Unit Code:	UNIT- 5 TITLE: WHAT IS INCOME			
	Duration:			
	Session 1: Income			
Location: Class Room, FMM Lab, Family Interaction	**Learning Outcome**	**Knowledge Evaluation**	**Performance Evaluation**	**Teaching and Training Method**
	Define Income Identify the sources of Income	Find the types of income	Collect the various parts of income Resources	**Interactive lecture:** Discuss the types of income and its outcomes **Activity:** Measure the income with various allowances.
	Session 2:Measurement of Income			
	Define Taxes Identify Disposable income	Collect the data of Taxes	Distinguish between Taxable and Non-Taxable Income	**Interactive lecture:** Calculate the income before and after Taxes **Activity:** Design Latest Tax Plan.

UNIT 5 : WHAT IS INCOME ?

In this chapter we will learn :

- **What is income/incoming money?**
- **How do taxes and other deductions affect your income?**

Ask any business owner, and they'll tell you cash is the lifeblood of their business. Cash is to personal financial planning as petrol is to your moped or scooter. Without either, you're not going very far. Think back to the previous lesson where you had some goals which you wished to achieve. One of the problems you had to solve was the money to save. But where does the money come from? You need to earn and retain the money from the plan you do on your earnings, spending, and savings. A **budget** is a plan for managing money during a given period of time. Budgets are not made only by the governments, your mother makes a budget. She tries to plan expenditure using the available income every month. In some cases every day.

You decide the length of time you want to use your budget. It helps you to properly plan and achieve your set goals. To begin with let us look at the various components which create a Budget.

Income ?

Income may be defined as the true increase in the amount of wealth which comes to a person during a fixed period of time. Income may be received in cash or in kind. So Income is the money earned, whether from salary, business, profession, renting a property, sale of assets, gifts, interest on deposits or any other source.

Income is 'money coming in'. There are many ways you can receive money. Most people think of income as money earned from a job. But let's get a little more creative view on incomes.

> Do you receive an allowance? You've got an income.

> Do you get money on your birthday? That's income, too.

> Does a doctor, lawyer or an engineer, get fees for his/her service? It is an income

> When you have a job, you will receive a monthly salary or pay cheque as it is called income.

> If your father (or mother) has a job, he/she receives a pay cheque from his office which indicates his/her income. If he/she is a businessman, he/she gets profit as a business income from his/her business.

> Winning from lotteries, card games etc. are to be treated as income

> Gain on sale of a house property will be considered as income.

Gross income is the total amount of income from the following sources of income.

1. Salary income for the work one does.
2. Profits from your business & Fees received for the service one does.
3. Rental income from renting properties.
4. Gain on sale of properties and other assets.
5. Any other income.

Net income is the income after subtracting the deductions allowed under the provisions of Income Tax Act.

Salary income is the amount you earn for working at the office for a certain period. Usually salaries are paid on a monthly basis. But what you receive in your pay cheque is not the gross pay. It is the net pay. **Deductions** are the amounts subtracted from gross pay, which results in your **net pay**. These deductions are usually **taxes**, which are levied by the government and are called income tax . Income tax is a fee or levy charged by the government on the income earned by an individual. There may be other deductions also from the gross pay which could be deductions for different purposes like deductions for lunch provided by the company etc. If you want to see what the kinds of deductions are, you may request your father or mother to show you what their pay-slips really looks like.

For most working people, taxes are the biggest deduction. **Taxes** are fees placed on income, property, or goods to support government programs. These programs may be at a local, state, or central level. These taxes pay for a variety of services we all appreciate and use, like the armed forces, road maintenance, railways etc. Taxes can be classified into two namely direct tax and indirect tax. Direct tax is the tax imposed by the government on one person and paid by the same person. Example: Income tax for the salary earned by a person. Indirect tax is the tax imposed by the government on one person and actually paid by another person. Example: Service tax paid by hotel owner to the government which is collected from the customers.

Subtracting deductions from your salary leaves you with **net pay**, also called your "take-home pay" or **disposable income**. It's the amount you actually receive. It's the amount you have available to spend and part of it to save. It's also a good starting point for creating a budget.

Taxes are a means of income for the government and are utilised for public spending like welfare schemes, education systems, infrastructure development, employment provisions etc. Suppose people do not pay taxes then the government will not get income to provide education for you, pension for your grandfather/grandmother and to build roads/railways on which you travel every day. Also remember tax evasion is a crime and good citizens pay taxes.

Look at how the deductions affect Mr. Ramesh's pay cheque:

XYZ Company Ltd.

Employee Code and Name	: R0007 RAMESH KUMAR		
Grade Code & Name	: M11 SENIOR MANAGER	Department	: SALES & MARKETING
Pay Slip for Month	: May 2010	Basic Salary	: 10000
No. of Days	: 31	Payment Date	: 31/05/2010

	Rs		Rs
BASIC SALARY	10,000	INCOME TAX DEDUCTION	1,000
CITY COMPENSATORY ALLLOWANCE	500	PROVIDENT FUND	1,200
TRAVELLING ALLOWANCE	1,000	LUNCH RECOVERY	500
FLEXIBLE BENEFIT ALLOWANCE	500	PROFESSIONAL TAX	300
HOUSE RENT ALLOWANCE	2,000		
SPECIAL ALLOWANCE	1,000		
Gross Pay:	**15,000**	**Gross Deductions:**	**3,000**
		Net Pay :	**12,000**

Mr. Ramesh works at XYZ Company Ltd., where he is a Senior Manager in the Sales and Marketing Dept. This is the salary slip for the month of May 2010. The gross salary of Mr. Ramesh(Rs. 15,000) is given on the left side of the pay slip and the deductions (Rs.3,000) are given on the right-hand side. The Gross Pay less the Gross Deductions gives the Net Pay (Rs.12,000). All salary-slips may not have the same items as shown here but may vary from company to company. As can be seen from this salary-slip, the various salary incomes are categorized under different heads such as Basic pay, City compensatory allowance etc. These allowances are an amount given by the company and form part of the gross pay. The Gross Deductions of Mr. Ramesh are mentioned on the right hand side which includes income tax and other deductions.

But remember, income does not come only by way of a salary. It can be the pocket money your parents give you, your birthday gift money, interest on bank deposits etc.

Summary:

> Cash is to personnel financial planning as petrol is to car.

> Money coming in includes Income earned from salary, business, gifts, interest on deposits or any other source.

> Gross income is total income earned.

> Net income is got after subtracting deductions allowed under the Income Tax Act.

> Deductions are amounts subtracted from gross pay to arrive at the net pay.

> Net pay is also called as "take-home pay" or disposable income.

Keywords :

Ltd. -Limited; Rs -Indian Rupees

Self-Test questions:

I. Choose the correct answer.

1. ____Cash____ is the life blood of any business.

   a) Cash   b) Labour   c) Material

2. Income may be defined as the true ________ in the amount of wealth.

   a) Decrease   b) Increase   c) Static value

3. What we receive in our pay cheque for the work we did in office is called __________.

   a) Gross pay   b) Net pay   c) Deductions

4. For most working people, _______ are the biggest deduction.

   a) taxes   b) incomes   c) allowances

5. Indirect tax is the tax imposed by the government on one person and paid by __________.

   a) The same person   b) Another person   c) The government

II. Fill in the blanks.

1. ____Gross____ income is the amount you earn for working at the office.

2. Income tax is a fee or levy charged by the government on the Income earned by an individual.

3. Taxes can be classified in to two namely Direct and Indirect.

4. Deductions is the subtraction from the gross pay.

5. Income means 'money coming in'.

III. Match the following.

1. Income	-	Fees charged on income by the government.	2
2. Tax	-	Take home pay	3
3. Net Pay	-	Life blood of business	5
4. Gross deduction	-	Increase in wealth	1
5. Cash	-	Subtraction from salary income	4

IV. True or false.

1. A budget is a plan for managing money during a given period of time. T
2. Income can be received in cash only. F
3. When you get money on your birth day from your friend, it is an income. T
4. Direct tax is the tax imposed by the government on one person and paid by another person. F
5. Winning from lotteries, card games etc. are to be treated as income. T

V. Answer the following briefly.

1. What do you mean by income?
2. What do you mean by gross income?
3. What is disposable income?
4. Write a short note 'Net Pay'.
5. What is a tax?

VI. Answer in detail.

1. How do taxes and other deductions affect your income? Explain.

VII. Activities

Gifts, Pocket Money and Small tips that you earn when you buy things for your parents account for your income.

1. How much income do you earn in a week or in a month?
2. List the expenses that you incur.
3. Do you think you really save something?

Unit Code:	UNIT- 6 TITLE: WHAT ARE EXPENSES			
	Duration:			
	Session 1: Fixed Expenses			
Location: Class Room, FMM Lab, Retail Market	**Learning Outcome**	**Knowledge Evaluation**	**Performance Evaluation**	**Teaching and Training Method**
	Find the types of fixed Expenses	How income / Expenses increase or Decrease	Identify the Core and Non Core sources of income / Expenses	**Interactive lecture:** Distinguish necessary and unnecessary expenses **Activity:** Draw chart of Daily expenses for a month
	Session 2:Variable Expenses			
	Type of variable Expenses	Calculation methods for variable expenses	Identify the basics of Cash Management	**Interactive lecture:** How valuable Expenses are not fixed **Activity:** Ask the family about variable expenses are how to fixed.
	Session 3: Building your own Budget			
	Identify the Budget Framing tools	Identify the Budget Sources	Find the necessary tools of Budget	**Interactive lecture:** Discuss the challenges of Pre / Post Budget Planning. **Activity:** Each student plan own weekly Budget
	Session 4: Pay Yourself First			
	Segregate the income Disposable income Taxes and Investment	Measure the level of each from income to investment	Identify the tool of Investment	**Interactive lecture:** How investment save taxes. **Activity:** Draw chart of PYF (Pay Yourself First).

UNIT 6 : WHAT ARE EXPENSES ?

In this unit we will learn about ;

- **What are Fixed expenses?**
- **What are Variable expenses?**
- **How to build your own budget?**
- **What does Pay Yourself First (P.Y.F) mean and how can it benefit you?**

Please tell me all about expenses!

Money Going Out

We noted during our previous lesson that income can come from a job, an allowance, or even a gift. Now we're ready to talk about spending. The money you spend on your needs and wants may be termed as money going out or otherwise called **expenses**. Your expenses typically fall into one of two categories: fixed and variable.

Fixed expenses have set amounts and are the exact amount incurred every time not depending on usage or consumption. Fixed expenses will not change due to any reason. For example: If you are living in a rented house, the house rent per month will not change over a particular period due to the reason that whether you stayed in the house for the full month or not (Rs. 5,000 per month).

For example: The money you have spent for your school uniform is fixed expense.

Variable expenses can change due to some reasons like usage, consumption etc. which means you usually have more control over them. For example: You might not have stayed in your house for 10 days in a month which will result in reduction of electricity charges due to the reason that you have not used some of the electrical equipment in your house for the said 10 days. For a full month electricity usage, if you will incur an electricity charge of Rs. 1,000, you might incur Rs.600-700 for a period of 20 days usage.

You might go to the movies this week and rent a CD or DVD next week or you might choose between eating at home or going out to dinner with friends. Although it sounds like fun, but if you are low on cash, you might need to consider eating at home with friends since that is cheaper than taking them out for a dinner.

Fixed expenses are regular expenses and you need to pay them by setting aside the required amount from your income. Variable expenses are your wishes and desires. You can control them if you like.

For example: Having ice creams and snacks in the canteen is a variable expense.

The more you spend the lesser is your saving.

Most of your pocket money is spent? **Too bad!!!**

Cash Management

Cash management is how you handle money coming in and money going out. Sometimes it's referred to as "cash flow." As you might expect, there are some tools available to help you manage your money (cash). One of the best tools is a budget.

A Budget is a statement indicating income on one hand and how the income is allocated to various fixed and variable expenses. It indicates the 'money coming in' and the 'money going out' in detail, so that you are aware of how your income is being spent and how you may control your expenses if needed.

Budget for Mr. Ramesh for the month of May 2010

Money coming in:	
Salary (after taxes)	Rs. 30,000
Gifts/Allowance	Nil
Other	Nil
Total Income	**Rs. 30,000**
Money going out:	
Fixed Expenses	
PYF	Rs. 10,000
House loan	Rs. 5,000
Car loan	Rs. 5,000
Total Fixed Expenses	**Rs. 20,000**
Variable Expenses	
Food	Rs. 3,000
Clothing	Rs. 1.000
Eating out	Rs. 1.000
Movies	Rs. 1,000
Total Variable Expenses	**Rs. 6,000**
Total Outgoing (fixed + variable expenses)	**Rs. 26,000**
Any money left over? (Income minus outgoing)	**Rs. 4,000**

Building Your Own Budget

What's the point of having a budget? Remember that a budget is your roadmap to achieving your goals. When you're in control of your spending, you are able to make clear, planned decisions on the best way to spend your money and make your money work for you.

Another reason to have a budget is that, if you're like most people, your money is limited. So it's important to be thoughtful about how you spend your take-home pay.

You have the opportunity to use your decision-making skills and choose how you spend your money. That's where a budget comes in. It helps you use your money for your needs and wants, and achieve your goals. So what does a budget look like? It's quite simple and has two main parts: income and expenses. The trick is simply to balance the two. When they're in balance, or you have some surplus left like Mr. Ramesh has of Rs. 4000/- you're on your way to meeting your goals—the things that are important to you. Notice under fixed expenses the very first item listed. What in the world is P.Y.F?

P.Y.F. ("Pay Yourself First")

P.Y.F. stands for **"pay yourself first,"** and it's a very simple, effective idea. You don't have a choice about paying taxes. It has to be paid to the government. P.Y.F. is the secret to getting what you want and becoming a disciplined saver. Saving is simply setting aside money to spend later. It's a simple trick to grow your money and become wealthy. The more you save the more money you have to meet your goals in life. P.Y.F. (pay yourself first) follows the same principle: don't give yourself a choice. Make it a regular part of your budget to set aside some money to Save. Saving is extremely important to meet your goals. So the moment you earn money first decide to set certain amount aside as P.Y.F., which essentially means saving money. Think of it as a bill you owe to yourself. Why? Because it's the P.Y.F. money in your plan that helps you reach your goals. Put the saved amount in a bank or some other forms of investment and let the money grow. Begin from the day you earn to 'pay yourself first'. The earlier you develop the habit of saving, which is essentially what P.Y.F. is, the better off you'll be in future.

India's top business men like Tata's, Birla's and Ambani's have diversified their business and became one of the richest people in the world only by their planning skills in the management of money and resources.

So earn, spend but remember! It is most important that you Save!

Summary:

> The money spent on your needs and wants are expenses

> Fixed expenses will not change due to any reason.

> Variable expenses can change due to some reasons like usage, consumption etc.

> According to your wishes and desires variable expenses increase or decrease.

> Cash management is how you handle money coming in and money going out.

> Budget is your road map to achieve your goals and making money work for you.

> P.Y.F ("Pay Yourself First") is setting aside money to save later making you a disciplined saver for a better future.

Keywords :

Rs-Indian Rupees; **CD**-Compact Disc; **DVD**- Digital Video Disc; **P.Y.F** -Pay Yourself First.

Self-Test questions:

I. Choose the correct answer.

1. The money you spend on your needs and wants may be termed as ________

   a) budgets b) incomes c) expenses

2. A set amount or exact amount which is incurred every time not depending on the usage or consumption is called as __________.

   a) Fixed expenses b) Variable expenses c) Cash management

3. In a budget table, under fixed expenses __________ should be first item which will help us to save money.

   a) Paying loans b) Paying rent c) Pay yourself first

4. Payment of gas bill based on the usage is an example of __________.

   a) Fixed expenses b) Variable expenses c) Income generating expenses

5. ______________ is extremely important to meet our goals.

   a) Saving b) Expense c) Loan repayment

II. Fill in the blanks.

1. Expenses can be classified in to two categories namely Fixed and Variable.
2. Savings helps us to use our money for our needs and wants, and achieve our goals.
3. Budget has two main parts namely Income and Expens.
4. PYF is a simple trick to grow our money and become wealthy.
5. Income minus Expenses is known as money left over for future needs.

III. Match the following.

1.	Expenses	-	Setting aside money 5
2.	Fixed expenses	-	handling money coming in and going out 4
3.	Variable expenses	-	no change in total amount 2
4.	Cash management	-	money going out 1
5.	Savings	-	change in amount 3

IV. True or false.

1. Variable expenses can change due to some reasons like usage, consumption etc. T
2. Budget is one of the best tools to manage our money. T
3. 'Pay yourself first' means spending money for our present needs. F
4. The more we save, the more money we have, to meet our goals in life. T
5. Cash management is handling of 'money coming in' only. F

V. Answer the following briefly

1. What do you mean by expenses?
2. Write short note on Fixed expenses.
3. What is meant by variable expenses? Give an example.
4. What is a budget?

VI. Answer in detail.

1. Describe about cash management and draw a budget table for a month's household income and expenditure.

VII. Activities:

Imagine you are doing professional animation course for two months staying in a hostel at Kodaikanal, your father gives you Rs.10000/- a month for all your expenses, you also get a pocket money of Rs.500 per month.

Your expenses are as follows:

Your budget for the month

Money coming in:

Money given by father	: Rs.10000
Pocket Money	: Rs. 500
Total Money (A)	: Rs.10500
Money going out:	
Hostel fees	: Rs. 3200
Breakfast, Lunch & Dinner	: Rs. 2500
Transport to College Bus fees	: Rs. 750
Total Fixed Expense	: Rs. 6450
Variable Expenses:	
Laundry	: Rs. 800
Visiting places	: Rs.1500
Amusement park / Movies	: Rs. 500
Shopping	: Rs. 1200
Total Variable Expenses	: Rs. 4000

Total Expense (B) (Fixed + Variable) = (6450+4000)=10450

Any money left over (C) = Rs 50 (A-B)

What would you do if you wanted to take a gift to your parents worth Rs.500?