

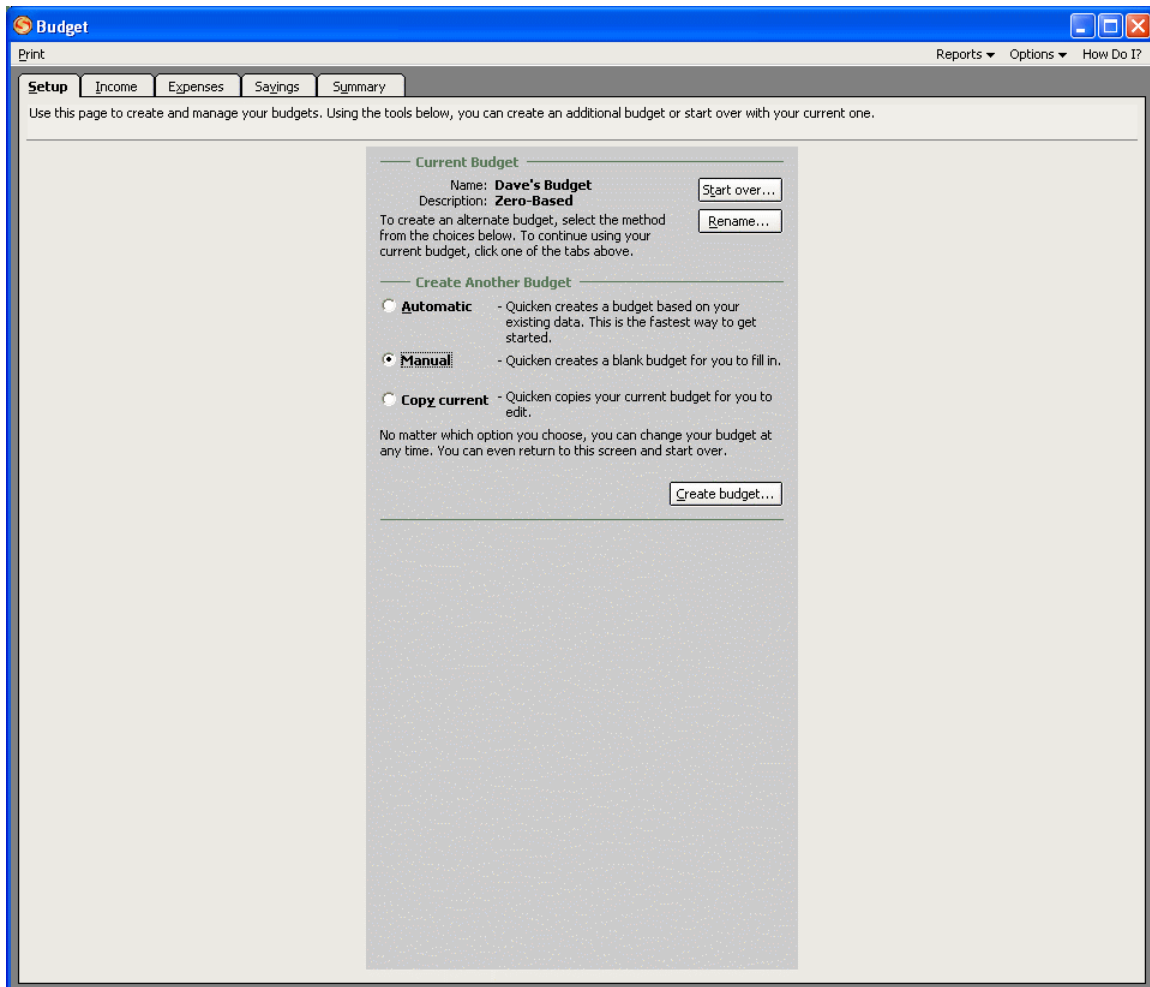
How to Create and Analyze a Dave Ramsey-Style Zero-Based Budget in Quicken

By quickennerd

Disclaimer: I use Quicken 2007 Deluxe. I'm not sure what features the other versions of Quicken have, so your mileage may vary. For this demonstration, I've created a sample Quicken file, with the basic accounts and categories, and an example zero-based budget from FPU. I'm assuming a basic knowledge of Quicken, how to create and manage accounts, create categories & subcategories, etc. If you're new to Quicken, I'd suggest the online help or a tutorial if these concepts are unfamiliar. Also assumed is a basic understanding of zero-based budgeting from FPU.

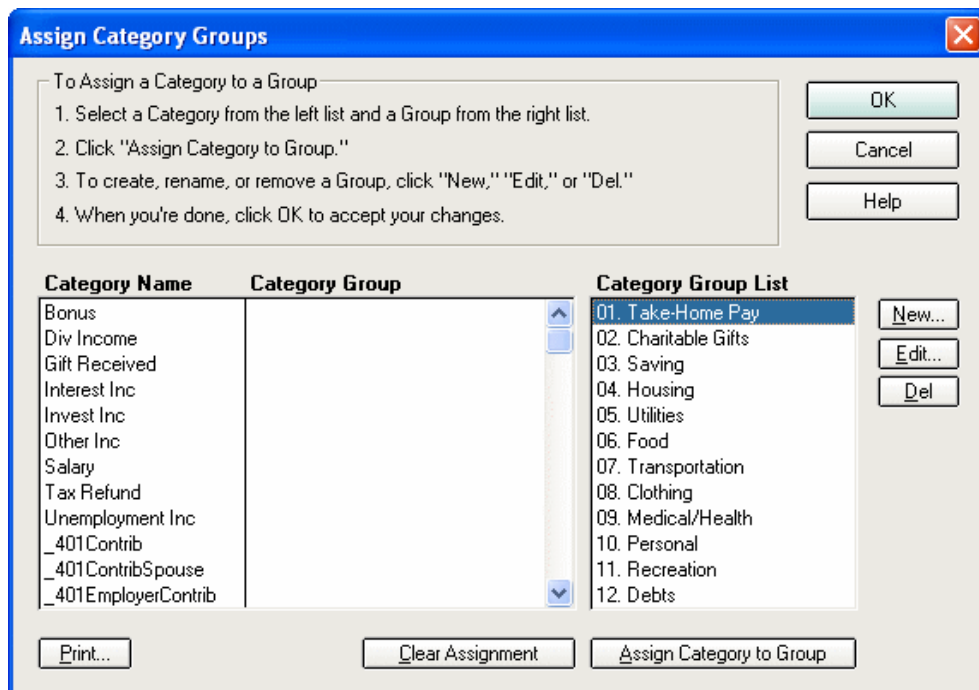
Step 1: Create a new budget.

Go to Planning menu, select Budget. If you've been doing budgeting in Quicken already, I'd suggest setting up a new budget. Then you can always switch back to your old method if this doesn't work for you. First click Rename and call the new budget something like "Dave's Budget". Then if you select Manual, then Create Budget, Quicken will create a blank budget.



Step 2: Create Category Groups.

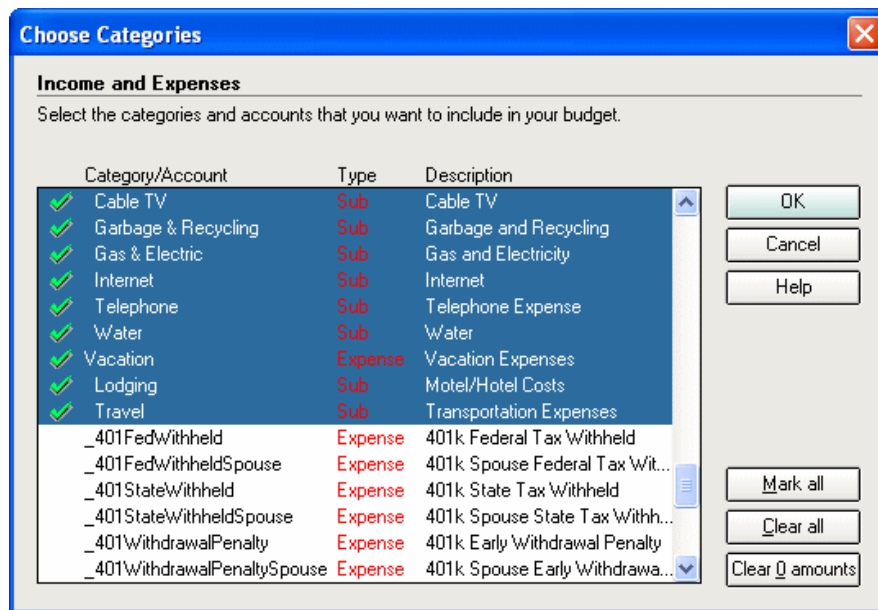
In the Budget window that appears, check the box by Show Category Groups at the bottom. This activates a new button called Category Groups... Click on it. You then get the Assign Category Groups window. On the right hand side is a Category Group List. Clear out the default ones and substitute Dave Ramsey's category groups as I've shown below. If you use the numbers I've shown as part of the Category Group name you'll keep it in order, otherwise Quicken alphabetizes the list & mixes it up. This is the order the Category Groups will later appear in the budget window. Once you've got the Category Group List the way you like it, click OK.



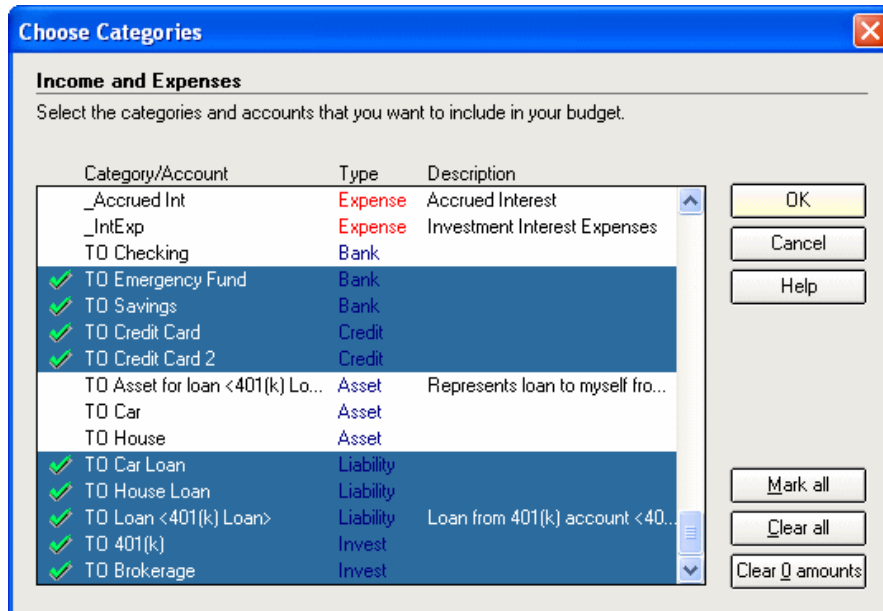
Step 3: Select which Categories to have in your budget.

From the Budget window, click on the Choose Categories... button. From the Choose Categories window, select those you want to appear in your budget.

This is maybe the toughest part of this whole process. Choose which Categories to include carefully. Remember in Dave's plan we're just budgeting cash flow, not everything that happens in every account. For example, don't budget for Dividends Received since that's not part of your take home pay, and it just gets reinvested anyway. Generally speaking, you won't need to track any investment categories (ie., those ones that start with an underscore (_AccruedInt for example)). In the example below, the cash flow expenses are included in the budget, the investment categories are not.



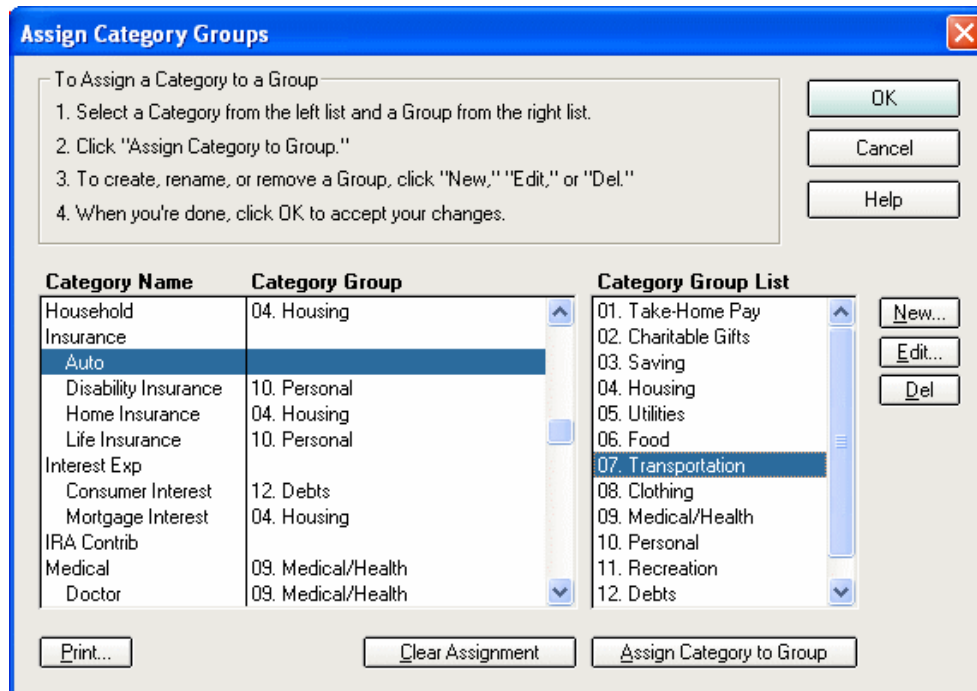
Note that some transfers need to be budgeted. For example, if you regularly contribute to your Emergency Fund, select the “TO Emergency Fund” transfer and budget that. When you’ve decided on which categories and transfers to include in your budget, click OK. (Of course, you can always come back later & change your mind. I had to tweak this window a lot to get a budget that made sense.)



Step 4: Assign Categories to Dave's Category Groups.

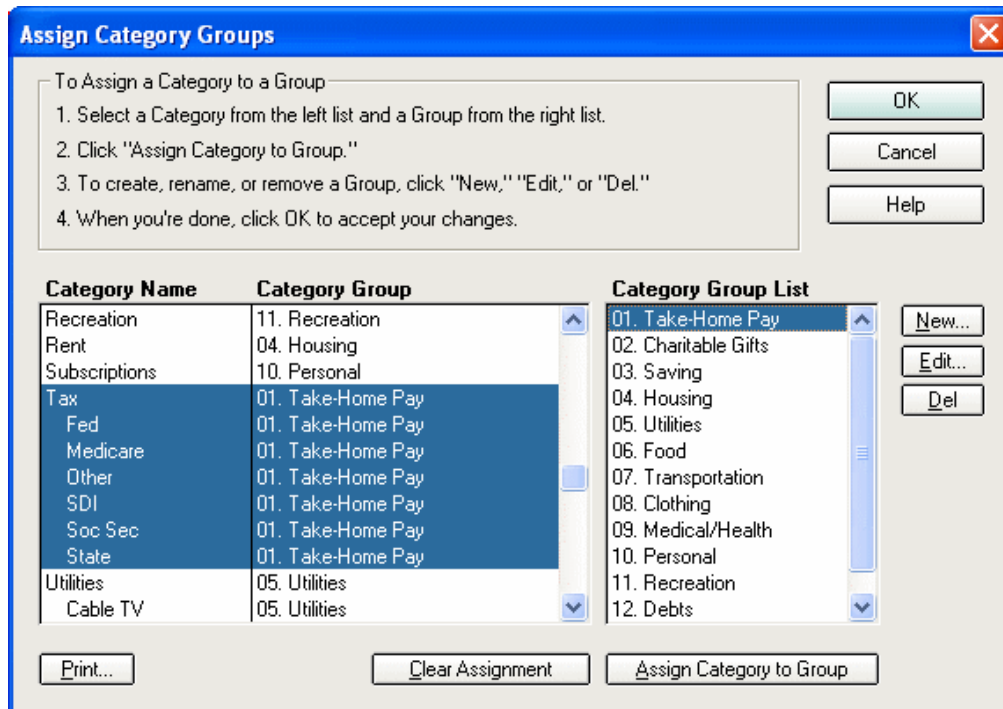
Go back to the Assign Category Groups window (see step 2 for how to open it).

In the Assign Category Groups window, left hand side, you select each category in turn and assign it one of the Category Groups from the list on the right. Highlight a category from the left list and a group from the right list, and then click Assign Category to Group button to make it happen. Here I'm getting ready to assign "Insurance:Auto" to the "07. Transportation" Category Group.



In the example above, note how one Quicken category (i.e., Interest Exp) can be subdivided this way into different "Dave" category groups (i.e., Mortgage interest to 04. Housing; Consumer interest to 12. Debts). If you want this level of detail, you may have to go to your Category List (from the Tools menu) to create new subcategories (like I've split the Interest Exp category here).

Creating the Take-Home Pay category can be a bit of a challenge. If you're just tracking Net Salary, it's easy. But if you've set up your paycheck in Quicken setup and you like tracking the taxes & deductions that come out of your paycheck, it can create some confusion. To get your budget set up properly while still tracking deductions from Gross Salary, what I've done is assign every category that's in my paycheck to the "01. Take-Home Pay" category group. Then while budgeting, you just enter the amounts from your paycheck in each category, and the Budget automatically calculates your take home pay.



You'll spend a lot of time on steps 3 and 4, tweaking which categories to include in your budget and assigning them to the different category groups before it looks totally right to you.

Step 5: Working with the Budget Window

So you should now have a budget window that looks something like this:

The screenshot shows the Quicken Budget window for the category '01. Take-Home Pay - Total'. The window is divided into several sections:

- Category/Account List:** A tree view on the left lists various budget categories and sub-accounts, such as '01. Take-Home Pay - Total', '02. Charitable Gifts - Total', '03. Saving', '04. Housing', '05. Utilities', '06. Food', '07. Transportation - Total', and '08. Clothing'. Each item has a corresponding budget amount for 'This month' and a 'Yearly total'.
- Budget Summary:** A table at the bottom left shows 'Total income: 4,100', 'Total expenses: -4,100', and 'Difference: 0'. It also includes a 'Totals: Yearly' dropdown and buttons for 'Choose categories...' and 'Category groups...'.
- Method Selection:** A panel on the right titled '01. Take-Home Pay - Total' allows users to select a budgeting method: 'Average amount', 'Monthly detail' (selected), or 'Quarterly detail'. There are 'Apply' and 'Cancel' buttons.
- Budget Entry:** A section titled '2. Budget' contains a grid for entering monthly budget amounts for each month from January to December. For example, January is 0.00, July is 3,000.00, and December is 0.00.
- Analysis:** A section titled 'Analysis' includes a line graph titled 'Monthly cashflow: Jan 2005 - Jun 2005'. The graph shows a flat line at \$0. Below the graph, text states: 'Over the last 6 months, the total actual cash flow of the categories in this group averaged \$0 per month'.

I created this example from the example given in the Cash Flow Planning Lesson of Financial Peace University. The numbers are copied straight from the workbook into the month of July in this budget. Of course your categories will be a little different! To work the Dave Ramsey budget, you need to spend THIS month's income on paper. Therefore, all of the categories need to be configured to the "Monthly detail" method (see top right). Then you enter specific amounts for each month's spending in each category & apply the changes. You can work your budget through the year, creating a month at a time.

NOTE that the Yearly Totals on the right and at the bottom are VERY MISLEADING. They do not show your total for THIS month, they are AVERAGES over the whole 12 months of the budget. You can view those AVERAGES as monthly, yearly or quarterly, but all in all, they are useless to our task of THIS MONTHS ZERO BASED BUDGET.

You want to know whether THIS month's budget totals to Zero. To see whether you're at zero for THIS month, you have to click over to the Summary tab at the top of the window:

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Total income:	0	0	0	0	0	0	4,100	0
Total expenses:	0	0	0	0	0	0	-4,100	0
Difference:	0	0	0	0	0	0	0	0

You can see that July has a zero total. To see more detail, click on July and then click the Details... button:

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Total income:	0	0	0	0	0	0	4,100	0	0	0	0	0	4,100
Total expenses:	0	0	0	0	0	0	-4,100	0	0	0	0	0	-4,100
Difference:	0	0	0	0	0	0	0	0	0	0	0	0	0

Category/Account	Monthly Budget Amount
01. Take-Home Pay	0
01. Take-Home Pay - Other	0
Salary	4,000
Unemployment Inc	100
Fed	-400
Medicare	-250
State	-350
TD 401(k)	-100
02. Charitable Gifts	0
02. Charitable Gifts - Other	0
Charitable Gifts	-300
03. Saving	0
03. Saving - Other	0
TD Emergency Fund	-50
TD College Fund	0

This brings up a monthly summary popup which lists the values for this month.

By the way, on the above example, you can see the numbers I used to create a fictional "01. Take-Home Pay" category group equal to \$3000 as in the FPU example. So that's why the grand totals are \$4100 not \$3000; here we're tracking taxes.

Quicken automatically saves your budget.

Step 6: Monitoring Your Spending vs. Budget

To monitor your actual spending as compared to your budget, you'll need to create a Budget Report. Go to the Reports menu & select Cash Flow – Budget. A report will appear. Click on the Customize button and configure as follows:

- a. Set the date range to “Current Month”.
- b. Under the Display tab, make sure Organization is set to “Category Groups”.
- c. Under the Accounts, Categories, and Category Groups Tabs, make sure all are checked.
- d. Under the Advanced Tab, set Transfers to “Include All”, Subcategories to “Show All”, and Categories to “Budgeted Only”.

The screenshot shows the 'Customize Budget' dialog box. At the top, the 'Date Range' is set to 'Current Month' with a date range from 7/1/2005 to 7/31/2005. Below this, there are tabs for 'Display', 'Accounts', 'Categories', 'Category Groups', and 'Advanced'. The 'Advanced' tab is currently selected. In the 'Transactions' section, the 'Amounts' dropdown is set to 'All'. There are two unchecked checkboxes: 'Include unrealized gains' and 'Tag-related transactions only'. The 'Transaction types' dropdown is set to 'All Transactions'. In the 'Status' section, three checkboxes are checked: 'Not cleared', 'Newly cleared', and 'Reconciled'. Below this, there are three dropdown menus: 'Transfers' is set to 'Include All', 'Subcategories' is set to 'Show All', and 'Categories' is set to 'Budgeted Only'. At the bottom right, there are three buttons: 'OK', 'Cancel', and 'Help'.

Click on OK.

The following report should appear (yours may have a different title):

Category Description	7/1/2005 Actual	- Budget	7/31/2005 Difference
01. Take-Home Pay			
Salary	4,000.00	4,000.00	0.00
Unemployment Inc	0.00	100.00	-100.00
Fed	-396.40	-400.00	3.60
Medicare	-77.20	-250.00	172.80
State	-150.00	-350.00	200.00
TO 401(k)	-240.00	-100.00	-140.00
TOTAL 01. Take-Home Pay	3,136.40	3,000.00	136.40
02. Charitable Gifts			
Charitable Gifts	-300.00	-300.00	0.00
TOTAL 02. Charitable Gifts	-300.00	-300.00	0.00
03. Saving			
TO Emergency Fund	-50.00	-50.00	0.00
TOTAL 03. Saving	-50.00	-50.00	0.00
04. Housing			
Homeowners Insurance	0.00	0.00	0.00
Household	0.00	0.00	0.00
Mortgage Interest	-602.21	-600.00	-2.21
Real Estate Taxes	0.00	0.00	0.00
Rent	0.00	0.00	0.00
Repairs or Mn. Fee	0.00	0.00	0.00
FROM Second Mortgage	0.00	0.00	0.00
TO Replace Furniture	-50.00	-50.00	0.00
TO First Mortgage	-122.79	-125.00	2.21
TO Second Mortgage	0.00	0.00	0.00
TOTAL 04. Housing	-775.00	-775.00	0.00
05. Utilities			
Cable	0.00	0.00	0.00
Electricity	-98.67	-100.00	1.33
Gas	-49.95	-50.00	0.05
Phone	-65.45	-50.00	-15.45
Trash	0.00	0.00	0.00
Water	-42.16	-50.00	7.84
TOTAL 05. Utilities	-256.23	-250.00	-6.23

Remember to Save Report before you close it, so you don't have to customize it each time. I called mine "Dave's Budget" and I parked it on my Cash Flow page. Now it's one click away.

This report has several nice features.

1. It gives a nice monthly review of your overall budget and spending; and if you've broken the budget. The totals at the very bottom:

Category Description	7/1/2005 Actual	- Budget	7/31/2005 Difference
OVERALL TOTAL	6.37	0.00	6.37

show you 1: that your budget for the month really was a zero based budget; 2. how you did overall, indicated by the positive or negative value in the right hand corner; 3. if this value is positive, it should indicate the exact surplus amount you can safely apply to your

baby step on the last day of the month (or conversely, if negative, it's how much new debt you incurred as a result of the month's spending).

2. It allows you to focus in on your spending to see what happened to hurt the budget:

10. Personal			
Alimony	0.00	0.00	0.00
Baby Sitter	0.00	0.00	0.00
BLOW	-100.00	-100.00	0.00
Child Care	-28.00	-30.00	2.00
Child Support	0.00	0.00	0.00
Computer	0.00	0.00	0.00
Cosmetics	-48.00	0.00	-48.00
Education-Adult	0.00	0.00	0.00
Gifts (inc. Christmas)	0.00	0.00	0.00
Hair Care	-62.00	0.00	-62.00
Life Insurance	-49.98	-50.00	0.02
Miscellaneous	-200.00	-50.00	-150.00
Organization Dues	0.00	-25.00	25.00
Personal Care	0.00	0.00	0.00
School Supplies	0.00	0.00	0.00
School Tuition	0.00	0.00	0.00
Subscriptions	0.00	0.00	0.00
Toiletries	0.00	0.00	0.00
TOTAL 10. Personal	-487.98	-255.00	-232.98

In this example, though within budget overall, these folks busted the budget in the "Personal" category group, mainly through excessive Cosmetics & Hair Care, as well as a Miscellaneous purchase (gee, I wonder who did that?)

3. It offers a way to check your spending to date against the budget; for example, these folks could theoretically still spend \$25 on organization dues this month; but since they're so close to the edge overall, they'd be wise to push it into next month & stop impulsing.

4. By changing the date range, you can see how you've done over longer time periods.

Issues Worth Considering

Here are some extra pitfalls/issues for Uber-nerds like me.

1. Investment Income.

The tendency of uber-nerds is to want include absolutely every category in the budget so we can get a “complete” financial picture. At first I felt I was being a little incomplete because Dave’s budget is not “all-encompassing”. For example, I am fortunate to receive dividend income, and my company also contributes to a defined contribution pension, separate from my 401(k), which I do track as an asset in Quicken. I initially tried to include these receipts in the budget. However, there’s not a good way to do it in this scheme, since that money is really not handled and spent by you and is just automatically invested. So you have the income coming in, and then being transferred to an investment, etc. It ends up really complicating your budget, and making a realistic zero-based budget hard to achieve in the end. Eventually, I realized that since I never really had to tell that money what to do (i.e., I wasn’t touching the dividends, they were automatically reinvested), I didn’t need to include them here. Thus, there is no “_DivInc” category in my budget, even though I receive income in this category every month. I think once I retire and actually receive and spend investment income, I’ll just include “FROM Brokerage” transfers and “_DivInc” categories in my “01. Take-Home Pay” category group.

So, my advice is to just configure your categories to match your Take-Home Pay, and include all expenses & transfers to show what happens to your Take-Home Pay. Don’t include money you don’t handle. This simplification allows you to track what’s under your control in your budget, while the investment accounts still take care of themselves, and net worth reporting and investment tracking still shows the improvement in those accounts.

2. Sinking Funds.

Sinking Funds are an awesome way of staying on budget, and Quicken is rife with features to allow you to track & control your spending this way. Some people on the TMMO boards have multiple savings accounts set up with ING or “sub-accounts” in their bank savings account which do the same thing. They then really transfer money between accounts or sub-accounts to save for a particular goal (I presume usually online, or in the branch)? When they want to spend in that category, they really transfer money to their checking account or withdraw the cash. This seems to work well for them.

Here’s what I do. Quicken has “Savings Goals” which you access through the Planning menu. These look in Quicken like real accounts, but they’re not real-world, separate accounts, they’re just virtual accounts, a way of “earmarking” money for a particular goal. So when in Quicken you create a transaction “transferring” money from your bank checking account to a savings goal, nothing actually moves in your real world account, but Quicken shows it as if you had transferred the money. When you want to spend, you

“transfer” the money from the Savings Goal back to the checking account, then record the expense like usual.

I have multiple savings goals set up to correspond to my budget categories. I “transfer” the monthly budget amount from my checking account to my savings goal account on the 1st of the month, then when I spend in that category I first “transfer” the money from savings goal back to the checking account, then spend from the checking account. Here’s an example of how this works. This is how my transportation budget looks for July ’05:

Category/Account	Budget / Period	Yearly total
[-] 08. Transportation		
08. Transportation - Other	0 This month	0
Transportation	0 This month	0
Transportation:Auto Club	0 This month	-115
Transportation:Gasoline	0 This month	0
Transportation:Insurance	-87 This month	-1,059
Transportation:Licenses & Taxes	0 This month	-125
Transportation:Repair & Service	0 This month	0
FROM Car Gas & Maintenance	0 This month	125
TO Car Gas & Maintenance	-400 This month	-3,600
FROM Car Replacement	0 This month	0
TO Car Replacement	-200 This month	-2,400

The insurance is an amount known before the month begins, the insurance company debits my account for the same amount each month, so I can put an exact amount in that category on the budget and the expenditure should match exactly. The other categories are on the “Car Gas & Maintenance” sinking fund. I don’t know how much I’ll spend in those categories before the month begins. So I put \$400 in the sinking fund at the start of the month. Through the month, when I buy say gasoline for \$34.95; I first transfer \$34.95 from the sinking fund back to the checking account then spend \$34.95 from the checking account to the category Gasoline. At the end of the month my budget report looks like this:

Category Description	7/1/2005 Actual	- Budget	7/31/2005 Difference
08. Transportation			
Transportation	0.00	0.00	0.00
Auto Club	0.00	0.00	0.00
Gasoline	-174.03	0.00	-174.03
Insurance	-87.00	-87.00	0.00
Licenses & Taxes	0.00	0.00	0.00
Repair & Service	0.00	0.00	0.00
TOTAL Transportation	-261.03	-87.00	-174.03
FROM Car Gas & Maintenance	174.03	0.00	174.03
FROM Car Replacement	0.00	0.00	0.00
TO Car Gas & Maintenance	-400.00	-400.00	0.00
TO Car Replacement	-200.00	-200.00	0.00
TOTAL 08. Transportation	-687.00	-687.00	0.00

So I spent \$174.03 on gas this month, withdrew \$174.03 from “Car Gas & Maintenance” sinking fund, and the balance in that sinking fund grew by (\$400 – \$174.03 =) \$225.97. Don’t worry though, it’ll deplete when I finally get that flashing engine light fixed! When you do it like this, the bottom right figure is always zero, indicating you’re within budget. The only way to have a figure other than zero is to forget to move the money from the sinking fund. If you spend more than what’s available in your sinking fund, it won’t show up in this report, but the balance of the sinking fund will be negative. So a quick glance at your sinking fund balance in the account list tells you if you’ve got money left to spend in that category.

3. How does it work with the envelope system? This is actually very simple. At the start of the month, I simply cash a check for the amount I’m to spend in an envelope category that month, and put the cash in the appropriate envelope. Then I can spend out of that envelope without tracking it further. Example; budget for clothing:

Category/Account	Budget / Period	Yearly total
09. Clothing		
09. Clothing - Other	0 This month	0
Clothing	0 This month	0
Clothing:Adults	-160 This month	-1,920
Clothing:Kids	-120 This month	-1,440
Clothing:Laundry	0 This month	0
FROM Laundry Fund	0 This month	0
TO Laundry Fund	-60 This month	-720

We use envelopes for Clothing:Adults & Clothing:Kids. I cash a check for \$280 on the 1st and fund the envelopes with cash. Because Laundry (dry cleaning) costs are unknown at the start of the month, the budgeted amount goes in a sinking fund. If we buy clothes during the month, we pay cash from the envelopes & don’t track further. Here’s the budget report at the end of the month:

Category Description	7/1/2005 Actual	- Budget	7/31/2005 Difference
09. Clothing			
Clothing	0.00	0.00	0.00
Adults	-160.00	-160.00	0.00
Kids	-120.00	-120.00	0.00
Laundry	-47.44	0.00	-47.44
TOTAL Clothing	-327.44	-280.00	-47.44
FROM Laundry Fund	47.44	0.00	47.44
TO Laundry Fund	-60.00	-60.00	0.00
TOTAL 09. Clothing	-340.00	-340.00	0.00

My dry cleaning bill was \$47.44 this month and therefore the sinking fund grew a bit. If the envelopes end up with surplus cash after a few months, and we decide to apply it to the baby step, we would simply deposit cash back to the bank and mark it as from the envelope category. Then this report would show a Positive Difference equal to the amount of the deposit, it would flow down to the bottom line and get applied to the baby step on the last day of the month. Cool huh?