

## Personal Budget Article

For all of us who do not live in a world, of unlimited discretionary spending, like Paris Hilton. Who last week went on binge of blowing over £57,000 or well over \$100,000 in under two hours<sup>1</sup>. We must constrain our impulses and allow for a more tempered approach to spending and life style choices. The first step on this journey is creating personal budget.

A budget is a simple plan that outlines all income verses all expenses on a monthly basis. The first thing you need to do is create a list of all of your income for the month. Income in not just your salary, it can include your income from investments, or any side jobs that you may perform that produce income on a regular basis. It is important include all sources of income including alimony, child support. Next you must break down these figures to a monthly number. For example some companies might pay dividends quarterly, while you are paid you salary bi-weekly. This can create a problem when you try and examine your total income monthly. The simple solution is to figure out your annual income for each category from alimony to salary and then divide it by 12. This figure will set the cap on your total monthly budget.

Now you create a list of ALL your monthly expenses. If an expense occurs less frequently, simply project it to fit your monthly time frame. Be sure to include such expenses as; housing, clothes, car, gas, food, utilities. In addition to the mundane expenses do not forget to budget for entertainment and fun. The most accurate way to project for you future expenses to review your actual expenses over one quarter to a year, this is the best way realize an accurate reflection of actual expenses.

This is when the hard part begins, implementation of your budget. You must review your budget and determine if your income covers all of your current expenses. If the answer is no, then expenses need to be reduced.

Adjust expenses. This can be done in a variety of ways. Depending on the amount of the shortfall, it may be a simple matter of reducing some discretionary spending, such as entertainment. Or you can change the level of restaurants you attend, you might not need a drastic change of venue. Like from Ruth Chris to McDonalds, however choosing a moderately prices restaurant can save a substantial amount of money. If the deficit is larger then it may be a matter of downsizing your vehicle or your living arrangements.

If your income covers all of your expenses then this is still a good opportunity to trim some of the fat off of your spending habits. This can help free up extra money for a variety of reasons ranging from, emergency fund, retirement, college educations for the kids, to a splurging on your wife.

I will leave you with a few final thoughts. Create an emergency fund. This is a savings or money market account that you are to place 3 to 6 months of fixed expenses into. You are to put this money into the account and forget a bout it until there is an emergency and it is needed. As your fixed monthly expenses change is sure to update your emergency fund accordingly.

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<sup>1</sup> <http://www.femalefirst.co.uk/fashion/15542004.htm>

Common Items left out of a budget:

Fixed Expenses:

- Housing
- Utilities
- Groceries
- Taxes
- Insurance
- Education expenses
- Clothing and cleaning
- Home maintenance
- Gas – for everything

Discretionary Expenses:

- Vacations
- Gifts and contributions
- Furniture
- Savings
- Financial Expenses
- Emergency Fund