DOCUMENT RESUME

ED 199 421 CE 028 163

TITLE	PACE. A Program for Acquiring Competence in Entrepreneurship. Part III: Being an Entrepreneur. Unit C: Keeping the Business Records. Research and Development Series No. 194 C-3.
INSTITUTION	Ohio State Univ., Columbus. National Center for Research in Vocational Education.
SPONS AGENCY	Bureau of Occupational and Adult Education (DHEW/OE), Washington, D.C.
BUREAU NO	498AH60218
PUB DATE	80
GRANT	G007603930
NOTE	93p.; For related documents see CE 028 151-169.
AVAILABLE FROM	National Center Publications, The National Center for Research in Vocational Education, The Ohio State University, 1960 Kenny Rd., Columbus, OH 43210 (RD 194 C-3, $5.50. For prices for parts of the set and the entire set see CE 028 151).
EDRS PRICE	MF01/PC04 Plus Postage.
DESCRIPTORS	Adult Education; Behavioral Objectives; *Business Administration; *Business Administration Education; Competency Based Education; Curriculum Guides; Higher Education; Instructional Materials; Learning Activities; *Money Management; Postsecondary Education; Pretests Posttests; *Recordkeeping; *Records (Forms); Self Evaluation (Individuals); Units of Study
IDENTIFIERS	*Entrepreneurs; *Small Businesses

ABSTRACT

This three-part curriculum for entrepreneurship education is primarily for postsecondary level, including four-year colleges and adult education, but can be adapted for special groups or vocational teacher education. The emphasis of the eight instructional units in Part II is operating a business. Unit C focuses on record keeping. It introduces some of the most commonly used and most effective business record keeping forms available to small businesses. Topics include "how-to" techniques to make record keeping more understandable and workable; keeping business checkbooks, journals, ledgers, daily cash, and sales summaries, and other financial statements; and payroll, inventory, and production records. Material is organized into three levels of learning which progress from simple to complex concepts: Exposure, Exploration, and Preparation/Adaptation. Each level contains preassessment; teaching/learning objectives; substantive information (questions in margins guide the students' reading); activities, including a postassessment; and a self-evaluation. Definitions of important terms are found at the beginning of the unit; a bibliography and listing of sources for further information are appended. The four-page instructor's guide contains the teaching/learning objectives, teaching/learning delivery suggestions, and pre/postassessment suggested responses. (YLB)

Research and Development Series No. 194 C-3

P A C E

A PROGRAM FOR ACQUIRING COMPETENCE IN ENTREPRENEURSHIP

PART III: Being an Entrepreneur
UNIT C: Keeping the Business Records

The National Center for Research in Vocational Education
The Ohio State University
Columbus, Ohio 43210

1980

FUNDING INFORMATION

Project Title:	A Program for Acquiring Competence in Entrepreneurship (PACE)
Contract Number:	G007603930
Project Number:	498AH60218
Educational Act Under Which the Funds Were Administered:	Vocational Education Act of 1963, Part C, amended in 1968 and in 1976. PL 90-576 PL 94-482
Source of Contract:	Department of Health, Education, and Welfare United States Office of Education Bureau of Occupational and Adult Education Washington, DC
Project Officer:	David H. Pritchard
Contractor:	The National Center for Research in Vocational Education The Ohio State University Columbus, Ohio 43210
Executive Director:	Robert E. Taylor
Disclaimer:	The material for this publication was prepared pursuant to a contract with the Bureau of Occupational and Adult Education, U.S. Department of Health, Education, and Welfare. Contractors undertaking such projects under Government sponsorship are encouraged to express freely their judgment in professional and technical matters. Points of view or opinions do not, therefore, necessarily represent official U.S. Office of Education position or policy.
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PART III: BEING AN ENTREPRENEUR

UNIT C: KEEPING THE BUSINESS RECORDS

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FOREWORD

Traditionally vocational education has been geared primarily to preparing students for employment--to preparing employees. Yet there is another career path available; students can learn how to set up and manage their own businesses. They can become entrepreneurs.

Vocational education, by its very nature, is well suited to developing entrepreneurs. It is important that entrepreneurship education be developed and incorporated as a distinct but integral part of all vocational education program areas. A Program for Acquiring Competence in Entrepreneurship (PACE) represents a way to initiate further action in this direction.

The strength behind these instructional units is the interest and involvement of vocational educators and successful entrepreneurs in the state of Ohio and across the nation. Special recognition is extended to the project staff: Lorraine T. Furtado, Project Director and Lee Kopp, Program Associate. Appreciation is also expressed to the many who reviewed and revised the drafts of the units: Ferman Moody, Hannah Eisner, and Sandra Gurvis. We owe a special thanks to those consultants who contributed to the content of this publication: Carol Lee Bodeen, Louis G. Gross, Douglass Guikema, Peter G. Haines, Philip S. Manthey, Charles S. McDowell, Mary E. McKnight, Steven R. Miller, Barbara S. Riley, Barbara A. Rupp, Ruth Ann Snyder, Robert L. Suttle, Florence M. Wellman and Roy H. Young.

Robert E. Taylor
Executive Director
The National Center for
Research in Vocational Education

HOW TO USE PACE

A Program for Acquiring Competence in Entrepreneurship (PACE) is a curriculum responsive to the need for instruction in entrepreneurship. It is primarily for post-secondary level, including four year colleges and adult education, but it can also be adapted for special groups. PACE is divided into three parts (1) Getting Ready to Become an Entrepreneur, (2) Becoming an Entrepreneur (establishing a busines), and (3) Being an Entrepreneur (operating a business).

Each of the three parts has a set of instructional units which relate to that topic. Within these units, the material is organized into three levels of learning: Exposure, Exploration, and Preparation/Adaptation. These levels of learning progress from simple to complex concepts.

The levels of learning will enable you to use the PACE materials to suit your individual needs. You may find it best to work with the exposure level of one unit and the exploration level of another. Or, you may choose to pursue one level throughout the entire series. You might also want to work through two or more levels in one unit before going on to the next unit.

Before beginning a unit, discuss with your instructor what level or levels of learning in that unit are most appropriate to your goals and abilities. Read the unit overview and look through the pre/post-assessments for the three levels to help you in your choice. Also check the list of definitions you might need to look up or research for that level.

When you are ready to start, turn to the level you have chosen, take the preassessment and identify those items which you feel need special attention in the unit. Also look at the learning objectives; they will tell you what you should be able to do by the time you finish that level of learning.

As you read, you will notice questions in the margins alongside the substantive content portion of each level. Use these questions to guide your reading.

At the end of each level of learning are activities which help you become involved with the content presented in the unit. You and your instructor can decide on how many activities you should do; you may want to do some or all or you many need to do all.

Then, evaluate yourself. Is there any material that you need to review before you take the postassessment? The difference in your answers on the pre/postassessments should show you how much you have grown in your knowledge of entrepreneurship.

When you and your instructor feel that you have successfully completed that level, you are ready to begin another level of learning, either in the same unit or in another.

OVERVIEW OF THE UNIT

Many businesses suffer or fail because their owners do not keep adequate records of the firms' activities. This unit introduces you to some of the most commonly used and most effective business record keeping forms available to small businesses.

In addition, some of the "how to" techniques to make record keeping more understandable and workable for the small business owner are included. The unit discusses keeping business checkbooks, journals, ledgers, daily cash and sales summaries, and other financial statements. It also addresses the subject of payroll, inventory and production records.

Record keeping takes time. But the extra time required to keep an adequate set of records will more than pay off in terms of the results you can expect--greater profits.

DEFINITIONS TO KNOW BEFORE YOU BEGIN

As you read through a level, you might find some unfamiliar words. Listed below are several business terms used in each level. Knowing these before you begin might help you to better understand that level.

EXPOSURE

single-entry bookkeeping	debit	bank reconciliation statement
double-entry bookkeeping	daily sales & cash summary	gross pay
credit	accounts receivable	FICA

EXPLORATION

journal	accounts receivable
ledger	accounts payable
daily sales & cash summary	FICA

PREPARATION/ADAPTATION

double-entry bookkeeping	cash disbursement	cash flow
credit	bank reconciliation	quantity discount
debit	journal	single-entry bookkeeping
accounts receivable	depreciation	FICA
accounts payable	ledger	

PACE

PATH OF STUDY

PART I-- GETTING READY TO BECOME AN ENTREPRENEUR

Unit I A

Unit I B

Unit I C

PART II-- BECOMING AN ENTREPRENEUR

Unit II A

Unit II B

Unit II C

Unit II D

Unit II E

Unit II F

Unit II G

PART III -- BEING AN ENTREPRENEUR

Unit III A

Unit III B

YOU ARE HERE Unit III C -- Keeping the Business Records

Unit III D

Unit III E

Unit III F

Unit III G

Unit III H

EXPOSURE

EXPOSURE

PART III, UNIT C
KEEPING THE
BUSINESS RECORDS

PREASSESSMENT

Here are some questions that test for knowledge of the contents of this level. If you are very familiar with the information needed to answer them, perhaps you should go to another level or unit -- check with your instructor. Otherwise, jot down your answers. After you've read through this level, take the postassessment at the end of the "Exposure Activities" section and measure what you've learned.

1. Why is it important for a small business owner to keep business records?
2. What is the difference between a single-entry record keeping system and a double-entry system?
3. What information should appear on a business check stub?
4. "Reconciling a bank statements takes up a great deal of time. Really, it's doubtful if such time spent by the small owner is worthwhile. Banks don't often make mistakes!" Discuss this statement. Do you agree or disagree? Why?
5. What basic information should employee records include?

TEACHING/LEARNING OBJECTIVES

Upon completion of this level of instruction you should be able to:

1. Explain the necessity of keeping business records.
2. Describe the difference between the single-entry record keeping system and the double-entry system.
3. Describe the role of the checkbook in record keeping.
4. Reconcile a bank statement.
5. Identify suitable recording forms for accounts receivable.
6. Develop a simple record keeping system for payroll records.

SUBSTANTIVE INFORMATION

IMPORTANCE OF BUSINESS RECORDS

WHY KEEP RECORDS? Record keeping will give you information needed to:

- Know how well your business is currently doing
- Make future plans for your business
- Prepare various government reports including taxes.

Types of Business Records Needed

WHAT RECORDS DOES A FIRM NEED TO KEEP? The kinds of records you will need and the number of different records you will keep will depend on your business. For every record you keep, you should be able to answer these questions 1) How is the record used? 2) How important is the information? and 3) Is the data available elsewhere in an equally accessible form?

The record keeping plan you set up must provide the information you need to make various business decisions on stock, sales, expenditures, etc. and to prepare reports and documents. Try to keep all your records as simple as possible. As a small business owner, your record keeping system needs to be easily understood and accurately maintained without difficulty. You want good clean data that may be assessed quickly and easily. If necessary, you can consult an outside expert in these matters.

Single vs Double-Entry Bookkeeping

WHAT'S MEANT BY SINGLE-ENTRY AND DOUBLE-ENTRY BOOKKEEPING SYSTEMS?

There are two basic kinds of record keeping systems available. The double-entry system requires that you record each item in two different places such as in ledgers, journals or on cards and in two different ways using debits or credits. If you use the double-entry system, when a customer pays thirty dollars on account, you credit (reduce) the accounts receivable account and debit (increase) the firm's cash account. The item -- thirty dollars in this case -- therefore appears in two places.

A single-entry system requires that you record the item only once. A single-entry record system is probably adequate for you, especially in the beginning. It is inexpensive and easy to use. Many single-entry systems are available at office supply stores.

COMMON RECORD KEEPING NEEDS

ARE THERE ANY RECORDS WHICH ARE COMMON TO MOST BUSINESSES?

Every business has unique record keeping needs but there are some records that are common to most business. You may already be familiar with some of these. Most businesses must keep the following daily records up-to-date:

- The business checkbook
- Daily sales and cash summary
- Accounts receivable journal
- The bank reconciliation statement
- Basic payroll records.

The Business Checkbook

WHAT INFORMATION IS RECORDED IN THE BUSINESS CHECKBOOK?

The business checkbook is not very different from a personal checkbook. The business checkbook has two parts that must be filled out each time a check is written. The first part is the check itself which looks just like your personal checks. Exhibit A is an example of a business check.

Exhibit A

BUSINESS CHECK

CHECK STUB	Jones Plant Shop 4427 Cross Street Citytown, Ohio No. 976 Date November 21 1979 Pay to the order of Sunset Supply Company $476.00 Four hundred seventy six and 00/100 dollars Ronald K. Jones Signature Citytown Bank 5201 Stockdale Highway Citytown, Ohio 43220 4076•9432•776•06•06675••5

The [illegible] part, the business check [illegible] more detailed than those of individual personal checking accounts. The steps involved in preparing a check stub include filling in the spaces underlined in Exhibit B (next page). Check stubs contain space for information that you will need for the business records. You may need to complete some calculations to fill in the required data. The following information should be filled out; in this example, data is used from the check in Exhibit A:

- The check number, usually preprinted by the bank (976)
- The date the check was written (November 21, 1979)
- To whom the check was written (Sunset Supply Company)
- The purpose of the payment (50 prayer plants, 100 Boston Ferns, 80 Chinese Ferns)
- The balance brought forward from the last check (Bal. Bro't. For'd. — $2,590.00)
- Add any deposits that may have been made since the last deposit ($300)
- Add to find the new total ($2,890.00)
- Subtract the amount of this check ($476.00)
- Enter the new balance to be carried forward to the next check stub (Bal. Car'd For'd --$2,424.00)

Exhibit B

Business Check Stub

Check No. 976		$ 476.00
Date	November 21, 1979	
To	Sunset Supply Company	
For	50 Prayer Plants 100 Boston Ferns 80 Chinese Ferns	
Bal. Bro't For'd.		$ 2,590.00
Amt. Deposited		+ 300.00
Total		$ 2,890.00
Amt. This Check		476.00
Bal. Car'd For'd.		$ 2,424.00

Daily Sales and Cash Summar

WHAT IS THE DAILY SALES AND CASH SUMMARY?

The daily sales and cash summary provides you, the business owner, with two important types of information. First, it provides information concerning the correspondence of what you have in cash at the end of the day to what your sales receipts indicate you should have in cash. Consider the following daily sales and cash summary. At the end of the day you count your cash and it totals $520. This is your daily cash summary. You check and find credit sales for the day were $60, adding this $60 to your cash sales results in a daily sales summary of $580. When you total sales receipts and accounts receivable income, you get $570. There is a problem because of a

$10 difference. A series of questions might be asked: Was some transaction not recorded? Was an arithmetic error made? Was incorrect change given to a customer? Was an error made in recording the selling price? It's better to complete a daily summary and find and possibly correct the error that day than to find it at the end of the month.

Second, the daily sales and cash summary provides data which can be used in completing other records that tell you how well your business is doing.

Although forms for a daily sales and cash summary vary, all forms should include the following basic information:

- The date
- The cash and charge sales
- Income received on accounts receivable (money owed to business)
- Total cash received.

More detailed daily sales and cash summaries might break these entries down to provide additional information to meet specific recordkeeping needs. Exhibit C is the daily sales and cash summary form for July 7, 1978, for a firm whose cash sales for the day totaled $624, charge sales were $150, and accounts receivable amount received from credit customers paying on their accounts were $70.

The completed daily sales and cash summary should look like this:

Exhibit C

DAILY SALES AND CASH SUMMARY

Date July 7, 1978

Cash sales	$ 624.00
Charge sales	150.00
Accounts receivable	70.00
Total sales and cash received	$ 844.00

Accounts Receivable Journal

HOW DO YOU RECORD ACCOUNTS RECEIVABLE?

Many small businesses extend credit to their customers. A set of records for these sales needs to be kept. Perhaps your firm will extend its own credit to its customers inste of working with one of '' national or bank credit card companies. If it does, you will need to keep records of what your credit customers owe and have paid. This is really your only account of how much they owe your business. Exhibit D is an accounts receivable record.

Exhibit D

ACCOUNTS RECEIVABLE RECORD

Customer Mr. Maurice Johnson Phone (517) 487-8152

Address 227A South Park Avenue
East Lansing, MI 48823

Date	Details	Charge	Payment	Balance
Oct. 14, 1977	Sales Slip #2004	$150		$150
Oct. 29, 1977	Check #946		$100	50
Nov. 5, 1977	Check #1007		50	-0-
Nov. 15, 1977	Sales Slip #3728	45		45

Bank Reconciliation Statement

HOW DO YOU RECONCILE THE BANK STATEMENT?

Each month the bank sends you a record of the deposits and checks written on your firm's bank account. Ideally, the balance shown on the bank statement should always correspond to the balance shown on your check stub. Unfortunately, this almost never happens. Checks may still be out, having not been cashed by the person or firm they were issued to. Deposits may not have been recorded by the bank before the bank statement was prepared. Therefore, you need to reconcile the bank statement with your records. Reconciling is just a way to assure agreement between your record keeping data and the bank's information. Exhibit E lists steps you might use to reconcile the bank statement. Exhibit F is a reconciled bank statement.

Exhibit E

ELEMENTS OF A BANK RECONCILIATION STATEMENT

Information	Steps
1. Bank statement balance	1. Enter balance amount shown on bank statement
2. Deposits not credited	2. List any bank deposits not recorded on the statement
3. Total deposits	3. Total these deposits
4. Total	4. Add the total deposits to the bank statement
5. Outstanding checks	List any checks not recorded as cash.
6. Total checks	6. Total the amount of the checks
7. Adjusted balance	7. Subtract the total checks from the total in #4
8. Checkbook balance	8. Enter balance shown on last check stub
9. Bank service charge	9. Subtract the bank service charge to get the total in #10. Line #10 should match line #7.
10. Final checkbook balance	

Exhibit F

BANK RECONCILIATION STATEMENT		
Bank statement balance		$ 2,760.00
Deposits not credited	$ 780.00	
	640.00	
	940.00	
Total Deposits	$2,360.00	2,360.00
Total		$ 5,120.00
Outstanding checks	$ 50.00	
	1,002.00	
	35.00	
Total checks	$1,087.00	1,087.00
Adjusted balance		$ 4,033.00
Checkbook balance		$ 4,035.00
Bank service charge		$ 2.00
Final checkbook balance		$ 4,033.00

Payroll Records

WHAT RECORD KEEPING IS USED FOR THE PAYROLL?

Businesses often have separate employee payroll checkbooks. Most employee paychecks include a tear off check with payroll information. This section probably contains the following:

- Gross pay
- Net pay
- Social Security deduction (FICA)
- State disability insurance (if applicable)
- Federal tax deduction
- State and/or local tax deduction, if applicable

- Insurance deductions, if applicable
- Other deductions.

As the employer, you also will want to record the following information for each part-time or full-time worker:

- Total wages earned
- Hours worked (if applicable)
- Overtime earnings
- Deductions taken from wages
- State unemployment insurance
- State disability insurance (if applicable)
- Federal income taxes
- Social Security taxes (FICA)
- State and/cr local income taxes, if applicable
- Other deductions, including health and accident insurance, life insurance,and credit union deposits.

As an employer, you will have to figure and record the wages and deductions of each employee. You should record this information carefully and accurately. Not only will you want to record this information in the checkbook but you will also want to record the information in a payroll register. By doing this, your payroll information will be kept in a form that you can use for computing and preparing business and tax reports.

At the end of each quarter, you will need to report federal income taxes, Social Security taxes (FICA), and state and/or local income taxes, if applicable, withheld from each employee. The Internal Revenue Service, (IRS) will provide you with a booklet explaining how deductions are to be calculated. It contains charts which you can use to determine how much to deduct and instructions on how to submit monies withheld.

EXPOSURE ACTIVITIES

As you have just read, record keeping is very important to all businesses. Now that you have learned about some record keeping tools such as checkbooks, daily sales and cash summaries, accounts receivable records, bank reconciliation statements and payroll records, try these activities.

ASSESSMENT ONE

TEST YOUR RECORD KEEPING SKILLS

Record keeping might not be as difficult as you think. Fill in the following forms, and check your answers against the examples (Exhibits) discussed in this level.

1. Using the information in Exhibit A, fill in the following check stub:

Business Check Stub

Check No.___ $_______________

Date_________________________

To___________________________

For__________________________

Bal. Bro't For'd.________________

Amt. Deposited________________

Total________________________

Amt. this check________________

Bal. Car'd For'd.________________

How well did you ᴄ Check your calculations against Exhibit B.

2. Fill in this daily sales and cash summary. Assume that it is the daily sales and cash summary form for July 7, 1978, for a firm whose cash sales for the day totaled $624.00, charge sales were $150.00, and accounts receivable were $70.

DAILY SALES AND CASH SUMMARY	
Date ______________	
Cash sales	______________
Charge sales	______________
Accounts receivable payments	______________
Total sales and cash received	______________

The correct figures are in Exhibit C.

3. Fill in the accounts receivable record below, using the following information:

Mr. Maurice Johnson is your customer. On November 5, 1977, he made a payment of $50, with check #1007; and on November 15, 1977, he made a credit charge of $45 that is recorded on sales slip #2738. What is Maurice Johnson's new balance?

ACCOUNTS RECEIVABLE RECORD

Customer Mr. Maurice Johnson phone (517) 487-8152

Address 227A South Park Avenue

East Lansing, Michigan 48823

Date	Details	Charge	Payment	Balance
Oct. 14, 1977	Sales slip #2004	$150		$150
Oct. 29, 1977	Check #946		$100	$50

To check your answer, look at the completed accounts receivable record shown in Exhibit D.

4. Use the following information to complete this bank reconciliation statement:

Bank statement balance	$ 2,760.00
Deposits not credited	$ 780.00 640.00 940.00
Outstanding checks	$ 50.00 1,002.00 35.00
Balance shown on the last check stub	$ 4,035.00
Bank service charge	$ 2.00

BANK RECONCILIATION STATEMENT

Bank statement balance		________
Deposits not credited	________	
	________	
	________	
	________	
	________	
Total Deposits	________	________
Total		________
Outstanding checks	________	
	________	
	________	
	________	
	________	
Total Checks		________
Adjusted balance		________
Checkbook balance		________
Bank service charge		________
Final checkbook balance		________

Check your answers against Exhibit F.

ASSESSMENT TWO

1. Make arrangements to interview an accountant in your community. Find out if the accounting firm sets up record keeping systems and what they charge. If they were to establish a record keeping system for your firm, which records would your firm need to maintain and which would the accounting firm handle?

2. Go to a local office supply firm and see what commercial forms are available for record keeping. Would these forms be adequate for your business?

3. Explain how record keeping helps business owners make good managerial decisions.

4. What information must appear on an accounts receivable record?

POSTASSESSMENT

1. Why is it important for a small business owner to keep accurate business records?
2. Explain the different between a single-entry record keeping system and a double-entry system.
3. Describe the information that should appear on a business check stub.
4. "Reconciling a bank statement takes up a great deal of time. Really, it's doubtful if such time spend by the small owner is worthwhile. Banks don't often make mistakes!" Discuss this statement. Do you agree or disagree? Why?
5. Identify and describe the basic information employee records should include.

Compare your answers to your responses to the preassessment. You may want to check your postassessment answers with your instructor.

SELF-EVALUATION

How well did you know the information needed to do the activities?

( ) Very well

( ) Fairly well

( ) A little.

Be honest with yourself. If you feel you don't know the material well enough, it might be helpful to review this section before going on.

EXPLORATION

PREASSESSMENT

Here are some questions that test for knowledge of the contents of this level. If you are very familiar with the information needed to answer them, perhaps you should go to another level or unit -- check with your instructor. Otherwise, jot down your answers. After you've read through this level, take the postassessment at the end of the "Exploration Activities" section and measure what you've learned.

1. What kind of information can good business records provide the entrepreneur?
2. What sources are available to the beginning entrepreneur which help set up the firm's record keeping system?
3. What information should be included in accounts receivable and accounts payable records?
4. Distinguish between journals and ledgers.
5. How might income and expenses be recorded in a general ledger?

TEACHING/LEARNING OBJECTIVES

Upon completion of this level of instruction, you should be able to:

1. Describe the basic reasons for keeping business records.
2. Identify sources that provide assistance in performing record keeping tasks.
3. Identify daily sales and cash summary records.
4. Set up simple accounts receivable and accounts payable records.
5. Explain several uses of payroll records and identify the information that these records need to include.
6. Explain the purposes of inventory records and production records.

SUBSTANTIVE INFORMATION

EFFECTIVE RECORD KEEPING

WHY KEEP RECORDS?

Some financial advisers believe that developing a personal budget and keeping financial records are crucial. Others believe that a simple system that will give you the kind of information you need to prepare your income tax report is adequate. Keeping personal financial records is really a matter of choice. As a business owner you have no choice, you must keep record of income and expense for your business daily, monthly, quarterly, and yearly. It may sound like a lot of paperwork, but it is necessary.

Good records can be used to manage your business successfully, and can provide you with:

- A current and accurate picture of sales and operating costs, inventory levels, credit totals, and fixed and variable costs
- Data needed to compare your firm's current growth rate to growth in previous years and to this year's goals
- Data needed to prepare financial statements--financial analysis is not possible without accurate records
- Figures to compare your firm with similar businesses
- Financial information to use with potential investors and creditors
- Information needed to prepare and substantiate various government reports including tax returns
- A method to control inventory and stock levels.

Business records give you the data necessary to formulate answers to these basic questions identified by the Small Business Administration (SBA).

> 1. *How much business am I doing?*
> 2. *What are my expenses? Which expenses appear to be too high?*
> 3. *What is my gross profit margin; my net profit?*
> 4. *How much am I collecting on my charge business?*
> 5. *What is the condition of my working capital?*
> 6. *How much cash do I have on hand and in the bank?*
> 7. *How much do I owe my suppliers?*
> 8. *What is my net worth; that is, what is the value of my ownership of the business?*
> 9. *What are the trends in my receipts, expenses, profits, and net worth?*
> 10. *Is my financial position improving or growing worse?*
> 11. *How do my assets compare with what I owe? What is the percentage of return on my investment?*
> 12. *How many cents out of each dollar of sales are net profit?*
>
> *These and other questions may be answered by preparing and studying balance sheets and profit-and-loss statements. To prepare these fundamental statements you need to record information and transactions as they occur. By keeping this information in an orderly fashion and in sufficient detail you can answer other vital questions about your business; such as, "What products, or services, do my customers like best, next best, and so on? Do I have the right merchandise in stock to give them what they like? Am I prepared to render the services they demand most? How many of my customers are slow in paying their bills?"*
> (<u>Starting and Managing a Business of Your Own</u>, 1973, page 67)

New studies of unsuccessful business ventures show that poor record keeping is one reason for business failure. Without the data good records contain, the owner cannot make sound managerial decisions.

Responsibility For Keeping The Records

WHO KEEPS THE RECORDS?

Bookkeeping systems range from simple to complex. The answer to the question, "Who keeps the records?" may depend upon how experienced you are at bookkeeping or how complex your record keeping system needs to be. However you handle your bookkeeping does not eliminate the need for you to check the records periodically and to use them in planning the firm's activities and help in decision-making.

When you first start out in business, you might choose to keep your own records. However, you might eventually find that this takes too much of your time--time that might be better spent in performing other business management taks. If you have employees, you might want to assign some record keeping tasks to them. Your employees could be responsible for making the daily entries. Or hiring a part-time bookkeeper might be the solution, especially at the beginning. Often the new business owner simply cannot afford to go out and hire an outside firm to set up the bookkeeping system.

As your business grows larger, you may want to hire a full-time bockkeeper who will make the daily entries for the company. You may also want to consider hiring an accounting firm to help you design or redesign your record keeping procedures, prepare your tax reports, and conduct regular financial analyses of your business.

Assistance Available

WHERE CAN YOU GET HELP?

Most often the beginning business owner simply cannot afford to go out and hire an outside firm to set up the record keeping system. If you feel that you need some help, do you know where you can get help free or at a nominal cost? Several alternatives are available to you.

Suppliers or trade associations related to your type of business can provide you with guidelines or sample accounting records. The advantage of using these services is that the information and forms would be tailored to your particular business area.

Also, be sure to take a look at the resources available at your local office supply stores. Many of these stores carry some convenient single-entry systems. Simplified record keeping books can save you much time.

Colleges with business courses very often welcome the chance to use "real live" case studies for their business students. Is there a college in your area that might like to use your firm as a prototype for which the class would set up a record keeping system? If this is not feasible, perhaps an instructor could suggest a student that would like to set up your record keeping system as an independent study.

Government agencies designed to help small businesses are also a source of help. The agencies not only offer classes in record keeping, but also provide consultant services. Two such agencies are the Small Business Administration (SBA) listed under "U.S. Government" in the phone book and the Office of Minority Business Enterprise (OMBE) listed in the phone book under your state government offices for "economic development" or "community development."

TYPES OF BUSINESS RECORDS

ARE THERE DIFFERENT (cont'd)

How many and what kinds of records should you keep for your firm? This will depend upon your particular operation.

TYPES OF RECORDS FOR DIFFERENT KINDS OF BUSINESSES?

The list below includes records which might help your business. You will need to assess their value.

<u>*Inventory and Purchasing*</u> *(These records provide [illegible] buying and [illegible]*

Inventory Control Record
Item Perpetual Inventory Record
Model Stock Plan
Out-of-Stock Sheet
Open-To-Buy Record
Purchase Order File
Open Purchase Order File
Supplier File
Price Change Book
Accounts Payable Ledger

<u>*Sales Records*</u> *(These records reveal facts to determine sales trends.*

Record of Individual Sales Transaction
Summary of Daily Sales
Sales Plan
Sales Promotion Plan

<u>*Cash Records*</u> *(These records show what is happening to cash.)*

Daily Cash Reconciliation
Cash Receipts Journal
Cash Disbursements Journal
Bank Reconciliation

<u>*Credit*</u> *(These records keep track of who owes you and whether they are paying on time)*
Charge Account Application
Accounts Receivable Ledger
Accounts Receivable Aging List

<u>*Employees*</u> *(These records maintain information legally required and are helpful in the efficient management of personnel.)*
Record of Employee Earnings and Amounts Withheld
Employee's Withholding Exemption Certificate (W-4)
Record of Hours Worked
Record of Expense Allowances
Employment Applications
Record of Changes in Rate of Pay
Record of Reasons for Termination of Employment
Record of Employee Benefits
Job Description
Crucial Incidents Record

Fixtures and Property (*These keep facts needed for taking depreciation allowances and for insurance coverage and claim.*)

Equipment Record
Insurance Register

Bookkeeping (*These records, in addition to some of the above, are needed if you use a double-entry bookkeeping system.*)

General Journal
General Ledger

(Adapted from Starting and Managing a Business on Your Own, 1973, p. 68)

Journals, ledgers, inventory records, and production records will be examined in greater detail in the next sections.

JOURNALS AND LEDGERS

WHAT ARE JOURNALS AND LEDGERS?

You may find when you purchase record keeping forms that the words "journal" and "ledger" may not be used consistently or may even be used together. Even though the idea behind the record keeping system may be more important than the terms used, it is helpful to become familiar with the general use of each term. The word "journal" is used for records where the original entry is made or posted. The word "ledger" is used for records that represent summaries or a running account of the income and expenses of the business.

Journals

WHAT ARE THE DIFFERENT TYPES OF JOURNALS?

There are several different journals. They include 1) the daily sales and cash summary, 2) accounts receivable, 3) accounts payable, and 4) the payroll register.

Daily Sales and Cash Summary

WHAT IS THE DAILY SALES AND CASH SUMMARY?

The daily sales and cash summary is a summary of the amount of cash received, charge sales, and collections from accounts receivable (money owed to the business from credit transactions) for a particular day.

Entries must be made accurately and daily since they provide this basis for many other records. Information from the daily sales and cash summary can be used by you, the owner, in a variety of ways. It can be used as a daily check on the accuracy of your daily income records to analyze you firm's progress towards its goals and to help you make future plans. In addition, your sales records will help you analyze advertising effectiveness. They will help you determine the amount of inverntory your firm should have on hand.

The daily sales and cash summary forms range from simple to complex depending on the firm's needs. You can probably design a form that best meets the needs of your business. Exhibits G and H are two types of daily sales and cash summaries.

Exhibit G

Daily Sales and Cash Summary

Date August 5, 1979

Cash sales	$435.00
Charge sales	75.00
Accounts receivable	80.00
Miscellaneous	10.00
	$600.00

Exhibit H

Daily Sales and Cash Summary

Date August 5, 1978

Receipts

1.	Cash Sales	$ 435.00
2.	Accounts Receivable	80.00
3.	Miscellaneous	10.00
4.	TOTAL CASH RECEIPTS	$ 525.00

Cash Count

5.	Cash in Register		
	Checks	$ 65.00	
	Currency	695.00	
	Change	25.00	$ 785.00
6.	Cash and Checks in Vault		35.00
7.	Petty Cash Slips		5.00
8.	TOTAL CASH		$ 825.00
9.	Less Bank Deposit		$ 500.00
10.	ENDING CASH		$ 325.00

Total Sales

11.	Cash Sales - Line 1	$ 435.00
12.	Charge Sales	75.00
13.	TOTAL SALES	$ 510.00

By ______________________

Signature

Recording Accounts Receivable

HOW DO YOU RECORD ACCOUNTS RECEIVABLE?

The accounts receivable journal is your record of how much is owed to your business by your credit customers. If your business extends credit to its customers, you will want to make entries in the accounts receivable journal daily and review the journal monthly. Daily recording of any new credit given or payments made will give you a current picture of the credit status of each customer. A weekly or monthly analysis of your total accounts receivable records can help you make decisions on extending credit and prepare accurate billings. This analysis maintains good customer relations, while evaluating your firm's credit and collection policies.

Small firms often keep their accounts receivable records on file cards or in an loose-leaf binder. For each customer you will need a separate sheet or card to be filed alphabetically. A typical accounts receivable record might look like Exhibit I.

Exhibit I

Accounts Receivable

Customer Mr. Jose Maney Phone (614) 487-6214

Address 47 South Fourth Street, Columbus, OH 43210

Date	Details	Charge	Payment	Balance
March 7, 1977	Sales slip #237	$457.00		$457.00
May 6, 1977	Check #972		$250.00	207.00
June 1, 1977	Check #1007		207.00	-0-

Recording Accounts Payable

WHAT DO YOU RECORD IN ACCOUNTS PAYABLE?

In the accounts payable journal you record amounts your business owes others for cash items as inventory purchases, repair services, and taxes due from payroll. Every entrepreneur wants to maintain accurate records of the firm's liabilities.

A typical accounts payable record might look like Exhibit J. Like the accounts receivable records, you will keep separate accounts payable records for each supplier and service firm.

Exhibit J

Accounts Payable Record

Name Avid Supply Co. Phone (805) 854-1721

Address 157 West 5th St., Bakersfield, CA.

Date	Invoice No.	Charge	Payment	Balance
9/11/79	6734	$427.00		$427.00
11/01/79	6734		$427.00	-0-

Payroll Register

WHAT PAYROLL RECORDS DO YOU NEED?

It is important that you, as an employer, keep accurate employee payroll records. These records are not only important for you and your employees, but the information they contain is needed at tax time.

Payroll records for both part-time and full-time workers also show total hours worked (if applicable), wages, and all deductions from wages. Payroll records might include the firm's information shown in Exhibit K. A sample entry form for inf ion for an hourly wage employee is shown in Exhibit L.

You might add or delete items from the following samples depending on your firm's practices and employee benefit programs.

Exhibit K

<u>Sample Payroll Register</u>

____________	Name of Employee
____________	Social Security Number
____________	Number of Exemptions
____________	Ending Date of the Pay Period
____________	Hours Worked (if applicable)
____________	Rate of Pay
____________	Total Wages
____________	Deductions (itemized to include: federal income tax, FICA - social security, state and/or local income tax and state disability insurance - if applicable. Other deductions might include health insurance and r :rement fund.)

Exhibit L

THE NATIONAL CENTER FOR RESEARCH IN VOCATIONAL EDUCATION

TIME & ATTENDANCE CERTIFICATION

Pay Period ______________ From ______________ To ______________

Work Status (check one):

☐ Classified ☐ Temporary ☐ Student ☐ Casual

Name ______________ Center ID Number ______________

Date	Days	Time In	Time Out	Time In	Time Out	Hours Worked	Overtime Prog. Code	Overtime Hours
	Mon					.		.
	Tues					.		.
	Wed					.		.
	Thur					.		.
	Fri					.		.
	Sat					.		.
	Sun					.		.
	Mon					.		.
	Tues					.		.
	Wed					.		.
	Thur					.		.
	Fri					.		.
	Sat					.		.
	Sun					.		.
Total Hours Worked During Period						.		.

INSTRUCTIONS

1. Indicate total hours worked each day (lunch hour is assumed unless otherwise specified).
2. Do Not Indicate Lunch Hour!
3. Report absences to Personnel Services using the Application for Leave (Form 5171).
4. All hours worked over 40 hours during a week are to be marked as overtime.
5. All overtime hours must be accompanied by a Program Code.
*6. ALL OVERTIME MUST HAVE PRIOR APPROVAL OF THE DEPUTY DIRECTOR.
7. Conversion scale of minutes to tenths

Minutes	Tenths
5	.1
10	.2
15	.3
20	.3
25	.4
30	.5
35	.6
40	.7
45	.8
50	.8
55	.9
60	1.0

I hereby certify that the information above is complete and accurate for the time period indicated

Employee ______________ Assoc. Dir. ______________

Supervisor ______________ Overtime Approval ______________
Deputy Director

DO NOT WRITE BELOW THIS LINE

Payroll ______________
Sick Leave ______________
Vacation ______________

Overtime Rate ______________
Overtime Hours ______________
Excused Absence: Code ________ Hrs. ________

OSU ID No. ______________ Title ______________ Title Code ______________

Class ________ Range ________ Step ________ Hourly Rate ________

☐ STRS ☐ PERS ☐ HOSP ☐ MML ☐ LTD ☐☐ VACATION DAYS

Checked by ______________

NCRVE Form MPRS2

Ledgers

HOW WOULD INCOME AND EXPENSES BE RECORDED IN THE LEDGER?

Ledger entries can be used for preparing the financial statements needed for financial planning and decision-making. Information can be transferred to various rosters in summary form. One method of using a ledger is to record summaries or balances of assets, liabilities, and net worth of your business.

Income and expense entries are also recorded in ledgers. The entries in the income portion of the ledger will include accounts that describe income items of the business. The expense ledger entries probably reflect the largest grouping of accounts which, in turn, reflect groupings of your most frequent expenses.

An account number is put next to each item in a ledger. These numbers sequence the accounts, making it easier to enter transactions and summaries from your journal. For example, in an income ledger, all businesses will have a sales account which would show the amount of sales. You might want to record the ledger account number on the stub of your check to make record keeping easier. Exhibit M illustrates some accounts that might be included in income and expense ledgers.

Exhibit M

INCOME LEDGER		EXPENSE LEDGER	
Account No.	Item	Account No.	Item
500	Sales	600	Salaries & Wages
510	Repair Service Income	601	Payroll Taxes
		610	Rent
590	Miscellaneous Income (for example, sale of stock)	620	Office Supplies
		630	Insurance
		640	Utilities
		650	Travel
		690	Miscellaneous Expense

INVENTORY AND PRODUCTION RECORDS

HOW WILL INVENTORY RECORDS HELP?

Inventory records are needed for the control and security of inventory items. These records will also supply you with information for use in purchasing, maintaining appropriate stock levels and computing stock turnover ratios. The information you get from your inventory records will help you make many business decisions. For example, it will help you decide whether you have too much or too little stock.

Having too large an inventory may not only tie up too much capital, but may cause you to lose capital since the stock may become outdated and of little value. The cost of maintaining an unnecessarily large inventory because of the lack of proper control records may put you out of business.

For example, assume you are the owner of a local tropical fish store, and purchase the fish from a breeder located 800 miles away. You must be able to project your inventory needs quite accurately, based on current sales. Should you project your sales too high, you could end up with a large inventory of fish that wil. not sell and that are very costly to maintain. On the other hand, too small an inventory will cause customer inconvenience and missed sales opportunities.

Keeping production records help regulate the production process. The information recorded can be used as a basis for determining costs, such as expenses resulting from underused or improperly used machines or from unproductive employees.

EXPLORATION ACTIVITIES

Do you feel knowledgeable enough about record keeping to put into practice some of the skills discussed? The following activities will help you experience some "real" record keeping si   ions t give you an opportunity to utilize w   you have earned. After completing the activities, a a self-evaluation to check your understanding of the material.

ASSESSMENT ONE

1. Name at least five reasons why you should have a detailed record keeping system for yo business.
2. Briefly discuss three types or records tha ou are   you will keep for your
3. Outline a plan establishing your record keeping system. Be sure to determine who will maintain the records and the type of records you will keep.

POSTASSESSMENT

1. What kind of information can good business records provide the entrepreneur?
2. Discuss the assistance a beginning small business owner might get from various resources to help set up the firm's record keeping system.
3. Identify the information that should be included in accounts receivable and accounts payable records.

4. Distinguish between journals and ledgers.
5. Describe how income and expenses might be recorded in a general ledger.

Compare your answers to your responses to the preassessment. You may want to check your postassessment answers with your instructor.

SELF-EVALUATION

How well did you know the information needed to do the activites?

( ) Very well

( ) Fairly well

( ) A little.

Be honest with yourself. If you feel you don't know the material well enough, it might be helpful to review this section before going on.

PREPARATION/ ADAPTATION

PREPARATION/
ADAPTATION

PART III, UNIT
KEEPING THE
BUSINESS RECORDS

PREASSESSMENT

Here are some questions that test for knowledge of the contents of this level. If you are very familiar with the information needed to answer them, perhaps you should go to another level or unit -- check with your instructor. Otherwise, jot down your answers. After you've read through this level, take the postassessment at the end of the "Preparation/Adaptation Activities" section and measure what you've learned.

1. From what data sources can entries be made into ledgers and journals?
2. What is a double-entry bookkeeping system? What are the rules for posting debits and credits?
3. What data should be included in order to maintain an accurate payroll register?
4. What information does a daily sales and cash summary include?
5. Describe cash disbursement journal.

TEACHING/LEARNING OBJECTIVES

Upon completion of this level, you should be able to:

1. Discuss the importance of business records.
2. Describe the uses and types of journals and ledgers.
3. Describe double-entry bookkeeping.
4. Construct and use a payroll record sheet.
5. Explain the necessity of cash flow recording procedures.
6. Explain and prepare a bank reconciliation statement.

SUBSTANTIVE INFORMATION

IMPORTANCE OF RECORD KEEPING

WHY SHOULD A NEW BUSINESS-OWNER KEEP RECORDS?

As you start your business venture, you might wonder, "Why go to all the trouble and fuss of keeping business records if during the first year or so of operation of my business will be small?" A partial list of reasons for having a good record keeping system would include the following:

1. Awareness of profitability
2. Awareness of sales growth
3. Return on investment to you, the owner
4. Calculation of profit
5. Income tax requirements
    a. Federal
    b. State
    c. Local
6. Information for your creditors (people or firms you might owe money)
7. Information for the investors in your business (stockholders or partners)
8. Control of investment in
    a. Inventory
    b. Accounts receivable
    c. Building and equipment.

Unfortunately, many new small business owners believe they must spend countless hours on ledgers, journals and posting and are therefore bewildered about bookkeeping. Business record keeping begins with basically two kinds of records-journals or books or original entry and ledgers of various accounts. A journal or book of original entry is used to record business transactions. Sometimes there are noncash items such as depreciation and other expenses incurred but not paid in the journal. But for the most part, a journal represents the book of original entry. Journals may be considered as the first level of business records. The second level is commonly named the book of accounts or the general ledger. Basically, the general ledger is a record of the balance of the assets and liabilities, and the net worth of the business. The general ledger also accumulates the sales and expense items by categories. There are also single-entry (one book) and double-entry record keeping systems. Many small firms do not need a double-entry bookeeping system; a single-entry system is adequate. But even a good double-entry system should not be bewildering.

Problems also arise when business owners do not understand accounting and fail to keep proper records. The owners do not know if the business is operating at a profit or loss until they compute the "bottom line" at tax time or at the end of the year when an accountant is hired to analyze the operation. The business owner needs to know where the business is going on a day-to-day basis. Yearly financial reports are important and useful, but timely knowledge on operating conditions is even more important if the small business owner is to make effective business decisions.

Basic to the sound financial management of your business is an accounting system that is easy to maintain and furnishes all the necessary information. Many self checking devices exist in a properly designed system such as a double-entry bookkeeping, trial balance, and reconciliation of your cash disbursement with the bank. An important part of maintaining adequate records is an accurate, up-to-date picture of the accounts receivable and accounts payable. Good record keeping is not just a necessity but a tool. How well you use that tool will determine to a large degree the livelihood and success of your business.

Sources of Financial Data

WHAT ARE SOME SOURCES OF FINANCIAL DATA?

The financial records of a business start with information which reflects a transaction. A transaction can be a sale of goods or purchase of your firm's primary service. The records may consist of the following:

- Adding machine tape
- Cash register tape
- Sales book invoices or receipts
- Cancelled checks and deposit slips from your bank's statement
- Any other piece of paper that has financial information recorded on it.

Your records can take many forms. Regardless of the devices you use, time between the transaction and the recording of the transaction is an important element. If a cash register tape or a duplicate sales receipt is used, these acts are performed simultaneously. Cash registers will automatically provide totals of different types of transactions. Salesbook forms must be summarized by running adding machine totals of the slips. Transactions should be recorded simultaneously or shortly thereafter to avoid misplacing any documents or forgetting to record the sales or purchases.

Organizing Various Records

ARE THERE DIFFERENT TYPES OF RECORDS?

Record keeping devices should be constructed so that they are easy to use, reflect accurately what took place, and contain enough information for further summary and utilization. Records can be categorized into three areas:

1. Journals or books of original entry
2. Ledgers or books of various accounts
3. Merchandise inventory.

Each category will be discussed in later sections in this level.

DOUBLE-ENTRY BOOKKEEPING

WHAT IS DOUBLE-ENTRY BOOKKEEPING?

A self-checking device known as double-entry bookkeeping can be practiced. Double-entry bookkeeping is based on the rule that for every debit there must be a credit, and performs the following functions:

- It records every transaction twice.
- It leads to a process of recapping the entries whereby the total of debits must equal the total of credits.

Entries are recorded twice. The recording of one transaction requires the debiting and crediting of two accounts. Exhibit N is a decision table or a matrix that illustrates relationships between bookkeeping entries (debits and credits) and the accounts of your business.

Exhibit N

Decision Table of Debit and Credit Entries			
Type of Account	Debit Entry	Credit Entry	Normal Balance in Financial Statement
Asset Examples: Cash Accounts Receivable Inventory Equipment	+ (Increase)	- (Decrease)	Debit
Liabilities Example: Accounts Payable	- (Decrease)	+ (Increase)	Credit
Capital Example: Net Worth	- (Decrease)	+ (Increase)	Credit
Income Example: Sales	- (Decrease)	+ (Increase)	Credit
Expense Example: Salaries	+ (Increase)	- (Decrease)	Debit

The column on the left-hand side of the table shows some typical accounts your business would have in a financial statement. Across the top of the table are the columns for the two entries that could be made to an account (debit or credit) and what the normal balance of the account is. Assume your firm has had a cash sale. This transaction will increase cash and income. The increase for cash is a debit entry (+) and the increase for sales which is a source of income is a credit or (-) entry. The journal entry then should reflect that a debit is made to the cash account and a credit entry is made to the sales account for merchandise sold.

In summary, then, every transaction must consist of debits and credits that offset or balance each other. Assets and expenses are increased by debits and decreased by credits. Liabilities and income are increased by credits and decreased by debits.

JOURNALS OR BOOKS OF ORIGINAL ENTRY

WHAT ARE THE JOURNALS MOST COMMONLY USED BY SMALL BUSINESSES?

The sales journals, accounts receivable records, accounts payable records, and payroll records are record keeping devices which provide significant information for financial control of the firm. These journals are most often used by small business.

Sales Journals

WHAT ARE THE TYPES OF SALES JOURNALS?

The foundation of your record keeping system is the sales or a similar type of journal. The most commonly used are cash register tapes or sales book receipts. These are essential original journal entry records. The cash register not only stores daily operating cash, but also records each transaction in the form of a printed transaction that will appear on the tape. It may contain the date of the transaction, the amount, symbols to denote type of merchandise sold, and possibly a sequential number after each entry. The sales book receipts or carbons contain basically the same information as a cash register tape but can also provide a brief description of the transaction. Since this journal is either handwritten or typed, it is more flexible than a cash register tape. Usually a business that has a large volume of transactions will utilize a cash register whereas a business with fewer transactions will use salesbook records.

Accounts Payable and Receivable

WHAT ARE ACCOUNTS PAYABLE AND RECEIVABLE SYSTEMS?

If your business makes sales on a credit basis, you will be carrying accounts receivable. Accounts receivable is a ledger or a book of accounts for your business. It is essential that you maintain a record for each customer. Some small firms use a 5 X 8 card for each customer and record each credit sale and payment. Many firms use a lined ledger sheet similar to Exhibit O which is then maintained in a loose-leaf notebook or ledger.

Exhibit O

Accounts Receivable Record

Name: Clair Ann Bigs — (614) 455-2748 phone
Address: 1482 C Street
City: Ontario, OH 43220

Date	Sales Slip Number	Charge (Debit)	Payment (Credit)	Balance

In a double-entry bookkeeping system, accounts receivable would be entered as a credit sales as:

Debit - Accounts Receivable

Credit - Sales.

The originating transaction would be the sales slip. Regardless of the type of bookkeeping system used, the total figure for individual accounts due to the business should agree with the total amount of accounts receivable shown on the balance entry.

Another essential record which must be maintained is an accounts payable record keeping system. Accounts payable are what your firm owes others for items such as purchases of inventory, services such as repairs, or taxes due for payroll. When you receive the actual shipment of inventory, keep any shipping documents that accompany the shipment. These need to be compared with the invoice to verify actual receipt of the goods. You may incur liabilities and regardless of how you incur them, it is necessary to maintain an up-to-date accounts payable system such as in Exhibit P, which is both accurate and easily understood. Like the accounts receivable records, it is very important to be able to know at any given time the amount owed a creditor.

Exhibit P

Accounts Payable Record

Name: Steam Spray, Inc. — (614) 487-1522 phone
Address: 1098 Morris Road
Columbus, OH 43221

Date	Invoice Number	Charge (Credit)	Payment (Debit)	Balance

A typical entry for an accounts payable transaction in a double-entry bookkeeping system would be purchasing inventory form suppliers. It would be recorded as:

Debit - Inventory

Credit - Accounts Payable.

The originating transaction would be an invoice from the supplier. After the transaction has been entered as a journal entry, it should then be entered in an accounts payable ledger similar to Exhibit P.

To summarize, an accounts payable ledger sheet and an accounts receivable record are almost identical. They differ in that a charge to an account receivable is a debit whereas a charge to an account payable is a credit. Also, a payment on an account payable is a debit.

Payroll Records

WHAT IS NEEDED FOR PAYROLL RECORDS?

Another essential record which must be maintained is a payroll sheet. An accountant's work sheet, lined to form columns, is an easy to use and inexpensive payroll work sheet. Loose leaf work sheets may be purchased in any bookstore or office supply store. Payroll information might be collected via a time card, sign-in sheet or some other type of record that itemizes hours per day worked by an employee. Even if you are the sole employee, you must still maintain this record. A payroll sheet should include the following information:

1. Employee's name
2. Total hours worked
    a. Regular
    b. Overtime

3. Gross pay
4. Deductions
   a. FICA (Social Security)
   b. Federal withholding
   c. State and/or local withholding (if applicable)
   d. Miscellaneous
5. Net pay amount
6. Check number.

JOURNALS TO MONITOR CASH FLOW

HOW DO YOU CONTROL CASH FLOW?

In addition to the journals of original entry, every firm must develop record keeping devices for controlling the cash income and outgo. Controlling cash flow is an absolute necessity for your business. Your firm's ability to meet its monthly expenses will depend upon your ability to control or monitor cash flow. You will also be able to reconcile bank statements with your records. To effectively supervise cash flow, it is important to maintain the following records:

1. Daily Sales and Cash Summary
2. Journal of Sales and Receipts
3. Cash Disbursement Journal.

Daily Sales and Cash Summary

HOW IMPORTANT IS THE DAILY SALES AND CASH SUMMARY?

The daily sales and cash summary performs the following functions:

1. Reconciles what you actually have in cash and what your sales receipts say you should have in cash.

2. Summarizes sales and amounts received on accounts which will be used in completing other journals.

The first section of Exhibit Q which follows pertains to total cash receipts. It includes monies received on accounts receivable or accounts due to the firm (line 2). This total will again appear in the journal of sales and receipts, and will serve as a reference when posting to the general accounts. In Exhibit Q, a "miscellaneous" category (line 3) is included which reflects the receipt of any cash for purposes other than sales. Any amount in this category will also appear in the journal of sales and receipts.

The second section of Exhibit Q is nothing more than an itemization of the actual cash count including any checks. After the total cash count (line 8) is arrived at, any bank deposits (line 9) are subtracted, leaving an amount of cash on your premises for the next day's business, the "ending cash" (line 10).

The third section, cash reconciliation, compares what the firm should have (line 15), with the actual count at the close of the day's business (line 8). The total cash receipts (line 4) added to the ending cash from the previous day (line 10) enables you to calculate what your total cash should be. Any differences are adjusted on lines 13 and 14 to arrive at a reconciliatory figure.

The last section, total sales, breaks out the firm's sales by two categories -- those paid for in cash or by check (line 1) and those charged by customers -- your business carries the amounts of these sales as accounts receivable (line 17). This item (charge sales) will appear again in the journal of sales and receipts.

The form shown in Exhibit Q requires the signature of the person who prepared it. In many businesses, someone other than the owner is responsible for keeping records and preparing financial statements. Questions may arise; therefore, the bookkeeper/statement preparer should be easily identified.

The importance of this work sheet cannot be overestimated; it is a tool which you should use in controlling the finances of your business. In addition, you may want to establish or indicate some other types of receipts for your particular business.

Exhibit Q

Daily Sales and Cash Summary

December 19, 1977
Date

Receipts

1.	Cash Sales	$ 435
2.	Cash or Checks Received on Accounts	80
3.	Miscellaneous	10
4.	TOTAL CASH RECEIPTS	$ 525

Cash Count

5.	Cash in Register		
	Checks	$ 65	
	Currency	695	
	Change	25	$ 785
6.	Cash and Checks in Vault		35
7.	Petty Cash Slips		5
8.	TOTAL CASH (must agree w/line 15)		825
9.	Less Bank Deposit		500
10.	ENDING CASH		$ 325

Cash Reconciliation

11.	Previous Day Ending Cash (Line 10 from previous day)	$ 305
12.	Plus Cash Receipts--Line 4	525
13.	Less Shortage in Cash Count	5
14.	Plus Overage in Cash Count	--
15.	TOTAL CASH (Must agree with Line 8)	$ 825

Total Sales

16.	Cash Sales--line 1	$ 435
17.	Charge Sales	75
18.	TOTAL SALES	510

By ______________________
Signature

Journal of Sales and Receipts

WHAT IS A JOURNAL OF SALES AND RECEIPTS?

One report that serves as a control over your cash flow and also summarizes daily activity is the journal of sales and receipts. To complete this form, the following should be done:

1. Each day you should enter both debit and credit items from the daily sales and cash summary and make sure total debits for each day equal total credits for each day.
2. Each month you should summarize these entries and make entries to the general ledger or book of accounts.

This schedule also serves the function of a trial balance. The trial balance sums up the daily debits and credits and serves as a posting medium for the general ledger or books of accounts.

Exhibit R shows the debits and credits on the same page; however, it would be more practical to set up separate columnar sheets for the debits and credits. The entries are referenced with line numbers from the Daily Sales and Cash Summary to show where the entries came from.

The entries and their corresponding general ledger accounts are shown in Exhibit S.

Exhibit R

Journal of Sales and Receipts

Date	Description	Charge Sales Line-17	Bank Deposit Line-9	Today's Enc Cash Line-10
December 19	Daily Summary	$75	$500	$325

Date	Description	Total Sales Line-18	Collections on Account Line-2	Yesterday's Ending Cash Line-11
December 19	Daily Summary	$510	$80	$305

Exhibit S

Type of Entry	Column Heading	General Ledger Account
Debit	Charge Sales	Accounts Receivable
Debit	Bank Deposit	Cash
Debit	Today's Ending Cash	Cash
Debit	Cash Short	Miscellaneous Expense
Credit	Total Sales	Sales
Credit	Collections on Account	Accounts Receivable
Credit	Yesterday's Ending Cash	Cash
Credit	Miscellaneous	Miscellaneous Income

Cash Disbursement Journal

WHAT IS A CASH DISBURSEMENT JOURNAL?

An essential component of any financial control and record keeping system is maintaining an accurate and up-to-date cash disbursement journal. Exhibit T is a sample of a cash disbursement journal. It includes the following necessary information:

1. Date
2. Payee (to whom the check is issued)
3. Check number
4. Amount of check
5. Suggested group of general ledger accounts which will be affected by the disbursement.

Since it is imperative to have receipts for all disbursements, the use of a checking account is recommended. The record of a cancelled check is also a reliable document for verification in income tax record-keeping.

Just as the journal of sales and receipts was summarized monthly to serve as a posting reference to the general ledger, the cash disbursement journal is similarly summarized monthly and used as a posting reference to the general ledger.

In the cash disbursement journal shown in Exhibit T, the four columns on the right hand side of the form represent debit entries to the general ledger while the four columns following the check number denote credit entries to the general ledger. To establish this journal inexpensively, obtain or construct a supply of columnar work sheets similar to the payroll work sheet previously mentioned.

Exhibit T

Cash Disbursement Journal

Date	Payee	Check No.	Amt of Check (CR)	Payroll Inc Tax (CR)	Deduct Soc Sec (CR)	Genl Desc. (CR)	Ledger Amt	Inventory (DB)	Salaries (DB)	Genl Ledger Desc/ (CDB)	
12-19-77	F.T. Help (2 week salary)	101	$257	25	18				300		
12-19-77	A.B.C. Supply Co.	102	$325					$325			
12-26-77	Mr. Landlord	103	$ 75							Rent	$ 75
12-30-77	I.R.S.	104	$ 18							Payroll Tax	$ 18
12-31-77	R.U.Sales	105	$185							Acts Pay	$185

Bank Reconciliation

HOW IS THE BANK RECON- CILIATION STATEMENT USED?

A control device for the cash disbursement journal is the bank reconciliation form as shown in Exhibit U. It is used to adjust the bank balance for any deposits and checks that have not been processed by the bank. The adjusted bank balance is compared with the balance that your check stubs show plus or minus any corrections or service charges.

Failing to keep track of the amount in a checking account can result in having a check returned for insufficient funds and consequent overdraft charge. This cannot only be embarrassing, it can also be expensive.

For these reasons, it is important that this reconcilation be performed immediately upon receipt of the bank statement. The longer any errors exist, either on your records or on the bank's records, the more difficult it will be to locate any discrepancies between the bank balance and your balance.

LEDGER ACCOUNTS

WHAT IS THE GENERAL LEDGER?

The general ledger, or book of accounts, is used to accurately state the financial picture of the business as of any given date. Generally it uses information taken from the journals or books of original entry. The general ledger records the balance of the assets and liabilities, and net worth of the business, in addition to accumulating the sales and expense items by categories. At the close of the business year, the sales and expense items are transferred to the profit and loss account. This profit and loss account is then transferred to the capital account. Balances of all other categories of accounts in the general ledger--assets, liabilities and net worth balances--appear on the balance sheet.

Exhibit U

Bank Reconciliation

December 31, 1977
Date

1.	Balance per Bank Statement		$ 325.00
2.	Add Deposits Not Credited		

Date	Amount
12-31	$500.00

	500.00
	$ 825.00
3. Deduct Outstanding Checks	

No.	Date	Amount
105	12-31	$185.00
106	12-30	18.00

		$ 203.00
4.	Adjusted Bank Balance	$ 622.00
5.	Balance per Checkbook	$ 623.00
6.	Add Corrections	
7.	Deduct Bank Service Charge	$ 1.00
8.	Adjusted Checkbook Balance	$ 622.00

An account number is assigned to each item in the ledger. These numbers help the bookkeeper establish the proper sequence of accounts and also facilitate the posting of transactions to these accounts from the journals or original entries.

The number of accounts that should be established depends upon the particular activity of the business, but there are certain basic accounts that all businesses use in stating the financial records of their particular activity. The lists of accounts in the following sections are not complete; however, they are the ones more commonly used. Expanding the number and defining some additional categories more distinctly is appropriate if the situation dictates. For example, your firm may have some particular asset items that may not be listed here, such as organization expenses, goodwill, and, if you are a manufacturing concern, materials and supplies.

Assets

WHAT ABOUT ASSETS AND THE LEDGER?

The first category of general ledger account lists assets. Assets are considered items that a firm owns. Some typical accounts are:

Account No. 101 - Cash in Bank

Account No. 102 - Cash in Vault

Account No. 201 - Accounts Receivable

Account No. 210 - Prepaid Expenses

Account No. 220 - Inventory

Account No. 280 - Buildings

Account No. 290 - Equipment

Liabilities

HOW ABOUT LIABILITIES AND THE LEDGER?

The second category of general ledger accounts is the liabilities of the business. These items consist of debts or accounts that the business owes others. For a small business, they might consist of the following:

Account No. 301 - Accounts Payable

Account No. 310 - Notes Payable (within one year)

Account No. 320 - Sales Tax Payable

Account No. 321 - FICA Tax Payable

Account No. 322 - Federal Withholding Tax Payable

Account No. 323 - State Withholding Tax Payable

Account No. 390 - Mortgage Payable (Long-Term)

Account No. 395 - Notes Payable (Long-Term)

In the above list, debts payable within one year and those which are long term are differentiated.

Net Worth

WHAT ABOUT NET WORTH?

The third category of accounts is included in the "Net Worth" section of the general ledger. It consists of the record of balance of the owner's investment in the business. This group of accounts also reflects the accumulation of profit and loss balances from the income and expense statement. A typical list of these accounts would be:

Account No. 400 - Proprietorship Account

Account No. 401 - Proprietorship Withdrawals

Account No. 410 - Retained Earnings

Usually, the first account, Proprietorship Account, reflects the original investment plus any additional investments that the owner makes in the business. The balance of this account would be a credit balance as it reflects amounts invested by the owner. The second account is the withdrawal account. This account will show a debit balance, as it represents the amount of withdrawals the owner has made from the business. This does not represent the owner's salary but rather a withdrawal of previously made investments in the business. The last item in this category, Retained Earnings, represents the accumulation of earnings over the years. Hopefully, this balance would be a credit balance; however, if a business is operating at a loss, this balance will appear as a debit.

Income

OW ABOUT NCOME AND HE LEDGER?

The fourth category of accounts in the general ledger consists of those accounts which reflect or show the income of the business. These accounts show a credit balance and the entries to these accounts originate from the sales journals that the business maintains. This group of accounts is closed out at the end of the business year and the amounts are transferred to the profit and loss statement. Some typical accounts would be noted as follows:

Account No. 500 - Retail Sales

Account No. 510 - Service Income

Account No. 590 - Miscellaneous Income

Expense

HOW ABOUT EXPENSES AND THE LEDGER?

The fifth category of accounts of the business listed in the general ledger are the expenses. Expense accounts represent the largest category of accounts. It is advisable to establish accounts that represent frequent or substantial expenditures. However, try to avoid establishing separate expense accounts for items that are insignificant or infrequently used. Some typical expense accounts are listed below:

Account No. 600 - Salaries and Wages

Account No. 601 - Payroll Taxes

Account No. 602 - Contract Labor (part-time help from firms that supply services)

Account No. 610 - Utilities

Account No. 611 - Telephone

Account No. 612 - Rent

Account No. 620 - Office Supplies

Account No. 621 - Postage

Account No. 630 - Insurance

Account No. 631 - Interest on Debt

Account No. 640 - Depreciation

Account No. 650 - Travel

Account No. 651 - Entertainment

Account No. 660 - Advertising

Account No. 690 - Miscellaneous

All expense items should be paid by bank checks. You should write the number of the general ledger account of the particular expense item on the check stub at the time the check is written.

MERCHANDISE INVENTORY

OW MUCH NVENTORY O YOU EED?

What is the ideal amount of inventory that a business should carry at any one time? The answer is basically simple--enough inventory should be maintained so that sales will never be lost, but not so much that it ties up capital or becomes dated. It may sound easy, but in practice it becomes very difficult to achieve this ideal inventory level. To maintain the proper inventory level, the following areas should be considered:

1. The number of brands of a particular item
2. The quantity on hand (may be either too much or not enough)
3. "Stock" items as fads or fashions.

The number of brands of a particular item will depend, of course, upon your customers' demands. To satisfy customer needs, you will need to identify customer buying patterns which define what they want. Keeping the proper quantity on hand and still justifying the investment is a dilemma that the small business person continually faces. One temptation is to take advantage of quantity discounts to obtain the lowest per unit cost. If you do this, you may have to buy an excess quantity of inventory and tie up capital. Knowing whether or not a stock item is a fad which could quickly lose its appeal will also affect how much inventory you purchase.

Calculating stock turnover rates can also help the business owner determine how much inventory should be kept on hand. The turnover rate can be computed by using this formula:

$$\frac{\text{Cost of Goods Sold}}{\text{Average Inventory}} = \text{Stock turnover rate (the number of times during a given period the average stock is sold)}$$

For example, a business whose profit and loss statement shows a cost of goods sold of $100,000 and an average inventory of $25,000 would have a turnover of four.

However, a higher turnover rate does not always mean greater profits. The turnover does not reflect the profits on sales that were lost because no inventory was available for sale. Your business may have a very high turnover on inventory, but if customers are going away dissatisfied because of poor selection or lack of availability of certain items, then your profits are not being maximized.

Having the ideal investment in inventory is always desired, and usually turning away sales because of understocking is more harmful than having markdowns on excessive inventory items. Obtaining the proper inventory balance requires an accurate anticipation of your customer needs coupled with a realistic investement.

PREPARATION/ADAPTATION ACTIVITIES

Are you able to apply these record keeping principles to your business aspirations? Are you knowledgeable about the various record keeping forms available? The following activities should help you check your knowledge of record keeping devices.

ASSESSMENT ONE

1. What are the steps involved in recording a sale if your firm uses a double-entry bookkeeping system?
2. Contact a local business person and make arrangements for an interview. Ask these following questions:
   - What type of records does the firm keep?
   - Does the firm have a full-time bookkeeper?
   - Are the services of an accountant used?
3. Check with a trade association for the business you hope to own to find out what record keeping assistance it can provide.

POSTASSESSMENT

1. Describe the data sources from which entries can be made in ledgers and journals.
2. Discuss the double-entry bookkeeping system in detail. Include in your discussion the rules for posting debits and credits.
3. What data should be included in order to maintain an accurate payroll register?
4. What information does a detailed form of the daily sales and cash summary include?

5. Describe the cash disbursement journal.

Compare your answers to your responses to the preassessment. You may want to check your postassessment answers with your instructor.

SELF-EVALUATION

How well did you know the information needed to do the activities?

( ) Very well

( ) Fairly well

( ) A little.

Be honest with yourself. If you feel you don't know the material well enough, it might be helpful to review this section before going on.

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FILMS

EXPLORATION LEVEL

"The Language of Business" (14 min. 50 sec., sd., color, 16mm). Available for sale or rental from Sales Branch, National Audiovisual Center - General Service Administration, Washington, DC 20406. Phone (301) 763-1854.

Emphasizes the importance of managing business records. The story concerns a small business person who is considering whether or not to open a second store in a new shopping center. The firm's owner checks the firm's records to help, but finds them confusing. Inability to interpret the facts and information results in a call to an accountant. They analyze the records, and the accountant points out problems and areas in need of adjustment, drawing upon experiences with other business persons to illustrate danger areas.

RESEARCH AND DEVELOPMENT SERIES NO. 194 C-3

PACE

A Program for Acquiring Competence in Entrepreneurship

Instructor's Guide

Part III

Being An Entrepreneur

Unit C

Keeping The Business Records

THE NATIONAL CENTER
FOR RESEARCH IN VOCATIONAL EDUCATION
THE OHIO STATE UNIVERSITY
1960 KENNY ROAD • COLUMBUS, OHIO 43210

USING THE INSTRUCTOR'S GUIDE

The Instructor's Guide contains the following:

- Teaching/Learning Objectives (identical to the Teaching/Learning Objectives found in the PACE unit)
- Teaching/Learning Delivery Suggestions
- Pre/postassessment Suggested Responses

This information is geared towards the three levels of learning, and is designed for use as a supplemental teaching aid. Additional instructions for using PACE, sources of information, and an annotated glossary can be found in the PACE Resource Guide.

PRE/POSTASSESSMENT
SUGGESTED RESPONSES

EXPOSURE

1. Business records must be carefully and accurately prepared. Accurate records provide information needed to (a) determine how well the business is doing, (b) make future plans for the business, and (c) prepare various government reports. Inaccurate records are useless and detrimental to the firm.

2. In a single-entry system each item is recorded (entered) only once; in the double-entry system, each item is recorded (entered) in two different places.

3. The following information should be included on a business check stub: (a) check number, (b) date check was written, (c) to whom the check was made out, (d) the purpose of the payment, (e) balance brought forward, (f) any deposits made since then, (g) new balance, (h) amount of check, and (i) balance to be carried forward. Information recorded in a single-entry system is gathered from information appearing on the business check stub.

4. Responses should indicate an awareness of the effectiveness of this control device.

5. Employee payroll records should include total wages earned, hours worked, overtime earnings, and various wage deductions.

EXPLORATION

1. Good business records provide information: (a) to determine potential sales growth, (b) to be used with investors and creditors, (c) to prepare various government reports, (d) to discover ways to improve management, (e) to detect shrinkage. A detailed record keeping system provides a current and accurate picture of sales, operating costs, inventory levels, credit totals, and fixed and variable costs.

2. Record keeping assistance can be obtained from various sources including part-time bookkeepers, accountants, government agencies, colleges and universities, suppliers, trade associations, and local office supply stores.

3. *Accounts receivable records* should include information concerning all monies owed to the business by credit customers. *Accounts payable records* contain information about all of the firm's debts

4. *Journals* are records of original entry. *Ledgers* represent summaries, a running account of the income and expenses of the business.

5. Income and expense entries might be recorded in a general ledger according to account number.

PREPARATION/ADAPTATION

1. Data sources from which entries to ledgers and journals can be made include adding machine tapes, cash register tapes, salesbook invoices or receipts, cancelled checks, and deposit slips from bank statements.

2. Responses should indicate working knowledge of this self checking bookkeeping method.

3. The following data should be included in a employee payroll register: employee's name, total hours worked both regular and overtime, gross pay, deducations, net pay, and check number.

4. The daily sales and cash summary has four components: receipts, cash count, cash reconcilement, and total sales. It is also signed.

5. The cash disbursement journal records monies paid out by the firm. It can be based upon cancelled check records.

LEVELS OF LEARNING	TEACHING/LEARNING OBJECTIVES Upon completion of this level of instruction you should be able to:	TEACHING [illegible] A variety of [illegible] used. To help you [illegible] these suggestions [illegible]
Exposure	1. Explain the necessity of [illegible] records. 2. Describe the difference between a single entry record keeping system and the double entry system. 3. Describe the role of the [illegible] in record keeping. 4. Reconcile a bank statement. 5. Identify suitable recording forms for [illegible]. 6. Develop a simple record keeping system for payroll records.	1. [illegible] 2. Invite a local [illegible] the importance [illegible]
Exploration	1. Describe the [illegible] reasons for keeping [illegible] records. 2. Identify [illegible] possible [illegible] keeping tasks. 3. Identify daily sales and cash summary records. 4. Set up simple accounts receivable and accounts payable records. 5. Explain [illegible] of payroll records and identify the information these records should include. 6. Explain the purposes of inventory records and production records.	[illegible]
Preparation/Adaptation	1. Discuss the importance of business records. 2. Describe the uses and types of journals and ledgers. 3. Describe the double entry bookkeeping. 4. Construct and use a payroll record sheet. 5. Explain the necessity of cash flow recording procedures. 6. Explain and prepare a bank reconciliation statement.	1. Invite a local bus[illegible] ing system with [illegible] 2. Contact various [illegible] keeping [illegible]

The PACE series consists of these parts and units.

PART I: GETTING READY TO BECOME AN ENTREPRENEUR

Unit A: Nature of Small Business

Unit B: Are You an Entrepreneur?

Unit C: How to Succeed and How to Fail

PART II: BECOMING AN ENTREPRENEUR

Unit A: Developing the Business Plan

Unit B: Where to Locate the Business

Unit C: Legal Issues and Small Business

Unit D: Government Regulations and Small Business

Unit E: Choosing the Type of Ownership

Unit F: How to Finance the Business

Unit G: Resources for Managerial Assistance

PART III: BEING AN ENTREPRENEUR

Unit A: Managing the Business

Unit B: Financial Management

Unit C: Keeping the Business Records

Unit D: Marketing Management

Unit E: Successful Selling

Unit F: Managing Human Resources

Unit G: Community Relations

Unit H: Business Protection

RESOURCE GUIDE