

Chapter 9 Make Sense of It! Planning Form



Reworking the Budget

Read the following:

Derek is enjoying his new life and job in Des Moines, Iowa. He has his own apartment, where there are many young people like him, and access to public transportation for work. He drives his car to work so that he can go out with friends afterwards. He buys lunch in the employee cafeteria or goes out to lunch every day. He enjoys the night life that the area has to offer. He loves his job and earns a good starting salary, but he has consistently ended up in a negative cash flow position at the end of each month. His reserve fund is dwindling down as a result. Derek’s job is demanding and sometimes requires long hours, so a second job is out of the question.

At the present time, Derek’s reserve fund has a balance of only \$1,211; six months ago it had \$4,245. Since he is spending more than he is making, he needs some help getting back on track.

Instructions

- As you can see, Derek’s budget is in a deficit position by \$126. Review his budget line by line and make suggestions in the appropriate column as to where he might make some changes. Explain why you have suggested the cut.

Example:

| | | | |
|-----|------|---|-----|
| Gym | \$45 | When contract is up, don't renew. Run with friends or exercise at home. | \$0 |
|-----|------|---|-----|

- Review the budget on the next page. Estimate and fill in the Revised Budget numbers in the appropriate column and recalculate Derek’s bottom line. Make sure that he now has a surplus of cash.
- Suggest what Derek might do with his surplus cash.

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| Current Budget | | Suggestions | Revised Budget |
|---|---------|-------------|----------------|
| Take-home pay | \$2,850 | | |
| PYF: | | | |
| Short-term | \$100 | | |
| Long-term | \$200 | | |
| FIXED EXPENSES: | | | |
| Rent | \$850 | | |
| Car payment | \$149 | | |
| Car insurance | \$120 | | |
| Cell phone | \$108 | | |
| School loans | \$189 | | |
| Gym | \$45 | | |
| VARIABLE EXPENSES: | | | |
| Cable (TV, high speed internet, DVR, sports station, movie station) | \$175 | | |
| Gas | \$200 | | |
| Heat and electric | \$140 | | |
| Food | \$300 | | |
| Eating out | \$220 | | |
| Entertainment | \$100 | | |
| Clothes | \$80 | | |
| "The Bottom Line" Surplus (Deficit) | (\$126) | | |
| What could Derek do with his surplus cash? | | | |