

Personal Management Merit Badge Workshop Budget Preparation Exercise

This exercise will guide you through requirement 2.

As written in the Personal Management Merit Badge manual requirement 2 is:

Requirement 2a: *Prepare a budget reflecting your expected income (allowance, gifts, wages), expenses, and savings. Track your actual income, expenses, and savings for 13 consecutive weeks.*

Requirement 2b: *Compare expected income with expected expenses.*

- 1. If expenses exceed income, determine steps to balance your budget.*
- 2. If income exceeds expenses, state how you would use the excess money (new goal, savings).*

This will be a four step process:

Step 1: Set your savings goals. Record these on Worksheet 1. These should include both long and short term savings goals. If you plan to continue your education past high school (college, tech school, etc) you should consider including saving for education as one of your long term goals. Other ideas might be: consumer electronics (video game console, mp3 player, etc), a car, clothing, etc). The form has room for four goals, but you can obviously have as many as you like. Once you've set these goals, decide how much you'd like to save toward each goal every month and note that on the form. The "rainy day fund" line at the bottom is saving toward no specific goal. You should develop the habit of setting some money aside every month for emergencies or very long term savings. Who knows, the money you save now may someday be used for the down payment on your first house! Once you set your savings goals, add up the monthly amounts and enter that number at the bottom of the page. This is the amount that you will need to set aside each month to reach your goals.

Step 2: Estimate your expected income. Record this on Worksheet 2.

Step 3: Estimate you expected expenses. Record this on Worksheet 3.

Step 4: Use Worksheets 1, 2, and 3 to complete your plan for the month ahead. This is done using Worksheet 4.

Step 5: Gather your actual income and expenses. This is done using Worksheet 5.

Step 6: Compare your expected amounts with your actual amounts. Use Worksheet 6 to calculate this.

Step 7: You now have the information you will need to complete the next month's budget. Make adjustments as needed to Worksheets 1, 2, and 3 and repeat the process.

While this may seem very complicated at the beginning, once you've done it one time, it will seem much easier and, hopefully, by the end of the merit badge clinic you'll feel like managing your money is a simple process.

Note that you'll need three sets of these forms to reflect the 13 weeks (3 months) that you'll be keeping your budget for the merit badge. While the merit badge book offers you the option of keeping your budget using other forms, I would appreciate your using these forms as it will walk you through the process and will also make it much easier for me to see if you are understanding the material as we go along.

Now, let's get started . . .

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Worksheet 1 – Savings Goals

What are you saving for? _____

How much will it cost? _____

When will you need it? _____

How much will you save each month to achieve this goal? _____

What are you saving for? _____

How much will it cost? _____

When will you need it? _____

How much will you save each month to achieve this goal? _____

What are you saving for? _____

How much will it cost? _____

When will you need it? _____

How much will you save each month to achieve this goal? _____

What are you saving for? _____

How much will it cost? _____

When will you need it? _____

How much will you save each month to achieve this goal? _____

What are you saving for? _____

How much will it cost? _____

When will you need it? _____

How much will you save each month to achieve this goal? _____

“Rainy Day” Savings (savings with no specific goal) _____

Total savings goal for each month (add together all of the monthly savings goals from the above list. This is the amount that you’ll have to save each month to achieve your goals.

\$ _____

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Worksheet 2 – Expected Income

List all anticipated income for the upcoming month. This could include money from allowance, pay from a job, gifts, etc). You'll need to complete one of these sheets at the beginning of every month.

This sheet is for the month of: _____

Source of Income (job, gift, allowance, etc)	How often?* (how often will you receive this income: daily, weekly, one time?)	Amount	Monthly amount (example: col 2 shows the amount as weekly, multiply by 4 to get the monthly amount)

Total (add the column on the right) \$ _____

* Note: you can leave this blank if you just lump all of your monthly amounts for this source of income together in column 4.

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Worksheet 4 – Completing Your Monthly Budget

Now it's time to finish up your budget for the month.

Step 1: Go back to Worksheet 1 and enter your savings goal for the month \$ _____

Step 2: Go to Worksheet 3 and enter your projected expenses for the month \$ _____

Step 3: Add the amounts from step 1 and step 2 together. This is the total amount of income that you'll need to meet the goals that you set for yourself

\$ _____

Step 4: Go to Worksheet 2 and enter your projected income for the month \$ _____

Step 5: Subtract the step 3 total from the step 4 total. \$ _____

If this number is negative, you're expecting to spend more money than you take in. As I always say, only the government can do this on a consistent basis because only the government can print more money when they run short. For the rest of us, we have to adjust our plan.

Now comes the decision making and this is the true heart of budgeting. Requirement 2b states:

Compare expected income with expected expenses.

1. If expenses exceed income, determine steps to balance your budget
2. If income exceeds expenses, state how you would use the excess money (new goal, savings).

Look at the above figures and determine what you're going to do. Make adjustments to your plan and write a note below to explain what you did:

This completes the plan. Now it's time to see how well the plan works by gathering actual information.

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Worksheet 6 – Putting It All Together for the Month

Now it's time to see how you did. From the worksheets for the past month fill out the following chart:

Month of _____

	Expected	Actual	Difference
Income			
Expenses			
Savings			

Expected income is your total from Worksheet 2

Expected expenses is your total from Worksheet 3

Expected savings is your total from Worksheet 1

Actual income is total income (column 3) of Worksheet 5

Actual expenses is total expenses (column 4) of Worksheet 5

Actual savings is actual income minus actual expenses.

Now that we've filled in the table, let's figure out what this means.

If your actual income is more than you thought, then your savings should go up. You can actually set more money aside for your long term goals. The really important thing for you to understand is that this is YOUR decision. You are now managing your money and making decisions based on what YOU think is best.

If your actual expenses are more than you thought you might have a problem. You will need to adjust your budget or pull money out of savings to cover the extra expenses. Again, this is YOUR decision. Obviously, if you keep pulling money out of savings you won't have money for long. So for the next month you'll have to adjust your plan. You will either need to increase your income or decrease your expenses. Since this is YOUR decision, you are again managing YOUR money and making decisions about YOUR future.

If your savings is less than expected then you'll have to adjust your savings goals (Worksheet 1). You will either have to wait longer to buy whatever you're saving or decide not to get it. Again, YOU are making the decision.

Use the information you've gathered here to make next month's budget.

As you can see from the above explanations, this is all about YOU managing YOUR money. Even though, at your age, you may not have a lot of money to manage, the principles you're learning here are the same ones that you'll use for the rest of your life. As long as you carefully manage your money you can make it work FOR you, not against you.

The bottom line is:

- You can't spend more than you make, so your plan has to reflect that
- Save for the things that are *important* to you – always set aside money for those things – if you spend all of your money on unimportant things, you'll never have money left over for the things that you've decided (Worksheet 1) that are *really* important. That's what managing your money is all about.
- Always save a little for your "rainy day" fund. That way, when something unplanned comes along, you'll have something to help get you through.