

Working out your finances

Audio transcript

Knowing how much you have to spend and save each month is an excellent way to keep on top of your finances. To do this, you need to work out how much money is coming into your account each month - your income, and how much is going out. This video shows you how to do this.

You can use a laptop, an app or good old-fashioned pen and paper...

So feel free to pause this video and get what you need to jot down all the figures - a payslip, bills, and so on - so that, by the end, you'll know exactly where you stand.

Step 1 is to work out how much money's going into your account each month, let's call it your take-home pay. This is the amount you take home from your job after tax, national insurance, pensions and other deductions. It's how much you have to spend each month. If you're an employee, you've got a head start. The bottom line of your payslip will tell you your take home pay for that month. Write that figure down as your income.

If you're self-employed, you'll need to work out the deductions for tax, national insurance and so on yourself. Many people receive their income from different sources including benefits, tax credits etc, so make sure you include them when working out the total going into your account each month. It may be that your pay varies from month to month due to commission, bonuses, tips or because you're freelance. In that case, just work out an average of the last 3 months.

Step 2 is to work out your monthly outgoings. Start with all your essential expenses. Write down your rent or mortgage payments, your council tax, utility bills - gas, electricity and water, Internet and mobile phone, essential travel to or from work, food and personal care items – your weekly shop and so on, minimum payments on debts – such as credit cards or any other regular monthly debts, then think about what other, non-essential expenses you have and write them down, subscription services - TV, music, and so on, eating out or takeaways clothes, shoes, etc, trips to the cinema and other social activities. Put in a line for anything else you spend money on: pets, clubs, childcare. It's important to be as honest and thorough as you can. You'll also need to take account of larger, one-off or annual expenses like holidays, home insurance, or if you have a car: your MOT etc. For these, divide the total amount you have to pay in a year into 12 to get the monthly amount. Then pop these figures into your outgoings.

Step 3 is bringing it all together. Take all the outgoings you've written down and add them together to get your total monthly outgoings then have a look at your income again. The difference between the two is the amount you have left to spend, in other words, your budget for that month. It may be that the amount you have left over is small or that your outgoings are actually larger than the money you have coming in. Whatever your situation, working out exactly where you are with your monthly incomings and outgoings is vital to help you stay in control of your finances so you can plan for today and for the future.

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