

# Gail's Guide to Building a Budget

Okay Toadies, it's time to get with the program.

Over and over again people tell me they don't know how to make a budget. It doesn't matter how many articles they read, how many worksheets they download off the net, how many times they try they just can't do it.

Once I started doing the show Til Debt Do Us Part and introduced the magic jars, people headed out to buy their own. But they still couldn't figure out how much money to put in the bloody things.

So I've created a step-by-step plan for all those who wish it to follow. Using this plan and the ***Gail's Interactive Budget Worksheet***, you can build a budget that will not only tell you how you're doing, but also how much to stick in the jars if you've decided to live on cash.

Okay, here we go.

1. On the budget worksheet, fill in all the amounts under income. You'll need your "gross" income and your "net" income.

If you make \$60,000 a year gross, you would enter  $60,000/12$  (which is \$60,000 divided by 12.)

Ditto your monthly net income.

Careful now, if you're paid on any other schedule you have to use your lowest monthly income as your base, and use any extra money you receive to boost your planned spending (for things like furniture acquisitions, vacations, and the like).

2. Enter any other sources of income you may have. You must use "monthly" amounts. So if you average \$6,000 in annual child support received, you would enter \$500 for your

monthly amount. If you receive income that is irregular – think annual bonus – do not enter it under income. Why? Well, if you bank on getting it and you don't you'll be SOL. Better to use that money for things like gifts, vacations, and other extras, things you don't HAVE to pay for if the bonus doesn't materialize.

3. Now it's time for the fixed expenses. Get out your last bank statement(s). Based on what you spent last month, fill in the fixed expenses. Don't worry if the numbers seem high at first, just put in what you spent last month, based on what went out of your bank account.
4. We're going to skip down to Saving now. Yep, you have to save. Don't bother arguing, you HAVE to save. I want you to divide your monthly income by 100 and multiply your answer by 5. There, that's 5% and is the minimum you should be saving. Ultimately, you need to save 10%, but let's start with 5% and work from there. Under "emergency" enter \$100.
5. Next we'll do debt repayment. Add up your monthly debt repayment amounts. Include what you're spending to repay everything except your mortgage and your car loan/lease. Put it under "debt repayment." (See the article ***How Much is Your Debt Costing You?***)
6. You're doing great. Now look at the bottom line on the budget – the line that says, "income – expenses." What do you have left? Whatever it is that's what you have to work with to budget for your variable expenses. Yup. That's it. Go ahead and divvy up the money in the various categories under Variable Expenses. If you find you're left with \$20 a month for groceries and you know that just won't do, then you have two choices:
  - a) You can go back and cut expenses. Yup, even up in fixed expenses you can find places to cut like cell phone or cable.
  - b) You can make more money. Work harder, work smarter. Get a second job, a third job, a better job.

That's your budget.

Two more things:

1. You'll see that the budget automatically calculated how much must go into each of your jars each week/month if you plan to live on cash.
2. You'll also see your percentages automatically calculated. The financial rule of thumb says you shouldn't spend more than 35% of your net income on housing. (That includes mortgage/rent, condo fees/maintenance, property tax and utilities.) If you're spending more than 35%, either you can look for ways to cut back on your housing costs, you can make more money, or you can trim in other areas (like transportation) so you end up balancing at the bottom line.

It's your money. You can do anything you want with it EXCEPT spend more than you make.

Okay, now that you have a budget, you have no excuses. Get out of debt. Live within your means. Make me proud.