

MADE OF MONEY

Budgeting methods handout

Budgeting methods:

1. One Number

The aim of this way of budgeting is to come up with a weekly figure that you are free to spend on things you enjoy or fall into the lifestyle category.

Start with your income. Calculate the total amount coming in. Then work out your essential costs and add any debts you are paying off and an amount to save, if possible. Add all these together and subtract from the income amount, for example:

Total income: £1,100 per month

Essentials: £650

Debt payments: £40

Save: £30

Total outgoings: £720

Income minus outgoings: $1,100 - 720 = £380$

So you have £380 a month for lifestyle spending. Now you need to turn this into a weekly amount. A weekly one is easier to adjust if you overspend one week.

To get a weekly figure, take your monthly figure and times by 12, then divide by 52 e.g.,

$380 \times 12 = 4,560$ divided by 52 = £87 per week.

The Spending Tracker app allows you to set a weekly, monthly or yearly figure. You can then record your spending against this figure and keep your spending under control.

2. Irregular Income budget

Step One: Know Your Baseline

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If you have an unpredictable income, it's best to work "backwards". Start with the amount of money you will spend to find out how much income you will need. If your income is unstable, then it is your expenditures that must be stable, predictable and repeatable.

Use the three categories of expenditures:

- essentials
- debts and savings
- lifestyle

Your baseline expenditures are those in the essentials category—those that must be paid every month, without which you can't live.

Step Two: Set Your Income Target

Anything above the bare-bones income target goes:

- first to your financial priorities savings
- second to your emergency fund savings
- third to you as "bonus" to spend on lifestyle choices

Step Three: Set Up Separate Bank Accounts

To make this plan most effective, you'll want to set up separate bank accounts.

One for income

All income is paid into this account and then distributes to the other three:

- One for essentials
- One for priorities and emergencies
- One for lifestyle

That's it! You now have a basic budget, your income target and where exactly your money should go ... no matter how it comes in.