



How to Budget Money: 5 Common Budget Types



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Summary

This mini eBook has been designed to help you both understand how some of the most popular budgets that people use today work and also to decide which one might be best for you.

This book and the many budgeting and business management tools that you see in my [Etsy shop](#) & on my [Debt Help Tools](#) site have been developed in response to problems I have seen (and mostly solved) over the last 30 years of working with a wide range of businesses across the globe.

I do hope that you find them both useful and pleasant to use.

Wishing you all the best.

Lindsey



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What are some of the main budgeting methods?

First of all, let's clarify what a budget actually is – whilst you can “budget” anything, it is generally recognised as being a plan for your money: how much you will make, spend, and save each month.

Budgets can come in all shapes and sizes, but for the most part, there are five commonly used budgets.

These are:

1. Traditional Budgets
2. Zero-based Budgets
3. Envelope Budgets
4. Proportional Budgets
5. Pay yourself first Budgets

So, as we have listed above, there are essentially **5 types of household budget** – We'll now take a dive into each one to help you decide which one is best for you!

A Traditional budget

A traditional budget uses several categories to plan income, expenses, and savings. It's what you may think of when you first hear the word “budget.” It lists all of your typical spending categories, and you assign a dollar amount that you plan to spend for that category each month. The goal is to have money left over at the end of the month!

A Zero-Based budget

A zero-based budget requires you to plan how every single dollar of your income will be spent between expenses, savings, and debt repayment. Throughout the month, your goal is to distribute all of your income amongst those categories.

Your budget might look something like this:

Monthly Income		\$4,000
Rent	\$1,800	
Utilities (power, water)	\$500	
Car payment	\$300	
Food	\$600	
Other expenses (shopping, entertainment)	\$400	
Savings	\$400	
Total expenses and savings		\$4,000
Left over funds		\$0

Now, don't get zero-based budgeting confused with permission to spend any leftover income! For example, if you spent less than \$600 in food that month, that doesn't mean you should use that extra money to go on a shopping spree. You could simply allocate those funds to savings in case you have a month where your power bill was higher than expected. The point is that you are in control of where your money is going each month within the different categories.

An Envelope Budget

An envelope budget is very similar to a zero-based budget.

After you get paid, you take your cash and allocate it to different envelopes for your expenses.

You might have an envelope for groceries, utilities, rent, and even shopping. When you need to buy something, you decide which envelope to pull the funds from.

Once the envelope is empty, there are no more funds to spend in that category.

Traditionally, the envelope method has used physical envelopes and cash, however, there are more digital tools available today to keep track of spending categories in a similar fashion.

The purpose of this type of budgeting is that it helps avoid the overspending that can happen when consumers rely on credit cards!

A Proportional Budget

This simplistic style of budgeting is gaining popularity because it helps the consumer to focus on what's most important when it comes to their spending.

The reason that it's called "proportional" is that it splits up your spending into three main categories: needs, wants, and savings.

Needs would cover things like rent or groceries, while wants are shopping or going out to eat.

Savings would be putting aside money for retirement or an emergency fund.

With each category, you assign a percentage of your income that will go towards that category.

For example, you may plan to spend 40% on needs, 40% on wants, and 20% on savings. Or, if replenishing your savings after an emergency is a top priority, you might put 40% into savings, then spend 40% on needs and the remaining 20% on wants. This type of budget really focuses on your financial goals and priorities, allowing you the flexibility to spend how you see fit within each of the categories.

Paying Yourself First

Paying yourself first means putting money aside to savings immediately after you receive a pay check, and before you pay for any expenses.

It's putting savings as the top line item on the budget.

Simply put -it's making savings your top priority in the budget and not a last resort but how much you decide to save is up to you.

For some that are saving for a big purchase, it may be putting aside a specific dollar amount each month, for others, it may be committing to save a percentage of their income every month.

By paying yourself first, you may decide to contribute 10% of your income to a retirement account and 10% to your emergency fund or savings account, in-fact, many people automate this process by having money transferred from their pay checks (monthly salary) to their retirement or savings accounts automatically.

Only after you have funded savings can you begin to spend what is left over in the budget.

How to choose the best budget for you

The word "BUDGET" simply means to make a plan for an expected outcome, though most people tend to use the term in relation to money, usually in an attempt to restrict how much they are spending and save more for the things that they really want to do like retire early, go on an amazing holiday or buy a better car, just to name a few.

Budgeting really does get a bad rap.

Nobody likes it, everyone thinks they should do it and most people never stick to one.

In fact, only 32% of US families maintain a household budget. That leaves 68% of US families just out there “winging it” with their money!

It's no wonder that 50% -80% of Americans admit to living pay check to pay check. (Depending on what survey you read!)

Regardless of which budget you decide to use, the best budget is one that works for you, your unique and individual situation, and your family.

It's that simple! If keeping up with every expense in twenty different categories is overwhelming, then what's the point if it makes you want to quit?

Making a budget and sticking to it doesn't have to be rocket science, you just have to get started.

What do you want the budget to do?

Start by asking yourself this question – what do you want the budget to do? You need one that will help you reach the goals you have right now, the following should help you to determine which budget might work best for you in your current situation.

Ask yourself – Is it for forecasting spending and income or is it for tracking and comparing both? or maybe it's a savings budget for your new home, car, motorbike, retirement, holiday or even your new yacht!

Beginning with the end goal in mind and what information you want to see is crucial. Ask yourself, and answer honestly – what will keep you on track to filling in and sticking with your plan?

Don't forget – if you try one and it doesn't work for you, keep trying different ones until you find the method and system that DOES work.

The following table might help you to decide which budget to choose.

Reason for budget or financial goals	Suggested budget type
Forecast or plan for spending	Traditional, Envelope
Build or accelerate savings account	Pay Yourself First, Proportional
Limit spending	Envelope
Paying down debt	Zero-based, Proportional

How to start a simple budget

Start with creating the expected income and outgoings before you look at the actual figures.

You can begin by listing all of the items that tend to stay the same from month to month, like a car payment or your cell phone bill. You'll be able to tell how much you have to truly spend at your discretion once you tally up all of your fixed expenses!

If this is all you want from your budget or going further is causing you to have a mild panic attack, then stay here.

Revisit it monthly to see if what you actually spent is in line with what you expected and pick one fixed expense each month to see if you can get the cost down.

This is especially good if you find money a bit scary.

Make a plan for each month, or week – maybe even set a reminder on your phone. For example:

“This week I’m going to see how low I can get my mobile bill” or “this week I’m going to check out all the switching deals available for my utilities”

(I have a really cheap and simple budget planner in my shop if you would like to check it out – [click here](#))

Budget planning – creating the forecast

After adding up all of your fixed expenses, it's time to plan for how you will spend what's leftover!

You'll need to plan for discretionary categories like food, utilities, and even shopping.

Firstly – how do you decide how much to spend in each of these categories?

You'll again need to start with your financial goals in mind so maybe ask yourself the following questions:

1. Do you have debt that you need to pay down or outstanding bills that need to be paid off?
2. Do you have an emergency fund that needs some love?
3. Do you have a savings target?

If so, then you probably want to reduce your spending in the “flexible” parts of your budget in order to put that money to better use in these other areas.

We all have rose tinted glasses when it comes to how we “think” we spend our money.

Take a look at your past spending as you create your budget, taking an average of what we ACTUALLY spend is a great help here.

Grab your bank and/or credit card statements from last month and start adding up how much you spent from each budget category. If the purchase is from a grocery store or your local coffee shop, add that to your Food category.

Continue classifying every expense into a budget category, then compute the totals for food, utilities, and all others.

You'll also want to add up all of your totals together so that you can compare that with your income.

The biggest question is: did you spend more than you made last month?

If so, it may not be the first time this has happened, and it happens to a lot of us.

Credit cards allow us to do just that, and as I am sure you are VERY aware, it's not a sustainable financial plan for the future as it only leads to more and more debt!

Now is the time to take control of your spending by making a budget, being very very honest with yourself about what will go into it (and what you will throw out of it!!) and sticking to the planned budget that you set for yourself.

Remember – YOU are making this plan for YOU – no-one is forcing this restriction on you; this is your choice to create a better wealthier future but making a few budget cuts today.

We've made a number of budget sheets and debt tracking tools that might help you on this journey so please do go check them out!

Expenses tracking – keeping track of money ACTUALLY going out

Now that you have a budget PLAN to work with, you'll need to keep track of your actual expenses and categorize them in your monthly budget.

It's kind of like playing in a soccer game – you wouldn't keep playing the whole game without keeping score, right? How would you or your team know if you are winning? How would you know if you need to modify your game plan?

Maintaining a budget is no different! Keeping track of your spending helps give you a clear picture of how your plan is going, and where you might need to make changes.

Changing your plan is not a failure – it's a learning curve!

There is no absolutely perfect budget or budgeteer, this is a unique plan for your life and your spending so flex where you need to but keep the “end game” in sight so that you don’t deviate too far from the plan.

For example, did you have an unexpected expense this month? Did your dog inhale a chocolate bar and you had to make a trip to the emergency vet? Without savings to help cover this, you may have to make some decisions to cut spending in other categories.

This month may not be best to buy a new wardrobe or go on a weekend trip.

Here are some tips and tricks to track your spending and stick to your budget:

Set a date in the calendar each week to go over your budget.

Choose a day and an hour that typically works for you, and that you will have minimal disruptions.

You can also make it fun – Maybe you choose Friday nights as your budget night.

You might grab a pizza from the freezer, and while it’s baking, track your spending for the past week. If you keep up with it often, it won’t take long to record.

Remind yourself of your financial goals *often*.

Sticking to a budget can get tough, especially when you are making sacrifices to accomplish your goals.

Reminding yourself of your goals can help you stay focused on your financial plan and sticking to a budget.

Is your goal to pay off debt?

Or is it to save for a down payment on a house?

Whatever it is, make a big sign that states your goal and stick it on your door so that you see it each day before you leave the house.

Also, remind yourself of your goal before you analyse your budget each week. This will help you keep your eyes on the prize!

Reward yourself for sticking to the plan.

Humans are no different from our pet friends in that we are more likely to do something if there is a reward for the work! Did you stay under budget this month? Go get some ice cream or your favourite latte! Really celebrate those wins because they are a reflection of your determination to stick to the plan.

However you decide to monitor your budget and spending, make sure it works for YOU. Some like to use spreadsheets, while others like to keep it simple with a budget notebook and a pencil. It doesn't matter **how** you do this, it just matters that you **do it**.

Monthly, Annual and Weekly Budgets

How do you decide what time frame your budget should cover?

A monthly budget is most common because a large majority of fixed expenses are paid monthly (mortgage or rent, cell phone, utilities, etc.) It's just easier to create a budget around those expenses!

However, once you create a monthly budget, you can then generate weekly or yearly budgets.

For example, if you plan to spend \$400 a month in food, you can set a weekly food budget of \$100. This can help you curb unnecessary spending, and it is easier to keep track of when the expenses start to add up.

What if you have an expense that is only paid once a year, like homeowner's fees or an insurance premium?

Add up all of those expenses, then assign them to your monthly budget.

For instance – say all of your yearly expenses add up to \$1200. You can plan to save \$100 monthly in your budget to account for those expenses.

Your budget should show you what you have to pay for in that time, how much you have to put aside for annual expenses or your emergency fund and what money you expect to come in.

Who should create a budget?

Of course, anyone can create a budget, but we all want them for different reasons, and we are all comfortable with different formats.

A busy stay-at-home mom might not have time to really track spending weekly, so she may choose to use an envelope budget because it limits spending automatically.

On the other hand, a recent retiree might want to record every expense in a spreadsheet daily as they learn how to live on a fixed income.

Whether you like to work on an old school pen and paper or prefer to use budgeting apps, we have a selection of very inexpensive spreadsheets and printable in our [shop](#) to get you started.

The following matrix might help you make decisions about how you want to regulate the money in and out of your house so that you feel more in control of it and less that your money and your bills are controlling you!

DECISION MATRIX

What are your top priorities?	What's your timeline?	What's your reward?	Who is responsible for the budget?	What kind of budget are you using? And in what format?	What are the biggest risks to your plan and what can you do about them?	How often will you check its working?
E.g. Save for a holiday	6 months	We get the holiday!	Myself and my spouse	Printable zero budget	We might not save enough for the vacation. If not, we will take a shorter weekend visit somewhere to save money.	Weekly
Save for an emergency fund	12 months	A manicure or pedicure	Me	Pay Yourself First in Excel Spreadsheet	I'll have to sacrifice weekly trips to the nail salon. I'll learn to do my own nails to save money.	Weekly
Pay off the car loan early	18 months	We go out to dinner	Me	Printable zero budget	I may not be able to pay it off in 18 months. I'll continue making the extra payments until it's paid off.	Monthly
Save for a kitchen renovation	Three years	A kitchen with brand new appliances!	Myself and my spouse	Envelope budget	I may get busy with work and forget to track my spending. I'll use the envelopes to easily see how much I have to spend.	Weekly
Put money into my retirement fund	Five years	I buy myself a fancy journal to write my retirement plans in	Me	Pay Yourself First, Proportional budget in Excel Spreadsheet	I might have an expensive emergency come up. I'll plan to use savings to cover that before I'll reduce my contributions to my retirement.	Monthly



If you have any additional requirements or suggestions, please get in touch:
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