

Create a budget

Description

Now that you have all of your [financial information organized](#) and in one place, you can get to work creating a budget. And if the word “budget” makes you nervous, just read on. We promise, it won’t be that painful!

Why do this?

A budget is a plan. Just like a driving route is a plan if you plan to go somewhere. You don’t get in a car, start driving randomly, and hope that you’ll end up somewhere you need to be, right? In just the same way, a budget is a plan that makes sure your spending gets you to a financial place where you actually want to be.

How can you get started?

If you followed the [first step on the checklist](#), then all of the information you need about your income and spending should be right at hand, making this a lot easier.

Check out the resources below for a more detailed plan for creating a budget (it’s worth it!). But if you want the quickest, easiest way to get started, try the following:

1. Start with your after-tax income, then
2. add up your “fixed” expenses (like rent/mortgage, utilities, mobile phone plan, etc.) and subtract those from your income, then
3. multiply your after-tax income by 20%, write down that number, and subtract it from what’s remaining in number 2, then
4. write down the number that’s left at the end.

Number 2 ensures that you’re meeting your fixed monthly obligations. Number 3 is getting you to set aside 20% of your income for savings or debt repayment. And, finally, number 4 is the remaining money for meeting your variable monthly expenses like groceries, eating out, clothes shopping, etc.

If the results of this don’t seem realistic to you, you can lower the savings percentage from 20% to 10% or lower. But do make sure you’re saving something. Or, better still, you can work on cutting expenses from your fixed or variable monthly expenses. We cover this more closely in an upcoming checklist point.

We believe you’ll benefit from making a slightly more detailed budget, but this quick-and-dirty version can help you get started fast, and makes sure you’re improving your financial condition by consistently saving.

How will you know when you're done?

Obviously, you can't consider this done until you have some sort of budget on paper. *But*, don't check this one off until you also can say the following two things. First, that the budget you've created helps you improve your finances. If you've got a budget worked out, but it has you spending more than your income and/or there's no savings in the budget, you should probably work on it a bit more.

Also, make sure that your budget is realistic. Budgeting is a lot like dieting. In that the best "diets" are the ones that you can consistently stick with over a long period of time. Sure, someone could lose a lot of weight ingesting nothing more than eight glasses of water and two handfuls of green beans per day. But you couldn't live very long like that. In the same way, don't create a budget that allows you to save a lot *on paper*, but could never really work for you in real life.

Do you need to wait before moving on?

Ideally, creating a budget shouldn't take months, or even weeks, to complete. You should be able to complete a budget over the course of a few days.

If you want to do a much more detailed budget that will take longer to create, please do! But in that case, it may be ideal to have a less-detailed "working" budget that can let you get on to [saving \\$1,000](#) while you finish your more detailed budget.

Resources to help you

- [How to create a budget you'll actually keep](#)
- [How detailed does a budget need to be?](#)
- [The best ways to stick to a budget](#)
- [A 60-second guide to budgeting](#)
- [Budgeting for lazy people](#)

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