

Chapter

9

Taking Financial Control with Budgets and Plans

Using money wisely is a skill — and a skill that pays off. Like all resources, money can be used effectively or for the wrong reasons. It can be used for the

best purposes or it can be misused. It can be used productively, getting the most possible from it — or it can be wasted.

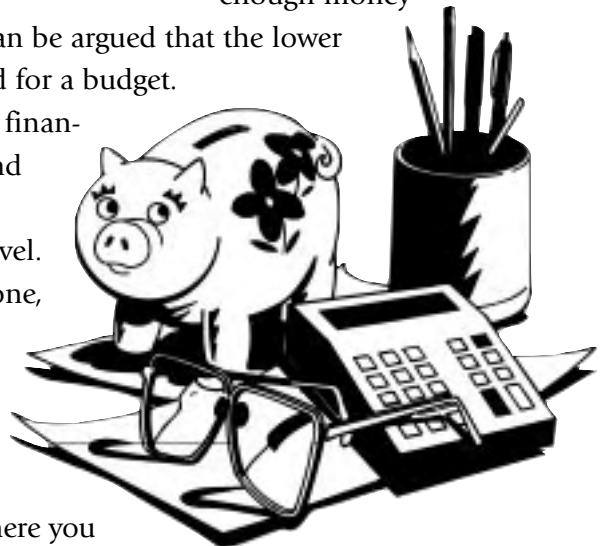
Achieving your goals and taking control of your finances usually works better with a plan. And a key part of a financial plan is a budget. Many people do not use a budget. As a result, many people get themselves into financial problems.

Many people do not keep a budget because they feel that they do not earn enough money

to justify a budget. In reality, it can be argued that the lower your income, the greater the need for a budget.

The challenge of managing one's financial affairs, making ends meet, and building up savings is usually greater the lower one's income level. Therefore, budgeting is for everyone, regardless of income level.

A budget is the key to financial control. A budget represents your decision to take control of your financial affairs, to know where you



What is a budget? A budget is simply an organized way of managing your financial affairs on a day-to-day, week-to-week, month-to-month basis. It enables you to see where your income is coming from, when it is coming in, and how it is going out. It registers your ongoing expenses — both regular expenses and those that are irregular or occasional. In doing so, it enables you to compare your income with your expenses and see whether or not you have anything left over with which to plan.

from your income. If a budget shows you are spending more than you make, that's not the budget's fault — and somebody needs to point that out.

A budget is not a strait-jacket. If anything, it can help you to achieve greater financial freedom. A budget might seem like a strait-jacket because, when first established, it may show you are living beyond your means. Most people don't like to hear that. It means having to give up some things or changing one's lifestyle. But if you are living beyond your means, it is better to know sooner rather than later. It will make it easier for you to regain control.

A budget helps you to be more informed. You may discover obvious ways to cut back, to save more. Remember, savings represent an income you pay to yourself. A budget can help you increase savings, investment, and future wealth.

Budgeting helps you to achieve longer-term financial goals. Acquiring things such as a car, a house, a cottage, a farm, a boat, a trailer, and so on requires a lot of money. So do travel expenses, education and training, weddings, and so on. Funds for such things don't usually come from regular income. They usually come from the build-up of savings and investments over time (and perhaps some loans, too). Funds for savings and investments come from the income you acquire that exceeds your expenses.

should be spending \$200 a month on food, you have to do something. You will either have to make a commitment to spend less on food or increase the amount you budget for food by taking money from some other area of your budget.

stand and where you're heading. It enables you to work out a step-by-step plan to achieve your goals. Some people regard a budget as something that imposes limitations and restrictions. Nothing could be further from the truth. Financial limitations are imposed by your income. Budgeting helps you to get the most

So a budget involves a detailed outline of income and expenses. It reveals a true picture of your financial state. And it should give you a very clear indication of whether or not you are on the road to accomplishing your longer-term goals.

If you establish a budget and discover that you are spending \$300 a month on food when you thought you

If you find it hard to start a budget, it may be a sign that you need a budget. Finding it hard to start usually means that either you don't look forward to what you'll find out or you're so out of touch that it will take quite a bit of time to get things organized. If so, don't postpone budgeting any further. The time to begin is now.

Budgeting helps you to save and build up a reserve for major purchases and investments. Let's look at some budgeting tips:

- Keep your budget flexible. Things change. Your expenses will change, your income will change. Keep your budget flexible so that it can change with you.
- Keep your budget simple. Nothing will turn you off budgeting more quickly than if you make it complicated and a lot of work. Keep it simple and make it as easy and enjoyable as possible.
- Be honest and realistic. If you aren't honest with yourself in preparing it, you are only fooling yourself. Be realistic in terms of what your expenses are and what you might have to give up, do without, or trade-off if you are going to get something else or accumulate savings.
- Keep accurate and clear records. Effective recordkeeping is an essential part of good financial planning and management. You will be amazed to find out how much time you can save when you know where things are. The following are some of the important papers and records that you should keep in a well-organized manner:

- birth certificate
- school reports and records
- awards received
- letters of recommendation or praise
- financial plan
- warranties/guarantees for items purchased
- receipts for major purchases
- social insurance card
- will
- marriage certificate
- lease/mortgage papers
- bank books
- medical records
- tax papers
- budget
- club membership papers
- insurance papers
- investment papers/statements/etc.
- unused cheques
- passport
- cancelled cheques
- bank statements

- Don't leave these important papers scattered all over the place.
- Pay yourself! Basically, this means you should make sure to save part of your income. You will not have an effective budget if you are not able to save anything.
- Experiment with your budget. Don't expect it to work out the first time that you try it. Keep a log for the first little while to monitor your expenses closely. Then adjust your budget based on your findings.
- Be prepared for trade-offs and sacrifices today to enable you to get the things you want in the future.
- Budget for the unexpected. Something surprising or unexpected always comes along.
- Reward yourself if your budget works out effectively.
- As much as you can, conduct your budgeting and financial calculations in a pleasant environment and circumstances.
- Budget for annual expenses such as birthday gifts or car insurance. Don't be caught short.
- If you find that your budget is too tight for your liking and you want to cut back, consider the following:
 - don't pay others to do what you can do — do it yourself
 - always shop with a list in order to avoid unnecessary purchases
 - cut back on entertainment
 - pursue more home entertainment
 - change transportation methods
 - give up "vices" — such as smoking
 - alter your lifestyle in ways that can save money
 - do without some things

Let's turn our attention to the parts of a budget. The first thing to do in a budget is to calculate your monthly income. That will give you a picture of what you've got to work with. The second step is to identify your current monthly expenses. Some expenses you can control (for example, entertainment). Others you can't control as readily (for example, your housing costs/rent). Although you can't really control a cost such as rent in the short run, you can always take control by moving to less expensive accommodation or getting a roommate. Remember, that's what it's all about — finding ways to take greater financial control in order to help achieve your goals and objectives. Let's look at a sample budget.

A SAMPLE BUDGET**I. YOUR INCOME: ESTIMATED FIGURES****A. Your Monthly (Fixed) Income**

Wages/Allowance	_____
Interest	_____
Other	_____
Total	_____(M)

B. Irregular Income

Income tax refund	_____
Gifts	_____
Bonus	_____
Other	_____
Total	_____

Divide the above total by 12 =	_____(N)
--------------------------------	----------

Total Average Monthly Income (M + N)	_____(O)
---	----------

II. YOUR EXPENSES: ESTIMATED FIGURES**A. Regular Monthly Expenses**

Food	_____
Transportation	_____
Recreation/Entertainment	_____
Savings	_____
Loan Payments	_____
Emergency Fund	_____
Housing Costs (including utilities)	_____
Medical/Dental	_____
Other	_____
Total	_____(X)

B. Irregular/Annual Expenses:

Insurance	_____
Gifts/Charitable contribution	_____
Tuition/School Expenses	_____
Clothing	_____
Vacation/Holiday	_____
Other	_____
Total	_____

Divide the above total by 12 =	_____(Y)
--------------------------------	----------

Total Average Monthly Expenses (X + Y)	_____(Z)
---	----------

**If the figure (O – Z) below is positive,
then you have savings with which
to work. If it is negative, you'll need
to make some changes.**

III. BALANCE (TOTAL MONTHLY INCOME – TOTAL MONTHLY EXPENSES) = _____(O – Z)

You will have two categories of expenses. First, you will have your regular fixed monthly expenses — those you will incur each month. Second, you will have your irregular expenses — those that occur on an irregular basis or once a year. For example, you may have an annual car insurance bill. You will want to plan for that expense in your budget and allocate some funds each month so that you aren't, all of a sudden, facing a big expense out of your regular monthly income. You can divide the total for irregular expenses by 12 to identify the monthly amounts needed to enable you to cover these expenses. The monthly amount to cover irregular expenses, along with your regular monthly expenses, make up your total monthly expenses. This is the figure you will compare with total monthly income to see if you are in a position to “pay yourself.” If you like, try to complete the sample budget to see how you stand financially.

CASH-FLOW MANAGEMENT

Regular monthly income and expenses are easier to budget. If you have considerable irregular income and expenses, you will likely have to undertake more cash-flow management. For example, if your car insurance is due every May, you may choose to budget a monthly amount so that you have the funds available when your insurance is due. Alternatively, you may budget a smaller amount and use an anticipated income tax refund to make up the difference.

This is the kind of cash-flow management you can undertake to try to match income with expenses. These variations in irregular income and expenses make each person's budget unique.

The main thing is to try to make sure that you live within your means and that your income matches or exceeds your expenses. Through effective budgeting, you should try to save about 10% or more of your income. It is through saving (now or in the future — but preferably both) that you will be able to achieve your financial goals. If you are unable to save anything now, work toward being able to do so in the near future. Make your budget work for you.

It isn't uncommon for people to find that their income falls short of expenses. You may be able to adjust expenses to overcome this. Alternatively, and if the shortfall has been going on for some time, this can result in the need to borrow — go into debt. Borrowing can also be part of your financial activities at

other times. For example, you may decide to borrow for investment strategies or to make a major purchase. In fact, there may be many reasons to borrow. Let's turn our attention to debt and credit and the pros and cons of credit use.