

# Budgeting Basics



## What is the Purpose of a Budget?

A budget helps you to reach your financial goals. It provides a system for estimating how much money you will need to cover expenses during a particular period and then matches your actual expenditures against the estimated amounts.



With a budget, you can quickly see if you're on track financially. If the numbers are not as you expected, you can then take steps to either increase your income or reduce your spending. A budget also shows how much money you can expect to have left after your expenses have been paid, so that you can plan what to do with the surplus amount.

People who keep track of their expenses often have more money left over at the end of the month than people who simply pay out money without following any kind of spending plan.



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## Using the Budget in Financial Planning

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A budget assists with financial planning in a number of important ways.

- 1 Your budget requires you to decide exactly what your goals are and to establish priorities among those goals.
- 2 Your budget enables you to make better use of the money that comes into your hands.
- 3 Your budget also helps you to see whether all of your goals are attainable, given your current earning level and your income expectations in the long term.
- 4 Your budget can broaden your understanding of both the function of money and its potential.
- 5 Your budget tests your commitment to your goals.

If your budget is well thought out and you stick to it, you will have a certain amount of money – discretionary income – to use for “other purposes” than covering predictable expenses.

Cash surplus should never be left idle in a non-interest-bearing account. There are many options, and the more surplus you have, the wider your range of choices. Speak to your credit union about the options that might be best for your situation.

## Getting Started

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Setting up and using a budget involves six basic steps:

- 1 Establish your financial goals: immediate, intermediate and long-term.
- 2 Examine your current financial position. What is your household income and how much do you spend?
- 3 Build a monthly budget for each of 12 consecutive months, itemizing expenses in various categories and estimating how much you can reasonably expect to spend in each category.
- 4 Relate your budget to your overall financial planning. How much money do you expect to have left over after expenses? How will this money be allocated? How long will it take you to reach each goal?
- 5 Throughout each month, make regular entries of your actual expenditures in each expense category. At month-end, total the amounts and match these figures against your original estimates.
- 6 Review and revise the budget to keep it useful and up-to-date.

### Deciding on Your Goals

Budget planning begins with goal setting. What do you want your money to buy?



Most goals require you to do some financial planning if they are to become a reality. Which goals are most important to you? When do you want to reach them?

You may find it helpful to group your goals into time categories: short-term, mid-term and long-term. Then rank them in order of importance, and note the cost involved. This simple plan will serve as the foundation of your budget and it will give you incentive to keep on track.

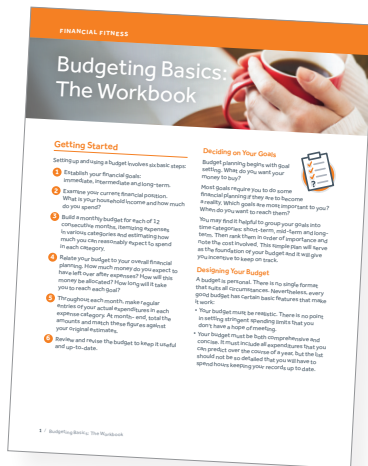
# Designing Your Budget

A budget is personal. There is no single format that suits all circumstances. Nevertheless, every good budget has certain basic features that make it work:

- Your budget must be realistic. There is no point in setting stringent spending limits that you don't have a hope of meeting.
- Your budget must be both comprehensive and concise. It must include all expenditures that you can predict over the course of a year, but the list should not be so detailed that you will have to spend hours keeping your records up to date.
- Your budget should be flexible. As you work with it, you may find that your original format and estimates can be improved.
- Your budget should cover an extended period – typically one year – and expenditure should be segregated into shorter periods – usually calendar months.
- Your budget should be well-organized. If you can't easily review your entries, you will make mistakes and eventually you may find it too troublesome to work with the budget.
- Your budget requires commitment from everyone who contributes to household income and expenditures. If you have a spouse, companion, or children, involve them in budget discussions.

How you actually set up your budget is a matter of personal choice and preference.

To help you with the format, we suggest using the model "Budgeting Basics: The Workbook" available from your credit union.



# Making Entries

When you sit down to draw up a budget and over the months as you record new entries, keep in mind three rules or requirements necessary to the success of your budget:

- 1 Regularity.** Be systematic in keeping track of daily expenditures and bringing your budget record up to date.
- 2 Accuracy.** While it isn't necessary to account for every cent of income and expenditures, you should be reasonably accurate in recording amounts.
- 3 Honesty.** You will only defeat your purpose if you record lower amounts than you have actually spent.

## BUDGET ITEMS

Consider including the following items in your budget:

- Personal goals
- Income
- Expenses, such as:
  - Rent or mortgage payment
  - Utilities
  - Food and household goods
  - Clothing
  - Insurance
  - Education
  - Charity
  - Transportation
  - Household maintenance
  - Hobbies and entertainment
  - Vacation
  - Other

## The Bottom Line

Once your budget is complete, you can calculate the difference between your expenses and income – the amount of discretionary income you have left.

Discretionary income represents the bottom line in more than a physical sense. It is, in effect, a measure of the success of your budget. The whole point of budgeting is to control your spending so that you keep back an increasing proportion of your income for other purposes. These “other purposes” are, of course, centered on your personal financial goals.



## Budget Review

It is important to note how realistic your budget is and how successful you have been in keeping to it over the course of the year. Record the difference between your budget estimates and your actual spending. A consistently wide gap between the two figures could indicate your original estimates were too high or low, or that you are overspending.

A budget review will be helpful to you in planning a new budget for the next 12 months. You should also review the monthly expense record and, if you have overspent, identify the items that threw you off budget. Be patient. It will take a little time to get used to controlling your spending. But working with a budget can become an easy, automatic habit.



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**Other booklets available for consumer information include:** *The Credit Book, Planning for Your Retirement, and Facts About Mortgages.*

Ask for copies at your Credit Union.

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