

MAKING A BUDGET

The following information has been modified for Food Families. Much of the information comes from the Financial Consumer Agency of Canada. For more information, visit:

<http://www.fcac-acfc.gc.ca>

WHAT IS A BUDGET?

A budget is a written document or electronic file that helps you take control of your personal finances. It is:

- A way to keep track of your money
- A summary of income (how much money comes in) and expenses (how much money goes out over a certain period of time)
- A tool that tells you how much money you have, how much you need, and what you spend your money on
- A plan to help you manage your money and plan for the future

It is an excellent money management tool that helps you achieve your financial goals. It is especially important IF:

- You know money is tight
- You don't know where your money is going
- You have problems paying off your debt
- You don't save regularly
- 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 debts, reduce costs, and have more money for things that are really important to you.

WHY SHOULD YOU BUDGET?

- To be more aware of what you spend your money on
- To find areas where you can spend less and save money
- To take control of your finances and feel more confident
- To pay bills on time and avoid late fees
- To reduce your stress around money
- To reduce or pay off your debt
- To have more money to spend on things that are important to you



BEFORE YOU START MAKING A BUDGET

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 budgeting exercise will help you achieve exactly 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 regular 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.

SOURCES OF INCOME

There are a number of potential sources of income that you may need to consider as you put together your budget. Your income can change over the years, so it is helpful to have a sense for what to consider. Here are some potential income sources:

- Salary – Hourly wages earned working a job
- Commission – Additional money earned, typically through sales roles
- Contract income – Fees for services, self-employment, could be paid in cash
- Bonus – An employee may get a gift of money at Christmas
- Child Support/Alimony – Money received from a former spouse or partner
- Social Assistance – Money received through government agencies
- HST Refund – Periodic sales tax refunds
- Child Tax Benefits – Federal or Provincial money given to support your dependent children
- CPP Pension Income – Retirement pension money

SOURCES OF EXPENSES

Many of these expenses occur on a monthly basis, but others need to be considered every other month or every quarter:

- Mortgage payment/rent
- Property taxes
- Property insurance
- Electricity
- Heating/Gas
- Water
- Phone – data plans
- Internet



- Cable
- Home repairs
- Car loan/payment
- Car – gas
- Car – service, maintenance
- Bus pass/tickets
- Groceries – food and toiletries
- Entertainment – movies, restaurants, hobbies, coffee
- Club memberships
- Clothing
- School fees
- Sports fees
- Banking fees
- Prescriptions
- Hair expenses
- Gifts – birthdays, Christmas
- Loan repayment – credit card debt
- Furniture and electronics
- Donations
- Dental
- Pet expenses – food, toys, license, vet
- Miscellaneous

As you consider your expenses, begin to think about which expenses are “fixed” (cost the same each month and don’t change very often – Netflix, rent, phone) and which are “variable” (items that do change in cost from month to month – groceries, Tim Hortons)

HOW TO USE THE BUDGET WORKSHEET

Step 1: List Your Previous Income And Expenses

Fill out column A (Previous Months)

- Take out the recent pay stubs, bills, and receipts you collected over the previous month(s)
- Separate your income and expenses into the categories listed. For each category, if you have collected data for more than one month, take the average. Add any missing categories under the “Other” section.



When you are done, review the figures and ask yourself:

- Did I miss any income or expenses?
- In the “Basic Expenses” and “Other Expenses” sections, are there any other categories missing to reflect my personal situation?
- Are there categories in the “Basic Expenses” that fit better in the “Other Expenses,” or vice-versa, to reflect my personal situation?
- Did I have to borrow money (adding money to a credit card, from a friend) to make ends meet?

Step 2: Create A Balanced Budget

Creating a budget means looking at your past expenses and creating an improved version that reflects your goals. In a balanced budget, your income does not exceed your expenses. Your budget is what will guide your spending in future months and help you not exceed your expenses.

Fill out column B (Budget)

- Use column A to guide you, but adjust the figures as you go along, while you think of the following:
 - Do the figures in column A reflect my expenses in any given month? If not, what would be a more realistic figure?
 - Are there any small, recurring expenses that I can cut?
 - Are there any expenses in the “Other Expenses” category that I can cut?

Once you are done, take the total income and deduct the total expenses to find out how much money you will have available (if any). Adjust your expenses, where possible, to make sure they do not go higher than your income for any given month.

Step 3: Use Your Budget Each Month

This is the most important step in the budgeting process. Each month, try and limit your expenses as much as possible to what was in your worksheet. Keep receipts, bills, and lists of your income and expenses.

Fill out column C (Actual Spending) during the month or at the end of each month.

Fill out column D to find the difference between your actual spending and your budget.

Look at the results of column D and ask yourself the following questions:

- Are there differences between my actual spending and my budget, large or small?
- In which categories are the differences the largest? Why? Is it because of an unusual situation or is this likely to happen each month?



BUDGET WORKSHEET (EXAMPLE)

| Budget Item | Column A (Previous Month) | Column B (Budget) | Column C (Actual Spending) | Column D (B – C = \$) |
|--------------------------|---------------------------------|----------------------|----------------------------------|--------------------------|
| INCOME | | | | |
| Salary or benefits | | \$878.00 | | |
| Child Tax Benefit | | \$365.00 | | |
| Other | | | | |
| TOTAL INCOME | | \$1243.00 | | |
| BASIC EXPENSES | | | | |
| HOME | | | | |
| Rent or mortgage | | \$350.00 | | |
| Property tax/Condo fee | | | | |
| Home insurance | | | | |
| Utilities (hydro, gas) | | \$150.00 | | |
| Cable | | | | |
| Phone | | \$60.00 | | |
| Repairs | | | | |
| TRANSPORTATION | | | | |
| Public transportation | | \$81.00 | | |
| Car loan/lease | | | | |
| Car repairs, gas | | | | |
| Car insurance/license | | | | |
| LIVING EXPENSES | | | | |
| Groceries | | \$320.00 | | |
| Child care | | | | |
| Medical/dental | | \$17.00 | | |
| Loan payments | | \$100.00 | | |
| Basic clothing | | \$25.00 | | |
| Life, medical insurance | | | | |
| Emergency fund | | \$50.00 | | |
| Hair | | \$20.00 | | |
| Other | | | | |
| OTHER EXPENSES | | | | |
| Restaurant/Entertainment | | \$60.00 | | |
| Clothing (extra) | | | | |
| Gifts | | | | |
| Other | | | | |
| TOTAL EXPENSES | | 1233.00 | | |
| INCOME – EXPENSES | | \$10.00 | | |



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 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 some expenses or restrict your spending in some categories.

If your actual spending varies only a little from your budget, you are on the right track. If you are not able to pay off your debts, continue to try and find other ways to reduce your expenses and adjust your budget accordingly.

Keep up the good work! Budgeting is not easy work to do, so don't forget to access helpful community resources when and if you need them.



BUDGET WORKSHEET (TRY YOUR OWN)

| Budget Item | Column A (Previous Month) | Column B (Budget) | Column C (Actual Spending) | Column D (B – C = \$) |
|--------------------------|------------------------------|----------------------|-------------------------------|--------------------------|
| INCOME | | | | |
| Salary or benefits | | | | |
| Child Tax Benefit | | | | |
| Other | | | | |
| TOTAL INCOME | | | | |
| BASIC EXPENSES | | | | |
| HOME | | | | |
| Rent or mortgage | | | | |
| Property tax/Condo fee | | | | |
| Home insurance | | | | |
| Utilities (hydro, gas) | | | | |
| Cable | | | | |
| Phone | | | | |
| Repairs | | | | |
| TRANSPORTATION | | | | |
| Public transportation | | | | |
| Car loan/lease | | | | |
| Car repairs, gas | | | | |
| Car insurance/license | | | | |
| LIVING EXPENSES | | | | |
| Groceries | | | | |
| Child care | | | | |
| Medical/dental | | | | |
| Loan payments | | | | |
| Basic clothing | | | | |
| Life, medical insurance | | | | |
| Emergency fund | | | | |
| Hair | | | | |
| Other | | | | |
| OTHER EXPENSES | | | | |
| Restaurant/Entertainment | | | | |
| Clothing (extra) | | | | |
| Gifts | | | | |
| Other | | | | |
| TOTAL EXPENSES | | | | |
| INCOME – EXPENSES | | | | |



WHICH BUDGETING STYLE IS RIGHT FOR YOU?

Creating a budget is an important step to take to reduce the chances of spending more than you bring in each month. Not every person can work within the same approach. You will want to choose a budgeting style that works for you and fits your preferences.

Here are three basic budgeting styles you will want to consider.

Category Budget

The category budget is the basic budget. With this style, you decide upon a maximum amount you can spend in each category of items, which may include groceries, debt, hydro, and other expenses.

You can keep track of these categories and your actual spending either on paper, on a phone app, or on the computer.

Cash-Envelope System

A popular approach to budgeting is the cash-envelope system. With this system, you take cash out of your bank account monthly and keep the money in envelopes designated for each category. When you run out of cash in that envelope, you are done spending in that category for the month.

For example, you might decide that you are going to have \$30 in an “entertainment” envelope. This could include coffee at Tim Hortons, a Tuesday movie, or lunch out with a friend. As you get your income for the month, you place the \$30 in your “entertainment” envelope and only use that money to pay for items or events that fit within that category. This method is helpful, as you have a very visual reminder for how much money is available and you can keep track of it until the end of the month.

The cash-envelope system is ideal for those who have a difficult time paying attention to what they are spending. The system forces you to think about the money you spend each day, each week, and each month.

You may not need to use envelopes for the fixed expenses like rent, or other automatic payments.



Zero-Based Budgeting

Zero-based budgeting helps you plan ahead for expenses before they occur. This way, you prepare for what's coming instead of always reacting to expenses as they arise.

When choosing this method, you need to look ahead to your future income, including when you expect to receive it. For example, if you receive a pay cheque every two weeks, you'll consider in advance how you might use the money from each pay over the two-week period before you receive the next one.

Give each dollar received in that timeframe a job to do. For instance, one dollar might be set aside for Christmas gifts while others are used to pay off debt, buy groceries, or pay bills.

This type of budget is ideal if you are serious about ensuring that each dollar has a purpose, and that the purpose matches your priorities in life. It's also possible to put even a few dollars aside for an emergency fund.

Remember

Whichever budgeting option you choose, remember that you can always tweak your budget later, combine styles, or change styles completely as your financial needs change.

LIVING ON A BUDGET

Managing money and making ends meet when your income is lower can take careful consideration and organization. Here are a few ideas to consider as you move forward.

Work Out Your Budget

The first step to taking control of your money is working out your living costs, including knowing what's coming in and what's going out. Take the information you have learned during this session and complete a budget for you and your family. Making a budget will provide you with a clear picture of where your money goes, shows you where you might have a chance to save money, and will help you see whether you are living within your means.

Look At Ways To Cut Costs

It can be really difficult to change how much money you have coming in, but you have much more control over what goes out.



This is a very personal exercise and will depend highly on what you see as a priority for you and your situation. By incorporating the couponing, meal planning, and price matching concepts you learned earlier in the Food Families program, you should be able to decrease the cost of your groceries while still being able to eat in a healthy way.

Look at how much you are spending on other variable expenses and decide if there is room to scale back. Ask others for advice on what seems to be working for them and their budget.

Claim All The Benefits You Are Entitled To

You may need to do some online research and/or connect with friends or connections in the community, but be sure to begin asking questions about benefits or one-off opportunities that may help you deal with a particular set of circumstances (i.e. hydro costs from the cold weather).

