**AWM 11 – UNIT 2 – MANAGING YOUR MONEY**

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| --- | --- | --- | --- |
| **Assignment** | **Title** | **Notes to Self** | **Complete** |
| **1** | ***Financial Institutions*** |  |  |
| **2** | ***Types of Bank Accounts*** |  |  |
| **3** | ***Bank Account Records***  |  |  |
| **4** | ***ATMs and Debit Cards*** |  |  |
| **5** | ***Online Banking*** |  |  |
|  | ***Quiz1*** |  |  |
| **6** | ***Income and Expenses*** |  |  |
| **7** | ***Savings***  |  |  |
| **8** | ***Creating a Budget*** |  |  |
|  | ***Quiz 2*** |  |  |
| **9** | ***Analyzing Budgets*** |  |  |
| **10** | ***More Analyzing Budgets*** |  |  |
| **Practice Test** | **Practice Test** How are you doing? | Ask teacher. |  |
| **Self-Assessment** | **Self-Assessment** | On the next page, complete the self-assessment. |  |
| **Unit Test** | **Unit Test** Show me your stuff! |  |  |

**Self Assessment**

On the following chart, indicate how confident you feel about each statement.

**1 – I need more help 2 – I need more practice 3 – I could teach it !**

Discuss this with your teacher ***before*** you write the test!

|  |  |
| --- | --- |
| **Statement** | ☹ 😐 ☺  |
| After completing this chapter; |
| * I can describe different types of financial institutions and the different banking services offered
 |  |
| * I can describe different types of accounts available
 |  |
| * I can identify the type of account that best meets the needs for a given situation
 |  |
| * I can explain various ATM charges
 |  |
| * I understand and can describe the advantages and disadvantages of online banking and debit card purchases
 |  |
| * I can describe ways to make sure of the security of personal and financial information like a PIN
 |  |
| * I understand the concept of a balanced budget
 |  |
| * I can organize spending and income data and create a personal budget
 |  |
| * I can make changes to an existing budget to balance it
 |  |
| * I can analyze a budget using a circle graph, and adjust it in order to afford future expenses
 |  |

**Vocabulary: Unit 2**

ATM

bank

budget

credit union

debit card

deficit

expenses

fixed expenses

full-service banking

income

investment company

loan company

PIN

recurring expenses

regular income

self-serve banking

surplus

transactions

trust company

unexpected expenses

variable expenses

variable income

**FINANCIAL INSTITUTIONS**

You have probably heard of many different types of financial institutions already, but may not know that there are some differences between them. While some of the differences are small, there are some that are worth understanding.

|  |  |
| --- | --- |
| Financial Institution | Features and Services |
| **banks**e.g. Bank of Montreal, Royal Bank, First Nations Bank of Canada | * government licensed
* publically traded stock on the stock market
* services include

 - chequing and savings accounts - ATM services and online banking - currency exchange - bill payments - safety deposit boxes - investments like RRSPs, GICs, term deposits - loans, mortgages, lines of credit, overdraft protection |
| **credit unions**e.g. Western Union Money Mart, Vancity, North Shore Credit Union | * account holders are members who have a say in the institution’s financial policies; a cooperative
* similar to banks in how they function and the services offered
* many offer a combined savings/chequing account
 |
| **loan companies**e.g. Alpine Credits, Capital Direct Lending Corp. | * provide loans and mortgages
* may offer better interest rates than banks or credit unions
 |
| **investment companies**e.g. Manulife Financial, Assante, Sunlife | * financial planning services
* wealth management: services like choosing an investment, planning for taxes, estate planning
* other investments like RRSPs, GICs, savings accounts
 |
| **trust companies**e.g. HSBC Trust, Royal Trust Corporation of Canada (not Royal Bank!) | * manage and invest assets for an individual, company, estate or trust
* keep records, pay bills, pay out inheritances, distribute assets
 |

**ASSIGNMENT 1 – FINANCIAL INSTITUTIONS**

1) Which of the following services are provided by a bank? Circle you choices.

 loans GICs estate management

 online banking health insurance overdraft protection

2) Simon wants to start an RRSP but does not know much about them. Name all of the financial institutions Simon could ask for information.

3) Which of the financial institutions would you consider for each of the following services? Often more than one answer is needed.

a) take a mortgage

b) investments

c) day-to-day money transactions

d) managing assets

e) borrowing money

4) Anna needs a small loan to help with the costs of her new café. Where might she borrow the money, and what advice would you give her? Give at least two options.

5) What are the names of two financial institutions in the area that you live in? Use the internet to help you if necessary.

**TYPES OF BANK ACCOUNTS**

Banks and credit unions offer different types of accounts so individuals can choose the one that best suits them. If you write a lot of cheques, for example, you may need a different type of account than a person who writes very few cheques.

Banks also charge monthly service fees for their accounts. But when you deposit money at a financial institution, it may pay you interest. The amount of interest depends on the type of account and the amount of money in it. In order to earn interest, some accounts also require a minimum balance is maintained each month.

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Banks offer different ways to access and manage your account. You are probably familiar with them, if not their names.

* **Self-service banking** is banking done over the phone, over the internet (online banking), or through a banking machine called an **ATM** (automated teller machine). Whichever is used, or combination of these, a bank teller is not required.
* **Full-service banking** is banking you do in person at the bank with the help of a teller. Tellers will conduct the same self-service options mentioned above. There are some services that can only be done through full-service banking. These include opening or closing an account, exchanging Canadian money for a foreign currency, or purchasing traveller’s cheques.

Not only do banks charge service fees for having an account, they also may charge every time you use your account. These are called transactions, and they could include deposits, cash withdrawals, bill payments, cheques, money transfers, and using your debit card. Most accounts include a certain number of free transactions with your monthly service fee. There can be an additional cost for each transaction over that number.

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There are many different types of accounts offered by financial institutions. Each one has its own name for the different accounts, but they will all have some form of a chequing account and a savings account.

For this course, the accounts used are described on the next page.

|  |
| --- |
| **NORTHWEST BANK OF CANADA ACCOUNTS** |
|  | **Value Account** | **Self-service Account** | **Full-service Account** | **Savings Account** |
| Monthly Fee | $3.90 | $10.90Students and Youth (under 18) save 50% on the monthly fee | $24.50 | No fee |
| Fee waived on minimum monthly balance amount | $1000.00 | $1500.00 | $2000.00 |  |
| Transactions covered by monthly fee:* cheques
* withdrawals
* bill payments
* direct deposits
* debit purchases
* transfers to another account with Northwest Bank of Canada
 | 10 self-service | 25 self-service | 40 self-service or teller-assistedNo annual fee for credit card | 2 debit transactions |
| Charge for additional transactions not covered by monthly fee | Self-service - $0.50 eachTeller-assisted$1.00 each | Self-service - $0.50 eachTeller-assisted$1.00 each | Self-service - $0.25 each | Self-service or teller-assisted$1.25 each |
| Non-Northwest Bank of Canada ATM withdrawals | $1.50 each | $1.50 each |  |  |
| Interest paid | None | None | None | Daily interest that grows your balance |
| ***Transaction Types****Self-service: Any transaction that does not require a bank teller. This includes withdrawals, deposits, cheques, money transfers, direct payment purchases, and transactions made at an ATM, by telephone, or online.**Teller-assisted: Includes all transactions that require or use a teller, such as in-branch withdrawals, in-branch bill payments, and traveller’s cheque and foreign currency purchases.* |

Deciding on which bank account to choose really depends on your specific needs. It is important to look at this carefully so you do not spend money unnecessarily.

Example 1: Elsie wants to open a new bank account. She makes 2 deposits and 5 cash withdrawals at her ATM each month. She pays 4 bills online and keeps a balance over $1000 each month. Which account would you advise her to use, and what are her fees for each of the different accounts that Northwest Banks of Canada offers?

Solution: Complete the chart below to choose the best account for Elsie.

 NOTE: Because Elsie is not using her new account for saving money, the *Bonus Savings Account* is not included in this chart.

*Monthly Fees*: Elsie maintains a monthly balance of $1000.00 so her monthly fees will be waived (not charged) for the Value Account, but will be charged for the Self-Service and Full-Service Accounts.

*Transaction Charges*: Elsie makes a total of 11 self-service transactions each month. For the Value Account, 10 of these transactions are free and she will have to pay $0.50 for the 11th transaction. All the transactions are free with the Self-Service and Full-Service Accounts.

|  |
| --- |
| **ACCOUNT OPTIONS** |
|  | Monthly fee | Transaction Charges | TOTAL |
| Value Account | $0 | 11 – 10 free = 1 paid1 × $0.50 = $0.50 | $0 + $0.50 = $0.50 |
| Self-service Account | $10.90 | 25 free – 11 = 14 unusedno charges | $10.90 + $0 = $10.90 |
| Full-service Account | $24.50 | 40 free – 11 = 29 unusedno charges  | $24.50 + $0 = $24.50 |

I would advise Elsie to choose the Value Account as it has the lowest fees for her needs.

**ASSIGNMENT 2 – BANK ACCOUNTS**

1) Dana does most of her banking online or at an ATM. She keeps a minimum of $1400 every month in her account and does about 15 transactions. Which is the most suitable account for her needs? Complete the chart below to justify your choice.

|  |
| --- |
| **ACCOUNT OPTIONS** |
|  | Monthly fee | Transaction Charges | TOTAL |
| Value Account |  |  |  |
| Self-service Account |  |  |  |
| Full-service Account |  |  |  |

2) Dennis currently has a Value Account at the Northwest Bank of Canada. He makes 4 direct deposits per month and pays 7 bills online. Last month, he made 11 cash withdrawals from his bank’s ATM and also made 4 debit purchases with his bank card. He keeps at least $1500 a month in his account. Calculate his service charges for each of the accounts, and suggest whether Dennis has chosen the best account for his needs.

|  |
| --- |
| **ACCOUNT OPTIONS** |
|  | Monthly fee | Transaction Charges | TOTAL |
| Value Account |  |  |  |
| Self-service Account |  |  |  |
| Full-service Account |  |  |  |

**BANK ACCOUNT RECORDS**

It is important to keep track of the money in your account whether you use ATMs, online banking, or full-service transactions. To do this, you need to maintain a transaction record. This can be done manually or with a computer software package like Quicken©. We will use the manual record keeping option here.

Example 1: Ajay kept a manual transaction record for the last month for his Value Account.

a) How much will Ajay pay in service charges for this month?

b) What is his final balance at the end of the month?

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| ***Transaction*** | ***Description*** | ***Withdrawal*** | ***Deposit*** | ***Balance*** |
| Balance Forward |  |  |  | $4398.40 |
| ATM | Cash | $100.00 |  |  |
| ATM\* | Cash (other ATM) | $40.00 |  |  |
| Bank card | Lunch | $12.95 |  |  |
| Bank card | Groceries | $174.32 |  |  |
| ATM | Birthday gift |  | $50.00 |  |
| Teller | Phone bill | $62.31 |  |  |
| Auto- withdrawal | Car payment | $275.48 |  |  |
| ATM | Cash | $100.00 |  |  |
| Direct deposit | Paycheque |  | $586.21 |  |
| Auto-withdrawal | Rent | $790.00 |  |  |
| Bank card | Groceries | $58.21 |  |  |
| Bank card | Lunch | $8.59 |  |  |
| Direct deposit | Paycheque |  | $586.21 |  |
| Teller | Gas bill | $107.45 |  |  |

Solution:

a) There are three additional charges this month for Ajay.

1. Ajay used an ATM that was not part of his bank; the charge will be $1.50.
2. Ajay went to a teller twice; the charge will be 2 x $1.00 = $2.00.
3. Ajay made 11 self-serve transactions and his Value Account only gives him 10 free transactions; the charge will be 1 × $0.50 = $0.50.

Ajay’s total service charges are: $1.50 + $2.00 + $0.50 = **$4.00**

b) To calculate Ajay’s final balance, it is necessary to subtract each withdrawal and add each deposit to get the balance for each transaction. Make sure to include the previous service charges for the transactions mentioned in part a) above.

**For this example, the calculations are written in the balance column. You are not required to do this when completing this type of question. Do the calculations on your calculator and just fill in the answer.**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| ***Transaction*** | ***Description*** | ***Withdrawal*** | ***Deposit*** | ***Balance*** |
| Balance Forward |  |  |  | $4398.40 |
| ATM | Cash | $100.00 |  | $4398.40 - $100.00 = $4298.40 |
| ATM\* | Cash (other ATM) | $40.00+ 1.50 service charge |  | $4298.40 - $40.00 - $1.50 = $4256.90 |
| Bank card | Lunch | $12.95 |  | $4256.90 - $12.95 = $4243.95 |
| Bank card | Groceries | $174.32 |  | $4243.95 - $174.32 = $4069.63 |
| ATM | Birthday gift |  | $50.00 | $4069.63 + $50.00 = $4119.63 |
| Teller | Phone bill | $62.31+ $1.00 service charge |  | $4119.63 - $62.31 - $1.00 = $4056.32 |
| Auto- withdrawal | Car payment | $275.48 |  | $4056.32 - $275.48 = $3780.84 |
| ATM | Cash | $100.00 |  | $3780.84 - $100.00 = $3680.84 |
| Direct deposit | Paycheque |  | $586.21 | $3680.84 + $586.21 = $4267.05 |
| Auto-withdrawal | Rent | $790.00 |  | $4267.05 - $790.00 = $3477.05 |
| Bank card | Groceries | $58.21 |  | $3477.05 - $58.21 = $3418.84 |
| Bank card | Lunch | $8.59 |  | $3418.84 - $8.59 = $3410.25 |
| Direct deposit | Paycheque | + $0.50 service charge | $586.21 | $3410.25 + $586.21 - $0.50 = $3995.96 |
| Teller | Gas bill | $107.45 + $1.00 service charge |  | $3995.96 - $107.45 - $1.00 = $3887.51 |

Ajay’s balance for this time period did not drop below $1000. If his balance for entire month does not drop below $1000, he will not be charged the monthly fee of $3.90 for his Value Account.

Ajay’s final balance for this time period is $3887.51.

**ASSIGNMENT 3 – BANK ACCOUNT RECORDS**

1) Moira has a *Full-service Account* at the First Nations Bank of Canada. Complete the transaction record below for her by filling in the Balance column, and calculate Moira’s month-end balance.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| ***Transaction*** | ***Description*** | ***Withdrawal*** | ***Deposit*** | ***Balance*** |
|  |  |  |  | $1798.53 |
| Direct deposit | Paycheque |  | $1432.51 |  |
| ATM | Cash | $200.00 |  |  |
| Bank card | Groceries | $63.95 |  |  |
| Bank card | Clothes | $75.32 |  |  |
| Bank card | Movie | $24.50 |  |  |
| Teller | Hydro bill | $89.56 |  |  |
| Direct deposit | Paycheque |  | $1432.51 |  |
| ATM | Cash | $100.00 |  |  |
| Auto-withdrawal | Loan Payment | $375.86 |  |  |
| Bank card | Groceries | $154.32 |  |  |
| Bank card | Gas | $58.23 |  |  |
| Bank card | Dinner | $25.38 |  |  |
| Auto-withdrawal | Rent | $575.00 |  |  |
| Bank card | Books | $123.45 |  |  |

2) Lucy has a *Value Account*. She makes the following transactions during a one month period. Fill in the transaction record and calculate her balance at the end of the month. Watch for service charges on her transactions! There are many.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| ***Transaction*** | ***Description*** | ***Withdrawal*** | ***Deposit*** | ***Balance*** |
|  |  |  |  | $4986.54 |
| ATM | Cash | $250.00 |  |  |
| Bank card | Dinner | $25.32 |  |  |
| Bank card | Groceries | $145.93 |  |  |
| Direct deposit | Paycheque |  | $524.66 |  |
| Bank card | Movie | $12.98 |  |  |
| ATM | Cash | $100.00 |  |  |
| Bank card | Gas | $48.96 |  |  |
| Teller | Utilities | $123.23 |  |  |
| Auto-withdrawal | Rent | $550.00 |  |  |
| Direct deposit | Paycheque |  | $524.65 |  |
| Bank card | Groceries | $185.24 |  |  |
| ATM | Cash | $100.00 |  |  |
| Teller | Phone | $47.25 |  |  |
| Bank card | Misc. | $12.32 |  |  |
| Bank card | Dinner | $15.88 |  |  |
| ATM | Cash | $200.00 |  |  |
| Bank card | Prescription | $32.54 |  |  |

**![C:\Documents and Settings\Jan Malcolm\Local Settings\Temporary Internet Files\Content.IE5\81VZLR3O\MC900044893[1].wmf]()ATMS AND DEBIT CARDS**

As previously mentioned, many of your banking needs can be done through a banking machine called an **ATM** (automated teller machine). To use an ATM, you will need a bank card – also called a **debit card**.

Debit cards can be used for many different things such as:

* Making withdrawals or deposits or transferring money between your accounts at an ATM at your financial institution
* Paying bills at a branch of your bank or credit union, or through the ATM
* Making purchases at a store, restaurant, or most other places where cash is accepted
* Withdrawing cash at many ATMs worldwide. Remember, there will be extra service charges (fees) if you use an ATM that is not your own bank’s, or is in another country
* Accessing your account by phone or online (more on that later)

To use your debit card, you will have to set up a personal identification number or **PIN**. The PIN is a series of numbers that are linked to your debit card. It allows only you to safely have access to your accounts. It is extremely important ***NOT*** to share your PIN with anyone else. When using a pinpad at a bank or other service, it is also a good practice to cover the pad with your free hand to shield the numbers you are entering in case someone is watching. Financial institutions also recommend that you change your PIN at least once a year, or more often if you think someone saw you enter your code. Most ATMs allow you to change your PIN without having to visit your bank.

There are advantages and disadvantages to using a debit card, like most other choices we make in our lives.

 Advantages include

* ![C:\Documents and Settings\Jan Malcolm\Local Settings\Temporary Internet Files\Content.IE5\1YRFGTOB\MC900440384[1].png]()Debit is more convenient that writing a cheque as all transactions are recorded electronically and it stops forgetful people from writing down a cheque the wrote
* Usually you must also carry ID to write a cheque. This is not the case with a debit card.
* Many places do not take cheques any longer.
* You do not need to carry a lot of cash.
* It is easier to keep track of your spending because once you run out of money in your bank account, you can’t pay for anything with debit!

Disadvantages include:

* There may be fees involved if you use your debit card at an ATM that is not your bank’s ATM.
* You must be very careful with your debit card and your PIN so that they are not lost or stolen.
* There is a daily limit to how much cash you can withdraw from your account using your debit card at an ATM.

**ASSIGNMENT 4 – ATMS AND DEBIT CARDS**

1) Circle the services that you can do with a debit card.

 pay bills buy items on credit borrow money

 earn interest withdraw money buy groceries

 deposit money check balances invest in TFSAs

transfer money between accounts withdraw money when travelling

2) Circle the advantages of using a debit card.

 no interest charges safer than carting cash

 may have fees accepted at most retailers

 easy to carry another number I need to remember

 can be used 24/7 can be lost or stolen

 easy to get at a bank cannot spend more than you have

 has a daily limit on cash withdrawal convenient record keeping

3) Circle the disadvantages of using a debit card.

 no interest charges safer than carting cash

 may have fees accepted at most retailers

 easy to carry another number I need to remember

 can be used 24/7 can be lost or stolen

 easy to get at a bank cannot spend more than you have

 has a daily limit on cash withdrawal convenient record keeping

**ONLINE BANKING**

Online banking is exactly what the name states – it’s doing your banking through the internet. To access your bank account online, you need to have access to your bank’s secure website, you need your debit card number, and you need a secure password. This secure password is always different from the PIN for your debit card. In fact, while your pin can only be numbers, it is recommended that your password is a combination of letters and numbers.

Online banking gives a person 24/7/365 access to an account. The access can be from anywhere in the world where there is a secure Internet connection. To ensure you have a secure connection, check the web address: it should read “https:” rather than just “http:” The “s” shows the site is secure. Both this and your secure password help to reduce the chance of fraud and identity theft online.

Many of the things that can be done with your debit card at an ATM can be done through online banking as well. And with online banking, there are even more things that can be done. Online services include:

* monitoring accounts
* paying bills for companies with online payment access
* paying taxes
* transferring money between accounts
* managing investments
* ordering cheques
* ordering foreign currencies
* applying for loans or credit cards
* reporting a lost or stolen debit card

Despite the many things that can be done with online banking, there are some disadvantages. Some people do not own a computer or do not have internet access. Some people have difficulties using a computer, especially elderly people who never grew up with them. Some people still like to have a face-to-face discussion with a teller so they know that their requests are being carried out properly. And finally, many people are worried about fraud and computer safety and distrust the bank’s websites.

**ASSIGNMENT 5 – ONLINE BANKING**

1) Circle the disadvantages of online banking.

 24/7/365 access unable to deposit or withdraw money

 no waiting in line instant access to accounts

 save time no in-person customer service

 identity theft track account transactions

 accessible from anywhere insecure sites

 difficulties using a computer online banking is expensive

2) Answer true or false to each of the following.

a) You need your debit card number and a password to bank online. \_\_\_\_\_\_\_\_\_

b) It is not safe to use the age or birthday of a family member or part of your address for your password or PIN. \_\_\_\_\_\_\_\_\_

c) You cannot pay bills with online banking. \_\_\_\_\_\_\_\_\_

d) Financial institutions use encryption technology to ensure your information when you bank online. \_\_\_\_\_\_\_\_\_

e) Online banking is safest when you use your home computer. \_\_\_\_\_\_\_\_\_

f) Bills paid online on the weekend are not processed until the next business day. \_\_\_\_\_\_\_\_\_

g) It is important to log out each time you have finished your online banking session. \_\_\_\_\_\_\_\_\_

3) Identity theft is a problem in Canada. List at least 3 things that you personally can do to help protect against identity theft. If needed, do some brief research online to help you.

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**Ask your teacher for quiz 1**

**INCOME AND EXPENSES**

Whether you currently have a job or are looking for one, at some point you will earn your own money and start to pay for things you want or need. Eventually you be living in your own place and have to support yourself with the money you make. This money you earn will be your source of **income**, and the bills you pay will be your **expenses**. A **budget** is a planning tool to help you work with your income and expenses. It is a balanced statement of expected income and expenses.

There are different types of income you will need to consider. Some income is received at set times. This income, **regular income**, includes things like wages, salary, and interest income from certain investments. Other income is called **variable income**. It is income where the amount changes over time and/or it is not received on a regular basis. This includes income like tips, commissions, contract income, piecework, lottery prizes (!) and even gifts of cash like for your birthday.

There are three different types of expenses: fixed expenses, variable expenses, and unexpected expenses. **Fixed expenses** are exactly what the name implies; they are predictable and do not change from month to month in amount or timing. Things like loan payments, rent or a car payment are examples of fixed expenses. **Variable expenses**, such as groceries, gas, eating out, entertainment, or gifts, are costs that change from one month to the next. **Unexpected expenses** are hard to predict and often are things that you must pay for even if you have not budgeted for them. An emergency car repair or vet bill for your cat could be classed as unexpected expenses. One expense not listed is a utility bill. This could either be a fixed or variable expense depending how the account is set up. Many people have chosen a regular monthly payment so when it is cold in the winter, their gas or hydro bill does not cost any more than in the summer when usage is much lower and costs are less. It makes budgeting mush easier!

Many of these expenses could be classed as **recurring expenses** in that they happen over and over. Sometimes they are fixed expenses but other times they are variable expenses.

**ASSIGNMENT 6 – INCOME AND EXPENSES**

1) Classify the following types of income as regular or variable, and explain your reason.

|  |  |  |
| --- | --- | --- |
| ***Item*** | ***Classification*** | ***Reason*** |
| Monthly paycheque |  |  |
| Tax refund |  |  |
| Tips |  |  |
| Christmas money |  |  |
| Babysitting earnings |  |  |
| Investment interest |  |  |

2) Classify the following expenses as fixed, variable, or unexpected and explain your reason. For any that are recurring, add that too.

|  |  |  |
| --- | --- | --- |
| ***Item*** | ***Classification*** | ***Reason*** |
| Rent |  |  |
| New coat |  |  |
| Loan payment |  |  |
| Groceries |  |  |
| Car repairs |  |  |
| Restaurant meals |  |  |
| Replace iPod |  |  |
| Vehicle insurance |  |  |
| Gym membership |  |  |

3) Barb has the following income and expenses for the month of July. Identify which are income and which are expenses.

|  |  |
| --- | --- |
| Paycheque | $375.00 |
| Gas for car | $67.95 |
| Car loan payment | $195.00 |
| New jeans | $85.00 |
| Restaurant meal | $27.49 |
| Babysitting Money | $75.00 |
| Paycheque | $375.00 |
| Cell phone bill | $52.46 |
| Room and Board | $200.00 |
| Birthday present for Mom | $65.00 |
| Charitable donation | $25.00 |
| Car insurance | $98.76 |

|  |
| --- |
| **Barb’s Monthly Income and Expenses** |
| *Income* | *Expenses* |
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**SAVINGS**

So far, we have not looked at how the income and expenses match each other within a month. Many people want to save some money for a rainy day, or for a special purchase. To do this, you must set aside a certain amount of your income as savings each month in order to reach your goal.

|  |  |
| --- | --- |
| Rent | $775.00 |
| Utilities | $175.00 |
| Car Insurance | $123.00 |
| Car Loan  | $342.00 |
| Cell Phone  | $42.00 |
| Groceries | $225.00 |
| Gas | $90.00 |
| Entertainment | $75.00 |
| Miscellaneous | $50.00 |

Example 1: Jenny wants to save for a summer holiday in July. She has carefully itemized her expenses in the table on the right. Her monthly income is $2275.00. How much can Jenny save this month?

Solution: Add up Jenny’s expenses and subtract this amount from her income. The extra is her savings.

 Jenny’s expenses are:

$775 + $175 + $123 + $342 + $42 + $225 + $90 + $75 + $50 = $1897

 Jenny’s savings = $2275 - $1897 = $378

Example 2: Keenan’s budgeted income and expenses are shown below. He wants to buy a new car in 12 months. Assuming Keenan saves any extra income that her has, how much money will he have for that new car in a year?

|  |  |
| --- | --- |
| *Income* | *Expenses* |
| Paycheque (semi-monthly) | $675.00 | Rent | $525.00 |
| Tutoring | $310.00 | Utilities | $150.00 |
| Paycheque (semi-monthly) | $675.00 | Car Insurance | $123.00 |
|  |  | Gas | $75.00 |
|  |  | Groceries | $185.00 |
|  |  | Cell phone | $50.00 |
|  |  | Entertainment | $50.00 |
|  |  | Gym membership | $25.00 |
|  |  | Miscellaneous | $30.00 |

Solution: Add up Keenan’s expenses and subtract this amount from his income. The extra is his savings. Multiply this amount by 12 months.

 Keenan’s income is: $675 + $310 + 675 = $1660

 Keenan’s expenses are:

$525 + $150 + $123 + $75 + $185 + $50 + $50 + $25 + $30 = $1213

 Keenan’s monthly savings = $1660 - $1213 = $447

 Keenan’s yearly savings are: $447 × 12 = $**5364.00**

**ASSIGNMENT 7 - SAVINGS**

1) Terry has made a list of her expenses and income for a month. She has an unexpected vet bill for her dog that costs $267.45. Does she have enough income to cover this bill?

|  |  |
| --- | --- |
| *Income* | *Expenses* |
| Paycheque (week 1) | $450.00 | Rent | $750.00 |
| Paycheque (week 2) | $450.00 | Groceries | $235.00 |
| Paycheque (week 3) | $450.00 | Renter’s insurance | $82.00 |
| Paycheque (week 4) | $450.00 | Clothing  | $75.00 |
|  |  | Entertainment | $85.00 |
|  |  | Utilities | $105.00 |
|  |  | Transportation | $250.00 |
| Total Income |  | Total Expenses |  |

2) JD has made the following list of his income and expenses for one month.

|  |  |
| --- | --- |
| *Income* | *Expenses* |
| Paycheque (semi-monthly) | $425.00 | Rent | $425.00 |
| Tips | $180.00 | Loan payment | $90.00 |
| Yard and house work | $145.00 | Transportation | $175.00 |
| Tutoring | $125.00 | Clothing | $75.00 |
| Paycheque (semi-monthly) | $425.00 | Groceries | $185.00 |
|  |  | Cell phone | $35.00 |
|  |  | Entertainment | $55.00 |
|  |  | Miscellaneous | $25.00 |
| Total Income |  | Total Expenses |  |

a) How much will JD be able to save each month?

b) After 6 months, JD wants to buy a big screen TV that costs $1200. Will he have enough money saved to do this?

3) Gavin has the following monthly income and expenses. Any extra income is put into his savings.

|  |  |
| --- | --- |
| *Income* | *Expenses* |
| Paycheque (semi-monthly) | $1167.48 | Rent | $725.00 |
| Paycheque (semi-monthly) | $1167.48 | Utilities | $150.00 |
|  |  | Loan payment | $155.00 |
|  |  | Renter’s insurance | $35.00 |
|  |  | Groceries | $285.00 |
|  |  | Transportation | $235.00 |
|  |  | Entertainment | $100.00 |
|  |  | Clothing | $100.00 |
|  |  | Charitable donation | $50.00 |
|  |  | Miscellaneous | $50.00 |
| TOTAL |  | TOTAL |  |

After 4 months, Gavin wants to buy a new bike that costs $1600. Will he have enough saved to pay cash?

4) Sylvia regularly saves $150.00 per month since she began working 10 months ago. She is planning a trip in 8 months that will cost her $2900. How much more than $150.00 must she save for each of the remaining 8 months so that she will have enough money for her trip?

**CREATING A BUDGET**

So far in this unit, we have looked at classifying expenses and income. Now it is time to figure out what to do with the expenses and income in order to create a budget. Remember that a **budget** is a balanced statement of expected income and expenses.

In order to create a personal budget that is accurate, you need to have a valid idea of your total income and expenses. It is necessary to keep track of these for a few months in order to estimate what you will spend and in the future. Looking at your financial transactions on a bank statement or online is a good way to do this. Saving receipts can also help you track your spending.

Because a budget is just a plan for the future, it is truly just an estimate because you cannot know exactly what your expenses will be in the future – remember those unexpected expenses that come up? *It is a good idea to* ***underestimate*** *your income and* ***overestimate*** *your expenses to make sure that you can cover your bills.*

If your income is greater than your expenses in a given month, you have a **surplus**. If this is the case, in your budget, classify the extra money as “Savings” or something else that is reasonable. Budgets always balance so there cannot be “money leftover!”

On the other hand, if your expenses are more than your income, you have a **deficit**. If this happens, you need to adjust your spending to reduce your expenses in some area so your budget will balance. If you have savings, you could also transfer some money into your budget as income from your savings to balance your budget, but his is a last resort for unexpected, irregular expenses.

When preparing your budget, first break down your expenses into categories that can include several transactions. Examples are like the ones you have previously worked with: food/groceries, transportation, entertainment, clothes, utilities, etc. Other categories may only have one transaction, like rent or loan payment, but are necessary to include.

Once you have your expense categories, find the monthly average for all the variable expenses. Fixed expenses will remain the same every month and are easier to identify. Once the monthly averages are found, bump these up to a round number (one with zeros) so you are overestimating what you might spend. This gives a little bit of extra budget room in case your expenses are a bit higher than predicted.

The same process should be done with any variable income.

Example 1: Alisha wants to set up a budget and has kept track of her expenses for the last 4 months. Using the information in the chart below, calculate Alisha’s average monthly expenses for each category.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| ***Item*** | ***March*** | ***April*** | ***May*** | ***June*** | ***July*** |
| Rent | $525.00 | $525.00 | $525.00 | $525.00 | $525.00 |
| Utilities | $150.00 | $125.00 | $155.00 | $150.00 | $175.00 |
| Cell phone | $42.50 | $42.50 | $42.50 | $42.50 | $42.50 |
| Groceries | $265.00 | $290.00 | $195.00 | $220.00 | $200.00 |
| Car payment | $155.00 | $155.00 | $155.00 | $155.00 | $155.00 |
| Gas | $85.00 | $130.00 | $105.00 | $105.00 | $165.00 |
| Car insurance | $125.00 | $125.00 | $125.00 | $125.00 | $125.00 |
| Renter’s insurance | $89.00 | $89.00 | $89.00 | $89.00 | $89.00 |
| Clothing | $225.00 | $0.00 | $58.00 | $167.00 | $115.00 |
| Entertainment | $85.00 | $55.00 | $250.00 | $105.00 | $275.00 |
| Miscellaneous | $45.00 | $77.00 | $39.00 | $105.00 | $50.00 |

Solution: For each variable expense category, calculate the average by adding up the amounts and dividing by 5 months.

Fixed expenses are Rent, Cell phone, Car payment, Car insurance, and Renter’s insurance. These have values that do not change each month.

Variable expenses are as follows:

Utilities: $150.00 + $125.00 + $155.00 + $150.00 + $175.00= $755.00 ÷ 5 = **$151.00**

Groceries: $265.00 + $290.00 + $195.00 + $220.00 + $200.00 = 1170.00 ÷ 5 = **$234.00**

Gas: $85.00 + $130.00 + $105.00 + $105.00 + $165.00 = 590.00 ÷ 5 = **$118.00**

Clothing: $225.00 + $0.00 + $58.00 + $167.00 + $115.00 = 565.00 ÷ 5 = **$113.00**

Entertainment: $85.00 + $55.00 + $250.00 + $105.00 + $275.00 = 770.00 ÷ 5 = **$154.00**

Miscellaneous: $45.00 + $77.00 + $39.00 + $105.00 + $50.00 = 316.00 ÷ 5 = **$63.20**

Example 2: Based on Alisha’s average monthly expenses, calculated in the example on the preceding page, and her salary of $2067.45 per month, create a realistic budget for Alisha.

Solution: To create a realistic budget for Alisha, ***overestimate her variable expenses and underestimate her salary*.** Fixed expenses remain the same.

Fixed expenses are as follows:

Rent: **$525.00**

Cell phone: **$42.50**

Car payment: **$155.00**

Car insurance: $125.00

Renter’s insurance: $89.00

Variable expenses are as follows:

Utilities: **$151.00**

Groceries: **$234.00**

Gas: **$118.00**

Clothing: **$113.00**

Entertainment: **$154.00**

Miscellaneous: **$63.20**

Complete a chart as shown to **overestimate expenses** and **underestimate salary**, and calculate Alisha’s total income and expenses.

|  |
| --- |
| *Alisha’s Monthly Budget* |
| *Income* | *Expenses* |
| Paycheque (semi-monthly) | $2000.00 | Rent | $525.00 |
|  |  | Utilities | $155.00 |
|  |  | Cell phone | $42.50 |
|  |  | Groceries | $250.00 |
|  |  | Car payment | $155.00 |
|  |  | Gas | $125.00 |
|  |  | Car insurance | $125.00 |
|  |  | Renter’s insurance | $89.00 |
|  |  | Clothing | $120.00 |
|  |  | Entertainment | $175.00 |
|  |  | Miscellaneous | $75.00 |
| *Total income* | *$2000.00* | *Total expenses* | *$1836.50* |

Because Alisha’s income is greater than her expenses, she has a surplus in her budget.

 Surplus = $2000 - $1836.50 = $163.50

Alisha can put this money in her savings.

**ASSIGNMENT 8 – CREATING A BUDGET**

1) Tara and Donny want to create a budget to help control their spending. They have kept track of their expenses for the last 4 months as shown below.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| ***Item*** | ***March*** | ***April*** | ***May*** | ***June*** |
| Mortgage | $1550.00 | $1550.00 | $1550.00 | $1550.00 |
| Utilities | $175.00 | $175.00 | $175.00 | $175.00 |
| Cell phone | $95.00 | $95.00 | $95.00 | $95.00 |
| Groceries | $365.00 | $290.00 | $325.00 | $450.00 |
| Gas | $150.00 | $200.00 | $165.00 | $175.00 |
| Car insurance | $135.00 | $135.00 | $135.00 | $135.00 |
| Car payment | $355.00 | $355.00 | $355.00 | $355.00 |
| Home insurance | $133.00 | $133.00 | $133.00 | $133.00 |
| Restaurant meals | $145.00 | $65.00 | $80.00 | $120.00 |
| Holiday saving | $85.00 | $55.00 | $150.00 | $105.00 |
| Clothing | $425.00 | $375.00 | $0.00 | $90.00 |
| Entertainment | $100.00 | $150.00 | $75.00 | $125.00 |
| Veterinarian bills | $75.00 | $0.00 | $125.00 | $100.00 |
| Miscellaneous | $125.00 | 75.00 | $100.00 | $175.00 |

Calculate their average monthly expense for each category.

2) Mun He has kept track of her finances over the last 4 months. Her average income and expenses are shown in the chart below.

|  |
| --- |
| ***Mun He’s Monthly Income and Expenses*** |
| *Income* | *Expenses* |
| Monthly Paycheque | $1800.00 | Rent | $650.00 |
| Tips |  $165.00 | Utilities | $125.00 |
|  |  | Groceries | $250.00 |
|  |  | Transportation | $125.00 |
|  |  | Entertainment | $225.00 |
|  |  | Miscellaneous | $425.00 |

1. Create a budget for Mun He. **Overestimate her expenses** and underestimate her income to allow for unexpected occurrences. If there is a surplus, enter it as Savings. Use the chart below.

|  |
| --- |
| ***Mun He’s Budget*** |
| *Income* | *Expenses* |
| Monthly Paycheque |  | Rent |  |
| Tips |  | Utilities |  |
|  |  | Groceries |  |
|  |  | Transportation |  |
|  |  | Entertainment |  |
|  |  | Miscellaneous |  |
|  |  | Savings? |  |
| Total income |  | Total expenses |  |

1. Mun He wants to buy a new big screen TV in 6 months. If costs $1099.99. will she have enough money saved at that time?

3) Brenda earns $3550.00 per month. She made the following list of her average expenses.

|  |  |
| --- | --- |
| **Expense** | **Amount**  |
| Mortgage | $1250 per month |
| Car insurance | $125 per month |
| Car maintenance | $550 per year |
| Gas | $125 per month |
| Loan payment | $175 per month |
| House repairs | $950 per year |
| House taxes | $4500 per year |
| House insurance | $1725 per year |
| Gifts  | $500 per year |
| Charitable donations | $450 per year |
| Groceries | $450 per month |
| Clothing | $125 per month |
| Season’s skiing pass | $650 per year |
| Entertainment | $100 per month |
| Miscellaneous | $150 per month |

Create a **monthly** budget for Brenda. Read the expense table carefully as some are monthly and some are yearly expenses.

|  |
| --- |
| ***Brenda’s Monthly Budget*** |
| *Income* | *Expenses* |
|  |  |  |  |
|  |  |  |  |
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|  |  |  |  |
| Total income |  | Total expenses |  |

**You’re ready for quiz 2**

**ANALYZING YOUR BUDGET**

So far, we have looked at tracking expenses and income, and creating budgets using past data. But if you use your data from the last 6 months or more, how will you know whether your actual income and expense over the next 6 months or a year will match what is in the budget? People often find that once they make a budget, they cannot stick to it, or they wish to change parts of it, or their situation changes and they need to make adjustments to their budget.

Example 1: Eric has budgeted to put $25.00 a week into his savings. This represents 8% of his weekly income. What is Eric’s weekly income?

Solution: Set up the proportion using English letters/words, the known ratio, and the unknown. Then Cross Multiply and Divide (CMD) to solve for the unknown. (See CMD handout if you are unfamiliar with this process.)

 The English would be part and whole (or something similar)

  =  = 

 where 8 is 8% out of 100% and 25 is the amount put in savings out of his total weekly earnings of *x*.

 So *x* = 100 × 25 ÷ 8 = 312.5

 Ben’s weekly earnings are $312.50

Example 2: Ben’s annual savings are $1575.00 and make up 4% of his net pay. He wishes to increase his savings to 11% of his net pay. How much would he save each year if he made this change?

Solution: Set up a proportion and Cross Multiply and Divide.

  =  = 

 So *x* = 1575 × 11 ÷ 4 = 4331.25

 Ben’s new annual savings would be $4331.25

**ASSIGNMENT 9 – ADJUSTING EXPENSES**

1) Paul has budgeted $225.00 per month for groceries. If this represents 12% of his monthly income, what is his monthly income?

2) Gina saves $135.00 per month. If her monthly income is $2000, what percent of her income does she save each month?

3) Gurjinder’s monthly Entertainment expense is $275.00 which represents 16% of his budget. He would like to reduce this to 12%. How much will his new Entertainment expense be?

4) Louise saves 15% of her monthly salary of $2475.00 each month. If she is saving for a trip next summer that costs $3500, will she have enough saved after 8 months to pay for her trip?

5) Lena earns $450.00 per week. She gets a raise of 5%. She saves 13% each week.

 a) What is her new salary?

 b) How much will she now save each week?

**MORE ANALYZING YOUR BUDGET**

Technology is very helpful in tracking actual versus budgeted amounts. Spreadsheets allow you to a make change of one expenses and instantly see how it changes the other parts of the budget. Once the information is entered in a spreadsheet, it can be used to create a graph. A circle graph is a useful tool for analyzing budgets because it shows all the categories, and it is easy to see which make up the biggest expense.

Here is an example of a circle graph showing Monthly Expenses.

**MONTHLY EXPENSES**



Example 1: Keisha has made a budget and researched spending guidelines for that area she lives in. These guidelines give a recommendation of about how much money you should spend in each category. Both tables are shown below.

|  |
| --- |
| ***Expenses*** |
| Rent | $425.00 |
| Utilities | $150.00 |
| Groceries | $250.00 |
| Transportation | $185.00 |
| Entertainment | $75.00 |
| Clothing | $125.00 |
| Savings | $50.00 |
| Miscellaneous | $30.00 |

|  |
| --- |
| ***Spending Guidelines*** |
| Rent | 25 – 35% |
| Utilities | 5 – 10% |
| Groceries | 5 – 15% |
| Transportation | 5 – 15% |
| Entertainment | 5 – 10% |
| Clothing | 2 – 5% |
| Savings | 5 – 15% |
| Miscellaneous | 5 – 10% |

What changes does Keisha need to make so that her spending falls in the guidelines?

Solution: Calculate the total Keisha spends each month and the percentage each expense represents. Then compare this to the guidelines Keisha researched.

 Keisha’s total expenses are:

$425 + $150 + $250 + $185 + $75 + $125 + $50 + $30 = **$1290.00**

Rent: 425 ÷ 1290 × 100 = 32.9 = 33%

Utilities: 150÷ 1290 × 100 = 11.6 = 12%

Groceries: 250 ÷ 1290 × 100 = 19.3 = 19%

Transportation: 185 ÷ 1290 × 100 = 14.3 = 14%

Entertainment: 75 ÷ 1290 × 100 = 5.8 = 6%

Clothing: 125 ÷ 1290 × 100 = 9.6 = 10%

Savings: 50 ÷ 1290 × 100 = 3.8 = 4%

Miscellaneous: 30 ÷ 1290 × 100 = 2.3 = 2%

 Keisha is spending too much on her utilities, groceries, and clothing. These are expenses that she can easily modify by changing her habits. She is not spending enough on her savings. In order to meet the guidelines that Keisha has found, she will need to adjust these expenses. If she reduces her spending in the first three areas, she will be able to increase her savings.

“Miscellaneous” is not something that requires changes even though it is not within the guidelines.

Example 2: Jenny’s expenses are listed in the Table below. Create a circle graph to show Jenny’s spending.

|  |
| --- |
| ***Jenny’s Expenses*** |
| Rent | $775.00 |
| Utilities | $175.00 |
| Car Insurance | $123.00 |
| Car Loan Payment | $342.00 |
| Cell Phone  | $42.00 |
| Groceries | $225.00 |
| Gas | $90.00 |
| Entertainment | $75.00 |
| Miscellaneous | $50.00 |

Solution: Step 1: Calculate the total of Jenny’s expenses by adding the expense together.

 Jenny’s total expenses are:

$775 + $175 + $123 + $342 + $42 + $225 + $90 + $75 + $50 = **$1897.00**

Step 2: Calculate the percentage each expense represents. Divide each amount by the total and multiply by 100 to get a percentage. Round each answer to the closest whole number.

Rent: 775 ÷ 1897 × 100 = 40.85 = 41%

Utilities: 175 ÷ 1897 × 100 = 9.22 = 9%

Car insurance: 123 ÷ 1897 × 100 = 6.48 = 6%

Car Loan: 342 ÷ 1897 × 100 = 18.02 = 18%

Cell Phone: 42 ÷ 1897 × 100 = 2.21 = 2%

Groceries: 225 ÷ 1897 × 100 = 11.86 = 12%

Gas: 90 ÷ 1897 × 100 = 4.74 = 5%

Entertainment: 75 ÷ 1897 × 100 = 3.95 = 4%

Miscellaneous: 50 ÷ 1897 × 100 = 2.63 = 3%

Step 3: Calculate the angle each percentage will represent on the graph. To do this, divide each percent by 100 to get as a decimal, and multiply by 3600 because there are 3600 in a circle! Round each answer to the closet whole degree.

Rent: 41% ÷ 100 ×360 = 147.6 = 1480

Utilities: 9%÷ 100 ×360 = 32.4 = 320

Car insurance: 6%÷ 100 ×360 = 21.6 = 220

Car Loan: 18%÷ 100 ×360 = 64.8 = 650

Cell Phone: 2%÷ 100 ×360 = 7.2 = 70

Groceries: 12%÷ 100 ×360 = 43.2 = 430

Gas: 5%÷ 100 ×360 = 180

Entertainment: 4%÷ 100 ×360 = 14.4 = 140

Miscellaneous: 3%÷ 100 ×360 = 10.8 = 110

Step 3: Plot these angles in the circle provided using a protractor as taught in Unit 1.

**ASSIGNMENT 10 – ADAPTING BUDGETS**

1) Lisa earns $2867.00 a month and has been given the spending guidelines shown in the chart below. Lisa spends $1000.00 per month for her rent and $190.00 per month for her utilities. She wants to save 15% of her monthly income, and pay off her loans as fast as possible.

|  |
| --- |
| ***Spending Guidelines*** |
| Rent | 30 – 35% |
| Utilities | 5 – 10% |
| Groceries | 12 – 18% |
| Transportation |  8 – 12% |
| Loan Repayment |  0 – 12% |
| Savings | At least 10% |
| Recreation |  6 – 12% |
| Health and personal | 8 – 15% |

Create a reasonable budget for Lisa. Show any calculations completed.

|  |
| --- |
| **Lisa’s Budget** |
| ***Expenses*** |
| Rent | $1000.00 |
| Utilities | $190.00 |
| Groceries |  |
| Transportation |  |
| Loan Repayment |  |
| Savings |  |
| Recreation |  |
| Health and personal |  |

2) Sarah has made a budget and researched spending guidelines for that area she lives in. These guidelines give a recommendation of about how much money you should spend in each category. Both tables are shown below.

|  |
| --- |
| ***Expenses*** |
| Rent | $840.00 |
| Groceries | $175.00 |
| Transportation | $125.00 |
| Entertainment | $175.00 |
| Clothing | $175.00 |
| Loan Payment | $275.00 |
| Savings | $75.00 |
| Miscellaneous | $150.00 |
| *Total Expenses* |  |

|  |
| --- |
| ***Spending Guidelines*** |
| Rent | 30 – 35% |
| Groceries |  8 – 15% |
| Transportation |  8 – 12% |
| Entertainment |  8 – 12% |
| Clothing |  8 – 12% |
| Loan Repayment |  0 – 12% |
| Savings | At least 10% |

What changes does Sarah need to make so that her spending falls in the guidelines?

3) The chart below shows Shawn’s expenses for the last month.

|  |  |
| --- | --- |
| **Shawn’s Monthly Budget** |  |
| *Income* | *Expenses* |
| Paycheque | $1275.00 | Rent | $1050.00 |
| Paycheque | $1275.00 | Utilities | $175.00 |
| Tips |  $200.00 | Phone, cable, internet | $175.00 |
|  |  | Groceries | $350.00 |
|  |  | Transportation | $150.00 |
|  |  | Entertainment | $125.00 |
|  |  | Clothing | $175.00 |
|  |  | Charitable donation | $100.00 |
|  |  | Medical/Health | $150.00 |
|  |  | Savings | $200.00 |
|  |  | Miscellaneous | $100.00 |
| *Total income* |  | *Total expenses* |  |

a) Is his budget balanced? Show your work as proof.

b) Create a circle graph of Shawn’s spending. Show your calculations.