

Chapter -1

Multiple choice question -

1. According to the chapter, budgeting is the first step in:

A) Investment planning

B) Money management

C) Tax calculation

D) Career planning

2. A budget where expenditure exceeds income is called a:

A) Surplus Budget

B) Balanced Budget

C) Deficit Budget

D) Zero-based Budget

3. Which of the following is NOT listed as a factor affecting the family budget?

A) Composition of the family

B) The stock market performance

C) Place of stay

D) Religious ceremonies and celebrations

4. According to the text, the success of a budget depends on whether it is:

A) Ambitious or strict

B) Realistic or ambitious

C) Short-term or long-term

D) Weekly or monthly

5. Which of the following is mentioned as an importance of budgeting?

A) It guarantees a promotion at work

B) It helps one live within one's means

C) It eliminates all financial risks

D) It automatically increases income

6. The five steps for planning a realistic budget include all EXCEPT:

A) Listing required commodities and services

B) Estimating the cost of desired items

C) Investing surplus funds in the stock market

D) Bringing expected income and expenditures into balance

7. In the budget preparation steps, the budget is considered 'balanced' when:

A) Expenditures are cut down completely

B) Income sources are increased

C) Expenditures and income come in the same line, allowing for future saving

D) Only necessities are listed

8. The formula for saving, as recommended in the chapter, is:

A) $\text{Income} - \text{Consumption Expenditure} = \text{Saving}$

B) $\text{Income} - \text{Saving} = \text{Consumption Expenditure}$

C) Saving + Investment = Income

D) Income = Expenditure

9. Which of the following is an example of a compulsory saving scheme mentioned in the text?

A) Post Office Savings Account

B) Unit Trust of India

C) The Provident Fund

D) Mutual Funds

10. According to the chapter, the maximum amount an individual can invest in a Public Provident Fund (PPF) account in one financial year is:

A) ₹50,000

B) ₹1,00,000

C) ₹1,50,000

D) ₹2,00,000

Question and Answer -

Q1. What is a budget?

A. Budget is a record of past expenditures and estimation and planning of future expenditure and the distribution of current expenses, over a certain period of time.

Budgeting is the art and science of planning our income and expenditure so that both ends meet with something left as saving.

Q2. Why is a budget important?

A. Since budgeting allows us to create a spending plan for our money, it ensures that we will always have enough money for the things we need and things that are important for us. The benefits of budgeting are –

- It helps in planning and controlling excessive expenditure.
- Helps in refining goals based on realistic resources.
- Helps in decision making
- Helps in using funds efficiently.
- Helps to plan for short term and long-term expenses.
- It enables family to have an overall view of their income.

Q3. Mention the factors affecting the family budget

A. Factors affecting the family budget are

- Composition of family: The number of members in the family along with the earning members, affects the family budget.
- Family life cycle: At which stage the family is at present, that is whether beginning family, expanding family or contracting family.

- Economic status: The expenditure varies with the standard of living that the family has to maintain.
- Religious ceremonies and celebrations.
- Place of stay: If the family lives in a small town, rates are comparatively low, overall expenses on necessities are less.
- The distance of place of work from home also affects the family budget.

Q4. What are the types of family budget?

A.

- Surplus Budget: The family has extra to save. Income is more than expenditure.
- Balanced Budget: Both ends meet i.e. income and estimated expenditure are almost the same.
- Deficit Budget: Expenditure exceeds the income.

Q5. What is the role of budgeting in effective management of money?

A. The first step in financial planning is budgeting. Budgeting is a process of tracking, planning and controlling the inflow and outflow of income. It helps to identify all the sources of income and by taking into account all expenses, aims to meet an individual's financial goal. Planning and monitoring the budget helps to identify wasteful expenditure. It helps us in getting the right value for every rupee spent. Budgeting when done properly can serve as a planning and controlling system. The planning process begins with the establishment of goals. Budgets are financial statement of plan. They are linked to control system. Flexibility is an essential component of an effective budget programme.

Q6. Explain the steps in preparing a family budget.

A. The five steps involved in preparing a family budget are :

1. List commodities and services required by family members throughout the proposed budget period.
2. Estimate the cost of desired items.
3. Estimate total expected income.
4. Bring expected income and expenditure in to balance.
5. Check plans to see that they have a reasonable chance of success and possibilities of savings for future.

Q7. Write the plans checked for realism of a budget.

A. To determine the success of a budget, the plans that have to be checked are:

- 1) Have the needs of the family members been met?
- 2) Have the anticipated emergencies been foreseen?
- 3) Is the solvency assured?
- 4) Have the prevailing conditions and future condition of the country been taken into consideration?
- 5) Does it meet long term family goals?

Q8. What is saving?

A. Saving can be defined as abstinence from present consumption for the purpose of future consumption. It refers to the process of keeping some amount from the current income for the purpose of taking care of future needs and wants.

Saving is a "Certain proportion of income kept aside regularly for a secured future in productive form". Saving is a result of careful planning and a realistic plan. $\text{Saving} = \text{Income} - \text{Consumption expenditure}$. If families get into the habit of planning their savings too, then they can plan better for their future.

$\text{Income} - \text{Saving} = \text{consumption expenditure}$. Savings is a mark of wise management of family's resources.

Q9. What is the need of saving money?

OR

Why should one save money?

OR

What are the objectives of saving?

Q10. What are different ways and means of saving?

A. 1. Bank-A bank is an institution which accepts deposits from public and in turn advances loans by creating credit. It offers savings bank account, fixed deposit accounts and recurring deposit accounts. Saving accounts are highly liquid but carry low interest. Fixed deposits carry higher interest and can be used for planning for short to medium goals. The recurring deposit schemes are for pulling money for every month.

2. Government Schemes: The Government of India has launched many income tax saving schemes such as : i) National savings certificate (NSC) i) Public provident fund (PPF) ii) Post office scheme iv) Equity linked savings scheme (ELSS)

3. Bonds:- A bond is a loan given by the buyer to the issuer of the instrument, in return for interest. It can be issued by companies, financial institutions or even by government. The buyer receives interest from the seller and the par value of the bond is receivable by the buyer on the maturity date. Specified Bonds can be Tax saving bonds or Regular Income Bonds.

4. Debentures: There are similar to bonds but are issued by companies.

5. Company fixed deposits:- These are similar to bank fixed deposits, issued by companies to attract small investors. They are repayable only on maturity. They offer attractive interest rates.

6. Mutual Funds:

7. Post Office: Savings in post office are safe. The schemes run by post office are i) Recurring Deposit Scheme i) Monthly Income Scheme (MIS) iv) vi) National savings scheme Public provident fund v) Fixed deposits Savings accounts vii) Kisan Vikas Patra(KVP)

8. Life Insurance Schemes:- Insurance is a kind of protection against financial losses. It looks after the insurance of a person's life. Life insurance is for protecting a person or his family against loss of income because of the death of the insured. The contract between the individual and the LIC is known as insured and LIC is insurer.

Types of policies- i) Term Insurance, ii) Whole life Insurance, ii) Endowment Life Insurance, iv) Pension Plan.

9. Provident Fund:- This is a facility offered by Government of India through State Bank of India. An adult on his own behalf or on behalf of a minor can open an account and make deposits of not less than Rs.500/- and not exceeding 70,000/- per year in any branch of SBI. Interest paid is free of tax.

10. Unit Trust of India:-This organization entrusts money that it receives from people in various companies. The unit trust buys shares and stocks in various companies. Individuals can buy "Units" from unit trust scheme such as

i) Children's Gift plan i) Unit Linked Insurance Plan i) Unit 64