

PERSONAL FINANCE

It is important to plan the finance for any regular expenditure such as the basic needs of any person like food, clothes, accommodation, bills etc.

To be able to for fill all your personal needs you must have some kind of personal income, which will cover these expenses.

The sources of personal income might be:

Salary or wages

A regular earned income from employment, for these earnings the employee and the employer both have to pay a deduction to the government such as income tax and N.I. contribution.

Overāime

An extra earned income for the additional hours of work

Commissions

An employee can get a percentage of the selling price of product from his/her employer.

Bonus

Bonus is an earning for good performance at work place.

Inžeresž

Interest using your money to create more money, expressed as a rate per period of time, usually one year, in which case it is called an annual rate of interest.

Winnings

You may win money from playing the lottery or gambling on sport events.

Gifžs

Money received from a friend or relative on a special occasion such as birthday.

Sale of personal ižems

Earned income from selling personal items

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Gross and net pay

Gross pay is the total amount of money earned by an employee before any deduction is made.

Net pay is the amount of money an employee receives after deduction have been made for income tax, national insurance and any voluntary contribution such as pension contribution.

Regular and irregular earned income

Regular earned income

This is the income earned by a person on a regularly basis
e.g.
Salary
Interest on savings

Irregular earned income

Irregular earned income is the money what you receive occasionally, these can be payments that the employee may be entitled to but which are not received on a regular basis such as commission, bonus and overtime.

Other examples of irregular income can be:

Sale of personal items at car boot sale
Gifts
Additional weekend or holiday work

Expenditure

Some expenses are arguably more important than other – opinions differ but the general consensus is that you must pay:

Rent – this varies according to type of accommodation, location and duration of lease.

Food – this depends on your appetite and your style of living.

Fuel – i.e. electricity, gas and water

Telephone – this is definitely controllable but can run away with the money, particularly mobiles.

Socialising – going out, buying tickets for special events or cinema.

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Laundry – can sometimes be quite costly especially if you are keen on sport.

Other expenses – these are inevitably and unique to you e.g. smoking, clothes, car expenses, CD's/ DVD's, sports etc.

Difference between everyday expenditure and contingencies

Everyday regular expenditure includes payments for accommodation; for example rent or mortgage. Also payments for travel such as bus and train fares, and petrol expenses for car.

Contingencies are unexpected spending and would need sufficient savings to ensure that the result would not be a large debt. An example of a contingency is if your car broke down you would need to pay for the repairs. If there is no savings for contingencies then there might not be sufficient money available to meet regular expenditure.

Monitoring financial transaction

The monitoring of financial transaction is important, as it is the way to record, monitor, analyse and optimise the management of personal finance. This way is also beneficial for individuals as they can take control of their finances and this avoids many unnecessary downfalls and losses.

These are financial transaction documents that can help individuals to monitor their financial situation.

Bank statement

Bank statement is issued to customers, showing them how much money is in their account and it giving listing details of credit/debit card transactions. These statements are only available to customers who hold current account, loan account or saving account.

Passbooks

Banks and building societies issue passbook, which is used for withdrawals and deposit from a person savings account.

Cheques

Cheques are an order in written to the bank to pay a named person or a company a set amount of money.

Pay slips

These are financial documents issued by the employer. It gives details of gross pay deduction made to give net pay.

Bills

These are statements received from suppliers of water, electricity, gas, telephone, etc.

Reconciliation

Reconciliation means to balance your account monitoring your income and outgoings. This is also a way to update any outstanding direct debits. It is check and control if the amount, which is deducted the same as the amount you have spent.

Another way to monitor your personal finance would be to create a cash flow forecast this will monitor all your inflows and outflows.

An example of a cash flow forecast is:

<u>Income</u>	<u>Amount</u>	<u>Outgoings</u>	<u>Amount</u>
Salary	1200	Rent	500
Parental contribution	100	Food	200
		Energy supply e.g. water, gas, electricity	50
			80
		House expenses	20
		Council tax	300
		Savings	100
		Other expenses	
Total	1300	Total	1250

Financial Advice

Still not sure about your financial situation, don't worry because there are handful places where you can get advice.

Most of the financial advisers are banks and BS like:

Barclays; Halifax, Lloyd TSB, Abbey, Midland, HSBC, Nationwide etc.

Bank and building society

The majority of these organizations have their own financial products, so they may only offer limited advise on their own products and in some cases on a small range of products offered by one or more companies.

Independent financial adviser

There are thousands of independent financial advisers across the country that offers you financial product available in the market, because they are independent they can give you the best advice you need.

Tied advisor

People who represent a single organization such as banks and building societies are called tied advisors.

They are only able to offer advice on a limited selection of products, which are the banks and building societies. Therefore, they cannot advice you on whether these products are more suitable for you than available elsewhere.

Information from the media and websites

It's good for young adults to go and search on the Internet for financial advice. The website what may help you sort out your personal finance are:

www.moneyfacts.com www.fsa.co.gov www.bbc.co.uk/money

Not only the Internet but also many magazines and newspapers like the economist, financial times, telegraph, observer, the guardian etc gives financial advice.

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There are also some programs on TV and radio what can help some people can get there financial advice from.

FSA

FSA financial service authority is there to protect consumer's interest. Financial advisers must be registered and authorized by FSA before they start working.

Saving and investment

Why save?

We live in an uncertain world where jobs are easy to lose, incomes fragile and where relying on the state for anything more than a basic financial safety net looks foolhardy. Also the housing boom has meant that it has become more difficult to buy a property without a substantial deposit.

So saving is more important than some people realize.

Here are some tips for improving returns and/ or keeping down risk.

What's the difference between saving and investment?

Saving means putting some of your money away for emergencies or a short-term goal. All banks have savings account plans where your money will earn fixed rate of interest and be safe.

Investment is when money is invested in shares that MAY show a better return. Where as with saving you know that you will earn at the end of a period with investment is this uncertain. So there is also a possibility that you MAY lose your money.

Many people never take the time to set financial goals for themselves. They are too busy just getting by from day to day. Yet goal setting allows you to take control of your savings and work toward your dreams. Different goals may have different time frames. Generally, these goals can be divided into three time frames.

Short-Term

Medium-Term

Long-Term

Short-Term

Generally, short-term can be accomplished within three months. Some examples include:

- Building an emergency fund
- Buying a new CD/DVD player
- Saving for a short vacation

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Medium-Term These may take from three months to a year to reach. For example:

- Saving to buy a computer
- Buying a used car
- Starting a college fund

Long-Term

These may take more than a year. They could include:

- Saving £15,000 or more for a home down payment
- Starting a business
- Creating a retirement savings fund

Saving and investment options

One thing Britons are not short of in the world of saving is choices; there are more than thousands of saving products on offer from hundreds of financial companies. Here are the main categories and some idea of how they might be suitable for.

Bank accounts: Some bank accounts - particularly those operated over the internet - will pay interest rates as high as many savings accounts. You could find it convenient to use the account your pay-cheque goes into, and which you use for spending, for saving as well. But equally it could be confusing and you could lose sight of your saving goals.

Savings accounts: Again, many of the best-paying accounts will be operated over the Internet. Nowadays 30-day or other notice accounts often pay little or no more than instant access deals. Fixed-rate accounts and bonds will generally pay more than ordinary variable rate savings accounts but they will require you to tie up your money for anything up to five years.

Many savings accounts have introductory bonuses. Savers attracted by these initially high rates need to keep an eye on the rate once the bonus goes.

Unit trusts: These are all types of investment fund, where your money is pooled with that of other savers and invested by a professional fund manager. Generally these funds invest in the stock market. With more than 1,000 to choose between from dozens of investment companies, it is possible to find funds investing in the most exotic stock markets and the most complex financial instruments.

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National Savings & Investments: National Savings & Investments also has a range of accounts and bonds, which are particularly useful for higher rate taxpayers.

Shares: shares are small takes in a company. When you buy shares you become joint-owner of the company along with other shareholders. If a company is doing well the value of the shares might go up but if the company is not doing well the value of the shares might go down, what means that the value if your investment might go down.

Reasons for borrowing

We almost all need some kind of consumer credit from time to time. The reasons for this can be:

- To make a purchase for example to buy a computer or a car
- To mortgage a house
- To start up a business
- Borrowing money to invest in other companies

Personal loans can be either secured or unsecured. A **secured loan** is linked to a major asset, usually the borrower's home. They are cheaper than unsecured loans but if you miss any payments you risk losing your home. Secured loan is commonly used when borrowing larger sums of money over a long period of time.

The other type of personal loan is an unsecured loan. **Unsecured loans** are usually available for smaller amounts (£500 - £15,000). These loans are more expensive because they are riskier for the lender as they can't repossess your house to recover the loan if anything goes wrong.

Authorized loan this is when you notify or apply to the bank to run up an overdraft

Unauthorized loan this is when you do not notify the bank to run up an overdraft.

Overdraft

An overdraft is money borrowed from bank or building society over a short period of time. It is when you agree with your bank or BS to allow you to spend more money than what you have in your account. It is a handy method of short-term borrowing but the biggest disadvantage is that a high interest rate has been charged.

Credit cards

Credit cards are a very popular form of credit and often very cheap if it is used wisely. However they aren't really suitable as a form of lending because if you fail to clear debts it could leave you with high interest repayments. If you struggle with your money management or won't be able to clear your card each month then credit cards will probably be very costly.

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Store cards

Some retail stores issue their own cards. These cards can only be used within the group's stores. They usually don't have fees but the interest rates are generally higher than normal purpose credit cards.

Hire purchase

It is a system of buying things on credit whereby the seller of the goods is regarded as the dealer, the purchaser is regarded as the hirer and the finance company is the owner. The ownership of the goods bought on hire purchase does not pass to the hirer at the time of hire purchase agreement or upon delivery of the goods. The ownership of the goods remains in the owner till the hirer has fully paid the price agreed upon in the hire purchase agreement.