

Preface

Why, might you ask, should anyone consider using accounting to manage home or personal finances?

Businesses use accounting, indeed have a legal obligation to use accounting, to manage and control the conduct of business affairs. They do this because accounting has evolved over many years to be the only viable solution to successfully achieving to such management and control.

When we look at the figures and turnover, we can actually see that most domestic, home situations actually resemble little businesses. Might accounting offer a solution?

There is a common perception that accounting is difficult and boring. I thought so too! I think business accounting is quite difficult; and that is why it takes quite a few years to gain proper professional qualifications in the subject.

I tried to use business accounting for my domestic situation – and failed. With persistence, I discovered what was wrong, evolved a brand new approach and have come up with what I call, Domestic Well-Being (DWB) Accounting.

Despite what you might think, domestic accounting can be easy and it can be fun! Especially with general-purpose software packages for the PC which are now readily available.

It can be fun because it now relates, through visibility, to the fundamentals of domestic life. No more net and gross profit, sales, margins, discounts and commission. Now you can hone into food, drink, responsibilities, holidays, hobbies, provision for the future and Lady Luck.

The purpose of this book is primarily, to tell you how to gain control of your personal finances with a new form of bookkeeping and accounting, based on Domestic Well-Being. I will explain the reason for this name later. This new, simple accounting model is derived from the traditional format of so-called, double entry, that is so firmly established throughout the business world. I discovered from practical experience however, that business accounts could not effectively support the home and domestic environment in which I wanted to use them.

This book is targeted at those with the necessary feelings and a sense of responsibility for themselves and their family, and with a PC and some basic computer literacy, who would like to gain control of their life through their personal finances. This, with a view to achieving the best possible standards of living and domestic well-being for their family, whilst minimizing and if necessary, managing recovery from any personal debt already incurred.

I put it that the level of mathematics required for anyone to feel comfortable with this new, domestic accounting is at secondary school level, which in the UK would be at GCSE level. Addition, subtraction, division, simple equations, algebra and the logic to understand debit, credit, income and expenses is all that is required. Once set up, bookkeeping will occupy a couple of hours a month and the end-of-year reports, perhaps a couple of half-days. As with any discipline, there are no bounds and for the adventurous, there are immense possibilities beyond the basics – and with no additional level of mathematics required!

Using the new accounting system, you will always know in detail, about the increases and decreases of your personal finances. You will know how your basic, discretionary and other outgoings are distributed, and whether your commitments to future well-being for example, represent a reasonable proportion of your total increases over any period. If you find imbalances, you have the visibility and the tools at your disposal to decide upon the corrective measures appropriate; and the budgetary controls required to monitor future financial activity to help you keep to your plans.

You can obtain warnings of unusual patterns of financial activity and will have the necessary information at hand, to plan and implement appropriate, avoiding action. For those with unacceptable levels of debt or other imbalance in their financial situation, recovery planning will be simplified by the extent of the analysis of your financial activity, already contained in the end-of-period reports of this new accounting system.

The methods can be used for any currency and with 30 years spent in Belgium, I used the system for four different currencies, all simultaneously towards the end.

What sort of person might write a book about home and domestic bookkeeping and accounts? Well, I would like to think I am a pretty normal sort of person – a bit adventurous to start with but over the years, have calmed down somewhat but still have a bit of a wanderlust, which is why I retired five years earlier than I had to. It is also why I went down to Antarctica soon after I decided to start writing this book.

My career started with the army and after two years at the Royal Military Academy Sandhurst, I was commissioned into the Royal Corps of Signals. By the time I was in my mid-twenties I read Mechanical Sciences at St John's College, Cambridge.

After some fantastic new experiences as a young officer in Germany and the Baltic, Cambridge saw my transition from communications, to computers and software. Learning to use analogue and digital computers in the early-60s to help solve engineering problems was for me, like switching on a light.

Two wonderful postings in the Far East, another spell of research on simulation for road traffic control at the University of Birmingham; and a tri-service feasibility study on the possible use of computers for Command and Control and I then made what should have been a big change into the commercial world. I prepared myself, completed a year's correspondence course on company law, office management and bookkeeping and accounts; and applied for jobs with the then, emerging computer industry.

I subsequently accepted a post in NATO/SHAPE in Belgium as a software engineer, where I stayed for the next thirty years! So much for the commercial world; but at least I now like to think that the accounts bit was not actually a waste of time and effort, although I never used it at work!

Now married and with a young and growing family near Mons in the early 70's, I began taking an interest amongst many other things, in managing our domestic financial affairs. To begin with, this was limited to just rudimentary monitoring with pencil and paper. Later however with the arrival of microcomputers and then, the PC compatibles, the possibilities turned into reality.

My theoretical accounting knowledge of, by then, some fifteen years earlier, did not really help too much. I managed to achieve a working system however and ran it on an annual basis with end-of-year, closing and opening of accounts and the production of typical, business-oriented annual financial statements. This gave me a basis for determining how well things were going and where changes might be appropriate for the forthcoming year.

With the recognition that the business-orientated Trading and Profit & Loss Accounts provided no real help in the domestic home environment, I decided to come up with a new formula, directed at providing meaningful financial facts for just the domestic situation.

This book describes both the results of my endeavours and also provides sufficient information for readers to set up and run a domestic bookkeeping and accounts system, based on my new approach or Domestic Accounting model.

I use two, well-known, general-purpose software products, Microsoft Money[©] and Microsoft Excel[©] upon which to base my accounting system although my new methods are not tied to these products. I do not provide detailed user guidance for these products as the products have

their own user manuals and there are so many books already available on the background to business accounting and the basics of using spreadsheets.

A feature of my methods is simplification of the accounting terminology and methods, which I found to be a major barrier to domestic use. I used to find that each time the end-of-year processes came around, I almost had to re-learn many of the words and subtleties of debits, credits, income and expenses; and which side of an account required addition, or was it subtraction?

For these reasons, I have chosen meaningful words to replace some of those which non-accountants have so much trouble in mastering. Indeed, I finally found it necessary to come up with two completely new words for the domestic environment, to replace the profit and loss of the business world. At the end of a period, we will see that Total Domestic Change (TDC) is exposed, equivalent to Net Profit or Loss in business accounts. Since trading and profit & loss are completely inappropriate for the home scene, I have introduced Domplus (domestic surplus), to represent a positive TDC; and Domicit (domestic deficit), to represent a negative TDC.

I provide extra details of all the new features associated with domestic accounting in supporting annexes.

With the sub-title, 'Gain Control of your Finances', I have taken a perhaps unusual approach for a book on accounting. I start in Section I with an overview of control, using some familiar examples to acquaint the reader with the fundamentals of the subject of control. Then, from a control perspective, I make a link from the elements of control to the underlying features of finance.

From this, in the more theoretical part in Section II, I show that accounts are merely a model for visualising the state of finances. The later series of chapters in this Section discusses the use of the software available that will satisfy the new requirements. I describe the solution I have evolved with its use of categorisation to provide the required visibility; and a new set of tailored, financial reports and Domestic Financial Factors, to replace the traditional business accounting reports and financial ratios.

In Section III, the practical section, I describe the required bookkeeping and accounting, concluding with practical guidance on using the techniques in the course of a complete, financial cycle. Once control has been gained, optional budgeting and its monitoring provide the means to exercise control.

The final Section IV provides the circular link to one of the three, control examples of the opening section of the book. I discuss future possibilities on wider usage of the method, the need for its recognition and standardisation and its potential, as a basis for early training for youngsters in the management and control of domestic finances.

I now live in the UK, after having spent 30 years overseas in the international NATO environment. Although the new methods of accounting that I will explain were evolved for my personal use, I am convinced that they offer a potential way for millions of people worldwide, to obtain practical benefits in their daily lives. This is just because of the fantastic visibility provided on what I call, domestic well-being, on which these accounts are based.

Some of my concluding comments are understandably, directed at conditions in the UK but I believe in principal, that concerning the need for the recognition of domestic accounting and for a central focus on some of the issues, there is no real national boundary.

In the context therefore, of the massive, domestic debt crisis now prevalent in the UK, this book offers hope for at least, three aspects of any potential contribution for reducing the alarming impact of such debt, for the UK population.

- First, through the use of the new Domestic Financial Factors, householders can receive early warning of an impending debt situation so that they can plan, implement and control appropriate financial measures to stave off such an event or indeed, crisis.
- Second, through the visibility and simplification provided about the domestic, financial affairs of a household, the methods facilitate the required financial planning and control required to help manage debt recovery for those who have already fallen into a debt situation.
- Third, through an understanding of this new domestic accounting system, provide the basis for early education for youngsters about meaningful and simple ways to take responsibility for the management and control of their future, financial affairs.

I have realised that a major impetus towards increasing awareness about the importance of accounting in the management of life finances, would be for domestic accounting to become recognised as a formal sub-discipline, in its own right. Quite obviously, domestic accounting remains subordinate to the well-established, conventional business accounting but there is now a need I believe, for that official acceptance and eventually, recognition.

With this, a foundation for investigation, research and exploitation of some new ideas about domestic accounting could evolve. Such a focus might eventually lead to an end of the crisis or at least, a reduction in its severity. In passing, this might open up awareness about financial responsibility and create the impetus for individuals to actively seek out ways to consciously, improve their domestic well-being.

The prevailing debt crisis could provide the stimulus for early moves in this direction but there is a need for simple tools, consisting of methods, software support and education, all directed at the users who are the managers of domestic businesses, namely households, all over the world.

As this book shows, there is a simple new method now available that would be a prime candidate for exploitation; there maybe others but there is currently no infrastructure in place to pursue these issues. In particular, there is an urgent need to identify and coordinate research in the area of domestic accounting. The newly identified Domestic Financial Factors are one area that I have identified where scope and a direction for further research is already required.

As I will explain, management of domestic financial affairs is a relatively slow-moving discipline based on annual, financial cycles. Some of the ideas I have expressed in relation to education, research, and the take-up of the new techniques to introduce and foster domestic financial management and control, could also be slow to get started.

To combat this, the highest-level, government sponsorship and motivation is now necessary to overcome this inherent inertia. Only with such a prominent and central lead so that the availability and benefits of practical means can be introduced as quickly as possible, will there be any hope of slowing down the unacceptably high and growing levels of personal debt.

Initiatives by Ofsted and the Qualification and Curriculum Authority, in relation to citizenship I believe, would perhaps provide a perfect platform from which to introduce some ideas on introducing domestic accounting into the secondary level curriculum and beyond.

Another theme that is gaining interest throughout the world today is so-called, Lifestyle Planning. It appears to me that Domestic Well-Being fits perfectly into this concept and that gaining control of domestic finance has to be a major contributor or component for possible success in Lifestyle Planning.

A final thought is to tell you that you will need another sort of book to help you to decide how best to invest and spend your hard-earned wealth. This book gives you the visibility on what is coming in, how it has been going out, and on how you intend that it should go out in the future.

Furthermore, these new methods will help you keep track of how well you are adhering to your plans and budgets for the future. With that visibility, you will probably be much clearer about the areas in which you should be investing and the amounts available for such investment and spending. Help on how best to accomplish these last activities is definitely not the subject of this book!

Finally, I do ask you to persevere. There is a danger that in trying to be precise and to cover all the eventualities, you could be scared off. Especially for those of you with no experience of accounting whatsoever, it can be confusing at first. There are a number of new ideas and lots of new words.

Because I have adapted ideas and methods from business accounting, I think it is important that you have at least some idea of what it was that I found could not best support me in my own attempts to start doing my personal accounts. As I go through, I try to explain which concepts did not apply and particularly, where I found it appropriate to introduce new terminology to try to simplify things. So having heard a little about the background to business accounting, do not worry if you do not fully understand all the business concepts. You are not on a course to become a qualified accountant – but if you are interested, there is much material available in books and on the web so that you can learn more if you would like to.

An understanding of one idea – double entry – and the following six key words will get you through with flying colours: asset, liability, debit, income, credit and expense; and my version of the domestic accounting equation and a couple of 'memory joggers' will tie all these features together – so, no problems! Have fun, and enjoy the benefits that can so easily be yours.