HOW DO YOU BUILD A HOUSEHOLD BUDGET?

What questions should you ask yourself in order to know your budget and build an economically sustainable budget?

The family budget is a do-it-yourself tool that allows us to keep the family's expenses under control. It is the best tool to help us make the relationship between income and expenditure within the family efficient, minimise waste and unnecessary expenditure and free up valuable resources to deal with unforeseen events or finance future projects.

It is a statement where incoming and outgoing expenses are recorded as if the family were a real business. The parallel should not seem far-fetched, as the family unit legally constitutes an economic entity and as such it is legitimate to think of managing it as if it were a business enterprise with its revenues, costs and profit to set aside for unforeseen events or to invest for future needs.

Building a household budget requires five steps:

1- Calculate one's household income, i.e. put together all one's monthly earnings by including fixed income, variable income and extras from, for example, occasional work or investment receipts.
2- Make a note of your monthly expenses and organise them as a kind of 'shopping list', dividing them into those that are indispensable and those that respond to a desire for purchase or 'quality of life' and can be considered 'extras'. This will give you a picture of your outgoings.
3- Calculate the net income by subtracting the monthly expenses from the fixed income. If there is money left over this will be the savings for the month and can be put aside or used to pay outstanding expenses.
4- Define the Savings Strategy that will allow you to plan how and where to allocate the money left over at the end of the month.
5- Review the purchases made, an essential step if certain purchasing behaviour needs to be modified to achieve the family's savings goals. Functional to these choices is the rationalisation of expenditure that can be achieved by following our advice.

Now we are ready to ask ourselves some questions:

- How much does our family spend per month?

- Is income greater than expenditure?

- Are there certain categories of expenditure that can be reduced or better managed?

-The daily average is too high, can I lower it in the next few days to close the month so that expenses do not exceed income?

These questions will help us to become more aware of income and expenditure and how best to manage expenses. Then we can proceed with the construction of the household budget.

Let's take an example...

The first thing to do in constructing a household budget is to keep all documents showing income and expenditure, such as pay slips, receipts, invoices, etc. It is also important to identify a fixed time frame within which the same calculations can be made consistently.

The easiest and most common way is to use each month as a time reference and check within each month the ordinary expenses (food, bills, transport etc.). Drawing up a monthly budget will also allow us to compare income and expenditure trends over the year.

After having prepared the "item" for income (e.g. salary, rental income, etc.) we can prepare the "item" for expenditure.

We can set up the item 'food expenditure' in which we will enter all the amounts spent at the supermarket or other retailers where we bought food during the month of October. Another entry could be 'transport', where we will enter any monthly subscriptions to public transport (bus, train, tram) and also the cost of fuel for the vehicle (or vehicles) that the family members use to travel to work and for all their commuting.

Other expenses to add to our monthly pattern are 'rent' or 'mortgage or loan payments', which are generally fixed monthly outgoings, so the amount we deduct monthly from our income is always the same. Other expenses may be 'clothing' and 'holidays', which are those items on which we usually make cuts or adjustments when our family budget is not sustainable (i.e. when the balance is in the red: income cannot compensate for expenditure), because they are less necessary than the previous mentioned items.

CAUTION! *In cases where there is little money available, the family budget is useful to find out what the actual purchasing capacity is and how much the family is able to meet extraordinary expenses with peace of mind. Just take into account the residual sum that results from subtracting fixed expenses from total income. The lower the amount available, the more corrections will have to be made to one's budget.*