



A GUIDE TO PERSONAL BUDGETING

When it comes to improving your overall finances and economic wellbeing, there is nothing more important than knowing where your money is coming from and how you spend your income. The best way to attain this objective is to create a personal budget and follow the budget as though your life depends on it. A personal budget details all your incomes and expenditures and can be used as a snapshot of your current financial condition. A personal budget will also point out whether you are living within your means or are in need of dire financial assistance.

POPULAR MYTHS ABOUT PERSONAL BUDGETING

Most people associate personal budgeting as a tiring and time consuming chore. Even though budgeting can be complicating during the initial stages, the eventual benefits and cost cutting techniques will motivate the user to stick with the personal budget in the long run.

Another popular misconception is that personal budgeting is only useful for individuals who are in dire financial conditions. The truth is that even though personal budgeting can be an effective tool for people who face financial difficulties, it is also an excellent tool for all consumers who want to keep their finances organized and in control.

WHAT IS YOUR NET INCOME?

The first step in creating a personal budget is to figure out your net income. The net income can be defined as the take home pay after all the taxes and deductions are removed. All additional incomes such as rental income, self-employment income, interest/dividends income, child support/alimony and etc should be included in the total net income calculation. If you are unable to calculate your net income due to lack of records, earning fluctuations and other uncertainties, do your best to estimate and come up with a fair net income figure. We recommend that you use the monthly income worksheet in the back of this booklet to list all your incomes.



WHAT ARE YOUR EXPENSES?

The next step is to list and record all your obvious and hidden expenses and categorize them into the following four groups, which are Fixed, Variable, Periodic and Discretionary expenses. The most effective method of calculating your monthly expenses is by reviewing your monthly purchase receipts. If you have not saved your receipts in the past, start collecting them in the future. This way, you can track your spending to see where your money goes. To list all your monthly expenses, please use the weekly spending log and the expense worksheet in the back of this booklet.

Fixed Expenses: These expenses occur every month and the dollar amount usually remains unchanged for longer periods of time. For instance, rent/mortgage, childcare, insurance premiums and car payments can all be classified as fixed expenses.

Variable Expenses: These expenses also occur on a monthly basis but the dollar amount often varies from month to month. Variable expenses include food expenses, utilities, gasoline, household expenses, credit card payments and etc.

Periodic Expenses: These expenses can be classified as expenses that occur on a regular, but not monthly basis. Some of these expenses include auto insurance, medical expenses, home/auto maintenance, membership/dues and life insurance premiums.

Discretionary Expenses: These expenses can be defined as purchases that fall outside one's needs. In other words, luxuries of life that we can live without. Vacations, gifts, personal care, subscriptions and entertainment can all be identified as discretionary expenses.

ANALYZING YOUR BUDGET

After you have successfully calculated your monthly income and expenses, you can figure out whether your budget creates a surplus or a deficit. If your monthly income exceeds your monthly expenses (surplus), you should pat yourself on the back and find a way to save or invest the additional income. However, if your monthly expenses are greater than your monthly income (deficit), you should reevaluate your budget



and try to cut back on some of the unnecessary expenses. If that fails, you can always increase your income by taking on a part time job or working overtime.

INCREASING YOUR INCOME

As mentioned earlier, customers can increase their net income by either applying for a part-time job or working overtime. Be wary of get-rich-quick schemes and other marketing pyramid schemes, which claim high profit margins and returns. People should also carefully evaluate plans to start small businesses. Implementing and running a small business can be quite overwhelming for people who have no prior experience in dealing with business related matters. Also, before starting a business, you should calculate all upfront costs such as marketing materials, phone bills, licensing costs and other business costs.

REDUCING YOUR EXPENSES

Cutting back on expenses can be quite difficult during the initial stage as most of us think that we are quite modest when it comes to our everyday spending. With this mindset it is often difficult to find things to cut back on as we usually see those expenses as important to our everyday life. When reducing expenses, you should first cut down on your discretionary expenses as these represent the luxuries that you can no longer afford. High priced gifts, monthly magazine subscriptions, spa treatments and other leisure expenses should be sacrificed in the short term in hope of reducing your budget deficit.

Periodic expenses often offer the opportunity to find savings with a little hard work and sensible spending. Expenses such as auto insurance should be carefully evaluated and compared with other insurance companies. By doing a simple web based research, you may be able to get the same coverage for a lesser price from another insurer.

Variable expenses also offer consumers the flexibility of saving money by small-scale lifestyle changes. Eating at home, taking lunch to school/work and cutting down on Starbucks coffee can yield great savings for cash strapped consumers. Nowadays, more and more customers are also reevaluating the need for a land based phone



line at home since most find cell phones to be more efficient and suitable for their fast paced lifestyles.

Monthly fixed expenses are often difficult to adjust because of their fixed nature. Rent/Mortgage, insurance premiums, alimony payments and other fixed expenditures most often cannot be controlled when compared to other expense categories. However, most utility companies nowadays allow its customers to combine two or more services together for a lower monthly rate. For instance, most cable companies now offer high-speed Internet access to its customers as a combined service package.

CAN CREDIT COUNSELING HELP?

If you have tried out the above methods and still fail to reduce your deficit, you should obtain professional assistance from personal finance experts. Non-profit credit counseling companies such as [CreditGUARD of America](#) are created to help customers who are currently experiencing high debt and interest charges. These companies can reduce or eliminate your debt and interest charges and can consolidate all your debt into one low monthly payment.

KNOWING YOUR NET WORTH

The final stage of the budget process involves a careful evaluation of your net worth. Net worth is the best measurement of the state of your financial health and most of your major spending, investing and other financial decisions should be based on this figure. To find out your net worth, you should first find out your total assets and liabilities. You can utilize our net worth worksheet to list all your assets and liabilities.

WHAT ARE YOUR TOTAL ASSETS?

Assets can be classified as any item of economic value owned by an individual. Most of us, when thinking about assets, relate it to our tangible properties like houses, cars and land. We, often forget to include our stock portfolios, retirement accounts, rare coin collections, valuable paintings, jewelry and etc, hence overlooking the value of these assets.



WHAT ARE YOUR TOTAL LIABILITIES?

An individual's financial obligations towards his/her creditors are known as liabilities. Liabilities can range from credit card debt to personal IOU's. When calculating your total liabilities, keep in mind to include every possible liability regardless of its economic importance. Student loans, mortgage, medical bills, collection accounts and credit card balances can all be classified as liabilities. In the past, if you have co-signed a loan for someone else, be sure to include this loan as one of your liabilities. The reason behind this is quite simple, if the other person skips town, you are legally obligated to repay that loan.

CALCULATING YOUR NET WORTH

After writing down all your assets and liabilities on a sheet of paper, you can calculate your net worth by subtracting your total liabilities from your total assets. If your calculation yields a positive number, your overall financial state is in good condition. If the result shows a negative value, do your best to decrease your debt while increasing your assets. If your net worth is dangerously negative, you might be insolvent and would have to act quickly to get your finances back on the right track. If you are unable to do so, you may be forced to file for bankruptcy to ease some of those high debt amounts.

If you have any questions or comments regarding this publication, please contact Nema Perera at 1-800-400-5844 Ext. 160 or email nema@creditguard.org.

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Monthly Income Worksheet

We recommend that you use your monthly income information for this worksheet. If you are unable to come up with a monthly figure, estimate your annual income, then divide that figure by 12 (months) to find the monthly amount.

PRIMARY INCOME	ACTUAL (\$)	BUDGETED (\$)
Salary		
Bonuses		
Incentives		
Commissions		
SECONDARY INCOME		
Self-Employment		
Rental Income		
Interest		
Dividends		
Annuities		
DISABILITY INCOME		
Social Security Disability Benefits		
Workers Compensation		
Union Disability Benefits		
PENSION PLANS		
Profit Sharing Plans		
401(k) or 403(b)		
Social Security Retirements		
Military Pensions		
OTHER SOURCES OF INCOME		
Child Support and Alimony		
Court Settlements		
Unemployment Compensation		
Other		
TOTAL MONTHLY INCOME		

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Weekly Spending Log

We recommend that you use your weekly expense information for this worksheet. If you are unable to come up with a weekly figure, estimate your annual income, then divide that figure by 52 (weeks) to find the monthly amount.

CATEGORY	WEEK 1	WEEK 2	WEEK 3	WEEK 4
Rent/ Mortgage				
Life Insurance				
Medical/Health Insurance				
Household Insurance				
Auto Payments				
Auto Insurance				
Internet/Cable/Satellite				
Savings				
Fixed Debt Payments				
Electricity				
Gas				
Phone				
Water				
Variable Debt Payments				
Gasoline				
Transportation Expense				
Auto Maintenance				
Home Maintenance				
Recreation/Entertainment				
Food				
Household Supplies				
Clothing				
Personal Care				
Charity				
Memberships				
Subscriptions				
Other				

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Monthly Expense Worksheet

We recommend that you use your monthly expense information for this worksheet. If you are unable to come up with a monthly figure, estimate your annual expenses, then divide that figure by 12 (months) to find the monthly amount.

FIXED EXPENSES	ACTUAL (\$)	BUDGETED (\$)
Rent/Mortgage		
Internet/Cable/Satellite		
Auto Payments		
Savings		
Fixed Debt Payments		
Alimony/Child Support		
Other		
VARIABLE EXPENSES		
Utilities (Electric, Gas, Phone, Etc)		
Variable Debt Payments		
Food and Household Supplies		
Gasoline/Transport. Expenses		
Phone		
Other		
PERIODIC EXPENSES		
Life Insurance		
Medical/Health Insurance		
Household Insurance		
Auto Insurance		
Auto/Home Maintenance		
Other		
DISCRETIONARY EXPENSES		
Recreation/Entertainment		
Clothing/Personal Care		
Charity		
Membership/Subscriptions/Dues		
Gifts		
Other		
TOTAL MONTHLY EXPENSES		

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Net Worth Worksheet

Net Worth is the difference between your total assets and your total liabilities. When calculating values try to acquire the current market value of your assets and liabilities.

ASSETS	AMOUNT (\$)
Real Estate	
Automobile	
Cash	
Mutual Funds	
Stocks	
Retirement Accounts	
Savings Bond	
Jewelry	
Furniture and Household Items	
Life Insurance	
Other	
Total Assets	
LIABILITIES	
Mortgage	
Equity Loans	
Automobile Loans	
Student Loans	
Credit Card Balances	
Medical Bills	
Personal Loans	
Old Debts	
Other	
Total Liabilities	
Net Worth = Total Assets - Total Liabilities	

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