

Budgeting

Budget Your Way to Financial Security

For many people, the "B" word brings to mind unpleasant thoughts of self-denial and endless record keeping. However, budgeting does not have to be a thankless chore. A budget is basically a saving and spending plan that can help you reach your financial goals. And with a computer and a personal finance software package, you can make the task easier and enhance your ability to analyze the results.

Whether you go the automated route or stick with the pencil and paper approach, the act of creating a budget is basically the same. You start by listing all sources of monthly income, including wages and salary, bonuses and commissions, interest, dividends, and rental income. Next, you identify your major expense categories.

Major expenses

Consider fixed monthly expenses such as mortgage or rent, insurance premiums, child care, and utilities, as well as your more flexible and intermittent expenses like food, clothing, dental bills, gifts, and car repairs. (If you're using a computer, you can scroll through the list of default categories.) Then, grab your pay stubs, checkbook register, and credit card statements and begin to allocate your expenses to the different categories you created.

You are likely to find that some spending is hard to reconstruct. Many budget builders find that their records reflect only a portion of their spending and, for some people, it's a relatively small portion. What happens is that all those cash outlays for gourmet coffees, video rentals, and magazines seem to fall between the cracks.

Track every dime

If you can't account for a large chunk of your income, try for a few months to carry around a small notebook and record every dime you spend. While spending \$5 a day on incidentals may seem trivial, the \$1,825 you could have at the end of a year if you did not spend it certainly is not.

Cutting back

Look for expenses that can be cut back so you'll have more money for investing, vacations, your children's college fund, and other purposes. A key strategy for meeting your financial goals is to get in the habit of paying yourself first. Rather than paying all the bills and allocating what is left over, if anything, to savings, you should determine the amount you wish to save each month and set it aside before you pay other bills.

Good records are important

It is important that you monitor your budget on a regular basis. Once a month, or more frequently if you prefer, record and categorize the current month's income and expenses. Then take a look at how you have done.

Here is where the power of a computer can come into play. Personal finance programs can depict your budget graphically. Budget charts and graphs vary from program to program, but all allow you to compare the budgeted amounts in each category to your family's actual expenses and income. And you also can choose how you want to view the data.

When you compare your income and expenses, if you find that your spending is outpacing your income, you may need to rework the numbers. Try to squeeze a little out of several categories rather than taking a bigger chunk out of one.

And don't ignore cuts to your seemingly fixed expenses. For example, it is possible for you to reduce your mortgage payment by refinancing, and your homeowners' or automobile insurance premiums by raising the deductible.

Personal finance software not only makes it easy to see whether you're staying within your overall budget but, more importantly, charts the success of your budget by category. Just click on a month where you've blown the budget and the program quickly highlights the categories that contributed to your downfall.

Personal finance software also can serve as a planning tool. Suppose you want to celebrate your tenth anniversary on a cruise in the Mediterranean. Assign an estimated cost and a date, and most programs will show you how much you have to save each month to meet your goal.

It could take several months or more before you arrive at a budget you can live with. The key is to be flexible. If you find you are spending more than planned, you may have to strengthen your resolve. On the other hand, maybe your goal was unrealistic and needs to be adjusted.

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