Personal Financial Planning (Wealth Management)

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अस्मद् गुरुभ्यो नमः

This book is dedicated to our Teachers and Gurus

PREFACE

Every one – whether an individual or a business – do plan various activities. In the case of individuals, it may be without their own knowledge many a times. Our ancient scriptures have said that in a person's life, 'Financial Planning' is the most important one.

Wealth Management was once thought to be the domain of Very Rich People (High Net Worth Individuals). Personal Financial Planning (PFP) has become popular and a necessity in this changing world. Due to liberalisation, privatisation and globalisation, there has been a steep jump in the number of very young millionaires in our country. Many of them have expertise in their domain area (technical), but have less exposure to the finance world. This statement is made on the basis of authors' personal experience while giving training to 'non-finance executives'. Hence, we felt the need for a book written in a simple and lucid language to address this.

The book contains the entire Personal Financial Planning Cycle from birth to succession planning Many chapters have annexures giving the important formats. The book has chapters on Personal Taxation, Banking Products (Deposits and Advances), Life Insurance and General Insurance – important tips, investment in Mutual Funds and Equity Investments, things to look for while purchasing a House/Flat, Car (New/Used), etc.

The authors also felt the need to have a separate Chapter on 'Strategies for Marketing Financial Products' to meet the requirements of young Relationship Managers posted to Private Banking division. Another exclusive chapter on 'Ethics in Personal Financial Planning' has been included to ensure that the financial planners follow fair practices in their deal. Each chapter begins with 'LEARNING OBJECTIVES' and ends with "POINTS TO REMEMBER" giving gist of important aspects of that chapter.

We are sure this book would be of great help to all non-finance executives, individuals, students who are doing their MBA, M.Com., BBM and other similar courses and also those who would be wishing to make a career in this area.

We thank the following for sharing their valuable inputs by authoring a chapter:

1. Mr. P.S. Krishnaprasad, Management Consultant and Equity Research expert for the chapters on Mutual Fund and Equity Investments.
2. Ms. Smitha Sarma Ranganathan, Digital Marketing Expert and Adjunct Professor, ICFAI Business School, Bengaluru for the chapter 'Strategies for Marketing Financial Products'.
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4. Mr. S. Venkanna, Practising Management Accountant and Taxation Expert for reviewing the chapter on Personal Taxation.
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We also thank our spouse, children and other family members and friends who have directly or indirectly helped us in bringing out this book.

We will be failing in our duty if we do not thank our publishers M/s. Himalaya Publishing House Pvt. Ltd. for having brought out this book in such a nice form.

We welcome suggestions for improving the contents of this book which we would address in our future editions.

Bengaluru **S. Murali**

25.01.2018 **K.R. Subbakrishna**

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Learning Objectives

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- Various Milestones in One's Life
- Financial Planning Process
- Personal Financial Goals
- Use of Financial Statements in PFP

"FAILING TO PLAN IS PLANNING TO FAIL"

Introduction

Planning (also called forethought) is the process of thinking about and organising the activities required to achieve a desired goal. It involves the creation and maintenance of a plan, such as psychological aspects that require conceptual skills (Wikipedia). Planning is doing something for the future in a systematic way. In a general sense, if you want to go to a hill station say Ooty next month end, you have to chalk out various steps that are required to undertake that trip successfully. We may have to decide how to go, who all would accompany, where to stay at Ooty, places to be seen, things to be bought and the amount that would be required. This is planning for the trip.

Financial planning is planning which deals with money. In the hill station trip example, we did not consider only money aspect but all other related things. Financial planning normally restricts to the financial aspect. Financial planning is done both by the individuals for their own future life (PFP) and businesspeople to know about the funds required for a future period and the sources of funds available. Whether an individual is in college getting ready to graduate, at the peak of his or her career, or close to retirement, everyone needs to think about their financial future. Everyone makes financial decisions every day. Few people consider how to make better decisions to achieve a higher level of personal economic satisfaction.

Personal financial planning refers to the proper planning and implementation of well-coordinated plans to achieve financial objectives. The savings and investment made today should match the future goals.

- Taking conscientious and systematic steps towards fulfilling one's financial goals.
- The process of meeting life's goals through proper management of finances. Life goals can include buying a home, saving for child's education or planning for retirement.
- Personal finance involves much more than managing and investing money. *It also includes making all the pieces of your financial life fit together; it means lifting yourself out of financial illiteracy.* Like planning a vacation, managing your personal finances means forming a plan for making the best use of your limited time and money.

Every human being is interested in leading a 'Happy Life' as long as he lives. Happy life would mean having some goals to be achieved and possessing sufficient money to attain those goals. PFP helps one to lead a happy life by planning one's goals, process required to achieve the goals, the timing of the investments and the class of assets (here, assets denote the type of financial instruments where one has to invest the money like Bank FDs, Shares, National Savings Certificates, Real Estate etc.) to be invested in.

In India, the knowledge of personal finance is very poor at all ages. This subject is not offered in the higher secondary education or under graduate courses. *Children are not aware of such a concept and whatever they learn is from observing what their parents do.* PFP is offered as an elective at some PG (MBA) courses. *It is sincerely felt by the authors, and hence, it is a request to all the educational authorities to introduce some basics of PFP to the young children before they pass out of the school.* This would definitely help in increased fiscal responsibility being taken by the young citizens of India and also result in wise spending and improved savings and investment for the economy.

NEED FOR PERSONAL FINANCIAL PLANNING

Why one should plan one's finances can be understood by knowing the advantages or benefits one derives if he plans:

- **Seeing the Future with a Clear Vision:** When we have a goal to be achieved, we will be clear about the future, and through financial planning, we would be able to follow the steps needed to achieve the goal. Without a financial plan, it would be like groping in the dark and everyday crisis management.
- **Ensuring Financial Discipline:** Proper planning helps one to limit his/her expenses within the budget. It also ensures that planning is done for the various events in one's life and the money required for meeting them.
- **Giving the Person a Direction:** Planning sets forth the future vision of the individual. It helps him to attain various goals in his life.
- **Improving a Person's Financial Decision Making:** Financial planning helps a person in making right decisions about the spending and also investments and availing of loans at the appropriate time.
- **Assessing the Person's Risk Tolerance and Develop an Asset Allocation Strategy:** All people are not alike when it comes to taking risk in investing. Some may be aggressive while others may be conservative. There may be few others who may be balanced. Financial

planning helps in finding out the risk appetite (risk bearing capacity) of each individual, and on the basis of the risk appetite, suitable investments can be recommended.

- **Helping in Tax Reduction:** It also helps in planning the taxes one has to pay on his income. By proper planning, one can reduce his tax burden.
- **Safeguarding Self and Family against Financial Crises in the Event of Death or Disability:** As already understood, ***financial planning takes into account not only the individual's needs but also his entire family members.*** Financial planning in the form of obtaining insurance protects the family in times of distress (death or disability).
- **Tracking Investment Performance with Respect to Set Goals:** Financial planning is not a onetime exercise. Constant monitoring of the investments' performance *vis-à-vis* the goals set would help in taking corrective action at the right time.
- **Providing Peace of Mind:** It is said that a person who borrows without proper planning ends up in a debt trap. When he is unable to pay the debts, he loses his sleep and thus peace of mind. Efficient financial planning would ensure that the individual enjoys peace of mind.

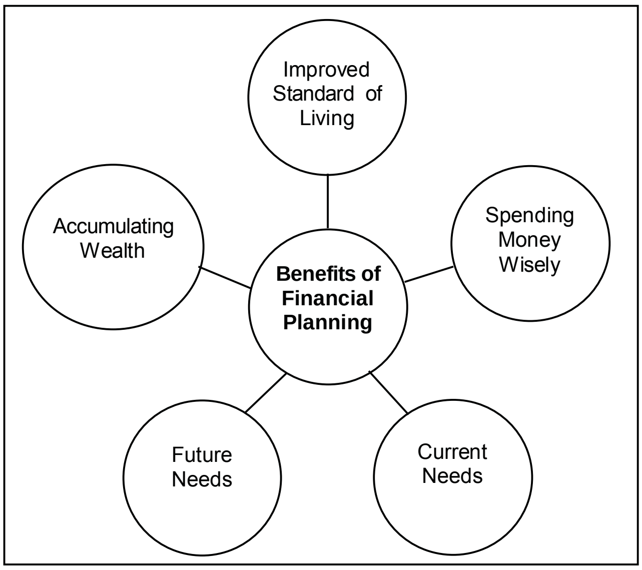

Fig. 1.1: Benefits of Financial Planning

MISCONCEPTIONS ABOUT FINANCIAL PLANNING

1. **It is a One-time Exercise:** Financial planning is thought of as onetime exercise which is not true. Financial planning requires close monitoring regularly and readjust or rebalance the asset portfolio so that the planned goals can be achieved within the time frame work drawn.
2. **It is Only about Tax Planning:** Tax planning is only one aspect of financial planning. Financial planning deals holistically and takes care of investment, protection and estate planning in addition to tax planning.
3. **It is to be Done When One Reaches Retirement Age:** Another wrong notion is that financial planning has to be thought of only when one is about to retire or nearing retirement. If one asks what is the right time to start one's financial planning, the answer would be yesterday. That means it should be done at the earliest, as soon as one starts earning money.

4. **It is Meant Only for Very Rich or High Net Worth Individuals (HNI):** Another misconception is that financial planning is meant for only rich people. Financial planning takes care of the goals of every individual whether rich or common man.
5. **It is Only about Investments:** As already seen, financial planning covers not only the investment aspect but also other aspects like insurance, tax planning, retirement planning and estate planning.
6. **Financial Planning Does not Need a Professional's Advice:** Financial Planning is a specialised job. It requires deep knowledge of the various investment options, regulatory guidelines, legal aspects, etc. This can be done only by a professional qualified financial planner.
7. **Financial Planning Advice is Too Costly:** It is true that one has to pay professional fees to the financial advisor. One should not forget that the benefits which one derives from this advice would be much more than the nominal fee one pays.

MILESTONES IN ONE'S LIFE

- Birth and School Education
- College Education
- Getting a Job
- Purchase of Car
- Entering the Familyhood – Marriage
- Purchase of Building/Flat
- Birth of First Child
- Education of First Child
- Birth of Second Child
- Education of Second Child
- Marriage of First Child
- Marriage of Second Child
- Retirement
- Death

During the student day, there will be no income but only spending. This portion would be taken care of by one's parents.

Earning Period: From the time of getting a job (say 24 years), the individual starts earning. Normally, during the age of 35-45 years, his income would be highest but so also the spending. Spending will be mainly on the education of children, loan repayments, marriage, etc. In the olden days, the retirement age was 58 or 60 years. **The earning years used to be 30 to 35 years.** In the modern days of stressful working life and working for over 12 hours daily to reach the targets given by the employer, the earning years is going to **reduce to 25 to 28 years** because of the burnout. This concept can be understood through the example of Life of the LCD Projector bulb. We cannot say as so many years. It is on the number of hours we have used the projector that determines its life. Hence, it is to be expressed as the number of hours of use. Similarly, when an individual works for over 12 hours daily, **his working life reduces to 25-30 years.**

Post Earning Period: The normal life expectancy period has been going up due to advancements in medicine. We keep seeing and hearing that people live upto 85-90 years. Hence, life post retirement works out to 40 years. During this period, your earning will stop but your spending will continue. Lot of emergencies in the form of operations, cataract surgery, cardiac problems, kidney failure, etc. occur necessitating huge expenditure which would act as a drain on our savings. Hence, huge amount of savings are required to have a "***Happy Retired Life.***"

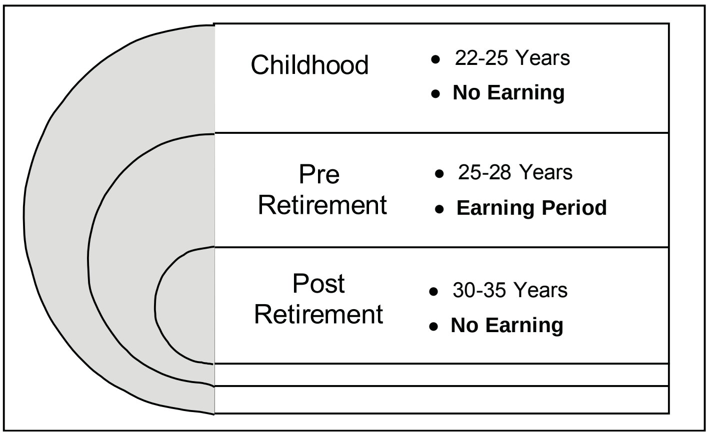

Fig. 1.2: Earnings in Life Stages

PLANNING FOR A LIFETIME

(a) Asset Acquisition Planning
(b) Liability and Insurance Planning
(c) Savings and Investment Planning
(d) Tax Planning
(e) Retirement and Estate Planning

FINANCIAL PLANNING PROCESS

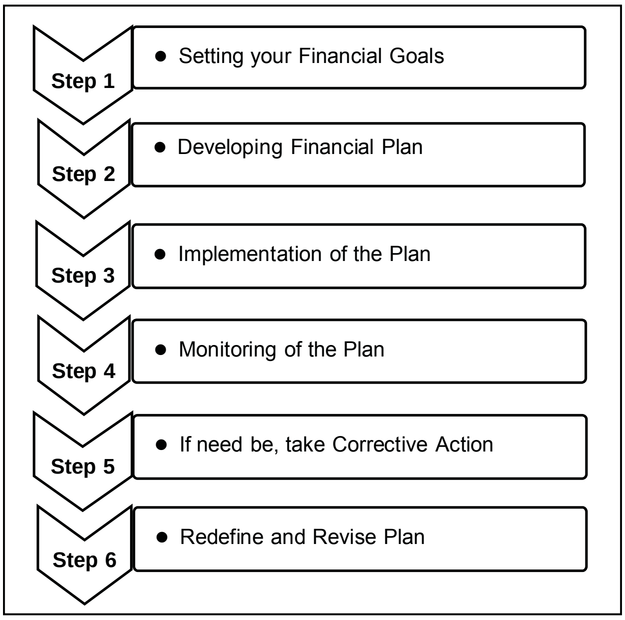

Fig. 1.3: Process of Financial Planning

Step 1: Setting Financial Goals: We have seen earlier various milestones in one's life. Each of the milestone becomes a financial goal. For example, buying a car, buying home, getting married, etc.

Most important step of financial planning is goal setting. This is a serious exercise and requires long-term thinking on an individual's part. We have to in fact plan our life cycle. The goals help us to know where we have to reach from where we are now and by which period the same shall be achieved. Let us learn something more about the Goal setting process.

Important Aspects to be Taken into Account in Goal Setting

The financial goals that one sets shall follow the "SMART" principles.

1. **Specific:** The goal should be specific and not vague. For example, "I want to be a wealthy person" is not specific because we are not sure for how much amount of money one can be termed wealthy.
2. **Measurable:** "What gets measured gets managed" – Peter Drucker. If we have no measurement, we will not be sure about the quantity. Hence, we have to quantify the goal in monetary terms, "I want to have ₹ 5 crores".
3. **Achievable:** It is said that the goal we set should be such that it is a little beyond reach but not that level to discourage. Hence, it should be challenging but within reach.
4. **Realistic:** The goal that we set should be realistic. I want to have ₹ 100 crores in the next two years is not realistic.
5. **Time-bound:** While setting a goal, we should specify the time by when it shall be achieved. For example, if one says that I want to buy a three bedroom house costing ₹ 1 crore. This goal satisfies all other aspects of SMART goal except the time. If we add "in the next four years", it becomes complete.

Illustration of a SMART Goal

- ***Goal: I want to purchase a Residential Flat***
  - **Specific:** I plan to save for the down payment for purchase of a flat.
  - **Measurable:** The down payment required is ₹ 10 lakhs.
  - **Achievable:** I plan to save every month ₹ 40,000 from my salary.
  - **Realistic:** I can save this amount from my current salary of ₹ 90,000 p.m.
  - **Time-bound:** I want to purchase this flat in the next two years from now.
- ***Goals can be classified into three types***
  - **Short-term:** Upto 1 year
  - **Intermediate Term:** More than 1 year up to 5 years
  - **Long-term:** Beyond 5 years

Each goal should be prioritised as **High, Medium or Low (H, M, L).** This rule applies when we prepare a financial plan for an individual and he has many goals under each of the above category.

The categorisation into short, intermediate and long-term and the goals that we seek is different for different individuals and it depends on the age and stage at which the individual is seeking to plan.

The following table gives some examples of goals for individuals at different stages of their life:

Sl. No.	Type of Individual	Short Term	Intermediate Term	Long Term
1	**Just Joined a Job**	Rent an apartment – (H) Arrange for down payment for purchase of motorcycle – (M)	Repay educational loan in 3 years (M) Purchase a small sized car (M) Get married (H) Go for a foreign tour – (L) Arrange for margin money for purchase of flat – (H)	Start investments for retirement planning (H) Purchase high end car Audi/BMW (L) Go abroad for higher studies (M)
2	**Married Couple – DINKS (Double Income No Kids)**	Have a kid (M) Go for North India tour (H)	Kid's schooling (H) Go for Europe tour (M) Go for a high end car (L)	Construct an investment portfolio (H) Make provision for early retirement of wife (M)
3	**Married Couple with School going children**	College admission of children (H) Review Life and General Insurance (M)	Marriage of children (M) Purchase an independent house with three bedroom (H) Purchase second car (M)	Diversify investment portfolio (M) Save money for sending children abroad for higher studies (L)
4	**Married Couple with Wife taken Retirement and Husband nearing Retirement (50s)**	Buy new furniture (H) Plan to visit your married daughter's place (M)	Review the current insurance and medical insurance policies for its sufficiency and take suitable action (H) Travel to pilgrimage and pleasure tour (M)	Decide about the retirement age (H) Decide about where to stay post retirement (M)

MACRO ECONOMIC FACTORS THAT HAVE INFLUENCE ON PERSONAL FINANCIAL PLANNING

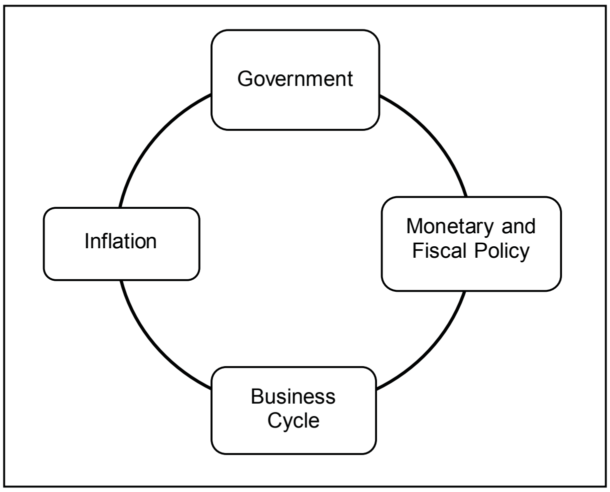

Fig. 1.4: Macro Economics Factors

1. **Government:** Government is one of the major influencers in the PFP environment. The policies of the government towards employment, education, etc. have great influence on the business.
2. **Monetary and Fiscal Policy:** Monetary policy is primarily concerned with the management of interest rates and the total supply of money in circulation and is generally carried out by central bank of the country (RBI). Fiscal policy is the collective term for the taxing and spending actions of governments. Monetary policy determines the amount of money in circulation. By varying the Repo rate, RBI increases or decreases the money in circulation which will impact the spending pattern of the consumers. Taxation policies determine the surplus available for investment in the hands of the individual.
3. **Business Cycle:** The business cycle or economic cycle is the downward and upward movement of Gross Domestic Product (GDP) around its long-term growth trend. These fluctuations typically involve shifts over time between periods of relatively rapid economic growth (expansions or booms), and periods of relative stagnation or decline (contractions or recessions) (Wikipedia).

A business cycle has four phases:

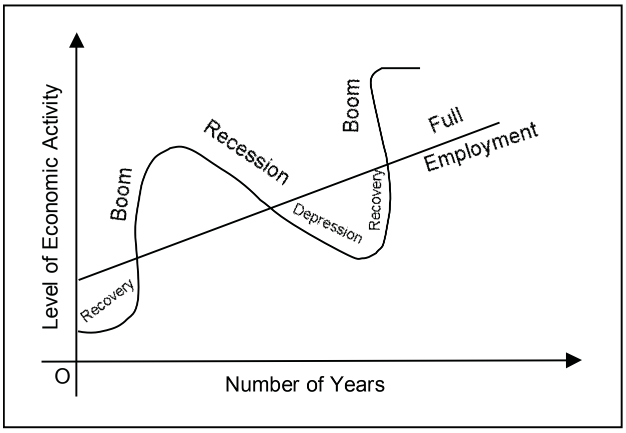

Fig. 1.5: Business Cycle Phases

(a) **Boom/Prosperity:** When there is an expansion of output, income, employment, prices and profits, there is also a rise in the standard of living. This period is termed as boom.

(b) **Recession:** During a recession period, the economic activities slow down. When demand starts falling, the overproduction and future investment plans are also given up. There is a steady decline **in the output, income, employment, prices and profits.**

(c) **Depression:** When there is a continuous decrease of output, income, employment, prices and profits, there is a fall in the standard of living and depression sets in. The economy almost comes to a standstill.

(d) **Recovery:** The turning point from depression to expansion is termed as Recovery or **Revival** Phase. During this phase, there are expansions and rise in economic activities. When demand starts rising, production increases and this causes an increase in investment. There is a steady rise in output, income, employment, prices and profits.

4. **Inflation:** Inflation is defined as a sustained increase in the general level of prices for goods and services. During times of boom, there will be high inflation as people will have lot of surplus in their hand and would drive demand for goods and services. As the supply does not catch up with demand, the price of goods and services go up. ***"Inflation is defined as***

too much money chasing too few goods". It is said that certain level of inflation is good for an economy but it should be under control. **When inflation occurs, value of money comes down.** Same amount of money gets you lesser goods. Inflation plays a very important role in PFP. ***When we plan for retirement, we must take into account the inflation factor so that we provide for more funds than nominal amount. Inflation robs purchasing power.***

PERSONAL FINANCIAL STATEMENTS

We know that when any person starts a business, he would like to know if the business is running well and earning profits; what are the various assets (what the business owns) and liabilities (what the business owes) as on a particular date. To know these, a business prepares a Statement of Profit and Loss (Income Expenditure statement) and a Balance Sheet.

Even in the case of an individual, we prepare financial statements to know the income and expenses of a particular period and the resultant surplus/deficit (we do not call it as profit or loss) and the assets and liabilities as on a date. In addition, we also prepare a Budget to estimate the income and expenses of one year.

Thus, there are three financial statements under Personal Financial Planning:

1. Income and Expenditure Statement
2. Balance Sheet
3. Budget

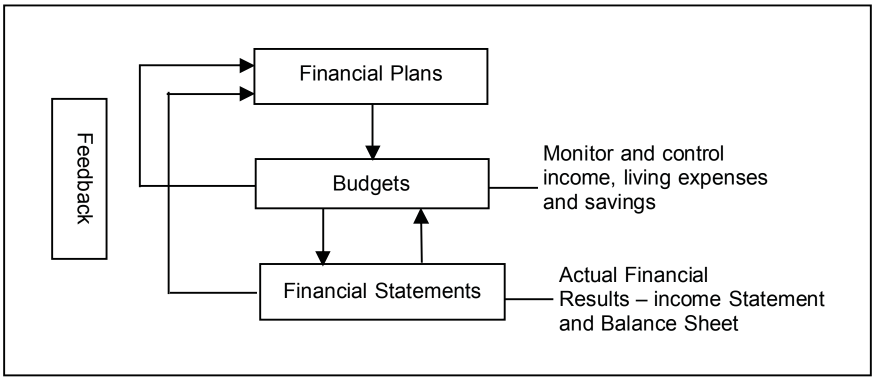

Fig. 1.6: Interrelationship between Financial Plans, Budgets and Financial Statements

Let us see in detail each one of them.

INCOME AND EXPENDITURE STATEMENT

This statement details the various sources of income of the individual and the expenses he normally incurs. The expenses are classified into fixed expenses which remain same month after month and variable expenses which differ from month to month. The excess of income over expenditure is called "SURPLUS". The surplus gets reflected as part of "Net Worth" in the Balance Sheet.

Income		Current Year	Previous Year	Two Years Back
• Salary • Bonus • Comm				

• Pension and Annuity • Investment Income	Interest, Dividend, rent, sale of securities			
Total Income				
Expenses				
• Housing • Clothing • Medicine • Insurance • Taxes • Recreation • Personal Care • Loan Repayments • Others				
Total Expenses				
Cash Surplus				

Fig. 1.7: Specimen of Income and Expenditure Statement

P.S.: Loan repayments are also shown as expenses. Excess of Income over Expenses is termed "Surplus". This surplus is represented by the various assets he owns which are displayed in the Balance Sheet and forms part of Net Worth.

BALANCE SHEET

Balance Sheet is a statement which shows what an individual owns **(Assets)** and what are the various amounts/dues to various people he owes **(Liabilities).** The excess of assets over the liabilities is termed **"NET WORTH".**

Assets	Liabilities
Liquid Assets	**Current Liabilities**
• Cash on Hand • Savings Account • Mutual Funds	• Lighting, Water, Cell Phone Bill • Rent • Credit Card Balance
Investments	**Long-term Liabilities**
• House/Site • Debentures • Shares	• Housing Loan • Car Loan, Personal Loan • Educational Loans
Property	
• Owned House • Rented House	Net Worth (Assets – Liabilities)
Personal Property	
• Vehicles • Jewellery	

Fig. 1.8: Specimen of Balance Sheet

P.S.: **Liquid Assets are those which can be converted to cash quickly. Under Property, Rented House means the individual owns two houses – one where he stays and the other he has let out from which he gets rental income.**

Under liabilities, credit card outstanding (balance) which is due to the bank is shown as liability. Outstanding amount as on the date of balance sheet under various loans borrowed by the individual is shown as liability. Excess of assets over liabilities is called 'Net Worth' which is nothing but the individual's assets after paying all his dues.

BUDGET

'Budget' means a forecast or estimate of the future receipts and payments. We are familiar with the budget that is presented by the Finance Minister every year on the 28th of February detailing the estimated receipts and payments during the coming financial year 1st April to 31st March. Similar statement is prepared under PFP which helps the individual to manage his funds efficiently as he would be knowing the future income and expenses in advance. He can plan for the investments based on the surplus. If he finds that the receipts may fall short of expenses, he may either reduce some discretionary expenses or look for sources of funds for meeting the deficit.

Name:

Date:

Particulars	**Monthly**	**Annual**
INCOME		
Salary **(take-home)**		
Bonus		
Part-time jobs		
Income from house property **(if let out)**		
Interest/Dividends **(on deposits and investment in shares)**		
Other Incomes		
Total Income (A)		
EXPENSES		
Fixed Expenses (must pay a specific amount every month)		
Rent		
Property Taxes		
Health Insurance Payments		
Life Insurance Payments		
Car/Housing/Personal Loan Payments		
Public Transportation		
Credit Card Payments		
Other Fixed Payment		
Total Fixed Expenses (B)		
Variable Expenses (must pay but amounts vary every month)		
Electricity		
Gas		
Water		
Internet/Broadband		

Basic Telephone		
Childcare		
Toiletries		
Basic Clothing		
Car Petrol/Repair and Maintenance		
Tuition/Course Fees		
Stationery and Postage		
School Books and Supplies		
Other Variable Expenses		
Total Variable Expenses (C)		
Total Fixed and Variable Expenses (D) = (B + C)		
Remaining Balance (Income minus Fixed and Variable Expenses) (E) = (A – D)		
Discretionary Expenses (Optional)		
Savings		
Investments		
Additional Payments on Loans/Credit Cards		
Additional Clothing		
Pet Food and Care		
Eating Out		
Outside Entertainment (Clubs, Cinemas)		
Gifts/Donations		
Subscriptions		
Books, CDs, Games, Accessories		
Household Furnishings, Remodeling		
Other Discretionary Expenses		
Total Discretionary Expenses (F)		
TOTAL EXPENSES (G) = (D + F)		
REMAINING BALANCE (Surplus/Deficit) (A – G)		

Fig. 1.9: Specimen of Budget

Use of Ratios in Personal Finance:

The following table lists the ratios, their meaning and ideal number.

Sl. No.	Name of the Ratio	What it Denotes	Formula	Ideal Ratio
1	**Liquidity Ratio**	Your ability to meet monthly expenses out of liquid assets in times of emergencies or a temporary break in the job.	Liquid Assets ÷ Monthly Expenses	5 and above

2	**Solvency Ratio**	This ratio reveals the coverage of assets to one's total debts.	Total Assets ÷ Total Debts	More than 1.5
3	**Savings Ratio**	This expresses the amount of income that you have set aside as savings. Higher ratio indicates that the individual is saving more.	Savings per year ÷ Annual Gross Income × 100	10% to 20% Depending on age, very early age and later part of one's career, the percentage can be higher
4	**Debt Service Ratio**	What is the amount of money that goes towards debts from the available surplus (Post Tax Salary).	Total Monthly Loan repayments ÷ Monthly Net Salary × 100	Bankers while granting loans normally consider up to 60% as ok
5	**Housing Payment Ratio**	It measures how much of your income goes towards housing loan repayment (EMI = Principal + Interest).	Housing Loan Monthly Instalment ÷ Monthly Net Salary × 100	Bankers while granting housing loans normally consider up to 30% as ok.

Seven Principles of Good Personal Financial Planning

1. **Make Saving a Habit:** The first principle is that we should make savings a habit. Savings should not be at random on months when the expenses are lesser than income. We know the saying "Habits die hard". Good habits are welcome and it should be practised. If savings become a habit, then it would help in building the long-term corpus and help in meeting the various financial goals.
2. **Maintain a Personal Diary:** It is always good to have record of events in the form of a diary. It is suggested that we have two diaries, one to record the events at the office and the other to record that of family/domestic life. Maintain a diary of due dates of various deposits and investments (month wise) and see it before the beginning of the month and take appropriate action.
3. **Prepare a Budget:** Budget helps in knowing in advance the income and expenses that are to be received in the ensuing period. This helps in planning the source of funds for months when a deficit is anticipated or to reduce the discretionary expenses in the months where the deficit might occur.
4. **Have Separate Files for Various Important Items:** We should maintain file for important documents pertaining to family. A separate file should be kept for income tax, house property, bills and receipts of assets purchased, statement of account of Savings Accounts, demat account statements, all guarantee/warranty cards of assets acquired etc.
5. **Diversify Your Investments:** Do not invest all your money in any one type of asset say bank deposits, shares and securities, real estate, gold, etc. It is good to have investment in all class of assets so that the risk is spread. Remember the proverb ***"Do not put all eggs in one basket"***.
6. **Enjoy 'Present':** Yesterday is History, Tomorrow is a Mystery and Today is the 'Present'. Too much of tightening of expenses at the cost of health or enjoyment (moderate level) is not good. After all, whatever we earn during our lifetime, we should also enjoy and only keep some balance for our kith and kin.

7. **Help Others When You Can:** Doing charities (whatever little one can) is like individual's social responsibility. Lot of organizations have been celebrating a month in a year as 'Joy of Giving'. Participate in them or do your own way like giving donations for studies of a poor student.

Problems on Personal Financial Statements

1. With the following data, prepare a personal Income Statement and Balance Sheet.

(Amounts in ₹ lakhs)

Particular	Amount (₹)
Salary	25.0
Bonus	2.0
Interest Income	0.5
Housing (rent)	1.2
Household expenses	2.0
Recreation (vacations)	0.5
Taxes	4.0
Vehicle loan instalment (annual)	1.8
Utilities	0.3
Educational loan (annual payment)	0.5
Medical	0.25
Credit card balance	1.5
Savings Account Balance	0.75
FDs	2.0
Mutual Funds	1.5
Stocks	1.5
Jewellery	2.5

Solution:

Income-Expense Statement

Income	
Salary	20.00
Bonus	2.00
Investment Income	0.50
Total Income (A)	**22.50**

Expenses	
Housing (rent)	1.20
Household expenses	2.00
Recreation (vacations)	0.50
Taxes	4.00
Vehicle loan instalment (annual)	1.80

Utilities	0.30
Educational loan (annual payment)	0.50
Medical	0.25
Total Expenses (B)	**10.55**

Net Income (A) – (B) (Surplus)	**11.95**

Balance Sheet			
Liabilities		**Assets**	
Current Liabilities		**Liquid Assets**	
Credit card Balance	1.50	FDs	2.00
Long-term Liabilities	NIL	Mutual Funds	1.50
		Savings Account Balance	0.75
		Investments	
		Stocks	1.50
Equity (Net Worth)		**Personal Property**	
(Total Assets – Liabilities)	6.75	Jewellery	2.50
Total Liabilities	8.25	**Total Assets**	**8.25**

2. From the following particulars, prepare a Balance Sheet and an Income Statement of Aditya:

(Amount in ₹)

Particulars	Amount (₹)
Rent for the month	15,000
Monthly Take-home Salary	39,500
Cash in Checking Account	4,500
Savings Account Balance	8,900
Spending for Food	4,500
Balance of Educational Loan	2,00.000
Current Value of Automobile	78,000
Telephone Bill paid for month	650
Credit Card Balance	23,500
Loan Payment	800
Auto Insurance	230
Household Possessions	3,40,000
Stereo Equipment	70,000
Payment for Electricity	900
Lunches	1,800
Donations	7,000

Home Computers	45,000
Value of Stock Investment	4,00,000
Clothing purchase	3,000
Hotel Spending	1,300

Solution:

Income-Expense Statement

(Amounts in ₹)

Income	
Salary	39,500
Bonus	
Investment Income	
Total Income (A)	**39,500**

Expenses	
Housing (rent)	15,000
Food	4,500
Telephone Bill	650
Auto Insurance	230
Loan Payment	800
Electricity	900
Lunches	1,800
Donations	7,000
Clothing Purchase	3,000
Restaurant Spending	1,300
Total Expenses (B)	**35,180**

Net Income (A) – (B)	**4,320**

Balance Sheet			
Liabilities		**Assets**	
Current Liabilities		**Liquid Assets**	
Credit Card Balance	23,500	Checking Account Balance	4,500
Long-term Liabilities			
Educational Loan	2,00,000	Savings Account Balance	8,900
		Investments	
		Stocks	4,00,000
Equity (Net Worth)		**Personal Property**	
(Total Assets – Liabilities)	7,22,900	Automobiles	78,000
		Household Possession	3,40,000
		Stereo Equipment	70,000
		Home Computers	45,000
Total Liabilities	9,46,400	**Total Assets**	**9,46,400**

POINTS TO REMEMBER

1. Financial Planning is a must for every individual. Every individual must plan for his future at the earliest available opportunity – as soon as he starts his career in the first job.
2. PFP refers to the proper planning and implementation of well-coordinated plans to achieve financial objectives. The savings and investment made today should match the future goals.
3. There are various benefits of financial planning like definiteness about various goals in one's life, spending wisely, improved standard of living, etc.
4. PFP process involves six steps – setting financial goals, developing financial plan, implementation of the plan, monitoring of the plan, taking corrective action wherever needed and redefine/revise he plan.
5. Goal Setting is one of the important steps in PFP. While setting the goal, we have to follow the "SMART" Principle.
6. Goals are classified into three types – Short-term, Intermediate term and Long-term.
7. During financial planning, one has to consider the macro economic factors prevalent during like business cycle, inflation, etc.
8. We use three financial statements in the PFP – Income Statement, Balance Sheet and Budget.

REVIEW QUESTIONS

1. What is Personal Financial Planning? What are its benefits?
2. Explain, briefly, the Financial Planning Process.
3. Explain the importance of goal setting in PFP. What are the three types of goals? Give two examples for each of the type of goal for a college going student, one who had 10 years job experience and one who is 50 years and wants to retire in the next 2 years.
4. While drawing the financial plan of an individual, we have to consider various macro economic factors. Explain.
5. Explain the three financial statements used in PFP. Which ratios are used in PFP?
6. What are the seven principles of good personal financial planning?