



Budgeting Methods

There are at least two methods to create a budget. The first entails using standard business-sized envelopes and cash money; the second uses software or columnar paper. When documenting the budget and expenses on the envelopes, software or paper, always round the money to the nearest dollar.

Method 1 – Easy Budget

Prepare your budget forecast by week for the next six weeks for income and expenses. After you get accurate in forecasting reality, then forecast by month for the next six months by month. In this example, you will be using 6 envelopes for income (one for each week for a total of six weeks) and 12 envelopes for expenses (rent/mortgage, real estate taxes, etc. – see below). This method involves using actual cash. If your income is deposited directly into your account, you will need to write and cash personal checks for ‘cash’. While the cash in the envelopes will not be earning interest, it will ensure you have the appropriate funds for bills when they come due.

Write the source of income from the sample list below on the front of the 6 envelopes. Make three columns beneath the source: one for the period of time to be covered, one for your estimated budgeted income figure, and one for your actual income figure. Since you will be covering 6 weeks of budgeting in these envelopes, divide each column horizontally in six. Insert the actual dollars from the income sources identified on the front into the envelope.

Sample sources of income:

Unemployment compensation

Other wages / Bonuses

Dividends / Interest earned

Stocks, bonds, CD sales

Garage Sales

Odd jobs pay

While the above represents only a sample of income, make sure your list represents all of your total income. Write down the total on a sheet of paper so you can compare it to the total sample expenditures listed below.

Listed below are 12 typical expenditures. Look in your checkbook, credit card statements and/or estimated cash spent, and summarize how much was spent in each area (rent/mortgage, etc.) over the last few months on an average weekly basis. Write the name of each area of expenditure on each of the

12 envelopes. Make three columns beneath that name: one for the period of time, one for the budgeted amount to be spent, and one for the actual amount that is spent.

Using the cash from any of the income envelopes, deposit the appropriate amount of cash dollars into your expenditure envelopes. If your total expenses exceed your total income, reduce your budgeted expenses wherever necessary in order to balance your budget.

Next, review the last few months for your expenditures by summarizing your spending by looking at your check book, credit card statements and cash spending. Using 12 expenditure envelopes in this sample, write the source of the expenditure on the envelope (i.e., Rent/Mortgage). Create an envelope for each type of expenditure including your budget and actual amount. Use the cash from your income envelope, deposit the appropriate amount into your expenditure envelope. If your total expenses exceeds your total income, reduce your budgeted expenditures where you must to balance your budget.

Suggested list for the family (if necessary, create one for each member of the family) is:

- Rent or mortgage
- Real estate taxes
- Household food & fluids
- Utilities-heat, light, water
- Entertainment/TV/Phone
- Clothing
- Car Payments, maintenance, gas, oil, etc.
- Insurance for Medical/car/home, etc
- Estimated quarterly income tax-fed and state
- Presents for family, friends
- All other expense
- Savings

While this list represents only sample expenditures, make sure your list represents all of your total expenses.. Write the total down on a sheet of paper to compare it to your total income. Make notes as to why you under/over forecasted your income and expenditures by type. This will help you to forecast for the future. Try not to spend more than your income and available money.

Method 2 – Detailed Budget

The **detailed budget** works well on your computer using Excel or some other software. If you are going to do this **manually** , it would be helpful to you to buy a pad of paper called “columnar paper” which has a wide explanation column on the left and at least 12 or more columns to the right to forecast your budgeted income and spending and record your actual income and spending.

In the wide explanation area, vertically list your sources of income and expenses as mentioned in the “Easy Budget” method. Leave a few lines for calculating other income sources and expenses not forecasted so you have space to do so. Add a line for each of the total income and total expenditures. The columns to the right of the income/expense source represent your budget and actual expense for

the given time period. Type or write in the dollar amounts. Repeat the budget and actual expense columns for each time period. This is necessary so you can compare what you budgeted versus what you actually spent for each item.

At the bottom of the page wide explanation area on different lines, calculate the difference between “Total income exceeds total expense”, “Total expense exceeds total income” and “Accumulative difference plus or minus”. See sample budget below.

Explanation	Week Ending 04/18/09		Week ending 04/25/09		Week ending 05/02/09		Week ending 05/09/09	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Unemployment	0	0	1,500	1,500	0	0	1,500	1,500
Interest	0	0	7	8	0	0	0	0
Total Income	0	0	1,507	1,508	0	0	1,500	1,500
Rent	0	0	0	0	1,000	1,000	0	0
Utilities	175	155	75	70	0	0	95	105
Clothing	0	0	100	150	0	80	100	0
Total Expenses	175	155	175	220	1,000	1,080	195	105
Total income exceeds total exp			1,332	1,288			1,305	1,395
Total exp exceeds total income	175	155			1,000	1,080		
Accumulative Difference	-175	-155	1,157	1,133	157	53	1,462	1,448