

Sources of income

WAGES AND SALARIES

While wages and salaries are both forms of remuneration (money paid for performing a service or for working), they are not the same thing.

Wages are payments made to a worker or an employee based on the number of hours they have worked over a period, usually a 40-hour week. Payment can be made on a weekly or a fortnightly basis. The more hours someone works, the higher the income they receive. A worker's income can increase further if some of the worked hours are paid at overtime rates (time-and-a-half or double-time). Wages tend to be paid to unskilled or semi-skilled workers (e.g. a labourer, check-out operator, restaurant server, bartender or janitor). Wages are also paid to some skilled workers who work shifts (e.g. a nurse or midwife).

Individuals on wages can be paid overtime rates. To calculate the rate for time-and-a-half, multiply the hourly rate by 1.5. To calculate the rate for double-time, multiply the hourly rate by 2.

For example, If the hourly rate is \$22, then time-and-a-half is \$33 ($\22×1.5). To calculate the rate for double-time, multiply the hourly rate by 2. For example, if the hourly rate is \$22, then the double-time rate is \$44 ($\22×2).

Aaron's hourly rate is \$25. He works 40 hours one week and 20 hours the next. Over the two weeks, before tax he will earn \$1 500 ($\25×60 hours). If he works 80 hours over the next two weeks, then his income before tax will be \$2 000 ($\25×80 hours).

Jacob's pay – hourly rate \$50		
Pay period	Hours worked	Calculation-income before tax
1	30	$\$30 \times \$50 = \$1\,500$
2	50, plus 5 at time-and-a-half	$(50 \times \$50) + (5 \times \$75) = \$2\,875$
3	60, plus 5 at double-time	$(60 \times \$50) + (5 \times \$100) = \$3\,500$

Teachers, financial advisors, chief executives and pilots are some occupations where individuals earn a salary. A salary is a set (fixed) amount of money paid to an individual. A salary is usually quoted on a yearly (per annum) basis, and is often paid to people working in the professions (e.g. law or accountancy) or white-collar (office) workers. A salary can be paid to a worker monthly or fortnightly.

COMMISSIONS AND ROYALTIES

Some individuals (e.g. real estate agents or sales representatives) receive a basic amount of pay for doing their job, called a retainer, and then can earn an extra amount based on any sales they make – a commission. The commission is usually an agreed percentage of the income earned on sales made. The greater number of sales made, the higher the commission earned.

A royalty is income earned by an individual based on a percentage of sales made of a product or service in which they have an interest. Royalties are often paid to: the owners of intellectual property, such as authors or musicians (copyright); the owners of an exclusive right granted for an invention (patent); or the owners of a licence that allows others to produce a good or provide a service using the franchise's operating systems and methods (franchise).

For an individual to calculate the commission (or royalty) earned, they need to multiply the sales made by the contractual rate. For example, total book sales are \$200 000 per annum, and Dan receives 8% on any sales made. Dan will receive \$16 000 ($\$200\,000 \times 0.08$). The percentage rate for a commission or a royalty will be clearly stated in the contract. The timeframe for payment will also be stated.

In a typical month, Jamie makes sales of \$100 000, from which she receives a commission of 5%. Typically, then, her income from commission each month is \$5 000, because it is the sales made multiplied by the contractual rate ($\$100\,000 \times 0.05 = \$5\,000$).

5 a State the likely form of income for the occupations or situations listed below, using the list of words provided. (Words can be used more than once.)

appearance fee, benefit, commission, endorsements, pension, performance bonus, prize winnings, profit, retainer, royalty, salary, transfer payment, wage

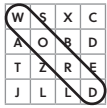
i	Bartender	Wage
ii	Pilot	Salary
iii	Top golfer	Appearance fee, prize winnings, endorsements
iv	Chief executive	Salary, performance bonus
v	Real estate agent	Retainer, commission
vi	Sales representative	Retainer, commission
vii	Entrepreneur	Profit
viii	Cleaner	Wage
ix	A retired doctor	Pension
x	An unemployed builder	Benefit, transfer payment

b Explain what a retainer, a commission and a bonus are.

Some people (e.g. real estate agents or sales representatives) receive a basic amount of pay for doing their job, called a retainer, and can then earn a commission on any sales they make. The commission is usually an agreed percentage of the income made on those sales. The greater the number of sales made, the higher the commission earned. Businesses can pay workers a bonus, which is additional income for reaching predetermined performance targets, or as a reward because the business has had a successful year. Bonuses can be paid at intervals during the year or at the end of the year.

c Unjumble the letters to indicate a type of income an individual might earn.

obsun	bonus
ctveia	active
sipvase	passive
sewag	wages
alyras	salary
onspnie	pension
retinset	interest
efe	fee
miscionsmo	commission
retovime	overtime
oincme	income



WORDFIND – INCOME TYPES

Find the words in the list on the grid above. The hidden word can be positioned in all directions, written from left to right, from right to left, horizontally, vertically or diagonally, but is always on one straight line.

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R
1	Q	Z	A	B	S	H	D	A	N	I	Y	A	O	D	R	T	Y	I
2	M	D	I	E	S	T	O	C	K	O	N	T	F	O	D	S	E	C
3	S	M	N	R	V	I	O	S	A	Y	H	C	L	E	W	S	R	U
4	V	B	H	I	E	F	G	C	U	L	E	L	O	W	A	A	L	Y
5	N	E	E	W	F	E	E	T	P	R	L	G	W	M	G	L	X	A
6	I	D	R	E	P	N	I	K	R	N	B	S	O	A	E	A	A	L
7	A	H	I	T	C	E	B	I	O	X	A	R	Y	P	A	R	T	T
8	G	F	T	R	L	B	A	I	G	T	S	A	T	A	R	Y	T	S
9	L	H	A	Q	U	B	S	G	R	Y	O	C	I	H	N	F	C	E
10	A	O	N	E	M	S	S	H	E	U	P	A	S	S	I	V	E	R
11	T	K	C	Y	I	G	E	E	S	L	S	S	A	T	N	X	R	E
12	I	G	E	M	N	T	T	W	S	K	I	H	R	T	E	M	I	T
13	P	M	M	O	B	A	S	H	I	J	D	Z	N	E	C	M	D	N
14	A	O	X	D	N	E	D	I	V	I	D	X	C	R	E	N	T	I
15	C	L	E	D	I	S	C	R	E	T	I	O	N	A	R	Y	D	E

ASSETS	G8-G13	FLOW	M2-M5
BENEFIT	F8-F2	INCOME	J1-O6
CAPITAL GAIN	A15-A5	INHERITANCE	C2-C12
CASH	L9-L12	INTEREST	R14-R7
COMMISSION	A15-J6	PASSIVE	K10-Q10
DIRECT TAX	Q13-Q5	PROGRESSIVE	I5-I15
DISCRETIONARY	D15-P15	RENT	N14-Q14
DISPOSABLE	K13-K4	SALARY	P3-P8
DIVIDEND	K14-D14	STOCK	E2-I2
EARN	O6-O9	WAGE	O3-O6
FEE	E5-G5		

5 a Explain what a budget is, and why someone might prepare one.

A budget is a plan of someone's expected or estimated income and expenditure (essential and non-essential) for a certain period (weekly, fortnightly or monthly). People often prepare a budget with a specific financial goal in mind, such as cutting down on unnecessary spending in order to reduce credit-card debt or save for a particular goal (e.g. education, a house deposit, an overseas holiday or a car).

b Outline several benefits of preparing a budget.

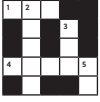
A well-planned and well-executed budget can allow a person to manage their money better, giving them greater control over their finances. This can help them avoid higher levels of debt, allow funds to be saved for an important goal, and help build up a good credit rating. A credit rating is one factor a bank or other lending institution will take into account when determining whether to give someone a loan, because it indicates how credit-worthy the person is, and how likely they are to pay their bills on time.

c Indicate if the following statements in the table are correct or incorrect.

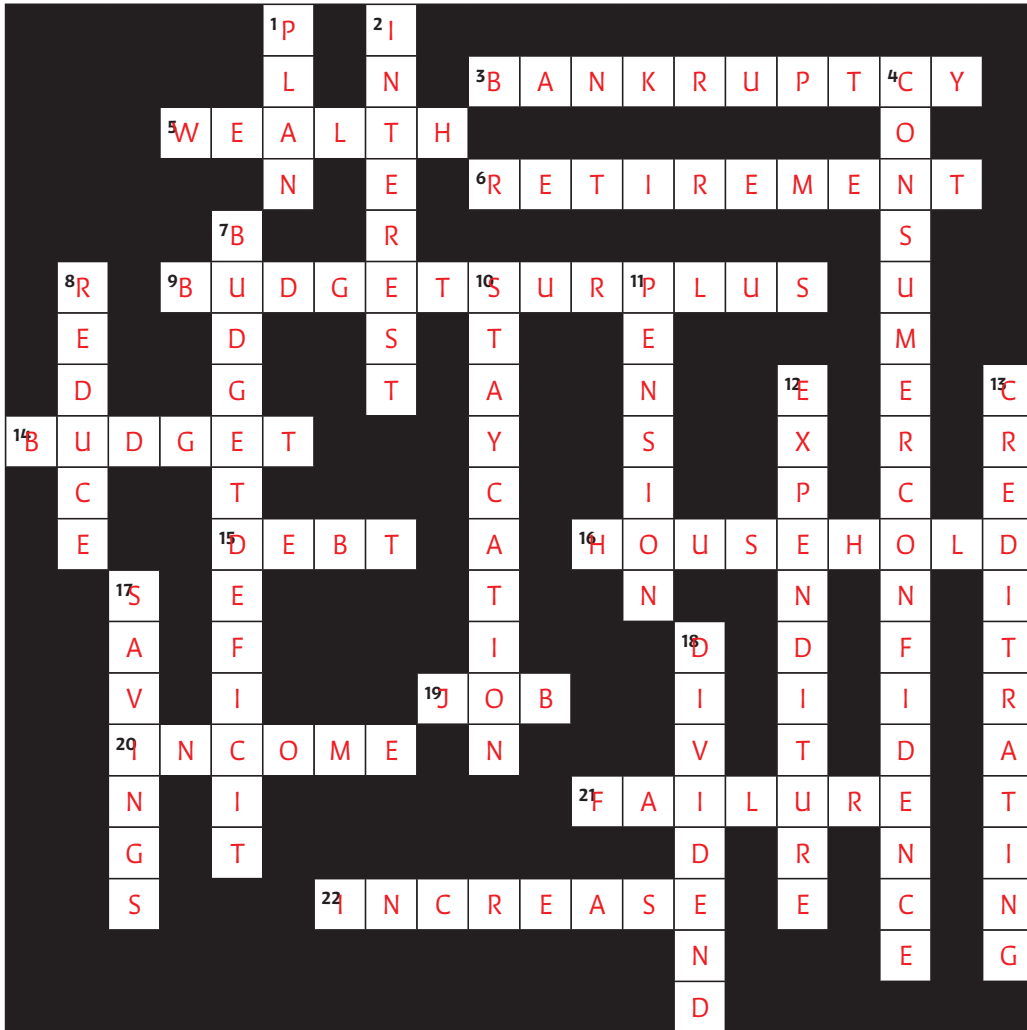
Statement	Correct/Incorrect
i A plan of expected income and expenditure is termed a budget.	Correct
ii If a person has a budget surplus, they can increase their spending or savings.	Correct
iii A budget should include income like race winnings, tips, and lottery winnings.	Incorrect
iv Savings is income not spent.	Correct
v If a person's planned income is greater than their planned spending, they have a budget surplus.	Correct
vi Overtime should not be included in a budget's income because it is not a regular income.	Correct
vii A budget deficit will always result in bankruptcy	Incorrect
viii When preparing a budget, income and expenditure should be converted into a common timeframe	Correct
ix A budget is not set in stone, because it may need to be adjusted to be more realistic or more suitable.	Correct
x A budget deficit is because of bad planning.	Incorrect

d Unjumble the letters to make a word or phrase related to budgeting.

tedgub	budget	nalp	plan
srupsul	surplus	idametest	estimated
ifedtic	deficit	seteasnil	essential
coneim	income	tesnialsonne	non-essential
xdeptruneie	expenditure	sinagsv	savings



CROSSWORD – BUDGETS



Across

- 3 Possible outcome from poor budgeting. (10)
- 5 Realisable assets determine a person's _____. (6)
- 6 Life after work has ceased. (10)
- 9 Planned income is greater than planned expenses. (6,7)
- 14 A plan of expected income and expected expenses. (6)
- 15 Money that is due or owed. (4)
- 16 A person or group of people living under one roof. (9)
- 19 Work. (3)
- 20 Money earned over a period. (6)
- 21 A failure to plan is a plan for _____. (7)
- 22 A way to improve a budget deficit is to _____ income. (8)

Down

- 1 A detailed proposal. (4)
- 2 Reward for having savings. (8)
- 4 How individuals view current economic conditions, financial position and job security. (8, 10)
- 7 Planned income is less than planned expenses. (6,7)
- 8 A way to improve a budget deficit is to _____ expenses. (6)
- 10 A cheap holiday at home. (10)
- 11 Regular payment to a retired person. (7)
- 12 Spending. (11)
- 13 A factor that determines if a bank will give an individual a loan. (6,6)
- 17 Income not spent (7)
- 18 Income for a shareholder. (8)