

NIOS lesson adaptation project

By EMBRACE Volunteers

(A community initiative of Harchan Foundation Trust)

Chapter 16

Managing Family Income

(Printable Version)

- **Simplified Lesson**
- **Previous Year Questions with Answers**
- **Terminal Questions**

This project is aimed at supporting children with different needs. Information provided is adapted to the best of knowledge by the volunteers. For complete information please refer to the NIOS resources in <https://www.nios.ac.in/online-course-material/secondary-courses.aspx>.

LESSON 16

Managing Family Income

Money:

- Money is required to fulfill the basic needs as well as comforts and luxuries of a human being.
- The money earned to meet these needs is called Income.
- Money is a limited resource and therefore needs to be managed carefully

Family Income

- ✓ The income from all sources like salary of family members, rents and interest received from banks.
- ✓ This family income has to be divided and spent on various heads of expenditure of the family like food, clothing, housing etc.

Savings:

- ❖ The money set aside by the family for use in times of need 'savings' .
- ❖ This may be used at any time in future for any purpose like family needs or emergencies, children's marriage or higher education.

Expenditure:

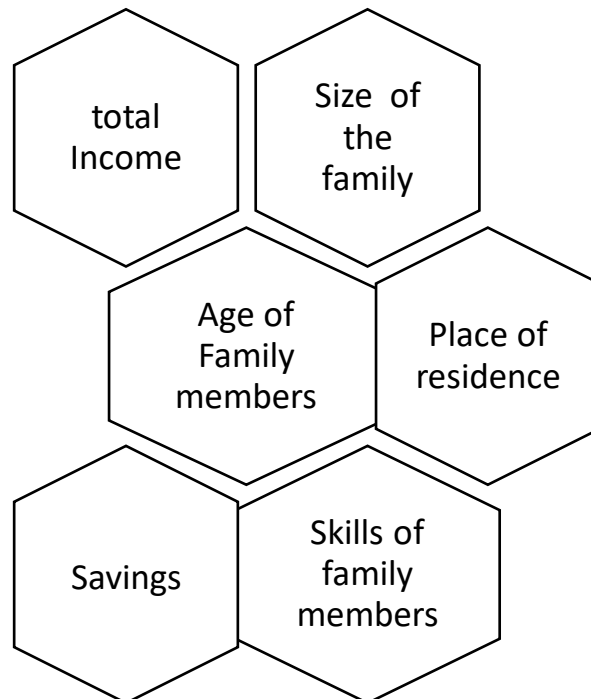
The money we spend on items and services which fulfill our needs is known as expenditure. Ex: money spent on food and transport.

- ❖ It has to be divided and spent on various heads (expenditure)
 - food
 - Clothing
 - housing
 - Education
 - Transport
 - Medical
 - Entertainment
 - Others

What is a spending plan?

- A spending plan is a planned way to spend money
- Is based on the total income of the family
- It helps the family to live within their income.
- Helps to save money for future needs and emergencies.

Spending plan depends upon:



- ❖ A spending plan has to be made individually by each family.
- ❖ Income and expense of every family is different from the other.
- ❖ To ensure that expenses are made according to the spending plan, a record of expenditure needs to be maintained

Importance of Family Spending Plan

- It helps to live within the income
- It helps to save money for future needs
- It helps to save money for emergencies
- Discourages impulse buying
- It helps to meet all the needs of the family members

How to make a Spending plan /Budget?

1. Find out total income

All the income of family members, rent, personal allowance, travel allowance.

2. List all requirements of the family

Food, clothes, rent, electricity, water, education etc.

3. Prioritize these needs

These decisions will be based on your total income and your goals in life.

4. Allocate funds keeping in mind the total income.

List all the items of expenditure and allot money to each of them

Factors to be considered for each item in budget:

Income, Size of the family, Age of the family members, Place of residence, Skills of the family members, Savings - the family wants to make

5. Keep some amount of the total money as savings.

Savings should be done for later needs It is advisable to save 10% of the income

6. Balance the spending plan

Proper distribution of funds between income and expenditure
balancing helps to make expenditure less than income can be done in two ways – Earn more or Cut down expenditure

Earn More -Find other sources of supplementary income like taking tuitions, stitching clothes, making handicraft articles etc.

Cut down expenditure - Do not waste food.

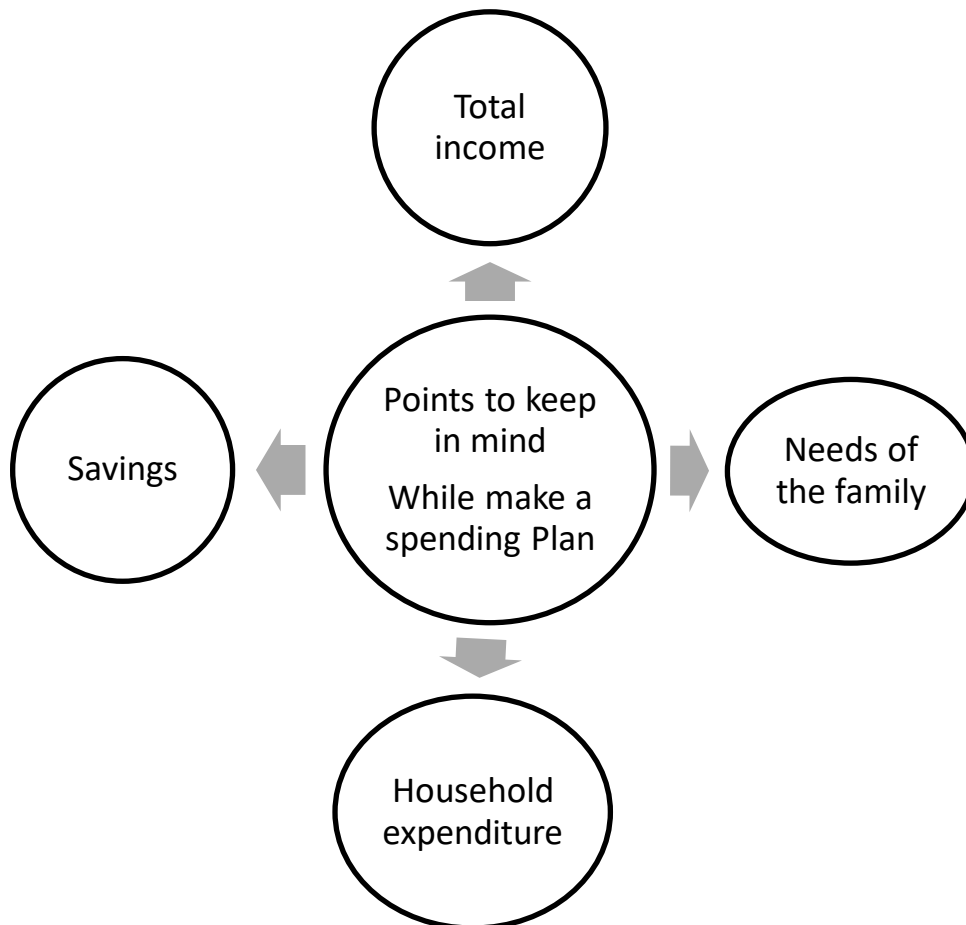
- Cut down on eating outside.
- Check extra expenditure on electricity, water etc.
- Ironing and washing at home.
- Economic use of stationery
- Use of public transport.
- Use of public library.
- Looking out for discounts.
- Avoid impulsive buying.

7. Keep record of all the expenditures

To know how much spent on each item

To check whether more or less spent on certain items previous month

Check old prices with new ones



All families have their own spending plan according to their needs. The items of expenditure in your family may be as follows:

Allocation of funds

The table below gives you an idea about the percentage of expenditure and the amount of money spent on each item

Items Of Expenditure	Amount(Rs)
Food (35%)	3500
Housing (20%)	2000
Clothing (5%) 500	500
Family recreation (5%)	500
Household operations (6%)	600
Transportation (8%)	800
Medical Expenses (3%)3	300
Education (5%)	500
Transportation (8%)	800
Furnishings (3%)	300
Savings (10%)	1000
Total	10000

This table shows Expenditure on various items for a family

Characteristics of a good budget:

- **Accurate estimates of income**

Exact amount of income available for expenditure.

- **Accurate estimate of expenditure**

Lookup the budget of the previous years or the records of past expenditures and savings.

- **Accurate allocation of money**

Determine present needs, wants and future changes of the family.

- **Flexible**

Is flexible so that unforeseen expenses can be taken care of.
flexible to divert from one item to another.

PREVIOUS YEARS QUESTIONS

1. List any three characteristics of a good budget.

3 marks

2. List any four characteristics of a good budget.

2 marks

Ans. The characteristics of a good budget are

Accurate estimates of income

Exact amount of income available for expenditure

Accurate estimate of expenditure

Lookup the budget of the previous years or the records of past expenditures and savings

Accurate allocation of money

Determine present needs, wants and future changes of the family

Flexible

Is flexible so that unforeseen expenses can be taken care of. Flexible to divert from one item to another

3. List any four factors that influence a family spends on different items.

Ans) Factors on which the allocation of money is decided are:

- ☐ **Income:** The total family income from all sources helps to decide how much to be spent on each item. More the income more will be money spent.
- ☐ **Size of family:** More the number of family members more will be the expenditure on food and clothing.
- ☐ **Age of family members:** In case there are school going children, expenditure on education, school uniform, stationary etc. will be more
- ☐ **Place of residence:** In big cities, cost of living, food, house rent, school fees are higher than in small towns and villages.
- ☐ **Skills:** If some family members have certain skills like making preserves or doing household repairs, then the family will have to spend less on getting such repairs done.

☐ Savings to be done

4. Define family income.

2

Ans) Family Income is the income earned by all the members of the family using their skills, rent from real estate, interest from savings and investments.

5. Rohan has two children studying in class 6th and 8th. He lives in a small town. What four factors would influence his spending plan?

2

Ans) Four factors which would influence Rohan's spending plan are

- House rent
- Food
- Education
- Savings

6. Give any four long term goals for which a family should save money.

2

Ans. Four long term goals for which a family should save money are as follows:

- Buy a house
- Medical emergency
- Retirement security
- Higher Educational expenses

7. Why is it necessary for a family to maintain record of its expenditure?

2

Ans) To know how much spent on each item

To check whether more or less spent on certain items previous month

Check old prices with new ones.

8. Explain with examples, how will a family decide on how much to spend on different items of a Spending Plan.

3

Ans) Assuming the salary of a family is Rs 10000 and the family comprises of a husband wife and a child of 8 years the family can

Plan accordingly

Items	Expenditure (Rs)
Food (35%)	3500
Housing (20%)	2000
Clothing (5%)	500
Education (5%)	500
Household operations (6%)	600
Family recreation(5%)	500
Transportation (8%)	800
Medical expenses (3%)	300
Furnishing (3%)	300

Saving (10%)	1000
Total	10000

9. What is a budget? Mention any three characteristics of a good budget.

4 Marks

Ans) Budget is proper planning which includes balancing of income and expenditure along with savings.

Characteristics of a good budget are:

Accurate estimates of income:

Exact amount of income available to us for expenditure.

Accurate estimates of expenditure:

Estimate expenditure by looking up the budget of previous year or the records of past expenditures.

Reasonably accurate allocation of money: The resources on expenditure side should be reasonably accurate. Some families budgeting for October-November will be extra spending on festivals and other occasions.

Flexible: Budget should allow us to divert some money from one item to another as per our need.

10. Suggest eight ways you can reduce your expenditure 4 Marks

(Malti wants to buy a house but is not able to save any money .

Suggest eight ways to her family members to reduce their expenses.)

Ans) Eight ways Malti can reduce the expenses are as follows:

- Do not waste food.
- Cut down on eating outside.
- Check extra expenditure on electricity, water etc.
- Ironing and washing at home.
- Economic use of stationery i.e. paper, pencils etc.
- Use of public transport.
- Use of cycle instead of a rickshaw.
- Use of public library instead of buying story books.
- Looking out for sales/ discounts and places where prices are comparatively lower.
- Shop in one trip.
- Avoid impulsive buying.

11. Define Savings. Give four reasons for your parents to save money from their monthly income and expenditure. 5 Marks

Ans) Savings is the money set aside by the family for use in times of need. It and may be used at any time in future for any purpose like family needs or emergencies, children's marriage or higher education, old age security, health emergencies or to buy luxury goods etc.

Four reasons for my parents to save money from their monthly income and expenditure are

- For me and my sister's higher education
- medical emergencies,
- House building
- Retirement security.

As a guide I would advise them to save about 10% of the monthly income.

TERMINAL QUESTIONS

1) Define the following:

a) Money Income: Whatever is earned in the form of money which comes into the family is the money income.

b) Direct and Indirect income:

Direct Income- Income that is direct such as salary from a job, rent from a house or shop, interest received from the bank.

Indirect Income- Indirect income is when we don't get any money in hand but save money to family by using skills like stitching clothes for family, growing vegetables at home for our consumption, knitting sweaters for family members

2) Give any five points highlighting the importance of family Spending plan.

Ans:

- It helps to live within the income
- It helps to save money for future needs
- It helps to save money for emergencies
- Discourages impulse buying
- It helps to meet all the needs of the family members

3) List the characteristics of a good budget.

Ans:

Accurate estimates of income

Exact amount of income available for expenditure

Accurate estimate of expenditure

Look up the budget of the previous years or the records of past expenditures and savings

Accurate allocation of money

determine present needs, wants and future changes of the family

Flexible

Is flexible so that unforeseen expenses can be taken care of.

flexible to divert from one item to another

4) Request your friend to discuss and plan family's spending plan. If they are not willing to do it.

- (i) Give two reasons to convince them about the importance of spending plan.
- (ii) Let them develop their spending plan.
- (iii) Give suggestions for improving it by supporting with reasons for each flaw in the plan.

Ans: Spending plan: Dear friend, you must ensure that some money is saved and the expenditure is less. You have to manage within your income for this. You need to plan the expenditure. This is known as managing income. For this you have to make a spending plan.

Reasons:

- ☐ If you do not make a spending plan, you are likely to spend more than what you have.
- ☐ Make your spending plan in order to save money.

5) Describe the term 'Spending plan' and explain the factors on which the allocation of money on different item is decided.

Ans: A spending plan is a planned approach to spend money. It is based on the total income of a family.

Factors on which the allocation of money is decided are:

- ☐ Income: The total family income from all sources helps to decide how much to be spent on each item. More the income more will be money spent.
- ☐ Size of family: More the number of family members more will be the expenditure on food and clothing.
- ☐ Age of family members: In case there are school going children, expenditure on education, school uniform, stationary etc. will be more
- ☐ Place of residence: In big cities, cost of living, food, house rent, school fees are higher than in small towns and villages.
- ☐ Skills: If some family members have certain skills like making preserves or doing household repairs, then the family will have to spend less on getting such repairs done.
- ☐ Savings to be done

6) Make a spending plan for the following families:

- (a) A family of four consisting of the parents and two children aged 12 and 17 years. They live in a rented house in Delhi. The father gets a salary of Rs. 5000.

Items of expenditure	Amount (Rs)
Food (35%)	1750
Housing (20%)	1000
Clothing (5%)	250
Household operations (5%)	250
Education (16%)	800
Transportation (6%)	300
Medical expenses (2%)	100
Savings (10%)	500
Miscellaneous (1%)	50

5000

(b) A family of six, grandparents, parents and two school going children 8 years and 12 years old. They live in a village and have a small farm which brings them an income of Rs. 3000. The school in the village does not charge any fees from its parents.

Items of expenditure	Amount (Rs)
Food(60%)	1800
Clothing (10%)	300
Household operations (5%)	150
Medical expenses (2%)	60
Saving (20%)	600
Miscellaneous (3%)	90

3000