Finances made easy

Booklet | 001
Category | 004

VeintiunoDiez
GROWING MONEY ON TREES

SN0005

Introductory

Booklet*

This booklet, like all that have the number 001, is the first in a series and serves as an entry point for the category. It provides a comprehensive introduction to the key concepts and themes that will be unfolded throughout the subsequent booklets in this branch of the tree. This introductory booklet serves as a foundation, laying the groundwork for deeper exploration and understanding of the subject matter in the future chapters.

Money Management

Organizing finances can feel like a complex enterprise, a daunting task, leaving an overwhelming feeling even to consider it. The most common reason is that we don't have financial education in our early years; this often translates into uncertainty and negativity, leading to a scarcity mindset around money through our adult lives.

Whether they are personal or business-related, the truth is, achieving financial wellness doesn't have to be an intricate process. The path to success requires adapting our perceptions from overwhelming complexity to empowerment through knowledge and action.

To succeed in this task, we shall simplify the approach and focus on progress rather than perfection. The most important thing is to get started, take control, and build a solid foundation. Imagine it as assembling a puzzle; each piece contributes to the bigger picture, and completing smaller tasks builds momentum and reduces the overwhelming feeling, replacing it with a satisfying sensation of control.

The cornerstones of financial health

The first step to gradually building a solid foundation is to understand four fundamental concepts, the differences between them, and the roles they perform in the economic environment.

Income, expenses, assets, and liabilities. Let's describe these notions and unwrap the relationship between them:

Income | The fuel of finances, encompassing everything earned in a determined period (salary, wages, sales, investment returns, etc.). Keeping track of the income allows for determining earning potential.

Expenses | Represents the outflow of income, encompassing everything spend over a period of time. Classified into two main categories: fixed expenses (consistent on a recurrent basis and predictable) and variable expenses (fluctuating and unpredictable). Sorting and tracking expenses illustrates spending habits and identifies potential areas for cost-saving.

Assets | Resources you own with economic value and the potential to generate future benefits. Cash, investments (stocks, bonds), property (land, buildings), equipment, intellectual property, etc. Think of assets as things that "put money in your pocket" through their use or sale.

Liabilities | Financial obligations that need to be repaid in the future with cash or other resources. Loans, (mortgages, car loans, student loans), accounts payable (money owed to suppliers), accrued expenses (expenses incurred but not yet paid) credit card debt, unpaid bills, etc. Things that "take money out of your pocket" to fulfill your obligations.

The main correlation between these concepts relies on the timeframe. Income and expenses reflect the movement of money over a period of time, and on the other hand, assets and liabilities provide a picture of the financial standing at a specific point in time. Let's clarify this relationship.

Income and expenses represent the flow of money in and out of your pockets over a period of time. They are used to calculate your net income (income minus expenses) on the **income statement**.

Assets and liabilities represent a snapshot of your financial position at a specific point in time. They form the basis of your **balance sheet**.

In simpler terms, income and expenses are cash flow, while assets and liabilities are inventory.

Now, what about these new concepts?

The **income statement** reports performance over a specific period of time. It involves the operation of income minus expenses and will show the result as a profit or loss, referred to as "net income or net loss". The purpose of this statistic is to measure business profitability over a period and allow for tracking revenue trends, examining cost structures, and evaluating efficiency.

The **balance sheet** offers a snapshot of a financial position at a specific point in time for the assets and liabilities. The remaining after subtracting liabilities from assets is known as "equity". The function is to assess overall financial health and solvency. Often used by potential lenders, investors, and creditors to evaluate creditworthiness and make investment decisions.

Excersise: First analysis, a simple task

Part 1 | Gather all your financial statements, including bank accounts, credit cards, and any loans. Track your **income** for a month, listing everything that comes in. Then, list every single **expense**, including fixed costs like rent and utilities, and variable costs like groceries and entertainment. This simple act of tracking clarifies where your money goes and reveals areas for potential savings.

Part 2 | Set regular budgeting sessions: Block out time in your calendar, weekly or monthly, to review your expenses and adjust your budget as needed.

Instead of relying on a specific budgeting tool,
focus on developing healthy financial habits,
the essentials of sustained financial success.

Focus on habits, not spreadsheets!