



Budgeting made easy

No matter what your financial situation, being good with money is a core life skill. Whether you have a little or a lot, there are some basic practices that can help you take control and stay on top of your finances. Maybe you have your first job and want to learn how to accurately budget. Perhaps you're saving up for a major purchase, such as your first home, and you're looking for some ways to cut back your expenses. Maybe you're experiencing financial difficulty and need to find ways to take control of your finances. Or you may just need help putting in place some realistic financial goals.

WHAT IS A BUDGET?

Budgeting is the process of balancing income and expenditure so that you can manage your finances for a defined period. Doing a budget is simply a matter of noting down all of your income and all of your expenses, and then subtracting your expenses from your income to see what you have left. This is your "disposable income".

WHO NEEDS A BUDGET?

Budgets are often thought of as something necessary for individuals or families on modest incomes or for those paying off debt. However, everybody can benefit from a budget, even the most affluent.

WHAT DOES A BUDGET COVER?

A budget can cover details of your income and expenses and allow you to manage your day-to-day living expenses. It can also allow you to plan and save for a future expense, such as a deposit for a home.

A budget can show if you are living beyond your means and spending more than you are earning. You'll be able to see where your money is going and where you could cut back. You can use a budget as a tool to help you save for a financial goal like a car or overseas trip. You can also use a budget to prioritise debt repayments.

HOW DO YOU CREATE A BUDGET?

Step 1: Write down your income

You can start a budget by simply writing down your income. Remember income can come from many sources, not just your salary or wages. For example, you might also receive dividends from shares you own, rent from an investment property, or board from an adult child. If you receive a government payment, you should also include these payments as income.

Step 2: Write down your expenses

The next task is more time consuming: listing your expenses. Writing down your expenses will identify what you are spending in the major expense categories, such as housing, groceries, transportation, utilities, medical/health, insurance, clothing, entertainment, education, travel, etc. It may sound arduous, but the effort can be worth it.



FACT SHEET

Here are two different methods to list your expenses:

1. KEEP A DAILY DIARY

The most accurate approach is to note down every cent you spend on a daily basis over a three month period. You could simply record your expenses by hand, using a separate page for each week or you could use a spreadsheet. If you can, divide your expenses into the major categories, as this could help you identify areas where you can cut back. If you use this approach, also think about including your annual expenses, for example your insurance premiums. The advantage of this approach is that it allows you to see exactly how much you are spending. If you have never done this before you will probably be astonished by how much you actually spend, and what you actually spend your money on.

2. REFER TO YOUR RECORDS

You could also use your bank records, such as credit card and bank statements, to draw the information from. If you use your credit card to pay for most things and have direct debits set up from your bank account for your regular expenses, this approach can be an effective way to gather information on your expenses. Your credit card in particular will itemise your expenses, such as groceries, restaurants, clothing purchases, etc. The advantage of this approach is that it allows you to begin your budget now without having to collect information over the next few months. Alternatively, you could use bills, such as utility bills or school charges, to calculate expenses. If you use this approach it is important that you make sure you collect all the information to include in your budget.

GETTING THE TIMING RIGHT

It's a good idea to match your budget to your pay period; which may be weekly, fortnightly or monthly. That way you can use your budget to help you manage every income payment effectively.

CONVERTING YOUR NUMBERS

Not all of your income and expenses will be for the same timeframe, so you'll need to convert some of them to make sure your budget figures are accurate. If you pay a certain bill by the month, but your budget is for a fortnight, you might find it easy enough to work out what the fortnightly cost of this bill would be. But some of the conversions might be a bit tricky to do in your head – the conversion guide below will help you to make your budget accurate (and so will a calculator!).

MAKE MY WEEKLY AMOUNTS FORTNIGHTLY: Multiply your weekly amounts by two – the result is the fortnightly amount.

MAKE MY MONTHLY AMOUNTS FORTNIGHTLY: Multiply your monthly amounts by 12. Divide the answer by 26 – the result is the fortnightly amount.

MAKE MY YEARLY AMOUNTS FORTNIGHTLY: Divide your yearly amounts by 26.

MAKE MY WEEKLY AMOUNTS MONTHLY: Multiply your weekly amounts by 52. Divide the answer by 12 – the result is the monthly amount.

MAKE MY FORTNIGHTLY AMOUNTS MONTHLY: Multiply your fortnightly amounts by 26. Divide the answer by 12 – the result is the monthly amount.

MAKE MY YEARLY AMOUNTS MONTHLY: Divide your yearly amounts by 12.



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Step 3: Keep a record

The next step is to complete a budget planner. You can fill in the one below, create your own or use one of the many made available by banks and other financial institutions. You can find these ready-made planners online or ask for a printed version from your bank.

REGULAR INCOME

Use this table to write down your regular income.

Type of income	Amount received each period
Salary or wage (after tax)	\$
Pension or government payment	\$
Child support or other income	\$
Regular interest from bank deposits	\$
Regular income from investments (such as rent from investment property, distributions from a managed fund or dividends from shares)	\$
Other	\$
A: Total income for this period	\$

REGULAR EXPENSES

Use the table on the next page to write down your expenses. It's also got room to include any savings you set aside, and any regular debt payments. Start by filling in your fixed expenses – they are the ones that don't change from period to period, such as your rent or loan repayments. Your variable expenses are trickier as they will go up and down. You will need to work out the amount for each period. We've left some blank spaces at the end of each category in case you need to add any other expenses.

Household expenses	
Rent	\$
Repairs	\$
Gas	\$
Electricity	\$
Water	\$
Telephone	\$
Cable/broadband	\$
Cable/TV	\$
Furniture & appliances	\$
Groceries	\$
Council rates	\$
	\$
	\$
Transport expenses	
Car	\$
Registration	\$
Parking	\$
Fuel	\$
Repairs/maintenance	\$
Public transport	\$
	\$
	\$
	\$

Education	
School fees	\$
University fees	\$
Tuition	\$
Books & uniforms	\$
Camps & excursions	\$
	\$
	\$
Other expenses	
Child care	\$
Pet care	\$
Gifts & donations	\$
Hobbies & sports	\$
Audio and visual	\$
Subscriptions	\$
Movies	\$
Restaurants/eating out	\$
Alcohol/cigarettes	\$
	\$
	\$
	\$
	\$
	\$

Important Note: This fact sheet gives information of a general nature and is not intended to be relied on by readers as advice in any particular matter. Readers should contact their own advisers on how this information may apply to their circumstances.



FACT SHEET

Personal expenses		Savings	
Clothes & shoes	\$	Personal superannuation contributions	\$
Hair & beauty	\$	Regular savings account installments	\$
Sundries	\$	Regular installments investments	\$
	\$	Christmas clubs etc	\$
	\$	Holiday savings	\$
Medical expenses		Money emergencies	\$
Doctor	\$		\$
Chemist	\$		\$
Dentist	\$	Debt repayments	
Specialists	\$	Mortgage	\$
	\$	Car loan	\$
	\$	HECS payments	\$
Insurance		Credit cards	\$
Home & contents	\$	Personal loan	\$
		Store cards	\$
		Lay-bys	\$
			\$
Car	\$		\$
Health	\$		\$
Income protection	\$		\$
Life	\$		\$
	\$		\$
		B: Total spending for period	\$

Tip: Keep your budget accurate

- Use after-tax income figures (this may require you to make an adjustment if deductions have not been taken into account), e.g. imputation credits for dividends paid on shares.
- Do not include irregular income that may not be reliable, e.g. annual performance bonus, gifts of money.
- Calculate using consistent expense periods, e.g. weekly, fortnightly, monthly.

Step 4: Subtract your expenses from your income

Now that you've completed the income and expenses tables, you can clearly see how much regular income you receive, and where all that money goes over your chosen period. Using the totals (A and B) from each table, subtract your total expenses from your total income:

Your total income		Your total expenses		Your disposable income
\$	-	\$	=	\$



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If your answer is:

- Positive, your income is greater than your expenses. This means you could be saving some money.
- Zero, your income equals your expenses. You may want to consider reducing some expenses in order to build up some savings.
- Negative, your expenses are greater than your income. This means you are living beyond your means and should think about finding ways to cut back on your expenses. The bigger the negative number the more you will need to reduce your spending.

Did you know? A budget is the best way for you to get an overview of your financial position. If you're serious about taking control of your finances it is a step you need to take. You may find some things you weren't expecting and it can help you to establish some savings goals.

When you start the process be aware that it can be time consuming and fiddly translating your day-to-day income and spending into a budget. And you may not like the result. Sometimes it's easy not to know just how much debt you have.

FOR ASSISTANCE WITH YOUR FINANCES

If your budget indicates that you might be having financial difficulties, a financial counsellor may be able to help you create a manageable money plan that will meet your needs and help you stay in control of your money.

Refer to our [Contact Your Bank – Solving Your Banking Problems](#) fact sheet for more information.

For more information on budgeting and saving, refer to 'Smarter Money: Take control and stay on top of your finances' booklet at the ABA website www.bankers.asn.au.

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