

The Young Professional: A Personal Budgeting Challenge

Joseph M. Larkin, Saint Joseph's University, USA
Joseph M. Ragan, Saint Joseph's University, USA

ABSTRACT

A common dream of many college students is to have a job within their chosen field awaiting them when they graduate. However, given the economy and other situational factors, this may not become a reality for all students. In this case study, a soon-to-be-graduate, Kate Denny, has been fortunate enough to have received a job offer in her chosen field commencing upon graduation. She has worked extremely hard to place herself in this situation. Offered, what she considers a generous starting salary and benefits package, she is beginning her journey into the real world and living independently and being truly self-supportive. However, she is not quite sure whether or not she will be able to live within her means, support herself, fulfill her obligations and at the same time, live the good life of a young professional. A personal budget is what Kate needs. She seeks your advice and counsel to help her manage her finances so she can have her cake and eat it too!

Keywords: Personal Budgeting; Personal Budget; Young Professional

INTRODUCTION

*K*ate Denny is ecstatic! At 22-years-old, she will be graduating this spring from college. She has just accepted a position as an account analyst with the Alvarez Group, a prominent regional marketing organization in a nearby city. Her four years in college have been exceptional. She has been active in many organizations on campus and has worked diligently in college earning outstanding grades as well a spot on the dean's list several times. Her resume is impressive and lists numerous accomplishments. It portrays a well-rounded, highly-motivated and talented young woman. The four years have been time well spent and she will graduate with a bachelor's degree in business management. Her career and first "real job" will commence one week after graduation.

Given the tight job market, not all of her fellow graduates were fortunate enough to find full-time employment in their chosen fields. Some of her closest friends are still looking for entry-level positions that will utilize the skills and knowledge they acquired as students. In the mean time, they will be forced to take jobs unrelated to their chosen major and, in most cases, not requiring a college degree.

Although anxious to move forward onto the next chapter of her life, she has some apprehensions. The starting salary of \$40,000 per year is more than she ever imagined. The most she ever earned at her part-time summer jobs was \$10 per hour. If annualized, that hourly wage would equate to only \$20,000 per year—a far cry from her soon-to-be starting salary. Despite this lucrative package, she wonders if she will be able to live the lifestyle of a young professional, the one she always dreamed of, and still meet all of her financial obligations.

Dream vacation: Can she travel and do the fun things that young professionals do? Throughout college, Kate worked every summer to finance her education. She was never able to take that special European vacation that she had always hoped for. One of her goals is to save up enough money to be able to take that trip to Europe at the end of her first year of employment. She estimates that, conservatively, it will cost \$3,000.

New wheels: And, how about buying a new car? Living on campus as an undergraduate student, there was no need for a car. So, in order to save money, Kate never owned a car in college. In the summers she was able to borrow the family car to go to and from her various summer jobs. But now, she would love to have a brand-new shiny compact

car to call her own. Her parents have already agreed to co-sign for an automobile loan and help her out by gifting her \$3,000 for the down payment. The car that she has in mind will cost \$27,000. After the gift from her parents, she would still owe \$24,000. Spreading the loan over a five-year period would result in a monthly car payment of \$400. Of course, there will be automobile insurance and gas and maintenance costs to consider.

College loans: She wonders, will there be enough money to pay off the college loans? Without loans, Kate would never have been able to attend college and realize her goal of earning a degree. Her loans are structured such that she must begin making payments immediately after graduation. With a grand total of \$36,000 in loans due within the ten years from graduation, her monthly payment will amount to \$300 per month.

High fashion: The standard dress code at the Alvarez group is business casual. Being a typical college student, Kate has no appropriate professional wardrobe to speak of. Sweatpants and hoodies are not included in the Alvarez wardrobe. She will have to start from scratch. It is very important for her to dress the part, so to speak. Labels and designer fashion are appealing. It will be difficult to overcome her preference for a top-of-the-line wardrobe. In any case, a significant investment in a quality wardrobe is a necessity.

The basics: Along with renting an apartment, come basic necessities. For example, there will be utilities, cable television, cell phone expenses, food, clothing and other day-to-day expenses to consider. Not to mention, expenses that may occur out of the blue and have not been anticipated. Fortunately, Kate’s new job is in a city not far from her parent’s home. So, it will not cost too much for an occasional home visit. She also realizes that there special and whimsical things to do.

After hours: Kate has always enjoyed a vibrant social life during her college years. She was never a “party-animal,” but did enjoy going out on weekends to socialize with her friends. It would be nice, if she could continue that practice in the future. However, she is well aware of how expensive a night on the town, or something a bit less than that, costs. If possible, she would still like to continue seeing her college buddies on a social basis. Kate realizes that this may be one of the things that she may have to cut back on or even eliminate completely. But, she certainly would not be happy about having to do so.

These are just a few of her concerns.

Valuable input: Kate has some college friends that graduated in the previous May. Last year, at this time, they were in the same situation. They had jobs to go to, but had not yet figured out how to make things work. She asked them for some advice about living independently and being self supportive. They were able to come up with a list of monthly expenses which appear in Table 1. She sat down with them and estimated what those monthly expenses would be for her. As you can see, the list is rather long and most likely includes items that you have not even considered.

Table 1. Partial Estimated Monthly Outflows

Item	Estimate per Month
Rent	\$1,000
Utilities	200
Cell phone	75
Cable service-premium	70
Auto loan	400
Auto insurance	175
Auto operating expense	200
Food	250
Clothing	150
Entertainment	225
Personal items-not included above	100

No credit card debt: Although Kate had two credit cards which she used occasionally during her undergraduate years, one thing that her parents always told her was to pay the accounts off as they became due and never carry a

balance. She listened to them and now is grateful for that advice. Unlike some of her college friends, Kate has no credit card balances at all.

Other information: Here is some additional very important information. Her benefits package includes both medical and dental coverage, as well as a modest contribution by her employer to her retirement savings. As mentioned, the job will require relocation to another city. At this point she has no plans to find a roommate to share expenses. Initially, this salary and benefits package appears very generous. However, she is concerned as to whether or not she will be able to live in another city on her own and cover her expenses and still have enough to fund the fun stuff such as a brand new car and a dream vacation.

At this point, she is overwhelmed! She wonders, can she live within her means and still have it all?

CASE QUESTIONS

1. Prepare a pro forma personal budget for Kate for the year commencing on June 1. Compare her monthly cash inflows with her anticipated monthly cash outflows. Be sure to consider all of the information provided in the case.
2. Based upon your calculations from the previous question, provide insights regarding how she should approach the budgeted surplus or shortfall. If your analyses indicate a budget shortfall, provide recommendations to Kate to help her better manage her personal finances. Be specific with your recommendations including the financial impact of each recommendation.
3. Prepare a list of cost and or expenditures that you recommend Kate could possibly reduce or eliminate. Attach a dollar amount to each one.
4. Considering your recommendations from the previous question, prepare a revised pro forma personal budget for Kate.
5. Take some time to compare, and reflect upon your own personal situation with Kate's. Will you be able to have "your cake and eat it, too?"

AUTHOR BIOGRAPHIES

Joseph M. Larkin, Ph.D., C.P.A., is an associate professor of accounting in the Haub School of Business at Saint Joseph's University in Philadelphia, Pennsylvania. He has published in the *Journal of Business Case Studies*, *Journal of Business Ethics*, *Advances in Management Accounting*, *The Accounting Educators' Journal* and *Internal Auditing*, as well as several practitioner journals. Dr. Larkin's teaching interests include Auditing and Managerial Accounting. Prior to entering academe, he worked for a major international public accounting firm in their audit practice. (contact author)

Joseph M. Ragan, C.P.A., M.A., M.B.A. is a Professor, Department of Accounting in the Haub School of Business at Saint Joseph's University in Philadelphia, Pennsylvania. He specializes in research on the development of software packages that enhance top management's use of accounting information, served as a systems consultant to a number of Fortune 500 companies, and has developed a series of information system models to assist management.

WHERE TO LEARN MORE

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TEACHING NOTES

This case is appropriate for virtually any undergraduate course and /or major. It is generic, in that it can be relevant to any student who is planning to enter the workforce. When asked, students are often not aware of all of the costs of independent living. They often forget about some of the bills that have been paid by their parents. This case can be an “a-hah” moment for them. As mentioned in the fact pattern of the case, Kate seems to think that her annual salary of \$40,000 is very generous and may well be adequate to suit her. But, upon further consideration, it appears that might not be the case.

Here is the pro forma monthly budget for Kate. It is based on the fact pattern appearing in the text of the case. As you can see, there is a significant budgeted shortfall (\$795 per month). No doubt, that will surprise many students.

Kate Denny
Monthly Budget Pro Forma

Annual Salary	40,000
Monthly Salary	3,333
Payroll taxes	733
Net monthly inflow	2,600
Outflows	
Rent	1,000
Utilities	200
Cell phone	75
Cable service-premium	70
Auto insurance	175
Auto operating expenses	200
Auto loan	400
College loan	300
Food	250
Clothing	150
Entertainment	225
Vacation fund	250
Personal/miscellaneous	100
Net monthly outflow	3,395
Surplus/shortfall	-795

If the students have incorporated all of the information presented in the case into the preparation of their pro forma statement, they should arrive at the shortfall of \$795 per month. If their shortfall is something less than that, they will still have the opportunity to prepare a list of their recommendations for Kate as to how she can reduce her outflows.

Case questions two and three will likely generate lively discussions. You can expect that the students' recommendations as to how to trim the budget will vary. Priorities as to what should be reduced or eliminated will be subjective. The key point to share with the students is that Kate will have to tighten her belt and revise her expectations moving forward.

Possible Suggestions

- Find a less expensive apartment
- Consider finding a roommate
- Shop for a new cell phone plan
- Consider a basic cable package
- Purchase a pre-owned automobile
- Re-examine the food, clothing and entertainment budgets
- -Reduce, postpone or eliminate the vacation budget

The response to question four will depend on the responses to questions two and three. It will be difficult to reach a consensus regarding Kate's course of action. Thus, you should expect variances in the revised pro forma personal budget for Kate.

Question five gives the students an opportunity to sit back and reflect about their own situation. Hopefully, they will realize that starting out in a career is not easy and that they will have to make some concessions. The situations for students will vary. Some students will start out earning significantly higher salaries. Some will start out earning significantly lower salaries. Also, students must consider where they will be starting their careers, as the cost of living varies significantly based upon where they will be starting out.

In closing, there is no absolutely correct or incorrect answer to this case. More importantly, the purpose is to generate and stimulate the thought process about exactly what the future will look like for our students as they move forward in life.