

# Lesson 4

## PERSONAL BUDGETING

### Managing Your Money

#### OVERVIEW:

**Budgeting** is the process of determining how to pay your expenses based on your income. A **budget** is a planning tool that helps people track their **income** and **expenses**. A budget allows individuals to better understand the amount of money spent on items such as rent, utilities, phone, food, clothes, entertainment and more, and possibly how to reduce costs if necessary.

**Income** is the total amount of money a person receives or earns. For example, income consists of a person's salary, interest earned on a savings account and dividends received from investments. **Salary** or **gross pay** is the amount earned at a job **before** taxes are deducted. Salary or gross pay can be based on an hourly rate and the number of hours worked, or be a specific amount regardless of the number of hours worked. **Taxes** are deducted from gross pay to arrive at **net pay**. The amount of taxes deducted from gross pay is based on a percentage established by the government called the **tax rate**.

**Expenses** are the costs to purchase a product or service. Expenses can be **fixed** or **variable**. A **fixed expense** is a cost that remains the same — it is constant. A **variable expense** is a cost that changes over time depending on the cost of the product or service or the number of times the purchase is made. **Disposable income** is the money remaining after subtracting fixed expenses from your net pay. If additional funds are available after all expenses are paid, an amount should be budgeted for savings or investments. **Savings** are monies set aside for future use, such as paying for college, or to pay for unexpected expenses.

#### ACTIVITY:

This summer you are working at the Best CPA Firm in Anytown, USA. You work an average of 40 hours a week, earning \$12 an hour. Your earnings are taxed at a rate of 15%.

Your regular (**fixed**) monthly expenses include rent on your one-bedroom apartment of \$500, including utilities, a car payment of \$250, car insurance of \$100, gas of \$100, groceries of \$150, a cellular phone of \$50 and cable and internet service of \$80.

Other expenses that you incur each month will vary based on the amount you decide to spend on these items, or how frequently you engage in these activities. These **variable expenses** include clothes, entertainment, meals and travel.

During this month, you plan to:

- Go to dinner at a casual restaurant with your friends once a week
- See 2 new movies and buy a box of popcorn and a soft drink in the theater at each movie
- Go out to lunch at work 3 times each week
- Take a weekend trip down the coast

Each dinner will cost \$25 and lunch will cost \$10. One movie ticket, small popcorn and a regular soft drink will cost \$15. For your weekend trip down the coast, you will need gas for your car, and will stay one night in a hotel. One tank of gas will cost \$30 and a hotel room on a weekend costs \$75 per night. You will also need extra money for miscellaneous expenses like food and souvenirs, and decide that \$150 seems like a reasonable amount to budget.

Use the budget worksheet on page 11 to calculate your **gross pay**, **taxes** and **net pay**. Next, enter your estimated **fixed** and **variable expenses** for the upcoming month.

When you have completed the budget worksheet, answer the following questions:

What is your remaining **disposable income**?

Can you afford to do all the activities you planned? If not, how can you revise your monthly budget?

How can you revise your budget so that you can start a **savings account** with an initial investment of \$25?

## Monthly Budget

<b>Gross Pay:</b> \$12/hour x 40 hours/week x 4 weeks/per month	\$
Tax Rate: 15%	
Taxes Withheld: gross pay x tax rate	\$
<b>TOTAL NET PAY</b>	\$

### EXPENSES:

#### *Fixed Expenses:*

Rent	\$
Car Payment	\$
Car Insurance	\$
Gas	\$
Groceries	\$
Cellular Phone	\$
Cable and Internet	\$
<b>Total Fixed Expenses</b>	\$

#### **Disposable Income**

\$
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#### *Variable Expenses:*

Dinner	\$
Movies	\$
Travel	\$
Lunch	\$
<b>Total Variable Expenses</b>	\$

#### **Net Surplus or Shortage**

\$
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