
1.2

Managing Resources

Household Income

Learning Outcome Notes

LO 1.2 - Identify and classify sources of income and expenditure, compare options available to best manage financial resources, evaluating the risks associated with each option and making informed and responsible judgements

CHAPTER QUESTIONS

By the end of this learnign outcome you should be able to do the following

1. List the main sources of income for a household.
2. Explain the difference between regular and irregular income.
3. Define the term BIK and explain why tax is paid.
4. Calculate and interpret a wage slip. (1.11)
5. Differentiate between statutory and voluntary deductions.
6. Prepare a household plan (1.13)

WHAT IS INCOME

Income

^{Def} Refers to all the money received over a period of time.

Income comes in a variety of different types and sources. Money coming to a household or individual is called Income. Some source of Income includes wages, pensions, child benefit, Jobseekers allowance, Dividends on shares, Interest on savings and Benefit in Kind

Benefit in Kind

^{Def} This is when an individual doesn't receive cash but receive goods or service that have a money value for example health insurance.

Benefits in Kind (BIK) are also know as perks or fringe benefits.

REGULAR INCOME v IRREGULAR INCOME

Regular Income

^{Def} Some sources of finance are received on regular basis (Every month/wee) for example Wages, salaries and Child benefit.

Irregular Income

^{Def} This type of income is unpredictable and is not received every week or month for example Overtime.

INCOME FROM EMPLOYMENT

Income for employment can come in the form of different ways. Some of these include -

Salaries

^{Def} This is a fixed payment made to an employee for work carried out. It is usually paid monthly. Employees who receive a salary don't receive overtime payments.

Wage Def This is a payment for work done. These payments vary for one period to the next as it depends on how many hours have been worked in that period. These wages include -

Time Rate Def This is calculate based on the number of hours worked.

Overtime Def This is paid when an employee works longer than 39 hours a week. For every hour worked over this they will receive a higher rate of pay. For example, double time

Piece Rate Def This is paid based on the amount of work completed or product produced.

Commission Def Sales staff will receive a payment based on the amount of sales they achieve in a period. It rewards staff so the more they sell the more commission they receive.

Bonus Def These are extra payment on top of an employee's basis wage.

Other income can include the following

Pension Child Benefit

Job seekers Allowance Grants

Dividend Form shares Lottery Win

PAYMENT RECEIVED

The following are key terms related to pay off employees and individuals -

Gross Pay Def This is the employees paid before any deductions. It is basis pay plus any extra income for example overtime

Formula for Gross Pay $Gross\ pay = Basis\ Pay + Overtime + Bonuses$

Net Pay Def This is also known as take home pay. It is the money left after deduction are taken away from Gross Pay

Formula for Net Pay $Net\ pay = Gross\ pay - Deductions$

Deductions

There are two forms of deductions for an employee. These are

1. Statutory and
2. Voluntary deductions

1. Statutory ^{Def} These are compulsory deduction and must be paid by law.
This money is paid to the Government to run the Country. For
Example, PAYE

The government uses this money to pay for service such as health and education. Most employees will pay 3 types of statutory deduction. These included -

1. Pay as you Earn (PAYE),
2. Pay related Social Insurance (PRSI) and
3. Universal Social Charge (USC)

2. Voluntary Deductions ^{Def} These are deduction that are not compulsory, and the employee will choose to pay them for example Union fees VHI

This is extra money that employee decides to have deducted from their gross wage. This money might go towards - Pension, VHI or Union Fees

After deduction have been taken away from Gross Pay the money that is left is the money that is paid to the employee. This is usually paid by pay path - which means the money is transferred into the employee bank account electronically.

Disposal Income

Disposal Income ^{Def} This is the money that the employee has left over after all income tax and compulsory payment have been paid.

Formula for Disposal Income Disposal Income = Gross Income - Statutory Deductions

Discretionary Income

Discretionary Income ^{Def} This is the money that an employee has left over after all taxes and essential spending has been paid

Formula for Disposal Income Discretionary income = gross Income - Statutory deduction -
Essential payment s(Bills)

INCOME CALCULATIONS

You have to be able to Calculate the

1. Gross Pay
2. Deductions
3. Net Pay

For Example

Colm Kavanagh is paid €22 per hour for a standard 39-hour week. Over time is paid at time and a half for the first 5 hours and double time for each additional hour after that. In week 27 he worked 48 hours and had the following deductions from his gross salary PAYE €275, PRSI €48, Health Insurance €50 Trade Union dues €25 Savings €75

Name - Colm Kavanagh				Week No - 27		
PPS No. 49320170E				Date - 27 July 2017		
Payments	Hours	Rate	Amount	Deductions	Amount	NETT PAY
Basic	39	€22	€858	PAYE	€275	
Overtime @ 15	5	€33	€165	PRSI	€48	
Overtime @2	4	€44	€176	USC	€52	
				Health	€50	
				Union	€25	
				Other	€75	
GROSS PAY				TOTAL DEDUCTIONS	€525	€674

Taken from Time for Business P 16

This section can be assessed under the learning outcome - 1.11

PLANNING AND RECORDING INCOME

An analysed cash book or spread sheet can be used to record actual income received. They are useful for planning especially for regular income where it is easy to see the source of the income and the regular amount -

WILSON HOUSEHOLD INCOME PLAN				
PLANNED INCOME	JANUARY	FEBRUARY	MARCH	TOTAL
James Wilson Salary	1700	1700	1700	5100
Louise Wilson Salary	1900	1900	1900	5700
Child Benefit	420	420	420	1260
TOTAL INCOME	4020	4020	4020	12060

Taken from Time for Business P 17

This section can be assessed under the learning outcome - 1.13.

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Past Exam Questions and Answers

NOTE - Very Important

It is very important when answering exams question that you use the following steps -

1. That you know the information for the learning outcome
2. That you understand the information from the learning outcome
3. That you can apply the information from the learning outcome to the question
4. Be able to give at least two full sentences for your answer (Fill up the space)

Questions are changing from rote learning to applying the knowledge to the Question

QUESTIONS

2022 - Question 18 - Part B

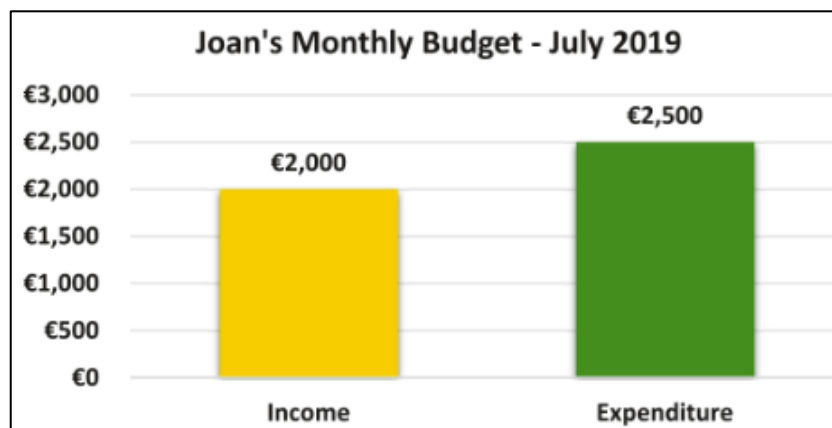
Kevin started a new job as a trainee accountant. His salary is €32,000 per year. He gets paid via path, once a month directly into his current bank account

- (i) Indicate which of the following statements are true or false by placing a tick in the correct box.

Statement	True	False
A salary is a fixed amount of money received by an employee		
The more hours an employee works the more wages they receive		

2019 - Question 1

The graph below shows Joan Murphy's monthly budget -



- (i) Calculate the difference between Joan's income and expenditure. State if it's a surplus or deficit.

- (ii) What advice would you give Joan based on your answer.

2019 - Question 12

Name a source of income associated with each of the following people -

Retired Person	
Employed Person	
Unemployed person	

SUGGESTED SOLUTIONS**2022 - Question 18 - Part B**

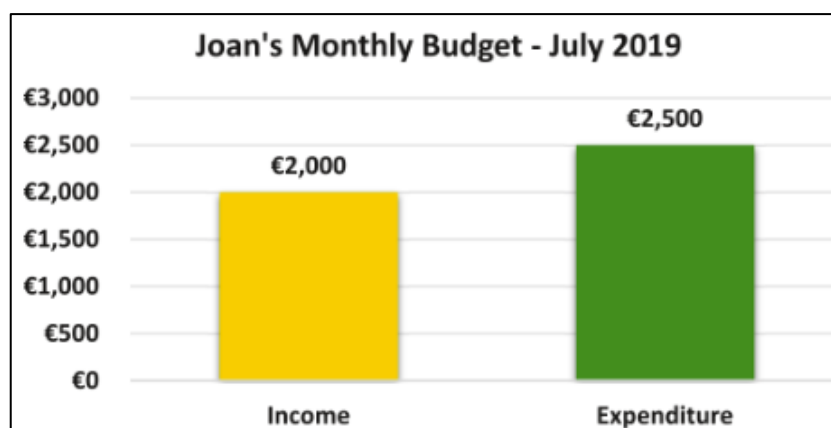
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- (ii) Indicate which of the following statements are true or false by placing a tick in the correct box.

Statement	True	False
A salary is a fixed amount of money received by an employee	✓	
The more hours an employee works the more wages they receive	✓	

2019 - Question 1

The graph below shows Joan Murphy's monthly budget -



- (i) Calculate the difference between Joan's income and expenditure. State if it's a surplus or deficit.

€2,000 - €2,500 = (€500). The difference is (€500) and it is a deficit

(ii) What advice would you give Joan based on your answer.

Decrease expenditure - Joan could cut her discretionary expenditure for example holidays
Increase income - Joan could do some overtime to manage her income better
Shop around - Joan could shop around to get the best deal for example Switch .ie

2019 - Question 12

Name a source of income associated with each of the following people -

Retired Person	Pension
Employed Person	Wages / Salary
Unemployed person	Job Seekers Allowance