



## EXCERPT FROM

### Assignment 12.2 Zero-based Budgeting Guide for Excel Spreadsheet

**Introduction:** This exercise is worth 15 points. It provides you with an opportunity to practice managing a zero-based budget using practical scenarios. Assume, with limited work experience and a college education, that you find a job with a starting salary of \$40,000 per year. You are fully financially responsible and accountable for all outlays.

**Instructions:** In the corresponding Excel spreadsheet for Assignment 12.2 "Zero-based Budgeting Worksheet in Excel," insert the proper amounts in the designated cells based on your choices. You will earn full credit by allocating all your income. This will occur when \$0 appears in **TOTAL ALLOCATED**, cell **C3** and **ZERO BALANCE**, cell **C83**.

**Step 1.** Consider your net pay from your job. As you saw in a previous exercise, you can expect to take home \$36000 in annual net pay if you gross \$40000 yearly. This translates into \$3000 once a month or \$1500 if you are paid twice a month.

Go to your budgeting spreadsheet. See that \$1500 has been entered in the **pink cell D82** "Paycheck for 1st of Month" and the **pink cell E82** cell "Paycheck for 15th of Month." Scroll up the spreadsheet to see these amounts automatically appear in **cells D3 and E3** for "Paycheck for 1st of Month" and "Paycheck for 15th of Month," respectively.

**Step 2.** Plan to allocate all of the \$1500 taken home on the 1<sup>st</sup> and 15<sup>th</sup> of each month. Do so with purpose and intent to achieve financial goals. Items can be split between paycheck 1 and paycheck 2. Just enter your total committed amounts into the appropriate cells. As you enter amounts, you will notice that **TOTAL ALLOCATED**, cell **C3**, will decrease by the amount entered in the paycheck 1 (**D**) and paycheck 2 (**E**) columns.

To achieve a zero-based budget, your **TOTAL ALLOCATED**, cell **C3**, should ultimately read "\$0" or zero. This means that you are purposely planning where to place all of your net income -- every cent. Zero-based budgeting helps you strategically assign every dollar coming into your household with the purpose of helping you make financial decisions that help you reach your goals and achieve financial security!

**Step 3.** Now look below. Consider the following expense information and different scenarios with regards to how you assign your paychecks. Remember, your take-home pay can be allocated for different purposes, including but not limited to spending, saving, investing, paying off debt, and giving. Consider tradeoffs and opportunity costs in a zero-balanced budget world. If you spend today, you have less to spend tomorrow. If you spend on X you may not be able to spend on Y. If you save today, you have funds for the future. If you invest in a well-diversified portfolio today, you can generate investment income for the future. If you borrow today, you commit yourself to repaying in the future. If you choose not to pay a



balance in full, you commit to paying interest. The list goes. To sum it up, it is important to always keep in mind how your financial decisions affect you in the short, medium, and long-term.

1. **Charitable Gifts:** Do you plan to give to others? If so, enter the amount in the designated cells D5 and E5. A target for CHARITABLE GIFTS is (10-15%) of net take home pay.
2. **Emergency Funds, Real World Savings Account or Rainy Day Funds:** This is the dollar amount you give yourself each month when something unexpected happens. Think about your own unexpected expenses for last year. Estimate all unexpected expenses and divide by 24. Enter the amount you set aside for “Emergency Funds” in the cells D8 and E8.
3. **Retirement Funds:** Start today. Save \$2 a day, each day of the month. Assume that there are thirty days in this month. Enter \$30 in the designated cells D9 and E9. Feel free to put more. Total savings and investing can account for 5-10% of your net-pay.
4. **Other investments:** Enter any amount you want to put away for a down payment on a house, college for kids, or down payment on a rental property to generate income. Enter the amounts in the designated cells D10 and E10.
5. **Housing:** Everyone needs shelter to live. Housing can claim 25-35% of your net pay. With this in mind, please choose one housing option. Note that each choice has financial tradeoffs. After entering your preferred option, adjust other expenses accordingly to maintain a zero-based budget if necessary. Enter the amounts in the designated cells D12-18 and E12-18.  
**Option A:** 1 Bedroom apartment, 5 minutes from work, nicer amenities: Rent is \$900/month. The estimated monthly utilities are \$150 per month and renters insurance is \$10/month.  
**Option B:** 1 Bedroom apartment, further from work, no amenities: Rent is \$750/month. The estimated monthly utilities are \$150 per month plus \$10/month in renters' insurance.  
**Option C:** 4 Bedroom apartment with 3 roommates, each person pays \$300 for rent and \$75 in utilities. It is 15 miles from work but on a public transportation line. Renters' insurance is \$15 a month.  
**Option D:** Home Purchase. To buy house at \$150,000, you must have minimum of 20% down. If you have \$30,000 in relatively liquid investments and savings, you can use this option. Your monthly payment is \$800 or twice weekly is \$400 for principal, interest, taxes and insurance.
6. **Utilities:** Utilities, including communications and media, may claim between 5 and 10% of your net pay. Communications and media consume a large part. Before making your communications and media choices, research and input average utility costs in cells D20-36 and E30-36.