

# How to Budget and Manage Your Money

A simple guide to taking control of your finances

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Budgeting is a great life skill that can empower you to take control of your money. Understanding how to budget effectively can help you achieve your financial goals, prepare for unexpected expenses, and simply feel more secure day to day. The thought of budgeting might be daunting, but breaking it down into manageable steps can make the process feel easier.

## Budgeting: A Step-by-Step Guide

- 1. Calculate your income:** Start off by working out your total income after tax. This might include your salary, any benefits you claim, or income from other sources. Knowing exactly what you have coming in is the first important step in learning how to manage your money.
- 2. Track your outgoings:** It's time to get to know where your money goes. Try to track as much of your spending as possible. As well as your current account, don't forget to include any other bank accounts, credit cards and loans.
- 3. Categorise your spending:** Once you've tracked all your expenses, you'll need to group them into categories. Common examples include rent/mortgage, bills, groceries, transport, eating out, savings and investments, and debt repayment. Some banks, including Monzo, will automatically categorise your spending for you.
- 4. Set some goals:** Now you have a handle on where your money's going, it's time to decide what you want to do with it. Do you want to save up for something specific? Create an emergency fund? Or build up your savings and investments? Your goals will influence how you allocate your money.
- 5. Build your budget:** Based on your income, expenses and goals, it's time to allocate money to each spending category. The aim is to make sure your total expenses don't

exceed your total income. You might need to make some adjustments – like reducing spending in certain areas.

**6. Review and adjust regularly:** Your circumstances can change, so it's important your budget does too! Keep an eye on it, and make tweaks whenever you need to.

## Different Budgeting Methods

If you're not sure how to allocate your money, there are a few different budgeting methods that can help guide you:

**The 50/30/20 budgeting rule:** With this method, you allocate 50% of your money to needs (essential expenses like rent and bills), 30% to wants (things you could technically live without), and 20% to savings, investments and debt repayment.

**Piggy banking:** This method involves setting up multiple piggy banks and splitting your money between each one. You use the money in each piggy bank for a different purpose, like bills, groceries and eating out. These days, most people prefer to do it digitally using tools like Monzo Pots.

## Budgeting with Irregular Income

If your income is unpredictable, it can be harder to budget but it's still worth doing. Without a plan, it can be easy to overspend during better months, which can create problems during quieter periods.

Try to get a sense of your average monthly income by looking back at your earnings over the last few months. If you're a Monzo customer, you can use Monzo Trends to get an overview of your past spending and income. Use this number as a guide, and base your budget around that.

It might also be worth prioritising your emergency fund. This is a pot of money you set aside specifically for unexpected events, from a broken boiler to an emergency vet visit. Generally, the goal is to save 3 to 6 months' worth of living expenses in this pot, giving you breathing room to handle what life throws at you.