

BASIC BUSINESS SKILLS COURSE FOR ADS OWNERS

ADS Business Manual

Module 6: Recordkeeping and Business Financial Management



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MODULE 6: RECORD KEEPING AND BUSINESS FINANCIAL MANAGEMENT

Bookkeeping

Bookkeeping means recording the financial transactions of your business. In a small business like an ADS, you always need to be in control of the finances. You can help to achieve this by keeping good records—bookkeeping.

Bookkeeping is usually performed by a bookkeeper.

The **bookkeeper** is responsible for:

-  Recording the day-to-day financial transactions of your ADS.
-  Keeping tabs on purchases, sales, receipts, and payments.
-  Ensuring that all transactions are recorded in the correct day book, suppliers' ledger, customer ledger, and general ledger.

The following records are important for an ADS:

-  Cash sales book
-  Credit sales book
-  Cash purchase book
-  Credit purchase book
-  Receipts
-  Invoices
-  Bank deposits
-  Bank withdrawals
-  Prescribing and dispensing log

The bookkeeper brings the books to the trial balance stage, then an accountant may prepare the income statement and the balance sheet.

There are two main reasons to keep accounts:

1. To help you manage and grow your business.
2. To comply with tax requirements.

Managing and Growing Your Business

Accurate bookkeeping helps you to:

- ✚ Compare your forecasts with actual monthly figures to evaluate your business's financial health.
- ✚ Analyse your expenses to determine how to operate your business more cost effectively.
- ✚ Discover which are your most profitable customers and/or products and find ways to increase your profit per customer.
- ✚ Detect any problems when you might be straying into cash flow difficulties, so you can act decisively to prevent a crisis.

How to Set Up a Simple Bookkeeping System

(Adapted from Book Keeping for Beginners by Lloyds TSB)

Regardless of how you decide to keep your ADS records, certain good practices must always be applied.

1. Invoices

- a. Keep all your invoices and receipts in two sets of files, one for sales and one for purchases.
- b. Assign a unique reference number to every invoice in and out, and note it in your books or in your computer system.
- c. Then file the invoices in that order in the relevant folder. That way you can find paperwork quickly if you have a PAYE tax or VAT inspection.

2. Expenses

- a. Keep records of expenses. You can only offset expenses against profits that are wholly, exclusively, and necessarily incurred for the business. So ask for and keep receipts. When you are VAT-registered, it is essential to keep VAT receipts. Without these, you cannot reclaim the VAT element.
- b. Log the money you have paid in one section of your cash book.
- c. Assign columns for: Supplier's name or employee's name if you are paying wages; Transaction date; Amount; Your own reference number; Cheque number.
- d. Divide expenses up into columns with headings, such as utilities, insurance, wages, rent, marketing expenses, etc. If you are VAT-registered, you will also need a column for VAT inputs and outputs.
- e. Add up the totals of each column at the end of each month. Then start a new page for the new month by bringing forward last month's totals into the columns for this month.

3. Income

- a. Establish another section in your cash book for the money you receive.
- b. Record your income.
- c. Note the details of each transaction.

4. Petty Cash

- a. Control your petty cash.
- b. Keep the float at a constant level, either in cash, or cash plus receipts.
- c. When you need to top up the cash, remove all the receipts to enter into your books properly.

5. Balance Your Account

- a. Reconcile your bank account at least once a month.
- b. The steps:
 - Start with the previous balance as shown in your bank statement.
 - Add all subsequent payments received.
 - Subtract all payments made.
 - Ensure that the balance matches your latest bank statement.

Guidelines for Income and Expenditure Control

What is income?

Money that comes in to your business.

What is expenditure?

Money that goes out of your business.

Sources of business **income** include:

-  Producing and selling goods.
-  Buying and selling goods (such as in the ADS business).
-  Selling a service (like a special hire taxi driver who provides motor transport, or an airline that provides air transportation).
-  Receiving gifts or grants from friends/family members/funders.
-  Bank loans
-  Inheritance money
-  Investors

Business expenditures are made to:

- ✚ Purchase products that you sell (medicines).
- ✚ Pay for fixed costs, such as transport, rent, utility bills, taxes, and salaries (including yours).
- ✚ Pay for variable costs, such as repairs, equipment maintenance.
- ✚ Pay for unexpected costs.
- ✚ Pay for investments.

Books of accounts

- ✚ This is where the records are first made.
- ✚ These books are prepared from source documents (e.g., receipts).
- ✚ Examples include:
 - Cash book
 - Sales day book/credit sales
 - Purchases day book/credit purchases

Cash book

- ✚ This book records only cash transactions (i.e., cash and cheque transactions).
- ✚ Cash coming in is recorded on the *left-hand side* and cash going out on the *right-hand side*.
- ✚ The format of the cash book depends on whether or not a business operates a bank account.
- ✚ The information in the cash book is obtained from the **daily record book**.

*Note: For ADS, the prescribing and **dispensing log** gives a good view of cash transactions to be entered into the cash book.*

NOTE: See the examples of recordkeeping tools at the end of this session.

Supplementary advice

- ✚ Keep your business money and household money separate.
- ✚ Effective cash flow management is as critical to business survival as providing services or products.
- ✚ Key methods to help reduce the time gap between expenditures and receipt of income include:
 - Customer management through a credit policy that sets out standard payment terms.
 - Charging penalty interest for late payments.
 - Offering discounts for prompt payments.

Income and Expenditure

A business cash book is used to record all the money that comes into (income) and goes out of (expenditure) the business. However, it does not indicate whether the business has registered profits.

What is Profit?

Profit is the difference between the business income and the money spent on producing a good or service or providing goods or services.

Money in – Money out = PROFIT or LOSS

PROFIT means that you receive more money from selling your products than you have spent in buying or producing your products.

LOSS means that you have spent more money on producing or buying your supplies than you receive from selling your products.

How to Calculate Profit or Loss

Step one. From the cash book of the business (receipt side/money in side), total all revenues from sales and other monies received during the period, including credit sales. This will give you *total income*.

Step two. From the cash book (payment side/money out side), total all payments made (purchases and expenses), including credit purchases. This will give you total expenses.

Step three. Subtract total expenses from total income.

You can then make decisions on the basis of the results in the interest of the business.

Summary

-  An ADS business must continually manage profit and loss to remain solvent.
-  Profit is the money the business keeps after paying all of its expenses.
-  Business loss is a result of expenses exceeding the amount of sales the business makes in a particular accounting period.
-  An ADS business must manage its income statements (also known as profit and loss statements) in order to keep generating positive earnings and control the business expenses within the generated revenue.

Buying and Selling on Credit

Many businesses manage their activities on credit at some point. While buying and selling on credit is a useful practice and can be extremely profitable, it requires a clear credit management strategy. Credit management entails keeping track of who owes the business money, how much is owed to the business, to whom the business owes money (presumably to its suppliers and other service providers), and how much the business owes.

Selling on Credit

Advantage

The key advantage of selling on credit is that it enables you to provide a service to your customers, and therefore, you can attract and even retain customers if you have a credit facility in place.

Disadvantages

- ✚ Customers may default on their payments temporarily or permanently!
- ✚ If your ADS fails to keep track of debtors, the business may become financially unhealthy.
- ✚ Credit is money tied down with the customer and can result in the ADS becoming cash strapped.

If the best choice is to encourage credit transactions:

- ✚ Only permit credit facilities to loyal customers who have built a solid track record of paying up what they owe.
- ✚ Negotiate for a down payment.
- ✚ Ensure that you have sufficient cash.
- ✚ Keep records of all your debtors (the people to whom you sell on credit).

Buying on Credit

Advantages

- ✚ Buying on credit is worth it if it will result in generation of larger sales volumes and increased return on investments (profits).
- ✚ If you pay off credit in time, it will increase your credit worthiness.

Disadvantages

- ✚ In many cases, buying on credit becomes more expensive because of factors like interest.
- ✚ It can affect your bottom line.
- ✚ It is important that you pay your credit before it incurs any interest and becomes too costly.

NOTE: Credit payments constitute fixed costs.

Summary

- ✚ The credit book keeps record of all the money that customers have to repay you and all the money you have to repay to others.
- ✚ Your ADS can keep two credit books: one for the goods that you have sold on credit, and one of the goods that you bought on credit.
- ✚ Each credit transaction must be documented with details of date, nature of goods/services bought on credit, and the money owed to your ADS.
- ✚ All payments must also be recorded.
- ✚ The balance must be adjusted on receipt of payments.

Examples of Recordkeeping Tools

Format for a single column cashbook

Money in			Cash book			Money out		
Date	Details	Amount	Date	Details	Amount			

Format for a two-column cashbook

Money in				Cash book				Money out			
Date	Details	Cash	Bank	Date	Details	Cash	Bank	Date	Details	Cash	Bank

Note: if the business doesn't buy or sell on credit, you only need a cash book.

Formats for a debtor's book

DEBTORS' BOOK						
Customer Account						
Name of customer: _____						
Address: _____						
Telephone number: _____						
Credit Limit: _____						
Date	Details	Quantity	Credit sales	Amount paid	Balance	Signature

Debtor's book for the month of...

Date	Name of Debtor	Invoice . no	Amount

Records only credit sales.

Format for a creditor's book

Debtor's book for the month of...

Details	Name of creditor	Invoice no.	Amount
Total			

- This book records only credit purchases.

