

Credit Cards ...Be Warned

By

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Does your credit card work for you or do you work for your credit card?

Most people's answer to that question will depend on how they treat their "old plastic" as credit cards are known.

For many with burned fingers will tell you, including me, they didn't realize that things had gotten so bad until very late, because most credit card offers try much to sound like they are actually running a charity. Well, they aren't.

And this is not a hate campaign against credit cards. Surely they have their benefits - if you want to rent a car, you got to have a (major) credit card.

But, consider this scenario: You receive an offer in your mail that sounds good; maybe it's a new generation Wii fit or a fridge. But it costs £2,000. Oh, but you have a credit card with a £5,000 limit, and you immediately purchase your merchandise.

Typically, here is how your repayment schedule will play out. Most credit cards charge a minimum of total balance (usually 2 percent) of the total per month.

Assuming the interest rate is 18 percent and you choose to repay the minimum amount of £40, £30 of that will go towards interest and only 10 percent towards the principle.

As a result, you will take 30 years to repay and end up paying over £5,000 interest.

Sounds scary? It doesn't have to be. The moral of the illustration is: Use the credit card the same way porcupines make love; very, very carefully.

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