

Making a budget

Ok, so the first step is to do a budget. But I don't mean jotting down just your basic spending. It is about sophisticatedly calculating where your cash goes and if you spend more than you earn.

And here's how it works...

You need to consider doing a budget a job of work. It's going to take a good couple of hours to do it properly. First gather your evidence. Bank and credit card statements are the most important because you have to go through to see what you've really been spending. Take food shopping, it isn't just your big weekly shop. It's all those other little trips for milk, bread – that you might forget about. Take them from here, add them up and work out your actual, genuine real spend.

The big mistake most people make when doing their budget is they try and think of a typical month, but of course there's no such thing as a typical month. You don't buy a sofa every month, you don't buy a summer holiday every month, but these should be in your budget. Take Christmas – nice – typical festive spending: £600. For me, I divide it by twelve, that gives me £50 a month, that's what goes in the budget.

A few years ago, I developed my own system and it worked so well I had it built as an automated tool so anybody can do it – it's totally for free and you can get it via our website.

But just as important are the categories. Most people put 'car' down on their budget, but you don't spend on your car, you spend on breakdown cover, your car maintenance, your car tax, your parking, your petrol and diesel. It's about specifics, not the big generics.

Now comes the moment of truth! Add up what you spend, add up what you earn or press the button.