

DOLLARS & SENSE GAZETTE

HOW TO CREATE A PERSONAL BUDGET



1. CALCULATE YOUR NET INCOME

- This is your salary minus monthly deductions such as health insurance premium or pension contribution.
- If your monthly salary varies then use the average of the past 6 to 12 months.
- Any other regular income should be included.
- Do not include irregular income.

2. CALCULATE YOUR FIXED EXPENSES

- This is a list of all your bills that are not expected to change by much each month.
- These include: rent, mortgage, car loan payments, insurance premiums, telephone and internet bills, etc.



3. ESTIMATE YOUR VARIABLE EXPENSES

- Variable expenses are those bills that fluctuate month to month.
- These include: entertainment, shopping, light and water bills.
- To estimate your variable expenses, calculate the past 12 months average of your variable bills.



4. TOTAL YOUR INCOME & EXPENSES

- Add your monthly fixed and variable expenses and subtract them from your net income.
- If you have more expenses than income, then you have a budget deficit. In this event you need to revisit your budget to see where you can cut cost.
- If you have more income than expenses, then you have a budget surplus. You can now start thinking about your finance goals.



5. CONSIDER YOUR GOALS

- Once you have a budget surplus, you need to identify short or long term goals that you are trying to achieve:
- Are you thinking of buying a house?
- Are you planning to open an investment account?
- Are you planning to build an emergency fund?
- Are you planning for your child's education?



6. MAKE A PLAN

- Now that you have identified a goal, how do you go about achieving it?
- For instance, suppose you plan on buying a \$9000 car. Saving \$300 per month could get you this car in 2.5 years. If this \$300 fits your budget you can set up an automatic saving with your bank.



7. ADJUST YOUR SPENDING TO STAY ON BUDGET

- Since you have documented your income and expenditure, you can make the necessary adjustment so you don't overspend.
- In the event that you have to cut back on expenses, focus on your "wants" as the first area to cut back on.
- For example: you can skip going to a fancy restaurant or party this week.



8. REVIEW YOUR BUDGET REGULARLY

- It is important that your budget is reviewed regularly to ensure that you are staying on track.
- Some parts of your budget may change.
- For example: your salary may increase, your expenses may change, or you have reached your goal and need to plan a new one.

