

Preparing a Budget

By Pastor Les Smith

- I. The first step in preparing a budget is determining your long term and your short term goals.

Long Term

- 1) Financial independence
- 2) Purchase a first or second home
- 3) Save for college for the kids
- 4) Retirement
- 5) Be debt free
- 6) Vacation
- 7) Missions Trip, etc

Short Term

- 1) More peace of mind
- 2) Sleep better at night
- 3) Avoid embarrassing phone calls from collectors
- 4) Give to ministry
- 5) Pay off bills in a timely fashion or more consistently
- 6) Get control of finances, etc.

This part of the process is designed to help you think through you current financial situation and determine where you would like to go in the future. An old adage states that “if you don’t know where you are going, any road will take you there” (including the one that you are on).

II. The next step involves a calculation of income.

In this step, you will calculate income from all sources, including wages, retirement benefits, social security payments, child support payments, alimony, tips, etc. If you are to have a true picture of your financial situations, you will need an accurate statement of your wages. The spreadsheet is setup to handle monthly wages. If you get paid twice each month (1st and 15th, etc.) then add the net amount (take home pay) together. If you get paid weekly, multiply your net weekly income by 52 (number of weeks in a year) and then divide by 12. This is your monthly income. If you get paid every two weeks, then multiply by 26 (your total number of paychecks in a year) and divide by 12 to get your monthly income. If you are doing a family budget, add the two monthly incomes together. If you make overtime, anticipate bonuses or other special payments, **this is not extra money** . You need to estimate how much you will get and in which months you will receive it. If you have deductions for savings, health insurance, loan payments, etc, they are treated differently in the budging process. Ignore them for now. **Caution:** If you have money deducted for savings that goes to a bank or credit union, and you use any of those funds for your expenses during the month, you must treat the savings as part of your available income.

III. The next step in the process is the calculation of your expenses. This process is usually more difficult then calculating your income, but time spent doing this process will pay dividends later as you live by your budget. The keys to the process are that **all expenses** must be documented and accounted for, and all payment due dates must be recorded and adhered to. **All means all.**

General Guidelines for recording expenses.

- 1) **Record fixed expenses first.** These are the ones that you have every month, and the amounts are usually the same. For instance, house payments, insurance, car

payments, loan payments, etc. are all fixed payments. Remember to include your tithe and some amount to be saved, if the budget will allow. If you have fixed payments that you pay other than monthly (childcare, car insurance, taxes on your home, etc.) you need to divide the amount by 12 if you pay annually or multiply by 2 and then divide by 12 if you pay every 6 months. You are trying to get to a monthly number. If you pay each week, it is just like getting paid weekly. Multiply by 52 and then divide by 12 to get the monthly expense.

- 2) **The next step is recording your variable expenses, or those that may have different amounts each month.** In this step, it is important to come up with a good average for the month. You can do this by looking at past bills. Pay close attention to the times of the year for utilities. Estimate monthly amounts for groceries, eating out, recreation, laundry and dry cleaning, gasoline, car repairs, license plate renewals, state inspections, etc. Don't forget school lunches, and be sure to include some amount of spending money for yourself. The spreadsheet is setup to account for expenses on a monthly basis. If you have expense categories that are not on the spreadsheet, and there are categories that you are not planning to use, just "type over" the existing category and put in your own. This is your spreadsheet. Change it to suit your own needs.

IV. The next step involves determining if your available income covers all of your documented expenses. If the number at the bottom of the spreadsheet is positive, you are nearly done. If the number is negative, you have a bit more work to do.

If you have a positive number at the bottom of the spreadsheet, you have positive cash flow, and the amount that you are positive is your budget margin. This is the amount that you have available for other goals or projects. **The final step for you may be easy or difficult, depending on your current financial situation.** You now have to implement your spending plan. This means that you have to match the times that your income is available to the times that your payments are due. If you get paid monthly, plan on implementing your budget the first of the next month,

or on the day you receive your next monthly check. If you get paid weekly, you can begin with your next weekly check. You may not receive enough in your weekly pay check to pay for everything that will be due at the time of you get your check. If this is the case, consider taking money from your savings or a short term personal loan from a friend or relative. **Stay away from the payday loan offices. They will pick you clean.**

- V. If you got to the end of your budgeting process and you had more outgoing than you had income, you may need extra help in getting finished, but you can have a budget that works, so keep the faith. If you have trouble implementing your budget because of timing of payments, you may need extra help, as well. If you need extra help with your budget, call the church office (972) 437-3493 and tell the receptionist you would like to get help with your budget. Leave your phone number and someone will call you back.