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Seven Steps to Building a Solid Budget

Step 1 – Create Goals

Think about the things that are important to you – what you would consider to be your values. Create specific goals that you can work towards through savings contributions or payments that will help you to support your values.

Step 2 – Find Your Current Bottom Line

Do an honest evaluation of your expenses and income for one month. Gather receipts for things like gas and groceries. Take a look at a few past months' worth of bills. Find out what the difference is between your expenses and income given your current situation – not what you think your ideal situation would be.

Step 3 – Evaluate Your Spending

Everyone has their own spending pattern. It's very important to get an idea of what your personal spending habits are so you can find areas where you might be "leaking" money. This usually happens with the small things we purchase: coffee, drinks, lottery tickets, snacks, etc. A great way to evaluate your spending is with a small notebook or piece of paper where you can document all of your purchases for one week in a journal format.

Step 4 – Consider Adjustments

Once you have a handle on what's going on from month to month, you'll be in a great position to consider some adjustments to your expenses AND income. There's usually a lot more that can be done than most people think. The main thing is to really think about and understand how those adjustments will allow you to be successful in reaching the goals you created. Here are a few thoughts to help you figure out if there are any problem areas in your budget:

- Housing – Should be less than 30% of your net (take-home) monthly income.
- Transportation – Should be less than 15% of your net monthly income.
- Groceries/food/house supplies – Should be less than 15% of your net monthly income.
- Savings – Should be at least 10% of your net monthly income.

For specific ideas on spending adjustments, check out:

www.thesimpledollar.com www.doughroller.net www.bankrate.com

Step 5 – Find Your New Bottom Line

Once you have thought about the adjustments you can make, see what those changes will do to your bottom line each month. Calculate the adjustments in your comparison between your income and expenses. How much is left over? Are you able to break-even? Are you able to realize a surplus that can be used for your goals?

Step 6 – Create a Cash-Flow Tool

Another challenge in budgeting is having the ability to see ahead and understand what expenses should be covered at the right time. Having a cash-flow tool helps solve this problem. One great way to manage this is to use a calendar to map out all of your expenses and income on the appropriate dates.

Step 7 – Create a Savings Plan with Your Surplus

Remember that your financial goals are the foundation for your budget. Without a solid understanding of how your budget is helping you achieve those goals, it will be almost impossible to be disciplined enough to stick to it. This is where your savings plan comes in. Take your new bottom line and calculate how long it will take you to reach your goals. It's up to you to decide how your surplus will be allocated to each goal, but the important thing is to be able to see and understand exactly how and when you will be able to reach each goal.

For example: Beverly wants to save \$4,000 for the down payment on a new house. She can save \$30 a week, so she divides \$4,000 by \$30 and finds out that she will have to save for two years and six months to accomplish her goal.