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B.Com Honours | Semester III | Calicut University

PERSONAL FINANCIAL PLANNING

Course Code: COM3MN205 • Module 2 Notes

Module II: Debt Management & Credit Score

Debt Management involves analyzing credit facilities, controlling interest liabilities, and maintaining healthy credit scores to prevent personal financial distress.

Unit 5: Budgeting Income & Payments – Cash Flow Tracking

Tracking cash inflows (salary, dividends) against cash outflows (fixed expenses, variable debt service). A continuous monthly deficit triggers debt accumulation and financial insolvency.

Unit 6: Personal Financial Deficit & Financing Alternatives

Borrowing options available when cash flow is negative:
Personal Loan: Unsecured loan with high interest rates (12%-18% p.a.).
Housing Loan: Secured long-term mortgage with low interest rates (8.5%-9.5% p.a.) and tax benefits under Section 24(b) & Section 80C.

Unit 7: Loan Categories, Credit Cards, & Equated Monthly Installment (EMI) Formula

1. Loan Types: Education Loan (Section 80E interest deduction), Vehicle Loan, and Credit Cards (revolving credit with high penalty rates up to 42% p.a. for missed payments).
2. EMI Formula:

> **EMI = [P × r × (1 + r)^n] / [(1 + r)^n - 1]**

Where: P = Principal Loan Amount, r = Monthly Interest Rate ((Annual Rate / 12 / 100)), n = Tenure in Months.

Unit 8: Good vs. Bad Debt, Net Worth Statement, & Credit Score (CIBIL)

1. Good Debt vs. Bad Debt: Good debt creates long-term assets or earnings (home loan, education loan). Bad debt finances depreciating consumption items (credit card rollover, personal vacation loan).
2. Personal Net Worth Formula:

> **Net Worth = Total Personal Assets - Total Personal Liabilities**

3. Credit Score (CIBIL): Ranges from 300 to 900. Scores > 750 reflect low credit risk, securing lower interest rates. Factors: Payment History (35%), Credit Utilization Ratio (30%), Credit Mix (10%), New Credit Applications (10%).

Practical Problem 2 (Personal Net Worth Statement & EMI Amortization Calculation):
Part A (Net Worth): An individual owns: House = Rs. 50,00,000; Car = Rs. 8,00,000; Mutual Funds & Bank Savings = Rs. 12,00,000. Liabilities: Housing Loan Outstanding = Rs. 30,00,00,000; Car Loan Outstanding = Rs. 4,00,00,000; Credit Card Debt = Rs. 1,00,000. Prepare Personal Net Worth Statement.

Part B (EMI Computation): Calculate monthly EMI on a personal loan of Rs. 1,00,000 at 12% p.a. simple monthly rate for a 1-year tenure (n = 12 months, r = 0.01 per month).

Step-by-Step Solved Computations:

- **Part A (Personal Net Worth Statement):**

Assets	Amount (Rs.)	Liabilities	Amount (Rs.)
Residential House Property	50,00,000	Housing Loan Outstanding	30,00,000
Motor Car	8,00,000	Car Loan Outstanding	4,00,000
Mutual Funds & Bank Cash	12,00,000	Credit Card Overdue	1,00,000
TOTAL ASSETS	**70,00,000**	**TOTAL LIABILITIES**	**35,00,000**

Personal Net Worth = Total Assets (70,00,000) - Total Liabilities (35,00,000) = Rs. 35,00,000

- **Part B (EMI Calculation):**
(P = 1,00,000), (r = 0.01), (n = 12).
((1 + r)^{12} = (1.01)^{12} = 1.126825).
EMI = ([1,00,000 imes 0.01 imes 1.126825] / [1.126825 - 1] = 1126.825 / 0.126825 = mathbf{Rs. 8,885 ext{ per month}}).