

# Budgeting Matters

*A Component of BestPrep's Financial Matters Program*



# Why does budgeting matter?



# Why Budget?



See where your money comes from

This is your income



See where your money is going

These are your expenses



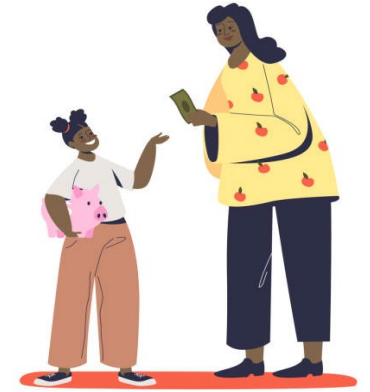
# Sources of Income

- How do you get money?



# Sources of Income

- How do you get money?
  - Part-time job (retail, food)
  - Self-employment (babysitting, lawn mowing)
  - Allowance (Spending Minutes)
  - Gifts (birthdays, special occasions, etc.)



# Budgeting Expenses

What expenses are included in a monthly budget?

- Entertainment
- Cell Phone
- Internet
- Savings
- Clothes
- Subscriptions
- Food and Snacks



# Why is budgeting important?

- Tracks how much you are currently spending
- Consider/Understand your needs and wants
- Determine how much you can spend in the future
- Figure out how much money you can save
- Reach your financial goals (Long term or short term)



# Setting Financial Goals

## Short-Term Goals: 1-3 Years

- New cell phone
- New shoes
- Prom
- Concert ticket
- Household expenses



## Intermediate Goals: 3-6 Years

- College/Trade School
- Car
- Vacation
- Rent & security deposit



## Long-Term Goals: 5+ Years

- Begin saving for a home purchase
- Start saving for retirement

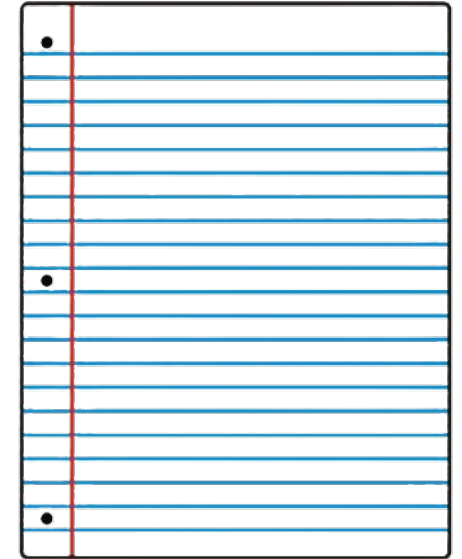




# Setting Financial Goals

1. Jot down 2-3 of your goals on a sheet of paper, post it note, etc.

2. After the timer, let's share!



# Needs vs Wants

Is what you're buying a need or a want?

- What is a need?
- What is a want?

**Activity:** Items will be listed on the next few slides.

- Stand if it is a need.
- Sit if it is a want.

# Need or Want?



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# Need or Want?



## Financial Matters



# Need or Want?



# Need or Want?



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# Need or Want?



## Financial Matters

# Need or Want?



# Let's look at an example:

## Meet Sam

- Sam is an **11<sup>th</sup>** grader.
- Sam is starting to think about senior year and needs a **new cell phone**.
- The new iPhone costs around **\$1,400**

Our financial goal is to have  
**\$1,400 in one year,**  
so Sam can buy a **cell phone!**

# Make Smart Choices

Why should Sam think about maybe choosing a more cost-effective phone?





# Sam's Starting Point

A personal financial statement establishes your financial worth. It tells you what you own and what you owe.

Balance Sheet	Total
<b>Assets (Things you Own):</b>	
Savings	\$200
Checking Account	\$70
Cash	\$15
Video Games	\$100
Clothes	\$75
Electronics	\$120
Old iPhone	
<b>ASSETS SUBTOTAL</b>	<b>\$580</b>
<b>Liabilities (Things you Owe):</b>	
Borrowed \$ from friend for movie	\$15
Streaming services (Netflix, Disney,)	
<b>LIABILITIES SUBTOTAL</b>	<b>\$15</b>
<b>NET WORTH</b>	<b>\$565</b>
Assets Minus Liabilities	

<b>1. We pay back our friend.</b>
\$200
\$70
<b>\$0</b>
\$100
\$75
\$120
<b>\$565</b>
<b>\$0</b>
<b>\$0</b>
<b>\$565</b>

<b>2. Sell our old iPhone</b>
<b>\$320</b>
\$70
\$0
\$100
\$75
\$120
<b>\$565</b>
\$0
<b>\$0</b>
<b>\$565</b>

# How much money does Sam have to put toward the phone now?

- Sam has \$320 in savings and \$70 in checking  
 $\$320 + \$70 = \$390$
- But Sam wants to keep \$50 in their savings for emergencies  
 $\$390 - \$50 = \$340$

Sam has \$340 to put toward their new cell phone.



# How much more should Sam save?

- The cell phone costs \$1,100
- How much more money is needed?  
 $\$1,100 - \$340 = \$760$  needed
- How much should Sam save per month to purchase a cell phone in a year?  
 $\$760 / 12 \text{ months} = \$64$  per month

**To reach the financial goal, Sam needs to save \$64 each month!**

INCOME:	Estimate Your Income
<b>Wages/Income</b> Paycheck, Allowance, Birthday Money, etc.	\$450
<b>Interest Income</b> From Savings Account	\$1
<b>INCOME SUBTOTAL</b>	<b>\$451</b>
EXPENSES:	Estimate Your Expenses
<b>Savings</b>	
Savings Account	\$10
<b>Bills</b>	
Rent/Mortgage	\$0
Utilities Electric, Cell Phone, etc.	\$20
Groceries/Snacks	\$30
<b>Car</b>	
Car Payment	\$0
Car Insurance	\$76
Gasoline	\$60
<b>Shopping/Dining</b>	
Clothes	\$40
Eating Out	\$50
<b>Fun</b>	
Entertainment Movies, Video Games, Bowling, Etc.	\$75
<b>EXPENSES SUBTOTAL</b>	<b>\$361</b>
<b>NET INCOME</b> Income Minus Expenses	<b>\$90</b>

INCOME:	Estimate Income	Adjusted Income
<b>Wages/Income</b> Paycheck, Allowance, Birthday Money, etc.	\$450.00	<b>\$475.00</b>
<b>Interest Income</b> From Savings Account	\$1.00	\$1.00
<b>INCOME SUBTOTAL</b>	<b>\$451.00</b>	<b>\$416.00</b>

EXPENSES:	Estimate Expenses	Adjusted Expenses
<b>Savings</b>		
Savings Account	\$10.00	\$10.00
<b>Bills</b>		
Rent/Mortgage	\$0.00	\$0.00
Utilities Electric, Cell Phone, etc.	\$0.00	\$0.00
Groceries/Snacks	\$30.00	<b>\$14.00</b>
<b>Car</b>		
Car Payment	\$0.00	\$0.00
Car Insurance	\$76.00	\$76.00
Gasoline	\$130.00	<b>\$136.00</b>
<b>Shopping/Dining</b>		
Clothes	\$50.00	<b>\$35.00</b>
Eating Out	\$50.00	<b>\$70.00</b>
<b>Fun</b>		
Entertainment Movies, Video Games, Bowling, Etc.	\$75.00	<b>\$90.00</b>
<b>EXPENSES SUBTOTAL</b>	<b>\$361.00</b>	<b>\$431.00</b>
<b>NET INCOME</b> Income Minus Expenses	<b>\$90.00</b>	<b>\$44.00</b>

Keeping up  
with your  
budget:  
**Estimated  
vs. Adjusted**

Sam made choices...

... to meet the budget

# Opportunity Arises!

- A friend asks Sam to go to a concert
  - Tickets to the concert are \$150
- How can we adjust Sam's budget so Sam can attend the concert?

Find a partner to  
adjust Sam's budget  
worksheet.



Category	Planned Budget	Adjusted Budget
<b>INCOME:</b>	<b>Estimate Your Income</b>	<b>Income</b>
<b>Wages/Income</b> Paycheck, Allowance, Birthday Money, etc.	\$450	\$450
<b>Interest Income</b> From Savings Account	\$1	\$1
<b>INCOME SUBTOTAL</b>	<b>\$451</b>	<b>\$451</b>

<b>EXPENSES:</b>	<b>Estimate Your Expenses</b>	<b>Expenses</b>
<b>Savings</b>		
Savings Account	\$10	\$10
<b>Bills</b>		
Rent/Mortgage	\$0	\$0
Utilities Electric, Cell Phone, etc.	\$0	\$0
Groceries/Snacks	\$30	?
<b>Car</b>		
Car Payment	\$0	\$0
Car Insurance	\$76	\$76
Gasoline	\$130	?
<b>Shopping/Dining</b>		
Clothes	\$50	?
Eating Out	\$50	?
<b>Fun</b>		
Entertainment Movies, Video Games, Bowling, Etc.	<b>\$150</b>	?
<b>EXPENSES SUBTOTAL</b>	<b>\$436</b>	<b>\$421</b>

<b>NET INCOME</b> Income Minus Expenses	<b>\$15</b>	<b>\$30</b>
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# What decisions did you make?

- Where did you cut expenses?
- Why did you make that decision?
  - Opportunity Cost?



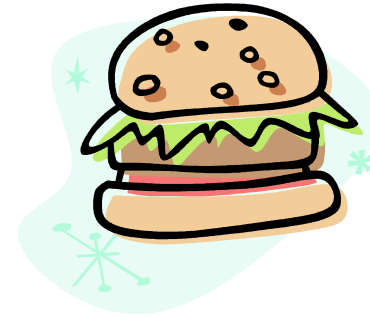
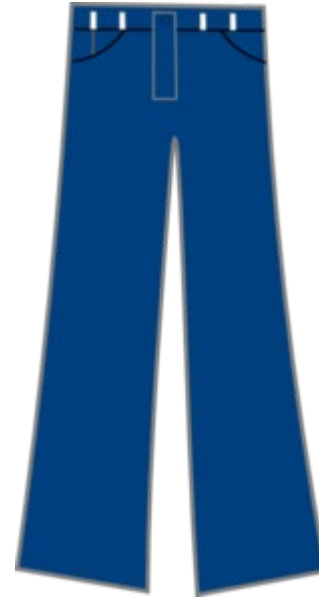
After the concert....

- Was it worth \$150 and the things you gave up?

# Opportunity Cost

Opportunity cost is the cost of forgoing one item in pursuit of another

- The opportunity cost of going to the concert was the sum of the other items or activities you gave up.
- It is not a bad thing to buy wants.





# After a year of budgeting, Sam can buy the cell phone!

- Sam has saved enough money to buy the cell phone
- Because Sam always paid herself first, Sam has increased her net worth
- Sam left \$50 in her emergency savings and continued to set aside \$10/month, a best financial practice



# How can you be better at budgeting?



# Personal Financial Statement

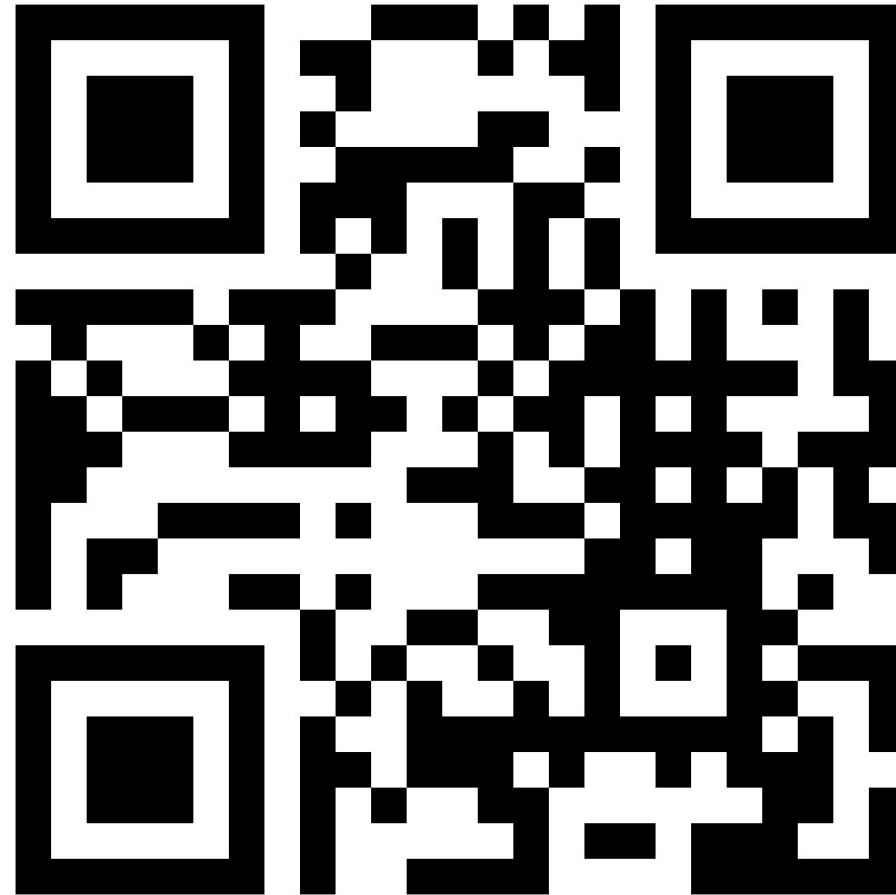
Balance Sheet	Before saving for cell phone	After buying a cell phone
<b>Assets (Things you Own):</b>		
<b>Savings/Checking Accounts</b> Paycheck, Allowance, Birthday Money, etc.	\$390	\$170
<b>Video Games</b>	\$100	\$100
<b>Clothes</b>	\$75	\$75
<b>Electronics</b> New cell phone	\$0	\$300
<b>ASSETS SUBTOTAL</b>	<b>\$565</b>	<b>\$645</b>
<b>Liabilities (Things you Owe):</b>		
Borrowed \$ from friend for movie	\$0	\$0
<b>LIABILITIES SUBTOTAL</b>	<b>\$0</b>	<b>\$0</b>
<b>NET WORTH</b> Assets Minus Liabilities	<b>\$565</b>	<b>\$645</b>

# What can you do NOW?

- Set financial goals
- Create your spending plan (budget)
- Recognize needs vs. wants
- Track your income and expenses
- Adjust your budget as needed. Keep it up-to-date!
- Make your own personal financial statement (balance sheet)

Take this handout and practice at home!

# Student Survey



# Thank You!

BestPrep gratefully acknowledges the financial and volunteer support provided by Foundation for Financial Planning and the Financial Planning Association of Minnesota to offer the Financial Matters PowerPoint series of Money Matters, Budgeting Matters, Credit Matters and Investing Matters



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