

HOW TO MAKE A FINANCIAL PLAN

MODULE 5



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Topics In This Module

1. What Are Financial Goals?
2. How Do We Use a Plan to Reach Our Financial Goals?
3. How Do We Prepare a Financial Plan, a Budget?
4. What Are the Different Ways To Prepare a Financial Plan?

Dear Learners,

Welcome to the fifth module of our Financial Literacy program.

In this module, we will learn about How to Make a Financial Plan. We name this as budgeting. Financial Plans help us control our Money and save to reach our goals.

Every day we spend Money. We would also like to buy things that may require more Money than we have today. This can only be possible if we save today. Saving means spending less than we earn. In this module we will learn about how we can make smart decisions to reach our financial goals.

In this module first, we will learn what financial goals are and how we can determine them. Then, we will learn how we can use a plan to reach our financial goals.

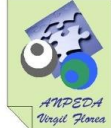
Later, we will discuss how we can prepare a financial plan. We will talk about income, different types of expenses and savings.

After that, we will learn about different ways a financial plan can be prepared and how a budget can be evaluated at the end of the period.

By this way we will be able to determine how we can be independent and plan a good financial future.

To understand how to prepare a financial plan, we will learn the meanings of different financial concepts such as financial plan, budget, financial goals, income, expenses, needs and wants, savings, fixed expense, flexible expense, budgeting techniques such as 50-30-20 rule, zero-based budgeting, cash envelope budgeting and pay yourself first budgeting. We have already learned about some of these concepts. In this module, we will learn how to make a financial plan by using all these concepts. As a result, we will be able to reach our financial goals and be ready for emergencies.

Let's start.



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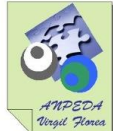
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These are the key concepts we have covered.

<p>Financial Plan</p> 	<p>Budget</p> 	<p>Financial Goals</p> 
<p>Income</p> 	<p>Expenses</p> 	<p>Needs</p> 
<p>Wants</p> 	<p>Savings</p> 	<p>Fixed Expense</p> 
<p>Flexible Expense</p> 	<p>50-30-20 Rule</p> <p>50-30-20 Rule</p>	<p>Zero-Based Budgeting</p> 
<p>Cash Envelope Budgeting</p> 	<p>Pay Yourself First Budgeting</p> 	



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What Are Financial Goals?

We make decisions about how to spend our income every day. Buying something today means giving up buying something else later. For example, if we have €10 and spend all of it to buy coffee and ice cream today, we will not have any money left for other purchases. If we want to buy a tablet for ourselves, we need to save some of our income to be able to buy it in the future. We can plan our savings by using a budget to reach our goal of buying a tablet. That is, we have to rank our choices for spending today and understand the future effects of our decisions.

We need to set clear goals. When we determine our short-term or long-term goals, we should make sure that they are specific, measurable, attainable, relevant and timebound. Specific goals tell us who, what, where when and why. We should also be able to measure goals and determine how much of it we have achieved. For example, if our goal is to save €1000 to buy a mobile phone in 20 months, it is specific, measurable and timebound. We have determined a time period for achieving our goal. It is also attainable or realistic if we can save €50 per month.

In our example, we have determined a time period of 20 months for achieving our goal. This is a long-term financial goal. If we have goals that we can reach within a year, these are short-term goals.

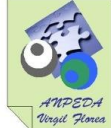
How Do We Use a Plan To Reach Our Financial Goals?

Once we set our goals, we need to make a plan to reach these goals. Planning means that we determine how much we earn, how much we spend and how much we can save. This provides us with the ability to control our expenses and savings. We can understand our spending patterns and control how much we spend. In this way, we can make smart choices. If we buy one thing, this means that we give up buying another thing.

By using plans, we can reach our future financial goals and also have a safe future. However, it is usually hard to balance our needs and wants and save at the same time. In this respect, the financial plan helps us become aware of where our Money comes from and where it goes. This helps us know how much to spend and save. In this way, we don't spend the Money we do not have. We should not forget that spending less means saving more from our income. If we start saving early, we become financially independent in the future at an early age.

A budget is a plan of the income we expect to receive and how we will spend this income to meet our expenses over a period of time. It is a financial plan. It helps us control our Money and achieve our financial goals. It changes based on our changing conditions. For example, if we have a raise in our salary, we will have to change the income value in the budget. If the price of food goes up, we have to increase our food expense value in the budget.

We all have our own budgets. Budgets can have different time periods. We can prepare budgets on a yearly or monthly basis. If we receive a salary every month, we may prefer to have a monthly budget.



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When we make a financial plan, we can track our income and also see where we spend this Money. This helps us determine where our money goes. We can see if we spend money on things that we do not need. We learn about our spending patterns. Being aware of this, we can control our spending. It also helps us save money to meet our future needs or achieve our financial goals. We can also determine if we spend more than our income. In this way, we don't run out of Money. Moreover, we prepare for unexpected events with the help of a financial plan.

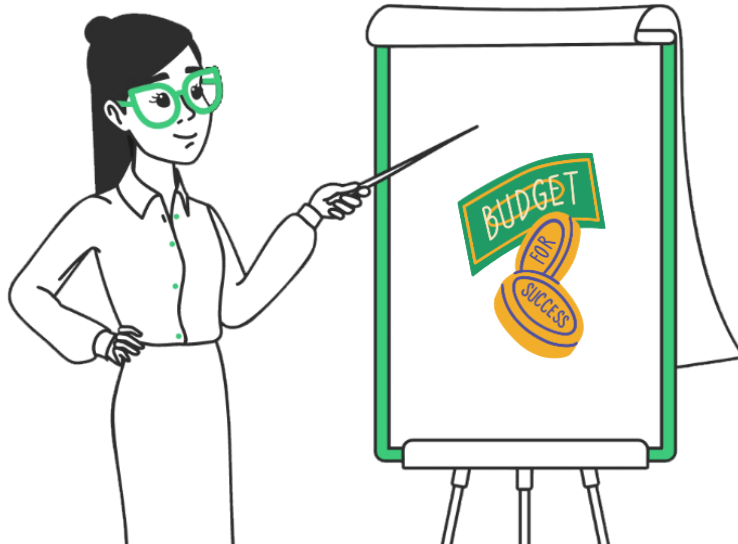
How Do We Prepare a Financial Plan, a Budget?

Then let's see how we can prepare a financial plan, a budget. The steps in preparing a budget and using it to control our money to reach our financial goals can be listed as follows:

After we set our financial goals, we need to determine where our Money comes from as the first step. Then we need to list our expenses. The difference between our expenses and income shows us our expected savings. The budget shows our expected income, expenses, and savings at the beginning of the period.

Then we need to write the actual income and expenses next to our expected values at the end of the period. We compare our expected values and actual results to find out how we did.

Let's go over each step, in detail.



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Where Does Our Money Come From?

Let's say we want to save €1000 to buy a mobile phone in the next 10 months. This is our short-term financial goal. It requires us to save €100 per month to achieve our goal for the next 10 months.

The first step after determining our financial goal is to determine where our Money comes from. This is our income. As we have discussed in Module 3, there are different ways of creating income or making Money. Many people earn money by working or we can get pocket money from our parents. Once we know our goal, we need to determine our income sources for the next months.

Let's assume we get an allowance of €50 per month from our parents. We also found a part-time job at our local market to help with organizing shelves at an hourly wage of €10. Since we go to school, we will work for 10 hours per week. This means that our wage income will be €400 per month. This means we expect to have an income of €450 in one month. That is €50 as allowance plus €400 as wage.

The Income part of the budget for our example is shown in the document. Let's stop the video and check it.

INCOME	BUDGET
Allowance	€50
Part-time job	€400
TOTAL INCOME	€450

Where Does Our Money Go?

The second step in the budgeting process is to determine where our money goes. These are our expenses. We buy things that we need or want. When we make a budget, it is important to distinguish between these.

How can we define a need? Let's remember the example we had in Module 1. A need is something we must have to survive like food, shelter, and clothing. We have to drink water to survive so water is a need. We can't survive without water.

Then what is a want? A want is something that is nice or fun to have. We can live without the things that are wants. It would be nice to buy an ice cream and eat it. However, ice cream is not necessary for us to survive. We can live without an ice cream so ice cream is a want.



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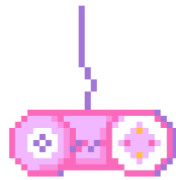
Since we do not have unlimited Money, we have to make choices. We usually buy things we need first. Then we buy things that we want.

For example, we should first buy a healthy lunch and then see if we have enough money left for the dessert. Knowing the difference between needs and wants helps us plan better. How do we know if something is a need or a want?

We ask the question "If I don't have this thing, will my life be affected negatively?" If we say yes, then this thing is a need. If we say no, then this thing is a want.

We should also remember that every person has different needs and wants.

Wants



Needs



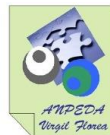
What are the different types of expenses?

Expenses can also be put into different categories. Some expenses are fixed, and some are flexible. Distinguishing between these is also important.

Fixed expenses do not change each month. For example, if we have a prepaid mobile plan that we pay a fixed amount every month, this would be a fixed expense.



Flexible expenses change from one month to another. For example, if we go on vacation, the Money we pay for the vacation is an example of a flexible expense. We will only have the vacation expense in the month we spend for the vacation.



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Where does our money go?

EXPENSES	BUDGET
Prepaid Mobile Plan	€15
Transportation Monthly Pass	€20
Food	€185
Clothing	€80
Shoes	€50
TOTAL EXPENSES	€350
Savings	€100
TOTAL	€450

Let's continue with our example. Let's assume we pay €15 for our prepaid mobile plan every month. We may spend money on other expenses such as transportation, food, entertainment, school supplies, clothes, shoes, gifts for special days and personal care. Let's assume all these expenses add up to €350.

Let's stop the video and analyze the expenses part of the budget shown on the document.

By analyzing our expenses, we can learn more about how we decide to spend and the factors that influence our decisions. By categorizing them as needs and wants as well as fixed and flexible, we can decide how to control them. For example, if our food expense includes frequent eating or ordering from outside, we may choose to eat at home more often to reduce this expense.



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How Did We Do?

EXPENSES	BUDGET	ACTUAL	DIFFERENCE
Allowence	€50	€50	0
Part-time job	€400	€400	0
TOTAL INCOME	€450	€450	0

EXPENSES	BUDGET	ACTUAL	DIFFERENCE
Prepaid Mobile Plan	€15	€15	0
Transportation Monthly Pass	€20	€20	0
Food	€185	€210	€-25
Clothing	€80	€80	0
Shoes	€50	€75	€-25
TOTAL EXPENSES	€350	€400	€-50
Savings	€100	€50	€-50
TOTAL	€450	€450	

After we prepare our budget, we need to try to follow it. At the end of the month, we compare our actual income and spending to our budget numbers. We should calculate the differences to find out if we overspend and to determine which expenses to decrease. In this way, we can increase our savings.

Let's assume that we have actually earned €450 as we had planned. However, our expenses added up to €400. This means that we could not save €100 as we planned. This will negatively affect us in saving €1000 in 10 months to reach our goal of buying a mobile phone.

When we analyze our expenses in detail, we see that we planned to spend €50 on shoes but actually, we spent €75. If these shoes were not a need but a want, then we could have avoided this expense. Also, we analyze the details of our food expenses and find out if we can reduce them. Let's stop the video and analyze the final budget shown in the document.



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What Are the Different Ways To Prepare a Financial Plan?

When preparing a budget, we actually set targets for ourselves. There are four different methods for budgeting to help us reach our aim.

The first method is applying the 50-30-20 rule. In this method, we spend 50% of our income on needs, 30% on wants and 20% is saved.

50-30-20 Rule

The second method is Cash Envelope budgeting. In this method, the amount calculated for spending is taken as cash and put into envelopes based on each expense category. Then the spending is done from the envelopes. In this way, the savings are not touched. This helps us limit our spending for each spending category. For example, we only put €50 for shoes so we will have this amount available for spending. It will make us aware of the extra spending we wanted to have for the €75 shoes and we would not be able to spend the extra €25 since it will not be available as cash.



The third method is zero-based budgeting. In this method, we make our income equal to our spending and savings. There is no extra money left. We should remember that the expenses should be broken down into detail and include savings.



The fourth method is pay-yourself-first budgeting. In this case, we set a certain amount to be put aside from our monthly income as savings and the rest is spent without tracking every expense.



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What Did We Learn?

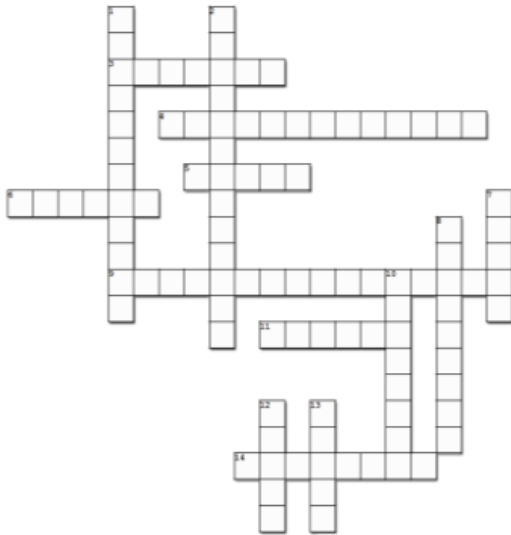
- FINANCIAL GOALS
- FINANCIAL PLAN
- BUDGETING METHODS



Every day we make decisions about money. We receive money, buy things and spend money. We save some of our money. We are the ones who are responsible for these decisions. Also, we are the ones who experience the results. That's why financial planning is needed to control our spending for a better financial future. In this module, we learned concepts such as financial goals, financial plans, the difference between needs and wants, and different budgeting methods that may help us achieve our financial goals.

Now, Let's solve the crossword puzzle.

How to Make a Financial Plan Crossword



Words:

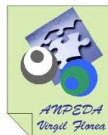
- Financial Plan
- Budget
- Financial Goals
- Income
- Expenses
- Needs
- Wants
- Savings
- Fixed
- Flexible
- Fifty
- Zero-based
- Cash envelope
- Pay yourself first

Across

3. The amount left after expenses are deducted from earnings
4. Planning our income, expenses and savings
5. The percentage allocated to needs in the 50-20 rule
6. Financial plan
9. In this method, we first put our savings aside and spend the rest of our income
11. Earnings
14. Where our money goes

Down

1. The budgeting rule where the expenses are put as cash in envelopes
2. What we want to achieve with our money
7. Things that can be avoided if needed
8. In this budgeting technique income is equal to savings and expenses
10. Money spend for vacation would be an example of this type of expense
12. Type of expense that occurs every month
13. Things that we cannot do without



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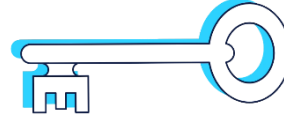


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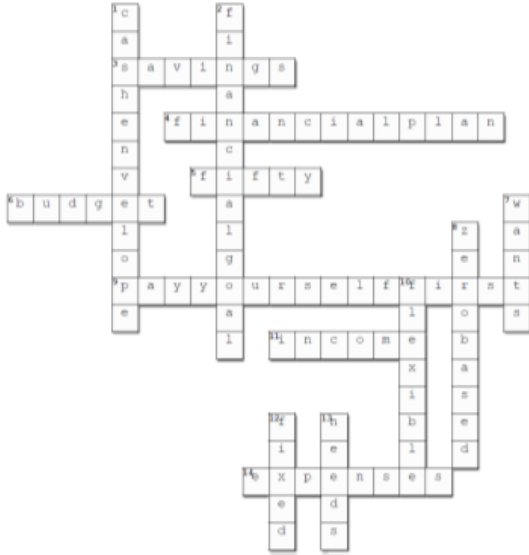


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- These are the answers. How did we do?



How to Make a Financial Plan Crossword



Words:

- Financial Plan
- Budget
- Financial Goals
- Income
- Expenses
- Needs
- Wants
- Savings
- Fixed
- Flexible
- Fifty
- Zero-based
- Cash envelope
- Pay yourself first

Across

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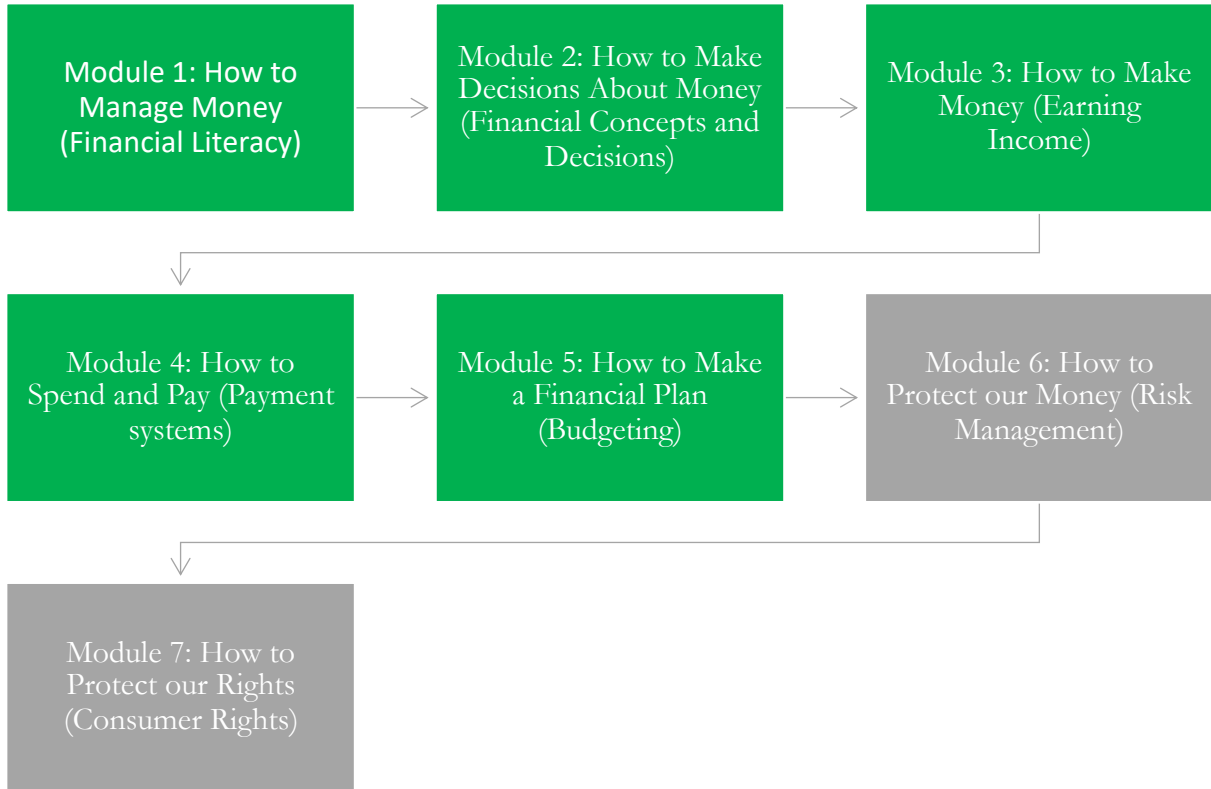


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Congratulations – Module 5 ✓



- Congratulations we have completed module 5 where we discussed how to make a financial plan.



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