

Spending: How to Make a Budget

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Budgets are the only practical way to get a grip on spending, and to make sure your money is being used the way you want it to be.

Personal-finance programs or websites like Quicken and Mint.com offer built-in budgeting tools that can create your budget for you.

Every time you make a deposit, write a check, pay a credit card bill or dispatch an electronic payment, you can assign it to a particular category, like "salary," "clothing," "groceries," "child care" or "health insurance."

Some programs will allow you to download your payments and deposits directly from the bank, rather than having to enter them by hand. The downloaded transactions will often show up without any categorization -- meaning you'll have to add the categories yourself. Sometimes, they come with categories attached, but they aren't always right, so check them.

Such programs often have an automatic budget creation feature that scans your spending in the past in order to estimate how much you'll spend going forward.

If your finances aren't wired, you can still get a good handle on your spending the old fashioned way. Start by getting all your records together from the past 12 months. Then go through them and compile totals for your income and expenses in a set of categories that makes sense for you, and enter them into the rows in a spreadsheet.

You may still have a sizable lump of spending that's undocumented -- typically, the money you withdraw in cash and then spend on day-to-day needs. If this portion of your budget seems to be getting out of hand, keep a journal for the next four weeks in which you record every nickel you spend. You can use those results to extrapolate how your cash is being spent throughout the year.

Once you have a budget, it's time to go through your [spending](#) and figure out where you need to cut back.

This is especially urgent if you spend more than you make. If your spending exceeds your income, then your top priority should be to [cut back](#).

If your household runs in the black, you may still want to reallocate some of your spending.

Here are some tips to keep in mind:

Watch out for cash leakage. If withdrawals from the ATM machine evaporate from your pocket without apparent explanation, it's time to keep better records. In general, if you find yourself returning to the ATM more than once a week or so, you need to examine where that cash is going.

Spending beyond your limits is dangerous. But if you do, you've got plenty of company. Government figures show that many households with total income of \$50,000 or less are spending more than they bring in. This doesn't make you an automatic candidate for bankruptcy -- but it's definitely a sign you need to make some serious cuts.

Beware of luxuries dressed up as necessities. If your income doesn't cover your costs, then some of your spending is probably for luxuries -- even if you've been considering them to be filling a real need.

Tithe yourself. Aim to spend no more than 90% of your income. That way, you'll have the other 10% left to save for your big-picture items.

Don't count on windfalls. When projecting the amount of money you can live on, don't include dollars that you can't be sure you'll receive, such as year-end bonuses, tax refunds or investment gains.

Beware of spending creep. As your annual income climbs from raises, promotions and smart investing, don't start spending for luxuries until you're sure that you're staying ahead of inflation. It's better to use those income increases as an excuse to save more.

Once you've set your budget goals, you need to develop the habit of tracking your expenses on an ongoing basis and make sure the spending stays within the limits you've set.

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