

SET AND MAINTAIN A BUDGET

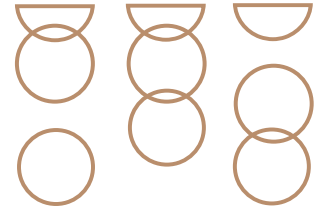
Saving is a crucial component of wealth accumulation. Crafting a budget entails striking a harmonious equilibrium between your earnings and expenditures, enabling you to prioritise essential expenses and allocate funds for savings.



A Suite 3.02,
7-9 Irvine Place
Bella Vista NSW 2153
P 1300 038 746
E wealth@affluens360.com.au
W www.affluens360.com.au

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Benefits

- Creating a budget can enhance your cashflow and boost your ability to save.
- Assuming control over your finances can instill a sense of security and empower you to feel more in command.
- Through budgeting, you can proactively strategise and work toward achieving your desired objectives.

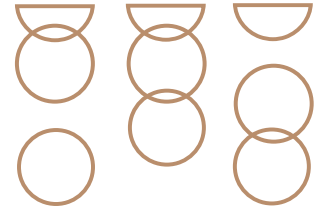
How it works

Embarking on the journey to gain control over your finances commences with the creation of a budget or expenditure plan. This simple yet effective tool serves the purpose of revealing the intricacies of your income and expenses. It offers valuable insights into whether your spending aligns with your financial capacity and aids in gauging your ability to save for future aspirations. A budget comprises two fundamental facets: income and expenses. When assembling your budget, it's essential to encompass all recurring financial transactions throughout a full year.

On the income side, you should account for various revenue streams, such as salary, pension income, dividends, distributions, rental income, and interest. You can work with the post-tax income figures or factor in a provision for taxes within your expense calculations.

Conversely, on the expenses side, include obligations like mortgage repayments, rent, utility bills, vehicle expenses, public transportation costs, and general living expenditures.

To effectively pinpoint your income and expenses, you may find it helpful to review your pay stubs, bank statements, credit card statements, invoices, receipts, and even shopping receipts. In cases where information is missing or certain amounts fluctuate throughout the year, estimations can fill the gaps. Keep in mind that your budget may require periodic adjustments until it comprehensively encompasses all your income sources and expenses.



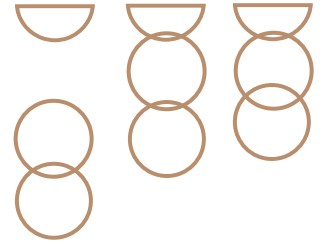
Budget Results

Once you've completed your budget, the next step is to determine your disposable income, which is calculated by subtracting your total expenses from your total income.

- If your disposable income is in the negative, it signifies that you are spending more than you earn. In this scenario, it's advisable to thoroughly review your expense side of the budget, seeking areas where you can trim or eliminate expenditures. Consulting with a financial planner can provide you with strategies to effectively reduce your expenses.
- Conversely, if your disposable income is positive, it indicates that you have the capacity to save. You might consider establishing a regular savings plan, utilising your surplus income to bolster your savings for future goals. However, even if you have surplus income, it's prudent to explore additional opportunities for savings. Your budget offers a chance to assess your expenses, distinguishing between essential living costs and discretionary expenses that could be reduced to boost your savings. It's crucial to strike a balance and avoid cutting out all discretionary spending because an excessively rigid budget may not be sustainable.
- For your budget to be truly effective, it should be integrated with a consistent savings plan. This plan should promptly allocate your disposable income into a dedicated savings account as soon as it becomes available, prioritising savings before spending.

Ongoing budget review

Frequent reviews of your budget are essential to ensure it remains aligned with your present financial circumstances. This assessment should ideally occur every 6 to 12 months, although it's also crucial to revisit your budget when significant alterations occur in your income or expenses. This could be due to life events such as changing jobs, purchasing a new home, or acquiring a vehicle. Consistent and timely reviews play a vital role in keeping your budget on course and enabling you to make progress towards your savings objectives.



Key considerations

Commencing your first budget can indeed pose challenges, but the process becomes progressively smoother with practice. Once you have your budget in place, maintaining and updating it becomes a far more manageable task.

For those seeking additional assistance, the Australian Securities and Investments Commission (ASIC) offers a user-friendly online budget planner available at moneysmart.gov.au. This resource can be a valuable tool in helping you create and manage your budget effectively.

References

You may wish to refer to the following websites for further information about setting and maintaining a budget:

- www.moneysmart.gov.au
- www.ato.gov.au