**Assignment 12-1**

**Budgeting Basics**

**SHORT ANSWER**

**Instructions:** This assignment introduces the basics of budgeting. Through budgeting you can make decisions today that will help you prosper in the future. This one page form illustrates how to effectively use your income to save, spend, invest for retirement, pay off debt and give to charity based on a starting salary of $40,000 per year.

In this exercise, you will compare your monthly outlays to your net income or take-home pay. It is important to spend purposefully, save strategically, invest carefully and give wisely. You want to control your money, rather than having your money control you! Start now. The details of saving, investing, and managing credit card, student loans and other consumer debts are addressed in later exercises.

**First, start by identifying monthly income**. For most people, determining monthly take-home pay is easy. Simply look at what is deposited twice monthly in the bank account. For full time students, this can be tricky. Many students are not working full or part time. So let’s simplify things.

Let’s consider a case study. Assume a newly hired teacher receives $40,000 in annual income. Use this information and the additional information provided below to determine the twice monthly net take-home pay.

|  |  |
| --- | --- |
| Gross annual income | $40,000 a year |
| Federal income taxes | $940 a year |
| Social Security and Medicare payroll deductions (7.65%) | $3060 a year  |

 1. What your net annual take-home pay?

(Factor out taxes and deductions from your gross annual income.)

 2. Monthly net take-home pay?

(Divide your net pay by 12.)

 3. Determine the amount of net take-home pay you receive twice a month.

(Divide your monthly take-home pay by 2.)

 4. Identify three budgetary items that you ***need*** to survive and live.