

<b>Topic Overview</b>	
<b>Topic</b>	BAFS Compulsory Part - Basics of Personal Financial Management C10: Personal Financial Management – Principles and Techniques to Prepare Personal Budgets
<b>Level</b>	S4
<b>Duration</b>	2 lessons (40 minutes per lesson)

**Learning Objectives:**

1. To understand the importance of personal budget in controlling their personal finance;
2. To grasp the principles and techniques of preparing personal budgets;
3. To analyse personal expenses and applying the data into a realistic personal budget; and
4. To develop a positive attitude in personal finance.

**Overview of Contents:**

Lesson 1	Personal Spending
Lesson 2	Preparing a Personal Budget

**Resources:**

- Topic Overview and Teaching Plan
- Powerpoint Presentation
- Student Worksheet with Answer

**Suggested activities:**

- Experience Sharing
- Group Discussion
- Case Study

<b>Lesson 1</b>	
<b>Theme</b>	Personal Spending
<b>Duration</b>	40 minutes

**Expected Learning Outcomes:**

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

1. Describe the nature of fixed, variable and discretionary expenses;
2. Classify expenses into different types;
3. Distinguish between needs and wants; and
4. Identify ways to spend sensibly.

**Teaching Sequence and Time Allocation:**

Activities	Reference	Time Allocation
<b>Part I: Introduction</b>		
◇ Teacher starts the lesson by asking students to share their recent consumptions to set the theme for the session.	PPT#2	3 minutes
<b>Part II: Content</b>		
◇ Teacher explains to the class that personal expenses may be classified into fixed, variable and discretionary expenses and discusses the nature of these expenses. ◇ Teacher asks students to classify their own expenses accordingly.	PPT#3-6	10 minutes
◇ Teacher asks students how their spending would change if their pocket money is cut in half and introduces the concept of “Needs and Wants”. ◇ <b>Activity 1: Needs and Wants</b> ■ Students are asked to write down their expenses and identify if they are needs or wants. ■ Teacher invites students to share their answers with the class.	PPT#7-8  PPT#9 Student Worksheet p.1	12 minutes
◇ <b>Activity 2: Group Discussion</b> ■ Students are divided into groups of four to five to discuss “the effective ways to help us spend sensibly.” ■ Teacher invites students to present their ideas.	PPT#10 Student Worksheet p.2	10 minutes

<b>Part III: Conclusion</b>		
✧ Teacher concludes the lesson and highlights the key points covered.		
✧ To prepare for the next lesson, teacher asks students to keep records of their incomes and spending for the coming week.	PPT#11	5 minutes

**Preparation for the next lesson:**

Students are asked to record their own incomes and expenses for the following week. Students will be asked to share their observations and experiences, (i.e. how difficult it is to record all spending, special spending patterns, and whether such tracking change their spending behaviour, etc.)

Lesson 2	
<b>Theme</b>	Preparing a Personal Budget
<b>Duration</b>	40 minutes

### Expected Learning Outcomes:

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

1. Explain what a personal budget is;
2. Discuss the importance of personal budget;
3. Keep track of their personal incomes and expenses;
4. Identify issues and problems in preparing a personal budget; and
5. Prepare a realistic and achievable personal budget.

### Teaching Sequence and Time Allocation:

Activities	Reference	Time Allocation
<b>Part I: Introduction</b>		
◇ Teacher starts the lesson by asking students about their observations and experience in recording their incomes and expenses.	PPT#12	5 minutes
<b>Part II: Content</b>		
◇ Teacher defines what a personal budget is and discusses the importance of personal budget in personal financial management.	PPT#13-19  PPT#20-21 Student Worksheet pp.3-6	17 minutes
◇ Teacher describes the steps of preparing a personal budget.		
◇ Teacher explains the common types of incomes and expenses of a household.		
◇ <b>Activity 3 – Case Study (Part I)</b> <ul style="list-style-type: none"> <li>■ Students are divided into groups of four to five. They are required to read the case on the Wong Family and to complete an Income and Expense Statement accordingly.</li> <li>■ Teacher checks the results with students.</li> </ul>		

<ul style="list-style-type: none"> <li>✧ Teacher explains steps to achieving a good budget.</li> <li>✧ <b>Activity 4 – Case Study (Part II)</b> <ul style="list-style-type: none"> <li>■ Students remain in their groups and are required to prepare a balanced budget for the Wong Family.</li> <li>■ Teacher invites students to present their answers with justifications.</li> <li>■ Teacher checks with the class the revised budget for the Wong Family.</li> </ul> </li> </ul>	<p>PPT#22-27 Student Worksheet pp.7-9</p>	<p>15 minutes</p>
<p><b>Part III: Conclusion</b></p>		
<ul style="list-style-type: none"> <li>✧ Teacher concludes the lesson and highlights the key concepts covered.</li> </ul>	<p>PPT#28</p>	<p>3 minutes</p>

## Suggested Answers

### Activity 1: Needs and Wants

#### Some examples of needs and wants:

Categories	Needs	Wants
Clothing	<ol style="list-style-type: none"> <li>1. A plain T-shirt</li> <li>2. A pair of sport shoes</li> <li>3. A pair of jeans</li> </ol>	<ol style="list-style-type: none"> <li>1. A limited edition T-shirt</li> <li>2. An expensive pair of brandname sport shoes</li> <li>3. A pair of designer jeans</li> </ol>
Food	<ol style="list-style-type: none"> <li>1. Basic home cooking</li> <li>2. Packed lunch</li> <li>3. Dining at fast food restaurant</li> </ol>	<ol style="list-style-type: none"> <li>1. Fresh seafood meal</li> <li>2. Eating at restaurant</li> <li>3. Hotel dinner buffet</li> </ol>
Housing	<ol style="list-style-type: none"> <li>1. A comfortable apartment</li> <li>2. DIY home improvement</li> <li>3. Stay at youth hostel when travelling</li> </ol>	<ol style="list-style-type: none"> <li>1. A luxury house</li> <li>2. Lavish home decoration</li> <li>3. Stay at a 5-star hotel when travelling</li> </ol>
Transportation	<ol style="list-style-type: none"> <li>1. Go to school by bus</li> <li>2. Cross the harbour by ferry or bus</li> <li>3. Take a train when traveling</li> </ol>	<ol style="list-style-type: none"> <li>1. Go to school by private car</li> <li>2. Cross the harbour by taxi</li> <li>3. Take a plane when traveling</li> </ol>
Others	<ol style="list-style-type: none"> <li>1. Textbooks</li> <li>2. Music CD</li> <li>3. Hiking</li> <li>4. Physical exercise</li> <li>5. Inexpensive mobile phone for communication</li> </ol>	<ol style="list-style-type: none"> <li>1. Video games</li> <li>2. Concert</li> <li>3. Overseas pleasure trip</li> <li>4. Expensive slimming programme</li> <li>5. Expensive mobile phone with many functions</li> </ol>

**Activity 3: Case Study (Part I)****The Wong Family's Monthly Income and Expense Statement**

<b>Incomes</b>		
Salaries	\$37,000	
Interest and investment incomes	\$625	
<b>Total incomes</b>		<b>\$37,625</b>
<b>Expenses</b>		
Household		
Mortgage payment ( <i>item 1</i> )	\$12,920	
Management fee & rates ( <i>item 2</i> )	\$1,113	
Appliances, furniture & maintenance ( <i>item 3</i> )	\$1,000	
Total household expenses		\$15,033
Utilities ( <i>item 4</i> )		\$1,270
Transportation		
Car ( <i>item 5</i> )	\$4,630	
Public transportation expense ( <i>item 6</i> )	\$1,000	
Total travel / transportation expenses		\$5,630
Food		
Groceries ( <i>item 7</i> )	\$3,000	
Eating Out ( <i>item 8</i> )	\$1,500	
Total food expenses		\$4,500
Clothing & personal care ( <i>item 9</i> )		\$2,000
Children education ( <i>item 10</i> )		\$3,500
Recreation & entertainment ( <i>item 11</i> )		\$3,000
Insurance payment ( <i>item 12</i> )		\$1,800
Salaries tax ( <i>item 13</i> )		\$1,000
Sundry expenses ( <i>item 14</i> )		\$1,000
<b>Total Expenses</b>		<b>\$38,733</b>
<b>Surplus / Deficit</b>		<b>\$1,108</b>

**Activity 4: Case Study (Part II)****Suggested expense reductions and justifications:**

<b>Suggested changes</b>	<b>Justification</b>
1. Mr. Wong may sell his car. (Net saving \$4,130.)	Mr. Wong is a weekend-driver, his car is not a necessity. The Wong Family could save \$4,630 and the proceeds from selling the car could be added to their savings right away. But it must be noted that after selling the car, their public transportation expense will increase, say, by \$500.
2. Cut spending on eating out. (Net saving \$300.)	The Wong Family may reduce the times of eating out which could be substituted by cooking at home and packing lunches. They can also eat healthier at home. However, it is assumed that their groceries expense will increase slightly by \$200.
3. Reduce clothing and personal care expenses by \$500 a month.	Expensive clothes and personal care items are not totally necessary.
4. Cut spending on recreation & entertainment by \$1,000 a month	They should try to develop some new hobbies which are equally enjoyable but cost less. Or they should consider going for shorter or less expensive pleasure trips. If Mr. and Mrs. Wong want to have a better retirement life, they have to give up some of their current consumption.
<b>Total reduction in expenses</b>	<b>\$5,930</b>

*Other reasonable suggestions with justification are also acceptable.*



**Proposed monthly budget for the Wong Family:**

<b>Incomes</b>		
Salaries	\$37,000	
Interest and investment incomes	\$625	
<b>Total incomes</b>		<b>\$37,625</b>
<b>*Savings and/or Investment</b>		
10% of Salaries (at least)	\$3,700	
Reinvestment of Interest and investment incomes	\$625	4,325
<b>Total cash available for Expense</b>		<b>\$33,300</b>
<b>Expenses (Spent within Cash Available)</b>		
Household		
Mortgage payment	\$12,920	
Management fee & rates	\$1,113	
Appliances, furniture & maintenance	\$1,000	
Total household expenses		\$15,033
Utilities		\$1,270
Transportation		
Car ( <i>suggested change 1</i> )	0	
Public transportation expense ( <i>suggested change 1</i> )	\$1,500	
Total travel / transportation expenses		\$1,500
Food		
Groceries ( <i>suggested change 2</i> )	\$3,200	
Eating Out ( <i>suggested change 2</i> )	\$1,000	
Total food expenses		\$4,200
Clothing & personal care ( <i>suggested change 3</i> )		\$1,500
Children education		\$3,500
Recreation & entertainment ( <i>suggested change 4</i> )		\$2,000
Insurance payment		\$1,800
Salaries tax		\$1,000
Sundry expenses		\$1,000
<b>Total Expenses</b>		<b>\$32,803</b>
<b>**Surplus / Deficit</b>		<b>\$497</b>

Remarks:

\* A good budget should include savings which is at least 10% of the total salary.

\*\* The surplus could be spent on the family's unmet wants or added on to savings.



# BAFS Compulsory Part Basics of Personal Financial Management

## Topic C10: Personal Financial Management - Principles and Techniques to Prepare Personal Budgets

Technology Education Section  
Curriculum Development Institute  
Education Bureau, HKSARG  
April 2009



### Introduction

This session aims to provide students with fundamental knowledge to prepare personal budgets. Students will learn different types of expenses, the difference between needs & wants, and the applications of such knowledge when formulating personal budgets. Through case study, students will learn the techniques of preparing personal budgets.

### Duration

Two 40-minute lessons

### Contents

Lesson 1 – Personal Spending  
Lesson 2 – Preparing a Personal Budget

## Tell us about...

- Your recent consumption?
- How much was it/were they?



Topic C10: Principles and Techniques  
to Prepare Personal Budgets

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BAFS Compulsory Part  
Learning and Teaching Example

### Lesson 1

Ask students to list all incomes and expenses every week/month.

Ask students to tell the class about their recent consumption. Ask them what they have bought and how much they have spent on the item(s).

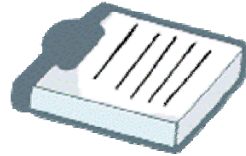
Record the items together with the prices (to be used in slide 4).

Students may have answers as follows:

- Bought a new pair of shoes for \$500;
- Bought a new mobile phone for \$2,100;
- Paid tutorial fee of \$1,000;
- Bought a \$250 concert ticket;
- Bought a new T-shirt for \$200;
- Bought a birthday present worth \$100;
- Bought a comic book for \$25, etc.

## Analyse Your Expenses

- Three categories of expenses:
  - Fixed expenses
  - Variable expenses
  - Discretionary expenses



Explain to the class that we may classify our spending into three different categories. Ask students if they know the differences among them.

Detailed explanation will be provided in the following slides.

## Fixed Expenses

- **FIXED EXPENSES** are expenses that
  - are paid on a regular basis (i.e. monthly, quarterly or yearly);
  - do not change or change only very slightly from period to period; and
  - are not directly related to the consumption amount of a product or service.
- Examples of fixed expenses include rent, mortgage payment, tutorial fees, etc.

Explain what fixed expenses are and ask them to identify the fix expenses from this list and ask them to provide more examples, if possible.

Other examples are:

- Management fee
- Rates and Government rent
- Loan payments
- Insurance payments
- Hire purchase
- Club membership due

## Variable Expenses

- **VARIABLE EXPENSES** are expenses that
  - change according to how much a product or service is consumed; and
  - usually vary from period to period.
- Examples of variable expenses include food, clothing, electricity, water, etc.



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BAFS Compulsory Part  
Learning and Teaching Example

Explain what variable expenses are. Variable expenses can be reduced by less consumption. For example, turning off air-conditioning can reduce the consumption of electricity

Ask students to identify variable expenses from this list. Ask them to provide more examples, if possible.

Other examples are:

- Transportation expense
- Medical expense
- Stationery

## Discretionary Expenses

- **DISCRETIONARY EXPENSES** are expenses for the consumption of goods or services that are not essential to living
- Examples of discretionary expenses include entertainment, vacation packages etc.
- Note: the purchase of basic clothing is a variable expense, but the purchase of brand-named clothing is a discretionary expense.



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BAFS Compulsory Part  
Learning and Teaching Example

Explain what discretionary expenses are. Discretionary expenses are money spent on things that are not essential to living. One can still survive without the consumption of such goods or services.

Ask students to identify discretionary expenses from this list. Ask students to provide more examples, if possible.

Other examples are:

- Eating out
- Going to concert or movie
- Hair highlight
- Buying expensive school bag

## Tell us ...

- If the money in your pocket is now cut by half, will it change your spending habit? If so, how?



Ask students to think about the question, which aims at leading students to differentiating needs from wants.

Invite volunteers to tell the class how they would change their consumption and what they would buy less of.

Write down students' answers on the board.

## Needs and Wants

- **“NEEDS”** are things that are necessary for living, e.g. needs for food, clothing, shelter.
- **“WANTS”** are things that are not necessary but we desire or wish to have, e.g. entertainment, video games.
- A pair of sport shoes for PE class is a need but a pair of \$2,000 brand-named running shoes is a want.

Explain the concepts of “needs” and “wants”.

Use students' answers to illustrate the differences between needs and wants.

## Activity 1: Needs and Wants



- Write down spending experiences that involves “needs” and “wants” in relation to clothing, food, housing, transportation, and others.

### Activity 1 :

Ask students to write down their spending experience on Student Worksheet p.1.

The goal of this exercise is to enhance students' understanding on the differences between needs and wants.

Refer to Topic Overview p.5 for the suggested examples.

## Activity 2: Group Discussion

- Form groups of four or five students
- Discuss “the effective ways to help us spend sensibly!”



### Activity 2 :

Ask students to form groups of four to five and discuss among themselves “the effective ways to help us spend sensibly!”.

Students should write down their suggestions on Student Worksheet p.2. Then, invite students to present their suggestions.

Some suggestions:

- Develop the right attitude towards money and spending;
- Set up specific financial goals and make a spending plan to achieve the goal;
- Keep record of your spending and review your spending habits regularly;
- Recognise your needs and your wants;
- Set aside a sum of money for unplanned consumptions;
- Set a cooling-off period (one or two weeks) between your unplanned purchases;
- Reduce window shopping; and
- Pay with cash instead of credit card, charge card, installment plan or loan.

## Preparation for the Next Lesson



- Keep a record of all your incomes and expenses for the coming week.
- Try to identify any special spending pattern.



Conclude Lesson 1 by reviewing the key points.

To prepare for the next lesson, ask students to keep a record of all their incomes and expenses for the following week. Students should note if there is/ are any special purchase(s) (e.g. unplanned purchases) this week.

For example, students may discover:

- they have spent money on something not needed;
- they tend to spend more at the beginning of the week/month etc;
- spending on small items such as comic books, magazines, stationeries, drinks and snacks can add up to a large amount; and
- they may not have realised their spending habits before this exercise.

### End of Lesson 1

## Experience Sharing



- What have you noticed about your buying habits last week?
  - Was it difficult to keep track of your spending?
  - Did you see any special spending patterns?
  - Did recording your spending change your spending pattern?



### Lesson 2

Start the lesson by asking students to tell the class their observations and experience in recording their incomes and expenses for the past week.

Teacher may ask similar questions as follows:

- Did you lose track of your expenses and why?
- Did you notice any special spending habits or patterns?
- Did recording your incomes and expenses somehow change your spending behaviour?
- Is there any tool to help us better track our spending?
- What have you learned from this exercise?

Teacher should draw students' attention to the following points:

- The first step to manage personal finances is tracking (both incomes and expenses);
- Knowing one's spending habit and patterns helps to develop sensible spending behaviour;
- It takes a lot of effort to record one's incomes and expenses. But it is essential to keep us from overspending.
- Try effective ways to record one's incomes and spending.

This leads to the following discussion of preparing a personal budget.



## Personal Budget



- **WHAT** is a personal budget?
  - A tool to help you achieve your financial goals.
- **WHY** do I need a personal budget?
  - Helps to keep track of your incomes and expenses.
  - Gives you details & control of your financial situation.

Explain what a personal budget is and the importance of preparing a personal budget.

Emphasise that personal budget it is a very useful tool for people to control their financial situation in order to achieve their financial goals.

Ask the class if anyone has a short term goal which they do not have enough money to achieve at the moment and ask them how they would come up with the money.

Explain that they could use a personal budget track sheet as a tool to achieve their goals.

## How to Prepare a Personal Budget?



- **RECORD** all your incomes and expenses
- **ANALYSE** your incomes and expenses
  - Analyse different types of your expenses
  - Differentiate “needs” from “wants”
  - Do you have a surplus or deficit?
- **FORMULATE** your personal budget

Describe the process of preparing a personal budget which involves recording incomes and expenses, analysing income and expenses to identify any financial problems and then formulating the budget.

## Tracking Incomes and Expenses



- Keep your income & expense records for at least one month.
- Incomes
  - Regular incomes
    - e.g. salaries, profits, etc.
  - Non-regular incomes
    - e.g. investment incomes, gifts, bonuses, salary of part-time job, etc.



Enhance students' understanding by further explaining different types of expenses for a typical family. Relate the discussion to students' daily life experience.

## Tracking Incomes and Expenses



- Expenses
  - Housing related
    - Rent, mortgage payment, management fee, rates, expenses spent on decoration, home improvement, furniture, electrical appliances, maintenance, etc.
    - Salary of domestic helper
  - Utilities
    - Fees for water, electricity, gas, telephone, internet, cable TV, etc.

Explain to the class that the largest portion of our spending is related to housing.

As revision, ask students to differentiate which of the above expenses are fixed, variable and discretionary expenses.

Suggested answers:

### Housing related

- Rent, mortgage payment, management fee, rates and salary of domestic helper are fixed expenses;
- Expenses spent on decorations, home improvement projects, furniture and electrical appliances are discretionary expenses; and
- Expenses spent on maintenance is variable expense.

### Utilities

- Payments for water, electricity and gas are variable expenses; and
- Payments for telephone, internet and cable TV are fixed expenses. (Fee for cable TV could also be discretionary expense)

## Tracking Incomes and Expenses



### ● Expenses

- Food
  - Groceries
  - Eating out
- Transportation expenses
  - Expenses related to owning a car (parking fees, license fees, car insurance, cleaning expense, cost of petroleum, maintenance expense)
  - Fares for public transportation



Other expenses include the money spent on food and transportation.

Ask students to differentiate which of the above expenses are fixed, variable and discretionary expenses.

Suggested answers:

#### Food

- Groceries are variable expenses; and
- Eating out is discretionary expense.

#### Transportation

- Parking fees, license fees and car insurance are fixed expenses;
- Cleaning expense, cost of petroleum and maintenance expense are variable expenses;
- All expenses related to owning a car could also be discretionary expenses; and
- Fares for public transportation are variable expense.

## Tracking Incomes and Expenses



### ● Expenses

- Clothing and personal care products & services
- Family Support
  - Support for elders
  - Child care and education
- Recreation and entertainment
  - Movies, concerts, toys, games
  - Travelling or taking pleasure trips
  - Club memberships

There are also expenses on clothing and personal care. Some people may have to support the living of their parents, grandparents and children. Another type of expense is related to recreation and entertainment such as going to movie or concert, buying toys and games, having a pleasure trip and joining a club.

## Tracking Incomes and Expenses

- Expenses
  - Insurance payments
  - Government taxes
  - Sundry expenses
  - Others



People who have bought life and/or health insurance policies have to make insurance payments monthly or yearly. Salaries tax is paid on an annual basis. However, it is advisable to record all these expenses monthly on a pro-rata basis so that a portion of the monthly income may be set aside to meet such yearly payments.

## Activity 3: Case Study (Part I) The Wong Family



- Form groups of four to five.
- Read the case of the Wong Family
- Complete the Monthly Income and Expense Statement for them.



### Activity 3 :

Ask students to form groups of four to five to study Part I of the case about the Wong Family.

Instruct students to fill in the Monthly Income and Expense Statement for the Wong Family on Student Worksheet p.6. The suggested answer is shown on the next slide.

Incomes		
Salaries		\$37,000
Interest and investment incomes		\$625
<b>Total incomes</b>		<b>\$37,625</b>
Expenses		
Household		
Mortgage payment (item 1)	\$12,920	
Management fee & rates (item 2)	\$1,113	
Appliances, furniture & maintenance (item 3)	\$1,000	
Total household expenses		\$15,033
Utilities (item 4)		\$1,270
Transportation		
Car (item 5)	\$4,630	
Public transportation expense (item 6)	\$1,000	
Total travel / transportation expenses		\$5,630
Food		
Groceries (item 7)	\$3,000	
Eating Out (item 8)	\$1,500	
Total food expenses		\$4,500
Clothing & personal care (item 9)		\$2,000
Children education (item 10)		\$3,500
Recreation & entertainment (item 11)		\$3,000
Insurance payment (item 12)		\$1,800
Salaries tax (item 13)		\$1,000
Sundry expenses (item 14)		\$1,000
<b>Total Expenses</b>		<b>\$38,733</b>
<b>Surplus / Deficit</b>		<b>\$1,108</b>

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The suggested answer of the activity is also found in Topic Overview p.7.

Students should be able to identify the financial problem in the Wong family, i.e. expenses exceed incomes. In other words, they have a financial deficit.

## Formulate Your Personal Budget

### What makes a **GOOD BUDGET**?

1. With accurate income projections
2. Categories fit personal situation and spending patterns
3. Provides enough information but not excessive details
4. Includes quarterly, annual expenses on a pro-rata basis

Follow up the case of Wong's Family and explain to the class that Wong's Family should prepare a budget.

Explain to the class what makes a good budget:

1. Projection of income should be accurate, realistic and better conservative;
2. Only include categories relevant to the personal financial situation and spending patterns;
3. Don't over-simplify a budget nor include excessive details;
4. Quarterly expenses, such as government rates, and yearly expenses, such as salaries tax, should be included in the monthly budget on a pro-rata basis.

## What makes a good budget? (cont'd)



5. Enables you to identify spending patterns and habits
6. Includes contribution to savings and investment
7. Is realistic and achievable
8. Provides motivation and enhances positive attitude

Continue the discussion on what makes a good budget:

5. There must be enough information for the identification of spending patterns and habits, e.g. separate public transportation expense from expenses on taxi;
6. A good budget should include contribution to savings or investment;
7. A budget must be realistic and achievable, the spending must match one's life style; and
8. A good budget could motivate and enhance a person's positive attitude to achieve his/her financial goals.

## Formulate Your Personal Budget



- Savings first
  - Set aside the sum of money you need to achieve your financial goals, which should include a reasonable amount of 'savings'
- Spend less than 'Cash available'
  - Live within one's means
  - The goal is to balance incomes and expenses
- Consider 'Want' only when there is surplus
- What can be done when there is a deficit?

Highlight the principles of preparing a budget which include:

1. Put aside the money you want to save first (suggested to be at least 10% of salary), before planning your expenses.
2. Discussion can be held for the saving interest. Ask them if the saving interest should be reinvested under the present financial situation of Mr Wong (i.e. revision on compound interest).
3. To spend less than the 'Cash available', i.e. always live within one's means. Ask students what can be done if there is a budget deficit. The natural answer is either to increase incomes or to cut expenses. Then review the concepts of fixed, variable and discretionary expenses as well as needs and wants. Point out that discretionary expenses, variable expenses and the 'want' items are the expenses which can be reduced.
4. When surplus exists as total expense is controlled within the amount of cash available, it is time to think about 'wants'. Except expenses for basic necessities, we need to allow ourselves to have some reward when we have achievement or improvement in our life. 'Needs' can be in financial or psychological forms. Hence, under a reasonable financial condition, we are undoubtedly obliged to be rewarded with our 'wants'.
5. If deficit exists no matter how need and want items are cut, teachers are suggested to facilitate students' discussion towards a positive attitude on the limitation of different fragments of life. Even when situation is allowed, teachers can further investigate the interpersonal support in adversity as well as the social welfare system in Hong Kong.

## Activity 4: Case Study (Part II) The Wong Family



In your group, help the Wong Family prepare a realistic and achievable balanced budget.



### Activity 4 :

Students should remain in their groups.

Ask students to work out a balanced budget for the Wong Family, and write down their suggestions in their Student Worksheet pp.7-8.

Remind students that their proposed budget should be realistic and achievable.

*[Hint: needs to cut down on their discretionary & want items (i.e. car)]*

Invite some volunteers to present their proposals.

Compare students' answers and give comments accordingly.

Suggested answers are shown on the following slides (or Topic Overview p.8).

Suggested expense reductions and justifications:

Suggested changes	Justification
1. Mr. Wong may sell his car. (Net saving \$4,130.)	Mr. Wong is a weekend-driver, his car is not a necessity, Wong's family could save \$2,630 and the proceeds from selling the car could be added to their savings right away. But it must be noted that after selling the car, their public transportation expense will increase, say, by \$500.
2. Cut spending on eating out. (Net saving \$300.)	The Wong's family may reduce the times of eating out which could be substituted by cooking at home and packing lunches. They can also eat healthier at home. However, it is assumed that their groceries expense will increase slightly by \$200.
3. Reduce clothing and personal care expenses by \$500 a month.	Expensive clothes and personal care items are not totally necessary.
4. Cut spending on recreation & entertainment by \$1,000 a month	They should try to develop some new hobbies which are equally enjoyable but cost less. Or they should consider going for shorter or less expensive pleasure trips. If Mr. and Mrs. Wong want to have a better retirement life, they have to give up some of their current consumption.
<b>Total reduction in expenses</b>	<b>\$5,930</b>



Other reasonable suggestions with justification are also acceptable.

When the situation of the class is allowed, teachers can further investigate the following with students:

- The proportion of repayment of mortgage loan to the salary earned (i.e. revision on consumer credit)
- The functions and types of insurance, e.g. Life insurance and Medical insurance

Incomes	
Salaries	\$37,000
Interest and investment incomes	\$625
<b>Total incomes</b>	<b>\$37,625</b>
*Savings and/or Investment	
10% of Salaries (at least)	\$3,700
Reinvestment of Interest and investment incomes	4,325
<b>Total cash available for Expenses</b>	<b>\$33,300</b>
Expenses (Spent within \$33,300)	
Household	
Mortgage payment	\$12,920
Management fee & rates	\$1,113
Appliances, furniture & maintenance	\$1,000
Total household expenses	\$15,033
Utilities	\$1,270
Transportation	
Car (suggested change 1)	0
Public transportation expense (suggested change 1)	\$1,500
Total travel / transportation expenses	\$1,500
Food	
Groceries (suggested change 2)	\$3,200
Eating Out (suggested change 2)	\$1,000
Total food expenses	\$4,200
Clothing & personal care (suggested change 3)	\$1,500
Children education	\$3,500
Recreation & entertainment (suggested change 4)	\$2,000
Insurance payment	\$1,800
Salaries tax	\$1,000
Sundry expenses	\$1,000
<b>Total Expenses</b>	<b>\$32,803</b>
<b>**Surplus / Deficit</b>	<b>\$497</b>

Topic C10: Principles and Techniques to Prepare Personal Budgets

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BAFS Compulsory Part Learning and Teaching Example



# The End

Topic C10: Principles and Techniques to Prepare Personal Budgets

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BAFS Compulsory Part Learning and Teaching Example

Teacher should remind students of the importance of setting aside a certain amount of money (at least 10% of total salary) as monthly savings in the budget.

Explain to students that the surplus can be spent on the family's unmet wants or added to the target savings.

Conclude this session by reviewing the key points, emphasizing that a personal budget is very important for controlling financial situation. However, it is even more important that one must follow the budget made.

**End of Lesson 2**



**BAFS Compulsory Part - Basics of Personal Financial Management****Topic C10: Personal Financial Management - Principles and Techniques to Prepare Personal Budgets****Activity 1: Needs and Wants**

Write down in the table examples of expenses related to your needs and wants under the categories of clothing, food, housing, transportation and others.

<b>Categories</b>	<b>Needs</b>	<b>Wants</b>
Clothing	1. 2. 3.	1. 2. 3.
Food	1. 2. 3.	1. 2. 3.
Housing	1. 2. 3.	1. 2. 3.
Transportation	1. 2. 3.	1. 2. 3.
Others	1. 2. 3.	1. 2. 3.



## Activity 2: Group Discussion

Topic: The effective ways to help us spend sensibly

Form groups of four to five and discuss among yourselves practical ways to spend money sensibly and rationally. Present your suggestions in class.

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_
5. \_\_\_\_\_
6. \_\_\_\_\_
7. \_\_\_\_\_
8. \_\_\_\_\_
9. \_\_\_\_\_
10. \_\_\_\_\_

### Activity 3: Case Study (Part I)

Form a group of four to five. Read the following case carefully and complete the Income and Expense Statement for the Wong Family.

#### Incomes and Expenses of the Wong Family (Part I)

##### Background

**Mr. Wong**, 45 years old; Assistant Manager of a garment factory, monthly salary = \$20,000



**Mrs. Wong**, 42 years old, employee of non-governmental organisation (NGO), monthly salary = \$17,000



Jane, daughter of Mr. & Mrs. Wong, 16 years old, attending secondary school

Paul, son of Mr. & Mrs. Wong, 12 years old, attending primary school










Recently, frequent reports about personal financial planning in the media have caught Mr. Wong's attention. He realises his family needs to have a comprehensive financial plan to help keep him on track with his financial objectives








Before preparing his family's budget, Mr. Wong wants to have a good understanding of his financial condition. He has been tracking his family's incomes and expenses for the last month. The following are the details of his family's incomes and expenses.

### Monthly Incomes

Apart from their salaries, Mr. and Mrs. Wong are holding some mutual funds with a current market value of \$200,000, and \$300,000 in their savings accounts which generate about \$625 interest a month.

### Monthly Expenses

Item		Types of expenses	Amount (\$)
1		Mortgage payment	12,920
2		Management fee and rates	1,113
3		Appliances, furniture & maintenance	1,000
4		Utilities: water, electricity, gas, telephone fees	1,270
5		Car expenses	4,630
6		Public transportation fares	1,000
7		Groceries	3,000

Item		Types of expenses	Amount (\$)
8		Eating out	1,500
9		Clothing & personal care	2,000
10		Children education	3,500
11		Recreation & entertainment	3,000
12		Insurance payment	1,800
13		Annual Salaries tax	12,000
14		Sundry expenses	1,000

### The Wong Family's Monthly Income and Expense Statement

Incomes	
Salaries	
Interest and investment incomes	
<b>Total incomes</b>	
Expenses	
Household	
Mortgage payment	
Management fee & rates	
Appliances, furniture & maintenance	
Total household expenses	
Utilities	
Transportation	
Car	
Public transportation expense	
Total travel / transportation expenses	
Food	
Groceries	
Eating Out	
Total food expenses	
Clothing & personal care	
Children education	
Recreation & entertainment	
Insurance payment	
Salaries tax	
Sundry expenses	
<b>Total Expenses</b>	
<b>Surplus / Deficit</b>	

## Activity 4: Case Study (Part II)

After completing the monthly income and expense statement of the Wong Family, you will notice that their expenses exceed the monthly income, and they have to use their savings to cover the deficit.

Read Part II of the case carefully and prepare a budget for the Wong Family.

### **Income and Expenses of the Wong Family (Part II)**

Mr. and Mrs. Wong are planning for their retirement. They know that the Mandatory Provident Fund and pension fund they will receive after their retirement would not be enough for them to live a comfortable life. For this reason, they want to accumulate more assets.

The first thing Mr. Wong needs to do is to balance his family's budget.



Suggest how Mr. and Mrs. Wong could balance their budget (or even a small surplus). Justify your suggestions.

Prepare a monthly budget for the Wong Family.

**Suggestions:**

<b>Suggested changes</b>	<b>Justification</b>
1.	
2.	
3.	
4.	



**Proposed Monthly Budget for the Wong Family**

<b>Incomes</b>		
Salaries		
Interest and investment incomes		
<b>Total incomes</b>		
<b>Savings and/or Investment</b>		
10% of Salaries (at least)		
Reinvestment of Interest and investment incomes		
<b>Total cash available for Expense</b>		
<b>Expenses (Spent within Cash available)</b>		
<b>Household</b>		
Mortgage payment		
Management fee & rates		
Appliances, furniture & maintenance		
Total household expenses		
<b>Utilities</b>		
<b>Transportation</b>		
Car		
Public transportation expense		
Total travel / transportation expenses		
<b>Food</b>		
Groceries		
Eating Out		
Total food expenses		
Clothing & personal care		
Children education		
Recreation & entertainment		
Insurance payment		
Salaries tax		
Sundry expenses		
<b>Total Expenses</b>		
<b>Surplus / Deficit</b>		