

WHAT GOES INTO MAKING A BUDGET?

Dave Ramsey often says that “A budget is telling your money where to go instead of wondering where it went.” It couldn’t have been explained any simpler. Many of us struggle to save at the end of each month because we spend the whole month reacting to impulses and spending before thinking. A budget adds the necessary discipline to track such expenses. Here are steps to help prepare a monthly budget:

1. Track your expenses for at least 3 months.
2. Find a pattern of what you spend on.
3. Set big goals according to your dreams and values.
4. Estimate how much you need to save to get to those goals.
5. Break down the target money into a monthly amount.
6. Make the budget by automating the fixed expenses and the target savings for your dreams.
7. Enjoy the remaining amount guilt-free.

Oh, don’t forget to close all debts before you plan on buying another credit card or another big expense. Set some guidelines for yourself to decide on big expenses. And as the author Richard Carlson says – “Don’t sweat the small stuff.”

How to manage your money like a Minimalist

Less is More

– *The Minimalists*

Will you say this about money? Yes and No. It depends on how you see it. Being a minimalist does not mean that you give up on money or worldly desires. You just focus on what is most important while managing your money. You invest your time, energy, and money only in the essential few.

#1 Track Your Spending

Whether you are a beginner or a pro, the first step to understanding your needs is to track your spending. Sometimes they could be essential bills, luxury, travel, or investment. Track every spending for at least 2 months. It will go a long way in helping you plan a budget later among many other benefits.

#2 Income: Active and Passive

Many of us are still following the methods of earning, that were valid 60 years ago. We saw our fathers and forefathers depend on only one source of income. So, we think we can survive on a single income too.

In today's times when we have seen the Corona Pandemic hit the world, isn't it time to rethink this? Is one source of income sufficient? What is the guarantee of retaining this job you currently have? Think of passive sources of income, even if you lack time in creating multiple active sources of income.

#3 Learn Personal Financing

In his book, *Rich Dad Poor Dad*, Robert Kiyosaki states that personal financing should be taught right from school. You could add 'House chores' to this list of things to learn in school. But that is a topic for another time. All of us, work all our lives to make money. But there is no clear outline as to where this money is supposed to go. Learning personal financing is as important as earning a degree.

#4 Borrow: Build Asset or Consume

Buy a house, buy a car, pay for children's education.

Many of us live and die just spending on these. Is this the real purpose of our being?

If you take a loan to buy a home, you are building an asset. Something that appreciates and gives you returns. Here we assume that the

borrower did it within his or her means. The loan is not such that he or she has no disposable income left at all. The other kind of borrowing is for something that we consume and forget. For example, personal loans for weddings, travel, etc. Think before borrowing. But remember that this is not a tool to be afraid of.

#5 Save: Tackle Debts and EMIs First

Now that we have covered the way money will come in (Income/Borrowing), let's talk about money going out. There are two ways you spend your money. Intentional and unintentional spending. The difference between a minimalist and a normal spender is intention. Once you are intentional about your spending, the first thing you will notice is that you need to work on your liabilities.

Tackle your debt payments and EMIs (Equated Monthly Instalments) first by saving towards them. If you have liabilities, you still lack financial freedom. Even in the absence of loans, saving is a huge step before spending. A popular minimalist exercise is to save until you have Rs 10,00,000 in your contingency account. This exercise brings intention at every expense. Another popular exercise is to stick to a No-Spend month or year.

#6 Invest: Risk and Liquidity Needs

Where to invest? This needs a whole other article. But in short, this is a decision that only a person with disposable income can take. Until you have loans pending, you barely have the disposable income to invest anywhere. Once you are in such a position, analyze your risk appetite based on your age, income, and life goals. Your life goals dictate your investments. Once you have the goals written down, explore investing in:

Mutual funds, Gold ETFs, Fixed Deposits, Term Insurance, Medical Insurance (for self and family) and so on.

#7 Create A Budget

Income, Borrow -> Save, Invest -> Spend as per Budget

Minimalist Rules:

List out your needs, Save and Invest rigorously, try a No-Spend Month or Year.

The whole purpose of the above steps is to CREATE A BUDGET. If you are a working adult—minimalist or not—you should already be doing it. If you do not have a budget, you are letting the world decide what to do with your money. You are just reacting to the advertisements

and promotions by each mall, department store, credit card agency, and e-commerce site. There is no intention in your spending. Once you have a budget, you have a guideline to follow.

You have a budget. You have boundaries!

Author's message:

This is an extract from my debut book "Need Over Want". There are exercises like this at the end of all 10 simple living based stories in the book. If this got you curious, please order the my book here:

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If you have already bought it, go ahead and leave the book an honest review. This will help me write books that can serve people better.