



# Making a Budget and Sticking to It



Do you cringe when you hear the word 'budget'? Sure, a budget involves a bit of work on your part, but the payoff is financial discipline and peace of mind. Once you get the hang of it, budgeting is easy and can mean a better financial future for yourself and your loved ones.

## *What is a budget?*

A budget is a written document that helps you take control of your personal finances. It is an excellent money management tool that can help you in any of the following situations:

- If you find that money is tight
- If you don't know where your money is going
- If you have problems paying off your debt
- If you don't save regularly
- If you want to find ways to make your dollar stretch further

A budget helps you see more clearly how much money you receive, and how much you spend and save. It helps you set spending limits and live within your means. It helps you find ways to get rid of your debt, reduce costs and have more money for things that are *really* important to you (your financial goals).

You can see what a budget looks like by turning to the page called *Budget Worksheet*. This document will help you fill out the *Budget Worksheet* and understand how to use it. More importantly, it will show you how to stick to your budget.

## *Before you start making a budget*

### THINK ABOUT YOUR GOALS

Before you start making a budget, take some time to think about your financial goals. Do you want to pay off your debt? Do you want to go on vacation or buy a specific item for yourself or someone else? Do you want to go back to school or send your kids to school?

### KEEP TRACK OF YOUR MONEY

Most people know how much money they make (income). But do you know where your money is going (expenses)? This exercise will help you achieve just that. Every dollar you spend has an impact on the overall picture.

Every day, for a month or two, keep track of everything you buy, from groceries to your daily cup of coffee. Keep a copy of bills you pay during that time, and write down what you buy in a notepad or keep your receipts. Doing this will help you understand your spending habits and make a budget.

## How to use the Budget Worksheet

Making a budget involves comparing the amount of money you think you will receive (your income), spend (your expenses) and save with the amount of money that you actually receive, spend and save over a fixed period of time. Your budget is balanced when your income equals or is greater than your expenses.

Step	How to Use the Budget Worksheet
<b>Step 1:</b> <b>List your previous income and expenses</b>	<p><b>FILL OUT COLUMN A (Previous Months).</b></p> <ul style="list-style-type: none"> <li>▶ Take out the recent pay stubs, bills and receipts you collected over the previous month(s).</li> <li>▶ Separate your income and expenses in the categories listed. For each category, if you have collected data for more than one month, take the average. Add any missing categories under 'Other' in each section.</li> </ul> <p><b>When you are done, review the figures and ask yourself:</b></p> <ul style="list-style-type: none"> <li>▶ Did I miss any income or expenses?</li> <li>▶ In the 'Mandatory Expenses (Needs)' and 'Other Expenses (Wants)' sections, are there any other categories missing to reflect my personal situation?</li> <li>▶ Are there categories in the 'Mandatory Expenses (Needs)' that fit better in the 'Other Expenses (Wants)', or vice-versa, to reflect my personal situation?</li> <li>▶ Was I able to save any money, or did I have to borrow (such as adding money to a credit card balance) to make ends meet?</li> </ul>
Step	How to Use the Budget Worksheet
<b>Step 2:</b> <b>Create a balanced budget</b>	<p>Creating a budget means looking at your past expenses and creating an improved version that reflects your financial goals. A balanced budget is when income exceeds expenses—that is, you are able to save a bit of money each month. This is the ideal scenario. Your budget is what will guide your spending in future months and help you save money.</p> <p><b>FILL OUT COLUMN B (Budget).</b></p> <ul style="list-style-type: none"> <li>▶ Use Column A to guide you, but adjust the figures as you go along, while you think of the following:             <ul style="list-style-type: none"> <li>– Do the figures in Column A reflect my expenses in <i>any</i> given month? If not, what would be a more realistic figure?</li> <li>– Are there any small, recurring expenses that I can cut?</li> <li>– Are there expenses in the 'Wants' categories that I can cut?</li> <li>– Do I want to add money to certain new spending categories that reflect my financial goals, such as saving for a vacation or creating an emergency fund?</li> </ul> </li> </ul> <p>Once you are done, take total income and deduct total expenses to find out how much money you will be able to save. Adjust your expenses where you can so that your monthly savings help you meet your goals for the future.</p>

Step	<i>How to Use the Budget Worksheet</i>
<b>Step 3: Use your budget each month</b>	<p><b>This is the most important step in the budget process.</b> Each month, limit your spending as much as possible to what was in your worksheet. Keep receipts, bills and lists of your income and expenses.</p> <p><b>FILL OUT COLUMN C (Actual Spending)</b> at the end of each month (you may want to make extra copies for this purpose) using the data you collected during the month.</p> <p><b>FILL OUT COLUMN D (Difference between Actual Spending and Budget).</b></p> <ul style="list-style-type: none"> <li>▶ To help you figure out whether your spending for the month was in line with your budget, fill out <b>Column D</b>.</li> <li>▶ Look at the results of Column D and ask yourself the following questions: <ul style="list-style-type: none"> <li>– Are the differences between my actual spending and my budget large or small?</li> <li>– In which categories are the differences the largest? Why? Is it because of an unusual situation or is this likely to happen each month?</li> <li>– Am I able to save enough money to reach my financial goals or to pay off my debt?</li> </ul> </li> </ul> <p>Continue with this exercise each month. Many people make this a regular habit at the end of each month.</p>

### *Learning to stick to your budget*

Learning to stick to a budget can seem difficult at first, but the more you use your budget, the easier it becomes.

#### EVALUATE YOUR BUDGET FROM TIME TO TIME

If you find that your actual spending varies a lot from your budget, you will have to re-adjust the figures in your budget to make it more realistic. In this case, go back to step 2 and reduce certain expenses or restrict your spending in certain categories.

If your actual spending varies only a little from your budget, you are on the right track.

If you are not saving enough or are not able pay off your debt, find other ways to cut down on expenses and adjust your budget accordingly.

**Keep up the good work!** If you can stick to your budget quite closely, you should find that your income covers your expenses and that you are saving enough for your financial goals.

### *For more information*

The Financial Consumer Agency of Canada (FCAC) provides timely, objective information to help consumers choose the best banking products and services for their needs. FCAC also informs Canadians of their rights and responsibilities when dealing with financial institutions and makes sure that banks and federally regulated trust, loan and insurance companies respect the laws and agreements that protect consumers.

You can call our toll-free Consumer Contact Centre at 1-866-461-3222, or visit our Web site at **[www.fcac.gc.ca](http://www.fcac.gc.ca)**. (Consumers with hearing problems can call our TTY number at 613-947-7771 or toll-free at 1-866-914-6097.)

This tip sheet is part of a series. To view FCAC's other tip sheets, please visit our Web site.

BUDGET WORKSHEET	COLUMN A Previous Months (\$)	COLUMN B Budget (\$)	COLUMN C Actual Spending (\$)	COLUMN D Difference (B - C) (\$)
<b>INCOME</b>				
Salary or benefits				
Income from investments (interest or dividends)				
Canada Child Tax Benefit (CCTB)				
Other				
<b>TOTAL INCOME</b>				
<b>MANDATORY EXPENSES (NEEDS)</b>				
<b>HOME</b>				
Rent or mortgage payment				
Property taxes/condo fees				
Home insurance				
Utilities (such as electricity, water, cable or telephone)				
Repairs and maintenance				
<b>CAR</b>				
Car loan payment				
Car repairs, gas, etc.				
Car insurance/registration, etc.				
<b>LIFE</b>				
Public transportation				
Groceries				
Child care				
Medical and dental				
Outstanding loan payments				
Basic clothing				
Life, disability and medical insurance				
Emergency fund				
Other				
<b>OTHER EXPENSES (WANTS)</b>				
Restaurants and entertainment				
Clothing (extra)				
Hair care				
Gifts				
Vacations				
Other				
<b>TOTAL EXPENSES</b>				
<b>SAVINGS TO REACH GOALS</b> (Total income minus total expenses)				