

Participant Handbook

Sector
BFSI

Sub-Sector
Lending

Occupation
Finance and Accounts

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Essentials of Personal Finance

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Shri Narendra Modi
Prime Minister of India

“ Skilling is building a better India.
If we have to move India towards
development then Skill Development
should be our mission. ”



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The preparation of this guide would not have been possible without the banking sector's support. Industry feedback has been extremely beneficial since inception to conclusion, and it is with their guidance that we have tried to bridge the existing skill gaps in the industry. This facilitator guide is dedicated to the aspiring youth, who desire to achieve special skills that will be a long-term asset for their future pursuits.

About this Book

Welcome to the “Essentials of Personal Finance” training program. This program is designed to empower participants with the foundational knowledge and skills required to effectively manage personal finances and achieve long-term financial well-being. Carefully crafted, this handbook offers a comprehensive guide to understanding key principles of personal finance, enabling participants to make informed financial decisions and secure their future.

Throughout this training, participants will explore critical aspects of personal finance, including budgeting, saving, investing, debt management, and financial planning. Emphasis is placed on practical strategies and tools to navigate financial challenges, build wealth, and align financial goals with personal aspirations.

Aligned with the National Skill Qualification Framework (NSQF), this Participant Handbook integrates relevant National Occupational Standards (NOS)/topics, ensuring a structured and impactful learning experience. Whether you’re new to managing finances or seeking to enhance your financial literacy, this program provides the essential knowledge to confidently take control of your financial journey.

1. BSC/N3202: Essentials of Personal Finance
2. DGT/VSQ/N0102: Employability Skills (60 Hours)

Symbols Used



Key Learning
Outcomes



Unit
Objectives



Exercise



Notes



Practical

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13 **Employability Skills (DGT/VSQ/N0102) (60 Hrs.)**

Employability skills is available at the following location:

<https://www.skillindiadigital.gov.in/content/list>

Scan the QR code below to access the ebook





1. Introduction to Personal Finance

- Unit 1.1 – Overview of Personal Finance
- Unit 1.2 - Importance of Personal Finance
- Unit 1.3 - Basic Concepts and Terminologies
- Unit 1.4 - Financial Goals



Unit 1 - Introduction to Personal Finance

Unit Objectives

After studying this module, the students shall be able to understand:

1. Understand how financial decisions affect overall financial health
2. Recognize the importance of financial planning for stability
3. Define key financial terms (income, expenses, assets, liabilities)
4. Learn to set and prioritize SMART financial goals

Unit 1.1 - Overview of Personal Finance

Personal finance refers to the management of an individual's or family's financial activities, encompassing budgeting, saving, investing and planning, for the future. It involves the strategic allocation of income towards various needs and goals, ensuring that expenses are covered while also setting aside funds for savings and investments. Effective personal finance management helps individuals achieve financial stability, prepare for emergencies and work towards long-term objectives such as retirement. It covers a broad array of topics, including debt management, credit scores and tax planning, all aimed at maximizing financial well-being and independence.

Personal finance refers to the way you manage your money, including your income, expenses, savings and investments. It involves estimating a budget, saving for future goals, planning for retirement and ensuring you have enough insurance and protection against risks. The main goal of personal finance is to achieve financial stability and meet your financial goals by making informed decisions about spending and saving.

Personal finance skills are crucial for individuals to manage their money effectively, ensuring financial stability and security. These skills help individuals create budgets, save for future goals, and make informed investment decisions. By mastering personal finance, people can avoid excessive debt, plan for major life events such as buying a home or retiring and handle unexpected financial emergencies with greater ease. Additionally, good personal finance management leads to better financial health, reducing stress and improving overall quality of life. It empowers individuals to take control of their financial future, make wise decisions and achieve long-term financial goals.

Unit 1.2 - Importance of Personal Finance

Personal finance involves managing your financial activities, such as income, expenses, savings, investments and retirement planning. It plays a crucial role in achieving financial independence and stability. Here are key reasons why personal finance is important:

Budget management: Effective personal finance helps you create a budget as, ensuring that you live within your means and avoid unnecessary debt.

1. **Savings and investments:** By planning your finances, you can allocate funds towards savings and investments, which are essential for wealth-building and achieving long-term financial goals.
2. **Debt management:** Proper financial planning helps in managing and reducing debt, ensuring that you can pay off loans and other debts efficiently.
3. **Emergency preparedness:** Building an emergency corpus through personal finance planning provides a financial cushion during unforeseen events like job loss, medical emergencies, or other crises.
4. **Retirement planning:** Personal finance ensures you are saving and investing adequately for retirement, allowing you to maintain your lifestyle and cover expenses when you are no longer earning an active income.
5. **Financial independence:** Sound personal finance practices enable you to achieve financial independence, giving you the freedom to make choices without being constrained by financial limitations.

In short, personal finance is essential for managing daily financial activities, preparing for the future and achieving financial security.

Unit 1.3 - Basic Concepts and Terminologies

Understanding personal finance involves familiarizing oneself with several key concepts and terminologies. Here are some of the basics:

1. **Income Management:** Understanding and optimizing your sources of income, whether from employment, investments, or other avenues.
2. **Budgeting:** Creating a plan for how to spend your money to cover expenses and ensure savings.
3. **Saving:** Setting aside money for future needs or emergencies and understanding the importance of an emergency fund.
4. **Investing:** Allocating funds to various investment vehicles like stocks, bonds, or real estate to grow wealth over time.
5. **Protection:** Ensuring financial security through insurance and other risk management strategies to protect against unforeseen events.
6. **Banking:** Banking refers to the business activities performed by financial institutions, commonly known as banks, which are licensed to accept deposits, offer loans and provide various financial services.
7. **Individual income tax return:** An individual income tax return is a formal document submitted to a federal, state, or local tax authority to report an individual's income, expenses, and other relevant financial information for a given tax year.
8. **Insurance planning:** Insurance planning is the process of evaluating and managing risks associated with potential financial losses by selecting appropriate insurance policies. The main objectives of insurance planning are to provide financial protection for individuals, families and assets against unforeseen events.
9. **Net Present Value (NPV):** Net Present Value (NPV) is a financial metric used to evaluate the profitability of an investment or project. It represents to the difference between the present value of cash inflows and the present value of cash outflows over a specified period of time. NPV is used to determine whether the anticipated financial gains of an investment outweigh its costs, considering the time value of money.
10. **Credit:** Credit refers to the ability of a person or organization to borrow money or access goods or services with the agreement to pay later. It involves trust that payment will be made in the future.
11. **Credit score:** A numerical representation of your creditworthiness, based on your credit history. Credit scores typically range from 300 to 850. Higher scores indicate better creditworthiness and a lower risk to lenders.
12. **Interest:** The cost of borrowing money, or the return earned on investments. Compound interest, in particular, is the interest on both the initial principal and the accumulated interest.
13. **Net worth:** The difference between your total assets and total liabilities, representing your overall financial health.

Unit 1.4 - Financial Goals

Financial goals are specific targets individuals set to achieve financial success and stability. These goals provide direction, motivate actions and help prioritize financial decisions. Here's how to set financial goals effectively:

1. **Define your goals:** Clearly articulate what you want to achieve financially, such as saving for retirement, buying a house, or paying off debt.
2. **Make them specific and measurable:** Ensure your goals are clear and quantifiable. For example, in-

stead of “save for retirement,” specify “save 50,00,000 by age 65”.

3. Set a timeline: Establish deadlines to achieve each goal. This helps create urgency and keeps you accountable.
4. Break goals into smaller steps: Divide larger goals into manageable tasks or milestones. This makes them less daunting and easier to achieve.
5. Review and adjust regularly: Monitor your progress and adjust goals as needed due to changes in life circumstances or financial situations.

Setting financial goals provides a roadmap for financial success, enabling individuals to make informed decisions and achieve their desired financial outcomes.

Personal finance skills are essential for effectively navigating one’s financial journey and achieving financial goals. These skills cover crucial aspects such as budgeting, financial goal setting, savings and investments, debt management and risk management.

Budgeting skills enable individuals to allocate their income wisely, ensuring that money is directed towards savings, investments and debt reduction. Proficiency in setting smart financial goals helps individuals to stay focused and motivated, ensuring steady progress towards objectives. Understanding financial products and investment strategies allows for systematic wealth accumulation, whether for short-term needs or long-term goals like retirement planning. Effective debt management skills alleviate financial stress and facilitate resource allocation towards other financial priorities, such as home ownership or education funding. Additionally, knowledge of risk assessment and mitigation strategies safeguards investments and savings from unforeseen circumstances, ensuring financial stability over the long term.

Overall, these personal finance skills empower individuals to make informed financial decisions, adapt to changing economic conditions and build a secure financial future.

Summary



- Personal finance is about managing your money through budgeting, saving, investing, and planning. It encompasses income management, debt management, risk management, and retirement planning.
- Understanding personal finance allows individuals to achieve financial independence, prepare for emergencies, work toward specific goals, and reduce financial stress. It provides a pathway to long-term security and wealth.
- We learned foundational terms like income, expenses, assets, liabilities, budgeting, saving, investment, and debt.
- Setting financial goals helps prioritize where to allocate resources and track progress toward financial well-being.

Exercise



1. Which of the following is NOT considered part of personal finance?
 - a. Budgeting
 - b. Investing
 - c. Managing relationships
 - d. Saving

2. What is the primary purpose of setting financial goals?
 - a. To keep track of spending habits
 - b. To determine future expenses
 - c. To provide a direction for saving and spending decisions
 - d. To calculate monthly income

3. Which of the following is an example of a “need” in budgeting?
 - a. Dining out
 - b. Mortgage or rent
 - c. Entertainment subscriptions
 - d. New clothing for a party

4. How much is generally recommended to keep in an emergency fund?
 - a. One month of living expenses
 - b. Three to six months of living expenses
 - c. Ten months of living expenses
 - d. One year of living expenses

5. Which of the following best describes “liabilities”?
 - a. Assets that generate income
 - b. Income received from employment
 - c. Financial obligations or debts
 - d. Money saved for future goals

Descriptive Questions:

1. Why do financial goals matter? How do they help guide decision-making in managing personal finances?
2. Describe how creating and following a budget can influence both short-term and long-term financial stability.
3. How do needs and wants impact spending choices, and why is it important to differentiate between them?
4. Why is an emergency fund important, and how much is typically recommended to have in this fund?
5. What are some common forms of debt, and how can debt impact a person’s financial well-being? What are strategies to manage or reduce debt?
6. What is the role of investing in personal finance, and how can it help achieve financial goals over time?
7. What does financial independence mean, and why is it a common goal in personal finance?

Notes



2. Introduction to Earnings



- Unit 1.1 – Overview of Personal Finance
- Unit 1.2 - Importance of Personal Finance
- Unit 1.3 - Basic Concepts and Terminologies
- Unit 1.4 - Financial Goals



Unit 2 - Introduction to Earnings

Unit Objectives

After studying this module, the students shall be able to understand:

1. Identify different sources of income
2. Understand active income as income earned through direct labour or services (e.g., wages, salaries)
3. Understand the role of passive income in long-term wealth building
4. Compare and contrast active and passive income in terms of effort, risk, and reward
5. Understand how business income differs from other forms of earnings
6. Understand the financial challenges and rewards of entrepreneurship
7. Identify different types of income (earned, portfolio, passive)

Unit 2.1 - Overview of Earnings

In personal finance, earnings refer to the total income received by an individual from various sources, such as salary, wages, investments and business profits. It is the starting point of financial planning and includes all cash inflows that contribute to an individual's financial resources. Managing earnings effectively involves budgeting, saving, investing and potentially increasing income through career advancement or investment growth strategies. Understanding and optimizing earnings are fundamental to achieving financial goals, whether short-term needs like daily expenses or long-term objectives such as retirement planning.

Unit 2.2 - Active Income

Active income refers to earnings derived from actively engaging in a trade or business, typically through providing services or performing work. This type of income requires direct involvement and effort, where individuals receive compensation for their labour or services rendered. Examples of active income include salaries, wages, tips, bonuses, commissions and income from self-employment. Active income contrasts with passive income, which is earned from investments or activities in which the individual is not materially involved.

Unit 2.3 - Passive Income

Passive income refers to earnings derived from sources that require minimal effort to maintain once set up. Unlike active income, which requires continuous active involvement (like a job or providing services), passive income streams generate revenue with little ongoing effort after the initial setup phase. Examples include rental income from real estate properties, dividends from stocks, royalties from intellectual property and income from certain types of investments.

Passive income is often seen as a way to build wealth and financial freedom because it can supplement or replace active income, providing more flexibility and potentially requiring less time investment over time. However, creating successful passive income streams typically requires upfront investment, whether in terms of money, time, or both, to establish and maintain the income source.

Unit 2.4 - Difference between Active Income and Passive Income

- **Active Income:** Active income refers to earnings that require direct participation or active effort to generate. This type of income is typically received from traditional employment, self-employment, or freelance work, where individuals trade time and skills for money.
- **Passive Income:** Passive income, on the other hand, is income derived from sources that require minimal active involvement once set up. Examples include rental income from properties, dividends from stocks, royalties from intellectual property, or income from certain investments.

Unit 2.5 - Income from Business Activities

Income generated from business activities, also known as business income, refers to the earnings that a business or individual receives from their operations. This type of income encompasses various sources and is crucial for a business's financial health and sustainability. Key aspects of business income include:

1. Sources of Business Income:

-
- Sales revenue: Income generated from selling products or services is the primary source for most businesses.
- Service fees: Fees earned from providing professional services such as consulting, legal advice, or technical support.
- Rental and leasing: Income from renting out property or equipment to other businesses or individuals.
- Interest income: Earnings from interest on investments or cash reserves held by the business.
- Dividends: Income received from investments in other companies, typically in the form of dividends.
- Subscriptions: Recurring income from subscription-based services or products, such as software-as-a-service (SaaS) offerings.
- Licensing: Revenue from licensing intellectual property, such as patents, trademarks, or software to other businesses.
- Franchising: Income from franchising business models to other entrepreneurs, including franchise fees and royalties.
- Capital gains: Profits from the sale of business assets or investments.
- Fundraising and grants: Funds raised through grants, donations, or crowdfunding for specific projects or business ventures.

2. Definition and Scope:

- Business income is the total revenue a business earns before deducting expenses.
- It includes all income received from regular business operations such as trading, professional activities, or any other venture.

3. Taxation:

- Business income is subject to taxation, and businesses must report it on their tax returns.
- Various deductions for business expenses can be applied to reduce the taxable amount.

4. Net Profit:

- After deducting all expenses, costs and taxes, the remaining amount is considered the net profit or net income.

Unit 2.6 - Entrepreneurship and Business Ownership

Entrepreneurship and business ownership, while often used interchangeably, have distinct characteristics and implications.

Entrepreneurship

1. Innovation and Creation:

- Entrepreneurs are known for creating new products, services, or entire industries. They often bring innovative ideas to market and take on significant risks in doing so.

2. Risk and Uncertainty:

- Entrepreneurs bear the economic uncertainties and risks associated with starting and growing a new business. They are responsible for generating profit and economic value from their ventures.
3. Growth-Oriented:
 - The primary goal of entrepreneurs is often rapid growth and scaling of their businesses to achieve significant market impact and financial returns.

Business Ownership

1. Management and Stability:
 - Business owners focus on managing and sustaining their businesses. They aim for stability and long-term profitability rather than rapid expansion.
2. Established Models:
 - Business owners typically operate within established business models and industries. They may buy into franchises or take over existing businesses, focusing on effective management and steady growth.
3. Operational Focus:
 - Their main concern is the day-to-day operation of the business, ensuring it runs smoothly and profitably. They may not always prioritize innovation to the same extent as entrepreneurs.

Overlap

It's important to note that many individuals can be both entrepreneurs and business owners. An entrepreneur might start a business and later transition to a more traditional business owner role as the company matures.

Unit 2.7 - Types of Income

In personal finance, understanding the different types of income is crucial for effective financial planning. Here are the main types of income:

- **Earned income:** This includes wages, salaries, commissions and tips earned from employment or active involvement in a business. It's the most common type of income and is typically subject to payroll taxes.
- **Passive income:** Income earned with minimal effort or direct involvement. Common sources include rental income, royalties from intellectual property and income from partnerships where one is not actively managing the business.
- **Portfolio income:** Also known as investment income, this includes earnings from dividends, interest and capital gains from the sale of securities. This type of income comes from investments like stocks, bonds and mutual funds.
- **Capital gains:** Profits from the sale of assets such as stocks, real estate, or businesses. Capital gains can be short-term (assets held for less than a year) or long-term (assets held for more than a year) and are taxed differently.
- **Tax-exempt income:** Certain types of income are exempt from taxation, such as interest earned on municipal bonds. This type of income can be advantageous for reducing overall tax liability.

Understanding these types of income can help individuals diversify their income sources and plan for taxes effectively.

Summary



- Earnings are the money received from various sources, including employment, investments, and business activities. They are the foundation of personal finance, as they determine one's capacity to save, invest and spend.
- Active income is earned through direct work or services, such as salaries, wages, and freelance work. It requires continuous effort and time commitment to generate income.
- Passive income is money earned from assets or investments with minimal ongoing effort, such as rental income, dividends, and royalties. This income stream can supplement active earnings and provides financial stability without regular labour.
- Active income demands ongoing work, while passive income typically requires upfront investment but yields returns over time. Understanding this distinction helps in planning a balanced financial strategy.
- Income from business activities comes from owning or running a business. This includes both active roles (like being a self-employed professional) and passive roles (like owning a business managed by others).
- Entrepreneurship involves creating and running a business with the goal of earning profits. Business ownership allows individuals to potentially earn income independently and can be a blend of active and passive income sources.
- Different types of income include earned income, portfolio income, and passive income. Diversifying income types provides greater financial stability and growth opportunities.

Exercise



1. Which of the following is an example of active income?
 - a. Dividends from stocks
 - b. Rental income from property
 - c. Salary from a full-time job
 - d. Interest from a savings account
2. What is a primary characteristic of passive income?
 - a. It requires minimal ongoing effort to maintain
 - b. It depends on working a set number of hours
 - c. It's only earned from investments in stocks
 - d. It's received only once a year
3. Income earned from owning and operating a business is called:
 - a. Active income
 - b. Passive income
 - c. Investment income
 - d. Income from business activities
4. Which of the following best describes the difference between active and passive income?
 - a. Active income is for employees, while passive income is for business owners
 - b. Active income requires ongoing work, while passive income can be generated with minimal effort
 - c. Active income is taxable, but passive income is not
 - d. Passive income requires physical work, while active income does not

Descriptive Questions:

1. How does each type of income impact an individual's time and financial freedom? Provide examples of each.
2. Describe the benefits and challenges associated with earning income through entrepreneurship and business ownership.
3. Describe the role of passive income in achieving long-term financial security.
4. Explain the importance of diversifying income sources.
5. Describe the different types of income (earned, portfolio, and passive) and their significance in personal finance.

Notes





3. Introduction to Spending

- Unit 3.1 - Overview of Spending
- Unit 3.2 - Personal Finance Management
- Unit 3.3 - Operational Expenses
- Unit 3.4 - Non-Operation Expense
- Unit 3.5 - Personal Expenses
- Unit 3.6 - Benefits of Good Spending Behaviour
- Unit 3.7 - Financial Stability and Security
- Unit 3.8 - Debt Reduction and Savings Accumulation
- Unit 3.9 - How to Track Spending



Unit 3 - Introduction to Spending

Unit Objectives

After studying this module, the students shall be able to understand:

1. Understand how spending decisions impact financial health
2. Learn strategies for managing personal finances and controlling spending
3. Understand recurring and essential expenses (e.g., utilities, groceries)
4. Identify non-essential or discretionary expenses (e.g., entertainment, luxury items)
5. Learn how to budget for personal lifestyle costs
6. Explore the advantages of responsible spending habits, including financial control and savings growth
7. Understand how prudent spending leads to long-term financial stability and security
8. Learn how good spending habits contribute to reducing debt and building savings

Unit 3.1 - Overview of Spending

Spending in personal finance refers to the allocation of money to cover various expenses necessary for maintaining one's lifestyle. It includes essential expenditures such as housing, utilities, groceries, transportation, insurance and healthcare, as well as discretionary spending on items like dining out, entertainment, vacations, and luxury goods. Effective spending management is crucial for financial stability and involves creating and adhering to a budget that outlines expected income and expenses. By using strategies like the 50/30/20 rule, which allocates 50% of income to needs, 30% to wants, and 20% to savings, individuals can ensure their spending aligns with their financial goals and helps prevent overspending.

- **Essential spending:** This includes necessary expenses required for basic living, such as housing (rent or mortgage), utilities, groceries, transportation, insurance and healthcare.
- **Discretionary spending:** These are non-essential expenses that enhance the quality of life but are not necessary for basic living. Examples include dining out, entertainment, vacations, hobbies and luxury items.
- **Debt repayment:** Money spent on repaying loans and credit card debts falls into this category. Managing debt repayment effectively is crucial for maintaining financial health.
- **Savings and investments:** While not traditionally classified as spending, allocating money towards savings and investments is a strategic use of funds aimed at securing future financial stability.

Unit 3.2 - Personal Financial Management

Personal financial management (PFM) is the process of effectively managing one's financial activities to achieve personal economic goals. This encompasses budgeting, saving, investing and planning for future financial needs. PFM involves:

1. **Income management:** Understanding and optimizing sources of income.
2. **Budgeting:** Creating a plan for how income will be spent and saved, ensuring expenses do not exceed income.
3. **Saving:** Setting aside money for future needs or emergencies.
4. **Investing:** Allocating money to various investment vehicles to grow wealth over time.
5. **Spending:** Managing expenditures to align with one's budget and financial goals.
6. **Protection:** Using insurance and other financial products to protect against unforeseen events.

Effective personal financial management helps individuals achieve financial independence, prepare for retirement, and meet other long-term financial objectives.

Unit 3.3 - Operational Expenses

Operating expenses refer to the ongoing costs incurred by a business in its normal day-to-day operations to generate revenue. These expenses are essential for running the business and typically include:

1. **Administrative expenses:** Costs associated with general administration and management of the business, such as salaries of administrative staff and office supplies.
2. **Rent and utilities:** Payments for office space, utilities like electricity and water and other facility-related costs.
3. **Salaries and wages:** Compensation paid to employees for their services.
4. **Marketing and advertising:** Expenses related to promoting the business and its products or services.
5. **Maintenance and repairs:** Costs to maintain and repair equipment, machinery and facilities used in operations.

Operating expenses are distinct from capital expenses, which are investments in long-term assets like equipment or property. Operational Expenses are necessary for the day-to-day functioning of a business and are crucial in determining profitability.

Unit 3.4 - Non-Operational Expenses

Non-operating expenses are costs incurred by a business that are not directly related to its core operations or primary activities. These expenses typically arise from activities that are peripheral or one-time in nature, rather than essential for the day-to-day running of the business. Examples of non-operating expenses include:

1. **Interest expense:** Costs incurred from interest payments on loans or other forms of debt.
2. **Losses on asset sales:** Losses resulting from the sale of assets such as equipment or property.
3. **Impairment charges:** Write-downs on the value of assets due to a decline in their worth or obsolescence.
4. **Litigation costs:** Legal fees and settlements arising from lawsuits that are not related to regular business operations.
5. **Foreign exchange losses:** Losses due to unfavourable exchange rate movements affecting international transactions.

Non-operating expenses are important for financial reporting as they help in understanding the total cost structure and profitability of a business beyond its core operations.

Unit 3.5 - Personal Expenses

Personal expenses include various costs that individuals incur regularly, covering essential and discretionary spending. Major categories include housing (rent or mortgage), utilities (electricity,

water, internet), food (groceries and dining out), transportation (car payments, fuel, public transit), healthcare (insurance, prescriptions), insurance (health, life, auto), personal care (clothing, grooming), entertainment (subscriptions, hobbies), and miscellaneous costs (childcare, pet care). Organizing these expenses into a budget help manage finances effectively and achieve financial goals

Personal expenses encompass a variety of costs that individuals incur regularly. These can be broadly categorized into several groups:

1. Housing: Rent or mortgage payments, property taxes, home insurance and maintenance costs.
2. Utilities: Electricity, water, gas, internet and phone bills.
3. Food: Groceries and dining out expenses.
4. Transportation: Car payments, fuel, maintenance, public transportation fees and insurance.
5. Healthcare: Medical insurance, prescriptions and other out-of-pocket medical expenses.
6. Insurance: Health, life, auto and property insurance premiums.
7. Personal Care: Grooming, clothing personal hygiene products.
8. Entertainment: Subscriptions (like Netflix or Spotify), hobbies and recreational activities.
9. Education: Tuition, books and other educational supplies.
10. Miscellaneous: Childcare, pet care and unexpected expenses.

By organizing expenses into these categories, individuals can create a comprehensive budget to manage their finances effectively.

Unit 3.6 - Benefits of Good Spending Behaviour

Good spending behaviour offers numerous benefits that can enhance financial well-being and stability. Key benefits include:

1. Identifying unnecessary expenses: By tracking spending habits, individuals can pinpoint areas of overspending and make necessary adjustments to reduce wasteful expenses.
2. Better financial planning and budgeting: Good spending habits facilitate effective budgeting, ensuring that funds are allocated appropriately towards essential needs and financial goals.
3. Achieving financial goals: Mindful spending helps individuals save more and work towards long-term financial objectives, such as buying a home or retirement planning.
4. Breaking the paycheck-to-paycheck cycle: By avoiding overspending, individuals can prevent financial stress and build a financial cushion for emergencies.
5. Increased savings: Conscious spending decisions lead to more savings, which can be invested or kept for future needs.

Overall, good spending behaviour fosters financial discipline, helping individuals lead a more secure and stress-free financial life.

Unit 3.7 - Financial Stability and Security

Financial stability and security, while related, refer to different aspects of financial health. Financial stability is the ability of the financial system or an individual to manage economic processes, assess and manage financial risks, and absorb economic shocks without major disruptions. It ensures efficient allocation of resources, maintenance of employment levels, and smooth market transactions.

Financial security, on the other hand, refers to the assurance that an individual can meet their financial obligations and have sufficient resources for future needs without the fear of running out of money. This includes maintaining a steady income, avoiding excessive debt and having savings or investments to cover unforeseen expenses.

Together, financial stability and security provide a foundation for long-term financial health and resilience against economic uncertainties.

Unit 3.8 - Debt Reduction and Savings Accumulation

Debt reduction refers to strategies aimed at decreasing the total amount of debt owed by an individual. Common methods include:

1. **Avalanche method:** Prioritizing debts with the highest interest rates to minimize interest payments over time.
2. **Snowball method:** Paying off the smallest debts first to build momentum and motivation.
3. **Consolidation:** Combining multiple debts into a single loan with a lower interest rate.

The goal of debt reduction is to lower financial liabilities, reduce interest costs, and improve overall financial health.

Savings accumulation involves setting aside a portion of income to build a financial reserve. This reserve can serve various purposes, such as:

1. **Emergency fund:** Covering unexpected expenses without incurring additional debt.
2. **Long-term goals:** Saving for retirement, education, or large purchases.
3. **Investment:** Using savings to generate additional income through interest, dividends, or capital gains.

Unit 3.9 - How to Track Spending

Tracking your spending is crucial for effective financial management. Here are several methods to help you stay on top of your expenses:

1. **Use budgeting apps:** Applications like Mint, YNAB (You Need a Budget), or Pocket Guard automatically track your transactions and categorize your spending.
2. **Maintain a spending journal:** Carry a notebook and pen to log every purchase as you make it. This manual method increases awareness of your spending habits.

3. Review bank statements: Regularly review your bank and credit card statements to categorize and analyze your spending patterns.
4. Create a budget: List all your income and expenses and subtract the latter from the former to see how much you can save or need to adjust.
5. Use separate bank accounts: Consider having different accounts for fixed expenses, variable spending, and savings to compartmentalize your funds.
6. Regular check-ins: Set aside time weekly or monthly to review your spending and adjust your budget as needed.

Tracking your spending helps you identify areas where you might be overspending and allows you to create a more effective budget.

Summary



- Spending involves using financial resources to meet personal needs, desires, and obligations. Understanding spending habits is essential for maintaining financial balance.
- Effective management of spending is key to a solid financial plan. It includes budgeting, setting limits, and aligning expenses with income to prevent overspending.
- These are essential, recurring expenses necessary for day-to-day living, such as rent, utilities, groceries, and transportation.
- Non-operational expenses include discretionary spending, such as entertainment, dining out, and luxury purchases. These are not essential for daily living but impact the overall budget.
- Personal expenses include all costs that are directly tied to individual needs, both operational and non-operational. Managing personal expenses wisely can lead to greater financial control.
- Practicing mindful spending helps individuals avoid debt, save more, and achieve financial goals, leading to overall financial wellness.
- Good spending habits support financial stability by ensuring that expenses are covered and savings are consistently built, protecting against financial emergencies.
- Reducing unnecessary spending can help pay off debt faster and increase savings, building a foundation for financial growth and independence.
- Tracking spending is essential for accountability and helps identify patterns and areas for improvement. Tools like budgeting apps, spreadsheets, or journals can assist in monitoring daily and monthly expenses.

Exercise



1. Which of the following is considered an operational expense?
 - a. Vacation travel
 - b. Grocery shopping
 - c. Concert tickets
 - d. Designer clothing

2. What is a benefit of practicing good spending behaviour?
 - a. Accumulating more debt
 - b. Increasing non-essential purchases
 - c. Achieving greater financial stability
 - d. Reducing emergency savings

3. Which tool can help with tracking spending?
 - a. A budgeting app
 - b. A credit card
 - c. An ATM
 - d. A loan calculator

4. Non-operational expenses are best described as:
 - a. Essential expenses necessary for daily life
 - b. Optional or discretionary expenses not necessary for daily living
 - c. Fixed expenses that occur every month
 - d. Costs associated only with income generation

Descriptive Questions:

1. Describe the difference between operational and non-operational expenses.
2. Explain the significance of good spending behaviour in achieving financial stability.
3. Describe the steps you would take to track your spending effectively.
4. Explain how debt reduction and savings accumulation are connected to spending habits.
5. Describe the impact of personal expenses on overall financial well-being.

Notes



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4. Banking and Saving Strategies



- Unit 4.1 – Overview of Banking and Saving Strategies
- Unit 4.2 – Types of Bank Accounts
- Unit 4.3 - Banking Products and Services
- Unit 4.4 - Savings Accounts and Strategies to Track and Progress Savings Management
- Unit 4.5 – Opening a Savings Account and Demat Account



Unit 4 - Banking and Saving Strategies

Unit Objectives

After studying this module, the students shall be able to understand:

1. Understand the role of banking in personal finance
2. Identify different types of bank accounts (e.g., savings, fixed deposit, Demat)
3. Understand various banking products (e.g., loans, credit cards, insurance) and services (e.g., online banking, mobile banking)
4. Explore different savings accounts and their features
5. Understand the steps involved in opening a savings account
6. Learn about Demat accounts and their role in managing investments
7. Explore methods for tracking expenses to stay within budget and achieve financial goals

Unit 4.1 - Overview of Banking and Saving Strategies

Banks have influenced economies and politics for centuries. Historically, the primary purpose of a bank was to provide loans to trading companies. Banks provided funds to allow businesses to purchase inventory and collected those funds back with interest when the goods were sold. For centuries, the banking industry only dealt with businesses, not consumers. Commercial lending today is a very intense activity, with banks carefully analyzing the financial condition of their business clients to determine the level of risk in each loan transaction.

Finance is the lifeblood of trade, commerce and industry. The banking industry is the backbone of contemporary business today. Any nation's banking system is a major factor in its development. A bank is a type of financial organization that handles advances, deposits and other associated services. It is a financial institution that takes deposits from savers and extends credit to borrowers. In addition to dealing with advances and deposits, it also offers allied services like lending money to boost the economy. Banks serve as a conduit for money, taking deposits from savers and lending money to borrowers. The money you deposited in the bank will not be idle. It will grow by means of interest to your bank account they will earn interest in return for lending out the same money to borrowers. This would ensure smooth money flow to develop our economy.

Definition of Bank

According to the Oxford Dictionary, "Bank is an establishment for the custody of money, which it pays out on a customer's order". The Webster's Dictionary defines Bank as, "An institution which trades in money, establishment for the deposits, custody and issue of money as also for making loans and discount and facilitating the transmission of remittance from one place to another". Broadly speaking, banking business implies receiving, consuming and using the funds of the community. It accepts deposits from the public and gives loans to them. Hence, a bank may be defined as an institution which collects funds from the public, safeguards them, and makes them available to the true owner of fund when required. It also lends sums not required by their true owner to those who are in need of money and can provide security. In short, a bank is an institution which accepts deposits withdrawable by cheque and makes loans and advances for the purpose of earning profit.

Features of a Bank

Various features of a bank are:

1. **Commercial establishment:** A bank is a commercial establishment which deals in money. It accepts money as deposits and advances loans in cash and cheques.
2. **Individual, firm or company:** A bank may be an individual, a firm or a company. A banking company refers to a company which is in the business of banking.
3. **Acceptance of deposits:** A bank accepts money from the customers in the form of deposits which are generally payable on demand or after the expiry of a specified period.
4. **Provide safety to money:** A bank provides safety to the money of its clients. It also performs the role of custodian of funds of its customers.
5. **Advancing loans:** A bank lends out money in the form of advances or loans to those who need it for different purposes. The public can borrow from banks to meet their needs and requirements.
6. **Payment and withdrawal:** A bank offers easy payment and withdrawal facilities to its clients

through cheques and drafts. It also brings bank money into circulation. This money circulation is in the form of cheques, drafts, etc.

7. Agency and utility services: A bank offers different banking facilities to its clients which involve general facility services and agency services such as transfer of funds, collection of dividends, locker facilities, payment on behalf of customers, etc.
8. Profit and service organisation: A bank being a financial intermediary is a profit-seeking institution having a service-oriented approach.
9. Credit creation: A bank can create credit i.e., creation of additional money for lending.
10. Ever-increasing functions: Banking is an evolutionary approach. A bank expands and diversifies regularly as regards its functions, services and activities.
11. Banking business: The main function of a bank should be to perform banking business which should not be a subsidiary of any other business.
12. Name identity: A bank should always add the word 'Bank' to its name to enable the public to know that it is a bank, and it deals in money and debts.

Unit 4.2 - Types of Bank Accounts

1. Saving Account
2. Recurring Deposit Account
3. Current Account
4. Fixed Deposit Account
5. NRI Accounts
6. Salary Accounts

1. Savings Account

Saving bank accounts are mainly meant for non-trading customers. It is generally preferred by middle and low-income groups who can deposit only small sums. The salaried class of lower and middle-income groups, farmers or small traders mainly open such accounts. The banks therefore impose certain restrictions on the savings bank account and offer a reasonable rate of interest.

Features of Savings Bank Accounts

The salient features of a savings bank account are as follows:

1. It is generally meant for people who expect to earn a reasonable rate of interest on their deposits.
2. A savings bank account can be opened with a very small deposit. Most banks require minimum balances to open an account with a cheque facility.
3. Certain restrictions are imposed on the withdrawal of deposits. There are restrictions as to the number and the amount of withdrawal during a specified period which varies from bank to bank.
4. The rate of interest payable by the banks on savings bank deposits is prescribed by the Reserve Bank.
5. For deposit products like a savings bank account or a current account, banks normally stipulate certain minimum balances to be maintained as part of terms and conditions

governing the operation of such accounts. But for people, banks encourage the opening of no-frills accounts, typically special savings bank accounts where no minimum balance requirement is required. For a savings bank account, the bank may also place restrictions on a number of transactions, cash withdrawals, etc., during a given period.

2. Recurring Deposits

This is a special type of savings bank account introduced by banks in recent years. Recurring deposits are introduced to create the habit of saving. The important features of such deposits are given below.

1. A recurring deposit account is generally meant for people who have a regular monthly income.
2. A depositor can deposit a fixed amount at fixed intervals for an agreed period.
3. The period of recurring deposit ranging from 1 to 10 years.
4. Generally, no withdrawals are allowed before the expiry of the agreed period. Hence the rate of interest allowed on these deposits is relatively high.
5. Under certain circumstances, account holders are allowed to withdraw money even before the expiry of the stipulated period. In such cases, depositors have to forego their interest or sometimes they earn only a lower rate of interest.

3. Current Accounts

Current accounts are generally meant for commercial and industrial undertakings, public bodies' etc., which have numerous and continuous banking transactions. This account is a running account which may be operated on any number of times during a working day. These accounts are also called demand deposits or demand liabilities since the banker undertakes the obligation to pay cheques against such deposits on demand. Some of the special features of the current account are given below:

1. Current accounts are generally meant for commercial establishments who have to handle numerous cash transactions daily.
2. No restrictions are imposed on the amount and the number of withdrawals to be made each day.
3. A banker has to keep a large amount to meet the demand of current account holders. Therefore, no interest is allowed on current deposits.
4. Account can be overdrawn by special arrangement with the bank. Cheques drawn without such an arrangement are dishonoured.
5. The account holder is allowed the facility of sending bills and cheques for collection including third-party cheques.
6. Incidental charges are levied on unremunerative current accounts for the work and expenses involved in its maintenance.
7. Deposits can be made by pay-in-slips and withdrawals by cheque.

4. Fixed Deposit Account

Fixed deposits are sums of money deposited by customers for a fixed period. Such deposits are also called 'Term Deposits'. These deposits are repayable only after the expiry of a specified period. As the date of repayment of the fixed deposit is determined in advance, the banker need not keep more cash reserves against it and can utilize such an amount more profitably. The banker, therefore, offers a higher rate of interest on such deposits. There is no fixed rate of

interest on the fixed deposits. It varies according to the period for which the fixed deposit has been taken. Normally the rate of interest ranges from 6 to 10 percent.

Fixed deposit accounts are more suitable for small investors who prefer to invest their money in safe bank deposits rather than in investing in risky industrial ventures. These deposits are generally made with a view to earn a steady and high income on their investment.

Advantages of fixed deposit

A depositor gets the following benefits from a fixed deposit:

1. The money deposited by a depositor will be safe in the hands of the banker.
2. Depositors get a high rate of interest.
3. It guarantees a high as well as steady income to the depositor.
4. The procedures for opening a fixed deposit are rather simple. No introduction is needed to make a deposit.
5. The depositor can avail loan against a fixed deposit in case of financial difficulties.

5. NRI Account

There are different types of bank accounts for Indians or Indian-origin people living overseas. These accounts are called overseas accounts. They include two types of savings accounts and fixed deposits NRO or non-resident ordinary and NRE or non-resident external accounts. Banks also offer foreign currency non-resident fixed deposit accounts.

Let us quickly see the various types of bank accounts for NRIs.

- a. Non-resident ordinary (NRO) savings accounts or fixed deposit accounts:
NRO accounts are rupee accounts. When NRIs deposit money in these accounts, usually in foreign currency, it is converted into INR at the prevailing exchange rate. NRIs can park money earned in India or overseas in NRO bank accounts. Payments like rent, maturities, and pension, among others, can be sent abroad through NRO accounts. The income earned on these deposit accounts is taxed.
- a. Non-resident external (NRE) savings accounts or fixed deposit accounts:
NRE deposit accounts are similar to NRO accounts and the funds in these accounts are maintained in INR. Any money deposited into these accounts is converted into INR at prevailing exchange rates. These accounts are only for parking your earnings from abroad. The funds, both principal and interest, are transferable. The interest earned on these deposit accounts is not taxed in India.
- a. Foreign currency non-resident (FCNR) account:
As the name suggests and unlike the other two types of bank accounts, FCNR accounts are maintained in foreign currency. The principal and interest from these accounts are transferable, but the interest earned is not taxed in India.

6. Salary Account

These accounts are opened by banks upon the request of big corporations and businesses that pay their employees through banks. Each employee is eligible to maintain a salary account in which the company they are employed in, are credited with a monthly salary.

Key Features of a Salary Account

Limit: There is no limit to how much money can be put in a salary account. Each employee receives salaries based on disbursement from their employers. Independent transactions can be made

by employees to transact between this kind of bank account with another.

Balance: A salary account is a zero-balance account and employees can withdraw all the money credited into the account at any point.

Interest: Employees do not earn any interest on salary accounts.

Benefit: These accounts can be converted into savings accounts at any point in time. Upon inactivity for more than three months, banks hold the right to convert these accounts into savings accounts, the regulation for which is different.

Unit 4.3 - Banking Products and Services

Banks offer a wide array of products and services to meet the financial needs of individuals, businesses, and institutions. Here's a comprehensive overview of the main banking products and services:

Deposit Accounts

- a. **Checking accounts:** A checking account is a bank account where you can make cash withdrawals or deposits. You can also use a checking account for electronic transfers or online or in-person purchases. Generally, checking accounts cover everyday expenses, such as rent, utility and medical bills. Checking accounts often don't pay interest. Checking accounts might charge fees, such as monthly or overdraft fees.
- b. **Savings accounts:** Designed for saving money with interest earnings and limited withdrawals.
- c. **Money market accounts:** The term money market account (MMA) refers to an interest-bearing account at a bank or credit union. Sometimes referred to as money market deposit accounts (MMDA), money market accounts have some features that are not found in other types of accounts. Most money market accounts pay a higher interest rate than regular (passbook) savings accounts and often include check-writing and debit card privileges. They may also come with restrictions that make them less flexible than a regular checking account. They are important for calculating tangible net worth.
- d. **Certificates of deposit (CDs):** A certificate of deposit (CD) is a type of savings account that pays a fixed interest rate on money held for an agreed-upon period of time. It differs from standard savings accounts in that CD funds must remain untouched for the entirety of their term or will incur a penalty. CDs usually pay a higher interest rate than savings accounts but do not have withdrawal flexibility.

Loans and Credit

- a. **Personal loans:** Personal loans are unsecured loans that can be used to meet any type of financial requirement, from emergencies and home renovation to funding a vacation or wedding. Pre-approved customers and applicants with stable incomes and high credit scores can get personal loans at the lowest applicable rates.
- b. **Home loan:** Home loans are secured loans that are utilised to purchase land or property or for the construction of a property. There are different types of home loans available in India, namely land purchase loans, home construction loans, home improvement loans, etc.
- c. **Gold loan:** Gold loans are loans secured against gold ornaments or coins or bullion. The borrower pledges gold ornaments to the lender in exchange for funds as per the applicable

loan-to-value norms. Gold loan interest rates could be lower than personal loans.

- d. Vehicle loan: Vehicle loans are usually secured loans that help you finance your dream vehicle like a car, bike or electric vehicle. The concerned vehicle works as collateral against your loan.
- e. Education loans: Education loans are used to fund higher education in India or abroad. They cover not just the tuition fees of the educational institutions but also the accommodation and other living expenses borne by the students during the course of study. But while education loans are typically unsecured in nature, lenders could ask for collateral or a guarantor to approve certain education loan applications involving high loan quantum.
- f. Agricultural loans: Agricultural loans are available for different kinds of farming-related activities. Financial institutions offer monetary aid to farmers all across the country.
- g. Credit card loans: Loans on credit cards are linked to a user's credit card account that may or may not be linked to the card's credit limit. The loan repayment EMIs are typically clubbed with the card's monthly bill. While these loans could be availed of quickly involving zero paperwork and used for any financial requirement, their interest rates are typically much higher than personal loan rates. Thus, they should be used only as a last option and for as low an amount as possible.
- h. Short-term business loans: Short-term business loans are unsecured loans that are useful for meeting the daily expenses or diversification of a business, organisation or entity.

2. Insurance Products

- c. Life insurance: Life Insurance is different from other insurance in the sense that, here, the subject matter of insurance is the life of a human being. The insurer will pay a fixed amount of insurance at the time of death or the expiry of a certain period. At present, life insurance enjoys maximum scope because life is the most important property of society or an individual. Each and every person requires insurance. This insurance provides protection to the family at the premature death or gives an adequate amount at the old age when earning capacities are reduced. Under personal insurance, a payment is made at the accident. The insurance is not only a protection but is a sort of investment because a certain sum is returnable to the insured at the death or the expiry of a period.
- d. Health insurance: Health insurance is an effective safeguard for protection against rising healthcare costs. Health insurance is a contract that is made between an insurer and an individual or a group where the insurer agrees to provide health insurance against certain types of illnesses to the insured individual or individuals. The premium can be paid in instalments or as a lump sum amount and the health insurance policy is renewed every year by paying the premium.
- e. Homeowners insurance: Home insurance, also commonly called homeowner's insurance (often abbreviated in the US real estate industry as HOI), is a type of property insurance that covers a private residence. It is an insurance policy that combines various personal insurance protections, which can include losses occurring to one's home, its contents, loss of use (additional living expenses), or loss of other personal possessions of the homeowner, as well as liability insurance for accidents that may happen at the home or the hands of the homeowner within the policy territory.
- f. Business insurance: A cover by business insurance will guard businesses against losses due to events that may happen during the regular course of business. There are many different types of insurance for businesses. It includes coverage for property damage, legal battles and employee-oriented risks.

Digital and Mobile Banking

- a. **Automated Teller Machine:** An ATM is a computerized device which provides customers access to financial services in public places without human intervention. It enables the customers to perform several banking operations such as withdrawals of cash, requests of mini- statements etc.
- b. **Electronic transfer of funds:** This is an electronic debit or credit of amounts in the customer's account. Bank customers can buy goods and services without carrying cash by using credit or debit cards. These cards are issued to the customers by the bankers. This system works on authentication methods such as PIN (personal identification number). The customer swipes the card by using the card reader device or PoS machines to make the transactions. The development of electronic banking and internet banking helped customers to utilize their services.
- c. **Tele-Banking:** It is increasingly used in these days. It is a delivery channel for marketing and banking services. A customer can do non-cash business-related banking over the phone anywhere and at any time. Automatic voice assistants are used for rendering tele-banking services.
- d. **Mobile banking:** It is another important service provided by the banks recently. The customers can utilize it with the help of a cell phone. The bank will provide a particular software and the customer will install it and be provided with a password to enable a customer to utilize this service.
- e. **Home banking:** It is another important innovation that took place in the Indian banking sector. The customers can perform a no. of transactions from their home or office. They can check the balance and transfer the funds with the help of a telephone. But it is not that popularly utilized in our country.
- f. **Internet banking:** It is a recent trend in the Indian banking sector. It is the result of development that took place in information technology. Internet banking means any user or customer with a personal computer and browser can get connected to his bank's website and perform any service possible through an electronic delivery channel. There is no human operator present to respond to the customer. All the services listed in the menu of the bank website will be available.
- g. **Demat banking:** It is nothing but de-materialization. This is a recent extent in the Indian banking sector. The customer who wants to invest in the stock market or in shares and stock needs to maintain this account with a depository like NSDL (National Securities Depository Limited) or CDSL (Central Depository Services Limited) in India. The customer needs to pay certain annual charges to the banks for maintaining this type of account.
- h. **Credit cards:** A credit card is a small plastic card issued to users as a system of payment. It allows its holder to buy goods and services based on the holder's promise to pay for these goods and services. The issuer of the card creates a revolving account and grants a line of credit to the consumer (or the user) from which the user can borrow money for payment to a merchant or as a cash advance to the user.
- i. **Debit card:** A debit card (also known as a bank card or check card) is a plastic card that provides the cardholder electronic access to his or her bank account/s at a financial institution. Some cards have a stored value against which a payment is made, while most relay a message to the cardholder's bank to withdraw funds from a designated account in favour of the payee's designated bank account. The card can be used as an alternative payment method to cash when making purchases.

Payment Services

a. NEFT (National Electronic Fund Transfer)

One of the most preferred forms of money transfer from one bank to another is NEFT. For making an NEFT transaction, you just need two details, which are:

- Account Number
- IFSC Code

There is no maximum cap on the amount of money that can be transferred. However, individual banks have the right to set a limit.

b. RTGS (Real Time Gross Settlement)

RTGS is just like NEFT, but how the amount gets credited to another account and the minimum payment cap is different. You should use this service if you need to transfer more than 2 lakhs. Also, there is no maximum limit on the upper limit.

c. IMPS (Immediate Payment Service)

Immediate payment service abbreviated is an instant fund transfer service that works 24/7. IMPS can also be defined as a combination of NEFT and RTGS.

However, to prevent fraud, the minimum cap on the transaction limit is set to be Rs. 2,00,000.

For making an IMPS transaction, all you need to know is the receiver's (account holder's) IMPS ID (MMID) and phone number.

d. UPI (Unified Payments Interface)

The unified payment interface abbreviated as UPI is another real-time payment system that facilitates transactions through VPA (Virtual Payment Address).

For transferring the amount, you don't require any account details, all you need is the mobile number or the UPI ID. You can make UPI transactions 24/7. However, the upper cap on UPI-enabled transactions is Rs. 1 lakh.

e. Banking Cards

One of the most used payment methods that come with several features and benefits, such as security of payments, convenience, etc., are the banking cards.

An alternative advantage of these cards is that you can use them to make various kinds of digital payments, PoS machines, etc. For instance, customers can store their card information on the digital wallet and make cashless payments. Some of the well-known card payment systems are VISA, MasterCard and Rupay.

f. AEPS

The full form of AEPS is Aadhaar Enabled Payment System. It can be used for all banking transactions, such as cash withdrawals, payment transactions, Aadhaar to Aadhaar fund transfers, balance inquiries, etc. Here all the transactions are carried using Aadhaar verification. So, technically, you don't even need to visit the branch physically, provide debit or credit cards, or even sign a document. It will only work if your Aadhaar number is registered with the bank where you hold an account.

g. PoS Terminals

Conventionally, this referred to those hand-held devices (credit/debit card readers) that are installed at all physical stores. There are various kinds of PoS terminals physical PoS, mobile PoS, and virtual PoS. Physical PoS are available at shops and retail outlets, whereas mobile PoS terminals work via a tablet or smartphone. This is beneficial for small-time business owners as they can't invest in expensive registers. Lastly, there are Virtual PoS systems that use web-based applications to process payments.

h. Cheque

With the help of a cheque, anyone can transfer money from one account to another account. You need to draw a cheque stating the payee as your name along with the account number where you have to transfer the amount and your signature just below the numeric amount. If the recipient's account is also in the same bank as yours, then the transfer is completed within one day. There is no particular limit on the transfer amount, but there are restrictions like you cannot withdraw more than Rs.50,000 from a non-home branch.

i. Demand Drafts

When one person wants to send or transfer money to another person who is in another town/city. Then the person who wants to transfer the amount can deposit cash in the bank or issue a cheque in favour of the issuing bank, which will issue him a demand draft.

The person who wants to receive the amount receives the demand draft and then gives it to the bank/branch where he/she has his savings account and receives the payment. But remember, banks usually charge a commission for issuing demand drafts.

j. Banker's Cheque or Payment Order

Bankers' cheques or payment orders are just like demand drafts that are issued to send and receive payments within the city. These are only valid for a very short duration, and banks may charge a commission for issuing them.

6. Foreign Exchange Services

- a. **Currency exchange:** Conversion of one currency into another in cash form, often for travellers. Customers can walk into a bank branch and exchange one currency for another at the prevailing exchange rate. This service is commonly used by travellers. Prepaid cards loaded with foreign currency that can be used abroad for purchases and ATM withdrawals, offering a convenient and secure alternative to carrying cash.
- b. **Foreign currency accounts:** Banks offer accounts in various foreign currencies, allowing customers to hold, receive, and send payments in those currencies without the need for constant conversions. These accounts are useful for businesses dealing internationally and individuals with overseas income or expenses.
- c. **International wire transfers:** While domestic wire transfers involve sending money within the same country, international wire transfers allow the transfer of funds across borders. Banks use networks like SWIFT (Society for Worldwide Interbank Financial Telecommunication) for international transactions. Customers provide details such as the recipient's name, account number, and bank details. The bank then converts the currency (if needed) and transfers the funds, which typically takes a few days to complete.
- d. **Foreign exchange hedging:** Currency hedging is a strategy designed to mitigate the impact of currency or foreign exchange (FX) risk on international investments returns. Popular methods for managing currency risk are forward contracts or FX options. These tools enable investors to isolate local equity returns by mitigating the impact of FX.

7. Safe Deposit Boxes

The safe-deposit box refers to a bank locker that is rented out to the depositors of a bank. The bank maintains it for periodic rent, usually collected annually. It is used to keep valuables, important documents and keepsakes locked under security. Safe or safety deposit box is an individually protected container of a metal material. It is a part of the safe or vaults of a bank that is insured. They are designed to endure natural disasters, such as fires, floods, cyclones, or earthquakes.

8. Treasury and Cash Management Services

Cash management: Solutions for businesses to manage liquidity, including cash flow forecasting and payment processing.

Treasury services: Managing financial operations and risks, including collections, disbursements and investment of surplus funds.

Unit 4.4 - Savings Account and Strategies to Track and Progress Saving Management

A savings account is a type of deposit account provided by banks and financial institutions. It allows individuals to deposit and store their money while earning a certain rate of interest on the deposited amount. The primary objective of a savings account is to encourage individuals to save money over some time, providing them with a safe and accessible place to keep their funds.

Strategies to Track and Progress Saving Management

Saving money can be a challenging task, but it is a crucial step towards financial stability and security. One of the most effective ways to achieve your financial goals is to set a savings goal and track your progress towards it. Here are some tips on how to set your savings goal and track your progress, with a particular focus on savings accounts.

1: Determine your financial goals: The first step in setting your savings goal is to determine your financial goals. This may include saving for a down payment on a house, paying off debt, building an emergency fund, or planning for retirement. Once you have identified your goals, you can determine how much you need to save to achieve them.

2: Set a realistic savings goal: Setting a realistic savings goal is critical to your success. You do not want to set a goal that is too high or too low, as this can cause you to lose motivation or fall short of your target. To set a realistic goal, consider your current income, expenses, and lifestyle. You can use a savings calculator or a budgeting tool to help you determine how much you can realistically save each month.

3: Choose the right savings account: Choosing the right savings account is an essential step in setting and achieving your savings goals. You should ideally go for accounts with high-interest rates and low fees. Some accounts may require a minimum balance or have withdrawal restrictions, so be sure to read the terms and conditions carefully. A high-yield savings account will be a good option if you want to earn a higher interest rate on your savings.

4: Automate your savings: Automating your savings is a simple yet effective way to ensure that you are making progress towards your savings goal. Set up automatic transfers from your checking account to your savings account on a regular basis to stay on track and avoid the temptation to spend the money on other things.

5: Track your progress: Tracking your progress is crucial to staying motivated and achieving your savings goal. Use a spreadsheet or a budgeting app to monitor your savings account balance and track your progress towards your goal. Celebrate small victories along the way, such as reaching 25% or 50% of your goal.

6: Adjust your plan as needed: Life is unpredictable, and your financial situation may change over time. Be prepared to adjust your savings plan as needed. If you receive a raise or a bonus,

consider increasing your savings rate. If unexpected expenses arise, you may need to adjust your timeline or reevaluate your goals.

Setting a savings goal and tracking your progress is a crucial step towards achieving financial stability and security. By choosing the right savings account, automating your savings, and tracking your progress, you can stay motivated and achieve your goals. Remember, it is essential to set a realistic goal and be prepared to adjust your plan as needed. You can achieve your financial goals and enjoy a secure financial future with dedication and discipline.

Unit 4.5 - Opening a Savings Account and Demat Account

The relationship between the banker and customer begins immediately on the opening of an account in the name of a customer. Therefore, a banker should be very cautious in opening an account. He must comply with all necessary formalities in this regard. The banker must take the following steps for opening a savings or current account in the name of customers.

- 1. Application on the prescribed form:** A prospective customer must fill up the printed application form supplied by the banker and submit it to the bank for opening an account. Separate forms are available to open savings and current accounts. The applicant should mention his name, full address, occupations, name of the referee etc. in the application. The applicant is also required to affix his recent photograph in the application.
- 2. Introduction of the applicant:** A banker has to satisfy himself the identity of the customer before opening an account in his name. For this purpose, he should ask for proper introduction or a satisfactory reference. Proper introduction means the prospective customer has to be introduced to the bank by a respectable person or an existing customer of a bank. The banker has the right not to open an account in the name of an undesirable person.
- 3. Obtaining specimen signature:** After making proper enquiry and the banker is willing to open an account in the name of the applicant, the applicant required to give his specimen signature to the bank and it is kept in the bank for future reference. Whenever a cheque presented against his account, the banker has the obligation to verify the correctness of the signature on it by comparing with his specimen signature.
- 4. Receiving initial deposit:** After all the formalities are over, the banker should obtain the initial deposit from the customer and it should be credited in his account. The minimum deposit should be at least equal to the minimum balance to be maintained in savings or current accounts.
- 5. Opening the account:** After accepting the deposit, the banker can open a fresh account in the name of the customer in the ledger. The full details such as name, address, account number etc. are entered at the top of the ledger folio. Then the banker may issue a paying-in-slip book, cheque book and passbook to the customer. Now the customer can operate his account.

DEMAT ACCOUNT

A Demat (Dematerialized) account is essential for trading and investing in the stock market, as it holds your securities in electronic form, thus eliminating the need for physical certificates. A Demat account is similar to a bank account, but instead of holding money, it holds shares and securities in electronic form. It facilitates easy and safe transactions of shares during trading. A Demat account eases the process of share trading and makes it quicker as well. Initially, shares

were held in a physical form via share certificates. That made the entire procedure tedious and time consuming. To eliminate such limitations, the National Securities Depository Limited (NSDL) was established in 1996. They brought the concept of Demat accounts that enabled electronic storage of shares and securities of companies. In India, if you want to invest in the stock market, it is compulsory to open a Demat account.

Benefits of a Demat Account

Here are some of the most common advantages of (holding/opening) a Demat Account.

- 1. Reduced risk of document loss:** Before the introduction of the Demat account, shares were typically in the form of physical paper certificates which were susceptible to tampering, theft, loss, and forgery. Additionally, transferring shares required extensive paperwork, which often led to errors and delays. With a Demat account, you can securely store all your shares electronically in a digital repository.
- 2. Cost-Effective:** In physical trading, there are additional costs such as handling fees and stamp duties, which can be unpredictable. Demat accounts eliminate these extra expenses, leaving you with only brokerage charges, which are transparent and upfront. Opting for discount brokers can further enhance your savings, making Demat accounts a cost-effective choice for today's traders.
- 3. Time saving:** Demat accounts make buying and selling shares quick and easy while enhancing share liquidity. Additionally, the process of transferring shares has also seen significant improvements.
- 4. Easy tracking:** Demat accounts not only reduce the effort of tracking physical documents but also eliminates the need for manual record-keeping since all your documents are stored on a secure server along with investment records.
- 5. Corporate gains:** Demat accounts automatically update bonus issues, stock splits, and right shares from companies. This ensures the timely receipt of refunds, interest, or dividends into your account. This automated feature enhances the convenience of your online trading experience.
- 6. Loan facility:** As a Demat account holder, you can also avail of a loan using the securities held in your account as collateral.
- 7. Odd lots:** Before Dematerialization, buying, and selling were restricted to fixed quantities, leading to the challenge of odd lots. Demat accounts have effectively addressed and resolved this issue.
- 8. Diverse investment storage:** A Demat account is not limited to just shares, it also securely stores a diverse range of investments, including bonds, mutual funds, ETFs, government securities and more.

Types of Demat Account

Demat accounts come in various types to cater to different investment needs and regulatory requirements. Below are the primary types of Demat accounts:

- 1. Regular Demat account:** Suitable for resident Indian investors who want to trade in equity shares, bonds, government securities, mutual funds, etc. It allows easy transfer and holding of securities in electronic form and is ideal for individual investors actively trading in Indian stock markets.
- 2. Repatriable Demat account:** Designed for Non-Resident Indians (NRIs) who wish to invest in Indian markets and repatriate funds abroad. It is linked to a Non-Resident External (NRE) bank account, enabling the transfer of funds abroad. These accounts are suitable for NRIs who want to remit the sale proceeds of their investments outside India.

3. Non-Repatriable Demat account: It is also for NRIs but does not allow the repatriation of funds abroad. It is linked to a Non-Resident Ordinary (NRO) bank account. These accounts are for NRIs who want to invest in Indian markets but do not intend to transfer funds abroad.

Steps to Open a Demat Account:

1. Choose a depository participant (DP): A DP is an agent that acts as an intermediary between you and the depository (NSDL or CDSL in India). Research and choose a DP based on service charges, services offered, and customer support.

2. Fill the account opening form: Obtain the account opening form from your chosen DP, either online or offline. Provide personal details like name, address, bank details and PAN card number.

3. Submit KYC documents: Submit self-attested copies of the following documents:

Proof of Identity: PAN card, Aadhaar card, Passport, Voter ID, or Driving License.

Proof of Address: Aadhaar card, Passport, Voter ID, Utility bills (electricity, telephone), or Bank statement.

Proof of Income: Salary slip, Income Tax Return (for trading in derivatives).

Bank Proof: Cancelled cheque, bank statement, or passbook.

4. In-Person Verification (IPV): You may need to visit the DP's office for IPV or it can be done online via a webcam. This step verifies your physical presence and the authenticity of documents.

5. Sign the agreement: Sign an agreement with the DP which includes details of rights and duties of both parties. Ensure to read the terms and conditions carefully before signing.

6. Receive client ID and DP ID: Once your application is processed, you will receive a unique client ID and DP ID. These credentials are used to access your Demat account.

7. Link bank account: Link your bank account with the Demat account for smooth transactions. This allows seamless transfer of funds for buying and selling securities.

8. Get login details: The DP will provide login credentials to access your Demat account online. This helps to monitor and manage your holdings and transactions through this online portal.

By following these steps, you can open a Demat account and start trading in the stock market with ease and security.

Summary



- The banking and saving strategies unit covers a comprehensive overview of financial management tools. It introduces various bank accounts, including checking, savings, fixed deposits, and business accounts, each serving specific needs.
- The unit also explores a range of banking products and services, such as loans, credit, investment options, online banking, and insurance, which support financial planning and growth.
- Emphasis is placed on savings accounts and strategies to effectively track and progress savings through budgeting and financial tools.
- Finally, the process of opening a savings account and a Demat account is outlined, highlighting the necessary steps and documentation involved.
- Overall, the unit provides a holistic understanding of how individuals can manage and grow their finances through various banking services and savings strategies.

Exercise



1. Which of the following is NOT considered part of personal finance?
 - a. Budgeting
 - b. Investing
 - c. Managing relationships
 - d. Saving

2. What is the primary purpose of setting financial goals?
 - a. To keep track of spending habits
 - b. To determine future expenses
 - c. To provide a direction for saving and spending decisions
 - d. To calculate monthly income

3. Which of the following is an example of a “need” in budgeting?
 - a. Dining out
 - b. Mortgage or rent
 - c. Entertainment subscriptions
 - d. New clothing for a party

4. How much is generally recommended to keep in an emergency fund?
 - a. One month of living expenses
 - b. Three to six months of living expenses
 - c. Ten months of living expenses
 - d. One year of living expenses

5. Which of the following best describes “liabilities”?
 - a. Assets that generate income
 - b. Income received from employment
 - c. Financial obligations or debts
 - d. Money saved for future goals

Descriptive Questions:

1. Why do financial goals matter? How do they help guide decision-making in managing personal finances?
2. Describe how creating and following a budget can influence both short-term and long-term financial stability.
3. How do needs and wants impact spending choices, and why is it important to differentiate between them?
4. Why is an emergency fund important, and how much is typically recommended to have in this fund?
5. What are some common forms of debt, and how can debt impact a person’s financial well-being? What are strategies to manage or reduce debt?
6. What is the role of investing in personal finance, and how can it help achieve financial goals over time?
7. What does financial independence mean, and why is it a common goal in personal finance?

Notes



Lined area for taking notes, consisting of 20 horizontal lines.

Large empty rectangular box for additional notes or drawings.

5. Investment Basics and Strategies



- Unit 5.1 – Introduction to Investments
- Unit 5.2 – SIP (Systematic Investment Plan)
- Unit 5.3 – Types of Investment Options
- Unit 5.4 – Investment Decision Making Process
- Unit 5.5 – Factors Influencing Investment Decision
- Unit 5.6 - Investment Strategies
- Unit 5.7 - Stock Market Fundamentals
- Unit 5.8 - Steps to Invest in Stocks



Unit 5 - Investment Basics and Strategies

Unit Objectives

After studying this module, the students shall be able to understand:

1. About investment and different type of investments
2. Investment decision making and factors influencing decision making
3. Various investment strategies
4. Process to invest in stocks

Unit 5.1 - Introduction to Investments

The use of funds on assets to earn income or capital appreciation is known as investing. Investment, in general, refers to the use of money in the hope of making more money. Thus, an investment is a sacrifice of current money or other resources for future benefits. The sacrifice made is certain, but the expected benefits in the future are uncertain. Time and risk are two fundamental aspects of investment.

Meaning of Investment

Investment is an activity that commits funds in any financial/physical form in the present, expecting to receive an additional return in the future. The expectation brings with it a probability that the magnitude of return may vary from a minimum to a maximum. In finance, investment refers to the purchase of a financial product or other valuable items with the expectation of favorable future returns. Financial Investments allocate monetary resources ranging from risk-free to risky investments and expect a reasonable return that varies with risk. The investors are the suppliers of 'capital.' In their view, investment is a commitment of a person's funds to derive future income in the form of interest, dividends, rent, premiums, pension benefits, or the appreciation of the value of their principal capital.

The term "investment" is described by economists as net additions to the economy's capital stock, which comprises products and services utilized to produce other goods and services. For them, investment entails creating new and productive capital in new construction, new producers' durable equipment like plant and equipment, and inventories and human capital.

Amling defines investment as the "purchase of financial assets that produce a yield that is proportionate to the risk assumed over some future investment period." According to Sharpe, "investment is the sacrifice of certain present value for some uncertain future values."

Unit 5.2 - SIP (Systematic Investment Plan)

Systematic Investment Plan (SIP) is a disciplined approach to investing. It comes with various advantages, allowing investors to build wealth by regularly investing a predetermined sum at a set interval. The intervals could be weekly, monthly, or quarterly. Investors can also go with auto-debit to automate withdrawals from their bank accounts for investment in the pre-decided scheme.

SIPs provide investors with a flexible investment approach. They have options to adjust their investment amounts based on their finances. This flexibility enables investors to increase or decrease their SIP contributions with great control.

SIP or Systematic Investment Plan caters to those who prefer a disciplined and systematic approach to investing, making it suitable for both seasoned investors and beginners. For beginners, SIP offers a convenient entry point into the world of investments, allowing them to start with modest amounts and gradually increase their investment as they become more comfortable. Seasoned investors, on the other hand, appreciate SIP's ability to navigate market

volatility effectively, enabling them to capitalise on both bullish and bearish market trends. Regardless of one's risk appetite or investment experience, SIP provides a flexible and accessible investment avenue that aligns with various financial goals and timelines.

Unit 5.3 - Types of Investment Options

Different avenues and investment alternatives include share market, debentures or bonds, money market instruments, mutual funds, life insurance, real estate, precious objects, derivatives, non-marketable securities. All are differentiated based on their features in terms of risk, return, term, etc.

1. Real investments

Real assets are physical investments which would include real estate, gold and silver, precious stones, rare coins and stamps, and art objects. Real investments are the traditional type of investments. It is of the following types:

a. Real estate: Real estate investment has seen a lot of capital appreciation over the last few years. Real estate refers to the land and anything permanently affixed to the land. All wealthy people keep part of their wealth in the form of real estate including land, residential, commercial and industrial buildings. There has been a boom in the real estate market and has given more than 50 per cent returns in certain areas.

b. Commodities: Commodities are any mass goods traded on an exchange or in a cash market. Industrial metals such as copper, aluminium, zinc, nickel, silver are also included in commodities. Commodities are traded in order to make profit from the fluctuation in price. These potential profits result from the buying or selling of futures contracts in a particular good. The value of a commodity changes as its supply and demand change. Investors are able to make money by selling the commodity for more than what they bought it for. The prices of commodities can go up or down of course. Examples of commodities are gold, silver, oil, sugar, coffee, cotton, rubber and many more. The prices of commodities are driven mostly by supply and demand. Investments in commodities are very speculative because their future demand is difficult to predict.

c. Bullion: Precious metals have been around since the dawn of the economy, perhaps even before. These metals have attracted human interest due to various factors such as their scarcity and thus their value. All of us are familiar with the attraction of Gold as a precious metal. Other metals have also made their mark on the human mind. These are metals such as Silver, Platinum and Palladium. These metals attract a lot of interest worldwide for their value, especially as a long-term or short-term investment. Gold prices have also seen a sharp rise recently. This is a very traditional method of investing. Investing in gold and precious stones always has a guaranteed return.

d. Art: Art as an investment avenue has been considered an interesting and profitable alternative, but it is also extremely risky. Art holds demand in the market during an economic boom as well as a slowdown. Investing in art is one alternative investment strategy, which has been gaining increasing acceptance around the world. The increasing activity of art auction houses over the last decade has provided an important secondary market which has resulted in liquidity, promoting art not only as an object of pleasure but also as an inevitable asset. Art and antiques as investments have caught the fancy of many.

2. Financial investments

Financial investments involve commitment of funds in financial and monetary assets. Several financial investments instruments are available. These investments are freely tradable and negotiable. These would include equity shares, preference shares, convertible debentures, public sector bonds, saving certificates, gilt edged securities, and money market securities. Broadly speaking, following are the important financial investment:

a. Debts: These are instruments, which give a fixed rate of interest for a fixed period of maturity. Hence, they are low risk, low return investments. They could be in the form of government bonds, treasury bills, corporate bonds, bonds of public sector companies like railway bonds, ONGC bonds etc. Government bonds and treasury bills issued by the government are absolutely risk-free securities.

b. Equities: These investments carry more risk than investing in debt instruments. There is no assured return but when we invest in a share of a company, we become an owner of the company to the extent of the capital invested. So we can invest in different types of stocks belonging to different sectors. For instance, one can invest in IT stock like Infosys, a telecom share like Bharati Telecom etc, depending on his risk appetite.

c. Mutual funds: If an investor does not directly want to invest in the markets, he can do it through a mutual fund scheme. A mutual fund pools money from investors and invests in different securities. A professional fund manager decides the investment strategies and securities, where one can purchase units of a fund. But one must also note that mutual fund investments bear the same risk as the market, the only difference lies in the fact that the funds are managed by a professional portfolio manager who may be better equipped, has access to analysed information and follows the market carefully. These schemes are mainly growth oriented, income oriented or balanced schemes.

3. Non-Securitized financial securities:

Non-security investments are investments in life policies, bank deposits, public deposits, NSC, NSS, non – tradeable mutual fund units, post office time deposits, GPF, PPF, etc. These are not traded in stock exchanges. That is, there is no secondary market for this type of securities. However, the interest in these investments can be assigned. Repayment takes place normally at maturity.

INVESTMENT ALTERNATIVES

There are wide ranges of investment alternatives available for investing. The more common ones are:

1. Bank deposits: Bank deposits are of different types such as savings, recurring and time. Rate of interest is low for savings deposits and is high for time or fixed deposits, Bank deposits are generally risk free. So, return is lower and bank deposits are suitable for risk averse investors.

2. Fixed income securities: These are a group of investment vehicles that offer a fixed periodical return. A fixed income security is a security or certificate which shows that the investor has lent money to the issuer in return for fixed interest income and repayment of principal on maturity.

3. Shares: A shareholder is a part owner of the company. A company is a separate legal individual, which is owned by all of its shareholders. The value of a share changes according to the market's view of the worth of the company. Shares as an investment alternative are risky. Dividend is the mode of return for shares. Good companies give interim dividend besides annual dividend. Their shares also command high price giving good capital gain.

4. Mutual funds: Mutual funds are pooling of small savings of people and collectively investing the pooled funds in capital and money market securities. UTI was the pioneer mutual fund. Later in late 1980s, banks and since 1993 private concerns were allowed to float mutual funds. Some funds are income oriented, some capital appreciation oriented and some others are tax benefit oriented. There are open-end and close end schemes. Open end schemes are without limit as to size and maturity time. These are bought and sold continuously by the sponsors throughout. Close-end schemes are fixed as to maturity and corpus of the fund. Risk minimisation is the goal of mutual fund.

5. Investment trusts: An investment trust is a company registered under the Companies Act. An investor can purchase shares in that company. The company itself will invest in a wide range of equities and other investments. In a unit trust, the investor buys units in the trust itself and not shares in the company.

6. Derivatives: Derivatives are financial instruments whose values are linked to the price of underlying instruments in the stock markets. For instance, a stock index future is linked to the performance of a specified stock market. Stock options and financial futures are two popular derivative instruments for investors.

7. Commodities: Commodities can be bought as physicals where the goods exist and are delivered right away or as futures, where the goods may not yet exist and will only be delivered in the future. Commodity prices can be unstable as they depend on supply and demand as well as on the other variable factors such as the weather or unexpected pest attacks.

8. Life insurance: Life insurance reduces risks of people. It is also a method of saving and investing. In other words, life insurance is like a collection of funds from policy holders and specified sum of money will be paid from the pool of money either on the death or emergencies or after the expiry of a stipulated period.

10. Annuities: Annuities are contrary to insurance protection against death. It is a contract where, for a lump sum payment, the insurer agrees to pay the annuitant, a predetermined sum (annuity) on a periodical basis during a fixed period of time or for the duration of the survival of the respective life. This is done with the understanding that the principal sum shall be considered liquidated immediately on the death of the annuitant.

11. Post office scheme: Post Office Schemes are generally like the commercial bank schemes. They have a savings account, a recurring account, or cumulative time Deposit account which is also recurring in nature. The savings accounts operate in the same way as commercial banks through cheques and there is no restriction on withdrawals.

Unit 5.4 - Investment Decision Making Process

Investing has been an activity confined to the rich and business class in the past. But today, we find that investment has become a household word and is very popular with people from all walks of life. India appears to be slowly but surely closing in some of the top savers among countries in the global peaking order. The investment process encompasses the steps involved in investing. These steps include determining an investor's investment objectives and risk tolerance establishing an asset allocation policy, which has a significant impact on the overall performance of an investment, or a portfolio A typical investment decision goes through a five-step procedure which is known as investment process. These steps are:

1. Defining the investment objective
2. Analyzing securities
3. Construct a portfolio
4. Performance Evaluation
5. Portfolio revision

1. Defining the investment objective

The first and most crucial phase in the investment management process is to establish an investment policy. Setting investing objectives is part of investment policy. The investment policy should include precise objectives addressing the investor's investment return need and risk tolerance. Other major constraints that potentially influence investment management should also be stated in the investment policy. Constraints may include the investor's financial demands, estimated investment horizon, and other individual needs and preferences. The investment horizon is the time span across which investments are made. The projected time horizon may be short, lengthy, or indefinite. The investor's tax status is also included in the investment policy.

2. Analyzing securities

When an individual has created a proper sequence of the types of investments that he needs in his portfolio, the following step is to analyze the securities that are accessible for investment. The second step allows the investor to identify undervalued and overvalued securities. Return can be maximized by investing in stocks which are currently underpriced but have the potential to increase. It might be useful to remember the golden principle of investment; buy low sell high. There are two approaches used for analyzing securities; technical analysis and fundamental analysis.

3. Construct a portfolio

Portfolio Construction After selecting the securities in a portfolio, the following step in the investment management process is the portfolio's construction. Choosing the right strategy for portfolio creation is very important as it forms the basis for selecting the assets added to the portfolio management process. The strategy that conforms to the investment policies and objectives should be selected. There are two types of portfolio strategy:

1. **Active Management:** The active portfolio management process refers to a strategy where the objective of investing is to outperform the market return compared to a specific benchmark by buying undervalued securities or by short-selling securities that are overvalued. In this strategy, risk and return both are high.
2. **Passive Management:** The passive portfolio management process refers to the strategy where the purpose is to generate returns equal to that of the market.

4. Performance evaluation

The next step in the investment decision process is the performance evaluation of the portfolio. Investments are always made under conditions of uncertainty and it is necessary to evaluate periodically how the investment performed so that, if necessary, the investor may consider switching over to alternate proposals. The performance evaluation of investments is done in terms of risk and return. The key issue is whether the portfolio return is equal with its risk exposure. This may provide useful feedback to improve the quality of the portfolio management process.

5. Portfolio revision

Portfolio revision involves the periodic repetition of the above steps. The investment objectives of an investor may change over time and the current portfolio may no longer be optimal for him.

So the investor may form a new portfolio by selling certain securities and purchasing others that are not held in the current portfolio. Moreover, the value of a portfolio as well as its composition i.e. the relative proportions of stock and bond components may change over time as stocks and bonds tend to fluctuate. As a result, some securities that were not attractive initially may become attractive and vice-versa. In response to such changes, the investors may like to revise and rebalance his existing portfolio.

Unit 5.5 - Factors Influencing Investment Decision

Investing has always been a fascinating topic. It provides investors with the opportunity to build money and broaden their financial horizons. Individual and institutional investors have various investment goals.

Investors may also have specialized requirements in terms of liquidity, tax concerns, legal requirements, religious or ethical standards compliance, or other special conditions. Because investors' situations and needs change over time, it's critical to re-evaluate their requirements on an annual basis.

1. Required return

The amount of return required to achieve an investor's objectives varies. The required rate of return before and after taxes can be determined based on a future wealth or portfolio value target. An investor can pursue a total-return approach, in which no distinction is made between income (such as dividends and interest) and capital gains (that is, increases in market value). A total-return investor is unconcerned with the source of return changes in value or income. Alternatively, an investor can make a distinction between income and capital gains, pursuing income for immediate needs and capital gains for long-term goals. The return criterion should be defined in real terms, which involves correcting for inflation, especially for a long-term horizon. This change is critical because it keeps the focus on what the collected portfolio will deliver at the conclusion of the time horizon. Larger levels of expected return typically necessitate a higher level of risk. Some investors will prefer to invest in high-risk assets because they need high returns to accomplish their objectives, but the potential implications (downside risks) of this strategy must be considered. Other investors will have amassed adequate assets and will not require huge returns, allowing them to take a lower risk approach with greater assurance of fulfilling their objectives.

2. Risk tolerance

The amount of risk that investors are willing and able to bear with their investments is usually limited. There is a relationship between risk and return, as previously stated. In general, the bigger the predicted return, the higher the risk. Similarly, the larger the risk, the higher the predicted return. Risk tolerance is determined by an investor's ability and willingness to take risks. The ability to take risk is determined by the investor's condition, such as the asset-to liability ratio and the time horizon.

3. Time frame

The investor and adviser must agree on the investment's time horizon. Some investors will require immediate access to funds from their holdings, while others will have a much longer time horizon. The investment horizon has a significant impact on the amount of risk that can be

accepted with a portfolio and the amount of liquidity that may be necessary. The ease with which an investment can be converted into cash is known as liquidity. Because they have more time to adapt to their circumstances, investors with longer time horizons should be able to assume greater risk. Markets rise more often than they fall over time, so an investor with a longer time horizon has a better chance of accumulating positive returns. Long-term investors are also better able to wait for markets to rebound after a period of bad performance, but this is not always possible.

4. Liquidity

The amount to which investors may need to withdraw money from their holdings varies. They may require a withdrawal to pay for a specific item or to establish a monthly revenue stream. These requirements have an impact on the types of investments made. When liquidity is necessary, the investments must be able to be converted to cash promptly and at a reasonable cost (low transaction fees and price changes). A person may also demand that a portion of their portfolio remain liquid in order to cover unanticipated needs. Furthermore, the individual may have anticipated future liquidity demands, such as a planned future spending on children's schooling or retirement income requirements. The liquidity restriction for an institution usually represents the institution's liabilities.

5. Regulatory issues

Regulatory regulations apply to certain sorts of investors' portfolios. For example, in some countries and for some types of institutional investors, the percentage of a portfolio that can be invested overseas or in riskier assets like equities is limited. Insurance company holdings are usually subject to stringent regulations.

6. Taxes

Investors have different tax situations. Some investors pay taxes on their investment profits, while others do not. Pension funds, for example, are tax-free on investment returns in many nations. Furthermore, how income and capital gains are taxed can differ. It is critical to evaluate an investor's tax condition as well as the tax implications of various assets. Investors should be concerned with the returns they receive after taxes and fees since that is the amount of money they have available to spend. Individuals may potentially face varied tax situations depending on the components of their wealth.

7. Unusual Situations

Many investors have specific needs or constraints that aren't covered by the typical categories outlined thus far. Some investors have social, religious, or ethical views that limit the kind of investments they can make with their money. Investors may, for example, choose not to invest in companies that participate in activities that they fear may harm the environment. Other investors could insist on assets that are in line with their religious values. Investors may also have special needs based on the type of their overall investment portfolio or financial situation.

8. Safety of funds:

The important consideration in making investment is that the funds so invested should be safe and secure. The investor should get back his investment without loss. He will generally select only those investments or securities which are safe.

9. Form of return:

Investments in securities yield two types of return. They are periodic cash receipts and capital gain. Some investors want periodical cash receipts in the form of interest and dividend. Some investors are interested in capital gain in the form of increase in the price of investment. While selecting the investment, the investor is required to consider the form of return.

10. Capital appreciation:

If the goal of the investor is to achieve conservative growth, he would make an investment portfolio that will yield money over the long term by capital appreciation known as wealth building overtime. Those investors who want short term and long-term capital gains shall opt for aggressive growth in stocks. There are some others whose aim is to maximise returns by buying and selling securities solely to make profit from short-term price fluctuations (i.e. speculators).

Unit 5.6 - Investment Strategies

Investment strategies are a set of postulates that help an investor achieve their investment and financial goals. The strategies are formulated based on the investor's financial goals, risk tolerance, and target corpus. They are also formulated keeping the investor's short-term goals and long-term goals in mind. These strategies can be curated by the investors themselves as well as the portfolio managers. The strategies need to be changed as and when required as per the circumstances, as a static strategy would not be feasible for every circumstance.

Types of Investment Strategies

1. Fundamental analysis

Fundamental analysis is an investment strategy which analyses economic and financial factors about the company or asset. This assists in determining the asset's intrinsic value – that is, what its price should be compared to the current market price – and its potential for future growth. This information is gathered via publicly available data about the company or asset and the market it operates in, such as financial statements detailing revenue growth, debt, and earnings, as well as more intangible elements such as the company's management and strategy. Analysts then compare the intrinsic value with the asset or stock's current price to determine if it is undervalued or overvalued and advice to invest accordingly.

2. Value investing

Value investing is a long-term investment strategy where investors use fundamental analysis to identify assets or stocks which are underappreciated by the market and buy them at a 'discount'. This strategy operates on the belief that markets tend to overreact to news, resulting in short-term fluctuations in demand and market price, even if the intrinsic value does not change. This overreaction allows investors to make an investment 'on sale' and are rewarded when the market returns to normal, and the intrinsic value is recognised.

3. Growth investing

Growth investing aims to increase wealth through long or short-term capital appreciation – that is, gains achieved when sold rather than distributions received while owned. This is achieved by purchasing assets or stocks which have potential for future capital growth.

Growth investing focuses on selecting companies which are expected to grow at an above-average rate in the long term, even if the share price appears high. As such, this strategy is generally not ideal for investors seeking a steady income. When deciding to invest, growth investors generally consider factors such as the asset's current health, prospects of the industry, as well as potential to grow.

4. Technical Analysis

Unlike fundamental analysis, which evaluates an investment or asset's value based on internal factors such as a company's sales and borrowings, technical analysis uses charts to predict future patterns and trends based on recent trading activity, such as price movements, trading volumes and volatility. By recognising certain cues and signals, called indicators, investors predict forthcoming patterns and invest accordingly.

5. Income Investing

Income investing aims to build an investment portfolio of diversified investments structured to generate regular income. This income can be in the form of dividends, fund distributions, bond yields or interest payments from real estate holdings, shares, mutual funds, property funds or trusts and bonds. Income investors often weigh up characteristics such as yield, consistency of past performance, growth and earnings to determine if a prospective investment is fit for their portfolio.

6. Buy and Hold Investing

Buy and Hold is a long-term, passive investment strategy where investors purchase an asset or stock and simply hold them for long periods of time regardless of fluctuations in the market. This strategy operates on the belief that longer 'time in the market' will offer a higher overall return on investment than 'timing the market'. Buy and Hold investors actively select investments but have little-to-no concern for short-term fluctuations and technical indicators.

7. Quality investing

Quality investing focuses on companies with outstanding quality characteristics such as credibility of the management or stability of the balance sheet. A quality portfolio can contain both growth and value attributes.

8. Sustainable Investing

Sustainable investors aim to make investments that have positive social impacts. For example, Investors may choose to invest in funds or companies focused on social justice and environmental sustainability, rather than those associated with gambling and addiction.

Sustainable investing also recognises that the companies tackling the world's greatest challenges are often well-positioned for growth. By the nature of investing, however, it is crucial for sustainable investors to assess the financial outlook of the investments in addition to their social value.

9. Dollar-Cost Averaging

Dollar-cost averaging is a long-term investment strategy which aims to reduce the impact of market volatility on the investment.

In this strategy, rather than trying to time the market and investing in an asset or stock in one lump-sum, investors buy smaller, fixed amounts at regular intervals over an extended period. This way, investors pay an average price over time as the asset's price changes with each investment.

Unit 5.7 - Stock Market Fundamentals

The Stock market known as stock exchange or secondary market plays an equally important role in mobilising long-term funds by providing the necessary liquidity to holdings in shares and debentures. It provides a place where these securities can be encashed without any difficulty

and delay. It is an organised market where shares, and debentures are traded regularly with high degree of transparency and security.

A stock exchange is generally organised as an association, a society or a company with a limited number of members. It is open only to these members who act as brokers for the buyers and sellers. The Securities Contract (Regulation) Act has defined stock exchange as an association, organisation or body of individuals, whether incorporated or not, established for the purpose of assisting, regulating and controlling business of buying, selling and dealing in securities]]. The main characteristics of a stock exchange are:

1. It is an organised market.
2. It provides a place where existing and approved securities can be bought and sold easily.
3. In a stock exchange, transactions take place between its members or their authorised agents.
4. All transactions are regulated by rules and by laws of the concerned stock exchange.
5. It makes complete information available to public in regard to prices and volume of transactions taking place every day.

It may be noted that all securities are not permitted to be traded on a recognised stock exchange. It is allowed only in those securities (called listed securities) that have been duly approved for the purpose by the stock exchange authorities. The method of trading now-a-days, however, is quite simple on account of the availability of on-line trading facility with the help of computers. It is also quite fast as it takes just a few minutes to strike a deal through the brokers who may be available close by. Similarly, on account of the system of scrip-less trading and rolling settlement, the delivery of securities and the payment of amount involved also take very little time, say, 2 days.

Functions of a Stock Exchange

1. Provides ready and continuous market: By providing a place where listed securities can be bought and sold regularly and conveniently, a stock exchange ensures a ready and continuous market for various shares, debentures, bonds and government securities. This lends a high degree of liquidity to holdings in these securities as the investor can encash their holdings as and when they want.

2. Provides information about prices and sales: A stock exchange maintains complete record of all transactions taking place in different securities every day and supplies regular information on their prices and sales volumes to press and other media. This enables the investors in taking quick decisions on purchase and sale of securities in which they are interested. Not only that, such information helps them in ascertaining the trend in prices and the worth of their holdings. This enables them to seek bank loans, if required.

3. Provides safety to dealings and investment: Transactions on the stock exchange are conducted only amongst its members with adequate transparency and in strict conformity to its rules and regulations which include the procedure and timings of delivery and payment to be followed. This provides a high degree of safety to dealings at the stock exchange. There is little risk of loss on account of non-payment or non-delivery. Securities and Exchange Board of India (SEBI) also regulates the business in stock exchanges in India and the working of the stock brokers. Another thing is that a stock exchange allows trading only in securities that have been listed with it; and for listing any security, it satisfies itself about the genuineness and soundness of the company and provides for disclosure of certain information on regular basis. Though this may not guarantee the soundness and profitability of the company, it does provide some assurance on their genuineness

and enables them to keep track of their progress.

4. Helps in mobilisation of savings and capital formation: Good performance and outlook for shares in the stock exchanges imparts buoyancy to the new issue market, which helps in mobilising savings for investment in industrial and commercial establishments. Not only that, the stock exchanges provide liquidity and profitability to dealings and investments in shares and debentures. It also educates people on where and how to invest their savings to get a fair return. This encourages the habit of saving, investment and risk-taking among the common people. Thus it helps mobilising surplus savings for investment in corporate and government securities and contributes to capital formation.

5. Barometer of economic and business conditions: Stock exchanges reflect the changing conditions of economic health of a country, as the share prices are highly sensitive to changing economic, social and political conditions. It is observed that during the periods of economic prosperity, the share prices tend to rise. Conversely, prices tend to fall when there is economic stagnation and the business activities slow down as a result of depressions. Thus, the intensity of trading at stock exchanges and the corresponding rise or fall in the prices of securities reflects the investor's assessment of the economic and business conditions in a country, and acts as the barometer which indicates the general conditions of the atmosphere of business.

6. Better Allocation of funds: As a result of stock market transactions, funds flow from the less profitable to more profitable enterprises and they avail of the greater potential for growth. Financial resources of the economy are thus better allocated.

Unit 5.8 - Steps to Invest in Stocks

Investing in stocks means buying shares of ownership in a public company. Those shares are called stock. Therefore, shareholders "own" a percentage of the business in proportion to the number of shares they hold. Investing in stocks is a powerful way to grow your wealth over time. Investing involves a chance of losses. However, there are ways to lower your risk, though you can't eliminate it altogether. New investors have never had so many resources for expert advice. Following steps help to understand the basics of stock investing:

1. Assess Your Financial Situation

When setting your financial goals, it is crucial to have a clear understanding of what you are aiming for, such as planning for retirement, purchasing a house, or saving up for other significant life events. Take the time to evaluate your needs and wishes, determining how these financial objectives fit within your overarching plan. This involves carefully considering the amount of money that you can comfortably allocate towards investments.

2. Educate Yourself

Start by familiarizing yourself with fundamental concepts that form the foundation of investments, including stocks, dividends, market capitalization, and the price-to-earnings ratio. These concepts are pivotal in understanding how the stock market operates and can give you insights into making informed investment decisions.

Furthermore, it is crucial to stay updated on current market trends and financial news to navigate the ever-changing landscape of investments successfully. By keeping a close eye on stock market trends and paying attention to various economic indicators, you'll be better equipped to identify

potential opportunities and risks in the market. Understanding market trends can help you anticipate shifts in investor sentiments and make strategic decisions to optimize your investment portfolio.

3. Choose a Brokerage Account

By conducting thorough research on brokers and comparing their features is a critical first step in the process of opening an account. By carefully evaluating factors such as fees, services, and customer support, you can make an informed decision about which broker to choose.

Once you have identified the broker that meets your criteria, the next step is to proceed with opening an account. Opening an account involves completing the broker's application process, which typically includes providing personal information and agreeing to the terms and conditions. Once your application is approved, you will then need to fund your account with the initial deposit. This step is essential as it ensures that you have the necessary funds available to start trading or investing. By funding your account, you can begin to take advantage of the broker's services and gain access to the trading platforms they offer.

4. Develop an Investment Strategy

When developing an investment strategy, it is crucial to start by clearly defining your risk tolerance. This involves assessing and understanding how comfortable you are with taking risks in your investment decisions. By evaluating your risk tolerance, you can determine the level of uncertainty you are willing to accept in pursuit of potential returns.

Moreover, diversification plays a pivotal role in effectively managing risk within your investment portfolio. It is not advisable to put all your eggs in one basket; instead, it is wise to spread your investments across various sectors and asset classes. Diversifying your portfolio can help protect against significant losses that may arise from volatility in a specific market or industry. By spreading your investments, you can potentially minimize the overall risk exposure while positioning yourself to benefit from multiple opportunities across different market segments.

5. Research Stocks

When conducting research on stocks, it is essential to explore various avenues for identifying potential investment opportunities. This can be done by using a combination of financial news sources, stock screeners, and recommendations from industry analysts. These resources can provide valuable insights into companies that have the potential for growth and profitability. Furthermore, it is essential to dive deeper into the fundamentals of a company to assess its financial health. This entails scrutinizing metrics such as revenue, profit margins, and growth prospects. By analysing these fundamental aspects of a company, investors can gain a better understanding of its overall performance and potential future trajectory in the market.

6. Make Your First Purchase

When making your first purchase, the initial step is to decide on the order type. You have the option to choose between market orders, where you buy at the current price, or limit orders, where you specify a particular price at which you are willing to make the purchase. It's essential to consider your trading strategy and financial goals when deciding between these order types. After you have selected the order type that aligns with your objectives, the next step is to execute the trade. This involves placing the order through your brokerage account, utilizing the trading platform provided by your chosen broker. It is crucial to double-check the details of your order before finalizing the trade to ensure accuracy and avoid any potential errors. By carefully following these steps and staying informed about market conditions, you can make your first purchase confidently and effectively, setting a strong foundation for your future trading endeavours.

7. Monitor Your Investments

To properly monitor your investments, it is essential to stay informed regularly. Begin by tracking the performance of your portfolio, assessing how it aligns with your financial objectives and responding to any fluctuations in the market. Set aside time to review these key factors consistently, considering how external conditions may impact your investment strategy. As you evaluate your portfolio's performance, identify areas where adjustments might be necessary to maintain a balanced investment approach.

8. Stay Informed

To enhance your investment strategy, it is vital that you stay informed and continue learning by keeping up-to-date with the latest market news and engaging in financial education to refine your approach. By following earnings reports and closely monitoring the companies you have invested in, you can stay ahead of any financial updates or changes that may impact your investments. This proactive approach will help you make well-informed decisions and stay prepared to navigate any fluctuations in the market.

9. Review and Adjust

When it comes to managing your investments, it is crucial to regularly review and adjust your portfolio. Start by evaluating the performance of your investments to determine whether they are aligning with your financial goals and objectives. Consider factors such as market trends, risk levels, and expected returns to make an informed assessment.

Following the performance evaluation, the next step is to make the necessary changes to your portfolio. This adjustment process entails analysing your investment strategies in light of your financial situation and any recent market developments.

10. Stay Patient and Disciplined

It is crucial to remain patient and disciplined when navigating the complexities of the financial markets. One key aspect of maintaining this discipline is to refrain from making emotional decisions. It is essential to stick to your established strategy and not let short-term market fluctuations sway you into making impulsive choices. By staying focused on your long-term goals, you are more likely to achieve sustainable growth rather than being swayed by the allure of quick gains. Remember to consider the bigger picture and avoid getting caught up in the day-to-day noise of market movements. Embracing a long-term perspective will help you weather the inevitable ups and downs of the market with a steady hand. Trust in your strategy and resist the urge to deviate from it based on short-term fluctuations.

By following these steps, you can build a strong foundation for investing in stocks and work towards achieving your financial goals.

Summary



- The unit on investment basics and strategies provides a comprehensive overview of the key concepts and processes involved in investing. It begins with an introduction to investments, explaining their role in wealth-building.
- The unit then covers Systematic Investment Plans (SIP), a popular method for regular investment in mutual funds. It also explores various types of investment options, such as stocks, bonds, and real estate, highlighting the pros and cons of each.
- The investment decision-making process is examined, along with the factors influencing investment decisions, including risk tolerance, financial goals, and market conditions.
- Different investment strategies are discussed, helping individuals align their approach with their objectives. The unit also covers stock market fundamentals, providing a foundation for understanding how stock markets operate.
- Lastly, it outlines the steps to invest in stocks, guiding individuals through the process of selecting and purchasing shares. Overall, the unit equips individuals with the knowledge to make informed investment decisions and develop a strategy suited to their financial goals.

Exercise



1. What is a Systematic Investment Plan (SIP)?
 - a. A one-time lump sum investment in stocks
 - b. A regular, disciplined investment in mutual funds
 - c. A high-risk strategy for short-term gains
 - d. A savings account with guaranteed returns
2. Which of the following is NOT typically considered an investment option?
 - a. Stocks
 - b. Bonds
 - c. Savings account
 - d. Real estate
3. Which of the following factors most directly influences an individual's investment decisions?
 - a. Age of the individual
 - b. Availability of online banking services
 - c. Risk tolerance and financial goals
 - d. Proximity to the stock market
4. What is the first step in the process of investing in stocks?
 - a. Select a broker
 - b. Research the stock market
 - c. Decide on the amount to invest
 - d. Open a Demat account

Descriptive Questions:

1. Explain the concept of a Systematic Investment Plan (SIP). How does it help investors build wealth over time?
2. Describe the different types of investment options available to investors. Discuss the advantages and disadvantages of each option.
3. What factors should an individual consider when making an investment decision? Discuss how these factors impact the choice of investment.
4. Outline the steps involved in investing in stocks. What are the key considerations and precautions one should take before investing in the stock market?
5. What are some common investment strategies that individuals can use to achieve their financial goals? Discuss how these strategies differ depending on an individual's risk tolerance and investment horizon.

Notes



Lined area for taking notes, consisting of 20 horizontal lines.

Large empty rectangular box for additional notes or drawings.



6. Overview of Finance

- Unit 6.1 - Introduction to Finance and Definition
- Unit 6.2 – Importance of Financial Management
- Unit 6.3 – Different Finance Options
- Unit 6.4 – Asset Based Financing
- Unit 6.5 – Financial Decision-Making Strategies
- Unit 6.6 – Finance Fraud
- Unit 6.7 – Common Types of Financial Crimes



Unit 6 - Overview of Finance

Unit Objectives

After studying this module, the students shall be able to understand:

1. Learn the basic concepts and definitions of finance
2. Understand the role of financial management in achieving financial stability and growth
3. Explore various financing options, including equity, debt and hybrid instruments
4. Gain insight into asset-based financing, where loans or credit are secured by business or personal assets
5. Understand strategies for making sound financial decisions
6. Learn about common types of finance fraud
7. Recognize various financial crimes, including money laundering, insider trading, and tax evasion

Unit 6.1 - Introduction to Finance and Definition

Financial management is that managerial activity which is concerned with planning and controlling of the financial resources. In other words, it is concerned with acquiring, financing and managing assets to accomplish the overall financial growth of an individual.

In today's world where positive cash flow is more important, Financial Management can also be defined as planning for the future of an individual to ensure a positive cash flow. Some experts also refer to financial management as the science of money management. It can be defined as:

“Financial Management comprises of forecasting, planning, organizing, directing, co-ordinating and controlling of all activities and application of the financial resources of an individual in keeping with its financial objective.

As such it deals with the situations that require selection of techniques (or combination of techniques), the selection of specific problem or growth of an individual. The analysis of these decisions is based on the expected inflows and outflows of funds and their effect on financial objectives.

Unit 6.2 - Importance of Financial Management

Importance of Financial Management cannot be over-emphasized. It is, indeed, the key to successful financial growth. Without proper administration of finance, no one can reach at its full potentials for growth and success.

Financial Management is all about planning investment, funding the investment, monitoring expenses against budget and managing gains from the investments. Financial management means management of all matters related to an individual's finances.

The best way to demonstrate the importance of good financial management is to describe some of the tasks that it involves:-

- ♦ **Taking care** not to over-invest in fixed assets
- ♦ **Balancing** cash-outflow with cash-inflows
- ♦ **Ensuring** that there is a sufficient level of liquidity
- ♦ **Setting** revenue targets that will deliver growth
- ♦ **Controlling** the level of general and administrative expenses by finding more cost efficient ways of running the day-to-day operations, and
- ♦ **Tax planning** that will minimize the taxes to be paid.

Unit 6.3 - Different Finance Options

Loans from Commercial Banks

The primary role of the commercial banks is to cater to the short-term requirements. Of late, however, banks have started taking an interest in long term financing in several ways.

The banks provide long term loans for the purpose of expansion or setting up of new units. Their repayment is usually scheduled over a long period of time. The liquidity of such loans is said to depend on the anticipated income of the borrowers.

As part of the long-term funding for a company, the banks also fund the long-term working capital requirement (it is also called WCTL i.e. working capital term loan). It is funding of that portion of working capital which is always required (the minimum level) and is not impacted by seasonal requirement of the individual.

Unit 6.4 - Asset Based Financing

Asset-based financing is a service provided by both conventional and online lenders, and it can be set up as either term loans or credit lines. In this arrangement, the loan offer from a lender is based on factors like the type and value of the collateral you can provide.

Asset financing is used in two ways: to secure the use of assets and to secure funding from a loan. Both provide financial flexibility for a company by increasing short-term funding and working capital.

Asset financing is a type of borrowing related to the assets of the individual. In asset financing, the company uses its existing inventory, accounts receivable, or short-term investments to secure short-term financing.

Five Types of Asset Financing

1. Hire Purchase

In hire purchase, the lender purchases the asset on behalf of the borrower. The borrower will make payments to the lender to pay off the asset over time. At such time, the asset is owned by the lender until the loan is paid off. Once the final payment is made, the borrower will be given the option to purchase the asset at a nominal rate.

2. Equipment Lease

Equipment leases are popular options for asset financing because of the freedom and flexibility it comes with. For an equipment lease, the business (borrower) will enter a contractual agreement with a lender to use the equipment for its business for an agreed-upon period of time.

Payments are made by the business until the contractual period ends. Once the lease is up, the business can either return the rented equipment, extend its lease, upgrade to the latest equipment, or buy the equipment outright.

3. Operating Lease

An operating lease is similar to an equipment lease, except equipment leases are usually for short terms, and operating leases are typically longer but not for the full life of an asset. As a result, operating leases are often a cheaper option since the asset is being borrowed for a shorter

amount of time.

Payments are only reflected for the time the asset is used and not for the asset's full value.

Operating leases are beneficial to businesses looking for short to medium-term use of equipment to fulfill their needs.

4. Finance Lease

The defining feature of the finance lease is that all rights and obligations of ownership are taken on by the borrower for the duration of the lease. The borrower holds responsibility for the maintenance of the asset during the life of the lease.

5. Asset Refinance

Asset refinance is used when a business wants to secure a loan by pledging the assets they currently own as collateral. Assets, including property, vehicles, equipment, and even accounts receivables, are used to qualify for borrowing. Rather than a bank judging the business on its creditworthiness, the bank will value the pledged assets and create a loan size based on the value of the assets.

Unit 6.5 - Financial Decision-Making Strategies

The financial decision-making process refers to the series of steps that individuals or businesses undertake to identify, evaluate, and select among different financial alternatives or options. It involves analysing financial information, weighing the pros and cons of different choices, and making decisions that align with their overall financial goals and objectives.

The financial decision-making process can encompass a wide range of activities, including budgeting, investing, borrowing, and managing risk, and it can be influenced by a variety of factors such as economic conditions, regulatory environment, and personal preferences.

Effective financial decision-making requires a solid understanding of financial concepts and principles, as well as the ability to make informed choices based on relevant information and analysis.

Unit 6.6 - Finance Fraud

Financial fraud happens when someone deprives you of your money, capital, or otherwise harms your financial health through deceptive, misleading, or other illegal practices. This can be done through a variety of methods such as identity theft or investment fraud.

For all types of financial fraud, it is important to report the crimes to the appropriate agencies and law enforcement as soon as possible. Furthermore, victims should gather all documentation related to the crime (e.g. bank statements, credit reports, tax forms from current and previous years) and continue to file important information throughout the reporting process.

Unfortunately, most victim compensation programs do not cover money lost to fraud or fraudulent schemes. Civil justice may be the only legal option to recover lost money.

Common Types of Financial Crimes

1. Identity theft: Someone steals your personal financial information (e.g. credit card number, social security number, bank account number) to make fraudulent charges or withdrawals from your accounts. Sometimes people will use the information to open credit or bank accounts and leave the victim liable for all the charges.

Identity theft often results in damaged credit rating, bounced checks/denied payments, and being pursued by collections agencies.

Examples:

Unfamiliar charges or purchases on your credit card or bank account statements. Perpetrators posing as a bank, government office, or official institution in order to steal your personal financial information

2. Investment Fraud This type includes selling investments or securities with false, misleading information. It could be false promises, hiding facts, and insider trading tips.

Mortgage and Lending Fraud A third-party may open a mortgage or loan using your information or using false information. In another case, lenders may sell mortgage or loans with inaccurate information, deceptive practices, and other high-pressure sales tactics.

3. Mass Marketing Fraud The fraud is committed through mass mailings, telephone calls, or spam emails. It also includes fake cheques, charities, lotteries, honor society invitations, and more. These modes are used to steal personal financial information or to raise contributions to fraudulent organizations.

Summary



- The unit overview of finance covers fundamental concepts and strategies related to financial management and decision-making. It begins with an introduction to finance, explaining its definition and significance in personal and business contexts.
- The importance of financial management is highlighted, focusing on how effective management helps in resource allocation and achieving financial goals. The unit explores different finance options available to individuals and businesses, such as loans, equity, and grants.
- It also covers asset-based financing, where assets like property or equipment are used as collateral for loans. Financial decision-making strategies are discussed, emphasizing the importance of careful analysis and planning in managing financial resources. The unit addresses finance fraud, detailing its risks and how it can impact individuals and organizations.
- Finally, the unit examines common types of financial crimes, including fraud, money laundering, and embezzlement, and the measures to prevent and address such issues. Overall, the unit provides a broad understanding of the principles of finance and the strategies needed to manage financial resources effectively while mitigating risks.

Exercise



1. What is the main purpose of financial management?
 - a. To maximize profits in a business
 - b. To allocate resources effectively and achieve financial goals
 - c. To avoid paying taxes
 - d. To invest in stocks and bonds

2. Which of the following is an example of asset-based financing?
 - a. A business loan with no collateral
 - b. Using real estate or equipment as collateral for a loan
 - c. A government grant for small businesses
 - d. Personal savings used to finance a business

3. What is the primary risk associated with finance fraud?
 - a. Increased competition in the financial market
 - b. Loss of financial assets and damage to reputation
 - c. The inability to apply for loans
 - d. Reduced interest rates on investments

4. Which of the following is a common type of financial crime?
 - a. Marketing strategies
 - b. Money laundering
 - c. Market research
 - d. Customer loyalty programs

Descriptive Questions:

1. Explain the concept of financial management and discuss its importance in achieving financial goals for both individuals and businesses.
2. Describe different types of finance options available to individuals and businesses. How do these options vary based on the needs and objectives of the borrower?
3. What is asset-based financing, and how does it work? Discuss the advantages and potential risks associated with using assets as collateral for loans.
4. Discuss the role of financial decision-making strategies in managing an organization's resources. How can these strategies help in optimizing financial outcomes?
5. Identify common types of financial crimes and explain how they impact both individuals and businesses. What measures can be taken to prevent and address financial fraud and crimes?

Notes

This image shows a blank sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.



7. Individual Income

- Unit 7.1 - Introduction to Income Tax for an Individual
- Unit 7.2 - New Tax Regime
- Unit 7.3 – Old Tax Regime
- Unit 7.4 – Taxation of Individuals
- Unit 7.5 – Tax Calculation
- Unit 7.6 – Obligations of the Employee
- Unit 7.7 - Steps for online application of PAN
- Unit 7.8 – ITR Registration and ITR1 Filing
- Unit 7.9 – Computation of Interest and Penalty
- Unit 7.10 – Case Study



Unit 7 - Individual Income Tax Return

Unit Objectives

After studying this module, the students shall be able to understand:

1. Understand the basic concepts of income tax and its applicability to individual taxpayers
2. Learn about the new tax regime, its structure, rates, and potential benefits for taxpayers
3. Explore the old tax regime, including its rates, deductions, and allowances, to understand the differences from the new regime
4. Understand the tax treatment of different types of individual incomes, such as salary, rental, business, and capital gains
5. Learn how to calculate individual tax liability by applying rates, deductions, and exemptions
6. Understand the responsibilities of an employee in terms of tax compliance
7. Learn the step-by-step process to apply for a Permanent Account Number (PAN) online
8. Gain knowledge of how to register for Income Tax Return (ITR) filing
9. Understand how interest and penalties are calculated for late payment or filing of taxes
10. Apply learned concepts in a practical case study to gain hands-on experience in tax calculation and filing

Unit 7.1 - Introduction to Income Tax for an Individual

Individual income tax in India is based on resident-status and the source of the income. Under India's individual tax regime, different tax rates are assigned to respective income brackets (tax slabs), which is the income earned by a taxable person.

The new income tax regime, which was introduced in 2021, is now made the default mode of taxation. Although the old tax regime will continue to be operational, the taxpayers will have to especially opt for it. It must be noted that no new changes have been made to the old income tax regime.

Taxpayers can opt for the new tax regime – where they pay income tax at lower rates but would have to forgo certain exemptions and deductions available to those taxpayers who paid taxes as per the existing tax regime.

Alternately, taxpayers could stick to the older tax regime and continue to avail respective exemptions and deductions.

Unit 7.2 - New Tax Regime

The Indian income tax system imposes taxes on individual taxpayers based on their taxable income or profits earned. Taxpayers can choose to pay lower taxes by forgoing exemptions and deductions by opting for the new regime.

The 2023 budget extended the rebate for individuals subject to the new income tax regime for annual incomes up to INR 700,000, whereas those with incomes up to INR 500,000 previously paid no income tax under either the old or new schemes.

Moreover, the new income tax regime includes a standard deduction of INR 50,000, allowing salaried taxpayers to avail an upfront deduction of INR 50,000 from their total taxable income, which was previously only available under the old structure.

The government has also rationalized the tax slabs under the new income tax system, reducing the total number of taxable brackets to five.

New Income Tax Structure as per Union Budget 2024

Tax slab for different Incomes	New income tax rates
INR 0 – 300,000	No tax
INR 300,000 – 600,000	5% (income limit for tax rebate increased to INR 700,000 from INR 500,000)
INR 600,000 – 900,000	10%
INR 900,000 – 1,200,000	15%
INR 1,200,000 – 1,500,000	20%
INR 1,500,000 and above	30%

Changes in Income Tax Slabs under New Regime

Income tax rates (in %)	Previous income slab	New income slab
NIL	INR 0- 250,000	INR 0 – 300,000
5%	INR 250,000 – 500,000	INR 300,000 – 600,000
10%	INR 500,000 – 750,000	INR 600,000 – 900,000
15%	INR 750,000 – 1,000,000	INR 900,000 – 1,200,000
20%	INR 1,000,000 – 1,250,000	INR 1,200,000– 1500,000
25%	INR 1,250,000 – 1,500,000	—
30%	INR 1,500,000 and above	INR 1,500,000 and above

Notes:

- For adopting New Regime, most of the deductions/exemptions such as section 80C, 80D, etc. are to be foregone. However, standard deduction of Rs. 50,000 against salary income is proposed to be allowed under New Regime. The aforesaid regime is optional. Accordingly, persons as mentioned above have the option to be taxed under either of the options. New Regime once exercised can be changed in subsequent years (not applicable for business income).
- Resident individuals having total income not exceeding Rs. 7,00,000 can avail rebate of 25,000 or actual tax liability whichever is lower.
- Rate of surcharge:
 - o 25 percent where specified income* exceeds INR 200,00,000
 - o 15 percent where total income exceeds INR 100,00,000 but does not exceed INR 200,00,000
 - o 10 percent where total income exceeds INR 50,00,000 on but does not exceed INR 100,00,000
 - o In case of Association of Persons (AOP), consisting of only companies as its members, the rate of surcharge not to exceed 15 percent.

*Specified income – Total income excluding income by way of dividend on shares and short-term capital gains in case of listed equity shares, equity oriented mutual fund units, units of business trust and long-term capital gains.

Income Tax Slab for People Between 60 to 80 Years

Tax Slabs	Rates
INR 300,000	NIL
INR 300,000 - INR 500,000	5%
INR 500,000 - INR 1,000,000	20%
INR 1,000,000 and above	30%

Income Tax Slab for People Above 80 Years

Tax Slabs	Rates
Up to INR 500,000	NIL
INR 500,000 - INR 1,000,000	20%
INR 1,000,000 and above	30%

Unit 7.3- Old Tax Regime

Under the old taxation system, the assessee can make use of deductions, exemptions, and other allowances to carefully organize their finances and reduce their tax burden.

The following expenses are deductible under the previous tax system:

- Public Provident Fund (PPF);
- Equity-Linked Savings Schemes (ELSS);
- Employees' Provident Fund (EPF);
- life insurance premiums;
- Principal and interest payments on a mortgage;
- Health insurance premiums,
- Investments in NPS,
- Child tuition fees, and
- Interest on savings accounts.

The following items are exempt from this list:

- House Rent Allowance (HRA),
- Leave Travel Allowance (LTA),
- Reimbursement for mobile and internet,
- Food coupons or vouchers,
- Company-leased automobile,
- Standard deduction,
- Uniform allowance, and
- Leave encashment.

Income Tax Slabs for FY 2023-24 Under the Old Regime

Income tax slabs	Income tax rate (%)
INR 0 – 250,000	0%
INR 250,000 – 500,000	5%
INR 500,00 – 1,000,000	20%
INR 1,000,000 and above	30%

Notes:

- In case of a resident individual of the age of 60 years or above but below 80 years, the basic exemption limit is Rs. 3,00,000.
- In case of a resident individual of age of 80 years or above, the basic exemption limit is Rs 5,00,000.
- Rate of surcharge:
- 37 percent on base tax where specified income exceeds INR 500,00,000;
- 25 percent where specified income exceeds INR 200,00,000 but does not exceed INR 500,00,000

- 15 percent where total income exceeds INR 100,00,000 but does not exceed INR 200,00,000; and
 - 10 percent where total income exceeds INR 50,00,000 on but does not exceed INR 100,00,000.
 - In case of AOP, consisting of only companies as its members, the rate of surcharge not to exceed 15 percent.
- Health and Education cess at four percent on aggregate of base tax and surcharge.
- Resident individuals having total income not exceeding INR 500,000 can avail rebate of INR 12,500 or actual tax liability whichever is lower.

Unit 7.4- Taxation of Individuals

The tax incidence on an individual is influenced by their residential status, which is determined by their actual presence in India according to the regulations outlined in the Income Tax Act.

Unit 7.5 - Tax calculation

Total income tax is calculated in accordance with the tax rates and rules that stand on the first day of April of the assessment year.

Employment income includes all amounts, either in cash or in kind, that arise from an individual's employment. Wages, pensions, bonuses, commissions, perquisites in lieu of salary, reimbursement for personal expenses, securities or sweat equity shares, contributions to superannuation funds, etc. are all included in employment income.

Unit 7.6 - Obligations of the employee

Advance tax

Advance tax is a pay-as-you-earn system where taxpayers estimate their total income and tax payable for the year, and make advance tax payments at specified intervals during the financial year itself, as required by the Income-tax Act, 1961.

In such cases, although tax is deducted at source by the taxpayer in several cases, it may not cover the final tax amount that needs to be paid. Therefore, it's crucial for taxpayers to understand their obligation to pay advance tax and the consequences of non-payment or insufficient payment.

Who needs to pay advance tax?

Advance tax is payable during a financial year in every case where the amount of such tax payable by the taxpayer during that year is INR 10,000 or more.

Individuals not liable to pay advance tax

A resident senior citizen (an individual of the age of 60 years or above during the relevant financial year) not having any income from business or profession is not liable to pay advance tax.

While salaried taxpayers are also covered for payment of advance tax, they are generally not required to pay advance tax as their employers are obligated to deduct withholding tax or TDS on their salaries. However, such a salaried person would still be liable to make advance tax payment on income under other heads such as dividend income, interest income, rental income, shortfall of TDS for salary income, etc.

Due dates to pay advance tax

The due dates for payment of different instalments of advance tax for both corporate as well as non-corporate assessee for FY 2024 are as follows:

Due date	Advance tax liability for FY 2024
June 15, 2023	15% of the tax liability
Sept. 15, 2023	45% of the tax liability
Dec. 15, 2023	75% of the tax liability
March 15, 2024	100% of the tax liability

Filing annual tax return

As per India's domestic tax law, every individual is required to file a tax return for the respective financial year (FY) with the Indian tax authorities by July 31 in the following financial year (assessment year or AY) if they meet specified conditions.

Documents for filing the Income Tax Return (ITR)

Following are the basic documents mandatory to file an ITR in India:

- **PAN** (Permanent Account Number);
- **Aadhar** Number;
- **Form 26AS**;
- Bank Account Details;
- Challan of any advance tax or self-assessment tax (if paid during the year); and
- Details of the original return (if filing a revised return).

Income tax clearance

All individuals who are not domiciled in India / not a resident of India; who have come to India in connection with business, profession, or employment; and who have derived income from any source in India – are required to obtain an Income Tax Clearance Certificate from Indian tax authorities prior to exiting India. This puts on record that the non-resident has duly paid all taxes owed on income earned in India by means of employment or business – before leaving the country.

The non-domiciles may apply for an Income Tax Clearance Certificate (ITCC) by submitting an undertaking via Form 30A, which must be filed either by the employer or by the person from whom they have received the said income, as declared in the undertaking. Upon verification, the tax officials will issue an ITCC to the applicant via Form 30B.

e-Payment of Taxes

The taxpayers can pay advance tax, self-assessment tax online from the NSDL website. They should also have a net banking facility with an authorized bank.

Non-employment income

There are special tax rates for expatriates on income arising from non-employment sources that includes long and short-term capital gains earned on the disposal of capital assets situated in India, interests earned, and royalties payable by an Indian concern.

It should be noted that investments in shares by non-resident foreign nationals are governed by the Indian foreign direct investment policy.

Other taxes

There is also a health and education cess assessed at 4 percent of the income tax, and applicable surcharges will be levied if the annual income exceeds INR 5 million (US\$67,196).

Double Taxation Avoidance Agreements

Most expatriates worry about “double taxation” – paying taxes to two different countries on the same income. A foreign taxpayer working in India may be able to reduce taxable income in their country of primary residence (and double taxation) under a double taxation avoidance agreement.

Unit 7.7 - Steps for Online application of PAN

PAN stands for Permanent Account Number and is a unique identification number issued by the Income Tax department of India to identify every taxpayer in the country

Applying for a PAN card has become easier for people these days as they can now apply for a fresh PAN online as well as offline. Even those who have lost their PAN card can apply online for a reprint of the card or get the e-PAN from NSDL or UTIITSL. Let us discuss

how to apply for PAN card online as well as offline, fees involved, documents required and more.

How to Apply for PAN Card for Free

You can apply for an **Instant e-PAN** for free through the Income Tax Department's e-Filing portal. However, the free e-PAN can only be availed by adult individual taxpayers who have never been allotted a PAN, possess a valid Aadhaar with their active mobile number linked with Aadhaar and are not covered under the definition of Representative Assessee u/s 160 of the Income Tax Act.

Moreover, this Instant e-PAN is only a digital PAN card and in case you wish to avail a physical PAN card, you can apply for the same through the NSDL (Protean) or UTIITSL website by paying the applicable charges.

Given below is the step-by-step guide to apply for an Instant e-PAN through the income tax e-Filing portal:

Step 1: Visit the [e-Filing portal homepage](#) and click on “**Instant e-PAN**” under the **Quick Links** section

Step 2: On the **e-PAN** page, click on “**Get New e-PAN**”

Step 3: On the **Get New e-PAN** page, enter your 12-digit Aadhaar number, select the **I confirm that** checkbox and click on “**Continue**”

Step 4: Click on “**I have read the consent terms and agree to proceed further**” on the **OTP validation** page and click on “**Continue**”

Step 5: Enter the 6-digit OTP received on the Aadhaar linked mobile number, select the checkbox to validate the Aadhaar details with UIDAI and click on “**Continue**”

Step 6: On the **Validate Aadhaar Details** page, select **I Accept that** checkbox and click on “**Continue**”

Step 7: Upon successful submission, a success message is displayed on screen along with an **Acknowledgement Number**. You are advised to keep a note of the Acknowledgement ID for future reference. You will also receive a confirmation message on your Aadhaar linked mobile number.

PAN Application through NSDL (Protean) Portal

The government has made provisions for applicants to apply for PAN through the [Income Tax](#) PAN Services Unit of NSDL. Follow these easy steps to apply for a PAN online:

Step 1: Open the NSDL site

(<https://www.onlineservices.nsdl.com/paam/endUserRegisterContact.html>) to apply for a new PAN.

Step 2: Select the Application type – New PAN for Indian citizens, foreign citizens or for change/correction in existing PAN data.

Step 3: Select your category – individual, associations of persons, a body of individuals, etc.

Step 4: Fill in all the required details like name, date of birth, email address and mobile number in the PAN form.

Step 5: On submitting the form, you will get a message regarding the next step.

Step 6: Click on the **“Continue with the PAN Application Form”** button.

Step 7: You will be redirected to the new page where you have to submit your digital e-KYC.

Step 8: Select whether you need a physical PAN card or not and provide the last four digits of your Aadhaar number.

Step 9: Enter your personal details, contact and other details in the next part of the form.

Step 10: Enter your area code, AO Type, and other details in this part of the form. You can also find these details in the tab below

Step 11: The last part of the form is the document submission and declaration.

Step 12: Enter the first 8 digits of your PAN card to submit the application. You will get to see your completed form. Click Proceed if no modification is required.

Step 13: Select the e-KYC option to verify using Aadhaar OTP. For Proof of Identity, Address and Date of Birth, select Aadhaar in all fields and click on Proceed to continue.

Step 14: You will be redirected to the payment section where you have to make payment either through demand draft or through net banking/debit/credit card.

Step 15: A payment receipt will be generated on successful payment. Click on **“Continue”**.

Step 16: Now for Aadhaar Authentication, tick the declaration and select the **“Authenticate”** option.

Step 17: Click on **“Continue with e-KYC”** after which an OTP will be sent to the mobile number linked with Aadhaar.

Step 18: Enter the OTP and submit the form.

Step 19: Now click on “**Continue with e-Sign**” after which you will have to enter your 12-digit Aadhaar number. An OTP will be sent to the mobile number linked with Aadhaar.

Step 20: Enter OTP and submit the application to get the Acknowledgement slip in pdf having your date of birth as the password in DDMMYYYY format.

Steps to Apply for PAN through UTIITSL Portal

Here is how you can apply for a new PAN card online through the UTIITSL website:

Step 1: Visit the [UTIITSL PAN card application page](#) and under **PAN Services** select ‘**PAN Card for Indian Citizen/NRI**’

Step 2: Click on ‘**Apply for New PAN Card (Form 49A)**’

Step 3: Choose either the ‘**Physical Mode**’ whereby you will have to submit the printed-signed application form at the nearest UTIITSL office or the ‘**Digital Mode**’ whereby the application form is signed using Dsc mode or using Aadhaar based eSignature and you need not submit the physical copy for the form.

Step 4: Fill in your personal and other mandatory details

Step 5: Verify the correctness of the filled-in information and click on the ‘**Submit**’ button

Step 6: Upon verification, you can go ahead and make the payment online by choosing either of the available payment gateway options- BillDesk or PayU India. You can pay via netbanking, debit card, credit card, cash card, etc.

Step 7: On successful payment, you will get a payment confirmation. You can either save this or take a printout of the same.

Step 8: Affix 2 passport-sized photographs (3.5×2.5 cms) on the printed form and put your signature on the space provided

Step 9: Attach a copy of your identity, address, and date of birth proof documents along with your completely filled application form and submit online or send the same to the nearest UTIITSL office for processing and issuance of your PAN Card.

Applying for a PAN Card Offline

Applicants can choose the offline method as well to apply for the PAN card. They can visit a nearby TIN NSDL/UTIITSL centre and follow the steps:

1. Download and print form 49A. The form can be downloaded from.
(https://www.tin-nsdl.com/downloads/pan/download/Form_49A.PDF)
2. Fill the form and affix two passport size photographs on the form.
3. Pay the fee in the form of demand draft in favour of 'NSDL – PAN' payable at Mumbai/UTIITSL
4. Attach self-attested photocopies of proofs with the form.
5. Mention 'APPLICATION FOR PAN-N-Acknowledgement Number' superscripted on the envelope of the application form. The application has to be sent to-

**Income Tax PAN Services Unit,
NSDL e-Governance Infrastructure Limited,
5th floor, Mantri Sterling, Plot No. 341,
Survey No. 997/8, Model Colony,
Near Deep Bungalow Chowk, Pune – 411016**

Unit 7.8 - ITR Registration and ITR1 Filing

1. Overview

This pre-login service is available to all taxpayers (except Companies) who want to register on and access the e-Filing portal. The Registration service enables the taxpayer to access and track all tax-related activities.

2. Prerequisites for availing this service

- Valid and active PAN
- Valid Mobile Number
- Valid email ID

3. Step-by-Step Guide

Step 1: Go to the e-Filing portal homepage, click Register.

e-Filing Assure the Right
Income Tax Department, Government of India

Call Us | English | A+ A- | Do not have an account? **Register**

Home Individual/HUF Company Non-Company Tax Professionals & Others Downloads Help

* Indicates mandatory fields

Login

Enter your User ID *

PAN, Aadhaar / other user ID

Continue >

< Back

Other ways to access your account

Net Banking Mobile App

Know about your User ID

PAN (Permanent Account Number)
For Individuals (Salaried employee, Senior citizen, freelancer, NRI)
For Other Than Individuals (Company, Trust, AOP, LLP, Firm, Local Authority, Trust)

Aadhaar Number
For Individuals (Salaried employee, Senior citizen, freelancer, NRI)

External ID
For CA, Tax Deductor and Tax Collector, ERI admin and user, ITDREIN
ARCA (Authorized Representative Chartered Accountant) followed by 6 digit number
EXTA (External Agency) followed by 6 digit number

Show More

Chatbot

Step 2: Enter your PAN under Register as a Taxpayer option and click Validate. In case the PAN is already registered or invalid, an error message is displayed.

Step 3: Enter all the mandatory details including Name, DOB / DOI, Gender (if applicable) and Residential Status as per your PAN on the Basic Details page and click Continue.

Basic Details

PAN *
JIOPP1007P

Last Name *
GARG

Middle Name
First Name
JHALAK

Date of Birth *
01-Jan-2000

Gender *
☐ Male ☒ Female

Residential Status *
☒ Resident ☐ Non-resident

< Back Continue >

Please Note
 Please provide date as per PAN. On click of "Continue" details entered will be validated with PAN.
 If you have a single Name, then you can enter only Last Name field.

Footer: About Us, Contact Us, Using the Portal, Related Sites, ITD Mobile App, Chatbot

Step 4: After PAN is validated, the Contact Details page appears for individual taxpayers. Enter your Contact Details including Primary Mobile Number, email ID and Address

Registering as - Individual

Contact Details

Primary Mobile Number *

Primary Mobile Number Belongs to *

Primary Email ID *

Primary Email ID belongs to *

Landline Number

Postal Address details

Pincode *

Post Office *

Area/Locality *

Town/City/District *

State *

< Back Continue >

Please Note
 On click of "Continue" different OTPs will be sent on Primary Mobile Number and Primary Email id for verification.

Footer: About Us, Contact Us, Using the Portal, Related Sites, ITD Mobile App, Chatbot

Step 5: Two separate OTPs are sent to the primary mobile number and email ID mentioned in

Step 5. Enter the separate 6-digit OTPs received on the mobile number and email ID and click Continue.

Note:

- OTP will be valid for 15 minutes only.
- You have 3 attempts to enter the correct OTP.
- The OTP expiry countdown timer on screen tells you when the OTP will expire.
- On clicking Resend OTP, a new OTP will be generated and sent.

Step 6: Edit the details in the page if necessary and click Confirm.

Basic Details [Edit](#)

PAN: JIOPP1007P Name: JHALAK GARG Date of Birth: 2000-01-01 Gender: Female

Residential Status: Resident

Note: You can only edit "Residential Status"

Contact Details [Edit](#)

Details furnished here will be used for communication purposes

Primary Mobile Number: +91 7321455555 (Self) Primary Email ID: [redacted] Landline: 789085555555 Postal Address: 12 Akbarpur Sirohi(205) Gurgaon H.O GURGAON Haryana India, Pincode - 122001

[Back](#) [Confirm](#)

Step 7: On the Set Password page, enter your desired password in both the Set Password and Confirm Password textboxes. Enter your personalized message and click Register.

e-filing Income Tax
Portal for Taxpayers, Government of India

Call Us: 144-12345678 | English | A A A |

Do not have an account? [Register](#)

Home | Individual/NEP | Company | Non-Company | Tax Professionals & Others | Downloads | Help

Home > Register

Get Started ☒ Fill Details ☒ Verify Details ☒ **Secure Your Account** ☐

Registering as - Individual

Secure your Account

Set Password *

Warning: Password is moderate

Confirm Password *

Set your Personalized message *

hi all

Remaining characters: 19

Personalized message criteria:

- Don't use your personally identifiable information like full name, Aadhar number, PAN, DL number, bank account number, passport number and email address
- It should be something you can remember

Some examples:

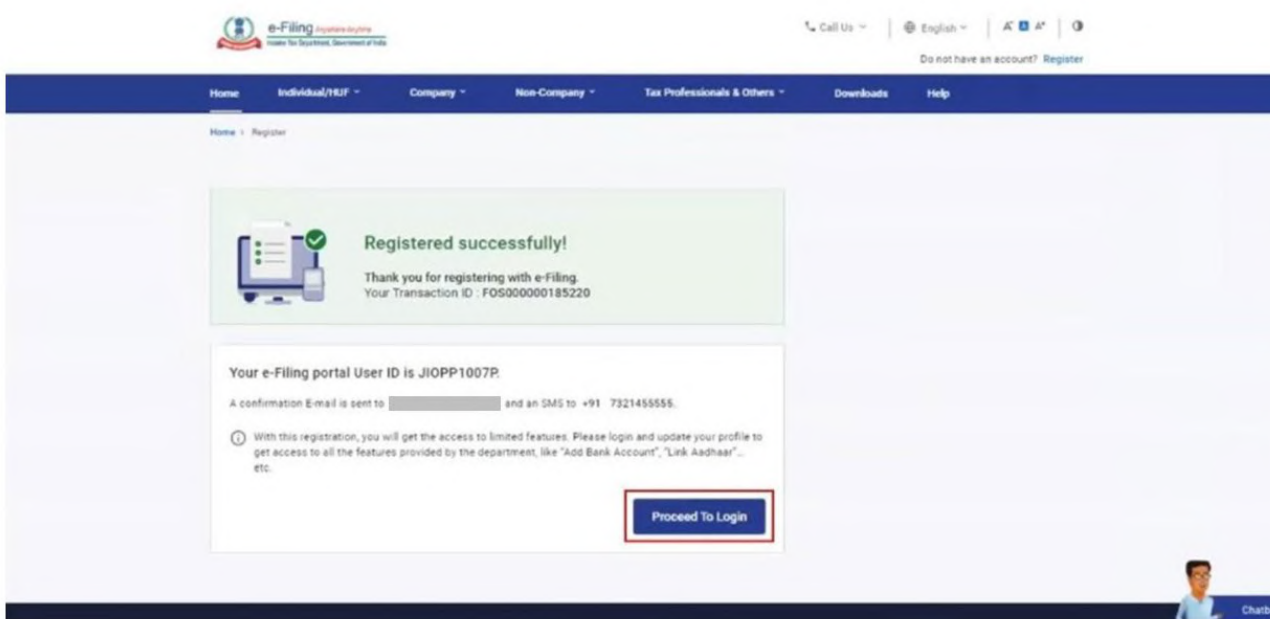
- I love my family
- My pet name is Tommy
- Bangalore is my birth place

[Register](#) [Back](#)

Note:

- Do not click Refresh or Back.
- While entering your new password, be careful of the password policy:
 - o It should be at least 8 characters and at most 14 characters.
 - o It should include both uppercase and lowercase letters.
 - o It should contain a number.
 - o It should have a special character (e.g. @\$%#).

Step 8: When you are successfully registered, click Proceed to Login to begin the login process.



Note: Log in to the e-Filing portal and update your profile to access all the available services.

How to File ITR-1 (SAHAJ) Online on the Income Tax Portal

Filing your ITR-1 (SAHAJ) form online on the Income Tax portal is straightforward. Follow these steps to ensure accurate and efficient filing:

Step 1: Visit the Income Tax e-filing portal.

Step 2: Register or log in to your account.

Step 3: Navigate to 'e-file' > 'Income Tax Returns' > 'File Income Tax Return.'

Step 4: Select the Assessment Year as 2023-24 and choose the mode of filing as 'Online'.

Step 5: Click on 'Start New Filing'.

Step 6: Select your applicable status.

Step 7: Choose ITR-1 as the form type.

Step 8: Click on 'Let's Get Started'.

Step 9: Select the appropriate reason and click 'Continue'.

Step 10: Now, proceed to complete the five sections as follows:

ITR 1 return filing online involves a systematic approach across its seven sections:

Part A – General Information:

This section captures crucial personal details, including:

- PAN
- Full Name (First, Middle, Last)
- Date of Birth
- Aadhar Number
- Mobile Number
- Email Address
- Address
- Filed under sections 139(1), 139(4), 139(5), 119(2)(b)

- Response to notice under sections 139(9), 142(1), 148, and 153(C)
- Nature of Employment

Part B1 – Salary/Pension:

- Employer Details (TAN, Name, Nature & Address)
- Salary particulars
- Exempt allowances
- Perquisites' value
- Net Salary
- Deductions under section 16
- Income under 'salaries'

Part B2 – House Property:

- Gross Rent Received
- Local Tax Paid
- Annual Value
- 30% of Annual Value
- Interest on Borrowed Capital
- Unrealized Rent (<30%)
- Income under 'house property'

Part B3 – Income from Other Sources:

- Deductions under section 57 (iia)
- Income for relief under section 89A

Part B4 – Gross Total Income:

- Sum of B1, B2, and B3

Part C – Deductions and Taxable Total Income:

- This section accommodates all deductions and taxable income, adhering to provisions under the Income Tax Act, including:
- Deductions under sections 80C, 80CCC, 80CCD(1), 80CCD(1B), 80CCD(2), 80DD, 80DDB, 80E, 80EE, 80EEA, 80EEB, 80GG, 80GGC, 80U
- Total Deduction Value
- Total Income (B4 – Deductions)

Part D – Computation of Tax Payable:

- Tax on Total Income (D1)
- Rebate under section 87A (D2)
- Tax after Rebate (D3)
- Cess on Tax after Rebate (D4)

- Total Tax and Cess (D5)
- Relief under section 89(1) (D6)
- Interest under sections 234A, 234B, 234C (D7, D8, D9)
- Fee under section 234F (D10)
- Total Tax, Fee, and Interest (D11)
- Total Tax Paid (D12)
- Amount Payable/Refundable (D13, D14)

Part E – Other Information:

- Banking Details
- IFSC Code
- Bank Name
- Account Number
- Refund Amount
- Schedule-IT: Advance Tax and Self-Assessment Tax Payments:
- BSR Code
- Date of Deposit
- Challan Serial Number
- Tax Paid
- Schedule-TDS: TDS/TCS Details:
- TAN/PAN of Deductor/Tenant
- Deductor's Name
- Gross Payment
- Year of Tax Deduction
- Tax Deducted
- TDS/TCS Credit

Step 11: Double-check the summary of tax computation for accuracy.

Step 12: Rectify any errors, if present, and complete the validation.

Step 13: E-verify the ITR to finalize the submission.

At the final step, the taxpayer self-attests the form by signing the verification content. This entails entering personal details like the parent's name and PAN details.

By meticulously navigating through these sections and accurately entering the required details, you can seamlessly complete your ITR 1 filing, ensuring adherence to tax regulations and facilitating a smooth online filing experience.

By following these steps meticulously, you can successfully file your ITR-1 (SAHAJ) form online through the Income Tax portal, ensuring compliance with tax regulations.

What are the consequences of filing a late return?

Late filing of Income tax return will attract Section 234F, in which a penalty of Rs. 1,000 is imposed if the assessee's taxable income is less than or equal to Rs.5,00,000 and Rs.5,000 for taxable income above Rs. 5,00,000.

Interest at the rate of 1% per month (Section 234A) on the outstanding amount of tax will be levied.

Delay in refund if there is any excess tax paid.

Interest on refund @ 0.5% per month won't be provided by the department.

Losses incurred during the financial year cannot be carried forward to set off the taxable incomes for the future assessment years to reduce the tax liability in future

Payment of Interest

If you do not file income tax returns on or before the due date, you would be required to pay interest at the rate of 1% for every month, or part of a month, on the amount of tax remaining unpaid as per section 234A. It's important to note that one's ITR cannot be filed if one hasn't paid the taxes. The calculation of the penalty will start from the date immediately after the due date, which is usually 31 July of the relevant assessment year. So, the longer you wait the more you will have to pay.

Unit 7.9 - Computation of Interest and Penalty

As per the changed rules notified under section 234F of the Income Tax Act, filing your ITR post the deadline, can make you liable to pay a maximum penalty of Rs.5,000.

From the financial year 2021 onwards, the income tax department has reduced the maximum amount of penalty for late filing of returns to Rs 5,000 from Rs.10,000.

To break this down for FY 2023-24; if you file your ITR before 31st July 2024 (30th September 2024 for audit and 31st October 2024 for transfer pricing cases), no penalty will be levied.

For returns filed after 31st July 2024, the penalty limit will be increased to Rs.5,000. However, as a relief to small taxpayers, the IT department has stated that if your total income is not more than Rs 5 lakh, the maximum penalty levied for delay will only be Rs.1,000.

Calculation of Interest Under Section 234C

The interest on delayed payment of advance tax in case of a taxpayer other than the one opting for presumptive income u/s 44AD is as below:

Particulars	Rate of Interest	Period of Interest	Amount on which interest is calculated
If the Advance Tax paid on or before June 15 is less than 15% of the Amount*	Simple interest @1% per month	3 months	15% of [Amount* (-) tax already deposited before June 15]
If Advance Tax paid on or before September 15 is less than 45% of the Amount*	Simple interest @1% per month	3 months	45% of [Amount* (-) tax already deposited before September 15]
If Advance Tax paid on or before December 15 is less than 75% of the Amount*	Simple interest @1% per month	3 months	75% of [Amount* (-) tax already deposited before December 15]

If Advance Tax paid on or before March 15 is less than 100% of the Amount*

Simple interest @1% per month

—

100% of [Amount* (-) tax already deposited before March 15]

Unit 7.10 Case Study

Illustration To Calculate Interest for Late Payment

Consider that your total tax liability for this financial year is Rs.100,000, and it needs to be paid in instalments as explained above. Assume there is no TDS here. If you made partial payments instead, you will be liable to pay interest as per the last column in the table below:

Payment Dates	Advance Tax payable	Total Advance Tax paid	Shortfall (Cumulative)	Penalties (Cumulative)
15th June	15,000	5,000	10,000	@1% * 3*10,000 = 300
15th September	45,000	25,000	20,000	@1% * 3 *20,000=600

15th December	75,000	35,000	40,000	@1% * 3 *40,000=1200
15th March	1,00,000	50,000	50,000	1% * 1 *50,000=500

Exceptions To Paying Interest Under Section 234C

If you meet any of the following criteria, you are exempt from paying advance tax and, as a result, interest under Section 234C is not assessed.

- A resident senior citizen with no income under the 'PGBP' heading
- If your net tax liability is less than Rs 10,000, no interest will be charged under Section 234C.

Interest under Section 234A

Delay in filing the return of income would result in a late payment interest to be levied as per Section 234A. Interest amount of 1% per month (simple interest) would be applied on the tax amount outstanding.

Example: A taxpayer has unpaid taxes that are outstanding. He has not filed his IT Returns by the due date (31st Jul). The income tax payable was ₹ 23,300 and he filed his IT returns on 8th Nov. What will be the late payment interest levied on him under Section 234A for the delayed filing of IT Return?

Actual Filed Date: 08-Nov

Delay in Filing: 3 Months and 8 days delay (*Delay is calculated from the due date of 31st Jul and is*

rounded as 4 months)

Tax Payable: ₹ 23,300

Late Payment Interest: $1\% \times ₹ 23,300 \times 4 \text{ months} = ₹ 932$

Interest under Section 234B

Delay or shortfall in paying advance tax as per the income tax calendar would result in late payment interest to be levied as per Section 234B. All assesses are required to pay Advance Tax (at least 90 %) where the tax payable is Rs 10,000 or more. Late Payment Interest is applicable if the tax liability is more than Rs 10,000 and the taxpayer has not paid any advance tax or if the taxpayer has paid advance tax, but advance tax paid is less than 90% of 'assessed tax'.

Example (Not paying Advance Tax): A taxpayer has ₹ 15,400 as tax payable, but he has not paid any advance tax until 31st March. If the entire tax was paid by him On 3rd Oct, when he files the return of income, how much interest is he liable to pay as per Section 234B?

Actual date of paying tax: 03-Oct

Delay in Filing: 6 Months and 3 days delay (*Delay is calculated from 31st Mar which is the end of FY and is rounded as 7 months*)

Tax Payable: ₹ 15,400

Late Payment Interest: $1\% \times ₹ 15,400 \times 7 \text{ months} = ₹ 1,078$

Example (Shortfall in paying any Advance Tax): A taxpayer has ₹ 38,500 as Tax Payable. He has paid ₹ 20,000 towards advance tax until 31st March. If the remaining ₹ 18,500 was paid by him On 25th Aug, when he files the return of income, how much interest is he liable to pay as per Section 234B?

Actual date of paying tax: 25-Aug

Delay in Filing: 4 Months and 25 days delay (*Delay is calculated from 31st Mar which is the end of FY and is rounded as 5 months*)

Tax Payable: ₹ 38,500

Advance Tax Paid: ₹ 20,000 (which is only 51.9 % of tax payable)

Penalty to be applied for: ₹ 38,500 – ₹ 20,000 (Advance Tax that is paid already) = ₹ 18, 500

Late Payment Interest: $1\% \times ₹ 18,500 \times 5 \text{ months} = ₹ 925$

Interest under Section 234C

Default in payment of instalment(s) of advance tax as per the timelines provided by the Income Tax Department would result in late payment interest as per Section 234C.

The following table provides the details on the cut-off date and the advance tax payable:

Due Date	All Taxpayers except those who have opted for presumptive income u/s 44AD
15th June	Upto 15 % of Advance Tax Payable
15th September	Upto 45 % of Advance Tax Payable
15th December	Upto 75 % of Advance Tax Payable
15th March	Upto 100 % of Advance Tax Payable

Summary



- The unit individual income tax return covers the essential concepts and processes related to income tax for individuals. It starts with an introduction to income tax, explaining its role in personal finance and the different tax regimes available.
- The unit compares the new tax regime and the old tax regime, highlighting their differences in terms of exemptions, deductions, and tax rates. It also discusses the taxation of individuals, covering how various sources of income are taxed.
- The unit explains tax calculation, detailing how taxable income is determined and the tax liability is computed. It outlines the obligations of the employee, including responsibilities for accurate tax reporting and compliance.
- The unit provides a step-by-step guide for the online application of PAN (Permanent Account Number) and the ITR1 filing process for individual taxpayers. It also explains the computation of interest and penalties in cases of delayed or incorrect tax payments.
- Finally, the unit includes a case study to illustrate real-world scenarios in income tax filing and calculation. Overall, this unit equips individuals with the knowledge and tools required to manage their income tax filings and ensure compliance.

Exercise



1. What is the primary difference between the new tax regime and the old tax regime?
 - a. The new tax regime allows more exemptions and deductions
 - b. The old tax regime has lower tax rates
 - c. The new tax regime has no exemptions and deductions, offering lower tax rates
 - d. The new tax regime is only available to businesses
2. Which of the following is a mandatory obligation for an employee regarding income tax?
 - a. Applying for a loan
 - b. Filing a tax return and paying tax on time
 - c. Purchasing tax-saving instruments
 - d. Making investments in stocks
3. What is PAN (Permanent Account Number) primarily used for?
 - a. To apply for a passport
 - b. To track an individual's tax records and financial transactions
 - c. To calculate income tax
 - d. To register for government benefits
4. Which of the following forms is typically used for filing income tax returns by individuals with basic income sources?
 - a. ITR1
 - b. ITR3
 - c. ITR4
 - d. ITR6

Descriptive Questions:

1. Explain the key differences between the new tax regime and the old tax regime. How can individuals decide which regime is more beneficial for them?
2. Discuss the process of tax calculation for an individual. What factors should be considered while determining taxable income and calculating the tax liability?
3. What are the obligations of an employee with regard to income tax? Explain the importance of accurate reporting and timely payment of taxes.
4. Describe the steps involved in applying for a PAN (Permanent Account Number) online. Why is it essential for individuals to have a PAN?
5. Explain the process of filing ITR1 for an individual taxpayer. What types of income can be reported under this form and who is eligible to file it?

Notes

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8. Insurance Planning Tax Return

- Unit 8.1 – Overview of Insurance
- Unit 8.2 - Types of Insurance
- Unit 8.3 – Importance of Insurance
- Unit 8.4 – Factors to Consider for Better Policy Selection



Unit 8 - Insurance Planning

Unit Objectives

After studying this module, the students shall be able to understand:

1. Understand the fundamental concept of insurance, its purpose
2. Explore various types of insurance, including life, health, property, and liability insurance
3. Learn about the role of insurance in financial planning, risk management, and safeguarding assets
4. Identify key factors for selecting the most suitable insurance policy, such as coverage needs, premium costs, policy terms, and insurer reliability

Unit 8.1 - Overview of Insurance

Insurance policies provide protection against the various types of uncertainties that can occur in the life of an individual. Having health insurance can help you cover up for the expenses paid for any diseases, while an accident insurance can help you in getting cover for any kind of accidents that may occur.

Unit 8.2 Types of Insurance

There are various types of insurance in the market due to the presence of a large number of insurance companies.

The types of Insurance that will be discussed are:

1. Life Insurance
2. General Insurance (which includes fire insurance, health insurance and marine insurance)

Let us discuss these types in detail.

1. Life Insurance:

Life insurance is a type of insurance policy in which the insurance company undertakes the task of insuring the life of the policyholder for a premium that is paid on a daily/monthly/quarterly/yearly basis.

Life Insurance policy is regarded as a protection against the uncertainties of life. It may be defined as a contract between the insurer and insured in which the insurer agrees to pay the insured a sum of money in the case of cessation of life of the individual (insured) or after the end of the policy term.

For availing life insurance policy the person needs to provide some details like age, medical history and any type of smoking or drinking habits.

As there are many requirements of persons for availing a life insurance, the requirements can be needs of family, education, investment for old age, etc.

Some of the types of life insurance policies that are prevalent in the market are:

a. Whole life policy: As the name suggests, in this kind of policy the amount that is insured will only be paid out to the person who is nominated, and it is only payable on the death of the insured.

Some insurance policies have the requirement that premium should be paid for the whole life while others may be restricted to payment for 20 or 30 years.

b. Endowment life insurance policy: In this type of policy the insurer undertakes to pay a fixed sum to the insured once the required number of years are completed or there is death of the insured.

c. Joint life policy: It is that type of policy where the life insurance is availed by two persons, the premium for such a policy is paid either jointly or by each individual in the form of instalments or a lump sum amount.

In the case of such a policy the assured sum is provided to both or any one of the survivors upon the death of any policyholder. These types of policy are taken mostly by husband and wife or between two partners in a business firm.

d. Annuity policy: Under this policy, the sum assured or the policy money is paid to the insured on a monthly/quarterly/half-yearly or annual payments. The payments are made only after the insured attains a particular age as dictated by the policy document.

e. Children's Endowment policy: Children's endowment policy is taken by any individual who wants to make sure to meet the expenses necessary for children's education or for their marriage. Under this policy, the insurer will be paying a certain sum of money to the children who have attained a certain age as mentioned in the policy agreement.

2. General Insurance:

General Insurance is related to all other aspects of human life apart from the life aspect and it includes health insurance, motor insurance, fire insurance, marine insurance and other types of insurance such as cattle insurance, sport insurance, crop insurance, etc.

We will be discussing the various types of general insurances in the following lines.

a. Fire Insurance: Fire insurance is a type of general insurance policy where the insurer helps in paying off for any damage that is caused to the insured by an accidental fire till the specified period of time, as mentioned in the insurance policy.

Generally, fire insurance policy is valid for a period of one year and it can be renewed each year by paying a premium, which can be a lump sum or in instalments.

The claim for a fire loss must satisfy the following conditions:

- i. It should be an actual loss
- ii. The fire must be accidental and not done intentionally

b. Marine Insurance: Marine insurance is a contract between the insured and the insurer. In marine insurance, the protection is provided against the perils of the sea. The instances of dangers in sea can be collision of ship with rocks present in sea, attacking of the ship by pirates, fire in ship.

Marine insurance covers three different types of insurance which are ship hull, cargo and freight insurance.

Ship or hull insurance: As the ship is exposed to many dangers at the sea, the insurance covers for losses caused by damage to the ship.

Cargo Insurance: The ship carrying cargo is subjected to many risks which can be theft of cargo, lost goods at port or during the voyage. Therefore, insuring the cargo is essential to cover for such losses.

Freight Insurance: In the event of cargo not reaching the destination due to any kind of loss or damage during transit, the shipping company does not get paid for the freight charges. Freight insurance helps in reimbursing the loss of freight caused due to such events.

Marine insurance is a contract of indemnity where the insured can recover the cost of actual loss from the insurer in event of any loss occurring to the insured item.

c. Health Insurance: Health insurance is an effective safeguard for protection against rising healthcare costs. Health insurance is a contract that is made between an insurer and an individual or a group where the insurer agrees to provide health insurance against certain types of illnesses to the insured individual or individuals.

The premium can be paid in instalments or as a lump sum amount and health insurance policy is renewed every year by paying the premium.

The health insurance claims can be done either directly in cashless or reimbursement availed after treatment is done. Health insurance is available in the form of Mediclaim policy in India.

d. Motor vehicle insurance: Motor vehicle insurance is a popular option for the owners of motor vehicles. Here the owners' liability to compensate individuals killed by negligence of motorists is borne by the insurance company.

e. Cattle Insurance: In case of cattle insurance, the owner of the cattle receives an amount in the event of death of the cattle due to accident, disease or during pregnancy.

f. Crop Insurance: Crop insurance is a contract for providing financial support to the farmers in the event of crop failure due to drought or flood.

g. Burglary Insurance: Burglary insurance comes under the insurance of property. Here the insured is compensated in the event of a burglary for the loss of goods, damage occurred to household goods and personal effects due to burglary, larceny or theft.

Unit 8.3 - Importance of Insurance

The importance of insurance should never be undermined. Insurance acts as a vital shield against unforeseen circumstances. It protects you from unplanned expenses and offers a financial cushion from accidents, illnesses and more. Insurance safeguards the financial interests of your family in your absence. It helps them cover immediate expenses and secures their long-term financial stability.

Below are some reasons why insurance is important:

- Provides Financial Stability

The need for insurance cannot be stressed enough. Insurance provides financial stability to families and helps them cover expenses like education, loans, housing, groceries and more. It also ensures financial stability during unexpected situations and helps cover medical expenses, property damage and other similar costs.

- Promotes Personal Economic Growth

Insurance acts as a catalyst for personal economic growth by empowering surviving family members to pursue their aspirations in the absence of the policyholder. It provides a safety net to ensure your loved ones have access to essential resources, such as education. Your loved ones can also use the insurance payout to improve their financial situation by investing in businesses, purchasing real estate and more.

- Generates Long-Term Wealth

Life insurance plans like endowment, money-back or Unit-Linked Insurance Plans (ULIPs) provide a means to accumulate wealth over time. These policies offer long-term savings and investment opportunities and allow you to secure your financial future. Life insurance can be used for various financial goals like retirement, a child's higher education and others.

- Supports Families in Medical Emergencies

The importance of insurance is particularly pronounced in today's times. Medical expenses are skyrocketing due to medical inflation and the increasing frequency of various illnesses. Therefore, having a robust health insurance policy is essential at this time. Health insurance offers financial protection against medical costs. It provides an affordable solution by allowing you to buy policies with a high sum assured without straining your wallet. It also guarantees access to quality healthcare services in your hour of need.

- Helps with long-term goals

One of the most important benefits of life insurance is that it enables you to save and grow your money. You can use this amount to meet your long-term goals, like buying a house, starting a venture, saving for your child's education or wedding, and more

- Useful for retirement planning

Life insurance can enable you to stay financially independent even during your retirement. Life insurance plans like annuity plans provide you with a fixed income for life. They are low-risk plans that help you maintain your current lifestyle, meet medical expenses and meet your post-retirement goals

- Provides tax benefits

Life insurance helps you plan for the future, while helping you save tax* in the present. The premiums paid under the policy are allowed as tax* deductions of up to ₹ 1.5 lakh per annum subject to conditions under Section 80C of The Income Tax Act, 1961. You can save up to ₹ 46,800/- in taxes* every year. Further, the amounts received under the policy are also exempt* subject to conditions under Section 10(10D) of the Income Tax Act, 1961

Unit 8.4 - Factors to Consider For Better Policy Selection

Selecting the right insurance plan is important to maximise its potential. There are a number of factors that can impact the effectiveness of insurance. Below are some of them:

- **Adequate Coverage**

Make sure to analyse your financial needs and select a plan that offers adequate financial coverage. Insufficient coverage may help you save some money at the time of purchase but can lead to compromised financial security in an emergency.

- **Ability to Pay Premium**

The plan's premium is another essential aspect to consider when selecting the right insurance plan. You may have to pay the premium for years, depending on the policy term. Therefore, aim to

strike a balance between adequate coverage, premiums and your monthly expenses. If the premium is too high, you may find it hard to continue paying for the policy in the long run.

- **Policy Duration**

Life insurance policies are long-term plans and often last for many years. When choosing a life insurance policy, it is vital to consider various factors such as your age, the ages of your dependents, outstanding debts and future financial obligations. For example, if you have young children, it is prudent to select a policy that lasts at least until they become financially independent.

- **Personal Aspects**

Every individual's needs are unique. The kind of coverage you need can depend on your age, gender, occupation and lifestyle. For example, if your job requires you to work in accident-prone areas, it may be advised to buy a high sum assured and a longer policy term to ensure your family's financial security in your absence.

Summary



- The unit insurance planning provides an in-depth understanding of insurance and its role in financial planning. It begins with an overview of insurance, explaining its purpose in protecting individuals and businesses from financial risks.
- The unit then explores the types of insurance, such as life, health, auto, and property insurance, highlighting the features and benefits of each. It emphasizes the importance of insurance, stressing how it helps in managing risks, ensuring financial security, and providing peace of mind.
- Finally, the unit discusses the factors to consider for better policy selection, including the individual's needs, budget, coverage options, and the reputation of the insurance provider, guiding individuals in choosing the most appropriate policy for their circumstances. Overall, the unit equips individuals with the knowledge to make informed decisions about insurance and its role in a well-rounded financial plan.

Exercise



1. What is the primary purpose of insurance?
 - a. To accumulate wealth
 - b. To protect against financial risks and uncertainties
 - c. To generate tax benefits
 - d. To increase credit scores

2. Which of the following is NOT typically considered a type of insurance?
 - a. Life insurance
 - b. Health insurance
 - c. Car insurance
 - d. Stock investment insurance

3. Why is insurance considered important?
 - a. It guarantees high returns on investments
 - b. It ensures financial security and helps manage risks
 - c. It acts as a savings plan
 - d. It allows tax-free income

4. Which of the following factors is essential when selecting an insurance policy?
 - a. The brand of the insurance provider
 - b. The individual's needs, budget, and coverage options
 - c. The number of advertisements seen
 - d. The location of the insurance provider

Descriptive Questions:

1. Explain the role of insurance in financial planning. Why is it important for individuals to have insurance coverage?
2. Discuss the different types of insurance available to individuals. What are the key features and benefits of each type?
3. Why is insurance considered a crucial tool for managing financial risks? Provide examples of how insurance can help in specific life situations.
4. What factors should an individual consider when selecting an insurance policy? How can these factors influence the choice of coverage and provider?
5. Describe how insurance helps in protecting against uncertainties. What impact does having the right insurance coverage have on an individual's financial security?

Notes



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Large empty rectangular box for additional notes or drawings.



9. Budgeting and Expense Management

- Unit 9.1 – Introduction to Personal Budget
- Unit 9.2 - Creating and Maintaining a Budget
- Unit 9.3 – Common Budgeting Mistakes to Avoid
- Unit 9.4 – Benefits of Having a Personal Budget
- Unit 9.5 - Expense Tracking
- Unit 9.6 – Elements of a Budget Process



Unit 9 - Budgeting and Expense Management

Unit Objectives

After studying this module, the students shall be able to understand:

1. Understand the basics of personal budgeting
2. Learn how to create a budget, set realistic financial goals and adapt the budget as financial needs change
3. Identify common pitfalls in budgeting, such as overestimating income or neglecting savings, and learn how to avoid them
4. Discover the advantages of budgeting, including financial control, savings growth, and reduced financial stress
5. Learn techniques for tracking expenses effectively to ensure budget adherence and financial transparency
6. Understand the essential components of a budgeting process, such as income estimation, expense categorization, and periodic reviews

Unit 9.1 - Introduction to Personal Budget

A personal budget is a financial plan prepared to track the income and expenses for a specific period, usually weekly or monthly. It often includes a portion dedicated to saving money or investing for future goals, such as emergencies, education, or retirement.

The primary purpose of creating a personal budget is to manage money effectively, allocate resources wisely, and achieve financial goals. It is prepared on the basis of multiple factors such as income, expenses, debts, future goals, etc. Considering all these factors, a budget allows you to manage your money more effectively.

Why Is Budgeting Important?

Likewise, we say cut your dress according to your clothes, which means limit your expenses as per your earnings. Budgeting follows this idea by allowing you to manage your expenses according to your income, which makes it an important part of your financial planning. Here are some other reasons make budgeting an important tool:

- **Financial Control:** Budgeting allows you to monitor and control your expenses, ensuring that you don't spend more than you earn.
- **Goal Achievement:** With budgeting, you can allocate your money for some specific financial goals, such as saving for a vacation, buying a home, or getting out of debt.
- **Emergency Preparedness:** It also allows you to set aside a fixed amount of money for unexpected situations in the future, ensuring you're prepared for emergencies.
- **Debt Management:** It helps you track and manage your current outstanding debt.
- **Peace of Mind:** Budgeting allows you to manage your money. Knowing where your money is going and having a plan for the future reduces financial stress and provides peace of mind.

Unit 9.2 - Creating and Maintaining a Budget

A personal finance budget is a financial tool that helps you control your expenses and save for the future. But to make a personal budget can be daunting, as it involves multiple processes and decisions to be taken. So, how can you make a personal budget for yourself?

By following the below steps, you can build a perfect personal budget and make informed decisions about your money.

1) Find the objective

It is impossible to predict the future, but a few basic questions need to be answered early on in life. For example, when do you want to retire? What are your plans after retirement? Do you want to buy a house? Whether you want/have children, and if yes, then what are your plans for them? List your priorities and write them down. The process of writing them down will help you simplify things, and this is known as financial planning.

Most people fail to manage their personal finance only because they do not have a clear agenda set for themselves. This practice will help you understand how much you need to save for each purpose and for how long. More importantly, priorities change from time to time, hence, change your personal financial plans accordingly.

2) Identify your expenses

Track your family expenses for two to three months to find out how much is spent on what task every month. Identify the absolute essential and allot money accordingly. First make sure to pay for the fixed expenditures like home loan/ rent, car loan, utility bills etc. and then prepare a budget for the variable expenses like grocery shopping, eating out, movie nights and others. Make sure that you do not spend more than you have allotted in each of the buckets. Also, if you feel that you are spending more than you can afford, then make sure to check on the expenses especially the variable factors.

3) Separate needs from wants

Separating your needs from your wants is very crucial for financial freedom. There are many things that we want, but it has to match with what we can afford. It might seem easy that loans and credit cards have increased our power to buy more, but there is always a catch. For example, your car is a depreciating asset, and hence, it is always suggested that you buy in the range for which you can pay back the loan within five years. Now, with easy bank loans, it may seem that you can buy a car worth Rs 20 lakh, whereas you can afford one that costs Rs 7 lakh, i.e. you can comfortably repay this amount within five years. Probably, for your second car, you might plan to buy the Rs 20 lakh model, considering your salary and net worth will increase in the next five years.

Refrain from using credit cards as much as possible. It can destroy the health of your personal finances.

4) Plan ahead

There are yearly expenses from tax/insurance payment to holidays that can be planned ahead. If you keep aside a small amount every month targeted towards a particular expense, then at the end of the year you will be financially prepared for it. Often people end up taking personal loans for such purposes and keep on paying for it, including the interest rate, for the rest of the year.

Simply, if we can reverse the cycle and plan ahead, then we can save ourselves from some unnecessary stress and losing money.

One of the strategies that you can use while making plans for the future is the 50-30-20 rule. This rule helps you create a personal budget by breaking your finances into three parts.

- **50% for Needs:** You can allocate 50% of your income to cover mandatory expenses, such as house rent, phone bills, electricity, groceries, etc.
- **30% for Desires:** You can allocate 30% of your income to cover leisure activities such as vacation, shopping, entertainment, etc.
- **20% for Investments:** You should allocate 20% of your income for savings and investments. Here, you can invest in mutual funds, fixed deposits, PPF, NPS, etc., depending on your goals.

5) Emergency corpus

Even before you start saving and investing, it is necessary to build an emergency corpus. This is a fund that is set aside for emergencies and the rule is you should never touch it unless there is an emergency.

Now, how do you define an emergency? Paying your credit card bill is definitely not one of them. This money can provide financial relief during job loss, illness and accidents. The size of the fund should be three to six months of monthly expenses that is necessary to survive. Building an emergency corpus is a crucial aspect of your personal financial planning and money management.

6) Make sure to save

There is a simple formula to know how much you can afford to spend.

Income – Saving = Expenses

Fashion your expenses around this formula. Now, how do you know how much to save?

First, set aside 10 percent of your income as your retirement corpus and never use it for any other purpose, not even for your children's education or marriage. Next set your future goals, short-term, mid-term and long-term, plans basis your priorities. Apart from retirement plan, long-term goals include children's education plan and marriage plan etc, mid-term goals include down payment for a house or car, and short-term plans include travel, buying gadget and appliances etc.. Set aside some money as per your estimate in each of the buckets, and whatever is left, you should plan your personal budget around it.

Believe it or not, a little financial discipline can make a big difference to the health of your personal finance. Start small but start early to see your money grow exponentially – this is the best practice among all the money management rules.

Unit 9.3 - Common Budgeting Mistakes to Avoid

When we prepare a budget for ourselves, there are some mistakes which can be made by any of us. Here are some of the common budgeting mistakes that should be avoided for effective financial planning.

- **Not Tracking Expenses:** It is important to track all the expenses that you will be going to incur in the future, be they vacation expenses, appliance purchases, education, etc. Failing to track these expenses can lead to overspending and deviation from the original budget.
- **Neglecting Emergency Funds:** Overlooking the importance of an emergency fund can leave you vulnerable to future unexpected expenses.
- **Setting Unrealistic Goals:** While preparing a budget, setting achievable targets that match your income and expenses is important. It should not be unrealistic.
- **Regular Monitoring:** Budgeting is not a one-time process; it should be regularly monitored. Failing to adjust your budget can lead to deviation in your overall financial planning.

Unit 9.4 - Benefits of Having a Personal Budget?

A personal budget is a valuable tool with multiple benefits that smoothen your financial journey. Here are some of the benefits of having a personal budget:

- **Financial Awareness:** Preparing a budget can help you to gain a clear understanding of your financial situation.
- **Saving for Goals:** With the budget, you can save some portion of your income for investments to save for short-term and long-term goals.
- **Debt Reduction:** The budget allows you to track all the expenses that you will incur in the future. In this way, you can find the unnecessary expenses and cut them down or reduce them.
- **Reduced Financial Stress:** Financial uncertainty can lead to stress and anxiety. With a personal budget, you get complete peace of mind as you know where your money is going and can be prepared for any future expenses.
- **Improved Decision-Making:** Budgeting also helps you in making your financial decisions easier. Before making any purchases or indulging in any financial commitments, you can refer to your budget and may decide whether you should proceed or not.

Unit 9.5 - Expenses Tracking

Expenses tracking is the systematic monitoring and recording of all your financial transactions and expenses. It entails keeping a complete record of your revenue sources and every expenditure you incur, from everyday purchases to periodic bills and payments. The goal of expense monitoring is to obtain a full awareness of your spending habits, manage your finances effectively, and make smart budgeting and saving decisions.

By meticulously recording your expenses, you can find areas where you may be overspending or where you can potentially cut back and save money. It gives you a clear picture of your financial health, helping you to determine whether you are living within your means and whether your spending is in line with your financial goals.

Expense tracking can be done manually or automatically using spreadsheets or specialised budgeting programmes that automatically categorise and analyse your expenses. The goal is to continuously record and examine your expenses, categorise them appropriately, and analyse the data on a regular basis to get insights into your spending habits. Ultimately, the purpose of spending tracking is to increase financial awareness, enhance financial discipline, and gain more financial control.

How will Tracking Expenses Help you in Managing Personal Finances?

Tracking expenses allows you to gain control of your own money. It provides insights into your spending habits, promotes better budgeting, discovers saving possibilities, aids in debt management, encourages goal setting, improves decision-making, and simplifies tax preparation. Finally, cost tracking is a useful tool for sustaining financial discipline and achieving long-term financial well-being. It is also with the following:

- **Financial Awareness**

Keeping track of your expenses gives you a clear picture of your spending habits and where your money is going.

- **Budgeting**

You can construct an accurate budget based on your income and priorities by recording your expenses.

- **Identifying Saving Opportunities**

Keeping track of your expenses will show you where you can cut back and save money.

- **Debt Management**

Tracking expenses is essential for effective debt management.

- **Setting Financial objectives**

Expense tracking enables you to develop realistic financial objectives.

- **Making Decisions**

With a comprehensive understanding of your spending, you can make educated decisions about vital financial issues.

Unit 9.6 - Elements of a Budget Process

1. Income Source

The identification, calculation, integration, and monitoring of expected income from multiple sources to support successful financial planning and decision-making is a critical component of the budget process.

2. Fixed Costs

Fixed costs are a crucial part of the budgeting process since they reflect regular expenses that remain constant, such as rent, salaries, and insurance, and must be budgeted and controlled accordingly.

3. Variable Expenses

Variable expenses are an important part of the budgeting process because they represent costs that fluctuate depending on consumption or activity levels, necessitating careful tracking and planning to account for their fluctuation.

4. One-time purchases

One-time purchases are an element of the budgeting process that entails planning and allocating funds for non-recurring items such as equipment, furniture, or software, which necessitate careful study and budgeting to assure their financial viability.

Summary



- The unit on budgeting and expense management provides essential insights into managing personal finances effectively. It begins with an introduction to personal budgeting, explaining the importance of creating a financial plan to track income and expenses.
- The unit then covers creating and maintaining a budget, offering practical steps for individuals to set up and adjust their budgets based on changing financial situations. It highlights common budgeting mistakes to avoid, such as underestimating expenses or failing to account for irregular costs. The benefits of having a personal budget are discussed, including better financial control, achieving savings goals, and reducing financial stress. The unit also emphasizes expense tracking, showing how monitoring daily spending helps individuals stay on top of their finances.
- Finally, it explores the elements of a budget process, such as setting financial goals, categorizing expenses, and reviewing the budget regularly to ensure financial stability. Overall, this unit equips individuals with the knowledge and tools to effectively manage their money and work toward financial goals.

Exercise



1. What is the primary purpose of creating a personal budget?
 - a. To save money for luxury purchases
 - b. To track income and expenses for better financial management
 - c. To avoid paying taxes
 - d. To increase credit card limits
2. Which of the following is a common budgeting mistake to avoid?
 - a. Overestimating savings
 - b. Accounting for irregular expenses
 - c. Not tracking expenses consistently
 - d. Setting unrealistic financial goals
3. What is one of the main benefits of having a personal budget?
 - a. It eliminates the need for saving
 - b. It helps in reducing financial stress and achieving goals
 - c. It increases the risk of financial debt
 - d. It provides unlimited spending flexibility
4. Which of the following is an essential element of the budget process?
 - a. Ignoring irregular expenses
 - b. Regularly reviewing and adjusting the budget
 - c. Relying on verbal estimates for expenses
 - d. Focusing only on income

Descriptive Questions:

1. Explain the process of creating and maintaining a personal budget. What steps should an individual take to ensure their budget remains effective over time?
2. Discuss the common budgeting mistakes that people make. How can these mistakes be avoided to improve financial management?
3. What are the benefits of having a personal budget? How does it contribute to achieving financial stability and meeting long-term financial goals?
4. How does expense tracking help in managing personal finances? Explain the importance of tracking daily, weekly, and monthly expenses.
5. Describe the key elements of a budget process. How do setting financial goals, categorizing expenses, and regularly reviewing a budget contribute to successful money management?

Notes

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10. Overview of Net Present Value (NPV)

- Unit 10.1 - Introduction to NPV
- Unit 10.2 – Importance of Net Present Value
- Unit 10.3 – Decision-Making using NPV
- Unit 10.4 - Risk management
- Unit 10.5 – NPV Risk Analysis



Unit 10 - Overview of Net Present Value – NPV

Unit Objectives

After studying this module, the students shall be able to understand:

1. Understand the concept of Net Present Value (NPV)
2. Learn why NPV is crucial in financial decision-making
3. Explore how NPV aids in making informed investment choices
4. Understand the role of NPV in risk management
5. Learn techniques for analyzing the risks affecting NPV

Unit 10.1 - Introduction to NPV

Net present value (NPV) is the difference between the present value of cash inflows and the present value of cash outflows over a period of time. NPV is used in capital budgeting and investment planning to analyse the profitability of a projected investment or project.

NPV is the result of calculations that find the current value of a future stream of payments using the proper discount rate. In general, projects with a positive NPV are worth undertaking, while those with a negative NPV are not.

KEY TAKEAWAYS

- Net present value (NPV) is used to calculate the current value of a future stream of payments from a company, project, or investment.
- To calculate NPV, you need to estimate the timing and amount of future cash flows and pick a discount rate equal to the minimum acceptable rate of return.
- The discount rate may reflect your cost of capital or the returns available on alternative investments of comparable risk.
- If the NPV of a project or investment is positive, it means its rate of return will be above the discount rate.

Net Present Value (NPV) Formula

If there's one cash flow from a project that will be paid one year from now, then the calculation for the NPV of the project is as follows:

$NPV = \text{Cash flow} / (1+i)^t - \text{initial investment}$

where:

i = Required return or discount rate

t = Number of time periods

Unit 10.2 - Importance of Net Present Value

Net present value is important because it allows businesses and investors to assess the profitability of a project or investment, taking into account the average cost of capital and the expected rate of return. By discounting future cash flows to their present value, NPV helps in

making informed choices, ensuring that undertaken projects contribute positively to the overall financial health and growth.

Unit 10.3 - Decision-Making using NPV

Decision-making is rarely an easy process, especially when large dollar amounts and extended time frames are involved. One of the most difficult tasks in decision making is finding a common point of reference for different alternatives. Lease versus buy decisions compound the possibilities faced by program managers. One way of placing multiple alternatives into a common frame of reference is to use a decision-making tool called net present value (NPV).

The NPV Investment Decision Rule is a financial principle that stipulates an investment project should only be undertaken if its Net Present Value (NPV) is positive. The NPV of any investment represents the difference between the present value of its cash inflows and the present value of its cash outflows.

Unit 10.4 - Risk Management

Net present value (NPV) and the risk have a strong relationship with each other. With an appropriate risk assessment, one cannot arrive at the correct or near correct net present value. The net present value of any asset or investment is the present value of future cash flows (generated out of that asset or investment) discounted using an appropriate discounting rate. **Risk** is uncertainty attached to the future cash flows.

Unit 10.5 - NPV Risk Analysis

NPV risk analysis is a useful means of analysing overall project risk during the earlier phases of a project. It can be used to:

1. Support early decisions as to whether or not to continue the project e.g. bid/no bid decisions.
2. Validate the project business case from a risk perspective at key project authorisation points.
3. Quantify the implications of time profiling uncertainties that affect costs and benefits.
4. Support choices between mutually exclusive options when designing the project solution.
5. Identify which sources of uncertainty have the most influence on the project's outcome. A key advantage is that, by requiring the risk management process to take into account risk to both the project's delivery and its benefits, the analysis clarifies the risk implications of trade-offs between the

Limitation

The NPV approach requires the project's benefits to be modelled in economic terms (i.e. as a cash value). In some cases this is too difficult to do meaningfully. In particular, some projects sponsored by governments and charities may be too difficult to assess in this way.

Techniques

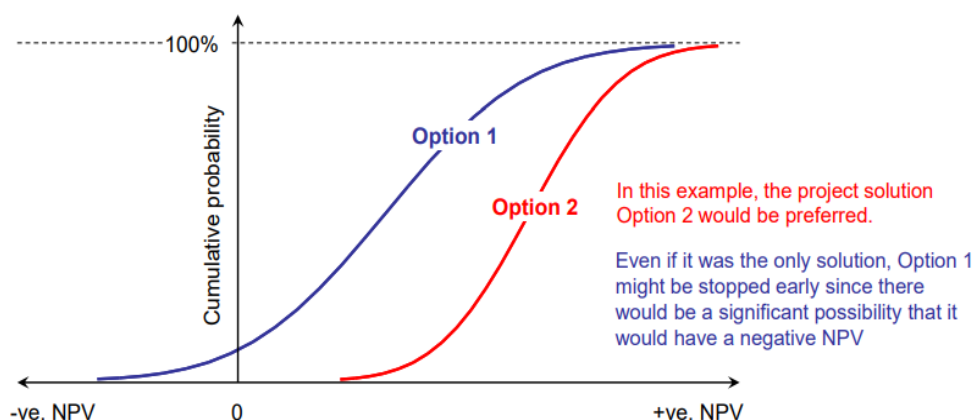
Simple NPV risk models can sometimes be developed deterministically e.g. using a calculator. In most cases, however, a spreadsheet model will need to be developed for Monte Carlo simulation. Typically, the spreadsheet will include a breakdown of project costs and benefits listed vertically with accounting periods (usually years) arranged horizontally. Factors driving costs and benefits, together with uncertainty in their timing as driven by key milestones are represented using probability distributions i.e. the input risk estimates. Annual and cumulative cash flow and NPV values can be calculated in the spreadsheet by subtracting overall costs from benefits and applying the NPV formula. A Monte Carlo simulation can then be used to calculate how these outputs are driven by the risk inputs, typically displaying the results in S-curve format.

The NPV formula

$$NPV = \sum_{t=0}^n C_t / (1 + D)^n$$

C_t = the net cash flow over a period of time (typically 1 year),
 t = the period of time during which that cash flow takes place,
 D = discount rate (%), real terms rate of loss in the value of cash,
 n = the number of time periods over which NPV is calculated

Example NPV Risk Analysis results



Common Faults

1. Failure to develop the level of detail in the NPV risk model iteratively in a top-down manner e.g. by using a detailed deterministic NPV risk model as the starting basis.
2. Including a risk adjustment in the risk model discount rate – double counting for risk.
3. Failure to use robust risk estimating techniques when developing risk input estimates – quantitative risk modelling is critically dependent upon the quality of the input data.

4. Using NPV risk analysis to make choices between projects in a portfolio – although this is common practice. Strictly speaking, decisions made using NPV models are only valid when they involve mutually exclusive choice

Summary



- The unit on overview of Net Present Value (NPV) provides a detailed understanding of this key financial concept and its application in decision-making. It begins with an introduction to NPV, explaining how it is used to evaluate the profitability of an investment or project by comparing the present value of expected cash inflows to the present value of cash outflows.
- The importance of NPV is highlighted, emphasizing its role in making informed financial decisions and assessing whether an investment will create value. The unit then explores decision-making using NPV, showing how positive NPV indicates a potentially profitable project, while negative NPV signals a loss. It also covers risk management in the context of NPV, discussing how uncertainties and changing conditions can impact the reliability of NPV calculations.
- Finally, the unit delves into NPV risk analysis, explaining how sensitivity and scenario analysis can be used to assess the potential risks associated with investments. Overall, the unit equips individuals with the tools to use NPV in evaluating investments while understanding the risks involved.

Exercise



1. What does Net Present Value (NPV) help determine?
 - a. The total amount of profit from an investment
 - b. Whether an investment or project will be profitable or not
 - c. The future value of an investment
 - d. The interest rate of an investment

2. Why is NPV considered an important financial metric?
 - a. It measures only the initial investment cost
 - b. It accounts for the time value of money, providing a clearer picture of profitability
 - c. It predicts future stock prices
 - d. It ignores risk and uncertainty factors

3. What does a negative NPV indicate?
 - a. The investment is profitable and should be accepted
 - b. The project is unlikely to cover its costs and should be rejected
 - c. The investment will break even
 - d. The cash inflows exceed the cash outflows

4. Which of the following is used in NPV risk analysis to evaluate the impact of uncertainties?
 - a. Sensitivity and scenario analysis
 - b. Profit margin calculations
 - c. Interest rate comparisons
 - d. Payback period analysis

Descriptive Questions:

1. Explain the concept of Net Present Value (NPV) and its significance in evaluating investment opportunities. How does it help determine whether a project is financially viable?
2. Discuss the importance of NPV in financial decision-making. How can it guide businesses in selecting profitable projects and investments?
3. How can NPV be used in decision-making when comparing multiple investment options? Describe how a positive NPV affects investment choices.
4. What role does risk management play in the context of NPV? Discuss how uncertainties and risks can impact NPV calculations and decision-making.
5. Describe how NPV risk analysis, including sensitivity and scenario analysis, helps assess the potential risks associated with an investment project. Why is it important to consider these factors?

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11. Self-Employment

- Unit 11.1 - Introduction to Self-Employment
- Unit 11.2 - Advantages and Disadvantages of Self-Employment
- Unit 11.3 – Business Idea Generation
- Unit 11.4 - Four Strategies to e-file for the Self-Employed
- Unit 11.5 - Tax Filing for Self-Employed
- Unit 11.6 – GST Registration for Self-Employed
- Unit 11.7 – Sales and Invoicing
- Unit 11.8 – How to Set the Pricing – Introduction – how to set pricing



Unit 11 - Self-Employment

Unit Objectives

After studying this module, the students shall be able to understand:

1. Understand the basics of self-employment
2. Explore the benefits, such as flexibility and independence, as well as challenges
3. Learn techniques for generating viable business ideas based on skills, market demand, and innovation
4. Discover e-filing strategies tailored for self-employed individuals
5. Understand tax filing requirements for the self-employed
6. Learn the process and requirements for registering for GST as a self-employed individual
7. Understand the basics of sales tracking and invoicing to ensure accurate records and timely payments
8. Gain an introduction to pricing strategies for self-employed services or products

Unit 11.1 - Introduction to Self-Employment

Self-employment is earning income without being employed and paid by someone else. Self-employed persons may be involved in a variety of occupations but generally are highly skilled at a particular kind of work. Writers, tradespeople, freelancers, traders/investors, lawyers, salespeople, and insurance agents all may be self-employed. Self-employment isn't like being a traditional worker because self-employed individuals aren't tied to an employer. Being self-employed gives people flexibility but comes with certain tax implications.

- Self-employment allows people to work for themselves without being tied to an employer.
- Self-employed individuals are generally required to pay estimated taxes each quarter.
- Being self-employed can provide flexibility and autonomy, but there is a greater degree of employment risk and a cyclic or varying income.

Unit 11.2 - Advantages and Disadvantages of Self-Employment

There are benefits and drawbacks of working as a self-employed individual. We've highlighted some of the key pros and cons below.

Advantages

While self-employment generally requires much more work and attention, many benefits are attractive:

You are the boss

You have the luxury of deciding what projects you work on

You work the hours you want, which gives you the freedom to take time off and work whenever you want

You can specialize in work you enjoy rather than working for pay doing something you may not like

Disadvantages

One of the most significant disadvantages of self-employment is that there is no entity withholding and paying your estimated taxes or withholding—you're required to pay estimated federal taxes quarterly. Some other disadvantages are:

- No paid days off
- No benefits
- Work may come and go
- You are liable for your own taxes

Unit 11.3 - Business Idea Generation

Idea generation is a process that is used to form new ideas. Idea generation is important because it helps people find new solutions to problems by helping an individual come up with ideas that they otherwise might not have.

There are several idea generation methods. These include brainstorming, the SCAMPER technique, role-playing, saving discussions for later, storyboarding, questioning assumptions, and building on theory.

The goal of idea generation is to convert intangible ideas into a more tangible course of action. It is also used to come up with as many ideas as possible.

Unit 11.3 - Business Idea Generation

Filing income tax returns is more complicated for the self-employed than they are for salaried people. What company HR does for their salaried employees, self-employed people have to take care on their own.

Understanding the tax treatment A self-employed individual is one who doesn't earn a fixed salary from a company. You are hired on a contractual or an assignment basis for your intellectual or manual skills. Hence, from a tax perspective, your income is Profit & Gains of Business & Profession. You have to pay taxes on the combined income you earn in a financial year from the different clients you have. All earnings, no matter how small, should be added to your gross income for the year.

Choosing the right ITR For self-employed individuals, the correct ITR form would be ITR-3 or ITR-4. Choosing the right ITR is an important step in e-filing your income tax returns.

Tax deducted at source Whenever you receive a payment from a client, you will receive it after deduction of tax (TDS) on it. You should also be aware of Section 194J of the Income Tax Act that mandates TDS

from payments made to professionals. TDS is usually deducted at the rate of 10% on the payments made to you. But the good news here is that, just like salaried individuals, even you can claim a refund on the TDS that is deducted on your behalf through the process of e-filing of your tax returns.

Claiming expenses to reduce tax outgo Since your income is treated as profits and gains of a business, even you can claim certain expenses that you have incurred towards getting this business. You can use these expenses to reduce your income and tax on it. These expenses include rent for office space, meal and entertainment expenses for client meetings, depreciation of computer and other equipment, travelling costs, etc. These are a few ways that self-employed individuals can use to simplify income tax filing. E-file before the due date to avoid an income tax notice from the tax department.

Unit 11.3 - Business Idea Generation

The income earned by self-employed individuals is recorded under 'income from business or profession.' Calculation of taxable income under this head can be done in two ways, which are as follows –

- The tax liability can be calculated on the basis of presumptive taxation wherein the income is calculated without claiming any deduction for the expenses incurred by the business or profession on generating its revenue subject to certain conditions.
- The tax liability can be calculated on the real profit, which has been calculated after claiming the actual expenses incurred during the course of business or profession to generate revenue.

Tax filing under presumptive taxation scheme

The Income Tax Act has a special scheme for small taxpayers who want to avoid the hassle of maintaining and auditing their books of account. This scheme is called the Presumptive Taxation Scheme, and it covers sections 44D, 44ADA, and 44AE of the Income Tax Act 1961. Under this scheme, the taxpayer can declare their income at a fixed rate instead of calculating their actual income.

1. **Section 44AD:** The income from the eligible business is assumed to be a minimum of 8% of the turnover or gross receipts of the business when receipts are in cash in the financial year. However, if the business accepts digital payment through cheques, bank drafts, or an electronic clearing system, the income is assumed to be 6% instead of 8% for those transactions.
2. **Section 44 DA:** The income from the profession is assumed to be a minimum of 50% of the total gross receipts from the profession.
3. **Section 44AE:** The income from the transport business is assumed to be ₹ 1,000 per ton of gross vehicle weight for heavy goods vehicles and ₹7,500 for other vehicles for each month or part of a month.
4. The income computed as per the fixed rate is the final income, and no other deductions or expenses are allowed for the business, profession, or income.
5. The taxpayer can choose to declare a higher income than the fixed rate if they want to.

Important points to know

- The scheme of presumptive taxation is optional for self-employed businessmen or professionals
- If the scheme is not opted for, the books of accounts of the business or profession should be audited by a certified Chartered Accountant. The profit or loss from business or profession should then be calculated based on actual incomes and expenses, and then the tax should be filed.
- The scheme of presumptive taxation is applicable to Indian residents who are individuals, Hindu Undivided Families (HUFs), or partnership firms.
- The tax-saving deductions which are available under Chapter VI A of the Income Tax Act, i.e., under the different sub-sections of Section 80, would be allowed to all assesseees under the presumptive taxation scheme. Tax-payers can, therefore, claim a deduction under Section 80C, 80D, 80TTA, etc.
- If the assessee has chosen to file their return under the scheme of presumptive taxation in one financial year, he/she cannot choose to opt out of the scheme in the next five financial years. Similarly, if the assessee opts out of the scheme at any time, the scheme will not be available to him/her for the next five subsequent years. So, for instance, if the assessee has opted out of the presumptive taxation scheme in the financial year 2019-20, the scheme would not be available till the financial year 2024-25. Alternatively, if the assessee has opted for the presumptive taxation scheme in the financial year 2019-20, opting out of the scheme would not be possible till the financial year 2024-25.

Auditing of accounts

- In the case of self-employed professionals, if the gross receipt in a financial year is INR 50 lakhs and above, their accounts should be audited by a certified Chartered Accountant. The tax audit report should then be submitted to the income tax department when filing the tax returns.
- If the business has an income above INR 2 crore, the business's books of accounts would have to be audited by certified chartered accountants. The auditing is required to be done in a specified format so that the taxable income can be easily calculated by a tax officer.
- Moreover, if the business or profession does not opt for the scheme of presumptive taxation, the books of accounts would have to be audited irrespective of the income generated by them.

Tax filing date

The income tax return for presumptive taxation should be filed before 31st July every year. If self-employed assessee don't file their returns by 31st July, they face a penalty of up to INR 5000

What are the exceptions to TDS deduction under section 194?

The ITR Form, which is supposed to be used by self-employed businessmen or professionals to file their taxes, depends on the type of tax that the assessee is filing. If tax is being filed under the scheme of presumptive taxation, ITR-4 is supposed to be filled in and submitted. However, if the presumptive taxation scheme is not being adopted by the assessee, ITR-3 is required to be used for filing taxes.

Advance tax

If the estimated tax liability of a business or profession in a financial year exceeds INR 10,000, the self-employed assessee is required to pay an advance tax. Payment of advance tax is made in four instalments at fixed dates and at fixed rates. The Income Tax department has fixed the following four dates for the payment of advance tax –

- 15% of the estimated tax should be paid by 15th June
- 45% of the estimated tax should be paid by 15th September
- 75% of the estimated tax should be paid by 15th December
- 100% of the estimated tax should be paid by 15th March

However, if the assessee has opted for the presumptive taxation scheme of calculating the income tax liability, the total estimated tax liability should be paid by 15th March, i.e., before the

completion of the financial year, and no payment in installments is required. The only set of rules prescribed is making a payment of 100% of the tax amount by the 15th of March of the financial year.

If there is any shortfall in the payment of the advance tax or if the assessee does not pay the specified percentage of the estimated tax at the specified dates, interest would be applicable to the assessee. The rate of interest payable would depend on the provisions contained in Section 234B and Section 234C of the Income Tax Act.

Verification of income tax returns

After the income tax return is filed, the self-employed assessee is also required to verify the return. Such verification of the return can be done through a Digital Signature Certificate, net banking, or Aadhar-based OTP. If the books of accounts have been audited as per the provisions of the Income Tax Act, verification of tax returns should be done through a Digital Signature Certificate if the taxpayer cannot verify the returns through EVC (Electronic Verification Code) or any other mode. If the assessee has opted for the presumption taxation scheme of filing returns or if the books of accounts have not been audited, the assessee can choose to verify the tax return through either a Digital Signature Certificate or an Electronic Verification Code.

Unit 11.6 - GST Registration for Self Employed

Be it an enterprise or small and mid-sized firms, the Goods and Services Tax (GST) has touched every sector of India's economy. And, yes, even freelancers fall under its radar, but they may or may not have to pay GST.

Even if you are not required to pay GST for the moment, it is important to know the chapters and verses of how GST works as a freelancer; because you will have to register your business under GST once it grows. If you are looking for information on 'freelancer GST India', this guide provides all the information on the subject.

Under Goods And Services Tax (GST), businesses whose turnover exceeds the threshold limit of Rs.40 lakh or Rs.20 lakh or Rs.10 lakh as the case may be, must register as a normal taxable person. It is called GST registration.

For certain businesses, registration under GST is mandatory. If the organization carries on business without registering under GST, it is an offence under GST and heavy penalties will apply.

Who should obtain the GST registration?

- Individuals registered under the Pre-GST law (i.e., Excise, VAT, Service Tax etc.)
- Businesses with turnover above the threshold limit of Rs.40 lakh or Rs.20 lakh or Rs.10 lakh as the case may be
- Casual taxable person / Non-Resident taxable person
- Agents of a supplier & Input service distributor
- Those paying tax under the reverse charge mechanism
- A person who supplies via an e-commerce aggregator
- Every e-commerce aggregator
- Person supplying online information and database access or retrieval services from a place outside India to a person in India, other than a registered taxable person

Documents Required for GST Registration

- PAN of the Applicant
- Aadhaar card
- Proof of business registration or Incorporation certificate
- Identity and Address proof of Promoters/Director with Photographs
- Address proof of the place of business
- Bank Account statement/Cancelled cheque
- Digital Signature
- Letter of Authorization/Board Resolution for Authorized Signatory

Unit 11.7 - Sales and Invoicing

An invoice is a business document, issued by a professional, that confirms the sale of products or services to a customer. Like a quote, it sets out the terms of sale and the amount to be paid, and it is required for any transaction between professionals.

The invoice has three main roles. From a legal perspective, it serves as evidence of a sale in the event of a dispute or non-payment on the customer's part. It is also a supporting document for accounting purposes, which can allow microbusinesses to compile their annual accounts. Last, in the event of any checks by the tax office, invoices provide concrete evidence of the financial transaction concerned and

substantiate the revenue and value-added tax (VAT) declared by the self-employed person for each accounting period. Because of this, it is key to understand the invoicing obligations that apply to the self-employed

Invoices are mandatory for transactions between two professionals (i.e. when you provide a service or sell a product to another self-employed person, a business, an association or a public service). They must be issued once the sale has been made or you have finished providing your service.

Unit 11.8 – How to Set Pricing

A pricing strategy is a plan for setting the best price for your products or services. The goal is to set a price that will entice customers to buy, but that isn't so low that you're not making a profit.

Sure, you could just trial-and-error a bunch of prices until you find the price that maximizes profit without deterring potential customers—and there will probably still be some of that even after you choose a pricing strategy for your business.

1. Value-based pricing

The first pricing method is probably the one you're most familiar with: value-based pricing. You might think of it as the "default" pricing method since it consists of finding what the customer is willing to pay (the WTP price), making sure it's higher than the cost of production, and setting your price somewhere in between.

If you need to make a price adjustment, you can do so as long as the new price falls within the WTP range. If the new price surpasses this range, you'll need to explore avenues to expand the WTP range. You can do this by incorporating additional value into your product or service to increase the customer's willingness to pay the new price.

Takeaway: Charge what you can without turning off the customer to your product.

2. Cost-plus pricing

A very similar method to value-based pricing is cost-plus pricing. Instead of basing prices on what the customer is willing to pay, businesses set prices by determining the cost of production and their ideal profit margin. For example, if a product costs \$100 to make and a company's target margin is 15%, then the product will sell for \$115.

Cost-plus prices still need to fall within the WTP range, but they're not chosen based specifically on what the customer is willing to pay. If the cost-plus price falls outside the WTP range, the company either needs to adjust its target margin or find a way to lower production costs.

Takeaway: Ensure all costs are covered and don't keep you from reaching your desired profit margin.

3. Competitive pricing

Another recognizable pricing method is the competitive pricing model, in which a business sets prices based on what competitors charge for comparable products. If your product offers something your competitors don't, you don't always need to set prices competitively. But if you're selling a bargain product, you need to be able to beat the competition.

When Norm McLaughlin formulated the pricing model for his business, Norm's Computer Services, he decided that he wanted to be considered competitive but not cheap. That meant his pricing was on par with his peers, but he avoided the use of any terminology like "budget," "cheap," or "cheapest" in his small business's marketing.

One of the things he tried early on was offering the first 15 minutes of work free of charge—if he solved the issue within that first quarter of an hour, the job would be completely free. It worked. Clients told him they wanted to pay even if he solved the issue in under 15 minutes because they didn't feel good about paying nothing for a service that involved someone coming to their home. It

was an attractive offer that increased his competitive edge without negatively impacting his bottom line.

4. Economy pricing

Similar to competitive pricing, economy pricing involves setting the lowest prices among your competitors to attract bargain buyers. But unlike competitive pricing, economy pricing specifically targets people who will consciously sacrifice quality in exchange for a cheaper price. Knowing this, you can source cheaper supplies, eliminate extra features, and make other changes to lower your production costs so that you can offer extremely low prices while continuing to make a profit.

The fast fashion industry is infamous for its reliance on economy pricing. Clothes are created quickly using cheap (and often ethically questionable) labor, and they wear out quickly. This allows stores to sell highly trend-conscious clothing, since customers need to replace their clothes more frequently. Unfortunately, it also causes major environmental damage—and usually doesn't even save customers money compared to buying more expensive but longer-lasting clothing.

Takeaway: Attract price-sensitive customers while achieving high sales volume and cost efficiencies.

5. Penetration pricing

As a new business, you may find that you need to set your prices toward the lower end of the spectrum. Penetration pricing is when a business sets the price of a product or service low at the beginning, then raises the price once the company is more established.

Businesses that provide a service can draw customers in with low pricing, then win their loyalty with great service. Introductory offers can be a great way to entice new clients or customers. For example, you could offer a fixed price or percentage off the first job, or a portion of free labor. At least one of Norm's competitors offered a 10% reduction on labor for returning customers. In Norm's view, a better approach to customer retention was to offer them that 10% off the first

job—and then do such good work that they wouldn't mind paying the full price for subsequent jobs.

6. Dynamic pricing

Have you ever pulled out your phone intending to grab a ride share on a busy weekend night or a holiday? Those jaw-dropping price surges are the result of what's called dynamic pricing, or pricing that changes fluidly according to availability and demand.

Truly dynamic pricing requires an algorithm that can automatically adjust prices according to purchasing activity. Uber's CEO isn't sitting behind a Wizard of Oz curtain declaring price surges; the app automatically increases prices when demand is higher than the number of drivers on the road. A less immediate version of dynamic pricing can be seen at the gas pump, where prices change frequently in response to demand but aren't automatic. For small businesses, dynamic pricing works best with services or custom products that require a price quote, since customers expect prices to be different depending on the project and circumstances. If your prices are listed on your site and you change them constantly, you'll drive away potential customers who perceive you as unpredictable or unreliable.

Takeaway: Maximize revenue while adjusting for real-time factors like demand, competition, and market conditions.

7. Price skimming

Price skimming is the opposite of penetration pricing, where you start by setting the maximum price and gradually lower it over time. This strategy works best with products that have major releases, like laptops or cars. By price skimming, you'll be able to capture early buyers willing to pay top dollar for the latest and greatest; then, as you gradually lower the price, you'll be able to sell the maximum number of products at each price before dropping it again.

One of the most well-known price skimmers is Apple, which has made its product launches into full events with tickets and fans to build as much hype as humanly possible. Mega-fans buy the newly unveiled products the moment they're available, even waiting in lines overnight outside Apple Stores to do so. As each new product is released, the older models get shunted down the pricing ladder to capture buyers with lower WTP points.

Takeaway: Capture early adopters and maximize revenue with high initial prices before gradually reducing prices to attract more price-sensitive customers.

8. Hourly pricing

Often used in service-based industries, hourly pricing establishes prices based on the time spent on a particular task or service. This aligns the price directly with the effort or resources dedicated to the project. It's a straightforward method for you and the client to understand and agree upon the service's value.

Having said that, if your projects' complexity or required resources vary quite a bit, a flat hourly rate may not be best for your business.

Takeaway: Ensure customers are billed fairly based on the actual hours worked.

9. Project-based pricing

Project-based pricing is also common in service-based industries. This method determines prices based on the scope, complexity, and resources required for each project. Rather than charging a fixed or hourly rate, companies assess the unique needs of each project and provide a tailored quote. That way, businesses are accounting for factors like resources, expertise, and time commitment required to complete the project successfully.

This pricing model is common for architects. When a client approaches an architecture firm with a request to design and construct a building, the firm will assess the project's scale, complexity,

materials, and other specific requirements to provide a project-based quote. Obviously, the process and requirements for designing a public bathroom vs. a skyscraper will be very different, beyond just time discrepancies.

Takeaway: Make sure profitability and effort are accounted for in your pricing structure.

10. High-low pricing

I've taught all my loved ones that we don't walk into Michael's without a coupon or buy anything at JOANN that hasn't been marked down to at least 40% off.

These stores use high-low pricing, where they offer products or services at a higher price initially and periodically discount them. This approach attracts price-sensitive customers who are motivated by discounts (me) while also maximizing revenue from customers willing to pay higher prices to get their hands on the product before it starts flying off the shelves once it's been discounted.

Companies can maintain a balance between profitability and reaching a larger range of customers by driving traffic to their stores or websites during promotional periods.

Takeaway: Create a perception of value to encourage customer purchases.

11. Bundle pricing

You've probably seen the Progressive commercials practically begging you to bundle your car and home insurance for a better deal. Or maybe you bundled your cable and phone services back in the day.

Bundle pricing is when a company combines multiple products or services and offers them at a lower overall price than what each item would individually cost. This creates a perception of

added value, convenience, and savings for customers. If you sell a lot of small items or are trying to spread the love to an overlooked service, this pricing strategy may help you increase your sales.

Takeaway: Sell items together in a package deal that's slightly cheaper than if you were to sell the items individually to increase sales and customer satisfaction.

12. Geographic pricing

I follow a candy shop on TikTok with the most delicious-looking candy I've ever seen. They're located in India, and I'm in the U.S., which means I'd have to pay outrageous prices to account for the shipping costs.

Geographic pricing involves setting prices based on different geographic regions or markets, considering factors like local market conditions, competitive landscape, and transportation costs like shipping. While this strategy makes it harder for a candy lover like me to get their hands on some delectable sweets, if you want to expand outside of your own geographic region, this strategy may be inevitable to keep your profits stable.

Takeaway: Maintain profitability across all your geographic markets by adjusting for variable factors.

13. Psychological pricing

A book priced at Rs 20? I'll pass. A book for Rs19.99? I'll take it. This common phenomenon that we all fall for time and time again is called psychological pricing. Also known as charm pricing, this strategy leverages consumers' perceptions and emotions to make them think they're getting a better deal than they actually are.

Making the price seem more appealing or affordable to customers effectively influences customer behavior and increases sales, even if the price difference is negligible (and even if the customer

knows in their heart of hearts that it's negligible). You can combine this strategy with another method since it's a common standard in many industries.

Takeaway: Create the illusion of a lower price so customers perceive your price as fairer.

14. Freemium pricing

This method of offering a basic version of a product or service for free and charging for additional premium features or advanced functionality is called freemium pricing.

By offering a free version, companies can give customers a taste of the value their product or service offers, build brand awareness, and create a larger user base. They then monetize their user base with an enhanced experience for a subscription fee or one-time purchase. If you're new to the market, this is a great way to get buy-in from people who would otherwise be unwilling to convert.

Takeaway: Attract a large user base and convert some into paying customers.

15. Premium pricing

Some people enjoy the prestigious vibe and social appearance of luxury brands. For example, luxury car companies, like BMW or Mercedes-Benz, position their vehicles as high-end, offering advanced technology, luxurious interiors, and superior performance. (Although I'd love to see what they have that my Honda CR-V doesn't.)

With those high-end features comes a high-end price tag, otherwise known as premium pricing. This strategy positions the company as exclusive and superior in value in comparison to lower-priced competitors. It appeals to a target market willing to pay a premium for the perceived benefits. If that's your target market, then this is your ticket.

Takeaway: Target affluent customers and generate higher profit margins.

Summary



- The unit on self-employment provides a comprehensive overview of the essential aspects of running a business as a self-employed individual. It begins with an introduction to self-employment, explaining the concept and the growing trend of individuals choosing entrepreneurship over traditional employment.
- The unit explores the advantages and disadvantages of self-employment, discussing benefits such as flexibility and independence, as well as challenges like uncertainty and lack of benefits. It also delves into business idea generation, offering strategies for creating innovative ideas and identifying profitable opportunities.
- The unit provides insight into four strategies to e-file for the self-employed, simplifying the tax filing process for independent workers. Tax filing for self-employed individuals is discussed in detail, including necessary forms and requirements for filing taxes. It also covers the GST registration for self-employed individuals, outlining the steps and criteria for registration. Additionally, the unit addresses sales and invoicing, emphasizing the importance of proper documentation and record-keeping.
- Finally, it discusses how to set pricing, focusing on strategies for determining the right price for products or services based on market conditions and costs. Overall, the unit equips individuals with the knowledge to manage the financial, legal, and operational aspects of self-employment.

Exercise



1. What is one of the key advantages of being self-employed?
 - a. Guaranteed monthly salary
 - b. Greater flexibility and control over work schedule
 - c. Access to employer-sponsored benefits such as healthcare
 - d. No tax obligations

2. Which of the following is an essential step for self-employed individuals when filing taxes?
 - a. Hiring an accountant is mandatory
 - b. Filling out a personal income tax return only
 - c. Filing specific forms like ITR-3 or ITR-4 depending on income sources
 - d. Paying taxes only once a year

3. Why is GST registration important for self-employed individuals?
 - a. It allows the business to collect taxes on behalf of the government and claim input tax credits
 - b. It is only necessary for companies with 100+ employees
 - c. It eliminates the need for income tax filing
 - d. It helps avoid paying any taxes at all

4. Which of the following is a key factor to consider when setting pricing for products or services as a self-employed individual?
 - a. Pricing should be based on competitor prices only
 - b. Pricing should consider the cost of production, market demand, and desired profit margin
 - c. Pricing should always be the lowest in the market
 - d. Pricing should be set without considering any operational costs

Descriptive Questions:

1. Explain the concept of self-employment and discuss the factors that might lead an individual to choose self-employment over traditional employment.
2. What are the advantages and disadvantages of being self-employed? How do these factors affect the decision-making process for someone considering self-employment?
3. Discuss the process of business idea generation. What are some effective strategies for coming up with a profitable business idea in a competitive market?
4. Explain the importance of tax filing for self-employed individuals. What specific forms and documentation are required, and what challenges might self-employed individuals face when filing taxes?
5. How should self-employed individuals set the pricing for their products or services? Describe the key factors they should consider ensuring their pricing strategy is competitive and sustainable.

Notes



Lined area for taking notes, consisting of 20 horizontal lines.

Large empty rectangular box for additional notes or drawings.



12. Case Studies and Practical Applications



Unit 12 - Case studies and Practical Applications Tax Planning

Unit Objectives

After studying this module, the students shall be able to understand:

1. Analyze real-world cases to understand effective tax planning strategies
2. Apply tax laws and regulations in various hypothetical and real situations
3. Explore tax-saving opportunities and common mistakes to avoid in tax planning

Task 001 AA

Tasks

1. ITC_001AA
2. ITC_002AB
3. ITC_003AC
4. ITC_004AD
5. ITC_005AE
6. ITC_006AF
7. ITC_007AG
8. ITC_008AH
9. ITC_009AI
10. ITC_010AJ

ITC_001AA

At the age of 34, Mr. Kishan Kumar has various sources of income and is seeking to strategize for the assessment year 2023-24. To facilitate the tax planning process, your task is to identify specific details from the provided information. His income sources include ₹12,58,000 from salary, ₹25,000 from house property, ₹40,000 from business or profession, and ₹52,000 from other sources. Additionally, he has invested ₹1,00,000 in a tax-saving public provident fund. Calculate the following details for tax planning.

(a) Tax liability under the new tax regime.
 (b) Tax liability under the old tax regime.
 (c) Tax savings between the old and new tax regimes.
 (d) Which tax regime is more beneficial?

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(a) नई कर व्यवस्था के तहत कर देनदारी।
 (b) पुरानी कर व्यवस्था के तहत कर देनदारी।
 (c) पुरानी और नई कर व्यवस्थाओं के बीच कर बचत।
 (d) कौन सी कर व्यवस्था अधिक लाभदायक है?

Re-Do Task

Click "Start" to begin. This will open the Computation Tool in a new Tab.

Question

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 (d) कौन सी कर व्यवस्था अधिक लाभदायक है?

Answer

Calculator

EMI
 SIP
 Lumpsum
 Income Tax

Choose "Income Tax" from the "Calculator" Tab

Question No: ITC_001AA

Question

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 (c) पुरानी और नई कर व्यवस्थाओं के बीच कर बचत।
 (d) कौन सी कर व्यवस्था अधिक लाभदायक है?

Answer

Age below 60

Source of Income

Income from Salary/Pension ₹ 0

Income from House Property ₹ 0

Income from Business or Profession ₹ 0

Income from Other Source ₹ 0

Gross Total Income ₹ 0

Deductions

₹ 0

☐ Taxable Income (Old Regime) ₹ 0

Click on "Answer" to input the solution.

Question No: ITC_001AA

Question

(a) Tax liability under the new tax regime. / नई कर व्यवस्था के तहत कर देनदारी।

(b) Tax liability under the old tax regime. / पुरानी कर व्यवस्था के तहत कर देनदारी।

(c) Tax savings between the old and new tax regimes. / पुरानी और नई कर व्यवस्थाओं के बीच कर बचत।

(d) Which tax regime is more beneficial? / कौन सी कर व्यवस्था अधिक लाभदायक है?

Answer

Age below 60

Source of Income

Income from Salary/Pension ₹ 0

Income from House Property ₹ 0

Income from Business or Profession ₹ 0

Income from Other Source ₹ 0

Gross Total Income ₹ 0

Deductions

₹ 0

☐ Taxable Income (Old Regime) ₹ 0

Particulars

Values

0

0

0

Choose

Validate

Start entering the Sources of Income
 Step 8 screenshot.

Question No: ITC_001AA

Question

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 (c) पुरानी और नई कर व्यवस्थाओं के बीच कर बचत।
 (d) कौन सी कर व्यवस्था अधिक लाभदायक है?

Answer

Age below 60

Source of Income

Income from Salary/Pension: ₹ 12,58,000

Income from House Property: ₹ 0

Income from Business or Profession: ₹ 0

Income from Other Source: ₹ 0

Gross Total Income: ₹12,58,000

Deductions: ₹ 0

☐ Taxable Income (Old Regime): ₹12,08,000

Click on the "Text Box" and enter the amount given in the question.

1. Salary = 12,58,000

Question No: ITC_001AA

Question

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 (d) कौन सी कर व्यवस्था अधिक लाभदायक है?

Answer

Age below 60

Source of Income

Income from Salary/Pension: ₹ 12,58,000

Income from House Property: ₹ 25,000

Income from Business or Profession: ₹ 0

Income from Other Source: ₹ 0

Gross Total Income: ₹12,83,000

Deductions: ₹ 0

☐ Taxable Income (Old Regime): ₹12,33,000

2. House Property = 25,000

Similarly enter the sources of all the incomes given in the question.

Question No: ITC_001AA

Question

At the age of 34, Mr. Kishan Kumar has various sources of income and is seeking to strategize for the assessment year 2023-24. To facilitate the tax planning process, your task is to identify specific details from the provided information. His income sources include ₹12,58,000 from salary, ₹25,000 from house property, ₹40,000 from business or profession, and ₹52,000 from other sources. Additionally, he has invested ₹1,00,000 in a tax-saving public provident fund. Calculate the following details for tax planning.

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 (d) कौन सी कर व्यवस्था अधिक लाभदायक है?

Source of Income

Income from Salary/Pension: ₹12,58,000

Income from House Property: ₹25,000

Income from Business or Profession: ₹40,000

Income from Other Source: ₹52,000

Gross Total Income: ₹13,75,000

Deductions: ₹0

Taxable Income (Old Regime): ₹13,25,000

The Gross Total Income will be automatically calculated.

Question No: ITC_001AA

Question

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 (c) Tax savings between the old and new tax regimes.
 (d) Which tax regime is more beneficial?

34 वर्ष की आयु में, श्री किशन कुमार के पास आय के विभिन्न स्रोत हैं और वह मूल्यांकन वर्ष 2023-24 के लिए रणनीति बनाना चाह रहे हैं। कर नियोजन प्रक्रिया को सुविधाजनक बनाने के लिए, आपका कार्य प्रदान की गई जानकारी से विशिष्ट विवरणों की पहचान करना है। उनके आय स्रोतों में वेतन से ₹12,58,000 गृह संपत्ति से ₹25,000, व्यवसाय या पेशे से ₹40,000 और अन्य स्रोतों से ₹52,000 शामिल हैं। इसके अतिरिक्त, उन्होंने कर-बचत सार्वजनिक भविष्य निधि में ₹1,00,000 का निवेश किया है। कर नियोजन के लिए निम्नलिखित विवरणों की गणना करें।

(a) नई कर व्यवस्था के तहत कर देनदारी।
 (b) पुरानी कर व्यवस्था के तहत कर देनदारी।
 (c) पुरानी और नई कर व्यवस्थाओं के बीच कर बचत।
 (d) कौन सी कर व्यवस्था अधिक लाभदायक है?

Source of Income

Income from Business or Profession: ₹40,000

Income from Other Source: ₹52,000

Gross Total Income: ₹13,75,000

Deductions: ₹1,00,000

Taxable Income (Old Regime): ₹12,25,000

Taxable Income (New Regime): ₹13,75,000

Calculate

Income Tax under Old Tax Regime: ₹0

Income Tax under New Tax Regime: ₹0

Enter the Deductions and Click on "Calculate"

The Tax liabilities under both Old and New Regime will be automatically calculated.

Question

Answer

Particulars	Values
(a) Tax liability under the new tax regime. / नई कर व्यवस्था के तहत कर देनदारी।	₹1,62,500
(b) Tax liability under the old tax regime. / पुरानी कर व्यवस्था के तहत कर देनदारी।	₹1,87,200
(c) Tax savings between the old and new tax regimes. / पुरानी और नई कर व्यवस्थाओं के बीच कर बचत।	₹24,700
(d) Which tax regime is more beneficial? / कौन सी कर व्यवस्था अधिक लाभदायक है?	New tax regime

Validate

Income from Business or Profession: ₹25,000

Income from Other Source: ₹40,000

Gross Total Income: ₹13,75,000

Deductions: ₹1,00,000

Taxable Income (Old Regime): ₹12,25,000

Taxable Income (New Regime): ₹13,75,000

Income Tax under Old Tax Regime: ₹1,87,200

Income Tax under New Tax Regime: ₹1,62,500

* Results are rounded for easier reading, slight variations may occur.

Enter the required Values in the Answer boxes. Click Validate to verify the solutions.

Question

Answer

Particulars

Values

(a) Tax liability under the new tax regime. / नई कर व्यवस्था के तहत कर देनदारी।

(b) Tax liability under the old tax regime. / पुरानी कर व्यवस्था के तहत कर देनदारी।

(c) Tax savings between the old and new tax regimes. / पुरानी और नई कर व्यवस्थाओं के बीच कर बचत।

(d) Which tax regime is more beneficial? / कौन सी कर व्यवस्था अधिक लाभदायक है?

Validate

Income from Business or Profession: ₹25,000

Income from Other Source: ₹40,000

Gross Total Income: ₹13,75,000

Deductions: ₹1,00,000

Taxable Income (Old Regime): ₹12,25,000

Taxable Income (New Regime): ₹13,75,000

Income Tax under Old Tax Regime: ₹1,87,200

Income Tax under New Tax Regime: ₹1,62,500

* Results are rounded for easier reading, slight variations may occur.

Congratulations !

You completed all the answers in the right format

Ok

If all the solutions are correct the above message will be displayed.

LUMPSUM INVESTMENT

Task LSM_001AA

Click Start to begin.

Tasks

1. SIP_001AA
2. SIP_004AD
3. SIP_002AB
4. SIP_003AC
5. SIP_005AE
6. LSM_001AA
7. LSM_002AB
8. LSM_003AC
9. LSM_004AD
10. LSM_005AE

LSM_001AA

Berlin Joseph, a sole proprietor, intends to invest an amount of ₹20,00,000 in a lump sum investment plan. You are required to calculate the following:

- What will be the total value of the lump sum after five years with an interest rate of 18%?
- What is the profit generated from the investment?
- What is the required initial investment amount to reach the final value of ₹50,00,000?
- If the initial investment is ₹15,00,000 and the rate of return is 18%, how many months are needed to reach the final value of ₹50,00,000?

एकमात्र मालिक, बर्लिन जोसेफ, एकमुश्त निवेश योजना में ₹20,00,000 की राशि निवेश करने का इरादा रखता है। आपको निम्नलिखित की गणना करनी होगी:

- 18% की ब्याज दर के साथ पांच साल बाद एकमुश्त राशि का कुल मूल्य क्या होगा?
- निवेश से उत्पन्न लाभ क्या है?
- ₹50,00,000 के अंतिम मूल्य तक पहुंचने के लिए आवश्यक प्रारंभिक निवेश राशि क्या है?
- यदि प्रारंभिक निवेश ₹15,00,000 है और रिटर्न की दर 18% है, तो ₹50,00,000 के अंतिम मूल्य तक पहुंचने में कितने महीने लगेंगे?

Start

Nergy Vidya

Question No: LSM_001AA

Question	Answer
Berlin Joseph, a sole proprietor, intends to invest an amount of ₹20,00,000 in a lump sum investment plan. You are required to calculate the following: - What will be the total value of the lump sum after five years with an interest rate of 18%? - What is the profit generated from the investment? - What is the required initial investment amount to reach the final value of ₹50,00,000? - If the initial investment is ₹15,00,000 and the rate of return is 18%, how many months are needed to reach the final value of ₹50,00,000? एकमात्र मालिक, बर्लिन जोसेफ, एकमुश्त निवेश योजना में ₹20,00,000 की राशि निवेश करने का इरादा रखता है। आपको निम्नलिखित की गणना करनी होगी: 18% की ब्याज दर के साथ पांच साल बाद एकमुश्त राशि का कुल मूल्य क्या होगा? - निवेश से उत्पन्न लाभ क्या है? ₹50,00,000 के अंतिम मूल्य तक पहुंचने के लिए आवश्यक प्रारंभिक निवेश राशि क्या है? - यदि प्रारंभिक निवेश ₹15,00,000 है और रिटर्न की दर 18% है, तो ₹50,00,000 के अंतिम मूल्य तक पहुंचने में कितने महीने लगेंगे?	

Calculator

- EMI
- SIP
- Lumpsum**
- Income Tax

Select the Lumpsum calculator.

We have to find the Total Value after the period.

Question	Answer
Berlin Joseph, a sole proprietor, intends to invest an amount of ₹20,00,000 in a lump sum investment plan. You are required to calculate the following: (a) What will be the total value of the lump sum after five years with an interest rate of 18%? (b) What is the profit generated from the investment? (c) What is the required initial investment amount to reach the final value of ₹50,00,000? (d) If the initial investment is ₹15,00,000 and the rate of return is 18%, how many months are needed to reach the final value of ₹50,00,000? एकमात्र मालिक, बर्लिन जोसेफ, एकमुश्त निवेश योजना में ₹20,00,000 की राशि निवेश करने का इरादा रखता है। आपको निम्नलिखित की गणना करनी होगी: (a) 18% की ब्याज दर के साथ पांच साल बाद एकमुश्त राशि का कुल मूल्य क्या होगा? (b) निवेश से उत्पन्न लाभ क्या है? (c) ₹50,00,000 के अंतिम मूल्य तक पहुंचने के लिए आवश्यक प्रारंभिक निवेश राशि क्या है? (d) यदि प्रारंभिक निवेश ₹15,00,000 है और रिटर्न की दर 18% है, तो ₹50,00,000 के अंतिम मूल्य तक पहुंचने में कितने महीने लगेंगे?	Lumpsum Calculator Find What Total Value after the Period Investment Amount ₹ 0 Rate of Return 0 % Duration of the Plan 0 months Total Value after the Period (₹) 0 Total Return (₹) 0

Enter the details as follows. Investment Amount, Rate of Return, Duration of the Plan.
Enter the Results in the respective Cells as shown below.

Question	Answer
Particulars (a) What will be the total value of the lump sum after five years with an interest rate of 18%? / 18% की ब्याज दर के साथ पांच साल बाद एकमुश्त राशि का कुल मूल्य क्या होगा? (b) What is the profit generated from the investment? / निवेश से उत्पन्न लाभ क्या है? (c) What is the required initial investment amount to reach the final value of ₹50,00,000? / अंतिम मूल्य तक पहुंचने के लिए आवश्यक प्रारंभिक निवेश राशि क्या है? (d) If the initial investment is ₹15,00,000 and the rate of return is 18%, how many months are needed to reach the final value of ₹ 50,00,000? / यदि प्रारंभिक निवेश ₹15,00,000 है और रिटर्न की दर 18% है, तो ₹50,00,000 के अंतिम मूल्य तक पहुंचने में कितने महीने लगेंगे?	Values 0 0 0 0 Validate

Question	Answer
Particulars (a) What will be the total value of the lump sum after five years with an interest rate of 18%? / 18% की ब्याज दर के साथ पांच साल बाद एकमुश्त राशि का कुल मूल्य क्या होगा? (b) What is the profit generated from the investment? / निवेश से उत्पन्न लाभ क्या है? (c) What is the required initial investment amount to reach the final value of ₹50,00,000? / अंतिम मूल्य तक पहुंचने के लिए आवश्यक प्रारंभिक निवेश राशि क्या है? (d) If the initial investment is ₹15,00,000 and the rate of return is 18%, how many months are needed to reach the final value of ₹ 50,00,000? / यदि प्रारंभिक निवेश ₹15,00,000 है और रिटर्न की दर 18% है, तो ₹50,00,000 के अंतिम मूल्य तक पहुंचने में कितने महीने लगेंगे?	Values 45,75,516 25,75,516 0 0 Validate

Question	Answer
Lumpsum Calculator Find What Total Value after the Period Investment Amount ₹ 20,00,000 Rate of Return 18 % Duration of the Plan 60 months Total Value after the Period (₹) 45,75,516 Total Return (₹) 25,75,516	

Now we must find the Investment Required. Change the “Find What” drop Down to Investment Required.

Enter the details provided in Question Part (C).

Question	Answer
Particulars	Values
(a) What will be the total value of the lump sum after five years with an interest rate of 18%? / 18% की ब्याज दर के साथ पाँच साल बाद एकमुश्त राशि का कुल मूल्य क्या होगा?	45,75,516
(b) What is the profit generated from the investment? / निवेश से उत्पन्न लाभ क्या है?	25,75,516
(c) What is the required initial investment amount to reach the final value of ₹50,00,000? / अंतिम मूल्य तक पहुँचने के लिए आवश्यक प्रारंभिक निवेश राशि क्या है?	0
(d) If the initial investment is ₹15,00,000 and the rate of return is 18%, how many months are needed to reach the final value of ₹50,00,000? / यदि प्रारंभिक निवेश ₹15,00,000 है और रिटर्न की दर 18% है, तो ₹50,00,000 के अंतिम मूल्य तक पहुँचने में कितने महीने लगेंगे?	0

Validate

Lumpsum Calculator

Find What
Investment Required

Total Value after the Period
₹ 50,00,000

Rate of Return
18 %

Duration of the Plan
60 Months

Investment Required (₹) 21,85,546
Total Return (₹) 28,14,454

Enter the values in the cell provided against the respective question.

Question	Answer
Particulars	Values
(a) What will be the total value of the lump sum after five years with an interest rate of 18%? / 18% की ब्याज दर के साथ पाँच साल बाद एकमुश्त राशि का कुल मूल्य क्या होगा?	45,75,516
(b) What is the profit generated from the investment? / निवेश से उत्पन्न लाभ क्या है?	25,75,516
(c) What is the required initial investment amount to reach the final value of ₹50,00,000? / अंतिम मूल्य तक पहुँचने के लिए आवश्यक प्रारंभिक निवेश राशि क्या है?	21,85,546
(d) If the initial investment is ₹15,00,000 and the rate of return is 18%, how many months are needed to reach the final value of ₹50,00,000? / यदि प्रारंभिक निवेश ₹15,00,000 है और रिटर्न की दर 18% है, तो ₹50,00,000 के अंतिम मूल्य तक पहुँचने में कितने महीने लगेंगे?	0

Validate

Lumpsum Calculator

Find What
Investment Required

Total Value after the Period
₹ 50,00,000

Rate of Return
18 %

Duration of the Plan
60 Months

Investment Required (₹) 21,85,546
Total Return (₹) 28,14,454

Next question is to find the Minimum Duration of the plan. Change the Find What tab to “Minimum Duration of the Plan” and enter the details given in Part (D) of the question. Enter the values in the cell provided against the respective question. Now we have

Question	Answer
Particulars	Values
(a) What will be the total value of the lump sum after five years with an interest rate of 18%? / 18% की ब्याज दर के साथ पाँच साल बाद एकमुश्त राशि का कुल मूल्य क्या होगा?	45,75,516
(b) What is the profit generated from the investment? / निवेश से उत्पन्न लाभ क्या है?	25,75,516
(c) What is the required initial investment amount to reach the final value of ₹50,00,000? / अंतिम मूल्य तक पहुँचने के लिए आवश्यक प्रारंभिक निवेश राशि क्या है?	21,85,546
(d) If the initial investment is ₹15,00,000 and the rate of return is 18%, how many months are needed to reach the final value of ₹50,00,000? / यदि प्रारंभिक निवेश ₹15,00,000 है और रिटर्न की दर 18% है, तो ₹50,00,000 के अंतिम मूल्य तक पहुँचने में कितने महीने लगेंगे?	0

Validate

← Lumpsum Calculator

Find What
Minimum duration of the Plan

Total Value after the Period
₹ 50,00,000

Investment Amount
₹ 15,00,000

Rate of Return
18 %

Minimum duration to achieve the goal (Months) 87

Total Return (₹) 35,00,000

answered the whole question. Click validate.

Question	Answer
Particulars	Values
(a) What will be the total value of the lump sum after five years with an interest rate of 18%? / 18% की ब्याज दर के साथ पाँच साल बाद एकमुश्त राशि का कुल मूल्य क्या होगा?	45,75,516
(b) What is the profit generated from the investment? / निवेश से उत्पन्न लाभ क्या है?	25,75,516
(c) What is the required initial investment amount to reach the final value of ₹50,00,000? / अंतिम मूल्य तक पहुँचने के लिए आवश्यक प्रारंभिक निवेश राशि क्या है?	21,85,546
(d) If the initial investment is ₹15,00,000 and the rate of return is 18%, how many months are needed to reach the final value of ₹50,00,000? / यदि प्रारंभिक निवेश ₹15,00,000 है और रिटर्न की दर 18% है, तो ₹50,00,000 के अंतिम मूल्य तक पहुँचने में कितने महीने लगेंगे?	87

Validate

← Lumpsum Calculator

Find What
Minimum duration of the Plan

Total Value after the Period
₹ 50,00,000

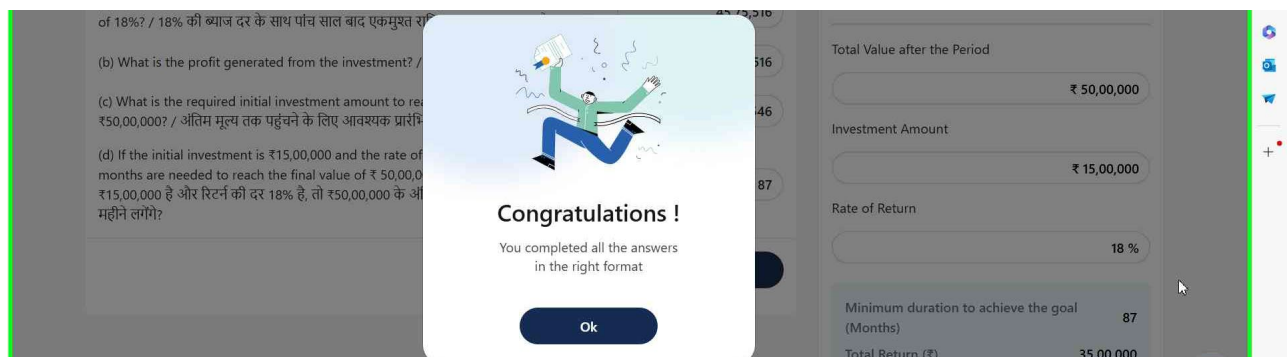
Investment Amount
₹ 15,00,000

Rate of Return
18 %

Minimum duration to achieve the goal (Months) 87

Total Return (₹) 35,00,000

If all the answers are correct the following message will be displayed indicating that the task has been completed successfully.



Task

SIP_001 AA

Click on “Start” or “Re-do Task” to begin.

Investment

10%

Tasks

- 1. SIP_001 AA
- 2. SIP_004AD
- 3. SIP_002AB
- 4. SIP_003AC
- 5. SIP_005AE
- 6. LSM_001AA
- 7. LSM_002AB
- 8. LSM_003AC
- 9. LSM_004AD
- 10. LSM_005AE

SIP_001AA

Mr. Sagar Sathya, who has owned a grocery store for more than five years, has a monthly Systematic Investment Plan (SIP) with a monthly contribution of ₹6,000 per month over 10 years with an expected rate of return of 9% per annum.

(a) What will be the total investment value he receives after 10 years?
 (b) What would be the return he receives on his investment?
 (c) What would be the return if he withdrew the plan after 8 years?

श्री सागर सत्या के पास पांच साल से अधिक समय से किराने की दुकान है, उनके पास मासिक व्यवस्थित निवेश योजना (एसआईपी) है, जिसमें 10 वर्षों में प्रति माह ₹6,000 का मासिक योगदान है और प्रति वर्ष 9% की अपेक्षित रिटर्न दर है।

(a) 10 वर्षों के बाद उन्हें कितना कुल निवेश मूल्य प्राप्त होगा?
 (b) उन्हें अपने निवेश पर कितना रिटर्न मिलेगा?
 (c) यदि उन्होंने 8 वर्ष बाद योजना वापस ले ली तो उन्हें कितना रिटर्न मिलेगा?

Re-Do Task

In the new tab, click on “SIP”

Question

Mr. Sagar Sathya, who has owned a grocery store for more than five years, has a monthly Systematic Investment Plan (SIP) with a monthly contribution of ₹6,000 per month over 10 years with an expected rate of return of 9% per annum.

(a) What will be the total investment value he receives after 10 years?
 (b) What would be the return he receives on his investment?
 (c) What would be the return if he withdrew the plan after 8 years?

श्री सागर सत्या के पास पांच साल से अधिक समय से किराने की दुकान है, उनके पास मासिक व्यवस्थित निवेश योजना (एसआईपी) है, जिसमें 10 वर्षों में प्रति माह ₹6,000 का मासिक योगदान है और प्रति वर्ष 9% की अपेक्षित रिटर्न दर है।

(a) 10 वर्षों के बाद उन्हें कितना कुल निवेश मूल्य प्राप्त होगा?
 (b) उन्हें अपने निवेश पर कितना रिटर्न मिलेगा?
 (c) यदि उन्होंने 8 वर्ष बाद योजना वापस ले ली तो उन्हें कितना रिटर्न मिलेगा?

Calculator

EMI

SIP

Lumpsum

Income Tax

Question No: SIP_001AA

<https://ncompute.nergyindia.com/sip>

Click on answer TAB and select the appropriate option from the “Find What” drop-down menu. In this scenario we need the “Final SIP value”.

Question	Answer
Particulars	Values
(a) What will be the total investment value he receives after 10 years?/10 वर्षों के बाद उन्हें कितना कुल निवेश मूल्य प्राप्त होगा?	
(b) What would be the return he receives on his investment?/उन्हें अपने निवेश पर कितना रिटर्न मिलेगा?	0
(c) What would be the return if he withdrew the plan after 8 years?/यदि उन्होंने 8 वर्ष बाद योजना वापस ले ली तो उन्हें कितना रिटर्न मिलेगा?	0

SIP Calculator

Find What: Final SIP Value

Frequency: Monthly

SIP Installment: ₹ 6,000

Rate of Return: 9 %

Duration of the Plan (Months): 120 months

Final SIP Value (₹): 11,69,794

Return in Value (₹): 4,49,794

Choose the Monthly frequency, enter the SIP Installment
Enter the Rate of return and Duration of the plan.

Question	Answer
Particulars	Values
(a) What will be the total investment value he receives after 10 years?/10 वर्षों के बाद उन्हें कितना कुल निवेश मूल्य प्राप्त होगा?	0
(b) What would be the return he receives on his investment?/उन्हें अपने निवेश पर कितना रिटर्न मिलेगा?	0
(c) What would be the return if he withdrew the plan after 8 years?/यदि उन्होंने 8 वर्ष बाद योजना वापस ले ली तो उन्हें कितना रिटर्न मिलेगा?	0

SIP Calculator

Find What: Final SIP Value

Frequency: Monthly

SIP Installment: ₹ 6,000

Rate of Return: 9 %

Duration of the Plan (Months): 120 months

Final SIP Value (₹): 11,69,794

Return in Value (₹): 4,49,794

We get the solution for first 2 questions from the Calculator below. Enter the solutions in the Values cells.

Question	Answer
Particulars	Values
(a) What will be the total investment value he receives after 10 years?/10 वर्षों के बाद उन्हें कितना कुल निवेश मूल्य प्राप्त होगा?	11,69,794
(b) What would be the return he receives on his investment?/उन्हें अपने निवेश पर कितना रिटर्न मिलेगा?	4,49,794
(c) What would be the return if he withdrew the plan after 8 years?/यदि उन्होंने 8 वर्ष बाद योजना वापस ले ली तो उन्हें कितना रिटर्न मिलेगा?	0

SIP Calculator

Find What: Final SIP Value

Frequency: Monthly

SIP Installment: ₹ 6,000

Rate of Return: 9 %

Duration of the Plan (Months): 120 months

Final SIP Value (₹): 11,69,794

Return in Value (₹): 4,49,794

In the Question (C), we must check the Final Value if the duration is 96 months. Enter the revised value in the Duration of Plan cell.

Particulars	Values
(a) What will be the total investment value he receives after 10 years?/10 वर्षों के बाद उन्हें कितना कुल निवेश मूल्य प्राप्त होगा?	11,69,794
(b) What would be the return he receives on his investment?/उन्हें अपने निवेश पर कितना रिटर्न मिलेगा?	4,49,794
(c) What would be the return if he withdrew the plan after 8 years?/यदि उन्होंने 8 वर्ष बाद योजना वापस ले ली तो उन्हें कितना रिटर्न मिलेगा?	0

Validate

Find What

Final SIP Value

Frequency

Monthly

SIP Installment

₹ 6,000

Rate of Return

9 %

Duration of the Plan (Months)

96 months

Final SIP Value (₹)

8,45,431

Return in Value (₹)

2,69,431

The Return on investment for 96 months needs to be entered into part (C). Click Validate to verify the solution.

Particulars	Values
(a) What will be the total investment value he receives after 10 years?/10 वर्षों के बाद उन्हें कितना कुल निवेश मूल्य प्राप्त होगा?	11,69,794
(b) What would be the return he receives on his investment?/उन्हें अपने निवेश पर कितना रिटर्न मिलेगा?	4,49,794
(c) What would be the return if he withdrew the plan after 8 years?/यदि उन्होंने 8 वर्ष बाद योजना वापस ले ली तो उन्हें कितना रिटर्न मिलेगा?	2,69,431

Validate

Find What

Final SIP Value

Frequency

Monthly

SIP Installment

₹ 6,000

Rate of Return

9 %

Duration of the Plan (Months)

96 months

Final SIP Value (₹)

8,45,431

Return in Value (₹)

2,69,431

If it is correct the task will be completed successfully.

कितना रिटर्न मिलेगा?

(c) What would be the return if he withdrew the plan after 8 years?/यदि उन्होंने 8 वर्ष बाद योजना वापस ले ली तो उन्हें कितना रिटर्न मिलेगा?

Congratulations !

You completed all the answers in the right format

Ok

Monthly

SIP Installment

₹ 6,000

Rate of Return

9 %

Duration of the Plan (Months)

96 months

Final SIP Value (₹)

8,45,431

Savings Bank Account

TASK: SBA_001 AA

Click start to begin.

Tasks

1. SBA_001AA
2. SBA_002AB
3. SBA_003AC
4. SBA_004AD
5. SBA_005AE

SBA_001AA

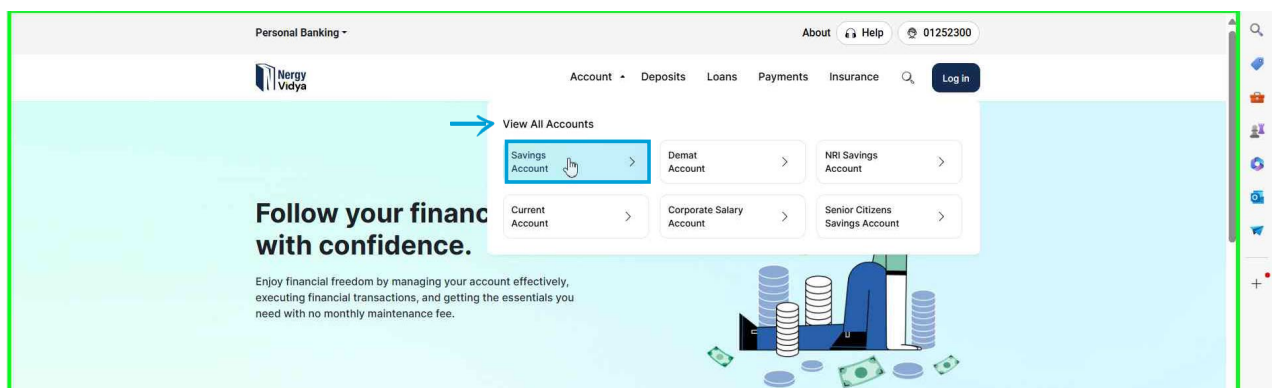
Mr. Rohit Ram is a resident individual starting a textile business in Bengaluru and is eligible for a government grant. The grant money goes directly into his bank account, and he wants to open a savings account to receive and safeguard the funds. Can you guide him on opening a savings account with his following personal and residential details?

Personal Details:	Nominee's Details:
Name: Rohit Ram	Nominee's Name: Vidya Balan
Mobile No: 2352112032	Relationship with the Applicant: Wife
Permanent Account Number (PAN): SASXD1267I	Date of Birth: June 28, 1987
Email ID: rohit28@nergymail.com	Nominee's Address:
Aadhaar Number: 9999 0000 6435	Address: Indiranagar, 8th Cross Road
Date of Birth: January 21, 1983	City/Village: Rajaji Nagar
Name of Spouse: Vidya Balan	District: Bengaluru
Name of Father: Radhakrishnan	State: Karnataka
Name of Mother: Revathy Radhakrishnan	PIN Code: 560010
Address Details (Home):	Professional Details:
Address: Indiranagar, 8th Cross Road	Occupation: Sole Proprietorship

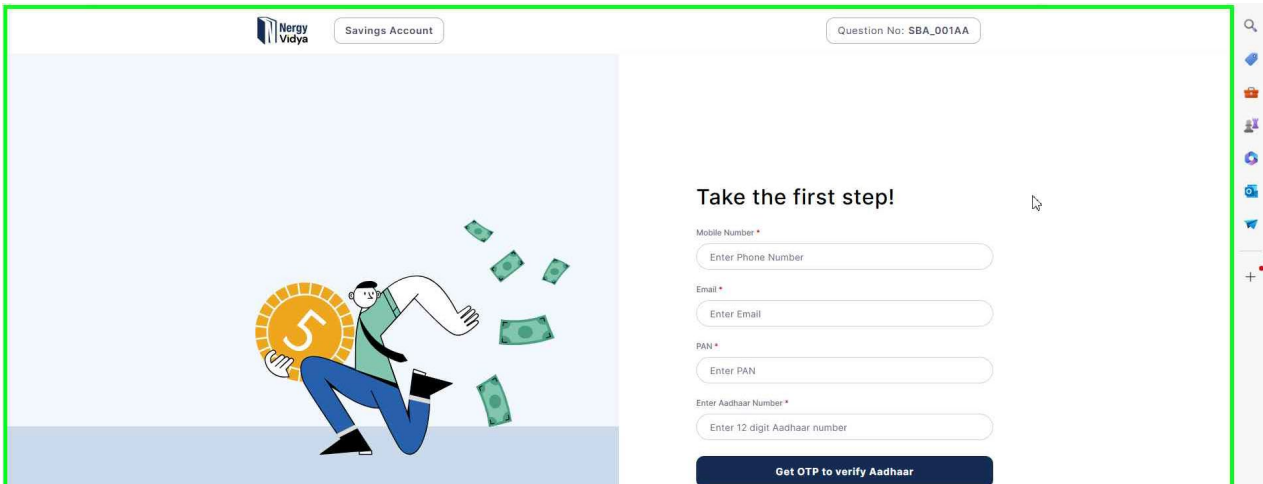
[Continue](#) [Previous](#) [Next](#)

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The simulation will open in new tab. Hover the mouse over Account to view the drop-down menu. Select Savings Account from the menu.



The following screen will open for entering the details. The required details will be provided in the question.



Nergy Vidya Savings Account Question No: SBA_001AA

Take the first step!

Mobile Number *
Enter Phone Number

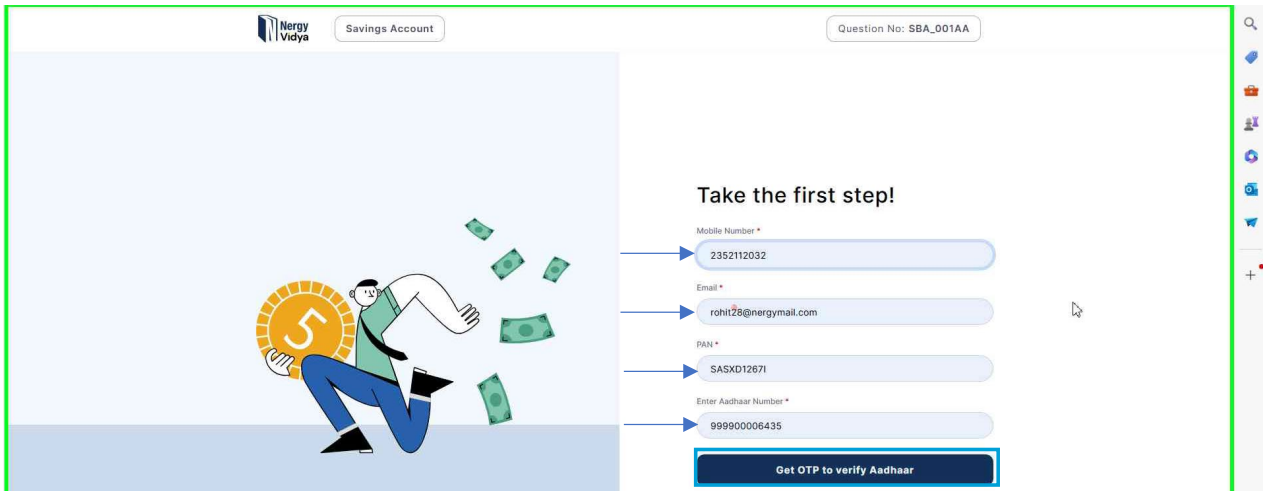
Email *
Enter Email

PAN *
Enter PAN

Enter Aadhaar Number *
Enter 12 digit Aadhaar number

Get OTP to verify Aadhaar

Enter the details as shown below.



Nergy Vidya Savings Account Question No: SBA_001AA

Take the first step!

Mobile Number *
2352112032

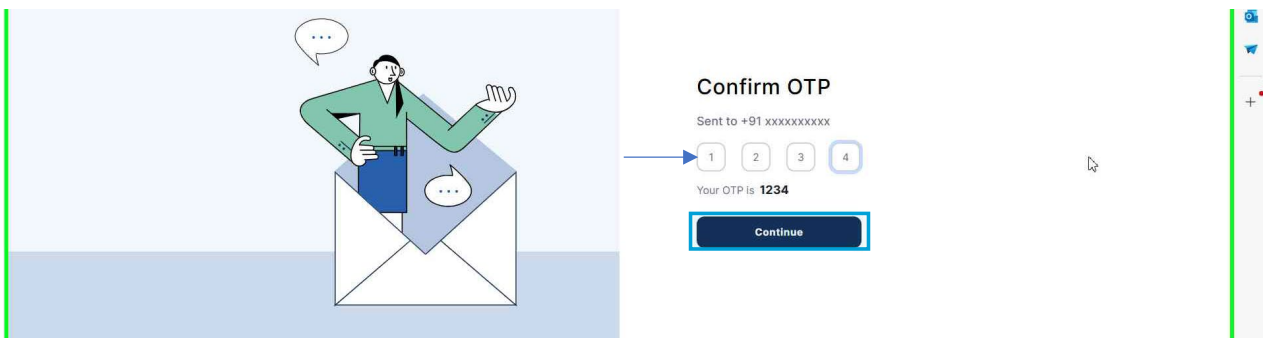
Email *
rohit28@nergymail.com

PAN *
SASXD12671

Enter Aadhaar Number *
999900006435

Get OTP to verify Aadhaar

Enter the OTP which is provided in the screen.



Confirm OTP

Sent to +91 xxxxxxxxxx

1 2 3 4

Your OTP is 1234

Continue

In the next stepm, enter the following details. Click Continue.

The screenshot shows the 'Tell us about you!' section of the Nergy Vidya Savings Account creation process. On the left is an illustration of a person sitting at a desk with books and a pen. On the right are the following fields:

- Name: Rohit Ram
- Date of Birth: 21 / 01 / 1983
- Gender: Male
- Student: ☐ Yes ☒ No
- Marital Status: Married
- Name of Spouse: Vidya Bala
- Father's Name: Radhakrishna
- Mother's Name: Revathy Radhakrishnan

A 'Continue' button is at the bottom right of the form.

Next step is to enter the address. The picture below shows how to enter the address.

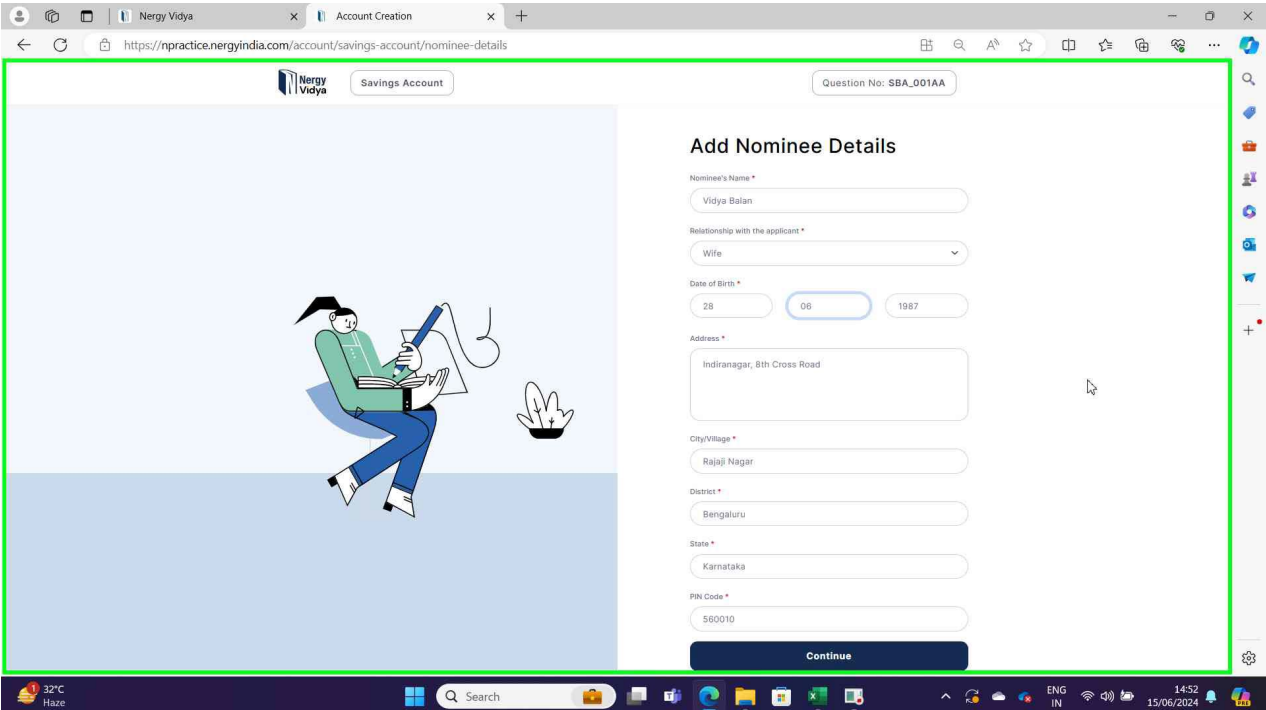
The screenshot shows the 'Enter the address' section of the Nergy Vidya Savings Account creation process. On the left is the same illustration of a person at a desk. On the right are the following fields:

- Address: Indiranagar, 8th Cross Road
- City/Village: Rajaji Nagar
- District: Bengaluru
- State: Karnataka
- PIN Code: 560010
- Country Name: India
- Nearest Branch: Rajaji Nagar

A 'Continue' button is at the bottom right of the form. Below the button is a checkbox labeled 'My communication address is the same as my Aadhaar address.' which is checked.

Click Continue to proceed.

Next step is to add the details of the Nominee. Enter the details as follows.



Add Nominee Details

Nominee's Name *
Vidya Balan

Relationship with the applicant *
Wife

Date of Birth *
28 06 1987

Address *
Indiranagar, 8th Cross Road

City/Village *
Rajaji Nagar

District *
Bengaluru

State *
Karnataka

PIN Code *
560019

Continue

Click Continue to proceed.

In the next step, enter the Professional Details.



Professional Details!

Occupation *
Sole Proprietorship

Occupation Type *
Manufacturing and Production

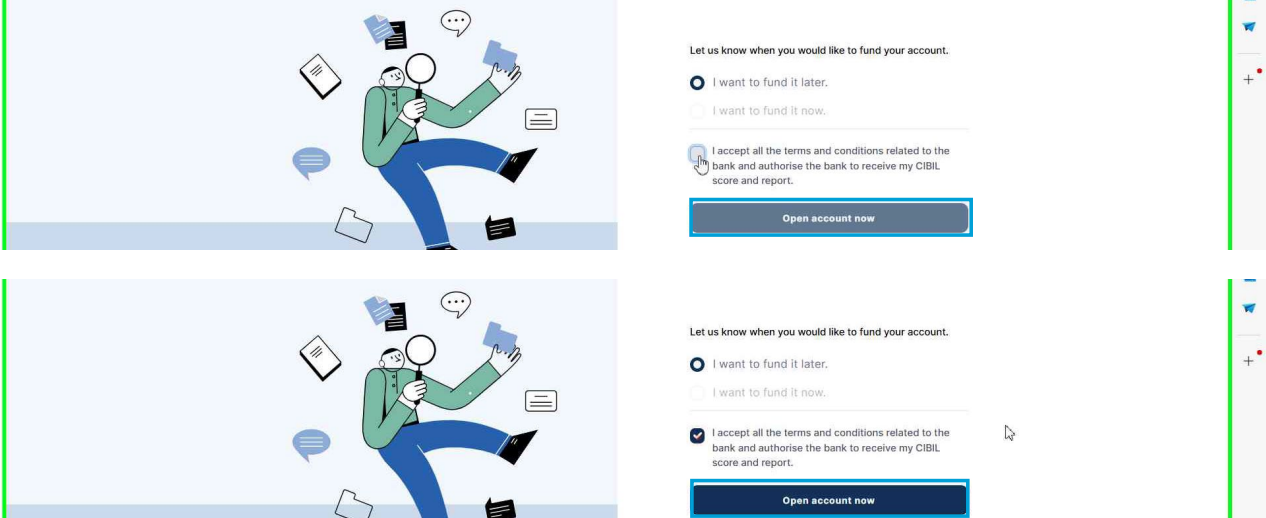
Source of Income *
Business

Gross Annual Income *
290000

Company/Organization Name
Ram Raj Textiles

Continue

Accept the terms and conditions by checking the box. Click Open Account Now



Let us know when you would like to fund your account.

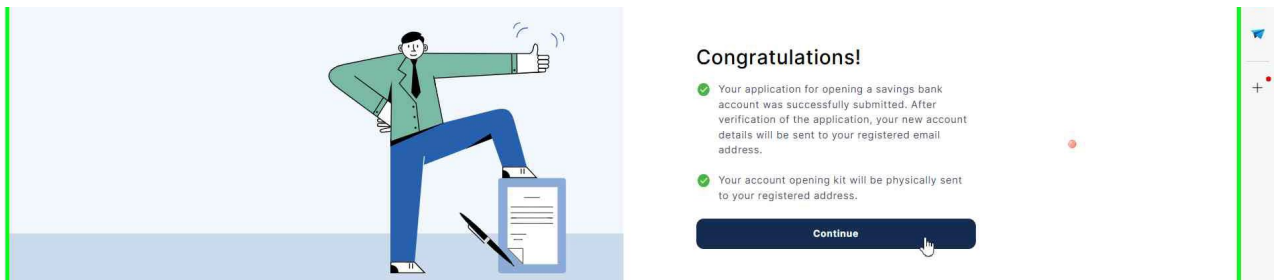
☒ I want to fund it later.

☐ I want to fund it now.

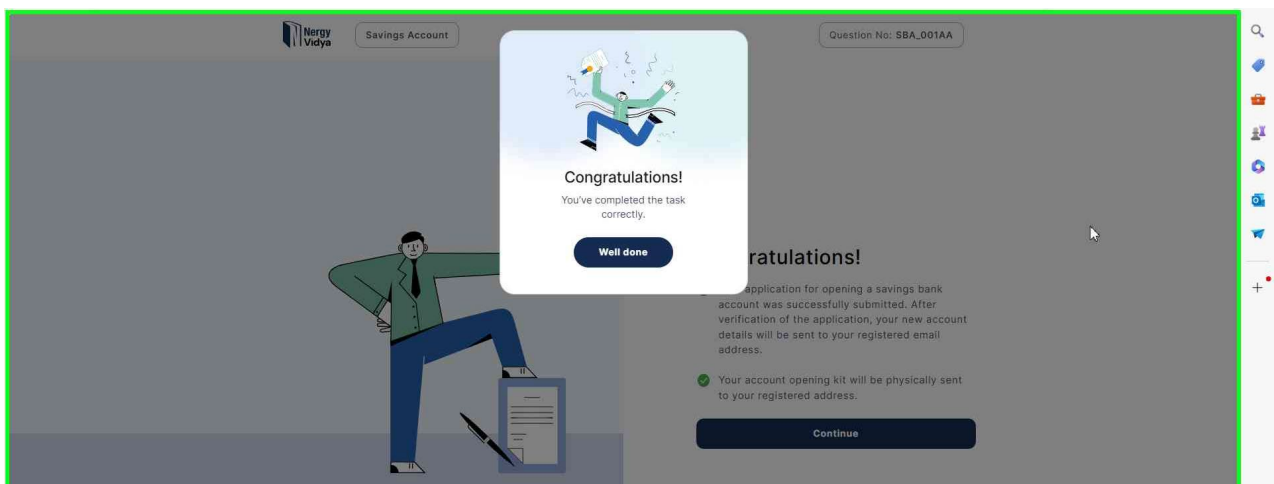
☒ I accept all the terms and conditions related to the bank and authorise the bank to receive my CIBIL score and report.

Open account now

Click Continue to complete the process.



If the details entered are accurate as per the question, the following screen will appear.



BORROWINGS

Task EMI_001AA

Click Start to begin.

Borrowings 40%

Tasks

- 1. EML003AC
- 2. EML004AD
- 3. EML001AA
- 4. EML002AB
- 5. EML005AE

EMI_001AA

Abhiram acquired a loan amounting to ₹5,00,000 to spend on research and development for his business. He is ready to pay a 6% interest rate per annum. You are required to compute the following:

(a) What would be the monthly EMI to be repaid over 8 years in the diminishing balance method?

(b) What would be the monthly EMI to be repaid over 6 years in the straight line method?

अभिराम ने अपने व्यवसाय के अनुसंधान और विकास पर खर्च करने के लिए ₹5,00,000 की ऋण राशि प्राप्त की। वह प्रति वर्ष 6% ब्याज दर का भुगतान करने के लिए तैयार है। आपको निम्नलिखित की गणना करनी होगी:

(a) ह्रासमान शेष पद्धति से 8 वर्षों में चुकाई जाने वाली मासिक ईएमआई कितनी होगी?

(b) सीधी रेखा पद्धति से 6 वर्षों में चुकाई जाने वाली मासिक ईएमआई कितनी होगी?

Start

< Previous Next >

Nergy Vidya Question No: EMI_001AA

Question

Abhiram acquired a loan amounting to ₹5,00,000 to spend on research and development for his business. He is ready to pay a 6% interest rate per annum. You are required to compute the following:

(a) What would be the monthly EMI to be repaid over 8 years in the diminishing balance method?

(b) What would be the monthly EMI to be repaid over 6 years in the straight line method?

अभिराम ने अपने व्यवसाय के अनुसंधान और विकास पर खर्च करने के लिए ₹5,00,000 की ऋण राशि प्राप्त की। वह प्रति वर्ष 6% ब्याज दर का भुगतान करने के लिए तैयार है। आपको निम्नलिखित की गणना करनी होगी:

(a) ह्रासमान शेष पद्धति से 8 वर्षों में चुकाई जाने वाली मासिक ईएमआई कितनी होगी?

(b) सीधी रेखा पद्धति से 6 वर्षों में चुकाई जाने वाली मासिक ईएमआई कितनी होगी?

Calculator

- EMI
- SIP
- Lumpsum
- Income Tax

Choose the EMI Calculator.

The EMI calculator will appear.

Choose the Diminishing Rate option by clicking on the Radio button. From the Drop Down, select EMI. Enter the details provided in Question Part (A).

Nergy Vidya Question No: EMI_001AA

Question

(a) What would be the monthly EMI to be repaid over 8 years in the diminishing balance method? / ह्रासमान शेष पद्धति से 8 वर्षों में चुकाई जाने वाली मासिक ईएमआई कितनी होगी?

(b) What would be the monthly EMI to be repaid over 6 years in the straight line method? / सरल रेखा पद्धति से 6 वर्षों में चुकाई जाने वाली मासिक ईएमआई कितनी होगी?

Values

Validate

EMI Calculator

☒ Diminishing Rate ☐ SLM

Find What: EMI

Principal Amount: ₹5,00,000

Rate of Interest (p.a.): 6%

Tenure: 96 months

Monthly EMI (₹): 6,571

Total Interest (₹): 1,30,789

Total Repayment (₹): 6,30,789

Enter the solution derived from the calculator under the Values cell, provided against the question.

Question No: EMI_001AA

EMI Calculator

Find What: EMI

Principal Amount: ₹ 5,00,000

Rate of Interest (p.a.): 6 %

Tenure: 96 months

Monthly EMI (₹): 6,571

Total Interest (₹): 1,30,789

Total Repayment (₹): 6,30,789

Particulars: (a) What would be the monthly EMI to be repaid over 8 years in the diminishing balance method? / ऋसमान षेष पद्धति से 8 वर्षों में चुकाई जाने वाली मासिक ईएमआई कितनी होगी?

Values: 6,571

Validate

For Part (B) of the question, we must select SLM option.
Enter the value derived from the calculator in the cell provided.

Question No: EMI_001AA

EMI Calculator

Find What: EMI

Principal Amount: ₹ 5,00,000

Rate of Interest (p.a.): 6 %

Tenure: 72 months

Monthly EMI (₹): 9,444

Total Interest (₹): 1,80,000

Total Repayment (₹): 6,80,000

Particulars: (b) What would be the monthly EMI to be repaid over 6 years in the straight line method? / सरल लेखा पद्धति से 6 वर्षों में चुकाई जाने वाली मासिक ईएमआई कितनी होगी?

Values: 9,444

Validate

Click Validate to complete the solution.

Question No: EMI_001AA

EMI Calculator

Find What: EMI

Principal Amount: ₹ 5,00,000

Rate of Interest (p.a.): 6 %

Tenure: 72 months

Monthly EMI (₹): 9,444

Total Interest (₹): 1,80,000

Total Repayment (₹): 6,80,000

Particulars: (b) What would be the monthly EMI to be repaid over 6 years in the straight line method? / सरल लेखा पद्धति से 6 वर्षों में चुकाई जाने वाली मासिक ईएमआई कितनी होगी?

Values: 9,444

Validate

Question No: EMI_001AA

EMI Calculator

Find What: EMI

Principal Amount: ₹ 5,00,000

Rate of Interest (p.a.): 6 %

Tenure: 72 months

Monthly EMI (₹): 9,444

Total Interest (₹): 1,80,000

Total Repayment (₹): 6,80,000

Particulars: (b) What would be the monthly EMI to be repaid over 6 years in the straight line method? / सरल लेखा पद्धति से 6 वर्षों में चुकाई जाने वाली मासिक ईएमआई कितनी होगी?

Values: 9,444

Validate

Congratulations !

You completed all the answers in the right format.

Ok

Summary



- This unit focuses on real-world scenarios to demonstrate how effective tax planning strategies can be applied to minimize tax liabilities and maximize savings. It uses case studies to showcase different approaches to tax planning for individuals and businesses, highlighting the importance of understanding tax laws, deductions, exemptions, and credits.
- The practical applications include strategies such as tax-efficient investments, retirement planning, and managing income sources to optimize tax outcomes. By analyzing these cases, individuals learn how to navigate complex tax situations, apply appropriate tax-saving techniques, and ensure compliance with tax regulations. The unit emphasizes the role of proactive tax planning in achieving financial stability and long-term wealth accumulation.

Exercise



1. What is the primary goal of tax planning?
 - a. To increase overall tax liability
 - b. To reduce tax liabilities through legal strategies
 - c. To avoid paying taxes altogether
 - d. To simplify financial statements
2. Which of the following is a key strategy in tax planning for individuals?
 - a. Ignoring tax deductions
 - b. Making tax-efficient investments
 - c. Delaying tax payments indefinitely
 - d. Paying taxes on all income without deductions
3. In tax planning, what is the benefit of understanding deductions, exemptions, and credits?
 - a. They help increase taxable income
 - b. They allow for the reduction of taxable income, lowering tax liability
 - c. They eliminate the need for filing a tax return
 - d. They increase the amount of taxes owed
4. Which of the following is an example of a tax-saving strategy for businesses?
 - a. Ignoring tax obligations
 - b. Claiming all possible business deductions and credits
 - c. Increasing personal income
 - d. Avoiding financial reporting

Descriptive Questions:

1. Explain the importance of tax planning and how it can help individuals and businesses minimize their tax liabilities.
2. Describe the key tax-saving strategies that individuals can use to reduce their taxable income. How do these strategies impact overall financial planning?
3. Discuss the role of tax deductions, exemptions, and credits in effective tax planning. Provide examples of how each can be used to reduce tax liabilities.
4. How can businesses leverage tax planning to optimize their financial performance? Discuss some common tax-saving strategies businesses can implement.
5. Describe a real-world scenario where effective tax planning could lead to significant savings. What steps would be involved in planning for taxes in such a case?

Notes



Lined area for taking notes, consisting of 20 horizontal lines.

Large empty rectangular box for additional notes or drawings.



BFSI Sector Skill Council of India
"An Initiative of NSDC"

13. Employability Skills



Employability Skills is available at the following location



<https://www.skillindiadigital.gov.in/content/list>

Employability Skills



Skill India

कौशल भारत - कुशल भारत



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GOVERNMENT OF INDIA
MINISTRY OF SKILL DEVELOPMENT
& ENTREPRENEURSHIP



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Saki Vihar Road, Powai Mumbai – 400072

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