

Top 10 Tips of Basic Finance Management

Excerpted from "Basic Beginnings: A Finance Management Handbook for Teens and Young Adults" by Carol L. Stokes. Copyright 2010 Carol L. Stokes. All rights reserved.

Tip 1: If you can't afford to pay cash, you probably can't afford it. One of the most common mismanagement problems with finances is over-extension. This happens when you buy more on credit than you are able to pay back when it is time to pay. Somehow many people find ways to spend what they do not have. Use of credit cards is just one way. There appears to be a popular belief that credit can give people what they do not have -- money. It is extremely important that you understand that if you cannot afford to pay cash, you cannot afford to buy it on credit. Credit does not replace paying it only delays paying, and, with additional cost.

Tip 2: Do not cosign with anybody for any reason. This is the general rule. Cosigning a debt makes you equally responsible for paying back the debt. The law makes you just as liable to repay that debt as the person you think you are helping. If for some reason the other person does not meet her obligation, you could be left holding the bag.

Tip 3: When using credit cards, pay the entire balance whenever payment is due if you have the money to do so. It is much too tempting and easy to pay only the minimum balance due. When you pay just the minimum balance, your balance which remains outstanding continues to grow and grow. Your balance never seems to get smaller because finance charges, which are the interest we looked at, are added to the amount you do not pay every month.

If your total balance due is \$165.00 and your minimum payment due is \$15.00, it is best to pay the full \$165.00 when your statement arrives. If you pay only the minimum \$15.00 due, you think you will have a balance of \$150.00. This will be your balance but before you receive your next credit card statement, the interest rate will be applied to the balance you left remaining, \$150.00. So, when you receive your statement, you could have \$165.00 as your balance due again!

Tip 4: Make payments on time. Establishing a good pay record builds a good and respectful business relationship with your creditors. This is what creates a good credit history.

Tip 5: Don't avoid your creditors. When it becomes difficult to pay bills, the notices and sometimes telephone calls from creditors begin, and the effort to avoid creditors begins. Actually, it is much better to confront, or face up to, your creditors. It is my advice that you make contact with your creditors and do not wait for them to hunt you down and catch up with you. Honestly, not everyone is nice and pleasant to deal with, but when you make the effort and take the first step to take control and explain your circumstances, many of the creditors will often work with the debtor to make some temporary payment arrangements.

Tip 6: Be faithful to your budget and it will pay off. If you intend to have money on those rainy days, you must discipline yourself when it comes to remaining committed to the budget you create for yourself. If you don't make these necessary sacrifices and adjustments, in times of emergency or for that much-needed vacation, you will wish you had. No pain; no gain.

Tip 7: Keep a spending journal to track your spending habits. This journal does not need to be anything fancy. You could gather sheets of notebook paper and keep them organized in a simple folder. It is important that you use the same categories you should have in a budget. The journal allows you to document how much you spend in each category. This exercise will show you where your money is going. You will see if and where you are overspending and it will become very clear to you what changes you might need to make.

Tip 8: Do not make an emotional purchase. "I just gotta have that!" approach to spending is right at the top of the list of reasons people get into spending or money troubles. Emotions should never -- repeat after me -- never be the driving force behind any purchase. Knowing in your heart you have just spotted the perfect gift for someone's special occasion and you have money to buy the gift is one thing. Being convinced you just have to have those designer jeans on credit, not knowing whether you will have the money to pay the bill when the statement comes is another.

Tip 9: Always use common sense. Common sense is worth more than any dollar you ever put in your bank account. Without using common sense, you could, as many people do, lose every cent. No one is surprised when a poor person does not have anything. Almost everyone is surprised when we hear of famous people, athletes and performing artists, for example, filing bankruptcy after years, sometimes many years, of success. But they are human too and, unfortunately, if no one ever taught them how to manage their finances, they end up with the same problems other people face. Without proper management, millions of dollars can be lost just as easily as hundreds of dollars.

Tip 10: You must plan for your future and follow your spirit. We are all given a "voice of reason." It's that little voice inside that will give us direction even when we might not know what to do or why we should do something. Whatever you should decide to do and wherever your voice should lead you, please know that with choices come responsibilities. With decisions, come consequences. You must make the effort to invest the time and energy to achieve any goal.