

# BACK TO BASICS - HOW TO COMPILE A BUDGET



SEPTEMBER 2022

The extreme hard times that South Africans have faced over the past few years have negatively impacted the **disposable income available to many people**. It has therefore **become even more important to work on a monthly budget to assist you to live within your means**.

**A budget helps create financial stability.** By tracking expenses and following a plan, a budget makes it easier to pay bills on time, build an emergency fund and save for major expenses such as a car or home.

**A monthly budget is a plan for how you will spend your money each month.**  
You have recurring payments, like rent, groceries, utilities, school fees and loan payments on a monthly basis and a budget will help you track all these expenses.

Ideally, your budget will involve **spending less than you make each month, leaving you with money to save**. Budgeting for more than you earn in a month means spending savings or borrowing money to make ends meet.

## THE 50/30/20 RULE OF THUMB

The 50/30/20 rule of thumb is a way to allocate your budget according to **three categories: needs, wants, and financial goals (savings)**. It's not a hard-and-fast rule but rather **a rough guideline to help you build a financially sound budget**.



# 50-30-20

## BUDGETING RULE

**STEP 1:**  
**Compute monthly budget**

Monthly **net income** after taxes and deductions

**STEP 2:**  
**Define each category**

**Needs:** The non-negotiable fixed expenses that maintain your upkeep & survival.  
**Wants:** The less essential, more flexible expenses that let you treat & be kind to yourself.  
**Savings:** Secures your financial freedom & future financial goals in life.

**STEP 3:**  
**Allocate your budget**

**50% to Needs:**  
Rent/Bond  
Transport/Fuel  
Vehicle maintenance  
Food  
Household groceries  
Electricity/Water/Rates  
Security  
Insurance  
Child/Pet care  
Education

**30% to Wants:**  
Hobbies/Sport  
Gym membership  
Internet subscription  
Streaming services  
Vacations  
Dining-out  
Entertainment such as TV, movies, theatre and concerts

**20% to Savings:**  
Debt payments  
Loans  
Savings  
Investments  
Retirement fund  
Emergency fund

**STEP 4:**  
**Compute your budget**

# 5 EASY STEPS TO COMPILE YOUR BUDGET

## STEP 1: YOUR INCOME

Calculate the household's total income. Add all salaries after deductions, and other income such as rent to obtain a total income that is available for spending.

**Hint:**  
Keep detailed monthly records of all expenses to assist you with your budget.

## STEP 2: FIXED PAYMENTS YOU MUST MAKE

Each month there are certain fixed payments that you need to make, i.e. rent/bond, car payments, insurance, school fees, loan payments & other accounts etc. Calculate this amount.

**Hint:**  
If these payments are not made, you stand to lose the items purchased or end up in court.

## STEP 3: VARIABLE PAYMENTS YOU MUST MAKE

Variable monthly payments also need to be made, but with the exception that you have some control in limiting expenses, i.e. groceries, transport, water/lights account, telephone, repairs, medical bills, bank charges etc. Calculate this amount.

**Hint:**  
Transform your hobby or interest into an alternative source of income.

## STEP 4: DISCRETIONARY PAYMENTS

Discretionary payments can also be made monthly and are normally for luxury and non-essential items like take-away meals, eating out at restaurants, holidays, gifts, magazines, newspapers, pets and sports. Calculate your monthly discretionary payments.

**Hint:**  
Implement procedures to control the use of these items and minimize these expenses in future.

## STEP 5: YOUR PERSONAL BUDGET

Use the budget table here to indicate your income and planned expenditure – see if you have enough money to meet all your obligations.

**Hint:**  
The easiest way to save money is not to buy unnecessary items at all.

# EXAMPLE OF BUDGET TABLE

INCOME DESCRIPTION	SELF	SPOUSE	TOTAL
Salary (After tax & deductions)	R	R	R
Commission/ Overtime/Bonus	R	R	R
Investment income	R	R	R
Other (e.g. rent)	R	R	R
<b>TOTAL MONTHLY INCOME</b>			<b>R</b>
EXPENSE DESCRIPTION			
<b>Housing</b>			
Bond repayments	R	R	R
Rent	R	R	R
Electricity	R	R	R
Rates and Taxes	R	R	R
Water	R	R	R
Insurance	R	R	R
Repairs/Maintenance/Other	R	R	R
<b>Transport</b>			
Fuel Costs/Fares (Bus/Taxi)	R	R	R
Car repayments	R	R	R
Car insurance/ maintenance	R	R	R
<b>Medical</b>			
Medical Aid premiums	R	R	R
Medical & Dental (not covered by medical aid)	R	R	R
<b>Family &amp; Household</b>			
Groceries	R	R	R
Telephone/Cell phone	R	R	R
Clothing	R	R	R
Child care/Education	R	R	R
Security	R	R	R
Household	R	R	R
Insurance	R	R	R
Domestic Help/Laundry/Drycleaning	R	R	R
Pet Food/Vet	R	R	R
Other	R	R	R
<b>Entertainment</b>			
TV License/DSTV	R	R	R
Sport/recreation/hobbies	R	R	R
Entertainment/Restaurants	R	R	R
Holidays	R	R	R
Gifts	R	R	R
Other	R	R	R
<b>Other Costs (Accounts/HP etc)</b>			
Donations/Charity	R	R	R
Credit card payments	R	R	R
Income tax provision	R	R	R
Clothing Accounts	R	R	R
Bank Charges	R	R	R
Haircuts/manicures	R	R	R
Miscellaneous	R	R	R
Other debt payments	R	R	R
Other	R	R	R
Other	R	R	R
<b>TOTAL EXPENSES</b>			<b>R</b>
<b>NET MONTHLY BALANCE (Income less Expenses)</b>			<b>R</b>