



6.2 Steps To Building A Budget

Topic 6: Plan For The Future

1. Identify All Sources of Income

When creating your budget, you first must determine how much money you have to work with. Three key questions you must ask yourself are:

- a) Where you are getting your money?
- b) How much money you are getting?
- c) When you are getting this money?

2. Identify All Expenses

Where are you spending your money? Spending includes everything you spend your money on; all of what you may typically think of as “expenses” (utility bills, groceries, transportation), but debt payments, life insurance premiums, savings for a rainy day are all expenses as well.

Some of our spending is on a weekly or monthly basis, while others are seasonal or annual. To calculate monthly amounts for your annual expense (snow clearing, Christmas, car registration) simply divide the amount you spend each year by 12.

If you have determined your income on a monthly basis, your examination of expenses must also be broken down monthly. Depending on your income patterns, you may find it easier to budget using monthly, weekly, or bi-weekly timeframes.

3. Separate Needs from Wants

You may discover that some of your money gets used for things that you don't really need. Instead, you merely want them, and often buy them impulsively. The key to good money management is separating needs from wants. If you aren't sure if an item is a need or a want, do without it for a period of time. If after that time you truly can't live without it, then perhaps it is a need.

4. Prioritize Your Expenses

When you have determined wants and which ones are needs, you should create a list and prioritize the expenses from most important to least. That way you know what expenses are the one you should be spending your money on and which ones can wait until you have paid all the more important ones.

5. Set a Goal

Set a specific goal that you will be committed to! By setting a goal for yourself, you will have an incentive for saving your money and you will have something to work towards.

How to set specific goals:

- Short Term: pay off debt or buy new appliance.
- Medium Term: take a cruise or save for a down payment for a new car.
- Long Term: help children purchase a house.

6. Develop a Plan

Based on the information you have obtained in the previous steps, you should develop a plan for how you will be spending your money. Perhaps you need to spend less in one area, try and reprioritize to make sure everything gets paid, or use your savings to make things a bit easier. Ask yourself if your budget will allow you to reach your goals.

Remember, that your plan is a guideline, so be flexible and always keep in mind what is most important to you!

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| My Goals: | My Needs: |
| | My Wants: |
| My Priorities: | |

Source: (Flags, SIFE Memorial)