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Budgeting makes great financial sense

Financial Thoughts

by John Schooler

Creating a budget is important for families of all economic levels and can be a rewarding task. Budgeting is the process of creating and following a plan for spending and investing the cash flow of the family.

A budget should be flexible enough to account for emergencies and unexpected events that may occur. A budget that is too rigid can stifle creativity and risk-taking. For those who feel the budgeting process is to constraining I would suggest a very loose budget with flexibility. This will allow you to take advantage of a new business opportunity or other ventures that may come along unexpectedly.

Although a budget requires time to keep records of expenses and organize information, computers help. There are many software programs designed to help manage the budgeting process.

To begin your budget figure determine your expenses. Divide them into two categories: fixed costs and variable costs. Fixed costs are the expenses you face every month, such as mortgage payment. Variable costs vary with certain activities or by month-to-month, something such as entertainment.

When listing sources of income, be sure to include such things as salaries, bonuses, dividends, interest, and self-employment income. Extraordinary items such as inheritance, insurance settlements, and sales of stock will also affect your income.

Now that you have your sources of income and your expenses you are able to take note of not only how much money you are spending but how you are spending it. This will allow you to cut back in areas which have less benefit and apply more money to areas of greater importance, such as savings and investments.

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Now you can create a one or two year budget. Planning for expenses will allow you to prioritize, another step towards setting long-term goals.

Planning will also enable you to make sure you have enough for retirement.

Another benefit of budgeting is that when your teenager comes to you with a great idea as to how you can spend your money you can just let them know it is not in the budget and to submit a request during budget hearings. After your teenager gets that puzzled look off of their face they will have learned something: Good Financial Management.

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