

### Topic Overview

<b>Topic</b>	Strategies and Management E4 Resources Management: Presentation of your consumption patterns by using a personal financial budget
<b>Level</b>	S3
<b>Duration</b>	3 lessons (40 minutes per lesson)

#### Learning Objectives:

1. To understand the differences between needs and wants,
2. To explain the concept of personal financial budget,
3. To understand the importance of personal financial budget in considering personal consumption pattern,
4. To apply the basic principles and techniques in preparing personal budget, and
5. To develop a proper attitude towards personal finance.

Overview of Contents:	
Lesson 1	Needs and Wants
Lesson 2	What is a budget?
Lesson 3	How to prepare a personal budget?

#### Resources:

- Topic Overview and Teaching Plan
- PowerPoint Presentation

#### Suggested Activities:

- Class Discussion
- Group Discussion
- In-class exercise

Lesson 1	
<b>Theme</b>	Needs and Wants
<b>Duration</b>	40 minutes

**Expected Learning Outcomes:**

**Upon completion of this lesson, students will be able to:**

1. differentiate needs and wants, and
2. differentiate long-term and short-term spending.

**Teaching Sequence and Time Allocation:**

Activities	Reference	Time Allocation
<b>Part I: Introduction</b>		
✧ Teacher asks students to state 10 items they want to buy/do and then write these items on the blackboard.	PPT #2	3 minutes
✧ Teacher asks whether they have sufficient money to make their dreams come true.	PPT #3 – 4	7 minutes
<b>Part II: Content</b>		
✧ Teacher explains the concept of needs and wants.	PPT #5 – 6	8 minutes
✧ <b>Activity 1: Class discussion</b> <ul style="list-style-type: none"> <li>■ Students are required to classify various items into wants and needs.</li> </ul>	PPT #7	5 minutes
✧ Teacher discusses the answers with students and makes conclusion.	PPT #8	
✧ Teacher explains to students those “wants” items are not necessary and can be cut down when we do not have sufficient money.		
✧ Teacher explains to students the meaning of long-term spending (e.g. buying of non-current assets) and short-term spending (expenses).	PPT #9 – 10	5 minutes
✧ <b>Activity 2: Class discussion</b> <ul style="list-style-type: none"> <li>■ Teacher asks students to identify the short-term expenses from the list of expenditure provided.</li> </ul>	PPT #11	5 minutes
✧ Teacher goes through the answers with students and makes conclusion.	PPT #12	5 minutes
<b>Part III: Conclusion</b>		
✧ Teacher concludes the lesson by reviewing the key points covered.		2 minutes

Lesson 2	
<b>Theme</b>	What is a budget?
<b>Duration</b>	40 minutes

**Expected Learning Outcomes:**

**Upon completion of this lesson, students will be able to:**

1. describe different types of expenses (fixed, variable and discretionary),
2. how different types of expenses affect consumption pattern, and
3. describe what is a personal financial budget.

**Teaching Sequence and Time Allocation:**

Activities	Reference	Time Allocation
<b>Part I: Introduction</b>		
✧ Teacher introduces the major types of expenses.	PPT #2	2 minutes
<b>Part II: Content</b>		
✧ Teacher explains the definition and characteristics of different types of expenses.	PPT #3 – 5	6 minutes
✧ <b>Activity 1: Group discussion</b> <ul style="list-style-type: none"> <li>■ Students are required to form into group of 3 and each group is required to give 5 examples for the assigned type of expense.</li> <li>■ Students are invited to present their answers.</li> </ul>	PPT #6	8 minutes
✧ Teacher explains the answers to students and makes conclusion.	PPT #7	7 minutes
✧ Teacher explains the concept of personal financial budget and its purposes.	PPT #8 – 13	15 minutes
<b>Part III: Conclusion</b>		
✧ Teacher concludes the lesson by reviewing the key points covered.		2 minutes

<b>Lesson 3</b>	
<b>Theme</b>	How to prepare a personal budget?
<b>Duration</b>	40 minutes

**Expected Learning Outcomes:**

**Upon completion of this lesson, students will be able to:**

1. prepare a personal financial budget,
2. perform a forecast of incomes and expenses, and
3. demonstrate a good consumption pattern.

**Teaching Sequence and Time Allocation:**

Activities	Reference	Time Allocation
<b>Part I: Introduction</b>		
✧ Teacher starts the lesson by revising the concepts of budget.		2 minutes
<b>Part II: Content</b>		
✧ Teacher explains the methods to prepare a personal financial budget and difference between forecast and actual data.	PPT #2 – 4	8 minutes
✧ Teacher explains the methods to make a forecast of incomes and expenses.	PPT #5	3 minutes
✧ Teacher explains the format of a personal budget.	PPT #6 – 7	4 minutes
✧ <b>Activity 1: In-class exercise</b> <ul style="list-style-type: none"> <li>■ Students are required to prepare their own personal budget and compare it with their classmates.</li> </ul>	PPT #8	8 minutes
✧ Teacher wraps up by highlighting the importance of maintaining a balanced budget with inclusion of a certain amount of saving.		4 minutes
✧ Teacher explains a good consumption pattern.	PPT #9	3 minutes
✧ <b>Activity 2: Class discussion</b> <ul style="list-style-type: none"> <li>■ Recall the discussion on first lesson and ask students if there are any changes for their wish.</li> <li>■ Ask them how they can make it. Teacher then wraps up.</li> </ul>	PPT #10	3 minutes
<b>Part III: Conclusion</b>		
✧ Teacher concludes the lesson by reviewing the key points covered.		2 minutes

Presentation of your Consumption  
Patterns by Using a Personal Financial Budget  
Lesson 1 – Needs and Wants



1

Make a wish!

- Please state 10 items you want to buy/do recently.



2

Ask students to think and list 10 items they want to buy/do.  
They are free to discuss and may have different answers. Write these on the blackboard.

## Can your wish come true?

- Do you have sufficient cash to buy/pay for these items?



3

## If not, what will you do?



4

Discuss with students and ask whether they have sufficient money to make their dreams come true.

Ask students how they can get sufficient cash to do so. They may answer like by means of saving, borrowing from parents etc. This is the topic of sources of financing which will be discussed later. Then start to ask them to think from another angle: will they buy less?

## What do you need?

- Which of these items will you really buy?
- What is your decision criteria?

Do you really need it?

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Go through those items listed on a board before and see how many items will be eliminated because of not necessary!

## Needs vs Wants

- Needs: things that are essential for lives and expenses on those items are often unavoidable.
  - E.g. food, clothing, etc.
- Wants: things that are not essential for lives but we desire or wish to have. Expenses on these items are often avoidable or could be cut when money is not sufficient.
  - E.g. watching a movie, enjoy a buffet, etc.
- Food is necessary but a buffet is not!  
i.e. Food = Need, Buffet = Want



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Discuss with students the difference between wants and needs.

## Activity 1 – Needs vs Wants

- Classify the following items into needs and wants.

• Lunch	• Dinner buffet
• Diamond watch	• Watch
• Text books	• Comics
• Stationery	• Jewelry
• Brand-named fashions	• Clothes



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Ask students to classify which items listed in the question are wants and which are needs.

## Activity 1 – Needs vs Wants

<u>Needs</u>	<u>Wants</u>
• Lunch	• Dinner buffet
• Watch	• Diamond watch
• Text books	• Comics
• Stationery	• Jewelry
• Clothes	• Brand-named fashions



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Teacher explains to students those “wants” items are not necessary and can be cut down when we do not have sufficient cash to buy.

## Short-term vs Long-term Spending

- Short-term spending
  - Spending for items which will consume for less than one year.
  - E.g. mobile phone service fee i.e. **expense**
- Long-term spending
  - Spending for items which will use for more than one year.
  - E.g. mobile phone i.e. **capital expenditure (asset)**



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Explain to students the meaning of long-term spending (e.g. buying of non-current assets) and short-term spending (expenses).

## Short-term vs Long-term Spending

- When you consider your spending, it is necessary to understand the nature of your spending.
- Short-term spending usually involves smaller amount and will last for a shorter period (< 1 year).
- Long-term spending usually involves larger amount and will last for a longer period (> 1 year).



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## Activity 2

• Your elder brother had the following expenses in the last month.  
Which of these are short-term spending?

- Buying a computer
- Going to a concert
- Buying a smart phone
- Tutorial fee
- Buying stationery
- Having dinner buffet with friends
- Medical fee to a doctor
- Mobile phone service



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Ask students to classify the expenditures into short-term and long-term spending.

## Activity 2 – Answer

Short-term spending:

- ✓ Stationery
- ✓ Going to a concert
- ✓ A dinner buffet
- ✓ Medical fee
- ✓ Tutorial fee
- ✓ Mobile service fee



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Students may ask how about if he bought something which will use for more than 1 year. Teachers may require to discuss the concept of materiality. i.e. if the amount spent is relatively small, then it can be treated as an expense. For example, a calculator may be treated as an expense for a company but probably an asset for a student!

The End

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Presentation of your Consumption  
Patterns by Using a Personal Financial Budget  
Lesson 2 – What is a budget?



1

## Classification of Expenses

- In order to plan for a personal budget, it is necessary to understand the classification of expenses.

- Three categories of expenses:

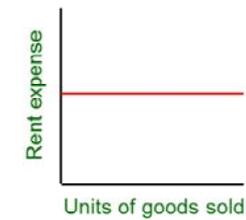
- Fixed expenses
- Variable expenses
- Discretionary expenses



2

## Fixed Expenses

- Paid on a regular basis (e.g. monthly, quarterly or yearly).
- Remain unchanged or only a very slight change during a specific period of time.
- Example: monthly rent



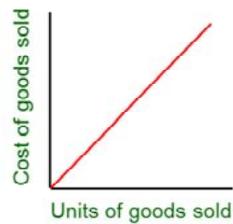
3

Explain 'fixed expenses' and their characteristics.

For example, the monthly rent expense is not varied to the units of goods sold.

## Variable Expenses

- Spending will change depends on the level of consumption of the goods or services.
  - i.e. the more the use, the higher the spending
- Amount usually vary from period to period.
- Example: cost of goods sold



4

Explain 'variable expenses' and their characteristics.  
For example, cost of goods sold are varied as according to the units of goods sold.

## Discretionary Expenses

- Expenses for the consumption of goods or services which are not essential for lives.
- Example: Travelling



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Explain 'discretionary expenses' and their characteristics.  
For example, overseas travelling for enjoyment purpose depends on the surplus cash.

## Activity 1 – Group Discussion

- You are required to form into group of 3 and each group is required to give 5 examples of the assigned type of expense.



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Students are required to form into group of 3 and each group is required to give 5 examples for the type of expense being assigned.

## Activity 1 – Group Discussion



Examples:

Fixed Expense	Variable Expense	Discretionary Expense
Tutorial fee	Local transportation (depends on number of travel)	Eating out
Rent	Medical fee (depends on number of visit)	Going to a concert
Mobile service (monthly charge)	Stationery (based on usage)	Watching a movie
Transportation by school bus (monthly charge)	Mobile internet charge (based on usage)	Buying expensive stationery
Insurance	Lunch at school (depends on how many days in school)	Travelling

7

Discuss with students whether the answers they provided can meet the characteristics of the category being classified.

## Personal Budget

- A personal budget can be divided into two types:
  - A short-term budget (Operating budget): forecast the short-term income and expenses for the coming year.
  - A long-term budget (Capital budget): forecast the long-term spending such as buying a motor car which will be used for more than 1 year.
- Our discussion will focus on the preparation of a short-term budget which is usually prepared for

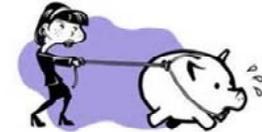


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Explain the differences between capital budget (for capital expenditure which will last for more than 1 year in future) and operating budget (for daily expense in the next year).

## Purposes of a Personal Budget

- A good personal budget can be used as a tool to help people
  - to serve as a guide for spending in future
  - to allocate resources
  - to plan future consumptions
  - to set a standard to control the spending



9

Explain what personal budget is and how to make it a useful tool.

## Serves as a Guide

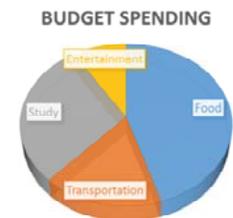
- A budget is a plan that can help guide a person's spending in the future.
- A household budget can be a great aid in helping a family control its spending.



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## Helps Allocate Resources

- A personal budget helps a person to determine the best possible allocation of his/her scarce resources (e.g. money).



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## Plans Future Consumptions

- Once knowing the resources available in future, a person can plan his/her expenditure which should not exceed the resources available.



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## Sets Standard to Control Spending

- A personal budget can also help to keep track of one's incomes and expenses and give control of his/her own spending.
- It also helps to evaluate the financial situation to see whether there is over or under spending.



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The End

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Presentation of your Consumption  
Patterns by Using a Personal Financial Budget  
Lesson 3 – How to prepare a personal budget?



1

## How to Prepare a Personal Budget

- In order to present the consumption patterns of a person, the personal budget focuses more on the incomes and expenses rather than his/her financial position of a person for the next year.
- Therefore, it is necessary to forecast all incomes and expenses of a person for the coming year.

Setting Up a  
Personal  
Budget



2

## Forecast Income

- There are two types of income:
  - Regular income
    - Received on a regular basis say, weekly, monthly, yearly etc.
    - Example: salary
  - Non-regular income
    - Not received on a regular basis
    - Example: special bonus, interest income



3

Teacher explains the difference between forecast and actual data.

Forecast: predicted future events based on best estimate.

Actual: the result of past events.

## Forecast Expenses

- There are many types of expenses:
  - Housing related: rent, management fee etc.
  - Utilities: electricity and water, telephone etc.
  - Food: groceries, eating out etc.
  - Transportation: public transportation, fuel, parking, licence fee etc. for owning a car.
  - Clothing and personal care products.
  - Family support: maintenance for elders, child care and education.
  - Entertainment: movies, vacation trips etc.
  - Health and medical care: insurance.
  - Tax
  - Sundry



4

Teacher can recall the classification of expenses in previous lesson.

Some expenses are fixed in nature such as rent and management fee. i.e. such expenses are not affected by the income received.

However, some expenses are variable or discretionary in nature which may depend on the income received. One may plan a vacation to Europe instead of East Asia when he/she earns more income. Teacher may ask students to classify the expenses listed on the slide as:

Fixed expenses: housing related, family support, insurance

Variable expenses: utilities, food, transportation, clothing, tax

Discretionary expenses: entertainment

## How to Forecast Incomes and Expenses?

- Based on current actual incomes and expenses to project for those in the next year.
- Identify any irregular needs or expenses e.g. travel plan.
- Consider if there are any major changes in life in the next year e.g. marriage, change of job etc.



5

# Format of a Personal Budget

- The format of a personal budget is similar to an income statement.
- However, the figures presented are not the actual amounts but a forecast one.



# Format of a Personal Budget

Personal Budget		\$	\$
Income:	Salaries	XXX	
	Interest income	<u>XXX</u>	<u>XXX</u>
Expenses:	Electricity	(XXX)	
	Entertainment	(XXX)	
	Food	(XXX)	
	Insurance	(XXX)	
	Internet and telephone	(XXX)	
	Management fee	(XXX)	
	Rent	(XXX)	
	Transportation	<u>(XXX)</u>	<u>(XXX)</u>
Net Income			<u>XXX</u>

## Activity 1

- Prepare your own personal budget and compare it with your classmates'.
- Find out any different items amongst different budgets, which shows the different consumption habits of students in the class.
- Check whether there is a net income or net loss in your budget!



8

Teacher may encourage students to think about what kind of incomes they will receive (e.g. allowance from parent, red pocket money etc.) and what kind of expenses will be incurred (e.g. text books, stationery, clothing, lunch etc.)

## What is a Good Consumption Pattern?

- Income > expense
- Spend on what you need, not what you want.
- Think about how to earn more and spend less.
- Remember: the personal budget must be prepared based on a realistic forecast. Not an ideal one!



9

## Activity 2 – Make a Wish

- Remember you have made a wish at the beginning of this section?
- Will you change your mind now?
- How can you make your wish come true?



10

Recall the discussion on first lesson and ask students if there are any changes for their wish.

Ask them how they can make it.

Conclusion: it is necessary to have a good consumption pattern so that we can have sufficient money to make necessary consumption and surplus cash to buy something we want.

The End

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**Section A: Multiple Choice Questions (@1, total 10 marks)**

1. The spending on buying a diamond watch is to satisfy a person's:

- A. need.
- B. want.
- C. habit.
- D. All of the above.

Level of difficulty: \*

2. Which of the following items is a need to a student?

- A. Comics.
- B. Jewelry.
- C. Stationery.
- D. Car.

Level of difficulty: \*

3. Which of the following spending is a capital expenditure?

- A. Electricity.
- B. Motor car.
- C. Internet service.
- D. Goods for resale.

Level of difficulty: \*

4. Which of the following is a fixed expense?

- A. Insurance.
- B. Eating out.
- C. Medical fee.
- D. Travelling.

Level of difficulty: \*\*

5. Which of the following is a variable expense?

- A. Rent
- B. Stationery.
- C. Transportation by school bus.
- D. Overseas travel.

Level of difficulty: \*\*

6. Which of the following is not the purpose of preparing a personal budget?

- A. To serve as a guide.
- B. To allocate resources.
- C. To plan current consumptions.
- D. To set a standard to control the spending.

Level of difficulty: \*

7. Which of the following is a regular income?

- A. Interest income.
- B. Special bonus.
- C. Dividend income.
- D. Rental income.

Level of difficulty: \*\*

8. Rate expense is a kind of \_\_\_\_\_ expense.

- A. housing related
- B. utilities
- C. food
- D. transportation

Level of difficulty: \*\*

9. Car maintenance cost is a kind of \_\_\_\_\_ expense.

- A. housing related
- B. utilities
- C. food
- D. transportation

Level of difficulty: \*

10. Which of the following is not included in the calculation of personal budget income statement?

- A. Salary.
- B. Child care.
- C. Vacation.
- D. Investment.

Level of difficulty: \*\*

**Section B: Short Questions (20 marks)**

- \*\* 1. List five short-term spending for a secondary school student may incur. (5 marks)
- \*\* 2. How can a personal budget help people to plan future consumptions? (6 marks)
- \*\* 3. Mr. Wong is planning his personal budget for the next year, he has the following forecasted incomes and expenses. Help him to prepare the personal budget. (9 marks)

Salary: \$500,000

Interest income: \$8,000

Borrowing: \$100,000

Insurance: \$12,000

Transportation: \$40,000

Rent: \$144,000

Tax: \$6,000

Food: \$75,000

Utilities: \$25,000

Computer: \$12,000

## Suggested Solutions

### Section A: MCQs

1. B	2. C	3. B	4. A	5. B
6. C	7. D	8. A	9. D	10. D

### Section B: Short Questions.

#### Question 1

(@1, max 5 marks)

Five short-term spending for a secondary school student may include:

- Tutorial fee
- Transportation
- Mobile phone service charge
- Stationery
- Lunch
- Any other valid answer

#### Question 2

(@3, total 6 marks)

A personal budget helps a person to determine the best possible allocation of his/her scarce resources because a person has to make a forecast of his/her future incomes and expenses.

He/she is then based on the future incomes to plan his/her expenditure which should not exceed the resources available i.e. to ensure not to spend more than the future income.

**Question 3**

(@1, total 9 marks)

Budget Income statement		\$	\$
Income:	Salary	500,000	
	Interest income	<u>8,000</u>	
			508,000
Expenses:	Insurance	(12,000)	
	Transportation	(40,000)	
	Rent	(144,000)	
	Tax	(6,000)	
	Food	(75,000)	
	Utilities	<u>(25,000)</u>	<u>(302,000)</u>
Net income			<u>206,000</u>