



Innovation, Science and
Economic Development Canada
Office of the Superintendent
of Bankruptcy Canada

Innovation, Sciences et
Développement économique Canada
Bureau du surintendant
des faillites Canada

INSOLVENCY COUNSELLING PROGRAM

Budgeting Module



Canada

Budgeting Module

Welcome to the budgeting module

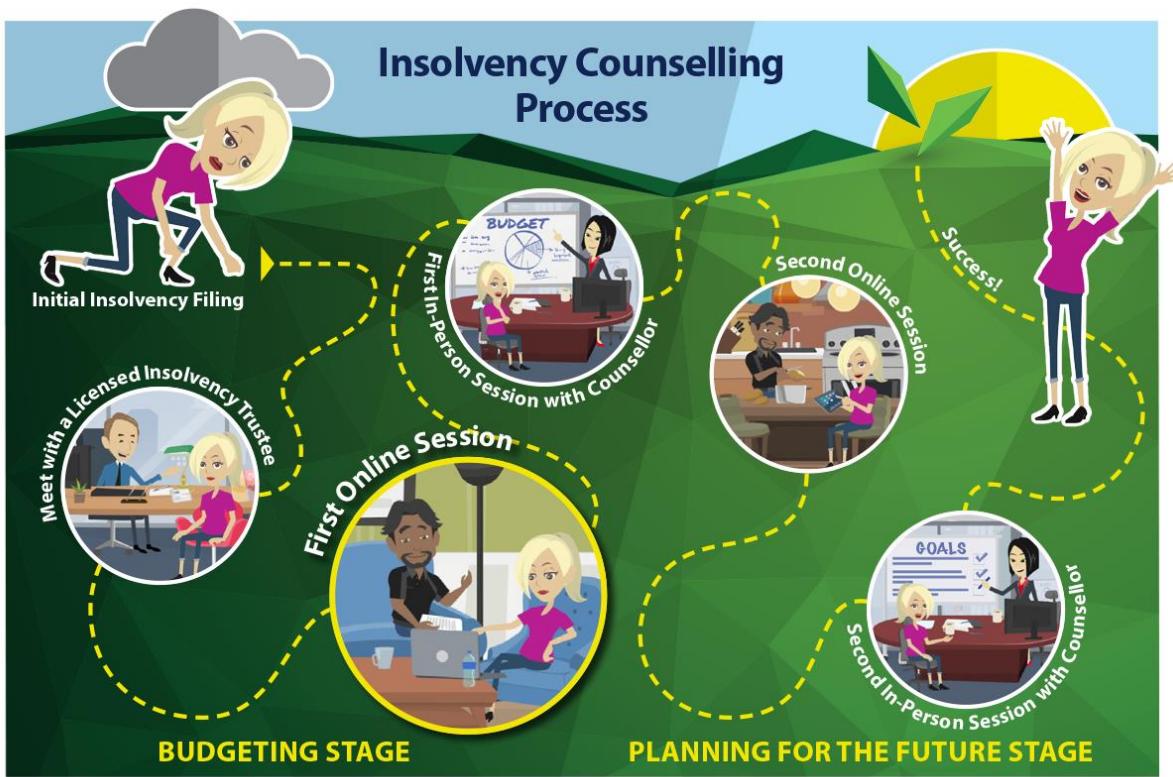
When completing the modules:

- sit in a quiet place;
- take your time, move at your own pace and take regular breaks; and,
- write down any questions you may have and bring them with you to your in person counselling session.

① Although the modules are presented in a certain order, it is important to remember that situation is different, so your BIA Insolvency Counsellor can adjust your counselling to suit your needs. This may include changing the order of the online modules.

Budgeting overview

The insolvency counselling process



- Budgeting is the first step to your fresh financial start.

- Budgeting allows you to make proactive decisions about your money and puts you in control of your finances.
- Budgeting allows you to make deliberate decisions about your money and ensure your financial stability.
- Budgeting will help ensure that you have enough money for essentials, as well as the things that are important to you.
- Budgeting is a process which will empower you!

① **Proactive decisions** involve taking control and acting in advance, rather than reacting to a particular financial situation.

① **Deliberate decisions** involve taking your time to carefully think about your choices.

The objective of the budgeting module is to provide you with useful information and tools to create and maintain a budget. By the end of this module, you will have developed your own budget. You will bring this budget to your in-person counselling session. During your in-person counselling you and your counsellor will work together to make sure your budget will help you be successful in the future.

This module will provide you with tips to make budgeting a regular part of your routine.



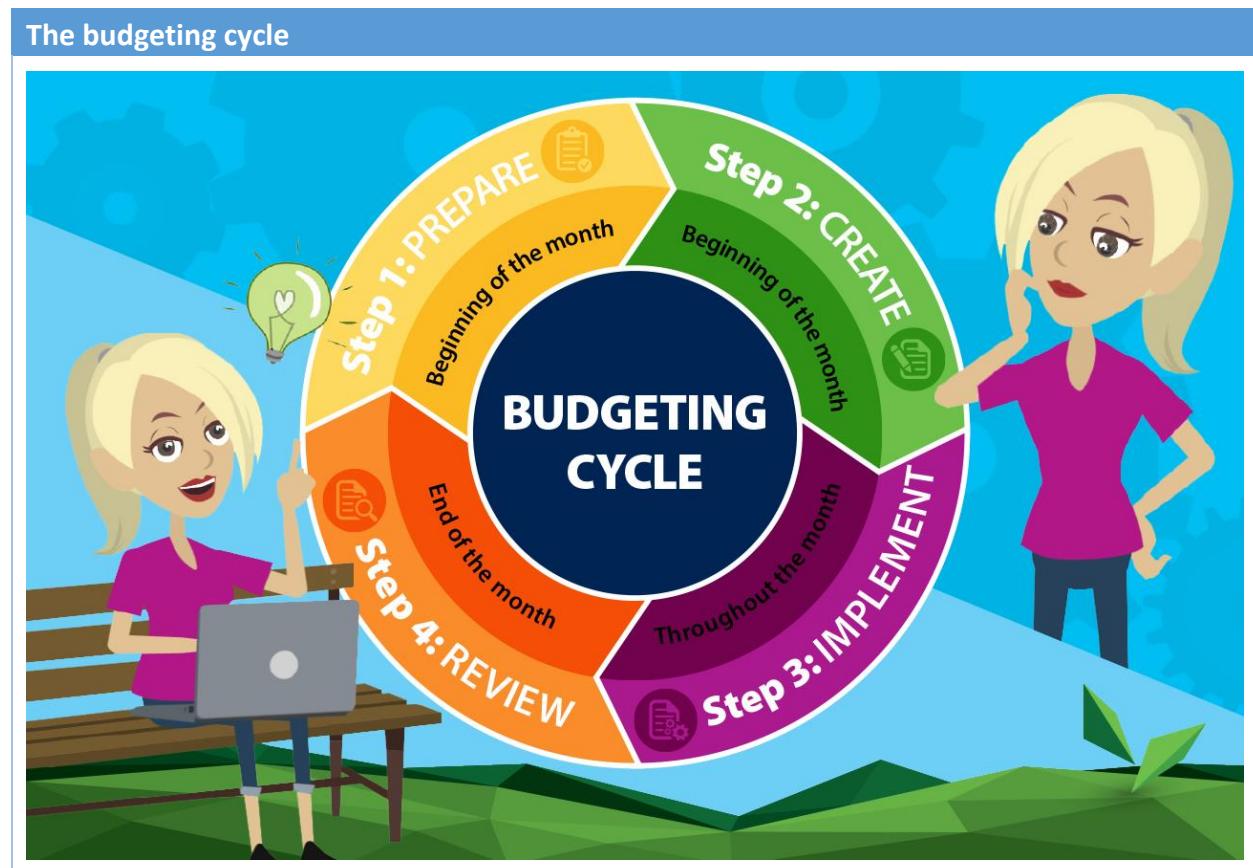
If you have questions, write them down and bring them to your in-person counselling session.

Budgeting process

A budget is simply a plan for your money

Budgeting is a cycle:

- **step 1 – prepare:** estimate your expected money coming in, money going out and money set aside for later use as accurately as you can;
- **step 2 – create:** ensure your money coming in equals your money going out and money set aside for later use—this is your budget;
- **step 3 – implement:** put the budget in place and refer to it when making decisions;
- **step 4 – review:** on a regular basis compare what actually happened against your estimated budget and use this information to adjust for your next budgeting period.



Download the interactive budgeting template

Add your personal budget information to the template as you go through the module. Hover over each item in the budgeting template to view a short description of the item.

For the purpose of this module and the budgeting template, your budget period will cover one month.

You will take your completed budgeting template to your in-person counselling session. When you meet with your counsellor you will work together to make sure your budget fits your needs.

Budgeting template

[PDF version](#)

1.33 MB, 2 pages

[Excel version](#)

19.8 KB

[Template instructions](#)

724 KB, 4 pages

The first section of the budgeting template is divided into three main categories:

- income (money coming in);
- expenses (money going out); and,
- savings (money set aside for later use).

The second section of the budgeting template provides a summary of your information from the first section. This summary will help you succeed throughout the budgeting cycle.

Budgeting template: balancing your budget

Balancing Your Budget		
Make adjustments to your income, savings, and expenses so that your budget is balanced		
Period	Every Month	Congratulations!
Total Income	\$ 0	Your budget is balanced within 5%
Total Savings	\$ 0	
Total Expenses (including money you need to save to pay for expenses that <u>do not</u> occur monthly)	\$ 0	
Difference	\$ 0	

① You can fill out the budgeting template electronically and email it to your counsellor. Or, if you prefer, you can print it and bring it with you to your in-person session. Either way, the counsellor will need to see your budget for discussion purposes at your next in-person session.

There are many different ways to create a budget and everyone is different. This budgeting template is just one of many available options. For the purposes of this module, please use the budgeting template provided. If you decide that the budgeting template does not work for you, do not give up or get discouraged! Instead, use this activity as a learning experience and then

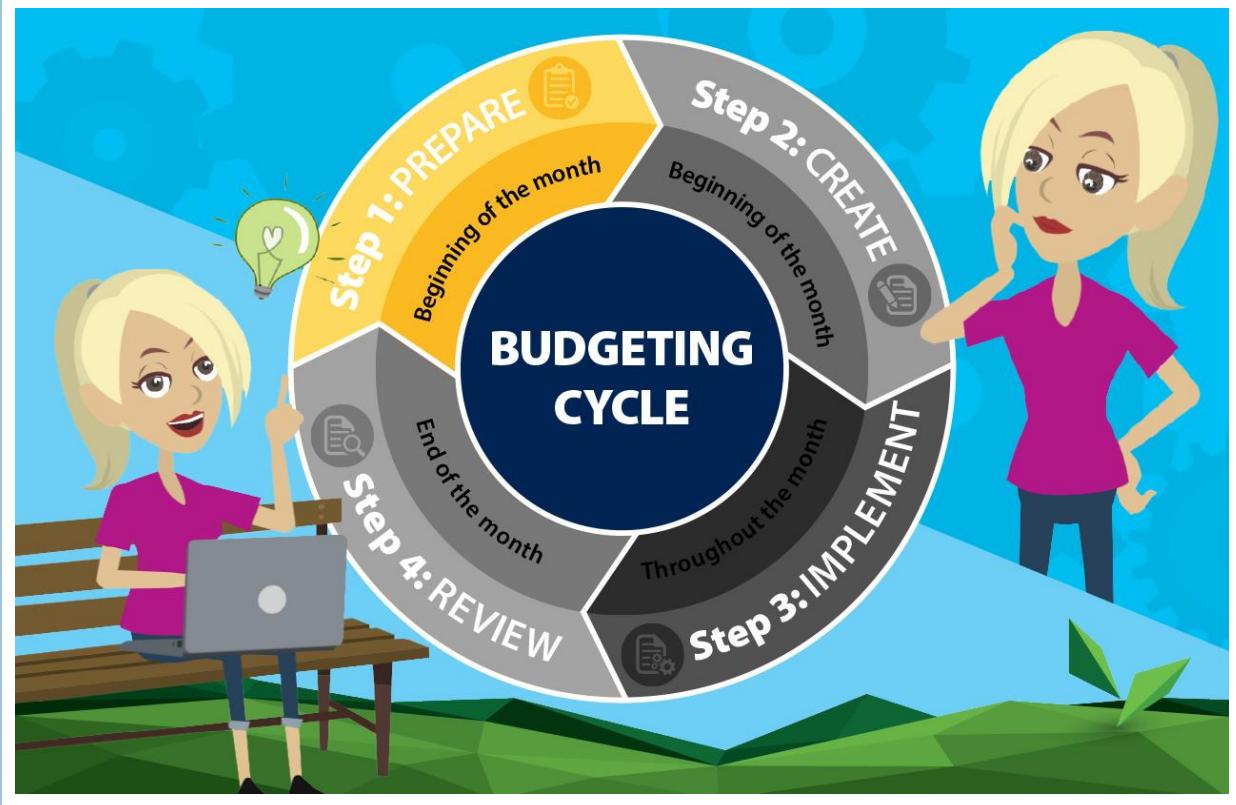
after completing the module, you can look for a different budgeting method that works better for you. You can discuss different options with your counsellor.



Bring your completed budgeting template to your in-person counselling session to discuss and review with your counsellor.

Step 1: prepare

The budgeting cycle: step 1



The goal of **step 1: prepare** is to estimate how much money you will receive, pay, and save in the budgeting period.

This is an estimate and you will have the opportunity to adjust your budget if needed. For example, if you forget about an expense item when estimating your budget, do not give up or get discouraged! You can always adjust your budget which will help you to plan better in the future.

Estimating your income

① **Net income** is the total amount of money you receive on your paycheque.

There are many different sources of income. Whether your main source of income comes from a paycheque or some other method, you need to know how estimate your income. This will help you to manage your income in order to cover your expenses.

Sometimes employment income is very predictable, like when you are paid a salary. However, sometimes there can be some difficulty in estimating income amounts, such as when employment income or wages are variable or irregular.

Wages are tied to the employee having to work in order to get paid. For example, some employees do not have paid sick leave, and their income will drop if they cannot work.

Other types of employment income can also vary in amounts and frequency, for example, when employment income includes tips and/or commission. Employment income could also be irregular. Irregular income includes contract work, consulting, seasonal work, and odd jobs. Both variable and irregular incomes can pose challenges when budgeting because it involves estimating incomes.

If your employment income is irregular or variable, you are encouraged to save during months when you have higher income to cover months of lower income. This means covering basic monthly expenses and, if possible, saving the rest of your money in an emergency fund for future months. This way if you find yourself with an income shortage, you can cover it with your savings.

When estimating your income, you should plan your budget based on your standard hours and/or regular pay. For example, if your overtime hours change from week to week, do not include overtime hours when estimating your income. Be careful when estimating your income if it is variable, such as working a job which includes tips and commissions. You should only include income you are confident you will receive since overestimating your income can easily lead to overspending and future financial problems.

If your employer pays you by cheque, you should be aware of all associated holds and banking fees. If you go to your employer's banking branch, you may be able to cash your paycheque right away if you need immediate access to the funds. This might help you to avoid having to borrow money, such as using payday loans.

Using the information you learned about income, enter the amount and frequency of money you expect to receive in the budgeting template.

Budgeting template: income

INCOME (After Taxes & Deductions)	Amount	Frequency Received	Monthly Equivalent
Employment income		Please Select	\$ 0
Spousal support, child support		Please Select	\$ 0
Retirement income		Please Select	\$ 0
Social assistance		Please Select	\$ 0
Other		Please Select	\$ 0
Total Income (After Taxes & Deductions)			\$ 0



If you are unsure whether something should be included as income, write down your questions and bring them to your in-person counselling session.

Estimating your expenses

We just covered estimating your income. Now we will go over how to estimate your expenses. Expenses are how much money you pay.

Some expenses are pretty easy to estimate because they are the same or close to the same amount and happen on a regular basis (each month).

Other expenses, called periodic expenses, can be more difficult to estimate because they happen less often. Make sure that you have enough money set aside to cover the cost of these expenses when they come up.

When you are estimating your expenses, keep in mind that periodic expenses can come up without notice. Unforeseeable expenses can be more difficult to estimate, so prepare for these by planning for them in your budget.

Try to identify and estimate all of your periodic expenses.

If you are not sure what amount to estimate, take a look at your previous year's bank statements to see how much you spent.

Examples of easier expenses to estimate include:

- rent
- fuel
- utilities
- child care expenses

Examples of foreseeable periodic expenses include:

- dental appointments
- gifts
- vehicle maintenance
- vehicle registration
- property taxes
- tuition

And some periodic expenses which are also unforeseeable:

- vehicle repairs
- medical expenses
- home repairs

① During the insolvency process, you will no longer be making payments on the debt you had when you filed. However, you may have agreed to make regular payments to your LIT or proposal administrator. Please remember to include these amounts in your budgeting template.

Using the information you learned about expenses, calculate the amount and frequency of money you expect to pay in each category and enter it in the budgeting template.

Budgeting template: expenses				
EXPENSES	Amount	Frequency Paid	Monthly Equivalent	Periodic Expense? (consider setting aside money every month for periodic expenses)
Housing				
Rent, mortgage		Please Select	\$ 0	
Property taxes, condo fees		Please Select	\$ 0	
House, tenant insurance		Please Select	\$ 0	
Repairs, maintenance, furniture, appliances		Please Select	\$ 0	
Utilities (electricity, gas, oil, propane, water)		Please Select	\$ 0	



If you have additional expenses which are not listed on the budgeting template, feel free to discuss these expenses openly in a judgement free atmosphere with your counsellor.

Estimating your savings

In addition to income and expenses, the budgeting template also has a section for savings.

Saving is essential because it creates financial stability and security! Many think saving is only for large items such as retirement or a down payment on a house. However, it is not – saving is also a way to avoid periodic expenses surprising you.

So saving is necessary to ensure that funds are available for:

- periodic expenses, including unforeseeable ones;
- other unpredictable events; and,
- achieving a financial goal.

The solution to managing your periodic expenses (such as property taxes) is to estimate them and then **save money each paycheque** so that you are prepared for the payment. The budgeting template will help you to remember to save monthly for these infrequent expenses by showing you how much you should set aside each month so that you have the funds available when these periodic expenses need to be paid.

Your emergency fund is used to set aside money in case of an unforeseeable event, like loss of income. Many individuals who file for bankruptcy say it is because they experience a loss of income. It is important to have an emergency fund for unexpected situations such as this.

Your savings for financial goals is the money set aside for your future goals such as retirement or education. This is discussed in more detail in the [setting and achieving financial goals module](#).

You may not have much, if any, money to allocate to your savings at this point. That's ok! Instead, plan your budget around your essential living needs. Your goal is to learn to live within your means on a month-to-month basis.

① It is a good idea to set up a bank account specifically for your savings. This will allow you to keep your savings separate from the money you use for everyday expenses. As an added benefit, setting up a bank account can help you establish a banking relationship. Banks will generally relax their hold requirements once a customer has a proven relationship.

Using the information you learned about savings, calculate the amount and frequency of money you expect to save in each category and enter it in the budgeting template.

The insolvency counselling process

Savings	Amount	Frequency of Deposits	Monthly Equivalent
Emergency fund		Please Select	\$ 0
Financial goals		Please Select	\$ 0
Total Savings			\$ 0



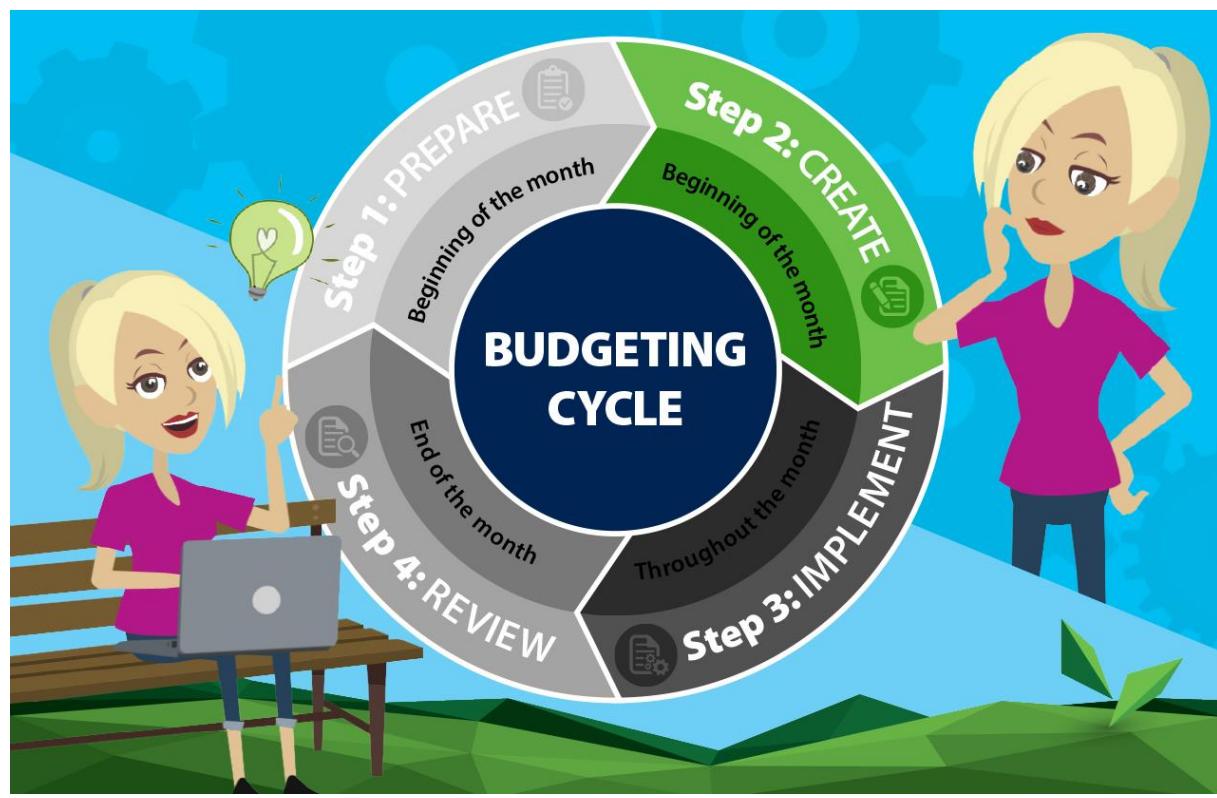
If you have additional savings which are not listed on the budgeting template, feel free to discuss these with your counsellor.

Consider taking a 5-10 minute study break at this point!



Step 2: create

The budgeting cycle: step 2



After entering your estimated income, expenses and savings you now have all of the tools you need to create a balanced budget. This is the focus of **step 2 — create**.

The goal of a budget is to make sure that all of your income is equal to your expenses and savings. This is a balanced budget.

The following sections cover different strategies that you can use if your budget is not balanced. These strategies can help you deal with a surplus or deficit.

Create a balanced and realistic budget

Since the goal of a budget is to balance your expected income with your expenses and savings, the following sections talk about strategies for adjusting your income, expenses, and savings.

Strategies to solve a budget deficit

1. Review your expenses and savings

Consider the difference between needs and wants.

- A **need** is a necessity, something that is essential for living. Examples include shelter, groceries and basic clothing.

- A **want** is a desire, something that is non-essential for living but that you would like to have. Examples include vacations, restaurants meals and non-basic clothing.

It is important to understand each expense and saving line in your budget as either a need or a want. This will help you to adjust your expenses or savings if you have a budget deficit.

① A **budget deficit** occurs when your expenses and savings are greater than your income.

Needs and wants can change over time and one individual's wants may be another person's needs. For example: for an individual who lives near a bus route, a car may be a want. However, for another individual who doesn't have access to public transit and can't cycle to work, a car may be a need.



Think about the things in your life which might not be clear as to whether they are a need or a want. Write these down and bring this list to your in-person counselling session to discuss with your counsellor.

When reviewing your anticipated expenses and savings, ask yourself:

- Do the numbers accurately reflect your spending habits? (you will learn more about your spending habits in the [spending habits module](#)).
- Could there be a more realistic number to reflect your expenses or savings?
- Are there any small recurring expenses that you can cut?
- Are there expenses or savings in the 'want' categories that you can cut?

2. Expand your income

Another potential strategy to solve a budget deficit is to increase your income. Below are some ideas on how to increase your income so that you can successfully balance your budget.

Be aware of pyramid schemes and/or employment where you have to pay an upfront fee. These types of jobs can end up costing you a lot of money.

Additional employment:

- apply for a higher paying job or consider working multiple jobs,
- work odd jobs (i.e. mowing lawns, shovelling driveways, cleaning homes, walking dogs, etc.),
- take on freelance work, or

- work over-time hours.

Workplace and government plans:

- see if you are eligible for Employment Insurance benefits,
- see if you can draw on vacation pay that you have accumulated, and
- see if you are eligible for income assistance programs by contacting your provincial or territorial government ministry responsible for social assistance programs.

Shelter:

- If you own, consider selling your home or other property, then buying or renting another home for less, consider renting out part of your home to bring in extra money, or
- If you rent, consider renting another home for less.



Some of the options listed above might not be best suited to your specific situation so it is important to discuss some options with your counsellor.

What to do with a budget surplus

If you have a budget surplus, here are some ideas on what to do with your extra money:

- Pay down debts. If you are a bankrupt, continue to pay down debts that will not be discharged, such as certain student loans.
- Boost your emergency fund.
- Invest some of the surplus to pay for financial goals like your children's education or your retirement.

It is important to recognize that there is a difference between a **budget surplus** and **surplus income**.

A **budget surplus** is when your income exceeds your expenses, therefore indicating that you have money left over to put into saving for your periodic expenses or other financial objectives.

Surplus income is extra money that you have to pay to your estate. Some people who are bankrupt are expected to contribute a reasonable amount from their income to their estate while in bankruptcy.



If you have additional questions about surplus income, write them down and bring them to your in-person counselling session.

Adjusting the budgeting template

Using the information you learned about creating a balanced budget, make adjustments to your income, expense and saving estimates in order to balance your budget. The 'balancing your budget' table (see below) in the budgeting template will indicate when you have a surplus, a deficit and when your budget is balanced.

Budgeting template: balancing your budget

Balancing Your Budget		
Make adjustments to your income, savings, and expenses so that your budget is balanced		
Period	Every Month	Congratulations!
Total Income	\$ 0	Your budget is balanced within 5%!
Total Savings	\$ 0	
Total Expenses (including money you need to save to pay for expenses that do not occur monthly)	\$ 0	
Difference	\$ 0	

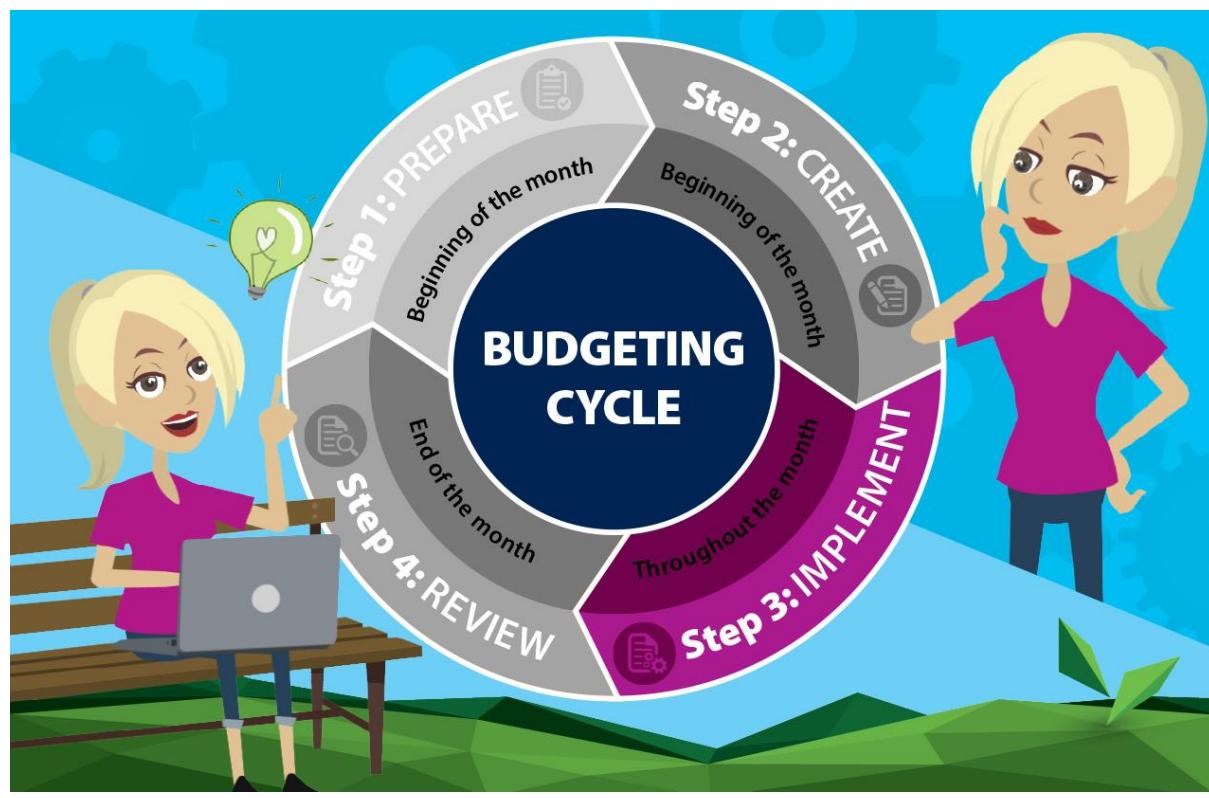
Congratulations! Your estimated budget will provide you with financial guidance for the upcoming month.



Ensure your counsellor has a copy of your balanced budget for discussion at your in-person counselling session.

Step 3: implement

The budgeting cycle: step 3



Apply your budget

In **Step 1: prepare** and **step 2: create** you created a balanced budget. **Step 3: implement** is about putting things in place to help you succeed in the real world so you don't run out of money when your expenses are due. This involves keeping track of your actual income, expenses, and deposits to savings.

Record keeping is a great way to keep track of your money.

- ① Set aside time each week (15 minutes or so) to do this – this is more manageable than doing it once a month.

There are many benefits to keeping a record of the income you actually receive, the expenses you actually pay and the money you deposit to savings.

You have created a budget based on deliberate decisions about how you want to spend your money. Recording your income and expenses as you receive and pay them, will help you to control your spending and make sure that you are living within your means by only spending what you have planned and budgeted.

Keeping accurate and up-to-date records will also help you estimate future income and expenses more accurately.

Please download the income and expense tracking tool to help you keep track of your money. Write down all of your income, expenses, and deposits to savings throughout the month. The income and expense tracking tool is complementary to the budgeting template.

There are many different ways to track your spending and everyone is different. This income and expense tracking tool is just one of many available options. If you decide that our tool does not suit your needs, don't give up or get discouraged, but instead use this activity as a learning experience. Once this process is over, you can look for an alternative method that works better for you. Look for a different tracking method better suited to your needs. Discuss different options with your counsellor.

If you are bankrupt, your LIT must be informed of any major changes to your income or expenses. Maintaining the income and expense tracking tool helps you document your income and any changes in your situation.

Income and expense tracking tool

[PDF version](#)

1.32 KB, 2 pages

[Excel version](#)

18.5 KB

[Instructions](#)

658 KB, 3 pages



Bring your income and expense tracking tool to your in-person counselling session to discuss and review with your counsellor.

Record keeping

Here are some record-keeping suggestions that can help you complete your income and expense tracking tool:

- **keep all of your receipts,**
- **record expenses as you spend** – this can be done via:
 - notebook or calendar
 - computer program or mobile application
 - the use of your bank's expense categorization software built into online banking, and/or downloading information from your online banking account into a spreadsheet

Tracking your expenses regularly allows you to reduce your spending within the month in order to stay within your budget. Doing this on a weekly basis is less overwhelming than doing it at the end of the month.

IMPORTANT! There are risks associated to disclosing your online banking and credit card information to third-party financial mobile applications and/or online services. Make sure you review the user agreement and your banking agreement carefully to determine whether sharing your information with another party will result in losing your protection against unauthorized transactions. When in doubt, don't share your banking credentials. If you are at risk, contact your bank immediately and change your online banking passwords.

The envelope system

In **Step 1: prepare** and **step 2: create**, you allocated all your income to expenses. The envelope system is a great way to see if your estimates were right. By separating your expenses into categories, you can see how much you have spent and how much you have left in each area.

Ideally, you would have an envelope for each expense category. Put the budgeted amount for each category into the appropriate envelope to spend as required. To find out if you are on, over, or under budget, simply just look inside the envelope. Resist the temptation of borrowing from another envelope.

You may use a physical and/or virtual envelope:

- **Physical envelope:** for each expense category, write the name and budgeted amount on an envelope and put the cash amount inside. Keep the envelopes in a safe place.
- **Virtual envelope:** many applications and websites offer virtual envelope systems for free. This allows you to use your debit card to pay for your day-to-day expenses and have a savings account for your periodic expenses. This system does not require you to take out cash and have cash on hand at all times.

- **Both physical and virtual envelopes:** some people use both physical envelopes and virtual envelopes. This allows you to pay for regular expenses in cash, while also paying for other expenses with your debit card. You can keep money in a savings account for periodic expenses.



Take the opportunity at your in-person session to speak with your counsellor about how you can set-up the envelope system.

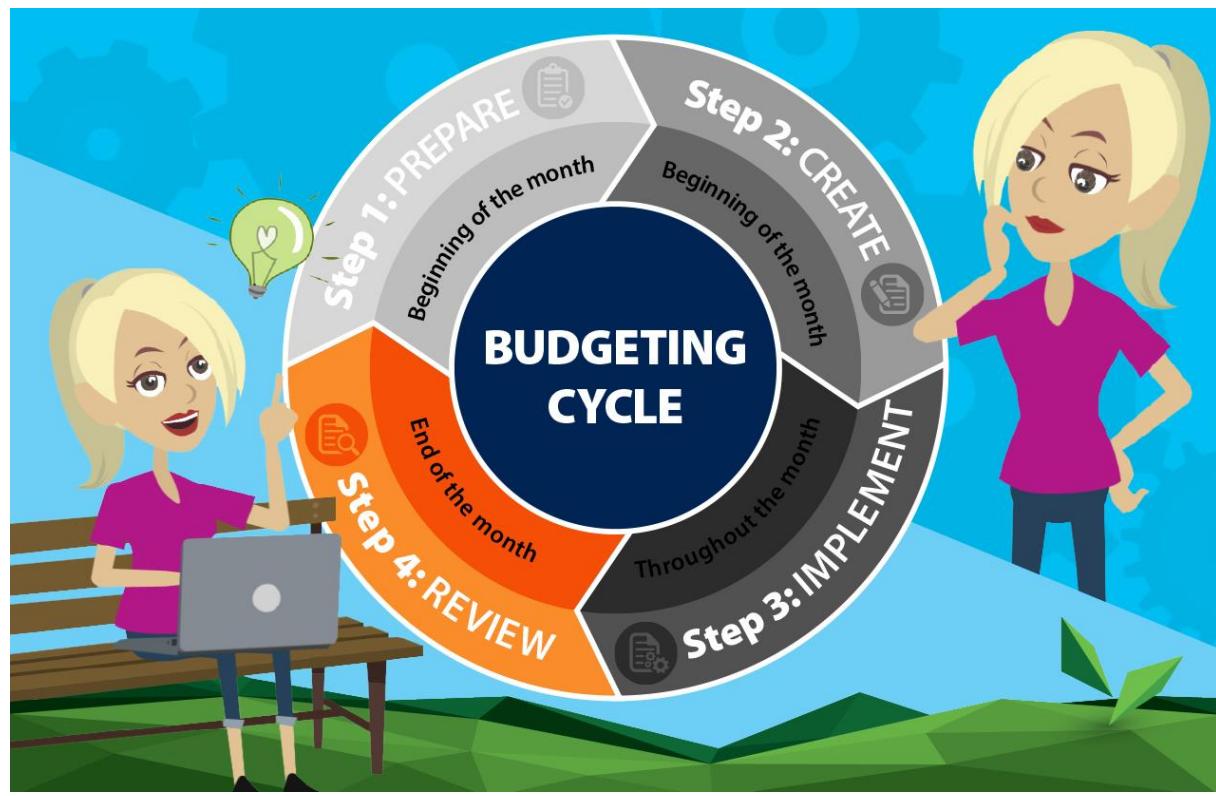
Automatic payments

Now that you have a list of all of your expenses, think about where it makes sense to set up automatic monthly payments. The automatic payments would be meant to cover your fixed expenses, such as rent/mortgage, car loan payments, and utilities. You may want to arrange to have your bills automatically deducted when you know you'll have the funds available.

Automatic payments can be very useful for some people; however, this method might not be the best option for everyone. Talk to your counsellor about whether automatic payments are the right option for you.

Step 4: review

The budgeting cycle: step 4



Review and adjust your budget

Step 4: review is about critically analyzing your budget; determining whether your budget is realistic and then making adjustments to your plan.

Compare your budgeting template to your income and expense tracking tool during the month and consider whether you need to adjust your spending in a particular category or adjust your budget for the next budgeting period.

Budgeting template: review

[View Instructions](#)[Save](#)[Print](#)

Budgeting Template

INCOME (After Taxes & Deductions)	Amount	Frequency Received	Monthly Equivalent
Employment income		Please Select	\$ 0
Spousal/child support		Please Select	\$ 0
Retirement income		Please Select	\$ 0
Social assistance		Please Select	\$ 0
Other (provide details):		Please Select	\$ 0
Total Income (After Taxes & Deductions)			\$ 0

Income and expense tracking tool: review

[View Instructions](#)[Save](#)[Print](#)

Income and Expense Tracking Tool

Month: October

Year: 2018

Day of the week you want to enter your expenses: Sunday

INCOME (After Taxes & Deductions)	Mon Oct 01 to Sun Oct 07	Mon Oct 08 to Sun Oct 14	Mon Oct 15 to Sun Oct 21	Mon Oct 22 to Sun Oct 28	Mon Oct 29 to Wed Oct 31		Total
Employment income							\$ 0
Spousal support, child support							\$ 0
Retirement income							\$ 0
Social assistance							\$ 0
Other (provide details):							\$ 0
Total Income (After Taxes & Deductions)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

Check your learning: budgeting module

Select the correct answer for each of the questions below.

1. Which of the following is true?

- a. Budgeting does not allow you to make proactive decisions about your money.
- b. Budgeting is an ongoing process that involves estimating and adjusting.
- c. A budget can cause you to overspend and live outside your means.
- d. Budgeting helps you balance how much money you receive and pay with how much money you save.

2. All periodic expenses are very difficult to manage because they are usually unforeseeable.

- a. True
- b. False

3. The term 'budget period' relates to:

- a. The subdivisions of the main budget.
- b. A specific year for which the budget has been prepared.
- c. The period for which the budget is prepared.
- d. The period in which the budget is finalised.

4. Which of the following is not a type of employment income?

- a. Wages
- b. Tips and commission
- c. Salary
- d. Child support

5. It is recommended that you estimate all of your periodic expenses annually.

- a. True
- b. False

1.(b) 2.(b) 3.(c) 4.(d) 5.(b)
Answers

Congratulations

✓ You have now completed the budgeting module!



If you have questions, write them down and bring them to your in-person counselling session, along with a copy of your completed budgeting template and your income and expense tracking tool.