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## NF91-5 Money Management Recordkeeping

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## Money Management Recordkeeping

*Kathy Prochaska-Cue, Family Economics and Management Specialist*

Many different systems for money management are possible. Whether a particular system is the right one for you depends on you, your temperament, and your situation. Descriptions of various systems follow. Remember that you will still need to take any system and "customize" it to fit you.

### How to Keep Track

#### Envelope System

This system involves using cash in various envelopes or other containers marked for the different expense categories you set up. There is a definite danger in keeping cash at home even in a home safe, so while this system is the simplest, it is also the most dangerous. A running account of expenses can be noted on the outside of the envelopes.

While the envelope is convenient and simple to use, it takes a lot of will power not to "rob" one envelope when another is empty. There is also the risk of loss or theft of the cash.

Some people use a calendar to help them control their money. They write down dates bills are due or when payments need to be mailed to reach the creditor by the due date. They then check the calendar each day to see if some financial management activity must take place. One calendar used by everyone in the household as the place to jot down out-of-pocket cash outlays will simplify the recordkeeping system. Then the person in charge of recordkeeping will need only to consult the calendar to account for cash outlays.

The calendar system adds the time dimension to the cash flow record keeping system, but still does not yield a complete record of where cash went.

#### Checkbook System

This system involves keeping accurate records in your checkbook. It's a good system if you normally write checks for just about everything. The only expenses you'll be missing are those petty cash items. If

you note in the checkbook ledger or a separate notebook where petty cash goes, then the checkbook system can be as complete as the ledger system. The checkbook also has the advantage in that the expenses are recorded only one time rather than being transferred to a ledger.

Some couples who choose to use the checkbook system provide for a "wild check", a check which each person carries with them in case of emergencies. It's easier than carrying the entire checkbook. This way you're never stuck needing the checkbook when the other person has it. Single people may also find the "wild check" idea helpful.

While the checkbook system is fairly simple and can help the household unit develop cooperation, discipline is required. This system, like all others, is only as good as the record keepers.

### **Ledger System**

This system involves using a ledger or recordbook of some sort to record income and expenses. It is the most detailed and takes the most accurate record all in one place. This system may also be a decreasing ledger system. Monthly budget amounts are noted at the top of each column for the various categories. Then as money is spent it is debited against the "running total" left. An advantage to this particular system is that you know immediately what's left in a particular budget category.

The ledger or journal system gives a more detailed and total picture of cash flow, can be much more accurate, and is a handy tax record. But it does take time and effort almost daily. Everyone in the household must assist by reporting accurately their own cash expenses.

A calendar can be used as part of the checkbook or the ledger system. As described earlier, use the calendar as a place to note expenses or to plan due dates.

### **Home Computer Software Packages**

A variation of the ledger system is using a microcomputer system to keep track of household expenses and income. While it never makes sense to purchase a microcomputer just to do household budgeting, if the computer is available in the home for other purposes, then budgeting and recordkeeping is a natural.

The biggest advantages of using the microcomputer for household recordkeeping are the large available storage space for keeping information and the fact that mathematical computations can be done quicker and perhaps more accurately.

This system is expensive if bought only for record keeping. Another disadvantage is that it still takes time and effort to do the record keeping.

### **Handling Petty Cash (Small Miscellaneous Expenses)**

Petty cash is money spent and later you can't remember where it went. Maybe it's that extra \$5 you write into the check to buy groceries, or the refund money you get when you use coupons or turn in bottles.

Is it important to keep track of petty cash? That depends on your situation. If you're in a fairly tight situation, then you may think it important, even necessary, to keep track of every dollar or even every penny. On the other hand, your situation may be one that you really don't have to keep careful track of where the money goes, but you choose to do so because you feel it's important to know. The way you have more control of your spending.

One caution: remember something that's "petty" one day can add up to quite a sum of money if that petty expense is a regular cash outlay for you. For example, if you have two soft drinks per day out of a vending machine, you'll be spending more than \$200 over the course of a year.

If you decide to keep track, try using a small notebook you can carry with you. Then, as soon as possible record your petty cash expenditures. Or write down amounts on slips of paper such as receipts.

You may or may not decide to itemize your petty cash income and expenditures in your accounting system. Again, that depends on your situation and you. One category headed "petty cash" may be all of the detail you need.

### **Who Does What?**

If your household involves more than one person, decide who will be responsible for what tasks and duties to be performed when managing money. Who pays which expenses? Who does the necessary bookkeeping? Who makes out checks for bills? Who fills out tax forms? Who handles the other tasks that need to be done? Who handles the other tasks that need to be done? Usually the person who has the most time, experience, patience or inclination ends up as the chief money manager in the household. However, it's a good idea to rotate that job annually or semi-annually so everyone knows, understands, and can use the system.

The system will have to make sense to and be agreeable to all people involved. This may take some experimenting and compromising until you find the best situation for you.

### **Common Elements and Tips for Money Management Systems**

Every system for managing money, no matter how simple, involves at least some recordkeeping. To know where your money goes, you need to keep some written records. The trick is in deciding what you need to know and then to keep track of just that information. Keep your system simple, as simple as possible or you won't use it. Try rounding off your figures to the nearest dollar. Don't record the cents. This will work if you set your "break point" and then stick to it. For example if you choose to round to the nearest dollar, you may decide that 49 cents and less will be dropped, but 50 cents and above will be rounded to the next dollar. You can decide if you need to keep track of the pennies or not. Some people even round to the nearest \$5 or \$10.

Mark tax deductible items in red in your account book or checkbook so that at tax time you've done some of the work throughout the year. Separate receipts into appropriate folders or enveloped labeled with various tax categories.

*Developed by Kathy Prochaska-Cue, Extension Family Economics and Management Specialist, Cooperative Extension Service, University of Nebraska, November 1990.*

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