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B.Com Honours | Semester III | Calicut University

PERSONAL FINANCIAL PLANNING

Course Code: COM3MN205 • Module 1 Notes

Module I: Personal Finance & Time Value of Money

Personal Financial Planning is the comprehensive process of managing personal income, expenditures, savings, and investments to achieve short-term and long-term financial independence.

Unit 1: Meaning & Importance of Personal Financial Planning

Definition: A structured roadmap assessing an individual's current financial position, setting realistic life goals (education, home purchase, retirement), and executing optimal wealth allocation strategies.
Importance: Prevents debt traps, ensures adequate liquidity during emergencies, mitigates inflation risks, and secures long-term post-retirement financial freedom.

Unit 2: Financial Goals & Financial Literacy – Core Pillars

1. Financial Goal Horizons: Short-Term (< 1 year - emergency fund), Medium-Term (1-5 years - car purchase), and Long-Term (> 5 years - retirement pool).
2. Financial Literacy Pillars: Financial Knowledge (understanding interest rates & inflation), Financial Behavior (disciplined spending), and Financial Planning Execution.

Unit 3: Financial Attitude, Savings Rules, & Fraud Prevention – The 50-30-20 Rule

1. The 50-30-20 Budgeting Rule: Allocation of Net Take-Home Income:

> **50% Needs (Rent, Utilities, Food) | 30% Wants (Dining, Entertainment) | 20% Savings & Debt Repayment**

2. Ponzi Scheme Identification: Fraudulent investment operations offering unrealistically high, guaranteed returns with zero risk. Red flags include unregistered entities, multi-level recruitment pressure, and opaque investment strategies.

Unit 4: Time Value of Money – Compounding, Discounting, & Rule of 72

1. Future Value (FV) Formula:

> **FV = PV × (1 + r)^n**

2. The Rule of 72 (Doubling Time Estimation):

> **Doubling Time (Years) = 72 / Annual Interest Rate (%)**

Practical Problem 1 (50-30-20 Budget Breakdown & Rule of 72 Application):
Part A (Budgeting): An individual earns a monthly net salary of Rs. 60,000. Apply the 50-30-20 budgeting rule to calculate exact allocations for Needs, Wants, and Savings.

Part B (Rule of 72): If Rs. 1,00,00,000 is invested in a fixed return instrument yielding 8% p.a. compound interest, calculate (i) years required to double the capital using Rule of 72, and (ii) total accumulated wealth after 18 years.

Step-by-Step Solved Solution:

- **Part A (50-30-20 Budget Allocation Table):**

Category	Percentage Allocation	Monthly Amount (Rs.)	Sample Expenditures Included
Needs	50%	(60,000 imes 50% = mathbf{30,000})	House rent, groceries, electricity, medical insurance
Wants	30%	(60,000 imes 30% = mathbf{18,000})	Dining out, subscriptions, vacation, leisure
Savings	20%	(60,000 imes 20% = mathbf{12,000})	Mutual fund SIPs, Emergency fund, NPS contribution

- **Part B (Rule of 72 & Wealth Accumulation):**
  (i) Doubling Period = (72 / 8 = mathbf{9.0 ext{ Years}}).
  (ii) Wealth Growth over 18 years:
  At 9 years (1st double) → Rs. 2,00,00,000.
  At 18 years (2nd double) → Rs. 4,00,00,000.
  Accumulated Capital after 18 Years = Rs. 4,00,00,000 (40 Lakhs)