your own, but there are many benefits of advice from a financial planner who can analyze your cash flow and suggest budgeting strategies for reaching your goals that you may not have considered.

A CERTIFIED FINANCIAL PLANNER™ (CFP®) practitioner is a financial planner who has gone through rigorous education and testing and has pledged to conduct himself or herself in an ethical manner that puts your interests first. FPA can provide a list of FPA members who are CFP professionals in your area. Go to [www.PlannerSearch.org](http://www.PlannerSearch.org) or call 800.647.6340.

# My Monthly Budget Worksheet

Month \_\_\_\_\_ 20\_\_\_\_\_

**A) Your Income** List income after taxes and withholdings.

## Step 1

**Income** \$ \_\_\_\_\_  
**Taxes/Withholdings** - \$ \_\_\_\_\_  
= \$ \_\_\_\_\_

## Step 2

### Additional Income

Alimony \$ \_\_\_\_\_ Part-time work \$ \_\_\_\_\_ Investments \$ \_\_\_\_\_

Spouses Income \$ \_\_\_\_\_ Other (pensions, Social Security, etc.) \$ \_\_\_\_\_

**Total Monthly Income (Step 1 + Step 2) (A) = \$ \_\_\_\_\_**

**B) Monthly Expenses** List all expenses.

**Amount**

Housing – mortgage, rent, property taxes	\$ _____
Utilities - electric, gas, phone, cable, Internet, etc.	\$ _____
Food – groceries	\$ _____
Food – restaurants, delivery, takeout	\$ _____
Transportation - gas, car repairs, mass transit	\$ _____
Medical care - doctor, dentist, hospital	\$ _____
Child care - day care, support payments	\$ _____
Credit payments - credit cards, other loans	\$ _____
Insurance - health, car, home, life, disability, liability, etc.	\$ _____
Household - cleaning, laundry, maintenance, pet care, etc.	\$ _____
Personal care - toiletries, hair care, clothes, etc.	\$ _____
Education	\$ _____
Recreation and entertainment	\$ _____
Short-term savings	\$ _____
Long-term savings	\$ _____
Miscellaneous – donations, gifts, allowances	\$ _____
Occasional seasonal expenses (see below)	\$ _____
<b>Total Expenses This Month (B) =</b>	<b>\$ _____</b>

# My Monthly Budget Worksheet

**Occasional/Seasonal Expenses** List expenses like property taxes, insurance premiums or holiday gifts that don't occur each month. Divide the total expense by 12 to get an average amount to budget each month.

January \$_____	April \$_____	July \$_____	October \$_____
February \$_____	May \$_____	August \$_____	November \$_____
March \$_____	June \$_____	September \$_____	December \$_____

**C) Compare Income & Expenses** If expenses are bigger than income, you must cut expenses, increase income or use savings.

Total Income this month from (A)	\$ _____
Total Expenses this month from (B)	- \$ _____
Extra or insufficient funds (C)	= \$ _____

**D) Savings** This is your safety net so be careful with it.

Current Amount in Emergency Fund	\$ _____
Extra/Insufficient Funds from (C)	+/- \$ _____
Emergency Fund	= \$ _____

**E) Look Forward** Repeat this worksheet for as many months as needed (at least three months) to plan ahead.