



BUDGETING YOUR WAY OUT OF MONEY PROBLEMS

A Step by Step Guide

MONEYPROBLEMS.CA

Budgeting Your Way Out Of Money Problems

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1. So, You Have Money Problems

No matter what your money problems, you can set yourself up for success.

You've got money coming in but it never seems to be enough. At the end of the month you might be scrambling to pay the rent, to pay off your credit card bills or to put a little money aside for the future. Whatever the situation, you know you have money problems but more importantly, you want to do something about it. That's why we created our expanded e-book on Budgeting Your Way Out Of Money Problems. We take a special in-depth look at budgeting. We do more than just talk about what budgeting is. Our guide gives you specific step by step instructions on how to develop, implement and maintain a budget that is focused on addressing your specific money troubles.

Before we talk about budgeting however, we need to talk about three fundamental principles to working your way out of any money problem. These are three tenets or rules you need to follow during every stage of the process:

1. Be Completely Honest With Yourself
2. Make A Plan and Stick With It
3. Be Willing To Make Changes

Be Honest About Your Money Problems

Ignoring money problems won't make them go away. You know that and that's why you have probably downloaded this e-book. Beyond that, you need to be completely honest with your motivations, situation and objectives. Your budget needs to be based on an honest evaluation of your expenses, your debts, your goals and your habits. To reduce spending you need to understand what motivates you to spend, or even waste, money. You need to avoid those situations until you have stronger self-control. Ask yourself these honest questions:

- ✓ Are you a compulsive spender? Do you use shopping to deal with stress?
- ✓ Do you have access to too much credit? How many credit cards do you have?
- ✓ Are you careless about paying bills on time or watching what you spend?
- ✓ Do you plan ahead or deal with money issues as they happen?

Make A Plan And Commit Yourself

Set yourself up for success. Don't look at budgeting as just a process of putting down some numbers on a piece of paper. You need to dig deep for cost savings, find new ways to generate income. Make a strict budget and stick to it.

Get the whole family involved in the process. If someone else gave you a budget to live by you probably wouldn't do it. The same goes for your family. Everyone needs to agree to what the priorities will be, and how you will achieve them.

Making Lifestyle Changes

Whether you want to reduce debt or increase your savings, you are going to have to do something different than you are doing today. There is no short term easy fix. Like dieting, you will need to change your daily routine, your choices and your habits. The key to meeting your budget, and achieving your financial goals, is to make small, lasting changes to your spending habits, rather than making dramatic reductions one month that you can't possibly maintain.

Better money management habits include:

- ✓ always pay bills on time
- ✓ use cash instead of credit, limit credit card use to what you can pay off in full
- ✓ shop around, never pay full price, never buy on impulse
- ✓ shop less often, make a list and stick to it
- ✓ borrow items if you can rather than buying them
- ✓ do things yourself, make your own lunch, do your own basic repairs
- ✓ THINK before you buy

2. Why You Need A Budget

It doesn't matter if you've got too much debt or not enough savings, both are money problems that can be solved with better budgeting.

Yes we know, no one likes to budget. After all budgeting seems like a lot of work and you are not sure it will accomplish anything. A good budget, however, does much more than restrict spending. Budgeting is all about learning how much money you have, where it goes and how best to spend and save it. Created properly, a good budget has many benefits.

Reveals Spending Patterns

A budget can act like a highlighter. It can provide some interesting revelations about where you are spending your money. You may not even realize where your money is going every month and why you always seem to be short. By preparing a budget you can find wasteful spending and make a plan to eliminate unnecessary expenditures.

Establishes Priorities

You hear a lot in budgeting books about understanding wants versus needs. While this might be a good discussion to have, effective money management needs to go one step further. You need to look beyond the superficial and understand the difference between what you really want and what you think you want. Budgets can reveal that you have too many priorities. You may not be able to go on vacation, save for a house and eat out every week. By defining what you really want you can establish a plan to achieve it.

Controls Spending

Every day you make choices as to how you want to spend your money. Should you eat out today or brown bag it to the office? Should you purchase that new coat now since it's on sale? A good budget will have well defined spending priorities to help you make decisions that will align with your budget and help you achieve your financial objectives. It's not about doing without, it's about setting priorities and making choices.

Builds Better Spending Habits

At first, keeping within your budget may be a struggle. Much like quitting smoking you will need to identify what triggers your bad habits and avoid them. Replace bad habits with good ones like making shopping lists, cooking at home, using cash instead of credit etc. Over time, these new habits will become part of your everyday routine, saving you money you can apply to paying off debt or building your savings.

Improves Financial Strength

Creating a budget, and sticking to it can help you pay back debt, build better savings and improve your financial security. Once you get your spending under control, you can eliminate credit card and other bad debt. Then you can focus on building up an emergency fund so you no longer have to rely on credit card debt when life throws you an unexpected curveball. Following a budget long term can help you build a retirement fund or save for your children's education. Whatever your financial goals, a budget helps you accomplish them.

Reduces Stress

Worrying about financial matters is probably causing you to lose a lot of sleep. Having, and following, a plan to correct your money problems can be a stress reliever. A budget allows you to take back control over your money.

So now you know why you need to budget but you're not really sure how to get started. Worse, you're still afraid of putting in a lot of time and effort and not seeing any rewards. That's understandable but if you follow a logical framework to creating your budget you are more likely to achieve what you want. That framework includes:

1. Understanding where you stand today
2. Identifying where you can make changes
3. Setting a budget you can accomplish

In the next few chapters we outline a budgeting process that will help you do just that. It's important that you follow each step along the way. Don't jump ahead. Each stage helps you build a budget that works.

So let's start budgeting!

3. The Budgeting Process

You can't make a mistake budgeting. Your budget is your own, there is no right or wrong budget.

Creating a budget isn't that difficult. It's really about following a step by step process that includes information gathering and making some decisions along the way. There is no right or wrong budget at the end of the day. Your budget will be unique to you. The only thing you need to be sure of is that at the end of the process your budget will help you solve your money problems.

A SIMPLE SIX STEP CIRCLE



Budgeting is as easy as six simple steps. Taken one at a time, none of these is difficult. People often get frustrated budgeting because they try to put a fully balanced budget together without doing all the steps. Think of it like building a house. You don't put the bricks on until the foundation and frame are built. The bricks might look nice, but they

will quickly fall off if not supported by some structure. Your budget is like that. Follow each step along the way and you will build a budget you can work with.

Here are the six simple steps to preparing your budget:

Step 1: Set Your Goals

Give yourself a reason to stay on track. Write down your financial goals whether they are paying off debt, saving for a new purchase or investing in your future.

> *More information about this is in Chapter 4: Budget With A Purpose*

Step 2: List Your Income and Expenses

This is the foundation to your budget. You need to know exactly how much money is coming in and what you are spending your money on. Every dollar counts. For one month keep track of everything you spend money on.

> *For more information read Chapter 5: Know Where Your Money Goes*

Step 3: Analyze Your Expenses

Allocate your spending into different ‘categories’. Identify what expenses you can control more easily (food, entertainment) and those that are more difficult (rent, insurance, child care).

> *To learn more see Chapter 6: Analyzing Your Expenses.*

Step 4: Set Your Budget

Here is where you set your future action plan. Identify ways to reduce expenses or earn more. Allocate your income to where you should be spending it, not where you have been spending it. By the end of this chapter you will have set your own Personal Household Budget.

> *Read about targeting expenses and spending ratios in Chapter 7: Set Your Budget*

Step 5: Manage Your Budget

Track your results. Record your income and expenses each and every month and compare them to your budget. If you’re overspending in some categories make adjustments. Make sure you are setting aside enough money for annual expenses, like insurance or property taxes, that don’t match your pay period. Look ahead to seasonal items like Christmas and birthdays and make sure you have the funds saved ahead of time.

> *Read more in Chapter 8: Tracking and Managing Your Budget*

Step 6: Revisit and Adjust

A good budget, one that you will stick with, should never be cast in stone. Budgets should be flexible. Life changes as do your priorities. You need to give yourself some flexibility

to make adjustments, to deal with the unexpected, and sometimes to fail. Maybe you would rather eat out this weekend than purchase that outfit that was in your clothing budget. Perhaps your neighbor just invited you to his son's wedding. Budgeting in a circle allows you to revisit your goals and priorities. These are likely going to change as you solve your money problems and move on to the next stage on your way to financial freedom.

We've also added two extra chapters that can help you prepare your budget:

Chapter 9 includes some tips on budgeting for debt reduction while Chapter 10 covers useful information on how to budget for savings.

Then benefit from some money saving tips in Chapter 11 and learn Why Budgets Fail in Chapter 12.

4. Budget With A Purpose

Your budgeting efforts will be wasted if you don't know what you want to accomplish.

Budgeting might not be hard, but it does take motivation, time and some effort. If you are going to keep track of your expenses and look for ways to cut back on your spending then you need to know why you are doing this. Without a concrete 'goal' in mind you will likely give up too easily or make excuses. This will ultimately lead to failure.

Writing down what you want to accomplish is a powerful motivator. It can keep you on track when the road gets a little bumpy. When your kids ask why they can't go to see that new movie this weekend, or your friends are all out spending money like drunken sailors and you have to act the part of the sober driver, you will need to remind yourself why you are doing this. You have a purpose. You have a destination in mind. In other words, you have a goal.

Identify Your Money Problem

So you want to manage your money better. That's a great idea but money management is an activity, it's not a goal. Why are you trying to make a change in the first place? You have to have a reason to budget. A good place to start is to look at the top three money problems that a budget can help solve:

PROBLEM 1:

I SPEND TOO
MUCH

It's not surprising that this is the number one reason why people choose to create a personal budget. While we all have expenses we can't avoid like rent, food or loan repayments, the truth is a significant proportion of every person's budget is discretionary. Every day you make choices as to how you want to spend your money. Should you eat out today or brown bag it to the office?

Should you purchase that new coat now since it's on sale? But what happens when your decisions mean you keep running out of money before the next paycheck? It's hard to balance your spending when you don't have an overall plan.

PROBLEM 2:

I HAVE TOO
MUCH DEBT

Often people wait to budget until they are already in financial turmoil. Now you are making a budget to solve a real crisis situation. Budgeting can help identify ways to cut back on expenses. It can help you balance your income and expenses so you are no longer adding to your debt. It can help you

develop a workable debt repayment plan.

PROBLEM 3:
I DON'T SAVE
ENOUGH

It's difficult to balance spending on what we want to enjoy today with saving for another day. Whether it's building an emergency fund, putting money away for a better retirement, saving for a home or putting funds aside for your children's education, having a balanced approach to saving and spending is important. Having a budget can help you prioritize and work towards that better balance.

What is your money problem? And by the way it can be all three. If it is, then you need to prioritize.

Define Your Goals

Knowing that you have a money problem is a good start but it's not enough. You may tell yourself you need to spend less, save more and pay off debt but you need more concrete objectives. The more specific your goals, the more likely you will remember them at crunch time – when you are tempted to stray from your budget. Goals also need to be tracked. You want to know whether or not you are succeeding.

Here are some examples:

- I want to pay off my \$20,500 in credit card debt within 3 years.
- I want to save \$3,000 by next winter for a trip to Mexico.
- I want to buy a home and need a down payment of \$35,000.
- I want to put \$500 a month into my RRSP.

Include both short-term and long-term goals. Break your goals down into smaller, accomplishable steps. If you want to pay off your credit card debt in 3 years, make some supporting, smaller goals. I will pay \$750 a month against my credit card debt.

Now that you know why you are budgeting, you can begin to build a personal budget that will help you achieve your goals. Stay positive, keep these goals in mind as you work through the process.

5. Know Where Your Money Goes

Your budget will only be as good as the information you keep. It's important to know where your money really goes.

The first step in any budget is knowing where you are currently spending money. Credit counsellors and budgeting advisors recommend you make a list of all of your expenses. Your list needs to be accurate. If you start out with missing information your budget won't work. You will quickly find yourself overspending because you didn't have a full picture of your expenses in the first place.

Start With Your Past Statements

Here's what you will need to create your budget list:

- Income details from your T4 or income tax return.
- Bank statements for the last year.
- Copies of utility bills for the past 6 months if you have them.
- Credit card statements for the last 3 to 6 months.
- Other debt and loan statements for the last 3 to 6 months.

Start by reviewing your bank statements for the past year to identify the larger expense items that you spend money on like your rent or mortgage, car payments, utilities, insurance etc.

Keep A 30 Day Spending Journal

Don't know where you spend your money each month? Don't worry. That's why we broke our budgeting process into six smaller steps. Your first goal will be to track your actual spending for at least a month so you can get a better picture of exactly where your money goes.

To find out how much you are spending on all the items that you can't identify in your statements we recommend you keep a **30 Day Spending Journal**. Carry a small notebook with you, or use the notebook feature on your cell phone. Every time you make a purchase, mark it down. It's important to include everything you spend money on including coffee, lunch, magazines, parking etc. If you use cash, write down the details. If you pay for a group of items with your debit or credit card, keep the receipts so you can allocate how you spent the money later.

Don't forget to include debt repayments, automatic savings programs and other cash flow items in your list.

While you need to keep track of everything you spend money on, you don't need to keep every last detail. Lump expenses together so they make sense but be honest. If you purchased a DVD at the grocery store, then this really should go in entertainment, not groceries.

Examples of possible monthly expenses include:

- ✓ Mortgage or rent payments
- ✓ Food and groceries including eating out
- ✓ Property taxes and home maintenance
- ✓ Insurance costs
- ✓ Utilities, such as electricity, cable, phone, cell phone
- ✓ Medical expenses, such prescriptions and medical costs
- ✓ Child care and child support expenses
- ✓ Vehicle expenses including gas, car repairs, car lease or loan payments
- ✓ Clothing & personal care items
- ✓ Memberships
- ✓ Entertainment, recreation, vacation, and hobby expenses

Tabulate Your Results

Now you need to record your *estimated* monthly income and expenses in a **30 Day Income and Expense Worksheet**.

Everything you record here is what is happening now - how much money you make now and where you are spending your money today. Many budgeting books talk about jumping in right away to balance your budget, something often called zero-based budgeting. We will do that, but not yet. First you need to know where your money goes today so you can:

- learn from past mistakes and habits;
- identify areas you can improve.

We've separated your Income and Expense Worksheet into 4 broad cash flow categories:

- Income (inflows)
- Expenses (spending)
- Other debt repayment
- Savings

Notice how these line up with the three money problems we are trying to address with this book: overspending, paying off debt and not saving enough. By separating your outflows into these broad categories you can focus on areas for improvement.

RECORDING YOUR MONTHLY INCOME Start out by writing down your monthly income. Include all your income sources including your paycheque, pension income, support payments and any other sources of income you have (even money from Mom & Dad). All your income items should be recorded net of income tax, CPP, UIC, Union Dues and other employment deductions. In other words, record your take home pay because this is what you have to spend.

Include your full family income. Families should create a full household budget – not two independent budgets. Even if your debts are his & hers, it’s important to work together to meet all your financial goals.

INCOME ITEMS (all items net of taxes)	
Net Income or Self-employment Earnings	
Spouse's Net Income	
Rental Income (net of expenses & taxes)	
Net Pension Income	
Allowance	
Net Employment Insurance/ Worker's Comp. Earnings	
Net Social Assistance	
Child Tax Benefit	
Alimony / Support	
Other Income	
Sale of Assets (temporary income)	
Total Monthly Net Income	

RECORDING YOUR ESTIMATED MONTHLY EXPENSES Now it’s time to move on to your monthly expenses. This includes everything you spend money on. Use the information you gathered from your **30 Day Spending Journal** to record your estimate of where you spend money every month. Again it’s important to include everything.

For annual items, you will need to include 1/12th of your estimated annual costs. For example, if you pay your car insurance once year and the total cost is \$1,200 then put \$100 ($\$1,200 \div 12$) in for one month.

Don’t worry yet if your expenses are more than your income. If you’re having money problems they probably are and that’s why you’re making a budget. You’ll look for savings in the next chapters.

EXPENSE ITEMS		
Housing		
Rent / Mortgage Payment	F	
Property Taxes (1/12th of annual total)	F	
Home Insurance (1/12th of annual total)	F	
Utilities (gas, hydro, water)	V	
Maintenance & Repairs (1/12th of annual estimate)	V	
TOTAL HOUSING		
Transportation		
Public Transit / Taxi	F	
Car Loan or Lease Payment	F	
Car Insurance (1/12th of annual total)	F	
License Plates & Driver's License (1/12th of total)	F	
Fuel	V	
Regular Maintenance & Repairs (1/12th of annual estimate)	V	
Parking	F	
TOTAL TRANSPORTATION		
Living Expenses - Non-Discretionary		
Child Care	F	
Family Court Payments	F	
Prescription Drugs	V	
Dentist	V	
Other Medical	V	
Tuition & School Fees	F	
Life & Other Insurance	F	
Bank Fees	V	
Other (provide details)		
TOTAL NON-DISCRETIONARY LIVING EXPENSES		
Living Expenses - Discretionary		
Food & Groceries	V	
Restaurant & Take Out (including lunches, coffee)	V	
Telephone	F	
Cell Phone	V	
Cable / Satellite Television	F	
Internet	F	
Household Operation (cleaning supplies, light bulbs etc)	V	
Laundry & Dry Cleaning	V	
Clothing	V	
Personal Care Items	V	
Hair Cut, Salon Services	V	
Recreation and Entertainment	V	
Vacation	V	
Club Dues & Memberships	F	
Children's Activities	V	
Pet Care	V	
Cigarettes	V	
Alcohol	V	
Gifts / Charitable Donations	V	
Other (provide details)		
Other (provide details)		
TOTAL DISCRETIONARY LIVING EXPENSES		
Total Expenses Before Other Debt Repayment and Savings		

**DEBT
REPAYMENT
AND SAVINGS**

Almost finished. The last step is to write down all of your current debt payments and current savings program.

If you are currently only making the minimum payment on your credit cards, put the minimum payment amount from your last statement.

Be sure to include all loans on your list. If you borrowed from friends or family and haven't started repaying that debt yet, include it on your list with a current debt repayment of zero.

Note: If you have an automatic savings program through your employer, like automatic RRSP savings, include the amount taken from your paycheque as income AND as savings. It's important to track your savings separately. You don't want your income understated or savings excluded from your worksheet.

If you aren't saving anything right now, be honest about that too and put zero.

Other Debt Repayment	Balance	Payment
Credit Card Debt		
Lines of Credit		
Bank Loans		
RRSP Loans		
Student Loans		
Pay Day Loans		
Other Loans		
Other Loans		
TOTAL OTHER DEBT REPAYMENT		
Savings		
Emergency Fund		
RRSP		
RESP		
TFSA		
Other		
TOTAL SAVINGS		
Total Debt Repayment and Savings		

**PULLING IT
ALL
TOGETHER**

The last step is to put everything you've recorded in one short summary.

Copy the totals from your first three spreadsheets into the summary below. This will tell you how you are spending your money today. It may not be a pretty picture.

Summary of current cash flow	
Total Monthly Income (A)	
Housing Expenses	
Transportation	
Living Expenses	
Other Debt Repayment	
Savings	
Total Monthly Expenses (B)	
Income - Expenses : (A-B)	
Other Debt Repayment (C)	
Savings (D)	
Cash Left Over (Shortfall) At Month End (A-B-C-D)	

You may, once you add it all up find you are spending more than you make. If you continue with this course, you will continue to add to your debt and won't have any savings for the future.

The good news is, you are going to fix that. Now it's time to start planning your future. Next on your list - take a cold hard look at where you can cut back and how you can achieve your goals.

6. Analyze Your Expenses

It's time to find the weak points, look for ways to save money and reduce costs.

You've kept a 30 Day Budget Journal and have a worksheet with all of your income expenses organized into categories. Now it's time to analyze your expenses by breaking them down into two different groups:

- Fixed expenses versus variable expenses
- Discretionary versus non-discretionary expenses

Once you have your expenses broken down into these groups, it's easier to find ways to reduce your spending and control your budget.

Fixed Versus Variable Expenses

Some of your expenses are fixed and some are variable. This is pretty straightforward. Fixed expenses are just that – fixed! They cannot be changed monthly and include items like your rent, mortgage payment, car payments, club memberships, monthly insurance payments, child care and support payments. Scaling back on these expenses is possible but takes some long term planning. Perhaps you need to find a smaller apartment or can cancel your club membership by giving appropriate notice. While you won't find any quick fixes in this category, with a little planning you can achieve bigger savings here.

Variable expenses are just like they sound, the amount you pay varies each month either with usage or based on your spending habits. Variable expenses including things like food, utilities, cell phone bills, entertainment, clothing and personal items, etc. Here is where you will be able to find easier ways to cut back on spending. Perhaps you can eat in more often, take a pre-made lunch from home. Take a look at your cell phone and utility charges – can you find ways to reduce these by making small changes in your daily habits like cutting back on long distance or looking for ways to reduce your hydro usage?

On your 30 Day Income and Expense Worksheet we identified expenses as F – Fixed and V – Variable to help you understand how your expenses can be managed.

Discretionary Versus Non-Discretionary

Now we are going to take the same expenses and look at them a different way. Non-discretionary expenses, like rent, loan payments and insurance are items you can't avoid, although with long term planning you can reduce even these types of expenses.

Discretionary expenses are items that, strictly speaking, are not necessary. You can choose not to incur these expenses. This includes items like entertainment, club memberships, vacations and that extra pair of shoes you wanted to purchase this week. Discretionary expenses provide the most obvious, and quickest way to reduce spending.

Again we have allocated your living expenses on your 30 Day Expense Worksheet between Discretionary and Non-discretionary. You may note that we treated food as a discretionary expense. A portion of these expenses can be both discretionary (i.e. controllable by you) and non-discretionary. For example while food is a non-discretionary expense (we have to eat after all) how you choose to spend (eating in or going to a restaurant three days a week) can be discretionary. Your phone bill may or may not be discretionary (having a land line when you have a cell phone for example) and some of the services may be optional. You may find some quick fix savings here as well.

It's true that a budget can be as simple as depositing your paycheque, paying your bills and spending what's left. But if you want to improve your overall money management, you need to dig deeper, finding ways to save money so you can meet the goals you set.

Targeting Expenses

Now that you know where and how you are spending your money, it's time to look for ways to save money.

1. Start with the easiest costs to reduce – your discretionary, variable expenses. You can choose to rent a movie at home rather than go out. Similarly you can postpone that big vacation until you can afford to pay for it ahead of time.
2. Next look at your discretionary fixed expenses. You may need to cancel that club membership for a while. Similarly you may want to review your cell phone and cable bill. Are there additional services you are paying for that you can do without? These savings take planning. You need to provide appropriate notice under the terms of any agreement you signed.
3. Even variable non-discretionary items provide opportunities for savings. Review your personal habits to see if you can reduce these costs. Can you turn down your air conditioner or hot water heater, do you turn off all lights and equipment when not in use? Can you save money by brown bagging it for lunch or eating out less? You may be able to save money by switching brands where possible for personal care items and shopping around for savings on maintenance costs.
4. Non-discretionary fixed expenses are the hardest to tackle but could provide the biggest rewards. Saving here means thinking about your lifestyle choices. Is your home more than you can afford? Can you reduce your loan payment costs by qualifying for a lower interest debt consolidation loan?

Spending Ratios

When creating a personal budget, how do you know if you are spending your money wisely or not? How much is too much for different expense categories? While every household is different (you may have kids, someone else lives alone) credit counsellors and financial advisors often use specific spending ratios to analyze living expenses, housing and transportation costs.

A spending ratio is simply the amount of money you spend in a particular category as a percentage of your overall budget. You can monitor your ratios and if you are spending a little too much in one area, plan to cut back.

HOUSING COSTS

One of the largest expense areas you will have will relate to housing expenses. Housing costs include your rent, mortgage payments, property taxes, repairs and maintenance costs and utilities such as hydro, gas, water and telephone services. You may want to include cable and internet if you consider these a necessity or you can consider them to be a discretionary item that you can cancel to save money if needed. In general, most financial advisors recommend that your housing costs make up no more than 35% of your overall budget. According to the [2011 Survey of Household Spending](#), the average Canadian homeowner spent 28% of their budget on shelter related costs.

Your Housing Expenses - Spending Ratio	
Your TOTAL HOUSING costs* A	
Your MONTHLY NET INCOME** B	
You are spending this % of your income on housing costs (A/B)	
Total housing expenses should not exceed 35% of your income (.35 x B)	

*from page 13, **from page 12

If your housing costs are more than 35 percent of your budget, you're paying too much for housing and should look for ways to cut your costs.

TRANSPORTATION COSTS

The second highest expense in your budget is likely transportation costs. This includes both money spent on public transportation as well as car loan or lease payments, gas costs, car insurance, maintenance and repairs. If applicable, you should also include parking fees.

ANALYZE YOUR EXPENSES

<i>Your Transportation Expenses - Spending Ratio</i>	
Your TOTAL TRANSPORTATION costs* A	
Your MONTHLY NET INCOME** B	
You are spending this % of your income on transportation costs (A/B)	
Total transportation expenses should not exceed 20% of your income (.20 x B)	

*from page 13, **from page 12

The average Canadian spends approximately 20% of their budget on transportation related costs. If your costs exceed this amount significantly, you should review your expenses for possible savings.

LIVING EXPENSES

Living expenses include food, clothing, entertainment, medical costs and other personal expenses.

<i>Your Living Expenses - Spending Ratio</i>	
Your TOTAL LIVING expenses* A	
Your MONTHLY NET INCOME** B	
You are spending this % of your income on living expenses (A/B)	
Total living expenses should not exceed 20% of your income (.20 x B)	

*from page 13, **from page 12

Your total remaining living expenses should be less than 20% of your budget.

OTHER DEBT

Excluding your mortgage and car loan costs, your other debt repayments costs should average no more than 15% of your total budget. This will include payments for credit card debt, personal loans, student loans and any unsecured debts.

ANALYZE YOUR EXPENSES

Your Debt Repayment - Spending Ratio	
Your OTHER DEBT REPAYMENT* A	
Your MONTHLY NET INCOME** B	
You are spending this % of your income on other debt repayment (A/B)	
Other debt repayment should not exceed 15% of your income (.15 x B)	

*from page 14, **from page 12

A word of caution here. If you meet this ratio by considering only the minimum payment on your credit card debt you are still spending too much on debt repayment.

If you are dealing with too much debt and that is why you are looking to create a budget, your ratio is probably too high today. Your goal will be to reduce this ratio over time by paying down debt. Budgeting for a high ratio to pay off debt sooner is fine. Having a high ratio because you are taking on more debt is not.

SAVINGS

It is important that, once your debts are under control, you manage to save money for the future. If your debts are under control, then savings should account for at least 10% of your overall budget. If you owe too much on high cost unsecured debts, this amount should be applied towards debt repayment first, then long term savings.

Savings - Spending Ratio	
Your TOTAL MONTHLY SAVINGS* A	
Your MONTHLY NET INCOME** B	
You are spending this % of your income on savings (A/B)	
You should save at least 10% of your income (.10 x B)	

*from page 14, **from page 12

These ratios are guidelines you can use to assess whether or not you are spending a little too much in one area. They can help you find areas that you may need to reduce spending so you can build a well balanced budget that meets your personal goals.

7. Set Your Budget

A budget tells us what we can't afford, but it doesn't keep us from buying it. – William Feather

Finally – you are ready to build your own Personal Household Budget. You know where you were spending your money before, you've looked at your expenses and found some areas that you can cut back on. Perhaps you even found ways to increase your income. Now it's time to put it all together.

It's Time To Build Your Personal Budget

The next two pages contain your **Personal Budget Worksheet**. Think about what changes you would like to make to reach your goals.

Here is your task:

$$\text{INCOME} - \text{SPENDING} - \text{DEBT REPAYMENT} - \text{SAVINGS} = \$0$$

You are working to balance your budget to zero. That doesn't mean you spend everything you make, it means you **allocate every dollar you make to some purpose**. So if you take home \$2,000 you are going to allocate a total of \$2,000 to spending, debt repayment and savings. If you want to pay off your debt sooner, you need to spend less. Once you are in better shape, you can allocate more to savings.

Start by filling out your current spending habits from your spending worksheets in Chapter 5. Next decide where you are going to make changes. Fill in where you plan to cut back, earn more, save more and make higher debt repayments. By building your budget as a series of changes from your current spending patterns you will clearly identify action plans that you need to take in order to achieve your goals. Things like:

Eat out no more than once a month – savings \$300 a month

Cancel gym membership – savings \$100 a month

Change cell phone plan – savings \$35 a month

Limit entertainment budget to \$100 a month – savings \$250 a month

By identifying clear, concise actions that you can take and by putting a dollar value against these actions, you are more likely to stick to your intentions. If you choose to eat out more than you planned you will know exactly what the cost to your budget goals will be.

Personal Budget Worksheet

Monthly Budget	Current	Changes	Budget
INCOME ITEMS (all items net of taxes)			
Net Income or Self-employment Earnings			
Spouse's Net Income			
Rental Income (net of expenses & taxes)			
Net Pension Income			
Allowance			
Net Employment Insurance/ Worker's Comp. Earnings			
Net Social Assistance			
Child Tax Benefit			
Alimony / Support			
Other Income			
Sale of Assets (temporary income)			
Total Monthly Net Income			
EXPENSE ITEMS			
	F/V		
Housing			
Rent / Mortgage Payment	F		
Property taxes (1/12th of annual total)	F		
Home insurance (1/12th of annual total)	F		
Utilities (gas, hydro, water)	V		
Maintenance & repairs (1/12th of annual estimate)	V		
TOTAL HOUSING			
Transportation			
Public transit / taxi	F		
Car loan or lease payment	F		
Car insurance (1/12th of annual total)	F		
License plates & driver's license (1/12th of total)	F		
Gasoline	V		
Regular maintenance & repairs (1/12th of annual estimate)	V		
Parking	F		
TOTAL TRANSPORTATION			
Living Expenses - Non-Discretionary			
Child Care	F		
Family Court Payments	F		
Prescription drugs	V		
Dentist	V		
Other medical	V		
Tuition & School Fees	F		
Life & Other Insurance	F		
Bank Fees	V		
Other (provide details)			
TOTAL NON-DISCRETIONARY LIVING EXPENSES			

continued on page 2

YOUR PERSONAL BUDGET WORKSHEET

page 2/2

Living Expenses - Discretionary			
Food & Groceries	V		
Restaurant & Take Out (including lunches, coffee)	V		
Telephone	F		
Cell Phone	V		
Cable / Satellite Television	F		
Internet	F		
Household Operation (cleaning supplies, light bulbs etc)	V		
Laundry & Dry Cleaning	V		
Clothing	V		
Personal Care Items	V		
Hair Cut, Salon Services	V		
Recreation and Entertainment	V		
Vacation	V		
Club Dues & Memberships	F		
Children's Activities	V		
Pet Care	V		
Cigarettes	V		
Alcohol	V		
Gifts / Charitable Donations	V		
Other (provide details)	V		
Other (provide details)	V		
TOTAL DISCRETIONARY LIVING EXPENSES			
Total Expenses			
Money Available for Debt Reduction and Savings:			
Other Debt Repayment			
Credit Card Debt			
Lines of Credit			
Bank Loans			
RESP Loans			
Student Loans			
Pay Day Loans			
Other Loans			
Other Loans			
TOTAL OTHER DEBT REPAYMENT			
Savings			
Emergency Fund			
RRSP			
RESP			
TFSA			
Other			
TOTAL SAVINGS			
Total Debt Repayment and Savings			
Income Left Over (Excess Spending) At Month End			

8. Tracking And Managing Your Budget

Budgets need to be managed. That means keeping track on a regular basis and looking back to see what's working and what's not.

Now that you've set your budget you need to make sure you stick to it. The only way to know if you are doing that is to keep track.

Keeping Track

You can keep track in our easy to use Moneyproblems.ca [Monthly Budget Worksheet](#) included on the next pages or use an online budgeting tool like [CalendarBudget](#). Either way, unless you track your actual results you will have no way of knowing:

1. If your budget is realistic;
2. If you are working within your budget; and
3. If you are going to be successful in achieving your goals.

Set some time aside, once a week, to update your budget and record your spending. Just like you did when you completed your 30 Day Spending Journal, keep receipts and write things down in a notebook or on your cell phone as they happen. If you wait until the end of the month you will more than likely have forgotten where your money went.

Here are some tips that can help you stay on budget:

- **Avoid temptation** – If you are an impulse shopper, leave your credit cards at home. It's hard to blow your budget if you limit how much cash you carry and don't have access to credit.
- **Use the envelope system.** Take out what you budgeted for daily living expenses on payday and allocate the cash into different envelopes for groceries, personal items, entertainment etc. Once an envelope is empty, stop spending.
- **Don't count on windfalls.** If your income varies, estimate on the low side. Don't count on bonuses, tax refunds and other unreliable sources of cash

flow. If you earn extra, make a conscious effort to apply that amount directly towards your goals (debt repayment or savings), not extra spending.

If you do find you overspent one month, don't give up. Sometimes things come up (an unexpected invitation to your co-worker's birthday) and sometimes you will spend more than you should. If that happens, see if you can catch up next month. If you can't, do not get discouraged. Just get back on track immediately.

Reviewing Your Budget

It's also important to review your budget regularly. Life events change, your priorities change and, you will be happy to know, you will get better at living within your means. You may even find new ways of saving even more money once you start thinking about how you spend each and every dollar that goes out the door. Adjust your budget categories up or down as needed but always keep your main financial goals in mind when doing so.

Monthly Budget Worksheet

<i>Monthly Budget - Month X</i>	<i>Budget</i>	<i>Actual</i>	<i>Difference</i>
<u>INCOME ITEMS (all items net of taxes)</u>			
Net Income or Self-employment Earnings			
Spouse's Net Income			
Rental Income (net of expenses & taxes)			
Net Pension Income			
Allowance			
Net Employment Insurance/ Worker's Comp. Earnings			
Net Social Assistance			
Child Tax Benefit			
Alimony / Support			
Other Income			
Sale of Assets (temporary income)			
Total Monthly Net Income			
<u>EXPENSE ITEMS</u>			
	F/V		
Housing			
Rent / Mortgage Payment	F		
Property Taxes (1/12th of annual total)	F		
Home Insurance (1/12th of annual total)	F		
Utilities (gas, hydro, water)	V		
Maintenance & Repairs (1/12th of annual estimate)	V		
TOTAL HOUSING			
Transportation			
Public Transit / Taxi	F		
Car Loan or Lease Payment	F		
Car Insurance (1/12th of annual total)	F		
License Plates & Driver's License (1/12th of total)	F		
Fuel	V		
Regular Maintenance & Repairs (1/12th of annual estimate)	V		
Parking	F		
TOTAL TRANSPORTATION			
Living Expenses - Non-Discretionary			
Child Care	F		
Family Court Payments	F		
Prescription Drugs	V		
Dentist	V		
Other Medical	V		
Tuition & School Fees	F		
Life & Other Insurance	F		
Bank Fees	V		
Other (provide details)			
TOTAL NON-DISCRETIONARY LIVING EXPENSES			

continued on next page

TRACKING AND MANAGING YOUR BUDGET

Monthly Budget Worksheet Page 2/2

		Budget	Actual	Difference
Living Expenses - Discretionary				
Food & Groceries	V			
Restaurant & Take Out (including lunches, coffee)	V			
Telephone	F			
Cell Phone	V			
Cable / Satellite Television	F			
Internet	F			
Household Operation (cleaning supplies, light bulbs etc)	V			
Laundry & Dry Cleaning	V			
Clothing	V			
Personal Care Items	V			
Hair Cut, Salon Services	V			
Recreation and Entertainment	V			
Vacation	V			
Club Dues & Memberships	F			
Children's Activities	V			
Pet Care	V			
Cigarettes	V			
Alcohol	V			
Gifts / Charitable Donations	V			
Other (provide details)	V			
Other (provide details)	V			
TOTAL DISCRETIONARY LIVING EXPENSES				
Total Expenses				
Money Available for Debt Reduction and Savings:				
Other Debt Repayment				
Credit Card Debt				
Lines of Credit				
Bank Loans				
RESP Loans				
Student Loans				
Pay Day Loans				
Other Loans				
Other Loans				
TOTAL OTHER DEBT REPAYMENT				
Savings				
Emergency Fund				
RRSP				
RESP				
TFSA				
Other				
TOTAL SAVINGS				
Total Debt Repayment and Savings				
Income Left Over (Excess Spending) At Month End				

9. Budgeting For Debt Reduction

Pick a debt reduction strategy that works for you and stick to it.

In a perfect world everyone would prepare a budget with the very first job they had and the first time they went out to spend money. If they did, no-one would find themselves overwhelmed with debt in the first place. Realistically however the world is not perfect, unexpected events do happen and sometimes you find yourself deep in debt. If you want to regain control over your finances, then you need two things:

1. A workable debt repayment plan.
2. A budget to make this happen.

We have already talked about making a budget, now we discuss how to tailor that budget towards debt repayment.

What You Owe

Begin your debt reduction plan by listing all of your debts. Include the name of the creditor you owe, what type of debt it is, the balance outstanding and the interest rate you are paying.

Creditor	Debt Type	Balance	Due Date	Interest Rate
Credit Card Company 1	Credit Card	\$3,856.52	25th	19%
Total		\$27,165.27		

Payment Order

Next you need to decide which debts to pay off first. You need to prioritize your debts based on size, interest costs and the cost of 'default'.

1. If you have bills that are in arrears, consider catching these up first. Risking having your hydro cut off while you are paying off credit card debt is probably not a good priority. In addition, having payments in arrears will harm your credit rating, increasing the cost of your other borrowing.
2. If you are receiving harassing phone calls from one particular creditor, consider paying off that debt sooner. While it might make better financial sense to pay off your high interest credit card debt before an old forgotten phone bill, eliminating the distraction will keep you focused on your other debt repayment priorities.
3. Next decide how to pay off the remainder of your debts.

You can arrange your debts from smallest to largest or highest interest to lowest interest.

By paying off your smallest debts first, working your way up to your largest debts, you can pay off more creditors faster. If your creditors are calling you, this can help relieve some of the stress of harassing phone calls. Seeing some measure of success (your first zero balance debt statement!) can keep also you motivated. This method of debt repayment is sometimes referred to as the Debt Snowball Method.

Mathematically, the best way to pay off your debts is to pay off your highest interest rate debts first. This allows you to save the most interest over the life of your debts. You will get out of debt faster and be able to shift to saving money that much sooner.

No matter which payment order you choose, here is the #1 MUST DO:

Once you pay off a debt on your list, you MUST apply the extra amount that you were paying towards that particular debt repayment to the next debt on your list.

Pay Until It Hurts

When it comes to reducing debt, one of the best things you can do for yourself is to make this your #1 priority. This is especially true if you have high interest debt. Paying only the minimum balance on your credit card debt will keep you out of default, but it won't get you out of debt – ever.

The longer you borrow money, the more it costs, period. It doesn't matter if it's a car loan, a mortgage or credit card debt. Making extra payments towards your debt saves you money, which you can then roll into more debt repayment, escalating your way to being debt free.

One budgeting strategy we do not recommend is to make your monthly debt payments more manageable by extending the term of your loan. The purpose of this book is to help you budget your way out of money problems. By extending your payments over a longer period of time you might gain some relief in your monthly budget, but you will not

get out of debt. Lowering your monthly debt repayment through a longer amortization period just encourages you to spend more than you should and you will end up paying more interest than you should.

Reducing Interest Costs

If your debts are very high, or you are carrying high interest credit card debt, you may not be able to save enough by cutting back on your everyday expenses to pay off these debts within a reasonable period of time. If that is the case, consider possible debt reduction strategies that can help you reduce your overall interest costs and your monthly debt repayment.

Get a debt consolidation loan: If you still have reasonable credit, consider consolidating your debts into one single, lower interest loan. By reducing your interest rate, more of your monthly debt repayment will go towards principal reduction allowing you to get out of debt sooner.

Try a Debt Management Plan: If your debts are too high to pay on your own, talk to a credit counselor about a debt management plan. You will still have to pay the full amount you owe but you may be able to have interest and penalty costs waived. You can also lump several debts into one DMP making it easier to manage your payments.

Settle your debts with a Consumer Proposal: If you owe more than you can repay, it may be possible to make a proposal to your creditors through a Trustee in Bankruptcy to pay a portion of what you owe (usually 35% or so) over a period of time (typically three to five years). Your bankruptcy trustee will help you negotiate a plan that satisfies your creditors and fits within your budget.

As a last resort, consider Personal Bankruptcy. If you are unable to balance your budget and repay your debts no matter how much you cut back on expenses and can't make a deal with your creditors, you may have to consider filing personal bankruptcy.

Don't Give Up

No matter what approach you take or what debt repayment plan you create, don't give up too easily. You did not get into debt in a day and it will take time to get out of debt. Quick fixes don't work, but sticking to your budget, no matter how hard, will result in success.

10. Budgeting For Savings

Set a target and then pay yourself first.

Assuming you have paid off all your high interest debt, your mortgage is affordable and you are not swamped with heavy car payments, your next goal is probably to increase your savings. It doesn't matter whether you are trying to save for a vacation, build up an emergency fund, put away some money for your children's education or invest for your retirement, the principles are the same. Budget for savings and you will likely succeed.

Save For A Purpose

If you just say to yourself "I'm going to save more money" chances are it won't happen. Generally we achieve more in life when we have a specific objective in mind. There are many things that you might want to save for, including emergencies, expensive purchases, annual expenses, retirement, or special goals like your children's education.

Write down your goals, then prioritize them. If you are young, perhaps saving for a vacation this year will take priority over your retirement savings. If your children are teenagers, education savings might be your first choice.

- Vacation to Mexico
- Mike's education savings
- Retirement

Emergency Fund

If you have worked your way out of debt, the last thing you want is for one of life's unexpected emergencies to cause you to use credit again to get by. Your first savings goal should be to establish an emergency fund. This is enough money to cover your living expenses (which you now know because you have a budget) for 3 to 6 months in case you suddenly lose your income for any reason. Your fund should also be adequate to cover any other financial emergencies such as a large car or house repair.

Some advisors recommend that you start saving an emergency fund while you are in debt. This is fine if your debts are manageable – a reasonable low interest mortgage and

perhaps a small car loan – but not if you are carrying high interest debt. This type of credit is too costly to your long term financial well-being and should be paid off immediately.

Use Calculators

You need to figure out how much you need to save each week for your different savings goals. To do this you will need to know two things:

- how much will you need
- what is your time frame

For most items, like a vacation, the calculation is pretty simple. If you need \$2,600 for a trip to Mexico in a year you will need to save \$50 a week between now and then.

Use online calculators like the [CIBC Savings Calculator](#). This savings tool will show you how much you need to save monthly to achieve your savings goals. You can choose different time periods, savings amount and rates of return. For example if you want to save for a \$30,000 down payment for a home purchase in 3 years and you will invest your money in a savings account at 2% return, you will need to save \$809 a month for 36 months to achieve your target.

Retirement Planning

Full retirement planning is beyond the scope of this e-book but we can give you some general guidelines to help in your goal setting. Your starting point is finding out how much money you need to save for retirement. There are four key factors that determine how much money you will need to have set aside before you retire:

- how old you are now
- how old you plan on being when you retire
- how long you expect to be retired
- how much annual income you think you will need during retirement.

The [TD Canada Trust Retirement Calculator](#) is a useful calculator that can help you set your retirement savings goal. Once you have your total Retirement Savings Goal calculated, you can then use a savings calculator to figure out how much you will need to invest monthly to achieve your retirement goals.

Be Specific

Now you can place specific weekly or monthly savings targets against each of the savings goals you identified early. Put these amounts in your monthly budget. Do you have enough monthly cash flow to be able to meet these goals? If you do that's great. If not, go back and find more expense savings or you may need to adjust your savings goals for now.

I will save \$50 a week for my vacation to California next February.

We will transfer \$100 a week to Mike's RESP.

We will invest \$750 a month in our RRSP.

Make It Happen

Now that you have determined what you want to save for, and how much you need to save for each goal, you have to make it happen. One of the golden rules of savings is to 'pay yourself first'. What exactly does that mean? It is a common phrase used by credit counsellors and investment planners and it simply means that you should *automatically* save a specific amount of money from each paycheque. The amount you save will depend on what your budget dictates, and your goals, but the key point is that this savings is pre-programmed. It happens each and every payday without you having to take any further action. Two good ways to pay yourself first are to:

1. Set up automatic transfers between your chequing account and your investment or savings account
2. Use payroll savings deduction programs offered by your employer to route savings into RRSPs, RESPs and other savings vehicles.

11. Money Saving Tips

No budget is so good that you can't use a little money saving.

It doesn't matter whether you started this budgeting process because you were having trouble making ends meet, because you needed to reduce your debt or because you wanted to increase your savings. Everyone can benefit from saving money. We have pulled together some of the top money saving tips from our experts.

5 Ways To Save Money

1. **Eliminate.** If you can live without it, eliminate it. This is one sure way to save money. Consider a more limited cell phone plan, eat out less, hold off on new clothes until later.
2. **Downsize.** It's the big items that can really cripple a budget. Can you get a smaller car? Do you need a cell phone and a home phone? How about selling off some items you don't need? Even your house should be up for consideration. Would a smaller home solve many of your money problems?
3. **Replace.** Look for ways to trade down to lower cost items. Can you cancel your gym membership for a cheaper facility at a local community center or better yet, try working out at home? Avoid brand names if you can and opt for a cheaper alternative.
4. **Target.** Go after the little items. They add up. Bring your own coffee. Cancel your magazine subscriptions, read the material for free online instead.
5. **Commit.** Get everyone to commit. The whole family needs to be on board with meeting your budget. If they're not, conflicts about where to spend money will likely derail your long term success.

5 Big Money Wasters

1. Unused memberships & subscriptions. You sign up for that gym membership in January fully expecting that you will go regularly, but you don't. Or perhaps you subscribed to some gardening magazines so you would be inspired but now they just lie around, mostly unread (OK you look at the pictures, but that's about it). Almost everyone at one time or another has signed up for something they didn't use. The best strategy is to cancel these money wasters now.
2. Too much car. Cars have become a status symbol. Don't fall for it. The purpose of a car is to get you and your family where you need to be. Purchase only what you need, and leave the 'supersized' version at the lot. If you have more car than you need, consider selling it or cancelling your lease if you can and downsizing.
3. Expensive Cable & Internet Services. Take a good hard look at how many of those shows you are paying for that you really watch. Perhaps the 'bundle' deal sounded great but are you really using what

you are paying for? Sometimes, less is more. Cancel what you can do without and stick to basic offerings.

4. **Purchasing More Than You Need.** That purchase seemed like a good idea at the time because after all, it was 50% off. But if you blew the budget on something you could have done without just because it was on sale, you didn't do your finances any favours. Another way we throw out money is purchasing groceries we don't eat. Plan to use leftovers for lunch or in casseroles rather than throwing them away. Only purchase as many fresh food items as you think you can use in a few days. Better to shop twice (as long as you bring a list) than to throw food, and money, down the drain.
5. **Expensive Habits.** Pop, lottery tickets, cigarettes, gourmet coffee. All of these items offer short term pleasure, but at a very expensive price.

12. Why Budgets Fail

Creating a proper budget up front will reduce the risk of failure.

Often credit counsellors hear the same thing from their clients. Budgets don't work for me. I've tried but I can't seem to stick to a budget. Here are some of the top reasons why budgets fail. If you know the reason your budget didn't work, you can try again and succeed.

No 'fun' category. This may seem like a strange item to put at the top of a budgeting blog about debt reduction or improving savings but it is often the number one reason why budgets don't succeed. Everyone needs to have some fun sometimes. Every individual in your household should have a 'fun' budget that allows them to spend however they choose, whether it's to purchase the odd café latte at Starbucks or to attend a movie with friends. The budget amount can be small and reasonably within your means, but make sure something is allocated for everyone.

Other reasons why budgets fail:

No emergency fund. Unexpected events happen. Cars break down. Your hours were reduced. If you don't have an emergency plan to fall back on, your budget is unlikely to be able to cover the difference.

Missing expenses. Not all expenses happen monthly. It is important to include a monthly allowance to fund annual expenses like your car insurance, property taxes, school fees etc.

No miscellaneous category. Every budget needs a little wiggle room. Sometimes prices increase, you need to buy an extra birthday gift, or you invite people over for a weekend BBQ. A small miscellaneous category can provide the wiggle room you need so even a small expense doesn't put you in the red.

Too much detail. While you want to track all your expense, you don't need to plan down to the dollar. A category for groceries is fine – you don't need to plan out by meal or by week. If you try to capture too much detail you will quickly become overwhelmed with record keeping. Make your budget as detailed as you are willing to track.

Using the wrong payment tool. If you don't have control over your spending it's time to hide the credit cards. Use cash for spending.

Frustration. Sometimes you are going to be off-side. Don't beat yourself up about it. Learn from what happened and see how you can get back on track.

Resentment. We said at the beginning of this book that budgeting is not about restricting your spending. It's about learning how to manage your money better. Keep your eye on the end goal so you stay positive.

If you do the work to create a good budget up front, then commit to learning from your mistakes and making necessary adjustments along the way, you will soon find yourself able to balance your budget and work your way out of your money problems.