

# First Timer's Guide: Budgeting

**There are a lot of  
myths about budgeting.  
We're here to help you  
bust a few of them.**



“Budget” isn’t a bad word—and budgeting doesn’t have to be complicated or require hours of paperwork. Knowing where you stand financially, and having a plan for your hard-earned money, will make things a lot less stressful.

But sometimes it can be hard to know where to start. That’s why we’ve broken it down into five easy steps.

## Step one: Know where you stand.

To get a sense of where you stand financially, you need to understand your net worth and find out your credit score.

### UNDERSTANDING YOUR NET WORTH

You need to know where you stand with your finances today to know where you’re going in the future. Your net worth is your assets (home, car, cash, investments, etc.) minus your debts (student loans, line of credit, mortgage, credit cards, etc.)

Ideally, you want to have a positive net worth. But that’s sometimes easier said than done. If you calculate your net worth and it comes up negative, don’t be discouraged—it tends to improve as you advance in your career and your income increases.

## Step two: Know what’s coming in and what’s going out.

Before you can make a budget, you need to know how much money you have coming in and what your expenses look like.

### WHAT’S COMING IN: GROSS VS NET INCOME

When you get your pay stub, you’ll probably see two numbers. Your gross income is the total amount of money you’ve earned. Once taxes and other deductions are subtracted from your gross income, you have your net income, or take home pay. When you make your budget, be sure to use your net income as this is the actual amount of money you have to work with.

Don’t forget to include other income sources like self-employment, commissions, bonuses, tips, government benefits, bursaries, and tax rebates, but be mindful that these are not always guaranteed amounts.

## WHAT'S GOING OUT: TRACKING YOUR EXPENSES

You should track your spending for two or three months to get a clear sense of where your money is going. Little things—like your daily coffee—can add up quickly, so tracking your spending over time gives you a much clearer picture of where your money is going every month. This will help you build a solid, reasonable budget.

Tracking your expenses doesn't have to be complicated. There are lots of options:

- **NOTEBOOK:** Low-tech and easy. Just carry a small notebook with you and track daily expenses as you go.
- **RECEIPTS:** Collect all your receipts. Put them in categories based on the type of expense and input them into a spreadsheet.
- **SMARTPHONE APP:** Since your phone is with you most of the time anyway, it's probably the most convenient option. Just download an app that tracks your expenses—there are lots to choose from and some of the best-rated ones are free.

You should make keeping track of your expenses as easy as possible so you're more likely to make it a habit. Tracking your spending will help you understand what you have, where your money is going, and where you might be able to tweak to give yourself some more financial wiggle room.

## Step three: Know where you want to be tomorrow.

Once you know where you are, the question becomes: "Where do you want to be?"

Maybe it's saving for a down payment on your first home or a vacation somewhere sunny and warm. Maybe you want your student loans to be a thing of the past or are thinking ahead to your retirement. Regardless of where you'd like to be financially, it's important to set goals so you have something to work toward. Once you know where you're going, you can build your budget to make sure you can get there.

### LIST YOUR FINANCIAL GOALS HERE

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## Step four: Build your budget.

Now that you know where you are and where you're going, it's time to build a budget to help get you there. While your first budget may take some time to create, it's like anything—practice makes perfect. The more accurate and honest you are with your budget, the better it will work. And once you've taken a first pass, you can adjust and tweak as needed each month.

Categories of spending:



These are some general categories to help you get started—but you will likely need to adjust them to suit your lifestyle and financial situation.

### FIXED VS VARIABLE EXPENSES

The next step is to figure out which of your expenses are fixed and which are variable. A fixed expense is a set amount that goes out every month—like rent. A variable expense can change—like groceries.

For budgeting, fixed expenses are easier to work with since you know exactly how much they are each month. Because variable expenses can change, they can make budgeting tough and make overspending easy. The solution is to make as many variable expenses as you can become fixed expenses.

For example, you could set a fixed monthly budget of \$250 for groceries. This means you will not spend any more than \$250 on groceries every month. By turning a variable cost into a fixed cost, it will make budgeting easier.

### GOOD TO KNOW

It's important to be honest with yourself when setting a fixed budget for your variable expenses. Be sure to take into account your spending habits and set a fixed amount that take this into account.



## NEED VS WANT

Sure, you want a new pair of shoes. But do you really need a new pair of shoes? Being able to distinguish a need from a want is important. Needs are necessary for you to live—like food and shelter. A want is something you'd like to have, but isn't really necessary. Asking yourself "Do I really need this?" is a good way to help you avoid impulse buying and stay on budget.

Once you've entered your income and expenses, you'll see if your budget balances. A balanced budget means your income equals, or is greater than, your expenses.

If your budget isn't balanced and is negative, you'll need to make some adjustments to either reduce your expenses or increase your income. And if you find that you have money left over, this would be a great time to review your savings goals and start to think about investments and long-term savings.



## CHOOSE A MONEY MANAGEMENT SYSTEM THAT WORKS FOR YOU

Now that you've made a budget, it's time to choose a money management system.



## LOW-TECH: THE ENVELOPE METHOD

If you want to go old school, a plain ol' envelope can be a great way to stick to your budget. How does it work? If you've allotted yourself \$400 per month for groceries, you withdraw \$200 when you get your first pay of the month and put it in an envelope marked 'groceries'. No money comes out of that envelope unless it's going toward groceries. Seriously. None. When you get paid again, withdraw another \$200 and place it in the envelope. When the money runs out in the envelope, you don't spend any more money in that category until a new month starts.

Don't be tempted to borrow from other envelopes. If you have money left over, that means you've come in under budget. Nicely done! You can use the extra cash to boost your savings, pay down debt, or treat yourself to something special.



## HIGH-TECH: SOFTWARE AND APPS

If you prefer to go paperless, there are plenty of excellent options. The great thing about apps is they're always in your pocket or purse when you need them. Like the envelope method, they can show you how much you have left to spend every month. Some can even help you set up your budget. Take a look at the options and choose the one that works the best for you.



## OK, SO YOU HAVE A BUDGET. NOW WHAT?

Congrats! Having a budget is a great first step to getting control of your finances. But that doesn't mean you're done. It's important to revisit your budget to make adjustments. Your life doesn't stand still and neither should your budget.

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## Step five: Build a financial plan for the future.

In step three we talked about setting some financial goals for the future. Now that you have a list, it's time to meet with a financial expert who can help you build a financial plan. A financial expert can help you answer questions like:

- **Am I saving enough?**
- **Am I paying down debt fast enough?**
- **What else should I be thinking about?**

Your credit union financial expert is here to help you tame your finances, reach your goals, and feel good about your money and financial situation.

Getting control of your finances doesn't need to be overwhelming. Especially when you have a trusted partner helping you out.

If you have any additional questions about budgeting or anything included in this guide, connect with your local credit union.

