Creating a Budget and Sticking to It Increases Your Discretionary Income

Creating a budget sounds like quite an easy task that even your eight-year-old could perform, but many don't ever implement one because it does require some organization, math skills and discipline!

Budgets are the number one tool that everyone can use to keep expenses in check, track debt payoff plans, and save for that new house or car. When unexpected expenses come up, you'll know exactly how much you can afford and where the funds will come from as well.

If translating your income and expenses is simply too difficult to do on your own, find a professional or close friend with experience performing this task. You'll need to itemize monthly income sources and expenses, as well as account for some of the unexpected surprises that inevitably arise on occasion.

Spreadsheets are the easiest ways to outline these items, but you can also write them down by hand to at least start the process and have a plan to follow. When using a spreadsheet, such as Excel or Google Docs & Spreadsheets, use one column for income and one for expenses. You'll also need to figure an added 10% for unexpected expenses that may arise at any time.

You must first track your expenses for at least a couple of weeks before performing this task. This includes not only set bills like your mortgage and insurance, but everyday expenses like your morning coffee or lunch. If you pay cash for everything, you'll have to record these by hand. If you always use a credit or debit card to pay for expenses, simply print off your most recent statement and itemize the expenses shown.

Next, create a "what-if" scenario to see how your income will greatly increase by paying down your debt. This will provide a constant reminder and source of motivation to keep sending extra money every month and sticking to your debt consolidation or debt reduction plan.

Subtract all of your credit card and auto loan interest, as well as 25% of any unnecessary or impulse purchases. The total of these three amounts will show you how much in unavoidable fees you're paying each month. If this amount is higher than 10% of your monthly expenses, you need to address the problem and eliminate some of them.

Now create a budget that eliminates all of your debt payments except for your mortgage. How much does your net income increase? This is what can be accomplished by simply paying off your debt sooner!

An ideal way to pay down your debt is to stop spending on the impulse and unnecessary purchases each month, and applying this amount to your outstanding debt principal balances. Your amount owed and minimum payments will greatly decrease (though the minimum should only be utilized when things are tight and it's absolutely necessary), and you'll be on the way to a much higher net income. Many find that doing this one thing allows them to live at a much higher standard on even the most modest income.