

## LESSON PLAN

### A Plan for the Future: Making a Budget

#### Learning Objective(s):

- Understand the components of a budget
- Create and calculate an individualized budget
- Keep financial records to assist in planning
- Demonstrate effective decision making in spending and saving

#### Target Group:

- **Grade 9 – Grade 11**

#### Lesson Excerpt:

*Cash. Moola. Cha-Ching.* No matter what we call it, we all make, spend and save money. While students may recognize the concepts of working, earning and spending; trying to understand variable expenses, cash flow and net income can feel like learning a foreign language. This lesson breaks down key terms in budgeting, has students analyze sample budgets and introduces them to the process of creating their own plans for spending and saving.

**Essential Question “How do I create and follow through with a budget?”**

**Investigate: Budgeting and Goals**

**[Time Required: 10 minutes]**

1. Begin by asking students about their financial goals. Would they like to purchase a laptop or a car? Do they plan to pay for a college education? Do they want to earn a certain amount of money by a particular age?
2. Initiate a class discussion on how to achieve financial goals and invite volunteers to share their strategies with the class. Explain that in order to reach financial goals, it’s important to make a plan for spending and saving. This plan is called a budget. An important part of creating an accurate budget is tracking exactly how much money comes in and goes out each month.
3. Explain that the concept of money coming in (income and earnings) and money going out (expenses and spending) is called cash flow. Just like ocean waves move in and out with the tide, so does our money—the difference is that we can control how our money flows by creating a good budget.

**Student Preparation: Understanding Cash Flow**

**[Time Required: 15 minutes]**

4. Ask students to record in their notebooks what they have spent money on over the last two days. Have they bought any food, clothing or electronics? Have they gone to the movies with a friend or bought any food?
5. Invite volunteers to share some of their purchases and record them on the board. Then explain that there are several different types of expenses: fixed expenses that are the same each month, such as a rent, phone or car payment, and variable expenses, which change in price and frequency each month, like food or gas.
6. Ask students to label their purchases as fixed or variable expenses. Discuss how their goals fit into these categories, too. If they want to buy a home, will their mortgage be a fixed or variable expense? If they want to take a vacation to Europe, will that be a fixed or variable expense? Explain that as they become more independent, more expenses will become fixed. Help students understand that knowing how money fits into these categories will help them build an accurate budget.
7. Next, ask students if they’ve earned any money this month (e.g., birthday cash, paycheck or allowance). How do they keep track of what they make and what they spend?
8. Explain to students that just like we need to track our outgoing expenses, we also need to track our incoming earnings. Remind them that this process is called cash flow, and that we monitor it to determine a budget.

9. Explain that when you have a job, you earn what is called a **gross income**. This is the total amount of money you earn before taxes. Explain that income tax and NIS dues are all deducted from your gross income (self-employed individuals also pay a self-employment tax). Once taxes are deducted from your gross pay, you are left with what is called **net pay**. This is the actual money you take home and the number you start with when building a budget.

### **Challenge: Making a Budget**

**[Time Required: 35 minutes]**

10. Tell students that they will get a chance to study three different budgets showing fixed and variable expenses. Their challenge will be to decide which budget is the most effective in meeting the budgeter's individual goals.

11. Hand out the student activity sheet 1 and ask students to work in groups of 4–5 to evaluate the budgets. Ask each group to assess which budget is the most successful in meeting the budgeter's goals. What adjustments could be made to meet the goal sooner? Invite each group to share their answers, and then discuss as a class.

12. Distribute the student activity sheet 2 and explain that students will now get a chance to create their own budget.

13. Invite students to share their budgets with the class.

### **Reflection**

**[Time Required: 5 minutes]**

Tell students to think back to the goals they defined in the beginning of class, and ask them to reflect in their notebooks about how they will use budgeting to achieve these objectives. How much will they need to save? What fixed and variable expenses can they adjust in order to meet their goals sooner?

## Student Activity Sheet 1

Where does all your money go? No matter how much money you earn, a careful budget lets you know exactly what happens to your cash. Below are three different cash flow scenarios over one month. Review the numbers to determine who's breaking the bank and who will meet their goals the soonest.

### **Scenario 1**

*Nate is a junior in high school. He works 15 hours a week at the mall, and his net income after taxes is \$600 a month. He lives with his parents, so he doesn't have rent, utility or food expenses. His older brother owns a car and lets him borrow it to drive to work for \$100 each month; otherwise Nate takes the bus. He really wants to buy a car, so he puts any leftover money toward savings. Nate also pays for his cell phone and personal expenses, such as going to the movies, buying video games and purchasing gifts.*

Below is Nate's estimated budget and what he actually spent in one month's time. Analyze Nate's spending to determine why he is not on track to save for that new car, and what changes he can make to get on track.

Net Income: \$600/month

	Budget Goals	Actual Budget
<b>Fixed Expenses</b>		
Savings for a Car	\$200	\$0
Cell Phone	\$75	\$100
Car Payment to his Brother	\$100	\$100
<b>Variable Expenses</b>		
Public Transportation	\$50	\$60
Entertainment	\$50	\$75
Personal Shopping	\$100	\$175
Occasional Spending (gifts, repairs, etc.)	\$25	\$100
<b>Total</b>	<b>\$400</b>	<b>\$600</b>

## Scenario 2

Maria just graduated from college and accepted her first job as a social media manager for a real estate company. She can't believe that her monthly net income will be \$3,000. She just moved into a one-bedroom apartment, so she is responsible for rent, utilities, food and other household expenses. She is paying off a student loan and she wants to save as much money as she can to buy a house someday. She owns a car and enjoys going out with friends on the weekend.

Below is Maria's estimated budget and what she actually spent in one month's time. Analyze her spending to see why she is not on track to meet her goal and to determine what she can do to get back on track.

**Net Income: \$3,000/month**

	<b>Budget</b>	<b>Actual</b>
<b>Fixed Expenses</b>		
Savings for House	\$450	\$150
Rent	\$600	\$600
Car Payment	\$350	\$350
Car Insurance	\$150	\$150
Internet/Cable TV	\$110	\$110
Cell Phone	\$75	\$105
Student Loan	\$300	\$300
<b>Variable Expenses</b>		
Gas	\$100	\$175
Food	\$250	\$300
Entertainment	\$100	\$250
Personal Shopping (clothes, makeup, home items etc.)	\$75	\$300
Utilities	\$200	\$275
Occasional Spending (gifts, repairs, etc.)	\$150	\$250
<b>Total</b>	<b>\$2,910</b>	<b>\$3,315</b>

### Scenario 3

Jamal is a senior in high school and works 30 hours per week at a neighborhood coffee shop. His net income after taxes is \$1,500 and he is saving up for college. He owns a car and makes payments toward it each month, but he lives with his parents so he saves on rent, utilities and food costs. He occasionally goes out with friends and buys things for himself, but he tries to hold back on these things so he can save more for college next year.

Below is Jamal's estimated budget and what he actually spent in one month's time. Analyze his spending to see why he is not on track to meet his goal and determine what he can do to get back on track.

#### Net Income: \$1,500/month

	Budget	Actual
<b>Fixed Expenses</b>		
College Savings	\$870	\$820
Car Payment	\$125	\$125
Car Insurance	\$95	\$95
Cell Phone	\$85	\$85
<b>Variable Expenses</b>		
Gas	\$100	\$105
Entertainment	\$50	\$75
Personal Shopping	\$50	\$95
Occasional Spending (gifts, repairs, etc.)	\$100	\$100
<b>Total</b>	<b>\$1,475</b>	<b>\$1,500</b>

**Student Activity Sheet 2**

You just accepted your first job and you'll be earning a gross income of \$30,000/year. You live on your own and are responsible for all expenses, including rent, car, insurance, cell phone, utilities, entertainment, food, savings and miscellaneous expenses. You have to pay 25% of your gross income in taxes.

**Calculate Your Take Home Pay:** With a gross income of \$30,000 and a 25% tax deduction, what is your monthly net income? (Remember this is what you get after taxes.) **Use this number to start your budget.**

**Categorize Expenses:** Determine if your expenses are fixed or variable, and write them in the appropriate sections of the table below. Remember your expenses include: rent, car, car insurance, cell phone, utilities, entertainment, food, savings and occasional expenses.

**Name:** \_\_\_\_\_  
**Net Income:** \_\_\_\_\_ /month

	Cost
<b>Fixed Expenses</b>	
▪	\$
▪	\$
▪	\$
▪	\$
▪	\$
▪	\$
<b>Variable Expenses</b>	
▪	\$
▪	\$
▪	\$
▪	\$
▪	\$
▪	\$
<b>Total</b>	\$

**Divide Your Expenses:**

Determine the cost for each category and record the prices in your budget.

Use the following percentages to divide your monthly net pay:

Rent: 30% of net pay
Utilities: 10% of net pay
Car Insurance: 5% of net pay
Cell Phone: 5% of net pay
Occasional Spending: 10% of net pay
Savings: 10% of net pay
Food: 15% of net pay
Car Loan: 10% of net pay
Entertainment: 5% of net pay

**Assess Your Budget:**

Compare your expenses to your monthly income. Have you spent everything you've earned? Do you have money left over for savings? What expenses could you lower to increase your savings?



## **Answer Key 1**

### **Most successful budget:**

Jamal is the most successful budgeter because his actual spending comes very close to what he budgeted. The most important part of Jamal's budget is his extensive savings. He devotes nearly half of his income to savings because his other expenses are relatively low. Even though he missed his savings goal by \$50, saving \$820 per month is impressive.

### **Least successful budget:**

Maria's budget is the least successful because she is spending more per month than what she earns. She also overspends in categories that could be considered "wants," such as personal shopping and entertainment (she has spent more than double the amount budgeted in many of these categories).

### **Adjustments that could be made to each budget:**

**Nate:** While his actual spending matches his net income, Nate isn't saving enough money each month to buy a car. He could increase savings by reducing his cell phone plan and personal shopping, and by only using public transportation rather than borrowing his brother's car. Nate should also set a clear savings objective in a dollar amount rather than settling for what is left over.

**Maria:** She could benefit from reducing the amount spent on personal items, and recalculate categories such as entertainment, personal shopping and occasional spending in order to paint a more accurate picture of what she really spends.

**Jamal:** While Jamal is in good shape, he does overspend in the areas of personal shopping and entertainment. He could work to eliminate some expenditures from each of these categories to stay on point with his budget.

## Answer Key 2

*Note: Answers in the cost column are based on percentages provided. Students may adjust these figures to their personal preferences.*

**Net Income: \$1,875.00/month**

	<b>Cost</b>
<b>Fixed Expenses</b>	
▪ Rent	\$562.50
▪ Car Payment	\$187.50
▪ Car Insurance	\$93.75
▪ Cell Phone	\$93.75
▪ Savings Goals	\$187.50
<b>Variable Expenses</b>	
▪ Utilities	\$187.50
▪ Food	\$281.25
▪ Occasional Expenses	\$187.50
▪ Entertainment	\$93.75
<b>Total</b>	<b>\$1,875.00</b>