

FORM 4

CHAPTER 10

Self Test 1

- Financial management is a process that involves managing money from sources of income into savings, expenses, protection and investment.
- Five steps in financial management process:
 - Setting financial goals
 - Evaluating financial status
 - Creating financial plan
 - Executing/carrying out financial plan
 - Reviewing and revising the progress
- Short-term financial goals: (b), (d)
Long-term financial goals: (a), (c), (e), (f)
- (a)

Specific	Collecting funds for father's insurance premium
Measurable	A total of RM1 440 per person
Attainable	Achievable because everyone just needs to save RM4 per day
Realistic	Save RM120 every month, that is less than 10% of their minimum monthly salaries
Time-bound	1 year

Germaine and her siblings set their financial goal based on SMART concept.

- Faezah is not using the SMART concept to set her financial goal. Her monthly income is not known. The fixed monthly savings may be more than 10% of her monthly income.
 - Suzanna does not set her financial goal based on the SMART concept because the time-bound is not set and the goal is not clear in terms of "measurable", "attainable" and "realistic"
- 5 (a)

Specific	Save money for buying a set of sofa
Measurable	The price of the set of sofa is RM6 000
Attainable	Goal is attainable by saving RM500 every month
Realistic	Save RM500 every month, that is 12.5% of the income
Time-bound	1 year

(b)

Specific	Save money for dinner event to celebrate parents' wedding anniversary
Measurable	Cost of each share is RM5 000
Attainable	Goal is attainable by saving RM500 every month
Realistic	Save RM500 every month, that is 10.4% of the monthly income
Time-bound	10 months

- 6 (a) Cash flow = RM(2 800 + 500 – 550 – 1 400)
= RM1 350

Positive cash flow with a very substantial surplus of income. This amount can be used to invest to earn passive income.

$$(b) \text{ Cash flow} = \text{RM}(2\,800 + 750 - 890 - 690 - 1\,900) \\ = \text{RM}70$$

Positive cash flow but is not in a satisfying amount because Mazlan will not have enough money to invest.

- 7 (a) $P = \text{RM}(4\,085 - 2\,390 - 2\,100)$
= – RM405
- Saiful has deficit of income in his financial plan. His total expenses are more than his total income.
 - Saiful cannot achieve his short-term goal. Every month, the total fixed savings and the savings for emergency fund are able to cover the monthly deficit in which Saiful is left with the balance of RM160. The accumulative balance after 1 year is RM1 920, still far from the goal of RM5 000.
 - Saiful is not wise in his financial management because his monthly cash flow is in deficit and he does not have excess money for investment.

8 (a)

Income and Expenditure	Financial plan (RM)	
Net income		
Net salary of Mr Jaswan	8 900	
Net salary of his wife	4 600	
Total monthly income		13 500
Minus Fixed monthly savings (10% of monthly income)	1 350	
Savings for emergency fund	400	
Income balance		11 750
Minus monthly fixed expenses		
Housing loan instalment	2 750	
Car loan instalment	2 000	
Insurance premiums	1 500	
Total monthly fixed expenses		6 250
Minus monthly variable expenses		
Groceries and utility bills	800	
Petrol and toll	1 000	
Children	600	
Kitchen items	1 550	
Vacation	250	
Allowances for parents	600	
Total monthly variable expenses		4 800
Surplus of income or deficit		700

$$(b) (i) \text{ Total fixed monthly savings} = \text{RM}1\,350 \times 2 \times 12 \\ = \text{RM}32\,400$$

Mr Jaswan and his wife are able to achieve their financial goal.

- Mr Jaswan and his wife are wise in their financial management because they have positive cash flow, savings and protections as well as expenses on the basic needs in their financial plan. Surplus of income of RM700 every month can be used in investments and enjoy the passive income.

- (iii) Mr Jaswan and his wife use the SMART approach to achieve their financial goal.

Specific	Save money for the tuition fees of higher education institution
Measurable	The total fee of RM30 000
Attainable	Goal is attainable by saving RM1 250 every month
Realistic	10% of the monthly income is RM1 350, higher than the targeted monthly savings for the tuition fee
Time-bound	2 years

- (iv) They can achieve their financial goal easier and faster (the time-bound will become shorter than 2 years).

9 (a) Monthly savings for the down payment
 $= \text{RM}65\,000 \div (5 \times 12)$
 $= \text{RM}1\,083.33$

(b) Housing loan $= \text{RM}(650\,000 - 65\,000)$
 $= \text{RM}585\,000$
 Total interest $= \text{RM}585\,000 \times 5\% \times 30$
 $= \text{RM}877\,500$

Housing loan instalment $= \frac{\text{RM}(585\,000 + 877\,500)}{12(30)}$
 $= \text{RM}4\,062.50$

10% of the monthly income $= 10\% \times (\text{RM}9\,000)$
 $= \text{RM}900$

Cash flow $= \text{RM}9\,000 - \text{RM}900 - \text{RM}6\,300$
 $= \text{RM}1\,800$

It is unwise for Madam Wong to purchase the house worth RM650 000. Even though the goal of saving for the down payment can be achieved within the specified time frame, the payment of housing loan instalments will become a financial issue for Madam Wong and her husband. The housing loan instalment is RM4 062.50, but the surplus of income is only RM1 800.

SPM PRACTICE

Paper 1

1 C

2 C

3 D 10% of the monthly income $= 10\% \times (\text{RM}3\,850 + \text{RM}850)$
 $= \text{RM}470$

Cash flow $= \text{RM}(3\,850 + 850 - 470 - 100) -$
 $\text{RM}(650 + 565 + 200 + 1\,000)$
 $= \text{RM}1\,715$

4 B

5 C Total amount need to be saved by Chi Meng
 $= 80\% \times \text{RM}1\,780$
 $= \text{RM}1\,424$

Monthly savings $= \text{RM}1\,424 \div 6$
 $= \text{RM}237.33$

Percentage of fixed monthly savings from the total income

$$= \frac{\text{RM}237.33}{\text{RM}720 + \text{RM}250} \times 100\%$$

$$= \frac{\text{RM}237.33}{\text{RM}970} \times 100\%$$

$$= 24.5\%$$

Paper 2

Section A

1 (a) Cash flow $= \text{RM}2\,850 + \text{RM}500 - \text{RM}1\,800 - \text{RM}1\,400$
 $= \text{RM}150$

Suresh has a positive cash flow. His total income is more than the total expenses.

(b) Cash flow $= \text{RM}2\,850 + \text{RM}500 + \text{RM}280 - \text{RM}1\,800 -$
 $\text{RM}1\,400 - \text{RM}550$
 $= -\text{RM}120$

OR

Cash flow $= \text{RM}150 + \text{RM}280 - \text{RM}550$
 $= -\text{RM}120$

Suresh is experiencing deficit (negative cash flow) because his expenses increased tremendously and it is higher than his total income.

2 (a) Monthly savings to achieve his financial goal
 $= \text{RM}4\,300 \div 12$
 $= \text{RM}358.33$

(b) Fixed monthly savings $= 10\% \times \text{RM}2\,500$
 $= \text{RM}250$

Cash flow $= \text{RM}2\,500 - \text{RM}250 - \text{RM}2\,100$
 $= \text{RM}150$

Total fixed monthly savings and surplus of income
 $= \text{RM}250 + 150$
 $= \text{RM}400$

Misha can save money for car down payment. However, Misha has not calculated the car loan instalment that needs to be covered, which may exceed RM400 per month. Thus, Misha is not making a wise decision to buy the car.

3 (a) Fixed monthly savings $= 10\% \times (\text{RM}4\,000 + \text{RM}200)$
 $= \text{RM}420$

Encik Sufi's monthly cash flow $= \text{RM}(4\,000 + 200) -$
 $\text{RM}(420 + 100) - \text{RM}3\,510$
 $= \text{RM}170$

- (b) Encik Sufi uses the SMART approach when setting his financial goal.

Specific	Save money for buying a piece of land
Measurable	The land is worth of RM35 000
Attainable	The goal is attainable by saving RM583.33 every month
Realistic	RM583.33 is 13.9% from the total monthly income
Time-bound	5 years

(c) Total fixed monthly savings $= \text{RM}420 \times 12 \times 5$
 $= \text{RM}25\,200$

From Encik Sufi's total fixed monthly savings, he will not be successful in buying that piece of land because there is still shortage of RM9 800. If the monthly surplus of income is added to the savings, then Encik Sufi will successfully buy the land.

Suggestions:

- (i) To increase his fixed monthly savings. Save 14% of his total monthly income.
 (ii) To reduce the variable expenses.

Section B

4 (a)

Income and Expenditure	Financial plan (RM)	
Net income		
Net salary of Mr Kamal	5 800	
Net salary of his wife	4 900	
Passive income	1 000	
Total monthly income		11 700
Minus Fixed monthly savings (10% of monthly income)	1 170	
Savings for emergency fund	120	
Income balance		10 410

Minus monthly fixed expenses		
Housing loan instalment	2 100	
Car loan instalment	1 100	
Insurance premiums	1 650	
Education loan repayment (PTPTN)	250	
Total monthly fixed expenses		5 100
Minus monthly variable expenses		
Payment for day care and childcare	600	
Expenses on children	300	
Home utilities	850	
Petrol and toll payments	800	
Groceries	1 000	
Allowances for parents	600	
Savings for year-end vacation	300	
Total monthly variable expenses		4 450
Surplus of income or deficit		860

(b) Mr Kamal and his wife manage their financial wisely because they spend on basic needs, have protections and no credit cards debt. Their monthly cash flow is positive and there is substantial surplus of income which can be used to invest for the future.

$$5 \text{ (a) } P = \text{RM}7\,900 - \text{RM}790 - \text{RM}100 \\ = \text{RM}7\,010$$

$$Q = \text{RM}(1\,950 + 1\,100 + 830) \\ = \text{RM}3\,880$$

$$R = \text{RM}(1\,380 + 350 + 250 + 750 + 300 + 100) \\ = \text{RM}3\,130$$

$$S = \text{RM}(7\,010 - 3\,880 - 3\,130) \\ = \text{RM}0$$

$$(b) \text{ (i) Monthly savings} = \frac{\text{RM}150\,000}{15 \times 12} \\ = \text{RM}833.33$$

$$(ii) \text{ Additional monthly savings needed} \\ = \text{RM}833.33 - \text{RM}790 \\ = \text{RM}43.33$$

(iii) To reduce the expenses on entertainment by RM50.
(any suggestion to reduce the variable expenses is acceptable)