

Managing your own money

Many people find it difficult to manage their money so that they have enough to meet their needs and wants at any given time. It's easy to buy something straight away when you have more money than you need. But what about when you haven't? What about when you have money, but you need to spend it on more than one thing? How can you decide when to spend and when to save?

The purpose of this unit is to show you how to manage your money and how to budget responsibly so you can get the best value out of it.

Learning outcomes (LO) and assessment criteria (AC)

LO1: Be able to produce a personal budget

- AC 1.1 Carry out calculations of expenditure and income for an individual for a month
- AC 1.2 Calculate balance at the end of the month
- AC 1.3 Identify ways to ensure expenditure does not exceed income

LO2: Understand the use of credit to borrow money

- AC 2.1 Identify different sources of credit
- AC 2.2 Explain how to use credit responsibly for expenditure and investing
- AC 2.3 Describe the potential problems of using credit

LO1:
AC 1.1

ACTIVITY 1

The ins and outs of money

We all want to have enough money, so that we can spend it on the things that we need. Ideally, we should balance the money coming in with the money we spend, so that we have more money coming in than going out.

Task 1

Money coming in is called **income**.

- 1 Complete column 2 in the table below to show that you understand where money may come in from. There are spaces for you to add other sources of income, if you need to.

Source of income	Description
Wages	
Salaries	
Inheritance	
Gifts	
Maintenance	
Pocket money	
Benefits	
Loans	
Credit agreements	
Selling things	
Interest on savings	

2 Explain **one advantage** of having a wage coming in rather than having a loan.

3 Explain **one disadvantage** of relying on selling things for your income.

Task 2

People also have many things to pay for. Money that you spend is known as your **outgoings**, or expenses – **expenditure**.

1 Complete column 2 in the table below to show what you understand possible outgoings. There's a space for you to add other expenses, if you need to.

Outgoings	Description
Mortgage / rent	
Income tax	
Utilities (e.g. gas, electricity, water)	
Council tax	
Phone / internet (e.g. mobile / landline / broadband)	
Groceries	
Clothing	
Transport	

Outgoings	Description
Credit cards	
Maintenance	
Loans	
Entertainment (e.g. going out / TV)	

2 Look again at the outgoings listed in the table and think about the following things.

- Which ones do you think are **really** essential?
- What payments do you **have** to make?
- Will this change when you get older?

3 Complete the table below to show how these outgoings apply to you at the moment. Add a comment for each item, for example:

- ‘Telephone – non-essential but really useful. I rely on it but might use it too much.’
- ‘Rent – I will need to pay this when I leave home.’

Outgoings	Monthly (M) or weekly (W)	Essential (E) or non-essential (NE)	Comment
Mortgage / rent			
Income tax			
Utilities (e.g. gas, electricity, water)			
Council tax			
Phone / internet			
Groceries			

Outgoings	Monthly (M) or weekly (W)	Essential (E) or non-essential (NE)	Comment
Clothing			
Transport			
Credit cards			
Maintenance			
Loans			
Entertainment (e.g. going out / TV)			

Task 3

List **three** ways you could plan how to divide up your money so that you always have enough to pay essential expenses – that is, expenses that have to be paid.

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Balancing income and expenditure is called **budgeting**. A budget is a plan for saving and spending. To create a budget, you must decide:

- what you **have to** spend money on
- what you **want to** spend money on
- what you're prepared to give up to be able to afford these things.

For example, you might:

- **need** to spend money on new clothes
- **want** to buy a new mobile phone.

In either case you may have to save up. You can do that by not spending money on things that you don't really need.

- 4** Can you think of something that you spend money on, but don't really need?



ACTIVITY 2

Budgeting

When you are at work, you will receive an income (wages) from your employer. You will need to be able to decide how to make the best use of this money.

You need to look at:

- how much you have – your **income**
- how much you must pay out – your **expenses**.

To make sure your income is more than your expenses, you need to make sure you put away enough money for each expense or 'bill'.

Doing this is called creating a budget. You need to see how far your money (income) will go. Some people put a little money away as soon as they are paid, so they know they can't spend it on anything else.

Remember, the key to a good budget is to make sure there's some money left over after all the bills are paid!

Task 1

You are going to:

- complete a spreadsheet for a monthly budget
- calculate the monthly income and outgoings
- calculate how much money will be left at the end of each month – the balance.

To complete these calculations, you could use real figures based on your own earnings and outgoings, or you could use the information provided below:

Income (wages)	£330 per week
Rent	£125 per week
Food and toiletries	£25 per week
Mobile phone	£3.50 per week
Insurance	£5 per week
Entertainment	£20 per week
Clothing	£5 per week
Transport	£20 per week

- 1** Complete the spreadsheet on the following page.

My budget

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Money coming in													
(D)	Money in hand at the start of the month												
	Wages												
A	Income total												
Money going out													
	Rent												
	Food and toiletries												
	Mobile phone												
	Insurance												
	Entertainment												
	Clothing												
	Transport												
B	Outgoings total												
C	Balance for month itself (Total A – Total B)												
D	Money to take forward												

2 Use your budget spreadsheet information to work out **either**:

- when you will have saved enough to pay for the holiday, **or**
- what you would have to change to be able to pay for the holiday – this could be the choice of holiday destination, when you go, etc.

Look back at your spreadsheet to see whether you can afford to save the amount you need, in your preferred timescale, within your original budget.

You need to make sure that your expenditure (the money going out each month) is less than your income (the money coming in).

3 Use the space below to explain at least **three** ways in which you could keep your budget in balance as you save for the holiday.

- a) How could you cut down on your expenses? For example, could you make lunch rather than buying expensive sandwiches in a packet?
- b) Are there ways of making your holiday more affordable or giving yourself more time to save?

Task 3

Now let's see whether your preferences will work when it comes to hard figures.

1 Rework your spreadsheet, this time including a 'holiday fund'. If your first idea doesn't let you save enough money in the timescale you've set yourself, try changing different figures to make it work.

		My budget											
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Money coming in													
(D)	Money in hand at the start of the month												
	Wages												
A	Income total												
Money going out													
	Rent												
	Food and toiletries												
	Mobile phone												
	Insurance												
	Entertainment												
	Clothing												
	Transport												
	Holiday fund												
B	Outgoings total												
C	Balance for month itself (Total A – Total B)												
D	Money to take forward												

Task 4 – Decision time!

How realistic were your initial ideas? Did you get your budget right first time or did you need to alter things?

Can you go on holiday when you want to? Will you have to save up for longer, or change your choice of holiday?

Record your conclusions in the box below. If you decide you need a different plan, give details below.

LO2:
AC 2.1

ACTIVITY 3

Sources of credit

Task 1

Not many people have enough money to buy everything they want straight away. Many people use credit at some time.

- 1 Give a definition of credit.

- 2 Research the different sources of credit shown in the table below and fill in columns 2, 3 and 4. A row has been completed for you as a guide. During your research, collect advertisements, leaflets or flyers – you will also need these in a later activity.

Sources of credit	Example	Description	Features, e.g. APR
Credit card	<i>Visa / Mastercard</i>	<i>Easy way to buy goods without a deposit. You can take the goods straight away.</i>	<i>Approximately 16.9% APR – these rates are variable</i>
Store card			
Overdraft			
In-store finance			
Hire purchase			
Payday / short-term loans			

Sources of credit	Example	Description	Features, e.g. APR
JCP loans			
Bank loans			

3 What does APR stand for?

4 What does APR mean?

Task 2

Using your previous research, you must now give advice on the best way to buy things using credit. There are three scenarios. You need to make a decision for each scenario, then explain and justify your decisions.

Scenario 1

- 1** A couple want to buy a fridge freezer for £800, but they cannot afford to pay in cash. They are offered these three-year credit deals:
- in-store finance with an APR of 29.9%
 - a deal with £100 deposit and the rest at 0% APR
 - a bank loan at 12.3% APR.

What is the best deal	Why?

2 State one method of credit that would **not** be suitable.

3 Why is it unsuitable?

Scenario 2

1 A couple have an old car with high mileage. They would like to change this car for a newer one which is an ex-demonstrator, as it will have very low mileage.

What is the best way to finance the car?	Why?

2 State one method of credit that would **not** be suitable to finance this purchase.

3 Why is it unsuitable?

Scenario 3

A woman collects first-edition books. Sometimes she cannot afford to pay for them in full at the time they are available.

1 Explain **two** suitable methods of credit she could consider.

Method of credit	Why?
1.	
2.	

2 Why is hire purchase **not** suitable for this scenario?

LO2:
AC 2.2

ACTIVITY 4

Understanding credit

In Activity 3, you collected advertisements, leaflets and flyers about various sources of credit. These will contain information about the borrower’s responsibilities when using credit.

Task 1

1 Using the information you have collected, explain why it is important for the borrower to understand their responsibilities when using credit for expenditure or investment. In the table, record the things they need to do, and the consequences of not doing these things. Try to include as much detail as possible – an example has been given.

Credit information	What the borrower should do	Consequences
Application form	<i>Fill it in accurately.</i>	<i>Application may be turned down or you could be charged with fraud.</i>
Level of borrowing		
Repayments		
APR		
Minimum repayments		
Signing the credit agreement		
Unclear details		
Difficulty with repayments		

- 2** Now imagine you are the lender rather than the borrower.
State **two** things you would want to know from the borrower
before you lent them any money.

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Task 2 – Role play

You work for a company that lends money. A client comes to you because he wants to buy a classic motorbike, but hasn't got enough money to buy it outright.

He knows he can get it on credit, but is unsure about the responsibilities that go with it. Your task is to:

- help the client to understand his income and outgoings
- explain **three** responsibilities the client will have when using credit for outgoing expenses or investment purposes
- ensure that the client makes a responsible decision
- ensure that the purchase will go smoothly for the client and for the company as a lender.

Use the boxes on the following pages to record your notes before you take part in the role play.

Income and outgoings

You must think about:

Because:

Make sure you:

Responsibilities:

You must think about:

Because:

Make sure you:

Making a responsible decision

You must think about:

Because:

Make sure you:

Ensuring the purchase goes smoothly

You must think about:

Because:

Make sure you:

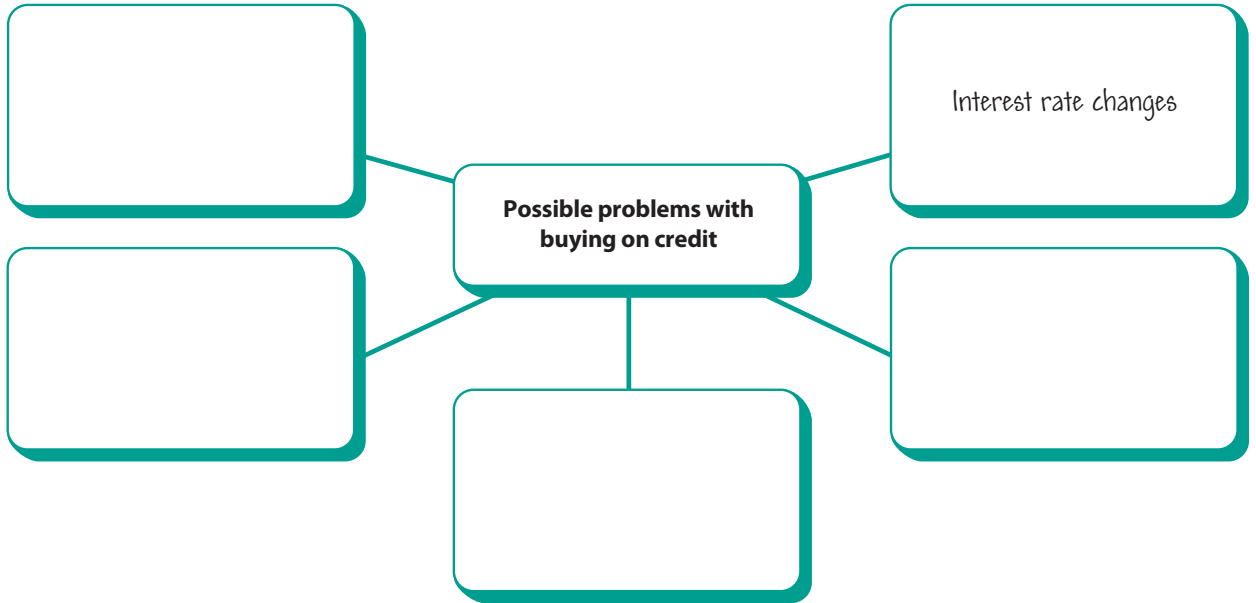
LO2:
AC 2.3

ACTIVITY 5

Beware, it could all go wrong!

Things can sometimes go wrong after you take out credit.

- 1 In the diagram below, record the things that could go wrong after someone has taken out credit to buy something. An example has been given.



- 2 Complete the table below by offering advice to anyone thinking of taking out credit.
 - a) Add at least two more problems to the table.
 - b) For each problem, give at least one reason **why** it is a problem.

Possible problem	Reason why it is a problem
Penalty fees for early repayment	
Legal action	
Credit rating is affected	

Possible problem	Reason why it is a problem
Stress	
Repossession	