

Meet Your New Year's Financial Goals with a Budget

BY S.
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DO YOU ALWAYS BREAK YOUR PERENNIAL JANUARY 1ST FISCAL RESOLUTIONS? KEEP YOUR WORD IN 2011, AND BEYOND, BY CREATING AND STICKING TO A BUDGET.

Is one of your New Year's Resolutions to get your financial house in order? You're not alone. It's one of the perennial promises made each January 1st. But by January 31st, too many of us abandon this worthwhile goal.

There is, however, a proven way to ensure you do a better job with your money in 2011 and beyond. Create a budget.

To many people, the word budget is just another way of saying "you can't have it." But a budget actually is a way to get what you want, as long as you understand that financial choices must be made and you make those decisions wisely.

WHAT EXACTLY IS A BUDGET?

In its most basic form, a budget is an organized, systematic method to determine how much money you have coming in, how much money you have going out and how to reconcile the two.

But a budget is more than simply tracking financial transactions. It is an important tool to help you achieve a wide range of financial goals.

Your immediate goal should be to live within your means. A budget will help you identify unnecessary spending that is causing you to end up with little or no money at the end of each pay period.

In the longer term, a budget can help you move beyond day-to-day finances and achieve important goals such as saving for a new car, home, your children's educations and your retirement.

CREATING YOUR FINANCIAL MAP

Think of a budget as a road map that will guide you through your financial life, helping you avoid potholes or overcome roadblocks that could send you careening into a financial ditch.

Some basic budgeting tools ones are free and available online. Others are more elaborate and entail some fee, such as budgeting services included by some paid financial advisors.



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You can get a good idea of where you stand financially by creating your own down-and-dirty budget worksheet to keep track of your monetary inflow and outflow.

Start by totaling your income. This includes salary, wages, tips and bonuses (which usually show on pay stubs); other income, such as from a part-time job; and investment earnings.

Then add up all your expenses, such as:

HOME EXPENSES – Mortgage or rent; utilities; telephone (cell and land line); cable or satellite TV; home repairs and maintenance; property taxes and homeowners' insurance (if these costs are not part of your mortgage payment); or renters' insurance coverage

TRANSPORTATION COSTS – Car payments and insurance; gasoline; repairs and maintenance; other transportation, such as bus fares and toll road fees

PERSONAL EXPENSES – Child care; groceries; clothing; entertainment; health care; gifts and donations; pet care

PERSONAL DEBTS – Credit card payments, fees and interest; student loans; and personal loans

OTHER FISCAL EXPENSES – Contributions to a savings account or emergency fund; retirement accounts; educational plans.

Consider going beyond this framework. The more detail you include in a financial sheet, the better. Instead of combining all your credit card expenses on one line, create a separate line for each card. That will give you a clear indication of which credit card you use the most. From there, you can evaluate whether that is the card you should be using; perhaps it has a higher interest rate than the others.

Similarly, be specific on personal expenses. This is a category that often is overlooked. Instead of a catchall entertainment category, elaborate on where you spend your discretionary money: eating out, sporting events, movies, books, CDs, coffee shop lattes, etc. You will probably be surprised at how quickly some of these expenditures add up.

As for the other fiscal expenses, you might not be putting money into these areas yet, or the amounts might be irregular. But keep these line items in your budget as a reminder of all your financial goals.

ADJUSTING YOUR BUDGET ENTRIES

One you have listed your income and expenses, the bottom line will show whether you are living within or beyond your means.

If your bottom line is positive, your income is sufficient to meet your needs. But are your expenses where they should be? Maybe you're spending excessively on clothing, while making only minimum loan payments that are accruing interest charges every month.

Your budget will allow you to determine how to best shift money from one area to another. Remember, a budget is not static. You can and should make changes when your financial circumstances and goals change.

If your bottom line is a deficit, then you are spending more than you make. Use your budget data to develop a strategy to reverse this situation.

Determine in which areas you consistently come up short. Figure out which expenditures you need to eliminate, at least temporarily, or areas where you can reallocate your finances.

In the end, your budget adjustments will mean a happier fiscal New Year.

Get the latest tax tips and general financial advice at S. Kay Bell's blog, Don't Mess With Taxes (<http://dontmesswithtaxes.ty-pepad.com>). *AW*

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