



ACReS
Academic Career and Readiness Skills

**Financial
Literacy**

Unit

4



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What is a Budget?

Words to know:

- ✓ budget
- ✓ income
- ✓ expenses
- ✓ fixed expenses
- ✓ variable expenses
- ✓ balanced budget
- ✓ unbalanced budget

Do you spend all the money in your pocket? Do you put aside money to pay bills?

A **budget** is a plan of action for your money. It helps you match your expenses to your income. **Expenses** are the amount of money you spend. **Income** is the amount of money you earn. A budget can help you make decisions about how you will spend your money. Making a budget can help you plan for the future.

Why Have a Budget?

Making a budget helps you have enough money to pay your bills. Having a plan can also help you save money. If you do not use a budget, you may run out of money.

How to Make a Budget

You can make a **balanced budget**. First, list your monthly income. Next, list your expenses. There are two types of expenses. **Fixed expenses** stay the same. They are the bills you pay every month. A fixed expense might be your rent or a car payment. **Variable expenses** do not stay the same every month. A variable expense might be a telephone or heat bill.

After listing your monthly expenses, add them together.

Balanced budget – when you earn more than you spend.

| | |
|----------------------|---------------|
| Monthly income..... | \$1,225 |
| Expenses | |
| rent..... | \$ 500 |
| car payment | \$ 250 |
| food..... | \$ 200 |
| phone..... | \$ 50 |
| utilities | \$ 100 |
| gas | <u>\$ 100</u> |
| Total expenses | \$1,200 |

Then subtract your total expenses from your monthly income.

| | |
|-----------------------|------------------|
| Monthly income..... | \$1,225 |
| Monthly expenses ... | – <u>\$1,200</u> |
| Money left over | \$ 25 |

The amount left over can be saved. A budget helps you make sure you have money to pay for the things you need. You may also save some money.

People who do not have a budget might spend more than they earn. When you spend more money than you earn, you have an **unbalanced budget**.

Unbalanced budget – when you spend more than you earn.

| | |
|----------------------|---------------|
| Monthly income..... | \$1,225 |
| Expenses | |
| rent..... | \$ 500 |
| car payment | \$ 200 |
| food | \$ 250 |
| phone | \$ 150 |
| utilities | \$ 150 |
| gas | <u>\$ 150</u> |
| Total expenses | \$1,400 |

In this example you will subtract the monthly income from the total expenses.

| | |
|----------------------|------------------|
| Total expenses | \$1,400 |
| Monthly income..... | – <u>\$1,225</u> |
| Amount over income | \$ 175 |

If you spend more money than you earn, you will never have enough money. You will have debt. You will owe money.

Try these examples:

| | |
|---|--|
| A. Monthly income = \$1,500 | |
| <p>Add these expenses:</p> <p>rent\$400</p> <p>gas.....\$150</p> <p>food.....\$225</p> <p>electric<u>\$100</u></p> <p>Total expenses....._____</p> | <p>Subtract the total expenses from the income:</p> <p>Monthly income_____</p> <p>Monthly expenses- _____</p> <p>Money left over....._____</p> |
| B. Monthly income = \$2,000 | |
| <p>Add these expenses:</p> <p>rent\$400</p> <p>gas.....\$250</p> <p>car payment.....\$190</p> <p>food.....\$275</p> <p>electric<u>\$150</u></p> <p>Total expenses....._____</p> | <p>Subtract the total expenses from the income:</p> <p>Monthly income_____</p> <p>Monthly expenses- _____</p> <p>Money left over....._____</p> |

Now try these examples. Do they show a balanced or an unbalanced budget?

| | |
|--|---|
| C. Monthly income = \$1,200 | |
| <p>Add these expenses:</p> <p style="margin-left: 20px;">rent \$500</p> <p style="margin-left: 20px;">gas..... \$180</p> <p style="margin-left: 20px;">car insurance \$ 50</p> <p style="margin-left: 20px;">food <u>\$275</u></p> <p>Total expenses..... _____</p> | <p>Compare the total expenses and income:</p> <p style="margin-left: 20px;">Monthly income..... _____</p> <p style="margin-left: 20px;">Monthly expenses..... _____</p> <p style="margin-left: 20px;">What is the difference? _____</p> <p>Check (✓):</p> <p style="text-align: center;">Balanced <input type="checkbox"/> or Unbalanced <input type="checkbox"/></p> |
| D. Monthly income = \$1,000 | |
| <p>Add these expenses:</p> <p style="margin-left: 20px;">rent \$550</p> <p style="margin-left: 20px;">gas..... \$250</p> <p style="margin-left: 20px;">car insurance \$ 75</p> <p style="margin-left: 20px;">food \$255</p> <p style="margin-left: 20px;">electric <u>\$100</u></p> <p>Total expenses..... _____</p> | <p>Compare the total expenses and income:</p> <p style="margin-left: 20px;">Monthly income..... _____</p> <p style="margin-left: 20px;">Monthly expenses..... _____</p> <p style="margin-left: 20px;">What is the difference? _____</p> <p>Check (✓):</p> <p style="text-align: center;">Balanced <input type="checkbox"/> or Unbalanced <input type="checkbox"/></p> |

| E. Monthly income = \$1,290 | |
|---|---|
| <p>Add these expenses:</p> <p>rent\$550</p> <p>gas\$250</p> <p>car insurance\$ 75</p> <p>food.....\$300</p> <p>electric<u>\$250</u></p> <p>Total expenses....._____</p> | <p>Compare the total expenses and income:</p> <p>Monthly income_____</p> <p>Monthly expenses_____</p> <p>What is the difference? _____</p> <p>Check (✓): Balanced <input type="checkbox"/> or Unbalanced <input type="checkbox"/></p> |

Expenses: Mark (✓) each of the items on this list as variable or fixed expenses.

- | | | |
|---------------------|--|---|
| 1. Car insurance | <input type="checkbox"/> Fixed expense | <input type="checkbox"/> Variable expense |
| 2. Bus fare | <input type="checkbox"/> Fixed expense | <input type="checkbox"/> Variable expense |
| 3. Food | <input type="checkbox"/> Fixed expense | <input type="checkbox"/> Variable expense |
| 4. House payment | <input type="checkbox"/> Fixed expense | <input type="checkbox"/> Variable expense |
| 5. Entertainment | <input type="checkbox"/> Fixed expense | <input type="checkbox"/> Variable expense |
| 6. Bank loan | <input type="checkbox"/> Fixed expense | <input type="checkbox"/> Variable expense |
| 7. Household items | <input type="checkbox"/> Fixed expense | <input type="checkbox"/> Variable expense |
| 8. Clothing | <input type="checkbox"/> Fixed expense | <input type="checkbox"/> Variable expense |
| 9. Health insurance | <input type="checkbox"/> Fixed expense | <input type="checkbox"/> Variable expense |
| 10. Personal items | <input type="checkbox"/> Fixed expense | <input type="checkbox"/> Variable expense |

Academic & Career Readiness Skills

Now calculate the total fixed and variable expenses for each example.

11. In September, María had the following expenses:

| | |
|-------------------------|-------------------------|
| \$740 for house payment | \$33 for personal items |
| \$142 for food | \$87 for entertainment |

Total fixed expenses _____ Total variable expenses _____

12. In April, Ben had the following expenses:

| | |
|-----------------------|--------------------------|
| \$267 for car payment | \$122 on a bank loan |
| \$100 for savings | \$40 for household items |
| \$86 for groceries | \$18 for movie rental |

Total fixed expenses _____ Total variable expenses _____

13. In June, David had the following expenses:

| | |
|-------------------|-----------------------|
| \$670 for rent | \$194 for car payment |
| \$86 for clothing | \$215 for car repairs |
| \$120 for food | |

Total fixed expenses _____ Total variable expenses _____

Wants Versus Needs

You may buy things because you want them. But do you really need them? Are they necessary? **Needs** are the things that are important to live. Three basic needs are food, clothing, and shelter. **Wants** are things that you would like to have, but don't need to live. Examples are a flat screen TV, jewelry, or a hot tub.

Mark (✓) each of the items on the following list as a **need** or a **want**.

| ITEM | WANT | NEED |
|----------------------|------|------|
| 14. Heat | | |
| 15. Designer clothes | | |
| 16. Candy | | |
| 17. Housing | | |
| 18. Beer | | |
| 19. Food | | |
| 20. Comic books | | |
| 21. Income | | |
| 22. Electricity | | |
| 23. Shoes | | |

24. How could you solve the problem of an unbalanced budget?

When to Change your Budget:

- ✓ Change your budget if you spend more than you earn.
- ✓ Change your budget if your income or expenses change.

Now you try!

25. Develop your own budget by filling in this chart.

| Monthly income = \$ | |
|---|---|
| <p>Enter your expenses:</p> <p>rent \$ _____</p> <p>gas..... \$ _____</p> <p>car insurance \$ _____</p> <p>food \$ _____</p> <p>electric \$ _____</p> <p>other \$ _____</p> <p>..... \$ _____</p> <p>..... \$ _____</p> <p>Total expenses..... \$ _____</p> | <p>Compare your total expenses and income:</p> <p>Monthly income..... _____</p> <p>Monthly expenses..... _____</p> <p>What is the difference? _____</p> <p>Check (✓):</p> <p style="text-align: center;">Balanced <input type="checkbox"/> or Unbalanced <input type="checkbox"/></p> |

Show what you know. Respond to these statements based on what you learned in this lesson.

26. Define a budget.

27. Describe the benefits of making a budget.

28. Identify variable expenses.

29. State what it means to have an unbalanced budget.

30. Discuss the difference between needs and wants.

☞ End of Lesson 1 ☞