

Record Keeping for Money Management

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Discover five ways to keep financial records. Learn tips for handling petty cash and small expenses and for record keeping in general, as well as tips for who does what record keeping.

How to Keep Track of Financial Records

Five methods for keeping financial records are described in this NebGuide:

- envelope system,
- calendar system,
- checkbook/debit card system,
- ledger system, and
- home computer software system.

Envelope System

This system involves placing cash in envelopes or other containers marked for each budget expense category. While this system is the simplest of the five described, it has two disadvantages. First, keeping cash at home, even in a home safe, has the potential for loss or theft. Second, it takes a lot of willpower not to “rob” one envelope when another is empty. On the positive side, as money is spent from each envelope, a running account of expenses can be noted on the outside of the envelope. The envelopes also can be used to keep receipts.

Calendar System

Some people use a calendar to help manage their money. Use it to record dates when bills are due or when payments need to be mailed to reach a creditor by the due date. Also record when income is expected. By looking at the calendar and comparing when money is available with bills that must be paid before money is available again, decisions can be made about what bills to pay when. Check the calendar

daily to see if some financial management activity needs to take place. Record other expenses on the calendar as money is spent.

Using a single calendar to track cash expenses will simplify the record keeping system. The person in charge of record keeping will need only to consult the calendar to account for what cash has been spent.

The calendar system adds a time dimension to a simple budget, resulting in a record keeping system that shows not only how much is spent but when it is spent.

Checkbook/Debit Card System

This system involves keeping accurate records in your checkbook transaction record or register. It’s a good system if you normally use a debit card or write checks for just about everything. The only expenses you’ll be missing are those bought with cash or a credit card. If you note in the checkbook register or in a separate notebook where cash goes, this system can be as complete as the ledger system. It also means that expenses are recorded only one time rather than being transferred to a ledger.

Discipline and consistency are required for this system, even though it is fairly simple. Using it may help the household unit develop cooperation. This system, like all others, is only as good as the people using it and the information being recorded.

Ledger System

This system involves using a ledger or book to record income and expenses. It is the most detailed and creates the most accurate record.

This can also be a *decreasing ledger system*. In a decreasing ledger system, monthly budget amounts are noted at the top of each column for the various categories. As money is spent, it is debited against the “running total” in that expense category. An advantage to this system is that you know immediately how much money is left in each budget category.

The ledger system gives

- a more detailed as well as a total picture of cash flow,
- can be much more accurate,
- is a handy tax record, and
- results in records being all in one place.

But it does take time and effort, almost daily, and requires the cooperation of everyone in the household.

A calendar may be used as part of either the checkbook or the ledger system. It can be used to plan or record expenses or to plan due dates.

Home Computer Software System

A variation of the ledger system is using a computer system to track household expenses and income. While it doesn't make sense to buy a computer just for household budgeting, if you already own one, budgeting and record keeping are natural functions.

Two of the biggest advantages of using a computer are the size of information storage available and its ability to do mathematical computations quickly and accurately.

Handling Petty Cash (Small Miscellaneous Expenses)

Petty cash is money spent on minor items, things that might easily be forgotten. Maybe it's that extra \$10 you write into the check for cash when buying groceries, or the refund money you get when you use coupons or turn in bottles or cans.

Is it important to keep track of petty cash? This depends on your situation. If you're in a fairly tight financial situation, you may think it is important, even necessary, to keep track of every dollar or even every penny spent. On the other hand, your situation may not require you to track money that carefully, but you choose to because it helps you feel in control of your spending.

While this is labeled as "petty" cash, remember that it can add up to quite a sum of money over time. For example, if you use petty cash to buy two soft drinks per day from a vending machine at work for a cost of \$1 each, you'll spend more than \$500 a year.

If you decide to keep track of petty cash, try carrying a small notebook with you. Write down each petty cash expense as soon as possible. Getting receipts for cash expenses is another way to track some petty cash.

Who Does What Record Keeping?

If your household includes more than one person, decide who will be responsible for what money management tasks. Who pays which expenses? Who does the bookkeeping? Who

makes out checks for bills or pays them online? Who fills out income tax forms? Who handles the other tasks that must be done? Usually the person who has the most time, experience, patience, or interest becomes 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 record keeping system must make sense to and be agreeable to everyone involved. This may take some experimenting and compromising until you find the best option for you.

Common Elements and Tips for Money Management Systems

Every system for managing money, no matter how simple, involves at least some record keeping. To know where your money goes, you need to keep some written records. The trick is in deciding what you need to know and keeping track of only that information. Keep your system as simple as possible or you won't use it.

Try these tips for keeping things simple:

- Round 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 or less will be dropped, but 50 cents or more will be rounded to the next dollar.
- Mark tax deductible items in red in your account book or checkbook to give yourself a head start at tax time. Separate receipts into folders or envelopes labeled according to tax categories.

Many record keeping systems are available for managing your money. Selecting the best system for you depends on you, your temperament and your situation. Whichever system you try, remember to customize it to meet your unique situation.

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