

Savings	
Personal Insurance/Pensions:	\$10,000
Total	\$10,000

Based on the way we distributed the spending to the different categories, this does not follow a 50/30/20 budget model. The necessities category is way over budget, while the other two are under budget.

Once you have a spending plan for your money and a way to keep track of it, sticking to it is imperative. Luckily, there are lots of different methods to keep you accountable and help you stay on budget. One such method is the *envelope method* or *cash-only method*. This idea has you divide up your take-home pay into the allotted spending categories and put each amount into an envelope (whether literal or virtual) for the month. You only spend what you have. No credit cards allowed. The amount available in the envelope is what you can spend on that category. The strength of the envelope system is in its ability to help prevent overspending in a certain category. If extra money is needed for a category, it literally has to come out of a different envelope or wait until the next paycheck to replenish it. But a warning, if you overspend in one category then you are liable to be short in another category.

Budgeting, like all new endeavors, requires discipline at the beginning. But the key to budgeting is to start. Start simple, and don't feel like you have to figure it out all at once. If you're not careful, the details of your budget have the potential to get too complicated and then you might be inclined to give up, or to drive yourself crazy, or both! Reevaluating your revenue and expenses on a regular basis will always be important and is a habit worth forming.

Skill Check Answers

1. \$14.90 2. \$479.33

6.5 Exercises

✓ CONCEPT CHECK

1. When making a budget, the first two things you must consider are your monthly _____ and your monthly _____.
2. The last step of making a budget is to allocate any remaining funds or make _____.
3. If you have an expense that doesn't come up every month, but you want to set aside a monthly amount to account for that expense, you can _____ it.
4. According to the 50/30/20 Budgeting Rule, you should allow 50% of your net income for _____, no more than 30% for _____, and at least 20% for savings and paying down debt.

 **PRACTICE**

Determine the approximate monthly cost of each miscellaneous spending activity. Assume there are 4 weeks in a month.

5. \$3.18 on coffee and a donut three times a week
6. Lunch five days a week, averaging \$11.25 per meal
7. \$16.95 on a paperback novel every Tuesday
8. Groceries every Sunday, averaging \$65.93
9. \$20 on charitable donations, twice a month
10. A tank of gas, averaging \$40.95, three times a month
11. A movie ticket for \$8.70 along with a popcorn and drink for \$11.99 twice a month
12. Dinner with friends, averaging \$24.57, followed by drinks, averaging \$18.45, every Thursday

For each situation, determine the following. Round your answer to the nearest cent, if necessary.

- a. Determine how much the taxpayer should prepay each quarter to meet the projected taxes by the end of the year.
- b. Determine how much the taxpayer should put aside each month in order to have enough to pay their estimated quarterly taxes.
13. Agustin is self-employed. Based on last year, his projected state and federal taxes for this year will be approximately \$18,000.
14. Aya is self-employed. Based on last year, her projected state and federal taxes for this year will be approximately \$21,250.
15. Antonio is self-employed. Based on last year, his projected state and federal taxes for this year will be approximately \$9,700.
16. Alesia is self-employed. Based on last year, her projected state and federal taxes for this year will be approximately \$7,450.

For each situation, prepare a budget using the 50/30/20 rule. Round your answer to the nearest cent, if necessary.

17. After having a child, the MacDonalDs have decided to make an effort to live within their means by creating a budget. Their combined net income is \$5120 a month.
18. The newly married Youngs are combining their finances and making a budget in order to plan for their future. Their combined net income is \$7006 a month.

19. Recent college-graduate Ms. Martin wants to get control of her finances. Her monthly net income is \$2472.
20. After a major promotion, Mr. Lee wants to make sure he doesn't suffer from lifestyle inflation, so he creates a budget. His monthly net income is \$4114.

 **APPLICATIONS**

For each situation, determine the following. Round your answer to the nearest cent, if necessary.

- a. Determine the monthly net pay amount.
 - b. Determine how much money is left each month for discretionary spending after all necessities are accounted for.
21. A recent college graduate takes an entry-level job as an accountant. His yearly salary is \$32,760. His employer withholds \$4680 in state and federal income taxes and \$2496 in FICA taxes throughout the year. He has the following monthly costs: transportation is \$380, cell phone bill is \$45, student loan payment is \$215, HSA contribution is \$250, and rent is \$650. He is using the average monthly cost for each of the following to gain an idea of other monthly expenses: utilities are \$120, home internet is \$55, and groceries are \$285.
 22. A recent college graduate starts a new job as a middle-school teacher. His yearly salary is \$52,500. His employer withholds \$7872 in state and federal income taxes and \$4008 in FICA taxes throughout the year. He has the following monthly costs: transportation is \$575, cell phone bill is \$80, student loan payment is \$312, retirement fund contribution is \$400, and rent is \$950. He is using the average monthly cost for each of the following to gain an idea of other monthly expenses: utilities are \$165, home internet is \$75, and groceries are \$350.
 23. A recent college graduate acquires a job as a software developer. Her yearly salary is \$65,250. Her employer withholds \$9312 in state and federal income taxes and \$4992 in FICA taxes throughout the year. She has the following monthly costs: transportation is \$560, cell phone bill is \$100, student loan payment is \$280, and rent is \$1150. She is using the average monthly cost for each of the following to gain an idea of other monthly expenses: utilities are \$195, home internet is \$90, health insurance is \$420, and groceries are \$325.
 24. A recent college graduate acquires a job as a civil engineer. Their yearly salary is \$68,750. Their employer withholds \$9312 in state and federal income taxes and \$4992 in FICA taxes throughout the year. They have the following monthly costs: transportation is \$475, cell phone bill is \$60, student loan payment is \$424, HSA contribution is \$180, and rent is \$900. They are using the average monthly cost for each of the following to gain an idea of other monthly expenses: utilities are \$155, home internet is \$85, and groceries are \$300.

Excel Exercises

For each situation use a spreadsheet, such as Microsoft Excel, to create a budget. Determine how much is available each month for expenses not listed in the budget. Assume there are 4 weeks in month.

25. A respiratory therapist has an annual income of \$48,700. Their net monthly take-home pay is \$3120, and they have the following monthly expenses. Additional income includes \$80 a week on average from a freelance writing job. A total of \$30 a month is donated to charities.

Monthly Expenses	
Rent	\$950.00
Gas	\$70.00
Water	\$52.00
Electricity	\$112.00
Internet	\$65.00
Cell Phone	\$58.00
Health Insurance	\$320.00
Transportation	\$315.00
Loan Repayment	\$120.00
Food	\$450.00
Credit Card	\$168.00

26. An HR specialist has an annual income of \$52,000. His net monthly take-home pay is \$3302, and he has the following monthly expenses. Additional income includes \$100 a week on average from a dog-walking job. A total of \$50 a month is donated to charities.

Monthly Expenses	
Rent	\$1100.00
Gas	\$155.00
Water	\$65.00
Electricity	\$150.00
Internet	\$80.00
Cell Phone	\$94.00
HSA Contribution	\$250.00
Transportation	\$380.00
Loan Repayment	\$270.00
Food	\$340.00
Credit Card	\$85.00

27. An electrician has an annual income of \$46,500. Their net monthly take-home pay is \$3114, and they have the following monthly expenses. Additional income includes \$75 a week on average from a tutoring job. A total of \$35 a month is donated to charities.

Monthly Expenses	
Rent	\$850.00
Gas	\$320.00
Water	\$56.00
Electricity	\$140.00
Internet	\$62.00
Cell Phone	\$45.00
Health Insurance	\$365.00
Transportation	\$415.00
Food	\$345.00
Credit Card	\$220.00

28. A veterinarian technician has an annual income of \$30,200. Her net monthly take-home pay is \$1990, and she has the following monthly expenses. Additional income includes \$75 a week on average from a dog walking job. A total of \$25 a month is donated to charities.

Monthly Expenses	
Rent	\$700.00
Gas	\$86.00
Water	\$56.00
Electricity	\$150.00
Internet	\$65.00
Cell Phone	\$68.00
Health Insurance	\$220.00
Transportation	\$240.00
Food	\$260.00
Credit Card	\$90.00

29. A market research analyst has an annual income of \$60,300. Her net monthly take-home pay is \$3734, and she has the following monthly expenses. Additional income includes \$100 a week on average from a tutoring job. A total of \$75 a month is donated to charities.

Monthly Expenses	
Mortgage	\$1400.00
Gas	\$160.00
Water	\$86.00
Electricity	\$180.00
Internet	\$90.00
Cell Phone	\$87.00
HSA Contribution	\$240.00
Transportation	\$380.00
Loan Repayment	\$350.00
Food	\$360.00
Credit Card	\$220.00

30. A insurance agent has an annual income of \$44,600. Their net monthly take-home pay is \$2912, and they have the following monthly expenses. Additional income includes \$80 a week on average from a consulting job. A total of \$60 a month is donated to charities.

Monthly Expenses	
Rent	\$985.00
Gas	\$145.00
Water	\$45.00
Electricity	\$112.00
Internet	\$74.00
Cell Phone	\$115.00
Health Insurance	\$275.00
Transportation	\$380.00
Loan Repayment	\$270.00
Food	\$310.00
Credit Card	\$150.00

WRITING & THINKING

31. Explain the benefits of creating a personal budget.
32. Find four different cell phone plans from at least two different providers. Compare the plans. Pick one plan and explain why it might be best for someone's budget and lifestyle.

6.5 PROJECT

THE COST OF LIVING IN DIFFERENT PARTS OF THE UNITED STATES

The cost of living can vary considerably across the United States. According to the Missouri Economic Research and Information Center, Mississippi offers the lowest average cost of living while Hawaii tops the list as the most expensive state in the nation. In this activity, you will investigate the cost of living in two metropolitan areas.

The figures in the following table represent a reasonable monthly budget for a family of four with two working adults to attain a modest, yet adequate, standard of living in both the Toledo Metro Area in Ohio and in the Providence Metro area in Rhode Island in 2021.

Expense	Toledo, OH	Providence, RI
Housing	\$726	\$1014
Food	\$701	\$798
Child Care	\$1120	\$1659
Transportation	\$1164	\$1112
Health Care	\$895	\$793
Other Necessities	\$576	\$731
Taxes	\$643	\$901
Monthly Total	\$5825	\$7008