

My Financial House Guide to Budgeting

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Introduction

Budgeting is the foundation of all financial success and the way to achieve your financial goals. In this guide I will walk you through the proven steps to taking control of your money through budgeting. If you follow the plan, it will work!

To set up a successful budget follow these five steps:

1. Know your income
2. Know your expenses
3. Give every dollar a job
4. Use a tracking and reconciliation system
5. Update and reconcile your budget regularly

You can do it!



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Step One: Know Your Income

This might seem obvious, but you need to know how much you make before you can set up your budget.

Take a look at your paycheck stubs and see what your net income (how much you bring home after taxes and other deductions) is.

If you have a variable income take a look at the last few months and determine how much you make on average, but also have an idea of what the lowest amount you might bring in is.



Step Two: Know Your Expenses

I break expenses into three categories – essential, important and wants.

Essential expenses are those things you need to survive, and would include food, clothing, transportation, shelter and utilities.

I would also include giving in here as I find it essential to financial success. The writer of Proverbs teaches us that we need to, “Honour the Lord with thy substance, and with the firstfruits of all thine increase.” For me giving 10% is the top line of the budget.

Important expenses would include insurance, savings, debt payment and revolving (we’ll cover revolving in a moment).

Wants includes everything else – from Netflix and vacations to eating out and entertainment.

There’s a number of other expenses that could fit in either important or wants. A cell phone and internet are important for most people. A bigger vehicle may be important if you are having a baby and your family won’t all fit in your current one. If you want a nicer car just for fun that would be a want. Go through your budget and break them into one of the three categories – essential, important or wants.

Revolving Savings

How do you handle things that only happen once a year such as Christmas or car registration?

It’s simple – you just make a calendar with all your known, but irregular expenses with a dollar amount attached, divide by 12 and save that much per month.

For more information see this post: <http://blog.ryanhlaw.com/revolving-savings/>

Step Three: Give Every Dollar a Job



A budget is a plan for the future, not a record of where you spent your money. You need to budget based on what you actually have in your account right now. If you just got paid \$2,000 then you budget \$2,000, and each dollar of that \$2,000 needs a job.

Let's say you allocate your \$2,000 as follows:

- \$1,000 mortgage
- \$500 groceries
- \$250 utilities
- \$200 car payment
- \$50 entertainment

At this point your mindset needs to shift. You don't have \$2,000 in your bank account – all \$2,000 has been given a job. That \$250 in utilities now belongs to your utilities and not just to your bank account. Your bank balance is irrelevant – all that matters is having categories that are funded.

Your goal should be to spend last month's money on this month's expenses.

For example – I am paid on the 15th and 30th of each month. My paychecks on January 15 and January 30 pay for February's expenses. This stops the cycle of living paycheck to paycheck.

It's OK to move money from one category to another. If you overspend in entertainment, for example, and you have extra money in grocery, you can move some money over. Just make sure you cover the overspending from somewhere!

When you spend money you need to deduct it from a category. When you pay the electric bill that needs to be deducted from the Utility category.

It's basically like the envelope system – you put \$50 in an envelope labeled entertainment, and when you go out you take money from there.

To do this step well you need a tracking and reconciliation system, which takes us to our next step.

Step Four: Use a Tracking and Reconciliation System

A good system does almost everything from step three for you. While you can do this with a pen and paper, I highly recommend a digital budgeting system.

Budgeting software will bring your paycheck in and put it at the top of the page, then you give every dollar a job by splitting it into categories. As you spend you enter your transactions and/or import transactions from your bank and assign the expenses a category. The system does the math for you, and figures out, for example, how much is left in the Utility category after paying your electricity bill.



A good system will have an app that so you can check any category while you are at the store.

There are a number of good systems out there – from free to quite expensive. The most popular three are Mint, EveryDollar and You Need a Budget (or YNAB for short). In my opinion YNAB is far superior to all other systems. They do one thing – budgeting – and they do it exceptionally well.

You can read my review of all three systems here:

<http://blog.ryanhlaw.com/budgeting-software/>

Step Five: Update and Reconcile Your Budget Regularly

If you do all the work in the previous four steps then don't keep your budget up-to-date and reconciled, then there's no point in doing it. At a minimum you need to sit down once a week and enter all your transactions and make sure it matches with your bank account. I enter my receipts in my YNAB app as I spend money, then each morning I log in, import and categorize any transactions I might have missed and reconcile it with my bank balance. Doing this keeps our budget numbers up-to-date at all times.

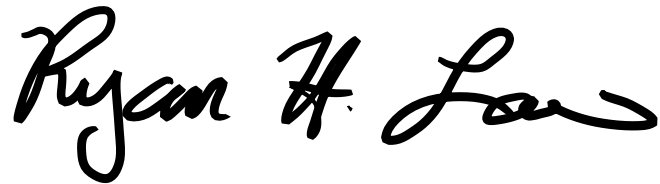


Conclusion

Budgeting will help you save more money, pay off debt faster and achieve your financial goals. I heard someone say once that, “you don’t have to get it right, you just have to get it going.” It will take you a few months to fine-tune your budget, but you have to get it going. Gain control over your money by getting started on these steps today.

To be sure you get all the latest tips and updates on all things related to personal finances, subscribe to my blog at <http://blog.ryanhlaw.com/> (look on the far right-hand side to subscribe). My goal with the blog is to simplify personal finances and give you helpful information with each post.

I hope you found this helpful. Please let me know if you have any questions.

A handwritten signature in black ink that reads "Ryan H. Law". The signature is written in a cursive, flowing style.

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