



“Creating Expense Items for a Budget”

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The main reason you should create a budget and use it is because it takes away much of the uncertainty and replaces it with a methodology that manages your income and expenses, and most of all allows you to put more savings in the bank. This will be key if you are to reach your goal of financial freedom.

You can create a budget using many methods, and the budget document can have many forms, but since all of them accomplish the same thing—helping you manage your income and expenses—they must all provide a common set of information. Here are the basic items that are included in this information set:

- Categories for all of your expense/income items
- Periodic amounts you will spend on a particular category

From here, each budget can change based on the particular needs of the person who is creating and using the budget to manage their financial affairs. Remember, the categories you use can be general or very specific. I recommend that you start with very general categories and refine from there after you get several months experience working with and sticking to your budget. For example, you will find that you have many expenses associated with food. You can create one general category called “Food” or you can be more specific and create several, such as:

- Food
- Dining out
- Alcoholic beverages
- Wine
- Beer



There are many other ways to break the expenses into smaller, more detailed categories. If you are using budgeting software, you will likely also be able to create subcategory groups. In the example above, you might make “Alcoholic Beverages” a subcategory of food with three subcategories below it: (1) Wine, (2) Beer, and (3) Other. It all depends on what you want visibility on. The more refined your categories, the more visibility you get, and just as with everything else, the more you want to get out of it, the more you have to put in.

After you have identified the expense categories you will use, list them on the page and put the expected total amount you will pay in each of these categories during a typical month. Next, do the same for your income: create income categories. These categories might include:

- Salary
- Investments
- Rental income
- Miscellaneous income