

How to Create a Budget

With consumer prices rising, it's more important than ever to stay in control of household finances. Here's how to create a budget that will help you analyze your spending patterns and live within your means.

1. Use our free [expense tracking tool](#) or a handwritten page listing all your spending categories. Categories may include (but aren't limited to):

- Mortgage/rent
- Food
- Commuting
- Medical/prescription
- Heat
- Childcare
- Telephone/cellphone
- Electricity
- Home maintenance
- Internet
- Vacations
- Entertainment
- Cable TV
- Clothing
- Dining out

2. Track every expense (whether you pay with cash, check, debit or credit card) for *three consecutive months*, recording them in the appropriate categories. Record *every dollar spent* so you can accurately determine your expenses. Be sure to collect and record every receipt.

2a. With once-a-year expenses like car insurance, divide annual payments by 12, and include them as monthly expenses.

2b. If you lack an emergency fund with at least three months' worth of living expenses, include "Emergency Fund" as an expense category, and contribute a fixed monthly amount until you've accumulated an emergency stash that will see you through job loss or unexpected emergencies. (*Exception: If you have credit card debt, pay down your debt first.*)

3. Next, create a worksheet to record income — paychecks, freelance income, tax refunds, gifted money or store rebates.

4. At month's end, total each expense category. Then add all of the category totals together to determine your total monthly expenses.

5. Add up your total monthly income for each month, and subtract your total monthly expenses. This represents your discretionary income, what you have left over after paying bills to save, invest, give to charity or spend accordingly.

6. At the end of the three-month period, add up the total expenses for each month and divide by 3. This is your average monthly expense and the foundation of your budget.

7. If your average monthly expenses exceed your income, you'll need to closely examine categories for areas to economize.
8. Use your average monthly expenses as a spending guide throughout the month. Curtail spending when you approach your limit for a category, or "borrow" from another category if you must.

Visit our Articles Library for further tips and details on [creating a budget](#).