

Expense Categorization Starter

Use the method

Organize spending so you can see where money goes and ask better operating questions. Start with one account and one month. The result is a small category list, a categorized transaction record, and an unresolved list. These are operating categories; assigning a category does not establish tax deductibility or the accounting treatment of a purchase.

- 1. Choose the records.** Use an account statement or export and supporting receipts. Record the period and account nickname. Keep full account numbers and credentials off this worksheet.
- 2. Define useful categories.** Choose a few categories that support decisions, such as supplies, software, occupancy, travel, and fees. Write an inclusion rule for each; use the same rule consistently.
- 3. Separate other money movements.** Mark transfers, loan proceeds or repayments, owner movements, and refunds separately from ordinary spending. Ask the bookkeeper about treatment rather than forcing them into an expense category.
- 4. Assign and split.** Assign each spending item once. Split mixed purchases only when the parts are supported by a receipt or other record. The split amounts must add to the original total.
- 5. Resolve unknowns.** Use needs review for unclear transactions. Record the missing evidence and a person to resolve it. Do not guess to make the list look complete.
- 6. Check and review.** Confirm every source transaction is included once. Sum classified spending and review items separately from transfers. Investigate differences, then compare categories and choose one operating action.

Worked example

Illustrative example: a statement has a \$120 office store purchase, a \$40 software charge, and a \$300 transfer to another owned account. The receipt shows \$90 supplies and \$30 equipment in the first purchase.

The owner records two supported parts, \$90 and \$30, linked to the same source transaction. The software charge is \$40. The \$300 transfer is separately labeled transfer and is not counted in this spending summary.

Classified spending totals \$160: \$90 supplies + \$30 equipment + \$40 software. This is an operating summary, not a conclusion about whether equipment is immediately deductible. An additional unfamiliar \$25 charge remains needs review until evidence is found.

At review, the owner notices two software services doing the same job and starts a tool inventory. The original statement and receipts remain available; category changes are documented.

Before you put it to work

- ☐ Each transaction has a source reference and appears once.
- ☐ Split amounts equal the original transaction amount.
- ☐ Transfers and owner movements are visibly separated.
- ☐ Unclear items have an evidence request and review owner.

If the problem keeps returning

If categories keep changing, simplify them and write clearer inclusion rules. Use a separate decision note for an unusual purchase instead of inventing a new category for every merchant.

Connect the tools

Use MF-02 to reconcile account activity and BO-05 to review tool costs.

Background reference

Recordkeeping background: Internal Revenue Service, Recordkeeping,
<https://www.irs.gov/businesses/small-businesses-self-employed/recordkeeping> (checked September 29, 2026).

Working worksheet

Name or team _____ Date _____

Scope and setup

Period, account nickname, record location, category owner, and unresolved item reviewer.

Reusable record

Date and source	Description	Category or type	Amount	Evidence and review

Duplicate rows or this worksheet for additional records.

Use your own records. The examples on page 2 are illustrative. Continue on a duplicate worksheet when you need more space.

Complete and review

Category rules

Category names, what belongs in each, and how refunds and transfers are identified.

Unknowns and totals

Unresolved items and owner; categorized spending total; source completeness check and differences.

Decision and next review

One spending question, proposed action, decision owner, evidence, and next review date.

Review after use

Did a category reveal a useful operating decision? _____

Which unresolved item needs evidence? _____

What rule will stay consistent next month? _____

Next action _____ Owner _____ Due _____