

## Student Guide

**Exercise:** Break into 4 groups. A household spent money on the following list of goods and services over several months. Categorize each expense into the table provided.

Auto insurance, auto maintenance, clothing, daily coffeeshop coffee, Disney Plus subscription, dining out, gas, groceries, haircuts, healthcare insurance, income taxes, interest on credit cards, lawn care services, mobile phone data/voice services, medical services co-pay, monthly magazine subscriptions, movie tickets, private school tuition, property taxes, Netflix subscription, rent, renters' insurance, utilities (electricity, garbage, recycling, sewer, water), Xbox subscription, vacation (airfare, lodging, & auto rental), video games, YouTube TV subscription.

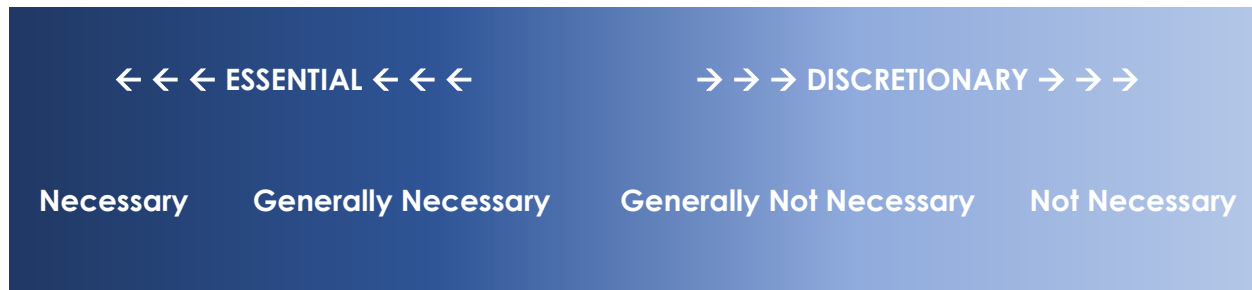
		Expense Classification	
		Essential	Discretionary
Expense Type	Fixed		
	Periodic		
	Variable		

### Spending Money – 3 types of expenses:

- Fixed – expense amount is routine and predictable
- Periodic – expense amount is predictable, but less routine
- Variable – expense amount is non-predictable and non-routine

### Classification of expenses – 2 classifications of expenses:

- Essential – expense is necessary or generally necessary to meet day-to-day needs
- Discretionary – expense is not necessary or generally not necessary to meet day-to-day needs



What is essential to some households and organizations may be discretionary to others. Accordingly, some judgement is necessary to classify expenses. Proper expense classification depends on each household and organization's financial circumstances and objectives.

When you spend money, your expense becomes another person or organization's income.

### Common essential expenses for households or individuals

- Clothing
- Food
- Interest on debts
- Shelter [rent or mortgage payments]
- Taxes
- Transportation
- Utilities [electricity, heating, sewer, water, etc.]

### Common essential expenses for organizations

- Employee salaries or wages
- Interest on debts
- Inventory
- Occupancy [rents or property payments]
- Supplies
- Taxes
- Utilities [electricity, heating, sewer, water, etc.]

Common discretionary expenses for households or households

- Entertainment [movies, music, video games]
- Subscriptions
- Vacations

Income taxes are a specific type of essential expense. Disposable income is income minus taxes. Disposable income represents what people can spend. Discretionary income is disposable income minus essential expenses other than taxes. Discretionary income represents what people can spend on non-essential goods and services.

- Disposable income = Income – Taxes
- Discretionary income = Disposable Income – Essential Expenses

### Key Takeaway

Certain expenses are essential because they are more necessary to satisfy day-to-day needs than discretionary expenses.