

# How to Create a Household Budget

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Many people say, "I need to get on a budget!" But when it comes down to it, they don't know how to do it. It can be really hard to change the way you spend money. It's as difficult (and sometimes more difficult) than changing your diet.

But the benefits of budgeting far outweigh the difficulties. And if you know what you're doing, it's really not too hard to make a budget and stick to it. Many people make the mistake of giving up before they've really gotten started.

In this guide you'll learn how to create a household budget that will work for your family. If you follow along, you'll see it's not as hard as you think. Let's first take a look at the importance of budgeting and why you should spend the effort.

## **Why Make a Budget?**

While common sense might tell you that budgeting is a good idea, you may need a few reasons to help you get motivated. Budgeting is one of those things that isn't always fun at first, but you'll enjoy it when you start to reap the rewards.

Budgeting will allow you to have more financial security. Do you get a pit in your stomach every time you see the stack of bills sitting the mailbox? Are you always wondering how you're going to make it to the next paycheck?

Peace of mind is one of the greatest benefits of budgeting. Instead of wondering where your next dollar is going to come from, you can relax. When you're living within your means and you put a little money aside each time you get paid, it doesn't take long to be able to breathe easier.

Having money in savings can not only give you peace of mind, but it can truly protect you if you get in a situation when money gets even tighter. For example, when a layoff comes to someone in your family, having money in savings will protect you from losing everything.

Making a budget also helps you to prepare ahead of time for expenditures. Instead of just spending without thinking, having a budget gives you a reference for making decisions about your finances.

If you're like most people, you just spend money if you have it instead of thoughtfully considering each purchase. Budgeting helps you to understand the difference between the things you need and things you want.

Unless you have unlimited funds (and that's probably not the case since you're reading this), creating and living by a budget makes sense. If you're in a lot of debt, it really makes sense to stick to a budget and try to get out of it.

### **The Debt Danger**

Being in debt is one of the most difficult situations to escape from. Debt can make you feel enslaved to a corporation that doesn't care about whether you have children to feed, a roof over your head, or a job.

It's easy to get into debt – even if you're making great money. In fact, people who make a lot of money are often in debt up to their eyeballs to keep up with other affluent friends. But being in debt means you don't really “own” anything and puts you in danger of major financial woes.

Imagine making a six-figure salary and charging lavish items on credit cards. While you might be able to keep up with the payments as long as you have a job, what happens if you lose it? You might be thinking that it won't happen to you, but it can happen to anyone.

Before you know it you're not able to pay credit cards, car notes, or even your mortgage. It might not have seemed unreasonable to get into the

debt when your income was good, but when you lose your income it can be financially tragic.

When you don't buy items you can't afford, you're protected from the danger of losing everything to debt. There's strength and confidence in being able to pay cash for your purchases. Ultimately, that will be your goal in creating a household budget.

### **Common Budgeting Pitfalls**

You may have tried to budget before but not have had success. That could be because you haven't really gone about it the right way for you. Some of the common budgeting mistakes people make are:

- Not making a budget that's realistic for your family
- Making a budget, but not committing to it
- Not communicating with your spouse and/or children about the budget
- Disagreeing on what expenses are necessary
- Misidentifying needs versus wants
- Being inconsistent with financial habits

While budgeting can be challenging, it's not impossible. When you have a budget, you need to be realistic about your own family and have good communication. In this guide you'll learn how to do that – it doesn't always come naturally to people.

You'll also need to be committed to following through with your budget. Setting some goals can help you to have motivation and to see your success. Don't worry – we'll cover all of that here as you continue reading.

### **Money Is Emotional**

While talking about money seems to be pretty objective and about dollars and cents, in actuality it's quite emotional. You may have many feelings surrounding your financial situation. Some of those are good and some can be very bad.

It's important to separate your value as a human being from your financial value. Everyone makes mistakes and has difficult challenges. If yours happen to be financial, you can sometimes feel desperate, humiliated, and embarrassed.

You'll need to try to let go of those feelings so that you can look at things more objectively. It will feel really good to get in control of your funds. And if you've made financial mistakes or are experiencing hard times, you should feel proud that you're ready to face things.

### **Getting on the Same Page with Your Spouse**

Finances can be tough for couples to discuss and manage. If you're in a relationship where you share the same household or if you're planning to in the near future, you need to learn to communicate about money.

This can be a major challenge for any couple. Set some guidelines about being open when discussing money. You'll also need to make sure not to make things personal. You may have very different ideas on how to spend money – in fact you *probably* do.

Try not to make personal attacks when you disagree about money. If you find that you're getting in a heated discussion, it might be best to take a break and cool off before continuing. Working through financial issues is tough, but necessary if you're going to have good financial health.

You may want to look for some resources to help you communicate about money as a couple. A financial counselor can be beneficial if you need an objective ear. You may also want to look at books designed to help couples get on the same page about money.

### **Step 1: Know Where You Are**

The first thing you need to do before you even think about creating a new budget is to determine how you spend your money now. So, the first step is to just keep track of what you're spending. This is going to take cooperation between all the family members.

For at least one month, you need to write down every penny that you spend. You also need to keep track of how much money is coming in. To do this, you'll need to be as specific as possible so that you can get a true idea of your finances.

For example, it's not enough to write down that you spent \$53.45 at the grocery store. You need to hang on to that receipt so that you know what you bought at the store. This will be important later when you're looking at where you can trim your expenses.

The simplest way to keep track is to get a spiral notebook and a large envelope. For the next month you'll write down any money that comes in on the first two pages. For most people, income doesn't take two whole pages, but you might want to leave some extra space.

In most households, paychecks come at regular intervals and at most you get paid once a week. However, there are professions where money comes in sporadically and even daily. Just make sure you leave room for all the income you receive.

On the following pages, you'll write down any money you spend. This includes purchases made on credit cards and debit cards as well as cash. If you spend one penny, it needs to be written down in the notebook.

You might want to keep a smaller notebook in your purse or car to help you keep track of spending when you're on the go. Then come home and record it in the main spiral that the entire family is using.

For every purchase you make, you need to ask for a receipt. Place all of the receipts in the envelope so that you can have them to reference later. This might be difficult to remember, but it's really the most critical step.

By the end of the month, this will come more naturally. And you'll need to continue this habit for a while so that you can get control over what you're spending and be aware. Awareness is really the first step.

Believe it or not, most people have no idea how much money they really have coming in and how much is going out. You can't have a realistic budget if you don't know what's happening with your money.

## **Step 2: A Critical Look at Your Finances**

You've been tracking your spending for a month. Now it's time to examine it closely. This can take a few hours, so make sure you set aside a good amount of time to do this. If you have a spouse, this process is best done together.

First you need to go through your income and total up what you brought in. This is a number that you need to pay close attention to. You'll want to make sure that from now on you stay within this number with your expenditures.

Next, you need to begin categorizing the money that's going out. There are several categories that expenses generally fall into. For example:

- Housing
- Savings
- Utilities
- Insurance
- Donations
- Debt Payments
- Transportation
- Clothing
- Expenses for school

- Expenses for work
- Medical expenses (prescriptions, co-payments, etc)
- Food – groceries
- Food – eating out (this includes those trips to the coffee shop)
- Entertainment
- Other – depending on your family there could be some extra categories

Getting your spending divided into categories will help you to make decisions about necessary expenses versus those that can be cut out. Now that you have the big picture, it's time to make some tough decisions.

### **Step 3: Trim the Fat or Increase Income**

Looking at your budget, it's possible that your expenses outweigh your income. This is especially true if you have a lot of debt payments. You'll need to either trim expenses or bring in more money. Which you choose will depend a lot upon your expenses.

Now it's time to make the hard choices. You'll need to get out those receipts now. Go through every item that you've purchased and decide what purchases you needed and what purchases were really luxury items.

It can be hard to be honest about your expenses, but it's time to really take hard look at it and make sure you're being realistic about needs versus wants. Take a look at some examples of things you could probably trim:

- Fast food
- Eating out
- Salon services – hair, manicures, pedicures, etc.
- Expensive café drinks

- Magazines
- Entertainment- movies, shows, etc.
- Clothing purchases
- Travel

This doesn't mean that you have to throw out the baby with the bathwater. You don't have to eliminate every single luxury item. However, if you're spending more money than you make or charging items on credit cards, you need to trim those expenses.

For example, if you go out to eat several times a week, try to eliminate one of those trips. Or limit yourself to eating out once a week. If you get your nails done every week, try alternating weeks.

If you try to eliminate all the luxuries from your life, you may find that you end up going on a spending binge later. Instead, try to be realistic about what you can live with if you have some wiggle room in your budget.

There are a few things you need to think about when you're trying to reconcile your income versus expenses. Here's how to know if you need to make changes or if you're doing okay. Most people have an area where they can improve.

### **If You Have to Charge It, You Can't Afford It**

Your first goal should be to stop charging on credit cards. If you can't afford something, you need to try to eliminate that expense from your life. This may not happen overnight, but over time you need to get those expenses.

Credit cards can really be a trap. You see something you want, but you don't have money in the bank to buy it. So you reach for that little card that has some room on it and have the instant gratification that you crave.



It feels great – until the bill arrives in the mail or your inbox. And while it seemed like a good idea at the time, credit card debt is one of the worst things that can happen to your finances. Unless you pay off your balance each month, you're going to be paying a lot more than retail for the items you charge.

It's easy to justify credit card debt, but try not to. Remember that if you can't afford an item with cash or what's in your bank account, you can't afford it period. Resist the urge to charge items.

Instead of increasing your debt, you need to be working to get beyond paying the minimum payments on your credit cards. Paying only the minimums can keep you in debt forever – and the interest will often be more than the original purchase.

### **Ability to Save**

Even if your expenses don't outweigh your income, you need to look at how much you're able to put into savings. You should be saving at least ten percent of your income and if you can't do that, it's time to trim expenses.

If you're already saving that amount, you might want to increase the percentage. The more money you have to save and invest, the more secure you'll feel now and in the future. As you're looking at where to trim expenses focus on putting more in savings.

### **Still Stretched Too Thin**

It's possible that you're cutting all the extras and still can't make ends meet. This is especially true if you've recently undergone a major life change such as a layoff or divorce. Understandably, you may be feeling desperate at this point.

If this is happening in our life, you may have to take on a second job to increase your income. You may also want to consider finding a way to get some extra education and training to help you increase your future income.

Here are a few other ways you might be able to make your dollars stretch further or bring in more income:

- Get a roommate or rent out a room in your home
- Take a second job
- Look for financial aid for training
- Talk with family members about temporary help
- Save on groceries by using coupons and shopping sales
- Take advantage of yard sales and thrift stores for needed items
- Sell items you own that may have value
- Downsize your living situation
- Think about your talents and skills and decide if you can charge for them – for example sewing and mending clothes, art, photography, handyman services, computer repair, yard work, and cleaning

It's important to remember that, while the economy is bad right now it won't last forever. Making sacrifices now will allow you to have a greater ability to manage your finances when things start to improve.

#### **Step 4: Realize What You Should be Spending**

When it comes down to it, you may not know what you should be spending on items. It's hard to make a realistic budget if you don't have a good knowledge of how your money ought to be distributed ideally. Here's a breakdown of where your money should go:

Savings	10%
Housing	30%
Transportation	15%

Food	15%
Debt Payments	10%
Other	20%

These are maximums. So, if you spend less than 30% on housing, you can take that money and put it toward debt payments or increase your savings. Look at the percentages of where you spend your money. Do they match up? If not, it's time to reallocate your funds.

Make a plan using your income and expenses to make things match up a little more closely to this distribution. Then make a chart of how much should be spent each month in each category. You should post this prominently in your home.

This will be your new household budget. You'll also want to post how much debt you have and make a plan to pay it off as soon as possible. In the next section you'll read ideas about how you can do that.

### **Step 5: Make a Plan to Pay Your Debt**

If you don't have debt, you can skip this section. However, most readers are going to find that this is an important part of the plan. If you have credit card debt, student loans, car payments, or any other type of loan payment it's time to chip away at the debt and become free.

Get out all of your credit card bills and look at your payments. Put them in order of smallest total balance to largest balance. Then look at the minimum payments for each. Rather than trying to pay more than the minimum on each card, focus on paying them off one at a time.

Start with the one that has the smallest balance. For all the other cards only pay the minimum payment (and stop using them!). Then, for the card that has the smallest balance take any extra income you can and put it toward that card until it's paid off.

Once that one's paid off, move on to the next lowest balance. When that one is paid off, go on to the next one. Continue doing this until they're paid off. It may seem like a process that's difficult and never ending, but once you pay off that first card, you'll feel a little extra motivation.

### **Step 6: Continue to Track Spending**

You know what you have coming in, going out, and you have a plan to pay off debt. Now you need to continue to track your spending. This will help you to stay accountable for sticking with your plan.

Many people make a budget, but then stop paying as close attention to spending and earnings. To have success, you'll need to continue writing down every penny so that you don't get out of control with your spending.

Writing down your purchases will help you to be more mindful of them. It will give you a moment to think about whether or not a purchase is totally necessary or if it's within your budget plan.

### **Step 7: Plan for Your Future**

It's hard to plan for your future until you're out of debt. Once you're credit cards and other debts are paid off, you need to focus your efforts on saving for the future. This doesn't include your mortgage- although it's a good idea to put more and more money toward it to pay it off early.

At this point you'll want to increase the amount of money you're putting savings and begin to think about investing in your retirement and education funds for your children. For this step, you'll want to contact a financial planner.

A financial planner can help you determine what investments are good for you and your family. Don't just go with the first person you meet. Meet with a few financial planners to compare what they offer for you. With information in hand, you can choose one that seems the best for you.

## **Including Kids in Your Budget Planning**

The earlier your children begin learning about money, the better. The habits they set up now are the ones they'll carry throughout their lifetime. So it's important to include them in on this process.

You may want to sit down with everything first on your own and even make a poster of how much is coming in and going out before you share the process with your kids. But once you understand the big picture, you can talk to them about what you need to do.

Let your kids help you to eliminate expenditures that are unnecessary – no doubt some of those purchases are for them. When it comes to buying toys and extra things that they want, it's a good idea to start an allowance so they can begin understanding how to earn money and budget for themselves.

A good rule of thumb is for allowance to be one dollar for every year of a child's life. You can distribute it weekly or every two weeks. It's important that your child has to earn that money, though, by doing some chores.

They don't have to be major chores and they should be age appropriate. Then help them to set up a container for savings and spending. You may even want to have a jar for donations to teach children about sharing what they have at an early age.

As children, they can save more than you probably can as an adult. You might want to start with saving 20% of their income. Make sure to help them figure out how much that is and let them place it into the containers.

Then when they want to purchase something, you can help them figure out how long it will take to earn the money. Once they have a good amount in their savings jar, you can take them to open up a bank account so they can become familiar with the banking system.

Discussing finances openly with your children will also help them to understand why they can't always have what they want. Instead of

saying, "We're too poor for that," you can explain that the purchase isn't in the family budget.

Having the family budget out where everyone can see it can help kids to be part of the financial team. If you want to take a family vacation, it can be written on the poster and the kids can be taught that they have to give up some wants in order to save for something even better.

Many people try to keep financial information away from their children for fear that they will then worry. But children need to learn about finances early so that when they become adults it's not a shock to manage their own money.

You'll really be setting your child up for future financial success. Many people make financial mistakes because they aren't educated about money or they have spending habits that began as a child. People have emotions surrounding money that began in their childhood and continue on into adulthood. Educating your children now is a great gift for them.



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