

This document is a discussion of the general process of budgeting your finances and how the software application *Budget* from Snowmint Creative Solutions LLC can help you achieve your financial goals.

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For additional information about *Budget* and other personal finance software, visit the Snowmint Creative Solutions web site at <http://www.snowmintcs.com/>.

## **What is a budget?**

A budget is a plan that shows what money you plan on spending.

Let's consider an example with a new car you want to buy. It costs \$15,000 but you only have \$5,000 in your savings account, and the trade in on your old car will get you only about \$6,000, which leaves you about \$4,000 short. What do you do?

You have been putting \$100 per month into your savings account. That means that it will take you another 40 months (which is 3 years and 4 months) to save enough money so that you can buy that new car. You decide to wait the 3 years before buying the new car. This is a plan.

You could decide that you can save an additional \$25 per month. This means that you can buy that new car in just 32 months (which is 2 years and 8 months). You have just modified your old plan and come up with a new one. But, for this plan to work you must actually be able to save that additional \$25 per month. At this point you have a plan but you are not sure if it will work.

You have to be able to "find" the extra \$25 per month in order to make the new plan work. Where will that money come from? You need to expand the plan to show how you can save the extra \$25 per month and still meet all your other financial obligations.

In the above example we have seen a form of budgeting using a plan. This is the heart of what makes up a budget.

## **How do I stick to a budget?**

In order to stick to a budget you need three things:

1. Discipline.
2. Information about your finances.
3. Tools.

### **Discipline.**

The hardest part of keeping to a budget is developing the discipline that is needed to make the entries that track where you are spending your money. It seems easy enough, but in today's world where there is precious little time to do all the things we want, finding the time to sit down and

track your expenses is not a high priority. However, it should be! Keeping track of your spending is probably one of the most important activities you should be doing. Not keeping to a budget can lead to constantly trying to figure out how to get out of debt, rather than the more pleasant side of taking that much needed vacation or buying that new car you want. *Budget* can help in developing discipline.

### **Information about your finances.**

You probably have a lot of this information already. The problem is that it's not always easy to get your hands on it. Once you get the information, trying to decide what it means is another problem. Keeping track of it once you do get it and understanding it is another part of the puzzle. *Budget* can help you find where your money went.

Once you have figured out where your money goes, you can start to set up a plan for your budget. You can allocate the correct amounts of money for each of your bills. See how well you are keeping to the plan. Modify the plan as you get more and better information on your own spending habits. *Budget* can help you track where your money is.

Most important, what money do you need? There are always those things that seem to come out of left field. Just when everything was going smoothly something happens and we seem to fall behind. This is all part of the planning process, the better you plan the fewer surprises you will have. *Budget* can help you plan where your money is needed.

### **Tools.**

Having the correct tools to track your spending and manage your finances is essential to sticking to a budget. You wouldn't try to drive in a screw with a hammer, so why try to manage a budget with tools that manage a business, or spread sheets that show profit and loss? The best tool prior to computer software was your checkbook register. But now that computers are available, there are much better alternatives such as *Budget*.

### **How can *Budget* help develop discipline?**

*Budget* can help develop discipline by turning a difficult and time consuming chore into one that is easy and helpful. While maintaining a budget will never be the most exciting, fun filled adventure in your life it can be seen as the means to getting there.

Budgeting can be addictive in that the more you do it the more you see the benefits and consequently the more you use it. Once over the hard part of getting set up, it starts to become more routine. In the process it begins to save you time. The chore of writing out the monthly bills doesn't seem so painful. As the accounts start to build up funds and you see how that can lead to more fun in your life, budgeting starts to become more natural.

Some of our users have told us some amazing success stories. One user was even able to buy their first home since they were able to get out of debt. So, while it might be painful in the short term, the long term is where you need to be focused.

## Where does all my money go?

We have all asked this question at one time or another. It seems like the more money we make the more it just seems to disappear. There never seems to be enough to pay all the bills and to be able to do the things we want to do. So what happened?

*Budget* helps this process by keeping all the records of what you do with your money in one place. However, if you are just starting to come up with a budget all that information doesn't yet exist in one place. So before we say how *Budget* keeps track of your money, let's see if we can figure out what information you have now.

### Income

1. Most of us have a job and get paid. That's the first piece of information we need. As much as we might like our pay to keep increasing, it probably is a fairly constant number. Something like we get a pay check for \$450.00 every Friday or we get a deposit to our bank account every month for \$3000.00. From this we can start to figure out what our monthly income is. In the latter case it's real easy, we get \$3000.00 per month. In the first case we get \$1950.00. Surprised that it's not \$1800.00? There are 4 weeks in a month and  $450 \times 4$  is \$1800 so where did the other \$150 come from? Turns out when you are paid weekly, since there are 52 weeks in a year, that there are an additional 4 pay checks you receive. That amount should be distributed over each of the twelve months in the year to determine your true monthly income. Why is monthly income so important? Mainly because most bills are due monthly.

2. What other income is to be received? Interest on your savings? Refunds from insurance payments? Hit the lottery? Most likely these are one time things and don't really contribute much to sticking to a budget.

### Expenses

1. The most common expenses are all those monthly bills. Mortgage, utilities, groceries, gas for the car, etc. etc. etc. Some are real easy to figure your monthly expense. The mortgage or rent payment doesn't change and comes each month. Some are a bit harder. The phone bill comes each month but it's never the same amount. Here is where you need to do a bit of work. Do you have your old phone bills? If so, try to average them out to determine about how much you spend each month. Don't have the old bills? Did you mark them in your check register when you paid them? If so, use that information to determine how much you spend monthly. This process must be done for all of your monthly bills.

2. Other expenses. These are the ones that you need to be most concerned about. The normal monthly bills are accounted for above. If you're spending money on that credit card, what are you spending it for? Got cash in your pocket, what are you spending it on? Make a list of all the items you can think of and try to organize it into categories. Then try to figure out (the same as above) how much you spend for each category each month.

Once you have this information you are ready to start setting up your budget. Using *Budget* you can define your pay sources. You can set up an account for each bill or category by creating accounts. Once you have accomplished this you are well on your way to keeping to a budget. As you use *Budget* to pay each bill, get paid, or receive a refund, *Budget* keeps a record of what you have done. With this information you can begin to track where your money is going.

Remember to enter EVERY expense in *Budget*. If you don't have an account that captures that type of an expense, create one and allocate money to cover it. This is refining your budget plan. In order to be effective you MUST capture every expense and allocate funds. One very important area to be aware of is "Cash". In this world of credit cards everyone still spends some form of cash. Track it with a "Cash" account or see handling cash. And don't forget those credit cards, see handling credit cards.

Now the hard part. What do you do if there are no additional funds to allocate to this new expense?

1. How important is the expense? Not very important? Don't spend it.
2. Is this more important than some of your other expenses? Reduce the allocation to that account and increase it to this account.
3. Can't reduce anything? You may need professional help which is beyond the scope of this program. Once you have started back on the path to financial stability use *Budget* to ensure you don't go off it again.

## **Where is my money?**

Budgeting is planning and knowing where your money is and how it is needed. Take a look at your current checkbook register. See the amount at the bottom? Now ask yourself, "How much of that money can I use to buy this new music CD?" To answer that question you need to know how much of that number is needed for all of your financial obligations. Having just one number makes it very difficult to determine how much is for this bill or that bill and how much is left for that new CD.

The best feature of *Budget* is that it shows you at a single glance where all your money is. You can see how much is there for your mortgage or rent payment, how much is there for your electric bill, and how much is available for that CD.

*Budget*'s main window displays each account as a small "envelope" on which is marked the name of the account and the amount of money in the account. You can display as many accounts on the main window as you like. You can also "group" accounts to make viewing similar accounts even easier. The best example of that is by grouping your accounts like Phone, Electric, and Water under a group named "Utilities".

This simple display makes it easy to determine if you are keeping to your budget. Accounts that have negative balances are shown in red. This is a very obvious indication that you are over spending in that account. Some accounts may show a high balance indicating that you have allocated too much money to that account.

## How do I plan where my money is needed?

The underlying principle of budgeting is knowing where your money is needed. Once you know that, you can allocate the appropriate funds to ensure that you will be able to meet all your financial obligations.

The way most people tell where money is needed is when a bill comes due. You need this amount now to pay this bill. The problem with that method is that it's reactive to the situation rather than pro-active. Wouldn't it be nice to know that when a bill is due you have the money to pay it? You do this with that planning thing we have been talking about.

Once you have created your accounts and allocated your funds to those accounts, you're not yet done with budgeting. It's an ongoing process. OK, so how does *Budget* help you to keep refining your budget and hopefully get ahead of things rather than always being in debt?

*Budget* has some very powerful tools that show you where and how you have been spending your money. As was stated earlier, the best is the main window that shows you all your accounts. Anything showing in red? If so, you need to refine the allocations to that account. How do you do that? First look at your other accounts. See if any have a balance that is greater than what you have been spending for that account. You can use *Budget*'s statistics windows to help you. They show you how you are doing with your expenses and deposits in a table form or it can also graph the information. If you see that over the past few months your percentages have been less than 100% then you have more money going into the account than what you need. This account is a prime candidate for reducing the allocations and using the "extra" money for the accounts that are in the red.

As you continue to refine your accounts you will find that you're spending more money on some than you want. This is a good account to "tighten the belt" and reduce the allocations. This makes more available for those other difficult accounts.

If you are paid either weekly or biweekly, remember those extra pays we mentioned when talking about monthly income? If you have been using the 2 or 4 pays each month as your total monthly income those extra pays can be allocated for special items. If you have a bill that comes due annually you can use these extra pays to pay those bills. Or, you can use these as a sort of savings account. Since you have budgeted your money without them they are now truly extra pays.

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