

Budgeting 101

KEEP IT SIMPLE (AT FIRST)

The best way to get started is to put together a very basic list of your monthly income (i.e. your paycheck) and expenses. Just give it your best guess. Stick to listing things you can easily identify: rent, car payment, insurance, utilities (you get the picture). As time goes by you can add more detail.

DETERMINE YOUR MONTHLY INCOME (after tax how much can you spend)

To be effective, you must determine how much you make each month. This is not as straightforward as it seems. If you get paid once a month, it's easy -- just use the amount from the check. If you get paid on a different schedule use the chart below:

Monthly Salary	Calculation	Payment Interval	Multiply By	Divide By
		each week	52	
		every 2 weeks	26	
		twice a month	24	
		every 3 weeks	17.34	

If you have other sources of income other than your paycheck that you use for expenses each month (i.e. interest income, alimony, child support, other), you will want to include these sources as well. You can use the chart above to determine the monthly income from these sources as well.

EXPENSES

This will be the difficult part. It will be more difficult than income sources because you will have many more expenses than incomes (if you do have more sources of income, than you probably have enough money to hire your own personal accountant and shouldn't be wasting your time with my site). You will also most likely have hidden expenses or expenses you currently do not realize exist. Group these expenses into categories as best you can -- you can always re-categorize later. Just prepare your list for now, don't worry about estimating the amount spent each month.

RECORDING REVENUES AND EXPENSES IN PERIOD INCURRED

You need to select your time period. I suggest selecting a month (I have been referring to the month time period throughout this site). You need to match all your revenues for one month against all your expenses. Don't record an expense to the proper month based on in which month you paid the bill, but rather record the expense in the month that reflects when the expense was incurred. Here's an example of what I am talking about. Let's

say you get your electric bill on the 23rd of each month and it is not due until the 3rd of the following month. Let's also say in June you pay the bill early (on the 23rd), but the July bill (which comes on July 23) you don't pay until August 3. If you recorded your expense based on the date paid, you would not have any electricity expense recorded in July (since the June bill was paid on June 23 and recorded in June, and the July paid was paid August 3 and recorded with August expenses). By matching revenues and expense to the period in which they occurred, you will be able to determine if your monthly expenses exceed your monthly income.

ESTABLISH ESTIMATES FOR MONTHLY EXPENSES

Make your best guess for some those items that are not reoccurring. It may take you a couple of months to get good at estimating the more difficult expense categories. If you find you have a large amount of money in any one category, consider breaking it down into more detail. Utilities is a good example. You may want to break it down into: (1) Electricity, (2) Gas, and (3) Water/Sewer.

TRACKING ACTUAL EXPENSES

You need to keep track of your actual expenses incurred during the month and group them into these categories. It will be easy for things like rent, phone (stuff you get a bill for and write one check). The tough part will be those cash expenses (lunches, sodas, beers after work, movies, etc.). If you don't have a memory like a steel trap, carry a small pocket size note book with you and write them down as they are incurred. Or if you find that to be a big pain, you can take the easy, but much less accurate, way out and each time you withdraw cash, guess which categories these cash expenses will fit into and record them. You can always adjust them later. This way, you will at least have something recorded and are less likely to forget that \$5 purchase of lottery tickets the other night.

AUTOMATE THE PROCESS

You are welcome to download my budgeting software for free from the download page to help you keep track of all of this data each month. Having information in the computer is helpful for analysis purposes as well.