

For most people, the word “budget” conjures up thoughts of penny-pinching and the unpleasant task of crunching numbers. This couldn’t be further from the truth. A [budget](#) is at the cornerstone of a solid financial foundation, regardless of your situation, and it isn’t that hard to do.

What is a Budget?

A budget is nothing more than a breakdown and plan of how much money you have coming in and where it goes. Could you imagine a business becoming successful if it didn’t keep track of its income and expenses? The same holds true when it comes to your personal finances. If you don’t know how much money you have coming in and where it goes, your road to financial success will be a difficult one.

The biggest fear that most people have when creating a budget is that they will need to suddenly cut back on all of the fun spending -- things like the occasional coffee or dinner out, movie night, or even the trip to grandma’s for the holidays. While you may find that you do need to cut some spending after putting together a budget, without actually sitting down and creating one, it is impossible to know what expenses need to be cut, if any.

Tracking Income

The first step in [creating a budget](#) is to determine how much income you have. This is quite easy and typically only requires you to take a look at your pay stub. Of course, if you’re married, be sure to include your spouse’s income as well. In addition to your regular pay, you’ll want to also include any other sources of income you may have, such as dividends, interest, a side business, and so on.

Tracking Expenses

Now that you know how much income you have coming in, it’s time to take a look at your monthly expenses. Start with the regular and fixed payments you have, such as your mortgage or rent, car payments, insurance, debt and taxes. For most people, these are going to be relatively fixed, meaning you can’t easily change the amount that is due each month.

After you’ve listed your fixed monthly expenses, it is time to dig deeper to find out where the rest of your money goes. Take out your checkbook or pull your latest bank statement to help you with this step. Jot down how much you spend on things like utilities, groceries, entertainment, subscriptions, and so on. [This handy worksheet](#) can help you with keeping track of expenses.

The Bottom Line

You should now have all of the information needed to help you create your budget. So, go ahead and total up your monthly income and all of your monthly expenses. Subtract your expense total from your income total and you’ll have either a positive or negative number. If you have a positive number, congratulations, you are spending less than you earn. Don’t worry if you have a negative number. The whole reason for creating a budget is to identify deficiencies and find out how to address them.

Now that you can visually see how much you fall short, you can adjust your spending or saving in certain areas to improve the situation. Oftentimes you'll realize that by just making a few small adjustments to your spending habits, you can significantly improve your situation. Maybe this means cutting back on one of your magazine subscriptions, eating out one time less a month, or even just hitting the matinee instead of the prime time movie. Typically, just saving a few dollars here and there can be enough to not only make sure you spend less than you earn, but also apply a few extra dollars to things like high-interest credit card debt or your retirement savings.

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