

Planning a Household Budget: Figuring out how much you spend

If you were running a business, you'd have to know how much money is coming into the business and how much is going out. You'd have to plan for all of the various costs that would not only keep the business afloat, but would make it profitable.

You might want to think about your family's money as if it were a little business. Planning a household budget is essential for getting yourself out of debt and for building your savings. A budget is an invaluable tool that will keep you on track to reach your financial goals. Don't just think about it—write down all your expenses and income so you understand exactly where your money is going. Keeping track of your household budget should be part of your daily routine, and it will help you make smarter decisions with your money.

Step 1: Compile information about all your expenses and income.

Start by listing the basic costs of running your household:

- Housing expenses (rent or mortgage)
- Insurance premiums (a homeowner's or renter's policy, health insurance costs, life or disability insurance, for example)
- Utilities (phone, electric, gas, cable, Internet service, wireless, etc.)
- Food (including the costs of any meals eaten outside the house)
- Clothing
- Home furnishings (painting, carpeting, furniture, etc.)
- Transportation (to and from work, your house of worship, whatever you spend on a weekly basis)
- Expenses associated with your children (if you have any), including school costs or daycare expenses
- Medical expenses (including any medical debts you might be paying off)
- Entertainment
- Household cleaning and maintenance expenses
- Savings (if you contribute to a retirement plan through work, or if you stash money into a savings account each week)
- Donations
- Other expenses you have
- Holiday expenses (Christmas club, or holiday donations)
- Vacation

Now, look at how much income your household generates. This may be only your take-home pay, but don't forget to record any tips or side jobs you have, as well as any investment earnings.

Step 2: Track your expenses and compare to your income.

A newspaper here and a cup of coffee there can really start to add up. Until you get your budget set and your spending under control, write down every dollar that goes out of your wallet. When you get cash, wrap a piece of paper on it with the amount, and then write down what you spend your money on every time you use it. Those little expenses may surprise you - and you'll probably be able to cut many of them out of your daily routine.

You probably pay a lot of your household expenses with your checkbook, so run through the checks you've written or sent online, and jot them down in a notebook or a file on your computer. If you have a pocket or purse full of receipts, be sure to add those in as well. Go online to check your credit card accounts, and write down all purchases you've made in the past few months.

If you track your expenses with money management software, such as Quicken or Microsoft Money, you'll be able to quickly get your hands on these numbers. If not, consider using free online services to track your household expenses, such as Quicken Online or Mint.com. You can download your credit card charges, cash expenses and bank information into your online accounts, which should update automatically. You can then check this information from anywhere as long as you have an Internet connection.

If you're spending more than you earn, it's time to start cutting costs. Here are some ways to cut back on what you spend:

- Food: Buy groceries instead of going out or ordering takeout; pack lunches for work; and, make coffee at home before you head out in the morning.
- Gas: Take public transportation or carpool with friends or co-workers; stack your errands so you use less gas on the weekends; keep your tires fully inflated; and, drive inside the speed limit.
- Entertainment: Host pot-luck dinners instead of going out; rent movies at your local library (it's free!) instead of seeing them in theatres; scour the free or low-cost events available in your area, such as free concerts and outdoor movies.

Step 3: Use your budget to boost your savings

A budget isn't just a spreadsheet into which you plug some numbers once a year. It's a tool to help you figure out how to afford all the things you want with the money you make.' It will help you make sure you save enough money this year to take the family on a summer getaway. A budget will help you plan for buying a new car next year, or pay to repair the car you have when the radiator or transmission blows.

When it comes to setting up a budget that works for you, you've got to be realistic and conservative. Instead of guessing that your energy bill will be \$200 per month, set your budget number at \$300 or even \$400 per month. The worst thing that will happen is you'll wind up with some extra cash at the end of the month, which you can put toward your savings.

Continue tracking your expenses for at least a year. Once you see how your expenses rise and fall over the year, you'll be able to get a real sense of how you live and spend your money. With a year's worth of expenses to compare to, you'll be able to make better-informed decisions about where to cut costs and how to achieve your financial goals.