



Financially SMART



More about

R⁺

Good financial habits:
How to budget

Introduction

Creating a realistic budget is the first step to creating wealth.

As soon as you start spending your own money, you should start tracking your spending so that you can create and follow a personal budget or a personal financial plan. A budget helps you to highlight unnecessary spending and allows you to plan your finances better. If you don't plan your spending and saving, you will always be affected by unexpected emergencies. Increases in the cost of food and petrol also have a negative impact on your money.

You are probably spending the best part of 40 hours a week at work and get home too tired to enjoy your free time. If you are going to spend so much time earning an income, you need to make sure that your money is working for you and going to the things that are important to you.

Not being aware of your spending and savings habits will leave you in a predicament when you have unplanned or unexpected expenses and emergencies.





1. Budgeting

You need to have a clear picture of your financial goals. You should have:

- Short-term goals
- Medium-term goals
- Long-term goals

Goal	Time-period	Example
Short-term goals	Less than a year	Reduce debt / Close clothing account
Medium-term goals	1 to 2 years	Save for a holiday
Long-term goals	5 years	Buy a car

Often, achieving a long-term goal requires reaching a set of short-term goals.

For example, in order to buy a R960 mountain bike in four years, you will need to save R240 each year for the next four years, or R20 each month. The short-term savings target amounts to less than R1 per day.

Before we look at creating a budget, it is important to know what the following terms mean.

Term	Meaning
Budget	A plan that details how you are going to spend your income
Variable costs	Costs that change from month to month. For example, electricity, airtime, transport, etc.
Deficit	When you spend more than you earn, you will have a deficit (a negative balance)
Expenses	Everything you have to pay for
Fixed costs	Costs that do not change every month. For example, your monthly rent or bond payment etc.
Income	Your earnings. For example your salary, grant, pocket money, overtime income etc.
Needs	Things you cannot live without. For example, food, water, shelter, clothes etc.
Surplus	Money you have left over after you have paid all your accounts and bills
Wants	Things you can live without. For example, branded clothing, smartphones, takeaways etc.

“A penny saved is a penny earned.” ~ Benjamin Franklin



More about

R⁺ Good financial habits:
How to budget

1.1 Importance of budgeting

Preparing (and sticking to) a budget is an essential part of responsible money management. Whether you just have a few financial responsibilities or if you are responsible for paying all your household expenses, knowing how much money you have and understanding where your money is spent is the first step towards achieving financial independence.

Budgeting allows you to create a spending plan for your money. It ensures that you can have enough money for the things you need and the things that are important to you. Following a budget or spending plan will also assist you to manage your debts. Budgeting is an important step to determine your financial health and to create financial stability. A budget helps you to live within your means.

A budget also has the following advantages:

- To be and stay in control of your financial situation.
- Helps you to prioritise your needs before your wants.
- Helps limit unnecessary spending.
- Helps you keep track of your spending.
- Allows you to plan for future expenses.
- Allows you to determine how much money you have available to spend on needs / luxuries like going out with friends or brand name clothing.
- Reduces your long-term risk of financial disaster like over-indebtedness.
- Helps you determine how much you will be able to save.
- Enables you to see where you can or need to make changes in your budget to better your financial situation.

1.1.1. Benefits of a budget

- Make long and short-term plans for your finances
- Get the most from your money
- Plan for major financial changes
- Achieve peace of mind through reaching your goals

Keep track of your spending by carrying a notebook and pen. Write down your daily spending and monthly expenses. List everything that you spend, no matter how small – from the newspaper or coffee on the way to work or your spending spree at your local shopping mall.

If you have access to a personal computer, transfer your notes onto a spreadsheet, such as Excel, on a daily or weekly basis. Download a free budget template from www.fscamymoney.co.za. Once you have collected your information for a month, you will have a clearer picture of unnecessary spending. Doing this for a year will help you to think twice before spending.

1.1.2. What should you include in your budget?

- Housing (bond / rent)
- Food (Groceries / eating out)
- Utilities (variable expenses)
- Fuel / Taxi fare
- Insurance
- Clothing
- Personal savings
- Entertainment



- Other



Note: Personal savings

Personal savings are things like saving for retirement, education, an emergency fund and long-term savings.

Utilities

Utilities, such as electricity, water, pay-as-you-go cell phone, are called variable expenses because they vary from one month to another.

Other

Other, includes expenses that are not expected on a monthly basis such as gifts, vehicle repairs, hair braids or extensions etc.

1.2 Needs and wants

It is important that you have a clear understanding of the difference between your needs and wants. This will enable you to spend your money more wisely.

- Needs – Are the things you cannot live without, such as water, shelter, and food.
- Wants – Are the things you can live without. Example: brand name clothes, takeaways, dining in fancy restaurants and cigarettes.

1.3 Fixed and variable expenses

A budget is made up of fixed and variable expenses. There are fixed expenses which are those expenses that are the same every month, e.g. rent, insurance, savings, car payments and medical aid and then there are variable expenses, e.g. groceries, electricity, telephone, petrol, and medicine. In order to save money, you should focus on decreasing your variable expenses.



Tip: Your aim when drawing up a budget is to pay for your needs first and reduce your expenses in order to save more for the things you want and for your old age. Some people think that they are still young and will have enough time to save for their old age. Remember you cannot rely on your children to look after you. You need to save for your old age from your first source of income.

1.4 Income and expenditure

A plan that details how you are going to spend your income.

A budget is made up of your income (what you earn) less your expenses (what you plan to pay).

It is important that your expenses include any debt (e.g. furniture accounts or loans) that you might have and savings that you would like to put away for future uses.

Budgeting is, therefore, a useful tool to ensure that you do not overspend the money you earn.



More about

R⁺ Good financial habits:
How to budget

Are you ready to create your budget?

1.5 Create a budget

When creating a budget:

- Create a list of all your monthly expenses, i.e. rent, school fees, groceries, transport, electricity, insurance.
- Write down how much money (collective income) you and / or your family get every week or month.
- When determining your expenses, you must take note that, there are costs that come in to play every month which are variable costs, i.e. they change every month, e.g. telephone bill, water and electricity. You will need to adjust these costs in your budget, monthly.
- It is very important that you have a saving goal, decide on how much you want to save and stick to it.
- Write down the cost of all your luxuries (wants), these are things that you would like but are not necessary for you to live, e.g. DSTv, going out, buying brand name clothes, etc.
- It is important that you plan for unplanned or unexpected events by setting aside an amount of money each month (known as a buffer). Unplanned or unexpected events can be paying for a funeral or doctors' bills.
- Add up all your expenses so that you can see the total of ALL your costs.
- Subtract these expenses from your income. If your total costs are more than your income, you are in trouble and need to cut down somewhere on your expenses.
- Compare your budget with your actual expenditure that month or week.
- It is important that you adjust your budget if need be.
- Create a column for your planned vs. actual expenditure for example.

Item	January		February	
	Budgeted amount	Actual amount	Budgeted amount	Actual amount
Income (your earnings)				
Salary				
Child support / grant				
Other income				
Sub-total income				
Expenses (Everything you pay)				
Fixed costs (Costs that do not change)				
Rent / House bond				
Vehicle finance				
Short-term insurance				
Medical aid / Hospital plan				
School / crèche (daycare) fees				
Retail store accounts (e.g. furniture)				
Cell phone contract				
Internet contract				
Magazine / newspaper subscriptions				
DSTv				
Personal savings / emergency fund				



More about

R⁺ Good financial habits:
How to budget

Gym				
Money for family				
Sub-total fixed costs				
Variable costs (Costs that change)				
Transport, e.g. petrol and taxi fare				
Utilities (water and lights)				
Groceries / eating out / takeaways				
Clothing / clothing account				
Entertainment				
Medication				
Cell phone airtime (pay as you go)				
Sub-total variable costs				
Other expenses				
Contribution to events (e.g. gifts)				
Vehicle repairs				
Haircut / salon / beauty treatment				
TV licence fees (annual or monthly)				
Vehicle licence renewal (annual)				
Sub-total other expenses				
Total Income				
Less total expenses (fixed + variable + other)				
Surplus or Deficit				

1.6 Tips to make budgeting easier?

There are a number of tips that can help you create a budget.

- Set financial goals you want to achieve.
- First, pay for the things you need. Then buy the things that you want, if you can afford to.
- Always be honest with yourself when drawing up a budget.
- Avoid unnecessary credit.
- Keep a record of all your receipts and reconcile them to your budget.
- Make sure you budget enough for savings.
- Watch out for impulse purchases.
- Make budgeting a family affair

“What gets measured, gets managed.” ~ Peter Drucker

1.7 Maintaining your budget

1.7.1. Control your spending

Avoid making impulsive purchases. If you didn't go to the store or online to make the purchase, wait 24 hours before buying the item. Do you need it, or is it a nice to have? Only when you are financially secure can you start to think about splashing out on nice-to-have purchases.



More about

R⁺ Good financial habits:
How to budget

1.7.2. Keep track of every expense

It's easy to remember or see how much you spent on rent or your bond payment, but for other expenses, you'll want to keep your receipts. Relying on your debit or credit card statement isn't always such a good idea as the transaction descriptions are not always clear. Remember to include debit card transaction fees and interest charged on credit card purchases in your expenses.

1.7.3. Update your budget

Track your spending daily if you can or at least weekly to keep up to date and on track.

1.7.4. Use accurate descriptions

List your expenses by what they are rather than where you purchased them. This allows you to see how much you spent in particular categories. For example, a purchase from a big retailer may include groceries and clothing.

1.7.5. Budget monthly

Complete your budgeted amount column at the start of every month. This helps you to start thinking long-term, but not too long term that the thought of completing your budget becomes scary. If you have had high expenses in the past month, you can see how to make up for it in the new month.

1.7.6. Plan for other expenses

If you are on a tighter budget, set aside additional savings ahead of time. Don't get into debt because you didn't remember that it was your dad's birthday or that you had 6 months warning to buy a wedding gift for your best friend.

If you are a commission earner or self-employed, put some money away during the 'good' months to help you in the 'not-so-good' months.

1.7.7. Pay your bills on time

Make sure you pay your bills on time in order to avoid unnecessary late payment penalties and / or interest charges.

1.8 Track expenses

Save all your receipts throughout the week (keep them in a box). Then, pull them out at the end of the week, and sort them into categories – groceries, vehicle expenses, entertainment, etc.



●●● **More about**

R⁺ Good financial habits:
How to budget

Total each category, and enter the figure in the appropriate spot on the tracking sheet, below. Repeat the process for all the remaining weeks in the month. Then, total your expenses to see how much you have spent this month. This will give you a snapshot of your overall spending, but also help you to catch areas where you might be spending too much.

Tracking spreadsheet

	Week 1	Week 2	Week 3	Week 4	Week 5
Groceries					
Household					
Transport					
Personal care					
Entertainment					
Other					
Weekly Totals					
Monthly Expenses					
Totals					