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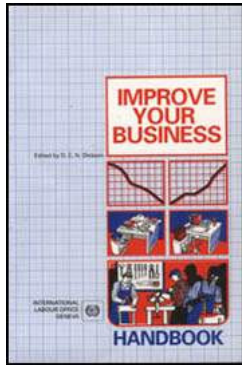
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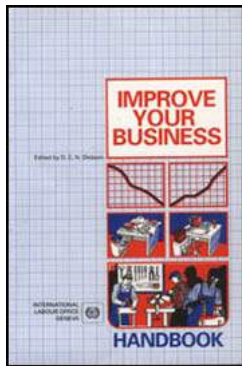
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## **Improve Your Business: Handbook (ILO, 1986, 144 p.)**

### **6. MANAGEMENT ACCOUNTING**

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 **Finding out the change in the value of stock**

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 **Finding out the depreciation of machinery and equipment**

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**Improve Your Business: Handbook (ILO, 1986, 144 p.)**

## **6. MANAGEMENT ACCOUNTING**

**Management accounting is using the information from your bookkeeping and other records to see whether your business is doing well or badly.**

**To be able to decide how your business is doing and whether it is going up or down, you must keep written records. If you do not keep records or if you think the way you keep your business records is poor, study the Bookkeeping section of *Improve your business*.**

**Good records will help you to make better decisions and manage the business better. You do not have to be an accountant to understand the basics of management accounting.**

### **WITH GOOD INFORMATION YOU CAN SEE WHERE YOU ARE GOING**

**Management accounting provides information which makes it possible for you to know:**

- **what money has come in and how the money has gone out during a certain period. It tells you also if your business has made a profit or a loss;**
- **what money and things your business owns and what it owes on a certain date;**
- **how and when money will come into the business and how and when it will go**

**out during the next few months.**

**All the above information you will have if you produce for your business:**

- a profit and loss account;
- a balance sheet; and
- a cash budget.

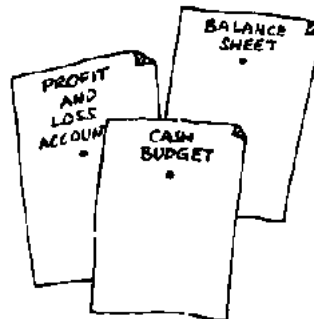
**This section of *Improve your business* will help you to put together each of these three documents. You can then use them to manage your business better.**

**TRY TO FIND OUT:**

**HOW MONEY CAME IN AND WENT OUT**

**WHAT YOU OWN AND WHAT YOU OWE**

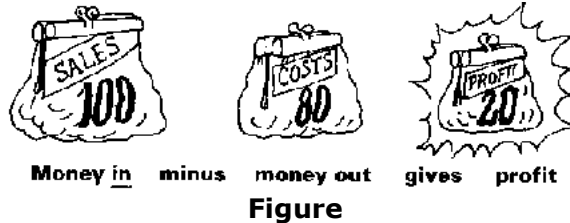
**HOW MONEY WILL COME IN AND WILL GO OUT**



**THESE GIVE YOU INFORMATION**

## The profit and loss account

The profit and loss account tells you if the business has made a profit or a loss during a certain period (e.g. three months, six months or a year) and if the money which has come into the business during that period is greater or less than the money which has gone out.



The information about *money in* and *money out* which you write down in your profit and loss account comes from your bookkeeping, mainly from your ledger.

The account in your ledger which tells you what is the amount of *money in* during the period is Sales.

The accounts in your ledger which tell you what are the amounts of *money out* during the period are Raw materials, Wages, Interest, Drawings and Others.

Let us look at the example of a ledger below:

**THE LEDGER TELLS YOU ABOUT YOUR MONEY IN AND YOUR MONEY OUT**

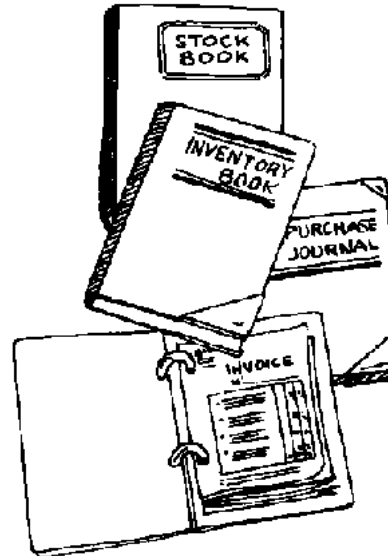
		<b>Money in</b>				<b>Money out</b>						
Date	Particulars	Id. no.	Cash	Bank	Sales	Raw Mat.	Wages	Loans	Equip-ment	Inter-est	Draw-ings	Others
June												
	5,000	6,000										
			30			80,000	30,000		12,500			4,000

**Figure**

The figure for *money in* (80,000 NU) is obtained by adding up the Sales column.

The figures for *money out* (Raw materials: 30,000 NU; Wages: 12,500 NU; Interest: 4,000 NU; Drawings: 15,000 NU; and Others: 6,000 NU) are obtained by adding up each of these columns in the ledger.

**GET ADDITIONAL INFORMATION FROM YOUR SUBSIDIARY BOOKS**



Figure

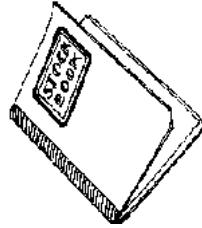
**In your business, you also work with four other major things which help you to make your profit. These things are stock, people to whom you owe money (creditors), people who owe you money (debtors) and machines and tools (assets).**

**If you want to show the true figure for profit in your business, you have to show the increase in value (*money in*) or the decrease in value (*money out*) of these things in your profit and loss account. To record information on each of these things properly, you need to keep four subsidiary books (see the Bookkeeping section of this *Handbook*). These are:**

- **a stock book;**

- an inventory book;
- a purchase journal;
- an invoice book.

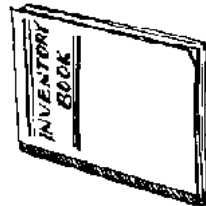
### THE STOCK BOOK GIVES CHANGES IN STOCK VALUE



Figure

From the *stock book* you find whether the value of your stock has increased or decreased during the period.

### THE INVENTORY BOOK GIVES DECREASES IN VALUE OF EQUIPMENT



Figure

From the *inventory book* you find by how much the value of your machines and other equipment has decreased during the period.

From the *purchase journal* you find whether the amount which the business owes to its suppliers has increased or decreased during the period.

**THE PURCHASE JOURNAL GIVES CHANGES IN 'MONEY YOU OWE TO SUPPLIERS**



**Figure**

From the *invoice book* you find whether the amount which your customers owe to the business has increased or decreased during the period.

**THE INVOICE BOOK GIVES CHANGES IN MONEY OWED TO YOU**



**Figure**

**We will now show you how to get the information you need for your profit and loss account out of these four books. Let us take an example of a profit and loss account for the**



**period January to June.**

**Finding out the change in the value of stock**

**Whenever you check stock, you write the value of the stock into your stock book.**

**You need to know the change in the value of stock which has taken place between 1 January and 30 June, as shown below.**



<b>Stock-taking List</b>			
Date: 31.12.85			
Article	Qty	Price	Total
Wood 15x5cm	15 m	10	150
Wood 10x5cm	10 m	20	200
Glue	4 l.	50	200
Nails	2 kg	25	50
Unfinished products			600
Chairs	4	100	400
Tables	1	200	200
Total stock value			1,800

**Figure**



Stock-taking List			
Date: 30.6.86			
Article	Qty.	Price	Total
Wood 15x5 cm	10m	10	100
Wood 10x3 cm	20m	20	400
Glue	5ℓ	60	300
Nails	8kg	25	200
Unfinished products			400
Chairs	8	100	800
Tables	3	200	600
Total stock value			2,800

Figure

**OPENING STOCK ON 1 JANUARY: 1,800**



**STOCK ON 30 JUNE: 2,800**



**INCREASE IN STOCK VALUE: 1,000**

**From the figures given in the stock book, you can see that there has been a 1.000 NU increase in stock. This means that 1.000 NU more has gone into the business. Put it into the *Money in* column of the profit and loss account.**

## Finding out the change in the value of machines and equipment

The machines and equipment you use in the business will sooner or later be worn out. The value of a machine you buy today is, for example, 15,000 NU. After five years of daily use it may be worn out and the value is nil.

It costs you 3,000 NU a year (15,000 NU divided by 5) to use that particular machine. If you divide 3,000 NU by 2 you will have the cost of the use of that machine for half a year or six months. This is money that goes out of your business. This reduction in value is called "depreciation".

When you buy a new machine you record the purchase value and the year of purchase in your inventory book. At the end of each year you deduct 20 per cent for depreciation. Look at the inventory book below:

Drilling machine	1983
Price.....	10,000
Depreciation per year.....	2,000
Value end of 1983	8,000
1984	6,000
1985	4,000
1986	2,000

Bandsaw	1985
Price.....	15,000
Depreciation per year.....	3,000
Value end of 1985	12,000

1986	9,000
------	-------

Turning lathe	1984
Price.....	25,000
Depreciation per year.....	5,000
Value end of 1984	20,000
1985	15,000
1986	10,000

Milling machine	1985
Price.....	25,000
Depreciation per year.....	5,000
Value end of 1985	20,000
1986	15,000

## **DEPRECIATION = REDUCTION IN VALUE OF YOUR EQUIPMENT**

**Total depreciation per year: 15,000 NU; half a year: 7,500 NU**

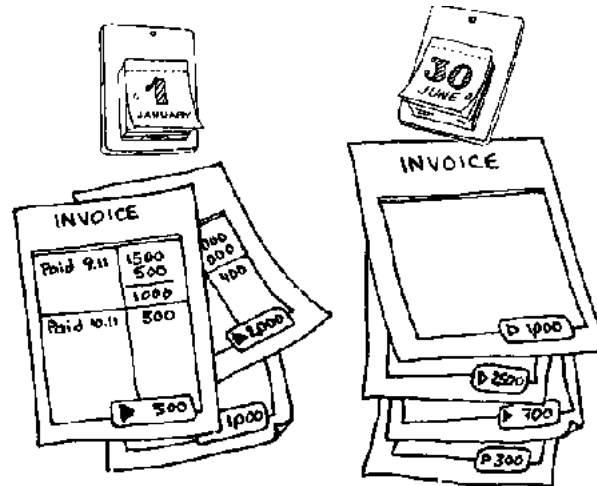
**In this example the sum of the depreciations of the four machines is 15,000 NU per year. Divide that amount by 2 and you will have the cost for a six-month period; 7,500 NU.**

**This is value which has gone out of your machines and equipment. Put it into the *Money out* column of the profit and loss account.**

**Finding out the value of debtors**

**Whenever you send an invoice to a customer, you keep a copy in the invoice book. Therefore the total amount of money owed by your customers (i.e. the value of your debtors) can be found by adding the amounts on the copies of the unpaid invoices in your invoice book. Do this on 1 January and 30 June, as shown on the next page.**

**From the invoices you can see that the value of debtors (i.e. the amounts that customers owe) has increased from 3,500 NU to 4,500 NU, i.e. by 1,000 NU. This means that 1,000 NU more has gone into the business. Put it into the *Money in* column of the profit and loss account.**



**Figure**

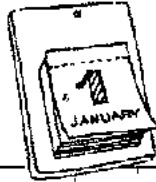
### **Finding out the value of creditors**

**Whenever you receive an invoice from a supplier, you write the details and the amount**

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**into the purchase journal.**



Date	Supplier	Inv. no.	Paid	Debt
14/10	Timber Ltd	44812		1,000
15/10			500	500
18/11	Glue & Co	84611		300
12/12	Nail Industry	58124		200
20/12	Power & Light	12693		800
25/12			800	

Date	Supplier	Inv. no.	Paid	Debt
9/11	Glue & Co	86410		400
15/11	Nail Industry	62002		1,000
15/11			500	500
18/11	Timber Ltd	41341		1,200
20/11	Power & Light	14012		900

**Figure****OUTSTANDING BALANCE AT 1 JAN.:**

$$500 + 300 + 200 = 1,000$$

**OUTSTANDING BALANCE AT 30 JUNE:**

$$400 + 500 + 1,200 + 900 = 3,000$$

The total amount of money that you owe to your suppliers (i.e. the value of your creditors) can be found at any time by adding up the unpaid amounts in the purchase journal.

Do this on 1 January and 30 June, as shown on the previous page.

According to the figures in the purchase journal, the value of creditors (i.e. the amount you owe to your suppliers) has increased from 1,000 NU to 3,000 NU, i.e. by 2,000 NU. This means that 2,000 NU has gone out of the business. Put it into the *Money out* column of the profit and loss account.

**How to construct your profit and loss account**

Now we have all the figures necessary to draw up the following profit and loss account:

<i>Profit and loss account</i>		
1 January-30 June 1986		
<i>Money in</i>		
Sales	80,000	
Change in stocks	1,000	
Change in debtors	1 000	



Change in debtors	1,000	
		82,000
Less <i>Money out</i>		
Raw materials	30,000	
Wages	12,500	
Interest	4,000	
Drawings	15,000	
Others	6,000	
Change in creditors	2,000	
Depreciation	7,500	
		77,000
Gives: <i>Profit</i>		5,000



**NOW I KNOW IF MY BUSINESS HAS MADE A PROFIT!**

**Do this every six months and see your progress.**

## The balance sheet

**A balance sheet shows the financial position of a business at one particular moment in time. It shows what a business owns and what it owes at that moment or, in other words, its assets and *liabilities*.**

### What the business owns

Cash
Bank
Debtors (people who owe money to the business)
Stocks
Equipment

### What the business owes (assets) (liabilities)

***Creditors* (people to whom the business owes money)**

***Loans* (owed to the bank)**

***Owners' capital* (owed to the owner)**

***Retained profits* (owed to the owner)**

**Like the profit and loss account, the balance sheet is drawn up with the aid of the accounts from your bookkeeping system.**

**The accounts in your ledger that tell you about your *assets* are Cash, Bank and Equipment.**

**The account in your ledger that tells you about your *liabilities* is the Loan account.**

**Let us look at the example of a ledger below:**

## THE LEDGER TELLS YOU ABOUT YOUR ASSETS AND LIABILITIES

▼ASSETS							▼LIABILITIES					
Date	Particulars	Id.no.	Cash	Bank	Sales	Raw Mat.	Wages	Loans	Equipment	Interest	Drawings	Others
June												
<b>30</b>			<b>4,000</b>	<b>5,000</b>				<b>40,000</b>	<b>51,000</b>			

The figures for *assets* are Cash (4,000 NU), Bank (5,000 NU) and Equipment (51,000 NU).

The figure for *liabilities* is Loans (40,000 NU).

But there are a few more things to consider before you can draw up your balance sheet:

- the depreciation of machinery and equipment;
- the value of the stock;
- how much your customers owe to the business -your debtors;
- how much the business owes its suppliers-your creditors;
- how much money you, the owner, have put into the business - the owner's capital.

We will now show you how to get this additional information.

**GET ADDITIONAL INFORMATION FROM YOUR SUBSIDIARY BOOKS**

## Finding out the depreciation of machinery and equipment

**When we drew up a profit and loss account we had to consider the reduction in the value of your machines and equipment. This was called depreciation. When you are about to draw up a balance sheet you must also put in this reduction in value. Look at the sheets from the inventory book shown below:**

Drilling machine	1983
Price.....	10,000
Depreciation	
per year.....	2,000
Value end of 1983	8,000
1984	6,000
1985	4,000
1986	2,000

Bandsaw	1985
Price.....	15,000
Depreciation	
per year	3,000
Value end of 1985	12,000
1986	9,000

Turning lathe	1984
Price.....	25.000

Depreciation per year...	5,000
Value end of 1984	20,000
1985	15,000
1986	10,000

Milling machine	1985
Price.....	25,000
Depreciation	
per year.....	5,000
Value end of 1985	20,000
1986	15,000

**Total value at end of 1985: 51,000**

**THE INVENTORY BOOK GIVES YOU THE VALUE OF YOUR EQUIPMENT**



**Figure**

**The total value of the four machines at the end of 1985 is 51,000 NU. The total**

depreciation per year is 15,000 NU. If we want to draw up a balance sheet on 30 June 1986 (six months after the end of 1985), we have to reduce the value noted in the ledger by 7,500 NU (half of 15,000 NU).

### MAKE THE ENTRY FOR DEPRECIATION IN THE LEDGER

Whenever you draw up a balance sheet, you enter the amount of depreciation (for the period since the last balance sheet) in the ledger. Put it into the *out* column of the Equipment account and into the *in* column of the Others account, noting that it is depreciation. You make the entry like this:

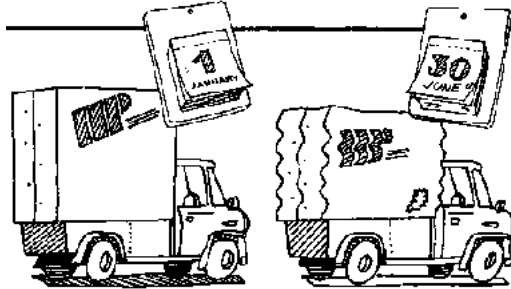
DATE	PARTICULARS	ID.NO.
	Depreciation 1/2	

OUT		IN	
EQUIPMENT		OTHERS	
In	Out	In	Out
51,000			
	7,500	7,500	
43,500			

The depreciation reduces the value of the equipment in your assets to:

**51.000 NU - 17.500 NU = 43.500 NU.**

**THE VALUE OF YOUR EQUIPMENT DECLINES MONTH BY MONTH**



**Figure**

**Finding out the value of stock**

**Look at the following stock-taking list which was also used to draw up the profit and loss account:**

**The total value of the stock at 30 June is 2,800 NU. This figure is an asset.**

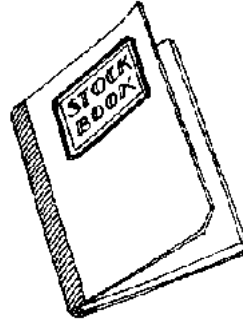
<b>Stock-taking List</b>			
Date:			
Article	Qty.	Price	Total

Total stock value			

<b>Stock-taking List</b>			
<b>Date: 30.6.86</b>			
<b>Article</b>	<b>Qty.</b>	<b>Price</b>	<b>Total</b>
<b>Wood 15 x 5 cm</b>	<b>10 m</b>	<b>10</b>	<b>100</b>
<b>Wood 10 x 5 cm</b>	<b>20 m</b>	<b>20</b>	<b>400</b>
<b>Glue</b>	<b>5l.</b>	<b>60</b>	<b>300</b>
<b>Nails</b>	<b>8 kg</b>	<b>25</b>	<b>100</b>
<b>Unfinished products</b>			<b>400</b>
<b>Chairs</b>	<b>8</b>	<b>100</b>	<b>800</b>
<b>Tablets</b>	<b>3</b>	<b>100</b>	<b>600</b>
<b>Total stock value</b>			<b>2,800</b>

**THE STOCK BOOK GIVES YOU THE VALUE OF YOUR STOCK**

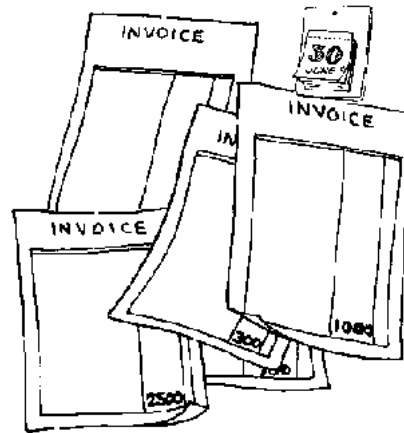




**Figure**

### **Finding out the value of debtors**

**You can find out the value of your debtors on 30 June from the invoice book, as shown above under " Profit and loss account". Add up all the unpaid amounts on the invoices outstanding to arrive at the total amount.**



Figure

**THE INVOICE BOOK SHOWS YOU HOW MUCH IS OWED TO YOU**



Figure

**The total value of unpaid amounts at 30 June is 4,500 NU. This figure is an asset.**

**Finding out the value of creditors**

**You can find out the value of your creditors from the purchase journal, as shown above under " Profit and loss account". Add up all unpaid and partly paid invoices to arrive at the total amount.**

Date	Supplier	Inv. no.	Paid	Debt
<b>9/4</b>	<b>Glue &amp; Co</b>	<b>86 980</b>		<b>400</b>
<b>15/4</b>	<b>Nail Industry</b>	<b>62 001</b>		<b>1,000</b>
<b>15/5</b>			<b>500</b>	<b>500</b>
<b>18/6</b>	<b>Timber Ltd</b>	<b>413 41</b>		<b>1,200</b>
<b>20/6</b>	<b>Power &amp; Light</b>	<b>14 017</b>		<b>900</b>

**THE PURCHASE JOURNAL SHOWS YOU HOW MUCH IS OWED TO YOUR SUPPLIERS**



Figure

**Outstanding balance at 30 June**

$$400 + 500 + 1,200 + 900 = 3,000.$$

**The total value of unpaid amounts at 30 June is therefore 3,000 NU. This figure is a *liability*.**

**Finding out the amount of the owner's capital**

**You probably have a rough idea about how much money you have put into the business yourself. However, if you are not satisfied with a rough estimate you should keep a record in a book, e.g. a business notebook. In this you can record every change in the amount of money that you have put into the business as shown on the next page.**

Money put in by myself when started 1978	6,000 NU
Extra money put in 1986	5.800 NU


**The total amount of money that you have put into the business up to 30 June is 11,800 NU. The business owes you this amount. It is a *liability* of the business.**



**Figure**

**THE BUSINESS NOTEBOOK GIVES YOU THE FIGURE FOR OWNER'S CAPITAL**

**How to construct your balance sheet**

**Now we have all the figures necessary to draw up the following balance sheet:**

**Balance sheet 30 June 1986**

Assets		Liabilities	
Cash	4,000	Creditors	3,000
Bank	5,000	Loans	40,000
Debtors	4,500	Owner's capital	11,800

Stock		2,800	Profit made	
Equipment	51,000		1 Jan.-30 June	5,000
Less	7,500			
		43,500		
		59,800		59,800

**The figure for profit, 5,000 NU, is obtained from the profit and loss account. Add the amount of profit to the liabilities side. It is again money which the business owes to you.**

**As you can see, the two sides of the balance sheet end up with the same amount. They are in balance.**

**NOW I KNOW MY POSITION!**



**Figure**

**The cash flow budget**

**A cash flow budget is a plan which shows how you think cash will flow into the business**

**(cash receipts) and out of the business (cash payments) month by month during a future period.**

**If a business is to keep out of trouble, it must have enough cash flowing in to pay the day-to-day expenses like wages, suppliers, rent and electricity. Many businesses have gone bankrupt because they did not have enough cash even when they had full order books. If customers do not pay on time and creditors will not wait, and if the bank will not help, a business is in trouble.**

**A cash flow budget helps you to forecast or estimate your future cash situation. The information for your cash flow budget comes from your bookkeeping, mainly the ledger. By studying what has happened in the past you can forecast what may happen in the future. The longer you keep good records the better your forecasts will be.**

**It is often enough to write out the cash flow budget for the next six-month period. But do not wait until the end of the six-month period until you write out your next forecast. Sit down after three months and try to estimate ahead for another six-month period.**

**Look at the table on the next page. This is an example of a cash flow budget. We show you how it is filled in, step by step. Follow the directions given on the next few pages.**

### **A CASH FLOW BUDGET IS A FORECAST OF YOUR FUTURE CASH SITUATION**

#### **WILL YOU HAVE ENOUGH CASH EACH MONTH DURING THE NEXT SIX-MONTH PERIOD? THE CASH FLOW BUDGET**

			<b>January</b>	<b>February</b>	<b>March</b>	<b>April</b>	<b>May</b>	<b>June</b>
RECEIPTS	1	Money present at start of month						
	2	Cash sales credit sales						

	3	Cash from credit sales						
	4	Other money in						
		Money in this month						
PAYMENTS	5	Cash purchases						
	6	Cash paid for credit purchases						
	7	Wages						
	8	Drawings						
	9	Loan repayment						
	10	Interest						
	11	Others						
	12	Planned investments						
		Money out this month						
		Money present at end of month						

**How to construct your cash flow budget**

**1. Money present at start of month**

**How much money do you have in the cash box and in your bank account at the beginning of January? Add the amounts together and enter the total, 7,000 NU, into the first row as follows:**

	January	February	March	April	May	June
Money present at start of month	7,000					

**Figure**





Figure

**CASH: 2,000 NU+ CURRENT ACCOUNT: 5,000 NU**

Now, look at the receipts.

### 2. Cash sales

Check your past cash sales from the cash receipt copies in the voucher file and then try to estimate the figure of cash sales that you will make in each month.

	January	February	March	April	May	June
Cash sales	7,500	6,000	6,000	6,000	7,500	2,500

Figure



Figure

### 3. Credit sales

Again check in your invoice book to see how much you have sold on credit during each month of the past year. Estimate the amount you think you will actually sell on credit (i.e.

the amount for which you will issue invoices) during each of the next six months. Enter these estimates into the small triangle in the top left-hand corner of each box.

	January	February	March	April	May	June
Cash from credit sales	2,500	2,000	3,500	2,500	1,500	3,000

Figure



Figure

You use these figures when you calculate the cash received from credit sales for each month. For example, if customers pay you a month after they receive your invoice you can then fill in the "cash from credit sales" row as follows:

	January	February	March	April	May	June
Cash from credit sales	2,500	2,000	2,500	2,000	1,500	2,000
		2,500	2,000	1,500	1,500	1,500

Figure

Remember that if you made credit sales during the previous months, you will also need to include the cash received in January from these sales.

#### 4. Other money in

**If you are expecting to get cash as a result of the sale of a machine or other assets, enter your estimate of that amount in the column of the month when you expect the cash: e.g. you sell a machine for cash in April for 12,000 NU.**

	January	February	March	April	May	June
Other money in				12,000 ◀		

**Figure**



**Figure**

**Now, look at the payments.**

### **5. Cash purchases**

**Try to estimate how much you will spend on raw materials and parts for each of the next six months e.g. January: 2,500 NU; February: 3,750 NU; March: 5,000 NU; April: 3,750 NU; May: 3,750 NU; and June: 6,250 NU. Now try to work out how much of these purchases you will pay in cash. Enter these figures into the row for cash purchases as in the example below:**

	January	February	March	April	May	June
Cash purchases	2,000	3,000	4,000	3,000	3,000	5,000

Figure



Figure

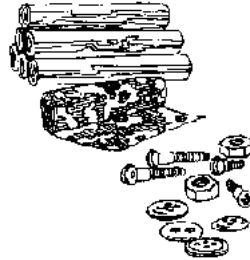
### 6. Cash paid for credit purchases

Deduct the figures which you entered into row no. 5 above from your estimates of your *total* purchases for each month, and enter the results in the small triangle in the top left-hand corner of each box in row no. 6. For example, the figure for January is 2.500 NU, minus 2.000NU (cash purchases), which equals 500NU.

	January	February	March	April	May	June
Cash paid for credit purchases	500	750	1,000	750	450	1,250

Figure

meister10.htm  
CREDIT PURCHASES



Figure

You use these figures when you calculate how much of your credit purchases you will pay in cash each month. For example, if each time you are going to pay two months after you have received the invoice, row no. 6 will look as shown on the next page.

	January	February	March	April	May	June
Cash paid for credit purchases	500	750	1,000	750	500	250

Figure

## 7. Wages

Look at your payroll and work out how many people you will employ and how much their wages will be for each month.

Enter the total wage bill for each month like this:

	January	February	March	April	May	June
Wages	1,000	1,000	2,000	2,000	2,000	2,000

Figure



Figure

### 8. Drawings

Estimate how much you will draw from your business each month as a salary for yourself.  
Enter your estimates like this:

	January	February	March	April	May	June
Drawings	3,000	3,000	3,000	3,000	3,000	3,000

Figure

NATIONAL BANK - Main Road - Allamby	
PAY Three thousand national units	NO 3'000
TO Self drawing	
A. OWNEE 123196-11111111	<i>AOWNEE</i> 1-3-80
<small>International Bank of Commerce</small>	

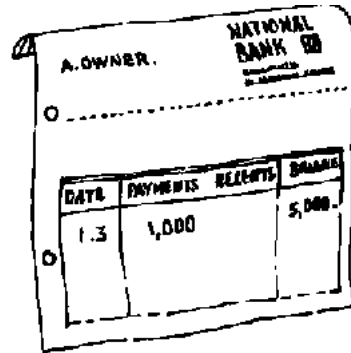
Figure

### 9 and 10. Loan repayment and interest

Check your loan document. Find out when payments are due and how much they are. For example, you make your loan repayment quarterly, in March and June. Each repayment is 1,000 NU.

	January	February	March	April	May	June
Loan repayment			1,000			1,000

Figure

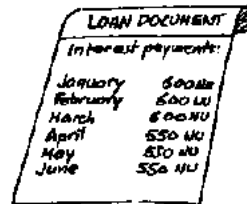


Figure

You make the interest payments on a monthly basis. In this case, enter the amount you pay each month, e.g. 600 NU for January, February and March and 550 NU for April, May and June.

	January	February	March	April	May	June
Interest	600	600	600	550	550	550

Figure



Figure



**11. Others**

Enter your estimate of how much you will spend in each month for all the other expenses which normally arise when you run a business, e.g. rent, telephone, insurance, electricity.

	January	February	March	April	May	June
Others	1,500	1,500	3,000	1,500	1,500	3,000

Figure



Figure

**12. Planned investments**

If you have planned any new investment, estimate when and how much you are going to pay:

	January	February	March	April	May	June
Planned investments				5,000	◀	

Figure



**Figure**

**We have now entered all the figures necessary to complete our cash flow budget. The cash flow budget now looks as shown on page 108.**

**All that is now left for us to do are some additions and subtractions:**

- **Start with the column for January. Add rows 1, 2, 3 and 4 together. Enter the total, 14,500 NU, in the row called "Money in this month".**
- **Next, add up all the payments for January (rows 5-12). Enter the total, 9,100 NU, in the row called "Money out this month".**
- **Subtract as follows:**

Money in this month	14,500
- Money out this month	9,100
= Money present at end of month	5,400

**Enter this figure in the bottom row. Also enter it in row 1, in the column for February.**

- **Add up the figures for February to June in the same way as you did for January.**

The result is your six-month cash flow budget as shown on page 109.

		January	February	March	April	May	June	
RECEIPTS	1	Money present at start of month	7,000					
	2	Cash sales	7,500	6,000	6,000	6,000	7,500	12,500
	3	Cash from credit sales	<del>2,500</del> -	<del>2,000</del> 2,500	<del>2,500</del> 2,000	<del>2,500</del> 2,500	<del>1,500</del> 2,500	<del>2,000</del> 1,500
	4	Other money in				12,000		
		Money in this month						
PAYMENTS	5	Cash purchases	2,000	3,000	4,000	3,000	3,000	5,000
	6	Cash paid for credit purchases	<del>500</del> -	<del>350</del> 350	<del>1,000</del> 500	<del>750</del> 750	<del>450</del> 1,000	<del>1,250</del> 750
	7	Wages	2,000	2,000	2,000	2,000	2,000	2,000
	8	Drawings	3,000	3,000	3,000	3,000	3,000	3,000
	9	Loan repayment			1,000			1,000
	10	Interest	600	600	600	550	550	550
	11	Others	1,500	1,500	3,000	1,500	1,500	3,000

12	Planned investments			5,000	
	Money out this month				
	Money present at end of month				

**THE CASH FLOW BUDGET**

		January	February	March	April	May	June
RECEIPTS	1 Money present at start of month	7,000	6,400	3,800	-2,300	2,400	1,350
	2 Cash sales	7,500	6,000	6,000	6,000	7,500	12,500
	3 Cash from credit sales	-	2,500	2,000	2,500	2,500	1,500
	4 Other money in				12,000		
	Money in this month	14,500	13,900	11,800	18,200	12,400	15,350
	5 Cash purchases	2,000	3,000	4,000	3,000	3,000	5,000
	6 Cash paid for credit purchases	-	-	500	750	1,000	750
7 Wages	2,000	2,000	2,000	2,000	2,000	2,000	

PAYMENTS	8	Drawings	3,000	3,000	3,000	3,000	3,000	3,000
	9	Loan repayment			1,000			1,000
	10	Interest	600	600	600	550	550	550
	11	Others	1,500	1,500	3,000	1,500	1,500	3,000
	12	Planned investments				5,000		
		Money out this month	4,100	10,100	14,100	15,800	11,050	15,300
		Money present at end of month	5,400	3,800	-2,300	2,400	1,350	50

### THE CASH FLOW BUDGET

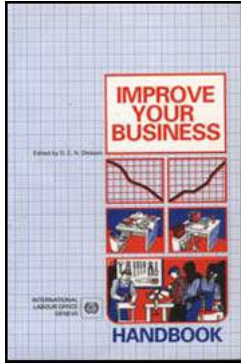
The cash flow budget shown on page 109 is a good example of what happens when a business does not have enough cash. You can see that, at the beginning of April, the business is actually 2,300 NU in deficit, and that by the end of June it has only 50 NU in hand. By making up a cash flow budget beforehand, you are able to see in advance the cash problems that you may run into. Take action in good time to avoid such a dangerous situation.

**YOUR CASH FLOW BUDGET HELPS YOU TO SEE YOUR CASH SITUATION AND TAKE ACTION**



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## **Improve Your Business: Handbook (ILO, 1986, 144 p.)**



### **7. OFFICE WORK**



**(introduction...)**



**Contact with customers**



**Business letters**



**Your information store**



**Filing**

**(introduction...)**

**Wages**

**Expenses claims**

**Data for invoicing**

**Copies of your own invoices**

**Vouchers**

**Suppliers' invoices**

**Tax file**

**Letter files**

**The business file**



**Office machines**

**Improve Your Business: Handbook (ILO, 1986, 144 p.)**

### **7. OFFICE WORK**

**The information centre of your business is the office. It is the first contact made between customers and your business, as well as the store for your bookkeeping and written work about your business.**

## **Contact with customers**

**The person who runs your office will usually be the one who answers telephone calls. Train her or him to do so clearly and efficiently. The voice on the telephone may be the first impression that people gain of your business. Remember, the staff who answer the telephone can create or destroy the image of efficiency which you are working hard to establish. Careless handling of a telephone call can make customers impatient and even result in the loss of business.**

**The following points are a guide to good telephone technique:**

- **Arrange that the telephone is answered promptly and politely. "Good morning, Betterwork Products" is much more efficient than just "Betterwork Products", and simply saying "Hello" is of no help at all.**
- **Some telephone operators answer by saying " Hold the line please". This is impolite and may lose business for you. Instruct your office staff so that they avoid such conduct. It is not professional.**
- **Members of staff who also have telephone extensions must be taught to answer the phone in the same way.**
- **Staff who are slow to answer the telephone, or who do not meet their promises to make return telephone calls to customers as quickly as they can, could also lose business for you.**

**REMEMBER: THE FIRST IMPRESSION OF YOUR BUSINESS MAY BE HOW THE TELEPHONE IS ANSWERED**



**Figure**

**THIS CONDUCT CAN LOSE YOU BUSINESS**

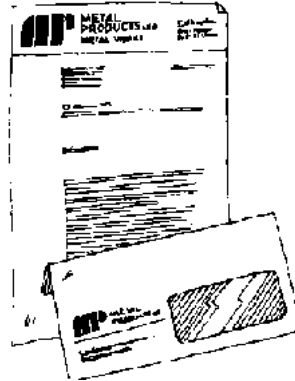


**Figure**

**Business letters**

**REMEMBER: THE FIRST IMPRESSION OF YOUR BUSINESS MAY BE HOW YOUR LETTERS LOOK**





**Figure**

**People who run their own businesses need to communicate with customers or suppliers by means of letters. The business letter may often be the first impression that people will gain of your business.**

**To produce good business letters, you must remember the following points:**

- **The first impression of a letter is important. Check the layout and presentation of your letters. Do they look good? Is the writing or typing neat? Is the letterhead neat and clean?**
- **Think out the objective of each letter you write. Is it a letter asking for money, a letter ordering goods, a complaint about poor service or a letter asking for a loan? State your objective clearly and briefly.**
- **Begin your letter with the main idea that you want to put over and avoid just writing pleasant words.**

- **Before you dictate a letter, write down all the relevant information. The easiest way to do this is to list the points you wish to make and build your paragraphs around these points.**

## **Your information store**

**The office is the place where you store all the written information and records of your business. It is very important to keep these things together neatly so that your office staff can find the information easily.**

**This means that there must be a system for collecting and storing the various types of paperwork such as letters, invoices, receipts, orders and so on. There must be one place and one place only for each of the different types of paperwork. Tidiness is essential to run your business efficiently.**

*Remember:* The tidiness of your office may also be the first direct impression gained by a customer who visits you personally.

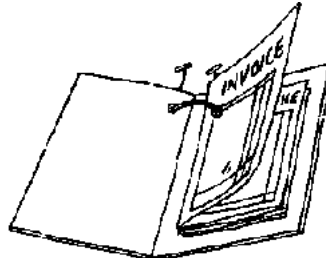
**YOUR OFFICE IS YOUR INFORMATION STORE: KEEP IT TIDY**



**Figure**

## **Filing**

### **DO YOUR FILING THIS WAY**



**Figure**

**To collect and store the paperwork of your business, you need to file the different types of papers. Do not spend a lot of money on this.**

**Box files are good but expensive. Simple folders are cheap. Holes can be punched in the folders and in the documents. The documents can then be fastened into the folders with a string. A simple filing system of this type may be adequate for your business.**

**It is essential to keep the filing up to date. Time should be set aside each day for filing the documents, and it must never be missed. Documents should be sorted in separate files under the different file headings. You can have separate files for the following items.**

**OR THIS WAY**



**Figure**

**BUT DO IT EVERY DAY**

**Wages**

**Information for calculating pay should include wage lists with the names of the workers together with their details, their total pay, deductions from pay and net pay received.**

**Expenses claims**

**Where there is a lot of travel by employees and the business pays for that travel, copies of**

**the claims for expenses must be kept.**

### **Data for invoicing**

**Information on each completed job must be stored (e.g. the details of labour and material or the customer's order).**

### **Copies of your own invoices**

**When your typist types invoices, two copies should be filed alphabetically in a file called "Invoices outstanding." This is an essential file because it represents money which will come into your business when the customer pays. When the payment is received from the customer, the two copies are stamped " Paid ". One copy is moved from the *Invoices outstanding file* to the *Invoices paid file*, which is also kept in alphabetical order. It is essential that the other copy of the same invoice is filed in number order, usually in a *Voucher file*.**

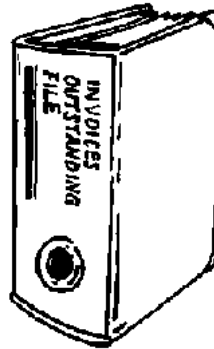
### **HOW TO DO YOUR INVOICING:**

#### **TYPE THREE COPIES OF THE INVOICE**



**GIVE ONE COPY TO YOUR CUSTOMER AND FILE THE OTHERS**



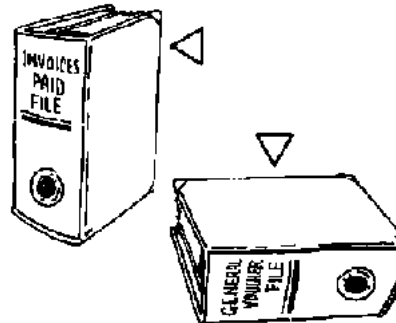


**Figure**

## **Vouchers**

**Some businesses use one General voucher file, in which all paid vouchers are stored. When money is paid or received, the relevant voucher is marked " Paid ", a number is written on it and it is filed in the Voucher file in number order.**

**WHEN THE CUSTOMER PAYS, STAMP THEM "PAID" AND FILE THEM AGAIN**

**Figure**

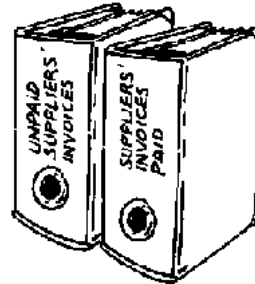
## Suppliers' invoices

These are invoices which you have received from suppliers of goods or raw materials (e.g. material for making your product) or from businesses which have supplied you with services (e.g. motor car repairs, electricity or stationery). These invoices are filed alphabetically. Many small businesses maintain two files:

- Unpaid invoices from suppliers; and
- Suppliers' invoices paid.

Once the payment is made, a note is written on the unpaid invoice stating when and by whom payment was authorised and that the details have been checked. That invoice is then transferred to the file labelled "Suppliers' invoices paid," again in alphabetical order by supplier's name.

## KEEP SUPPLIERS' INVOICES IN SEPARATE FILES



**Figure**

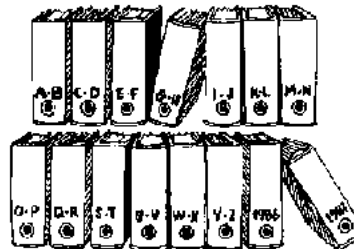
### **Tax file**

**This file is for all tax matters relating to your business and employees.**

### **Letter files**

**Even in the smallest office there should be files for incoming letters and copies of replies. Letters can be filed alphabetically according to the first letter (A, B, C, etc.) of the client's name.**

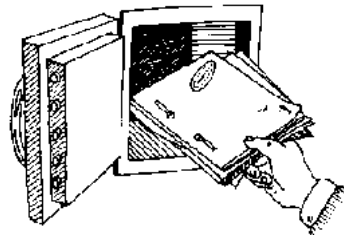
### **LETTER FILES**





**Figure****THESE ARE THE FILES YOU NEED****Figure****The business file**

**There are many more files you can buy, depending on the size and kind of your business. We will not describe these in full, but there is one particular file which we mention because it is so important for your success in business. This file is called "The business" and should be used to file the originals of all important documents relating to the business such as annual reports, board meetings, insurance policies and important contracts. The file with the originals of the documents should be kept in a safe and the file with the copies can be kept with the other files.**

**KEEP YOUR BUSINESS DOCUMENTS SAFE**

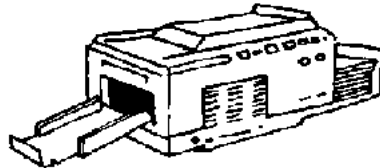
**Figure****Office machines**

**There are many machines available which can help with the office work (e.g. calculators and typewriters). Many of these machines are very expensive. However, an essential purchase for your business as soon as possible should be a typewriter. Buy the best you can afford because the letters from your office create an impression of your business in the minds of customers. As you expand, you may think it is necessary to invest in a photocopying machine. However, make sure you have enough work to make such a purchase useful; otherwise, continue to take your work to a photocopying shop until the amount of photocopying work increases.**

**FIRST, BUY A TYPEWRITER: BUY THE BEST YOU CAN AFFORD**

**Figure**

**A PHOTOCOPYING MACHINE IS USEFUL IF YOU HAVE ENOUGH WORK**

**Figure**

**REMEMBER: YOUR OFFICE MAY BE THE FIRST IMPRESSION THAT PEOPLE GET OF YOUR BUSINESS-**



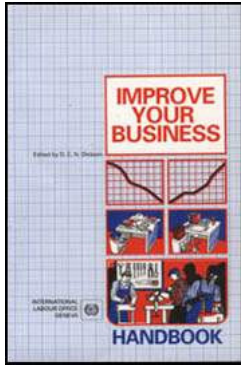
**Figure**

**ORGANISE IT EFFICIENTLY**











**Figure**

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 **Improve Your Business: Handbook (ILO, 1986, 144 p.)**

- ➔  **8. PLANNING**
  -  **(introduction...)**
  - Planning sales and costs**
    -  **(introduction...)**
    -  **Your business plan**
    -  **Estimating the sales**
    -  **Estimating the direct costs**
    -  **Estimating the indirect costs**
  - New investments**
    -  **(introduction...)**
    -  **Choosing new machines**

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## **8. PLANNING**

**Nothing in the world stands still for ever. Some businesses may go along for years in the same way and make a good living for their owners, but sooner or later they will find that they must change.**

**This is because:**

- **customers no longer want your goods - they want something new or something better;**
- **other businesses have come up which promote their products more actively than you do;**
- **machines and equipment have grown old, cost more to run and break down frequently. They must be replaced;**
- **the business is growing and it is necessary to decide how it shall grow and how much.**

**If you are wise, you will begin to think about the future long before you must do something, so that you have time to prepare yourself. Most of your days are busy with running your business, but there are evenings and other times when you can stop and ask yourself "Where do I go from here?"**

**You must start to make plans for your sales and costs for the months ahead, and think of new investments you will have to make in order to carry out your plans.**

**The sooner you start to think about the future, the more time you have to look around, get advice and find the best way to go.**

**BE WISE: THINK ABOUT THE FUTURE**



**Figure**

## **ASK YOURSELF: "WHERE DO I GO FROM HERE?"**

### **Planning sales and costs**

**Planning is thinking out, and then working out in detail, what you intend to do in a future period of time and how you expect to get there.**

**Planning for your business is similar to what you do when you set out on a journey. Before you start on a journey you plan or think out three things:**

### **PLANNING A BUSINESS IS LIKE PLANNING A JOURNEY**

#### **ASK YOURSELF:**

- **WHERE DO I WANT TO GO?**
- **HOW WILL I GET THERE?**
- **HOW LONG WILL IT TAKE ME?**

**1. *Where you want to go*** Before you start out on any journey you think out where you want to go, e.g. from London to Nairobi.



**Figure**

**2. How you will get there** Then you think out in detail how you will get there, e.g. by plane, boat or over land. You also choose which route you will follow, e.g. London-Paris-Rome-Nairobi or London-Nairobi direct.

**3. How long the journey will take, and the distance:**  
You think out how long it will take, for example:

	<i>Time taken</i>	<i>Distance</i>
London - Paris	1/2 hour	500km
Paris - Rome	1 1/2 hours	1,500km
Rome - Nairobi Total	6 hours	6,000 km
	8 hours	8,000 km

**Planning the future of your business is the same:**

**1 You think out or forecast where you want your business to go, e.g. you think you will get sales of 100,000 NU next year.**

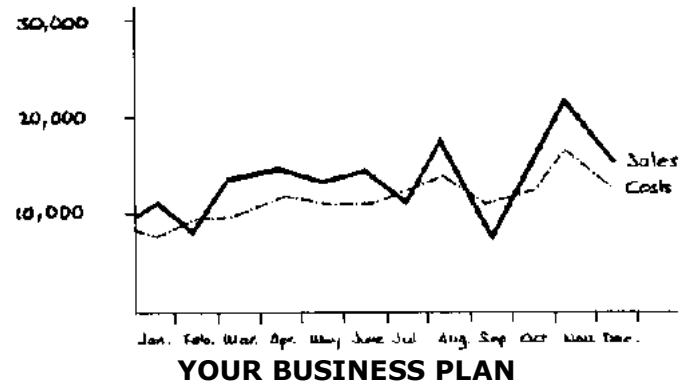
**2. Then you think out how you will get there, e.g. you will sell more of the products you already make-chairs - and add a new product - beds.**

**3. Lastly, you think out how long it will take and what you should achieve, e.g. you will make sales of 8,000 NU per month during ten months, but in each of November and December you intend to sell 10,000 NU. The annual total will therefore be 100.000 NU.**



## Your business plan





**You should make a plan for your business for the next year (e.g. 1987) or, if your business is growing fast, for the next three years. You write your plan down on paper. What you write must be your best estimate of what you think you can achieve with the resources you have in your business, e.g. with the machines, workers and cash that you have *plus your own ability*.**

**Your business plan is your estimate of the sales, costs and profit which you think you can achieve.**

**You estimate what is likely to happen to three basic parts of your business:**

- the sales;
- the direct costs; and
- the indirect costs.

**If you estimate these three elements reasonably accurately, you will have a good idea of how much profit you are likely to make.**

## **YOUR BUSINESS PLAN IS YOUR ESTIMATE OF FUTURE SALES, COSTS AND PROFIT**

### **Estimating the sales**

**Sit down and work out what you believe the sales are likely to be during the next year, i.e. for the 12-month period 1 January-31 December. You do this using your knowledge of the past year. When you do this, you are making what is called a sales *forecast*.**

**The most important thing about any sales forecast is that, if all goes well, it must be possible to achieve the figure which you estimate or guess. If it is just not possible, then that is not forecasting - it is dreaming. For example, if the business which you are in is producing stools and you have sold 2,500 of them at 40 NU (total sales 1 00,000 NU) in 1986, then it may be possible for your business to sell 3,000 in 1987 with extra sales push and some luck, but it would not be wise to make plans to sell 10,000 stools in 1987. That is unrealistic. Your business does not have the workers, the machines or even the money to expand as fast as that.**

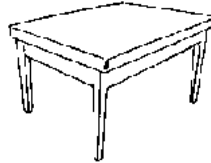
**It will be necessary to forecast the expected number of stools which you will sell in the next year, and also their value. Let us assume that you agree on a sales forecast figure of 3,000 for 1987. During 1986 you improved the quality of your stools by using better-quality wood, and made them more attractive by using brighter paint. As a result you sold more of them during the last few months of the year. Therefore you estimate that you can charge a price of 50 NU per stool for 1987.**

**Your sales forecast for 1987 is now:**

### **TO MAKE A SALES FORECAST:**

- 1 ESTIMATE HOW MANY PRODUCTS YOU WILL MAKE AND SELL**
- 2 ESTIMATE THE PRICE**

### 3 MULTIPLY THE NUMBER OF PRODUCTS BY THE PRICE



**Figure**

Estimated no. of stools 3,000 x Selling price 50 NU = Expected sales for next year 150,000 NU

**Once you have this figure, you must then decide what your sales will be during each month of the year. You know that sales are roughly the same in each month, apart from November when your sales are three times greater than normal, and April, when they are usually a little higher than normal. The first stage in making up your business plan is to fill in the monthly sales figures, as shown below.**

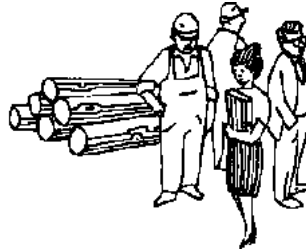
#### ALLOCATE YOUR ESTIMATE OF TOTAL SALES OVER THE DIFFERENT MONTHS



#### ENTER THESE FIGURES INTO YOUR BUSINESS PLAN

Details	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Totals
Sales	10,006	10,000	10,000	20,000	10,000	10,000	10,000	10,000	10,000	10,000	30,000	10,000	150,000

#### Estimating the direct costs



Figure

## ESTIMATE YOUR DIRECT COSTS: COST OF LABOUR AND COST OF RAW MATERIALS

The next stage is to estimate the costs of production, or *direct costs*. These are the costs of labour and materials used in actually making the stools. First, let us look at your production plan. You plan to make 3,000 stools over 12 months. You could produce each month the number you plan to sell in that month.

However, this would mean paying excessive overtime in April and November, which would be expensive.

You could get the lowest production costs by making the same number of stools each month. This number would be:

$$\frac{3,000}{12} = 250.$$

On the other hand, this involves a certain amount of "manufacturing for stock" (i.e. making stools that will remain in stock for several months before being sold). This could lead to "cash flow" problems, with cash flowing out to pay for labour and materials long before cash flows in from sales. This in turn could mean the need for a loan or an overdraft, and thus extra interest payments. So although making 250 stools each month

**may mean the lowest production cost, it does not mean the lowest total costs. In addition, the production workers each have to have three weeks' holiday during the year, so the idea of making the same number of stools each month is not very practical.**

**You know that with five production workers you can produce 220 units per month without needing overtime work (overtime is paid at 50 per cent more than regular time). You are going to take on a sixth production worker. You estimate that during the first few months of the year you are able to produce 250 units per month without paying overtime and after that, when the new worker is fully trained, 270 units. In November, to meet increased demand in December, you decide to produce 360 stools by paying overtime. Since December contains a third week's holiday, and the peak demand will be over, you aim to produce only 230 stools.**

**You now produce the following production plan:**

**ONCE YOU KNOW YOUR SALES AND DIRECT COSTS YOU CAN ESTIMATE YOUR GROSS PROFIT**

**REMEMBER: SALES LESS DIRECT COSTS GIVES GROSS PROFIT**

<b>Month</b>	<b>Starting stock</b>	<b>Production</b>	<b>Sold</b>	<b>Ending stock</b>	<b>Comments</b>
Jan.	30	250	200	80	30 units in stock
Feb.	80	250	200	130	at start of year
March	130	250	200	180	
April	180	250	400	30	
May	30	200	200	30	One production
June	30	200	200	30	worker on leave
July	30	200	200	30	during this period

Aug.	30	270	200	100	
Sept.	100	270	200	170	
Oct.	170	270	200	240	
Nov.	240	360	600	0	
Dec.	0	230	200	30	

**Now consider the production costs. The hourly wage rate, including holiday pay and all other fringe benefits, was 4.50 NU and your records of the last few months showed that each stool took 3.6 work-hours to produce. You expect that this will rise by 6-7 per cent during the next three months while the new worker gets used to the job, but this would be offset by some new tools which you will introduce to speed up the manufacturing operations. You estimate that for January, February and March you should allow 3.7 work-hours per stool, and after that 3.5 work-hours. From July you decide to give the workers a wage rise, bringing the hourly wage rate to 4.80 NU.**

**Now you can calculate your labour costs per stool:**

- **January, February and March:**  
 **$4.50\text{NU} \times 3.7 = 16.65\text{NU}$ ;**
- **April, May and June**  
 **$4.50\text{NU} \times 3.5 = 15.75\text{NU}$ ;**
- **July to December:**  
 **$4.80\text{NU} \times 3.5 = 16.80\text{NU}$ .**

**Multiply these costs by the number of stools you plan to produce each month to find your monthly labour costs.**

**You have also calculated that materials (wood, paint, glue, etc.) amounted to a cost of**

**9.70 NU per stool. You have a guarantee from your suppliers that they will not raise prices this year. Multiply the cost of materials by the number of stools you plan to produce for each month.**

**You can now fill in the next few lines of your business plan.**

<b>Details</b>	<b>Jan.</b>	<b>Feb.</b>	<b>Mar.</b>	<b>Apr.</b>	<b>May</b>	<b>June</b>	<b>July</b>	<b>Aug.</b>	<b>Sep.</b>	<b>Oct.</b>	<b>Nov.</b>	<b>Dec.</b>
Sales	10,000	10,000	10,000	20,000	10,000	10,000	10,000	10,000	10,000	10,000	30,000	10.000
Less: Production costs of which												
Labour	4,163	4,163	4, 163	3,938	3,150	3,150	3,360	4,536	4,536	4,536	6,048	3,864
Materials	2,425	2,425	2,425	2,425	1,940	1,940	1,940	2,619	2,619	2,619	3,492	2,231
Gives: Gross profit	3,412	3,412	3,412	13,637	4,910	4,910	4,700	2,845	2,845	2,845	20,460	3,905

### **Estimating the indirect costs**

**Now you have to prepare estimates of your *indirect costs*. The biggest indirect costs are for the supervisor, who receives 950 NU per month, and your secretary (part-time) who receives 350 NU per month. So indirect wages are 1.300 NU per month.**



**SUPERVISOR: 950 NU**

**Then there are all the other overhead costs. Looking at your accounts for the previous year you find the following:**

Insurance	500
Postage	800
Telephone	150
Electricity	800
Water	180
Stationery	420
Travel	840
Sundries	820

**Consider these one by one. There will be some increase because of inflation (which is, say, 10 per cent per year) and because you are now doing more business.**

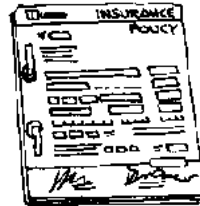




**SECRETARY: 350 NU**

### **Insurance**

**After a talk with the insurance agent you learn that insurance costs will increase to 750 NU. This is to be paid in two instalments of 375 NU in March and September.**



**Figure**

### **Postage**

**No increase in postal rates is expected. You allow 900 NU for postage, or 75 NU each month.**



**Figure**

## **Telephone**

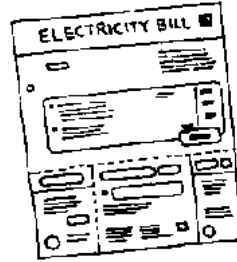
**Telephone rates are expected to increase by 20 per cent. You allow 150 NU plus 20 per cent (i.e. 180 NU) for telephone costs, or 30 NU every two months.**



**Figure**

## **Electricity**

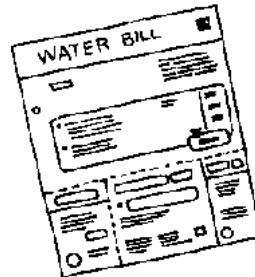
**Electricity rates are to go up by 10 per cent, and you think you should allow another 10 per cent for increased use. This will come to 800 NU plus 20 per cent, making 960 NU, or 240 NU every three months.**



**Figure**

### **Water**

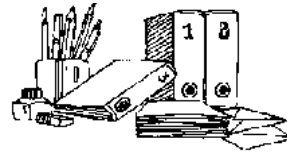
**You have no information about a water rate increase, but you reckon that you should allow for an increase of about 10 percent, say to 200 NU, or 50 NU every three months.**



**Figure**

### **Stationery**

**You allow an increase of about 20 per cent, to 504 NU, stationery costs. This comes to 42 NU per month.**



**Figure**

### **Travel**

**These costs can be held to about the same level as last year: 840 NU, or 70 NU per month.**



**Figure**

### **Sundries**

**These will rise at about the same rate as inflation (10 per cent). You decide to allow 900 NU for sundries, or 75NU per month.**



**Figure**

**You are now ready to complete your business plan as follows:**

Details	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
Sales	10,000	10,000	10,000	20,000	10,000	10,000	10,000	10,000	10,000	10,000	30,000	10,000
Less: Production costs of which:												
Labour	4,163	4,163	4,163	3,938	3,150	3,150	3,360	4,536	4,536	4,536	6,048	3,864
Materials	22,425	2,425	2,425	1,425	1,940	1,949	1,940	2,619	2,619	2,619	3,492	2,231
Gives: Gross profit	3,412	3,412	3,412	13,637	4,910	4,910	4,700	2,845	2,845	2,845	20,460	3,905
Less: Indirect costs of which:												
Staff wages	13,00	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300
Insurance			375						375			
Postage	75	75	75	75	75	75	75	75	75	75	75	75
Telephone		30		70		30		30		30		30
Electricity			240			240			240			240
Water			50			50			50			50
Stationery	42	42	42	42	42	42	42	42	42	42.	42	42
Travel	70	70	70	70	70	70	70	70	70	70	70	70

Sundries	75	75	75	75	75	75	75	75	75	75	75	75	75
Total indirect costs	1,562	1,592	2,227	1,592	1,562	1,882	1,562	1,592	2,227	1,562	1,562	1,882	
Gives: Net profit	1,850	1,820	1,185	42,045	3,348	3,028	3,138	1,253	618	1,253	16,898	2,023	

**The business plan shows that you estimate that you will make a net profit of 50,459 NU during the 12 months. Out of this you have to pay yourself, pay interest on loans, make loan repayments and build up the reserves of the business so as to finance future expansion and to have funds in reserve in case of unexpected events.**

**The above is a simple example of how a business plan is drawn up. It starts with the sales forecast and then the production plan. It takes account of changes in personnel and other changes (e.g. in prices) and brings them all together to form a general plan for your business for the next " planning period ", which is usually a year.**

**This business plan has a most important use. It is used to control the operation of your business. Each month you can make up a business report on what actually happened, and compare your actual sales, costs and profits with the figures you wrote into the business plan. Then you can decide what action you must take to improve your business.**

## **CHECK YOUR PROGRESS**



**Figure**

**IF YOU KNOW WHERE YOU WANT TO GO, YOU CAN CHECK WHETHER YOU ARE ON THE RIGHT TRACK**

### **New investments**

**As time goes on, machinery, equipment, motor vehicles, even buildings, become worn out or out of date. There comes a time when they must be replaced if output is to be kept up. If you are doing well, your business will want to grow. You will need more machines, more vehicles, bigger buildings.**

**When a machine becomes difficult to operate, makes poor work and begins to break down often, you must ask yourself: "Isn't it time to buy a new one?"**

**The workers on the machines will soon tell you of the difficulties they have. Your supervisor, if you do not run your workshop yourself, will tell you about breakdowns.**

**You must also keep good output records. Then it is easy to see when the output of a machine is falling.**

OUTPUT CARD ①	
TILE PRESS TYPE X	
MONTH	NP OF TILES PRODUCED
JAN.	20,000
FEB.	19,000
MAR.	19,000
APR.	18,000
MAY	17,000
JUNE	16,000
JULY	16,000
AUG.	16,000
SEP.	14,000
OCT.	14,000
NOV.	
DEC.	

Figure

## WHEN YOU KEEP GOOD OUTPUT RECORDS YOU CAN SEE WHEN OUTPUT IS FALLING

### Example

Suppose you are the owner of a tile press which has been regularly making 1,000 tiles a day. During the past year the workers on the press complain of difficulties; there are more spoiled tiles.

Breakdowns and repair bills are getting bigger, and the daily output is now only about 700 tiles a day.

You sell the tiles for 2 NU a tile. In the past you made and sold 5,000 tiles in a five-day week, which brought in 10,000 NU a week. Now, with an average of 700 tiles a day, the machine is making only 3,500 tiles a week. Income is down to 7,000 NU a week, so you are losing 3,000 NU a week, or 144,000 NU in a 48-week year. That is a lot of money. If



**you used to make 30 per cent profit on an output of 5,000 tiles a week (i.e. 3,000 NU), you do not make a profit any more. The time has come to replace your press.**

**You must first get information about new tile presses of different makes and compare their prices and outputs. It helps if you can see some of the presses in operation or learn about them from people who have used them.**

**A modern press will certainly do better than an old press like the one you have. If the press you like costs 150.000NU, including shipping, import duties and installation, and can make 6,000 tiles in a five-day week, you will get 2,500 more tiles a week than you are getting from your old press, i.e. 5,000 NU a week more and 240,000 NU *more* in a year (48 weeks).**

**This is a great difference. You will be able to recover the money which you invested in the new machine in two or three years, and costs or repair will also be much lower. You will have fewer breakdowns and higher-quality tiles.**

#### **BEFORE MAKING ANY INVESTMENT:**

- **GET INFORMATION**
- **COMPARE PRICES AND OUTPUTS**
- **TRY TO SEE THE EQUIPMENT YOU WANT IN OPERATION**

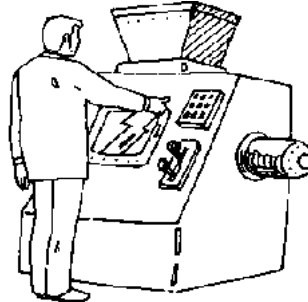
*Note:* Every case is not as clear as this one, which has been made simple. That is why it is very important to keep good records of output, repair bills and so on for each important machine. Only then do you have good information in order to be able to compare old with new and decide when to replace.

#### **Choosing new machines**

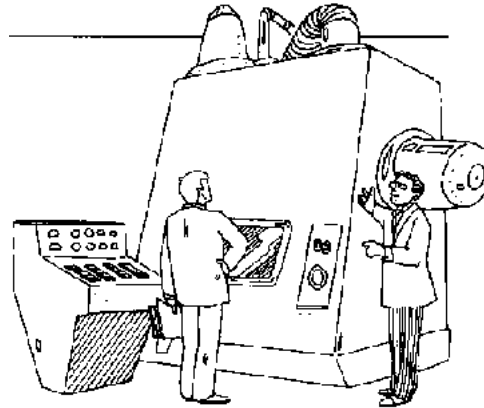
## **DO YOU HAVE THE KNOWLEDGE TO JUDGE WHAT IS BEST FOR YOU?**

**Not many owners of small businesses have the technical knowledge to be able to make a choice between many different machines, which may be much more modern than the ones they know.**

**They are often persuaded by sales representatives to buy machines and other equipment which are too big or in other ways not the best for their needs. Sales representatives may be more interested in making the biggest sale than in selling exactly what is best for you. Be on your guard! If you choose badly, you are wasting your money.**



**WHAT YOU WANT**



### **WHAT THE SALES REPRESENTATIVE WANTS TO SELL YOU**

**When you buy an important new machine, you are buying not only for today but for the future. Some of the questions you must ask yourself are:**

- **Do you want a machine or piece of equipment of the same type, and with the same output, as the one you have?**
- **Do you think you will have the same or a bigger demand for your products in the next five years? How much bigger?**
- **Is there a newer process, cheaper and perhaps easier to operate (with less-skilled workers), which is now used instead of your old machine and process? Have you looked at it?**
- **Can your workers operate the new machine without additional training? If not, where can they be trained? Locally? At the manufacturer's business?**

- **Will the new machine work with your present raw materials? If not, will you be able to buy the new type of raw materials easily, and at what cost?**
- **Is there any company in your country or nearby which has the new machine or process you are thinking of buying? Can you go and look at it when it is working and learn about it?**

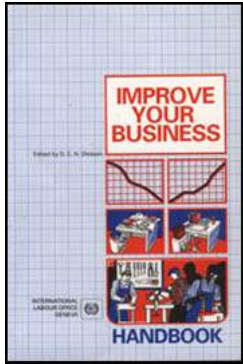
**Once you have got quotations for your new machine or equipment, you should:**

- **get written guarantees of output and quality of production. Even then, check with someone who has used the machine;**
- **check on the delivery date. Do not trust promises that look too good;**
- **buy enough spare parts and make sure they are the ones you will need most. Find out if you can get servicing and spares in your country or from nearby;**
- **obtain detailed instructions on operation and maintenance;**
- **make sure you get the best terms for installation and start-up;**
- **try to obtain advice from a Small Business Centre, a technical college or a consultant.**

*Remember:* Buying new capital equipment is a very serious matter and if you are not careful you can waste a great deal of money - *your* money!



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## 📖 **Improve Your Business: Handbook (ILO, 1986, 144 p.)**

📄 **(introduction...)**

📄 **FOREWORD**

📄 **WHAT IS IMPROVE YOUR BUSINESS?**

📄 **FOR YOU IN BUSINESS**

📄 **1. BUYING AND SELLING**

📄 **2. MANUFACTURING AND SERVICE OPERATING**

📄 **3. BOOKKEEPING**

📄 **4. COSTING AND PRICING**

📄 **5. MARKETING**

📄 **6. MANAGEMENT ACCOUNTING**

📄 **7. OFFICE WORK**

📄 **8. PLANNING**

➔ 📄 **ENDPIECE**

📄 **BACK COVER**

## **ENDPIECE**

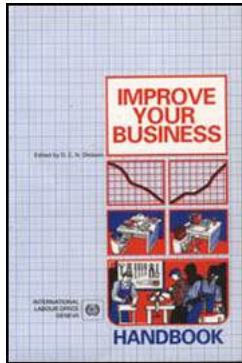
**What we have said in this *Handbook* is:**

- **Earn more profit by getting more *money in* and paying less *money out*.**
- **Remember that better selling increases *money in*. Better buying reduces *money out*.**
- **Reduce waste-waste of material, time, labour and money.**

- **Keep good records of sales, costs and production. That is how you can control your business.**
- **Know your costs and you can set your prices. Then you can compete better.**
- **What matters is what gives your customers satisfaction.**
- **Remember that profit is an idea but cash is a fact. Make sure you always have enough cash in your business.**
- **Organise your office efficiently - it is your business image.**
- **Plan for the future and you will avoid unpleasant surprises.**



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-  **BACK COVER**

## **BACK COVER**

### **IMPROVE YOUR BUSINESS HANDBOOK**

**Do you own and run a small business? Are you looking for ideas on how to improve sales, reduce costs, increase profits and use simple management techniques suitable for a small commercial manufacturing or service business? If your answer is "yes". Improve your business is for you!**

**Improve your business comes in two parts: a Handbook and a Workbook. You can use them separately, but they are best read together. Both consist of eight sections, each dealing with an important part of your business: buying and selling; manufacturing and service operating; bookkeeping; costing and pricing; marketing; management accounting; office work; and planning. Each section of the Handbook corresponds to a section in the Workbook, so that you can easily go from one to the other.**

**The Handbook, which you are holding now, give you all the basics to succeed in business, and includes many practical examples and tips. If you want to test your knowledge of your own business, turn to the Workbook.**

**Improve your business can equally well be used by trainers, consultants and extension workers.**

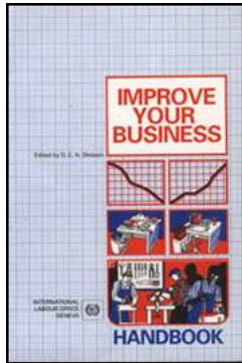
**Price: 12.50 Swiss francs**

**ISBN for Handbook: 92-2-105341 -5**

**ISBN for complete set of two volumes: 92-2-105342-3**



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 *(introduction...)*

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 **WHAT IS IMPROVE YOUR BUSINESS?**

**FOR YOU IN BUSINESS**

**1. BUYING AND SELLING**

**2. MANUFACTURING AND SERVICE OPERATING**

**3. BOOKKEEPING**

**4. COSTING AND PRICING**

**5. MARKETING**

**6. MANAGEMENT ACCOUNTING**

**7. OFFICE WORK**

**8. PLANNING**

 **ENDPIECE**

 **BACK COVER**

## **FOREWORD**



**In recent years there has been an upsurge of interest in the role of small-scale enterprises as providers of employment and contributors to gross national product, and as a key component in economic development. This has been accompanied by the corresponding appearance of numerous publications on how to run small businesses. Given this, what is the justification for another book on the subject?**

**There are few publications which are simple enough to be understood easily by people with limited formal education but which can still communicate all the basic management knowledge required by entrepreneurs if they are to run small businesses successfully. This book is an attempt to fill this gap.**

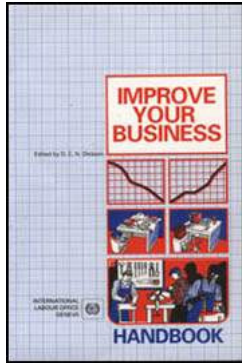
**The underlying idea of the book is that improvements can best come from active and creative thinking by entrepreneurs about their own businesses. The purpose of this material is therefore to encourage such creative thinking and motivate entrepreneurs to take action to improve their businesses.**

**The material can be used equally well by individual business people or by trainers giving small business seminars and workshops.**

**The writing and publication of this book, as well as field testing of earlier versions in eastern Africa, was made possible by financial assistance from the Swedish International Development Authority (SIDA). The main author and editor of this edition of *Improve your business* is D. E. N. Dickson, ILO Chief Technical Adviser in Nairobi. He was assisted by Henny Romijn and Per Linden. Many of the ideas in the *Handbook and Workbook* owe their origin to the earlier work of the late Rhys Wynne-Roberts, who devoted so much time and effort to adapting the original idea conceived by the Swedish Employers' Confederation. Acknowledgement is also due to many other colleagues in the ILO Management Development Branch, the Kenya Industrial Estates and other organisations, for the comments and suggestions on how to focus and present this material.**



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## **Improve Your Business: Handbook (ILO, 1986, 144 p.)**

 **(introduction...)**

 **FOREWORD**

### **WHAT IS IMPROVE YOUR BUSINESS?**

 **FOR YOU IN BUSINESS**

 **1. BUYING AND SELLING**

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 **ENDPIECE**

 **BACK COVER**

## **WHAT IS IMPROVE YOUR BUSINESS?**

***Improve your business* is about running small businesses. It has been written for retailers, wholesalers, manufacturers and operators of services such as repair services, laundries, dry cleaners and restaurants. Although in a small book like this we cannot hope to deal with the special conditions of each different trade, most of what we say can be used in many different trades or branches of industry. We have given examples from trade,**

**manufacturing and service industries.**

***Improve your business* is material for you to work with. It comes in two parts: a *Handbook*, which you are reading now, and a *Workbook*. They are best read together but they can each be useful if read separately. We recommend that you start using the *Workbook* and when needed turn to the *Handbook* for assistance.**

**Both the *Handbook* and the *Workbook* consist of eight sections, each of which deals with an important part of the management of your business. Each section of the *Handbook* has a corresponding section in the *Workbook*. The sections stand on their own and can be read separately.**

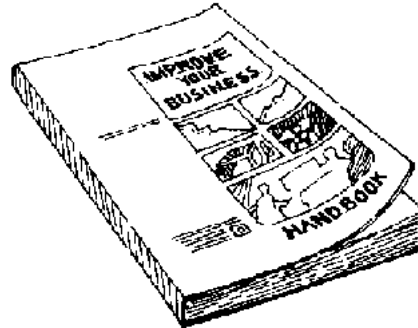
**A IMPROVE YOUR BUSINESS IS FOR:**

**RETAILERS**

**WHOLESALEERS**

**MANUFACTURERS**

**OPERATORS OF SERVICES**



## GIVES YOU MANAGEMENT IDEAS

### THE HANDBOOK

The *Handbook* talks very simply about some of the important things that you must know and understand if you are to make your business work well over a long time. It is not a textbook, but you can get some interesting and useful ideas from the *Handbook*. The sections are set out in the same order as the sections in the *Workbook*, so that you can easily go from *Workbook to Handbook* or from *Handbooks Workbook*.

### THE WORKBOOK

The *Workbook* will make you think hard about your business; it will do this by asking you a number of questions about your business and the way you are running it. In each section of the *Workbook* there is a list of simple questions to which you answer "yes" or "no". The answers you write will tell you how much you know about the strengths and weaknesses of your business.

The *Workbook* will also give you the possibility of learning more about the financial and practical sides of the business by means of simple exercises in business practice.

**If you want to improve your management skills after going through the *Workbook*, you should then read the management ideas which we put in the *Handbook*.**



**TELLS YOU YOUR STRENGTHS AND WEAKNESSES**

### **WHERE TO START**

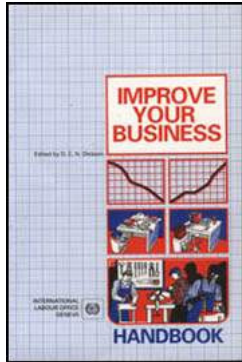
**We recommend that you start by going through the section which deals with that part of management which you think is weakest in your business.**

**If you do not know the strong and weak points in the management of your business, you can find this out by filling in the sheet called " Finding out your strengths and weaknesses" which is placed behind the introductory section, " For you in business ". We advise you to fill in this sheet before you start using *Improve your business*.**

*Note:* Since this book is intended for use in many different countries, we have used the term " NU " in the examples to represent an imaginary " national unit of currency".



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 **Improve Your Business: Handbook (ILO, 1986, 144 p.)**

➔  **FOR YOU IN BUSINESS**

 **(introduction...)**

 **Your aims in business**

 **You and your business**

 **The business and profit**

 **You and improve your business**

 **Finding out your strengths and weaknesses**

**Improve Your Business: Handbook (ILO, 1986, 144 p.)**

**FOR YOU IN BUSINESS**

**It is for you in business that we have written *Improve your business*. Why? Because every business has scope for improving its sales and profits.**



**Figure**

**Even if your business is already doing very well, there are always things which can be done in a better way which you may not have thought of.**

**It is *you*, as the owner/manager, who has to make those improvements. You are the person who is responsible for everything that goes well and for everything that goes wrong in your business. You are also the one who sets the example to your employees.**

**All this means that you have to understand the working of your business very well, and also that you must be capable of putting that knowledge to good use by applying it in the actual management of your business. This is where *Improve your business* can help you. When you go through this *Handbook* you will acquire all the basic knowledge which you require to succeed in business. At the same time you will find that the material can help you to improve your management skills so that you can put your management ideas into**

**practice.****Your aims in business**

**Before you start reading *Improve your business*, sit down for a while and think carefully about your business. Ask yourself what your aims are. Do you know exactly what you want to achieve with your business? Have you thought of what your activities in the market should be? Whom do you want to reach with your products or services? Do you know who your competitors are? Do you produce your goods or services in the most efficient way? Where do you want to go with your business in the future?**

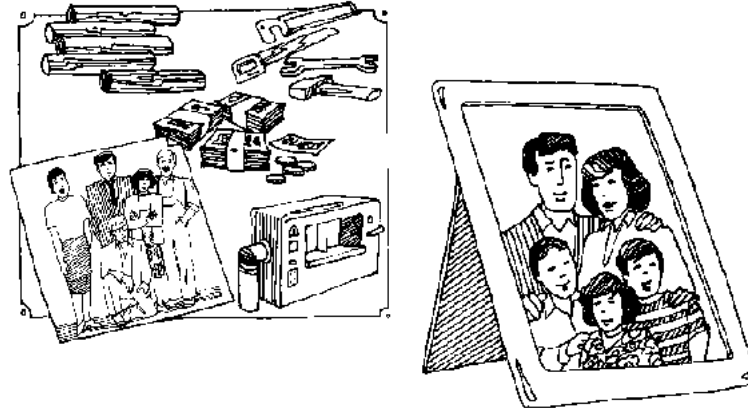
**Having a clear idea about your goals in business is very important when you plan your business activities. Only if you know where you want to go will you make good use of your resources and be successful in business.**

**You and your business**

**To run any business means that you gather together things and people and put them to work to earn money for you. These things may be in the form of your own personal skill, the money you have saved, borrowed money, machines and raw materials and the skills of the people who work for you. If you are to earn your living from the business, then you must employ these things and people in a good way. This means that you must learn to think of these things and people as a separate group of assets called "the business". The business assets must be kept separate from your own private assets and from the members of your family.**

**BUSINESS AND  
FAMILY: KEEP THEM  
SEPARATE**





**Figure**

### **The business and profit**

**The major objective for being in business is to make a profit (or "a surplus", as some people prefer to say). Profit is made when the money which flows into your business is greater than the money which flows out. The greater the difference between *money in* and *money out*, the greater is the *profit*.**



1. Money in  
from sales



2. Money out  
for costs



3. Profit is  
what is left

### HOW PROFIT IS MADE



Money in



– Money out



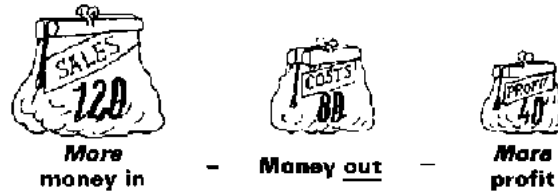
= Profit

Now you know how profit is made:

**You and improve your business**

**If you read the ideas in this *Handbook* and think about them, you will know how to do two things:**

**1. You will know simple techniques which will help you to expand your market and increase your sales. Your sales will grow bigger, as you can see below:**

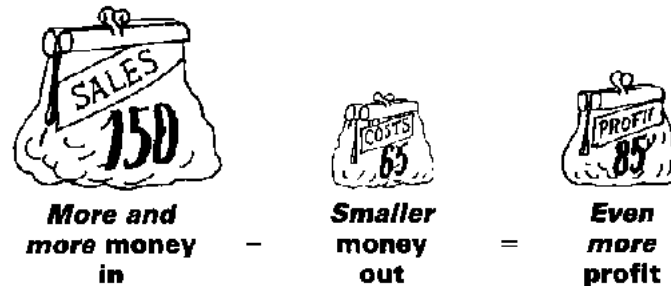


Figure

2. You will understand what are the various types of costs which your firm will have to pay. By understanding these costs you will be able to keep them under control and maybe even cut some of them.

If you can learn to do this even in a small way, you will control the money which flows out of your business. Your costs will become smaller.

In these ways you will earn a greater surplus or profit from your business and you will make your business more successful.



Figure

**Finding out your strengths and weaknesses**

**Before you start using *Improve your business*, you may wish to find out about your performance in business. You can get a rough idea about your strengths and weaknesses by answering the questions below. Each question concerns one area of management and corresponds to one particular section of *Improve your business*. For example, question 1 corresponds to section 1, question 2 to section 2 and so forth. Find out from your answers in which area(s) of management you are weakest and start reading the corresponding sections of *Improve your business*.**

How good are you at...	Good	Average	Bad
1. Buying, selling and stock control?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Production management and production technology?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Bookkeeping?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Costing and pricing your products or services?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Marketing?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Management accounting?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Planning your business activities?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. Organising your office?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>



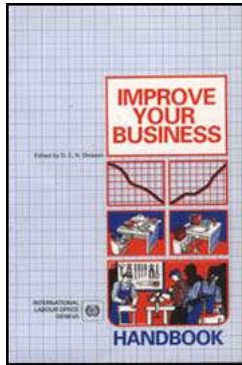
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**Improve Your Business: Handbook (ILO, 1986, 144 p.)**

➔ **1. BUYING AND SELLING**

**(introduction...)**

**Selling**



- (introduction...)**
    - Retail and wholesale selling**
    - Industrial selling**
  - Buying to sell**
    - (introduction...)**
    - Retail and wholesale buying**
    - Industrial buying**
  - Stock control**
    - (introduction...)**
    - The rules of stock control**
    - Unit stock control**
    - Value stock control**
    - Some special situations**
  - Handling cash**
    - (introduction...)**
    - How to control cash**
    - The cash register**
    - The rules of cash control**
    - Good bookkeeping**

**Improve Your Business: Handbook (ILO, 1986, 144 p.)**

## **1. BUYING AND SELLING**

**All businesses must buy and sell to make a *profit*. The profit is made by buying at a low price and selling at a higher price.**

- **Good selling can increase your sales**
- **Good buying can decrease your costs**
- **This means: bigger profit**

**Retail and wholesale traders buy goods at a low price which they store, pack and distribute to sell at a higher price. This is the way they make a profit. They can work out whether they have made a profit (or a loss) in this way:**

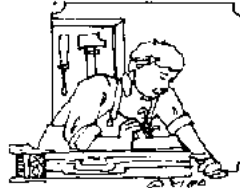


**Figure**

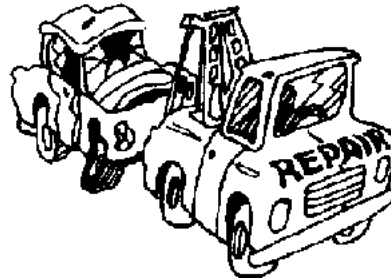
	Sales of goods		500
Less:	Buying costs of goods		300
	Difference or gross profit		200
Less:	Other costs		
	Rent of shop	60	
	Wages	100	160
	Surplus or net profit		40

**Manufacturers buy materials and parts which they make into goods using labour, machines and power. They then sell the goods at prices which must be higher than their**

**total costs. This is the way they make a profit.**



**Figure**



**Figure**

***Service operators* sell services such as transport, repairing or cleaning. Like manufacturers, they use labour, machines and equipment and sometimes vehicles, fuel and power. The prices they charge for their services must be higher than their total costs. This is the way they make a profit.**

**Manufacturers and service operators can work out whether they have made a profit (or a loss) in this way:**

	Sales of goods or services		500
--	----------------------------	--	-----

Less:	Buying costs		
	Raw materials	150	
	Labour	100	250
	Difference or gross profit		250
Less:	Other costs		
	Rent for workshop	60	
	Salaries and office costs	75	135
	Surplus or net profit		115

## Selling

**The more you know about your customers and what they want, the more you will sell and the bigger can be your profit.**

### Retail and wholesale selling

**The first step towards increasing your sales is to attract more people into your shop or store. Then, encourage them to stay and examine your goods, so that they buy as much as possible. To do this, your shop must be:**

- **well lit;**
- **clean and fresh looking;**
- **nicely decorated; and**
- **with the goods well displayed.**

**You should also have an attractive sign outside. None of these things take much money but they *do* help to increase your sales.**



**To sell their goods well, traders must:**

- **know who their customers are; and**
- **make sure they have the goods of the quality the customers want at prices they can afford to pay.**



**Figure**

**AN ATTRACTIVE  
SHOP IS:**

**WELL LIT  
CLEAN AND  
FRESH-LOOKING**

**NICELY DECORATED  
WITH THE GOODS  
WELL DISPLAYED**

## **WITH AN EYE-CATCHING SIGN OUTSIDE**

### **Note:**

**People will buy from the shops which:**

- **sell the goods of the quality they want at the lowest prices;**
- **sell goods which other retailers do not sell.**

**Customers must be able to see the goods they want. Sometimes retailers can make people buy the goods they want to sell by putting them at the front of their counters.**

**If your stocks of some goods are low, put them to the back of the shop. The people who really want them will ask. The others will not see them.**



**WHAT CUSTOMERS SEE, THEY WANT TO BUY**

**Try to write down those goods which sell well and those which do not. In this way, you will understand better your customers' wants and you will not waste money buying goods which you cannot easily sell.**

**If there are other retailers selling the same goods as you in the town or in the market, go and see from time to time what they are selling. See whether-**

- **their prices are the same as or higher or lower than yours;**
- **their goods are better set out and easier to see;**
- **they have some articles which you do not have;**
- **the goods are of better quality than yours.**

**If you think some other shops do better than you, don't just copy them-do *better still*.**

## **GET IDEAS FROM COMPETITORS**

### **Industrial selling**

**Manufacturers or operators of services who know their markets well are more likely to be successful than those who do not know very much about their markets.**

**The most successful business people are those who study the market and set out to meet its demands.**

**What does your market look like?**

**You must find answers to the following questions:**

- **what the products are;**
- **who the customers are;**
- **where the customers are;**

- how many customers you hope to sell to; and
- how much they buy.

**Find out the answers to these questions by doing simple market research. Do the following:**



**talk to your customers;**



**ask what they like;**

**MARKET RESEARCH  
MEANS:**

**LOOK, ASK, TALK  
AND GET**

**INFORMATION**



**look at competitors;**



**look at what people buy;**



**get information about your products or services.**

**Offer something different from your competitors, such as different sizes, different colours or different packaging. But do not be too different unless you are sure that it will sell.**

### **Buying to sell**

**Before you can sell you must buy. How well you will sell depends on how well you have bought.**

**Intelligent buying can reduce your costs and make more profit for your business.**

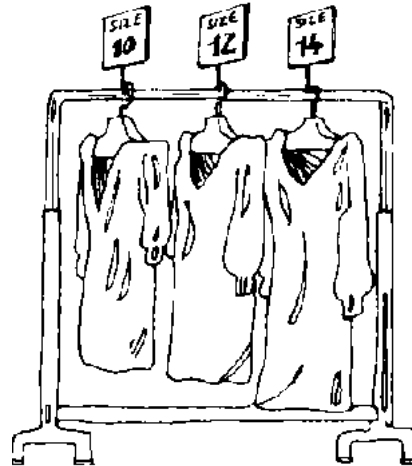
### **Retail and wholesale buying**

**Before you can buy you must know to whom you are selling and the sort of goods they want. As you have read in the section on selling: *You must know your customers.* For a retailer or wholesaler, intelligent buying means to buy goods:**

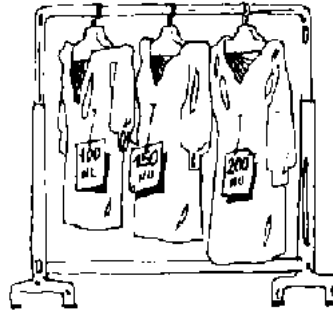
- **of the *types* and *sizes* that your customers want;**
- **at *buying prices* which are low enough for you to add a reasonable profit, while your customers are able to afford your selling prices;**

- in *quantities* such that you have the goods in stock when needed, but not so many that your money is tied up for a long time.

## GOOD BUYING MEANS



**RIGHT TYPES AND SIZE**



**RIGHT PRICES**



**RIGHT QUANTITIES**

**If you are a small trader, you may have to buy in small quantities. Big traders who buy in big quantities can buy from manufacturers or get big discounts from wholesalers, but on small quantities you cannot get discounts. You may even have to buy from other retailers. Your profits will be small.**

**You may even be tied to one supplier who gives you credit. Even if you know that other**



**suppliers' goods are better or cheaper, you cannot go to them because you are always in debt.**

**There is no easy way out of this. You already work very hard but this is not enough. You must use your brains.**

**Be hard on yourself and your family. Save every NU you can until you have enough to pay cash for your supplies and can choose your supplier.**

**Once you are free to choose your supplier, find out the ones who can give you what your customers will buy-and make sure you know what they want.**

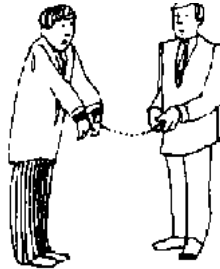
**Compare what different suppliers can offer in the way of:**

- **prices;**
- **delivery;**
- **discounts;**
- **credit;**
- **quality; and**
- **something different.**



**Figure**

**DON'T BE TIED TO ONE SUPPLIER,**



**Figure**

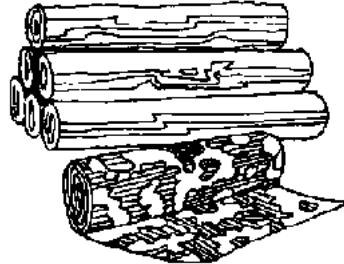
**COMPARE SUPPLIERS!**

**Choose the supplier who gives you the best in terms of prices, quality and delivery.**

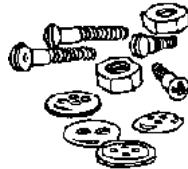
**Industrial buying**

**For manufacturers or operators of services, the way they do their buying has a big influence on whether their businesses are profitable. If they buy well, their prices can be lower, the quality will be better and they will be more competitive.**

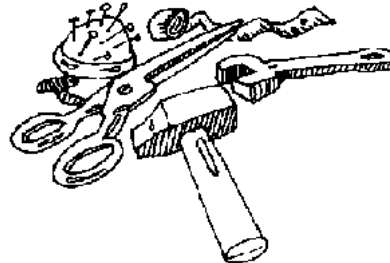
**One way in which you can improve your buying is to break down your purchases into three groups as follows:**



- **Raw materials (wood for the carpenter, cloth for the tailor)**



- **Manufactured parts (locks, buttons for shirts)**



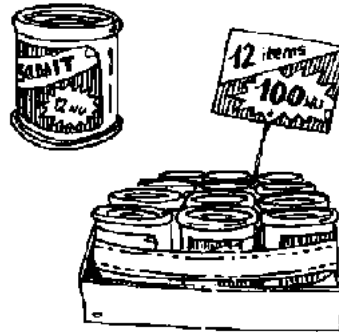
- **Equipment for your own use (tools, etc.)**

**Raw materials need not be stored in your own storeroom. You can often make a special**

**arrangement with your supplier so that you can have the raw materials delivered just when you need them. In this way, you do not tie up money for storage. If raw materials are in your store-room too long, sell them off even at cost price. Manufactured parts are often cheaper if they are bought in larger quantities. If you can buy one dozen, this will be cheaper than if you buy one single item.**

**Can you buy bigger quantities jointly with other people and get a discount for quantity?**

**Tools and other equipment for your own use must always be available. When they are broken, replace them immediately.**



**Figure**

## **HOW TO BUY**

1. Examine your needs



**THINK!**

- How much do I need?
- What



Figure

2. Find the supplier



Figure

3. Ask for quotations from several suppliers



- quality do I need?**
- **What price do I pay?**
- **When do I need the goods?**
- **Look in telephone book**
- **Ask friends in trade**
- **Look in trade directory**
- **Contact Chamber of Commerce**
- **Telephone them**
- **Write to them**
- **Visit them**



Figure

- **Get written quotations**

4. Negotiate terms and then buy



Figure

- **Talk with each supplier**
- **Compare their prices**
- **Ask for lower prices**
- **Ask for discount**
- **Check all deliveries**
- **Examine their condition**
- **Check the delivery notes**
- **Check the**

5. On the day the goods arrive, *check* quantity, quality and price against delivery note





**storage**

Figure

6. If you have any complaints, complain to the supplier immediately



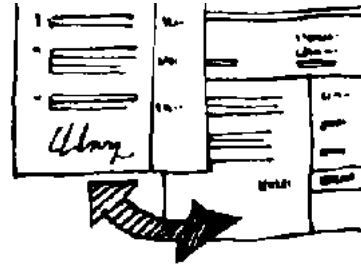
- **Contact the supplier himself**
- **Explain the problem**
- **Ask for a solution**
- **Get it in writing**

Figure

7. Check your invoices against the delivery note when it arrives



- **Check the prices**
- **Check the quantities**



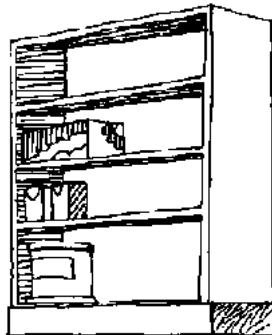
- Check the discounts
- Check the additions

**Lastly, there are always new materials, parts and tools being introduced. *Keep yourself up to date.***

### **Stock control**

**Stock control means keeping a check on your stock of goods, materials and parts. With good stock control you can:**

- make sure you do not run out of stock;
- make sure you do not hold too much stock of any item.





## **TOO LITTLE STOCK**

### ***Why your business can run out of stock:***

- because you have forgotten to order goods or materials to replace those sold or used;
- because you have ordered too late;
- because you did not know stocks were low.

### ***Why it is bad to run out of stock:***

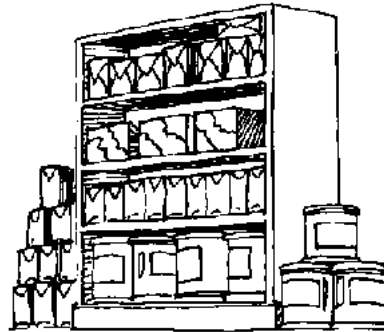
- because if you run out of stock and must say "no "to customers, they may go to competitors and may not come back to you again.

### ***Why your business can hold too much stock:***

- because you do not know which of your goods are not selling well, and stocks are piling up;
- because you do not know how much stock you have, if your stock is not easy to see and count;
- because you do not check regularly how much stock you have in your store.

### ***Why it is bad to hold too much stock:***

- because if you keep much larger quantities of stock than you need, you have tied up money which you could be using more profitably.

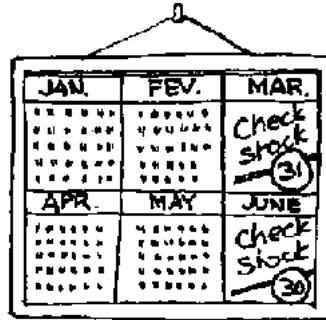


**TOO MUCH STOCK**

## **The rules of stock control**

### **RULE 1 - CHECK YOUR STOCKS REGULARLY**

**How often you do so-once a month, once a week or even once a day-depends on your type of business, how fast your stocks move and how much stock you keep. If you keep your stocks at low levels because you want to keep down the amount of money tied up, you must check often.**



### CHECK STOCKS REGULARLY

Take note of goods and materials which are selling fast and those which are selling slowly.

### RULE 2 - SET OUT YOUR STOCKS WELL SO THAT THEY ARE EASY TO SEE AND COUNT

If the stocks are mixed up, they will not be easy to see and will be very difficult to count.



## **Stocks mixed up**



**Stocks well set out**

### **SET OUT STOCKS WELL**

#### **RULE 3 - AS THE NUMBER OF STOCK ITEMS INCREASES, SET THEM OUT IN THEIR SEPARATE GROUPS**

**Dresses must be stored by type of dress, model and size. The sizes must be clearly marked. Items such as cans of paint must be set out by maker, size, if there is more than one size (1/2 litre, 1 litre, 2 litres, etc.), and colour.**

**Small items - screws, nuts, washers, fuses and so on-may be kept in small boxes, one for each article and size. The name must be marked on each box (e.g. Brass screw, 4 mm x 30 mm). The boxes must be stored by item and size. Whatever stock control system you use, your shelves and stock room must be kept in order.**

**If you have only a few different stock items, you will not need written stock records. You can simply look at the separate groups, count them and see whether you need to reorder**

**some items, or whether you have overstocked some goods which are not selling.**



**SET OUT STOCKS BY SIZE**

**RULE 4 - WHEN THE NUMBER OF STOCK ITEMS GROWS TO MORE THAN 20, KEEP SIMPLE WRITTEN STOCK RECORDS**

**When you have many stock items, it takes too much time to count them. They will also be difficult to find. Write them into a book or on cards. Read the next section to find out how.**



**KEEP STOCK RECORDS****Unit stock control**

**Manufacturers as well as service operators and retailers can use a unit stock control system. This type of stock control is called *unit stock control* because it shows the number of units or articles which are in stock. Under this system you have a card for each of the different types of stock.**

**Here is an example of a stock card for retailers. The system works in exactly the same way for a manufacturer or service operator.**

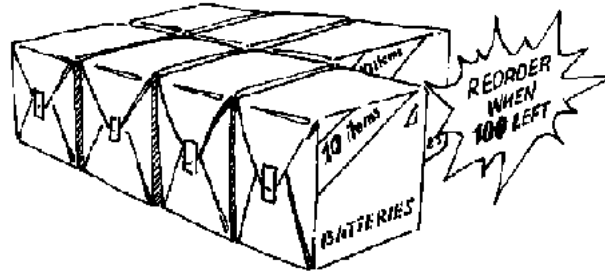
**Each time you buy or sell batteries, you enter the date and particulars on the card.**

**The Balance column is adjusted to show how many batteries are still in stock.**

**When do you reorder your batteries? To find out, you must know-**

- **how many batteries you sell every week or every month;**
- **how long it takes you to get delivery of batteries.**

**You find from the above stock card that you sell 40 batteries each week. Your supplier can deliver the batteries one week after you have given him your order. Therefore, you should order when your stock is 100 or below. This gives you 40 in hand for the week's delay and 60 more in case they do not come on time or you sell more than 40 in the next week. So 100 is your *reorder level*.**



**REORDER WHEN 100 LEFT**

### Value stock control

If you are a retail trader you can use a simple stock control system which tells you the *total value* of all the goods which you have in stock rather than the number of units.

In all shops, goods are purchased at a lower *price-the cost price-and* resold at a higher *price-the selling price*. When you keep stock records, you want to know either how much your business would get if all the goods than are in stock were sold, or how much has been paid by you in total for all the goods in stock.

The easiest method is to record the value of all your stock at *selling price*. It is easier to use selling prices since they are marked on the goods which customers buy and they are used when sales are recorded.

The easiest way to record your stock is to use a stock control book as below:

Stock control book				
Month	January			
	1986			
Date	Particulars	Increase in stock (value)	Decrease in stock (value)	Balance stock in hand

Date	Particulars	Increase in stock (value in)	Decrease in stock (value out)	Balance stock in hand (value)
1 Jan.	Opening stock			43,250
2 Jan.	Sales		3,200	40,050
3 Jan.	Purchase			
	Goods Ltd.	3,000		43,050

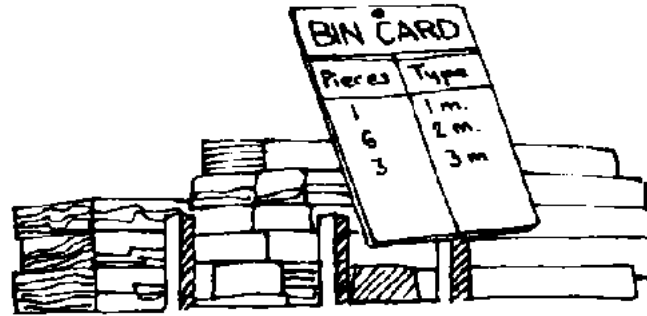
**The entries in the book are the same as the entries on the stock cards above, except for the fact that the entries are made in value instead of units.**

### **Some special situations**

**Some items, such as wooden planks, steel rods, sheets of metal and bolts of cloth, are difficult to count quickly and easily. In these cases, the solution is to have a *bin card*. This card contains all the information needed about the item, and is kept with each item on the rack, shelf and so on.**

**Every movement, in or out, of the item is recorded on the card. When the *reorder level* is approached, you reorder the item. Note the hole at the top-it can be tied to a nail or drawer handle.**





### USE BIN CARDS FOR SPECIAL ITEMS

No. 62 0		BIN CARD	
Name: Steel bars			
Unit: Metre			
Reorder at 2,000 metres			
Date	In	Out	In stock
13 Oct.			3,200
14 Oct.		1,000	2,200
18 Oct.		700	1,500 reorder!
22 Oct.	5,000		6,500

**Small items, such as nails, washers and so on, are very tedious to count. One way of handling them is to count out or weigh out the reorder level quantity into a paper or plastic bag, and put the bag at the back of the drawer, shelf or bin. When you have to open the bag to serve a customer, you know it is time to reorder.**

**Slow-moving stocks take up space that you may want for goods which sell well. Try to sell**

**them off as special offers at reduced prices.**



**WHEN YOU OPEN THE BAG: REORDER!**

**If they are very old, sell them off at cost price or give them away.**

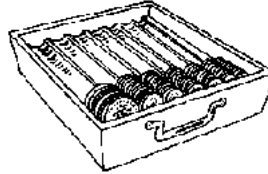


**Figure**

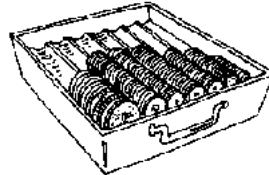
### **Handling cash**

**You must know exactly how much cash you take in and how much you give out - and how you spend it.**

MORNING: 100



EVENING: 300

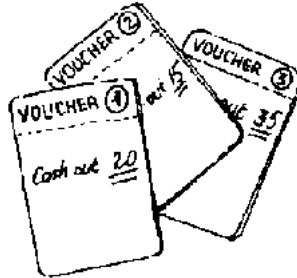


NET TAKINGS: 200

**Figure**

**A simple way to control your cash is as follows:**

- 1. Count your amount of money when the business opens in the morning. Whenever you take in cash, put it in the drawer. Each time you pay out cash, write out a cash voucher.**
- 2. Count the amount of cash again at the end of the business day.**
- 3. The difference between the amount in the morning and the amount in the evening is called your *net takings*.**
- 4. Add up your cash vouchers. This gives the *total cash paid out* during the day. Remember that this cash has been taken from the cash drawer, and so must be added on to the net takings to show the total cash which has come into the business during the day.**



Figure

Vouchers	70
plus: Net takings	200
Total cash in	
from sales	
during the day	270

**5. Add the total of the vouchers to your net takings. This gives you the *total cash* which has come in from sales during the day.**

### How to control cash

**It is easier to control the cash coming in and the cash going out if you write down the details of every sale and payment in a *cash book*.**

**If you have a bank account, you can also add columns for *Bank in* and *Bank out*.**

**Your cash book can look as follows:**

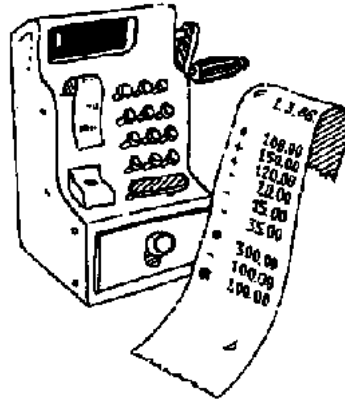
--	--	--	--	--	--	--	--	--	--	--

Date	Details	Cash in	Cash out	Bank in	Bank out
1 Mar.	Cash at start	100			
1 Mar.	Cash sale	150			
1 Mar.	Toilet rolls		20		
1 Mar.	Typewriter ribbons		15		
1 Mar.	Cash sale	120			
1 Mar.	To bank		35	35	
		370	70	35	
Less:	Cash at start	100			
	Total money				
	from sales	270			
Less:	Cash out	70			
	Net cash in	200			

### The cash register

**If you are a retail trader you should keep a cash register which you or an honest employee or member of your own family operates. One person should be in charge of both cash going out of and cash coming into the cash register. The business cash must be kept separate from your own cash and the cash of members of your family.**

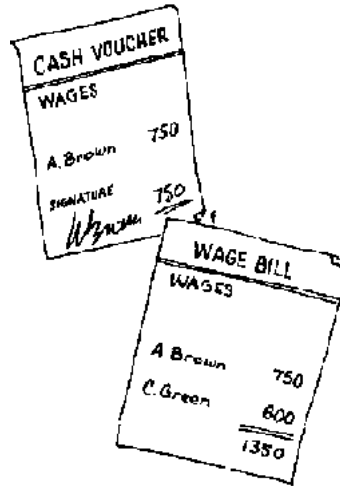
**By keeping the cash register paper rolls, you can see what you take in and give out every day, week, month or year. It is good to see how money comes in and is paid out over a long time because business may change from day to day. One day it may be very good, the next day bad. Compare your business result of this month with that of last month.**



## KEEP THE CASH REGISTER PAPER ROLLS

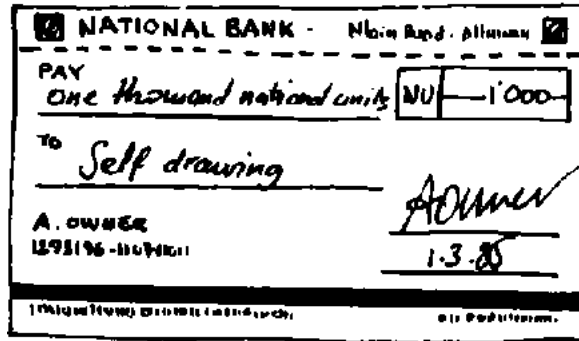
### The rules of cash control

- 1. Do not allow members of the family to take cash from the business unless it is their wage, it is given by you *and they sign a receipt for it.***



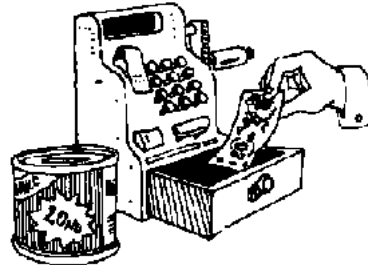
Figure

- 2. Pay yourself and each member of the family working in the business regular wages which you can charge to the business like those of your other employees. This can help you to have more control over the outflow of your cash.**
- 3. Decide on how much you can draw each week as a salary for yourself, but keep it low. Remember, you must also put aside money to buy stocks, pay wages, replace old machinery, pay taxes and so on. You must also have something left over in reserve in case business is bad or you want to make it bigger. This is the only way you can build up capital and improve your business.**



Figure

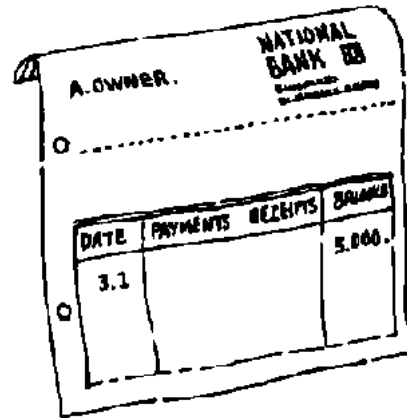
4. If you or a member of your family takes goods from the shop or the business—a can of food or a piece of clothing, for example—put the money into the cash box.



Figure

5. Make sure that you have enough money in the bank to meet the normal needs of the business.





Figure

## Good bookkeeping

### **REMEMBER: TAKE CARE OF YOUR CASH!**

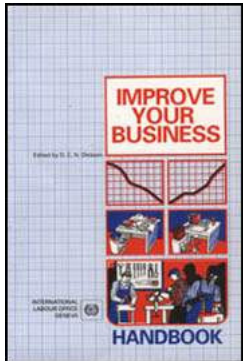
As your business grows and you buy and sell more of different goods, you need more information from your accounts. Therefore bookkeeping is important. To know more about it, read the Bookkeeping section of the *Handbook*. If you want to set up a bookkeeping system, you may get help from your local Small Business Centre or you may hire someone. This means that you must save all your bills, invoices, cash register rolls and other papers about money to give him when he comes.

**And last, but not least, once again: Keep your own and your family's hands out of the business cash!**



**KEEP ALL HANDS OUT OF THE CASH DRAWER!**

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**Improve Your Business: Handbook (ILO, 1986, 144 p.)**

➔  **2. MANUFACTURING AND SERVICE OPERATING**

**Manufacturing**

*(introduction...)*

**The stages of manufacturing**

**Cutting the cost of raw materials**

**Cutting labour costs**

**Cutting the cost of machines**

**Cutting the cost of working capital tied up**

**Service operating**

*(introduction...)*

**Know your costs**

**Improve Your Business: Handbook (ILO, 1986, 144 p.)**

## 2. MANUFACTURING AND SERVICE OPERATING

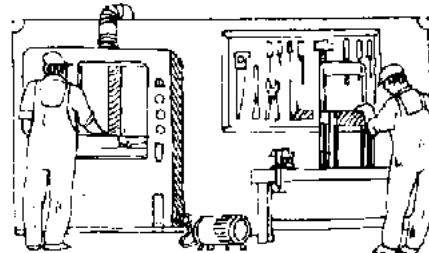
### Manufacturing

**Manufacturing means processing and/or assembling raw materials and sometimes parts to make them into products, using workers (labour), machines, tools and power.**

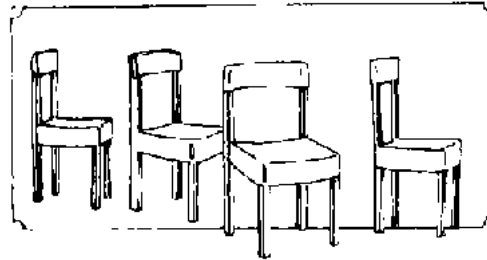
**The raw materials (wood, steel, cloth, chemicals, etc.) and the parts (handles, nails, screws, wire, thread, etc.), as well as the labour and the power, are called *inputs* because they are put into the making of the products.**



**INPUTS**



**MANUFACTURING**



## OUTPUTS

**Products are the goods which are *manufactured or* produced in a workshop or factory.**

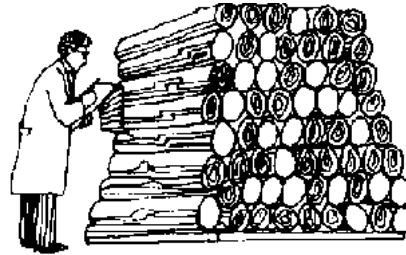
**The quantities of products produced by a business during a period of time are called the *outputs*.**

### **The stages of manufacturing**

**The stages of manufacturing always follow one another in the same order, whatever the products may be.**

#### **STAGE 1 - STORING**

**The materials and parts which have been bought arrive in the raw material store. They are checked and stored till needed.**



**Figure**

## **STAGE 2 - PROCESSING**

**The raw materials are processed, for example by cutting, sawing, machining or sewing.**



**Figure**

## **STAGE 3 - ASSEMBLING**

**The parts are put together to make a product (i.e. assembly takes place). Where the product is simple - flour, cotton yarn or steel bars - assembly does not take place.**



**Figure**

#### **STAGE 4 - FINISHING**

**Finishing takes place. This includes, for example, painting, polishing, washing, dyeing or glueing.**



**Figure**

#### **STAGE 5 - INSPECTION**

**Inspection takes place to check that the product has been made correctly and is ready to be sent to the customer. This is a check for quality.**



**Figure**

## **STAGE 6 - PACKING**

**The product is packed, ready to be sent to the customer.**



**Figure**

**Each stage of manufacturing involves costs. Some of these costs are unavoidable, as you need raw materials, labour and energy to manufacture your product. But in manufacturing businesses the amount of money spent on these items is often greater than it should be. This leads to high costs. The main causes of these high costs are:**

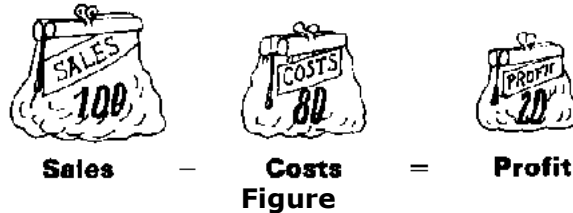
- **waste of raw materials;**
- **waste of workers' time;**
- **waste of machine time;**
- **waste by tying up too much working capital.**

**It is important that your goods are produced with the smallest possible waste. Waste adds to the cost of the product and reduces the possible profit.**

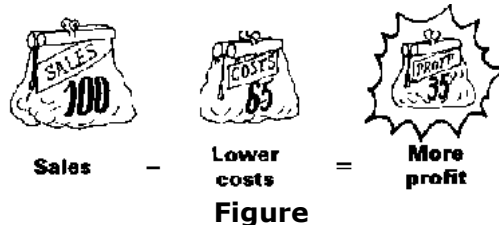
**The cheaper you can produce, the cheaper you can sell, so that:**

- more people buy your goods; and
- you are more able to compete with other manufacturers.

• **REMEMBER:**



**Cut your costs by reducing your waste, and you will get a bigger profit.**

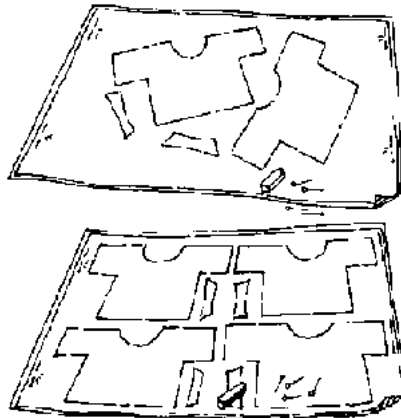


**Cutting the cost of raw materials**

**The cost of materials can be made less by-**



- ***Good buying.*** This is even more important in manufacturing than in retail trade. Price is not everything. Cheap materials may mean more material that cannot be used because it is faulty and must be thrown away, so that the material you can use becomes dearer.
- ***Cutting down waste.*** In woodworking, sheet metalworking, shoemaking, dressmaking and tailoring, among other trades, skilled cutting can make great savings as against bad cutting.
- ***Cutting down spoiled work.*** This must then be thrown away or sold off cheaply. When work must be scrapped, you lose not only the cost of machine time but also the money which you would make if the product were sold.



**BAD CUTTING GIVES ONE SHIRT BUT GOOD CUTTING GIVES TWO SHIRTS**

**Good training of workers, good tools and working conditions, good wages and strong supervision will cut down spoiled work.**

## **Cutting labour costs**

**This will not be done by cutting wages. It must be done by cutting down the amount of time which a worker wastes when he is doing a job. The costs of labour are calculated on the basis of the time spent by a worker to do a certain piece of work. The less the time spent, the less the cost.**

### **How is time wasted by workers?**

- **By making workers walk, and carry materials through the workshop further than they need, because machines, workplaces and stores are badly placed.**
- **By giving workers bad workplaces, which are untidy, difficult to work at and badly lit, and by giving them unsuitable or worn-out tools for the job to be done.**

### **TIME IS WASTED BY: WALKING TOO MUCH POOR WORKPLACES BAD TOOLS**

#### **WORKSHOP LAYOUT**

**Workshop layout is the way in which machines, workbenches and storage places in a workshop are placed in relation to each other.**

**Good layout means that the product travels and is handled as little as possible between stages of manufacture, and that people walk as little as possible. Bad layout means that the product travels and is handled too much during its manufacture, and that people walk too much.**

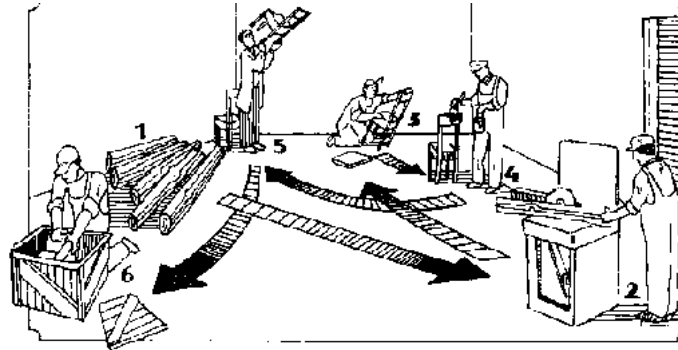
***Bad layout* costs you money because products take longer to make than they need to take. To get the same output, you need:**

- **more workers;**

- more handling equipment;
- more space (bigger factory buildings).

**All these things mean more costs.**

### **BAD WORKSHOP LAYOUT COSTS YOU MONEY AND CUTS PROFITS**



**Figure**

**So your profits are less and you may lose orders to companies which do things better. It is *your* money you are wasting.**

**With bad layout, the product goes back and forward between processes. This uses more labour and more trucks, makes delays at machines and makes work difficult to find. Space is taken up in a bad way.**

***Good layout* is most important when the product or materials used are heavy or big, as in sheet metalworking and woodworking. In wood machining the machines cut very fast. If the machines are in the right order there is little delay between the stages of**

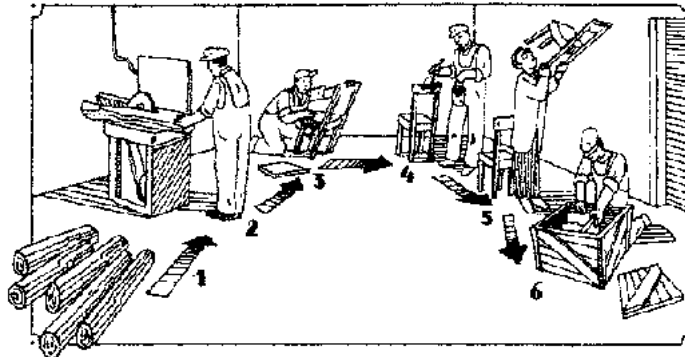
**manufacturing. The time spent moving big and heavy pieces of wood from the store to the shop, round the shop and on to the machines may be five or ten times as long as the cutting time.**

**If you are in a trade where heavy materials and work must be handled, think how you can make the handling time less.**

**You cannot always make the best layout, for example in an old factory building; but one thing you can do is to *be tidy*.**

- **Keep your workshops tidy-put everything in its right place so that it is easy to find.**
- **Keep your gangways clear and tidy.**
- **Tidiness saves time and is safe.**

## **GOOD WORKSHOP LAYOUT SAVES YOU MONEY AND INCREASES PROFITS**

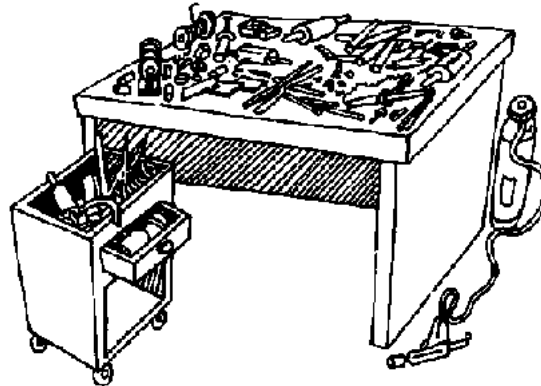


**Figure**

## WORKPLACE LAYOUT

**Workplace layout is the way in which tools and materials are laid out and the finished work is stored at the place where the work is done.**

**The workplace which you see in the picture on the left below can be seen in thousands of small workshops all over the world. What a mess!**



**Figure**



**Figure**

**If you do not believe it, go and look at some small (and big) workshops near you. Finished work is mixed with pieces to be assembled. The tools are in the wrong places. The wire is tangled. The workers have to look for everything they want. They will take a much longer time to make one assembly than workers who sit at a neat workplace.**

**Now look at the picture on the right above. This is a good workplace layout. The worker has a chair to sit on, so he or she will be less tired. The pieces to be assembled are always in the same place so that they can be picked up without looking. The wire is on a reel. The welding nozzle is on a hook close to the worker's right hand. The screwdriver is hanging on a spring on the same side, easy to reach and use. The finished assemblies are put into a box on the left, ready to take away.**

### **GOOD WORKPLACE LAYOUT MEANS EVERYTHING IN ITS RIGHT PLACE**

#### **Remember:**

- **Good workplace layout is important where products are small and light and produced from many parts in large quantities.**

**• Work study will help you make better layouts and save money. Ask about it at your Small Business Centre or Management Centre.**

## **SAFETY**

**Workshop safety is extremely important both to you and your workers. As the owner/manager you are responsible for injuries and illness caused by poor safety standards or ignorance of risks that you and your workers are exposed to. Safety means not only preventing accidents but also doing something about bad working conditions like very loud noise or poor light, dangerous liquids or gases and so forth.**

**Remember that if something happens because you have not paid enough attention to workshop safety, you are causing other people pain and distress and you might end up paying for damages for the rest of your life.**

**There are a number of measures you can take in order to safeguard the health and security of your workers:**

- Organise the work so that the different stages can be carried out smoothly and without pressure. Many accidents occur when people are moving in workshops from one workplace to another, or when they are collecting raw materials or carrying away finished goods.**
- Give your workers detailed instructions on how to use machines, tools and chemicals before they start working. Make sure that the safety equipment that you provide is also used by your workers. Never let a worker without proper training repair or adjust machines.**
- Avoid having visitors walking around in the workshop on their own. People who are unfamiliar with your business might not have the necessary respect for tools**

**and machines.**

- **Always think about safety factors when you are making investments in new machines. Ask for written instructions on how to use them.**

**AVOID ACCIDENTS BY:**

**GOOD WORK ORGANISATION**

**TRAINING**

**SAFE MACHINERY AND EQUIPMENT**

**Cutting the cost of machines**

**CUTTING MACHINE TIME**

**Machines cost money, sometimes a lot of money. When you have paid money for a machine you must use it as well as possible. In many workshops, machines spend more time stopped than they do working. Why?**

**Because-**

- **the workers operating the machines must spend time fetching material from the store and taking away finished work;**
- **the next job is not ready when the earlier job is finished, and the worker and machine are waiting for work;**
- **the machines break down.**



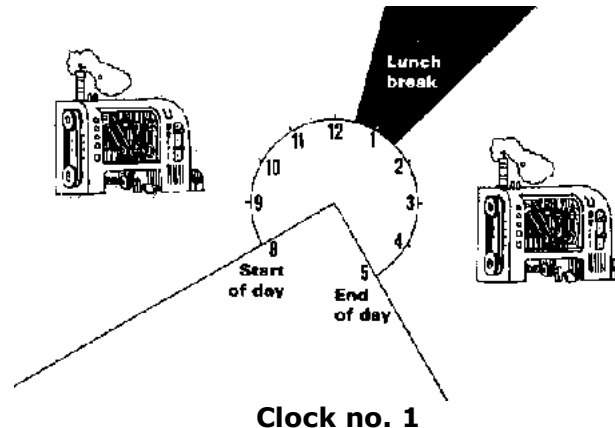
**In addition to these causes, machines are often not working at their correct speeds, tools are not properly sharpened and the workers are not trained to use the machines well.**

**Before beginning work with a machine, make sure that it is working as well as possible and that the worker really knows how to use it well.**

**Let us look at an example of how time can be lost in working a machine during a working day of eight hours from 8 a.m. to 5 p.m. plus a one-hour meal break from 12.30 p.m. to 1.30 p.m.**

### **MACHINES COST MONEY-USE THEM WELL!**

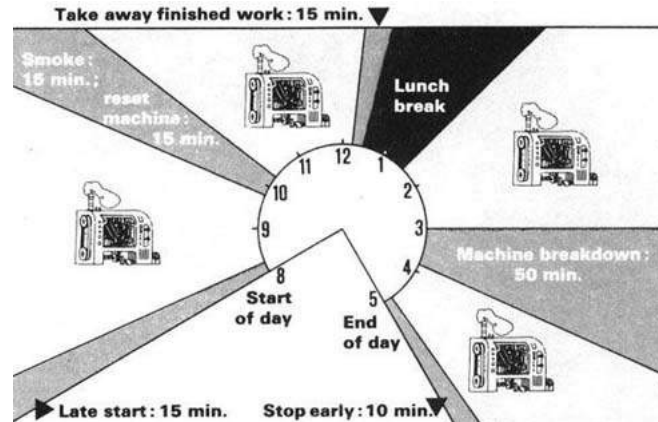
**Look at clock no. 1. The time during which the machine is producing work is shown in light grey. The time when the machine is stopped during the working day is shown in black. Clock no. 1. shows how you could operate your machine in the best way. There are no stoppages between 8 a.m. and 5 p.m. apart from the lunch break.**



**The machine worked for eight hours, with no stoppages.**

**Now look at clock no. 2 on the opposite page. There are five dark grey pieces in clock no. 2.**

**Each dark grey piece shows the time when the machine was stopped, apart from at the lunch break, which is shown in black.**



**Clock no. 2**

**Clock no. 2 shows that you did not operate your machine in a good way. There were many stoppages for the following reasons:**

• The worker is late	15 min. lost (8 a.m.-8.15a.m.)
• The machine is reset	15 min. lost (9.45a.m.-10.00a.m.)
• The worker has a smoke finished goods	15 min. lost (10.00a.m.-10.15a.m.)

• The worker carries away finished goods	15 min. lost (12.15 p.m.-12.30 p.m.)
• The machine breaks down	50 min. lost (3.00 p.m.-3.50 p.m.)
• The worker stopped early Total time machine stopped:	10 min. lost (4.50 p.m.-5.00 p.m.) 120 min. = 2 hr.

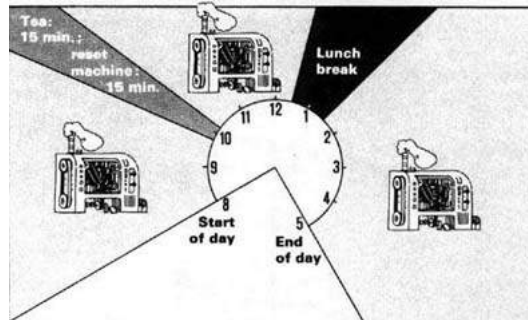
**Due to the stoppages, the actual working time of the machine was reduced from eight hours to six hours, as below:**

	Total working time of machine	8 hr. (480 min.)
Less:	Machine stopped	2 hr. (120 min.)
Gives:	Working time of machine	6hr. (360 min.)

**In other words, the machine was stopped for one-quarter (i.e. 25 per cent) of its total working time.**

**Now look at clock no. 3 on the next page and compare it with clock no. 2.**

**In clock no. 3 there is only one dark grey piece left.**



**Clock no. 3****Let us see what has happened:**

• The worker starts on time	15 min. saved
• The worker does not have to carry away finished goods	15 min. saved
• The machine does not break down	50 min. saved
• The worker does not stop work early	10 min. saved
Total machine time saved:	90 min. =1 1/2 hr.

**One-and-a-half hours of working time were saved due to management improvements. The actual working time of the machine was increased from six hours to seven-and-a-half hours, as shown below:**

	Total working time of machine	8 hr. (480 min.)
Less:	Machine stopped	1/2 hr. (30 min.)
Gives:	Actual working time of machine	7 1/2 hr. (450 min.)

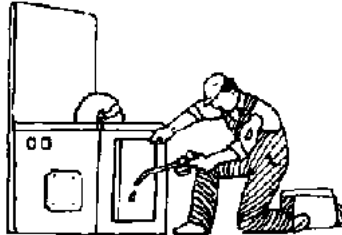
**In other words, the machine was stopped for only one-sixteenth (6 per cent) of its total working time.**

**MACHINE MAINTENANCE**

**Machine maintenance is looking after machines and equipment, including vehicles, by oiling, greasing, checking that they are in good working order, replacing worn parts before they break, and checking electrical parts and wiring.**

**To work well, maintenance must be done regularly: oiling and greasing, say, once a week;**

**checking for worn parts once a month; and checking the electrical parts every three months. The more a machine costs, the more important is good maintenance.**



### **REGULAR MAINTENANCE PREVENTS BREAKDOWNS**

**If you must stop a machine for a long time to do a good job on it, plan to stop it when you think it is best. It is better to stop a machine when you want to do it than to have it break down and stop when it is doing important work. By good maintenance, you avoid stoppages due to breakdowns.**

### **HANDLING ON AND OFF MACHINES**

**We said earlier that in some trades it takes much longer to bring the material to the machine and to put it on the machine than it does to cut or work the material. It may also take longer to take the work off the machine. This is true of woodworking, where big logs of wood are difficult to handle. The same can be true of sheet metalworking, because the sheets are large and heavy. It can also be true of dressmaking when the dress or shirt is nearly finished.**



### **HANDLING BY HAND-SLOW**

**If you can only make the handling time in each operation smaller, you can make your output bigger. Many business people spend a lot of money on highspeed machines and lose most of the bigger output because they do not cut their handling time.**



### **HANDLING BY BARROW-FAST**

**If you are in a trade where heavy materials and work must be handled, think how you can make the handling time less and get advice.**

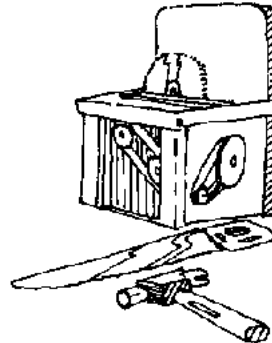
**Cutting the cost of working capital tied up**

**Cash is a most important asset used in running your business. Cash enables you to buy raw materials, pay your workers and office staff, and pay for all the other expenses such as rent, insurance, telephone and so on.**

**Cash flows into your business from five different sources:**

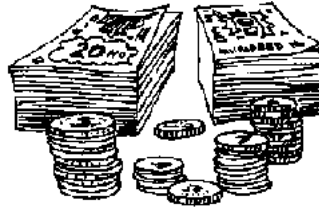
- from your own savings;
- from loans which you obtain from a bank;
- from relatives or friends;
- from sales on credit; and
- from cash sales.

**At the time you started your business, your cash came only from your own savings and maybe from a loan. You used this cash first of all to buy machines, tools, equipment and other assets. All these are called *fixed assets*, because they are fixed in your business for a very long time. This means that your money is tied up in them for a very long time.**



**FIXED ASSETS**

The rest of the cash, which you did not spend on fixed assets, is called *working capital*. You used it to buy raw materials and parts for production and to pay the wages and salaries and other expenses during the first two months or so of production. From then on you have received cash back from the finished goods which you make and sell.



### WORKING CAPITAL

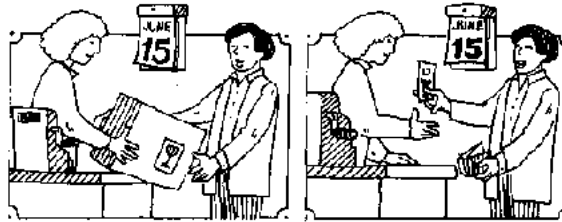
You normally receive your cash in two ways:

- quickly when you make cash sales; and
- more slowly when you make sales on credit, since people take a long time to pay.



**A CREDIT SALE MEANS CASH LATER**





### **A CASH SALE MEANS CASH NOW**

The cash which you receive from your sales is your new working capital. This is slightly more than the cash you spent on making the goods which you sold, because you made a profit. You now use this new working capital to buy more new materials and parts, which you convert into more finished goods and, when you sell these, this will give you even more cash (working capital) back than you spent before. Now you can see why this cash is called *working capital*: it *works* for you; it helps you to earn a *profit*.

Naturally, the faster you get your cash back after you spend it, the faster you make a profit and the faster your cash (working capital) increases. Therefore the raw materials which you purchased should be processed and turned into finished goods as quickly as possible, so that they can be sold and the money from sales flows back into your business.

#### **WORKING CAPITAL**



**BUYING MATERIALS V**



**MANUFACTURING OF GOODS V**



**SELLING OF GOODS V**

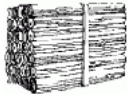








**MORE WORKING CAPITAL**

**It is very bad if your materials are held up in each section of your workshop for a long time. The more stock and material are lying in your workshop, the more working capital is tied up in them.**





**You should try to organise your production in such a way that you manufacture with a minimum of materials and semi-finished goods held up in your workshop.**




**Look at the example below, where a lot of working capital is tied up in stock in the workshop.**

<i>1. Raw materials store</i>		
Working capital tied up in raw materials:	<b>Working capital tied up</b>	
10,000	<b>10.000</b>	
<i>2. Processing section</i>		
Working capital tied up in partly processed goods: 5,000	<b>+ 5,000</b>	
<i>3. Assembly section</i>		
Working capital tied up in partly assembled goods: 5,000	<b>+ 5.000</b>	
<i>4. Finishing section</i>		
Working capital tied up in partly finished goods: 2,500	<b>+ 2,500</b>	

5. <i>Inspection section</i>		
Working capital tied up in goods waiting for inspection: 2,500	<b>+ 2,500</b>	
6. <i>Finished goods store</i>		
Working capital tied up in finished goods lying in store: 5,000	<b>+ 5,000</b>	
<i>Total cash (working capital) tied up in stock: 30,000</i>	<b>= 30,000</b>	

**The more stock you hold, the more cash is tied up and the less cash you have in hand.  
Now look at the results you can obtain after making some improvements.**

	<b>Working capital tied up after improvements</b>	
1. <i>Raw materials store</i>		
Working capital tied up in raw materials: 5,000	<b>5,000</b>	
2. <i>Processing section</i>		
Working capital tied up in partly processed goods: 2,500	<b>+ 2,500</b>	
3. <i>Assembly section</i>		
Working capital tied up in partly assembled goods: 2,500	<b>+ 2,500</b>	
4. <i>Finishing section</i>		
Working capital tied up in partly finished goods:	<b>+ 1.250</b>	

1,250		
<i>5. Inspection section</i>		
Working capital tied up in goods waiting for inspection: 1,250	<b>+ 1,250</b>	
<i>6. Finished goods store</i>		
Working capital tied up in finished goods lying in store: 2,500	<b>+ 2,500</b>	
<i>Total cash (working capital) tied up in stock:</i> 15,000	<b>= 15,000</b>	

**In the example above, you can reduce the money tied up in stock by moving the stock faster through the factory. You can do this in many ways. We have already talked about some improvements you can make:**

- **improved workshop layout;**
- **improved workplace layout;**
- **better machine maintenance;**
- **quicker loading and unloading of machines;**
- **shorter machine time.**

**You can also reduce the money tied up by:**

- **quick delivery of your finished goods to the customers after you have sold the goods, and getting as much of the payment in *ready cash* as quickly as possible;**
- **making sure that the customers to whom you sell on credit pay you cash strictly within two months after the delivery of the goods.**

### **REDUCE WORKING CAPITAL TIED UP BY:**

**HOLDING LESS STOCK  
DELIVERING GOODS QUICKLY  
LIMITING CREDIT SALES**

**The saving in cash is:  $30,000 - 15,000 = 15,000$ . You now produce the same output with much less working capital tied up. With all this extra cash in hand, you may be able to finance all your purchases and expenses without having to go for a loan. You may even have some money to make the business bigger.**

**Increase your profit by using your working capital in a better way - Do not tie it up!**



**Figure**

**REMEMBER:  
GOODS OUT FAST-**

## **CASH IN FAST**

### **Service operating**

**Service industries do not usually produce goods, but they render services to the public or some section of the public.**

**There are generally more small businesses in the service sector of industry than in the manufacturing sector. Service industries include garages and other repair workshops, television and radio repairs, laundries, dry-cleaning, passenger and goods transport services, hotels, restaurants and bars.**

**Business people in the service sector may think that the section of this book on manufacturing is of no use to them. It is true that some services, for example garages and repair workshops in general, and laundries, come very close to manufacturing industries, while others, such as bars, may seem very different. Although service industries do not generally use raw materials to make a product (although restaurants do), they use spare parts for repairs, fuel, heating, electricity and water for washing, cleaning, running vehicles and so on. They also use labour to repair, drive, clean, cook or serve, and equipment such as tools or vehicles, buildings and land just like manufacturing businesses.**

**To operate a service efficiently, we must use the same means as we use in manufacturing industry. The first step is to know your costs.**

### **A SERVICE BUSINESS USES**



meister10.htm  
**SPARE PARTS**



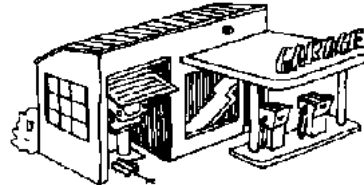
**MATERIALS**



**LABOUR**



**TOOLS**



**A BUILDING**

**JUST LIKE  
A MANUFACTURING  
BUSINESS**

**The same methods that are used in manufacturing to cut out waste and make sure of good**

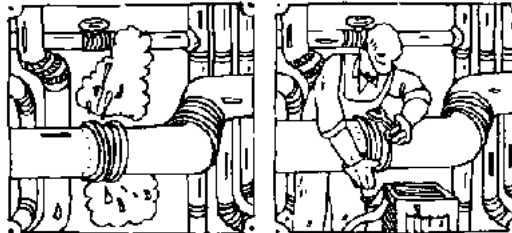
**use of workers' time and of machines can be used in operating services. Safety is also as important in a service industry as it is in manufacturing. Read the part of this section on " Manufacturing " carefully and see what you can apply in your service business.**

### **Know your costs**

**Knowing the costs of different items makes it possible to attack the biggest item of cost first. In manufacturing firms, this is generally the direct material cost but in service industries it may be direct labour, fuel or some other cost. To cut these costs you can use the same methods described for manufacturing:**

#### **ATTACK YOUR BIGGEST COST ITEM FIRST**

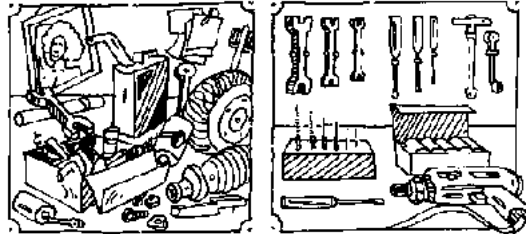
- **better buying and cutting down waste of materials, including fuel, power and energy;**



#### **CUT DOWN WASTE OF ENERGY**

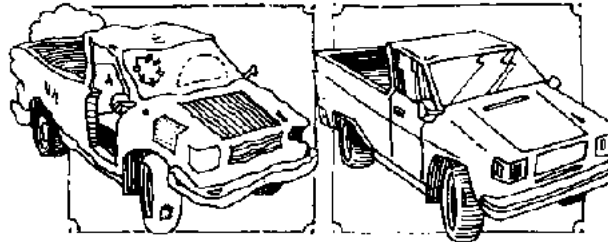
- **reducing labour costs by better layout, working methods and tools, and by cutting ineffective time;**





### IMPROVE WORKPLACE LAYOUT

- improving the use of equipment, including vehicles, by better planning, including planned maintenance.



### IMPROVE MAINTENANCE

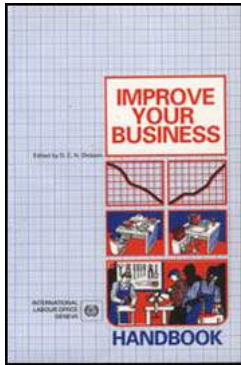


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 **Improve Your Business: Handbook (ILO, 1986, 144 p.)**

 **3. BOOKKEEPING**

 **(introduction...)**



**The ledger**

**The subsidiary books**

 **(introduction...)**

 **The invoice book**

 **The purchase journal**

 **The wages book**

 **The business notebook**

 **The stock book**

 **The inventory book**

**Improve Your Business: Handbook (ILO, 1986, 144 p.)**

### **3. BOOKKEEPING**

**Bookkeeping is writing down all the transactions arising from your business activities which can be expressed in money.**

**To run your business well you must know what money you have received, how much money you have spent and, most important of all, how you spent it. A bookkeeping system can provide you with that information. Good information removes the guesswork from business.**

**This section provides you with all the information you need to set up a simple, useful system of keeping records.**

**The books used for keeping records consist of a *ledger* and *subsidiary books*.**

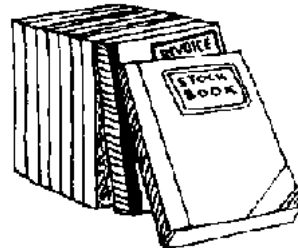
**The ledger is the general book in which you enter almost all the figures arising from your**

**business activities.**

**The subsidiary books are used to record information which will help you to remember important things about your business, e.g. the bills you have to pay or the wages you pay. The number of subsidiary books varies depending on the size and the kind of business you are in.**



**THE LEDGER IS THE MAIN BOOK**



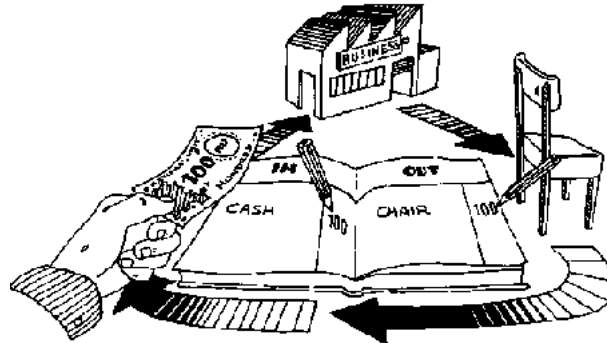
**THE SUBSIDIARY BOOKS HELP YOU TO REMEMBER IMPORTANT THINGS**

**The ledger**

**Every business transaction consists of two parts, one part that gives and one part that receives-one part that goes out of the business and in exchange one part that comes into**

**the business. For example, if you sell goods, goods go out and cash comes *in*. Therefore you must make *two entries* for each business transaction.**

**If you sell goods, the goods go out of the business. Therefore you make an "Out" entry in the ledger. In place of what has gone out of the business, something else goes in. In this particular case money comes in for what is sold. You also make the "In" entry in the ledger.**



**Figure**

**REMEMBER: ALWAYS ONE IN AND ONE OUT ENTRY FOR EACH TRANSACTION**

**A ledger consists of a number of *accounts*. An account is a column in the ledger that has been given a specific name, e.g. Cash, Bank, Sales and so on. In some ledgers a whole page is used as one account. Here we will use the type of ledger where a page is divided into several columns, each column regarded as one account.**

CASH		BANK		CASH		BANK		SALES		RAW MAT.*	

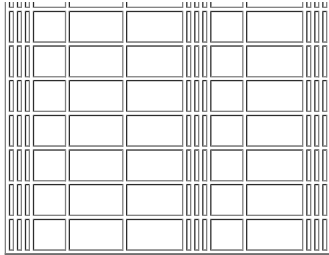
page 1		page 2												
<b>One account on each page</b>			<b>Several accounts on each page</b>			* RAW MAT. = raw materials								

## STEP 1

**The carpenter sells a chair to a customer. We need two accounts to record that transaction: one account to record the money that goes into the business (the Cash account) and one account to record the value of the chair that goes out of the business (the Sales account).**

**Our ledger now has two accounts, one called "Cash" and one called "Sales". The Cash account has three columns. One column is marked "In". This is used for entries when money comes into the business. The next column is marked "Out". This is used when money goes out of the business. The third column is for the Balance, or "Bal." for short.**

CASH			SALES	
In	Out	Bal.	In	Out



**Look at the Cash account below.**

**Suppose the carpenter gets 100 NU for the chair. Assume that there was 300 NU in the cash box before the sale of the chair. The entries step by step will be as follows:**

CASH	CASH	
In	Out	Bal.
		300

**1 Before the sale of the chair. The balance in the cash box is 300 NU**

CASH
------

CASH		
In	Out	Bal.
		300
100		

**2 100 NU has gone into the business as a result of the sale of the chair**

CASH		
In	Out	Bal.
		300
100		400

### 3 The addition of 100 NU to the 300 NU already in the cash box makes 400 NU

The Cash account and the account showing what we have in our bank account are the only accounts where this "Balance" column is used. All other accounts are divided into two columns, one "In" and one "Out". The reason why there is a Balance column in the Cash and the Bank accounts is that we want to know instantly how much money is present in the business.

#### STEP 2

Let us enter the sale of the chair in the Sales account. The value of the chair was 100 NU and the chair has now gone out of the business. The entry of 100 NU will be made in the "Out" column of the Sales account, and 100 NU goes into the "In "column of the Cash account.

In the ledger below we have now entered all the figures arising from the sale of the chair.

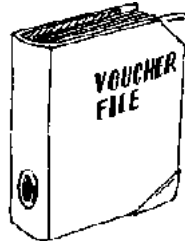
SALES			CASH			SALES		
In	Out		In	Out	Bal.	In	Out	
					300			
	100	→	100		400		100	



--	--	--	--	--	--	--	--	--	--	--	--

**There are two accounts in the ledger. We must add more accounts, but first let us look at the space to the left of the Cash account. There we make some remarks concerning each transaction. We write the date of the sale and also write that it was a chair that was sold.**

**Finally, we shall give this transaction an identification number (Id.no.). We also write the number on the copy of the receipt we give to the customer. We keep the copy in a file together with other vouchers related to entries in the ledger.**



**KEEP ALL YOUR VOUCHERS IN A FILE**

**Look at the columns to the left of the cash account below:**

DATE	PARTICULARS	ID.NO.	CASH			SALES	
			In	Out	Bal.	In	Out

**The ledger entries are now added as shown below:**

			<b>IN</b>				<b>OUT</b>
--	--	--	-----------	--	--	--	------------

			▼			▼	
DATE	PARTICULARS	ID.NO.	CASH			SALES	
MAY			In	Out	Bal.	In	Out
					300		
▶ 2	1 CHAIR	86	100		400		100

### STEP 3

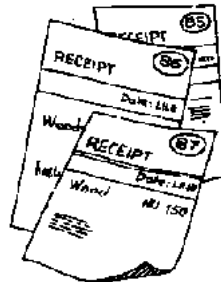
Let us add more accounts into our ledger.

			OUT			IN	
			▼			▼	
DATE	PARTICULARS	ID.NO.	CASH			SALES	RAW-MAT.
			In	Out	Bal.	In	Out
WAY					500		
2.	1 CHAIR	86	100		400		100

4	WOOD	87		150	250			150	

The carpenter has to buy raw materials. A Raw material account is needed. In the ledger above this account is added and we also have the following example entered: the carpenter buys wood and pays 150 NU cash to the supplier.

The ledger tells us that on 4 May wood was bought at a price of 150 NU. The cash was paid out, and after the payment 250 NU remains in the cash box. On the receipt given by the supplier of the wood the carpenter has written "87". The receipt can easily be found in the file where all the numbered vouchers are kept.



**NUMBER ALL YOUR VOUCHERS**

**STEP 4**

**We must pay wages to the workers. An account called "Wages" is added.**

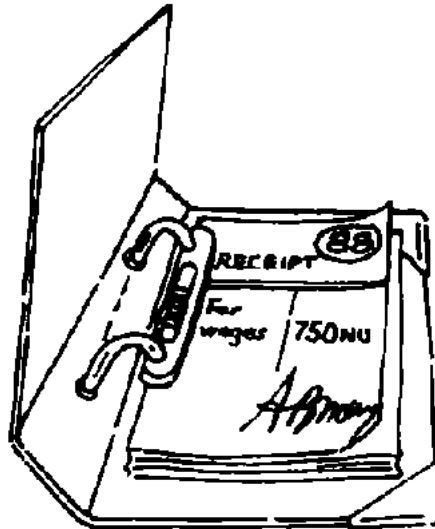
**The carpenter pays four employees 50 NU each in cash, so 200 NU is taken from the cash box.**

**Look at the entry. Wages have been paid on 6 May. In total 200 NU is paid and the money is taken from the cash box (i.e. it is put into the "Out" column of the Cash account). We have 50 NU remaining in the cash box.**

				OUT			IN					IN		OUT			
				▽			▼					▽		▼			
	DATE	PARTICULARS	ID.NO.	CASH			BANK			SALES		RAW MAT.		WAGES		LOANS	
				In	Out	Bal.	In	Out	Bal.	In	Out	In	Out	In	Out	In	Out
	WAY					300											
	2	1 CHAIR	88	100		400					100						
	4	WOOD	87		150	250						150					
STEP 4 ▾	6	WAGES	88		200	50								200			
STEP 5 ►	7	LOAN	89				6,000		6,000								6,000

The reason why wages are entered in the " In " column of the Wages account is that the money represents the time the workers put into the business.

The vouchers in this case are the receipts signed by the workers when they receive their wages. The carpenter clips them together and notes "88 "on them before filing.



**FILE YOUR WAGE RECEIPTS**

**STEP 5**

**The carpenter successfully applies for a loan at the local bank. The amount borrowed is 6,000 NU. He is requested by the bank manager to deposit the money in the bank until it is needed in the business.**

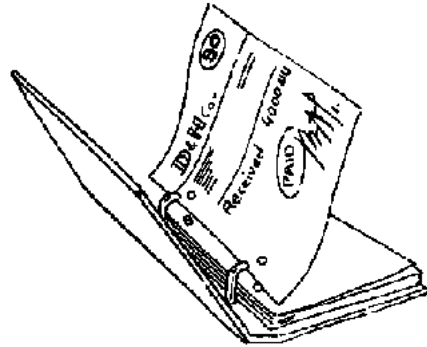
**In the ledger two new accounts are needed, one named "Bank" and one named "Loans".**

**The ledger now tells us that a loan was obtained on 7 May and that the money, 6,000 NU, was deposited in the bank. The document concerning the loan was given the identification number "89" and filed.**



### **FILE YOUR DOCUMENTS**

**Remember that we said that every business transaction consisted of two parts: one part that goes *into the* business and one part that goes out of the business. When this loan was obtained the money went *into* the account named " Bank". What went *out* of the business was a debit to the bank-a loan which has to be repaid. Therefore the entry in the Loan account will be in the Out column.**



**Figure**

**NOTE:**

- **EVERY TRANSACTION TAKES ONE WHOLE ROW ACROSS THE LEDGER**
- **NEVER ENTER MORE THAN ONE TRANSACTION ON EACH LINE**

**STEP 6**

The money borrowed was meant to buy a drilling machine for the business. The price the carpenter had to pay was 4,000 NU. To record that purchase we have to add an Equipment account.

On 10 May a drilling machine was bought. The price was 4,000 NU and payment was made from the bank (i.e. by cheque). The receipt has the number "90" written on it and is kept in the voucher file.

**STEP 7**

To complete the carpenter's ledger we shall add just three more accounts. The first one

**we call "Interest" It is to be used when interest is to be paid on the loan which was obtained from the bank.**

**The second account we call "Drawings". It is to be used when the owner, the carpenter, withdraws money or goods from the business for his private use.**

	DATE	PARTICULARS	ID.NO.	CASH			BANK			SALES		RAW MAT.		WAGES	
				In	Out	Bal.	In	Out	Bal.	In	Out	In	Out	In	Out
		<b>WAY</b>				<b>300</b>									
	<b>2</b>	<b>1 CHAIR</b>	<b>86</b>	<b>100</b>		<b>400</b>					<b>100</b>				
	<b>4</b>	<b>WOOD</b>	<b>87</b>		<b>150</b>	<b>250</b>						<b>150</b>			
	<b>6</b>	<b>WAGES</b>	<b>88</b>		<b>100</b>	<b>50</b>									<b>200</b>
	<b>7</b>	<b>LOAN</b>	<b>89</b>				<b>6,000</b>			<b>6,000</b>					
<b>STEP 6</b> ▾	<b>10</b>	<b>DRILLING MACHINE</b>	<b>90</b>					<b>4,000</b>		<b>2,000</b>					
<b>STEP 7</b> ▶	<b>13</b>	<b>INTEREST</b>	<b>91</b>					<b>200</b>		<b>1,800</b>					
<b>STEP 7</b> ▶	<b>13</b>	<b>OWN SALDRY</b>	<b>92</b>					<b>400</b>		<b>1,400</b>					
<b>STEP 7</b> ▶	<b>13</b>	<b>ELECTRICITY</b>	<b>93</b>					<b>150</b>		<b>1,250</b>					

**MAKE IT A RULE  
ALWAYS START BY MAKING THE ENTRY IN THE CASH OR BANK ACCOUNT FIRST**



**The last account we call "Others". This account is used only when none of the others can be used.**

**Look at the examples given as entries in each of the three accounts.**

**If you are ever in doubt whether to use the " In " or "Out" column for a particular entry, start by making the entry in the Cash or Bank account first. If it is an " In " entry in the Cash or Bank account, the other entry has to be an "Out" entry.**

### STEP 8

**There are only three more things left to remember:**

- **When you are starting up your ledger you must enter some details about the assets and liabilities of your business.**
- **When one page is full you must add up the columns and carry the totals to the next page in the ledger. These are called "Balances forward" (B/f).**
- **At the end of each month you must summarise each account.**

#### Entering assets and liabilities

You must enter figures for the following four items when you start to use the ledger. ▶  
These entries are only made once:

<u>Assets/Liabilities</u>	<u>Entry</u>
Money in the cash box	Balance column Cash account
Money saved in the bank	Balance column Bank account
Value of machinery, tools, cash register, etc.	In column Equipment account
Borrowed money in the business	Out column Loan account
Money in the cash box	300
Money in the bank	1,900
Value of machinery and tools	3,000
Loan	6,000

If we assume that the carpenter had the following assets and liabilities to enter when he started to use his ledger, the first row on the first page will look as shown opposite: ▶

DATE	PARTICULARS	ID.NO.	CASH			BANK			SALES		RAW MAT.		WAGES		LOANS		EQUIPMENT		INTEREST		DRAW
			In	Out	Bal.	In	Out	Bal.	In	Out	In	Out	In	Out	In	Out	In	Out	In		
MAY		B/f			300			1,200								6,000	9,000				

**Balances forward (B/f)**

When a page is full of entries you must add up the columns and carry the balance forward to the next page. This is easily done. Look at the example below. The first illustration shows the bottom half of one page in the ledger and the second illustration shows the upper half of the following page in the ledger with the balances carried forward.

20	2 SOFAS	116	2,000						2,000												
20	OWN SALARY	117		500																	600
22	TELEPHONE	118		400																	
23	NOILS	119		60						60											
24	6 CHAIRS	120	900						900												
		B/f	4,800	3,200	1,600	8,000	6,300	1,700		5,200	1,400		600			6,000	9,000		200		1,000

DATE	PARTICULARS	ID.NO.	CASH			BANK			SALES		RAW MAT.		WAGES		LOANS		EQUIPMENT		INTEREST		DRAW
			In	Out	Bal.	In	Out	Bal.	In	Out	n	Out	In	Out	In	Out	In	Out	In		
MAY		B/f	4,800	3,200	1,600	8,000	6,300	1,700		5,200	1,400		600			6,000	9,000		200		1,000
24	GLUE	121		40	1,560						40										
25	1 CHAIR	122	100		1,660				100												
25	WAGES	123		400	1,260								400								
29	LOAN REQUIRED	124				300	1,400								300						
31	WATER	125	60		1,200																

**Entering assets and liabilities**

DATE	PARTICULARS	ID. NO.	CASH			BANK			SALES		RAW MAT.		WAGES		LOANS	
			In	Out	Bal.	In	Out	Bal.	In	Out	In	Out	In	Out		
	WAY	B/f	4,600	3,200	1,600	8,000	6,300	1,700	5,200	1,400		600			6,000	
24	GLUE	121		40	1,560					40						
25	CHAIR	122	100		1,660				100							
15	WAGES	113		400	1.260							400				
29	LOAN REPAYMENT	124					300	1,400							300	
31	WATER	125		60	1,200											
			4,900	3,700		8,000	6.600								300	6,000
					1,200			1,400	5.300	1,440		1,000				5,700

### Summarising at the end of a month

**At the end of a month you must add up each column and carry forward the balance of each account to a new page in the ledger. See how it is done in the example above.**

**As you can see, it is only the net balance on each account which we carry forward to the next month (i.e. the next page). On the Cash and Bank accounts it is very easy as we have noted the net balance after each entry. But look at the Loans account. An installment payment of 300 NU was made and we have to subtract that figure from the loan to find out the net balance.**

**As you have seen on most of the accounts, only one column is used, either the "In" or the**

**"Out" column.**

DATE	PARTICULARS	ID.NO.	CASH			BANK			SALES		RAW MAT.		WAGES		LOANS		EC
			In	Out	Bal.	In	Out	Bal.	In	Out	In	Out	In	Out	In	Out	
JUNE		B/f			1,200			1,200		5.300	1,440		1,000			5.700	9.1
1	1 SOFA	126	1,000		2,200				1,000								
1	A NEW LEDGER	127		50	2,150												

**IN EQUALS DEBIT OUT EQUALS CREDIT**

**But occasionally the other column is used: for example, when a customer returns a commodity and gets his money back, then you have to use the " in " column of the Sales account. Finally, have a look at the page for the new month below, with the balances brought forward.**

**Now you have learned how to set up a ledger and how to conduct what is called *double-entry bookkeeping*.**

**We have used "In" and "Out" as headings for each account. Professional bookkeepers will instead of " In " use the word "Debit", and instead. of "Out" use the word "Credit". When you have become familiar with making entries in *your* ledger, you can do what the professionals do and use "Debit" and "Credit".**

## The subsidiary books

**A complete bookkeeping system consists of the ledger and a set of subsidiary books. The number of subsidiary books used depends on the size and kind of business you are in. These books help you to remember important things about your business. Here are some examples of subsidiary books and how to use them.**

### The invoice book

**The invoice book helps you to remember who owes the business money for goods or services you have sold but have not been paid for. When you have delivered a commodity or provided a service, you send an invoice to the customer. You keep a copy of the invoice in the invoice book.**

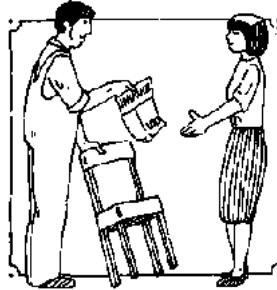


**Figure**

**When the customer pays his debt, you enter the amount in the ledger, take the copy of the invoice from the invoice book, mark it " Paid " and file it in the voucher file.**

**If the customer only partly pays the invoice, the copy of the invoice remains in the invoice book until it is fully paid. Just note on the copy how much is paid. For each part-payment you give the customer a *receipt*. Enter what is paid in the ledger and put the copy of the**

**receipt into the voucher file. When the customer makes the last part-payment you remove the invoice copy from the book and mark it " Paid ". File it in the voucher file.**



**The customer receives the chair and an invoice**



**The customer pays half of the invoice amount and gets a receipt**



**The customer pays the other half of the invoice amount and gets a second receipt**

**Ready-to-use invoice books and a pad of receipts can be bought in any stationery shop.**

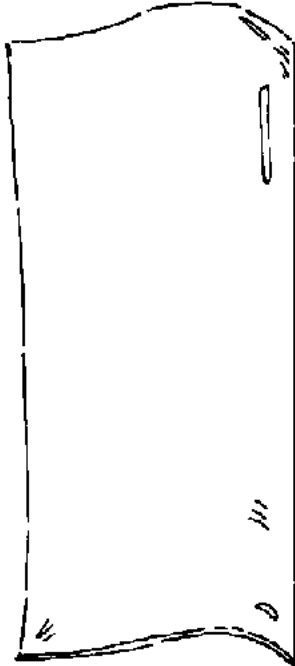
**The purchase journal**

**The purchase journal is used to write down details of goods and services bought on credit which are not yet paid for.**



**Figure**

The invoice you receive from the supplier is kept in the purchase journal until it is fully paid. If you are making part-payments to the supplier, write into the journal how much you pay. Each time you pay, also enter the amount in the ledger. File the receipts you receive for each part-payment in the voucher file. When you make the last payment you also file the invoice in the voucher file.



Date	Supplier	Inv. no.	Paid	Debt
9.4	Dick & Co	86980		400
15.4	Nail Industry	62002		1.000
15.5			500	500
18.6	Timber Co	41341		1.200
18.7	Power & Light	14017		900

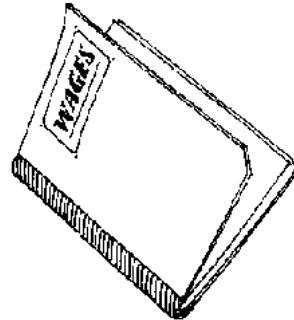
**Figure**



**Buy the journal in a stationery shop or use an exercise book and make the columns yourself.**

### **The wages book**

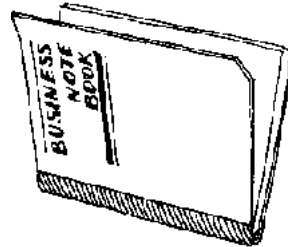
**In this book you make notes about your employees: names, wages, advance payments and so on. Wages books can be bought from a stationery shop. When you pay your employees' wages, ask them to sign a receipt. Keep the receipts in the voucher file.**



**Figure**

### **The business notebook**

**Keep a separate book, a simple notebook for everything that happens between you and your business. Write down every sum of money you put into the business and everything you draw out, your salary and so on.**



**Figure**

### **The stock book**

**The stock book is used to enter the figures arising from your stock-taking. Once or twice a year you must take stock. This means that you write down for each article the number of them you have, and also the value.**



**Figure**

**Stock-taking serves two main purposes:**

- **to see whether there are too many or too few articles in your stock;**
- **to be able to see if you have made a profit or loss during a certain period. Read**

more about this in the management accounting section of *Improve your business*.

**A stock book can consist of sheets laid out as shown below or just an exercise book in which you write down the items.**

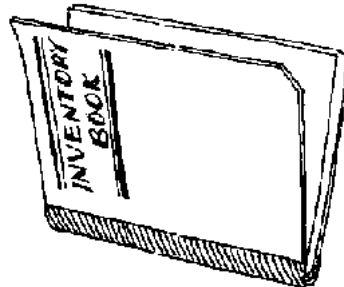
Stock-taking List Date:			
Article	Qty.	Price	Total
Total stock value			

<b>Stock-taking List</b>			
Date: <b>30.6.86</b>			
<b>Article</b>	<b>Qty.</b>	<b>Price</b>	<b>Total</b>
<b>Wood 12 x 5cm</b>	<b>10m</b>	<b>16</b>	<b>100</b>
<b>Wood 10 x 5cm</b>	<b>20m</b>	<b>20</b>	<b>400</b>
<b>Glue</b>	<b>5 l</b>	<b>60</b>	<b>300</b>
<b>Nails</b>	<b>8 kg</b>	<b>25</b>	<b>200</b>
<b>Unfinished products</b>			<b>400</b>
<b>Chairs</b>	<b>6</b>	<b>100</b>	<b>800</b>

<b>Tables</b>	<b>3</b>	<b>200</b>	<b>600</b>
Total stock value			<b>2.800</b>

### The inventory book

**It is advisable to keep records of your machines and equipment in a book. The main purpose is to give you information you need for management accounting. The inventory book provides you with information about the present value of your machines and equipment. Each year you should subtract some money from the value because the equipment wears out. Subtract one-fifth of the value each year. After five years of use the value in your inventory book will be nil. This reduction in value each year is called "depreciation" (see the management accounting section of *Improve your business*).**



**Figure**

DRILLING MACHINE 1983	
Price	10 000
Depreciation by year	2 000
Value by end of	
83	8 000
84	6 000
85	4 000
86	2 000

**Figure**

**An inventory book can consist of sheets laid out as shown, or just an exercise book.**