PERSONAL BUDGETS

Steps to Create a Budget

ALPHA KAPPA PSI
The Professional Business Fraternity
Introduction

When you have a fixed income and variable expenses, it can be stressful wondering whether you can stretch one paycheck to the next. Follow these steps when creating a budget to stay on track.
Make a list of your total income

If you don't know how much you have coming in, you won't know how much you can afford to spend.

Start by determining how much money you have to work with on a monthly basis. This includes your salary, any freelance work or side jobs, alimony, or loans. Don't forget to include any irregular forms of payment, such as tax returns or returning recyclables. If it's money you rely on or typically include as income, include it here, too.
Make a list of expenses

Keep track of the bills coming in so you can ensure you have enough money to cover those.

Some expenses will be clear, recurring expenses, like rent and utilities, but you need to include all the extra expenses, too, from going out to lunch and the movie theater to pet medication and gym membership. Not all bills are monthly, but anything you can anticipate spending should be noted when developing your budget.
Assessing your spending habits will assist you in understanding where and how you spend.

Before you start trying to cut your spending, devote some time to tracking and evaluating your expenses. Noticing patterns and calculating a monthly average will help you identify how much to allot for different spending categories, where you can cut costs, and what is your average in each category. You might be surprised where your money is actually going.

“I think the key thing to start a budget process is to first figure out where you spend your money. I once spent a month tracking all of my expenses, without trying to limit or change my current spending habits. I used a spreadsheet, but if you mostly use (credit or debit) cards, tools like Mint can be invaluable in this process. After a month, you at least know what you’re working with, and you can take a more holistic and realistic approach to your budget.”

- Larisa Agovic, Senior Accountant at Starz Play Arabia
Meet your basic needs first

Start with your recurring, fixed costs which cannot be removed from your budget.

As you develop a budget, start with the essentials. Rent, utilities, a mobile phone, and insurance need to be taken care of before you start adding in the non-essentials, like a personal trainer and Chipotle. There might be portions of your expenses you can reduce, such as size and location of your housing, your unlimited data plan, and the type of transportation you can take, but consider these basic needs and priorities first when distributing your assets.
Move on to the variable items

Some expenses will vary and will be more difficult to anticipate.

As you look at your variable expenses, it may seem daunting to estimate how much you will spend. This is when it is important to look back at your previous spending. After analyzing past patterns, calculate an average amount to incorporate in your budget.
Minimize controllable spending

Consider areas where you can minimize, or cut, your spending.

It might seem difficult to find ways to do this, but as you review the analysis of your spending habits, some areas will rise to the top. Prioritize each category based on your lifestyle and personality. For instance, extroverts might save on rent by getting a roommate, but introverts might prefer to get rid of their gym membership. Look for areas of overlap to see what you may be paying for twice, which you can then cut out of the budget.

“Do you really need 1,500 minutes on your phone plan when you only text and call your mom and grandma once a week? Do you really need all six premium channels on cable when you just end up binge watching Fuller House until all hours of the night?”

- Larisa Agovic, Senior Accountant at Starz Play Arabia
Don't set yourself up for failure by lying to yourself.

When making changes to your budget, you have to be honest and realistic. If you normally spend a few hundred dollars per month at restaurants, it will be difficult to lower or completely cut that expense. Start small, and slowly taper your extraneous spending to make a budget you'll be able to follow without getting discouraged.

A budget is only helpful if you follow through with the commitment. Be realistic so you can meet your expectations and be on the road to financial freedom.
More in the Personal Budgets Series:

Overlooked Budget Items | Budgeting...There's an App for That | What to Do when You Overspend