

# **Buy \$mart** **2006** **COMPETITION**

## **Teacher's Resource Kit Credit & Budgeting Activities**

Office of Fair Trading

Department of Tourism, Fair Trading and  
Wine Industry Development



**Queensland Government**

Department of **Tourism, Fair Trading and  
Wine Industry Development**

## Table of contents

Budget planning.....	3
The three steps to saving involve:.....	3
Take the family saving challenge: .....	3
Managing your money - budgeting .....	6
Activity:.....	6
Budget categories.....	7
Money in the real world .....	12
Task:.....	12
Scenario: .....	12
Final analysis.....	13
Do I need a credit card? .....	14
Why get a credit card? The pluses and minuses.....	14
Types of credit.....	15
Activity 1 .....	15
Activity 2 .....	15
Credit card agreements – What the terms mean.....	17
Annual percentage rate.....	17
Interest.....	17
Interest rate.....	17
Grace period.....	17
Annual fees.....	17
Transaction fees .....	17
Higher interest rates for cash advances and late payments .....	17
Rebates, free miles and other perks .....	18

## Budget planning

A budget is a very good way to keep track of your money. When you keep a track of the money coming in and the money going out you have a better idea of how much you can save for something special.

### The three steps to saving involve:

- Working out how much you need to save.
- Preparing a budget.
- Adjusting the budget to make sure you can save the amount you need.

### Take the family saving challenge:

Imagine that you and your family are planning a trip to Dreamworld for the day. You will need to undertake some research into the cost of a day at Dreamworld (taking into account transport, entry fees, food, drinks and souvenirs).

Work out how much it would cost your family to go to Dreamworld \$ .....

This becomes your savings target.

Now it is time to examine your family's budget to see how long it will take you all to save towards the day out.

Use the budget planner below to determine where your family spends its money each week. Remember, some bills come monthly so you may have to work out how much to put aside each week towards that bill.

Budget planner	
<b>Income</b>	
Take home pay	\$
Other	\$
<b>Outgoings</b>	
Household expenses	\$
Rent or other payments	\$
Electricity	\$
Gas	\$
Telephone – home	\$
Telephone – mobile	\$
Maintenance (e.g lawn mowing, general yard and house repairs)	\$

<b>Insurance</b>	
House insurance	\$
Contents insurance	\$
Health insurance	\$
Life insurance	\$
<b>Shopping</b>	
Clothes/shoes	\$
Groceries	\$
Others	\$
<b>Entertainment</b>	
Holidays	\$
Sport	\$
Eating out/socialising	\$
Movies	\$
Club memberships	\$
Internet access	\$
Pay TV	\$
Other	\$
<b>Education</b>	
Books	\$
Fees	\$
Loans and repayments	\$
<b>Personal loan repayments</b>	
Hire purchase/rental	\$
Credit/store cards	\$



## Managing your money - budgeting

Jodie is working as an administrative assistant for a stationery company and earns \$260 per week (after tax). She has decided she really needs a new stereo system, which will cost \$280.

Jodie knows she needs to prepare a budget to make sure she saves the money.

She sets out her expenses as:

Rent	\$90
Kitty (contribution to food bill)	\$25
Other food and drink	\$25
Bills	\$20
Fares	\$15
Clothes, toiletries	\$25
Entertainment	\$40

### Activity:

1. With a partner, work out how much Jodie is able to save each week. How long will it take her to pay for the stereo?

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.....

2. Discuss: Which of Jodie's expenses are 'fixed' and which are 'variable'?

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3. What are three things Jodie could do to save more money?

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4. If Jodie decided to walk to work, how much sooner will she get the stereo?

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.....

## Budget categories

When preparing your budget it is important to consider all your expenses throughout the year. Use this guide to help you identify what specific expenses you may have under these main categories. Try and determine how much you would spend under these headings each year:

Budget activity	
Category	Estimated annual spend
<b>Home</b>	
Rent/mortgage	\$
Property taxes	\$
Insurance (renter's or homeowner's)	\$
Telephone	\$
Gas and electric	\$
Water and sewer	\$
Cable TV	\$
Garbage	\$
Household supplies	\$
Homewares	\$
Furniture and appliances	\$
Cleaning	\$
Yard or pool care	\$
Maintenance and repairers	\$
<b>Home Total:</b>	\$

Food	
Groceries	\$
Breakfast out	\$
Lunch out	\$
Dinner out	\$
Coffee/tea	\$
Snacks	\$
<b>Food Total:</b>	\$

Clothes	
Clothing and accessories	\$
Laundry, dry cleaning and mending	\$
<b>Clothes Total:</b>	\$

Self care	
Toiletries and cosmetics	\$
Haircuts	\$
Massage	\$
Health club membership	\$
Donations	\$
<b>Self Care Total:</b>	\$

Health care	
Insurance	\$
Medications	\$
Vitamins	\$
Doctor	\$
Dentist	\$
Eye care	\$
Therapy (e.g. physiotherapy, naturopathy)	\$
<b>Health Care Total:</b>	\$

Transportation	
Insurance	\$
Road service club	\$
Registration	\$
Petrol	\$
Maintenance and repairs	\$
Car wash	\$
Parking and tolls	\$
Public transport and cabs	\$
Parking tickets	\$
<b>Transportation Total:</b>	\$

Entertainment	
Music	\$
Movies and video rental	\$
Concerts, theatre and ballet	\$
Museums	\$
Sporting events	\$
Hobbies and lessons	\$
Club dues or membership	\$
Film development	\$
Books, magazines and newspapers	\$
Software	\$
<b>Entertainment Total:</b>	\$

Child/Dependent care	
Child care	\$
Clothing	\$
Allowance	\$
School expenses	\$
Toys and entertainment	\$
<b>Child/Dependent Care Total:</b>	\$

Pet care	
Grooming	\$
Vet	\$
Food, toys and supplies	\$
<b>Pet Care Total:</b>	\$

Education	
Tuition or loan payments	\$
Books & supplies	\$
Uniforms	\$
<b>Education Total:</b>	\$

Travel	
Accommodation	\$
Food	\$
Insurance	\$
Transportation	\$
<b>Travel Total:</b>	\$

Gifts and cards	
Holidays (e.g Easter, Christmas)	\$
Birthdays and anniversaries	\$
Weddings and showers	\$
<b>Gifts and Cards Total:</b>	\$

Personal business	
Supplies	\$
Photocopying	\$
Postage	\$
Bank and credit card fees	\$
Lawyer	\$
Accountant	\$
Tax agent	\$
<b>Personal Business Total:</b>	\$

## Money in the real world

### Task:

You are to create a budget based on a set income. You will need access to newspapers and the Internet to complete this activity, as well as enlist the help of the person at home responsible for paying your household's bills.

### Scenario:

Imagine your dream career.

Now search the employment section of your newspaper or use job search websites to find out about a position in that field at an entry level (assume you have attained the basic qualifications). Write out the key details here:

.....  
.....

Note the advertised salary for the position: .....

Go to the Australian Tax Office's website ([www.ato.gov.au](http://www.ato.gov.au)) and find out about tax rates. Depending on how much money you earn each year you must pay a portion of it in tax to the Federal Government.

Write down how much money you will earn after tax: .....

Now, divide that amount by 52 to determine your weekly income: .....

You now need to find a place to live. Based on the location of the position, search relevant newspapers or the Internet to find accommodation that you think would be suitable. Write the details down here including how much you will pay in rent each week.

.....  
.....

Paying rent is not going to be your only expense. You will also need to pay bills for electricity and/or gas and phone. And don't forget about home contents insurance. Ask the person responsible for paying the bills in your home to help you work out what you might pay for these expenses each week.

.....

Now you have to think about transport. At this stage you will be relying on public transport to get to work so access the [www.transinfo.qld.gov.au](http://www.transinfo.qld.gov.au) site to find out how much you will have to pay in commuter fees.

.....

Living away from home you might like to consider basic private health cover. Search online for a package that suits your needs. Add the weekly amount here.

.....

Now you can think about the fun stuff! What expenses are you likely to have each week in relation to socialising? e.g. movies, eating out/socialising, sport, gym memberships, magazines, etc.

.....

Okay, how about your food bill? Go to an online store such as [www.fooddirect.com.au](http://www.fooddirect.com.au) and work out how much you might spend on groceries each week.

.....

Now that you are working you also have to consider keeping your wardrobe up-to-date. How much are you likely to put aside towards new clothing each week?

.....

You'll want to enjoy your holidays when you get them. In order to enjoy them you will have to put some money away each week. Calculate what type of holiday you would like (usually you have one month a year of holidays when working full-time) and how much it will cost including travel expenses, food and spending money. How much will you need to save each week to enjoy your dream break?

.....

Okay, we're nearly there. What about savings for a car, your own place, a computer? How much can you commit to each pay?

.....

### ***Now we are ready to look at your budget***

Write your weekly income here: ..... (a)

Put the total of all your expenses here: ..... (b)

When you subtract (b) from (a), is there any left, are you in deficit? .....

### **Final analysis**

#### ***At home***

Discuss your budget and the final outcome with the person at home responsible for your household's budget. Consider the following questions in your discussion:

- How accurate do you think you were in your calculations?
- Is money going to be tight?
- Do you have to make any changes to your budget? What will they be?
- Have you been realistic?
- How does this budget compare with your real household budget?
- What other expenses might there be? Consider setting up a flat properly, if you had a car, an Internet connection, a mobile phone? How much money would be good to have saved in the bank before you moved out of home to help you manage the transition successfully?

### **At school**

Discuss with your partner the fact that you did have to live on a very tight budget. The lure of a credit card where you could borrow an amount of money to buy extras or things that you needed may be hard to resist. What sorts of things might you purchase on a credit card if you were living away from home for the first time? What advantages would there be in having a credit card? Can you think of any negatives associated with a credit card?

### **Do I need a credit card?**

Before you sign up for a credit card think carefully about what you are getting yourself into.

#### **Why get a credit card? The pluses and minuses...**

- |              |   |
|--------------|---|
| <b>Plus</b>  | Getting a credit card can be easy, you can have access to extra money almost straight away.   |
| <b>Minus</b> | Easy access to money comes at a price. There are always extra fees to pay. It doesn't mean the lender thinks you can afford the card, they are only interested in getting you signed up. You need to decide if you can really afford it.  |
| <b>Plus</b>  | I can pay for things straight away, I don't need to save up.  |
| <b>Minus</b> | You might buy things you don't really need just because you can. And remember you still pay for it eventually, with interest. Ease of payment does not mean ease of repayment.  |
| <b>Plus</b>  | Sometimes you need a visa card to buy things on the Internet or over the phone.   |
| <b>Minus</b> | Yes, but consider a debit card rather than a credit card – that way you are using your own money.   |
| <b>Plus</b>  | I can buy things on sale when I see them and save money.  |
| <b>Minus</b> | Often the interest charge on your card will be more than the money you save on a sale item.   |
| <b>Plus</b>  | Some companies let you increase your credit limit even when you owe money on your card.   |
| <b>Minus</b> | This is a way to get you to spend more of their money. You will end up owing more than you can afford.  |
| <b>Plus</b>  | I don't have to pay back the full amount on my credit card, the lender only asks for a set amount each month – I can manage that!   |
| <b>Minus</b> | If you only pay back the minimum amount you will end up paying back more in interest charges and find it hard to ever pay off your card – particularly if you continue to use it.   |
| <b>Plus</b>  | If a credit card helps me get out of a tough situation it can't be all that bad!  |
| <b>Minus</b> | Consider if there are any other alternatives before you use the card. A credit card may seem like an easy way to get a bit of extra money in tough times. But it still means you have borrowed the money from someone – and whenever you borrow money you usually have to pay back extra. |

- Plus** I'm pretty good with money, I think I can handle a credit card.  
**Minus** Maybe. But if you are good at budgeting you can live without a credit card. If you regularly put money aside to cover ongoing expenses and even emergencies you will be able to cope with busy financial times.
- Plus** Having a credit card means I will never miss a good deal.  
**Minus** Often if you offer to pay cash and try to negotiate you will get a better price from many businesses.

## Types of credit

There are many different types of credit designed to help you find easy ways to pay for goods and services. But remember, all types of credit involve lending you money at a price – you will usually pay extra for the convenience of using someone else's money.

When you leave school, you may find yourself using credit in the following ways:

- A credit card – a card that gives you access to a set amount of money to spend where you like.
- A store card – a credit card to be used in that store only, usually with a set limit.
- A mobile phone agreement – usually you pay for the phone/service as part of your regular bill rather than having to pay any costs up front.
- A personal loan – a small loan for a car, computer, etc that enables you to repay the money over a number of years.
- A student loan – usually organised through your place of study. You don't have to pay back the money until you start working full-time.

### Activity 1

Research examples of each type of credit listed above and complete the following questions:

- Find out the average interest rates charged and the time period for repayment on each option.
- Analyse the consequences of taking longer to repay the borrowed money under each option. (i.e. How much extra could you end up paying?)
- Imagine you had to purchase a computer urgently. Would a credit card or personal loan be the best option? Why?
- Investigate how the HECS system works. This is a system that enables you to borrow money for tertiary studies. What are the advantages and disadvantages of this system?
- Why might a pre-paid mobile phone be the best option for someone on a low income?

### Activity 2

Choose two of the money lending organisations from the following list and find out about the financial services they provide:

- bank;
- building society;
- insurance company;
- credit union;
- merchant bank;
- finance company; and
- home loan lender.

Describe the credit options they have available in relation to:

1. Credit Cards.
2. Personal Loans.
3. Home Loans.
4. Other Credit or Loans.

Discuss your findings with the class.

## Credit Cards – Using them wisely

Jim has a credit card that he uses for most of his purchases. Read his recent statement below and answer the questions that follow.

### EASI CREDIT BANK

Mr Jim Miller  
98 Strange Street  
Brisbane Qld 4000

### CREDIT CARD STATEMENT

Statement issued	4 May 2002
Account number	9867 2347 0987 6283
Payment due date	<u>29 May 2002</u>
Minimum amount due	<u>\$25.00</u>
Opening balance	\$144.35
New charges	\$262.03
Payments	\$144.03
Closing balance	<u>\$262.03</u>

Credit limit	Available credit	Annual rate	Daily rate
\$2000	\$1737.97	16.05%	0.04397%

Date	Reference number	Transaction details	Amount
12 Apr	DSJS79303YU77E339	Pizza Palace Taringa	\$26.50
13 Apr	DJDD3363G3BE8BHS	Goodbuy Supermarket I'pilly	\$61.10
17 Apr	87657454357G55VZ	Cinema Online 1134	\$22.00
22 Apr	7364648NCJHBD77D	World of Wheels Island Park	\$57.50
24 Apr	XDBSW86464HFWSK	Pizza Palace Taringa	\$19.90
28 Apr	DJDD3363G3AD7CIT	Goodbuy Supermarket I'pilly	\$54.43
01 May	T673Y3D829294754T	Pizza Palace Taringa	\$19.90
03 May	93457223VDJCFSERJ	FID Government Duty	\$00.70
14 Apr	455443743BDJDTQI	Payment Received	\$144.35

- Did Jim owe any money on his credit card at the beginning of this statement?
- What is the total purchase amount in the period shown?
- What is the total Jim had to pay by the due date to avoid any credit charges?
- Jim paid only the minimum amount due and spent \$230 in the next month. He also had a government charge of \$00.70. How much interest was Jim charged in the next statement issued on 5 June? (Jim's account charges interest from the statement's issue date for any amount not paid by the due date.) Show your working.
- What was the total amount of the next statement?
- On Jim's card, cash advances do not have an interest-free period. If he takes out a \$100.00 cash advance on 7 July, how much interest will be charged on 4 August?
- Discuss: What do you think are some of the strategies for using a credit card without getting into trouble with credit?

## Credit card agreements – What the terms mean

### Annual percentage rate

- Credit card companies disclose the interest rate in several ways, but you want to look at the Annual Percentage Rate (APR). This is the amount of interest, transaction fees and other charges that you will pay per year, expressed as a percentage. Although the APR is an estimate (it will vary a bit depending on how many transaction fees you incur and how large a balance you carry), federal law requires that it be calculated in a standard way. It is the best indicator of the actual interest you will pay.
- If you never carry a balance on your credit card, then the APR is not important. You won't ever pay interest. But, if you don't pay your bill in full each month, the APR is crucial. Obviously, the lower the APR, the better. But be sure to read the fine print. Some cards have a low "introductory rate" (also called a "teaser rate"). After a few months, the interest rate will skyrocket. Also, sometimes the advertised rate only applies to certain people, such as those earning a high income. The card company charges a much higher rate to those who don't qualify - which could mean an unpleasant surprise when your first bill arrives.

### Interest

- This is the extra money you repay in addition to the money you borrowed.

### Interest rate

- This is the amount of interest you will pay expressed as a rate. For example, 12% per annum. Put simply, this means that for every \$1000 you borrow you will have to pay back \$120 extra each year.

### Grace period

- This is the interest-free period of time between the purchase date and the bill due date. It is usually available only to those who do not carry a balance. If you pay your bill in full each month, make sure you have a grace period. Otherwise, you'll pay interest from the date of your purchase. If you carry a balance, a grace period is not important.

### Annual fees

- Some credit card companies charge you a flat fee (in addition to interest and other charges) for using their card. Some do not. If you pay off your balance each month, you want a card without an annual fee. If you carry a balance, a card with an annual fee but a low interest rate may be better than a card with no annual fee but a high interest rate.

### Transaction fees

- Most credit card companies also charge fees for cash advances and apply penalties if you pay the bill late or go over your credit limit. Check the fine print to see how high these charges can go.

### Higher interest rates for cash advances and late payments

- Virtually all credit cards charge higher interest rates for cash advances. And, with some cards, if you make late payments, the company imposes a new, much higher interest rate. If you think you might pay late once in a while (be realistic), check out these interest rates. Some exceed 20%.

### **Rebates, free miles and other perks**

- Many credit cards now allow you to earn cash back, free air travel, discounts on goods and services, funds for charity or other bonuses by using the card. Don't sign up for a card based on these perks alone - be sure to consider the other card terms as well. If you will pay high interest and high annual fees, you might be better off without the perks. You can use the money you save to buy airline tickets or contribute to your favourite charity.