

Buying Food Today?

managing your credit card transactions to build rebate dollars

by

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Now who would think that using your credit cards can save you money. Most financial advisors suggest you throw away those cards. So if you're thinking of cutting up your credit cards, hold on! There are some nifty credit card programs that can reward you immensely. Using a little self-discipline and changing the way you shop, you can build a down payment for a car or plan a fabulous trip by making simple purchases like food. Here's how:

You will be working with three credit cards. The first credit card, which we will name Card1, is a rebate card that pays or awards you a percentage for every dollar you charge. There are a number of rebate credit cards available that you can redeem for automobiles, airline travel, computers, toys, gasoline, cash, mutual funds, etc. Select the rebate card that complements your needs. Submit an application if you don't have one of these cards and have the issuing bank send both you and your spouse a card. Make sure the card has the following features:

- 25-day grace period for purchases.
- Rebate program that is simple and easy to follow.
- Minimal or zero annual fee for the card. Shop around if the card charges a hefty annual fee*.

* If you require higher credit lines, or wish to accumulate larger rebate dollars in a single year, apply for the Gold or Platinum card. These cards may charge hefty annual fees, however.

The second card for this program (Card2) is similar to the first card, except that it offers a different rebate program. You will use this card when you reach your credit or rebate limit on Card1. Card2 is your second choice of card for credit card purchases. Again submit an application and instruct the bank to issue a card for both you and your spouse.

The third and final card is a credit card or credit line that has a low annual interest rate. You will use this card (Card3) to pay off large expenses that you charge on your rebate cards. Unexpectedly, you may need to buy a new refrigerator or lawn mower, for example, that needs to be financed. You will use Card1 to make the purchase to earn the rebate. Then you will use the cash advance option from Card3 to payoff the large purchase on Card1 when the bill comes due. This avoids the high interest charges that Card1 may incur if you carry over a balance.

Card3 can be an unsecured line of credit product that you can find at a number of banks or a home equity line. The credit line should carry a low APR rate — somewhere around 1 to 4 points above the prime rate.

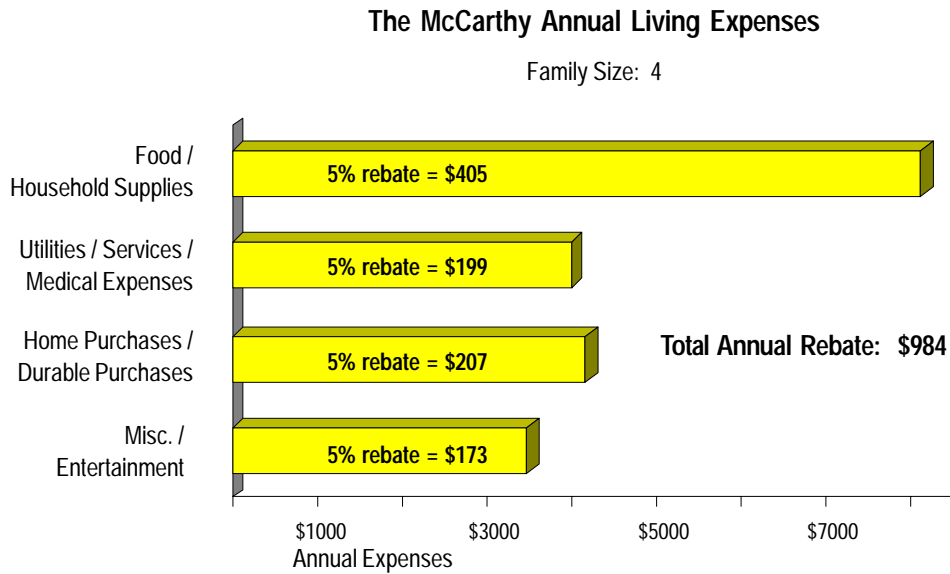
Once you receive these three cards, you can throw your other credit, department, and gas cards away. You won't need them anymore. You will use these new cards instead.

Now let's review some basic ground rules that will reap tremendous rewards by simply changing the way you shop.

Case Example 1

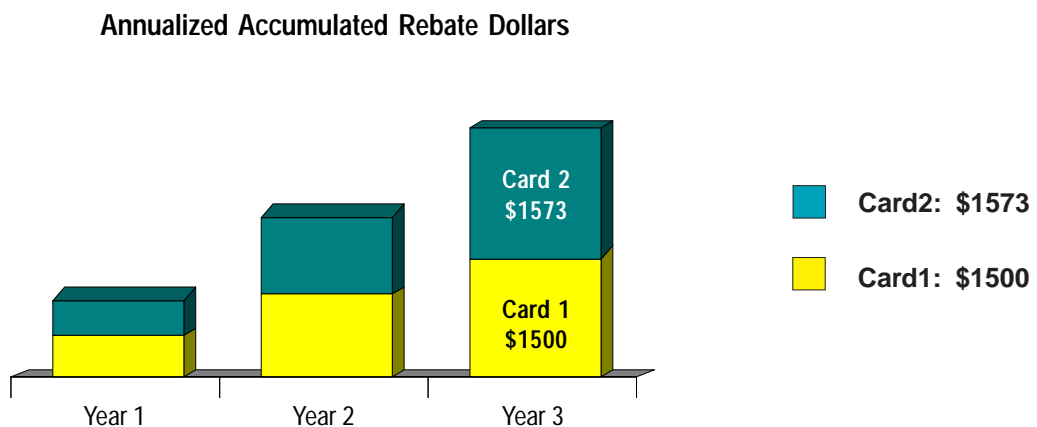
The McCarthys are a young family with two children. Their combined income is \$61,500. They use their rebate credit cards to purchase everyday items such as food, clothing, and household supplies. They calculated below their annual expenditures and rebate dollars.

The example uses 5% rebate on purchases (which was a common rate when this article was written. Some exclusive cards may be available at the rate. But most rebates cards on the market today offer 1% rebate and higher rebates for specified purchases. Shop around. You may need to use multiple cards to maximize your rebate percentage.



Case Example 2

The McCarthy's estimate an increase in their living expenditures by four percent each year. Assuming expenditures will remain constant, the McCarthy's will accumulate \$1500 in three years using Card1 with a \$500 annual maximum rebate, and \$1573 in three years using Card2. They plan to redeem the \$1500 on the purchase of a new computer and use the \$1573 rebate on a lease of a new car.



Rule #1: Take the rebate cards and give one each to you and your spouse. Both of you will use Card1 or Card2 for everyday purchases such as groceries, gasoline, utilities, travel, clothes, entertainment, doctor, etc. If a merchant or service provider does not accept Visa or MasterCard, then shop around for a different merchant. Use your cards for everything except perhaps to payoff bank mortgages, loans, and other utility services that do not accept cards. Limit your use of checks, debit cards, and cash except for miscellaneous items such as newspapers, candy, and the like.

Rule #2 Treat your credit card like your checking account. Manage your credit purchases in the same way you would manage your checking account purchases. Before you make a credit card purchase, make sure there is money in the bank to pay for the purchase.

Rule #3 Record every credit card transaction using your computer or mobile device and a Personal Financial Management software package such as Quicken® or Money®. If you haven't purchased a software package, you may want to consider a purchase or mobile app to track your purchases and transfer money as illustrated below. You can also record your credit card transactions using separate ledger books.

Rule #4 Transfer money from your bank account to a credit card savings account. This is a paper transfer to set aside funds that will be used to payoff the credit cards when they come due. We will use the Quicken® software to illustrate these accounting concepts. You will be using three separate accounts as follows:

Step #1: Use your Quicken® software to setup your "Card1 credit account." Instruct Quicken® that the account is a credit card account. Follow the instructions as provided by the software.

Step #2: Use your Quicken® software to setup a credit card savings account. This is a *non-bank* account that will reserve funds to cover your credit card expenses. Name this account "Card1 savings account."

Step #3: If you haven't already done so, use your Quicken® software to setup your personal bank account. This account is an actual bank account that you use to make deposits, withdrawals, and payments. This will probably be your current checking account.

Step #4: Record (or download from your credit card company) each credit card transaction using the "Card1 credit account." Enter the date of the transaction, the merchant, and the charge amount as illustrated. You may enter or download these transactions daily or as often as needed. Save your credit card receipts so that each invoice gets recorded.

CARD1 CREDIT ACCOUNT						
Date	Ref	Payee	Charge	Clr	Payment	Balance
		Category				
4/22/99		Opening Balance		R		
		cat: [Credit Card]				
4/22/99		Groceries	125.45			-125.45
		cat: Food				
4/22/99		Household Supplies	65.26			-190.71
		cat: Supplies				
4/30/99		Gas	21.00			-211.71
		cat: Car Expense				
4/30/99		Cosmetics	12.00			-223.71
		cat: Beauty				

Step #5: When you finish posting your credit card transactions, open up your "Card1 savings account." Transfer funds from your bank account into "Card1 savings account" to balance your credit card expenses. For example, at the end of my recording session, I have a running balance of \$223.71 in credit card purchases. I opened my "Card1 savings account" and transferred from my checking account \$230. This \$230 transfer balances my credit card account to the nearest \$10 increment. Using incremental amounts will make it easier to reconcile these accounts. We will explain this later.

CARD1 SAVINGS ACCOUNT						
Date	Ref	Payee	Payment	Clr	Deposit	Balance
		Category				
4/22/99		Opening Balance		R		
		cat: [Savings]				
4/30/99		Transfer Money			230.00	230.00
		cat: [Bank Checking]				

Note that when you transfer funds, Quicken® automatically reduces your bank account by the amount transferred as noted on the next page. Even though \$230 is still in your bank account, your working balance has been reduced by \$230. This ends the recording session for this time.

BANK CHECKING ACCOUNT						
Date	Ref	Payee	Payment	Clr	Deposit	Balance
		Category				
4/1/99		Opening Balance		R		
		cat: [Checking]				
4/1/99		Deposit			6,000.00	6,000.00
		cat: Pay Check				
4/5/99		Mortgage	1,550.00			4,450.00
		cat: House Payment				
4/10/99		Cash Withdraw	100.00			4,350.00
		cat: Personal				
4/30/99	TXFR	Transfer Money	230.00			4,120.00
		cat: [Card1 Savings]				

Step #6: Continue posting your credit card transactions as illustrated in Step #5. Make sure you transfer funds into your "Card1 savings account" to cover those expenses. The balance in your "Card1 savings account" should always equal within \$10 the balance in your "Card1 credit account."

Rule #5: Pay the entire balance of your credit card account each month. Never carry a credit balance into the next month. Let's turn to our Quicken® illustration to explain this process:

Step #1: When you receive your monthly credit card statement, reconcile the statement against your "Card1 credit account." Quicken® has a reconciliation function that simplifies this process. You simply open your credit card account, press on the function "reconcile" under one of the pull-down menus, and follow the instructions.

Step #2: After you reconcile your credit card account and adjust it with correct debits and credits, Quicken® will ask whether you want to make a payment. Click 'yes' and instruct Quicken® to make a *full* payment from your bank account.

CARD1 CREDIT ACCOUNT						
Date	Ref	Payee	Charge	Clr	Payment	Balance
		Category				
4/22/99		Opening Balance		R		
		cat: [Credit Card]				
4/22/99		Groceries	125.45	R		-125.45
5/9/99		Credit Account		R	32.58	-756.97
		cat: Entertainment				
5/9/99		Computer Store	319.00	R		-1,075.97
		cat: Software				
5/11/99		Doctor	125.00			-1,200.97
		cat: Children				
5/13/99		Groceries	359.64			-1,560.61
		cat: Food				
5/22/99		Payment		R	1,141.66	-418.95
		cat: [Bank Checking]				
4/22/99		Category				

In the illustration above, my "Card1 credit account" was reconciled against my credit card statement for \$1,141.66. I made a payment of \$1,141.66 leaving a credit card balance of \$418.95. These charges will appear on my next month's statement.

You may send an electronic payment or standard check written on your bank account (VISA Rebate Payment of \$1,141.66 illustrated below). Quicken® will automatically reduce your bank account for this payment. Don't panic because your checking account balance goes into the red. You will transfer savings back into your bank account to cover your credit card payment. Step #3 will show you how.

BANK CHECKING ACCOUNT						
Date	Ref	Payee	Payment	Clr	Deposit	Balance
		Category				
4/1/99		Opening Balance		R		
		cat: [Credit Card]				
4/1/99		Deposit			6,000.00	6,000.00
5/7/99	TXFR	Transfer Money	630.00			2,608.11
		cat: [Card1 Savings]				
5/10/99		Cash Withdraw	75.00			2,533.11
		cat: Personal				
5/13/99	TXFR	Transfer Money	700.00			1,833.11
		cat: [Card1 Savings]				
5/18/99		Mutual Fund	1,000.00			833.11
		cat: Investments				
5/22/99	SEND	VISA Rebate Card	1,141.66			-308.55
		cat: [Card1 Credit]				

Step #3: Transfer the entire amount in your "Card1 savings account" back into your bank account to cover the credit card payment. Any excess funds (the difference between the transferred funds and the credit card payment) will be transferred back into your "Card1 savings account."

CARD1 SAVINGS ACCOUNT						
Date	Ref	Payee	Payment	Clr	Deposit	Balance
		Category				
4/22/99		Opening Balance		R		
		cat: [Savings]				
4/30/99		Transfer Money			230.00	230.00
		cat: [Bank Checking]				
5/7/99		Transfer Money			630.00	860.00
		cat: [Bank Checking]				
5/13/99		Transfer Money			700.00	1,560.00
		cat: [Bank Checking]				
5/22/99	TXFR	Transfer Money	1,560.00			0.00
		cat: [Bank Checking]				

Again referring to the illustration below, I transferred the entire balance of \$1,560.00 from my "Card1 savings account" back to my checking account. This fund transfer covers the \$1,141.66 credit card payment and leaves an excess balance of \$420.00 (rounded to the nearest \$10). I transfer the \$420.00 back over to my "Card1 savings account." Note that my transfer of \$420.00 equals the "Card1 credit account" balance of \$418.95.

BANK CHECKING ACCOUNT						
Date	Ref	Payee	Payment	Clr	Deposit	Balance
		Category				
4/1/99		Opening Balance		R		
		cat: [Credit Card]				
4/1/99		Deposit			6,000.00	6,000.00
5/13/99	TXFR	Transfer Money	700.00			1,833.11
		cat: [Card1 Savings]				
5/18/99		Mutual Fund	1,000.00			833.11
		cat: Investments				
5/22/99	SEND	VISA Rebate Card	1,141.66			-308.55
		cat: [Card1 Credit]				
5/22/99	TXFR	Transfer Money			1,560.00	1251.45
		cat: [Card1 Savings]				
5/22/99	TXFR	Transfer Money	420.00			831.45
		cat: [Card1 Savings]				

Rule #6: Reconcile your accounts each month. The following steps explains how and why this is done.

Step #1: Reconcile your "Card1 savings account" after you make a payment to your credit card account. Use the reconciliation function in Quicken® to complete this process.

From our earlier examples, we transferred the entire balance from our "Card1 savings account" into our banking account. We do this each time we make a credit card payment. The excess funds were then transferred back into the "Card1 savings account."

Transferring these balances as explained makes it easier to reconcile both your saving and banking accounts. For example, the three block-transfers *into* the "Card1 savings account" can be easily reconciled against the \$1,560.00 transferred *out*. Everything balances to zero giving you a clean plate for the next cycle. The \$420 transfer *in* of excess funds becomes the first block transfer for the new round of credit card postings. The \$420 savings balance the \$418.95 credit card charges as illustrated in the diagram on the following page. See the reconcile "R" in the illustration.

CARD1 SAVINGS ACCOUNT						
Date	Ref	Payee	Payment	Clr	Deposit	Balance
		Category				
4/22/99		Opening Balance		R		
		cat: [Savings]				
4/30/99		Transfer Money		R	230.00	230.00
		cat: [Bank Checking]				
5/7/99		Transfer Money		R	630.00	860.00
		cat: [Bank Checking]				
5/13/99		Transfer Money		R	700.00	1,560.00
		cat: [Bank Checking]				
5/22/99	TXFR	Transfer Money	1,560.00	R		0.00
		cat: [Bank Checking]				
5/22/99	TXFR	Transfer Money			420.00	420.00
		cat: [Bank Checking]				

Step #2: Reconcile your bank account against your bank statement. (Refer to the illustration on the following page). Reconcile the transfers **out** of your bank account (transfers into Card savings account) against the transfer back **into** your bank account (transfer from Card savings to cover credit card payment). See the reconcile “R” in the illustration.

These transfer debits (transfers out) should equal your transfer credits (transfers in). Reconcile only those transfers that occurred during the monthly credit card cycle. Everything should reconcile to zero.

BANK CHECKING ACCOUNT

Date	Ref	Payee	Payment	Clr	Deposit	Balance
		Category				
4/1/99		Opening Balance		R		
		cat: [Checking]				
4/1/99		Deposit			6,000.00	6,000.00
		cat: Pay Check				
4/5/99		Mortgage	1,550.00			4,450.00
		cat: House Payment				
4/10/99		Cash Withdraw	100.00			4,350.00
		cat: Personal				
4/30/99	TXFR	Transfer Money	230.00	R		4,120.00
		cat: [Card1 Savings]				

5/7/99	TXFR	Transfer Money	630.00	R		2,608.11
		cat: [Card1 Savings]				
5/10/99		Cash Withdraw	75.00			2,533.11
		cat: Personal				
5/13/99	TXFR	Transfer Money	700.00	R		1,833.11
		cat: [Card1 Savings]				
5/18/99		Mutual Fund	1,000.00			833.11
		cat: Investments				
5/22/99	SEND	VISA Rebate Card	1,141.66			-308.55
		cat: [Card1 Credit]				
5/22/99	TXFR	Transfer Money		R	1,560.00	1251.45
		cat: [Card1 Savings]				
5/22/99	TXFR	Transfer Money	420.00			831.45
		cat: [Card1 Savings]				

Rule #7: Use Card2 when you maximize your credit limit or total rebate for the year. Complete the steps above to setup the account. The "Card2 credit account" is a second credit card account with a separate "Card2 savings account." You will transfer funds from your bank account into "Card2 savings account" to cover credit card purchases made with Card2.

Rule #8: Use Card3 to advance yourself cash for large purchases that need to be financed. For example, if you charge a refrigerator for \$1,000 on your Card1 account, you may not carry enough money in your bank account to cover the charge. You will need to borrow the money from your Card3 account. You simply advance your bank account \$1,000 and deposit the money on the day you make your Card1 credit card payment. The \$1,000 advance becomes a loan that must be paid down over time.

That's it. Eight basic rules to maximize your financial benefits. It seems like an advanced course in personal accounting. But don't let that scare you. Quicken®, or some other personal financial management software, can simplify this process. You will become a pro after a couple of sessions.

Okay!, so what's the return? Let's list them —

First and foremost, you earn a rebate for every credit card transactions that you make. A family of four averages anywhere between \$800-1000 a month for basic items such as food, gasoline, utilities, household supplies, etc. These are commodities that you buy everyday. By using your rebate card that pay backs 5%, for example, you can earn \$50 a month. That is \$600 each year in free dollars for a new car, computer, etc. If you buy or lease a new car every four years, that translates into a \$2,400 down payment by the time you are ready to buy. Now isn't that worth using your credit card instead of your checking account?

Second, you learn the basic concepts of personal financial management. Recording each credit card transaction and transferring the corresponding amount to cover these charge teach you important budgeting and planning techniques. These are valuable skills to acquire for planning retirement, saving for college, financing a new home, etc.

Third, the money you set aside in your credit card savings account works for you. Since your credit card gives you a 25-day grace period, you are buying basic household items without paying out any cash. The money you transfer to your card savings account earns interest if your bank account pay interest. Check to see if your bank offers on-line banking. If they do, you may want to transfer the "credit card" savings over to a legitimate money market account.

Fourth, you are establishing a good credit history when you charge large amounts and then pay your credit card on time each month. Banks and credit institutions look favorably on credit applicants that show a history of fiscal responsibility. A good credit history can lower your cost of borrowing when you need it.

You can earn all of these benefits by simply changing the way you buy. Using rebate credit cards instead of your checking account or cash can reap big rewards. It did for me — \$1,600 worth — by cashing in my rebate on a new car. That was a *free* down payment for using my card to buy basic everyday items.

