



**Financial Literacy 360 Degree
endeavour for Learners**

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MODULE : 2

This module explains the subject matter in user friendly language with a practical approach. Each module is a mix of theory, practical scenarios and videos. A set of questions and activities will help learners to test their understanding of the subject matter.

After completion of each module, you are advised to submit your feedback and suggestions as it will help us to improve and increase the potential learning ratio.

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Table of Contents

- What is Income?
- Types of Income
- What is Investment?
- What are Expenses?
- Types of Expenses
- What is Expenditure?
- Types of Expenditure
- Expenses vs Expenditure
- What is Budget?

What is Income?

Income is revenue earned from various sources such as salary, interest on capital, rent against property et.al.

In business, income refers to the money obtained from transactions before any expenses or other financial obligations are deducted.



Income is an important component in financial profile. Income of an individual and a business defines their financial status in the society. In fact based on income, needs and desires can be fulfilled.

Types of Income (In case of an individual)

For an individual, there are four ways to generate an income:

Earned Income: Income received by way of salary is called earned income. For example- when you give services and get paid by salary. It is your earned income. According to Investopedia- The income derived from active participation in profession or business including wages, commissions, bonuses etc. is called earned income. This income is also known as linear income or fixed income.

Investment Income: Income earned by interest payments, dividends, capital gains through equities, real estate, mutual funds and other investment sources like club membership. Such income is defined as, investment income or variable income.

Inherited Income: When a person gets money from his family in one way or another it is

known as inherited income or occasional income.

Passive Income: Money generated from owned assets is known as passive income. It is also known as recurring income. For example rental income, creating and selling books, art objects /paintings, patents, contents et.al.

(The above listed types of income are defined in business with technical names. Explanation is given below.)

Types of Income (In case of business)

Business entities defines the income in following ways -

Sales Income: This type of income is generated by selling goods and services. It is earned in business by trading. Hence it is also defined as earned income.

Capital Gains: Money invested in businesses to gain profit by buying entities like machines, funds, shares, real estate etc., to

generate profits is called as capital gains. This gain occurs when such entities are sold at a higher price than its purchase price.

Royalties: This type of income is generated by creating specific patent or content. It is same as passive income. For example if you use Microsoft Windows software, you need to pay for license. The fee earned by the company is a royalty income.



What is Investment?

Investment refers to money assigned to a product with a hope to earn higher return in future. For example gold, property, funds etc.

As per the Investopedia dictionary- An investment is a monetary asset purchased with the idea that the asset will provide income in future or can be sold later at a higher price to earn profit.



What are Expenses?

According to Collins dictionary- It is the money that something costs you or need to spend in order to do something.

In a nutshell money spent by an individual or business is known as expenses. These expenses are incurred to fulfill their needs and requirements.



Essentially, expenses are based on the income; therefore higher income leads to greater purchasing power. Various types of expenses incurred by an individual are listed below:



Money spent for business trade is termed as expenses. These expenses are reported in the profit & loss statement and calculated for a financial year. Some of the expenses are listed below.



Types of Expenses

Direct Expenses: Expenses incurred on a specific cost unit and identifiable with the cost unit are called direct expenses. These expenses are associated with the purchase of goods/ services. For example wages, purchase of goods, custom / octroi duty hiring machines etc.

Indirect expenses: These expenses are allocated to cost centre or cost units. They have no connect with the purchase of goods/ services. For example rent of office, painting, income tax/ professional tax, etc.



What is Expenditure?

Money spent by an individual is known as expenditure. Rent payment, travel expenses, buying goods/services are example of personal expenditure.

In business, a payment or disbursement is defined as expenditure.

Technically, expenditure is the amount spent for settlement of a liability or for buying an asset.



Types of Expenditure

Expenditure is classified into three categories for the accounting purpose:

Capital Expenditure

- Money used to buy property, land or equipment that generates revenue or upgrade the productive assets.

Revenue Expenditure

- Money spent on daily operations, maintaining property, renovation of fixed assets, upgrading machines etc.

Deferred Revenue Expenditure

- Expenditure incurred in an accounting period but benefits to accrue over the years. For example - staff training activities, promotional activities etc.

Expenses Vs Expenditure

<ul style="list-style-type: none">- Expenses are direct payments made for using goods and services like electricity used for running machine, labor wages.- In general it represents consumption of inputs to generate revenue.	
<ul style="list-style-type: none">- Expenditure is a payment made for buying entities like machines.- It is associated with cash movement.	

What is Budget?

Budget is a document that captures financial plan for current and future activities. Budget includes both, projected income and expenses. If you have a plan to go for vacations, you need to document your expenses for travelling & staying alongwith associated activities (food, sightseeing etc.).This summary of activities and expenses is your budget.

Precisely, it is an estimate of income and expenditure for a specific period of time. Spreadsheet is one of the common tools to document or plan budget with error free computations.



Key Terms

Cost Centre	A department in an organization to which cost may be allocated but not responsible for revenue generation.
Octroi	A local tax on specific goods levied by a government when bring into particular location/s.
Software	A set of programs or instructions used to perform specific task or operate device.

Evaluate your learning

1. Identify the type of income category:

Equity trading, Performance bonus, Product selling income, Online video game designing and publishing income, Wedding gift, Music video rights fee, Festival allowances, Flat as gift, Gold jewellery selling income, blog publishing income,

2. Estimated expenditure plan is defined as (complete sentence)

3. Differentiate between direct and indirect expenses.

4. List the following expenses in its related category -

Raw material, rent, utility bills, stationary bills, fuel, wages, machine set up cost, mobile phone bill, export duty, import duty, manufacturing expenses

Direct Expenses	Indirect Expenses

5. Discuss the investment options, available for an individual in the current scenario.
6. List the existing sources of income for an individual?
7. What is a full form of CAPEX?

Activity

1. Make a budget for the following task.
Define the scenario and method of budgeting:
 - a. Budget for birthday party
 - b. Buying new machine for office
 - c. Starting new business unit
 - d. New financial year expenses
2. Identify the type of expenses from the given collage:



