



Zero-based budgeting: Making every dollar count

Ever heard of zero-based budgeting? No? Originally developed in the late 1960s, zero-based budgeting is an accounting method that has experienced a revival in recent times.

In conventional budgeting, expenditure from previous periods is used as a starting point and raised by a set increment, resulting in many costs and expenses not being reviewed for years.

Conversely, zero-based budgeting does not assume increased costs are a matter of course. Instead, it involves redrafting the budget from scratch every period by analysing and justifying all expenses.

This forces company departments to be more disciplined in their spending, and to identify procedural inefficiencies.

While zero-based budgeting is mainly used by organisations, it's an effective way of managing your household budget too.

Adopting a zero-based budget for your personal finances will help you to:

- review existing expenses,
- justify new expenses,
- understand your spending,
- limit impulse buying,
- achieve savings goals.

To create a household zero-based budget:

1. List your income sources: wages, side-jobs, rent, etc. over a set period.
2. List all your expenses, for the same period; not just the essentials like housing, food, credit cards, but *everything*.
3. Group expenses into categories such as: Debts; Needs; Savings; Entertainment etc.

4. Work out the average cost for each category.
5. Distribute your income across the categories. Aim to allocate every dollar so you're left with zero at the end.

Review your budget every quarter, or more regularly if your income varies. If one category comes up short, revisit all categories to justify each expense and adjust as necessary. If you have income left over, consider allocating it to debt or savings.

Additionally, zero-based budgeting is a handy tool for teaching teens to budget and save as they begin earning their own money. It helps them form a habit of living within their means by causing them to pause and think before spending.

On the downside, zero-based budgeting is labour-intensive due to its reliance on deep analysis. It can also mean you lose sight of your long-term goals as your focus is drawn to the immediate budget period.

In the corporate world, zero-based budgeting provides management with greater insights into income and cashflow. This can result in areas that traditionally don't generate revenue, such as staff training, ending up with inadequate funding.

However, as a household budget, it offers a greater understanding of how and where your money goes.

If you think your budget could do with a revamp and you're wondering whether zero-based budgeting could be a good methodology for you, your accountant will be able to answer any questions.

Alternatively, grab a note pad, or create a spreadsheet, and set up your own zero-based budget. You may be surprised to find many of your expenses don't stand up to scrutiny. But then, you may discover you can begin planning that family holiday after all!

Sources:

www.investopedia.com "Zero-based budgeting: what is it and how to use it" (23 April 2023)

www.indeed.com "Zero-based budget: definition, steps and examples" (4 February 2023)

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