

Creating a Budget

One of the best ways to keep control over your finances is to create a budget. A **budget** is a plan for saving and spending. It helps you to distinguish between your **needs** and **wants**. Budgets can be short-term and/or long-term. A **short-term** budget may be created in order to help you save for a family vacation. A **long-term** budget may be used to help you pay off your college loans. For any budget to work well you need to have **goals** that you are trying to reach. These goals may also be categorized by how long it will take you to reach them. But if you don't plan for the future, you won't have the money when you need it.

The four steps to creating a successful budget are:

1. make a list of your **earnings**.
2. keep a record of everything you spend money on for one month, from car payments to candy bars. Carrying a small notebook can help you do this.
3. organize the records at the end of the month of your purchases into categories such as food, clothing, entertainment, car payments, and so on. Find the total of each category.
4. on a sheet of paper or a computer spreadsheet, make a list of **monthly expenses**.

Some of your expenses will be fixed while some will be variable. **Fixed expenses** are those that do not change like rent and a car payment. **Variable expenses** are those that can change month to month like utilities (electricity, water, etc...). Because your expenses may fluctuate seasonally (air conditioning in the summer can make your electric bill rise) you want your budget to be **flexible**. Budgets are something that you are always adjusting accordingly.

You should also budget **discretionary funds** or some fun money. These funds can be used for hanging out with friends, clothes shopping, etc... If you only allow yourself a certain amount of discretionary spending a month you can keep your spending in check.

A budget is a necessary tool for safely managing your finances and keeping yourself out of financial trouble.