

Lesson D1–1

Understanding Personal Finances and Goals

Unit D. Basic Agribusiness Principles and Skills

Problem Area I. Managing Personal Finances

Lesson I. Understanding Personal Finances and Goals

New Mexico Content Standard:

Pathway Strand: Agribusiness Systems

Standard: III: Apply generally accepted accounting principles and skills to manage budget, credit, and optimal application of AFNR business assets.

Benchmark: III-A: Use key accounting fundamentals to accomplish dependable book-keeping and associated files.

Performance Standard: 1. Budget resources (e.g., capital, human, financial, time). 2. Manage assets for optimum utilization. 3. Manage risk liabilities. 4. Evaluate credit uses and options. 5. Prepare and interpret financial statements (e.g., balance sheet, profit/loss statement, cash flow statement). 6. Prepare tax forms (e.g., W-4, I9, Depreciation, 1099, Workers Compensation). 7. Determine cost of doing business. 8. Compare and examine advantages and disadvantages of banking procedures (e.g., bank reconciliation). 9. Analyze investment options (e.g., buy, lease, finance, risk).

Student Learning Objectives. Instruction in this lesson should result in students achieving the following objectives:

1. Conduct budgeting of personal finances.
2. Develop financial goals.
3. Understand how to use and balance a checking account.
4. Compare characteristics of various types of investments.

List of Resources. The following resources may be useful in teaching this lesson:

Recommended Resources. One of the following resources should be selected to accompany the lesson:

Decisions & Dollars. Alexandria, Virginia: The Council for Agriculture Education, 1993. (Curriculum Binder, Unit I)

Other Resources. The following resources will be useful to students and teachers:

High School Financial Planning Program. National Endowment for Financial Education and Cooperative Extension Service. 1992.

Herbst, J. H. *Agricultural Credit Instruments.* VAS 6007. 1973.

List of Equipment, Tools, Supplies, and Facilities

Writing surface
Overhead projector
Transparencies from attached masters
Copies of student lab sheets

Terms. The following terms are presented in this lesson (shown in bold italics):

Bonds
Budget
Certificates of deposit
Checking account
Financial planning process
Goal
Insured savings account
Mutual funds
Overdrafts
Stocks
United States savings bonds

Interest Approach. Use an interest approach that will prepare the students for the lesson. Teachers often develop approaches for their unique class and student situations. A possible approach is included here.

Ask students how much money they spend in a week. Discuss how they decide what purchases to make. Relate this decision making process to budgeting.

Summary of Content and Teaching Strategies

Objective 1: Conduct budgeting of personal finances.

Anticipated Problem: What is budgeting?

- I. Financial management is important in organizing and managing personal resources.
 - A. Reasons for personal financial management.
 1. Financial management provides information like daily financial standing and for setting priorities and needs.
 2. Provides information for planning credit needs.
 3. Assists in tax planning and reporting.
 - B. Managing your finances provides numerous advantages.
 1. Accurate financial standing is available, versus an estimate.
 2. Personal net worth is easier to calculate.
 - C. There are some disadvantages to personal financial management.
 1. Initial set-up takes time.
 2. Regular updating is required.
 - D. A **budget** is a formal written or unwritten plan that projects the use of assets for a future time.
 1. To prepare a budget one needs to consider sources of income and items purchased.
 2. A budget categorizes the uses of cash as to whether they are a necessity or a luxury.

Before beginning this objective assign LS: D1–1A to get students thinking about their personal finances. Referring to Decisions & Dollars Unit I.A will be beneficial. Use TM: D1–1A to discuss the reasons to budget. After completing the instruction, evaluate the students' understanding of the concepts by assigning LS: D1–1B.

Objective 2: Develop financial goals.

Anticipated Problem: How are financial goals developed?

- II. Financial planning is a process, not an end-result.
 - A. **Financial planning process** is a series of steps that can be followed to meet specific goals and objectives.
 - B. There are six steps in the financial planning process.
 1. Gather personal and financial data.
 2. Establish financial goals and objectives.
 3. Analyze financial information to identify alternatives to achieve goals and objectives.
 4. Develop a financial plan.

5. Implement the plan.
 6. Review the plan on a regular basis.
- C. A **goal** is a broad, general statement specifying what the individual wants to accomplish.
1. Consider short-term, medium-term and long-term goals.

Use TM: D1–1B to discuss the financial planning process. Have students identify possible short-term, medium-term, and long-term goals. Have students prepare a written financial plan that identifies short-term, medium-term, and long-term goals.

Objective 3: Understand how to use and balance a checking account.

Anticipated Problem: How is a checking account used and how is it balanced?

- III. A checking account is useful to anyone.
- A. A **checking account** is an account in which a user makes deposits and may write checks to be paid from the account.
 - B. A checking account provides numerous advantages. These are:
 1. Reduces need to carry large quantities of cash.
 2. May be able to accrue interest while money is in the account.
 3. Safe way to pay by mail.
 4. Most all businesses accept checks.
 - C. A checking account has several disadvantages.
 1. A checking account may require monthly fees.
 2. Time is required to balance the checkbook monthly.
 3. There may be minimum balance requirements.
 4. Stolen or lost checks can result in loss of money from the account.
 5. Large charges are levied against **overdrafts**, when a check is written in an amount greater than the account balance.
 - D. There are various styles of checkbooks.
 1. A duplicate form copies the check. The duplicate remains in the checkbook.
 2. A stub with written check information remains in the end/top stub checkbook.
 3. Safety paper checks have a watermark that makes photocopying obvious.
 4. A desk set checkbook is a large binder with three checks per page.
 - E. There are certain guidelines that should be followed when writing checks.
 1. Write checks only in permanent ink.
 2. Always include the purpose of the check.
 3. Avoid leaving space next to the dollar sign.
 4. Void any check with a mistake.

- F. A checking account holder should balance the account on a monthly basis. This helps to reconcile the account holder's records with the monthly statement provided by the financial institution. Important steps in balancing a checkbook include:
1. Marking deposits and checks that have cleared the bank.
 2. Add to the current balance those checks that are written but not cleared.
 3. Subtract any deposits made but not cleared.
 4. Subtract any service charges and add any interest.
 5. Compare the ending balances in the checkbook against the monthly statement.

Using the Decisions & Dollars Unit 1.B will help in presenting this objective. Invite a local bank representative to discuss common problems they see with individuals' checking accounts. Use the LS: D1-1C to illustrate the process of reconciling a checking account.

Objective 4: Compare characteristics of various types of investments.

Anticipated Problem: What types of investments are available?

- IV. People make investments to earn returns. There are several types of relatively safe investments.
- A. An **insured savings account** is one type of investment.
1. They are available through banks, saving and loans associations, and other financial institutions.
 2. They are insured by a government agency.
 3. They are considered safe & convenient.
 4. They are also known as passbook savings accounts.
- B. **United States savings bonds** offer another alternative for savings.
1. Savings bonds are available through many financial institutions.
 2. They can be purchased through payroll deductions.
 3. They involve investing in the federal government by buying bonds with a set maturity date at a price below the face value.
- C. **Certificates of deposit (CD)** offer another safe form of investment.
1. CDs are savings certificates worth a specific amount of money, for a specific amount of time, with a set interest rate.
 2. A CD usually pays a higher interest rate than passbook savings accounts.
 3. They are fairly convenient.
- D. The U.S. Treasury Department issues treasury issues.
1. They include bills, notes and bonds.
 2. They can be purchased in denominations of \$1,000 to \$1 million.
 3. They mature from 30 days to more than five years.
- E. Bonds are another form of investment.
1. **Bonds** are certificates of debt.

2. They are issued by corporations or government agencies. Bonds promise payments of interest on specific dates.
 3. Original investment is also paid back at maturity.
- F. **Mutual funds** present another option for investment.
1. Individual investors pool their money.
 2. Professional money managers manage the pool.
- G. Stocks represent another investment alternative.
1. **Stocks** represent a share of ownership in a company.
 2. The value of the stock can increase or decrease based on performance of the company.

Using Decisions & Dollars Unit 1.C will be helpful in presenting this objective. Use TM: D1–1C to discuss investment options. Invite an investment counselor to talk about students' present and future options related to investing. Have students gather the current savings account rates and CD rates in your area and make a comparison to share with the class.

Review/Summary. Focus the review and summary of the lesson around the student learning objectives. Call on students to explain the content associated with each objective.

Application. Application can involve one or more of the following student activities using attached lab sheets:

- LS: D1–1A—Weekly Expenses
- LS: D1–1B—Monthly Budget
- LS: D1–1C—Reconciling a Checking Account

Evaluation. Evaluation should focus on student achievement of the objectives for the lesson. Various techniques can be used, such as student performance on the application activities. A sample written test is attached.

Answers to Sample Test:

Part One: Matching

1 = f, 2 = b, 3 = a, 4 = d, 5 = g, 6 = h, 7 = i, 8 = j, 9 = e, 10 = c

Part Two: Completion

- 1 = passbook
- 2 = higher
- 3 = permanent ink
- 4 = watermark
- 5 = review
- 6 = income, purchased

7 = performance

Part Three: Short Answer

1. Use Objective 4 as a guide to score this question.
2. A budget helps an individual know the useful life of his/her valuables. It is device for keeping organized and very helpful when in need of credit. It allows one to experiment with possible outcomes and it helps develop a plan.

Test

Lesson D1–1: Understanding Personal Finances and Goals

Part One: Matching

Instructions: Match the term with the correct response. Write the letter of the term by the definition.

- | | |
|---------------------------|-------------------------------|
| a. bond | f. insured savings account |
| b. budget | g. mutual fund |
| c. certificate of deposit | h. overdraft |
| d. checking account | i. stock |
| e. goal | j. United States savings bond |

- _____ 1. Account where money is deposited in a financial institution that pays minimal interest with the money being easily accessible.
- _____ 2. A formal written or unwritten plan that projects the use of assets for a future time.
- _____ 3. Type of investment in a corporation or government agency that pays back interest on specific dates and the original investment at maturity.
- _____ 4. Account where the user makes deposits and writes checks to be paid from the account.
- _____ 5. A collection of many individuals' investments managed by a professional.
- _____ 6. When a check is written in an amount greater than the account balance.
- _____ 7. A share of ownership in a company.
- _____ 8. Investing in the federal government by purchasing bonds with a set maturity date.
- _____ 9. A broad, general statement specifying what the individual wants to accomplish.
- _____ 10. A type of savings with a specific amount of money deposited for a specific amount of time with a set interest rate.

Part Two: Completion

Instructions: Provide the word or words to complete the following statements.

1. An insured savings account is also known as a _____ savings account.
2. Generally a certificate of deposit pays a _____ interest rate than an insured savings account.

3. All checks should be written using _____.
4. Safety paper checks have a _____ to make photocopies obvious.
5. The last step of the financial planning process is to _____ the plan on a regular basis.
6. To prepare a budget one needs to consider sources of _____ and items _____.
7. The value of stocks can increase or decrease based on the _____ of the company.

Part Three: Short Answer

Instructions: Provide information to answer the following questions.

1. Choose three types of investments and describe them, including advantages and disadvantages.

2. Why is budgeting important?

Why Budget?

- 1. Know useful life of your valuables**
- 2. Device for keeping organized**
- 3. Very helpful when in need of credit**
- 4. Can experiment with possible outcomes**
- 5. Helps develop a plan**

Financial Planning Process

- **Gather personal and financial data.**
- **Establish financial goals and objectives.**
- **Analyze financial information to identify alternatives to achieve goals and objectives.**
- **Develop a financial plan.**
- **Implement the plan.**
- **Review the plan on a regular basis.**

Types of Investments

- ***Insured savings account***—available through banks, saving and loans associations, and other financial institutions that pay simple interest.
- ***U.S. savings bonds***—available through many financial institutions, investing in the federal government by buying bonds with a set maturity date at a price below the face value.
- ***Certificates of deposit (CD)***—savings certificate worth a specific amount of money for a specific amount of time with a set interest rate.
- ***U.S. Treasury bills, notes and bonds***—purchased in denominations of \$1,000 to \$1 million, mature from 30 days to more than five years.
- ***Bonds***—issued by corporations or government agencies that promise payments of interest on specific dates with original investment being paid back at maturity.
- ***Mutual funds***—individual investors pool their money while professionals manage the funds.
- ***Stocks***—represent a share of ownership in a company.

Lab Sheet

Monthly Budget

Purpose:

1. To identify potential income and expenses over one month.
2. To categorize expenses as necessities or luxuries.
3. Calculate take-home pay.

Procedure:

1. Assume you have begun working full time. Your new salary is \$10.00 per hour. You will work 40 hours per week. Determine your take home pay, assuming withholdings of 28%.
2. Create a monthly budget to show the use of your funds. You will need to decide numerous things:
 - Do you own or rent?
 - What kind of vehicle will you drive?
 - What life insurance will you have?
 - Will you take medical insurance?
 - Do you plan to save?
 - Don't forget to budget for food, utilities, entertainment, clothing, etc.

Income	Amount	Expenses	Amount
TOTAL INCOME		TOTAL EXPENSES	

Lab Sheet

Reconciling a Checking Account

Purpose:

1. To allow students to practice reconciling a checking account.

Procedure:

1. Use this form to determine if the checkbook balances with the statement.

Balance shown in checkbook	\$3565.00
Balance shown on bank statement	4726.00
Paycheck deposited but not on statement	400.00

Checks written but not shown on statement

Gas bill for car (#202)	\$41.00
Animal feed (#203)	120.00
Cash for weekend (#205)	25.00
Car repairs (#206)	100.00
FFA convention expenses (#207)	95.00
Gas for car (#208)	20.00
Cash for weekend (#209)	40.00
Payment to market animals (#210)	15.00
Gift for a friend (#211)	25.00
Rental of animal facilities (#212)	125.00
Animal feed (#213)	140.00
Gas for car (#214)	15.00

Balance Sheet

Amount shown in checkbook		_____
Add deposits not shown		_____
A. Subtotal		_____

List of outstanding checks

B. Subtotal _____

C. Add Subtotal B to Subtotal A = Current balance _____

D. Balance on bank statement (should be the same as C) _____

Lab Sheet Key

Reconciling a Checking Account

Amount shown in checkbook \$3,565

Add deposits not shown \$400

A. Subtotal \$3965

List of outstanding checks

\$41.00

120.00

25.00

100.00

95.00

20.00

40.00

15.00

25.00

125.00

140.00

15.00

B. Subtotal 761

C. Add Subtotal B to Subtotal A = Current balance 4726

D. Balance on bank statement (should be the same as C) 4726