

## Learning Objectives

1. Explain the concept of personal financial planning;
2. Understand the importance of personal financial planning in controlling personal finance;
3. Apply the basic principles and techniques in preparing personal budgets; and
4. Develop a proper attitude towards personal finance.

### Activity 1

## How much money do you spend every week?

Terry has just promoted to S.1. His parents give him \$1200 per month which is supposed to cover all his expenses including lunch and transportation, etc. The pocket money is given to Terry on the first day of each month. Daddy reminded Terry that he should use the money properly and avoid overspending.



*What is overspending?*

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*What do you think Terry should do to avoid overspending? Discuss with your neighbor and write your answer in the space below.*

'To avoid overspending, you should prepare a personal budget to control your future income and expenses,' Daddy added, 'and your total expenses should never exceed the money you have.'



Total money you spend ( ) Total money you have

What is a personal budget?

A personal budget is a plan on your future income and expenses. It is a very useful tool to evaluate your financial situation over time. It can also help you identify your financial problems ( ) once it emerges, so that prompt action could be taken in time to resolve the problem.

How to prepare a personal budget?

The following are the steps of preparing a personal budget. Write 1-4 in the boxes on the left to indicate the order of steps. The first one has been done for you as an example.

Keep track of your actual income and expenses to evaluate your financial situation and see whether there is over or under spending.



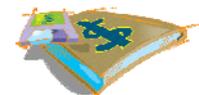

Use your past record as reference to plan your budget, deciding how you are going to allocate your future financial resources to satisfy your needs and achieve your financial goals.




Identify the potential financial irregularity (i.e. over or under spending), work out the reason and solution to the irregularity (e.g. reduce expenses of an item to compensate the amount overspent in another item).




Keep a record your income and expenses over a period of time.



Group Discussion

Form a group of **FOUR** and discuss the following questions. Write your answers in the space provided.

1. How can a personal budget help us achieve our financial goals?



2. What would happen if you do not estimate and keep record of your income and expenses?



Terry thinks that it is easy to work out his personal budget because he has only two major expenses:



1. Taking vans to school and return home. Each trip costs \$5.
2. Having lunch at the fast-food restaurants near the school. Most of them offer student menu at about \$40.

The following is the personal budget prepared by Terry. Fill in the blanks with the given information.

Total money I have per week	Total money I spend per week
Pocket Money \$300	Transportation(____/day X10) _____
	Lunch(____/day X5) _____
Total	Total

If there is no other income or expense, how much can Terry save per week?

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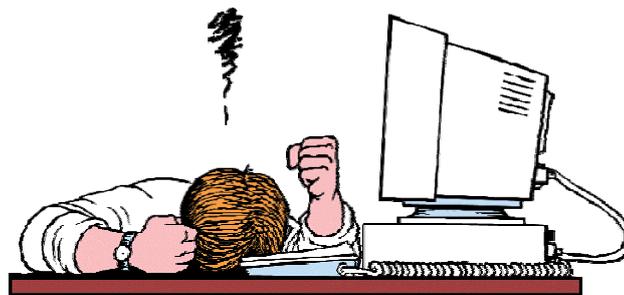
In the first few weeks, Terry seemed to have controlled his spending on transportation and lunch quite well. However, when it came to the end of the third week, he was shocked to notice that he got only \$150 left. Do you know why? Write your answer in the space below.



Terry tried hard to recall his memory. At last he found that he had made a few consumptions which were not projected in his plan. The following are the descriptions of his expenses.

Consumption items	Amount and description of the consumptions
	Buying a birthday present at \$150 to friend.
	Taking taxi to school twice, spending \$50 in total, for waking up late in the morning.
	Hanging out with friends at a weekend, \$250 was spent on transport, food and film ticket.
	Fixing computer at a cost of \$50.

What mistake(s) has Terry made in preparing his financial budget?



Three categories of expenses

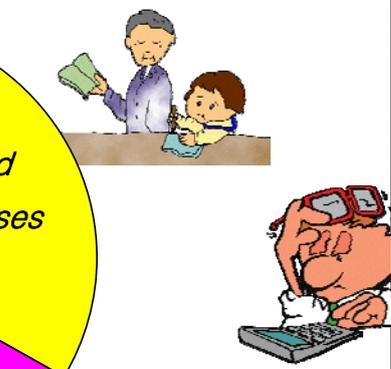
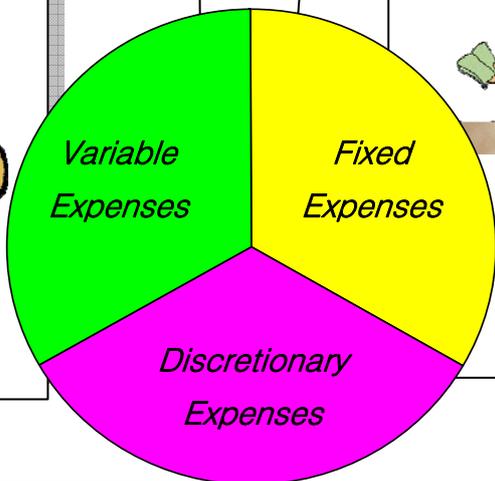
Expenses change according to how much a product or service is consumed.

*Examples:* \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_



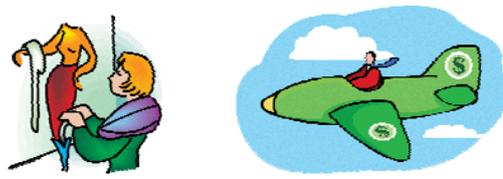
Expenses that are paid on a regular basis (i.e. monthly, quarterly or yearly) and do not change much over time.

*Examples:* \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Expenses on the consumption of goods or services that are not essential to living.

*Examples:* \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_



Notes:

- Both fixed and variable expenses are spent on the goods and services which are essential to living.
- Total expenses should include all the three types of expenses

In Terry's case, can you tell which expense(s) is/ are fixed expense(s), variable expenses and discretionary expense(s)? Write your answer in the following table.

Fixed expenses	Variable expenses	Discretionary expenses



As Terry has over spent in the first few week in a month, leaving him only \$150 for the last week, which is not enough to cover the daily expenses he has planned. Can he cut the expenses on transportation and lunch? Why or why not?

What would you suggest Terry to do in the last week under the following conditions?

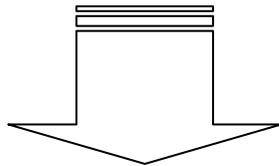
- **Condition 1** -- Taking minibus is the only way for Terry to get to school
- **Condition 2** -- Terry may wake up earlier and walk/ cycle to school



## Wants Vs Needs

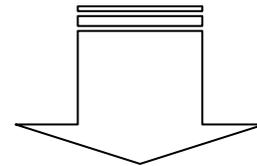
**Needs**

- *Consumptions on things that are essential to living are our 'needs'.*
- Expenses on needs are often **unavoidable**.
- You may reduce the expenses by consuming less if they are variable expenses, e.g. transportation.

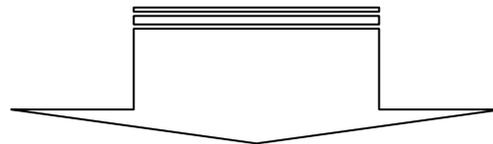


**Wants**

- As for *consumptions on things which are not essential to living, they are our 'wants'.*
- Expenses on wants are often **avoidable** or being cut when money is not sufficient.



Do you remember what expenses you have made so far in this week? Can you classify them as needs and wants properly and write down in the appropriate space below?



When money available is not enough to afford all the things you intend to buy, what should you do?

Activity 2

**Make Your Dream Come True!**



Use the following table as a framework to prepare a monthly personal budget for yourself to analyze your own financial situation.

Task 1

Complete the table below by projecting the cash inflows (money you will receive) and cash outflows (money you will spend) in the coming week.

<i>Cash inflows</i> <i>(money you receive in a week)</i>		<i>Cash outflows/ Expenditure</i> <i>(money used on consumption of good &amp; services in a week)</i>	
e.g. Pocket money			
<b>Total cash inflow</b>		<b>Total cash outflow</b>	

1. After balancing all the cash inflows and outflows, do you see a surplus or deficit? \_\_\_\_\_

✓ If you achieve a surplus, how are you going to use the money?

\_\_\_\_\_

\_\_\_\_\_

X If you achieve a deficit, what should you do to change deficit into surplus?

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

2. Did you set aside some money as savings in your budget? \_\_\_\_\_

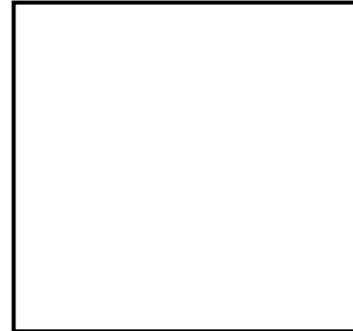
3. Why is it important to reserve some money as savings in our personal budget?

\_\_\_\_\_



## Task 2

Think about an item that you want so much. Draw it in the box of the right and estimate the price of it.



Now revise your budget prepared on P.9 by reserving a certain amount of money for buying the above item. Construct a new personal budget for yourself and complete the table below.

<i>Cash inflows / Income</i> <i>(money you receive per week)</i>		<i>Cash outflows/ Expenditure +savings</i> <i>(money you spend per week)</i>	
<b>Total cash inflow</b>		<b>Total cash outflow</b>	

1. What change(s) have you made in order to include the above new item of cash outflow to your personal budget?

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2. How long do you expect you will have saved enough money to buy the item you want?

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Activity 3

Check the total monthly income and expenditure of your family and prepare a monthly financial budget for your family. You may use the table in [*Appendix A*] to complete the task.

1. What make(s) a good budget?

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2. After balancing all incomes and expenses, do you see any deficit or surplus?

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3. Suggest some ways to improve the financial situation of your family?

I. \_\_\_\_\_

II. \_\_\_\_\_

III. \_\_\_\_\_

IV. \_\_\_\_\_

V. \_\_\_\_\_

4. Form into groups of 4. Each member should spend 5 minutes to report the following: (1) name 5 items of need; (2) name 5 items of want; and (3) suggest which items could be reduced in order to reduce the total expense and increase the total savings or contribution to investments.

## Financial planning at different stages at a life-cycle

At different stages in our life-cycle, we have different needs and goals to achieve and there are also many different financial tools to help us fulfill those needs and goals.

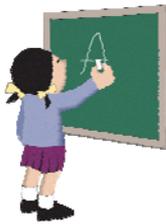
Good **financial planning** is to plan how you are going to allocate your financial resources with the appropriate financial tools so that your needs and goals at different life stages can be achieved. Therefore, it is important to every one of us.

What do you think people in the following life stages need? How are they going to achieve their targets?

Life Stages

Needs & Objectives

Financial plans to achieve the goals



Senior Secondary  
Students

Life Stages

Needs & Objectives

Financial plans to meet the goals



University graduates  
just started working in  
a trading company

Case Study

Form into groups of 4-5. Read the following cases and answer the questions.

Case 1

Kent is a S.6 student, who has just finished the HKDSE in May. His friends are planning to take a 4-day trip to Singapore and asked if he wanted to join them. His parents agreed to sponsor the flight ticket for him. But for all other expenses, he has to pay by himself.



1. State and explain the kind of expense(s) incurred in this case.

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2. What do you think Kent should do to attain his goal to Singapore with friends?

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3. How can personal financial planning help Kent achieve his goal?

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Case 2



James is a Year 1 student in a university in HK, owing 3 credit cards. He often makes payments with the cards but he never knows how much he has spent in a month until he receives the bank statements.

Though he has a part-time job in a retail shop, he could never repay the total outstanding balance of the cards before the due date. Very often, he would only pay the minimum required payment or using overdraft from one card to settle the debt of another card....



1. What is wrong with James' financial management?

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2. How can personal financial planning help James resolve his problem?

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Monthly Budget for \_\_\_\_\_'s Family

<b>Incomes</b>		
Salaries		
Interest and investment incomes		
<b>Total incomes</b>		
<b>Expenses</b>		
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>		

*\*\* The above items are for reference only. You may add or replace the items that suit your family's condition.*