MA IInd Year Lecture Notes Online

SemesterIVth

PaperII Specific Resource Management

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UnitII Money Management

Unit IV Work Simplifications

Money Management

Money Management:

Among all the resources that are available to the family, the most important one is money. Money plays an important role in the life of man as an instrument through which he can satisfy his physical, material and mental needs. The income and expenditure pattern of the family decides the family's standard of living and its place in the society.

1. Concept of Income

Income is the inflow of money, goods and services. Family income is one of the concept of income. It is defined as money or purchasing power earned by family members during a specific period of time and goods and services received or created in that time by the family eg. goods like vegetables from kitchen garden, services like doing household chores, teaching children etc.

Family income can be classified as:

1. Money income
2. Real income
3. Psychic income

1. Money income:

Money income is the cash available to a family from any source, over a period of time. The period can be daily, weekly, monthly or yearly. It is obtained in the form of a currency, bank draft or cheques.

Money income is tangible and is used for purchasing goods and services for the family. The sources of money income are given below.

Sources of money income

- **Salary**
- **Rent**
- **Bonus**
- **Profits**
- **Wages**
- **Cash gifts**
- **Dividends from shares**
- **Interest from banks**
- **Pension**

• **Investments**

• **Lotteries**

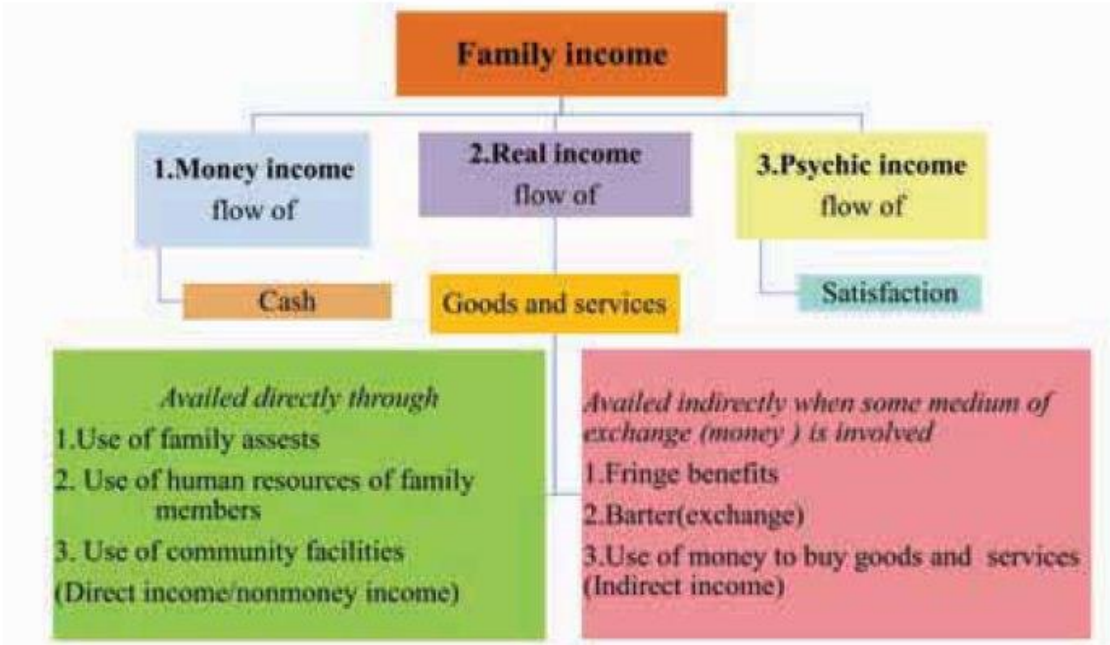


Fig. 4 Types of family income

2. Real income

Real income is the stream of goods and services available to a family over a period of time. Real income is derived from properties and possessions owned by a family, skills, efforts and abilities of the family members and also from community facilities. These goods and services may be available to a family either directly through direct contribution of family members or by community facilities or indirectly when some medium of exchange, usually money is involved.

3. **Psychic income:**

It is that flow of satisfaction that arises out of everyday experiences, derived largely from use of money and real income. It is intangible, subjective and is the most important income in terms of quality of living. Psychic income depends on the skills of family members in utilizing their money and commodities judiciously. Satisfaction derived out of flowers obtained from the plants at home is an example for psychic income.

2. Factors Affecting Income of a Family

Several factors affect income generation such as:

a. Skills and talents: If a person has tailoring skills, they can start a boutique, while a knowledgeable homemaker can conduct bakery classes and generate income.

b. Time and energy: A person with time and adequate energy would be able to supplement his income by doing additional work.

c. Interest in job: A higher interest in the job increases efficiency which in turn helps in career advancement through promotions and results in a higher salary.

d. Location of home: Living in a remote area may lead to lesser job opportunities as compared to Cosmopolitan cities where there are more job opportunities.

e. Investments/assets: The more a person invests, the more interest can be earned. Other assets like property/ land also help in generating income through rent.

Expenditure and Budget Management

EXPENDITURE AND BUDGET MANAGEMENT

Happiness of the family is secured by income use or expenditure. The outflow of money is called expenditure. After earning money, a family spends it on their various needs, basic necessities such as food, clothing and shelter. After their needs are fulfilled, the family desires to have comforts and luxuries, which makes the family members more comfortable. All these expenses are referred to as expenditure. Expenditure provides the satisfaction of life for the members of the family.

Factors Affecting Expenditure of a Family

Income: In low income groups, a major portion of income is spent on food whereas in high income groups only %50 of their money is spent on food.

Family size: Expenses on food, clothing, and education is more in larger families as compared to small sized families.

Family composition: In the expanding stage of the family more money is spent on education and clothes while in the contracting stage, more expenses are incurred on medicines.

Family status: Influenced by the social circles they move in, a considerable amount of cash may be spent by some families on, maintaining a number of cars, designer clothes, entertainment, luxury items.

Type of family: In a joint family, money is saved on rent and childcare.

Family values: Some people give more value to education and prefer spending more on books. Those giving more importance to religion spend more on religious activities.

Location: There is less expense in small towns as compared to that in cities. If the school or office is nearby, less money is spent on transport.

Skill, knowledge and an interest to save: A homemaker with her knowledge, skill and interest in culinary arts can prepare exotic dishes at home and thus reduce her expenditure.

Access to community facilities:

Community facilities help save expenses. A person using a library need not spend money on buying books.

Budgeting

The common planning device for the use of money is the budget. It is a carefully prepared spending plan based on the actual family income. It is a plan based on previous experience, present needs and future expectations. A budget is always prepared for a fixed period of time generally for a month. Budget is a guide to realistic spending aimed at avoiding over expenditure.

Importance of budgeting

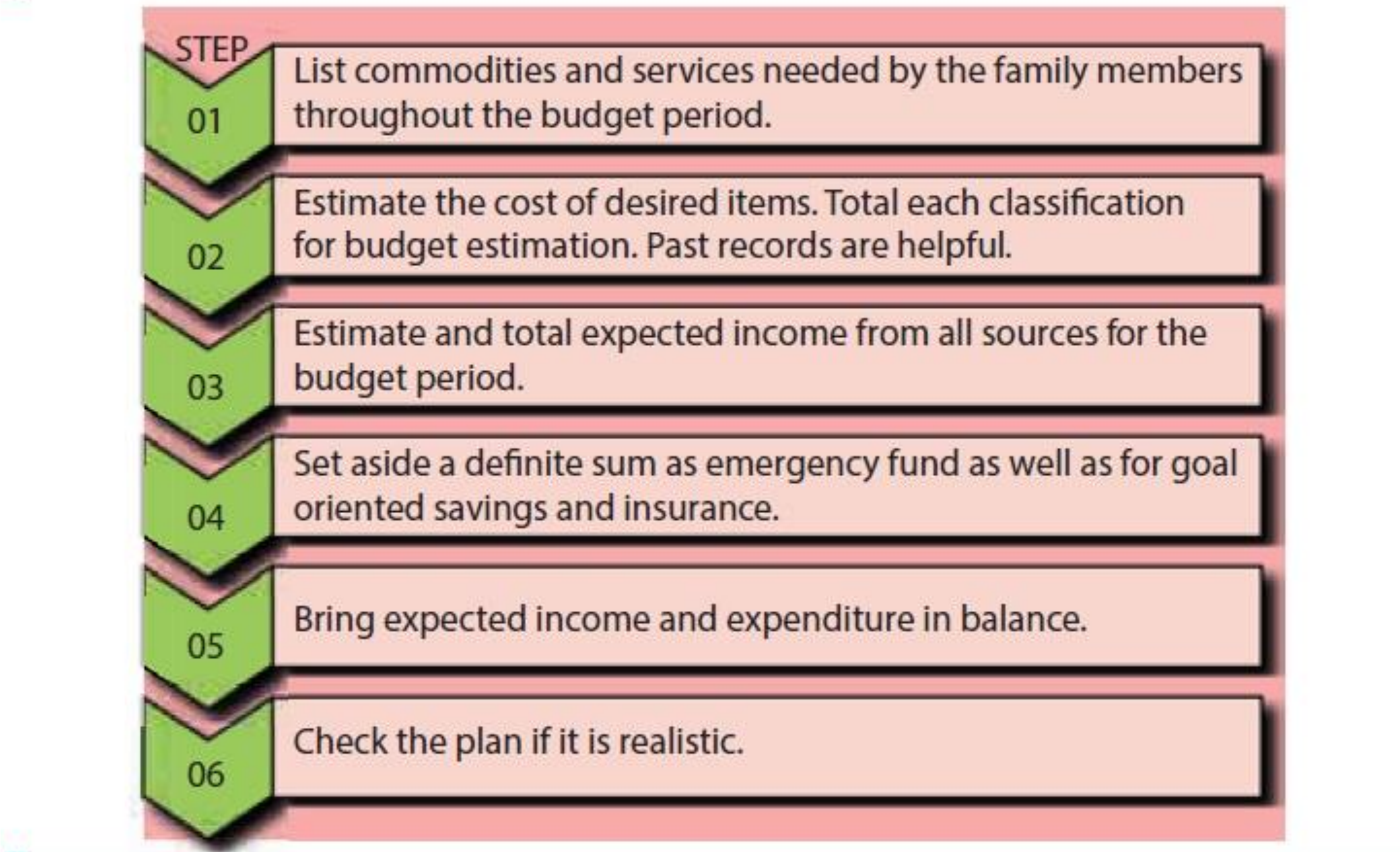
- Budget acts as an intelligent guide to spending.
- It enables a family to have an overall view of their income.
- Budgeting facilitates adjusting irregular income to regular expenditure.
- Budgeting helps people to discuss their needs and set their own priorities on them.
- It helps one to cut unnecessary expenditure.
- It helps one to be free from debts.
- It helps one to live within one’s income.
- It encourages conscious decision making which may help in including long term goals in the budget.
- It relieves the family members from worries of future.
- It forces one to decide what one wants most out of life.
- It provides for future saving.

Its success depends upon its being simple, realistic, flexible and suited to the family or individual for whom it is made.

The List of Budget Items

It is necessary to list the chief budget items to make sure that each item is attended to in the expenditure plan while portioning the income. Each family may have their own way of listing the items.

Steps in preparing the budget for a family are given below.

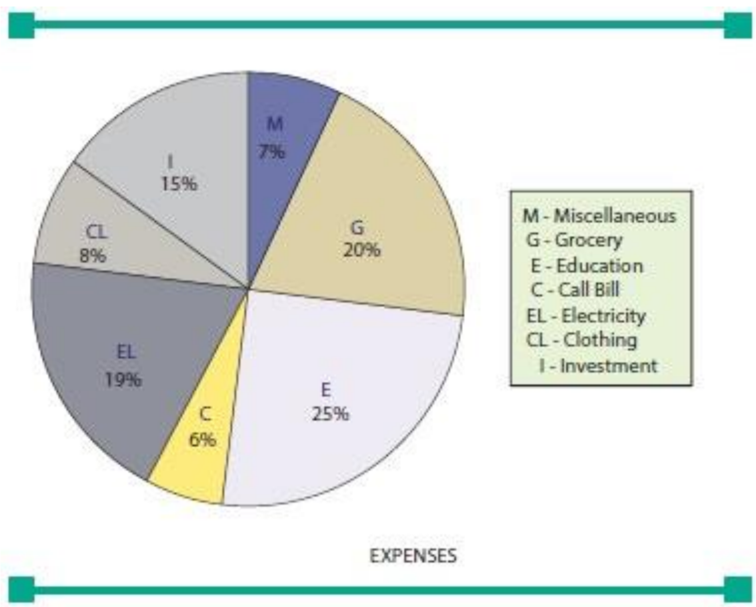


▲ Fig. 5 Steps in preparing budget

The chief budget items include:

i. Food
ii. Clothing

iii. Housing
iv. Education
v. Transport
vi. Personal Expenses (Sundries)
vii. Household Expenses
viii. Savings



SAVINGS AND INVESTMENTS

Money from the present income that is collected and put aside for future consumption is known as **savings**. Savings of a month is the difference between the income and expenditure of that month. Families should make sure that they save by cutting down their wasteful expenditures. The following figure shows the importance of savings and various institutions for savings and guidelines for selection of those institutions.

1. Bank Accounts

Savings Account

Current Account

2. Post office

Savings Account

Recurring Deposit Scheme

Post Office Time Deposit Scheme

3. Provident Fund
General Provident Fund

Contributory Provident Fund

4. Life Insurance Scheme

LIC (Whole Life Policy)

Medical Insurance Scheme

Endowment Policy

5. Units of Unit Trust of India

6. Shares and debentures

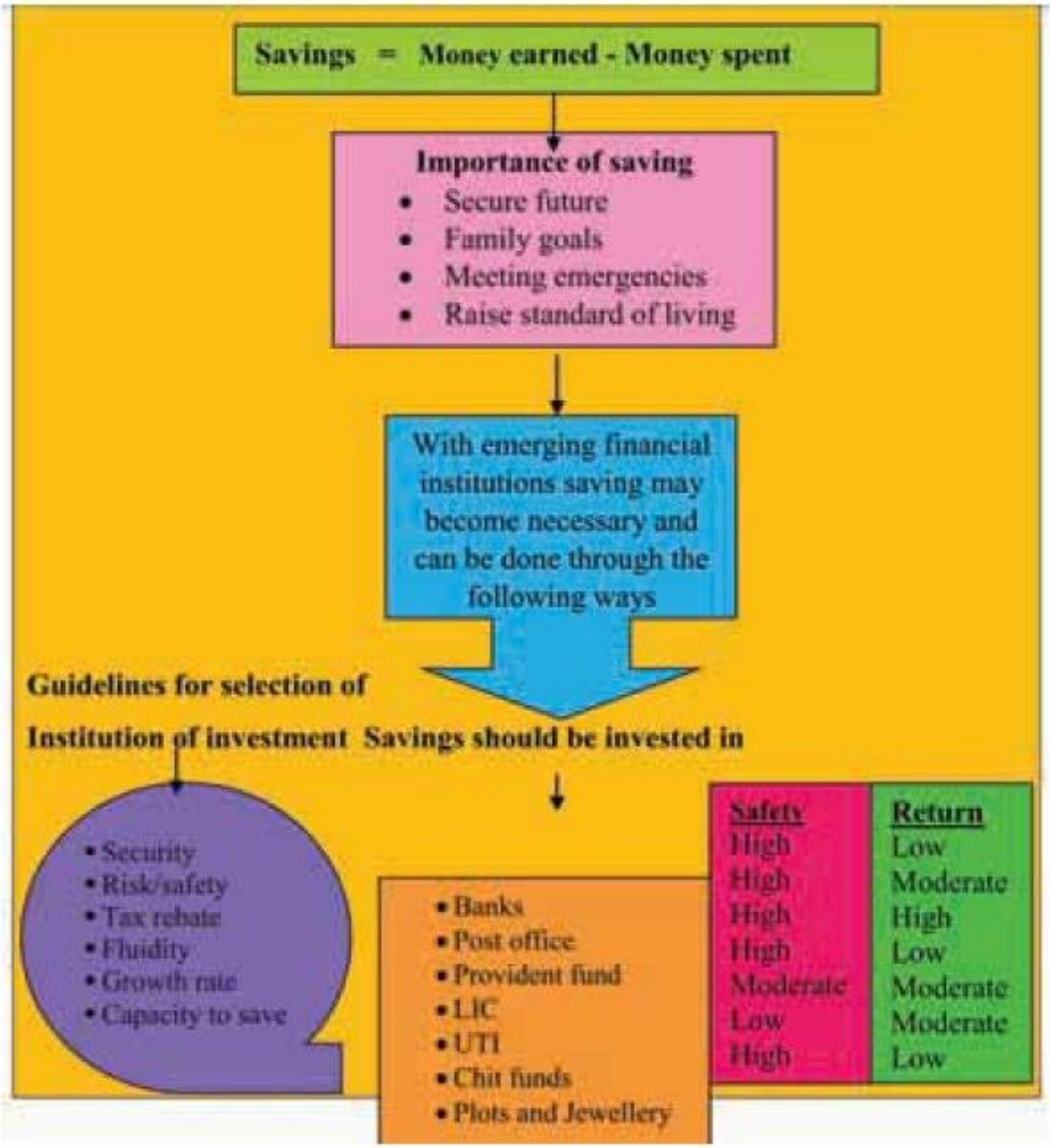
7. Bonds

8. Chit Funds

9. Real Estate

10. Gold, Silver Jewellerys:

Important Avenues of Investment:
When the **savings** are made to grow, it is called investment. There are various avenues of investment. They are:



▲ Fig. 6 Importance of Savings and Institution

Banks:

An investor deposits his savings in a bank account which earns him a nominal rate of interest. Besides banking, the banks offer a series of diverse financial services such as loans, credit cards, ATMs (Automatic Teller Machines). With the computerization and networking of some of the banks, their services have become faster and customers can operate their account from any of its branches. This is called core banking. These are the main accounts used for depositing money in a bank.

1. Savings Account	• An individual can open this account either singly or jointly. The minimum balance amount required in an account with nationalized banks is ₹ 500/- and ₹ 1000/-* with cheque book facility. This amount may vary in private banks. • The deposit can be made as and when the investor desires. Withdrawals are done with the help of cheques or withdrawal slips. A passbook is also provided for the record of deposits (credits) and withdrawals (debits). • **Advantages of paying through cheques:** Cheques are considered safe method because 1) Cheques are deposited directly into the payee's account. 2) Currency is not handled directly by either the payer or the payee. 3) Cheques are an unquestionable proof of having paid or received a payment.

2. Current Account	•	This account is suitable for business persons who would like to keep their money in safe custody and withdraw or make payments as and when required.
	•	There is no limit to the number of withdrawals. A person can withdraw his money any number of times.
	•	No interest is paid in this account.
	•	The bank charges for the services of keeping the money safe and offering it whenever required.
3. Fixed Deposit Account	•	A certain amount of money is deposited in the bank for a fixed period.
	•	The interest rate varies with the period of investment. The interest rate is higher than that of the ordinary savings account.
	•	After the stipulated period, the principal amount and the total interest is paid to the investor.
	•	An investment up to 1 lakh for 5 years qualifies for tax rebate.
4. Recurring Deposit	•	This is an ideal form of savings for those having salaried income with a view to inculcate a regular saving habit.
	•	A fixed amount of money (core money) is deposited every month (only once, between 1st -10th). At the end of the term the amount is paid.

Post Office:

Post offices are situated in every locality and are found even in remote areas. There are various post office schemes, each having its distinct advantages.

1. Post Office Saving Accounts	•	For opening of new account the introduction of depositor is necessary by a responsible person.
	•	This is simple account involving a minimum deposit of ₹ 50/-
	•	A cheque book facility is available; subject to a minimum balance of ₹ 500/-* in the account.
	•	Maximum amount allowed in a single account is 1 lakh * and 2 lakh in a joint account. However, there is no limit for group/institutional account.
	•	The rate of interest is 4 %* per annum.

2. Post Office Recurring Deposit Scheme	• Any individual (a single adult or two adults jointly) can open a account. • Minimum: Rs.10/- and multiples of Rs.5/- thereafter. Maximu No limit. • Maturity period: 5 years. • Rate of interest 7.1% per annum with effect from 01.07.2017 • One withdrawal up to 50% of the balance allowed after one yea • Premature closure allowed after three years. • Interest earned is deductible under Section 80L of I.T. Act.
3. National Saving Certificate	• These can be purchased by an adult for himself or on behalf of minor, jointly by two adults, a minor and a trust. • Certificates in denominations of ₹ 100/-, 500/-, 1000/-, 5000/ and 10,000/- may be purchased from any post office, eith directly or through authorised agents. • Minimum ₹ 100/- can be invested. There is no limit on amou of investment. • Period of maturity is 6 years. • Interest rate is 7.8%* per annum, (w.e.f 01-07-2017). • Deposit qualifies for tax rebate. • Premature withdrawals are not allowed. • Certificates can be kept as collateral security to get loan fro banks.

Provident fund:

1. General Provident Fund	• It is compulsory only for government employees. • 10% of basic salary is contributed in the provident fund. • The employee can take loan from this fund and can return the loan in easy instalments every month, deducted from his/her salary. • At the time of retirement, the person gets this money in lump sum and pension. • Get tax rebate on amount invested. • Rate of interest is 8.5%.
2. Contributory Provident Fund	• This is compulsory for private and semi-private company employees. • In this both employee and the employer contribute certain percentage of money. On retirement, the employee gets his/her part of contribution in a lump sum but he/she gets employers' contribution in instalments as pension. • Eligible for tax rebate.
3. Public Provident Fund	• This is a statutory scheme of central government framed under the provisions of the Public Provident Fund Act, 1968. Such account can be opened in any Head Post Office, any branch of the State Bank of India and selected branches of other Nationalized Banks. • This is a 15 year scheme and the rate of interest is 8.8% • Only one Public Provident Fund account can be opened by any adult in his/her names or as guardian of a minor. • Invested amount can be minimum ₹ 500/- and maximum ₹ 1, 00,000/- in a financial year. The financial year starts from year ending 31st March.

Insurance:

Insurance is provided by private as well as government institutions. Life Insurance Corporation is provided by government of India. It is a means of providing against loss caused by natural or manmade factors. It is the most popular method of securing the future.

LIC has a variety of schemes to choose from. These schemes cater to all categories of people and to their diverse needs. Some of the popular schemes are given below:

1. New Money Back Plan- (20 years)	• This is a participating non-linked plan which offers an attractive combination of protection against death throughout the term of the plan. • Also there is periodic payment on survival at specified durations during the term. • This unique combination provides financial support for the family of the deceased policyholder any time before maturity and lump sum amount at the time of maturity for the surviving policyholders. • This plan also takes care of liquidity needs through its loan facility. • In case of Life Assured surviving to the end of the specified durations 20% of the Basic Sum Assured at the end of each of 5th, 10th and 15th policy year. • In case of Life Assured surviving the stipulated date of maturity, 40% of the Basic Sum Assured along with vested Simple Reversionary Bonuses and Final Additional Bonus, if any, shall be payable.
2. Term Policy- AnmolJeevan and AmulyaJeevan - II	• These are a protection plan which provides financial protection to the insured's family in case of his/her unfortunate demise. • **Death Benefit:** In case of unfortunate death of the life assured during the policy term Sum Assured shall be payable. • On survival to the end of the policy term, nothing shall be payable.
3. Medical Insurance	• One year temporary medical assurance is provided to the insured. • This policy needs to be bought every year. • It has the benefit of 100% tax rebate and provides insurance cover for any hospitalization, major operation or illness. Some concession is given if the scheme is purchased for the whole family.

Shares:

Shares are a fractional part of the capital of a company. When a company wants to develop, they float shares to the public.

When a person buys shares she becomes part owner of the company. She will then share both profit and loss of the company. The profits are called dividends.

- A person can get high rate of interest, if the company is making profits.
- Dividends are taxfree.
- There is a risk of losing money, in case the company goes in a loss.

· Investor may not be able to find a suitable buyer for his/her shares or may not get a good price.

Debentures:

A debenture is an instrument of debt. Debenture holder is a creditor to the company who loans funds to the company for a period of time against a fixed rate of interest.

Units:

Mutual fund is a public and private sector financial institution which offers various schemes for attracting investments from public. It issues units to the investors (unit holders) and invests the collected amount in securities. Each unit is of Rs 10/. Profit and losses are shared by the investors in proportion to their investment. Mutual fund is required to be registered under SEBI (Securities Board of India), before it can collect funds from public. SEBI protects the interest of investors and regulates the securities market.

· Open end fund scheme is available for subscription and repurchase on a continuous basis. These do not have a stipulated maturity date.

· Close end fund these schemes have a stipulated maturity period. Fund is open for subscription only for a specified period of time.

· Investors have an option to sell back the units to mutual fund at the NAV (Net Asset Value) market value of assets.

· Tax rebate is available under some schemes such as ULIP (Unit Linked Insurance Plan and Pension Plans).

· There is no limit on investment in some schemes.

- Units can be pledged as security for loans.

- Unit holders can switch from close end to open end schemes.

- Some schemes may have high risk and high rate of interest. On the other hand, some schemes have fixed rate of interest but no risk.

- Dividends are tax free.

Bonds:

Bonds are also debentures which are issued by government or Government Company. On liquidation (closing) of the company, the creditor is secured.

Chit Funds:

This is an easy and simple device where a group of people join as committee and agree to contribute a fixed sum every month. Chits are taken out once every month. Chits are taken out once every month. The promoter gets the first collection and after that, whosoever gets his name on the chit drawn, gets the money.