

The Dreaded "B" Word: Budget

by vcmorris - Thursday, June 04, 2009

<http://thethinpinkline.com/2009/06/04/the-dreaded-b-word-budget/>

Let's start by calling a budget by another name: a spending plan. It's less daunting and doesn't play to many of our preconceived ideas about what a budget is and how *impossible* it is to do.

I think we all probably agree that setting up a spending plan (a budget) is a smart thing to do because it can help us control our daily spending. But even for those who have one, how many of us stick to it?

Keeping track of every dollar you spend sounds like a tedious task, but it's the best way to get started on making a spending plan that's easy and easy to follow.

There are great budgeting tools out there such as Quicken and Microsoft Money. But many people say they're overwhelmed by the array of options these products offer. No worries. A simple pen and pad might make it easier for you - initially.

- First, review your spending. It's easiest to view your daily purchases if you charge most things on a credit card. Most financial institutions provide an end-of-year statement with graphs of spending categories. Just be sure you choose a card that you pay off in full each month.
- If you prefer to pay with cash, jot down all your purchases for one full month to get a general snapshot of your spending.
- Then analyze your results. What are your weak spots? What can be changed?
- Compare your monthly earnings (your inflow) with your monthly spending (your outflow)
- Make sure to subtract whatever is deducted from your paycheck - such as taxes and health insurance - and don't forget to include other earnings such as dividends, bonuses and interest.

Great! Now you can *accurately* evaluate if you're spending more than you make. Now rather than grasping at the ghost of your money's past - it's time to look into your spending future. by creating a spending plan which is just another name for

To create your (formerly dreaded "b" word budget) spending plan:

- Look at your annual earning compared to your annual spending.
- Now adjust that annual spending number to a projected number that shows you are actually spending less than you make.
- Divide that new number by 12.

Voila! There's your monthly spending plan; your monthly *budget*.

Now here's how you can stick to it.

- Write a list of everything you expect to spend money on over the next 12 months.

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- Include everything from food, clothing, vacations, home improvements, utilities and even financial allocations like your IRA, 401(k) and 529 Plan contributions.
- Try and gauge how much you will spend on each category.
- Next to each category make weekly, monthly and yearly columns.

Let me elaborate on this point with a couple of examples. For instance, if food costs you \$300 a week (sadly this isn't an inflated number for many families these days) make a column for that weekly \$300 cost *and* make a column for the yearly cost of \$15,600. This way, each week you can monitor when your food expenses are nearing or exceeding \$300.

Another example: If you allocated \$3000 a year for vacations, include a monthly column for \$250. Make two boxes in each column - one for the "projected" number of \$250 and one for the "actual" amount spent that month. Every month you *don't* travel, you would mark a big zero in the "actual" column so that \$250 can be used another month.

The point is that by having a *visual* guide in a notebook or an Excel spreadsheet, you get the picture and have the ability to monitor and control your spending. This clarity will allow you to make the changes necessary to stay on course.

Here's to your health and wealth!

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