

CUET · HOME SCIENCE · CLASS XI · CODE 315

# Financial Management and Planning

CUET unit: Adulthood — Financial Planning and Management

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## Snapshot

- Establishes financial management as the planning, controlling and evaluating of all family income to maximise satisfaction from available resources.
- Defines the three types of family income — money, real (direct & indirect) and psychic — and the role of money as medium of exchange and standard of value.
- Walks through the five steps of family budgeting, control mechanisms (mental/mechanical checks, records) and evaluation.
- Distinguishes savings from investments, identifies physical vs financial assets, and lists ten principles of sound investment.
- Closes with the meaning of credit, its need, and the 4 Cs (Character, Capacity, Capital, Collateral) that govern lending decisions.

## Detailed Notes

### 2.1 Core concepts

This chapter takes the Resource Management thread deepest in Class XI, focusing on family financial management. It is anchored in the Indian household — joint or nuclear, urban or rural — and the schemes/avenues listed (Post Office, PPF, NSC, UTI, LIC, Bank deposits, Mutual Funds, Chit Fund, PF) are exactly the savings instruments an Indian middle-class family encounters. The content is definition-rich, list-rich and unambiguous, which makes it CUET-favoured.

- Financial management in a family means planning, controlling and evaluating the use of all types of income (salary, wages, rent, interest, dividends, bonus, retirement benefits, etc.) so as to give the family greatest satisfaction from resources at hand (NCERT §10.1, p. 188).
- Quality of living depends not only on quantum of income but on the regularity and stability of income; hence money management is a learnt skill (NCERT §10.1, p. 188).
- Financial planning is a component of financial management; the term "budget" is often used for the planning stage (NCERT §10.1, p. 188).
- Management is "using what you have (resources) to achieve what you want (goals and objectives)"; family resources include human (knowledge, skills, health, time,

- energy), material (housing, money, investments) and community resources (library, parks, hospitals) (NCERT §10.1, p. 189).
- Family income is the sum total of income of all types and from all sources of family members in a given period; for official purposes it is the annual income in a financial year (1 April – 31 March) (NCERT §10.2, p. 189).
  - Income may take the form of wages, salary, profits from business, commissions, rent, interest on cash loans, dividends, pensions, gifts, royalties, tips and donations, bonus, subsidies and charities (NCERT §10.2, p. 189).
  - Three types of family income: Money income, Real income, Psychic income (NCERT §10.2, p. 190).
  - Money is "anything which is generally acceptable in exchange of commodities and in terms of which the value of other commodities is determined"; its two key functions are medium of exchange and measurement of value (NCERT §10.2, p. 190).
  - Money also serves as a standard of deferred payments (facilitating savings and investments) and is durable storage for long periods (NCERT §10.2, p. 190).
  - Money Income is the purchasing power in rupees and paise entering the family treasury in a given period (wages, salary, bonus, commission, rent, dividends, interest, retirement income, royalties, allowances) (NCERT §10.2(a), p. 191).
  - Real Income is a flow of commodities and services available for satisfaction of human wants over a given period; it is not stagnant, may or may not be available with money, and is time-bound (NCERT §10.2(b), p. 191).
  - Real income subtypes: Direct income — goods/services available without use of money (cooking, laundering, kitchen garden, a fully paid house, parks, roads, libraries); Indirect income — material goods/services available only after using money e.g. buying good vegetables using one's skill (NCERT §10.2(b), p. 191).
  - Psychic Income is the satisfaction from ownership and utilisation of goods and services; it is hidden, intangible, subjective and most important for quality of living (NCERT §10.2(c), p. 191).
  - Income management is planning, controlling and evaluating use of all types of income; each family must devise its own plan as no two families have identical needs even with identical incomes (NCERT §10.3, p. 192).
  - Budget is the most common planning device — a plan for future expenditure; success depends on being realistic and flexible, suitability to the group, and quality of control and evaluation steps (NCERT §10.4, p. 192).
  - Five steps of budgeting: (i) List commodities and services needed (food, housing, household operations, education, transportation, clothing, income tax, medical, personal allowances, miscellaneous, provision for future); (ii) Estimate the cost; (iii) Estimate total expected income (assured + possible); (iv) Bring income and expenditure into balance (increase income or cut expenditure); (v) Check plans

against needs met, emergencies, solvency, world conditions and long term goals (NCERT §10.4, pp. 192–193).

- Control in money management involves checking and adjusting — mental checks (visualising what an amount must cover) and mechanical checks (setting aside cash in envelopes, e.g., a food purse), plus records and accounts (NCERT §10.5, p. 193–194).
- Single sheet method is a simple, flexible record-keeping method where expenses are kept on one sheet (NCERT §10.5, p. 194; Figure 1, p. 195).
- Evaluation is the final step in money management — judged against specific goals like fair value for money, ability to pay bills when due, providing for future and improving economic status (NCERT §10.5, p. 194–195).
- Savings means keeping aside part of money/resource for future use or further production; depends on ability to save (per capita income) and willingness to save (long-term goals) (NCERT §10.6, p. 196).
- Investment means using money for further production; investments may be in physical assets (land, property, house, gold, household durables — not productive in economic sense but usually with long-term positive returns) or financial assets (bank accounts, post offices, financial credit societies, shares, securities, insurance — productive in economic terms) (NCERT §10.7, p. 196).
- Ten principles of sound investment: (i) Safety of principal amount; (ii) Reasonable rate of return (risk and return are inversely related to safety); (iii) Liquidity (ability to convert into cash without sacrificing value); (iv) Recognition of effect of world conditions; (v) Easy accessibility and convenience; (vi) Investing in needed commodities (matching maturity to future need); (vii) Tax efficiency; (viii) After investment service; (ix) Time period (lock-in); (x) Capacity — never invest beyond capacity (NCERT §10.7, pp. 196–198).
- Savings and investment avenues available to an Indian consumer: Post Office, Banks, Unit Trust of India, National Savings Scheme, National Savings Certificates, Shares & Debentures, Bonds, Mutual Funds, Provident Fund, Public Provident Fund, Chit Fund, Life Insurance & Medical Insurance, Pension Schemes, Gold/House/Land (NCERT §10.8, p. 198).
- Credit comes from Latin "CREDO" meaning "I believe"; it is getting money/goods/ services now and paying for them in future — a process of postponed payment that increases purchasing power (NCERT §10.9, pp. 198–199).
- 4 Cs of credit: Character (willingness/determination to repay), Capacity (ability to meet obligation when due — depends on margin over necessary expenses), Capital (net worth — what family owns minus what it owes), Collateral (specific units of capital pledged as security) (NCERT §10.9, pp. 199–200).

The conceptual architecture is layered. At the top is financial management — the umbrella process of planning, controlling, evaluating income. Below it lies family income, divisible into three kinds: money income (cash flow into the household), real income (the

flow of goods and services that money buys, and that the household produces or accesses freely), and psychic income (the satisfaction derived). The three are not substitutes — a family with high money income but low psychic income may still feel poor; a family with modest money income but rich real income (kitchen garden, public parks, community library) may feel well-off.

Real income is further sub-divided: Direct real income is what the family receives without using money (services rendered by family members — cooking, laundering, gardening, caring; community amenities — parks, roads, libraries; assets fully paid for — a debt-free house, a kitchen garden, a paid car), and Indirect real income is goods/ services accessed by spending money (buying good vegetables, eating at restaurants, hiring services). The Indian context is rich in direct real income — Anganwadi services, ration shops (PDS), Mid-Day Meals at school, public libraries, panchayat-run health camps — and a Home Science student must learn to recognise these as real income even though no cash changes hands.

Money's four functions (medium of exchange, measure of value, standard of deferred payments, store of value) are macroeconomic classics. The Indian rupee, currency notes issued by the Reserve Bank of India (RBI) and coins by the Government of India, performs all four functions, and money management presupposes literacy in the Indian financial ecosystem — banks (PSU and private), Post Office Savings Bank (under Department of Posts), Life Insurance Corporation (LIC), Unit Trust of India (UTI), General Insurance Corporation, and now the modern UPI / Digital India ecosystem.

The five steps of budgeting (List → Estimate cost → Estimate income → Balance → Check) form a closed-loop financial planning method that mirrors the broader management process from kehe104 (Plan → Organise → Implement → Control → Evaluate). The household budget is the most concrete instance of HEFS resource management. CUET items test the order and the specific verb used at each step.

Money management's control mechanisms include mental checks (mental rehearsal of what an amount must cover — 'this Rs 5,000 must cover groceries, school fees and electricity'), mechanical checks (physical allocation — the 'food purse' example), and records (the single-sheet method or columnar account books). Evaluation, the final step, judges success against four touchstones: fair value for money, ability to pay bills when due, provision for future, and improvement of economic status. The conceptual point is that budgeting alone is not management; budget + control + evaluation together constitute management.

Savings and investments are distinguished functionally: savings is keeping aside, investment is using money for further production. Physical assets (land, property, house, gold, household durables) are 'unproductive' in the strict economic sense — they do not generate new goods or services — though they often appreciate. Financial assets (bank deposits, post-office instruments, shares, debentures, mutual funds, insurance, PF/PPF) are productive because the money they collect is re-deployed in the productive economy.

The ten principles of sound investment, in NCERT order, are: (1) Safety of principal amount, (2) Reasonable rate of return, (3) Liquidity, (4) Recognition of effect of world conditions, (5) Easy accessibility and convenience, (6) Investing in needed commodities (maturity matched to future need), (7) Tax efficiency, (8) After-investment service, (9) Time period (lock-in), (10) Capacity (never invest beyond capacity). Safety and return are inversely related — a fundamental finance principle.

Credit is etymologically from Latin 'CREDO' meaning 'I believe'. It is the postponement of payment — receiving money/goods/services now and paying later. Lenders evaluate borrowers via the 4 Cs: Character (willingness to repay — moral commitment, credit history), Capacity (ability to repay — current income margin over essential expenses), Capital (net worth — owned assets minus owed liabilities), Collateral (specific pledged assets — gold for gold-loan, property for housing loan, car for auto-loan). These four Cs are the bedrock of modern Indian credit-scoring (e.g., CIBIL/Experian scoring).

## 2.2 Definitions to memorise

Term	Definition	Page
Financial management	Planning, controlling and evaluating the use of all types of incomes to give the family greatest satisfaction from resources	188
Management	Using what you have (resources) to achieve what you want (goals and objectives)	189
Family income	Sum total of income of all types and from all sources of all family members in a given period	189
Money	Anything generally acceptable in exchange of commodities and in terms of which the value of other commodities is determined	190
Money income	Purchasing power in rupees and paise that goes into the family treasury in a given period	191
Real income	Flow of commodities and services available for satisfaction of human wants and needs over a given period	191
Direct income	Goods and services available to the family without the use of money (e.g., cooking, kitchen garden, parks)	191
Indirect income	Goods and services available only after some means of exchange (money) has been obtained	191
Psychic income	Satisfaction derived from ownership and utilisation of goods and services — hidden, intangible, subjective	191
Budget	A plan for future expenditure; the first step in the managerial process applied to money	192
Savings	Keeping aside a part of money/resource for use in future or for further production	196
Investment	Using money for further production	196

Term	Definition	Page
Liquidity	Ability to convert securities into cash without sacrificing value	197
Credit	Getting money, goods or services in the present and paying for them in the future	199
Capacity (4Cs)	Ability to meet an obligation when due; depends on margin over necessary expenses	199
Collateral	Specific units of capital pledged as security for a given loan	199–200
Character (4Cs)	Willingness/determination of borrower to repay	199
Capital (4Cs)	Net worth — assets minus liabilities	199
CREDO	Latin root of credit — 'I believe'	199
Mental check	Visualising what an amount must cover	193
Mechanical check	Physically setting cash aside in an envelope (food purse)	194
Single-sheet method	Simple flexible record-keeping on one sheet	194
Physical asset	Land, property, house, gold, durables — economically 'unproductive'	196
Financial asset	Bank deposit, share, debenture, MF, insurance — economically productive	196
PPF	Public Provident Fund — Indian savings instrument	198
NSC	National Savings Certificate	198
UTI	Unit Trust of India	198
LIC	Life Insurance Corporation of India	198
Chit Fund	Indian rotating-savings instrument	198
Financial year	1 April to 31 March (Indian official income period)	189
Lock-in period	Mandatory holding period of an investment	198
RBI	Reserve Bank of India — currency issuer (India context)	India context

### 2.3 Diagrams / processes to remember

- Types of family income flow chart — three boxes: Money Income, Real Income (Direct + Indirect), Psychic Income (NCERT p. 190).
- Five steps of budget-making — List → Estimate cost → Estimate income → Balance income & expenditure → Check plans (NCERT §10.4, pp. 192–193).
- Figure 1: Single Sheet Method of record-keeping showing categories and amount spent (NCERT p. 195).

- 4 Cs of Credit — Character, Capacity, Capital, Collateral (NCERT §10.9, pp. 199–200).

## 2.5 Key data / processes table (Indian context)

Item	Value / fact	Source
Indian financial year	1 April – 31 March	NCERT p. 189
Three types of family income	Money; Real (Direct + Indirect); Psychic	NCERT p. 190
Money's four functions	Medium of exchange; Measure of value; Standard of deferred payments; Store of value	NCERT p. 190
Number of budgeting steps	Five	NCERT p. 192
Order of budgeting	List → Estimate cost → Estimate income → Balance → Check	NCERT pp. 192–193
Number of sound-investment principles	Ten	NCERT pp. 196–198
Safety vs return	Inversely related	NCERT p. 197
Number of Cs of credit	Four (Character, Capacity, Capital, Collateral)	NCERT pp. 199–200
Latin root of credit	CREDO ('I believe')	NCERT p. 199
Examples of direct real income	Cooking, kitchen garden, parks, libraries, roads, fully paid house	NCERT p. 191
Examples of indirect real income	Buying vegetables; restaurant meals; hired services	NCERT p. 191
Physical assets	Land, property, house, gold, household durables	NCERT p. 196
Financial assets	Bank A/c, post-office instruments, MFs, shares, debentures, insurance	NCERT p. 196
Indian savings avenues listed	Post Office, Banks, UTI, NSS, NSC, Shares & Debentures, Bonds, MFs, PF, PPF, Chit Fund, LIC/Medical Insurance, Pension Schemes, Gold/House/Land	NCERT p. 198
Mental check example	Visualising what an amount must cover	NCERT p. 193
Mechanical check example	Food purse / envelope cash allocation	NCERT p. 194
	Single-sheet method	

Item	Value / fact	Source
Record-keeping example		NCERT p. 195
Evaluation touchstones	Fair value; Pay bills when due; Provide for future; Improve economic status	NCERT pp. 194–195

## 2.4 Common confusions / NTA trap points

- Money income vs Real income: Real income is a flow of goods/services (which may or may not need money), not the cash itself. Distractors will swap these.
- Direct vs Indirect income: Direct = no money used (kitchen garden, parks); Indirect = money used to acquire goods/services (buying vegetables). Students often reverse this.
- Physical assets (gold, land, house) are NOT productive in the economic sense even though they give long-term positive returns; only financial assets are productive (NCERT §10.7, p. 196).
- Safety of principal and rate of return are INVERSELY related — higher return implies greater risk (NCERT §10.7, p. 197).
- Budget is the first step (planning) in money management; control and evaluation come after, not before. The order is Plan → Control → Evaluate.
- "CREDO" is Latin for "I believe" — not Greek and not "I trust"; the word's origin is a frequent factual trap.
- Psychic income is intangible — it is NOT happiness alone, but the subjective satisfaction from ownership/use of goods and services.
- The Indian financial year ends on **31 March**, not 31 December — NTA may swap.
- 4 Cs of credit are Character, Capacity, Capital, Collateral — NOT Cash, Currency or Convenience as in distractors.
- 'Investment in physical assets is not productive in economic sense' but still yields long-term positive returns — a paradox students misread.
- Real income is **not money** — it is the flow of goods/services money provides.

## Practice MCQs

## PYQ Alignment

Financial Management and Planning is a high-yield chapter in CUET Home Science under the Adulthood unit, typically contributing 6–8 MCQs per year. Questions usually test



direct definitions (real vs money vs psychic income), classification of income types, the ordered steps of budgeting, the principles of sound investment (especially the safety–return inverse relation), and the 4 Cs of credit — with the food-purse and kitchen-garden examples appearing frequently as case-based stems.

