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Better Money Habits®

## Creating a budget

Whether you're looking to create a personal budget spreadsheet or just get a better grasp on money management, start with these six steps.



Even if you don't use a budget spreadsheet, you probably need some way of determining where your money is going each month. Creating a budget with a template can help you feel more in control of

your finances and let you save money for your goals. The trick is to figure out a way to track your finances that works for you. The following steps can help you create a budget.

## Step 1: Note your net income

The first step in creating a budget is to identify the amount of money you have coming in. Keep in mind, however, that it's easy to overestimate what you can afford if you think of your total salary as what you have to spend. Remember to subtract your deductions for Social Security, taxes, 401(k) and flexible spending account allocations when creating a budget worksheet. Your final take-home pay is called net income, and that is the number you should use when creating a budget.

If you work freelance or part-time, we've put together some [tips for managing irregular income](#).

**Tip:** If you have a hobby or a talent, you may be able to find a way to supplement your income. Having an [extra source of income](#) can also be helpful if you ever lose your job.

## Step 2: Track your spending

It's helpful to keep track of and categorize your spending so you know where you can make adjustments. Doing so will help you identify what you are spending the most money on and where it might be easiest to cut back.

Begin by listing all your fixed expenses. These are regular monthly bills such as rent or mortgage, utilities or car payments. It's unlikely you'll be able to cut back on these, but knowing how much of your monthly income they take up can be helpful.

Next list all your variable expenses—those that may change from month to month such as groceries, gas and entertainment. This is an area where you might find opportunities to cut back. Credit card and bank statements are a good place to start since they often itemize or categorize your monthly expenditures.

**Tip:** Record your daily spending with anything that's handy—a pen and paper, an app or your smartphone. *You can use this [spending and budgeting tool](#) if you have an account with Bank of America.*

### Step 3: Set your goals

Before you start sifting through the information you've tracked, make a list of all the financial goals you want to accomplish in the short-and long-term. Short-term goals should take no longer than a year to achieve. Long-term goals, such as saving for retirement or your child's education, may take years to reach. Remember, your goals don't have to be set in stone, but identifying your priorities before you start planning a budget will help. For example, it may be easier to cut spending if you know your short-term goal is to reduce credit card debt.

### Step 4: Make a plan

Use the variable and fixed expenses you compiled to help you get a sense of what you'll spend in the coming months. With your fixed expenses, you can predict fairly accurately how much you'll have to budget for. Use your past spending habits as a guide when trying to predict your variable expenses.

You might choose to break down your expenses even further, between things you need to have and things you want to have. For instance, if you drive to work every day, gasoline probably counts as a need. A monthly music subscription, however, may count as a want. This difference becomes important when it's time to make adjustments.

### Step 5: Adjust your habits if necessary

Once you've done all this, you have what you need to complete your budget. Having documented your income and spending, you can start to see where you have money left over or where you can cut back so that you have money to put toward your goals.

Want-to-have expenses are the first area to look for spending cuts. Can you skip movie night in favor of a movie at home? Try adjusting the numbers you've tracked to see how much money that frees up. If

you've already adjusted your spending on wants, [evaluate your spending](#) on needs. You may need internet at home, but do you need the fastest available?

Lastly, if the numbers still aren't adding up, you can look at adjusting your fixed expenses. Doing so will be much more difficult and require greater discipline, but on close inspection a "need" may just be a "hard to part with." Such decisions come with big trade-offs, so make sure you carefully weigh your options.

**Tip:** [Small savings](#) can add up to a lot of money, so don't overlook the little stuff. You might be surprised at how much extra money you accumulate by making one minor adjustment at a time.

## Step 6: Keep checking in

It's important that you review your budget on a regular basis to be sure you are staying on track. You can also [compare your monthly expenses](#) to those of people similar to you. Few elements of your budget are set in stone: You may get a raise, your expenses may increase or you may have reached your goal and want to plan for a new one. Whatever the reason, keep checking in with your budget following the steps above.

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