The IRSC Center For Financial Literacy (IRSC CFFL)

What are the steps to create a successful budget?

The budgeting process comprises seven steps as follows:

1) Set Financial Goals

Examine your current situation and determine your needs and wants. Set a target or financial goal for future activities. An example of a financial goal is to start an emergency fund of $2,000.

2) Estimate Income

Estimate income coming in for a given period of time like a month. You can do this by creating a list of money that you will surely receive during a month.

For example:

Salary from Job 1	$2,300
Other income	200
Total Income	$2,500

3) Budget an emergency fund and savings

An emergency fund is money set aside that will cover living expenses in a period of three months or six months in case of an unforeseen financial difficulty. This amount depends on an individual's personal situation.

4) Budget fixed expenses

List your fixed expenses per month. Fixed expenses are recurring expenses that are the same for each month.

For example:

Rent	$800
Cable	$150
Auto loan	$300

5) Budget variable expenses

List the expenses that you incur that vary each month. Variable expenses are incurred every month but the amount may vary depending on life situation. For example, if you are planning for a party or get together during a specific month, then your food expense may vary. A certain percentage of income may be used to estimate variable expenses.

(Kapoor, Dlabay, Hughes, and Hart, 2017)

For example:

Food:	15% of income
Utilities:	5% of income
Transportation:	5% of income
Entertainment:	5% of income
Miscellaneous:	3% of income

6) Record spending amounts

List your actual income and expenses against your budgeted amount and compare. The difference between the budgeted amount and actual amount is called the variance. If your budgeted amount is greater than the actual amount, you have a budget surplus. If your actual amount of spending is greater than your budgeted amount, then you have a budget deficit.

For example:

Budget Item	Budgeted Amount	Actual Amount	Variance
Income	$2,500	$2,500	0
Less Expenses			
Fixed expenses			
Rent	$800	$800	0
Cable	150	150	0
Auto loan	200	200	0
Total fixed expenses	$1,150	$1,150	0
Variable expenses			
Food	375	400	25
Utilities	125	150	-25
Clothing	200	100	100
Transportation	200	180	20
Entertainment	100	125	-25
Miscellaneous	150	100	50
Total variable expenses	$1,150	$1,055	$95
Total Expenses	$2,300	$2,205	$95
Income less Total Expenses	$200	$295	$95

This example shows the household income, fixed expenses, and variable expenses. It also shows that the budgeted amount of income less total expenses is $200 while actual amount of income less total expenses is $295. There is a variance of $95 which represents a surplus or savings of $95 for the month.

(Kapoor, Dlabay, Hughes, and Hart, 2017)

7) Review spending and saving patterns

Budgeting is an ongoing process that is improved with review and revision. Review the budget items where you overspent or underspent and make the necessary adjustments. For example, in items where you have a variance each month, you can move the variance to an item where you consistently have a deficit. You may also revise your goals as you adjust your budget allocations.

(Kapoor, Dlabay, Hughes, and Hart, 2017)