

Take Control of Your

FINANCE

When it comes to managing your money, knowledge matters.

You've been working hard all week, but Friday is finally here and the day you've waited for has arrived: payday! And it just so happens, that there's a great new pair of shoes you've been dying to get your hands on. So you clock out with your paycheck in hand and head straight for the bank. You plan to cash your check, head to the mall and buy those shoes with your hard-earned cash. But wait! Before you make that purchase, have you checked to make sure there is enough money in your budget? Have you thought about saving that money instead of spending it? Budgeting and saving are the fundamentals of effective money management, and becoming familiar with these concepts will lead to a more secure financial future—a future that could even include a pair of new shoes.

So what is money management? It is all about how you direct, control and handle your money. It may sound complicated, but it is actually quite simple. First, figure out what you're working with. In order



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to manage your money, you need to know how much you currently have, where it comes from, where it goes and how much more you expect to receive in the future. This allows you to make decisions about how to spend and save it, which leads to the second step: making smart decisions. Anything that can be managed can be mismanaged. How many times have you encountered stories about fabulously wealthy celebrities going bankrupt and asked yourself, how did that happen? How can a person with millions of dollars lose it all? It comes down to one simple reason: bad decisions. You see, it doesn't matter if you have five hundred dollars or five million dollars; if you make bad decisions regarding your money, you'll soon find yourself without any. The good news is that successful money management is a skill anyone can learn.

Estimating Income and Expenses

Your income is money that you receive. Your expenses are money spent. When calculating your income you must consider every source: paycheck, gifts, irregular income from odd jobs, etc. Pay stubs can tell you how much money you get from your job, but it's important to make sure you base your estimate on your net income or take-home pay. This is money that you receive after all adjustments and deductions are made, including tax deductions. If you have a bank account, you can check the deposit history on your monthly statement.

This will help you keep track of money you receive each month that may be irregular, like gifts or money from occasional jobs. Once you gather this information, do your best to calculate an income amount that you can reasonably expect to receive each month. Good estimates are important. You want the most precise information, but it is always better to underestimate your income than to overestimate. Overestimating can leave you without enough money to take care of your expenses.

Estimating expenses can be a bit more complicated than estimating income because they tend to fluctuate more from month to month. The best way to get an accurate picture of all your expenditures is to write them down. Keep a record of how much you spend for a one-month period by saving all receipts and recording all purchases. This includes rent, utilities and other monthly bills, as well as small purchases, such as a cup of coffee or a pack of gum. When looking at your monthly expenses, you will notice that some stay the same from month to month while others vary. Those that stay the same are called fixed expenses, and those that vary are called flexible expenses. Some examples of a fixed expense are rent, car payments and insurance. Some examples of a flexible expense are food, gas, and entertainment. Again, good estimates are important, but a little overestimating of expenses is better than underestimating. If you underestimate you can end up with a deficit, which means your income is less than your expenses. Constantly having a deficit can lead to unmanageable debt.

Reaching Your Financial Goals

Another important aspect of effective money management is goal setting. Knowing that you will need a specific amount of money in advance helps you to plan a budget, which will be necessary for reaching your financial goals. A budget also allows you to deal with day-to-day expenses while still planning for the future. Personal financial goals should be realistic, specific, measurable and defined within a time frame. Can you think of a financial goal that you have? Maybe it's saving enough money to travel abroad for one month. That's a realistic goal, but it needs to be a little more specific.

First, you need to calculate how much money you'll need to

make the trip. To do that you need to estimate all the costs, such as an airplane ticket, room and board and any other transportation expenses. Once you have a good estimate of the total cost of the trip you can figure out how long it will take you to save enough money. If you do a good job of estimating your income and expenses, you can easily see where to cut back on spending so that you can save more money for your financial goals.

Saving for the Unexpected

Of course, no one is able to predict the future, and unforeseen events always come into play. The same is true in your financial life. You will at some point have to deal with unexpected expenses. Some of these expenses may be positive, like a last-minute weekend getaway; and others will be negative, like a health-related expense that isn't covered by insurance. When such instances occur, hopefully you will be able to rely on the surplus income that you saved.

Saving for the Future

It is important to keep your money in a savings account. The days of stuffing your piggy bank until it's full are over! It is also not a good idea to keep your savings stuffed under your mattress or in a dresser drawer. Why? First, because it could be stolen; second, if it's not in a savings account, then it isn't earning any interest. Interest is what the bank pays you each month for trusting them with your money. It is calculated based on your daily balance; interest rates range from 0.2 percent up to 5 percent. The more money you have in the account, the more interest you earn.

Some banks charge a monthly fee for a savings account if you do not maintain a minimum balance, so it is important to ask this question when setting up your account. Many banks waive their monthly fee for savers under 18 years of age. A savings account works best when you put money in every month and do not take any out except for emergency situations or when you have saved enough to cash in on a financial goal. Think of the money you put into your savings account as an investment in your future and your financial goals. Each time you put money in your savings account, you are paying yourself.

What you should look for in a basic savings account:

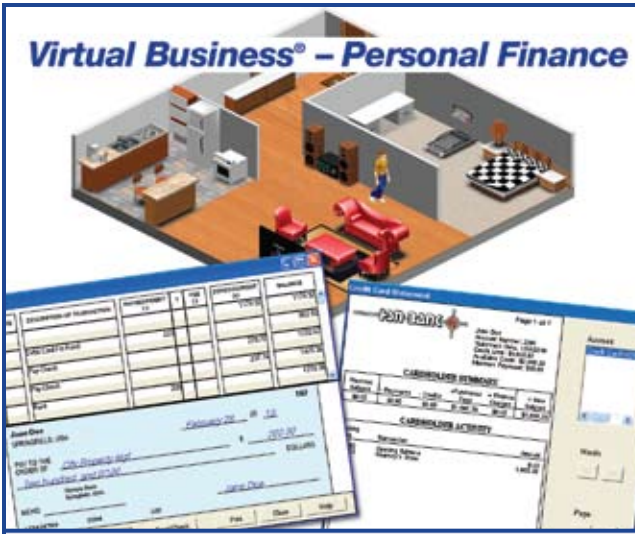
- No or low monthly fee
- Free online banking
- Competitive interest rate
- Reasonable minimum balance

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