Personal Financial Planning

accountant-blog

Introduction

Setting up a personal financial plan allows a person to have better control of the funds inflow, outflow, the assets and liabilities, and generally his/her wealth position. In addition, a personal financial plan allows a person to know why, what, how and when the inflows and outflows are occurring.

Financial planning helps an individual determine his/her short and long-term financial goals and create a balanced plan to meet these goals. In addition, allows an individual to have better control of his/her income and expenses.

Planning and monitoring helps a person to manage and prioritize his/her expenditure, identify wasteful and variances of actual from budget and adapt accordingly and on time. In addition, setting up a financial plan reduces the levels of stress since there are no surprises. It is said that a person who does not have a plan to succeed is without doubt planning to fail.

It is clearly evidenced that having a financial plan will enable an individual to control his/her financial situation and enhance quality of life, which is directly connected with money-related issues and future needs. Persons who have clearly established goals are enjoying greater financial net worth and better standard of living.

Steps for setting-up a financial action plan

A person can develop his/her own personal financial plan or a professional financial planner can be employed to develop a person's financial plan.

A financial plan must represent the following categories, analysing in each category the necessary actions need to be followed:

1. **Current financial position to be determined**

   The first step in creating a financial plan is to determine a person's financial position. This will help a person identify his/her current financial position and establish realistic short-term and long-term goals.

   A list of current assets and liabilities need to be determined (Examples of assets: cash and cash equivalents, bank deposits, immovable property, cars, investment assets such as shares, equities, etc.) - (Examples of liabilities: bank overdrafts, bank loans, credit cards, student loans, current bills, etc.).

Net worth is calculated by deducting the total of the liabilities from the total of the assets.

2. Financial goals to be developed

The second step is to develop a person's financial goals. Goals must be achievable, attainable, measurable, realistic, specific and time-based. A person must set short-term, immediate and long-term goals depending on his/her lifestyle and way of living.

Goals must be categorised (i.e. short-term, immediate, long-term) and prioritise, stating their cost, duration and target date.

3. Alternative actions to be identified and evaluated

The third step is to identify and evaluate alternative courses of actions that will help a person reach his/her short-term, immediate and long-term goals. Some of the goals established may not be feasible to be achieved in terms of a person's current financial position.

To this end, the person must establish alternative strategies that will allow accomplish his/her goals. This means that for each goal set, new strategies must be identified and evaluated or even less important goals must be eliminated, in order to achieve more important goals.

Evaluating the alternative courses of action, a person must also consider the opportunity cost for giving up a goal or moving in time a goal and generally the consequences of his/her choice.

4. Financial action plan to be created and implemented

The fourth step is to create a person's financial plan taking into account all the actions preceded in steps one to three. Current financial position and goals to be achieved must be considered in order to create the financial action plan which needs to be balanced in terms of short-term, immediate and long-term goals. Also, the financial records must be orginised so that they can be easily accessible for review and re-assessment.

Once the financial plan has been created, a person must follow it with discipline. Future actions must carefully be considered in order to be in line with the action plan.

5. Financial plan to be reviewed and revised

Financial plan needs to be reviewed at regular intervals and verify that the goals achieved and to be achieved are in line with it.

However, life changes and goals change too. To this end, new strategies must be established and old strategies must be reconsidered. Any changes in life and goals, affect the financial plan established, which needs to be adjusted as life moves forward.