Debt Advice Foundation

A Registered Charity - Number 1095705

BEGINNER'S GUIDE TO MANAGING MONEY

Managing your money

The world of banking and finance might seem very complicated at first. However, it is actually a piece of cake as long as you stick to a few simple rules:

First of all, you need to understand the difference between a current account and a savings account. A current account is an account with a low rate of interest (Interest on savings is usually calculated using something called compounding. Basically, all it means is that interest is charged on the amount outstanding, rather than the initial amount borrowed. There is a worksheet covering this topic in more detail in our debt guides section). Normally people have their wages paid into their current account because they are able to get access to their money whenever they want. They usually do this by using a debit card, which is linked to their account, to pay for goods and services in shops or by getting cash out at cash machines.

A savings account on the other hand gives a much higher rate of interest but it's more difficult to get access to your money (usually you'll have to give the bank notice that you want to make a withdrawal and the higher the rate of interest, the more notice you have to give them).

You should aim to keep enough to live on each month in your current account and move the rest to your savings account so you can earn more interest. It's important that you always leave a bit more in your current account than you think you'll need before you next get paid in case of an emergency (this is called a buffer). You don't want to risk going overdrawn (below the amount you have available in your account) as your bank will charge you unauthorised overdraft fees.

These days, it's actually very easy to move money between accounts using internet banking.

Credit cards work in a similar way to debit cards. The main difference is that when you use your credit card, you are not using money from your own account, you are actually borrowing money off the bank. Because the bank is lending you its money, it charges you interest on the amount you've borrowed, which is why you should always consider using your own savings first before making a purchase. At the end of the month if the user of the card pays off the whole balance no interest is charged. The longer it takes to pay off the debt the more interest is charged to the card holder. One advantage of a credit card is that your purchases are usually protected against loss or damage, which can be an important factor when buying large, expensive items over the internet for example.

Direct Debits are payments that automatically come out of your account each month to cover the cost of services that you've used, such as gas and electricity. It's a good idea to set up your monthly bill payments as DDs as not only it is usually cheaper (many companies will give you a discount for paying by DD) but it's much easier for you – once they're set up, you don't have to do anything other than make sure the right amount has left your account each month. It's also a good idea to set your DDs up so they come out of your account the day after you've been paid. That way, you'll know exactly how much money you've got available for the rest of the month and how much you'll be able to save.