

Budgeting

The Budget

A budget documents your income and expenditure both in terms of projections and tracking actual. A budget must be realistic and not underestimate expenses in the hope of achieving a better outcome.

The best approach to a budget is to identify Fixed Costs and Variable Costs.

Fixed Costs

Fixed costs are all mandatory expenses that cannot be avoided or changed. Charges fluctuate in value, and must be paid when due.

- Utilities
- Rent / Mortgage
- Vehicle Leases
- Insurances
- Petrol

Goal – Ensure that all Fixed Costs are as low as possible whilst still meeting your needs. Review your current providers to ensure that you are not paying over market rates.

Variable Costs

Variable Costs are costs that are still necessary in your day-to-day life but can be controlled / influenced to an extent.

- Groceries
- Bought Lunches
- Coffee
- Holidays
- Toys
- Household Purchases (Furniture, Appliances, DVDs etc)

Goal - Control variable costs each day and make conscious (rather than impulse) decisions regarding the consequences when making these purchases.

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Creating a Budget

A budget is a working document that allows you the visibility and control to understand the consequences of your financial decisions. Budgets need to be realistic and allow for fluctuations due to unforeseen circumstances and/or misrepresented estimates.

A budget is your document and therefore must be developed to meet your needs. Provided that Income is greater than Expenditure, you elect how much of that income you would like to spend each month. The consequences of this decision will impact your standard of living each month and the attainability of your financial and lifestyle goals within the timeframes required.

The following may assist you in preparing your budget. Complete each step in a separate sitting. Don't try to complete all 6 steps in one go.

- Step 1 Each complete the budget independently with your expected expenses
- Step 2 Compare your budgets and agree a common ground
- Step 3 Analyse your actual expenses over the last 12 months (credit card statements, eftpos transactions, direct debits and cash advances)
- Step 4 Compare your forecast against your actual expenditure and agree a common (realistic) ground
- Step 5 Track your actual expenditure against forecast (input a column in the spreadsheet that shows what you actually spent). Begin tracking weekly and then monthly after 3 months.
- Step 6 Review your budget after 3 months and tweak as necessary

You will find after about three months of tracking that you are able to "sight-forecast" just by looking at your various accounts (bank account, credit card balances etc). At this point, managing a budget becomes exceptionally easy!

A budget template has been included for your convenience.