



518-831-9145

Accounting and Budgets

1. Budgets are a necessary evil.

They're the only practical way to get a grip on your spending -- and to make sure your money is being used the way you want it to be used.

2. Creating a budget generally requires three steps.

- Identify how you're spending money now

- Evaluate your current spending and set goals that take into account your long-term financial objectives

- Track your spending to make sure it stays within those guidelines.

3. Use software to save grief.

If you use a personal-finance program such as Quicken or Microsoft Money, the built-in budget-making tools can create your budget for you.

4. Don't drive yourself nuts.

One drawback of monitoring your spending by computer is that it encourages overzealous attention to detail. Once you determine which categories of spending can and should be cut (or expanded), concentrate on those categories and worry less about other aspects of your spending.

5. Watch out for cash leakage.

If withdrawals from the ATM machine evaporate from your pocket without apparent explanation, it's time to keep better records. In general, if you find yourself returning to the ATM more than once a week or so, you need to examine where that cash is going.

6. Spending beyond your limits is dangerous.



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But if you do, you've got plenty of company. Government figures show that many households with total income of \$50,000 or less are spending more than they bring in. This doesn't make you an automatic candidate for bankruptcy -- but it's definitely a sign you need to make some serious spending cuts.

7. Beware of luxuries dressed up as necessities.

If your income doesn't cover your costs, then some of your spending is probably for luxuries -- even if you've been considering them to be filling a real need.

8. Tithe yourself.

Aim to spend no more than 90 percent of your income. That way, you'll have the other 10 percent left to save for your big-picture items.

9. Don't count on windfalls.

When projecting the amount of money you can live on, don't include dollars that you can't be sure you'll receive, such as year-end bonuses, tax refunds, or investment gains.

10. Beware of spending creep.

As your annual income climbs from raises, promotions, and smart investing, don't start spending for luxuries until you're sure that you're staying ahead of inflation. It's better to use those income increases as an excuse to save more.

If you're the type of person who always has plenty of cash, knows exactly where every penny goes, and never has trouble paying bills, skip this chapter. You're either too rich or too smart to need it.

For the rest of us, unfortunately, making - and sticking to - a budget is the essential tool for ensuring that our money gets used the way we need it to. Even if you're in the happy situation of having plenty of income, the homework involved in drawing up a budget can be instructive, since you may find that you are spending more than you wish on items like DVDs, electronic gadgetry, or restaurant meals.

Drawing up a budget is usually pure drudgery enlivened only by the reality of staring your foolish spending habits in the face. In fact, one of the chief impediments to budgeting is that most people would rather not know how they really use their money.



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It's bad enough to learn this kind of information on your own. It's even worse when a spouse or significant other finds out, since it usually confirms his or her worst fears - and provides new ammunition for future "discussions."

Take heart. Any spending mistakes you're making are probably common and not impossible to kick. Moreover, the bulk of budgeting's pains are at the beginning.

After you have a budget in place - and you've fine-tuned it with a couple of months of actual spending - tracking your expenditures becomes almost automatic.

If your boss at work were to ask you for an analysis of the department's spending, you'd figure it out quickly enough. Budgeting your household should be approached in the same businesslike fashion. A variety of electronic tools can make the process easier.

There are three steps to creating a budget:

- 1) Identify how your money is currently being spent.
- 2) Evaluate that spending to see if it meets the financial priorities you specified in Lesson 1.
- 3) Track your ongoing spending to make sure it stays within those guidelines (or to understand how your budget needs to be revised).

If you happen to use Quicken, Microsoft Money, or other such software, you're in luck. These programs generally make it easy to draw up a budget.

In Quicken, for example, every time you make a deposit, write a check, pay a credit card bill, or dispatch an electronic payment you are asked to assign it to a particular category, such as "salary," "clothing," "groceries," "child care," or "health insurance."

You can also create subcategories, dividing "auto" expenses into "fuel," "insurance," and "service." The program comes with a set of categories that handle most of the basics. You can edit the list to create categories that make better sense for your particular household.

And if you're away from home, you can track expenses at the Quicken Web site and then download the transactions later.

The drawback, of course, is that entering and categorizing all of your income and outflow is a tedious chore.



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You can reduce the tedium by judiciously selecting categories. Let's say you are only worried about tracking your spending for recreation and leisure pursuits. You could create categories that cover those types of expenses, and let everything else accumulate under "miscellaneous revenue" or "miscellaneous expense."

The problem with that approach is that you forgo the opportunity to spot problems in other spending areas that you may not even be aware of.

A better solution is to track expenses using electronic banking. That way, you can download your payments and deposits directly from the bank, rather than having to enter them by hand.

The downloaded banking transactions generally show up without any categorization - meaning you'll have to add the categories by hand. But if you use a credit card that is issued by a bank that permits electronic access, then the downloaded charges from your card sometimes do come with categories attached (they aren't always right, so check them).

Either way, once you've got your spending tracked by category, drawing up a report requires only a few clicks of the mouse. Even better, such programs often have an automatic budget-creation feature that scans your spending in the past in order to estimate how much you'll spend going forward.

If your finances aren't wired, you can still get a good handle on your spending the old-fashioned way. Start by getting all your records together from the past 12 months, including pay stubs, loan proceeds, withdrawal slips, canceled checks, and itemized credit-card statements. Then go through them and compile totals for your income and expenses in a set of categories that makes sense for you.

At the end of this exercise, you may still have a sizable lump of spending that's undocumented - typically, the money you withdraw in cash and then spend on day-to-day needs. If this portion of your budget seems to be getting out of hand, keep a journal for the next four weeks in which you record every nickel you spend. You can use those results to extrapolate how your cash is being spent throughout the year.

Now that you've got a good picture of where your money is going, you can proceed to evaluate which parts of that spending should be raised or lowered. You might start with our Ideal Budget calculator, which compares your spending with recommended levels.