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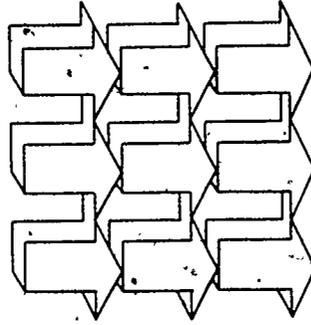
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 IDENTIFIERS *Program for Acquiring Competence Entrepreneurship

ABSTRACT

This individualized, competency-based unit on keeping business records, the 15th of 18 modules, is on the third level of the revised Program for Acquiring Competence in Entrepreneurship (PACE). Intended for the advanced secondary and postsecondary levels and for adults wanting training or retraining, this unit, together with the other materials at this level, emphasizes the actual application of a business plan. Six competencies are dealt with in this instructional unit, including (1) determining who will keep the books for the business and how they will be maintained; (2) describing double-entry bookkeeping; (3) selecting the types of journals and ledgers that one will use in one's business; (4) identifying the types of records one will use in one's business to record sales, cash receipts, cash disbursements, accounts receivable, accounts payable, payroll, petty cash, inventory, budgets, and other items; (5) evaluating one's business records; and (6) identifying how a microcomputer can be used to keep business records. Materials provided include objectives, preparation information, an overview, content (with questions in margins that guide the students' reading), activities, assessment forms, and notes and sources. The unit requires using approximately 3 hours of class time. (YLB)

PACE
REVISED

Program for
Acquiring
Competence in
Entrepreneurship



UNIT 15

- Level 1
 Level 2
 Level 3

Keeping the Business Records

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Developed by M. Catherine Ashmore and Sandra G. Pritz

You will be able to:

- Determine who will keep the books for your business and how they will be maintained.
- Describe double-entry bookkeeping.
- Select the types of journals and ledgers that you will use in your business.
- Identify the types of records that you will use in your business to record sales, cash receipts, cash disbursements, accounts receivable, accounts payable, payroll, petty cash, inventory, budgets, and other items.
- Evaluate your business records.
- Identify how a microcomputer may be used to keep the business records.

Research & Development Series No. 240 CB 15

BEFORE YOU BEGIN . . .

1. Consult the *Resource Guide* for instructions if this is your first PACE unit.
2. Read the Unit Objectives on the front cover. If you think you can meet these objectives now, consult your instructor.
3. These objectives were met at Levels 1 and 2:

Level 1 -

- Identify the reasons for keeping business records
- Identify the elements of a sound recordkeeping system
- Describe the difference between a single-entry recordkeeping system and the double-entry system
- Describe the uses of the checkbook in recordkeeping
- Identify suitable recording forms for accounts receivable
- Reconcile a bank statement
- Develop a simple recordkeeping system for payroll records

Level 2 -

- Identify the sources of assistance in recordkeeping
- Identify the types of data that can be provided by recordkeeping
- Describe the uses and types of journals and ledgers
- Describe various types of business records

If you feel unsure about any of these topics, ask your instructor for materials to review them.

4. Look for these business terms as you read this unit. If you need help with their meanings, turn to the Glossary in the *Resource Guide*.

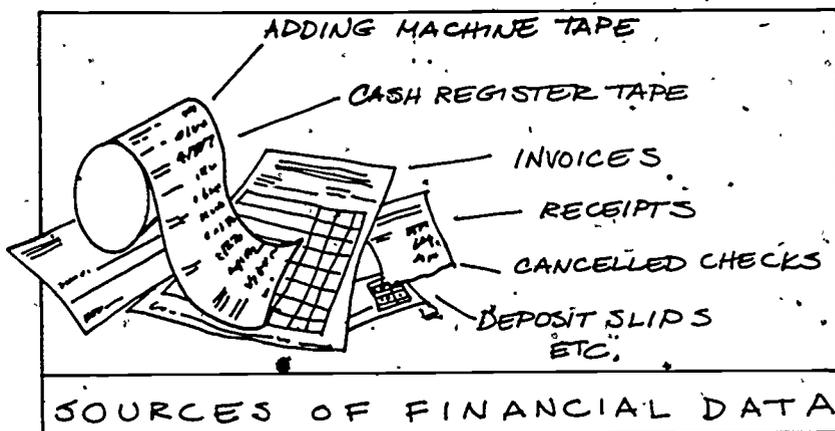
accounts payable
accounts receivable
balance
capital
cash flow
current assets
current liabilities

inventory turnover
liabilities
payable
receivable
reconciliation

KEEPING THE BUSINESS RECORDS

WHAT IS THIS UNIT ABOUT?

This unit is designed to assist you—the small business owner/manager—in determining the importance of recordkeeping to your business, as well as the nature of the records that you will maintain. You will learn why you should keep records, who can maintain them, and the sources of financial data. Then you will examine the concept of double-entry bookkeeping. Next, you will explore the following types of records: (1) journals or books of original entry, (2) ledgers or books of various accounts, (3) merchandise inventory, and (4) budget systems.



Through this unit, you will also have an opportunity to learn more about the use of computers in small business situations. The advantages and disadvantages of computers will be identified for you. In addition, you will learn more about the typical labor savings and improvement that can result from computerizing the recordkeeping function.

WHY SHOULD A NEW BUSINESS OWNER/MANAGER 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, my business will be small?" Actually, there are many reasons for having a good recordkeeping system. As a small business owner/manager, you may be most interested in the following reasons for recordkeeping:

- Awareness of profitability
- Awareness of sales growth
- Return on investment to you, the owner
- Calculation of profit
- Federal tax and reporting requirements
- State tax and reporting requirements
- Local tax and reporting requirements

- Information for your creditors (people or firms you might owe money)
- Information for the investors in your business (stockholders or partners)
- Control of investment in inventory
- Control of investments in accounts receivable
- Control of investments in building and equipment

Complete bookkeeping records follow the same pattern for all businesses. Every business transaction is recorded on some kind of source document. The source documents are used for recording business transactions, as they occur, in either a series of journals or a in single combination journal. This is known as a book of original entry. Journals are considered the first level of business records.

Journal entries are sorted and summarized in the book of accounts or general ledger. As a result, the general ledger accumulates the sales and expense items by categories. It becomes the second level of business records. Basically, the general ledger is a record of the balance of the assets and liabilities, and the net worth of the business.

Problems 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 well-designed system. For example, the accuracy of accounts in the ledger may be proven by taking a trial balance that is prepared as a part of the worksheet. Financial statements are prepared periodically from the worksheet to show what the business is worth and how well the business is doing. Good recordkeeping is not just a necessity but it is also a tool. How well you use that tool will determine to a large degree the success of your business.

WHO SHOULD MAINTAIN THE BUSINESS RECORDS?

In the initial stages of the business, you may wish to take charge of the records. An accountant can help you set the books up, but the experience of "doing the books" will give you a feel for the importance of records and show you how they can help you run your business. It will also help you determine what parts of the system can be delegated to someone else. In addition, the experience of doing the books will help you teach someone else how to do the job.

You may find that you have too many demands on your time and that there are more profitable things for you to do than keep the records. If this is the case, you may wish to train an employee to take over and maintain all or parts of the recordkeeping system. Other alternatives include hiring a person who keeps books for a number of small businesses; this is generally known as a freelance bookkeeper. You might also employ an accountant or engage the services of a public accounting firm. It may cost more to engage a strong accountant or a public accounting firm. However, an accountant can save you more money than you may realize.

The selection of an accountant rests with the owner/manager. Your banker may be able to recommend an accountant, or you may prefer to deal with a large accounting firm. Many small business owners have found a good accountant through recommendations from their friends and from other owner/managers.

The accountant will become more valuable to the firm upon becoming familiar with the technical aspects of your business. Therefore, you will need to be able to discuss your financial concerns with your accountant. Some of the services that the accountant can provide include:

- Preparing tax returns and planning tax programs
- Reviewing and developing a firm's accounting needs
- Assisting in the selection and training of a bookkeeping staff
- Advising on records and systems management
- Preparing financial statements (including the trial balance); also auditing records to safeguard a firm's assets
- Assisting in review and study of financial statements
- Helping determine a firm's cash flow and capital requirements
- Assisting in establishing budgets and expense controls
- Helping set up sound credit policies
- Providing purchasing and inventory controls
- Working with a firm's attorney and other professional consultants to provide sound financial management, draft contracts and leases, and determine adequate insurance coverage
- Acting as a sounding board for the owner/manager

Source: *Managing for Profits*, p. 128

The owner/manager should try to meet with the accountant at least once a month. Such meetings should be held when financial statements for the period have been prepared and at a time when there will be no interruptions. Performance in the previous month is compared with that of a year ago, and with the preceding month. Any major deviations may be discussed. Next, plans for the current month may be discussed along with problems and future plans. This particular meeting can be very helpful from the standpoint of understanding the financial aspects of the business operation. Additional information regarding the financial aspects of operating the business is presented in the PACE unit titled "Managing the Finances." That unit will help you to utilize your records to plan for the future.

Regardless of who keeps the business records and how they are maintained, a small business owner/manager should know the following information about the operation:

Daily

- Cash on hand.
- Bank balance (keep personal and business funds separate).
- Daily summary of sales and cash receipts.
- That all errors in recording collections on accounts are corrected.
- That a record of all monies paid out, by cash or check, is maintained.

Weekly

- Accounts receivable (take action on slow payers).
- Accounts payable (take advantage of discounts).
- Payroll (records should include name and address of employee, Social Security number, number of exemptions, date ending the pay period, hours worked, rate of pay, total wages, deductions, net pay, check number).
- Taxes and reports to state and federal government (sales, withholding, Social Security, etc.)

Monthly

- That all journal entries are classified according to like elements (these should be generally accepted and standardized for both income and expense) and posted to the general ledger

- That a profit and loss statement for the month is available within a reasonable time, usually 10 to 15 days following the close of the month. This shows the income of the business for the month, the expense incurred in obtaining the income, and the profit or loss resulting. From this, take action to eliminate loss (adjust mark-up, reduce overhead expense, pilferage, incorrect tax reporting, incorrect buying procedures, failure to take advantage of cash discounts).
- That a balance sheet accompanies the profit and loss statement. This shows assets (what the business has), liabilities (what the business owes), and the investment of the owner.
- The bank statement is reconciled. (That is, the owner's books are in agreement with the bank's record of the cash balance.)
- The petty cash account is in balance. (The actual cash in the petty cash box plus the total of the paid-out slips that have not been charged to expense should total the amount set aside as petty cash.)
- That all federal tax deposits, withheld income, and FICA taxes (Form 501) and state taxes are made.
- That accounts receivable are aged; that is are 30, 60, 90 days, etc., past due. (Work all bad and slow accounts.)
- That inventory control is worked to remove dead stock and order new stock. (What moves slowly? Reduce. What moves fast? Increase.)

SOURCE: *Keeping Records in Small Business*. Management Aids Number 1.017.

As you study the information in this unit as well as that in the unit titled "Managing the Finances," you will be able to obtain this information and utilize it in your business operation.

The financial records of a business start with information that 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.

WHAT IS DOUBLE-ENTRY BOOKKEEPING?

Double-entry bookkeeping is a system based on the rule that for every debit there must be a credit. It performs the following functions:

- Records every transaction twice
- Provides for an accuracy check
- 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. Table 1 is a decision table or a matrix that illustrates relationships between bookkeeping entries (debits and credits) and the accounts of your business.

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.

Recordkeeping 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 the following areas:

- Journals or books of original entry
- Ledgers or books of various accounts
- Merchandise inventory
- Budget systems

Each category will be discussed here.

TABLE 1

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

WHAT JOURNALS ARE MOST COMMONLY USED BY SMALL BUSINESSES?

Journals or Books of Original Entry

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

Sales Journals

The foundation of your recordkeeping system is the sales journal (or a similar type of journal). The most commonly used are cash register tapes or salesbook 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 salesbook 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.

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 table 2) which is then maintained in a loose-leaf notebook or ledger.

TABLE 2

ACCOUNTS RECEIVABLE RECORD

Name: Clair Ann Bigs		Phone: (614) 455-2748		
Address: 1482 C. Street				
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 sale 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 that must be maintained is an accounts payable recordkeeping 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 a system is shown in table 3, 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.

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

Debt - 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 table 3.

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.

TABLE 3

ACCOUNTS PAYABLE RECORD

Name: Steam Spray, Inc.		Phone: (614) 1522		
Address: 1098 Morris Road				
Columbus, Ohio 43221				
Date	Invoice Number	Charge (Credit)	Payment (Debit)	Balance

WHAT IS NEEDED FOR PAY-ROLL RECORDS?

Another essential record that must be maintained is a *payroll sheet*. An accountant's worksheet, lined to form columns, is easy to use and inexpensive for payroll records. Loose-leaf worksheets 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:

- Employee's name
- Total hours worked
 - Regular
 - Overtime
- Gross pay
- Deductions
 - FICA (Social Security)
 - Federal withholding.

- State and/or local withholding (if applicable)

- Miscellaneous

- Net pay amount
- Check number

HOW DO YOU CONTROL CASH FLOW?

In addition to the journals of original entry, every firm must develop recordkeeping 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 supervise cash flow effectively, it is important to maintain the following records:

- Daily sales and cash summary
- Journal of sales and receipts
- Cash disbursement journal

The daily sales and cash summary performs the following functions:

- Reconciles what you actually have in cash and what your sales receipts say you should have in cash
- Summarizes sales and amounts received on accounts that will be used in completing other journals

HOW IMPORTANT IS THE DAILY SALES AND CASH SUMMARY?

The first section of table 4, 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 table 4, 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 table 4 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

TABLE 4

DAILY SALES AND CASH SUMMARY

		DATE	September 15, 19
<u>Receipts</u>			
1. Cash sales		\$	<u>435.00</u>
2. Accounts receivable			<u>80.00</u>
3. Miscellaneous			<u>10.00</u>
4. TOTAL CASH RECEIPTS		\$	<u><u>525.00</u></u>
<u>Cash Count</u>			
5. Cash in Register			
Checks	\$	<u>65.00</u>	
Currency		<u>695.00</u>	
Change		<u>25.00</u>	\$
6. Cash and checks in vault			<u>35.00</u>
7. Petty cash slips			<u>5.00</u>
8. TOTAL CASH		\$	<u><u>825.00</u></u>
9. Less bank deposit		\$	<u>500.00</u>
10. ENDING CASH		\$	<u><u>325.00</u></u>
<u>Total Sales</u>			
11. Cash sales — Line 1		\$	<u>435.00</u>
12. Charge sales			<u>75.00</u>
13. TOTAL SALES		\$	<u><u>510.00</u></u>
		By	_____

sales as accounts receivable (line 17). This item (charge sales) will appear again in the journal of sales and receipts.

The form shown in table 4 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 worksheet cannot be overestimated; it is a tool that 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.

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 book of accounts.

Table 5 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.

TABLE 5

JOURNAL OF SALES AND RECEIPTS

Date	Description	Charge Sales Line-17	Bank Deposit Line-9	Today's Ending Cash Line-10	Cash Shortage Line-13	Total Debits
December 19	Daily Summary	\$75	\$500	\$325	\$5	\$905 (Add columns across)

Date	Description	Total Sales Line 18	Collections on Acc't. Line-2	Yesterday's Ending Cash Line-11	Misc. Line-3	Cash Overage Line-14	Total Credits
Dec.19	Daily Summary	\$510	\$80	\$305	\$10	—	\$905 (Add columns across)

The entries and their corresponding general ledger accounts are shown in table 6.

WHAT IS A CASH DISBURSEMENT JOURNAL?

An essential component of any financial control and recordkeeping system is maintaining an accurate and up-to-date cash disbursement journal. Table 7 is a sample of a cash disbursement journal. It includes the following necessary information:

- Date
- Payee (to whom the check is issued)

- Check number
- Amount of check
- Suggested group of general ledger accounts that will be affected by the disbursement

TABLE 6

DAILY ENTRIES AND GENERAL LEDGER ACCOUNTS

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	Cash
Credit	Total sales	Sales
Credit	Collections on Account	Accounts receivable
Credit	Yesterday's ending cash	Cash
Credit	Miscellaneous	Miscellaneous income

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 recordkeeping.

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 table 7, 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 worksheets similar to the payroll worksheet previously mentioned.

WHAT IS THE PETTY CASH FUND?

In most businesses the owner/manager will have occasional small disbursements for incidental items. To avoid having to write many checks for small amounts, it is wise to have a fixed amount of cash—known as a petty cash fund—from which to make small payments.

No. _____	Date _____
RECEIVED OF PETTY CASH	
Amount _____	
For _____	
Charge to: _____	
Approved by: _____	Received by: _____

Figure 1. Petty Cash Slip

Each time a payment is made from the fund, a petty cash slip similar to the one shown in figure 1 should be made out. If an invoice or receipt is available, it should be attached to the petty cash slip for filing. The total of the unspent petty cash and the petty cash slips should equal the fixed amount of the petty cash fund. When the petty cash fund is spent, a check is made out to "Petty Cash." Petty cash slips should be cancelled or marked in such a way as to prevent their reuse. Then the slips should be grouped according to the accounts to be charged. Next, the charges to each account should be totaled and entered in the cash disbursement journal.

TABLE 7

CASH DISBURSEMENT JOURNAL

Date	Payee	Check No.	Amt. Check (CR)	Payroll Inc. Tax (CR)	Deduct Soc. Sec. (CR)	Genl. Desc. (CR)	Ledger Amt.	Inventory (DB)	Salaries (DB)	Genl. Ledger Desc. (CDB)	
12-19-82	F.T. Help (2 week salary)	101	\$257	25	18				\$300		
12-19-82	A.B.C. Supply Co.	102	\$325					\$325			
12-26-82	Mr. Lanlord	103	\$ 75							Rent	\$ 75
12-30-82	I.R.S.	104	\$ 18							Payroll tax	\$ 18
12-31-82	R.U. SALES	105	\$185							Accts. pay.	\$185

HOW IS THE BANK RECONCILIATION STATEMENT USED?

A control device for the cash disbursement journal is the bank reconciliation form, as shown in Table 8. 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 charges. This cannot only be embarrassing, it can also be expensive.

For these reasons, it is important that this reconciliation 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.

WHAT IS THE GENERAL LEDGER?

The general ledger, or book of accounts, is used to state accurately 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.

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

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 most commonly used. Expanding the number and defining some additional categories 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.

WHAT ABOUT ASSETS AND THE LEDGER?

The first category of a 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 - Building
- Account No. 290 - Equipment

**WHAT ABOUT LIABILITIES
AND THE LEDGER?**

The second category of a general ledger account 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

TABLE 8

BANK RECONCILIATION FORM

		Date: <u>December 31, 1982</u>												
1.	Balance per bank statement	\$325.00												
2.	Add deposits not credited													
	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; width: 15%;"><u>Date</u></th> <th style="text-align: left; width: 60%;"><u>Amount</u></th> <th style="width: 25%;"></th> </tr> </thead> <tbody> <tr> <td>12-31</td> <td>\$500.00</td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>500.00</u></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">\$825.00</td> </tr> </tbody> </table>	<u>Date</u>	<u>Amount</u>		12-31	\$500.00				<u>500.00</u>			\$825.00	
<u>Date</u>	<u>Amount</u>													
12-31	\$500.00													
		<u>500.00</u>												
		\$825.00												
3.	Deduct outstanding checks													
	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; width: 15%;"><u>No.</u></th> <th style="text-align: left; width: 45%;"><u>Date</u></th> <th style="text-align: left; width: 40%;"><u>Amount</u></th> </tr> </thead> <tbody> <tr> <td>105</td> <td>12-31</td> <td>\$185.00</td> </tr> <tr> <td>106</td> <td>12-30</td> <td>18.00</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>\$203.00</u></td> </tr> </tbody> </table>	<u>No.</u>	<u>Date</u>	<u>Amount</u>	105	12-31	\$185.00	106	12-30	18.00			<u>\$203.00</u>	
<u>No.</u>	<u>Date</u>	<u>Amount</u>												
105	12-31	\$185.00												
106	12-30	18.00												
		<u>\$203.00</u>												
4.	Adjusted bank balance	<u>\$622.00</u>												
5.	Balance per checkbook	\$623.00												
6.	Add corrections													
7.	Deduct bank service charge	\$ 1.00												
8.	Adjusted checkbook balance	<u><u>\$622.00</u></u>												

- 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 that are long term are differentiated.

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. It is hoped, this balance will be a credit balance; however, if a business is operating at a loss, this balance will appear as a debit.

WHAT ABOUT INCOME AND THE LEDGER?

The fourth category of accounts in the general ledger consists of those accounts that 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

WHAT 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.

WHAT IS INVENTORY?

Inventory is a large item for manufacturing, wholesaling, and retailing businesses. For accounting purposes, there are three kinds of inventories: raw materials, work in progress, and finished goods. Take a closer look at each of these.

Raw materials refers to items that have been acquired but are not a part of work in progress. For example, a craft store that produces its own handbags and belts might stock leather for future work.

Work in progress refers to costs incurred in working on goods that have been started but have not yet been completed (as of the date of the balance sheet describing the current state of the business). The work-in-progress inventory usually includes three cost elements: raw materials currently being worked on, direct labor, and factory overhead.

Finished goods refers to the items most often carried by retail store inventories. It represents the total costs incurred to produce sales units that have not yet been sold.

These inventories—raw materials, work in progress, and finished goods—all exist for the same ultimate purpose. This ultimate purpose is sale to customers. However, each of the inventories is in a different stage of readiness for sale. Inventory costs usually are broken down into invoice price, plus transportation charges from the seller to the buyer. Accurate measures of inventory are important, because they are used to reflect your net earnings for a given period. In addition, accurate inventories are crucial to the daily operation of your business.

HOW MUCH INVENTORY DO YOU NEED?

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 outdated. 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:

- The number of brands of a particular item
- The quantity on hand (may be either too much or not enough)
- "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 in order to define what they want. Keeping the proper quantity on hand and still justifying the investment is a dilemma that the entrepreneur 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 your capital. Knowing whether or not a stock item is a fad that 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:

Cost of Goods Sold =
Average Inventory

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 investment.

ARE THERE DIFFERENT INVENTORY CONTROL SYSTEMS?

Two types of inventory control systems, perpetual and physical, are used by most businesses. Electronic inventory control systems are also important. Combinations of these inventory control systems are common.

WHAT IS A PERPETUAL INVENTORY?

When continuing records are kept of receipt and withdrawal of inventory, the process is called "perpetual inventory." With this system, the business owner/manager has a running tally on the current stock of an item. For each item, a record is kept as it is brought into the business, stocked, and sold. Records are maintained on perpetual inventory cards, pages, tags, or via electronic means. In retail operations, sales tickets, or punched cards are often used to maintain perpetual inventory information.

There are several different types of records for keeping perpetual inventory, and a variety of information can be maintained with these records. A sample perpetual inventory form is illustrated in table 9. You will find that typical records include the item, the stock number, the reorder point, and the supplier. When additional inventory is received, the number is added to the balance. When items are issued for use or are sold, the withdrawal is subtracted from the balance. The amount of inventory on hand for a particular item can be easily determined by looking at the balance on the record.

TABLE 9				
PERPETUAL INVENTORY CARD				
Item: _____				
Date	Pur. Req. or Stock Req. No.	Put in Stock	Withdrawn	Balance
3/3/82	2525	1,000		1,000
3/10/82	502		100	900
3/15/82	1208	1,000		1,900
3/18/82	503		1,000	900
3/20/82	1720	1,000		1,900
3/22/82	505		200	1,700
3/24/82	507		300	1,400

INVENTORY SHEET

Sheet No. _____ Price Range From <u>60</u> to <u>69½</u>																				Expense Total		
Date _____																				Price	Quantity	Ext.
60	60½	61	61½	62	62½	63	63½	64	64½	65	65½	66	66½	67	67½	68	68½	69	69½	60		
																				60½		
																				61		
																				61½		
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																				65½		
																				66		
																				66½		
																				67		
																				67½		
																				68		
																				68½		
																				69		
																				69½		
																				TOTAL		

Figure 3. Inventory sheet for small cost items

Basically, the electronic inventory control system consists of: (1) using a standardized system of classification, (2) in-store preparation of input information for computer use, (3) central computer processing and report preparation, plus (4) in-store analysis of computer-prepared reports.

The costs involved in using electronic data processing are justified in terms of efficiency, information gained, and savings made. Businesses that have adopted electronic inventory control have pointed to many advantages, such as timely reports, valuable style and vendor analysis, lower inventories because of better sales trend forecasting, better turnover of goods, and fewer clerical employees required for the reporting function. Current data regarding daily sales volume, inventory levels, sales ratio figures and even profit and loss statement reviews are available within hours. With technological advances, more and more small businesses will have accurate and current information available in a short time period.

WHAT ARE BUDGET SYSTEMS?

The most successful small business firms are those that:

- Keep double-entry bookkeeping records
- Have their accounts audited or checked by an experienced accountant
- Take an inventory of merchandise more than once a year
- Operate under a financial budget

A budget is an estimated plan for the future. It helps the small business owner/manager keep expenses in line with income. Use of a

budget should prevent overbuying and help to anticipate when borrowing is necessary. Actual procedures in budgeting vary according to the type of business. The overall business budget plan is made up of several different types of budgets, such as sales, merchandising and/or purchasing, advertising, and so forth. Most of the budgeted items are based on planned sales. They are developed for a given time period—usually six months. Let's take a closer look at budgeting sales, merchandising and/or purchasing, plus advertising, in order to learn more about the process.

WHAT IS A SALES BUDGET?

The sales budget is a forecast of the sales for a month, several months, or a year. Estimated sales may be computed on the basis of sales territories, salespeople, particular commodities or services, and other items. Sometimes independent estimates are made on all these bases and, after some compromises, a final sales budget is compiled. Sometimes sales estimates are prepared with the idea of developing sales quotas or goals for salespeople. These estimates provide a goal for sales, as well a basis for preparing the merchandising, purchasing, and other operating budgets.

The following factors may be used as a guide to budget sales:

- Previous sales
- Economic trends
- Weather conditions
- Shifting population
- Sales force
- Availability of merchandise
- Buying habits
- Season of the year

When starting a new business, it is advisable to investigate the experiences of other operators in the same line of business and secure what information can be obtained from wholesalers, manufacturers, and professional or trade association people.

WHAT ARE MERCHANDISING AND PURCHASING BUDGETS?

The merchandising and purchasing budgets are prepared after the sales budget, because they are closely correlated. When these budgets are developed, the kinds of stock to have on hand and the time when they should be available are determined. Maximum and minimum supplies are established. Purchases are planned, cash needs are estimated, sources of supply are checked, delivery dates are scheduled and requisitions and orders are tentatively planned. Orders are sometimes placed in advance, subject to cancellation later; or, minimum orders are placed, subject to increase later.

WHAT IS THE ADVERTISING BUDGET?

The advertising budget is a plan of spending for advertising, based on estimated sales. Advertising should be kept within some reasonable bounds, for it is not true that sales will always be in direct proportion to advertising. In other words, if the estimated sales are pretty well-known, it would be unwise to spend an unusual amount for advertising. Such a plan might result in a loss. On the other hand, a special advertising campaign, properly planned, might increase the sales of a certain product; and the advertising budget would

consequently have an influence on the sales budget. These two budgets should therefore be planned together.

ARE THERE OTHER RECORD-KEEPING NEEDS?

In addition to the recordkeeping needs discussed herein, many small business owner/managers keep other records. They may include:

- Those of a legal nature
- A record of business assets containing purchase or title documents, warranty or guarantee statements, repair records, etc.
- Insurance records containing different types of insurance policies, policy numbers, coverages, and premium due dates
- Other employee compensation records (a file of the application form, W-2 withholdings statements, medical records, insurance forms, emergency phone numbers, etc.)

You may decide that you need these or other additional records for your particular business needs. Types of legal records include:

- **Application to the County Clerk registering your business name.** This is necessary if you are doing business as a sole proprietor and using a name other than your legal name
- **Application for and copy of a Federal Employer Identification Number.** This is necessary if you have employees
- **Application for and copy of a Sales Tax Identification Number.** This is necessary for businesses that are required by law to collect sales taxes or that purchase merchandise that is for resale and not subject to sales tax
- **Application for and copy of State Unemployment Insurance Number.** This is necessary for businesses that pay compensation with the exception of remuneration of sole proprietors and partners
- **Application for and copy of Worker's Compensation Insurance Numbers.**
- **Application for and copy of State Disability Insurance Number.**
- **Application and copy of licenses** required by federal, state, and local licensing legislation.
- **Leases on premises used for business purposes.**
- **Copies of partnership agreements** and other agreements between the partners.
- **Copy of corporate kit** with stock certificates, seal and articles of incorporation.

- **Copies of purchase agreements** between suppliers and the business.
- **Copies of contracts** between the business and its clients, plus other contracts related to the business.
- **Lists of property, serial numbers, property values** that are used in the business.
- **Lists of clients**, with addresses and phone numbers.
- **Other documents** applicable to the particular industry and locality; for example, board of health permits, zoning variances, etc.

HOW ARE MICROCOMPUTERS USED IN SMALL BUSINESSES?

The use of electronic data processing (EDP) for inventory control plus the introduction of minicomputers for personal and business use have opened new opportunities and aids to the process of recordkeeping. Some small business owner/managers are personally utilizing microcomputers in their business situations. Others are sharing computer time with others through the use of a computer service bureau.

There are both advantages and disadvantages to using a microcomputer in business situations. The advantages are as follows:

- They are fast, reliable and accurate.
- They can store data and recall it with ease.
- They do not require special considerations like those necessary for larger machines (additional power, a raised floor, air conditioning, etc.)
- They can aid your basic decision-making process by providing timely information.
- If you analyze the purchase and balance cost with performance, you can save money in the long run.
- They're fun and they give status. In addition, you will increase your personal knowledge through the process of utilizing computers in your business.

Disadvantages also exist. Computers have limitations. They can't think. They cannot save a business that is going to fail. If you decide to use microcomputers in your business, you must learn how to use them. In addition, you will need to make a commitment to train your personnel to use them. You will need to make an initial investment in the computer, and any savings that you might obtain from using them will probably be a long time in coming. In addition, there are hidden costs with computerization that you may not see at the outset.

If you are considering buying a computer for your small business operation, you may wish to read the following books. They will provide very helpful information.

- *The Small Computer in Small Business*, by Brian R. Smith. Stephen Greene Press, Brattleboro, VT: 1981.
- *How to Computerize Your Small Business*, by Jules A. Cohen. Englewood Cliffs, NJ, Prentice-Hall: 1980.

If you purchase a microcomputer, you will find a variety of canned computer programs (software) that can be utilized to prepare your business records. Provided that you purchase the right software packages for your computer model, that have the configurations that you need, these packages can be utilized with ease. In addition to inventory control, the most common small business applications available are general ledger accounting, accounts payable, accounts receivable, and payroll. You might wish to try these packages before purchasing others.

A variety of other application software is available. Your local computer dealer will be happy to provide you with catalogs that identify software packages for you. In addition, you can write programs for your business or have them written for you.

Today's small business owner/managers are using computers for a variety of other applications. Some of these include budgetary control, business forecasting, and financial ratio analysis. In addition, computer programs are being developed for data file management. For example, computerized customer files might be developed. These files would list customers, their addresses, telephones, purchases, other contacts, and the nature of such contacts, plus other items.

Word processing systems may also be purchased to use with the same computers that you utilize for recordkeeping purposes. These word processing systems enable you to combine the power of a computer with that of an electronic typewriter. They can aid you in sending out multiple letters that appear as if they have been individually typed. In addition, they may aid your direct mail advertising and sales, letter and report preparation, plus any mailing operations.

Some of the recordkeeping functions that can be computerized are illustrated in table 10. Typical improvements and labor savings that result from computerization of these functions are also presented.

TABLE 10
COMPUTERIZED RECORDKEEPING FUNCTION

FUNCTION	TYPICAL IMPROVEMENTS	TYPICAL LABOR SAVINGS
Accounts Payable	Better cash flow management and other intangibles	50 percent reduction in time to prepare and send payments
Accounts Receivable	Improved bad debt collections by 0.5 percent on total annual receivables (for example, if previous bad debt ratio was 5 percent, new ratio would be 4.5 percent)	75 percent reduction in time to prepare statements
General Ledger	Better control on business information and other intangibles	50 percent reduction in book-keeping expense
	Better budgets, plans, and so forth, plus other intangibles	50 percent reduction in time to prepare budgets, performance balance sheets, etc.
Income Tax Preparation	Double the case load each accountant can handle at tax and better customer service	30 percent reduction in preparation time
	Reduce inventory by 5 percent while maintaining same level of sales	Varies according to business
	Increase sales by 1.5 percent by identifying and concentrating on high-profit items while eliminating slow movers	
Payroll	Intangibles	75 percent reduction in time to produce payroll checks and to post ledger and job cards
Word Processing	Better looking reports and letters, better business image, and other intangibles	50 percent reduction in typist expense while doubling typists' output.

ACTIVITIES

Do you feel knowledgeable about the requirements of a good recordkeeping system? The following activities will help you practice using your knowledge.

INDIVIDUAL ACTIVITY

1. Develop a list of resources on recordkeeping for use in your business. Include the Small Business Administration publications that you might obtain free of charge. Obtain the resources that will be of assistance to you.
2. Determine who will keep the records for your business.
3. Determine your need for an accountant. If you decide that you need an accountant, determine how you will select that accountant. Also, decide what services you desire to have the accountant perform.
4. Determine the nature of the information that you desire to have on your business on a daily, weekly, and monthly basis. Also, decide how you will obtain this information.
5. Determine the type of bookkeeping system that you will use—single-entry or double-entry.
6. Select your journals or books of original entry.
7. Select your ledgers or books of various accounts.
8. Determine the techniques you will use in order to keep track of sales.
9. Develop a system to keep track of your accounts payable.
10. Develop a system to keep track of your accounts receivable.
11. Determine the nature of the payroll records that you will keep.
12. Develop a system for keeping a petty cash account.
13. Select your inventory control system. Select or develop cards or forms that you will need to record perpetual inventory (if utilized). Develop or select any forms that you will utilize to record physical inventories (if utilized).
14. With a cash register salesperson and a computer salesperson, discuss electronic inventory control systems that might be utilized in your business.
15. Develop an overall budget for your business. It should include sales, merchandising, purchasing, and advertising budgets.
16. Select any other records that you will keep for your business.
17. Talk with a computer salesperson about how minicomputers might be used in your business. Also, talk with a

representative of a computer time-sharing service. Select any business applications that you will computerize—if you desire this option. Also, determine how you will computerize.

18. Visit your local SCORE (Service Corps of Retired Executives) Office to determine the type of assistance they can provide you and your firm.

19. On a separate piece of paper, complete the following checklist regarding your records:

- Have you planned a system of records that will keep track of your income and expenses, what you owe other people, and what other people owe you?
- Have you worked out a way to keep track of your inventory so that you will always have enough on hand for your customers, but not more than you can sell?
- Have you planned on how to keep your payroll records and take care of tax reports and payments?
- Do you know what financial statements you should prepare?
- Do you know how to use these financial statements?
- Have you obtained standard operating ratios for your type of business you plan to use as guides?
- Do you know an accountant who will help you with your records and financial statements?

20. If your business has been operating and you haven't done this previously, make an appointment to discuss the following information with your accountant:

- How much business am I doing?
- What are my expenses? Which expenses appear to be too high?
- What is my gross profit margin? My net profit?
- How much am I collecting on my charge business?
- What is the condition of my working capital?
- How much cash do I have on hand and in the bank?
- How much do I owe my suppliers?
- What is my net worth; that is, what is the value of my ownership of the business?

- What are the trends in my receipts, expenses, profits, and net worth?
- Is my financial position improving or growing worse?
- How do my assets compare with what I owe? What is the percentage of return on my investment?
- How many cents out of each dollar of sales are net profit?
- What can we do to improve the business operation?

GROUP ACTIVITIES

1. Arrange and/or attend one or more of the following seminars:

- Selecting an Accountant for Your Small Business
- Inventory Control and Your Small Business
- Analyzing Your Records to Reduce Costs
- Time sharing Services Providing Computers for Small Business
- Business Applications and the Computer
- Selecting a Microcomputer for your business

2. Select another person to work with in this activity. You should select a person whom you trust, because you will be discussing aspects of your business operation with this individual. Get a Student Record Checklist from your instructor. Use it as you discuss your recordkeeping with the other individual. The other individual will evaluate the information that you provide and give assistance on how you might improve your system.

You may wish to share the records that you are using with the person with whom you are working. Are you using too many records? Are the records that you are using at their best or can they be improved? How can they be improved? Should you be keeping other records? You and your "partner" will have an opportunity to learn as you evaluate the recordkeeping process that each of you is using.

CASE STUDY

Jennifer Salmons has decided to open a jewelry store in her home town. She hasn't had any experience in retailing previously and isn't sure what records she should keep. Assist Jennifer in performing the function of keeping the business records, by completing the following activities:

- Outline the various records that Jennifer will need for her business.
- If possible, provide some sample forms that Jennifer would need.

- Recommend a plan that Jennifer might follow in order to establish and maintain the recordkeeping function.

CASE STUDY

This case study problem is recommended for persons who are not sure if they should be using a computer in their business.

Will a computer help your business? Answer the following questions. The answer that you provide and the process of answering each item may help you to reach a decision regarding your need to purchase a computer.

- What am I doing now?
- What will I be doing next year? In three years?
- What are the bottlenecks for the business? What is being done about them? Are we throwing away time and money on them with no long-term improvement?
- What information is kept on paper?
- How many times does the same information get rewritten?
- What functions does the business do that are exactly like the functions that other businesses perform?
- What functions are different about my business and how important are these differences?
- How many companies are there like mine?
- What are the tangible and intangible benefits of computerizing?
- What are the costs of computerizing? (Consider the following items: equipment, maintenance, supplies, software, training, changeover time, personnel, and physical plant.)
- Should I buy, rent, or lease a computer?
- If I buy, rent, or lease, who will be responsible for using the computer?

ASSESSMENT

Directions: Read the following questions to check your own knowledge of the information in this unit. When you feel prepared, ask your instructor to assess your competency on them.

1. Describe double-entry bookkeeping.
2. Name the recordkeeping devices that you will use in your business.
3. Several types of recordkeeping needs are described below. Identify the nature of the record that will meet each need in a small business situation.
 - A system that will allow you to classify your sales transactions by department or merchandise line, salesperson, taxable versus nontaxable items, and cash versus charge sales.
 - These records are needed to document the cash taken in each day. They are a combination of a days cash sales plus payment for prior sales (charges), deposits on future sales (lay-away or special orders), and any miscellaneous income.
 - For each customer to whom you extend credit you should keep a separate record on which you post each charge and payment transaction, along with the date and a running balance due.
 - These records refer to each account that sells to you on credit.
 - These records show the weekly hours worked; gross pay, deductions for state and federal income taxes, FICA withholdings, and net pay to each employee.
 - Depending on the type of business, you will need some type of control system to keep track of your merchandise and equipment. Keep in mind that the cost of maintaining the system should not outweigh the potential for loss.
 - This record provides a monthly listing of deposits, checks cashed, and the remaining balance of your bank account. It should be compared with your records to detect errors or to record bank charges and to locate any "lost" or "misplaced" checks.
 - In most businesses, the owner will have occasional small disbursements that are simply paid in cash rather than by writing a check. This account is needed to cover these expenses.
4. A small business owner/manager has several options with regard to who can keep the business records, as well as how they are maintained. Identify the option that you plan to use in your business and explain why you choose it.
5. List the recordkeeping functions that might be performed via a microcomputer.
6. Identify the factors that you will use to evaluate your business records.

**SOURCES USED TO DEVELOP
THIS UNIT**

U.S. Small Business Administration. Keeping Records in Small Business. MA No. 1.017. Washington, DC: U.S. Government Printing Office, 1980.

U.S. Small Business Administration. Managing for Profits. Washington, DC: U.S. Government Printing Office, 1981.

For further information, consult the lists of sources in the *Resource Guide*.

PACE

- Unit 1. Understanding the Nature of Small Business
- Unit 2. Determining Your Potential as an Entrepreneur
- Unit 3. Developing the Business Plan
- Unit 4. Obtaining Technical Assistance
- Unit 5. Choosing the Type of Ownership
- Unit 6. Planning the Marketing Strategy
- Unit 7. Locating the Business
- Unit 8. Financing the Business
- Unit 9. Dealing with Legal Issues
- Unit 10. Complying with Government Regulations
- Unit 11. Managing the Business
- Unit 12. Managing Human Resources
- Unit 13. Promoting the Business
- Unit 14. Managing Sales Efforts
-  Unit 15. Keeping the Business Records
- Unit 16. Managing the Finances
- Unit 17. Managing Customer Credit and Collections
- Unit 18. Protecting the Business

Resource Guide

Instructors' Guide

Units on the above entrepreneurship topics are available at the following three levels:

- Level 1 helps you understand the creation and operation of a business
- Level 2 prepares you to plan for a business in your future
- Level 3 guides you in starting and managing your own business



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