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Getting Organized – Financial Planning Series

Michigan State University Extension Service

Irene Hathaway, Family and Child Ecology; Nancy Baker King, Kalamazoo County

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Getting Organized

by **Irene Hathaway**

Specialist

Family and Child Ecology

and

Nancy Baker King

Extension Associate

Kalamazoo County

Have you ever spent hours looking for:

- an automobile title?
- an account number?
- a receipt you knew you had somewhere?

Or perhaps you have had heated discussions related to:

- a bill that you thought was paid
- birthdays you forgot
- a repair record on the car

You can eliminate a great deal of the tension created by these situations if you use a simple but carefully thought out record keeping system.

Knowing where your papers are can help you to save time and eliminate confusion during a crisis. Set up a home business center that is devoted to important papers. Instead of keeping records in many messy drawers and file cabinets located throughout your home. Keep them in your home business center. Organize them in a simple manner that both of you can understand.

\$ Getting Organized

An organized household is a more efficient household. It is important to have a single location in your home where you conduct business, as well as keep important documents and records. Record keeping is the process of organizing transactions that occur, such as bill paying, correspondence, and filing. These tasks are as important to your personal life as recordkeeping is to your work life.

\$ Creating Your Home Business Center

To begin, designate an area of your home as the business center. This can be located in the kitchen, family room, living room or bedroom. Select a place where you can put a table or desk for writing out checks, letters or planning next month's budget. Your center should be well lighted and convenient, and should also have privacy and a calm atmosphere for working.

Starting your business center doesn't have to cost lots of money. Use what you already own to start. A table where you can spread out papers is sufficient, but a small, inexpensive or second hand desk may help to reduce clutter. File cabinets may be a nice addition, but they are not necessary. Heavy cardboard boxes or large envelopes can be a starting point.

Keep your filing system simple and be sure you have adequate storage space so papers can be filed away neatly. When you create the system leave some room for expansion so papers do not become damaged by trying to store too much in a small area. As your needs grow, so must your business center.

Consider having the following items in your business center:

- a telephone
- a typewriter
- a calculator or an adding machine
- bookshelves
- reference books
- a personal computer

Don't forget necessary items such as pencils, paper clips, a stapler and tape. Depending on the complexity of your center, you will learn what items are essential.

\$ Running the Center

Once you have your business center set up, someone will need to run it. You may want to divide responsibilities between partners. But whoever takes on the responsibility will need cooperation to make sure that the center is not abused. Only items that relate to home

business should be there. Do not use it as a dumping area for anything that needs a place to rest. The partner responsible will want to explain the system to the other partner. This will prevent one person creating a mess when trying to locate information.

\$ *Important Records You Should Keep*

The piles of papers most people collect tend to overwhelm and discourage any attempt to organize. Begin to simplify by going through the papers and deciding whether or not they are necessary. Keep all records that might be used for proof of ownership, resale purposes or income tax.

Tax records are important to keep for a possible audit. The Internal Revenue Service has three years in which to audit federal income tax returns. However, this does not apply to unusual cases where the party filing has:

1) Failed to report more than 25 percent of his or her gross income. In this case the government has six years to collect the tax or start legal proceedings to do so.

2) Filed a fraudulent return or failed to file a return. Then there is no time limit.

As a general rule, most people keep their tax returns indefinitely.

\$ *Records You Can Discard*

The decision to throw out papers can be difficult. The following information should help make the task easier. To keep your files up-to-date, go through them annually. Throw away:

- bank statements and receipts for closed accounts.
- bill receipts that have been recorded or payments acknowledged.
- sales receipts that have been recorded.
- cancelled checks that are not needed for receipts as proof of purchase or income tax.
- records of appliances that have been replaced.
- warranties that have expired.

\$ *Develop a Filing System*

Now that you have determined what papers you need to keep, you will need to develop a filing system. There are two types of files you will want to work with. These are the temporary file and the permanent file.

The temporary file is used for current transactions and records any paper that you will need to refer to within the year. These papers include bank statements, cancelled checks, bills, receipts and tax deductible items. You will want easy access to this file.

The permanent file is your most important file. This will contain original and duplicate documents and records that you need to keep but you seldom use. Your permanent file will contain items such as insurance information, tax information, ownership papers and personal records, such as the permanent information from your temporary file after the year is over.

Having your permanent papers organized can help you save time and possibly money when you need the information. The permanent file does need to be cleaned out periodically. For instance, when an item is no longer in your possession, such as a car, you no longer need to keep the information pertaining to this item in your file. Don't let your permanent file become cluttered with outdated information.

Record the location of your important papers in Extension Bulletin E-451, *Record of Important Family Papers*. Keep this record in the front of your permanent file. If you store important papers elsewhere, you may wish to keep a copy of this record in that place as well.

\$ *Where to Store Your Papers*

Proper storage of papers is important. There are some documents that you may want to keep safe from fire, theft or water damage. These valuable papers include birth certificates, marriage license, deeds, leases, contracts, wills, military records, social security records, and investment certificates. There are several options you may want to consider.

You can store these papers in a fireproof box, a home safe or bank safe deposit box. The home safe or fireproof box should be able to withstand heat of 1700°F for 1 hour.

If you wish to use a bank safe deposit box, consider:

- the cost—fees charged will depend upon the size of the box. In most cases the cost is minimal compared to replacing lost or damaged documents.
- the protection features—check your homeowners insurance to see if it protects the contents of your box. Find out the limitations provided by the financial institution for protection of the contents.

\$ *Other Important Records—Your Household Inventory*

Another very important record that you should update annually is your household inventory. A household inventory is important for insurance purposes, proof of ownership, planning for estate distribution and assessing net worth. You will want to include household furnishings, as well as personal belongings.

Your household inventory is a way to document your possessions, their condition and value. Be systematic when you prepare your inventory. Go through one room at a time and list each item. Besides listing each item, take color photographs of each room, and furnishings and valuables. Or, video tape each room and all valuables. Be sure to store the photographs or video cassettes outside your home in a safe place.

Adapted from *Getting Organized*, University of Alaska, Cooperative Extension Service.

\$ *How Much Are You Worth?*

An important financial record is your net worth statement. This statement tells you what you are worth by subtracting what you owe from what you own. It can be useful to you when you determine your insurance needs, apply for loans or plan your financial future. You should update it annually.

First, assess your assets—that is, what you own. Liquid assets consist of money in checking and savings accounts, money market funds and cash on hand. Other assets that are not as liquid are bonds, cash value life insurance, stocks and annuities. You may also have assets that cannot readily be turned to cash, such as profit-sharing, retirement funds and property.

Then assess your liabilities. What you owe consists of mortgage debt, installment debts, personal loans, outstanding bills and taxes owed. The difference between your assets and your liabilities is your net worth.

Couples that are not married and married couples with prenuptial agreements need to consider the issue of ownership. Be sure that assets and liabilities are clearly assigned if you prepare a net worth statement for each partner.

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