

# PERSONAL BUDGETING

## *Understanding the Budget*

*Time to party!!!!!!*

### **Objectives:**

The students will be able to:

- Identify the different parts of a budget
- Utilize a budget to meet personal financial goals
- Put together and make adjustments to a budget
- Plan for short and long-term expenses using a budget

### **Materials:**

- Copy of personal budget worksheet
- Copy of instruction sheet for students
- Calculators
- Pencil

### **Overview:**

Begin by passing out student worksheets and instructions and explaining to students that in this exercise they will be given a monthly budget to complete.

Students will need to use the information presented to them in the *instructions* scenario in order to successfully complete their budget. After they have completed their budget, students will be asked to analyze it and determine whether or not they would be able to meet all of their goals (pay all of their expenses) with the budget *as it is*. \*\* Since that won't be possible, students will be asked to revise their budget in order to enjoy the things that are most important to them.

**Note:** *As long as the students follow the guidelines there is **no right or wrong** way to revise the budget in this exercise. It is designed to make the students consider and reason among different alternatives. There **are** specific rules laid out for what can and cannot be altered on the budget, but these restrictions still leave quite a bit of room for variation in what can be changed. Make sure to let the students know that everyone's revised budget will not come out the same (even though they will all start with the same budget) and that does not make any one student's budget better or worse than someone else's.*



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### INSTRUCTIONS:

You are a talent agent at **INKPASS** Records in New York City, working directly with all the artists on the label to promote their albums. In addition, you are responsible for finding new talent to bring to **INKPASS**. As a talent agent, you work an average of 40 hours a week at \$12 an hour (which is your **gross pay**), with a **tax rate** of 9% on all of your earnings. Compute your **net pay** per month based on 4 weeks in a month. You plan to save 10% of your net pay each month.

### Expenses:

Your regular (**fixed**) monthly expenses include rent on your one-bedroom apartment of \$450 which includes utilities, a car payment of \$250, insurance of \$100, gas of \$80, groceries of \$150, a cellular phone of \$35 and cable and internet service of \$50. These expenses are the same every month. There is very little, if any, difference in how much they will cost from month to month.

Other expenses that you have will change each month because you get to decide how much to spend on these items (depending on what you have or want to do). These **variable expenses** include clothes, grooming, entertainment, going out to lunch at work, and travel.

At the end of this month there will be a big party to celebrate the newest band to be signed to INKPASS Records -- *Twisted Pencils*. Because you are the talent agent who discovered the band, you want to buy a new outfit and shoes for the party. You also want to be especially well groomed since a lot of high-profile people will be attending. In other words, you want to make a good impression.



Also during this month, you would like to do the following:

- Go out to dinner at a casual restaurant – like TGI Friday’s – with your friends 4 times
- Go see 2 new movies and buy a box of popcorn and a soft drink in the theater at each movie
- Take a weekend trip down the East Coast
- Go out for lunch at work 3 times each week

**Variable Expenses:**

Each dinner will cost \$15. One movie ticket, small popcorn and a regular soft drink will cost \$12.50. For your weekend trip down the Coast, you will need gas for your car, and will stay over one night in a hotel. You will also need extra money for miscellaneous expenses like food and souvenirs. One tank of gas will cost \$20. When you call the Marriott Hotel in Baltimore, you learn that a single room on a weekend night costs \$60/night. Also, you decide that \$70 seems like a reasonable amount to spend on food, souvenirs and other miscellaneous expenses. When you go out to lunch at work, each lunch will cost \$7.50.

**Monthly Budget:**

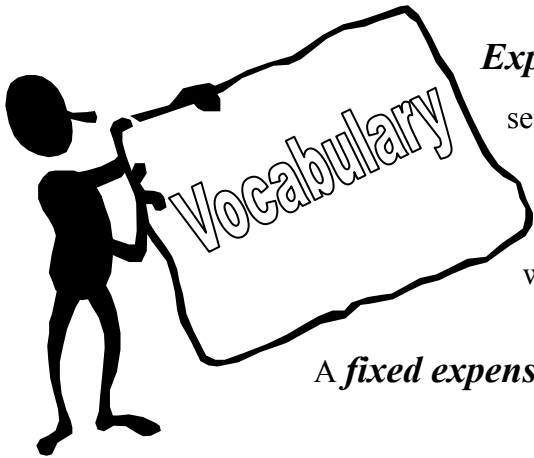
Take a few minutes and enter your *income*, *savings* and estimated *expenses* for the upcoming month on your budget worksheet. With a calculator, total your income and expenses and work out how much money you will have remaining. After you are finished, return to this page and read the last paragraph. (*Be sure to do this exercise in PENCIL because you will be making changes.*)

Remember that big party happening at the end of the month? You still want to dress and look your best. The outfit and shoes you want to purchase costs \$150 and you will also have to visit the beauty salon/barbershop. You must decide how much you want to spend at the beauty salon/barbershop depending on what you want to have done. **Just be sure you are realistic.** Based on your budget, will you have enough money to pay for these things that you want for the party? If not, how can you change your budget to make it possible to buy everything for the party that you want?



**NOTE:** For this lesson, you cannot reduce your fixed monthly expenses and you cannot simply take away a category. For example, your rent will cost \$450 no matter what. Also, for this exercise you cannot decide to not attend any movies or go out to dinner at all. However, you can reduce the number of times you do an activity. For example, on your trip down the Coast you could spend less on souvenirs or stay at a cheaper hotel. Keep in mind that if you reduce the amount of times you go out to eat (lunch or dinner); you will have to buy more groceries because you still need to eat. For each lunch you do not eat out, you will need to increase your groceries by \$3.00, and for each dinner that you do not eat out, you will need to increase your groceries by \$6.00.

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**Expenses** are money that you pay to somebody else for a product or service.

A **variable expense** is one that will change depending on your wants and needs.

A **fixed expense** is one that will stay the same each time you pay it.

**Gross pay** is the amount of money your employer pays you for working **before** taxes are taken out. Gross pay is also known as salary or hourly wage for a certain amount of hours worked.

**Income** is money you expect to earn or collect each pay period.

**Net pay** is the amount of money you get for working **after** taxes are taken out.

**Savings** are money set aside for future use.

**Taxes** are the money taken out of your gross pay by the government to fund government programs.

**Tax rate** is the percentage of your income that the government takes from your gross pay.

**Total income available** is the money you have left to use after subtracting savings, fixed expenses and variable expenses.