

High fives to all of you who already have a personal budget!

If you don't have one yet, this section will show you:

- Why a budget is really important,
- How simple it is to set one up and
- How to automate it so it can run itself.

Why do you need a budget?

A personal budget is the foundation for taking control of your money and building wealth.

It shows how much money you have coming in and how much money you have going out. It lets you create a spending plan, so you always have enough money for the things you need (i.e. your day to day living expenses) and money to put away for your savings and investments.

A budget ensures that you don't spend money you don't have. When you prepare your budget properly, it forces you to take a close look at your spending habits. You'll probably notice you are spending money on things you don't need.

Let's face it, do you really need to buy take away coffee twice a day?

Do you really need another pair of shoes?

Do you really need to upgrade your car every two years?

Budgeting allows you to rethink your spending habits and refocus on your financial goals.

Let's not waste any more time and look now at a simple way to create your very own personal budget.

Three fundamentals of an effective budget

There are really only three basic elements of an effective personal budget.

Just do it

You can make your budget using a pen and paper, an Excel spreadsheet or a fancy-pants app. They're all good methods but the important thing is to do it.

Personally, I love Excel, but don't worry, I'll show you the key steps in preparing a budget that will work regardless of what medium you use.

Spend less than you earn

Spending less than you earn, a.k.a. living within your means, is an important money habit to have. The wider the difference between income and expenses (in a positive way of course), the more options you have to get rid of debt, save for an emergency fund, invest or increase your retirement funds.

Stick to it

It is very obvious that if you want to be successful at something, you need to persist and stick to it. There's no difference when it comes to being successful with your personal budget. The longer you stick to your budget, the higher the chances of success.

Creating a budget in six steps

To create a personal budget, follow the steps below. This is a traditional budget made using a pen and paper.

If you'd like a complimentary copy of the Sorted Budget Excel Spread Sheet, which contains the same information as the lists here with some cool formulas that automate frequency and totals, go to the Sorted website www.Sheridans.net.au/Sorted.

Creating a budget step 1: Work out your budget frequency

In this step, you need to set the frequency of your income and expenses for your budget. This is about how frequently your income or your bills come in. You can choose weekly, fortnightly or monthly. In the following steps you'll be listing your income and expenses using this frequency. Being consistent with the frequency makes it easier to use your budget.

Creating a budget step 2: Income

In this step, list all the money you have coming in on a regular basis. You can also include any once-off income like tax refunds that you're certain you'll get.

If you're casual or self-employed and you don't have regular income, use your average income based on your last 12 months.

If you are unsure about whether the money will come in, such as a bonus from work, don't enter it. If you receive it, treat it as a bonus and put it in your savings account.

| Income | Amount |
|--|--------|
| Your take home pay | \$ |
| Your partner's take home pay | \$ |
| Bonuses/overtime | \$ |
| Savings and investments income | \$ |
| Centrelink benefits - Pension/Allowances | \$ |
| Family benefit payments | \$ |
| Child support received | \$ |
| Rental income | \$ |
| Other income | \$ |
| Other investment | \$ |

Creating a budget step 3: Savings and investment

Ideally, set aside at least 10% of your income for savings and investment. However, if you have debts like a personal loan, a credit card or a car loan your focus should always be on paying those off first.

First, save money for your emergency fund. It's really important to have this.

In my case, I have three months of living expenses saved. I built it up over time adding to it when I could. It adds up. Putting aside

\$50 per week comes to \$2600 in a year. That's the cost of a basic second-hand car and definitely much cheaper than the payments on a car loan if you need to buy a car in a hurry.

I have to say it again: an emergency fund is really important. It could mean the difference between going on a waiting list at a public hospital and getting treatment right away. (Even if you have private health cover, there's a significant gap payment to consider.) See Chapter 2 Savings for more detail on emergency funds.

When you have enough money in your emergency fund, it's time to start putting that same amount of money away into other savings or investments, like shares or managed funds. See Chapter 3 Investing for more information.

| Savings and Investments | Description | Amount |
|-------------------------|---------------------------|--------|
| Savings | Emergency funds | \$ |
| Savings | Personal savings | \$ |
| Super | Personal contributions | \$ |
| Super | Salary sacrifice | \$ |
| Property | Home loan extra repayment | \$ |
| Other | | \$ |

Creating a budget step 4: Expenses

The money that's left over after paying into your emergency fund, savings or investment is what you have left to spend on expenses. To start with, it's important to get an idea of your current spending habits and financial commitments. To do this look at your bank and credit card statements for the last three months or so. Look at all of your key expenses and take note of the amounts and their frequency. The next task is to put them in one of the following three lists – fixed, variable or discretionary.

By the way, these lists of expenses are examples, feel free to personalise them and add any others if you need to.

1. Fixed expenses

These are regular bills and payments that can't be avoided.

Here's a list of the most common fixed expenses.

| Category | Description | Amount |
|--------------------|-----------------------------|--------|
| Car | Insurance | |
| Car | RAA membership | |
| Car | Driver's licence | |
| Car | Registration | |
| Children | School fees | |
| Children | Child care | |
| Children | Child support | |
| Financial | Income protection insurance | |
| Financial | Life insurance | |
| Financial | TPD insurance | |
| Health | Insurance | |
| Health | Ambulance membership | |
| Home | Rent | |
| Home | Contents insurance | |
| Home | Building insurance | |
| Home utilities | Gas | |
| Home utilities | Water | |
| Home utilities | Electricity | |
| IT & communication | Internet | |
| IT & communication | Phone contract 1 | |
| IT & communication | Phone contract 2 | |
| Personal loan | Loan 1 | |
| Personal loan | Loan 2 | |
| Rent | | |
| Property | Home mortgage | |
| Property | Investment mortgage | |

| Category | Description | Amount |
|-----------------------------|-------------------------------|--------|
| Property | Land tax | |
| Property | Body corporate fees | |
| Property | Council rates | |
| Property | Emergency services levy (ESL) | |
| Rental property – utilities | Gas | |
| Rental property – utilities | Water | |
| Rental property – utilities | Electricity | |
| Rental property – utilities | Emergency services levy (ESL) | |
| Rental property | Management fees | |
| Rental property | Landlord insurance | |
| Rental property | Building insurance | |
| Other | | |
| Other | | |
| Other | | |
| | | |

2. Variable expenses

These are also unavoidable expenses, but the amount varies from month to month, and you generally have some control over the amount you spend. A good example is your grocery expenses. You can choose to buy your food from the gourmet shop with fine products and higher prices or from your local supermarket, where the prices tend to be cheaper.

I also include a buffer just to be on the safe side. The amount of the buffer depends on your situation. A good estimate is 2% of the total amount of all your expenses – fixed, variable and discretionary.

Here is a list of the most common variable expenses.

| Category | Description | Amount |
|--|---------------------------|--------|
| Car #1 | Petrol | |
| Car #1 | Repairs/maintenance | |
| Car #2 | Petrol | |
| Car #2 | Repairs/maintenance | |
| Children | Baby products | |
| Children | Baby sitting | |
| Children | School needs | |
| Children | Toys | |
| Clothing | Purchases | |
| Clothing | Dry cleaning | |
| Clothing | Shoes and accessories | |
| Education | Seminars/Short courses | |
| Food/Supermarket | Butcher/ Fish shop | |
| Food/Supermarket | Cosmetics & toiletries | |
| Food/Supermarket | Fruit and veg shop | |
| Food/Supermarket | Groceries | |
| Medical | Dental | |
| Medical | Doctors | |
| Medical | Medication | |
| Personal Care | Hairdresser | |
| Personal Care | Massage/ Physio | |
| Personal Care | Gym and Sports membership | |
| Other | | |
| Other | | |
| Buffer (2% of all expenses- fixed, variable and discretionary) | | |
| | | |
| | | |

3. Discretionary expenses

This is money spent on non-essential purchases. These expenses are optional and will be the ones you cut back when you have a drop in income, or you need to save more money.

Here's a list of the most common discretionary expenses.

| Category | Description | Amount |
|--------------------------------------|--------------------------|--------|
| Car | Loan 1 | |
| Car | Loan 2 | |
| Books/news or magazine subscriptions | | |
| Entertainment | Dining | |
| Entertainment | Coffee & tea | |
| Entertainment | Take away & lunches | |
| Entertainment | Wine/beer/spirits | |
| Entertainment | Movies/concerts/ theatre | |
| Entertainment | Streaming services | |
| Entertainment | Hobbies | |
| Entertainment | Other | |
| Gifts | Christmas | |
| Gifts | Charity donations | |
| Gifts | Birthdays | |
| Gifts | Other | |
| Holidays | Annual holidays | |
| Holidays | Special holidays | |
| Property | Furniture & appliances | |
| Property | Home improvements | |
| Property | | |
| Other | | |
| Other | | |
| | | |