

# L13- Income Management

## Keywords

Pocket money	Interest	Bank account	Soaring prices	Retirement
Business	Income	Money income (mi)	Savings	Bank
Real income(RI)	Income management	Primary and Secondary needs	Emergency	Provident Fund
Luxuries	Comforts	Expenditure	Predictable	Financial institutions
Spending plan	Day-to-day account	Market trends	Pension	Specimen of your signature
Rebate	Exempt from incometax	Insured	Premium	Contingency
Inflation	Pass book	Debenture	Shares	Provident Fund

## In-text Questions

### In-text Questions 13.1

1. Analyse and state whether the following are sources of money income (MI) or real income(RI).
  - a. Making pickles for your family (**Real Income**)
  - b. Growing vegetables and selling them (**Money Income**)
  - c. Baking cakes on order (**Money Income**)
  - d. Stitching your own clothes (**Real Income**)
  - e. Students coming to you for tuition (**Money Income**)

- f. Cleaning your car everyday (Real Income)
- g. Getting interest from the money deposited in bank (Money Income)
- h. Attending to electrical repairs of your house yourself (Real Income)
- i. Being provided with a scooter by your company (Real Income)

2. Read the following paragraph and then answer questions (a) and (b)

Mr. Lal and Mr. Anand both get a salary of Rs. 5000 each. Mr. Lal's office provides him with free lunch as well as petrol expenses for his scooter.

Mr. Anand's office has provided him a free living quarter, near the office.

- a. Which of the two men are enjoying a higher income?
- b. Give the reason for your answer.

Answer:

- a. Mr. Anand.
- b. House rent expenses are more than the expenses for lunch and petrol charges. Thus Mr. Anand is saving on rent and on transport expenses, which is more than Mr. Lal's savings.

## In-text Questions 13.2

- 1. Mark a tick (✓) on the item on which you should spend first. Give a reason for your choice.
  - a. Going out for a holiday or buying a refrigerator. (✓ buying a refrigerator)
  - b. Buying ice cream or buying nutritious food for your children. (✓ buying nutritious food for your children)
  - c. Buying a mixer grinder or replacing ordinary curtains with fancy ones. (✓ Buying a mixer grinder)

- d. Buying enough warm clothes for winter or buying a vacuum cleaner. (✓  
Buying enough warm clothes for winter)
- e. Buying a house or arranging for a holiday abroad. (✓ Buying a house)

### In-text Questions 13.3

1. State whether the following are true (T) or false (F). Justify your answer.

- a. Management of income is important only when you have a large income. (False)

Because: Management of Income needs to be done irrespective of the amount. Large income and small income both need careful management to avoid financial problems.

- b. When you have a small income it is managed by itself. (False)

Because: Management of Income needs to be done irrespective of the amount. Large income and small income both need careful management to avoid financial problems.

- c. When needs are too many, income management is out of question. (False)

Because: Income management is compulsory in all circumstances. Basic needs are Food, Clothing and Shelter. These can be achieved by planning with lower-cost alternatives.

- d. When desires are too many income management is useful. (True)

Because: Income management is compulsory in all circumstances. When desires are too many, income management tells us which desires need to be avoided. For example, the desire to buy a Harley Davidson bike can be avoided and instead Hero Splendour can be bought till you become the top manager /owner of a company.

- e. First step in income management is to make an assessment of your income. (False)

Because: Income management comprises both Income and expenditure.

2. Mr. Singh's salary is Rs 10,000. If his total expenditures for the first 9 days of are Rs 2156, Rs 1099, Rs 756, Rs 644, Rs 500, Rs 300, Rs 402, Rs 650. and Rs 806 respectively, calculate the balance of his salary on the 10th day.

### Mr Singh's Income and Expenditure Record

Day	Income in Rs/-	Expenditure in Rs/-	Balance in Rs/-
Day 1	10,000/-	2,156	$10,000 - 2,156 = 7,844$
Day 2	-	1,099	$7,844 - 1,099 = 6,745$
Day 3	-	756	$6,745 - 756 = 5,989$
Day 4	-	644	$5,989 - 644 = 5,345$
Day 5	-	500	$5,345 - 500 = 4,845$
Day 6	-	300	$4,845 - 300 = 4,545$
Day 7	-	402	$4,545 - 402 = 4,143$
Day 8	-	650	$4,143 - 650 = 3,493$
Day 9	-	806	$3,493 - 806 = 2,687$
Day 10	-	-	2,687

Hence, the balance on the 10<sup>th</sup> day is Rs 2,687/-

### In-text Questions 13.4

1. Comment on the following statements. Justify your answers (at least two points).

- a. Using a part of your house for commercial storage is a way of earning money.

Comment: We **cannot use** our residential house for commercial storage because the space where commercial storage is done is called a Warehouse.

To open a warehouse we need to take **licence** from the government.

- b. Engaging a servant for doing household chores in order to take up a part time job is a good choice to earn extra money.

Comment: Usually, part time jobs do not pay much. Hence, it is not a good idea to keep a servant for doing household chores in order to take up a part time job.

- c. Getting a full time job is always better than getting involved in income generating activity at home.

Comment: Any job or activity is good if it gives us sufficient money to satisfy our needs and reasonable wants. A job or activity which keeps us healthy and happy is considered good.

- d. An income generating activity is the only good answer for supplementing family income.

Comment: Supplementing family income can be done by reducing unnecessary expenditure (for example- buying new mobile phones now and then), and doing some house hold chores by ourselves (for example- Ironing our clothes)

## In-text Questions 13.5

1. Write two reasons for which each of the following families will save.

- a. Mr. Lal, a middle-income man is working in a private firm. He has two college going daughters. Mrs. Lal is a heart patient.

Reasons: Mr. Lal and family has to save to meet:

- i. Any medical emergencies
- ii. Forth coming wedding expenses

- b. Mr. and Mrs. Swamy are in their early forties. They have a school going son, who wants to become a doctor. This middle-income family lives in a rented house. They wish to have a high standard of living.

Reasons: Mr. and Mrs. Swamy need to save to meet:

- i. Their son's medical education fee.
- ii. House-construction expenses

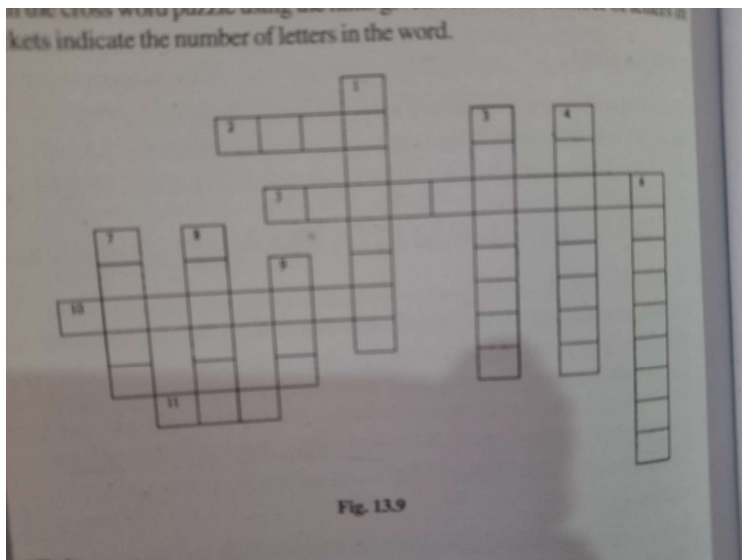
- c. Mr and Mrs Bose are a middle-aged couple having no children. Mr. Bose, a chartered account works in a private firm. They live in a rented house.

Reasons: Mr. and Mrs. Bose need to save to meet:

- i. Any future medical expenses
- ii. Old-age home expenses

## In-text Questions 13.6

Fill in the cross word puzzle using the hints given below. The number of letters in brackets indicates the number of letters in the word.



### Hints

#### ACROSS:

- 2 Facility offered by financial institutions (4)
- 5 A form of plastic money (10)

- 10 Another word for buying (8)
- 11 24 hr facility to withdraw money (3)

### DOWN

- 1 Worldwide network of computers (8)
- 3 Charged when credit card bill is partly paid (8)
- 4 Use of internet for financial services (9)
- 6 Money deducted from bank account when used (9)
- 7 Bought on loan from a bank (5)
- 8 Can use credit card to buy this for travelling (6)
- 9 Safe place to keep your money (4)

## Terminal Questions

1. Re-arrange the letters to denote the correct term for the following:
  - a. Maintaining day to day accounts DOERRC - **RECORD**
  - b. You wish to fulfill these after your needs are met REDSSIE - **DESIRES**
  - c. Money spent on acquiring goods and services TEENTPREXIU - **EXPENDITURE**
  - d. Money available to fulfill the family needs and desires EIOMNC - **INCOME**
  - e. Money kept aside for future use GNVSAIS - **SAVINGS**
  - f. Growth of savings by keeping in special schemes MIVNETTEN - **INVESTMENT**
  - g. Easily accessible institution for saving TOPS EFIFCO – **POST OFFICE**
  - h. Security against death or accident ECASUINRN - **INSURANCE**
  - i. Saving in NSCs gives you this advantage. XTA NTOMIEEXP – **TAX EXEMPTION**
  - j. Monthly deduction from the salary as compulsory saving NETIROVPD DUFN – **PROVIDENT FUND**
  - k. A fixed form of saving YERROTPP -**PROPERTY**

## 2. What is investment?

Answer: When savings are made to grow, it is called investment.

If we keep your savings at home:

- they do not grow
- there is a chance of them getting stolen
- there is a temptation to use the same to fulfill some present desire.

In order to avoid the above, we must put our savings in a bank or any other saving institution. Here, our savings are not only kept safe, but they also grow.

When savings are made to grow, it is called **investment**.

## 3. What are the ways in which a small saver can invest?

Answer: The ways in which a small saver can invest are:

- i. Post Office – Here one can start a savings account even with a very small amount, i.e. Rs 20. Also one does not have to pay income-tax on the interest earned in many of its schemes, like National Saving Certificates (NSC), Indira Vikas Patra, etc.
- ii. Public Provident Fund - Any self employed person can open this account with the State Bank of India or the post office.
- iii. Unit Trust of India - You can buy units in your name or in joint names from the Unit Trust of India (UTI). Each unit has a face value of Rs. 10. A minimum of 100 units has to be bought.

## 4. What are the factors you would consider before selecting a scheme of investment?



Answer: The factors we should consider before selecting a scheme of investment are:

Factor	Description
<b>Capacity to save</b>	A small saver should invest in a scheme which requires small initial investment amount
<b>Safety of the investment</b>	Invest carefully in investment schemes which fluctuate with market fluctuations like stocks
<b>Higher rate of interest</b>	Invest in a scheme which gives reasonable interest back
<b>Easy liquidity</b>	The schemes from which you can easily withdraw money in times of need must be preferred.
<b>Other benefits</b>	Besides a high rate of interest, there are some other benefits like dividends and income-tax relief which are offered by a few schemes.
<b>Convenient place of investment</b>	Most investments require paperwork. If the institution in which you invest is at a convenient place, visits can be made easily.

5. If you are the only earning member at home, which scheme would you invest in? Give reasons.

Answer: If I am the only earning member at home, I would invest in **Life Insurance** because:

- it is a safe investment
- it provides financial protection to the dependents in the event of death or disability
- it is an easy and forced form of saving
- it provides income-tax relief on the paid-up premiums, and
- loans can be taken against money deposited for the policy.

## Previous Year Questions

1. Differentiate between needs and desires with an example. 2

Answer:

Need	Desire
<p>Needs are deficiencies which must be fulfilled.</p> <p>For example, we need:</p> <ul style="list-style-type: none"> <li>• Food to live and keep healthy.</li> <li>• Clothing and shelter to protect our body.</li> </ul>	<p>When all our needs are fulfilled we begin to think of meeting our desires. What we desire is not really needed to carry on life, but still we wish to have it.</p> <p>For example, we may desire to have:</p> <ul style="list-style-type: none"> <li>• Some wall hangings for our house.</li> <li>• A three bedroom house in a particular locality</li> </ul>

2. Examine some of the services provided by e-banking. 4

Answer: Some of the services provided by e-banking are:

- Providing details about our bank balance, amount of credit available
- Helping in applying for a chequebook or draft
- Making it easy to do credit card payments etc.
- Assisting in purchase of goods from ecommerce sites
- Helping to purchase railway and air tickets
- Pay telephone, water and electricity bills

3. What are 'savings' and 'investments'? 2

Answer:

Savings	Investments
Money from the present income that is put aside for emergency or	When savings are made to grow, it is called <b>investment</b> .

Savings	Investments
<p>future use is known as <b>savings</b>.</p> <p><b>Guidelines for saving:</b></p> <ul style="list-style-type: none"> <li>• Have a realistic saving plan</li> <li>• Have a regular saving plan</li> <li>• Be clear about the purpose for saving</li> </ul>	<p><b>Factors influencing selection of an Investment scheme:</b></p> <ul style="list-style-type: none"> <li>• capacity to save</li> <li>• Safety of the investment</li> <li>• Easy liquidity</li> <li>• Higher rate of interest</li> </ul>

4. What is 'plastic money'? What are the advantages of ATM card? 6

Answer: Plastic money refers to **the hard plastic cards we use every day in place of actual bank notes**. For example ATM cards like credit card and debit card are electronic generated card that act as plastic money at the time of buying of goods and services.

The advantages of ATM card are:

- i. Using a credit or a debit card, you can withdraw money from an ATM at any time of the day or at night (24 Hours services).
  - ii. The ATM centres are located in various places like a bank building, shopping complex, a residential area or railway/bus terminals etc.
  - iii. Cash is available even beyond the bank hours.
  - iv. You can use them for no-contact purchase during these covid times at physical stores.
  - v. You can use the card to buy goods and services from e-commerce sites.
  - vi. We can immediately block the card if it gets stolen, by informing to the bank. Hence, it provides security to our money.
5. Convince a family to maintain a record of their income and expenditure with four reasons. [4]

Answer: It is important to maintain a record of income and expenditure for any family or business because it helps to:

- i. Understand your expenses to know exactly how much is being spent and on what.
  - ii. Check unnecessary spending - A look at the balance figure will remind you to spend only on what is really needed by your family.
  - iii. Compare the expenditures of different months - if your expenses for this month are higher than last month you will know exactly where and why you have spent more.
  - iv. Plan for the future - regular maintenance of accounts makes it easier for you to know how much money would be required for the various items in the future.
  - v. Be well informed of market trends - the rate column shows you when and how prices rise in the market.
6. Name *two* skills that you have learnt while studying Home Science that will help you in supplementing your family income. 1
- Answer: The *two* skills that I have learnt while studying Home Science that will help me in supplementing my family income are:
- i. Making Pickle and Jam and selling in my apartment building.
  - ii. Ironing my clothes to save money
  - iii. Sewing buttons to my clothes when they come off.
  - iv. Doing block printing on my clothes to beautify them.
7. Compare between General Provident Fund (GPF) and Public Provident Fund (PPF), and indicate which is more appropriate for salaried persons. 4

Answer: To protect the salaried people in old age after retiring from service, the Government has introduced 'a retirement benefit scheme' called the Provident Fund Scheme.

While the money accumulates in the fund, the Government uses it for the development projects in the country.

General Provident Fund (GPF)	Public Provident Fund (PPF)
<ul style="list-style-type: none"> <li>• <b>This is suitable for all salaried people.</b></li> <li>• If desired, the employee can increase the contribution towards the fund.</li> <li>• At the time of retirement, the employee gets both, the contribution and the interest, in a lumpsum.</li> <li>• If the employee needs money before retirement, say, for the marriage of children or for the construction of a house, a loan can be taken from the Provident Fund.</li> <li>• The money withdrawn can be returned to the fund in easy instalments every month.</li> </ul>	<ul style="list-style-type: none"> <li>• Any self employed person can open this account with the State Bank of India or the post office.</li> <li>• The money may be deposited either regularly in instalments or in lumpsum.</li> <li>• After five years, the investor can take back certain percentage of this money.</li> <li>• The investor also enjoys income-tax relief.</li> <li>• Loan can be taken against the money invested in the fund.</li> </ul>

8. What is an ATM card ? Mention three advantages of using an ATM card.

4

Answer: Plastic money refers to **the hard plastic cards we use every day in place of actual bank notes**. For example ATM cards like credit card and debit card are electronic generated card that act as plastic money at the time of buying of goods and services.

The advantages of ATM card are:

- i. Using a credit or a debit card, you can withdraw money from an ATM at any time of the day or at night (24 Hours services).
- ii. The ATM centres are located in various places like a bank building, shopping complex, a residential area or railway/bus terminals etc.
- iii. Cash is available even beyond the bank hours.
- iv. You can use them for no-contact purchase during these covid times at physical stores.
- v. You can use the card to buy goods and services from e-commerce sites.

9. 

Mohan is planning to take a general Insurance policy. Explain to him what is meant by general Insurance and its two advantages.	<b>4</b>
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Answer: **General Insurance** covers risks such as theft, fire, flood, drought or any other contingency.

The features of General Insurance are:

- The contract is generally made for an year.
- The insured has to pay the premiums periodically.
- The amount of the premiums to be paid will depend on the amount for which the contract is drawn up.
- In case of a loss suffered by the injured, he or she can recover the money from the insurance company.

The advantages of this policy are:

- it is an easy and forced form of savings
- it provides security against loss or risk.

10. 

In what <b>four</b> ways can the family members help in supplementing their income ?	<b>2</b>
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Answer: The four ways in which family members can help in supplementing income are:

- i. Adopt any income generating activity: Women sometimes make pickles and jams at home and then sell these.
- ii. Take up a part time job: In your neighbourhood, you may have seen some boys, girls or women taking up jobs in homes or shops for two hours/day or half a day only.
- iii. Invest savings to earn interest: If you have money, invest it. By investing, you not only keep your money safe and away from the temptation of spending, but also earn interest on it which can be added to your monthly income.
- iv. Make wise use of available resources: If you have a big house, a part of it can be given out on rent. Your tractor may not be needed by you all the time. You could let another farmer use it, on payment.

<p>11. Tell your family four advantages of maintaining a record of their expenditure.</p>	4
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Answer: It is important to maintain a record of income and expenditure for any family or business because it helps to:

- i. Understand your expenses to know exactly how much is being spent and on what.
- ii. Check unnecessary spending - A look at the balance figure will remind you to spend only on what is really needed by your family.
- iii. Compare the expenditures of different months - if your expenses for this month are higher than last month you will know exactly where and why you have spent more.

- iv. Plan for the future - regular maintenance of accounts makes it easier for you to know how much money would be required for the various items in the future.
- v. Be well informed of market trends - the rate column shows you when and how prices rise in the market.