

BUDGET



BIG IDEAS:

- A **budget** is a financial plan used to manage income and expenses
- **Gross income** refers to earnings before deductions (taxes, benefits, etc.) and **net income** is the actual take-home pay
- **Non-discretionary expenses** are essential; **discretionary expenses** are not

LEARNING GOALS AND SKILL DEVELOPMENT:

You know you have met the goals for this lesson when you can:



	LEARNING GOALS	ANCHOR QUESTIONS
EMERGING	Explain what a budget is and how it is used	1, 2
	Define fixed and variable expenses and give examples of each	3, 4

SKILL BUILDING QUESTIONS			
1	2	3	4

	LEARNING GOALS	ANCHOR QUESTIONS
EVOLVING	Interpret information presented in a budget and make judgements and suggestions based on that information	5
	Explain the difference between net income and gross income	6
	Explain the difference between discretionary and non-discretionary expenses and give examples of each	7
	Create a budget that considers income and a list of expenses for a family and suggest modifications to the budget as needed	8

SKILL BUILDING QUESTIONS			
5	6	7	8

	LEARNING GOALS	ANCHOR QUESTIONS
EXTENDING	Research and compare the budgeting needs of different people (single person, university student, family of 6, etc.)	9
	Create and maintain a budget for yourself and predict how it will change over the next 10 years	10

SKILL BUILDING QUESTIONS			
9	10		

BUILD YOUR SKILLS

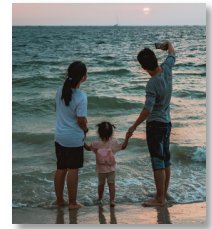
1. What is a *budget* and what does *budgeting* mean?
2. List several reasons for maintaining a budget.
3. Explain the difference between *fixed expenses* and *variable (flexible) expenses*.
4. Identify each of the following as a fixed expense or a variable expense.
 - a) rent
 - b) groceries
 - c) property taxes
 - d) mortgage payments
 - e) recreation
5. Mazyn's budget for the month of April is shown below.

INCOME	Budget	Actual	Difference
Job	\$3200	\$3200	\$0
Other	\$0	\$140	+\$140
Total monthly income	\$3200	\$3340	+\$140
EXPENSES	Budget	Actual	Difference
Fixed expenses			
Savings	\$200	\$200	\$0
Rent	\$800	\$800	\$0
Car insurance	\$210	\$210	\$0
Car payment	\$430	\$430	\$0
Cell phone service	\$75	\$75	\$0
Home internet service	\$90	\$90	\$0
Video/music streaming services	\$40	\$40	\$0
Piano lessons	\$100	\$100	\$0
Variable expenses			
Food and dining Out	\$300	\$334	+\$34
Utilities	\$260	\$252	-\$8
Transportation			
Gas	\$200	\$218	+\$18
Parking	\$0	\$10	+\$10
Maintenance/repairs	\$0	\$0	\$0
Clothing	\$100	\$88	-\$12
Entertainment	\$100	\$120	+\$20
Personal items	\$30	\$25	-\$5
Household items	\$50	\$42	-\$8
Miscellaneous	\$0	\$85	+\$85
Total monthly expenses	\$2985	\$3119	+\$134

- a) In what areas did Mazyn spend more than he planned? Less than he planned?
- b) Suppose Mazyn's car required a \$350 repair in April. If all other expenses were paid as shown above, what is the most that he could put into savings at the end of the month?
- c) After moving, Mazyn's rent becomes \$1200/month. How can he modify his budget to support this change?

6. Explain the difference between *gross income* and *net income*.
7. Explain the difference between *discretionary expenses* and *non-discretionary expenses*.
8. David and Katherine have one child. Their combined gross income is \$152 800/year. Katherine's net pay is \$1040/week and David's is \$2405 bi-weekly (every two weeks). They wish to create a monthly budget based on the following expenses.

Mortgage: \$900 bi-weekly	Transportation: \$225/week
Taxes: \$2900/year	Cell phone service: \$160/month
Insurance: \$355/month	Home internet service: \$95/month
Loan payments: \$390/month	Clothing: \$3000/year
Car payment: \$450/month	Savings: \$250 bi-weekly
Childcare: \$375/week	Entertainment: \$300/month
Food: \$200/week	Gifts: \$1400/year
Utilities: \$340/month	Miscellaneous: \$600/month



- a) Calculate Katherine and David's combined net income per year.
- b) Copy and complete the monthly budget shown on the right using the information above (round all values to the nearest dollar).
- c) How much more per month could Katherine and David afford to put towards paying off their mortgage faster?
- d) With a partner, discuss how the monthly budget could be modified for each of the following cases.
- The couple has another child.
 - The car is paid off.
 - David or Katherine becomes unemployed.

INCOME	Budget
Katherine's job	_____
David's job	_____
Total monthly income	_____
EXPENSES	Budget
Mortgage	_____
Taxes	_____
Insurance	_____
Loan payments	_____
Car payment	_____
Childcare	_____
Food	_____
Utilities	_____
Transportation	_____
Cell phone service	_____
Home internet service	_____
Clothing	_____
Savings	_____
Entertainment	_____
Gifts	_____
Miscellaneous	_____
Total monthly expenses	_____

9. Research and compare the possible monthly expenses for each of the following currently living in your area.

• family of four • postsecondary student • single working adult • single parent of one child

10. Create a current monthly budget for yourself and predict how it will change over the next decade.

CHECK YOUR UNDERSTANDING

1. A budget is essentially a spending plan based on income and expenses. It's an estimate of how much money will be earned and spent during a set period of time. Budgeting is the act of creating and maintaining a budget.
2. Answers may vary. For example,
 - determining how much money is available to spend
 - deciding how money will be spent
 - planning for future financial goals
 - learning to live on less than the available income
 - avoiding financial trouble
3. Fixed expenses are costs that have a constant value and are largely predictable, whereas the values of variable (flexible) expenses change regularly and can be affected by day-to-day events/choices.
4. a) fixed expense b) variable expense c) fixed expense d) fixed expense
e) variable expense
5. a) Mazyn spent more than he planned on food and dining out, gas, parking, entertainment, and miscellaneous items. He spent less than planned on utilities, clothing, personal items and household items.
b) \$71
c) Answers may vary. For example, he could reduce his budget for nonessential items, such as entertainment. He could also consider downgrading his cell phone and home internet plans and/or possibly reduce the frequency of his piano lessons until more income becomes available.
6. Gross income is the amount earned before taxes, benefits and other payroll deductions are withheld. Net income is the actual take-home pay.
7. Discretionary expenses are nonessential expenses. Individuals or households can survive without discretionary expenses. Non-discretionary expenses, on the other hand, are mandatory costs and are needed for survival.

8. a) \$116 610

b)

INCOME	Budget
Katherine's job	\$4507
David's job	\$5211
Total monthly income	\$9718

EXPENSES	Budget
Mortgage	\$1950
Taxes	\$242
Insurance	\$355
Loan payments	\$390
Car payment	\$450
Childcare	\$1625
Food	\$867
Utilities	\$340
Transportation	\$975
Cell phone service	\$160
Home internet service	\$95
Clothing	\$250
Savings	\$542
Entertainment	\$300
Gifts	\$117
Miscellaneous	\$600
Total monthly expenses	\$9258

c) \$460

d) Answers will vary.

9. Answers will vary.

10. Answers will vary.