

Building a Spending Plan: All Six Steps¹

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This publication collects all six steps of the *Building a Spending Plan* series in one document. For individual publications in the series, visit http://edis.ifas.ufl.edu/topic_series_building_a_spending_plan.

Step 1 - What Are Your Financial Goals?

Everybody needs to learn how to manage money. Good money management includes being able to pay your monthly bills, save for the future, and buy the things you need and want without creating unmanageable debt. A spending plan can be a helpful money management tool. You can master the skills of money control and learn to conserve your income by using knowledgeable spending. Planning can help you extend your buying power. Good spending habits foster financial security and develop wise use of credit.

By following this 6-step exercise, you can build a spending plan based on your finances. You can decide if you want to reduce debt, save to buy items for your home, or better control spending so you can pay bills on time. You decide what you want to achieve with your money, and your spending plan will help show you how you can do it.

The first step in building your spending plan requires you to write down your financial goals. One method of doing this is to think about what you want to achieve financially within a certain number of months. What do you want in



Figure 1. Credits: TongRo Image Stock

the future? What do you want right now? Do you want to save money for a bicycle for your daughter's sixth birthday later this year? What do you want later that will take you longer to save for? Do you want to save money for a down payment on a house?

If you want to achieve your goals in a time less than a year away, then those goals are classified as short-term goals. If your goals will require more than a year to achieve, then they are long-term goals.

You may find it helpful to include the following information in each financial goal:

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- What is the money going to be used for?
- How much money is required?
- By what date do you want to do this?

Try writing some of your financial goals in the charts below.

You can now add up the money required for your short-term and long-term goals. These totals show you what you want to achieve with your money. Following the rest of the steps in the *Building a Spending Plan* series will help you find that money to fulfill your financial goals.

Before setting your goals aside and moving to the next step, read your goals again and see if they are SMART goals. SMART stands for goals that are **S**pecific, **M**easurable, **A**ttainable, **R**ealistic, and **T**imely. If you answered the three questions (purpose, amount of money, and by when) when you wrote your financial goals, you have goals that are specific and measurable.

Attainable goals are ones that actually have an end point.

Realistic goals are ones that are based on your actual financial situation. Setting too high a standard can make you feel less confident about reaching it.

Timely goals are ones that coincide with your needs. Plan to have the money by the time you need it — for example, you'll need the money for the birthday bicycle or the down payment on the house.

Writing SMART goals will help insure that you are able to reach your spending goals. It takes commitment and effort to make financial goals a part of your daily life. To learn more about SMART goals read *Goals and Standards in Resource Management*, FCS7055 (<http://edis.ifas.ufl.edu/he169>).

If you are experiencing a money crunch and want to start building a spending plan, then you might want to read *Coping with a Money Crunch: Values, Goals and Standards*, FCS7006 (<http://edis.ifas.ufl.edu/fy228>). It will help you define your needs and wants so you can better prioritize your financial goals.

Short-Term Financial Goals (less than a year from now)		
Purpose?	Amount of money?	By when?
1.		
2.		
3.		

Long-Term Financial Goals (more than a year from now)		
Purpose?	Amount of money?	By when?
1.		
2.		
3.		

Step 2 - Where Is Your Money Going?

In order to manage your money, you have to know where your money is going. What do you buy? What monthly expenses do you have? What are the different ways you can spend and encumber (make a promise to pay) money?

You may know exactly how much you are spending or you may have no idea. Either way, you need to know where your money is currently going (what you are buying or paying for) in order to create a spending plan.

A simple no-cost method of tracking your spending is by recording your expenses on paper. Start with a plain sheet of 8.5" x 11" paper. (Notebook paper works just fine.) Fold it in half from side to side, lengthwise. Then fold it in half again two more times to create eight sections on each side. Label the first seven sections with each day of the week. Label the last section "Totals."

To use: re-fold the paper to the current day. Carry it with you and make a note of each item purchased and how much you paid for it. Don't forget to record purchases put on your debit or credit cards. Record your purchases every day for a month. Total the expenditures by category in the eighth section. See the example in Table 1 below.

This information will be helpful in Step 4 so be sure to keep the paper in a safe place like a file, a large envelope, or a box.

Table 1. Daily expenditures for a week.

Monday	Tuesday	Wednesday	Thursday
Lunch \$4.75 Groceries \$15.32	Gas \$10.00 Lunch \$4.85	Barber \$8.00 Soft drink \$.75	Lunch \$4.85 Movies \$8.50
Friday	Saturday	Sunday	Totals
Lunch \$2.50 Cleaning supplies \$8.67	Laundromat \$6.50	Pizza \$8.59	Lunches: \$16.95 Groceries: \$15.32 Snacks (food): \$9.34 Cleaning supplies: \$8.67 Laundromat: \$6.50 Gas: \$10.00 Barber: \$8.00 Movies: \$8.50 Total = \$83.28

Table 2. Other expenditures by check and automatic withdrawal.

Checks written this week:	Automatic withdrawals this week:
Rent - \$485.00	Gas company - \$35.00
Groceries - \$86.50	Electric company - \$85.00
Day care - \$165.00	Water bill - \$15.00

Tips to make sure your tracking of expenditures is complete and accurate:

It is ideal if you can record your spending each day for a whole month (usually four weeks). If more than one person in the family is spending, each person needs to do this exercise. Add all the expenditures together at the end of the week.

After you have completed writing down your daily expenditures for a week, you will want to add other expenditures you make by check or automatic withdrawals from your checking account to pay bills (if you have this set up with your bank). Make a list of these expenditures and add them to the totals for the week.

See the example in Table 2 below.

Table 3 on the following page provides a chart for you to total all your major categories for the month as you track expenses by the week. Your categories may be different from the example given, so change them to fit your actual expenditures. A plain sheet of paper or a page of notebook paper can be used to list your expenditures, as in the chart below.

The far right-hand bottom box on the chart will be your grand total for the month. It should equal the total for the columns above it and equal the total of all the weeks across the bottom.

This chart will be helpful in completing Step 4 as well as showing you what bills (auto loan, rent, utilities) need to be paid in which weeks of each month.

Table 3. Amounts Spent by Week

Categories	Week 1	Week 2	Week 3	Week 4	Week 5	Totals
Groceries						
Eating out						
Snacks						
Entertainment (movies)						
Gas (for car)						
Personal (haircuts, grooming, etc.)						
Rent						
Car payment						
Utilities (gas, water, electric, etc.)						
Day care						
Clothing (new, dry cleaning, repairs)						
Other						
Totals						

Step 3 - How Much Is Your Total Income?

In this step you will determine your total monthly income. It is important to know your gross income (before any deductions are taken from your pay or wages) for income tax purposes. But for this step you should determine your **net income**, or what is left after deductions have been made from your wages or paycheck. Your net income is the amount of money you control to purchase your needs and wants as well as money to save.

Income is available from different sources. By filling in this chart, you can total your sources of monthly income. If you are paid weekly, then add in the four or five paychecks you receive for the month you have selected. If you are paid every two weeks, then add in two or three paydays for the month. (Some months will have three paydays. You can treat that as extra money for savings or other goals.)



Figure 2. Credits: iStockphoto

Monthly Net Income from All Sources	
Source:	Amount: \$
Source:	Amount: \$
Source:	Amount: \$
Source:	Amount: \$
Source:	Amount: \$
Part-time income:	Amount: \$
Part-time income:	Amount: \$
Child support/Alimony:	Amount: \$
Public assistance/Food stamps/WIC:	Amount: \$
Unemployment/Disability:	Amount: \$
Social Security:	Amount: \$
Retirement/Pension:	Amount: \$
Money from relatives:	Amount: \$
Other:	Amount: \$
Other:	Amount: \$
Total of all above amounts	\$

Step 4 - How Much Are Your Fixed and Flexible Expenses?

This step helps you record all of your expenditures each month. There are two major types of expenses in a spending plan. They are “fixed expenses” and “flexible or controllable expenses.”

Fixed expenses are those you usually pay on a regular basis. They may be the same amount each time, or they may vary from month to month. Here are some common fixed expenses:

- Child care
- Rent or mortgage
- Household bills (water, electricity, phone)
- Installment plans (car, loans)
- Insurance premiums
- Deposits to savings account

Many fixed expenses are paid every month, but others have to be paid every three months (quarterly), every six months (semiannually), or every year (annually).

Flexible expenses are those that usually vary in amount from month to month. Since you are not committed to previous agreements with others for these amounts, you have more control over these expenses than for fixed expenses. When you are squeezed financially, you can cut back on flexible expenses or even cut some out. Flexible expenses can include the following:

- Food (groceries, eating out)
- Clothing (new clothes, clothing repairs, dry cleaning)
- Transportation (gasoline, car repair, public transportation)
- Medical care (doctor bills, medicine)
- Education and recreation (books, magazines, movies, entertainment, vacations)
- Personal care (haircuts, manicures)
- Gifts and donations (birthdays, holidays, charity)

Flexible expenses usually vary from month to month. People who keep spending records for the first time are often surprised by how much they spend on things they don't really need or want.

As you gain better control over your flexible expenses, you will have an easier time covering your fixed expenses, avoiding late penalties, and achieving your financial goals.

There are four tables that are provided to assist you in calculating your total expenses. Follow the directions below for each of the tables.



Figure 3. Credits: JupiterImages, © Getty Images

Table 1 is designed for you to list all of your monthly **fixed expenses**. If some of your expenses are paid other than monthly (such as a quarterly car insurance payment or a semiannual homeowner's insurance premium), use Table 3 to convert the payments into monthly payment amounts. Do not total the categories until you have completed Table 3.

Table 2 is designed for you to list all of your monthly **flexible expenses**. You may total these categories when you have listed all of this type of expense.

Table 3 is to be completed to make your record of expenses more complete. Think about the types of expenses listed and how often you make payments. If you make these payments monthly, then list that amount under the proper category in Table 2. If you make a quarterly payment (four times a year), list that amount under the “amount paid quarterly” column. If you make only two payments a year, list that under the “amount paid semiannually” column. Do this for all the payments that are made other than monthly. The calculation chart following Table 3 gives directions for converting these kinds of payments into monthly dollar amounts (to be listed in the “calculated monthly” column). List these same monthly amounts under the proper categories in Table 1. Then you can add all of the categories in Table 1.

Table 4 is a final chart to list and add categories so that you get a grand total of all your expenses. This total will be used in Step 5.

Remember, these tables are only meant to help you make your first spending plan. You may add and delete categories to make the tables fit your exact expenditures.

Use Tables 1 and 2 to record and total your fixed and flexible expenses. These expenses are calculated by the month. These amounts can be determined by using your receipts, bank statements, check register, and other records.

Table 1. Monthly Fixed Expenses

Expenses	\$ per month	Expenses	\$ per month
Housing		Insurance¹	
Rent/Mortgage		Health	
Cable TV		Life	
Water		Automobile	
Electricity		Home	
Fuel		Other	
Phone		Subtotal	\$ <input style="width: 150px; height: 20px;" type="text"/>
Other			
Subtotal	\$ <input style="width: 150px; height: 20px;" type="text"/>	Savings	
		Payroll Deduction	
Installment Debts		Christmas Club	
Furniture/Appliances		Set Asides	
Car		Other	
Loans		Subtotal	\$ <input style="width: 150px; height: 20px;" type="text"/>
Other			
Subtotal	\$ <input style="width: 150px; height: 20px;" type="text"/>	Other	
		Tithes	
Child Care		Other	
Babysitter		Subtotal	\$ <input style="width: 150px; height: 20px;" type="text"/>
Nursery/Day care			
Other			
Subtotal	\$ <input style="width: 150px; height: 20px;" type="text"/>		

¹If these are not paid monthly, see Table 3 for instructions on how to calculate the monthly amount.

Table 2.

Monthly Flexible Expenses

Expenses	\$ per month	Expenses	\$ per month
Food & Other Items		Medical Care	
Groceries		Doctor's bills	
Restaurants		Prescriptions	
Cigarettes		Therapy	
Pet Food		Other	
Cleaning/Other supplies		Subtotal	\$ <input type="text"/>
Other			
Subtotal	\$ <input type="text"/>	Education/Recreation	
		Books/Magazines	
Clothing/Personal Care		Movies/Music	
Purchases		School Supplies	
Repairs/Alterations		Vacations	
Dry Cleaning		Other	
Accessories		Subtotal	\$ <input type="text"/>
Hairdresser/Barber			
Other		Gifts & Donations	
Subtotal	\$ <input type="text"/>	Birthdays	
		Holidays	
Transportation		Charities	
Public Transportation		Other	
Maintenance (Tune-ups)		Subtotal	\$ <input type="text"/>
Operation (Gas, Oil)			
Other (Tags & Licenses)			
Subtotal	\$ <input type="text"/>		

In order to make your record of expenses more complete, you need to list those payments that you may not make every month. An example would be auto insurance that you pay quarterly (four times a year) or homeowner's insurance you pay semiannually (twice a year). Think about these types of fixed expenses and fill in the chart provided in Table 3.

Table 3. Additional Fixed Expenses

Category	Frequency of Payment			Calculated Monthly Expenses (see note below)
	Amount Paid Quarterly	Amount Paid Semiannually	Amount Paid Annually	
Insurance:				
Auto				
Life				
Home				
Health				
Disability				
Other				
Taxes				
Licenses				
Regular savings				
Short-term goals				
Long-term goals				
Other				

Note: To get a monthly amount for the expenses listed in Table 3 above, use the following calculations:

- If the payment is made quarterly (four times a year), divide the amount by 3.
- If the payment is made semiannually (twice a year), divide the amount by 6.
- If the payment is made annually (once a year), divide the amount by 12.

List these amounts in the last column of Table 3 above and also in Table 1.

Table 4 provides a chart for you to total your fixed and flexible expenses for a monthly grand total of expenses. This is the amount of you will need each month to cover all your expenses.

Table 4. Grand Total of Monthly Fixed and Flexible Expenses

Expenses	\$ per month
Fixed Expenses	
Housing	
Installment Debts	
Child Care	
Insurance	
Savings	
Other	
Calculated Additional Monthly Expenses from Table 3	
Total Fixed Expenses	\$
Flexible Expenses	
Food & Related Items	
Clothing & Personal Care	
Transportation	
Medical Care	
Education/Recreation	
Gifts & Donations	
Other	
Calculated Additional Monthly Expenses from Table 3	
Total Flexible Expenses	\$
Grand Total of Expenses (add totals of the two boxes above)	\$

By completing all these charts in Step 4, you should have a complete determination of your total expenses per month.

Step 5 - Are You Living On What You Make?

Now that you have calculated your income (Step 3) and totaled your fixed and flexible expenses (Step 4), it is time to do another calculation. You need to determine if you are living on what you make (total expenses do not exceed total net income) or if you are spending more than you make (total expenses exceed total net income).

Use Table 1 if you think your total income is more than your total expenses. Use Table 2 if you think your total expenses are more than your total income.

Table 1.

Total Income (Step 3)	\$
Minus	-
Total Expenses (Step 4, Table 3)	\$
Total Surplus	\$

If you used Table 1, the amount of surplus (unspent money) is available for you to use for additional savings or to reach your short- or long-term goals. For example, you can save all or part of it; you can purchase something with the money; or you might use it as an extra payment on an installment loan or mortgage.

If you used Table 2, you have deficit spending. This is the amount of money you must subtract from your expenses in order to keep from spending more than you make. Return to the flexible expenses page in Step 3 and determine which categories you can reduce or cut out. The total adjustments to the categories must be equal to or greater than this total deficit. This will help you monitor your expenses in coming months so you do not overspend your budget.

Do this step monthly after you have made purchases and paid bills. If you have to use Table 2, then you are overspending for your income. Make a plan to adjust your spending for the current and coming months so you will get back on budget. It will be increasingly difficult to reach your short- and long-term financial goals if you continue to overspend. Deficit spending usually results in debt that becomes difficult to pay off.

You can change your spending plan. Review your income, debts, and spending. Take a hard look at your flexible expenses. Control your flexible expenses by reducing the need for them or adjusting what is spent on them.

Review your financial goals in Step 1. Are you contributing money monthly to them? **Remember a simple rule: If it helps you reach your goals, do it. If not, don't!**

Table 2.

Total Expenses (Step 4, Table 3)	\$
Minus	-
Total Income (Step 3)	\$
Total Deficit	\$

Review all of your expenses, and then ask yourself the following questions (or similar ones, as necessary). Is this really how you want to spend your money? How much is maintenance costing on your car? How much is the auto insurance? Could you save money by doing more cooking at home instead of eating out? Are you planning your gift giving? Do you really need to buy gifts for all those relatives? Consider gifts you can give that don't cost money, such as doing an activity with them or helping them do something around the house they cannot do themselves.

You can become more creative at acquiring goods and services. Here are some ideas:

- **Share.** Share ideas, items, and skills with others. Buy in bulk and split the cost with a friend when it can save you money.
- **Trade.** One can swap or trade products or skills. Trade things you don't need by selling or exchanging them.
- **Repair or make it.** It may be cheaper to make or repair it if you have the skills, time, and supplies needed.
- **Shop around.** Buy from sales, secondhand stores, or discount stores.
- **Negotiate for lower prices.**
- **Pay your bills on time.** It saves you money because businesses charge late fees for payments after the due date.

Step 6 - Sticking to Your Plan

You can modify your spending plan. If your income increases, add the amount to the income sheet in Step 3 and Step 5. If you reduce your spending, subtract that amount on the appropriate tables in Step 4 and Step 5. This will allow you to compare the new total income and expenses in Step 5.

To make your spending plan a financial management tool, you will want to complete the following tables (Table 1 and Table 2) at the end of each month after you have paid all your bills. By comparing the planned expenditure amount with the actual amount spent in each category, you can quickly see if you are staying on budget.

If your actual amount is equal to or less than your planned amount, then you are staying on budget. If the actual amount is more than the planned amount, you are overspending. Go back to Step 5 to see if you can think of ways to cut expenses. Then make those cuts in Step 4 so you will not be over budget next month.

Tracking your expenditures in this manner each month will quickly get you back on budget if you make the necessary adjustments. Tracking expenditures will also help you find out exactly how much you can spend and save to achieve your short- and long-term goals.

Get into the habit of keeping and organizing your records. Keep receipts, bank statements, pay stubs, and check registers in a safe place. They are important for your spending plan and at income tax time.

Keep your spending records simple and in a convenient place. You will want to refer to them periodically



Figure 4. Credits: iStockphoto

throughout the year as suggested in these steps. You may also want to compare your spending from year to year. Make a totals page that adds together all the monthly expenditures for each category. (You can use the categories found in Step 4.) Then you can compare year to year.

Try to eliminate unnecessary expenses. Review your financial goals. Does more money need to be directed toward your goals and less money toward current expenses? What expenses can you cut down on or eliminate?

Pay your bills on time. That saves you money because you won't have to pay late fees. It also builds your credit rating.

Remember to review your spending plan each month by using the following tables. They will help you stick to your spending plan so you have money available to put toward your financial goals. Reaching your goals will provide great satisfaction as you practice better money management.

Table 1. **Fixed Expenses by the Month**
 _____ Month, _____ Year

Category		Planned (from Step 4, Table 1)	Actual
Housing:	Rent or mortgage	\$	\$
	Electricity/Gas		
	Water		
	Phone		
	Cable		
	Other		
Installment Debt:	Car		
	Furniture/Appliances		
	Loans		
Child Care:	Babysitter		
	Nursery/Day care		
	Other		
Insurance:	Auto		
	Life		
	Home		
	Health		
	Disability		
	Other		
Savings:	Payroll deduction		
	Regular savings		
	Club accounts		
	Other		
Other:	Tithes		
	Other		
Totals		\$	\$

Flexible Expenses by the Month
 _____ Month, _____ Year

Table 2.

Category		Planned (from Step 4, Table 2)	Actual
Food:	Groceries	\$	\$
	Restaurants		
	Cigarettes		
	Cleaning & other supplies		
	Other		
Clothing & Personal Care:	New clothes		
	Clothing & shoe repairs		
	Dry cleaning		
	Hairdresser/Barber		
	Other		
Transportation:	Public		
	Maintenance (tune-ups)		
	Operation (gas, oil)		
	Tags & licenses		
	Other		
Medical Care:	Doctor's bills		
	Prescriptions		
	Therapy		
	Other		
Education & Recreation:	Books/Magazines		
	Movies/Music		
	School supplies		
	Vacations		
	Other		
Gifts/Donations:	Birthdays		
	Holidays		
	Charities		
	Other		
Totals:		\$	\$