Moving forward in the Implementation of Non-Legally Binding Instrument (NLBI) on All Types of Forests in Liberia, Nicaragua and the Philippines: A contribution to Reducing Deforestation and forest degradation

FOREST INSTRUMENT LIBERIA

TRAINING MANUAL

BOOKKEEPING
FINANCIAL & MANAGEMENT

With support of
The views expressed in this information product are those of the author(s) and do not necessarily reflect the views of BMELV, FAO, FDA, FFF.

April 2013
Acknowledgement

This manual has been developed by Avril Fortuin. This document would not have been possible without the valuable contributions from different people working during the development and delivery of the training of trainers in the field. Sormongar Zwuen, National NLBI project coordinator and Joseph Boiwi. FAO Representative Operations assistant, made contributions for assessment and implementation of the Manual. Important technical assistance was received from Jhony Zapata, FAO/FFF Rome, Marco Boscolo, Sophie Grouwels and Fred Kaffero, FAO Rome made valuable contributions to improve the structure and content of the publication and Marco Perri FAO/FFF for the layout and formatting.

Sincerest gratitude goes to Ms. Eva Muller Director, Forest Economics, Policy and Products Division, FAO for her leadership and strategic guidance. Special recognition goes to the Federal Ministry of Food, Agriculture and Consumer Protection (BMELV) of Germany for the financial support provided."
Preface

In May 2007, the National Forum on Forests (UNFF) adopted the Non-Legally Binding Instrument on All Types of Forest (NLB), which is commonly called the “Forest Instrument”. This significant international consensus was reached to strengthen the implementation of sustainable forest management (SFM), and thus to maintain and enhance the economic and environmental values of all types of forests, for the benefit of current and future generation. Most specifically, the Forest Instrument is to: (i) Strengthen political commitment and actions at all levels to implement effectively SFM, (ii) Enhance the contribution of forests to the achievement of the international agreed development goals including the MDG, and (iii) Provide a framework for national action and international cooperation.

The overall objective of the project is “to support Liberia, Nicaragua and the Philippines, on a demonstration basis, to move forward in the implementation of the Non-Legally Binding Instrument on all types of forest”.

The resources of any country are the lifeblood of that nation. The management of such resources that will impact the beneficiaries is a key propriety that must not be taken for granted; as such it must be managed effectively. When resources are available, the people should have entrepreneurial and financial management skills to manage them. Liberia’s forest sector is an economic sector that is providing benefits to the local communities through investment in logging activities where communities get shares from these investments in the forest sector. Their share of funds provided by these logging companies has been used to improve the communities. This bookkeeping and financial management guide are intended to develop and improve the skills of two national and community based organizations known as the County Forest Forum (CFF) and Community Forestry Development Committee (CFDC); these two organizations are charged with the responsibilities of managing the funds from the forest sector and also helping the local communities manage resources from the forest through entrepreneurship.

To date the bookkeeping and financial management manual was implemented in Liberia as part of a pilot program. Training was conducted in two counties; Margibi and River Gee. A total of 50 beneficiaries from the CFF and CFDC from all 15 counties in Liberia attended the trainings in these two locations. Following the training a ToT workshop was held (in River Gee) to hone the skills further of the top beneficiaries. These ToTs implemented the manual on the local communities in three counties: Ganta, Maryland and River Cess.

The idea of business is aimed at satisfying the needs of customers that lead to the increased wealth of owners of the business in terms of profit making. This manual focuses on how entrepreneurial ideas help to improve the businesses. The following key elements are critical for the improvement of any business; environment of the business, the quality of services provided to customers, product pricing on the market, separating business assets from personal assets and access to credit. With these elements combined with bookkeeping and financial management ideas, including the process of how you manage the money coming into your business and money going out of your business.

This bookkeeping and financial management manual have six modules that look at the basic concepts of bookkeeping and financial management. The following modules in this manual are structured as follows:

1. The Importance of Bookkeeping. This module highlights the forms of business, problems that are encountered by business owners, the ideas of entrepreneurship
in business, understanding basic bookkeeping concepts and best practice in bookkeeping.

2. Understanding Symbols in Bookkeeping. These modules basic idea is on symbol recognition, drawing of symbols, symbols for money in and money out, understanding income and expenses.

3. How to Keep Accounting Records. This module focuses on cash book entry; the various books to be kept for proper record keeping of your business activities, entry system in bookkeeping, single entry system, the double entry system; debit and credit, balance sheets, and operating assets and liabilities.

4. Knowing How to Calculate Business Profit and Loss. This model develops the ability calculating income and expenses and profit and loss.

5. Managing Business Cash and Accounts. This module explains managing accounts, managing cash and credit/loan.

6. Financial Management. The final module concludes the manual with discussing the financial controls and system, sources of finance, time value of money; present value, future value and annuities, procurement and evaluation, suppliers management and financial planning.

Those persons having been involved in the development, and testing of the content material are convinced that the whole exercise was helpful and has undoubtedly strengthened the bookkeeping and financial management skills of the Liberian stakeholders. We sincerely hope that the training manual will assist the Liberian stakeholders to build their capacities.

Jean-Alexandre Scaglia Harrison S. Kamwea,
FAO Representative in Liberia Managing Director a.i., FDA
# Table of Contents

Acknowledgement.................................................................................................................. iii
Preface ..................................................................................................................................... iv
Module 1: The Importance of Bookkeeping ................................................................. 1
Module 2: The Use of Symbols in Bookkeeping ......................................................... 10
Module 3: How to Keep Accounting Records............................................................. 18
Entry Systems in Bookkeeping ..................................................................................... 19
Module 4: How to Calculate Business Profit and Loss.............................................. 28
Module 5: Managing Business Cash and Accounts...................................................... 35
Managing Accounts......................................................................................................... 35
Module 6: Financial Management............................................................................... 41
Module 1: The Importance of Bookkeeping

Background information for the Facilitator

- Most micro and small scale entrepreneurs do not write down how much money comes in and how much goes out of their business. They keep everything in their head. As a result, they do not actually know how much money they are earning, how much they buy and sell on credit and how they could improve their business.

Objectives

- After completing this section, participants will be able to:
  - State what a business is all about
  - Know the different business ownerships, their advantages and disadvantages
  - Understand entrepreneurship
  - Explain the importance of bookkeeping in business operation
  - Raise interest in the course

Time

- 8 hours

Number of Participants

- A group preferably to include 10 to 15 persons, but it should not exceed 25 participants. Larger groups make it extremely difficult for the facilitator to track the progress of individuals.

Materials

- Flip charts, chalk or white board, markers, chalk and a cleaning rag
- Exercise books, pens, pencils, rulers, erasers, calculators for all participants
- Area suitable for writing and learning

Type of Participants

- CFDC, CFF Entrepreneurs such as retailers, wholesalers, farmers and manufacturers
- Village leaders

LESSON

A. UNDERSTANDING BUSINESS

What is a Business?

Let the participants discuss the answers first, before giving suggestions. Any answer resembling the following is good. (Answer) All activities whereby you try to earn an income on a regular basis are called businesses.

A business (also known as enterprise or firm) is an organization which is engaged in the trade of goods, services, or both to satisfy the consumers in order to make a profit. Businesses are predominant in capitalist economies, where most of them are privately owned and administered to earn profit to increase the wealth of their owners. Businesses may also be not-for-profit or state-owned.
Activity: 1

Ask participants to list all the things and resources that are found in a business. This may include people, machinery, stationery, etc.

Ask a volunteer to talk about his/her business they are operating. Let the volunteer explain to the group the products/services he/she is selling.

In a group discussion, let participants discuss what products/services CFDC and CFF are engaged in. Also let them discuss some possible business opportunities they may engage with in the future.

In what kind of business are you? (As a group and/or as an Individual)

If your participants are working together in a co-operative business, invite individual participants to discuss what additional income-generating activities they do at home.

Business Ownership

Ownership forms related to micro, small and medium enterprises are:

- Sole proprietorship (owned by one person)
- Partnership (owned by a few persons, could be 2-20)
- Co-operative (owned by a large group)

a) Sole Proprietorship/ Sole Trader

In this form of ownership, the whole business is owned by a single person.

- The owner enjoys all the profits of the business but also accepts all losses.
- This single owner has complete freedom to manage the affairs of the business as he desires; he is answerable to nobody.
- The owner’s liability is unlimited. That is in settling the debts of the business if the business assets are insufficient, the personal assets will also be taken.
- Being owned by a single person, the resources of the business are limited.

b) Partnership

Here, two or more persons join to start a business.

- The owners collectively are called the company, and individually, partners.
- The profits and losses are shared by the partners in agreed proportions.
- Their liability towards the firm’s debts is unlimited.
- Freedom of conducting the affairs of the business is restricted as the partner is liable to the other partners.
- Since more than one person is involved, the resources of the firm are usually more.
- A partnership could also be formed to combine the resources required for the enterprise. Resources could include skills, money, land, raw material etc.
Example:
Flomo has money to buy palm nuts; Fatu has skills to produce palm oil.
Flomo and Fatu can come together to form a partnership and create a palm oil processing business.

c) Co-operative and Group Ownership

A co-operative is when people come together to do business with a common purpose and intent.

- In a co-operative form of ownership, a large number of persons collectively own the enterprise and are involved in its activities. The part owners are called members.
- All the members contribute an equal amount towards capital, share the profits equally and have equal rights.
- Since a large number of owners are involved, the management of the co-operative is entrusted to a small group of members who are elected by the many.
- The financial asset is crucial. The liability of the members is limited.
- That is even if the assets of the co-operative are insufficient to satisfy the debts, the members’ personal assets cannot be touched.
- A co-operative is also much more powerful than individuals or partnerships.
- A co-operative represents a large group of people and, quite often, this gives its access to Government programs and developmental agencies, which offer financial assistance in the form of grants or interest-free loans.

A business owned by multiple individuals may be referred to as a company; although that term also has a more precise definition.

Note: In these three categories of business ownership, it is essential to establish appropriate bookkeeping and financial management of the finances of these forms of business. Money coming in and money going out must be recorded in the various books of the business for good management of record keeping.

Activity: 2

Ask participants to provide in a table format the advantages and disadvantages of the type of business they are managing or would like to start.

Divide participants into groups of five and let them discuss whether the CFDC and CFF are businesses. In the context of CFDC and CFF explain social enterprise and social entrepreneurship.

After the exercise, distribute Handout 1.
What Are YOU Encountering as Problems Within Your Own Business?

In starting or operating a business, there is no guarantee that the business will run without any problems. These are some of the problems faced in managing and or starting a business:

- Lack of funds to buy stock;
- Problems with selling (marketing);
- Money needed for emergency cases;
- People not paying their debts;
- Money needed for ceremonies.

Problems Faced By Business Owners

- **Time Management** - Time management can become problematic for the owner of a small business. Small businesses often operate on a extremely tight budget, precluding the hiring of many employees. The owner is often faced with trying to manage and grow the business while at the same time having to do the daily operation. Small business owners can also find themselves so tied up in running the business that they don't take time to enjoy families, hobbies or other activities.

- **Inflexibility** - Refusing to let go of an idea and move on to something else is a common problem for small business owners. For small business owners to succeed, it is necessary for them to be willing to think like an entrepreneur and explore many different ideas. Whether it is the need to replace inventory, provide additional services or go to a new location, a small business owner must remain flexible if he wants his small business to succeed.

- **Obtaining Credit** - Access to credit can be an issue for the small business owner, according to the Washington Post. A business line of credit can provide needed cash flow during the start-up months. It can also ensure that the owner has the ability to expand the business with inventory and meet her payroll. A small business, however, will not always qualify for a large credit line, which can hinder the owner's ability to succeed.

- **Employees Issues** - Small business owners often face a dilemma when it comes to hiring workforce. Staffing enough workers to cover enough the business needs without destroying the business's profit margin can be a tricky process. Things are never easy for a small-business owner. No matter how hard you try, there are always problems to solve and fires to put out. At least you can take comfort in knowing you're not alone. Every small-business owner goes through the same thing.

- **Cost** - A study conducted by the National Federation of Independent Business reported in 2008 that the primary problem that business owners face is the cost of running the business. The inability to control some costs, including health insurance, energy bills and inflation, add stress to the business owner's bottom line. In addition, the cost of paying employees, stocking inventory and basic overhead can make cash flow issues for the small business owner.

---

**Activity: 3**

In their groups ask participants to provide a list of possible businesses they can manage or create in the forestry sector.

Let them discuss what could be possible hindrances or barriers keeping them from starting such businesses.
What is Entrepreneurship?

Who is an entrepreneur?

- Someone who creates a new business idea
- Someone who has passion and spirit
- Someone with good business ideas

What are some of the characteristics an entrepreneur must possess?

- Positive self-esteem
- Positive self-confidence
- Commitment / Self-discipline
- Independence
- Forward looking
- Motivated
- Innovative
- Creative, risk taker/ courageous
- Initiator
- Opportunist
- Goal/ pace setter

Understanding Basic Bookkeeping

What is bookkeeping?

The bookkeeping system refers primarily to recording the financial effects of financial transactions only.

**Bookkeeping means that you write down all the money that comes into your business and all the money that goes out of your business.**

In the normal course of business, a document is produced each time a transaction occurs. Sales and purchases usually have invoices or receipts. Deposit slips are produced when lodgments (deposits) are made to a bank account. Cheques are written to pay money out of the account. Bookkeeping involves, first of all, recording the details of all of these source documents into multi-column journals (also known as books of first entry or daybooks).

For example, all credit sales are recorded in the sales journal, all cash payments are recorded in the cash payments journal. Each column in a journal usually corresponds to an account. In the single entry system, each transaction is recorded only once. Most individuals who balance their cheque-book each month are using such a system, and most personal finance software follows this approach.

The difference between manual and any electronic accounting system stems from the latency between the recording of the financial transaction and the posting in the relevant account. This delay, lacking in electronic accounting systems due to the immediate posting into relevant accounts, is not replicated in manual systems, thus giving rise to primary books of accounts such as Sales Book, Cash Book, Bank Book, Purchase Book for recording the immediate effect of the financial transaction.
Understanding the importance of bookkeeping in your business?

The imperative of business records cannot be overemphasized. Every serious entrepreneur must as a matter of fact be able to maintain proper records of his or her business transactions. Proper bookkeeping is critical to sustaining and expanding a business. Without it, the entrepreneur runs the risk of hitting cash flow crunches, wasting money, and missing out on opportunities to expand his business. When you maintain proper records of your business transactions, you will be properly positioned to carry out official business analysis and see how your business is fairing.

The purpose of bookkeeping is to help you manage your business and also to allow tax agencies to evaluate your business venture. As long as your bookkeeping achieves both of these objectives, you are in the right direction. Any financial institution who wants to do business with you must request your business records. Your ability to make it means you are serious about your business.

How do you think bookkeeping could help your business?

a) Why bookkeeping?

Many people do not write down how much money comes in and how much money goes out of their business. This is because they do not know how to do it, and they do not know that it can improve their business. Therefore, people do not exactly understand how much money they are earning, how much customers have bought on credit and how much stock they have bought on credit. Where groups of people work together, lack of a proper bookkeeping system often leads to mistrust and accusations between group members. Bookkeeping is beneficial because you cannot keep everything in your head. People is careless by nature.

Bookkeeping means that you write down all of the money that comes into your business and all the money that goes out of your business.

b) Of what value is bookkeeping to your business?

- You will know how much money you have received,
- You will know how much money you have spent and how you have spent it;
- You can calculate whether you are making a profit or a loss;
- You will be able to make better decisions on what to buy and sell;
- You can keep records of buying and selling on credit, so that people cannot trick you;
- You can keep records of money coming in and going out of a group project and thus prevent abuse of funds and avoid mistrust amongst group members.
Activity: 3

Distribute Activity Handout 2 (role play). Ask participants to divide themselves into groups and conduct the role play in the handout.

After performing each role-play ask the participants a question:

Play 1: What is the woman's problem? What could she have done to avoid this problem? (answer) She had spent all her money without thinking about the school fees that she had to pay. She does not even remember what she has spent her money on. She could have kept records of her income and expenses and planned for the payment of the school fees.

Play 2: Why was the carpenter cheated? (answer) Because he had no written proof of how much money the customer owed him.

Play 3: Why were the group members angry? What could they have done to avoid this problem? (answer) The group members were angry because nobody knew what had happened with the money from the bakery. If they had kept records, they would have known how much money came in and went out of their business. It would also have helped them to know whether they were making a profit with the bakery or not.

Best practices in bookkeeping

Here are best practices to make bookkeeping easier for you:

- Manage to go through your books once a week (preferably at the end of the week) to do the following:
  - a) Categorize your expenses
  - b) Mark invoices as paid by associating them to deposits you've imported or update invoice status
  - c) Setup contractors and clients in your contact list
- Reconcile your account(s) at the end of every month.
  - a) Make sure that the remainder of your account matches what is in your bank statement.
- Run weekly and/or monthly reports.
- Do not forget to assign personal expenses as non taxable expenses.
- Make sure that you have separate bank accounts for personal and business purposes.
- Bookkeeping is a extremely valuable process in managing a business.
- The three Best Practices you should install for yourself in understanding the rule of what is involved in the bookkeeping system to ensure that you provide the service your business needs in evaluating its financial condition are:
  - b) Make a firm decision that you will make your bookkeeping.
  - c) Familiarize yourself with the Accounting Cycle and the Financial Statements.
  - d) Become familiar with your Accounts Payable, Accounts Receivable, Customer Balances, and Aging Reports.

Record Keeping

The benefits of record keeping

- Many people do not write down how much money comes in and how much money goes out of their business.
This is because they do not know how to do it and they do not know that it can improve their business.

What you cannot determine, quantify and record what you cannot monitor and control.

There is a limit to how much you can keep in your memory.

Record keeping, therefore, is a prerequisite to successful business operation.

a. Advantages of keeping records
   o Record-keeping is crucial because you cannot keep everything in your head.
   o Memory is not good enough for proper research and planning.

b. Advantages of regular record-keeping
   o You will know how much money you have received, how much you have spent and how you spend it.
   o You can calculate whether you are making a profit or a loss and also know your break-even point.
   o You can keep records of buying and selling on credit. That is, you will know whom your debtors are and how much they owe you, and who your creditors are and how much you owe them.
   o You can keep records of money coming in and going out of group businesses or projects. This will prevent misuse of money and avoid mistrust among group members.
   o It can help you in the monitoring and controlling of your stock levels, knowing when to make a new order and how much to order.
   o By comparing your actual record with your planned budget, you can determine if you are on the right track during your business year.

c. Disadvantages of not keeping records or keeping poor records
   o You will not know how much money you are earning, whether your business is making a profit or losing money.
   o You will not know why you are making a profit or losing money.
   o You will not be able to make good decisions that will allow you to make more money and save your business from losing money.
   o You will not know which customers owe you money, how much they owe you or how much you owe someone else.
   o Where groups of people work together, lack of a proper record-keeping system often leads to mistrust and accusations between groups and members.

Characteristics of good record keeping

A good record keeping system is easy to use and records the necessary information details. Depending on the complexity of the business, the amount of detail will vary. Some businesses will want to keep accurate records down to the enterprise or location level.

Recommended documents for a good record keeping system include:

- Business accounts for checking, savings, and investing and credit cards.
- An income and expense ledger or appropriate software program to record all cash business transactions by date and category.
- Inventory involves the physical counting and valuation. It is done at least annually at the end of the business fiscal or calendar year.
- A depreciation schedule for all business assets showing asset basis:
  o Cost valuation
Market valuation
- A cost and market valuation balance sheet summarizing assets and liabilities of the firm.
- An income statement listing
  - Receipts,
  - Expenses,
  - Accounts receivable and
  - Accounts payable.
- A statement of cash flows showing the source of cash inflows into the business and where business cash outflows went.
- Enterprise records showing receipts and expenses by enterprises with some level of profitability analysis.

What records should be kept
When one person or groups of persons choose to run a business, they must establish measures that will account for money or monies that come in and go out of business. This is done through the use of record books. There are many reasons why you must write down all money that comes in and money that goes out of your business:

- You do not combine your personal finances with the business money;
- You will know when you buy on credit;
- You will know when you sell on credit;
- There is transparency in recording the business money;
- Have the fear of one person cheating the others;
- Trust from people who will need to give you a loan like the banks.

These are some of the record books needed for good record keeping:
- Cash Book
- Inventory Record
- Credit Record
- Debtor Book
- Labor Book

The details of these various record books that will help your business improve will be discussed further in the subsequent modules of this manual.

REVIEW QUESTIONS
At the end of this lesson, ask the following questions to find out whether the participants have understood the lesson:

- What is a business?
- List some key characteristics of an entrepreneur?
- Which type of businesses would you like to operate?
- What is bookkeeping?
- How can bookkeeping help your business?
- What are useful record books for business operations?
- Of what importance are these record books?
Module 2: The Use of Symbols in Bookkeeping

Background Information for the Facilitator

When keeping books, you have to write down all the money that comes in to your business and all the money that goes out of your business. All participants understand how to write figures and do calculations, but some participants may not be able to read and write (yet). Therefore, we shall be making use of symbols and drawings.

(Note: if all your participants are literate, you can simply replace the symbols by words. Where the course is being used together with literacy classes (reading and writing) the symbols can also be used to illustrate the words.)

Objectives

After completing this section, participants will be able to:

• Identify symbols of money that come in and go out of business.
• State from which source money comes in and goes out of business.
• Point out things that they spend money on in the business.

Time

• 4 hours

Number of Participants

• A group preferably include 10 to 15 persons, but it should not exceed 25 participants. Larger groups make it extremely difficult for the facilitator to track the progress of individuals.

Materials

• Flip charts, chalk or white board, markers, chalk and a cleaning rag
• Exercise books, pens, pencils, rulers, erasers for all participants
• Area suitable for writing and learning

Type of Participants

• Entrepreneurs such as retailers, wholesalers, farmers and manufacturers
• Village leaders

LESSON

• Can you mention three sources from which you receive money?
• List any three things on which you spend money?
• If bookkeeping means that you write down all the money that comes in and goes out, how would you do it?

All answers are good. Explain the following.

You all know how to write figures. Because some of the participants are not able to read and write yet we shall be making use of highly basic symbols and drawings.
Explanation

Activity: 3
Invite some of the participants to come to the chalkboard and make a very simple drawing of the following:
- money
- fish
- food
- transport
- firewood

Drawing of Symbols

Below, draw examples of symbols on the chalkboard as shown. Ask the participants what they see in the pictures.

Explain that they can use any symbol that they find easy to draw as long as they know that they will remember it (‘this resembles a fish for me’). It should be an extremely basic drawing so that it is easy for them to ‘write’ it in the exercise books. Throughout they should keep the same symbol for the same thing.

Spend sufficient time with the participants drawing different symbols on the chalkboard. They should also try to draw things in their exercise books that they see in their surroundings (matches, cup, and chair.) (Note: below you will find a list and explanation of all the symbols that are being used in this book. However, if your participants find it easier to use another symbol, please adopt that symbol.)
Symbols for 'Money In' and 'Money Out'

Bookkeeping means that you write down all the money that comes in and the money that goes out. The following symbols will be used:

Examples:
- Liberian dollar symbol
- United States Dollar symbol

These are the two currencies used for our purpose but for now, we will use the Liberian Dollar currency.

Money In = money becomes more, so we use the addition sign
Money Out = money becomes less, so we use the subtraction sign

The Cash Book
The book in which we write all the money that comes in and goes out is called a 'cash book'.
You can use an regular arithmetic exercise book as a 'cash book'.
All money that comes in is written on the left page
All money that goes out is written on the right page

Cash book
Activity 6

Draw a ‘cash book’ on the chalkboard. Ask the following questions and invite participants to illustrate the answers by drawing a symbol on the correct side of the ‘cash book’.

(Note: the symbols in this example are meant to give you an idea. Do not just copy them, but use the symbols that your participants indicate.)

From which sources do you Receive Money?

(Money becomes more \(+\) ;

Accept all answers. If not mentioned, remind them of:
• Income from sales
• Gifts from husband, relatives or friends
• Loans from banks, money lenders or others
• Collections from savings group (susu)

What do you spend your Money on?

(Money becomes less \(-\) ;

Accept all answers. If not mentioned, remind them of:
• Buying of materials (fish, rice, seed)
• Firewood
• Transport (taxi, bus)
• School fees, school uniforms
• medicines, hospital bills
• Food
• Cloth
• Beauty-products (nail polish, pomade)
• Hairdresser
• Ceremonies (funerals, weddings, outdoorings)
• Sweets, snacks, ice cream
• Church, fetish
Activity 7: Individual Exercise
This is an individual exercise for all participants. All participants are to take their exercise books and do the following exercises:
Draw the symbol for 'money in' on the left side, and the symbol for 'money out' on the right side. Think about the sources from which you receive money and draw a symbol under 'money in'. Think about the money that you spend and draw a symbol under 'money out'. Help the participants where they have difficulties.
Income and Expenditure

- Money that comes in and goes out of your business;
- Money that goes out of your business for your family and yourself.

Show the picture of the cash book with 'money in' and 'money out' again and ask the following questions:

Activity 8:
Which money from the picture belongs to your business and which money belongs to your household or yourself?
Why do you think it is important to separate the two?
It is important to keep the two separate, otherwise you will not be able to calculate whether your business gives profit or not.
How could you keep the Business and Household Money separate?
All answers are good. Give the following tip:
You could use a box (tin, purse, or piece of cloth) to keep your money separate.

Replacement and repair of equipment and utensils:
You will have to keep money separate so that you will be able to pay for things like repair of a machine, replacement of utensils when they are worn out, or unexpected costs.

Activity 8:
The participants should sit together in pairs of two and do an exercise. They should take their exercise books and write the symbol for 'money in' on the left page and the symbol for 'money out' on the right page. Each pair should choose a business that is familiar to them. They should discuss the expenditure involved in making and selling their product (or giving their service). They should draw symbols of the items that bring in money on the left page, and symbols of the items on which they spend money on the right page. When everybody has finished ask some of the participants to draw a cash book on the chalkboard, explain the outcome of their discussion, and write the symbols.
REVIEW QUESTIONS

At the end of this lesson, the participants should be able to draw symbols in their exercise books to indicate the money that comes in, and the money goes out.

1. Ask the following questions to find out whether they understood the lesson:
2. What is a cash book?
3. Where in the cash book do you write the money that comes in, and goes out?
4. What is income?
5. What is expense?
Module 3: How to Keep Accounting Records

Background Information for the Facilitator

This system of keeping accounting records will help those attending this workshop to write down all the money that comes in and goes out of your business.

The accounting records will encourage vendor/investors to invest into the business. It also helps the business for audit purposes.

Objective(s): After the completion of this session, you will be able to:

- Identify the different accounting records to be kept during the operation of business
- State the advantages and disadvantages of keeping accounting records
- State the characteristics of good record keeping
- Identify transactions and record entries into the various records

Time

- 8 hours

Number of Participants

A group preferably include 10 to 15 persons, but it certainly not exceed 25 participants. Larger groups make it extremely difficult for the facilitator to track the progress of individuals.

Materials

- Flip charts, chalk or white board, markers, chalk and a cleaning rag
- Exercise book, pens, pencils, rulers, erasers, calculators for all participants
- Area suitable for writing and learning

Type of Participants

- CFDC, CFF, Entrepreneurs such as retailers, wholesalers, farmers and manufacturers
- Village leaders

Lesson

Entry Systems in Bookkeeping

Ways to Enter Transactions into the Various Records

The primary bookkeeping record in single-entry bookkeeping is the cash book, which is similar to a checking account register but allocates the income and expenses to various income and expense accounts. Separate account records are maintained for petty cash, accounts payable and receivable, and other related transactions such as inventory and travel expenses.
Simple Cash Book Entry

Financial record-keeping means that you write down all the money that comes in and the money that goes out.

The following symbols are used:

- Money in = Money becomes more, so we use the addition sign (+)
  
  All money that **comes in** is written on the **left page** (LEFT)

- Money out = Money becomes less, so we use the subtraction sign (-)
  
  All the money that goes out is written on the right page (RIGT)

The book in which we write all the money that comes in and goes out is called a ‘Cash Book’. You can use an standard arithmetic exercise book as a ‘cash book’.

<table>
<thead>
<tr>
<th>CASH BOOK</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Left Side</strong> = Money In (or income)</td>
</tr>
<tr>
<td>1st Column = Date: the day that you received the money</td>
</tr>
<tr>
<td>2nd Column = Source of Income</td>
</tr>
<tr>
<td>3rd Column = How much money</td>
</tr>
</tbody>
</table>

**Table 1: Example of a Blank Cash book**

<table>
<thead>
<tr>
<th>DATE</th>
<th>MONEY IN</th>
<th>AMOUNT</th>
<th>DATE</th>
<th>MONEY OUT</th>
<th>AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>Total</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Table 1a: Example of a Filled in Cash Book

<table>
<thead>
<tr>
<th>DATE</th>
<th>MONEY IN</th>
<th>AMOUNT (LD)</th>
<th>DATE</th>
<th>MONEY OUT</th>
<th>AMOUNT (LD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>20-Jan-09</td>
<td>Sold 10pcs of local planks</td>
<td>2,000</td>
<td>1-Jan-09</td>
<td>Purchased machinery</td>
<td>3,000</td>
</tr>
<tr>
<td>25-Jan-09</td>
<td>Sold 14pcs of local planks</td>
<td>2,800</td>
<td>7-Jan-09</td>
<td>Payment of salary</td>
<td>1,200</td>
</tr>
<tr>
<td>29-Jan-09</td>
<td>Sold 20pcs of local planks</td>
<td>4,000</td>
<td>16-Jan-09</td>
<td>Transportation</td>
<td>800</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>8,800</strong></td>
<td></td>
<td><strong>Total</strong></td>
<td><strong>5,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

Inventory record

An **Inventory Record**: keeps a record of physical items that your business has at any point in time. It includes what you had at the beginning of the year, what has been added to those items through purchases and production and how much has left your business through sales, consumption, planned use or losses.

Example of inventory record

<table>
<thead>
<tr>
<th>No.</th>
<th>Description</th>
<th>Qty</th>
<th>Beginning</th>
<th>Purchases</th>
<th>Sales</th>
<th>Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Computers</td>
<td>5</td>
<td>5</td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>2.</td>
<td>Printers</td>
<td>6</td>
<td>2</td>
<td>4</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>

Credit Book

A **Credit Book**: Keeps the record of all the money the customers have to repay for goods and services purchased on credit.

**Transactions for credit book**
1. June 2, 2011 Credited 5 gallons of honey for LD 900 to Fatu Business Center to be paid in 15 days.
3. June 20, 2011 Flomo took 3 pieces of planks for Dweh Plank Center on credit for LD 500

Example of Credit Book

<table>
<thead>
<tr>
<th>NAME:</th>
<th>ADDRESS:</th>
</tr>
</thead>
<tbody>
<tr>
<td>CUSTOMER CREDIT BOOK</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>DATE</th>
<th>DESCRIPTION</th>
<th>CREDIT</th>
<th>PAYMENT</th>
<th>BALANCE</th>
<th>SIGNATURE</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 2, 2011</td>
<td>5 gallons of honey</td>
<td>LD 900</td>
<td>0</td>
<td>LD 900</td>
<td></td>
</tr>
<tr>
<td>June 15, 2011</td>
<td>2 Baskets of snails</td>
<td>LD 800</td>
<td>0</td>
<td>LD 800</td>
<td></td>
</tr>
<tr>
<td>June 20, 2011</td>
<td>3pcs planks</td>
<td>LD 500</td>
<td>0</td>
<td>LD 500</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>LD 2,200</strong></td>
<td></td>
<td>0</td>
<td><strong>LD 2,200</strong></td>
<td></td>
</tr>
</tbody>
</table>
**Debtor Book**

*A Debtor Book:* Keep a record of all whom the business owes (those who have supplied goods and services to the business on credit).

**Transactions**

1. June 2, 2011 Credited 5 gallons of honey for LD 900 from Fatu Business Center to be paid in 15 days.
3. June 20, 2011 Flomo Inc. took 3 pieces of planks for Dweh Plank Center on credit for LD 500

**Example of Debtor Book**

<table>
<thead>
<tr>
<th>DATE</th>
<th>DESCRIPTION</th>
<th>DEBT</th>
<th>PAYMENT</th>
<th>BALANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 2, 2011</td>
<td>Fatu Business 5 gallons of honey</td>
<td>LD 900</td>
<td>0</td>
<td>LD 800</td>
</tr>
<tr>
<td>June 15, 2011</td>
<td>Siah Enterprise 2 Baskets of snails</td>
<td>LD 800</td>
<td>0</td>
<td>LD 800</td>
</tr>
<tr>
<td>June 20, 2011</td>
<td>Flomo Inc. 3pcs planks</td>
<td>LD 500</td>
<td>0</td>
<td>LD 500</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>LD 2,200</td>
<td>0</td>
<td>LD 2,200</td>
</tr>
</tbody>
</table>

**Labor Book**

*A Labor Book:* keeps a record of who had worked for you, how much they have worked (number of hours, days or quantity of work done), how much they were paid and when they were paid.

**Transactions for labor book**

On March 2, 2011, Yarkpawolo Kollie cut down trees for construction of bee keeping material for Lorpu in the amount of LD 900 for 3 hours.

March 12, 2011 Dweh Dartu brushed Fatu’s farm for the amount of LD 700 for 2 hours.

March 23, 2011 Tamue Zolu prepared snail raising materials for Kuma Saah for LD 600

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Hourly work</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 2, 2011</td>
<td>Yarkpawolo Kollie</td>
<td>3 hours @ LD 300</td>
<td>LD 900</td>
</tr>
<tr>
<td></td>
<td></td>
<td>per hour</td>
<td></td>
</tr>
<tr>
<td>March 12, 2011</td>
<td>Dweh Dartu</td>
<td>2 hours @ LD 350</td>
<td>LD 700</td>
</tr>
<tr>
<td></td>
<td></td>
<td>per hour</td>
<td></td>
</tr>
<tr>
<td>March 23, 2011</td>
<td>Tamue Zolu</td>
<td>2 hours @ LD 300</td>
<td>LD 600</td>
</tr>
<tr>
<td></td>
<td></td>
<td>per hour</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td>LD 2,200</td>
</tr>
</tbody>
</table>

**Activity 10:**

Distribute Handouts 3, 4, and 5
Single-Entry System (Journal)

The primary bookkeeping record in single-entry bookkeeping is the cash book, which is similar to a checking account register but allocates the income and expenses to various income and expense accounts. Separate account records are maintained for petty cash, accounts payable and receivable, and other relevant transactions such as inventory and travel expenses.

Transactions

January 2, 2012 Received LD$ 3,000 for sales of goods
January 14, 2012 Received LD$ 6,000 for services rendered to customer
January 22, 2012 Purchased office supplies for LD$ 1,000
January 26, 2012 Pay for advertisement for LD$ 300
January 31, 2012 Bank charges in the amount of LD$ 15

Table: 2 Sample Revenue and Expense Journal for Single-Entry Bookkeeping

<table>
<thead>
<tr>
<th>No</th>
<th>Date</th>
<th>Description</th>
<th>Revenue</th>
<th>Sales/Serv</th>
<th>Expense</th>
<th>Advert</th>
<th>Supply</th>
<th>Misc</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Jan 2, 2012</td>
<td>Sales of goods</td>
<td>3,000</td>
<td>3,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Jan 14, 2012</td>
<td>Services</td>
<td>6,000</td>
<td>6,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Jan 22, 2012</td>
<td>Purchase</td>
<td></td>
<td>1,000</td>
<td></td>
<td>1,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Jan 26, 2012</td>
<td>Office supply</td>
<td></td>
<td>300</td>
<td></td>
<td>300</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Jan 31, 2012</td>
<td>Bank charges</td>
<td></td>
<td>15</td>
<td></td>
<td></td>
<td>15</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td></td>
<td>9,000</td>
<td>9,000</td>
<td>1,315</td>
<td>300</td>
<td>1,000</td>
<td>15</td>
</tr>
</tbody>
</table>

Double Entry System

Earlier transactions in the books of accounts were recorded under single entry system. The system had some shortcomings as there was not a complete record of all the transactions. Also, problems were faced while preparing final accounts. Problems were also faced as there was no self-balancing method of accounting which could guarantee, to some extent, the accuracy of the books of accounts. So a need was felt for some uniformly accepted system of accounting which could help in the verification of the accuracy of books to some extent. These problems were solved by the Double Entry System of accounting. This system has totally replaced the single entry system. This system is now followed everywhere. Under this system of accounting, every transaction in business involves at least two accounts. That is why this system of accounting is called the “Double Entry System”. Under this system every transaction has two aspects i.e. debit side and credit side. Under this system, every transaction is entered into at least two accounts in the Ledger. In one account, the transaction is entered on the left hand side i.e. on the debit side of the account and on the other account an entry for an equal amount is made on the right hand side of the account i.e. the credit side of the account.
For example, suppose Flomo paid cash salaries to his staff. The two accounts affected are 
cash account and salaries account. As cash is going out of it, cash account is credited. 
Salaries are expenses for the business, salaries account is debited. Again Gorpu bought 
raw material for the production unit, the two accounts involved are Cash account and 
Purchases account. She paid carriage to transport goods to her factory; the two 
accounts involved are cash account and carriage account. She sold finished goods to 
customers on credit, the two accounts involved are the customer's personal account 
debtor and sales account. She also purchased furniture for her office on credit. The two 
accounts involved are furniture account and the personal account of the seller (creditor). 
Thus we can see that every transaction has two aspects in the Double entry system of 
accountancy. Now which account is debited and which is to be credited depends on 
the types of accounts involved and the rules of debit and credit for that type of account. 
The basic principle is that for every single transaction there are two entries – one to a 
"giving account" and a corresponding one to a "receiving account." In principle it is said 
that you Credit (Cr) the giving account and Debit (Dr) the receiving account.

\[
\text{ASSETS} = \text{LIABILITIES} + \text{OWNER'S EQUITY}
\]

The equation is termed the fundamental accounting equation because these 
relationships are so essential to the analysis and presentation of accounting information. 
The relationship between the Income Statement or Profit & Loss Account and the Balance 
Sheet is that profit increases an owner's equity and a loss reduces it. The corresponding 
double entry effect is always on the ASSETS, increasing or reducing them. 
A number of examples are in Activity 10 to serve as discussion on the accounting entries 
and effect of each transaction on the accounting equation.

**Activity 11:**
Distribute Handout 6 - Exercise

These are other examples that will help you better understand the double entry system in 
bookkeeping:

**Transactions on double entry system**

January 1, 2012 Purchased office supplies for LD$ 1,000

January 5, 2012 Payment for advertisement in the amount of LD$ 300

January 11, 2012 Payment for goods in the amount of LD$ 6,000

January 15, 2012 Freight charges in the amount of LD$ 700

January 20, 2012 Received LD$ 3,000 for sales of goods

January 25, 2012 Received LD$ 6,000 for services rendered to customer

January 29, 2012 Bank charges for the month in the amount of LD$ 120
Entries for the transactions above

January 1, 2012: **Debit** Office supplies for LD 1,000 and **Credit** cash for LD 1,000
January 5, 2012: **Debit** Advertisement for LD 300 and **Credit** cash for LD 300
January 11, 2012: **Debit** Goods for LD 6,000 and **Credit** cash for LD 6,000
January 15, 2012: **Debit** Freight charges for LD 700 and **Credit** LD 700
January 20, 2012: **Debit** Cash for LD 3,000 and **Credit** sales for LD 3,000
January 25, 2012: **Debit** Services for LD 6,000 and **Credit** Cash for LD 6,000
January 29, 2012: **Debit** bank charges for LD 120 and **Credit** cash for LD 120

Remember that to every debit there must be a corresponding credit.

The Balance Sheet

**Balance Sheet** - Where does the Balance Sheet come from?

1. What is a Balance Sheet?

A balance sheet is a financial report that shows the financial picture of a company at a given time. Balance sheets are usually done monthly or quarterly depending on the nature and size of the business. The basic principle of the balance sheet is to show what you own, what you owe and how much you personally have invested in your business. It gives you an idea of whether or not you can pay your creditors, how you manage your inventory and how you manage your billing. What is the worth of your business? This is a valuable tool to improve your business.

2. How is the Balance Sheet Structured?

There are two columns to a balance sheet. The first column lists what you own, or your assets. This includes your cash on hand, accounts receivable and inventory. You will also need to include prepaid and other expenses. You may also have other assets such as a note that will be due at a later date. In the left column you would list your liabilities. These include loans that you owe, accounts payable and taxes that you may owe. Both sides of the sheet are totaled and the owners net worth or investment is added to the liabilities side and then that column is added again. Both numbers on the sheet should equal each other, hence the name balance sheet. If they don’t, you know you have missed something and should go back through your accounts again.

**Table 3a: Example of a Blank Balance Sheet**

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>AMOUNT</th>
<th>=</th>
<th>LIABILITIES &amp; OWNER EQUITY</th>
<th>AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>-</strong></td>
<td></td>
<td><strong>Total</strong></td>
<td><strong>-</strong></td>
</tr>
</tbody>
</table>

**Left Side =** Assets (Property of the Company)  **Right Side =** Liabilities & Equity (Debt & Capital of the Company)
Table 3b: Example of a Filled in Balance Sheet

<table>
<thead>
<tr>
<th>Assets</th>
<th>AMOUNT</th>
<th>Liabilities &amp; Owner Equity</th>
<th>AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash at bank</td>
<td>7,000</td>
<td>Purchased payable</td>
<td>1,200</td>
</tr>
<tr>
<td>Sales on credit</td>
<td>3,000</td>
<td>Short term loan</td>
<td>3,000</td>
</tr>
<tr>
<td>Purchased Goods</td>
<td>5,000</td>
<td>Capital</td>
<td>10,800</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>15,000</strong></td>
<td><strong>Total</strong></td>
<td><strong>15,000</strong></td>
</tr>
</tbody>
</table>

1. Information Provided by the Balance Sheet

The information on your balance sheet can help a bank decide whether to lend your business money or not. This is one point you would like to know exactly what’s going on all the time in your business. You have a chance to improve your company, thus making the sheet more appealing to the bank. It can show you if the financial position of your company can handle hiring more employees or giving the current ones a raise. And, if you ever wanted to sell your business the buyers would like to see your balance sheets. Once you’ve done the sheets for a year, you can see how your business is growing or if the market is declining. You can see if there are areas where you want to cut back or maybe spend more money. Just by maintaining this one financial form, you can have a wealth of information at your fingertips.

3. Operating Assets and Liabilities

Several different operating assets are needed to carry on the operations of a business. Several different kinds of operating liabilities are generated as a normal part of its transaction. Certain assets have to be in place before sales and expense transactions can be carried on. Inventory has to be purchased or manufactured before it can be offered for sale to customers. Several expenses have to be prepaid, such as insurance premium and office supplies.

Other operating assets and liabilities are the result of sales revenue and expense transactions. Accounts receivable are the result of sale on credit. Accountable are the results of buying inventory on credit and not paying expenses until sometime after they are recorded as expenses.

Operating assets don’t earn interest income and operating liabilities don’t require interest expense, though there are minor exceptions.

Business managers should know which specific operating assets and liabilities are needed. They should also know that each operating asset and liability should be relative to revenue and the expenses of the business. Managers should know how high the accounts receivable balance should be relative to the total invoices in respect of payments that are not made for the period, given the normal credit terms of the business and the history of its clients regarding late payment.

Activity 12:
Distribute Handout 7&8 - Exercise
REVIEW QUESTIONS

At the end of this lesson ask participants the following questions to find out whether they have understood the lesson:

- What records should be kept?
- What are three of the benefits of record keeping?
- List two advantages and disadvantages of record keeping.
- Describe the characteristics of good record keeping?
- Which entries are made in the cash book? Give examples?
- What is a balance sheet?
- How is the balance sheet structured?
Module 4: How to Calculate Business Profit and Loss

Background Information for the Facilitator

This section will help participants know what profit is and how it is calculated.

Objective(s): After the completion of this session, you will be able to:
- Differentiate business profits and personal income
- Identify the importance of separating business finances from private money
- Identify unnecessary expenses
- Calculate profit and loss statement
- Define revenue and earnings
- State and explain the various determinants of profit

Time
- 4 hours

Number of Participants
- A group preferably include 10 to 15 persons but it should definitely not exceed 25 participants. Larger groups make it very difficult for the facilitator to track the progress of individuals.

Materials
- Flip charts, chalk or white board, markers, chalk and a cleaning rag
- Exercise books, pens, pencils, rulers, erasers, calculators for all participants
- Area suitable for writing and learning

Type of Participants
- CFDC, CFF Entrepreneurs such as retailers, wholesalers, farmers and manufacturers
- Village leaders

LESSON

Calculating Income and Expenses?

What is Income?

Income is the consumption and savings opportunity gained by an entity within a specified time frame, which is typically expressed in monetary terms. However, for households and individuals, “income is the sum of all the wages, salaries, profits, interest payments, rents and other forms of earnings received in a given period of time.” For firms, income generally refers to net-profit: what remains of revenue after expenses have been subtracted. In the field of public economics, it may refer to the accumulation of both monetary and non-monetary consumption ability, the former being used as a proxy for total income.

Income is money that comes into your business.

Explanation

Money into your Business = Income
How does Money come into your Business?

- By producing and selling goods
- By buying and selling goods
- By giving a service (like a taxi driver who provides transportation)
- By receiving gifts from friends or family members
- By getting a loan
- By inheritance

Other Income Activities

- Producing and selling palm oil
- Drying and selling fish
- Producing and selling bread
- Weeding mats
- Producing and selling cassava
- Producing and selling rice
- Receiving donations

What is an Expense?

Expense is money spent or cost incurred in an organization's efforts to generate revenue, representing the cost of doing business. Expenses may be in the form of actual cash payments (such as wages and salaries), a computed expired portion (depreciation) of an asset, or an amount taken out of earnings (such as bad debts). Expenses are summarized and charged in the income statement as deductions from the income before assessing income tax. Whereas all expenses are costs, not all costs (such as those incurred in acquisition of income generating assets) are expenses.

Expenditure is money that goes out of your business.

Money out of your Business = Expenditure

How does Money goes out of your Business?

- Materials or ingredients (like fish and firewood for fish smoking, fabric for Dress making, flour for bread baking);
- Services like:
  - Transport (taxi, bus)
  - Market toll
  - Electricity bills
  - Rent payment
- Wages and salary payments

Other Expense Activities

- Purchase of materials
- Office supplies
- Payment for goods

What are Unnecessary Expenses?

Unnecessary expenses are expenses that people make out of temptation, but they are not really necessary. People often forget about these expenses when they calculate their business expenses, and therefore their income is less than they expected.
You are now aware from which sources you earn money and what you spend your money on. Can you recommend some expenses that are unnecessary, or which you could reduce?

Accept all answers. Suggest the following:

- Are you tempted to buy snacks, drinks or ice-cream when you go to the market?
- Do people think you to wear a new cloth at every ceremony?
- Do you regularly buy nail polish and other beauty products?

What is Profit?

Profit is the investment gain or reward that entrepreneurs aim to get to reflect the risk that they take. Profit is also an important signal to other providers of funds to a business. Banks, suppliers and other lenders are more likely to provide finance to a business that can demonstrate that it makes a profit (or is very likely to do so in the near future) and that it can settle debts as they become due. Profit is also an important source of income for a business. Profits earned which are kept in the business (i.e. not distributed to the owners via dividends or other payments) are known as Retained Profits.

Retained profits are an important source of income for any business, but especially start-ups or small businesses. The time a product is sold for more than it cost to produce it, then a profit is earned which can be reinvested.

Profit can be measured and calculated. So here is the formula:

\[
\text{PROFIT} = \text{TOTAL SALES} - \text{TOTAL COST}
\]

<table>
<thead>
<tr>
<th>Sales</th>
<th>Costs</th>
<th>Profit or Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>LD 100,000</td>
<td>LD 75,000</td>
<td>LD 25,000 (Profit)</td>
</tr>
<tr>
<td>LD 100,000</td>
<td>LD 125,000</td>
<td>LD 25,000 (Loss)</td>
</tr>
</tbody>
</table>

Total Sales greater than total costs = Profit
Total costs greater than total sales = Loss
Total sales = total costs = Break-even

Explanation

Share ideas with the participants about the symbol to be used for profit and loss in business.

Then explain the following and draw the symbols on the chalkboard:

\[
\text{Money in} - \text{Money out} = \text{Profit or Loss}
\]

Profit - means that there is more money coming in than there is going out.

Loss - means that you spend more money on producing or buying your products than money you earn by selling the goods.
How to Calculate Profit or Loss

a) Include the title and period. When creating a profit and loss statement, the document is titled at the top of the page with “Profit & Loss Statement.” Under the title, include the period of time that the statement covers. A profit and loss statement normally covers one month, one quarter or one year. This is written using words such as “For the Month Ending January 31, 2011.”

b) Record all business transactions. A profit and loss statement should not be created until all transactions for the period have been recorded and posted into the appropriate accounts in the company’s general ledger.

Activity 13:
Read the following example to the group.
A women’s group is running a poultry project. They buy chicks and feed them until they are mature. The chicken food can easily be bought in the village. Sometimes chickens get sick and they have to buy medicines. The chickens are sold on market days in town, about 15 kilometers from their village. They always take the bus to get there. In town they pay a porter for carrying the chickens from the bus station to the market. At the end of the day all the chickens are sold.

Draw a cash book on the chalkboard. Tell the story again, item by item. Let the participants tell you which actions bring in money and which actions need money. Ask individual participants to draw the appropriate symbols in the correct columns on the chalkboard.
To find out whether you are making a profit or a loss, we will go through the process as was discussed and as we discuss further. What is the money that goes out of your business to produce your goods (or provide your service)?

- What materials do you buy;
- What services do you pay for;
- How much do you pay for work someone has done for you;
- How much do you need for replacements and repair of your tools and equipment?

How much do you receive by selling the same goods (or by providing the works or service)?

The cash book will help you to remember how you have spent the money that has gone out of your business and how much money has come in from your sales or services.

**Activity 14:**

Brainstorm with the participants on the following questions, or choose other examples of businesses that are more familiar to your participants:

What is the income and the expenditure concerned with operating a Cook shop?
What is the income and the expenditure involved in buying and selling Palm wine?

Go through the following process:

- What materials do you buy?
- What services do you pay for?
- To whom do you pay wages?
- Do you need money for replacements and repair?

For both examples draw a cash book on the chalkboard and draw the symbols in the correct columns.

Have a discussion on the following question to get your participants aware of the importance of wages:

Which of the following group members in the poultry project should be paid for their work?

- The members who feed the chickens and clean the chicken house?
- The members who sell the chickens in town?
- The members who are part of the group but do not do any work in the project?

All members that do work on the project should be paid for their work.

If people are helping you in your business they will have to be paid a salary. If household members are assisting you, you may choose not to pay them, but you will have to pay for their food and clothing. You also have to think about the amount of money you will be able to withdraw from your business money as your own 'salary' (or pay), so that you do not mix up your personal and business expenses. In a group business, you will have to decide how you will share the benefits between the group-members.

**Activity 15:**

Distribute Handout 9, 10, 11, 12 and Activity 16 & 17
REVIEW QUESTIONS

At the end of this lesson ask participants the following questions to find out whether they have understood the lesson:

- What is income?
- What is an expense?
- What is profit?
- How to calculate profit and loss?

Why do you have to keep your business finances separate from the money for your household?

How does money come into your business (income)?

How do you spend the money that goes out of your business (expenditure)?

What are unnecessary expenses?
Module 5: Managing Business Cash and Accounts

Background Information for the Facilitator

This cash and accounts management unit is the most important and vital element in doing a business. It determines the failure or success of a business.

Objective(s): After the completion of this session, you will be able to:

- State the importance of managing accounts
- Explain the efficiency and effectiveness of managing cash
- Demonstrate how to make entries in the cash flow statement and state the importance
- Define credit/loan
- State the importance of selling and buying on credit
- State the advantages and disadvantages of selling and buying on credit

Time
- 4 hours

Number of Participants
- A group preferably include 10 to 15 persons but it should definitely not exceed 25 participants. Larger groups make it very difficult for the facilitator to track the progress of individuals.

Materials
- Flip charts, chalk or white board, markers, chalk and a cleaning rag
- Exercise books, pens, pencils, rulers, erasers, calculators for all participants
- Area suitable for writing and learning

Type of Participants
- CFDC, CFF, Entrepreneurs such as retailers, wholesalers, farmers and manufacturers
- Village leaders

LESSON

Managing Accounts

The managing of any account of a business is important for the survival of that business finances. The proper management of the cash flow as it relates to receipts and payment from the company account will help to improve the business financial management system. Also, the management of the books in terms of cash and bank accounts; bank reconciliation will serve as a guide for proper financial management.

Managing Cash

Cash is the lifeblood of your business. Managed well, your company remains strong. Managed poorly, your business goes into cardiac arrest. If you haven’t considered cash management an important issue, then you’re probably undermining your business’s short-term stability and its long-term survival. But how can you manage business cash better? Start with understanding how good cash-management practices can affect your company’s growth and survival of your business. To practice a more elaborate form of
cash management, you must be able to accurately assess your current cash position and get fairly reliable predictions at key intervals about how much you’ll need to meet the company's expenses.

**Cash Flow Statement**

**What is Cash Flow?**

In financial accounting, a cash flow statement, also known as statement of cash flows or funds flow statement, is a financial statement that shows how changes in balance sheet accounts and income affect cash and cash equivalents, and breaks the analysis down to operating, investing, and financing activities. Essentially, the cash flow statement is concerned with the flow of cash in and cash out of the business. The statement captures both the current operating results and the accompanying changes in the balance sheet. As an analytical tool, the statement of cash flows is useful in determining the short-term viability of a company, particularly its ability to pay bills.

People and groups interested in cash flow statements include:

- Accounting personnel, who want to know whether the organization will be able to cover payroll and other actual expenses
- Potential lenders or creditors, who want a clear picture of a company's ability to repay
- Potential investors, who want to evaluate whether the company is financially sound
- Potential employees or contractors, who want to know whether the company will be able to provide compensation
- Shareholders of the business.

The cash flow statement was formerly known as the Flow of Cash Statement. The cash flow statement reflects a firm's liquidity.

The balance sheet is a snapshot of a firm's financial resources and obligations at a single point in time, and the income statement summarizes a firm's financial transactions over an interval of time. These two financial statements reflect the accrual basis accounting used by firms to match revenues with the expenses associated with generating those revenues. The cash flow statement includes only inflows and outflows of cash and cash equivalents; it excludes transactions that do not directly affect cash receipts and payments. These non-cash transactions include depreciation or write-offs on bad debts or credit losses to name a few. The cash flow statement is a cash basis report on three types of financial activities: operating activities, investing activities, and financing activities. Non-cash activities are usually reported in footnotes.

The cash flow statement is intended to:

- Provide information on a firm's liquidity and solvency and its ability to change cash flows in future circumstances
- Provide additional information for evaluating changes in assets, liabilities and equity
- Improve the comparability of different firms' operating performance by eliminating the effects of different accounting methods
- Indicate the amount, timing and likelihood of future cash flows

The cash flow statement has been adopted as a standard financial statement because it eliminates allocations, which might be derived from different accounting methods, such as various timeframes for depreciating fixed assets.
Importance of Cash Flows

In the most general sense, cash flow for a business is simply the flow of cash through the organization over time. Cash flows are needed for the firm to survive and thrive. Cash is paid out in return for the inputs that are used in the manufacturing process (materials, labor, professional service to practice a more complicated form of cash management, you must be able to accurately assess your current cash position and do reasonably reliable predictions at key intervals about how much you'll need to pay the company's expenses expertise, etc.) and after goods or services are created and sold, the revenues received advance cash that is used to fund further production and sales. Cash flows that are not reinvested in the production and sales process may be paid out to owners. For the firm, investments in various business projects provide future cash flows that contribute to the firm's economic value. An understanding of how future cash flows are generated and what factors affect those flows is an integral part of making investment decisions that increase a firm's economic value.

Cash flows are also the core for non-profit organizations such as hospitals. Even if operating a non-profit organization, cash flow is needed to meet the various expenses associated with operating the organization.

Cash flows are also the principal source of intrinsic (or economic) value for the firm or for any other type of financial investment. Private firms are valued using estimates of the future cash flows the business activity will be able to generate. Public companies have their common stock prices determined by supply and demand forces in the stock markets that are influenced by the cash flows the stock investments will return to investors over time. For the investors who are buying the stock, potential cash flows from different investment opportunities (including stocks) provide the information that allows them to decide where to invest their money.

Managing Credit

Buying and selling on credit is very popular. It can be rewarding but it can also be very risky as people do not always remember who owes them money and to whom they owe money and how much. Some people may only pay after a long time or not pay at all. Understanding how to manage credit will help you to better control your business.

Therefore it is sometimes better not to sell on credit at all. If you have to sell on credit, keep the following rules:

- Only sell on credit to regular customers who you are sure will pay you back on time.
- Demand payment of part of the amount.
- Always carry sufficient cash to buy new stock.
- Keep records of people who buy from you on credit.

Table 5: Advantages and Disadvantages of Selling on Credit

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>• It is a service to your customer and it will attract some customers.</td>
<td>• Your customers may linger in repaying or may not pay you at all</td>
</tr>
<tr>
<td></td>
<td>• There may be quarrels over repayment</td>
</tr>
<tr>
<td></td>
<td>• Can easily add to a lot of money which makes it difficult for you to remember who should repay you and how much</td>
</tr>
<tr>
<td></td>
<td>• The money that your customers still owe you cannot be used to purchase materials or upgrade your business</td>
</tr>
</tbody>
</table>
Table 6: Advantages and Disadvantages of Buying on Credit

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>• To buy stock in a season when it is cheap (such as fish, cassava), preserve and store it and sell it when the prices are high.</td>
<td>• There may be quarrels or confusion over repayment.</td>
</tr>
<tr>
<td>• To enable you to buy cheaper in bulk (items such as flour).</td>
<td>• You may forget that you owe someone money.</td>
</tr>
<tr>
<td>• To include seasonal high expenses (such as plugging).</td>
<td>• There is a tendency to buy unnecessary things.</td>
</tr>
<tr>
<td></td>
<td>• Sometimes you have to pay more when you buy on credit (interest charges).</td>
</tr>
</tbody>
</table>

**Important Points**

If you decide to purchase on credit, make sure that you will be able to repay payback your credit on time! Before buying on credit do the following:

- Calculate how much profit you will get with your business.
- The profit should be enough to repay your credit and still leave some money for savings.

**Buying goods on credit for yourself or your household could put you in trouble**

**Ask yourself:** Will your business make enough profit to pay for the products that you have bought on credit for your household or family?

**You need to plan ahead for selling and buying on credit**

**Follow these pointers:**

- You cannot spend the money you do not have. As long as you have not received the money that people owe you, it is not yet yours. For example, you cannot use the money to buy materials. You can only pay for expenses after you have received your money people owed you.
- The same thing applies when you have to repay other people. If you have bought something on credit for business or family, you have to repay your credit before you can calculate your business profit. You have to raise some money separate to repay your credit.

By all means, try to repay your credit on time so that people will be prepared to give you credit any time you ask it again. Your character standing for repaying credit on time is called credit worthiness.
**Activity 16:**
Have a discussion with the group on the following examples of buying and selling on credit:
In which of the following cases will you sell on credit to a customer?
1. Fatu comes to your kiosk and wants to buy oil on credit. She is not a regular customer.
   (Answer)
2. Flomo buys vegetables from you every Saturday. He usually pays cash. This time he did not bring enough money to pay for everything he needs. He promises to pay next week.
   (Answer)
3. Kumba wants to buy two loaves of bread. She did not bring enough money. She has not paid you yet for four loaves that she bought in the previous week.
   (Answer)
4. You are selling fifty loaves of bread twice a week to a shop. They always pay you at the end of the month.
   (Answer)
5. You sell a fish sometimes to a trader in the market. The agreement is that she pays you after she has sold the fish again. But she is not very reliable. It often takes a number of weeks before she repays you the money.
   (Answer)

**Activity 17:**
In which of the Following Situations will you buy on Credit?
1. You have seen a beautiful pair of shoes in the shop but you do not have money.
   (Answer)
2. There has been an unusually large catch of fish, which is being sold cheaply. You are sure that you will be able to smoke and sell a lot of fish and you have calculated that you will make a profit. You think you will be able to pay back your credit in two weeks.
   (Answer)
3. Lorpu is selling dry rice and fish. She is also thinking about selling rice and stew. She will have to buy a bag of rice on credit. When she calculates the profit, she finds that it is not sufficient to repay the credit.
   (Answer)
4. Buying sugar and flour in bulk from wholesale is much cheaper than buying it from the market. But you don’t have enough money to buy in bulk. You have calculated that you can make profit with your bakery and you can even make more profit when you buy the stock in bulk from the wholesale.
   (Answer)

**Loan**

**Activity 18:**
Divide the participants into small groups of three or four persons. Let each group think of a business in which it is common to have a seasonal cash flow and where it is common to buy and sell on credit. They should try to think of strategies to deal with the cash flow fluctuations and advantages and disadvantages of buying and/or selling on credit in this particular business. After the discussions, one person from each small group should present their case to the other participants.
A loan is a type of debt. Like all debt instruments, a loan entails the redistribution of financial assets over time, between the lender and the borrower.

In a loan, the borrower initially receives or borrows a sum of money, called the principal, from the lender, and is obligated to pay back or repay an equal amount of money to the lender at a later time. Typically, the money is paid off in regular installments, or partial repayments; in an annuity, each installment is the same amount.

The loan is usually provided at a cost, referred to as interest on the debt, which provides an incentive for the lender to engage in the loan. In a legal loan, each of these obligations and restrictions is enforced by contract, which can also put the borrower under additional restrictions known as loan covenants. Although this article focuses on monetary loans, in practice any material object might be lent. Acting as a provider of loans is one of the principal tasks for financial institutions. For other institutions, issuing of debt contracts such as bonds is a regular source of funding.

**Advantages**

- A bank loan can be secured quickly; in less than an hour, a qualified borrower can complete a bank loan transaction.
- A bank loan can be used in a number of ways; money can be borrowed for many large-ticket items, such as furniture, vehicles or home renovations.

**Disadvantages**

- Some loans carry a prepayment penalty, preventing the borrower from paying the note off early without incurring additional cost.
- There are a number of limitations on the transaction. Good credit is usually required to borrow money, and there are stipulations on how the money can be used.

**REVIEW QUESTIONS**

Borrowing too much money can lead to decreased cash flow and payments can even exceed income in some cases; this is why many loan payments are limited to a certain percentage of a borrower's income.

- Managing cash is accomplished by preparing a cash budget of expected income and expenses. Explain.
- Selling on credit can help grow your business but care must be taken to ensure that money is repaid promptly and that repayment terms are understood by everyone. Explain.
- Buying on credit may increase earnings by obtaining product for sale before cash is available, but care must be taken to ensure that the amount borrowed can be repaid on time and the cost of interest is affordable. Explain.
- Good planning is needed to control the wise use of credit. Explain.
Module 6: Financial Management

Background Information for the Facilitator

In this financial management module, exercises, activities and handout will be distributed to bring the lesson across the learners' level.

Objectives

At the end of this section, participant will be able to:

- Define finance
- Employ financial control system in the operation of a business
- State the principles of financial management
- Explain procurement process to reduce expenses
- Know what is savings and follow the saving procedure

Time

- 8 hours

Number of Participants

- A group preferably include 10 to 15 persons but it should definitely not exceed 25 participants. Larger groups make it very difficult for the facilitator to track the progress of individuals.

Materials

- Flip chart or newsprint and markers OR chalkboard, chalk and a cleaning rag
- Exercise books, pens, pencils, rulers, erasers for all participants
- Hand calculator (if available)
- Area suitable for writing and learning

Type of Participants

- CFDC, CFF, Entrepreneurs such as retailers, wholesalers, farmers and manufacturers
- Village leaders

LESSON

Financial Controls and Systems

What is Finance?

Finance is the study of how investors allocate their assets over time under conditions of certainty and uncertainty. A key factor in finance, which affects decisions, is the time value of money, which states that a unit of currency today is worth more than a unit of currency tomorrow. Finance measures the risks vs. profits and gives an indication of whether the investment is good or not.

- Management control (as exercised in planning, performance evaluation, and coordination) of financial activities aims to achieve the desired return on investment.
- Managers use financial statements (a budget being the main one), operating ratios, and other financial tools to exercise financial control.
How to Ensure Effective Financial Control?

This checklist provides guidance on how to ensure sound financial management.

i. **Forensic Auditing**

   Forensic auditing allows managers to assess how to keep their businesses against waste, abuse, and various forms of economic crime, such as fraud.

ii. **Implementing an Effective Internal Controls Systems**

   In some jurisdictions law or regulation may require effective systems of internal control, with serious penalties for careless failure. The Sarbanes-Oxley Act (2002) requires CEOs and CFOs of companies with listings in the United States to certify their assessment of the effectiveness of internal control over reported disclosures (s302) and financial reporting (s404), with penalties of up to $1 million and ten years imprisonment.

iii. **Developing Financial Management Tools for the Small Business**

   The tools must be designed to assist with the basics of business finance for the managers of small businesses. It should focus on key areas, informing on financial statements, financial analysis, business plans, and budgets. In addition it should provide information on successful financial planning and management, and how to run a small business from a solid financial plan.

iv. **Adhering to Principles of Financial Management**

   Financial management principles in the corporate world apply equally to farming whether public or privately owned. The concept of financial management and accountability of business is better understood when looked at as a way of marshalling financial resources and determining how the financial resources are used and accounted for.

   The management of the financial resources should be guided by:

   - Best practices
   - Laws and regulations

Business and management therefore need to have transparent and ethical systems for the management of the financial resources available to them.

A transparent system of control ensures:

- There is a seamless and complete trail of documents for each transaction—“the audit trail”
- There is documented authorization of each transaction whether needed by the owner or not
- Explanation for each transaction is documented when not immediately obvious
- Transaction could be understood by a third party without the need for further explanation
An “ethical” system of control and accountability:

- Reflect the good business practice
- Reflect the value statement of the business
- Protect employees from undue influence by other internal or external parties

Key Features of Effective Control and Accountability Systems

The key features of effective control and accountability systems include a number of areas:

- Governance
- People Management
- Policy and Strategy
- Processes

i. Governance

- The staff and owners/governors have a shared understanding of their own financial management roles, responsibilities and accountabilities as well as those of others
- Employee governance arrangements ensure that governors are able to fulfill their financial management roles properly
- The business manager and bursar (if applicable) operate with financial integrity setting an example to governors and employees alike
- The governing body has considered and approved to establish a controls policy instrument designed to ensure resources are properly managed
- There are effective arrangements to consider issues of conflict of interest or whistle blowing

ii. People Management

- The governing body includes individuals who are able to act as a critical friend on financial issues, provide strategic direction on financial issues and can ensure financial accountability.
- Staff with financial management responsibilities include person(s) who can effectively manage financial processes and ensure accountability requirements are met.
- Financial management personnel are deployed in such a way that financial controls can be maintained across the school.

iii. Policy and Strategy

- The business has an annual budget that is reasonable and affordable and which reflects and is compatible with the business and strategic plans.
- The budget is reviewed and approved by the governors.
- The budget has been communicated promptly to all stakeholders including related staff budget holders.
- The governors have identified the risks currently faced by the business and have taken measures to manage critical risks.
iv. **Processes and Resources**

- The business has procurement arrangements in place to ensure fairness and value for money.
- The financial management information produced is relevant, accurate, convenient and user friendly.
- The business's financial policies and regulations that are up to date are approved by the governors and are implemented consistently.
- Proper accounting records are kept consistently and the governors have evidence that this is the case.

**Roles and Responsibilities**

The roles and responsibilities of owners or governors in managing the business’s financial resources include:

- The clear communication of financial responsibilities and authority levels to all employees ("the Mandate")
- Formulation of accounting and financial management policies and procedures
- Ensuring that the financial management function is carried out in line with the policies and procedures put in place
- Strategy planning and approval of the annual budget
- Review of management accounts and periodic independent reports
- Ensuring that legal obligations are complied with
- Ensuring the business has adequate financial management staff in place or relies on proper external expertise

The role and responsibilities of management in managing the business financials include:

- Implementation of the approved policies and procedures
- Production of management information
- Monitoring and authorization of income and expenses in accordance with the mandate
- Preparation of budgets in line with the business strategic objectives

**Policies and Procedures Manual**

Financial control and accountability issues pertaining to business should include a documented policies and procedures manual relating to:

- Billing, receipt of business and lodgment at the bank
- Procurement and disbursement of funds and related authority levels
- Petty cash management and bank account operations
- Capital investment funding
- Safekeeping of business’ assets and monitoring of liabilities
- Financial reporting
- Management of financial records

In designing the financial control policies for your business a key principle should be the ‘segregation of duties’. This ensures that no-one person has full control over any one transaction. This helps prevent errors as well as deliberate fraud and also avoids putting employees in positions.

**Balance Between Control and Operational Efficiency**

Unnecessary controls and procedures can lead to frustration for employees and inefficiency. Therefore, authorizaty levels and limits should be set at right amounts to enable individuals to do their daily job, you should not attempt to “over control” small and insignificant transactions and as an owner, do not insist on seeing all the paperwork
for every transaction especially those that are routine in nature. This does not mean that you do not make periodic reviews.

**Monitoring Compliance**

Do not rely on the processes and procedures operating as instructed without monitoring. In insuring yourself of compliance, the following measures could be adopted:

- Internal audit either in-house or on an outsourced basis
- External audit
- Conduct periodic spot checks yourself
- Closely examine management performance and variances and seek explanations for unusual patterns

**Owned Money vs Borrowed Money**

- Owned money is less risky, because the owner is not answerable to anyone even if he loses the money in the business.
- Interest need not be paid on own money.
- Initially when the business is struggling to establish itself, interest could be a heavy burden.
- Many profitable businesses have failed on account of erosion of capital due to interests on loans.
- However, it is generally not possible to finance a business entirely out of your own money. Therefore, a loan becomes a necessity.

**Sources of Funding**

The three main sources of funding are:

- Own Money (equity capital)
- Loans (borrowed money).
- Grants/Subsidies (given by Government/Development Agencies/Funding NGOs)

**Assessing the Need for a loan**

- Owners of small businesses everywhere blame non-availability of loans for all their problems.
- Experience shows that, in the majority of cases, the real problem is something else, such as slow inventory management or poor collection of debts.
- Therefore, whenever a small business seeks loans or complaints of lack of money, it is important to examine all aspects of the business carefully to determine whether the money sought is really required.

Even if money is required, the following options should be examined before considering a loan:

- Is there any old, non-moving or slow-moving stock that can be disposed of by offering it at a low price for quick cash instead of expecting a good price and waiting for it?
- Are there any debts remaining uncollected due to disputes etc. that can be settled by agreeing to get a little less than what is owed?
- Are there any surplus assets that are idle that could be sold?
• The point in all these cases is to release the money locked up in unproductive assets within the business and, thus, avoid taking loans that may not be required.

**Time value of money**

The time value of money is the value of money accounting for a given amount of interest earned over a given amount of time. The time value of money is the key concept in finance theory.

For example, $100 of today's money invested for one year and earning 5% interest will be worth $105 after one year. Therefore, $100 paid now or $105 paid just one year from now both have the same value to the recipient who assumes 5% interest; using time value of money terminology, $100 invested for one year at 5% interest has a future value of $105. The method also allows the valuation of a likely stream of income in the future, in such a way that the annual incomes are discounted and then added together, thus providing a lump-sum "present value" of the entire income stream.

**Interest Rate**

An interest rate is the rate at which interest is paid by a borrower for the use of money that they borrow from a lender. Specifically, the interest rate \( (I/m) \) is a percent of principal \( (I) \) paid at some rate \( (m) \). For example, a small company borrows money from a bank to acquire new assets for their business, and in return the lender receives interest at a fixed interest rate for deferring the use of funds and instead lending it to the borrower. Interest rates are usually expressed as a percentage of the principal for a period of one year.

**Future Value**

The Future Value of a cash flow represents the amount, at some time in the future, that an investment made today will grow to if it is invested to obtain a fixed interest rate. For example, if you were to deposit $100 today in a bank account to acquire an interest rate of 10% compounded annually, this investment will grow to $110 in one year. This can be shown as follows:

**Year 1**

\[ 100(1 + 0.10) = 110 \]

At the end of two years, the initial investment will have grown to $121. Notice that the investment earned $11 in interest during the second year, whereas, it only earned $10 in interest during the first year. Thus, in the second year, interest was earned not only on the initial investment of $100 but also on the $10 in interest that was paid at the end of the first year. This occurs because the interest rate in the example is a compound interest rate.

The interest rate in the example is 10% compounded annually. This implies that interest is paid annually. Thus the balance in the account was $110 at the end of the first year. Thus, in the second year the account pays 10% on the initial principal of $100 and the $10 of interest earned in the first year. Thus, the $121 balance in the account after two years can be computed as follows:

**Year 2**

\[ 110(1+0.10) = 121 \]
\[ 100(1+0.10)(1+0.10) = 121 \]
\[ 100(1+0.10)^2 = 121 \]
If the money was left in the account for one more year, interest would be earned on $121, i.e., the initial principal of $100, the $10 in interest paid at the end of year 1, and the $11 in interest paid at the end of year 2. Thus the balance in the account at the end of year three is $133.10. This can be computed as follows:

\[
\begin{align*}
\text{Year 3} \\
&= $121(1+0.10) = $133.10 \\
&= $100(1+0.10)(1+0.10)(1+0.10) = $133.10 \\
&= $100 (1+0.10)^3 = $133.10
\end{align*}
\]

A pattern should be becoming apparent. The Future Value of an initial investment at a given interest rate compounded annually at any point in the future can be found using the following equation:

\[FV_t = CF_0(1+r)^t\]

where

- \(FV_t\) = the Future Value at the end of year \(t\),
- \(CF_0\) = the initial investment,
- \(r\) = the annually compounded interest rate, and
- \(t\) = the number of years.

**Future Value Example**

Find the Future Value at the end of 4 years of $100 invested today at an interest rate 10%.

**Solution: Future Value**

\[FV_4 = 100(1.10)^4 = $146.41\]

**Present Value**

**Present Value** describes the process of determining what a cash flow to be received in the future is worth in today's dollars. Therefore, the Present Value of a future cash flow represents the amount of money today which, if invested at a particular interest rate, will grow to the amount of the future cash flow at that time in the future. The process of finding present values is called Discounting and the interest rate used to calculate present values is called the discount rate. For example, the Present Value of $100 to be received one year from now is $90.91 if the discount rate is 10% compounded annually. This can be demonstrated as follows:

\[
\begin{align*}
\text{One Year} \\
&= $90.91(1 + 0.10) = $100 \text{ or} \\
&= $90.91 = $100/(1 + 0.10)
\end{align*}
\]

Notice that the Future Value Equation is used to describe the relationship between the present value and the future value. Thus, the Present Value of $100 to be received in two years can be shown to be $82.64 if the discount rate is 10%.

\[
\begin{align*}
\text{Two Years} \\
&= $82.64(1 + 0.10)^2 = $100 \text{ or} \\
&= $82.64 = $100/(1 + 0.10)^2
\end{align*}
\]
A pattern should be becoming apparent. The following equation can be used to calculate the Present Value of a future cash flow given the discount rate and number of years in the future that the cash flow occurs. (This equation can be obtained algebraically from the Future Value Equation.)

\[ PV = \frac{CF_t}{(1 + r)^t} \]

where
- \( PV \) = Present Value
- \( CF_t \) = Future Cash Flow which occurs \( t \) years from now
- \( r \) = the interest or discount rate
- \( t \) = the number of years

**Present Value Example**

Find the Present Value of $100 to be received 3 years from today if the interest rate is 10%.

**Solution: Present Value**

\[ PV = \frac{100}{(1 + 0.1)^3} = 75.13 \]

**Annuities**

An Annuity is a cash flow stream which adheres to a specific pattern. Namely, an Annuity is a cash flow stream in which the cash flows are level (i.e., all of the cash flows are equal) and the cash flows occur at a regular interval. The annuity cash flows are called annuity payments or simply payments. Thus, the following cash flow stream is an annuity.

**Figure 1**

<table>
<thead>
<tr>
<th>Year</th>
<th>0</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Flow</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

While, the following cash flow stream is not an annuity because the payments do not occur at a regular interval.

**Figure 2**

<table>
<thead>
<tr>
<th>Year</th>
<th>0</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Flow</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

When a cash flow stream is of the form given in **Figure 1**, i.e., an annuity, the process of finding the Present Value or Future Value of the cash flow stream is greatly simplified.

**Present Value of an Annuity**

The Present Value of an Annuity is equal to the sum of the present values of the annuity payments. This can be found in one step through the use of the following equation:

\[ PV = \frac{PMT}{r} \left( 1 - \frac{1}{(1 + r)^n} \right) \]
Procurement and Evaluation

a) What is Procurement?
Procurement is the aspect of supply concerned with translating an initial end-user statement of requirements to the actual end-products or items.

It includes the acquisition of:

- Goods – purchases
- Works – hiring of contractors
- Services – hiring of consultants

b) Procurement Roles for the Owner/Board
The management of the business has specific roles in support of the procurement function. These include:

- Defining procedures for selecting, contracting and monitoring suppliers
- Identifying key supply sources for the major requirements
- Approving major contracts and supply arrangements usually based on a pre-agreed financial value

c) Reduce your Costs by Good Planning for buying:
- Buying at the lowest possible price (compare the prices of different suppliers and/or buy during the season when the price is very low);
- Buying in bulk, if they are products that can be stored;
- Buying the right amount of perishable products (like tomatoes); reducing travel and transportation costs.

d) Reduce your costs by good planning for production:
- Producing the amount (of perishable goods) that people will buy;
- Inspect the quality of the products you produced, and pack it in a neat way;
- Prevent wasting materials;
- Producing a lot at one time may be more profitable than producing small amounts at different times.

e) Procurement Systems and Methods
There are different approaches to procurement that may be appropriate to schools. Choice of the most appropriate method is dependent on the size of the school, range of suppliers, the value of the order, the timeframe and the importance of the goods/services to the school.

Direct Procurement – purchase direct from a single random supplier either locally or through remote connection via internet or catalogue buying based on best price. Suitable for small price immediate requirements where there is no pre-approved supplier for the procurement requirement.

Direct Contracting – purchase from a single pre-approved service/goods supplier. May be appropriate when:

- Supply is for an extension of an existing contract e.g. repair work
- Standardization of goods and services needs to be compatible with the existing resources
- Supply needs are urgent
- Items or services are obtainable from only one source
- The school requires items from a particular source to guarantee performance
Close Tender - where pre-approved suppliers and service providers are asked to submit bids against a given specification. This is suitable for requests where:

- Reliability and quality are paramount
- There are relatively few potential suppliers (especially for a particular brand of product)
- Supply is of vital components in ongoing projects
- Procedure
- No public advertising
- Bids are solicited from a limited number of pre-approved/known suppliers
- No preference for a particular bidder

Open Market Tender - a public, open procedure where all potential suppliers are invited to bid against a given specification. For major supply or contract work an open market tender may be appropriate where:

- There is a long lead-in time for supply
- The contract would be for a significant value
- There are a number of potential suppliers and open competition may cause significant savings

The process may be time-consuming as it will probably need:

- Advertising
- Defining procurement needs and terms and conditions in advance
- Reviewing several tenders and possibly meeting with suppliers

Criteria for Evaluation of Suppliers

Criteria for evaluation of suppliers will differ from business to business. However, the key elements used are:

**Table 7: Criteria for Evaluation for Suppliers**

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technical Capability</td>
<td>Ability to meet the technical specification of the supply request. Available manpower and standard equipment or facilities are indicators of technical capabilities.</td>
</tr>
<tr>
<td>Product Reputation</td>
<td>Knowledge of the product being tried and tested or reputation of supplier should be considered.</td>
</tr>
<tr>
<td>Financial Resources</td>
<td>The financial status of the supplier/service provider should be considered.</td>
</tr>
<tr>
<td>Past Performance</td>
<td>Proven track record of supplier/service provider should be considered.</td>
</tr>
<tr>
<td>Supplier Location</td>
<td>The supplier address should always be business premises. A residential home will typically indicate a “brief case merchant” with little capital, stock, or knowledge of the products and quality required. A convenient location may be suitable for quick ‘just-in time’ delivery.</td>
</tr>
<tr>
<td>Range of Goods/Services Available</td>
<td>A supplier of wide selection at competitive prices can reduce the resources and time you need to commit to buying.</td>
</tr>
<tr>
<td>Parts and Service</td>
<td>Availability of parts for replacement and/or employees to provide additional service when required.</td>
</tr>
<tr>
<td>Conditions of Contract</td>
<td>What is the supplier’s approach to the return of goods found defective in use? Settlement terms are also a factor as are communications and inventory availability.</td>
</tr>
</tbody>
</table>
Suppliers Management

- Implementing approved procedures for selecting, contracting and monitoring suppliers
- Identifying supply sources
- Approving day-to-day and smaller contracts and supply arrangements in accordance with “the mandate” and limits
- Confirming satisfactory distribution or supply of goods and services

Hallmarks of Good Procurement Systems

The Management should take responsibility for defining the procurement practices of the business. Effective procurement should be organized to provide all of the following elements:

- Economy
- Efficiency
- Transparency and fairness
- Accountability and ethical standards

1) Economy
The objective is to maximize value for money. This does not necessarily correspond to cheapest price. Lowest price may not correspond to lowest cost over the long term. Quality and effectiveness are important factors in determining ‘value’.

2) Efficiency
Good procurement is always time-consuming but this should not be out of proportion to the value of the goods or services being procured. Procurement processes should therefore be practical and not over-ambitious. The goods or services being procured should be compatible with your existing set processes and resources.

3) Transparency and fairness
Good procurement establishes and maintains procedures that are friendly and unambiguous, are impartial, stable and reliable. This builds trust and improves relationship with suppliers and helps in the efficiency of the procurement process.

4) Accountability and ethical standards
Procurement policies should keep those people responsible for procurement accountable for adherence to those policies. It should be a challenge and be a obstacle to collusion and corruption. A sound procurement process is one that combines all the above elements. A key objective is to encourage the courage and willingness of well-qualified suppliers to compete for your business. This directly and concretely benefits both the school and responsive suppliers.

Conversely, procurement of materials and services that is devoid of the above elements can result in:

- Hesitation to compete on the part of good suppliers
- Submission of inflated or deflated pro-forma invoices and bids
- Delayed or inadequate performance
- Collusion in bribery by frustrated or unscrupulous contractors and staff responsible for purchasing
- Poor value for the school
- Betrayal and abuse of the school’s trust for personal gain
- Damage to the school’s reputation in the community
Financial Planning

What can you do with the money if you have a profit?
Accept all answers. Bring out the following:

If you have not taken any money from the business money for yourself and your family, then you will have to get some money out for yourself first. The rest of the money can be put into savings, until you need it.

What are savings?
Savings means that you save money aside and you do not spend it, unless you have planned to use it for some purpose.

For what purpose would you save money?
- To replace or repair worn or damaged equipment and utensils;
- To grow your business;
- To improve your way of living;
- Building a house;
- Sending the children to a good school;
- To prepare for emergency cases.

Activity 22:
Read the following story to the group. The participants should listen carefully, because you will ask them how the women in the story can reduce their costs. A group of women has a small bakery in a village. They bake sugar bread, tea bread and buns. The group members take turns in baking the bread. They also take turns in buying the stock. Every other day someone goes to town to buy the bags of flour that are needed plus the other ingredients. She is given the money for the bus fare and food during the journey. They buy cooking oil, sugar and yeast in small quantities from the kiosk in the village. Sometimes members of the group give bread for free to their relatives. On some days they are baking more bread than they can sell. Some of it gets spoiled and they have to throw it away.

Activity 23:
- The doughnut seller is saving to buy a bigger cast iron pot, so that she can fry more doughnuts at a time and thus sell more. In future she also wants to bake cakes, so she is saving to buy an oven;

- The poultry farmer wants to save money so that she will be able to buy more chicks;

- The fishmonger wants to be able to buy more cheap fish during the peak season, so that she can store it and sell it during the season when fish is scarce and the prices are high. She wants to save some money, so that she is not forced to sell the fish beforehand;

- The driver wants to save money so that he can buy his own taxi.
How to save the money? (Handout - 10 Ways to Save Money)

Saving money is one of those tasks that are so much easier said than done. There’s more to it than spending less money (although that part alone can be difficult). How much money will you save, where will you put it, and how can you make sure it stays there? Here’s how to set realistic goals, keep your spending in check, and make the most for your money.

i. **Kill your Debt First.** Simply calculating how much you spend each month on your debts will illustrate that eliminating debt is the fastest way to free up money. Once the money is freed from debt payment, it can easily be re-purposed to savings. Plus, the sooner you pay off debt, the less interest you’ll pay, and that money can be saved instead.

ii. **Set Savings Goals.** For short-term goals, this is easy. If you want to buy a video game, find out how much it costs; if you want to buy a house, determine how much of a down payment you’ll need. For long-term goals, such as retirement, you’ll need to do a lot more planning (figuring out how much money you’ll need to live comfortably for 20 or 30 years after you stop working), and you’ll also want to figure out how investments will help you achieve your goals.

iii. **Establish a Time-frame.** For example: “I want to be able to buy a house two years from today.” Set a specific date for accomplishing shorter-term goals, and make sure the goal is attainable within that time period. If it’s not attainable, you’ll just get discouraged.

iv. **Figure out how much you’ll have to Save per Week, per Month, or per paycheck to attain each of your Savings Goals.** Take each item you want to save for and figure out how much you want to start saving now. For most savings goals, it’s best to save the same amount each time. For example, if you want to give a LD 20,000 down payment on a home in 36 months (three years), you’ll need to save about LD 550 per month every month. But if your paychecks amount to LD 1,000, it might not be a realistic goal, so adjust your time-frame until you end up with an approachable amount.

v. **Keep a Record of your Expenses.** What you save falls between two activities and their difference: how much you make and how much you spend. Since you have more control over how much you spend, it’s wise to take a serious look at your expenses. Write down everything you spend your money on for a couple weeks or a month.

vi. **Trim your Expenses.** Take a good, hard look at your spending records after a month or two have passed. You’ll probably be surprised when you look back at your record of expenses: LD 30 on ice cream, LD 10 on parking tickets? You’ll probably see some obvious cuts you can do. Depending on how much you want to save, however, you may want to make some tough decisions. Think about your priorities, and make cuts you can live with. Calculate how much those cuts will save you per year, and you’ll be much more motivated to pinch pennies.
vii. **Reassess your Savings Goals.** Subtract your expenses (the ones you can’t live without) from your take-home income (i.e. after taxes have been taken out). What is the difference? And does it match up with your savings goals? Let’s say you’ve decided you can definitely get by on LD 150 per month and your paychecks amount to LD 230 per month. That leaves you with LD 80 to save. If there’s absolutely no way you can fit all your savings goals into your budget, take a look at what you’re saving for and cut the less important things or adjust the time-frame. Maybe you want to lay off buying a new car for another year, or maybe you don’t really need a big-screen TV that badly.

viii. **Make a Budget.** Once you’ve managed to balance your earnings with your savings goals and spending, write down a budget so you’ll see each month or each paycheck how much you can spend on any given activity or group of things. This is especially important for expenses which tend to fluctuate, or which you know you’re going to have a extremely difficult time restricting.

ix. **Pay yourself First.** Savings should be your preference, so don’t just say that you’ll save whatever is left over at the end of the month. Deposit savings into an account (or your piggy-bank) as soon as you get paid. An easy, effective way to start saving is to simply deposit 10% of every check in a savings account.

x. **Don’t get discouraged and Don’t Give Up.** You may not think you can become wealthy but to become a millionaire is possible if you set up an aggressive savings plan and stick to it. You may be surprised how much money you can give aside for something far more entertaining than what you could buy with short term savings. Good things usually take time and the longer you save the more interest you will be making on your savings as well!

---

**Tips in saving money**

**Why not...**

- Move to a less expensive house or apartment? Refinance your mortgage?
- Save money on gas, or give up a car altogether? If your family has multiple cars, can you bring it down to one?
- Shop the discount racks at clothing stores. Items on clearance are marked down considerably and could save you 50% of the price.
- Cut down on your utility bills?
- Restrict eating out? Buy food in bulk? Cook more at home? You might be able to save a lot of money when market or grocery shopping.
- Only use one cell phone or save money by calling over the internet for free with services such as Skype?
- Live without DSTV
- Get a better price on insurance? Call around and make sure you are getting the best price you can. Consider taking a higher deductible, too.

---

**Activity 24:**
Distribute Handout 14 & 15

---

**REVIEW QUESTIONS**

At the end of this lesson ask the following questions to find out whether your participants have understood the lesson:

- What is finance?
- What is the difference between bookkeeping and finance?
• Give examples of financial controls and systems.
• List three sources of funding.
• Explain the procurement procedures.
• Demonstrate a basic understanding of the financial planning process.
Glossary

**Account payable** - A liability backed by the general reputation and credit standing of the debtor

**Account receivable** - A promise to receive cash from customers to whom the business has sold goods or for whom the business has performed services

**Asset** - An economic resource that is expected to be of benefit in the future

**Capital** - The claim of a business owner to the assets of the business

**Expense** - Decrease in owner's equity that occurs from using assets or increasing liabilities in the course of delivering goods or service to customers

**Inventory** - All the goods that a company owns and is expected to sell in the normal course of operation

**Liability** - An economic obligation (a debt) payable to an individual or an organization outside the business

**Invoice** - A seller's demand for cash from the purchaser

**Ledger** - The record holding all the accounts

**Net loss** - Excess of total expenditure over total revenues

**Sales** - the amount that a merchandiser or a seller earns from selling its inventory of goods

**Transaction** - An event that affects the financial position of a particular entity
Literature


Ghana Institute of Chartered Accountants, Financial Management Strategy
CONTACT

For further information, Contact
Sommongar S. Zwuen
National Project Coordinator
Forest Instrument Liberia
FAO, Liberia
Mobile: +231-6-486-614
Email: szwuen@yahoo.com

Edward Kamara
Forestry Development Authority (FDA)
National NFP Focal Point
Mobile: +231 886 823646
Email: easkamara56@ymail.com

For Additional Information on FAO’s Work in Liberia
Mr. Jean-Alexandre Scaglia
Country Representative
E-Mail: JeanAlexandre.Scaglia@fao.org
www.fao.org

John T. Monibah
Communications Officer
E-mail: john.monibah@fao.org
http://coin.fao.org/cms/world/liberia/Home