Budgeting

BUDGETING BASICS

What is a budget

A budget is an **estimation of revenue and expenses** over a specified future period of time and is usually compiled and re-evaluated on a periodic basis.

Budgets can be made for a person, a group of people, a business, a government and for anything that makes and spends money.

Improving the management of one's finances and assets in everyday life is very important. The first thing to do to optimize the administration of your economic resources is: plan your life and have (realistic) goals to achieve.

In this regard, the **budget** becomes a **strategic management tool** through which it is possible to:

- define the objectives to be pursued
- distribute the resources necessary to achieve them
- establish the temporal and organizational methods to achieve them
- verify the consistency of the results achieved

Preparing a the budget permits to have:

- a clear and numerical translation of the personal economic situation
- a detailed analysis of the costs to be incurred
- a forecast of future expenses
- a constant monitoring of costs that will allow the reduction of accounting risks and will facilitate the gradual reach of the financial goals set (buy a house, a car, to run a business).

It is important to draw up a **sustainable personal budget**, only in this way will it be possible to achieve financial health which, in turn, will produce well-being and contribute to serenity. In fact, if the established budget is too rigid, it will be difficult to put it into practice for a long term. On the contrary, if it is too flexible, it will not produce the desired final results

Basic elements of a budget

Here you have a list of the main elements of a budget and their definition.

- **FIXED EXPENSES** are all the expenses that stay the same from month to month. An example of fixed expense is the rent.

- **VARIABLE EXPENSES** are the expenses that may change from month to month, for example: groceries, gas and entertainment
- **TOTAL EXPENSES** are constituted by the sum of your fixed and flexible expenses
- **TOTAL MONTHLY INCOME** is the income from your job or other resources including investment dividends, pensions, Social Security benefits, rental income and more.
- **DISPOSABLE INCOME** is the money remaining after you subtract your income taxes from your income

CREATING A BUDGET

Why to create a budget

Creating a budget is useful to be more in control of your finances and facilitate saving money for your goals and it is important to find a way to track your finances that works for you.

Creating a budget step by step

We have identified five steps to guide you in the creation of a budget:

1) **Calculate your net income –** Calculating the salary minus deductions for taxes. This is the basis for an effective budget: in facts, basing on your gross salary may lead you to overspending because you could have the perception you have more money at your disposal. If you work as a freelance, are self-employed or a 'gig worker' you may have an irregular income: remember to keep note of contracts, invoices, payments to be make it easier the management of your actual income
2) **Track your expenses –** List your fixed and flexible expenses to verify how much and for which categories of expenses are you actually spending your finances
3) **Set your financial goals –** Identifying your goals may motivate you to stick to your budget. Make a list of both your short-term and long-term financial goals. Short-term goals (1-3 years) may be, for example, setting up an emergency fund. Long-term goals, instead, may take even decades to be reached. Is the case, for example, of saving for retirement or your child's education
4) **Make a plan –** It's the moment to combine all the information recollected up to now. The analysis of your fixes and variable expenses will give you an idea of the expenses of the coming months. You should compare them to your net income and goals. At this stage, setting specific and realistic spending limits for each category of expenses can be very useful

5) **Adjust your spending–** Knowing in details incomes and expenditures allows you to make adjustments to avoid overspending and achieve your financial goals. You might choose to break down your expenses between things you **need** and things you **want** and start cutting all the unnecessary expenses, according to your priorities. For example, you can consider skip going to the cinema in favour of a movie at home. If

even after having cut things you “want” you are not on the budget, you can start considering adjusting your fixed expenses too, such as looking for an apartment with a cheaper rent.

EVALUATING AND MONITORING FINANCES

It is important to make an evaluation of finances periodically, especially if: there are major changes in your expenses and/or in your income; you have an unexpected expense, you are planning a significant purchase .
A good monitoring of finances allows to implement any corrections with the right timing.
Budget monitoring and evaluation can be accomplished with the support of **multiple tools**, from the more traditional to the innovative ones, below some examples:

- An old-frashioned but always effective tool can be simply a **notebook.** It can be a valuable ally for starting to annotate the accounts by hand and for getting an overview of income and expenses, but also to improve self-discipline.
- In online shops it is possible to buy pre-filled account diaries

- A more technological solution is to use a **spreadsheet** compatible with any device you use: Google Sheet (www.google.com/sheets/about) and Apple Numbers (https://support.apple.com/it-it/guide/numbers/tanc33201f3f/mac) offer templates that can help tracking the finances

- Microsoft Excel / Google Documents allow to create personalized spreadsheets. There are also pre-structured files that can be easily found online, such as Microsoft templates :
https://templates.office.com/en-us/personal-monthly-budget-spreadsheet-tm16410113

- Smartphones and tablets can become excellent financial supporting devices thanks to the many applications available for iOS and Android. There is a wide range of options, all with useful features, intuitive, customizable. Some of them can even offer forecast report. Here you have some example of Apps for budgeting:

1) **Loot** – It allows to: calculate how long it will take to reach the goal based on the amount we want to set aside; stay updated through notifications

2) **Monefy**: to keep the expenses under control, just add them, the platform takes care of everything else.

3) **GoodBudget -** it permits to create different categories to record, in a timely and accurate way, weekly and monthly expenses. The application, very detailed and comprehensive, also allows you to share the data obtained with your family or other people who need to be made aware of the outflows

4) **Fast Budget:** It allows to keep track of the expenses in order to improve financial management. Simple to use, wIth many customizable features, it gives also the possibility to create multiple accounts from which to draw on the expenses to be incurred.

BUDGET TECHNIQUES

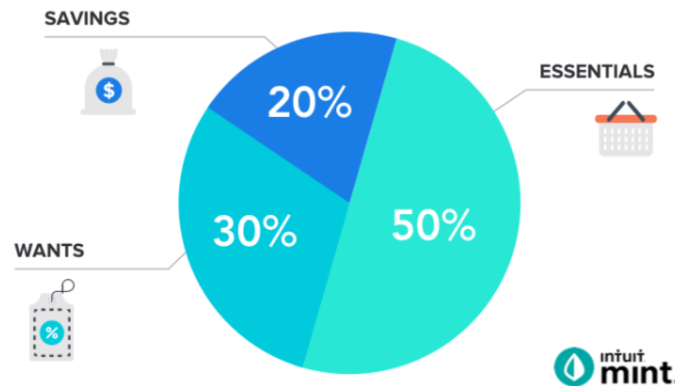
The "50/20/30 Method"

A **savings method** that can help everyone manage their accounts in a simple and reasonable way is the: **"50/20/30 Method"**, introduced by Elizabeth Warren, a Harvard professor and United States senator. The fundamental principle of this model is based on **dividing one's financial resources** into **three categories**:

1. 50% for necessary expenses
2. 30% must be directed to unnecessary expenses which are considered important
3. 20% for savings objectives, investment or to repay any debts.

Knowing exactly how much to spend in each category will make it easier to stick to plans and keep your spending under control.

The 50/30/20 Budget Rule



Source: https://mint.intuit.com/blog/saving/how-to-budget/

According to this model, **50% of the income** should be used to cover the **needs**, namely, expenses that cannot be done without: daily needs without which it would be difficult to live (food, rent, bills, expenses for transport, insurance policies, medicines, small installment payments ...). If the expenses related to personal needs are more than 50% of the total, you could choose to change something in your lifestyle, such as find a more convenient electricity supplier, find a cheaper apartment, or choose to limit the use of the car by favoring public transport or the use of a bicycle. Once 50% of the income has been set aside for necessary expenses, **30%** of the monthly income can be allocated to **personal needs and leisure time**. These are non-essential expenses, on which you decide to invest money because they help you feel better in general. For example: subscriptions to the gym or other sports activities, meals at the restaurant, clothing, subscriptions to streaming services, etc. Last but not least, we have the **20%** of the monthly income to be allocated to **savings** for "rainy days", for a future investment, a personal project, or to reduce any debts.
Following the 50/30/20 rule allows a **more responsible management of money**, in fact, by recording all the expenses of daily life, you might realize that some of the expenses are not so fundamental, or decide to reduce them in order not to stray from the goal of savings.

The **mistakes to avoid** are:

- postponing the budgeting activity
- carrying it out in a summary, partial and inconsistent manner
- wasting resources and not rationalizing costs.

Zero-Based Budgeting Method

HOW TO CREATE A ZERO-BASED BUDGET

Total Monthly Income: $3,250	
Rent	$1,200
Utilities	$120
Groceries	$400
Phone bill	$80
Gas	$250
Insurance	$100
Clothes	$100
Entertainment	$150
Charity	$100
Travel Fund	$100
Emergency Fund	$150
Retirement	$200
Loans	$200
Misc.	$100
Amount Left Over: $0	

Source: https://mint.intuit.com/blog/budgeting/zero-based-budgeting/

This method is based on the principle all the budget should be categorized.
The difference between a "traditional" budget and a zero-based budget is that the first one allows leftover money to stay your bank account.
A zero-based budget, instead, requires that you move those extra funds to other budget categories (e.g.: savings, debt payoff, investments, or some other goals).
The objective of a zero balance budget is to allocate all of your income to specific categories until there's no money left over: your income minus your expenditures to equal zero at the end of every month.
The first step to create a zero-based budget is to make a list of all the categories where you spend money every month. These may include: housing, transportation, savings, groceries, bills, entertainment, etc.
Then, you will need to create categories for your financial goals, whether that be for savings or paying off debt. At the end, you should decide how much you want to allocate to each category analyzing the sum you have in your bank account.

Applying the zero-based budgeting you use last month's income to determine how much you can spend, so you're only using money that you already have and not relying on a future income. That's why zero-based budgeting is particularly helpful for whose with a not-fixed income.

When you have listed all, subtract the expenses from the income:

- if the expenses exceed your income, you will have to revise the budget to cut costs or make amendments to your financial plan to make more money.
- if you have any money left, you will have to assign them to a category in order to avoid spending them for something not essential and, instead, save them for a long-term objective. This is the key-principle of Zero Budgeting.

Since from time to time you can have unexpected expenses, you will need to readjust your zero based budget, but that is totally fine when applying this method

Budgeting

QUIZ

1. **What is the budget?**
   a. A tool with which you can save 50%, 20% or 30% of your salary every month.
   b. **A strategic tool that allows you to calculate the amount of future income and expenses to achieve a financial goal**.
   c. A tool that lets you know how much you spend monthly.

2. **What is the 50/30/20 rule?**
   a. A solution to reduce your expenses based on the 30/50/20 criterion.
   b. A more sustainable way to keep your spending under control.
   c. A saving method based on dividing the budget into: necessary expenses (50%), personal needs (30%), savings (20%). (✓)

3. Drafting a budget allows to:
   a. Monitor financial income and expenses
   b. Reduce accounting risks
   c. Distribute resources, establish temporal and organizational methods to achieve financial objectives.

4. What's the Zero-Based Budgeting Method?
   a. A method of financial planning in which you start with a zero budget and then increase it
   b. A budgeting method that provides for the allocation of one's money into categories (income, expenses, savings, etc.) and whose goal is that, at the end of each month, income minus expenses is equal to zero
   c. A budgeting method that is based on keeping expenses at zero for one month

5. Drafting a Budget is not useful for financial success
   a. False
   b. True

Budgeting

RESOURCES FOR TRAINERS

Some suggestions to make the learners familiar with budgeting concepts and tools follows:

EXERCISE N.1
Try to make a simulation of your personal budget using the "50/20/30 method"

EXERCISE N.2
Try to make a simulation of your personal budget by applying the "zero-based budget method"

EXERCISE N.3:
You want to organize a guided tour of your educational farm, including educational activities and lunch for a class made up of: two teachers and twenty 11-year-old children. Make a calculation of the expenses that you will have to incur (cost of staff, organization, raw materials, meals, teaching materials, etc.) and prepare a quotation for the school, considering that the activity must bring a financial benefit to your business

SUGGESTION FOR REFLECTION AND DISCUSSION ACTIVITIES:

- What budgeting method do you think is most appropriate for you? Motivate your opinion
- Would drafting a budget have helped you in better manage your financial resources in the past?
  Why?

Financial Planning

Definition of Financial Planning

Basically, every time a person chooses how to use his/her financial resources to meet his/her needs, he/she is making an economic decision.

Financial planning is the process that leads an individual to analyze his own needs, including those of his/her family, and his/her life expectations in a detailed way and minimizing non-objective aspects.

Objectives of Financial Planning

Financial planning allows to exactly identify the real needs and therefore to set a clear and goal for the financial actions to implement.

The main objective of financial planning is to have a balance between income and expenses and therefore to check and quantify the sustainability of expenses.
Relevant factors to be taken into account in this process are:

- consistency
- monitoring
- updating of the forecasts

In facts, it is common to overestimate revenues and underestimate expenses.
The difference between financial planning and budget is that the first consists in identifying an objective, while the budget is the tool used to make the achievement of the objective possible.

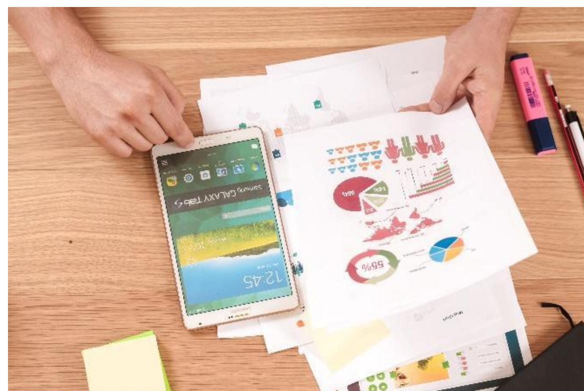


Photo by Firmbee.com on Unsplash
https://unsplash.com/photos/jrh5lAq-mIs

Importance of Financial Planning

Financial planning allows to define a strategy to implement in order to reach the financial goals set.

The general approach of financial planning and budgeting can be applied both to short-term and long-term financial projects. What matters is that the financial goals are specific and measurable.

A correct financial planning and budgeting strongly contribute to a solid financial situation of an individual, a family or a business.

For enterprises, having a detailed and well-structured financial plan is extremely relevant when presenting the business to potential investors because it clearly shows the management of incomes and expenses, understand the position of the company in the market, allows the comparison with competitors, identifying weak and strength points.

Drafting a Financial Plan

A financial plan is a document containing a person's current money situation and long-term monetary goals, as well as strategies to achieve those goals.

A financial plan starts with a thorough assessment of the person's current financial situation and future expectations and it can be created autonomously or with the support of a professional financial planner.

The plan should be both complete and personalized, to reflect the individual's personal, family and professional situations, as well as the risk tolerance and future goals and expectations. The financial plan starts with a calculation of the person's current net worth and cash flow and ends with a strategy.

An adequate financial planning activity takes carefully into account different factors:

- income
- expected expenses
- timeframe
- financial objectives

After that, it is possible to calculate the income that you need to allocate for the achievement of every single financial objective on weekly, monthly, yearly basis.

When planning, it is important to establish an emergency fund, that should be used exclusively to exceptional situations and to deal with unexpected loss of money that could compromise non-deferrable expenses.

The amount for this fund is very subjective but, generally speaking, it should be equal to the monthly fixed expenses of three/six months.

Don't forget that, to be effective, a financial plan requires discipline and commitment to the established steps!

Furthermore, is strongly suggested to create a physical and/or digital space where to store all finance-related documents, that can be ordered basing on different criteria (e.g.: per year/month; alphabetic order, numeric order, etc.).

Example of documents that should be archived are: tax declarations, bank statements, insurance, contracts, receipts, testaments, deeds, titles, invoices, receipts, mortgages.

Nowadays, there are free software that automates the organization and drafting of a financial plan, such as:

- **GnuCash** (https://www.gnucash.org/index.phtml?lang=en_US) that is very effective both for personal and small companies financial management, as it also has functions designed for business accounting. The interface is very simple, functional and fully respects the accounting principles

- **HomeBank** (http://homebank.free.fr/en/index.php) also this programme can be used for both the financial management of individuals and small business. Among the features, it offers the possibility to generate graphics that are useful to have a quick glance of the expenditure trends.

Financial Planning

QUIZ

1. **What is Financial Planning?**
   a. The plan for managing your finance provoded by your bank when you open an account
   b. The process that leads an individual to analyze his own needs, including those of his/her family, and his/her life expectations in a detailed way and minimizing non-objective aspects
   c. The process leading to save 30% of your salary every month

2. **The objective of Financial Planning is to know exactly how much money you will have after your retirement**
   a. False
   b. True

3. **What is a Financial Plan?**
   a. A document to plan your salary in the future
   b. A document showing your income and your expenses
   c. A document containing a person's current money situation and long-term monetary goals, as well as strategies to achieve those goals

4. **A Financial Plan should include an emergency fund**
   a. False
   b. True

5. **A Financial Plan should be:**
   a. Complete and personalized
   b. Approximative and personalized
   c. Complete and adaptable to all individuals

Financial Planning

RESOURCES FOR TRAINERS

Some suggestions to make the learners familiar with Financial Planning follows:

EXERCISE N.1
Create a personal Financial Plan for you and your family assuming that your incomes are your actual ones and that you wish to save money to allow your two children to go to University in 10 years.

EXERCISE N.2
Create a Financial Plan for your small company that currently produces olive oil and wishes to expand the business cultivating lavender for the production of essential oils to be sold to cosmetic enterprises

Fundamental Accounting Concepts

ACCOUNTING

The definition of “Accounting” given by the American Institute of Certified Public Accountants is the following:

“The art of recording, classifying, summarising in a significant manner and in terms of money, transactions and events which are, in part at least of financial character, and interpreting the results thereof”

Accounting, in addition to record transactions and transmit the financial position of a company, includes also the analysis and reporting the relevant information in specific documents called “financial statements”.

GAAP - GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The Financial Accounting Standards Board (FASB) in the USA has created “Generally Accepted Accounting Principles (GAAP)” , that make reference to a common set of accounting principles, standards and procedures. GAAP is a mix of commonly accepted methods of recording and reporting accounting information and authoritative standards established by policy councils.

IFRS - International Financial Reporting Standards

At International level, the IFRS - International Financial Reporting Standards corresponds to GAAP adopted in the United States.

IFRS are followed in over 120 countries, including those of the European Union (EU).

Originally there were the IAS - International Accounting Standards, the International Accounting Standards created in 1973 as the first attempt to make accounting rules uniform worldwide.

Subsequently, these standards were revised and took the name of IFRS (International Financial Reporting Standards), which were introduced starting in 2001, approved by community regulation within the European Community.

Banks, insurance companies, financial companies and publicly traded companies must employ these principles. Other companies may choose this option unless they have the opportunity to make financial statements in abbreviated form.

BASIC ACCOUNTING TERMINOLOGY

Annual return: is the profit or loss on an investment over a one-year period

Asset: An item with economic value, such as stock or real estate. **Current Assets**- assets that will be used within one year (e.g. cash, inventory). **Fixed assets** – those that may provide benefits to the company for more than one year (e.g. machinery, land)

Buying plan: A plan to identify and consider factors like cost, features, and choices when making a purchase.

Capital: A financial asset and its value, such as cash and goods. Working capital is current assets minus current liabilities.

Capital gain: The profit that comes from selling an investment for more money than you paid for it.

Capital loss: The loss that comes from selling an investment for less than you paid for it.

Accounting methods: Accrual Accounting- Income is recorded when earned and expenses are incurred. Cash accounting- Revenues and expenditures are recorded at the time when payments are actually received or sent.

Account receivable: The sum owed by your customers after goods and/or services have been delivered and/or utilized

Account payable: The sum owed to creditors, suppliers, etc., in return for goods and/or services they have delivered.

Balance sheet: A financial report that provides a gist of a company's assets and liabilities and owner's equity at a given time.

Cash flow statement: The cash flow statement of a company shows the balance between the amount of cash earned and the cash spent

Financial statement: A document reporting the financial transactions of a company or a person. The three most important financial statements for companies are: balance sheet, cash flow statement, and profit and loss statement

General ledger: The complete record of financial transactions during the whole life of a company.

Invoice: document issued by a seller to the buyer indicating the quantities and costs of the products and/or services provided by the seller.

Journal entry: An entry in the journal that records financial transactions in a chronological order.

Profit and loss statement (income statement): Financial statement summarizing a company's performance through review of revenues, costs and expenses during a specific period.

Financial accounting: reports information about a company's performance to investors and credits.

Management accounting: provides financial data to managers for business development

BASIC ACCOUNT CONCEPTS

- **Business Entity:** The business is separate from its owner. Accounting records must be kept separate from the personal financial affairs of the owner

- **Money Measurement Concept:** Only business transactions that can be expressed in terms of money (monetary unit of measurement) must be recorded in the accounts. Other types of transactions can be recorded separately

- **Dual aspect:** Is a method of accounting entry that involves the recording of business operations simultaneously on two sets of accounts to define the income of a specific administrative period and control financial movements. Each operation, therefore, is recorded twice. The balance sheet of the company is based on the double entry, which is represented with a scheme of opposing sections, called in jargon "to give" and "to have"

- **Cost concept:** All the assets that an entity records must be recorded at the cost of acquiring the asset (their historical cost). The fixed assets of a company are recorded

on the basis of their original cost in the first year of accounting. Subsequently, these assets are recorded minus depreciation. No rise or fall in market price is taken into account. The concept applies only to fixed assets.

- **Going Concern Concept:** It assumes that during and beyond the next fiscal period a business will complete its current plans, use its existing assets and continue to meet its financial obligations, without being forced to stop functioning and liquidate its assets at “fire-sale” prices.

- **Accounting Year (or Accounting Period) Concept:** each business chooses a specific time period to complete a cycle of the accounting process—for example, monthly, quarterly, or annually—as per a fiscal or a calendar year.

- **Matching Concept:** for every entry of revenue recorded in a given accounting period, an equal expense entry has to be recorded for correctly calculating profit or loss in a given period.

- **Realisation Concept:** profit is recognized only when it is earned. An advance payment or commission paid is not a profit until the goods or services have been delivered to the buyer.

ACCOUNTING CONVENTIONS:

- **Conservatism:** when two values of a transaction are available, the lower-value transaction is recorded, in order to not overestimate profit

- **Consistency:** the adoption of the same accounting principles from one period to another of an accounting cycle, so that to calculate profit and loss the same principles are applied

- **Relevance:** all material facts must be recorded in accounting, including all relevant data and omitting insignificant information

- **Full disclosure:** Disclosure of all information, both beneficial and detrimental to a commercial enterprise, that is of material value to creditors and debtors.

Fundamental Accounting Concepts

QUIZ

1. **What are the "GAAP- GENERALLY ACCEPTED ACCOUNTING PRINCIPLES"?**
   a. **A common set of accounting principles, standards and procedures of recording and reporting accounting information created in the USA**
   b. A document stating if the financial accounting of a company has been recognized by the USA Financial Accounting Standards Board
   c. A guide for companies explaining all the steps to make financial accounting

2. **What does the acronym IFRS stand for?**
   a. Interactive Financial Report Support
   b. **International Financial Reporting Standards**
   c. International Financial Results Summary

3. **Are IFRS followed in the European Union?**
   a. Yes
   b. No

4. **What is a balance sheet?**
   a. A document produced by companies to plan the income and the expenses for the next solar year
   b. A document showing in details all the profit made by a company during its whole life
   c. A financial report that provides a gist of a company's assets and liabilities and owner's equity at a given time

5. **According to the "Business Entity Concept":**
   a. The business and its owner constitute an unique entity and accounting records must be kept together
   b. **The business is separate from its owner. Accounting records must be kept separate from the personal financial affairs of the owner**
   c. A business owner can decide if keep its own and business' accounting records together or separately

6. **To which of the accountancy conventions the definition "*the adoption of the same accounting principles from one period to another of an accounting cycle, so that to calculate profit and loss the same principles are applied*" refers to**?
   a. Consistency
   b. Relevance
   c. Full Disclosure

E-banking

ELECTRONIC FUNDS TRANSFER

The system that allows a safe, quick and convenient transfer of money between accounts, banks and financial organizations and businesses and individuals, is called **"Electronic Funds Transfer (EFT)"** .

EFT it is also called in other ways, such as: bank transfer, credit transfer, wire transfer.

EFT includes many different kind of operations, the most common are:

- Withdrawals of money from Automated Teller Machines (ATMs)
- Transfers with debit or credit card payments, both at terminal and online
- Transfers of money from the account of the buyer to the account of the seller. This operation is frequent when purchasing online and it is an alternative to payment cards
- Direct deposits or withdrawals made by the customer
- Direct debit payments on bank account (e.g. upon authorization, bills are automatically paid from the bank account)
- Online electronic transfers made by customers using different electronic banking platforms
- Instant payments
- Mobile payments
- Virtual currency transfers

ATM - Automated Teller Machines

An ATM - Automated Teller Machines is:

an electromechanical device that permits authorized users, typically using machine-readable plastic cards, to withdraw cash from their accounts and/or access other services, such as balance enquiries, transfer of funds or acceptance of deposits. ATMs may be operated either online with real-time access to an authorization database or offline[1]

[1] CPSS Glossary - A glossary of terms used in payments and settlement systems March 2003, Bank for International Settlements, 2003: https://www.bis.org/cpmi/glossary_030301.pdf

Source: https://unsplash.com/
Photo by Giovanni Gagliardi on Unsplash

Depending on the ATM, a wide range of operations is possible, such as:

- withdraw cash (according to the daily/monthly ceilings)
- know the balance and consult the movements of their banking relationships
- top-ups prepaid cards and mobile phones credit
- make different kinds of payments, e.g.as bills, donations, etc.
- deposit paychecks and money

For the operations with credit/debit card, it is necessary accessing with a PIN (Personal Identification Number). Be careful: if an incorrect PIN is put for three times, the card could be blocked for suspicion of theft.
In Europe, the ATMs are almost compatible: any card will work in any ATM, but is always advisable to use the ATM of the Bank where you have your account or the network of your Bank: the withdrawal from the ATM of another banking network may imply additional commissions. If you withdrawal cash when abroad, be aware that the currency is converted basing on the exchange rate established by the Bank owning the ATM - that is not always convenient – and often there is a commission for withdrawal money in a different currency.

International Transfers

An international money transfer is made when money are sent from an account in one country to an account in a different country. The transfer can be made through banks, and online applications of companies specialized in money transfer. Speed, commissions and exchange rates vary from one provider to another and constitute the factors determining the

choice, considering pros and cons. For example, an **online bank transfer** is a very safe method to send money, but it can be more expensive than other options and money can be sent only to another bank accounts. A transfer through a **money transfer provider** online could be cheaper and faster than a bank, but in many cases cash withdrawals are not possible.

Operation is easy: you should provide a bank or money transfer service you're your details and those of the beneficiary of the transfer as well as the amount of money you want to send. The bank or money transfer will convert the money into the currency of the destination country (if applicable) and send it to your beneficiary.
Depending on the kind of service provider you choose: you may be able to send funds online, via mobile apps, over the phone or in person and the beneficiary of the transfer.

International Bank Transfers

International bank transfers are possible through banking networks such as **SWIFT** - Society for Worldwide Interbank Financial Telecommunication. It securely transmits information and instructions through a standardized system of codes.

SWIFT assigns each financial organization a unique code that has either 8 or 11 characters, known as a bank identifier code, or **BIC** (also known as **SWIFT code**)
The BIC is used to carry out a money transfer between entities, especially international ones. . The BIC is made up of numbers and it is uniquely associated with a bank.
The characters of the code give information about the financial institution, as follows:

First four characters: the institute code
Next two characters: the country code
Next two characters: the location/city code
Last three characters: optional, but organizations use them to assign codes to individual branches.

Nowadays, for international transfers, the IBAN code is the most commonly required in the European Union, beyond being the most modern.
The acronym IBAN means International Bank Account Number and, in addition to the information given BIC code, IBAN includes also information on the Bank account. IBAN consists of up to 34 alphanumeric characters, a two-letter country code, two cheque digits and up to 30 characters which are country specific.
IBAN is the EU-wide standard, which attempts to solve those issues. A typical The cheque digits provide an integrity check, to make sure the rest of the number is technically correct – e.g. no digits were missed. In electronic transfers the IBAN should be written as a continuous string, while for readability it's often printed in four-character blocks.

E-banking

QUIZ

1. **What is an Electronic Funds Transfer (EFT)?**
    a. A bank account enabled to transfer money internationally
    b. The system that allows a safe, quick and convenient transfer of money between accounts, banks and financial organizations and businesses and individuals
    c. A machine that individuals have to buy to make international payments

2. **What the acronym ATM stands for?**
    a. Active Tracking Money
    b. Automatic Transfer Money
    c. Automated Teller Machine

3. **What can you do through an ATM?**
    a. Create a Financial Plan according to your financial needs and objectives
    b. Visit the websites of all International Banks
    c. withdraw cash, know the balance and consult the movements of their banking relationship, top-ups prepaid cards and mobile phones credit, make different kinds of payments, deposit paychecks and money

4. **What is the BIC/SWIFT code for?**
    a. to carry out a money transfer between entities, especially international ones
    b. to open a bank account in another Country of the European Union
    c. to divide your incomes and expenses automatically online

5. **IBAN consists of up to 34 alphanumeric characters, a two-letter country code, two cheque digits and up to 30 characters which are country specific.**
    a. True
    b. False

Savings & Investments

SAVINGS

Savings are the money that an individual has as residual after the actual expenses are subtracted from his/her available incoming for a given period of time.
It is clear that those who are more savvy about spending and who pay more attention to managing their finances may accumulate more savings, while those who do not make financial plans and are more inclined to rely on loans and credit to "make ends meet" are unlikely to be able to set aside any extra money.
It is good to know that the money saved can be valued: if you invest in financial products, it is possible to increase your income.

How to save? Some advices

Plan

If we realize that at the end of the month there isn't much money to put aside, there can be two reasons: either our income is really too low, or we are not implementing good financial planning
In the second case, action can be taken to try to improve one's financial management.
Fixed expenses such as rent and utility bills cannot be eliminated.
However, if you want to save money, it is still possible to consider the possibility of moving to a cheaper accommodation or to a less expensive area, just as it is advisable to periodically compare the rates applied by electricity, gas, etc. suppliers, to verify if any other company offers better rates.
But what we should pay more attention to are expenses that are not essential, but which are still part of our daily lives, for example: restaurants, cinemas, the purchase of non-vital items.
In times of economic hardship we should eliminate this type of expense; if we want to save money, it is simply useful to plan, on a monthly basis, how much it is possible to reduce these expenses so as not to deprive ourselves of all social, cultural and hobbies life and - at

the same time - set aside some money.

Choose

An effective way to gauge your extra spending is to carefully weigh each unnecessary purchase based on how long it will make you happy.

The fact of having to make this reflection will help us to think carefully before making a purchase. The first step is to evaluate for each purchase you intend to make how much it will make you happy using a scale of values in which 1 is the minimum and corresponds to "Not very happy" and 10 is the maximum and is equivalent to "Extremely Happy".

All expenses that do not reach at least the score of 6 out of 10 will not even need to be considered.

The second step requires you to estimate the duration of the happiness connected to the purchase, measuring it in hours: the longer the pleasure deriving from it, the more it will be worth making that expense. For example, the pleasure related to a vacation, even if expensive, may last longer than the happiness related to the purchase of a piece of clothing.

Finally, on the basis of the evaluations made in step 1 and in step 2, it will be necessary to make the final decision regarding whether or not to carry out the expenditure in question.

Needless to say, this method first requires you to be extremely honest with yourself!

Motivate Yourself

Furthermore, to be motivated to save, it can be useful to approach saving as if it were a challenge with yourself and turn it almost into a "game".

Yes you can, for example, set the goal of not spending more than €70.00 in a week or even the most ambitious can also decide to try not to spend even €1.00 in a given day.

Dear old methods

The most classic method that we have all known since we were children is to put money aside by filling a piggy bank. It is an extremely simple but also extremely effective method and which allows you to collect small sums even in a short time. Especially for those who use cash, it may be useful to put the loose change in a piggy bank at the end of each day. Those with more ambitious savings goals can also decide to put small denomination banknotes in

the piggy bank, such as – for example – €5.

Obviously, to avoid the temptation to take the money out of the piggy bank, it's a good idea to use one that can't be opened without breaking it completely and plan to break it only on a specific date (for example, after six months) or when there's no more room for put in it more money!

Another good and ancient habit is to take note of all the expenses that are made both in cash and with a credit/debit card and also write down, if any, the costs that are automatically deducted from the bank account (for example, bills, if you have chosen this method with your supplier).

A notebook will be enough, but today there are many digital tools and Apps that help us keep track of the expenses we have made: we talked about it in Lesson 1 and in Lesson 2 of this module on Financial Literacy.

Be careful with plastic money

Nowadays it is common practice to use credit and debit cards to make purchases more comfortably, without the need to carry money with you, without risking running out and… without spending limits. Yes, this is precisely the point: if we want to save money, the so-called "plastic money" is no help! Therefore it is a good habit to set a threshold not to be exceeded for purchases made by card

INVESTMENTS

In order to make investments it is necessary to contact a qualified professional who can support and guide us in the choice.

But even before contacting a financial advisor or a bank, we must ask ourselves some questions, namely:

- What are my investment goals?
- Am I willing to take risks?
- How long am I going to invest?
- What are my return expectations?

Accurately identifying the investment objective is a fundamental step. Think carefully about what motivates you to invest. Do you want a supplementary pension? Do you want to set aside a sum of money for your children's future? Do you want to save money to buy an apartment in the future?

Before investing, it is good to remember that there is no such thing as a "zero risk" investment and, depending on the type of investment, there may be risks. In principle, the higher the expected return, the greater the risks.
Therefore, you should ask yourself first of all how risk tolerant you are and secondly whether and to what extent you are financially able to cope with any loss of money or even the total loss of invested capital.

Another aspect to take into consideration is the investment period: the longer the money is tied up, the greater the return from which one will be able to benefit. But you need to be careful: if you then want or are forced to withdraw the money before the set deadline, you can face penalties or even lose part of the interest.

Advice before making an investment

Before signing any investment contract it is necessary to fully understand all aspects, risks and clauses. Therefore, you must carefully read the entire contract, including the clauses written in small print, calmly analyze all the pros and cons, ask the financial advisor to clarify any doubts and don't be afraid to ask questions. Of course, before entering into an investment contract, you need to keep in mind the three main elements of an investment: what is the return; how risky the investment product is; how long the investment period lasts and what are the methods and consequences of the termination of the contract.

Do not forget to:

- Think calmly and have any doubts cleared up by the financial advisor
- Compare the conditions of the various financial products to identify the one that

best suits your needs

- Analyze in detail the terms and conditions of the chosen product
- Check what is the necessary commitment in terms of savings and if this commitment is compatible with your investment objectives
- Pay attention to the conditions of release and early closure

Savings & Investments

QUIZ

1. **What are savings?**
   a. The money you earn without working
   b. The money you are given by the bank as a reward for opening an account there
   c. the money that an individual has as residual after the actual expenses are subtracted from his/her available incoming for a given period of time.

2. **Investments risks:**
   a. In principle, the higher the expected return, the greater the risks.
   b. Are equal to zero
   c. Are always very high

3. **The investment period**
   a. It's an irrilevant aspect, since you can modify it whenever you want without any consequences.
   b. It is important because – in general- the longer the money is tied up, the greater the return from which one will be able to benefit
   c. It is not compulsory to decide the investment period when signing an investment contract

4. **What are the main questions you have to ask yourself before investing?**
   a. What are my investment goals? Am I willing to take risks? How long am I going to invest? What are my return expectations?
   b. Have I debts? Have I credits? Have I loans? Have I an income?
   c. What are my job perspectives? What are my plans for the future?

5. **The financial advisor should take the decision about your investments on your behalf**
   a. True
   b. False