

INFORMATION

ENVELOPE SYSTEM OF BUDGETING

A budget that is not used is a waste of time and effort. The most common reason a budget is discarded is that it is too complicated. A simple, yet effective, budgeting system is one that uses either envelopes or individual account pages.

Keep It Simple

The Goals: (1) to establish a spending amount for each budget category (Housing, Cars, Clothes, and so on) so that “more money in” does not mean “more money to spend,” and (2) to keep track of where you stand at all times relative to the established amount in each budget category.

The System: In the past, many employers paid wages in cash. To control spending, families often divided the available money among several labeled envelopes, one for each budget category. As a need or payment came due, money was taken out of the appropriate envelope and spent.

The system was easy and, when used properly, was quite effective for controlling spending. The rule was simple: When an envelope was empty, there was no more spending in that budget category until the next pay period. Money could be taken from another envelope, if necessary, but a conscious choice had to be made immediately and it was obvious that funds for that other budget category were being depleted.

Today most families get paid by check, and since holding large amounts of cash in the home is not advisable, a different cash allocation system is needed. We suggest that families substitute individual account pages for envelopes.

Here's how it works: All incoming money is deposited into a checking account, and an individual account page is prepared for each budget category. (See example below.) If you have twelve budget categories, you will have twelve individual account pages. Write the name of the budget category and the dollar amount allocated to it at the top of each individual account page.

The family decides, based on their income, how much money should be allocated to each budget category each month. (For suggested percentages, go to <http://www.crown.org/Tools/budgetguide.asp>.)

Each month you record all the spending in each budget category on the appropriate individual account page, subtracting the “withdrawals” from that account as you go. In this way, you can always see at a glance how much you have spent in any budget category and how much is left to spend in that category. The individual account pages are used to accomplish what the envelopes once accomplished.

It is important to know how much money *should* be spent in each budget category, how much *has* been spent to date, and how much is *left* to spend for the current month. At the end of each month, total the amounts spent in each budget category, compare the totals to the spending plan (the budget), and adjust your spending, if necessary, the following month in order to stay on budget.



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