



“Monthly Spending Plans Are An Easy Way To Budget”

André Larabie

If you do not have the time or energy to develop a detailed budget—with pencil and paper or with software—to track all of your financial activity, you should at least spend the time to develop a monthly spending plan. Although it is not as revealing as a budget, a monthly spending plan will at least give you some visibility on your expenses. To develop one, just write down everything you spend, every day, for one month. This will not give you as much visibility as an annual budget would, but it will help. The advantage of doing this is that it will at least give you some information about your income and expenses, also known as your cash flow. The drawback is that you are only looking at a single month and that will only give you visibility on a fraction of the activity, and you will likely miss some critical items.

Some periodic expenses hit you every few months and you might not pick them up on a monthly spending plan. For example, your property taxes may be paid every six months or every year. If you are recording expenses monthly, you may miss these taxes, but if you record everything for a year, they will show up and you can divide them across the non-payment months. This is what you should do anyway because if you don't prorate this expense and plan for it, it will wipe you out whenever it is due.

Most people miss these items in their monthly calculations. Another example of a periodic expense is a medical emergency. Suppose you have no health insurance and a family member breaks a leg. Even if you do have insurance, you will likely be hit with some unexpected deductible or other expenses as a result. If you keep an annual budget, you would want to reserve some amount of funds for these unplanned expenses and prorate them over the months. Here is another example: gifts. If you purchase gifts for a lot of people around Christmas time, you know that this



can be several hundred dollars or more. This also would not be reflected in your monthly spending plan if you did not do it in December.

But now that you have some idea of what periodic expenses can be, you can adjust for them when you create your monthly spending plan. To get a real good idea, pull out all of your bank and credit card statements for the last year. You will see all the periodic expenses.

After you record a month of actual expenses, take a few moments and determine what your periodic expenses are and add these amounts into your monthly spending amounts. In the absence of a detailed budget and cash flow reports, a monthly spending plan will at least give you something to work from and you can spend within your means.

Here is another thing to think about. Suppose that you buy a soft drink at the vending machine every day of the week except Saturday. If this costs \$2, then this is costing you somewhere in the neighborhood of \$600 per year! You may not have realized how expensive these types of daily items are, but they really add up.

In the case of the soft drinks, you might consider skipping the routine a couple of days a week and applying that money to another area where you are coming up short on the expense side of your budget. These are the types of things a monthly spending plan will help you identify.