

MEMORANDUM

March 1, 1983

TO: AA/AFR, Mr. F. S. Ruddy

FROM: Louis A. Cohen *LAC*

SUBJECT: Training Manual for Small Entrepreneurs

1. Attached is a copy of the loose-leaf English version of E. Thusa Bagwebi: A Manual for Enterprise Development by John Grierson, Malcolm Harper, and Donald Lenz for PFP Botswana under Project 633-0212 (Rural Enterprise Extension Service). This USAID/Botswana-funded manual for training mini-business managers in Africa contains four sections - Training Materials, Operating Procedures, Business Advisors Guide (to help local or central government enterprise development officers), and Instructors' Guide.
2. There are versions of the Manual without the Instructors' Guide and bound shelf copies for reference, as well.
3. While the materials developed in the Manual are designed for the particular circumstances in Botswana, they proved to be readily usable by host government "business skills extension staff" with only secondary school education. Such inexperienced officers of the Botswana Business Advisory Service of the Ministry of Commerce and Industry succeeded in passing on fundamental business management training to hundreds of novice entrepreneurs, using this material.
4. Accordingly, I believe that much of this Manual is transferable and will be valuable in many other African LDCs and elsewhere. Those involved in training managers and owners of small businesses can modify the material to their own circumstances, translate into local languages, and use these exercises, cases, and Instructors' Guides as the basis for providing management training for mini-businesses.

Attachment: a/s

cc:
DAA/PRE: ECharrell
Development Information
Center (AID)

Best Available Document

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E THUSA BAGWEBI

A MANUAL FOR ENTERPRISE DEVELOPMENT

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Washington, D.C., United States of America

The material contained in this publication may be used, reproduced, stored and transmitted for non-commercial educational and development purposes. Partnership for Productivity and the authors are particularly hopeful that this manual will serve to assist the entrepreneurs of the developing world meet their goals and aspirations. They give their full permission and encouragement for this manual to be used towards that end.

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Principal amongst those to be thanked are the field staff of Partnership for Productivity and the Business Advisory Service who have demonstrated by their diligent efforts that the material in this manual and the system for its application can have a positive impact on the business community.

Special acknowledgement must go to the many officials of the Ministry of Commerce & Industry for recognizing the need and bringing PFP to Botswana. The Undersecretary of the Ministry of Commerce & Industry, Mr. E. T. Matenge, is to be thanked for seeing the movement of the extension service from PFP to the Ministry of Commerce & Industry over every hurdle and ensuring that it becomes a permanent service to the business community.

The BAS could never have been developed without generous support from funding agencies. The United States Agency for International Development (USAID), Private Agencies Collaborating Together (PACT), The Botswana Development Corporation, The Rockefeller Brothers Fund, Standard Bank of Botswana and Barclays Bank of Botswana have all contributed.

Eldon Helm and Lee Dresser who have done so much for PFP in so many capacities set up the original programme.

The Botswana Development Corporation, of which PFP Botswana is a subsidiary, has contributed much in the way of support, funding and perhaps most importantly guidance in the form of Mr. M. O. Molefane, the Deputy General Manager of BDC who serves as Board Chairman of PFP Botswana.

The United States Peace Corps has on two occasions provided staff to PFP Botswana including Don Lenz who is co-author of this manual.

The programme evaluators, Dr. Cheryl Lassen and Randolph Lintz are to be thanked for guiding the evolution of the programme.

Partnership for Productivity International has provided the support and continuity that ensured that this programme came to a successful conclusion. The BAS has benefitted from PFP International's long experience of enterprise development.

The staff of the Cranfield School of Management and particularly Jackie Bilton have cheerfully suffered the many hours of typing, changes, and yet more typing necessary to give birth to E Thusa Bagwebi.

E Thusa Bagwebi in the Setswana language means "helping business people". Special thanks are due to Mr. K. B. Moloi, gentleman, entrepreneur, civil servant, farmer and retired Assistant General Manager of PFP Botswana for contributing the title. E Thusa Bagwebi has become the motto of PFP Botswana.

John Grierson

Malcolm Harper

Donald G. Lenz

INTRODUCTION

E THUSA BAGWEBI is in a sense both a start and a conclusion. The manual summarises and documents the materials and methods used in a successful effort by PFP Botswana to assist, improve and expand citizen business by using school-leavers with little or no business background as extension agents. The method used was to train them in a variety of rudimentary business skills and direct them in transferring these skills to Botswana business people.

This approach was taken with the goal of developing Botswana business while simultaneously developing and using citizen staff and reducing dependency on expatriates.

Evaluation of the project through this first stage suggests that this is a practical and effective method of promoting business development. Hence, the first part of an innovative experiment has been successfully concluded.

This manual is designed to serve the second and more challenging task; the transfer of the material, staff and methodologies of both staff development and programme management from PFP Botswana, a small not-for-profit company largely dependent on development funds, to the more permanent framework of the Business Advisory Service of the Ministry of Commerce and Industry of the Republic of Botswana. The second stage began in March 1982, with the transfer of PFP Botswana's entire extension service to the Business Advisory Service.

A major long term benefit will be the working demonstration that a non-governmental organisation can prove an innovative, effective vehicle for the creation of a permanent agency within a Government body.

E THUSA BAGWEBI takes the critical parts of the PFP Botswana systems used to develop staff, support and guide them in the field, and manage the extension service. It structures these systems to fit into and complement

the existing systems of the Botswana Government. The purpose of the manual is to ensure the success of the second half of the task by making the materials that were instrumental in the success of the first half conveniently accessible to those responsible for carrying on the service.

PfP Botswana was established in 1977 in order to assist the Botswana Government to develop a citizen staffed Business Advisory Service. PfP Botswana was established with a grant from Private Agencies Collaborating Together (PACT) and considerable support and assistance from the Botswana Development Corporation. It was established as a local not-for-profit company guided by a local Board of Directors. The second stage of PfP Botswana's operations, was funded by a grant from the United States Agency for International Development (USAID). Publication of this manual was made possible with funds provided by PACT, USAID and the Botswana Development Corporation.

PfP Botswana is a subsidiary company of the Botswana Development Corporation. It is affiliated to Partnership for Productivity International in Washington, D.C., U.S.A.

The materials contained in this manual have been developed for the particular circumstances of Botswana and the experiment described above. They do not in themselves address all of the needs of the business sector in Botswana or elsewhere. There are a number of reasons for this. The material is designed for a business skills training extension service. The service is designed to use extension officers of secondary school education with no previous business experience. The Business Advisory Service, is one of several programmes some specialised, offered by the Ministry of Commerce & Industry. These include the Botswana Enterprises Development Unit (BEDU) and the Rural Industrial Programme (RIO). Existing material such as that already contained in the Rural Industrial Officers Handbook has not been included in this manual.

Many parts of this manual are transferable and should prove useful outside Botswana. Those involved in small business training will be able to use much of the material modified to their particular circumstances, especially

the exercises, cases and Instructors Guides. Other business extension services may find some of the procedures helpful as guidelines. They should be used with caution since they have been developed for the unique circumstances of Botswana's Business Advisory Service.

The loose-leaf format is designed to facilitate the addition of further materials and the refinement of those included. It is hoped this will prove a starting point for development of further enterprise material.

Those wishing information on this and a variety of other business, enterprise and area economic development programmes are invited to address inquiries to:

The President,
Partnership for Productivity International,
2441 18th Street North West,
Washington D.C.
U.S.A.

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GUIDE TO THE MANUAL

E THUSA BAGWEBI has been developed in the field in Botswana over a period of more than five years. All the training materials and procedures in the manual have been successfully applied in practice. All have been developed, tested, refined and are used by the Botswana Business Advisory Service.

The Botswana Government has internal policies and practices that govern the activities of the staff of the BAS as they do of all civil servants. Hence, such matters as the selection of extension staff and their evaluation, confidentiality of clients' business affairs, pay and expense claim procedures, use of vehicles and transport facilities, and other administrative and policy matters are not included in this manual.

The policies and procedures in this manual are limited to specific field operating procedures that are unique to the management of this programme. These procedures together with the body of procedures and practices described in Government General Orders, the regulations of the Directorate of Personnel and those of the Central Transport Organisation and other agencies provide a comprehensive system to train, guide, support, supervise, document and evaluate the Business Advisory Service of the Ministry of Commerce and Industry.

A principal function of the Business Advisory Service is to bring a business skills training programme to Botswana business people, teach them basic business skills and assisting them in applying these skills. The Business Advisory Service intends, through extension, to give rudimentary business skills to a broad mass of Botswana business people.

This manual is designed to guide and support those critically involved in bringing this service to the business community; the Business Advisers, their Instructors and the Supervisors and Headquarters staff of the BAS.

The manual consists of four different types of material:

- 1) The business skills which are taught by the Advisers to their business clients (on White paper).
- 2) Guidelines to the Advisers as to how they should convey these skills to their clients (on Green Paper).
- 3) Guidelines to Instructors to assist them in training the Business Advisers (on Pink paper).
- 4) The administrative policies and procedures of the Business Advisory Service (on Yellow paper).

There is also a glossary of all the forms used in the manual.

The most critical parts of this manual are the first two shown above; the training materials (white) and the advisers' guides (green). These are concerned with the actual transfer of skills from the Business Adviser to the client.

The Training Materials (White)

The training materials are the business subjects that are taught to the Business Advisers. They in turn teach some or all of these skills to their clients and assist their clients in the use of these skills to improve their businesses. The training materials should be kept by the Business Advisers in the ring binder provided. The material will become a reference library for the Business Adviser and support and assist him in his day-to-day activities with clients. Each business skill is in a separate bound chapter. Each is composed of:

- Training Material
- Demonstration Exercises
- Training Aid Forms (if appropriate)
- A Checklist for Completion.

The checklist for completion is a summary of the materials. It is designed to help the Business Adviser ensure that the client has satisfactorily understood and is using the material taught in that lesson.

Each individual subject will be accompanied by a (green) Advisers Guide. The Advisers Guide will give the Business Adviser specific guidance on how to teach each particular subject to the clients.

These two together, the material and the method of transferring this knowledge to business people, serve the main purpose of this manual.

The Advisers Guides (Green)

The Advisers Guides are to be found both in section II and dispersed throughout the training material. Section II (General Advisers Guide) covers the main techniques and methods the Business Advisers need to teach their clients. The Advisers Guide shows the Business Adviser how to develop and build client understanding and ability even if they have a modest education. It shows how to build practical understanding that is not dependant on terms or terminology.

In addition to the techniques in Section II there is an individual Advisers Guide for each chapter of the training material. These guides follow the Training Material (white pages) in each section. They are specific guidance to the Business Adviser on an individual subject (e.g. Cash Book). The Business Advisers should continually review these Advisers Guides and when first becoming Business Advisers they should be referred to before each client visit.

The purpose of the BAS is to teach business skills to clients so that they can apply them to improve their businesses. The Advisers Guides will greatly assist Business Advisers in accomplishing this goal.

The Instructors Guides (Pink)

The Instructors Guides are found in Section III (General Instructors Guide) and in individual Instructors Guides for each subject of the training materials and for the Policies and Procedures.

The Instructors Guides are provided for those conducting training programmes, in-service training and courses for the Business Advisers. The Instructors Guides are only included in those copies for the use of Instructors.

The Instructors Guides are intended to help Instructors train the Advisers to develop an understanding of business subjects without focusing on terminology. Trainee Business Advisers who are new to the subject can learn basic business skills by building on their experience, understanding, knowledge and common sense. The Guides provide the Instructor with practical guidance on how to train the Advisers to develop a firm conceptual grasp of basic business skills in order to pass them on in turn to their clients.

The Policies and Procedures (Yellow)

Policies and Procedures are the operating procedures used by the Headquarters staff, Field Supervisors and Business Advisers to guide them in the day-to-day operations of the BAS. The Policies and Procedures are designed to complement the existing structure of the Government of Botswana contained in:

- Government General Orders.
- The National Development Plan as expressed in the policies of the Ministry of Commerce & Industry.
- The Personnel Practices of the Directorate of Personnel.
- The regulations of the Central Transport Organisation (CTO).

The Policies and Procedures detail such matters as how many clients a Business Adviser should have, what to do if a client is frequently absent, how to conclude service, and what files to maintain. They cover the reporting requirements and other administrative matters. The reporting requirements are designed to provide the programme seniors with the data necessary to direct and evaluate the programme.

The Forms Glossary

The forms glossary is provided as a reference of all forms discussed in the text. There are two types of forms:

- Teaching Aids
- Administrative Forms.

The forms are provided in loose-leaf form to serve as master copies for ease of duplication.

GENERAL ADVISERS GUIDE

A : Establishing the Relationship

- 1) The first step is to gain the confidence of your client. You are probably younger than he is, and you have no business experience. You have nevertheless to convince him that you can provide him with useful advice.
- 2) A new client may not have heard of the BAS, or may know very little about it. He may think you are really a tax inspector or even somebody who will return later as a thief. You must overcome these ideas, which may be in the client's mind even if he appears to welcome you.
- 3) Remember that a doctor does not start by giving you medicines, he tries to find out what is wrong with you. Start by asking the client to talk about his problems, so that he will realise that you are interested in helping him, not in "selling" your own ideas for their own sake.
- 4) The client will be put off from the beginning if you do not have a neat appearance and if your papers are obviously disorganised. First impressions are the most important ones, and they must be good ones.

B : Obtaining Information

- 1) You cannot give any recommendations without first obtaining some information, even if that information is no more than observing that the floor is dirty, that stocks are badly displayed or that the business looks unattractive from the outside. The client therefore has to "give" you something, namely information, before you can "give" him anything; the information must therefore be obtained tactfully or it will not be made available.
- 2) Be sure to find something to compliment the client about, even if the business is in a very bad condition. If you seem only to be looking

for faults, the client will feel that he is being exposed and will not co-operate.

3) It may take time to obtain information and at this stage the client is not receiving anything. It is particularly important, therefore, not to interrupt the client's business. If customers come into the business, stand back and insist that they are dealt with before continuing your discussion with the client. You can also observe the way your client deals with his customers and this will give you further information as a basis for recommendations for improvement.

4) Remember that if the client does not give you the information you need, it can be for one of three reasons:

- The client does not understand your question.
- The client does not have the information.
- The client has the information but is unwilling to give it to you.

You must find out which of these reasons is preventing the client from giving you the information before endeavouring to overcome it.

5) It is often possible to double-check information by asking the same question in two different ways; when inquiring about sales, for instance, you can ask how many units are sold and what value is sold. If you know the price, you can then make sure that the information is correct.

6) You must not "grill" the client for information at any stage; it may be better to break off from "hard" topics such as basic records and to spend some time on display and other topics which do not involve figures or confidential information.

C : Advising the Client

1) Be sure that each topic that you introduce to the client is one which will actually be useful to him. Do not follow the list of topics blindly and be sure to deal with them in a sequence which makes sense to the client, even if it is not the same as the one in which you learnt them.

- 2) Clients may not be familiar with "technical terms" such as debtors records and so on, but they may in fact be keeping quite useful records of their own. Be sure that you find out what records they are already keeping before attempting to teach them anything else, and never criticise clients' existing systems; compliment the client on his skill and help him to build on his present systems and thus to bring them to a level where the information can be used to produce a complete set of management accounts.
- 3) Remember that the client has probably not had as good an education as you, and has probably not worked in a classroom for many years. Basic record keeping involves very different skills from those used in day-to-day running of business, and you should not expect clients to grasp the principals very quickly, or to complete the arithmetic correctly from the very beginning. Do not, however, make the mistake of completing the records for the client. Your objective is to enable the clients to manage their own businesses more effectively, not for you to become an assistant manager.
- 4) Discuss the reasons for each basic record and business skill before introducing it. Attempt to help the client himself to suggest at least some part or what should be done, so that he believes that a part at any rate of what he is learning is the result of his own ideas. Do not insist that the client follows the "textbook" system exactly. Include any of his own ideas which can be useful even if they are not quite as efficient as those which you have learnt.
- 5) Do not be tempted to introduce too many new topics, or records or skills which are of no use to the client, because you want to achieve an impressive record of competence achieved. Your objective should be to help the client improve his business, and you and the client should know how every new idea you are introducing is going to help to make the business more successful.
- 6) Remember that your advice need not be limited to the topics you have covered. An Adviser can often help his client more effectively by

explaining Government regulations, introducing him to other sources of assistance or suggesting places where he can buy or sell goods. As an Adviser you can provide a very valuable link between businesses and a source of information about the world beyond the place where the business is located.

D : Selling Better Management

- 1) Although you are not making a charge for your advice, you are asking your clients to make a sacrifice in that they have to do something they have not done before, whose value is not proved until they have done it. You are therefore asking them to take a risk, and must "sell" your ideas to them in the same way that a salesman has to sell an unfamiliar product to new customers.
- 2) You can use your success with other clients, with their agreement, by showing one client the success you have achieved with another and asking clients to help you by explaining to newer clients how much they have benefitted from your advice. Business people like being used as demonstrations of good management, and are often surprisingly willing to help one another. You should not of course tell one client about the results of another but should merely introduce them to one another and leave them to discuss the results of your advice together.
- 3) The benefits of keeping basic records are often rather delayed, particularly if the client has to learn each of the basic records, and then bring the information together in the balance sheet and profit & loss statement, before being able to use them. You can improve your chances of "selling" these improvements by introducing simpler ideas whose benefit will come very quickly, from the very beginning. Ideas for better stock display, cleanliness, advertising and promotion will have good results very quickly. Your client will therefore be convinced that your advice is worth listening to, and will be willing to learn the more complicated business records and management techniques.

- 4) Never criticise or despise your client for not following your advice. Try to think why he has not done what you suggested. It may be too difficult, he may not believe it is worth the effort, he may not wish to damage his competitors who are also his friends or he may not have enough time. Maybe you gave the wrong advice, or maybe you must "sell" your advice more effectively so that the client understands why it will be in his interest to follow it.

GENERAL INSTRUCTOR'S GUIDE

A : Organising and Staffing the Training

- 1) Training, like anything else, must be well organised. Ensure that details of accommodation, feeding, stationery and so on are properly planned. All the exercises and forms which are required at particular sessions must be prepared in advance in sufficient quantities. Quite apart from the disruption caused by bad organisation, it is vital that people who are being trained to advise about management should learn from the management of the training itself as well as its content.
- 2) The Adviser's job is to work with enterprises in the field. It is easy for instructors, and their trainees, to forget about the real problems when they are safely sitting in a classroom. It is therefore better to conduct the training course in a place which is very near to typical clients, so that trainees can quickly test out what they are learning by visits to clients. If the training accommodation is too luxurious, it will be even more difficult for trainees to apply what they learn in the classroom to small businesses in the field.
- 3) There are a number of topics which should be taught by visiting speakers from banks, Government institutions and so on. These speakers should be well briefed in advance and should be discouraged from giving formal lectures. It is important that they should understand the nature of the Business Advisory Service whose trainees they are meeting.
- 4) It is more convenient for speakers from other organisations, and less tedious and more educational for the Trainee Advisers, if topics which are to be covered by outsiders are taught at the visitor's premises rather than in the normal classroom. This will enable trainees to find out where the various institutions are and to meet a number of their staff.
- 5) Field Supervisors, experienced Advisers and suitable clients should attend and contribute to as many of the sessions as possible. When

the training is completed and the trainees start actually to advise clients, they should not be meeting their colleagues and Supervisors for the first time. Experienced Advisers sitting in on individual sessions can also point out to trainees and the instructor if their discussions are becoming irrelevant to the reality of clients in the field.

- 6) The training of an Adviser is not complete when all the topics have been covered. They, as well as their clients, are learning all the time, and in-service training sessions must also be given whenever possible. These should cover problems which trainees are experiencing, and the forms and other procedures should be revised at these times. Trainees should also be encouraged to present problems they are experiencing with particular clients so that they can benefit from each other's ideas.

B : The Content of the Training

- 1) It is likely that many trainees have recently completed their full time education. They may think that the BAS training is an extension of normal education, whose objective is often seen as learning information by heart and passing examinations. Trainees should continually be reminded that the objective is to enable them actually to work effectively in the field and to improve the profitability of their clients' businesses. This means that they must learn the various business topics and skills properly, but they must learn to apply them to real situations, and to teach them to other people, and not just to complete them properly in a classroom.
- 2) In order to avoid tedium and loss of enthusiasm, and to stress that trainees are being trained to do a job in the field, there should be at least one field visit every week. The objective and timing of these visits must be discussed in detail with the hosts in advance, to ensure that they are not just "sight-seeing trips" but are useful ways of adding to the course content.

- 3) It is not necessary for the trainer to accompany each field visit, and trainees may indeed gain from the experience of undertaking such a visit on their own. After each visit they should report on their experience and "teach" the instructor what they have learnt. If they know they are going to have to do this, this will ensure that they learn from the visit.
- 4) Much of what is being taught will be unfamiliar to trainees and is also fairly difficult. It may be necessary to cover the same material several times; if so, different exercises and other learning methods must be used in order to avoid tedium.
- 5) At the end of the training course, trainees should know more about certain business skills than their clients. They must however not despise their clients or consider themselves to be superior to them in any way. If possible, one or more suitable clients should be asked to contribute to the training in order to describe their experience with the BAS but also to demonstrate that client improvement is a joint activity of the Adviser and the client working together.

C : Learning Methods

- 1) In any session, the instructor should not be talking for more than one-fifth of the time. Trainees will not learn from listening or reading; the instructor's task is to "elicit" or draw out the necessary conclusions by guiding the trainees to learn for themselves. It takes longer to cover a given topic in this way, but there is no point in covering a topic quickly if trainees learn nothing.
- 2) Every trainee has something special to contribute in the way of knowledge or previous experience. Make every trainee feel that he or she is contributing to the training, and not just receiving information, and be sure to involve all trainees in the discussion and answers to your questions, rather than allowing the most talkative to dominate the sessions.

- 3) Successful advice requires knowledge of the topic in question and the ability to deal with people. Knowledge can be reinforced, and personal skills developed, by using "role plays" to confirm trainees' understanding of every topic. One trainee should act as an Adviser and another as a Client who does not fully understand. The remaining trainees should observe the simulated discussion and comment on the Adviser's performance.
- 4) Ensure that every trainee understands and is able to apply each topic, and not only the brightest or most talkative. At the same time, it is useful to divide trainees into syndicates of two or three for dealing with particular exercises and problems, since they can learn a great deal from one another. Ensure that syndicates of this sort are not "carried" by the ablest member, while the others merely relax.

D : Timetable

- 1) The schedule which follows shows one way in which the timetable can be put together, assuming that a period of six weeks is available for training.
- 2) The actual time to be allowed for each topic, and for the whole programme, will depend on the amount of prior knowledge of book-keeping and business which trainees have. Much academic training in accountancy is not particularly relevant to the BAS, however, and it may be necessary for trainees with such education to "unlearn" much of what they have learnt.
- 3) The timetable includes those topics which are covered in the material on basic records and business skills, and the material on policies and procedures. It also includes other topics which are not covered in this manual, and which are briefly summarised in the schedule.
- 4) The timetable should be treated flexibly as the sequence, and the time allocated to each topic, will of course depend on what is convenient in the circumstances. A number of topics can be dealt with on an in-service

basis, after trainees have started to work in the field, and it is any case necessary to schedule regular in-service training sessions so that trainees meet together and are able to share with one another and to revise and up-date their knowledge.

- 5) The timetable includes sessions at which trainees are themselves to practice teaching. These will serve to remind them that they are teachers of business skills, and they should also be prepared to gather small groups of clients together when the same topic must be introduced to a number at the same time.
- 6) The timetable includes six days of working in the field with Advisers, preferably with one Adviser working with one trainee. It is important that trainees should be asked to report back on these experiences and to discuss with fellow trainees exactly what they have learnt.
- 7) Public speaking is included since this improves trainees' confidence in general, and also prepares them for the occasions when they will be expected to address local communities about the work of the BAS and the role of local enterprise in general.
- 8) If during the period of the training course a BAS staff meeting is taking place, the trainees must attend this in order to obtain a greater understanding of the work of the Advisers, and to meet with the people who will in due course be their colleagues.
- 9) The timetable includes an examination; this will act as a target and spur for the trainees' efforts but it is important to stress that the objective is not to pass examinations but to help clients be more successful. A good mark on the examination does not mean that the trainees has learnt everything there is to know about being a Business Adviser.

SUGGESTED TIMETABLE

Session		Time
Administration	Explanation of Government of Botswana Personnel Policies, introduction to Headquarters Staff	4 hours
Official Opening	Recognise importance of course, communication with Government	1 hour
Introduction to the Business Advisory Service	Formally welcome new staff members and the background of the programme	1 hour
What we do at the BAS	To acquaint staff with programme and job responsibilities (question and answer), experienced field staff and supervisors to discuss the BAS with trainees	2 hours
Business in Botswana	A brief history of business development in Botswana	2 hours
Meeting the Client	Two BAS staff to act out a client training session, to acquaint staff with programme methodology	2 hours
The Importance of Keeping Records	To demonstrate the value of record keeping	1 hour
The Cash Book	Business Skills topic	4 hours
Two Column Cash Book	Business Skills topic	2 hours
Sales Record	Business Skills topic	2 hours
Purchase and Expense Record	Business Skills topic	2 hours
Debtor Record	Business Skills topic	4-8 hours
Credit/Loan Record	Business Skills topic	1-2 hours
Stock Record	Business Skills topic	2 hours
Cost Coding and Stocktaking Exercise	To demonstrate the difficulties of and appreciation of taking stock	All day
Markup and Margin	Business Skills topic	2-4 hours

Session		Time
Profit and Loss Statement	Business Skills topic	4-8 hours
Balance Sheet	Business Skills topic	4-8 hours
The Total System	Business Skills topic	1½-2 days
Trainee Teaching	Have trainees prepare lesson plans - teach a basic record to class	4 hours
On-the-Job Training	Trainees work with Business Advisers in the field, central offices	2 days
Banking in Botswana	Representative from commercial bank on banking services, loans	4-6 hours
Bank Reconciliation	Business Skills topic	4 hours
Interest and Interest Calculation	Representative of commercial banks	2 hours
Credit Management	Business Skills topic	4 hours
Shop Layout Stock Display and Storage	Business Skills topic) including shop tours Business Skills topic)	((4 hours (
Stock Mix and Management	Business Skills topic	4-6 hours
Security and Cleanliness	Business Skills topic	1 hour
Customer Relations	Business Skills topic	2-3 hours
Advertising and Promotion	Business Skills topic	2-4 hours
On-the-Job Training	Trainees work with Business Advisers in the field, southern offices	2 days
Price Control Briefing	Representative from MC&I discussing relevant law, PC inspection	4 hours
Costing	Business Skills topic	4 hours
Manufacturing Management and Break-Even Point	Business Skills topic Business Skills topic	2 hours 2 hours

Session		Time
BEDU costing exercise and Tour	Small-scale enterprise development programme briefing and tour; real costing exercise	4 hours
Cash Flow	Business Skills topic	1 day
Profit and Loss Statement Analysis	Business Skills topic	4-8 hours
National Development Bank	Tour and briefing of NDB; how to obtain a loan; guidelines; forms; criteria	4 hours
Financial Management	Business Skills topic	4-8 hours
Decision Making	Business Skills topic	4 hours
Commerce and Industry Familiarisation Tour	Introduction to all departments and personnel	All day
Tax Department	Tax Department staff, trainees briefing on tax law	4 hours
Wholesaling Tour	Familiarisation tour of local wholesalers	4 hours
Trainee Teaching	Trainees prepare lesson plans and teach business skills	4 hours
The Duties of a Business Adviser	Familiarisation with reporting requirements (Policies and Procedures from manual) should be co-ordinated with staff meeting	4 hours
On-the-Job Training	Trainees work with Business Advisers in the field, northern offices	2 days
Reports Presentation Public Speaking	How to prepare oral reports, public speaking	3 hours
Review Session	All Business Skills topics	1 day
Questions and Answers	Preparation for final examination	2 hours
Final Examination	To be prepared by Instructor	4 hours
Government of Botswana Procedures	Use of BX vehicles, claims, leave	2 hours
Administration	Assignment to extension office, review of class	2 hours

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THE CASH BOOK

WHY HAVE A CASH BOOK?

Can the owner of the business detect cash shortages caused by mistakes or by dishonest employees?

Can the owner tell what his cash sales amount to, and whether they are increasing, decreasing or staying the same?

Can the owner control and if necessary limit his own and his family's withdrawals of cash for their own use?

WHAT IS A CASH BOOK?

A CASH BOOK is a regularly maintained record of all the money that goes into or comes out of a business.

HOW TO SET UP AND MAINTAIN A CASH BOOK

- 1) Decide whether the business needs a daily, weekly or monthly record of cash movement. Any business which receives money or makes payments daily should keep a daily CASH BOOK.
- 2) The CASH BOOK records the amount of money at the beginning of the day, the amount that is received or paid out during the day and the amount remaining at the end. The formula is as follows:
$$\text{Starting Cash} + \text{Cash In} = \text{Cash Out} + \text{Ending Cash.}$$
- 3) Any lined paper can be used for a CASH BOOK; a useful layout is as follows:

CASH BOOK					
Cash In			Cash Out		
Starting Balance	P.		Cash Out	P.	
Cash In	P.		Ending Balance	P.	
Total	P.		Total	P.	

DEMONSTRATION EXERCISE 1

On 1st January 1980 (the first day of business) for a vegetable shop the following transactions occurred:

Money at the beginning of the day	P. 50
Sales for the day	20
Stock purchases	10
Rent paid	5
Money taken out by owner	10
Money at the end of the day	45

This is a business with daily sales therefore a daily CASH BOOK is kept.

Instructions: Prepare a CASH BOOK from the above information.

ANSWER KEY/Demonstration Exercise 1

CASH BOOK					
Date	Details	Amount	Date	Details	Amount
1.1.80	Starting Balance	P. 50	1.1.80	Purchases	P. 10
	Sales - Cash	20		Rent	5
				Drawings	10
			Ending Balance	45	
	Total	P. 70		Total	P. 70
2.1.80	Starting Balance	P. 45			

Details to note from the above example:

- 1) All transactions in which cash comes into the business are shown on the left side of the CASH BOOK.
 - 2) All transactions in which cash goes out of the business are shown on the right side of the CASH BOOK.
 - 3) The starting amount of cash (cash on hand) is shown as a Cash In item - this is also known as starting balance or balance brought forward (b/f).
 - 4) The balance of cash is shown as the last transaction of the period - this is known as the ending balance or balance carried down (c/d).
 - 5) The Cash In total equals the Cash Out total. This means the CASH BOOK is balanced.
 - 6) The cash on hand at the end of a period must always equal the cash on hand at the beginning of the following period.
-

Many businesses do not keep a record of individual sales.

If the business does not keep a record of each individual sale we must use the CASH BOOK formula to calculate cash sales.

From the CASH BOOK formula we know that:

$$\text{Cash In} = \text{Ending Cash} - \text{Starting Cash} + \text{Cash Payments}$$

Cash in will include all sources of cash including Cash Sales and debtors payments and money received from loans.

This can be shown as:

$$\text{Cash In} = \text{Cash Sales} + \text{Debtors Receipts} + \text{Money from Loans}$$

OR

$$\text{Cash Sales} = \text{Cash In} - \text{Debtors Receipts} - \text{Money from Loans}$$

DEMONSTRATION EXERCISE 2

The beginning balance in the cash box is P 500. Receipts for expenditure throughout the day for purchases and expenses total P 600. The ending balance at the end of the day is P 700. The only source of cash during the day was cash sales (no debtors payments received).

Instructions: Determine cash sales for the day.

ANSWER KEY/Demonstration Exercise 2

Use the CASH BOOK formula:

$$\begin{array}{r r r r r r r r r r} \text{Starting Balance} & + & \text{Cash In} & = & \text{Cash Out} & + & \text{Ending Balance} \\ 500 & + & ? & = & 600 & + & 700 \end{array}$$

A simple calculation shows that cash sales were P 800. This amount is entered in the CASH BOOK and sales record.

DEMONSTRATION EXERCISE 3

Malcolm's Meat Market had P 200 in the cash box on the morning of 1st June. The following transactions took place during the day:

Debtors receipts were	P 20.00
Capital expenditures were	P 100.00
Cash at the end of the day was	P 300.00

Instructions: Determine cash sales on 1st June.

ANSWER KEY/Demonstration Exercise 3

Using the cash book formula we first determine Cash In:

$$\begin{array}{r r r r r r r r r r} \text{Cash In} & = & \text{Ending Cash} & - & \text{Starting Cash} & + & \text{Cash Payments} \\ ? & = & 300 & - & 200 & + & 100 \\ 200 & = & 300 & - & 200 & + & 100 \end{array}$$

Now that we know Cash In equals 200 we can determine cash sales:

Cash Sales	=	Cash In	-	Debtors Receipts	-	Money from Loans
?	=	200	-	20	-	0
180	=	200	-	20	-	0

This calculation shows that cash sales are P 180.00. This amount will be entered in the CASH BOOK.

How can the cash book be used to record bank account transactions as well as movements of cash?

- 1) Every business should have a bank account:
 - Money in the bank is secure from theft.
 - The bank pays interest on deposits.
 - Suppliers may prefer to be paid by cheque.
 - If customers pay with cheques these can easily be paid into an account.
 - Banks prefer to give loans to businesses which have had accounts for some time.

- 2) If the business has a bank account, transactions will be taking place in cash and through the account. The business must keep a record of the money that passes through the bank account and that which passes through the cash box.
 - Both records should be kept together; a second column should be added to the cash in and to the cash out sides of the cash book.
 - Deposits into the bank account should be entered in the second column on the cash in side. Cheques paid by the business should be entered in the second column in the cash out side.

- 3) The bank account columns should be balanced in the same way as the cash columns. The business owner cannot count the money in the bank every night in the same way as his cash to make sure there are no mistakes. There may be differences for various reasons; this record of bank account transactions must be "reconciled" with the bank's own statement of the account, and this is dealt with in the topic on bank reconciliation.

DEMONSTRATION EXERCISE 4

Beginning cash balance	P. 50.00
Beginning balance in bank account	00.00
Cash sales for day	100.00
Deposit to bank account from cashbox	50.00
Paid electricity by cheque	20.00

ANSWER KEY/Demonstration Exercise 4

CASH BOOK

CASH IN				CASH OUT			
Date	Details	AMOUNT		Date	Details	AMOUNT	
		Cash	Bank			Cash	Bank
	Beginning Balance	50.00	00.00				
	Cash Sales	100.00					
	Bank Deposit		50.00		Bank Deposit	50.00	
					Electricity		20.00
					Ending Balance	100.00	30.00
		150.00	50.00			150.00	50.00

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CASH BOOK
(Two Column)

CASH IN

CASH OUT

Date	Details	Amount		Date	Details	Amount	
		Cash	Bank			Cash	Bank

CHECKLIST FOR COMPLETION - CASH BOOK

Basic Knowledge

- What does a CASH BOOK record? - All movements of cash into and out of the business.
- What is the purpose of a CASH BOOK? - To prevent theft or excessive drawings.
- To record the amount of cash spent and received.
- How is the CASH BOOK laid out? - Cash In is recorded on the Left and Cash Out on the Right.
- What is the formula for calculating the ending cash? - Starting cash + cash received - cash paid out.
- What is the formula for calculating cash received? - Ending cash - starting cash + cash paid out.
- If the business has a bank account, how should money paid into and out of it be recorded? - Use the two column CASH BOOK.

Implementation

The client should:

- Lay out a CASH BOOK page and record cash in and cash out regularly and correctly.
- If daily cash sales can be recorded as they occur, calculate the ending cash balance, compare it with the actual cash and take appropriate action if there is any difference.
- If daily cash sales cannot be recorded as they occur, calculate what cash sales were and complete the CASH BOOK accordingly.
- Record movements of cash into and out of a bank account in the CASH BOOK if the client has a bank account.

THE CASH BOOK - ADVISER'S GUIDE

- 1) A number of business people keep some form of cash record. Find out first of all if the client keeps any record of this sort. If he does ensure that you help him to build on it rather than attempting to replace it with "your" system.
- 2) Ensure that the client knows from the outset why it is useful to keep a CASH BOOK. Few business people are totally confident that they can detect cash shortages, or control their own or their family's drawings. Make the client aware of these problems, so that he will be willing to learn to avoid them.
- 3) Most retail businesses should keep a daily cash record. Some contractors or other businesses can work on a weekly or monthly basis since money only goes into or out of the business occasionally and in large amounts. Settle on the appropriate period by discussion with the client.
- 4) Avoid laying out the page or making entries for the client. He should provide his own book, and should make the layout and the entries for himself, from the beginning. If the owner himself will not be keeping the CASH BOOK, his child, the clerk or other employee should be present during the discussion and should make all the entries, from the start.
- 5) You may work through the demonstration exercise with the client but it is better to use his own figures as an example.
- 6) The formulae for calculating the ending cash, or the cash received, are often confusing to clients. Explain them by using coins, stones or other objects to represent the cash. Check by repeated examples that the client can successfully carry out the necessary calculations. Stress the importance of correct addition and subtraction. If the client cannot do it properly, and has nobody else to do it, do not attempt to teach the CASH BOOK at all.

- 7) If the business has a bank account, or is likely to open one in the near future, explain and include the two column CASH BOOK layout from the start.
- 8) When concluding the meeting, ensure that the client has understood how to keep and how to use the CASH BOOK. Stress that on your next visit you hope to see not only a correctly completed up-to-date CASH BOOK but also some examples of use such as:
- Discovery of cash shortages and action to correct them.
 - Identification of an upward or downward trend in sales.
 - Calculation of the total of drawings, and attempts to limit and control them.

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THE CASH BOOK - INSTRUCTOR'S GUIDE

- 1) Many people, particularly those with some knowledge of accounting or book-keeping, believe that a CASH BOOK is a basic necessity, but cannot say why. Start the session by asking trainees to give examples of uses of a CASH BOOK, or situations which might be avoided by keeping a CASH BOOK. Stress that it is often a major burden for a client to keep such a record. Unless he can use it, it will be no more than a nuisance, and will discredit any further advice he may be given.
- 2) Explain the two formulae very carefully. Some trainees will grasp them more quickly than others. Ask them in turn to explain it to the others, so that they appreciate the difficulty and the importance of putting across the basic principle.
- 3) Trainees may think that once they have grasped the basic principle the method the actual calculations and the entries are of little importance. The exercises are designed to teach not only the method but also the ability to layout a large number of figures and to make the necessary calculations quickly and accurately. Although the mathematics is not beyond Standard Four level, they will make addition and subtraction mistakes. Show that these mistakes are not caused by ignorance of arithmetic but by messy workings, illegible crossing out and so on. A Business Adviser must be able to identify and correct clients' errors of this sort, and must therefore be able to do the task correctly himself.
- 4) Stress that incorrect figures may lead to actions which will seriously damage the business, such as incorrect accusations of theft. Incorrect figures are worse than no figures at all.
- 5) Allow trainees sufficient time to complete the exercises. Point out that clients are likely to be even slower than their advisers. It is therefore all the more important that they should be shown how to make profitable use of the CASH BOOK from the start.

EXERCISE/CASH BOOK 1

Using the CASH BOOK formula find the missing amount.

Note: the CASH BOOK formula is:

$$\text{Beginning Balance} + \text{Cash In} = \text{Cash Out} + \text{Ending Balance.}$$

Problem	Beginning Balance	Ending Balance	Cash Sales	Cash Expenditures
1	50	50	20	?
2	50	75	?	10
3	75	150	?	50
4	150	?	40	10
5	?	150	100	90
6	100	90	30	?
7	50	0	?	60

ANSWER/CASH BOOK 1

Example: Beginning Balance + Cash In = Cash Out + Ending Balance

$$\begin{array}{rcccccc} 50 & + & 20 & = & ? & + & 50 \\ 50 & + & 20 & = & 20 & + & 50 \end{array}$$

Cash Expenditure is money leaving the business therefore it is Cash Out.

<u>Problem</u>	<u>Answer</u>
1	20
2	35
3	125
4	180
5	140
6	40
7	10

EXERCISES/CASH BOOK 2 to 7

2) On 1st January 1981 the following transactions occurred:

Money at the beginning of the day	P. 50.00
Sales for the day (cash)	20.00
Cash purchases	10.00
Rent paid	5.00
Money taken by owner (drawings)	10.00
Money at the end of the day	45.00

3) On 1st December 1980 the following transactions occurred:

Balance in cash box at beginning of day	P. 50.00
Cash sales	10.70
Purchases made with cash	27.70
Rent paid	4.00
Wages paid	9.00
Cash payments from debtors	5.00
Owners drawings	4.00
Balance in cash box at end of day	21.00

4) On 1st November 1979 the following transactions occurred:

Cash on hand	P. 250.00
Cash sales	100.00
Receipts from debtors	75.00
Payments to suppliers	200.00
Wages	40.00
Rent	30.00
Personal drawings	30.00
Balance at end of day	100.00

5) On 17th August 1981 the following transactions occurred:	
Balance in cash box at beginning of day	P. 60.00
Cash sales	?
Cash purchases	30.00
Balance in cash box at end of day	80.00
6) On 18th August 1981 the following transactions took place:	
Balance in cash box at beginning of day	P. 80.00
Cash sales	50.00
Cash purchases	?
Balance at end of day	120.00
7) Balance at beginning of day	P. 120.00
Debtors receipts	20.00
Cash sales	?
Purchases	50.00
Balance at end of day	100.00

ANSWER KEY/CASH BOOK 2 to 7

CASH BOOK

	Date	Details	Amount	Date	Details	Amount
2)	1.1.81	Beginning Balance	50.00	1.1.81	Purchases	10.00
		Cash Sales	20.00		Rent	5.00
					Drawing	10.00
					Total Cash Out	25.00
				Ending Balance	45.00	
		Total	P 70.00		Total	P 70.00
3)	1.12.80	Beginning Balance	50.00	1.12.80	Purchases	27.70
		Cash Sales	10.70		Rent	4.00
		Debtors Receipts	5.00		Wages	9.00
					Drawings	4.00
				Total Cash Out	44.70	
				Ending Balance	21.00	
		Total	P 65.70		Total	P 65.70
	2.12.80	Beginning Balance	21.00			
4)	1.11.79	Beginning Balance	250.00	1.11.79	Payments to Suppliers	200.00
		Cash Sales	100.00		Wages	40.00
		Debtors Receipts	75.00		Rent	30.00
					Drawings	30.00
				Total Cash Out	300.00	
				Ending Balance	100.00	
		Total	P 425.00		Total	P 400.00

The Ending Balance is P 25 less than it should be. The owner should investigate the possibility of unrecorded expenses, or drawings, errors in entries on either side or theft.

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5) The CASH BOOK formula is:

Beginning Balance	+	Cash In	=	Cash Out	+	Ending Balance
60.00		?		30.00		80.00

Cash Sales (Cash In) = P 50.00

6)

80.00	+	50.00	=	?	+	120.00
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Cash Purchases (Cash Out) = P 10.00

7)

120.00	+	20.00 + ?	=	50.00	+	100.00
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Cash Sales (Cash In) = P 10.00

EXERCISE/MOETI'S FERTILIZER SHOP

Rra Moeti always made a note of the amount of money he had in the cash box at the end of each days business. He used to take the box home, securely locked, and bring it back to the shop each morning. He also made a note on a piece of paper every time he took anything out of the cash box. He kept these notes on a spike so that none would be lost.

He was not quite sure why he kept these pieces of information, except that someone had once told him that it was a good thing to do. He did feel more in control of his business as a result.

One day a salesman from a fertilizer company came to Rra Moeti's shop. The salesman announced that his company was giving free display stands and advertising material to all the shops whose sales were greater than P 1000.00 a week. Rra Moeti wanted to take advantage of this offer, because his fertilizer business was important to him. He did not know how to prove to himself or the salesman that his sales were sufficient to qualify for the offer.

The offer was made on a Saturday evening just before the shop was closed. Rra 'oeti took home with him the cash box and his papers from the previous week, and was determined to work out what his sales had been during the week.

He had the following information:

Day	Cash at Start of Day	Cash at End of Day	Money Taken Out during Day
Monday	P 20.00	P 35.00	P 5.00
Tuesday	35.00	45.00	10.00
Wednesday	45.00	40.00	15.00
Thursday	40.00	50.00	5.00
Friday	50.00	50.00	20.00
Saturday	50.00	65.00	10.00

Questions:

- 1) How much money came into Rra Moeti's cash box each day?
- 2) How much came in during the week?
- 3) Does he qualify for the offer made by the fertilizer salesman?

ANSWER KEY/MOETI'S FERTILIZER SHOP

1)

Day	Cash Sales
Monday	P 20.00
Tuesday	20.00
Wednesday	10.00
Thursday	15.00
Friday	20.00
Saturday	25.00
2) Weekly Cash Sales -	P 110.00

3) Yes, Rra Moeti qualifies for the offer from the fertilizer salesman.

EXERCISES/CASH BOOK 8 and 9

- 8) Enter in your CASH BOOK the following transactions and balance the CASH BOOK on a daily basis:

5 June	Commenced business with cash	P 500.00
	Bought goods for cash	246.40
	Cash sales	120.82
	Paid salaries in cash	200.00
6 June	Bought goods for cash	88.42
	Paid sundries	24.55
	Paid rent	40.20
	Bought stationery for cash	27.75
	Cash sales	150.00
7 June	Drawings	30.00
	Casual labour	15.00
	Paid cash electricity	30.00
	Cash sales	300.00

- 9) Use the balance brought down in Exercise 8 and then enter the following transactions in the CASH BOOK and balance the CASH BOOK on 14 June 1979:

8 June	Balance brought down from last exercise	P ?
	Furniture for office	71.00
	Received cash from C. F. Lloyd	50.00
	Paid sundry expenses	30.20
	Paid for stationery	10.75
9 June	Sold goods for cash	54.68
10 June	Paid rent	100.00
11 June	Sold goods for cash	300.00
	Received cheque from M. Dube	45.00
12 June	Paid cash for legal services	100.51
	Paid cash for transport	66.00
13 June	Paid cash for insurance	80.00
14 June	Paid cash for advertising	77.53

ANSWER KEY/CASH BOOK 8

CASH BOOK

CASH IN			CASH OUT		
Date	Details	Amount	Date	Details	Amount
5 June	Balance b/f	500.00	5 June	Goods	246.40
	Cash Sales	120.82		Salaries	200.00
				Balance c/d	174.42
		P 620.82			P 620.82
6 June	Balance b/f	174.42	6 June	Goods	88.42
	Cash Sales	150.00		Sundry Expenses	27.75
				Stationery	24.55
		P 324.42			P 324.42
7 June	Balance b/f	143.50	7 June	Drawings	30.00
	Cash Sales	300.00		Casual Labour	15.00
				Electricity	30.00
		P 443.50			P 443.50

ANSWER KEY/CASH BOOK 9

CASH BOOK

CASH IN

CASH OUT

Date	Details	Amount	Date	Details	Amount
8 June	Balance b/f	368.50	8 June	Furniture	71.00
	C.F. Lloyd	50.00		Sundry Expenses	30.20
				Stationery	10.75
9 June	Cash Sales	54.68			
11 June	Cash Sales	300.00	10 June	Rent	100.00
	M Dube	45.00			
			12 June	Transport	66.00
				Legal	100.51
			13 June	Insurance	80.00
			14 June	Advertising	77.53
				Balance c/d	282.19
		P 818.18			P 818.18

EXERCISE/TWO COLUMN CASH BOOK

1 Jan	Began business with bank deposit	P 10,000.00
	Purchased building by cheque	6,000.00
	Cashed cheque for working capital	1,000.00
2 Jan	Cash sales	2,000.00
3 Jan	Cash purchase of stationery	100.00
	Charitable donation, cash	50.00
5 Jan	Bank deposit	800.00
9 Jan	Personal drawing, cheque	240.00
18 Jan	Cash payment of electricity account	120.00
28 Jan	Stock purchase by cheque	1,200.00
29 Jan	Purchased office supplies by cheque	700.00
31 Jan	Bank deposit	950.00
	Cheque to L. Davids for goods delivery	650.00

Instructions: Enter the information given above in the two column CASH BOOK.

ANSWER KEY/TWO COLUMN CASH BOOK

CASH BOOK

CASH IN

CASH OUT

Date	Details	Amount		Date	Details	Amount	
		Cash	Bank			Cash	Bank
1.1	Balance b/f		10,000.00	1.1	Building		6,000.00
	Working Capital	1,000.00		.	Working Capital		1,000.00
2.1	Cash Sales	2,000.00		3.1	Stationery	100.00	
					Donation	50.00	
5.1	Bank Deposit		800.00	5.1	Bank Deposit	800.00	
				9.1	Drawings		240.00
				18.1	Electricity	120.00	
				28.1	Purchases		1,200.00
				29.1	Office Supplies		700.00
31.1	Bank Deposit		950.00	31.1	To Bank	950.00	
					L. Davids		650.00
					Balance c/d	980.00	1,960.00
	Total	3,000.00	11,750.00		Total	3,000.00	11,750.00

BANK RECONCILIATION

WHY HAVE A BANK RECONCILIATION?

Does the owner of the business know exactly how much money is in his bank account?

Does the owner know which of his cheques have not yet been presented to his bank by the people who received them, but may be presented and deducted at any time?

Does the owner know exactly how much the bank is charging him for its services?

Does the owner know which of the cheques he has received from customers have not been paid into his account, possibly because they cannot be honoured?

Is it possible that the bank could be making mistakes without the owner realising it?

WHAT IS A BANK RECONCILIATION?

The BANK RECONCILIATION is a procedure for comparing the bank statement and the account holders cash record calculations of how much money is in a bank account, and of explaining any differences.

HOW TO PREPARE A BANK RECONCILIATION

- The purpose of a BANK RECONCILIATION is to identify and explain any differences between the cash book record and the bank statement record of the money in a bank account.

- Differences may arise from the following reasons:
 - Outstanding cheques which have been written but not yet presented so that the money is still in the account.
 - Outstanding deposits which have been made by the account holder but have not yet been recorded by the bank on the statement.
 - Bank charges which are deducted by the bank to cover the cost of interest, cheque books and other services.
 - Errors in the cash book, or, less likely, in the banks own statement.
- The cash book and the bank statement should first be compared and all items which are the same should be ticked off (✓) on both documents.
- Any bank charges on the statement should be written down in the cash out bank account columns of the cash book and ticked off.
- Any items still not ticked off should be listed in the following format:

BANK RECONCILIATION

Balance per bank statement
 Add: Outstanding deposits
 Less: Outstanding cheques
 Other reconciling items
 Adjusted bank statement balance

Balance per cash book (before adjustment)
 Less: Bank charges
 Other reconciling items
 Adjusted cash book balance

The adjusted balances for both cash book and bank statement should be equal and this is the amount of money available to the business.

DEMONSTRATION EXERCISE

A butchery recently opened a current account at the local bank and the owner wishes to reconcile the ending balance from the bank statement to the cash book maintained. The following information is found in the two records:

CASH BOOK
(Bank Column only)

CASH IN			CASH OUT		
Date	Description	Amount	Date	Description	Amount
1 Jan	Beginning Balance	P 50			
5 Jan	Deposit	100			
		P 150	30 Jan	Drawings	P 20
				Ending Balance	130
					P 150

BANK STATEMENT

Date	Cheque/Reference	Withdrawal	Deposit	Balance
1 Jan				50
6 Jan			100	150
31 Jan	Ending Balance			150

Instruction: Prepare a **BANK RECONCILIATION** for the month of January.

ANSWER KEY/Demonstration Exercise

Using the three steps to prepare a **BANK RECONCILIATION** we note that the deposit of P 100 is shown on both the bank statement and in the cash book bank column. The cheque written for P 20 on 30th January has not yet been cashed by the bank.

A BANK RECONCILIATION for the month:

Balance per Bank Statement	P 150		
Add: Outstanding Deposits		P 00	
Less: Outstanding Cheques		20	
Other Reconciling Items		00	
Adjusted Bank Statement Balance			<u>P 130</u>

Balance per Cash Book	P 130		
Less: Bank Charges		P 00	
Other Reconciling Items		00	
Adjusted Cash Book Balance			<u>P 130</u>

CHECKLIST FOR COMPLETION - BANK RECONCILIATION

Basic Knowledge

What is the purpose of the BANK RECONCILIATION?

- To identify and explain differences between the cash book and the bank statement listing of bank account transactions.

What are outstanding cheques?

- Cheques which have been given to people by the account holder but have not yet been presented to the bank or deducted from the account.

What are outstanding deposits?

- Cash or cheques deposited by the account holder but not yet entered to the account by the bank, because of postal delays or difficulty in collecting the money.

What are bank charges?

- Charges made by the bank for its services which are listed in the bank statement and must be transferred to the cash book.

What is an adjusted balance?

- The amount of money available to the business after deducting all outstanding cheques and bank charges.

Why are the cash book record and the bank statement unlikely to be the same?

- Because of outstanding cheques, outstanding deposits and bank charges.

What documents are necessary for preparing a BANK RECONCILIATION?

- The cash book and the bank statement.

When should a BANK RECONCILIATION be prepared?

- Whenever a bank statement is received.

What are the stages in preparing
a BANK RECONCILIATION?

- (a) Tick off the items that appear on both documents.
- (b) Transfer bank charges from the statement to the cash book.
- (c) List the remaining differences and calculate the adjusted balance.

Implementation

The client should:

- Regularly and correctly identify and explain any differences between his bank statement and his cash book record of his bank account.
- Avoid giving out cheques which may not be honoured because outstanding cheques have not yet been deducted from the available balance.

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BANK RECONCILIATION - ADVISER'S GUIDE

- 1) One of your most important tasks is to encourage clients to open and use bank accounts correctly. Stress that BANK RECONCILIATION is vital if a bank account is to be properly maintained and not inadvertently misused. The BANK RECONCILIATION should be taught as soon as the client opens an account, using his own cash book record and his first bank statement as an example.
- 2) Clients may be puzzled or annoyed by the difference between their cash book record and the bank statement. Explain carefully how the banking system works, including the delay in transactions involving separate banks, and the necessity for bank charges. If possible, the client should be encouraged to meet with and discuss this system with a member of his bank staff.
- 3) Stress the importance of presenting cheques received as quickly as possible, so that the money becomes available to the account holder. A cheque is worth nothing until it has been presented to the bank.
- 4) The arithmetic of a BANK RECONCILIATION is simple but can easily be confused. Lead the clients carefully through a number of easy examples, using his own cash book record and bank statement if he is already keeping a cash book and has a bank account.
- 5) Avoid the temptation of doing the BANK RECONCILIATION for the clients. The business owner, or whoever is responsible for book-keeping, should lay out the page, tick off the common items and make the necessary entries and calculations himself, from the start.
- 6) Note in your client's record when he may be expected to receive his next bank statement. Call a day or so after this, and warn the clients in advance that you will hope to see a correctly completed BANK RECONCILIATION. Ask the client then to explain any individual outstanding cheques or deposits, and ensure that he understands how much money is actually available to him in the bank account.

BANK RECONCILIATION - INSTRUCTOR'S GUIDE

- 1) Trainees may not all be familiar with bank statements. Obtain examples from the local bank and use them as the basis for the exercises.
- 2) Ensure that trainees are totally familiar with the way in which the bank account is recorded in the second column of the cash book. Revise the cash book topic if necessary.
- 3) If trainees have their own personal bank accounts, (which they should be encouraged to do) they should be shown how the bank statement can be compared with the cheque book and paying-in book stubs in order to reconcile the two figures and ensure that the account holder knows how much money is available to him. A BANK RECONCILIATION is as necessary for an individual as for a business.
- 4) Ensure by repeated examples if necessary that trainees understand and can correctly carry out the procedure for BANK RECONCILIATION. The arithmetic is simple but must be correct. Errors can lead to serious business mistakes.
- 5) If possible, a staff member of a bank may be invited to this session to explain the banking system, with particular reference to the reasons for outstanding cheques and deposits and for bank charges. If this cannot be done, the instructor should familiarise himself with the banking system, and should find out the normal delays for cheques and deposits, in order to explain them to trainees.

EXERCISE/BANK RECONCILIATION 1

A bakery shows the following in the cash book bank column at the end of the first month of operation:

CASH BOOK

CASH IN			CASH OUT			
Date	Description	Amount	Date	Cheque Ref.	Description	Amount
1 Jan	Balance b/f	P 00				
5 Jan	Deposit	50	7 Jan	1	Wages	P 20
15 Jan	Deposit	75	10 Jan	2	Purchases	30
22 Jan	Deposit	60	21 Jan	3	Supplies	10
31 Jan	Deposit	20	24 Jan	4	Transport	10
			27 Jan	5	Purchases	25
					Balance c/d	110
		P 205				P 205
1 Feb	Balance b/f	P 110				

The bank statement for the first month of operation shows the following:

BANK STATEMENT

Date	Cheque/Reference	Withdrawal	Deposit	Balance
1 Jan	New Account			000
6 Jan			50	50
8 Jan	1	20		30
11 Jan	2	30		00
16 Jan			75	75
22 Jan	3	10		65
23 Jan			60	125
25 Jan	4	10		115
31 Jan	Cheque Book	2		113
31 Jan	Ending Balance			113

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- Instructions:** (1) Note all transactions shown in both the bank statement and the cash book with a tick (✓).
- (2) Identify bank charges that should be entered in the cash book.
- (3) Prepare a BANK RECONCILIATION.

ANSWER KEY/BANK RECONCILIATION 1

Bank Reconciliation - 31 January

Balance per Bank Statement	P 113		
<u>Add:</u> Deposits in Cash book not shown on Bank Statement	20		
	<u> </u>	P 133	
<u>Less:</u> Cheques issued per Cash Book not yet cashed per Bank		25	
Adjusted Bank Balance		<u> </u>	P 108
			<u> </u>
Balance per Cash Book	P 110		
<u>Less:</u> Service Charge that should have been Cash Out item		2	
Adjusted Cash Book Balance		<u> </u>	P 108
			<u> </u>

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EXERCISE/BANK RECONCILIATION 2

Mr. D. S. Pitse,
P.O. Box 100,
Gaborone

Bank Statement

Standard Bank

Date	Cheque/Reference	Withdrawal	Deposit	Balance
1 June				P 100.00
2	552	48.00		52.00
3			25.00	77.00
4	551	21.00		56.00
7	S3	1.50		54.50
10	554	23.00		31.50
	553	63.00		
11			46.00	14.50
13	S5	0.10		14.40
20	556	10.00		4.40
27	S4	0.40		4.00
30	S7	6.00		
			71.00	69.00

Reference Numbers:

- | | | | |
|----|----------------|-----|-------------------------|
| S1 | As per Advice | S 7 | Ledger/SAFE Custody Fee |
| S2 | Bill Collected | S 8 | Transfer/Stop Order |
| S3 | Cheque Book | S 9 | Unpaid Item |
| S4 | Other Charges | S10 | Uncleared Effects |
| S5 | Commission | S11 | Error Corrected |
| S6 | Interest | | |

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CASH BOOK
(Bank Column Only)

CASH IN

CASH OUT

Date	Description	Amount	Date	Cheque Ref.	Description	Amount
1 June	Balance b/f	P 100.00	4 June	551	Repairs	P 21.00
	Deposits	25.00	10 June	552	Salaries	48.00
	Deposits	46.00		553	Purchases	63.00
	Deposits	71.00		554	B Merchants	23.00
	Deposits	20.00	19 June	555	Phone	4.00
			20 June	556	Drawings	10.00
			25 June	557	Furniture	50.00
					Balance c/d	43.00
		P 262.00				P 262.00
1 July	Balance b/d	P 43.00				

Instructions: Prepare a BANK RECONCILIATION for the month of June using the information shown above.

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ANSWER KEY/BANK RECONCILIATION 2

BANK RECONCILIATION

30 June

Balance per Bank Statement	P 69.00		
<u>Add:</u> Outstanding Deposits	20.00		
	<u>89.00</u>		
<u>Less:</u> Outstanding Cheques:			
No. 555		P 4.00	
No. 557		50.00	
		<u>54.00</u>	
Adjusted Bank Statement Balance			<u>P 35.00</u>
Balance per Cash Book (before adjustments)	P 43.00		
<u>Less:</u> Bank Charges		P 8.00	
Adjusted Cash Book Balance			<u>P 35.00</u>

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PURCHASE AND EXPENSE RECORD

WHY HAVE A PURCHASE AND EXPENSE RECORD?

Does the business owner know how she is spending her money?

Does the owner know how much she and her family are withdrawing from the business each month? Is it too much, or could it be more?

Does the owner know whether items such as transport, packing materials or electricity are consuming more of her money or are they reasonably stable?

Does the owner know whether she is making a profit or a loss, and how much?

WHAT IS A PURCHASE AND EXPENSE RECORD?

A PURCHASE AND EXPENSE RECORD is a record of all items on which money is spent by the business, classified in a way which is useful for improved control and management of the enterprise.

HOW TO MAINTAIN A PURCHASE AND EXPENSE RECORD

- The purpose of the PURCHASE AND EXPENSE RECORD is to record all expenditure and to classify it in a useful way.
- Expenditure is initially recorded on the left hand side of the cash book, either in the cash or the bank account column. At the end of the month or other period for which the profit or loss is to be calculated, the expenditure should be taken from the cash book and classified.
- The classification will depend on the business and the owner's ability. Most retailers will find it enough to divide expenditure into the following four categories:

Purchases: Stock bought for resale to customers.

Expenses: Money spent on services or supplies which are not sold but are necessary for the business to operate.

Drawings: Money or goods taken by the owner for her own use.

Fixed Assets: Money spent on things which are necessary for the business and will last several years.

- The value of goods withdrawn by the owner or her family for their own use should be noted on a piece of paper and placed in the cash box or cash register. They should be totalled and entered in the drawings column of the PURCHASE AND EXPENSE RECORD.

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DEMONSTRATION EXERCISE 1

A brickmaker has the following expenditures on 1st January:

Stock (for resale)	=	P 35
Casual Labour	=	5
Maintenance	=	3
Shelving	=	10
Drawing (personal)	=	7

Instructions: Prepare a PURCHASE AND EXPENSE RECORD from the above information.

ANSWER KEY/Demonstration Exercise 1

Date	Description	Total	Stock	Wages	Maintenance	Drawings	Fixed Assets
1 Jan	Stock	P 35	P 35				
	Labour	5		P 5			
	Maintenance	3			P 3		
	Fixed Asset	10					P 10
	Drawing	7				P 7	
	Total	P 60	P 35	P 5	P 3	P 7	P 10

Important points to note from the above example:

- (1) The amounts total both down and across. This is a method to ensure that amounts have been correctly entered.
- (2) Every expenditure can be classified into one of the categories.
- (3) All information is included.
- (4) The information will be used for the profit and loss statement.

DEMONSTRATION EXERCISE 2

The following transactions occurred during one week of business in an agricultural equipment business:

Day 1

Stock P 25
Electricity 5
Rent 10
Stationery 5

Day 3

Stock P 10
Maintenance 2

Day 2

Stock P 30
Drawing 5
Wages 15

Day 4

Drawing P 10
Stock 10

Note: These are all cash out items.

Instructions: Prepare a PURCHASE AND EXPENSE RECORD from the above transactions.

ANSWER KEY/Demonstration Exercise 2

Date	Details	Total	Purc.	Main.	Wages	Elect.	Rent	Office	Draw.
Day 1	Cash Expenditures	P 45	P 25			P 5	P 10	P 5	
Day 2	Cash Expenditures	50	30		P 15				P 5
Day 3	Cash Expenditures	12	10	P 2					
Day 4	Cash Expenditures	20	10						10
	Total	P 127	P 75	P 2	P 15	P 5	P 10	P 5	P 15

Important points to note from the above example:

- (1) Information can be summarised for an entire day on one line.
- (2) The accounts can be totalled both down and across.
- (3) Every expenditure is categorised according to its relationship to the business.

PURCHASE & EXPENSE RECORD

Date	Description	Total	Purchases	Expenses					Drawings		Fixed Assets
			Stock						Cash	Goods	

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PKS

CHECKLIST FOR COMPLETION - PURCHASE AND EXPENSE RECORD

Basic Knowledge

What is the purpose of a PURCHASE AND EXPENSE RECORD?

- To collect together and classify all items of expenditure so that they can be controlled and used in preparing the final accounts.

Should the PURCHASE AND EXPENSE RECORD include credit or cash expenditures?

- Both, it must include all expenditures made by the business.

What are "Purchases"?

- Goods for stock bought for resale to customers.

What are "Expenses"?

- Items or services which are necessary to operate the business but are not themselves resold, and are consumed in less than a year.

What are "Drawings"?

- Money or goods taken from the business for the personal use of the owner or her family.

What are "Fixed Assets"?

- Larger items which are bought for the business and which last for several years.

How should purchases and expenses be classified?

- The classification depends on the nature of the business, but most retailers should classify them into Purchases, Expenses, Drawings and Fixed Assets.

Implementation

The client should:

- Regularly and correctly record and classify purchases and expenses into appropriate categories, entering details of the date, item and amount of money in each case.

- Check the PURCHASE AND EXPENSE RECORD by adding the total of all the items and the total of each classification and ensuring that both totals are the same.
- Use the results of the PURCHASE AND EXPENSE RECORD to monitor and if necessary reduce the cost of items such as drawings, transport or wrapping material.

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PURCHASE AND EXPENSE RECORD - ADVISER'S GUIDE

- 1) Clients who have succeeded in keeping a correct cash book may be confused by the need for yet another record between this and the profit and loss account. Show them that their unrelated listing of expenditures in the cash book cannot be used to control expenditure, because the items are not classified. The total of expenditure cannot be controlled until the client knows what makes up the total.

- 2) Ensure by questioning that the client understands the difference between purchases, expenses, fixed assets and drawings. She must be able to see why the simple classification is useful for control purposes. Demonstrate the difference between fixed assets and expenses by asking whether it would be reasonable to charge the cost of a new shelving unit, or a vehicle, against the sales for one month or even one year. Show that the total of the fixed assets column will in fact be a record of all the "permanent" items a business possesses.

- 3) Stress that the PURCHASE AND EXPENSE RECORD is not a substitute for the stock records. It does not itemize the individual items of stocks but only records the total cost of the total amount of money spent on purchases.

- 4) Ensure that the client understands the use of the PURCHASE AND EXPENSE RECORD by asking her what she would do if the total for drawings increased dramatically, or was very erratic, or if the total of expenses as a whole increased unexpectedly.

PURCHASE AND EXPENSE RECORD - INSTRUCTOR'S GUIDE

- 1) It is vital that trainees should understand how the PURCHASE AND EXPENSE RECORD fits into the total system of records, being based on information from the cash book and being used to produce information for the profit and loss account and the balance sheet. They must realise that records should not be regarded in isolation but as part of a complete system.

- 2) Ask trainees to suggest appropriate classifications for a range of different types of business such as:
 - A Bottle Store,
 - A Garage and Vehicle Mechanic,
 - A Farm or Market Garden,
 - A Restaurant or Bar,
 - A Furniture Workshop.

Show how raw materials, consumable tools, deposits, refunds on empties or other items are worth recording for certain businesses. Stress that the choice of classifications depends on the type and scale of the business and the owners interest and ability to make use of the information.

- 3) Ensure that trainees understand the basic classification system of purchases, expenses, drawings and fixed assets, and any other systems they may suggest for different businesses, by asking them to classify random lists of items. Avoid wasting time on "broader line" items such as bags which are sometimes resold or items that may last slightly over or under one year. Stress that consistency is more important than actual decision on such items.

- 4) Stress as always that accurate arithmetic is vital. Advisers should be able quickly and accurately to check and if necessary correct their clients' records, and they may do this more easily by adding the total of the vertical and horizontal columns as shown in the exercises.

EXERCISE/SEDIRAWA'S MOTOR SPARES

Mr. Sedirwa decided that he should try to keep a record of how his business was doing. He realised it was not enough merely to take away the cost of what was sold from the total sales. There were also other expenses involved in his business. He knew that it would be impossible to make any use of his figures unless the expenses were classified in some way. He knew he should take steps to control those expenses that appeared to be excessive. He decided on the following classifications:

- (1) Goods purchased for resale.
- (2) The value of goods taken for his own use.
- (3) Money taken for his own use.
- (4) The wages of his assistant.
- (5) Rent.
- (6) All other routine expenses.
- (7) The cost of items which he considered to be investments, and which would last many years.

He had noted the following expenses during the previous month. He now had to allocate them to the classifications he had selected:

24th January	Took P 5.00 worth of goods for own use. Withdrew P 2.65 for own use. Gave P 1.50 to nephew for school uniform. Spent P 10.00 on goods for sale. Spent on a pair of weighing scales P 40.00. Spent P 24.75 on goods for sale.
25th January	Gave landlord P 30.00 for rent for the month. Paid P 12.50 wages. Paid P 2.55 for wrapping material. Spent P 15.50 on lamps for the shop. Spent P 2.35 on kerosene for lamp. Bought P 10.00 worth of paint for the building.

26th January

Paid P 23.50 for new sign.
Spent P 75.00 on goods for sale.
Took goods worth 55t for own use.
Gave son P 7.10 for pocket money.
Smoked pack of cigarettes from stock worth 50t.
Took P 6.00 for own use.
Paid P 12.00 wages.
Spent P 2.65 on new jars for sweets.

He also had four invoices that he had not had time to categorise:

D P C		DON'S PARTS CENTRE (PTY) LTD. FOR SPARES, TOOLS, BATTERIES, ACCESSORIES, TYRES & ELECTRICAL GOODS Gaborone, Botswana, P.O. Box 163.		DATE 25.1.82	
		INVOICE No. 101			
QTY.	PART NUMBER	DESCRIPTION	P	t	
1	4Lb	Hammer	7	60	
1	STNP	Screwdriver	1	22	
1		Screwdriver	3	22	
1	FLUB	Spanner	1	40	
1	17 mm	Spanner	1	20	
1	5/8	Spanner	1	56	
1		Pump connection	2	75	
			DISC _____%		
			TOTAL P 18 - 95		

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PE11

<u>INVOICE</u>		
<u>Tel:</u> GABORONE, BOTSWANA P.O. BOX 747		<u>No:</u> 344 <u>Date:</u> 26.1.82
JOHN'S HARDWARE		
<u>To:</u> Messrs Sedirwa's Motor Spares, Kanye.		
10	Spanners	P 13.00
20	Spark Plugs	24.00
		P 37.00

INVOICE		291
P.O. BOX 700, GABORONE BOTSWANA		FINER FILTERS (PTY) LTD.
		DATE: 24.1.82
4	Air Filters	P 22.50
Total		P 22.50

Invoice 6111

TYRE

SERVICES

(Pty) Ltd.

Date 24.1.82

2 x 8 ply @ 20.71

P 41.42

Discount (5%)

2.07

TOTAL

P 39.35

Instructions: Prepare a PURCHASE AND EXPENSE RECORD using the above information and the information from the four invoices.

ANSWER KEY/SEDIWA'S MOTOR SPARES

DATE	DESCRIPTION	TOTAL AMOUNT	STOCK PURCHASES	RENT	WAGES	MISC.	UTILITIES REPAIRS MAINT.	DRAWINGS		FIXED ASSETS
								CASH	GOODS	
24 Jan	Motor Spares Inv.291	22.50	22.50							
	Tyres Inv.6111	39.35	39.35							
	Personal Use	5.00							5.00	
	Drawings	2.65						2.65		
	Drawings	1.50						1.50		
	Goods	10.00	10.00							
	Scales	40.00								40.00
25 Jan	Goods	24.75	24.75							
	Motor Spares Inv.101	18.95	18.95							
	Rent	30.00		30.00						
	Wages	12.50			12.50					
	Wrapping Material	2.55				2.55				
	Lamps	15.50								15.50
	Parafin	2.35					2.35			
26 Jan	Paint	10.00					10.00			
	Sign	23.50								23.50
	Goods	75.00	75.00							
	Motor Spares Inv.344	37.00	37.00							
	Personal Use	0.55							0.55	
	Drawings	7.10						7.10		
	Personal Use	0.50							0.50	
	Drawings	6.00						6.00		
	Wages	12.00			12.00					
	Sweets Jars	2.65								2.65
	TOTAL	401.90	227.55	30.00	24.50	2.55	12.35	17.25	6.05	81.65

1b

SALES RECORD

WHY HAVE A SALES RECORD?

Is the level of sales going down without the business owner being aware of it?

Are there periods of high or low sales in the week, month or year which could be forecast based on past results but are not, so that stocks or staff are not appropriate for the level of sales which could be foreseen?

Does the owner know how much money her business is making or losing?

Is the proportion of credit sales increasing without the owner being aware of it?

Are sales returns seriously reducing the profitability of the business?

WHAT IS A SALES RECORD?

A SALES RECORD is a complete and regular record of all cash and credit sales and sales returns.

HOW TO PREPARE A SALES RECORD

- There are three items of information that make up a SALES RECORD:

Cash Sales: Cash or cheques received when the goods are sold.

Credit Sales: Sales for which the customer will pay at a later date.

Sales Returns: Money which is returned to customers in exchange for goods which are for some reason returned to the business.

- Cash sales are obtained from one of the following three sources:
 - If the business has a cash register - from the printed record.
 - If the sales are recorded as they occur - from the cash book.
 - If the sales are too small and too frequent to be recorded as they occur - by calculation from the cash book.

- Cash in equals ending cash minus starting cash plus cash paid out.

This will also include cash received from credit customers paying for goods they received earlier; these amounts are listed in the debtors record and must be deducted from cash in to obtain the cash sales.

- Credit sales can be obtained from the debtors record or the credit sale receipt book if one is used.
- Sales returns can be taken from the cash out column of the cash book.
- Total sales equal cash sales plus credit sales minus sales returns.
- The SALES RECORD must be completed daily for most shops. Farms or producers of larger goods which are only sold occasionally may need no more than a weekly or monthly SALES RECORD.

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DEMONSTRATION EXERCISE

The beginning balance in the cash box is P 50. Receipts for expenditure throughout the day for purchases and expenses total P 60. The balance at the end of the day is P 70. The only source of cash during the day was cash sales (no debtors payments received).

What was the level of cash sales for the day?

ANSWER KEY/Demonstration Exercise

Use the cash book formula:

$$\begin{array}{rccccccccc} \text{Beginning Balance} & + & \text{Cash In} & = & \text{Cash Out} & + & \text{Ending Balance} \\ 50 & & + & ? & = & 60 & + & 70 \end{array}$$

A simple calculation shows that cash sales were P 80.

This amount is entered in the cash book and SALES RECORD.

CHECKLIST FOR COMPLETION - SALES RECORD

Basic Knowledge

What is the purpose of a SALES RECORD?

- To collect together and maintain a record of all sales made by the business.

What information is included in the SALES RECORD?

- The total of cash sales and credit sales, less sales returns.

How can cash sales be calculated from the cash book if they are not individually recorded?

- Cash in equals ending cash minus starting cash plus cash paid out minus payments by debtors.

Why are payments by debtors not included in the SALES RECORD?

- They are not payments for sales which were made on that date, they are for earlier sales which were recorded when they were made.

From where can information on credit sales be obtained?

- From the debtors record or credit sales receipt book if one is used.

Why are sales returns deducted from sales to give the total?

- If goods are returned this cancels the previous sale and sales must be reduced by this amount.

Implementation

The client should:

- Bring together the cash sales, credit sales and sales returns to produce a correct and regular SALES RECORD.
- Correctly apply the formula for calculating cash in from the cash book.
- Compare sales for a series of periods, draw appropriate conclusions and take appropriate action when necessary.

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THE SALES RECORD - ADVISER'S GUIDE

- 1) As with the purchase and expense record, clients may feel that it is unnecessary to have another record in addition to the cash book and the debtors record, where all sales are, after all, already recorded. Ensure that clients understand that only by bringing sales together in one record can they use the information to monitor the level of sales, to take appropriate action to correct any adverse trends and to monitor the effects of such action.
- 2) Clients should have learnt the formula for calculating cash in when they started to keep a cash book. It may be necessary to remind them of it, however. Ensure that they can both use the formula and understand the logic underlining it.
- 3) If the client uses a cash register total cash sales should equal the cash in the register. Clients with cash registers may nevertheless fail to use them properly. Stress the necessity for:
 - Shutting the cash drawer properly between each transaction.
 - Allowing both the customer and the shop assistant to see the figure displayed for each transaction.
 - Carrying out the totalling operation at the end of each day and returning the reading to zero for the following day.
 - Retaining and transferring the printed figures to the SALES RECORD.
- 4) Ask the client whether she ever has sales returns. If so, ensure that these are properly recorded, and that the client understands why they must be deducted from the SALES RECORD total.
- 5) Use this discussion as an opportunity to check the clients debtors record if she sells goods on credit. All credit transactions should be filled in as they occur, and it should be easy to total up credit sales at the end of each day from the debtors record or from a credit sales receipt book if it is used.

- 6) Check the clients understanding of the SALES RECORD by asking her what she would do if the sales started to go down unexpectedly. Ask her what her SALES RECORD will tell her about daily, weekly or seasonal peaks and troughs, and how she can use this information.

THE SALES RECORD - INSTRUCTOR'S GUIDE

- 1) Ensure that trainees appreciate the place of the SALES RECORD in the total recording system. It lies between the basic record of cash book and debtors record, and is used to draw together information for inclusion in the final record, that is the profit and loss account.

- 2) Trainees may never have operated a cash register. Ensure that they have an opportunity to do so, and to understand how such a machine works. Preferably from the sales representative of a company that sells and maintains such machines. Ensure that they are introduced not only to the latest models but to the type that is generally in use by their clients.

- 3) Discuss the proportion of client sales which are likely to be for credit or for cash and the possibility of sales returns in various types of business. Ensure that trainees appreciate the special problems involved in large numbers of returned empties, such as in a bottle store or a dealer in grain or other material packed in returnable bags. Ensure that trainees are able to suggest appropriate ways of recording these transactions to their clients.

- 4) Discuss the type of business where it is and is not appropriate to record cash sales as they are made. Ensure that trainees are totally familiar and confident with the formula for calculating cash sales from the cash book when neither a cash register nor individual record is available.

EXERCISE/SALES RECORD 1

Mr. L. Fuso of the Gabane Restaurant and Butchery has the following information in his records:

Day	Cash at Start of Day	Cash at End of Day	Money Taken Out during Day	Credit Sales
Monday	P 20	P 35	P 15	P 4.50
Tuesday	35	45	10	3.00
Wednesday	45	40	15	-
Thursday	40	50	5	2.50
Friday	50	50	20	0.50
Saturday	50	65	10	1.00

Instructions: Prepare a SALES RECORD for the week using the information given above.

ANSWER KEY/SALES RECORD 1

Date	Cash Sales	Credit Sales	Total Sales	Sales Return	Net Sales
Monday	20.00	4.50	24.50		24.50
Tuesday	20.00	3.00	23.00		23.00
Wednesday	10.00	nil	10.00		10.00
Thursday	15.00	2.50	17.50		17.50
Friday	20.00	0.50	20.50		20.50
Saturday	25.00	1.00	26.00		26.00

EXERCISE/SALES RECORD 2

Mr. K. Kokgorwe owns a general store in Letlakane. He has just begun business and wants to start keeping proper records.

You (the Business Adviser) are able to determine the following from his present records:

Day	Date	Issued in Morning	Collected in Evening	Cash Paid for New Stocks
Monday	1 January	P 11.10	P 12.50	P 6.30
Tuesday	2 January	12.50	10.80	13.70
Wednesday	3 January	10.80	12.10	5.70
Thursday	4 January	12.10	8.30	3.00
Friday	5 January	8.30	12.50	4.00
Saturday	6 January	12.50	11.00	3.00
Monday	8 January	P 6.50	P 9.70	P NIL
Tuesday	9 January	9.70	16.00	4.70
Wednesday	10 January	16.00	12.00	4.30
Thursday	11 January	12.00	13.70	1.80
Friday	12 January	13.70	9.50	6.40
Saturday	13 January	9.50	12.10	1.20

Credit Transactions:

L. Tladi	-	Allowed	P 3.00	Credit	on 1 January
		Paid	2.00	On Account	on 3 January
		Allowed	5.00	Credit	on 8 January
		Allowed	6.00	Credit	on 10 January
		Paid	4.00	On Account	on 13 January
Serjane	-	Allowed	P 2.50	Credit	on 2 January
		Allowed	6.00	Credit	on 4 January
		Allowed	1.00	Credit	on 5 January
		Paid	7.00	On Account	on 9 January
		Allowed	5.00	Credit	on 13 January

Motswiri	-	Allowed	P 3.00	Credit	on 10 January
G. Mareko	-	Allowed	P 15.00	Credit	on 6 January
		Paid	10.00	On Account	on 11 January
		Paid	25.00	On Account	on 25 January
Ndzinge	-	Allowed	P 4.00	Credit	on 4 January
		Allowed	1.50	Credit	on 5 January

Instructions: Prepare a SALES RECORD for the period 1 January to 13 January.

ANSWER KEY/SALES RECORD 2

DATE	CASH SALES	CREDIT SALES	TOTAL SALES	SALES RETURN	NET SALES
1 Jan. 79	P 7.70	P 3.00	P 10.70		P 10.70
2 Jan.	12.00	2.50	14.50		14.50
3 Jan.	7.00	-	7.00		7.00
4 Jan.	(0.80)	10.00	9.20		9.20
5 Jan.	8.20	2.50	10.70		10.70
6 Jan.	1.50	15.00	16.50		16.50
8 Jan. 79	P 3.20	P -	P 3.20		P 3.20
9 Jan.	11.00	5.00	16.00		16.00
10 Jan.	0.30	9.00	9.30		9.30
11 Jan.	3.50	-	3.50		3.50
12 Jan.	2.20	-	2.20		2.20
13 Jan.	3.80	5.50	8.80		8.80

Notes

- (1) Debtors' payments are not entered in the SALES RECORD. Record them again as cash would give an over-statement of actual sales. These payments will be recorded however in both the cash book and in the individual debtor record.
- (2) Now that we have collected the information and presented it in a clear form we see that the situation requires further investigation. Note the extreme variation in daily cash sales. This amount should remain fairly constant. We should particularly note the cash sales on 4th January. The records show negative cash sales on this date. This and the wide variation in daily sales indicate a problem. There are many possibilities:
- Unrecorded Drawings?
 - Employee Theft?
 - Lost Receipts?

Mr. Kokgorwe should examine every aspect of his recording and security system to discover what is happening. There is every indication that he must use the information on the SALES RECORD to manage more effectively.

STOCK TAKING AND RECORDING

WHY TAKE STOCK?

Does the business ever run out of stock and thus fail to satisfy customers and lose the opportunity for higher profits?

Does the business owner know how much to order when the manufacturers' sales representatives call? Is he easily tempted by "special offers" to order more than he needs?

Does the owner know which items sell fastest and which sell very slowly or not at all?

Is a large but unknown amount of money "sleeping" in the form of stock, when it could be better used to buy faster moving lines, to offer customers credit, to buy new equipment or even for the owners' own use?

WHAT IS STOCK TAKING?

The Stock Record is used for counting, listing and valuing all the stocks in hand in a business. This is called stock taking.

HOW SHOULD A BUSINESS TAKE STOCK?

- It is necessary to count and value stock for two reasons:
 - (1) To discourage theft or waste.
 - (2) To find out how much has been sold in order to calculate profits.

- Stock must be counted and valued whenever the business needs to produce a profit and loss statement and balance sheet. It is also useful to take stock of a few items every day or every week, for control and information purposes.

- Stocks should be valued at what they cost, not what they can be sold for. The figure can therefore be used to calculate the cost of what was sold, and thus the profit or loss.
- Counting and valuing stock can take a long time. It should not be allowed to interfere with business. The task will be much easier if stocks are stored neatly.
- It is not worth counting one by one individual small items of low value like sweets, envelopes, pencils or nails. The business owner must make a reliable estimate of the quantity that is in stock.
- Manufacturers must remember partly manufactured goods must be included in stocks. If it is difficult to calculate how much value has been added to the raw material at a particular state of manufacture, all partly finished goods should be valued at half the equivalent completed cost.

DEMONSTRATION EXERCISE

A coffin maker takes stock at the end of the month and finds that he has the following:

<u>Quantity</u>	<u>Cost</u>
12 Boards	50¢ each
2 kg Nails	P 2.50/kg

Instructions: Complete a Stock Record using the information given.

Question: What is the total value of his stock?

ANSWER KEY/Demonstration Exercise

Quantity	Description	Unit Cost	Total Value
12	Boards	P 0.50	P 6.00
2	kg. Nails	2.50	5.00
Total Value of Stock			P 11.00

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CHECKLIST FOR COMPLETION - STOCK TAKING AND RECORDING

Basic Knowledge

- Why is it necessary to take stock?
- To control theft and waste.
 - To find out the cost of goods sold in order to calculate the profit and loss.
- What are the stages in stock taking?
- Count the stock.
 - Value the stock of each product.
 - Add up the total value.
- How should stock be valued?
- At its purchase cost, not the selling price.
- When should stock be taken?
- Whenever final accounts are needed, and more frequently for security purposes.
- Is it necessary to close the business in order to take stock?
- No, stock should be taken after hours, or at a weekend.

Implementation

The client should:

- Count and value stock accurately at regular intervals which he has selected according to his need for information.
- Use the information to control theft and wastage and to decide which goods to reorder.

STOCK TAKING AND RECORDING - ADVISER'S GUIDE

- 1) Stock taking can be a lengthy and tedious procedure. You must make the client aware of why it is necessary to take stock before teaching him how to do it.
- 2) Once the client understands why it is necessary to take stock, ask him to count one or two items which are obviously untidily stored. The difficulty of doing this will be a powerful incentive for the client to keep his stock more neatly in future.
- 3) Identify items in the client's business that are small or hard to count. Show how it is possible to estimate what proportion (i.e. $\frac{1}{2}$ or $\frac{1}{3}$) of items such as a jar of sweets, a box of nails or a bag of flour, remains.
- 4) Many grocery and hardware items are charged by the case and the individual cost price is difficult to calculate. Show by example how a client can estimate what proportion of the case has been used, and apply this proportion to the cost of the case, rather than attempting to count and value each item.
- 5) If time allows, arrange to assist the client to carry out a complete stock taking. Do not do it for him; one should count and the others record the goods, and the tasks should be exchanged from time to time.
- 6) Demonstrate how easy it is to double count or miss items. Show that it is necessary to fix on a clear procedure, such as left to right, top to bottom, and to adhere to it.
- 7) Assist the client with any valuation problems. Agree on the date of the next stock taking, and arrange to call a day or so after this in order to check the client's own attempt to stock take without your assistance.

STOCK TAKING AND RECORDING - INSTRUCTOR'S GUIDE

- 1) Trainees may feel that it is both easy, and unnecessary, for them actually to learn to count stocks on the shelves of a business. It is vital that a part of the lesson on this topic be dealt with in a retail shop, warehouse or store, the office stationery store, a garage vehicle spares store or a restaurant store, but trainees must have the experience of actually counting some goods. A full day should be allocated to the topic in order to allow this.
- 2) Ask trainees to design their own format for a stock taking form. They should, in pairs, use their form to count, record and value the stock, so that they appreciate how easy it is to make mistakes.
- 3) If possible, the goods in the store used for the practical exercise should not be neatly stocked. Trainees will soon appreciate that it is necessary to organise them neatly before counting them, and this will be a useful introduction to the later topic of stock displays.
- 4) Obtain suppliers' price lists of goods typically stocked by clients; and ask trainees to calculate the value of certain proportions of cases, jars and so on.
- 5) Ask trainees to compare the stock levels they find in the practical exercise with the probable consumption of the items in question. Are the quantities in stock in proportion to consumption, and if not, why not? This is a useful introduction to the later topic of stock management.
- 6) If possible, take clients to a typical small manufacturing client, such as a carpenter or a tailor. Ask trainees how they would value partly completed products or jobs, and discuss the suggestion of using half the final cost if it is difficult to calculate how much work has gone into each item.

- 7) Stress that stock taking, like all basic recording procedures, is a way of obtaining information to be used. Clients should not be taught to spend so much time on stock taking that they damage the business in other ways, since the "cost" of obtaining information would then exceed the "benefits" of using it.

EXERCISE/STOCK TAKING AND RECORDING 1

At the end of the month stock taking the following information is recorded by a vendor:

Coffee	14 tins	@	P 1.50 each
Tea	4 boxes	@	0.94 each
Sugar	17 packets	@	0.10 each
Biscuits	30 boxes	@	0.40 each

Instructions: Prepare a Stock Record using the above information.

Question: What is the total value of the stock at the end of the month?

ANSWER KEY/STOCK TAKING AND RECORDING 1

Description	Ending Stock	Cost	Value
Coffee, tins	14	P 1.50	P 21.00
Tea, boxes	4	0.94	3.76
Sugar, packets	17	0.10	1.70
Biscuits, boxes	30	0.40	12.00
Total			P 38.46

The total value of the stock at the end of the month is P 38.46.

EXERCISE/STOCK TAKING AND RECORDING 2

At the end of the year a chair manufacturer has the following stock on hand:

- 10 square metres of wood,
- 20 nails,
- 2 incomplete chairs.

Wood costs P 2.00 per square metre, nails cost 10¢ each and a partially completed chair is valued at P 5.00 each.

Instructions: Prepare a Stock Record using the above information.

ANSWER KEY/STOCK TAKING AND RECORDING 2

Description	Quantity	Cost	Total Value
Wood, sq. metre	10	P 2.00	P 20.00
Nails, each	20	0.10	2.00
Chair, incomplete	2	5.00	10.00
Total			P 32.00

THE DEBTORS' RECORD

WHY KEEP A DEBTORS' RECORD?

Does the business owner ever fail to collect money due from credit customers, either because they have been allowed too much credit, they will not agree how much they owe or the owner has simply forgotten?

Do credit customers ever offer to pay their bills but cannot, because the owner cannot at once tell them how much they owe?

Is the amount of money "lent" to customers in the form of credit uncontrolled and growing, so that insufficient money is available for buying more stocks?

WHAT IS A DEBTORS' RECORD?

A record of each credit customer's individual transactions, including all credit purchases and payments, and showing at any time how much the customer owes.

HOW TO PREPARE A DEBTORS' RECORD

- When customers buy goods on credit the business is actually lending the money. This must be recorded in the same way as a bank recalls loans it makes to its customers.
- A debtor is someone who owes a debt to the business. A creditor is someone who is owed money by the business.
- There must be a separate DEBTORS' RECORD for each individual credit customer. This may be a separate sheet in a book, or a separate note book for each customer.

- Every transaction must be recorded when it occurs. This may be done in one of two ways:
 - (a) The date, a brief description of the goods, the amount and the resulting balance may be written down in the DEBTORS' RECORD at once.
 - (b) The customer may be given a credit sales receipt giving the date, the description and the amount. A copy is kept in the business, and these are entered in the DEBTORS' RECORD at least daily.
- If there is any reason to suppose that credit customers may dispute the amounts they owe, space should be allowed in the credit sales receipt, or the DEBTORS' RECORD page, for the customer to sign or place a mark to acknowledge that the entry is correct.
- Some customers may safely be allowed more credit than others. A "credit limit" should be fixed for each customer, and written on his credit records. Any credit sale which takes the balance over the limit should be refused.
- Customers may make deposits against future purchases, so that the business owes them money. These should be entered in the DEBTORS' RECORD, and the balance will then be an amount owed by the business to the customer.

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DEMONSTRATION EXERCISE

The following transactions took place during January and February in the account of Mrs. Mochudi:

- 19 Jan. Opens an account with the business.
It is agreed that her credit limit will be P 100.00.
- 20 Jan. Purchased groceries for P 1.50; paid P 1.00 on account.
- 26 Jan. Paid P 10.00 on account.
- 18 Feb. Purchased groceries for P 15.00.
- 23 Feb. Paid P 5.50 on account.

Instructions: Prepare a DEBTOR'S RECORD.

ANSWER KEY/Demonstration Exercise

DEBTORS RECORD

NAME: Mrs. Mochudi
 CREDIT LIMIT: P 100.00
 PAYMENT DATE: End of Month

Date	Description	Total Sales		Amount Paid		Balance Due		Deposit	
		P	t	P	t	P	t	P	t
19.1						0	00		
20.1	Groceries	1	50			1	50		
20.1	Paid on Account			1	00	0	50		
26.1	Paid on Account			10	00			9	50
18.2	Groceries	15	00			5	50		
23.2	Paid on Account			5	50	0	00		

CHECKLIST FOR COMPLETION - DEBTORS' RECORD

Basic Knowledge

What is a debtor?

- Someone who buys goods from a business but has not yet paid for them.

Why is it necessary to maintain a DEBTORS' RECORD?

- To ensure that debtors pay what they owe, that they are not given too much credit and that the total of all credit given is properly controlled.

When should credit sales be recorded?

- When they are made.

How should credit sales be recorded?

- Either directly in the DEBTORS' RECORD or in a credit sales receipt which is entered in the DEBTORS' RECORD on the same day.

What information does the DEBTORS' RECORD contain about each credit sale?

- The date, a note of what was bought, the amount of money and the balance then outstanding.

How can a business avoid giving too much credit?

- By setting credit limits for each debtor.

Why is it necessary to calculate the balance outstanding after each transaction?

- To ensure that the customer's credit has not gone over his credit limit.
- To be able to tell the customer how much he owes without any delay.

Implementation

The client should:

- Prepare a DEBTORS' RECORD for each credit customer.

- Set credit limits for each credit customer.
- Enter all credit transactions as soon as they occur, either direct in the DEBTORS' RECORD or in a credit sales receipt book.
- Calculate and enter the balance owing by each credit customer after each credit sale or payment.

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DEBTORS' RECORD - ADVISER'S GUIDE

- 1) Ensure that clients realise that a credit sale is exactly the same as making a loan. Decisions whether or not to give credit and the recording of credit must be undertaken with the same care as decisions to lend money.
- 2) Avoid confusing the client with the term "DEBTORS' RECORD". She may think that this refers to her own debts, and if there is any risk of misunderstanding it may be better to call it "The Record of Money Owed to the Business".
- 3) Nearly all businesses keep some sort of record of amounts owed to them by credit customers if they do allow credit sales. Find out how the client presently records debtors. If the present system enables her to control each credit customer and to state at anytime how much they owe, there is no need to change it.
- 4) Many "home made" DEBTORS' RECORDS do not show the balance owing after each transaction. Try to improve the present system so that it will do this, rather than demanding that the client start all over again with "your" system.
- 5) Clients who cannot write sometimes ask their customers to make their own entries in the DEBTORS' RECORD, or to prepare credit sale receipts which are then entered in the DEBTORS' RECORD at the end of the day by a relative or other helper. This is perfectly acceptable.
- 6) Clients may object that there is no time to write down the date, the description, the amount and to calculate the balance after each credit sale. If this is the case, they should use credit sale receipts. The customer should know that he has one copy and the business retains one.

- 7) If the client does use receipts, ensure by spot checks that they are entered in the DEBTORS' RECORD daily.
- 8) Clients who are not able to calculate the balance quickly and accurately may be advised to use a credit sales receipt so that the balance can be calculated at leisure after hours. In any case, stress that accuracy is vital. If the balance is too low, the business will lose, and if it is too high, customers will be annoyed and may refuse to pay at all.
- 9) Clients such as tailors, shoemakers or others who regularly take deposits as well as selling goods on credit may maintain separate records for deposits. Show that the same layout can and should be used for deposits and for credit sales.

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DEBTORS' RECORD - INSTRUCTOR'S GUIDE

- 1) The terminology of debtors and creditors is confusing. Ensure that trainees understand what each term means, and that they can rephrase or translate the word so that clients have no difficulty in understanding what they actually mean. Stress that the objectives should not be to teach clients what words mean, but to help them manage their businesses more successfully.

- 2) Ask trainees to suggest their own layouts for DEBTORS' RECORDS, and describe typical "home made" systems used by local businesses. Stress that the ideal system is one which a client has successfully designed to suit himself and which he can use to manage his credit sales more effectively.

- 3) Trainees should realise that credit limits and credit management in general will be dealt with in detail later in the course. They should understand what is involved, and help their clients to do the same, so that they understand the reasons for the DEBTORS' RECORD.

- 4) Trainees are almost certain to make mistakes in the exercises through faulty calculations. Stress that addition and subtraction were dealt with in standard four, but that everyone makes mistakes if they are not very careful. Mistakes in calculations of the DEBTORS' RECORD are probably the most serious of all mistakes, since they inevitably either lose money or cause serious customer ill-will.

EXERCISE/FELIX'S DEBT

Mrs. Pilane knew that she should not allow Felix to owe any more than P 10. She had kept a regular note of every transaction with Felix since she first allowed him to buy goods on credit at the beginning of the month. Now he wanted to buy 50t's work of cigarettes on credit. Should she allow him to do this, or should she demand cash?

She had the following notes:

1 Jan	Bought goods on credit for P 1.50
3 Jan	Bought goods on credit for 80t
6 Jan	Bought goods on credit for P 2.50
7 Jan	Bought goods on credit for P 4.00
8 Jan	Bought goods on credit for P 1.00
10 Jan	Paid P 10.00 cash
11 Jan	Bought goods on credit for P 5.00
15 Jan	Bought goods on credit for P 2.80
16 Jan	Bought goods on credit for 20t
18 Jan	Bought goods on credit for P 2.00
19 Jan	Paid P 7.00 cash
21 Jan	Bought goods on credit for P 6.00
22 Jan	Bought goods on credit for P 1.10

- Instructions:
- (1) Prepare a DEBTOR'S RECORD and determine if she should give Felix credit.
 - (2) Determine the account balance at 15 January.
 - (3) Determine the amount of credit remaining on 22 January.

ANSWER KEY/FELIX'S DEBT

DEBTORS RECORD

NAME:

CREDIT LIMIT: P 10.00

ADDRESS:

PAYMENT DATE: end of month

SIGNATURE:

Date	Description	Total Sales		Amount Paid		Balance Due		Deposit	
		P	t	P	t	P	t	P	t
1 Jan	Goods	1	50			1	50		
3 Jan	Goods	0	80			2	30		
6 Jan	Goods	2	50			4	80		
7 Jan	Goods	4	00			8	80		
8 Jan	Goods	1	00			9	80		
10 Jan	Paid			10	00			0	20
11 Jan	Goods	5	00			4	80		
15 Jan	Goods	2	80			7	60		
16 Jan	Goods	0	20			7	80		
18 Jan	Goods	2	00			9	80		
19 Jan	Paid			7	00	2	80		
21 Jan	Goods	6	00			8	80		
22 Jan	Goods	1	10			9	90		

- 1) No, she should not allow more credit. An additional 50t would put him over his credit limit of P 10.00.
- 2) P 7.60.
- 3) 10t.

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EXERCISE/PETER AND HIS CREDIT CUSTOMERS

Peter started his general shop in November, 1981. He soon found that he had to allow some of his customers to buy goods on credit if he was to be able to compete with the other shops in the market.

Peter kept a special book to write down the names of those customers who bought on credit from him, and the value of goods they bought. He also recorded in the same book when his credit customers paid him some money. This was usually at the end of the month.

On 11th February, 1982 John came into Peter's shop in a hurry. He said that he wanted to pay his outstanding bill at once. He has a job in the city and might not be able to come home for many months.

Peter appreciated John's honesty, but when he looked at his book, he found it difficult to tell him exactly how much he owed. Peter had carefully recorded every credit sale and every cash payment made by his credit customers since the business had started. The complete set of entries in the book read as follows:

2 November	Andrew allowed P 1.80 credit.
3 November	Benjamin allowed P 2.60 credit.
11 November	John allowed P 1.00 credit.
15 November	Christopher allowed P 1.30 credit.
20 November	David allowed P 2.70 credit.
25 November	Edward allowed P 2.20 credit.
28 November	Andrew paid P 1.50.
28 November	Christopher paid P 1.30.
29 November	Benjamin paid P 2.60.
30 November	John paid P 1.00.
2 December	Edward paid P 1.50
3 December	David allowed P 1.30 credit.
4 December	Andrew allowed P 1.40 credit.
7 December	Christopher allowed P 3.10 credit.
9 December	David allowed P 0.50 credit.

11 December	John allowed P 2.30 credit.
15 December	Andrew allowed P 1.20 credit.
20 December	Christopher allowed P 2.80 credit.
21 December	David allowed P 1.80 credit.
24 December	Edward allowed P 0.20 credit.
26 December	Benjamin allowed P 1.30 credit.
27 December	Andrew paid P 1.00.
27 December	Christopher paid P 3.00 credit.
29 December	Andrew paid P 1.00.
30 December	John paid P 1.50.
2 January	Edward paid P 1.00.
8 January	Andrew allowed P 2.20 credit.
10 January	David allowed P 1.70 credit.
15 January	John allowed P 1.10 credit.
16 January	Andrew allowed P 6.00 credit.
16 January	Christopher allowed P 7.00 credit.
18 January	Benjamin allowed P 3.50 credit.
25 January	David allowed P 2.20 credit.
28 January	John paid P 1.00.
29 January	Andrew paid P 1.00.
30 January	Benjamin paid P 3.50.
30 January	Christopher paid P 2.00.
1 February	David allowed P 4.00 credit.
6 February	John allowed P 1.40 credit.
9 February	Andrew allowed P 0.30 credit.
10 February	Christopher allowed P 1.70 credit.

Questions:

- 1) How much should John pay to clear his debt?
- 2) Does Peter keep his record of credit sales and payments in a useful way? Prepare the complete record in a different way so that Peter can immediately see how much is owing from each customer.
- 3) If you were Peter would you take any action with any of your credit customers? If so whom, and what action?

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- 4) Does the DEBTORS RECORD show the account balance for each credit customer?

Instructions:

- 1) List each customer account on a separate page.
- 2) Remember the balance changes with each transaction. A purchase increases the balance. A payment reduces the balance.
- 3) Double check your work. An error is easier to find now than later. Mistakes in customer accounts can lead to arguments with customers, bad customer relations and lost sales.
- 4) The information prepared in completing this exercise will be used in further exercises.

ANSWER KEY/PETER AND HIS CREDIT CUSTOMERS

DEBTORS RECORD

NAME: Andrew

CREDIT LIMIT:

ADDRESS: P.O. Box 1,
Tlokweg

PAYMENT DATE:

SIGNATURE:

DATE	DESCRIPTION	Total Sales		Amount Paid		Balance Due		Deposit	
		P	t	P	t	P	t	P	t
2 Nov	Goods	1	80			1	80		
8 Nov	Payment			1	50		30		
4 Dec	Goods	1	40				70		
15 Dec	Goods	1	20			2	90		
27 Dec	Payment			1	00	1	90		
29 Dec	Payment			1	00	0	90		
8 Jan	Goods	2	20			3	10		
16 Jan	Goods	6	00			9	10		
29 Jan	Payment			1	00	8	10		
9 Feb	Goods	0	30			8	40		

DEBTORS RECORD

NAME: Benjamin

CREDIT LIMIT:

ADDRESS: P/Bag 2,
Gaborone

PAYMENT DATE:

SIGNATURE:

Date	Description	Total Sales		Amount Paid		Balance Due		Deposit	
		P	t	P	t	P	t	P	t
3 Nov	Goods	2	60			2	60		
29 Nov	Payment			2	60	0	00		
26 Dec	Goods	1	30			1	30		
18 Jan	Goods	3	50			4	80		
30 Jan	Payment			3	50	1	30		

DEBTORS RECORD

NAME: Christopher

CREDIT LIMIT:

ADDRESS: P.O. Box 3,
Gabaua

PAYMENT DATE:

SIGNATURE:

Date	Description	Total Sales		Amount Paid		Balance Due		Deposit	
		P	t	P	t	P	t	P	t
15 Nov	Goods	1	30			1	30		
28 Nov	Payment			1	30	0	00		
7 Dec	Goods	3	10			3	10		
20 Dec	Goods	2	80			5	90		
27 Dec	Payment			3	00	2	90		
16 Jan	Goods	7	00			9	90		
30 Jan	Payment			2	00	7	90		
10 Feb	Goods	1	70			9	60		

DEBTORS RECORD

NAME: David

CREDIT LIMIT:

ADDRESS: P.O. Box 4,
Sebele

PAYMENT DATE:

SIGNATURE:

Date	Description	Total Sales		Amount Paid		Balance Due		Deposit	
		P	t	P	t	P	t	P	t
20 Nov	Goods	2	70			2	70		
3 Dec	Goods	1	30			4	00		
9 Dec	Goods	0	50			4	50		
21 Dec	Goods	1	80			6	30		
10 Jan	Goods	1	70			8	00		
25 Jan	Goods	2	20			10	20		
1 Feb	Goods	4	00			14	20		

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DEBTORS RECORD

NAME: Edward

CREDIT LIMIT:

ADDRESS: P.O. Box 5,
Oodi

PAYMENT DATE:

SIGNATURE:

Date	Description	Total Sales		Amount Paid		Balance Due		Deposit	
		P	t	P	t	P	t	P	t
25 Nov	Goods	2	20			2	20		
2 Dec	Payment			1	50	0	70		
24 Dec	Goods	0	20			0	90		
2 Jan	Payment			1	00			0	10

DEBTORS RECORD

NAME: John

CREDIT LIMIT:

ADDRESS: P.O. Box 6,
Mogoditshane

PAYMENT DATE:

SIGNATURE:

Date	Description	Total Sales		Amount Paid		Balance Due		Deposit	
		P	t	P	t	P	t	P	t
11 Nov	Goods	1	00			1	00		
30 Nov	Payment			1	00	0	00		
11 Dec	Goods	2	30			2	30		
30 Dec	Payment			1	50	0	80		
15 Jan	Goods	1	20			1	90		
28 Jan	Payment			1	00	0	90		
6 Feb	Goods	1	40			2	30		

Answer Key/Peter and his Credit Customers (continued)

- 1) P 2.30.
- 2) No. Use the DEBTORS RECORD format.
- 3) Yes. Customer David would be requested to make payment to reduce or clear his debt. He made no payments between 20 November and 1 February.
- 4) Yes. If a DEBTORS RECORD is kept for each credit customer and each credit sale entered when it happens the business person can quickly and easily review each and every account.

CREDITOR/LOAN RECORD

WHY RECORD CREDITORS AND LOANS TO THE BUSINESS?

Is it possible for a supplier who has sold goods to the business on credit to demand, and be paid, more than he is owed, either because of mistakes or dishonesty?

Does the business ever fail to repay its debts on time, and thus incur supply ill-will and risk not being allowed credit in future?

Can the owner calculate how much money he will have to pay out at various dates in the future, in order to plan for the necessary cash to be available when it is needed?

WHAT IS A CREDIT OR LOAN RECORD?

A current record of all money owed by the business, to suppliers or lenders, recorded on an individual sheet for each source of money.

HOW TO PREPARE A RECORD OF CREDITORS AND LOANS

- Creditors are businesses or individuals to which the business owes money because they have sold the business goods or services on credit.
- Loans are amounts of money which have been lent to the business by banks, other financial institutions, businesses or individuals, in return for interest charges.
- Since loans and amounts owing to creditors are both sums of money owed by the business to others they can both be recorded in a similar way, although on separate sheets and with separate headings.

- As with debtors, a separate sheet or book should be maintained for each creditor or lender. The balance should be calculated after each transaction by the following formula:

$$\begin{array}{rcl} \text{Old Balance} & + & \text{Credit Purchase/Additional Loan} & - \\ \text{Any Payment Made} & = & \text{New Balance.} & \end{array}$$

The "New Balance" thus then becomes the "Old Balance" for the next transaction.

- Entries of credit purchases should include the date, what was purchased, the amount of money and the resulting balance. Entries of payment should include the date, the amount and the resulting balance.
- Most suppliers offering credit do so on specific "terms", which specify that goods should be paid for by a particular time. These terms should be noted on the top of each credit sheet.
- Suppliers usually produce an invoice for each credit transaction and a monthly statement showing how much is due to be paid. The statement should be checked against the creditor's record before the amount demanded is paid.
- If customers make deposits, and never receive any credit, the deposits should be recorded in a creditor's record since the business owes them money. The payments are in the form of goods rather than money, but should be entered as payments, along with a brief description of the goods.
- Some banks provide a pass-book to all borrowers, which records all transactions. If the business has a pass-book from its bank, there is no need for a separate loan record.
- Bank overdrafts are a form of loan which the borrower can draw on as he wishes, up to a certain limit. Overdrafts and the interest payable on them are recorded in the bank account column of the cash book, and the bank statement, and need not be separately recorded in a loan record.

- Other loans are repaid at regular intervals, by installments which include the repayment and the interest. The total amount to be repaid is more than the sum borrowed, because of the interest charges. If the bank does not provide the borrower with a record of a loan of this type, the loan record should be produced and should show the amount borrowed and the total interest to be charged over the life of the loan. The amount and frequency of installments should be noted at the top of the sheet. Installments should be recorded as payments as they are made, and deducted from the total of the amount borrowed and total interest to produce a new balance.

DEMONSTRATION EXERCISE (CREDIT)

The following transactions took place between Gaborone Wholesalers and a dressmaker:

13 Dec	Purchased goods on credit for P 25	(Invoice K2250)
20 Dec	Purchased goods on credit for P 10	(Invoice K2391)
21 Dec	Paid on account P 15	(Cheque No. 3841)
24 Dec	Paid on account P 5	(Cheque No. 3868)

Instructions: Prepare a Creditor Record for the above transactions.

ANSWER KEY/Demonstration Exercise (Credit)

CREDITOR RECORD

NAME: Gaborone Wholesalers ADDRESS: _____

DATE PAYMENT DUE: end of month _____

Date	Description	Amount Paid		Purchases		Balance Owed		Deposit	
		P	t	P	t	P	t	P	t
13 Dec	Invoice No. K2250			25	00	25	00		
20 Dec	Invoice No. K2391			10	00	35	00		
21 Dec	Cheque No. 3841	15	00			20	00		
24 Dec	Cheque No. 3868	5	00			15	00		

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DEMONSTRATION EXERCISE (LOAN)

On 1st January a transport business borrows P 1,100 from the Standard Bank. The business agrees to pay the Standard Bank P 100 per month on the first of each month until the loan is repaid. What would the Loan Record look like for the first three months?

ANSWER KEY/Demonstration Exercise (Loan)

LOAN RECORD

NAME: Standard Bank

ADDRESS: _____

DATE PAYMENT DUE: first of the month

Date	Description	Amount Paid		Loan		Balance Owed		Deposit	
		P	t	P	t	P	t	P	t
1 Jan.	Loan			1100	00	1100	00		
1 Feb.	Payment	100	00			1000	00		
1 Mar.	Payment	100	00			900	00		
1 Apr.	Payment	100	00			800	00		

CHECKLIST FOR COMPLETION - CREDITOR/LOAN RECORDS

Basic Knowledge

What are creditors?

- People or other businesses to whom the business owes money because it has bought goods or services on credit from them.

What are loans?

- Amounts of money lent to a business by banks, other businesses or individuals in return for interest payments.

Why should creditors and loans be recorded?

- So that the business can tell exactly how much money is due to be repaid to creditors and lenders, and when.

How should a purchase on credit be recorded?

- The date, the item purchased, the amount of money and the resulting balance should be entered, with a separate sheet or book for each creditor.

How is the balance owing to a creditor calculated?

- $\text{Old Balance} + \text{New Credit Purchase} - \text{Any Payment} = \text{New Balance}$.

How can bank loans be recorded?

- In a pass-book provided by the bank.
- In the bank statement and cash book (for overdrafts).
- In a special page of the loan record.

How should loan repayments be entered in the loan record?

- The date, amount and resulting balance still owing should be written down.

Implementation

The client should:

- Keep a separate, current and correct creditors record for each supplier from whom the business buys goods or services on credit.
- If he has a loan, if it is not an overdraft and is not recorded in a pass-book prepared by the bank and left with the borrower, maintain a separate loan record for every lender, showing every transaction and the amount outstanding at any time.
- Note payment times and due dates on a creditor and loan record sheet.
- Use creditor and loan records to check suppliers requests for money and to plan to have the necessary amounts of money available to meet bills when they fall due.

CREDITOR/LOAN RECORD - ADVISER'S GUIDE

- 1) Clients may feel that it is the responsibility of their creditors to maintain records of what they owe, as they themselves maintain debtors records while few of their customers maintain any record of what they owe. Stress the importance of checking suppliers demands for money, and of planning for money to be available. A business must be more methodical in its record keeping than an individual.
- 2) If the client is already keeping a debtors record, show him that the creditors record is the same thing from the point of view of the customer. Stress that the formula is the same as that used to calculate the balance owing by a debtor to the business.
- 3) Ensure that the client appreciates that when a supplier sells him goods on credit he is actually receiving an interest free loan from that supplier. This is a valuable source of capital, and the creditors record will help the client to operate credit accounts in such a way to encourage creditors to offer further credit when it is needed.
- 4) Do not deal with the material on loans unless the client has a loan, and only cover that part which is relevant to the type of loan he has received.
- 5) Ensure that the client appreciates the similarities and differences between creditors and loans, and that the heading on the form used in the demonstration exercise should be changed accordingly.
- 6) If the client receives deposits, ensure that they are entered either in the debtors record, or, if customers who make deposits are never likely to receive credit, in the creditors record.
- 7) Assist the client to total up all the amounts owing by the business, and to assess how much will have to be paid by the end of the following month. Point out that the total of credit is a significant and low cost source of money, and that by planning repayment the client will be able to avoid discouraging creditors from extending further facilities in the future.

CREDITOR/LOAN RECORD - INSTRUCTOR'S GUIDE

- 1) Ensure that trainees appreciate that creditors and lenders are both lending money to the business. They are both sources of finance, and this will be a useful introduction to the later topic of Financial Management.
- 2) Ensure by repeated exercises that all trainees are able quickly and accurately to use the formula. Stress that the client must be similarly familiar with it. The formula for the cash book, the debtors record and the creditor or loan record is really the same, and trainees and clients should realise that they are not having to learn four totally different formulae.
- 3) Refer back to the debtors record. Ensure that trainees appreciate the need to calculate a new balance after every transaction, and to keep the record up to date, whether it is a sum of money owed to or by the business.
- 4) Discuss the various types of loans which clients are likely to have, and the ways in which they are recorded. If pass-books are generally used, hand round a sample, and show how overdrafts are recorded in the bank statement and in the cash book. Obtain typical repayment schedules for loans from the bank, and show how a loan record should be made up for such a loan, and how each instalment should be entered as it is paid.
- 5) Stress that the total of the creditors and the loan records are used in the final balance sheet, but that they should also be regularly used as a basis for planning the use of money in the business, and for ensuring that money is available when needed.
- 6) Loan interest calculations have been omitted because payments of interest and repayments of the loan itself are combined in the regular repayments. A banker should be invited to explain how repayments are calculated; trainees must of course emphasise to their clients that loan repayments add up to more than the amount borrowed, because of interest.

EXERCISE/HOW MUCH DO I OWE MOGALE?

Emeldah did not want to offend her main supplier. He was one of the most important people in the village. However, she did want to be sure that Mogale was not asking her to pay more than she owed. He had only started to sell her goods on credit since the beginning of the month. He now asked her to pay her debt of P 100. She had made one or two small payments during the month. She had purchased large amounts of goods, both on credit and for cash. She had noted down every transaction since she did not want to make any mistakes, particularly in the first month. Her figures read as follows:

1 May	Bought supplies on credit for	P 30
2 May	Bought supplies on credit for	55
4 May	Bought supplies for cash	20
6 May	Bought supplies on credit for	25
8 May	Paid P 50 on account	
9 May	Bought supplies on credit for	15
11 May	Bought supplies for cash for	10
14 May	Paid P 30 on account	
16 May	Paid P 25 on account	
18 May	Bought supplies on credit for	35
20 May	Bought supplies for cash for	5
21 May	Bought supplies on credit for	45
21 May	Paid P 25 on account	
23 May	Bought supplies on credit for	50
26 May	Bought supplies for cash for	25
27 May	Bought supplies on credit for	20
28 May	Paid P 50 on account	

Instructions: Prepare a CREDITOR/LOAN RECORD from the above information.

Question: Does Emeldah owe P 100? How much does she owe?

ANSWER KEY/HOW MUCH DO I OWE MOGALE?

CREDITOR RECORD

NAME: Mogale

ADDRESS: _____

DATE PAYMENT DUE: Weekly _____

Date	Description	Amount Paid		Purchases		Balance Owed		Deposit	
		P	t	P	t	P	t	P	t
1 May	Supplies			30	00	30	00		
2 May	Supplies			55	00	85	00		
6 May	Supplies			25	00	110	00		
8 May	Payment	50	00			60	00		
9 May	Supplies			15	00	75	00		
14 May	Payment	30	00			45	00		
16 May	Payment	25	00			20	00		
18 May	Supplies			35	00	55	00		
21 May	Supplies			45	00	100	00		
21 May	Payment	25	00			75	00		
23 May	Supplies			50	00	125	00		
27 May	Supplies			20	00	145	00		
27 May	Payment	50	00			95	00		

No, Emeldah owes Mogale P 95.00.

PROFIT AND LOSS STATEMENT

WHY HAVE A PROFIT AND LOSS STATEMENT?

If a business loses money it cannot survive. Does the owner know whether her business is losing money or not?

Is the owner taking more drawings out of the business than it can afford?

Does the owner know whether she can afford to take on extra staff or incur other new expenses?

Does the owner know how much extra business a new employee or new activity or service would have to generate for it to be worth making the change?

WHAT IS A PROFIT AND LOSS STATEMENT?

A calculation of the profit or loss the business has made over a period, that is, the sales income less the cost of what was sold and all the expenses of operation.

HOW TO PREPARE A PROFIT AND LOSS STATEMENT

- If a business makes a profit, it can be invested in the business to increase its scale, or taken out by the owner to reward him for investing his own money in the first place. Profits are therefore necessary for the survival and growth of the business, and it is vital to know whether, and how much, profits are being earned.

- If a business loses money, the losses will "eat away" what has been invested in the business, and it will eventually cease to exist. It is vital to know if the business is losing money, so that whatever is wrong can be corrected.

- The **PROFIT AND LOSS STATEMENT** is made up from three basic pieces of information, each of which is obtained from basic records which every business should keep:

Sales	-	from the Sales Record
The Cost of Goods Sold (COGS)	--	from the Purchase Record and the Stock Taking Record
The Expenses	-	from the Expense Record

- The profit is calculated using the following formula:

$$\begin{aligned} \text{Sales} - \text{COGS} &= \text{Gross Profit} \\ \text{Gross Profit} - \text{Expenses} &= \text{Net Profit} \end{aligned}$$

- Sales should include cash and credit sales. The COGS is not the same as the amount that was spent on purchasing new stock during the period, because the amount held in stock may have gone up or down. COGS must be calculated using the following formula:

$$\text{Starting Stock} + \text{Cost of Purchases} - \text{Ending Stock} = \text{COGS}$$

- Expenses include wages, rent, transport and all the other items which cost money but are not directly sold to customers. There are all recorded in the cash book and expense record, but there are also two more expenses which are not usually recorded:

- (1) Interest on loans. A business should not count loan repayments as an expense, anymore than the business considered the loan as income or a sale when it was received. Interest payments are however an expense, since they are the rent for the use of the money, and must be included in expenses.
- (2) Assets are things needed by the business which are going to last for a long period, such as vehicles or shelving or tools. The whole purchase cost cannot be counted as an expense in the period when an asset was bought, because it will last for many periods. It is therefore necessary to work out what proportions of each asset will

be "used up" in each period, and to call that proportion of its cost an expense, which is known as "depreciation". If a vehicle will last five years, or sixty months, a sixtieth of its cost will be its depreciation expense each month.

- A PROFIT AND LOSS STATEMENT should be produced at least every three months, and possibly every month. It is necessary to take stock before producing such a statement.
- If the business makes a profit, the owner may decide to take part of it out as drawings, in addition to her wages or salary. She should always leave some part of the profit in the business, and this is called the "Retained Profits".
- If the business is losing money, the owner must not withdraw any money from it, and must decide how to improve matters. This may be done by increasing sales, reducing COGS or reducing expenses.

DEMONSTRATION EXERCISE 1

The following information is from the primary records:

<u>Date</u>	<u>Record</u>	<u>Description</u>	<u>Amount</u>
1 Aug	Stock Record	Beginning Stock	P 1,100.00
31 Aug	Stock Record	Ending Stock	1,200.00
1-31 Aug	Purchase and Expense Record	Purchases	500.00

Instructions: Calculate the Cost of Goods Sold for August.

ANSWER KEY/Demonstration Exercise 1

Using the Cost of Goods Sold (COGS) formula:

$$\begin{array}{r r r r r r r r r r} \text{Beginning} & + & \text{Purchases} & = & \text{Total Goods} & - & \text{Ending} & = & \text{Cost of} \\ \text{Stock} & & & & \text{Available} & & \text{Stock} & & \text{Goods Sold} \\ & & & & \text{For Sale} & & & & \\ 1,100 & + & 500 & = & 1,600 & - & 1,200 & = & 400 \end{array}$$

Thus the Cost of Goods Sold for the month of August is P 400.00

DEMONSTRATION EXERCISE 2

From the records maintained by the client the following information was found:

Sales Record	Cash Sales for March	P 350
	Credit Sales for March	20
	Sales Returns for March	5
Stock Record	Stock Taking at end of February	I 200
	Stock Taking at end of March	100
Purchase and Expense Record	Purchases	P 100
	Rent	20
	Wages	10
	Paraffin	3
	Depreciation	15
	Transport	40
	Interest on Bank Loan	5
	Drawings	50

Instructions: Prepare a **PROFIT AND LOSS STATEMENT** for March from the above information.

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ANSWER KEY/Demonstration Exercise 2

<u>Sales</u>	P	P	P
Cash Sales	350		
Credit Sales	<u>20</u>		
		370	
Less Sales Returns		<u>5</u>	
Total Sales			365
<u>Cost of Goods Sold</u>			
Opening Stock	200		
Purchases	<u>100</u>		
Goods available for Sales		300	
Less Closing Stock		<u>100</u>	
Cost of Goods Sold			<u>200</u>
<u>Gross Profit</u>			165
<u>Expenses</u>			
Rent	20		
Wages	10		
Paraffin	3		
Depreciation	15		
Transport	40		
Interest on Loan	<u>5</u>		
			<u>93</u>
<u>Net Profit</u>			72
Drawings			<u>50</u>
<u>Retained Profits</u>			<u>P 22</u>

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PROFIT & LOSS STATEMENT

Cash Sales		
Credit Sales		
Less: Sales Returns		_____
Net Sales		
Beginning Stock		
Plus: Purchases		
Goods Available for Sales		
Less: Ending Stock		_____
Cost of Goods Sold		_____
Gross Profit		
Total Expenses		_____
Net Profit		
Drawings		_____
Retained Profits		_____

CHECKLIST FOR COMPLETION - PROFIT AND LOSS STATEMENT

Basic Knowledge

Why must a business make a profit?

- To earn money for expansion and to reward the owner for taking the risk of starting a business in the beginning.

What happens if a business makes a loss?

- The business shrinks and will eventually cease to exist.

How do you calculate the COGS?

- Beginning Stock + New Stock Purchase - Ending Stock.

What is the gross profit?

- The sales less the cost of goods sold.

What is the net profit?

- The gross profit less all other expenses.

How does a business pay a lender for the use of his money?

- By paying interest on it.

How does the cost of "using up" durable assets such as vehicles or tools appear in the PROFIT AND LOSS STATEMENT?

- A depreciation expense is added to the expenses. That is that proportion of the estimated life of the asset which is used up during the period for which a statement is being produced is applied to its total cost, and that fraction of the cost is the depreciation.

Implementation

The business should:

- Decide on the appropriate interval at which PROFIT AND LOSS STATEMENTS should be produced.

- Calculate the cost of goods sold correctly.
- Calculate the depreciation cost for each asset.
- Include depreciation and interest charges in the expenses.
- Produce a regular, accurate and timely PROFIT AND LOSS STATEMENT at the selected intervals.

PROFIT AND LOSS STATEMENT - ADVISER'S GUIDE

- 1) Clients may have been reluctant to learn about and prepare some of the earlier basic records, because the benefit of having them was not obvious. Every client wants to know how much profit she has been making, however. It is vital that clients should realize that the other basic records are essential in order to bring together the information for finding out how much profit (or loss) they are making.
- 2) Show the client how the earlier forms and records contribute to the PROFIT AND LOSS STATEMENT:
 - Sales Record for Sales.
 - Purchase & Expense Record and Stock Taking & Re-ordering for Cost of Goods Sold (COGS).
 - Purchase & Expense Record for Expenses.
 - Purchase & Expense Record for Assets for which depreciation has been calculated.
 - Loan Record for Loans from which the interest must be taken as an expense.
- 3) The formula for COGS is basically the same as that for the cash book, debtors record and so on. It is vital that clients should be able to use it. Ensure by repeated exercises that they are familiar with it.
- 4) Discuss depreciation at some length, in order to be sure that the client understands why the total cost of the asset is not charged to the period when it happens to be bought, but why some proportion of its cost must be charged. Help the client to estimate the life and thus the depreciation charge for each of his assets.
- 5) If the client has a loan and is paying interest on it, show her how the interest is calculated and explain clearly why this is an expense while the actual repayment is not. Clients who rent land or buildings may find it easy to understand that interest is the "rent" for the use of money. When someone gives back a piece of land or a building after renting it they do not consider that they have lost it, but the rental charge is clearly an expense.

- 6) Show the client that the gross profit is a good way of checking price levels and costing. A retailer should try to maintain and increase his gross profit by one or a combination of the following methods:
- Reducing the cost of goods purchased.
 - Reducing wastage of goods in stock.
 - Increasing prices.
 - Selling more goods at the same or less profit each but achieving a greater gross profit in total.
- 7) Attempt to introduce some excitement into the final calculation of the profit (or loss) and try to allow the client to make the final calculation herself. Ensure that it is correct, and immediately to discuss ways in which the profit can be improved, or the loss eliminated. Most clients will find it easier and quicker to reduce expenses such as drawings. This is probably the first area which should be examined for improvement.
- 8) It may be that the business is losing money so badly that the owner cannot even earn a wage from it, and it is merely eating away whatever money was originally invested in it. If the client is in this situation, and it is not clear how it can be improved, it may be appropriate to recommend that she withdraw her money from the business by selling off the stock and closing it. This is not welcome advice, but it is better than allowing the client to continue and to lose all her money.
- 9) Congratulate the client if her business is found to be making good profits, but do not encourage her to be complaisant. Good profits can always be improved, and even a very profitable business can "go bad" if something happens to injure it. Discuss ways in which the profit can be further increased, and ask the client to suggest things that might happen to damage the business, such as the appearance of a new competitor, prolonged drought or raw material shortage. Discuss things which the business might do now to prevent problems from arising if such a thing happens.

PROFIT AND LOSS STATEMENT - INSTRUCTOR'S GUIDE

- 1) This and the balance sheet topic should be used not only to teach trainees about the PROFIT AND LOSS STATEMENT and the balance sheet but also to review all the basic records. Trainees should be completely familiar with all the definitions and formulae which have been introduced up to this stage. Refer back to each topic when necessary.
- 2) In order to introduce the PROFIT AND LOSS STATEMENT without the added complication of the COGS calculation, it may be simpler to start by describing how to calculate the profit of a business which does not actually sell any goods but provides a service such as transport. Depreciation can also be avoided, at this stage, by assuming that the transporter rents his vehicle. Discussion of rent can then lead to interest charges which can be easily understood as the rental charge for money.
- 3) Once the principle of the PROFIT AND LOSS STATEMENT has been established introduce the COGS formula, and ensure by repeated practice that trainees can understand and use this correctly, and that they understand why stock taking is necessary before COGS can be calculated. It may be useful to introduce the simple role play where one trainee plays the part of a client who cannot understand the formula and the other, playing the part of an Adviser, must devise ways of explaining it more simply.
- 4) Ask trainees themselves to estimate the life and the annual, quarterly or monthly depreciation charge for typical assets. Stress that this is not a cash expense, since the money was spent when the asset was purchased in the first place. It is necessary to charge depreciation so that the business does not under estimate its expenses and fail to reserve money to replace assets when necessary.
- 5) Show by simple examples how relatively small increases in sales, or reductions in COGS or expenses, can make a dramatic difference to profits. Stress that the Adviser's job is not to teach clients to

keep records, but to help them make more profits. The PROFIT AND LOSS STATEMENT is the most important business record since it enables clients to make a significant impact on their business.

- 6) Some trainees may have the idea that profits are some sort of exploitation of customers. Show that competitive businesses protect customers from exploitation and that profits are necessary to pay for the expansion of businesses and to encourage people to start new ones. If there were no profits, there would be no businesses.

EXERCISE/COST OF GOODS SOLD

Calculate the missing amounts (?) using the Cost of Goods Sold formula:

	<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>	<u>E</u>	<u>F</u>
Beginning Stock	100	1,200	?	5,000	0	
Purchases	50	1,000	100	100	?	500
Total Goods Available for Sale	?	?	?	?	?	?
Ending Stock	100	1,500	50	?	120	350
Cost of Goods Sold	?	?	70	4,300	80	?

ANSWER KEY/COST OF GOODS SOLD

	<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>	<u>E</u>	<u>F</u>
Beginning Stock	100	1,200	20	5,000	100	0
Purchases	50	1,000	100	100	100	500
Total Goods Available for Sale	150	2,200	120	5,100	200	500
Ending Stock	100	1,500	50	800	120	350
Cost of Goods Sold	50	700	70	4,300	80	150

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EXERCISE/LESEGO'S COSMETICS

"How have you been getting on? Have you made a good profit?" asked B.J. when Lesego came home one day. She had been running her shop in town for a year.

Lesego got out a number of papers where she had written down various things which she thought were important for her business. She had noted the following facts:

- (1) She had opened her business on 1st January.
- (2) She had started with P 300 worth of stock.
- (3) After paying P 300 for the stock she had set aside P 250 in cash for the shop.
- (4) She had paid P 75 a month rent, or P 900 for the year.
- (5) She had paid herself a salary of P 150 a month; she had not taken out any other money.
- (6) During the year she had bought goods from wholesalers for a total cost of P 3,600.
- (7) She had received a total of P 6,500 from customers.
- (8) She now had P 200 worth of goods in stock in the shop and there was P 450 in the cash box.

Lesego thought that her business had been quite successful but when B.J. asked if a profit had been made she did not know what to say.

Instructions: Prepare a PROFIT AND LOSS STATEMENT for the business for the year. Show how much money was received from customers. Show how much money was spent on goods and on other expenses. Show how much profit or loss was made.

- Questions:
- (1) Was the business a success during its first year?
 - (2) Should Lesego take money from the business in addition to monthly salary of P 150?

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ANSWER KEY/LESEGO'S COSMETICS

PROFIT & LOSS STATEMENT
LESEGO'S COSMETICS
1 January - 31 December

Sales		P 6,500
Beginning Stock	P 300	
Purchases	<u>3,600</u>	
Total Goods Available	3,900	
Less: Ending Stock	<u>200</u>	
Cost of Goods		<u>3,700</u>
Gross Profit		2,800
Rent	900	
Salary	<u>1,800</u>	
Net Profit		<u>2,700</u>
Net Profit		100
Drawing		<u>0</u>
Retained Profit		P 100

(1) Was the business a success the first year?

Yes, the business made a profit.

(2) Should Lesego take out money from the business?

No, there is not enough profit. She might consider taking out less.
The business can grow with additional capital.

THE BALANCE SHEET

WHY HAVE A BALANCE SHEET?

Does the owner of the business know how much it is worth?

Does the owner want to know whether his own investment in the business is worth more or less than it was when he put it into the business?

Are there sources of money which the business is not using at the moment?

If the owner wanted to sell the business or to admit a partner, would he have any idea what to charge for all or part of the business?

WHAT IS A BALANCE SHEET?

A statement of the financial condition of the enterprise at a particular moment, showing where the money has come from and how it is being used.

HOW TO PREPARE A BALANCE SHEET

- The Profit and Loss Statement shows how the business has performed over a period. The BALANCE SHEET gives a financial picture of the business at one point of time.
- The BALANCE SHEET tells the owner of the business how the money in the business is being used, and where that money came from.
- The uses of the money, that is, the things the business owns, are called the assets.
- The sources of the money, that is where the money came from, are called the liabilities.

- The sources of money are usually listed on the left-hand side of the sheet and the uses on the right-hand side. Because both lists refer to the total amount of money in the business, they must be the same or "balance". That is why the whole statement is called a BALANCE SHEET.
- A BALANCE SHEET must always start with the name of the enterprise and the date since it shows the condition of the enterprise at one time. The following series of statements shows how the BALANCE SHEET illustrates the changing financial condition of a business.

- a) January 1st: John starts the business by putting P 1,000 of his money into a bank account for it.

JOHN'S BUSINESS BALANCE SHEET 1.1.82

<u>Liabilities</u>		<u>Assets</u>	
Capital	P 1,000	Bank Balance	P 1,000
Total	<u>P 1,000</u>	Total	<u>P 1,000</u>

- b) January 2nd: The bank lends a further P 1,000 to the business which is put into the bank account.

JOHN'S BUSINESS BALANCE SHEET 2.1.82

<u>Liabilities</u>		<u>Assets</u>	
Capital	P 1,000	Bank Balance	P 2,000
Bank Loan	<u>1,000</u>		
Total	<u><u>P 2,000</u></u>	Total	<u><u>P 2,000</u></u>

- c) January 3rd: John buys P 1,200 of goods to sell and P 600 of equipment.

JOHN'S BUSINESS BALANCE SHEET 3.1.82

<u>Liabilities</u>		<u>Assets</u>	
Capital	P 1,000	Bank Balance	P 200
Bank Loan	1,000	Equipment	600
		Stocks	<u>1,200</u>
Total	<u><u>P 2,000</u></u>	Total	<u><u>P 2,000</u></u>

- d) January 4th: John takes P 100 out of the bank account as cash for day to day transactions.

JOHN'S BUSINESS BALANCE SHEET 4.1.82

<u>Liabilities</u>		<u>Assets</u>	
Capital	P 1,000	Cash	P 100
Bank Loan	1,000	Bank Balance	100
		Equipment	600
		Stocks	1,200
Total	P 2,000	Total	P 2,000

- e) January 5th: John buys a further P 200 worth of stocks from a supplier on credit.

JOHN'S BUSINESS BALANCE SHEET 5.1.82

<u>Liabilities</u>		<u>Assets</u>	
Capital	P 1,000	Cash	P 100
Bank Loan	1,000	Bank Balance	100
Creditors	200	Equipment	600
		Stocks	1,400
Total	P 2,200	Total	P 2,200

- f) January 6th: John sells P 400 worth of stock for P 600, 300 worth for cash and 300 on credit.

JOHN'S BUSINESS BALANCE SHEET 6.1.82

<u>Liabilities</u>		<u>Assets</u>	
Capital	P 1,000	Cash	P 400
Bank Loan	1,000	Debtors	300
Creditors	200	Bank Balance	100
Retained Profit	200	Equipment	600
		Stocks	1,000
Total	P 2,400	Total	P 2,400

- g) January 7th: John pays wages of P 30 and withdraws P 60 for his own use. He also calculates that the business has "used up" P 10 worth of the value of the equipment.

JOHN'S BUSINESS BALANCE SHEET 7.1.82

<u>Liabilities</u>		<u>Assets</u>	
Capital	P 1,000	Cash	P 310
Bank Loan	1,000	Debtors	300
Creditors	200	Bank Balance	100
Retained Profits	100	Equipment	500
		Stocks	1,000
Total	P 2,300	Total	P 2,300

- Cash, the Bank Balance, Debtors and Stocks can fairly easily be turned into ready money. They are therefore called Current Assets.
- Buildings and equipment cannot usually be turned into money without affecting the business. They are therefore called Fixed Assets.
- Creditors, and the bank if money is lent on overdraft, can demand their money back at short notice. These are therefore called Current Liabilities.
- The figures for most of the assets and liabilities can be obtained from the basic records as below:

<u>Item</u>	<u>Document</u>
Cash	Cash Book
Bank Balance	Second column of Cash Book
Debtor	Debtors Record
Stock	Stock Record
Equipment if purchased since records were kept	Purchase and Expense Record
Buildings	Purchase and Expense Record
Creditors	Creditors Record
Loans	Loan Record

If equipment and buildings purchased before records were kept, or were originally "given" to the business by the owner when he started or later, their value must be estimated for including in the BALANCE SHEET.

- Capital is the total value of money, stocks, equipment or buildings "given" to the business when it was started or since by the owners.
- Retained profit is the total profit which has not been withdrawn from the business by the owners.
- The following formula can be used to calculate the value of the capital and/or the retained profit if they are not otherwise known:

$$\begin{aligned} \text{Capital and Retained Profits} &= \text{Assets} - \text{Other Liabilities} \\ \text{Retained Profits} &= \text{Assets} - \text{Capital} - \text{Other Liabilities} \end{aligned}$$

DEMONSTRATION EXERCISE 1

A new transport business recently bought a bus for P 7,500 on 1st July. The owner used P 2,500 from his savings and P 5,000 from a bank loan to purchase the vehicle.

Instructions: Prepare a BALANCE SHEET.

ANSWER KEY/Demonstration Exercise 1

BALANCE SHEET
on 1 July 19..

<u>Liabilities</u>		<u>Assets</u>	
Owners Capital	P 2,500	Vehicle	P 7,500
Bank Loan	5,000		
	P 7,500		
Total	P 7,500	Total	P 7,500

DEMONSTRATION EXERCISE 2

At the end of the year a shopkeeper writes down everything he owns and owes and comes up with the following list:

<u>Owms</u>		<u>Owes</u>	
Cash	P 250	Loan from Bank	P 3,000
Bank Account	300	Owed to Suppliers	300
Stock	1,000		
Vehicle Value	800		
Building Value	4,000		

He had originally invested P 2,000 in the business and has re-invested a portion of the profits every year since the business has operated.

Instructions: Prepare a BALANCE SHEET for the shopkeeper based on the above information.

ANSWER KEY/Demonstration Exercise 2

BALANCE SHEET
on 31 December 19..

<u>Liabilities</u>		<u>Assets</u>	
Owner Capital	P 2,000	Building	P 4,000
Retained Profit	1,050*	Vehicle	800
Loan	3,000	Stock	1,000
Suppliers	300	Bank	300
		Cash	250
Total	P 6,350	Total	P 6,350

*The retained profits amount is calculated from the available figures. Total assets will equal total liabilities and capital. Therefore to find the amount of retained profits we subtract total known liabilities from the total assets.

CHECKLIST FOR COMPLETION - BALANCE SHEET

Basic Knowledge

What is a BALANCE SHEET?

- A statement of the financial condition of an enterprise at one point in time, showing where the money in came from, and how it is being used.

What are "Liabilities"?

- The sources of the money in a business.

What are "Assets"?

- The ways money is used in a business.

What are "Current Liabilities"?

- Creditors and short term loans, which may be recalled at short notice.

What is "Capital"?

- The money or value of buildings, equipment or stock put into a business by its owner, either at the beginning or since, including the retained profit that the owner has not withdrawn.

What are "Current Assets"?

- Cash, money in the bank, debtors and stocks, which can usually be turned into money fairly quickly.

Why does a BALANCE SHEET balance?

- Because both sides are giving different information about the same sum of money.

How can you find out the total of your retained profits since the business started?

- By subtracting the other liabilities and the capital from the total of all assets.

Implementation

The client should:

- Collect from the basic records the information necessary for the preparation of a BALANCE SHEET.
- Prepare a BALANCE SHEET at least every three months.
- Calculate the total of retained profits if the assets, capital and other liabilities are known.

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THE BALANCE SHEET - ADVISOR'S GUIDE

- 1) Clients may regard the BALANCE SHEET as a mysterious document which bankers use for appraising loan applications but which is far too complicated for anyone else to understand. Most clients can understand that a profit and loss statement shows what a business has achieved over a period. Explain that a BALANCE SHEET is a "still picture" of the business at a particular point of time and the profit and loss statement is a "moving picture".
- 2) Laymen are often confused by the terminology of BALANCE SHEETS and in particular by the word "liabilities". They cannot understand why the business is liable or owes the capital or retained profits. Stress that the word means no more than "sources of money". They never need use the word "liabilities" if they find it easier not to.
- 3) Most business people, even in large businesses, believe that accountants are the only people who can prepare a BALANCE SHEET. Show by using simple examples drawn from the client's own figures that it is not difficult to prepare a useful BALANCE SHEET, providing that the basic records have been correctly kept.
- 4) Help the client to prepare a BALANCE SHEET as soon as the necessary basic records have been prepared. Ask the client to prepare a further BALANCE SHEET one month or more later, and return to check this. Go over the changes between the two BALANCE SHEETS. These will clearly show what has happened to the business during the intervening period.
- 5) If the BALANCE SHEET shows a reasonable accumulation of retained profits over the life of the business, congratulate the owner and show how her original investment has grown because of her skillful management and self-restraint in not withdrawing all the profits.

THE BALANCE SHEET - INSTRUCTOR'S GUIDE

- 1) Professional accountants and others with specialized accounting training treat the BALANCE SHEET as the final objective of any accounting system. Show trainees that it is not difficult to prepare a BALANCE SHEET, and that a fairly unsophisticated client can use it to help him understand his business.
- 2) Clients who have some knowledge of accounting may pride themselves on their familiarity with the terminology. Classroom definitions often conceal ignorance. Ask trainees to translate the terms into the local vernacular, and to explain them to somebody with no knowledge of accounting whatsoever. This may illustrate that they themselves are not really sure what the words mean.
- 3) Instead of the example of John's Business given in the material, it may be better to ask trainees in turn to suggest possible transactions and to suggest how the BALANCE SHEET should reflect them. These should include transactions which illustrate every aspect of the BALANCE SHEET, and ensure by repeated examples that every trainee understands how the transactions are recorded on the BALANCE SHEET.
- 4) Stress throughout that the necessary information comes from the basic records, and that mistakes in arithmetic, either in the basic records, in adding them up or in the entries into the BALANCE SHEET can make it impossible to produce a correct BALANCE SHEET. This will cause them, and their clients, to waste a great deal of time searching for the reason why the BALANCE SHEET does not balance.
- 5) Show how the change from one BALANCE SHEET to another can be described by a profit and loss statement for the intervening period. Demonstrate how the two statements are related, and stress that a BALANCE SHEET and profit and loss statement together make up the complete picture of an enterprise which is known as the "final accounts".

EXERCISE/BALANCE SHEET 1

A butchery was started with a loan of P 15,000 from the National Development Bank. With the money the owner built a building for P 7,500 purchased stock for P 1,250, a refrigerator for P 750, furniture and fixtures for P 500, and a vehicle for P 3,000. The remaining money was deposited in a current account.

What does the BALANCE SHEET of the business look like after the above purchases have been made?

ANSWER KEY/BALANCE SHEET 1

BALANCE SHEET

on 19..

<u>Liabilities</u>		<u>Assets</u>	
Loan	P 15,000	Building	P 7,500
Retained Profits	0	Vehicle	3,000
		Furniture & Fixtures	500
		Refrigerator	750
		Stock	1,250
		Cash	2,000
Total	<u>P 15,000</u>	Total	<u>P 15,000</u>

EXERCISE/BALANCE SHEET 2

A client wants to prepare a BALANCE SHEET for the business as of the end of the year. He has prepared a list of everything he owns and owes, and has come up with the following:

Bank Loan	P 2,000
Cash Box	53
Creditors	300
Stock	1,500
Premises	1,000
Bank Account	100
Money Invested by Owner	2,000
Vehicle	3,000
Debtors (total)	300

Instructions: Prepare a BALANCE SHEET for the above client. Note that no record of retained profits has been kept - the amount must be calculated.

ANSWER KEY/BALANCE SHEET 2

In order to prepare a BALANCE SHEET for this client, we first need to know the amount of total re-invested profits of the business. This can be calculated by use of the equation $\text{assets} = \text{liabilities}$.

BALANCE SHEET
OR 19..

<u>Liabilities</u>		<u>Assets</u>	
Money Invested by Owner	P 2,000	Premises	P 1,000
Retained Profits	?	Vehicle	3,000
Bank Loan	2,000	Stock	1,500
Creditors	300	Debtors	300
		Bank Account	100
		Cash	53
Total	<u>P 5,953</u>	Total	<u>P 5,953</u>

The retained profit can be calculated based on the fact that:

$$\text{Assets} = \text{Liabilities} = \text{P } 5,953$$

The total known liabilities is P 4,300 (2,000 + 2,000 + 300). Therefore, the retained profit is:

$$\begin{array}{r} \text{P } 5,953 \\ 4,300 \\ \hline \text{P } 1,653 \end{array}$$

EXERCISE/LESEGO'S COSMETICS

"How have you been getting on? Have you made a good profit?" asked B.J. when Lesego came home one day. She had been running her business in town for a year.

Lesego had a number of papers where she had written down various things which she thought were important for the business. She had noted the following facts:

- (1) She had opened her business on 1st January.
- (2) She had started her business with P 300 worth of stock.
- (3) After paying P 300 for the stock, she had set aside P 250 in cash for the shop.
- (4) At the end of the year she had P 200 worth of goods in stock in the shop and there was P 450 in the cash box.
- (5) The profit of P 100 was retained in the business.

- Instructions:
- (1) Prepare a BALANCE SHEET for Lesego when she started a year ago, showing where she got the money from and how it was used.
 - (2) Prepare a BALANCE SHEET for the business at the end of they year.

ANSWER KEY/LESEGO'S COSMETICS

(1)

BALANCE SHEET
on 1 January 19..

<u>Liabilities</u>		<u>Assets</u>	
Capital	P 550	Stock	P 250
		Cash	300
Total	P 550	Total	P 550

(2)

BALANCE SHEET
on 31 December 19..

<u>Liabilities</u>		<u>Assets</u>	
Capital	P 550	Stock	P 450
Retained Profits	100	Cash	200
Total	P 650	Total	P 650

TOTAL SYSTEM - ADVISER'S GUIDE

- 1) If your client has correctly learnt how to prepare each of the basic records, and has prepared a profit and loss statement and a balance sheet from the information they contain, he will already realise that each record is a necessary part of the whole system. In this case, remind the client of the way in which each individual record can be used, on its own, as well as being a part of the whole system.

It is a major achievement for any client to have worked through each record successfully and they may feel that their task is now complete. Stress that they must continue to keep each record, and to draw together all the information every month, or however often they decide to prepare final accounts. By comparing one set of accounts with another they will be able to make the best use of their figures.

- 2) It is possible that the client is successfully preparing some of the records but has forgotten how to prepare others. Ask him to suggest possible figures which you can use to complete the accounts. When the client sees how useful the complete accounts are, he will be encouraged to prepare all the data necessary for completing them.
- 3) If the client has only completed one or two or none of the necessary basic records, it is still possible to ask him for estimates of the necessary data and to produce a set of final accounts from these guesses. Stress to the client that the resulting accounts are not reliable, but they will show him what a useful financial picture of the business he can produce, if he prepares the necessary basic records. This exercise may be what is needed to encourage the client to make the necessary effort to prepare the basic records. Stress nevertheless that each record is valuable on its own.
- 4) Clients who are unfamiliar with figures may have made mistakes in calculations, or in transferring figures from one record to another. Allow time to go through the individual calculations carefully. Explain any mistakes to the client, and show how neat clearly laid out workings,

with plenty of space, can help to avoid simple mistakes. Avoid discouraging clients who have made a large number of errors. Persuade them to continue and make frequent and regular visits to assist their efforts.

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TOTAL SYSTEM - INSTRUCTOR'S GUIDE

- 1) This series of exercises is designed to review each of the basic records, and to demonstrate how they make up the complete system. Allow two days for the complete topic, and design further exercises if necessary in order to confirm trainees' understanding.
- 2) Start with the oral quiz, which should remind trainees of the records they have learnt about and reveal areas of uncertainty. The questions are deliberately open ended, without specific right or wrong answers in most cases, in order to encourage discussion and complete understanding of the system.
- 3) Trainees should then complete the written quiz. This tests their knowledge of how the complete system fits together. Go through the answers, discussing and correcting any mistakes. If necessary, design a further quiz to confirm that trainees have learnt from any mistakes they made in the first one.
- 4) The four following exercises will take several hours each to complete. You should divide the trainees into small groups of between two and four people, in order to encourage exchange of ideas and practice in explaining the records to those who do not understand. Groups should prepare neat properly laid out pages for the respective records, just as they would expect a client to do. If large sheets of paper or overhead transparencies are available, they may use these to present and explain their answers to the rest of the group.
- 5) Trainees should complete and discuss Day One of the first exercise before completing Days Two and Three. Show how the large number of individual entries build up to the complete answer, and stress the inter-relationships which are revealed by the need to make two entries for items such as:

Transaction	Entries		
Wages Paid	Cash Out in Cash Book	AND	Expense in Purchase and Expense Record
Owner Purchases on Credit	Creditors Record	AND	Purchase in Purchase and Expense Record
Owner Withdraws Money	Cash Out in Cash Book	AND	Drawings in Purchase and Expense Record

- 6) Exercise Two includes the profit and loss statement and balance sheet, drawing on similar information as in the previous exercise. Ask trainees to present their results in small groups as before. They may well have made mistakes; go through each entry, checking the arithmetic and the principal, before going on to the next. Show how the individual records produce information which is built into the final accounts, so that the complete system can be used both to control and record individual transactions and to summarise the condition of the business as a basis for management decisions.

Stress that when one transaction is entered in two records, any arithmetical errors will prevent the final accounts from balancing and will be difficult to find. Distinguish between the nature and purpose of the initial entries and the final accounts, as follows:

Basic Record	Record Purpose		Final Accounts	Information Record
CASH SALE			CASH SALE	
Cash Book	Cash Control	→	Cash Balance	Balance Sheet
Sales Record	Monthly Sales	→	Total Sales for Period	Profit and Loss Statement
CREDIT PURCHASE			CREDIT PURCHASE	
Purchase and Expense Record	Monitor Purchases	→	Cost of Goods Sold	Profit and Loss Statement
Creditors Record	Manage Credit	→	Creditors	Balance Sheet

7) Ask trainees to present their answers to Exercise Three one day at a time. Discuss any differences, and correct any mistakes, before proceeding to the next day. Stress that the exercise demonstrates how a business changes from one day to the next, and how the accounts reflect each situation.

8) Exercise Four summarises everything that has been learnt so far. Trainees will have to remember how to use the formulae for the debtors and creditors records, and will then have to go through the complete procedure for preparing the records and then producing the final accounts from them.

Allow trainee groups plenty of time to complete the exercise. Stress the need for careful arithmetic. Ask each group to present their cash record for each month in turn. Discuss and correct any mistakes, and after completing the cash record follow the same procedure with each balance sheet and profit and loss statement.

9) Stress that trainees must be able not only to complete such exercises correctly but also to teach their clients to do the same task in their businesses. Ask each trainee in turn to suggest an actual business with which he is familiar, and then to design a demonstration exercise which he might use in order to demonstrate the principal of the total record system to a client. Remind trainees that they must not do the work for their clients. They must do what is more difficult but more valuable, that is, to enable their clients to prepare and complete their own record systems.

ORAL QUIZ/REVIEW OF BASIC RECORDS

- (1) What is a Cash Book? Why is it important? What does it tell us?
- (2) Can a Cash Book help us with cash control?
- (3) Which side of the Cash Book records cash in?
- (4) What is the format of the Cash Book?
- (5) What is a Current Account?
- (6) What is a Savings Account?
- (7) How do you open a Current or Savings Account?
- (8) How do you write a cheque?
- (9) How do you deposit money in an account?
- (10) What is a Bank Reconciliation?
- (11) Why prepare a Bank Reconciliation?
- (12) Why are there differences between Bank Statement and Cash Book balances?
- (13) What is a Sales Record?
- (14) Why is a Sales Record important?
- (15) Where is sales information obtained?
- (16) What is a Purchase and Expense Record?
- (17) Why is the Purchase and Expense Record important?
- (18) What is the format of the Purchase and Expense Record?

WRITTEN QUIZ/REVIEW OF BASIC RECORDS

In which record or records would the following transactions be entered?

- (1) Received cash from debtor as payment on his account.
- (2) Cash purchase of stock for resale.
- (3) Customer buys on credit.
- (4) Pay rent (cash).
- (5) Cash cheque for working capital.
- (6) Deposit money from cash box to current account.
- (7) Buy vehicle for business with cash.
- (8) Buy vehicle for business on credit.
- (9) Receive cash from debtor.
- (10) Pay cash to creditor.
- (11) Pay cheque to creditor.
- (12) Pay transport charges in cash.
- (13) Give owner cash from cash box.
- (14) Give sister of owner sweets.
- (15) Customer buys goods on credit.
- (16) Customer buys goods for cash.
- (17) Pay wages in cash.
- (18) Customer returns previously bought goods. Refund made in cash.
- (19) Customer returns previously bought goods. Refund make as credit.

ANSWER KEY/WRITTEN QUIZ/REVIEW OF BASIC RECORDS

- (1) Cash Book and Debtors Record.
- (2) Cash Book and Purchase & Expense Record.
- (3) Sales Record and Debtors Record.
- (4) Cash Book and Purchase & Expense Record.
- (5) Cash Book (cash column) and Cash Book (bank column).
- (6) Cash Book (cash column) and Cash Book (bank column).
- (7) Cash Book and Purchase & Expense Record (assets column).
- (8) Creditor Record and Purchase & Expense Record (assets column).
- (9) Cash Book and Debtors Record.
- (10) Cash Book and Creditors Record.
- (11) Cash Book (bank column) and Creditors Record.
- (12) Cash Book and Purchase & Expense Record.
- (13) Cash Book and Purchase & Expense Record (drawings).
- (14) Note value and summarise in drawings column of Purchase & Expense Record.
- (15) Sales Record and Debtors Record.
- (16) Cash Book and Sales Record.
- (17) Cash Book and Purchase & Expense Record.
- (18) Cash Book and Sales Record.
- (19) Debtors Record and Sales Record.

EXERCISE/THE TOTAL SYSTEM 1

Day 1:

Mrs. Sejoe gives her shop assistant the cash box containing P 50.00 in the morning. The assistant returns the cash box after the shop has closed with P 83.00 and the following receipts:

1) Paid wages	P 5.30
2) Paid rent	10.70
3) Purchased paraffin for use in lamps of shop	2.20
4) Purchased stock for resale (cash)	25.50
5) Gave nephew of owner money for school fees	5.30
6) Customer Tladi bought goods on credit	5.50
7) Customer Kokorwe paid cash on account.	12.00
8) Customer Molaka bought goods on credit.	2.30
9) Customer Golo paid cash on account	10.00
10) Goods purchased on credit from Gaborone Wholesalers	50.00

Day 2:

Mrs. Sejoe gives her shop assistant the cash box containing P 83.00 in the morning. The assistant returns it after the shop has closed with P 125.00 and the following receipts:

1) Assistant paid cash on account to Gaborone Wholesalers	P 20.00
2) Purchased stock for resale (for cash)	100.00
3) Customer Tladi bought goods on credit	3.30
4) Customer Kokorwe bought goods on credit	12.70
5) Customer Molaka bought goods on credit	5.75
6) Cash purchase of goods for resale	2.20
7) Transport expenses paid	22.50
8) Purchased bicycle as delivery vehicle on credit from Caltex	100.50

Day 3:

Mrs. Sejoie gives her shop assistant the cash box containing P 125.00 in the morning. The assistant returns it after the shop has closed with P 212.50 and the following receipts:

1) Casual labour	P 10.00
2) Maintenance expense	12.00
3) Purchased sweets jars for shop (for cash)	6.50
4) Office supplies expense	2.50
5) Customer Tladi paid on account	5.00
6) Customer Kokorwe bought goods on credit	12.50
7) Customer Molaka bought goods on credit	8.75
8) Assistant purchased goods on credit from Gaborone Wholesalers	17.75

Instructions: Prepare a daily Cash Book, Purchase & Expense Record, Sales Record, Debtors Records and Creditors Records from the information provided. Assume all debtors and creditors are new accounts with a P 50.00 limit.

ANSWER KEY/THE TOTAL SYSTEM 1

CASH BOOK

MONEY INTO CASH BOX

MONEY OUT OF CASH BOX

DATE	DETAILS	P	t	DATE	DETAILS	P	t
Day 1	Beginning Balance	50	00	Day 1	Wages	5	30
	Debtor Receipt	12	00		Rent	10	70
	Debtor Receipt	10	00		Paraffin	2	20
				Stock Purchases	25	50	
				Drawings	5	30	
				Balance	83	00	
		132	00			132	00
Day 2	Beginning Balance	83	00	Day 2	Creditor Payment	20	00
	Cash Sales	186	70		Stock Purchases	100	00
					Stock Purchases	2	20
				Transport	22	50	
				Balance	125	00	
		269	70			269	70
Day 3	Beginning Balance	125	00	Day 3	Labour	10	00
	Debtor Receipt	5	00		Maintenance	12	00
	Cash Sales	113	50		Jars	6	50
				Office Supplies	2	50	
				Balance	212	50	
		243	50			243	50

PURCHASE AND EXPENSE RECORD

DATE	DESCRIPTION	TOTAL AMOUNT	PURCH.	RENT	WAGES	MISC.	DRAW.	TRANS.	MAINT.	OFFICE	ASSETS
Day 1	Cash Book	49.00	25.50	10.70	5.30	2.20	5.30				
	Creditor Record	50.00	50.00								
Day 2	Cash Book	124.70	102.20					22.50			
	Creditor Record	100.50									100.50
Day 3	Cash Book	31.00			10.00				12.00	2.50	6.50
	Creditor Record	17.75	17.75								

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SALES RECORD

DATE	CASH SALES	CREDIT SALES						
Day 1	60.00	5.50						
Day 2	186.70	3.30 12.70 5.75						
Day 3	113.50	12.50 8.75						

DEBTORS RECORDS

NAME: Tladi				CREDIT LIMIT: P 50					
P.O. Box No. 6, Mochudi.									
DATE	DESCRIPTION	TOTAL PURCH.		AMOUNT PAID		BALANCE		DEPOSIT	
		P	t	P	t	P	t	P	t
Day 1	Purchases	5	50			5	50		
Day 2	Purchases	3	30			8	80		
Day 3	Payment			5	00	3	80		

NAME: Kokorwe				CREDIT LIMIT: P 50					
P.O. Box 25, Molepolole.									
DATE	DESCRIPTION	TOTAL PURCH.		AMOUNT PAID		BALANCE		DEPOSIT	
		P	t	P	t	P	t	P	t
Day 1	Payment			12	00			12	00
Day 2	Purchases	12	70			0	70		
Day 3	Purchases	12	50			13	20		

NAME: Molaka				CREDIT LIMIT: P 50					
P.O. Box 100, Mahalapye.									
DATE	DESCRIPTION	TOTAL PURCH.		AMOUNT PAID		BALANCE		DEPOSIT	
		P	t	P	t	P	t	P	t
Day 1	Purchases	2	30			2	30		
Day 2	Purchases	5	75			8	05		
Day 3	Purchases	8	75			16	80		

NAME: Golo				CREDIT LIMIT: P 50					
P.O. Box 75, Maun									
DATE	DESCRIPTION	TOTAL PURCH.		AMOUNT PAID		BALANCE		DEPOSIT	
		P	t	P	t	P	t	P	t
Day 1	Payment			10	00			10	00

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CREDITOR/LOAN RECORD					
NAME: Gaborone Wolesslers			DATE PAYMENT DUE:		
ADDRESS:			LIMIT:		
DATE	DESCRIPTION	AMOUNT PAID	LOAN OR PURCHASES	BALANCE OWED	DEPOSIT
Day 1	Purchases		50.00	50.00	
Day 2	Payment	20.00		30.00	
Day 3	Purchases		17.75	47.75	

CREDITOR/LOAN RECORD					
NAME: Caltex			DATE PAYMENT DUE:		
ADDRESS:			LIMIT:		
DATE	DESCRIPTION	AMOUNT PAID	LOAN OR PURCHASES	BALANCE OWED	DEPOSIT
Day 1	Purchases		100.50	100.50	

EXERCISE/THE TOTAL SYSTEM 2

A businessman borrows P 1,000 and uses P 1,000 from his savings to start a business. With the P 2,000 he purchases stock for P 750 and shelving for P 1,000. He puts the remaining money in the cash box and opens the shop for business.

During his first month of operation he has cash sales of P 200, purchases stock for P 100, incurs expenses of P 30, and draws P 10 from the business for personal use.

His stock at the end of the month is P 700.

Prepare a Balance Sheet showing the business on the first day, a Profit and Loss Statement for the month, and a Balance Sheet at the end of the first month of operation. A Cash Book would be helpful to organise the information.

ANSWER KEY/THE TOTAL SYSTEM 2

CASH BOOK

MONEY INTO CASH BOX

MONEY OUT OF CASH BOX

DATE	DETAILS	P t		DATE	DETAILS	P t	
		P	t			P	t
Start of Business	Loan Proceeds Savings	1,000	00	Start of Business	Stock Purchases Shelves	750	00
		1,000	00			1,000	00
		2,000	00			250	00
					Balance	2,000	00
Month 1	Beginning Balance Cash Sales	250	00	Month 1	Purchases Expenses	100	00
		200	00			30	00
		450	00			310	00
					Balance	450	00

ANSWER KEY/THE TOTAL SYSTEM 2

OPENING BALANCE SHEET:

<u>Liabilities</u>	P	<u>Assets</u>	P
Loan	1,000	Cash	250
Owner's Capital	1,000	Stock	750
		Shelves	1,000
Total	<u>P 2,000</u>	Total	<u>P 2,000</u>

FIRST MONTH'S PROFIT AND LOSS STATEMENT:

	P	P
Sales		200
Beginning Stock	750	
Purchases	100	
Goods Available for Sale	<u>850</u>	
Ending Stock	<u>700</u>	
Cost of Goods Sold		<u>150</u>
Gross Profit		50
Expenses		<u>30</u>
Net Profit		20
Drawings		<u>10</u>
Reinvested Profit		<u>P 10</u>

BALANCE SHEET AT END OF FIRST MONTH:

<u>Liabilities</u>	P	<u>Assets</u>	P
Loan	1,000	Cash	310
Owner's Capital	1,000	Stock	700
Reinvested Profit	<u>10</u>	Shelves	<u>1,000</u>
Total	<u>P 2,010</u>	Total	<u>P 2,010</u>

EXERCISE/THE TOTAL SYSTEM 3

- 1) An investor decides to open a small restaurant in Gabane. He takes P 2,000 from his savings and borrows P 5,000 from the National Development Bank and opens his business on 1st March.
- What would his Cash Book and Balance Sheet look like on 1st March?
- 2) During the first week he buys a shop for P 4,000, adds P 1,000 in shelves and P 1,500 in stock.
- What does his Cash Book and Balance Sheet look like on 7th March?
- 3) During the first month of operation the following transactions occurred:
- | | |
|---------------|-------|
| Cash Sales | P 500 |
| Cash Expenses | 50 |
| Cash Drawings | 20 |
| Purchases | 400 |
- The level of stock for the end of the month is P 1,500.
- What does the Cash Book, Profit & Loss Statement and Balance Sheet look like on 31st March?
- 4) During the second month of operation the following transactions occurred:
- | | |
|---------------|-------|
| Cash Sales | P 500 |
| Credit Sales | 50 |
| Cash Expenses | 50 |
| Cash Drawings | 20 |
| Purchases | 500 |
- The level of stock for the end of the month is P 1,600.
- What does the Cash Book, Profit & Loss Statement and Balance Sheet look like on 30th April?

5) During the third month of operation the following transactions occurred:

Cash Sales	P 600
Credit Sales	50
Collections from Debtors	40
Cash Expenses	60
Cash Drawings	30
Purchases	400
Loan Repayment	500

The level of stock at the end of the month is P 1,500.

- What does the Cash Book, Profit & Loss Statement and Balance Sheet look like on 31st Mary?

Instructions: Prepare the records and final accounts called for above.

ANSWER KEY/THE TOTAL SYSTEM 3

1)

CASH BOOK - 1ST MARCH

Beginning Balance	P	0		
From Savings		2,000		
Loan Proceeds		5,000	Ending Balance	P 7,000
		<u>5,000</u>		
	P	<u>7,000</u>		P <u>7,000</u>

BALANCE SHEET - 1ST MARCH

<u>Liabilities</u>	P	<u>Assets</u>	P
Loan	5,000	Cash	7,000
Owner Capital	2,000		
	<u>2,000</u>		
Total	P 7,000	Total	P 7,000

2)

CASH BOOK - 7TH MARCH

Beginning Balance	p 7,000	Shop Purchase	P 4,000
		Shelves	1,000
		Stock	1,500
		Ending Balance	500
	<u>7,000</u>		<u>500</u>
	P 7,000		P 7,000

BALANCE SHEET - 7TH MARCH

<u>Liabilities</u>	P	<u>Assets</u>	P
Loan	5,000	Cash	500
Owner Capital	2,000	Stock	1,500
		Shelves	1,000
		Shop	4,000
	<u>2,000</u>		<u>4,000</u>
Total	P 7,000	Total	P 7,000

3)

CASH BOOK - MARCH

Beginning Balance	P	500	Expenses	P	50
Cash Sales		500	Drawings		20
			Purchases		400
			Ending Balance		530
		<u>P 1,000</u>			<u>P 1,000</u>

PROFIT & LOSS STATEMENT -- MARCH

	P	P
Sales		500
Beginning Stock	1,500	
Purchases	400	
	<u>1,900</u>	
Ending Stock	<u>1,500</u>	
Cost of Sales		<u>400</u>
Gross Profit		100
Expenses		<u>50</u>
Net Profit		50
Drawings		<u>20</u>
Reinvested Profit		<u>P 30</u>

BALANCE SHEET - 31ST MARCH

<u>Liabilities</u>	P	<u>Assets</u>	P
Loan	5,000	Cash	530
Owner Capital	2,000	Stock	1,500
Reinvested Profit	30	Shelves	1,000
		Shop	<u>4,000</u>
Total	<u>P 7,030</u>	Total	<u>P 7,030</u>

4)

CASH BOOK - APRIL

Beginning Balance	P	530	Expenses	P	50
Cash Sales		500	Drawings		20
			Purchases		500
			Ending Balance		460
		<u>P 1,030</u>			<u>P 1,030</u>

PROFIT & LOSS STATEMENT - APRIL

	P	P
Cash Sales	500	
Credit Sales	50	
Total Sales		550
Beginning Stock	1,500	
Purchases	500	
Total Goods	2,000	
Ending Stock	1,600	
Cost of Goods Sold		400
Gross Profit		150
Expenses		50
Net Profit		100
Drawings		20
Reinvested Profit		<u>P 80</u>

BALANCE SHEET - 30TH APRIL

<u>Liabilities</u>	P	<u>Assets</u>	P
Loan	5,000	Cash	460
Owner Capital	2,000	Stock	1,600
Reinvested Profit	110	Shelves	1,000
		Shop	4,000
		Debtors	50
Total	<u>P 7,110</u>	Total	<u>P 7,110</u>

5)

CASH BOOK - MAY

Beginning Balance	P 460	Expenses	P 60
Cash Sales	600	Drawings	30
Debtor's Receipts	40	Purchases	400
		Loan Payment	500
		Ending Balance	110
	<u>P 1,100</u>		<u>P 1,100</u>

PROFIT AND LOSS STATEMENT - MAY

	P	P
Cash Sales	600	
Credit Sales	50	
Total Sales		650
Beginning Stock	1,600	
Purchases	400	
Total Goods	2,000	
Ending Stock	1,500	
Cost of Goods Sold		500
Gross Profit		150
Expenses		60
Net Profit		90
Drawings		30
Reinvested Profit		<u>P 60</u>

BALANCE SHEET - 31st MAY

<u>Liabilities</u>	P	<u>Assets</u>	P
Loan	4,500	Cash	110
Owner Capital	2,000	Stock	1,500
Reinvested Profit	170	Debtors	60
		Shelves	1,000
		Shop	4,000
Total	<u>P 6,670</u>	Total	<u>P 6,670</u>

EXERCISE/THE TOTAL SYSTEM 4

A bottle store is started with a loan of P 15,000 from the National Development Bank. With the money the owner built a building for P 7,500, purchased stock of P 1,250, bought a refrigerator for P 750 and a vehicle for P 3,000. The remaining money was put into the cash box.

The following information was contained in basic records maintained by the business:

	<u>Month 1</u>	<u>Month 2</u>	<u>Month 3</u>
Cash, Beginning Balance	P 2,500		
Cash, Ending Balance			
Cash Sales	1,000	P 1,500	P 1,600
Credit Sales	200	250	400
Purchases on Credit	0	50	100
Purchases for Cash	750	1,950	1,300
Transport Expenses	40	50	75
Miscellaneous Expenses	6	8	20
Wages	50	45	55
Insurance	5	7	10
Owner's Drawings	25	25	50
Office Supplies	12	15	10
Stock, Beginning of Month	1,250	1,000	1,500
Stock, End of Month	1,000	1,500	1,400
Debtors' Records, total	200	350	600
Debtors' Payments	0	100	150
Creditors' Records, total	0	50	150
Payments to Creditors	0	0	0

- Instructions:
- (1) Prepare a monthly Cash Book based on the above information in order to determine the cash balances for Month 2 and Month 3.
 - (2) Prepare a Profit and Loss Statement for each month.
 - (3) Prepare a Balance Sheet for each month. Assume that there has been no depreciation.

ANSWER KEY/THE TOTAL SYSTEM 4

CASH RECORD

MONEY INTO CASH BOX

MONEY OUT OF CASH BOX

MONEY INTO CASH BOX				MONEY OUT OF CASH BOX			
DATE	DETAILS	P	t	DATE	DETAILS	P	t
Month 1	Beginning Balance	2,500	00	Month 1	Purchases	750	00
	Cash Sales	1,000	00		Transport	40	00
				Miscellaneous	6	00	
				Wages	50	00	
				Insurance	5	00	
				Drawings	25	00	
				Office Supplies	12	00	
				Balance	2,612	00	
		3,500	00			3,500	00
Month 2	Beginning Balance	2,612	00	Month 2	Purchases	1,950	00
	Cash Sales	1,500	00		Transport	50	00
	Debtors' Receipts	100	00		Miscellaneous	8	00
				Wages	45	00	
				Insurance	7	00	
				Drawings	25	00	
				Office Supplies	15	00	
				Balance	2,112	00	
		4,212	00			4,212	00
Month 3	Beginning Balance	2,112	00	Month 3	Purchases	1,300	00
	Cash Sales	1,600	00		Transport	75	00
	Debtors' Receipts	150	00		Miscellaneous	20	00
				Wages	55	00	
				Insurance	10	00	
				Drawings	50	00	
				Office Supplies	10	00	
				Balance	2,342	00	
		3,862	00			3,862	00

PROFIT AND LOSS STATEMENT - MONTH 1

	P	P
Cash Sales	1,000	
Credit Sales	200	
	<hr/>	
Total Sales		1,200
Beginning Stock	1,250	
Purchases	750	
	<hr/>	
Goods Available for Sale	2,000	
Ending Stock	1,000	
	<hr/>	
Cost of Goods Sold		1,000
		<hr/>
Gross Profit		200
Expenses:		
Transport	40	
Miscellaneous	6	
Wages	50	
Insurance	5	
Office Supplies	12	
	<hr/>	
Total Expenses		113
		<hr/>
Net Profit		87
Drawings		25
		<hr/>
Reinvested Profit		P 62
		<hr/>

BALANCE SHEET - MONTH 1

<u>Liabilities</u>	P	<u>Assets</u>	P
Loan	15,000	Cash	2,612
Reinvested Profit	62	Debtors	200
		Stocks	1,000
		Refrigerator	750
		Vehicle	3,000
		Building	7,500
			<hr/>
Total	P 15,062	Total	P 15,062
	<hr/>		<hr/>

PROFIT AND LOSS STATEMENT - MONTH 2

	P	P
Cash Sales	1,500	
Credit Sales	250	
	<hr/>	
Total Sales		1,750
Beginning Stock	1,000	
Purchases	2,000	
	<hr/>	
Goods Available for Sale	3,000	
Ending Stock	1,500	
	<hr/>	
Cost of Goods Sold		1,500
		<hr/>
Gross Profit		250
Expenses:		
Transport	50	
Miscellaneous	8	
Wages	45	
Insurance	7	
Office Supplies	15	
	<hr/>	
Total Expenses		125
		<hr/>
Net Profit		125
Drawings		25
		<hr/>
Reinvested Profit		P 100
		<hr/>

BALANCE SHEET - MONTH 2

<u>Liabilities</u>	P	<u>Assets</u>	P
Creditors	50	Cash	2,112
Loan	15,000	Debtors	350
Reinvested Profit	162	Stocks	1,500
		Refrigerator	750
		Vehicle	3,000
		Building	7,500
			<hr/>
Total	P 15,212	Total	P 15,212
	<hr/>		<hr/>

PROFIT AND LOSS STATEMENT - MONTH 3

	P	P
Cash Sales	1,600	
Credit Sales	400	
	<hr/>	
Total Sales		2,000
Beginning Stock	1,500	
Purchases	1,400	
	<hr/>	
Goods Available for Sale	2,900	
Ending Stock	1,400	
	<hr/>	
Cost of Goods Sold		1,500
		<hr/>
Gross Profit		500
Expenses:		
Transport	75	
Miscellaneous	20	
Wages	55	
Insurance	10	
Office Supplies	10	
	<hr/>	
Total Expenses		170
		<hr/>
Net Profit		330
Drawings		50
		<hr/>
Reinvested Profit		P 280

BALANCE SHEET - MONTH 3

<u>Liabilities</u>	P	<u>Assets</u>	P
Creditors	150	Cash	2,342
Loan	15,000	Debtors	600
Reinvested Profit	442	Stock	1,400
		Refrigerator	750
		Vehicle	3,000
		Building	7,500
			<hr/>
Total	P 15,592	Total	P 15,592
	<hr/>		<hr/>

SHOP LAYOUT

WHY BE CONCERNED WITH THE LAYOUT OF THE SHOP?

Is the owner wasting the money spent on his building by leaving large areas of unused space?

Is the business losing money because small and valuable items are not protected from theft?

Are customers shopping in other shops because of the slowness and inconvenience of having to get every item from a sales assistant?

WHAT IS SHOP LAYOUT?

SHOP LAYOUT is the interior design or floorplan of the business.

HOW DO WE PLAN A GOOD SHOP LAYOUT?

- The type of goods sold will most often determine how best to sell them.
- This in turn will determine how best to plan or layout the business.
- The size of the business premises and the area available for sales will help determine the most appropriate layout.
- Most grocery items can best be sold by letting the customers help themselves (self-service).
- In businesses such as butcheries the requirement that a sales assistant prepare each order for the customer will determine the layout.

- Small, delicate and valuable items such as watches should be kept in display counters and shown to the customer by a sales assistant.
- Some goods such as clothing and hardware are best sold by combining self-service with a shop assistant available to help the customers.
- Careful attention to SHOP LAYOUT will ensure that the shop is correctly planned for the type of goods being sold and that money available for construction, alteration and purchase of shelves and counters is well spent.
- In both wholesale and retail businesses there are three main types of SHOP LAYOUT:

- I : Counter Shop
- II : Self-Service Shop
- III : Combination Shop

I : The Counter Shop

The counter shop has all goods:

- displayed in counters and on shelves behind counters;
- where they can only be reached by the sales assistant;
- where customers do not have access to them.

Positive Points

- (1) Minimises theft by customers.
- (2) Less handling damage.
- (3) Easy to maintain display.

Negative Points

- (1) Slow sales.
- (2) Fewer impulse sales.
- (3) Less display space.
- (4) Poor use of floorspace.
- (5) Many sales staff required.

II : The Self-Service Shop

The Self-Service SHOP LAYOUT has goods displayed on shelves and counters in a manner that allows the customers access to the goods so that they can select goods for themselves.

Positive Points

- (1) Increased sales.
- (2) Efficient use of floor space.
- (3) Increased display area.
- (4) Faster sales, more turnover.
- (5) Fewer sales staff required.

Negative Points

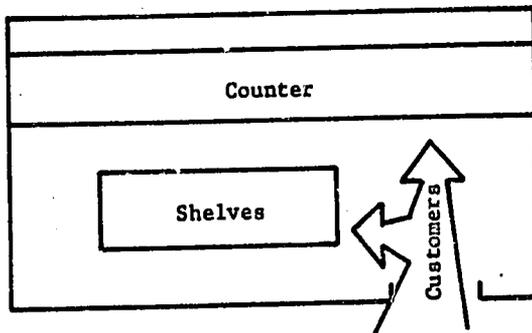
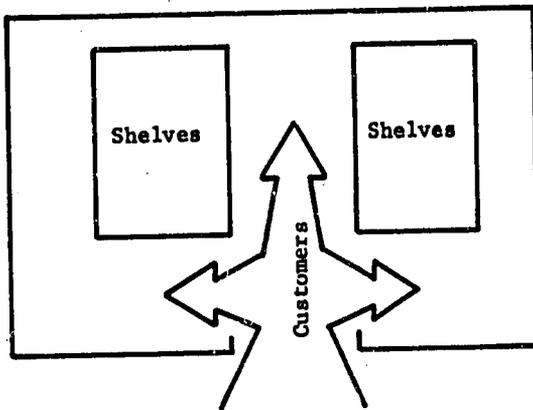
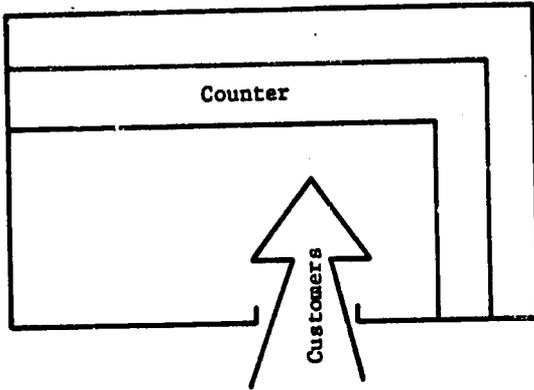
- (1) Increased customer theft.
- (2) More damage to goods from handling.
- (3) Shelf displays require constant attention.
- (4) More complex to manage.

III : The Combination Shop

- The combination shop uses both the counter and the self-service approaches.
- Combination shops sell a variety of goods.
- The manner in which each is sold is determined by the nature of the goods themselves.

DEMONSTRATION EXERCISE/SHOP LAYOUT

The following drawings show the floor plans of three typical shops:

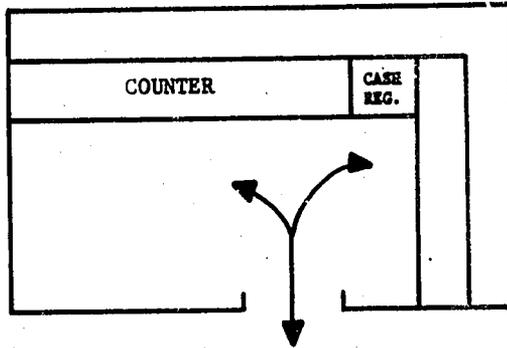


Instructions: Indicate which SHOP LAYOUT shows a counter store, which a combination store and which is a self-service store.

Show where the cash register would go in each store.

ANSWER KEY/Demonstration Exercise

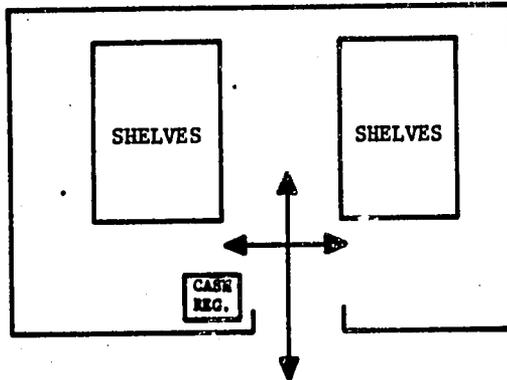
1)



Counter Store

The cash register is located at a central point. Counter stores with many departments may have two or more places to pay.

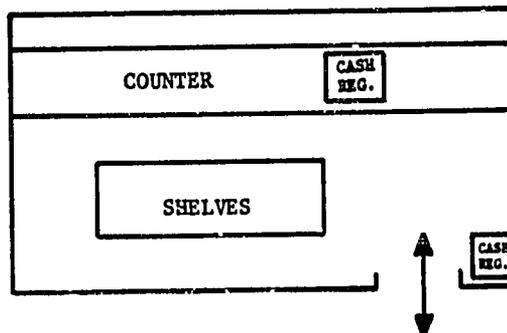
2)



Self-Service

The cash register is located near the entrance/exit.

3)



Combination Store

The combination store may have several places where the customer can pay. In large stores each department may have a separate cash register. Combination stores usually have a cash register by the entrance/exit for the self-service customers.

CHECKLIST FOR COMPLETION - SHOP LAYOUT

Basic Knowledge

What is a SHOP LAYOUT?

- The SHOP LAYOUT is the design or floorplan of the business.

What are the three basic types of SHOP LAYOUT?

- Counter, Self-Service and Combination.

What is the main difference between Self-Service and Counter Shops?

- In Self-Service Shops the customer can help himself to goods. In a Counter Shop he must be served by a sales assistant.

What is the major factor that determines the SHOP LAYOUT?

- The type of goods to be sold.

Can a business use both Self-Service and the Counter?

- Yes, many businesses that sell a variety of goods use both methods. This is known as a Combination Shop.

Which type of SHOP LAYOUT makes best use of available space?

- The Self-Service SHOP LAYOUT.

Why do we want to make use of all available space?

- Making best use of space means we can display the maximum amount of goods to our customers in the smallest suitable space. This will both increase sales and keep construction costs down.

Should all shops be Self-Service?

- Not necessarily. Businesses where the customer must be served such as butcheries or ones that sell small, valuable or delicate goods such as radios or cameras should use the counter layout.

How do we control theft in a Self-Service Shop?

- The cash register is located by the entrance. The customer must pay for all goods as he leaves the shop. Combination shops also use this method.

Implementation

The client should:

- Know which type of SHOP LAYOUT he should use in his business.
- Explain why different types of goods are sold using different methods of SHOP LAYOUT.
- Explain how he could change the layout of his shop to improve service to the customer, reduce theft and make best use of available space.

SHOP LAYOUT - ADVISOR'S GUIDE

- 1) This topic is clearly of the greatest importance to retailers. A good workshop layout is also important for manufacturers or service businesses, as customers also visit these premises from time to time. The place where customers come to must be laid out in such a way as to make it easy for them to purchase from the client's business.
- 2) Ask the client to imagine herself to be a customer. Is the shop laid out in the most convenient way for her to find what she wants and to buy it as quickly as possible?
- 3) Ask the client to imagine herself to be a thief. Is the shop laid out in such a way as to make it difficult to steal things, particularly small high value items, but without making it unattractive to customers at the same time? Can the owner see all the places where a thief might steal something from the cash register or cash drawer where she normally sits?
- 4) Describe the three types of SHOP LAYOUT. Ask the client to suggest which she is using and why. Discuss other shops selling similar goods but using different layouts, and the reasons why the client's existing layout may or may not be ideal for her goods and her customers.
- 5) Identify under-used areas and places which are congested. Discuss simple changes which might make it easier for goods to be displayed and for customers to move around the shop.
- 6) Remember that the number of customers and the nature of the average purchase is as important in determining on the SHOP LAYOUT as the nature of the goods. Self-service may be appropriate for a grocery shop in an urban mall with large numbers of wealthy customers, but would be quite unsuitable for a shop selling the same goods in a remote rural area.
- 7) If the client agrees that changes are necessary in the layout, stress that it is often possible to make important improvements by simply moving

one or two shelves, or putting up a simple partition. A new layout does not mean complete reconstruction.

- 8) If the client's business is expanding, show how an improved layout can enable her to deal with more customers in the same space. Stress that apart from saving money on new buildings, a well laid out and well arranged small shop is more attractive than a larger empty building.

SHOP LAYOUT - INSTRUCTOR'S GUIDE

- 1) Ask trainees to imagine that they are opening a new retail grocery shop. They should suggest what sort of goods are likely to be stocked, and what shelving and other equipment is needed, and should then suggest how this should be laid out. Repeat the exercise for a shop selling radios, cameras and watches.
- 2) Some trainees will suggest a self-service layout, others a counter shop and others possibly a combination. Describe the three different types and draw up a list of the types of goods which are best sold in each of the three types of shop.
- 3) Discuss local shops which are known to trainees, and which do and do not conform to the list you have drawn up. Discuss whether they are wrong. Discuss whether the type and number of customers means that self-service, for instance, is not appropriate for a grocery in certain places.
- 4) Draw a typical shop floor plan on the floor of the classroom in chalk, and use desk and chairs to represent shelves and other equipment in a typical badly laid out shop. Ask trainees to act as customers, and after attempting to walk through the shop to suggest improvements. Stress that these need not involve major or expensive reconstruction.
- 5) Ask trainees to draw a plan of their proposals for improvement of the layout presented on the floor of the classroom, and ensure that they understand the plans used in the exercise.
- 6) Visit a number of shops in the neighbourhood of the classroom. Ask trainees to make notes as to their views of the layout, and to discuss possible improvements on their return to the classroom.

EXERCISE/SHOP LAYOUT

Mr. Moloi is an investor who has built a Mini-Mall in a new housing area of Gaborone. His Mini-Mall has four shops which he has equipped with counters and shelves. He has four businesses who have agreed to rent shops in the Mini-Mall. The four businesses are:

- (1) A Dry Cleaner
- (2) Grocery
- (3) Camera and Radio Shop
- (4) Chemist

Instructions

Look at the drawing below of the Mini-Mall. Indicate which shop Mr. Moloi should allocate to which business and explain why.

MOLOI'S
MINI-MALL

1) _____

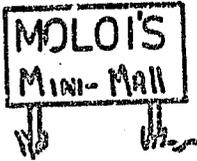
2) _____

3) _____

4) _____

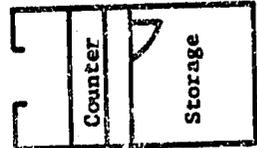
The diagram shows a hand-drawn floor plan of a Mini-Mall. On the left is a sign that says "MOLOI'S MINI-MALL". To the right of the sign are four numbered sections, each with three horizontal lines for writing. To the right of these sections are four shop layouts. Shop 1 (top) contains a counter and a storage area. Shop 2 (middle-top) contains four vertical shelves. Shop 3 (middle-bottom) contains three horizontal shelves. Shop 4 (bottom) contains a counter. Arrows indicate entrance directions for each shop.

ANSWER KEY/SHOP LAYOUT



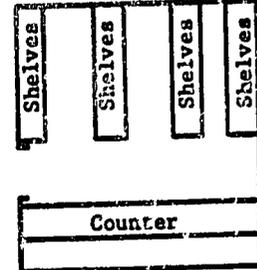
1) Dry Cleaner

Small shop, customer area limited to that necessary to leave goods. Service only. Large storage area to keep goods while waiting the customer's return.



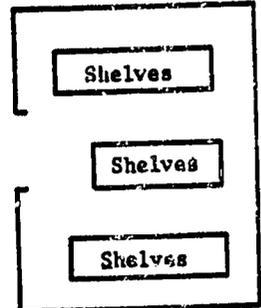
2) Chemist

Self-service area for low value items. Counter for items to be dispensed such as medicine. Cash register by door.



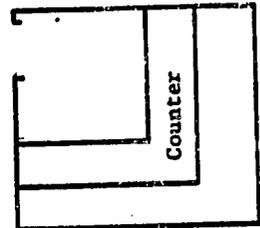
3) Grocery

Self-service to allow customer to select goods. Adequate room and shelves to display many items and bulky items such as potatoes.



4) Camera and Radio Shop

Counter shop. All goods sold are delicate, small and high value. Small shop only required.



STOCK DISPLAY AND STORAGE

WHY WORRY ABOUT THE DISPLAY AND STORAGE OF STOCK?

Should some items of stock be placed near the cash register and others displayed in more distant areas of the shop?

How does the business benefit by placing similar types of stock together?

Is there any stock that has been spoiled, damaged or stolen and how is this affecting the profits of the business?

WHAT IS STOCK DISPLAY? WHAT IS STORAGE?

STOCK DISPLAY is the method used to show goods to customers in a manner that will increase sales while protecting the goods from damage or theft.

STORAGE refers to the methods used to keep stock so that it is secure, clean and easy to count and control.

HOW TO DISPLAY STOCK

A good display is: easily seen by the customer,
easily counted by the business person during stocktaking,
sturdy and not easily knocked over,
easily cleaned, dusted and arranged,
neat, attractive,
secure from theft.

A shop may use:

- Special fixtures such as shelves, racks and display counters.
- Cards, arrows and signs to indicate prices and call attention to items.
- Display windows to attract customers.

HOW TO STORE STOCK

An efficiently used storeroom for stock:

is neat and clean,
facilitates the taking of stock,
ensures security,
reduces loss by spoilage,
makes best use of available space by using

- wall shelves
- racks
- standing shelves.

Types of Stock

- **Impulse Items:** Items bought on impulse. The customer usually does not look for these items but decides to buy them when he sees them. These items are usually of low value. Typically they are displayed by the cash register. They include such items as matches, sweets, snacks and small toys.
- **Convenience Goods:** Goods that customers buy often such as milk, sugar, rice, flour and other grocery items. They should be easy to get at, prominently displayed and grouped together with similar items. These are the things people buy most often.
- **Shopping Goods:** These are durable goods usually of higher value than convenience goods such as pots and pans, shoes, clothing and tools. They can be placed in less frequented areas of the shop because the customer is expecting to seek them out.

Rigid definitions and classifications cannot be made, as the nature of the stock will change with the type of shop and the type of customer.

For example small houseware items (such as kitchen knives, tin openers, etc.) may be impulse stock in a hardware shop and shopping goods in a small general shop.

Logical Grouping

Stocks of the same type should be placed together. For example tea and coffee might be displayed together with tinned milk and sugar. Matches might be displayed together with tobacco.

Logical grouping makes shopping easier for the customer and increases sales by reminding customers of items they need and creating impulse sales.

DEMONSTRATION EXERCISE

The Manager of a small general goods shop in Gabane has just purchased the following goods for resale in her shop:

- 10 pairs of shoes,
- 24 boxes of sweets,
- 5 cases of rice.

What type of stock is each of the goods? Where should they be placed in the shop?

ANSWER KEY/Demonstration Exercise

The shoes are shopping goods. A special trip is usually made to the shop in order to purchase them. They need not be prominently displayed as customers will take the time to look and ask for them.

The sweets are impulse items and therefore should be placed within easy view near entrances, exits and checkout registers.

The rice is a convenience good, that is, one that is purchased regularly. Rice should be placed where it is convenient to the customers in the main selling space of the shop.

CHECKLIST FOR COMPLETION - STOCK DISPLAY AND STORAGE

Basic Knowledge

Why is it important how stock is displayed?

- A good STOCK DISPLAY will increase sales and reduce losses caused by damage or theft.

What are the three types of stock?

- Shopping Goods.
- Convenience Goods.
- Impulse Items.

Does it matter how stock is grouped when it is displayed?

- Stocks should be grouped together with similar goods. This makes it easier for the customer as well as increasing impulse sales.

Why is STORAGE important?

- If stock is not correctly stored it will often be stolen or damaged. A well designed and equipped store-room means many things can be stored efficiently in a small area.

Will correctly stored stock make stock-taking easier?

- Yes. Properly stored stock is easy to count. This will help ensure that goods are not out of stock leading to disappointed customers and lost sales. Properly stored stock makes it easier to take stock accurately and means records and final accounts will be more accurate and useful.

Do you need equipment and fixtures to display and store stock correctly?

- Yes. Counters, shelves, display racks and cabinets are used to both display and store stock. Signs and posters can be used to call attention to goods on display.

Implementation

The client should:

- Make improvements in the way his stock is displayed by cleaning, dusting and arranging displays to make them more attractive.
- Check all his stock to see that it is logically grouped and make improvements in how stocks on display are grouped.
- Make improvements in his storeroom and storage areas to:
 - make stock-taking easier,
 - improve security,
 - reduce losses caused by damage or spoilage.

STOCK DISPLAY AND STORAGE - ADVISOR'S GUIDE

- 1) It is important to build client's confidence in your advice. Simple suggestions to improve display can be followed easily and quickly, and the client can rapidly see how they benefit his business. This will help all your other efforts to provide advice.
- 2) Ask the client to imagine herself to be a customer. How do people decide what they will buy, and to what extent does the display of goods in a shop influence their decision? Lead the client to the idea that there are three types of goods. Explain convenience, shopping and impulse goods. Ask the client to look at her own display from the point of view of a customer wanting a particular convenience or shopping good, and from the point of view of one who is likely to be an impulse purchaser if she sees something she likes. Are they likely to buy from her shop?
- 3) Every client buys things for herself from other shops. Ask your client to recall the last time she purchased a convenience item, a shopping item and an impulse item from another shop. What led her to choose this particular shop and item she bought? Is her own shop likely to attract people in the same way?
- 4) Ask the clients to identify the major causes of loss in stored goods, such as damp, theft, dirt, insects or rodents. Ask her to look over all her own goods in storage, particularly any goods which are stored in a separate store, and to check whether they are protected from each of these dangers.
- 5) Try to help the client herself to suggest one or two display changes which she will be able to implement herself before your next visit. Check on your next visit that they have been implemented, and discuss any improved sales that may have resulted.

STOCK DISPLAY AND STORAGE - INSTRUCTOR'S GUIDE

- 1) Remind trainees of the three different types of shop layout. Show a typical general store layout and ask where they would locate a typical selection of goods including a number of convenience, shopping and impulse products. Do not discuss the three categories at this stage.
- 2) Discuss trainees' suggestions, and evolve the classifications into the three types of products. Ask trainees to describe their most recent purchases of one of each type of product, both to confirm their understanding of the classification and to illustrate the type of display appropriate for each.
- 3) Trainees may further confirm their understanding by describing how they store things in their own homes. Clothes are separate from food and within each group things that are used frequently are stored in more convenient places than those that are only used occasionally. Show how the same principal applies to the display of goods in a shop.
- 4) Check trainees' understanding by asking them to classify a number of different items. Stress that the three classes are not rigid, and that an item which may be a shopping good to a low income customer can be an impulse item to a richer person. The general classification is however useful as a basis for display decisions.

EXERCISE/STOCK DISPLAY AND STORAGE

- 1) Arrange the following products into groups which would be placed together on display:

Bingo Soap	Tea
Cooking Fat	Shortbread Biscuits
White Sugar	Shoes
Salt	Rice
Chewing Gum	Nails
Coffee	Condensed Milk
Kitchen Knives	Socks
Drinking Glasses	Tinned Meat
Frying Pan	Groundnuts
Tinned Fish	Hammer
Brown Sugar	Candles
Scrub Brushes	Matches

- 2) Which of the above stock is: Impulse?
Convenience?
Shopping?
- 3) Where should they be displayed in the shop?

ANSWER KEY/STOCK DISPLAY AND STORAGE

- 1) There is no one "right" answer to this problem. The important point is that stock should be arranged in a logical way. An example of logical groupings might be:

	<u>Food Preparation</u>	<u>Tinned Goods</u>	<u>Beverages</u>
<u>Dry Goods</u>			
Rice	Cooking Fat	Tinned Meat	Coffee
Groundnuts	White Sugar	Tinned Fish	Tea
	Salt		Condensed
	Brown Sugar		Milk
<u>Sweets</u>	<u>Clothing</u>	<u>Household</u>	<u>Hardware</u>
Chewing Gum	Shoes	Bingo Soap	Nails
Shortbread	Socks	Kitchen Knives	Hammer
Biscuits		Drinking Glass	
		Frying Pan	
		Scrub Brushes	
		Candles	
		Matches	

- 2) Again there is no one "right" answer. It will depend on the customers and the type of shop. The Manager must use his skill and knowledge of the stock in determining which category the stock falls into. An example of how they might be categorised is as follows:

<u>Impulse Goods</u>	<u>Convenience Goods</u>	<u>Shopping Goods</u>
Chewing Gum	Rice	Hammer
Shortbread Biscuits	White Sugar	Nails
Groundnuts	Brown Sugar	Shoes
	Cooking Fat	Socks
	Salt	Kitchen Knives
	Bingo Soap	Drinking Glasses
	Coffee	Frying Pan
	Tinned Fish	Scrub Brush
	Tea	
	Condensed Milk	
	Tinned Meat	
	Candles	
	Matches	

3) Impulse Items should be placed within easy view of the customers, such as near the cash register.

Convenience Goods should be placed so that they are easy to get to, such as on shelves that are accessible to the customers.

Shopping Goods can be placed in more out-of-the-way places. Customers will spend more time looking for them.

STOCK MANAGEMENT AND STOCK MIX

WHY SHOULD A BUSINESS MANAGE THE STOCK?

Does the business have money invested in stock that has not sold well?

Is the business missing sales opportunities and losing customers because it has run out of stock?

When there is limited money to buy stock does the owner know how to determine which stocks it is best for the business to buy?

Does the business have high transport expenses because the owner must make frequent trips to buy stock?

WHAT IS STOCK MANAGEMENT?

Stock Management refers to the decisions made by the manager to plan and control stock selection, stock levels and stock turnover.

HOW CAN THE BUSINESS MANAGE STOCK?

Stock is simply money that has been turned into goods by the purchase of goods.

Stock management is the controlling of the flow of goods from cash to goods and then back to cash when the goods are sold followed by the purchase of yet more goods.

The rate of flow of goods through the business is known as stock turnover.

Stock turnover is the number of times the business has sold the average stock in a given period. This can be expressed by the formula :

$$\text{turnover} = \frac{\text{Sales (for the period)}}{\text{Average Stock (for the period)}}$$

The Stock Turnover formula :

- Must value both sales and average stock at either cost or selling price.
- Measures the turnover of the entire stock range.

The advantages of rapid stock turnover are :

- Stock related expenses such as storage can be reduced.
- Stock is less likely to spoil or go out of style.
- There is less danger of accumulating dead or old stock.
- Sales and profits may increase.

The purpose of stock management is to :

- To increase turnover when it will lead to increased sales and profits.
- Make best use of money available for stock purchase.
- Serve the needs and wants of the customers.
- Provide protection from spoilage and theft.

The business must maintain a level of stock that will assure an adequate supply to customers while not tying up money in slow moving stock. There are many factors to consider when deciding the appropriate stock level :

- available cash for stock purchases
- transport distance and transport cost
- availability of resupply of stock
- storage facilities
- control system
- climate and seasonality of the stock
- effects of inflation on resupply
- size of shop

Stock should not be allowed to run out. The business should assure a continuous flow of goods to the customer.

In order to ensure that stock does not run out the owner should :

- Review stock levels frequently.
- Determine how long supplies normally last, that is the rate of sale.
- Determine how long it will take to get new stocks.
- Order stocks in time to assure that new stocks arrive before old stocks are sold.
- Assure that there is a 'safety stock' of a few days supply so that the stock will not run out if there is an unexpected delay in re-supply.

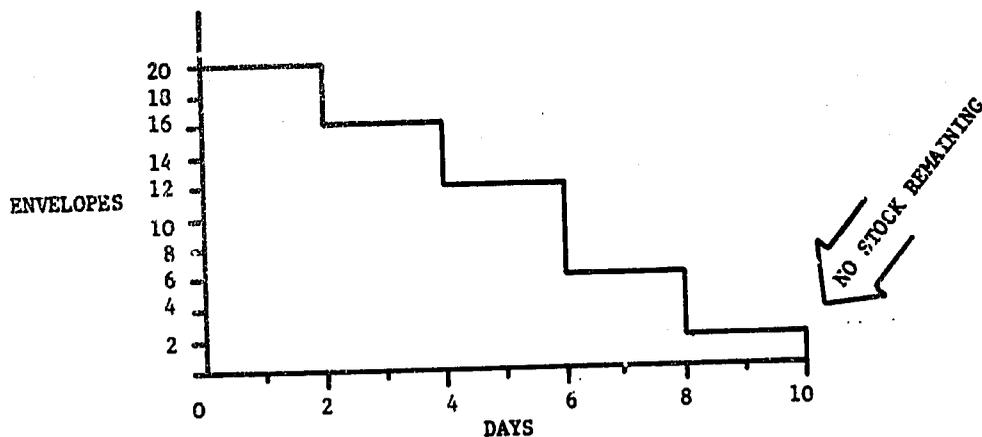
The business should have a regular buying schedule to assure periodic resupply. The resupply schedule must take into account :

- The time necessary to order, transport and restock goods.
- The costs of transport.
- Available storage.
- The total stock range carried by the business to assure that :
 - Fast moving stocks do not run out between resupply periods.
 - Slow moving stocks are not over-stocked tying up cash in slow or dead stock.

Stock should be rotated when new stock arrives. Existing stocks of goods should be sold before new stock is sold. Stock rotation is the process of ensuring that old stock does not become spoiled or damaged by remaining in stock for a long period. This is done by selling old stock before new stock.

Demonstration Exercise/Stock Re-ordering

PAMFIRI OFFICE SUPPLIES sells office supplies and equipment. Euka, does not want to disappoint his customers by running out of stock of his popular items. He knows that stock decreases gradually as it is sold. One of his popular items is envelopes. He counts his envelopes and finds that he has twenty. He knows that he sells two daily on average. (The chart below shows how stock levels decrease over time.) He knows that it takes two days to re-order. Mr. Euka wants to keep a "safety stock" of one or two envelopes to ensure that he does not run out of stock before the new stock arrives.

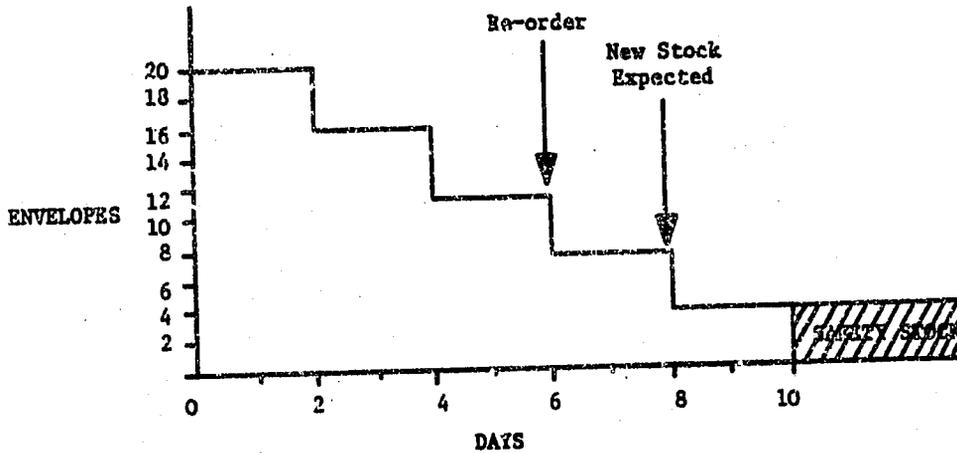


Instructions

Use the chart to calculate when Mr. Euka should re-order.

Answer Key/Demonstration Exercise/Stock Re-ordering

Mr. Baka should re-order on the sixth day when he still has four days supply. This will allow two days for delivery and assure that he has a safety stock of two days supply when his order arrives. The chart below shows when he should order and when goods are expected to arrive.



Demonstration Exercise/SAFETY STOCK

A shopkeeper has found that coffee sells at an average rate of two (2) tins each day.

The minimum order he can purchase from the wholesaler is 48 tins.

It takes three days from the time he places the order until the stock is on the shelves in his shop.

The shopkeeper wants to keep a safety stock of at least 2 tins (1 day's supply) on the shelf in case the shipment is late or there is heavy demand for coffee.

Instructions

Determine the level of stock at which the shopkeeper should re-order.

Answer Key/Demonstration Exercise SAFETY STOCK

If he wanted to place the order so that he would receive the coffee when there was none left in the shop, the order would be placed when there was 3 days supply of coffee left (6 tins). With a 3 day shipment time, the order would arrive just as the last tin of coffee was being sold.

However, the shopkeeper wants to have a safety stock of two tins (1 day's supply).

Therefore, the shopowner knows he must have a four day supply. (3 days delivery time + 1 day safety stock = 4 days order period : 6 tins + 2 tins = 8 tins). The shopowner must reorder when he has 8 tins in stock. The new order of 48 tins should last for 24 days.

$$\frac{48 \text{ tins}}{2 \text{ tins sold/day}} = 24 \text{ days supply .}$$

The business owner must remember to check frequently to ensure that two tins per day is still the average sale and plan his next order of coffee so that a change in customer demand for coffee does not result in over-stocking or under-stocking.

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Demonstration Exercise/STOCK MANAGEMENT (TURNOVER)

Sales for the year are P24,000. The average stock level (at the selling price) is P2,000. How many times has the manager 'turned his stock over'?

Answer Key/Demonstration Exercise/STOCK MANAGEMENT (TURNOVER)

The basic formula to compute stock turnover is $\frac{\text{Sales}}{\text{Average Stock}} = \text{Turnover}$.

$$\begin{array}{rcl} \text{Sales} & = & \frac{24,000}{2,000} \\ \text{Average Stock} & & \end{array}$$

$$\text{Turnover} = \frac{24,000}{2,000} = 12 \text{ times per year or once per month.}$$

This means that the average item in the business was sold one month after it was put into stock.

WHY ENSURE A MIX OF STOCK?

Are customers disappointed at the lack of variety available to them?

Do customers tend to shop in a business that can serve most of their needs?

Are sales increased if the stock mix includes complementary items?

WHAT IS STOCK MIX?

Stock Mix refers to the variety of goods offered by the business.

How can the business improve Stock Mix?

A business serves the public by offering them the goods they want in a manner that is convenient to them.

A business can achieve this goal by offering a wide range or mix of goods. This lets the customer satisfy many or all of his needs in one shop.

There are several ways to assure a good stock mix :

- Stock a range of the types of goods the customer will expect to find in the business.

- Stock a variety of styles, colours or sizes.
- Stock complementary items.
- Place special orders if the customer wishes.
- Keep a record of goods the customers have requested that were not in stock.
- Change the stock mix frequently to add the items customers have asked for and drop items that do not sell.

A good stock mix that is tailored to customer needs and wants will :

- Increase Sales and profits.
- Develop customer satisfaction which will lead to repeat sales.

Demonstration Exercise/STOCK MIX

A shop manager keeps a record of stock requested by customers which he does not carry. At the end of the month the following entries are in the book :

joko tea
 needles
 bicycles
 popcorn mealies
 joko tea
 shortbread biscuits
 guava squash
 pencils
 shortbread biscuits

Should he carry any of the above items?

Answer Key/Demonstration Exercise/STOCK MIX

The joko tea and shortbread biscuits have been requested often. There is probably sufficient demand to stock those items.

Needles, although not in high demand, should be considered because of their low cost (assuming a small quantity can be ordered).

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The cost of carrying a bicycle is probably too high for the low demand, although a special order for a customer could be made.

Popcorn meals probably have a limited market, are perishable and would spoil before they are sold.

Exercise/Stock Management 1

A businesswoman has called in a Business Advisor to help her with the following decision :

Should she order tea every week or every 4 weeks.

Through discussions with the businesswoman the Business Advisor learns the following facts :

- the shop sells 1 case (24 boxes) of tea each week
- a case of tea costs P10
- the selling price of a case of tea is P11 due to the price control law
- transport costs are 50+ everytime an order is placed, regardless of the size of the order .

If the businesswoman wants to maximize her profit how often should she buy tea?

Instructions

Determine the NET PROFIT on tea sales if purchased weekly and if purchased monthly.

Answer Key/Stock Management

The important point to note is the actual profit after transport costs have been included. If stock is ordered every week the profit would be :

$$\begin{aligned} \text{sales} - \text{cost} - \text{transport} &= \text{profit} \\ 11 - 10 - .50 &= .50 \text{ or P2.00 every four weeks} \end{aligned}$$

If she orders every 4 weeks the profit would be :

$$\begin{aligned} \text{sales} - \text{cost} - \text{transport} &= \text{profit} \\ 44 - 40 - .50 &= 3.50 \text{ for the four weeks} \end{aligned}$$

Therefore she is maximizing profit by ordering every 4 weeks.

Exercise/Stock Management 2 - 5

Exercise 2

The owner of the Thata General Dealer has P100 to buy new stock.

She is considering buying either :

- 2 bicycles at P50 each that will sell for P70. She expects that it will take 3 months to sell them.

or

- 450 kg of rice at 28t per kg to be sold at 30t per kg. She expects to sell 450 kg in a week.

Which should she buy?

Exercise 3

The Thata General Dealer has the following dead and slow moving stock. She has agreed to accept your advice on how to dispose of them. What would you recommend she do to sell :

- 20 shirts that cost P5 and normally sell for P7,50
- 100 plastic bracelets that cost 3t and normally sell for 5t
- 30 umbrellas that cost P2,50 each and normally sell for P3,00

Exercise 4

An illiterate vendor has agreed with your advice that he improve his standards of Stock Management. He needs to record sales so that you can help him determine appropriate levels of stock. How would you recommend he record sales of each item of stock?

Exercise 5

A shopowner has P250,000 to spend on new stock. He can buy ten blankets which will sell for P28,000 each or 100 packets of sweets which will sell for P2,75 each. He will sell blankets at the rate of one per month and the sweets at a rate of 100 packets per month. Should he buy blankets or sweets?

Explain Why?

Instructions Exercises 2 - 5

Show your calculations and explain why you have given the advice you gave for each of the exercises.

Answer Key/Stock Management 2 - 5

Exercise 2

Item	Number of sales	Gross Profit per sale	Gross Profit	Period	Profit per month
Bicycle	2	P20	P40	3 months - 3	P 13.33
Rice	450	0,02	P 9	1 week x 4	P 36,00

She should buy rice. Rice will give more profit.

Exercise 3

The twenty shirts cost P100. The owner must be prepared to make no profit ('break even') or even take a loss in order to sell these goods and get the cash from them to buy other goods. She could use them to promote sales of other goods. Perhaps by offering :

- P7,50 Shirt 'FREE' with purchase of a Suit !!!

or

She could break even (recover her costs but make no profit)

by offering :

- SPECIAL !! Buy 2 Shirts - Get One FREE .

The shirts cost 3 x P5 = P15,00

She would get 2 x 7,50 = P15,000 .

She would make no profit but would please the customers and get her money back so that she could buy other goods.

The bracelets only cost P3,00. They are a small problem. She could :

- Do nothing
- Give them to good customers
- Give one away with each soft goods sale
- Offer two for the price of one .

The umbrellas cost P75,00. She has a considerable number. She should :

- Try and return them to the supplier for credit or exchange for other goods.
- Put them on sale, even if this means selling at a loss.

The important thing to remember is the need to turn goods into cash so that new, popular items that will sell can be purchased.

Exercise 4

Have the vendor make a chalk mark indicating each sale on the shelf or counter where the stock is kept. He should keep a record of all items sold for a fixed period - perhaps a week. A mark should be made if a customer asks for an item that is out of stock. You will return at the end of the week to help him plan stock levels from the information he has gathered.

Answer Key/Stock Management 2 - 5.

Exercise 5

Item	Cost Unit	Price/Unit	Profit/Unit	Sales/Month	Profit/Month
Blankets	P 25,00	P 28,00	P 3,00	1	P 3,00
Sweets	P 2,50	P 2,75	P 0,25	100	P25,00

The shopowner should buy sweets. Sweets will return much more profit for the same amount of money used.

Exercises/Stock Management 6.

- A The stock level of a small trader is P500 (at the selling price). He hopes to turn his stock over 12 times during the year. What will his sales be for the year if he is successful?
- B A vendor believes his shop will have P9,000 of sales per year. He also believes that for shops of his type the stock should be re-purchased 12 times a year. What is the average level of stock (at the selling price) that he should maintain in his shop?

C The ending profit and loss statement for a business shows

Sales	12,000
Cost of Goods	<u>10,000</u>
	2,000

Average stock level (valued at cost) : 1,000

What is the stock turnover of the business?

Answer Keys/Stock Management 6.

A Average stock level = 500

Turnover = 12

Turnover = 12 = $\frac{?}{500}$; 6,000 = Sales

B Sales = 9,000

Turnover = 12

Turnover = 12 = $\frac{9,000}{?}$; average stock = 750

C Average stock = 1,000

Sales (cost) = 10,000

Sales (retail) = 12,000

Turnover = $\frac{10,000}{1,000}$ = 10

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CHECKLIST FOR COMPLETION - STOCK MANAGEMENT AND STOCK MIX

Basic Knowledge

- What are the benefits of having a good Stock Mix ?
- Increased sales by satisfying a wide range of customer needs.
 - Customer loyalty and repeat business.
- What are the goals of Stock Management?
- Increase turnover.
 - Make best use of cash available.
 - Satisfy customer needs.
 - Protect goods.
- What is stock turnover?
- The rate of flow of goods throughout the business.
- What is the formula for calculating turnover?
- $\text{turnover} = \frac{\text{sales}}{\text{average stock}}$ divided by
- What are some important factors in determining stock level?
- Available cash.
 - Transport cost.
 - Availability of supply.
- How can we assure that the business does not run out of stock?
- Take stock frequently.
 - Determine turnover of popular items.
 - Establish a standard order schedule.
 - Keep a safety stock to prevent running out of stock while awaiting resupply.
- How can stock management be used to determine which goods to stock?
- Noting popular, fast turnover items.
 - Recording customer requests and adding them to the stock mix.
 - Showing how much profit we expect to make on individual items so that we can determine which items to stock and what level is appropriate.

Implementation :

The client should :

- Calculate an average stock turnover with each Profit & Loss Statement.
- Compare similar items of stock to determine which ones he should stock.
- Know the safety stock levels of popular items of stock.
- Keep a record of items customers request.
- Reduce levels of dead and slow moving stock.
- Improve the stock mix with money from reducing slow and dead stock

STOCK MIX AND MANAGEMENT - ADVISER'S GUIDE

- 1) Stock is different from credit and some other aspects of business in that it can be seen without the use of records. You can quickly identify items which are over stocked just by looking for them (and the amount of dust on them) and every client knows what goods she needs but has not got. Even an illiterate client can improve her stock management by visual inspection, and you must help them to do this. Some clients may measure their success by the accumulation of stock, regardless of how fast it can be sold. You should be able to show the client that stock in itself is not necessarily profitable. It must be the right stock in the right quantities.
- 2) Introduce the topic by asking the client to suggest items she has not got in stock, but should have. Why has she run out? Even if there has been scarcity or supplier failure, show that it is usually possible to foresee these problems and to order in sufficient quantities, and far enough in advance, to avoid running out.
- 3) If the client has been unable to buy goods that are needed because of shortage of cash, help her to identify items which are over stocked, by asking her to measure the monthly sales of items of which there are obviously large and dusty heaps in stock. If stocks exceed two months sales, the item is almost certainly over stocked. Show the client that money is "sleeping" in over stocked items and could be used instead to buy things that would sell far more quickly. Discuss clearance sales or other ways of "waking up" the "sleeping" money to put it to work in faster moving goods.
- 4) If there appears to be a large number of different over stocked items, ask the client to go through them before your next visit, and to note all items whose stocks exceed her estimated two months likely sales. She should also consider ways of releasing the money, which you can discuss and help her to implement on your next visit.

- 5) Use a typical item from the client's stock as a demonstration example to show how to calculate the point at which new stock should be bought, and the amount to be ordered at one time. It may be possible to note the quantity at which an order should be placed on the shelf where it is stocked, so that the client is immediately aware of what should be ordered and can avoid over ordering because of pressure from the distributor or apparently attractive discounts.
- 6) Ask the client how she actually organises her purchasing. Does she note down items as they run out and buy more stock only of these items, does she go to the wholesaler without any plan of what to buy? Help her to decide what items should be bought at the next visit to the wholesaler based on the amount of existing stock and estimated future sales. Stress that a certain amount of money should be held in reserve for new items which may have to be added to the range.
- 7) Select a typical low margin and high margin item from what is in stock. Calculate the margin on each item, if possible referring to the cost code system, and ask the client which is the most profitable. Then ask her how many of each item she sells each month. Stress that the volume as well as the margin determine which is the most profitable and what should be stocked.
- 8) Show the client that she should make the best use of her money. Compare the profit she can earn with P 10 invested in slow moving items which will sell for P 15 in two months or fast moving items which will sell for P 12 in two weeks. Stress that she should try to estimate the monthly profits she will earn on any new item she considers stocking, and compare it with other items already stocked.
- 9) Show by reference to items from the client's stocks that slow moving items not only tie up money unprofitably. They also become dirty, damaged or out of date, and may never be sold. Set a target for elimination of "dead" stock and reduction of excessive stock, and discuss what alternative items should be purchased to replace them. Ensure that the programme of stock reduction has at least been started to be implemented on your next visit.

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STOCK MIX AND MANAGEMENT - INSTRUCTOR'S GUIDE

- 1) Trainees, and their clients, often think of stock as something by which they can measure success. The purpose of this topic is to show that the rate of turnover of stock is all important.
- 2) Use examples such as a water-tank with an inflow and an outflow to show how the stock level must be balanced, and to stress that slower flowing items use more space and also allow the quality of what is stored to deteriorate. It is easy but unprofitable to buy large stocks of slow selling items. Clients must learn how to have the right amounts of stock of fast moving items, which will earn the highest amount of profit on the money that is invested in the business.
- 3) Use the exercises to identify the factors that must be considered when deciding when, what and how much to order. Introduce the idea of a "trade off"; large orders reduce transport costs per item and reduce the risk of running out of stock, but increase the amount of money tied up in the item. Small orders do the reverse. Show that the objective must be to balance the two extremes in order to get the best solution.
- 4) Use heaps of envelopes, chalk or any other item to demonstrate the principal of safety stock and re-order points stock. Discuss the difficulties of estimating how many items will be sold, over a period, and of assessing the likelihood of scarcity. Stress that most clients can make some estimate, and decisions based on "best guesses" are better than decisions based on no thought at all.
- 5) Refer to other topics such as display, storage, cost coding, promotion and advertising. Show how they are linked, and use the final example to confirm trainees' understanding of the total subject. Allow at least one day for this topic.
- 6) Ask trainees to bring sample items from their own homes as examples for discussion. Discuss the likely selling rate, margins and order

quantities and supplier reliability, and use the suggested figures as a basis to determine when the items should be re-ordered by a client, and in what quantity. Discuss seasonal factors, and stress that the order decision for Christmas cards, for instance, must be different in October and in January.

- 7) Take trainees into a shop. Show them that the shop-keeper is able to estimate monthly sales quantities, and ask trainees to look for apparently over stocked items. Discuss the experience in the classroom, and confirm that advisers can easily identify stock management problems and help their clients to solve them. Stress that improved stock management is one of the most important simple ways in which retail clients can benefit from the advisory service, and thus become more confident of all the advice they are given.

Exercise/Stock Mix

1. A shop manager has P100 to invest in new stock. He is planning to invest it all in Ricoffy because he feels it is a big seller. As a Business Advisor you know that P100 of Ricoffy would be more than the business needs. What argument can you use to persuade him not to spend the entire amount on the one item of stock?

Answer Key/Stock Mix

The shop manager should be dissuaded from investing all his money in one line of stock. This effectively ties up his cash until all of the stock is sold. A better method is to diversify into more than one product line. This will increase turnover by keeping a lower level of stock on hand (overall) and increase profits.

Exercise/Dintwa's Shop

Dintwa is trying to decide what level of stock to maintain for six key items in his shop. The items and related information are :

Item	Stock Level	Minimum Buying Quantity	Selling Price	Sales per month
Sugar	1 bag	P 16,50 per 100 kg	P 1,80 per 10 kg	5 bags
Soft Drinks	4 cases	3,75 per case of 25	20 bottle	4 cases
Blankets	36 blankets	110,00 for 10	15,00 each	3 blankets
Perfume	100 bottles	2,40 per dozen	15 each	2 bottles
Flour	24 kg.	1,68 per 12 kg	15 kg	100 kg
Biscuits	10 cartons	20,00 per carton of 48 packets	50 packet	12 packets

Instructions

Explain which items Dintwa should discontinue or reduce, and which he should increase stocks of.

Assume that Dintwa reorders stock once a month.

Answer Key/Dintwa's Shop

In order to determine whether to increase or decrease stocks Dintwa needs to know if he is selling at a reasonable profit and if his stock levels are suitable.

To calculate the profitability of an item in stock, the profit made on each unit of stock (sales price - cost price) is multiplied by the units sold per month. The profit per month amount, can be used to gauge profitability.

To calculate the suitability of the stock levels maintained, the sales per month must be compared to the current stock level. Stock levels which take many months to sell at the sales rate should be reduced. Similarly, stock levels that are depleted very quickly should be increased to prevent running out of stock.

<u>Item</u>		<u>Supply in stock*</u>	<u>Profit per unit</u>		<u>Sales per month</u>		<u>Profit per month</u>
Sugar	1 ÷ 5	= 20 months	,15	x	5	=	,75
Soft drinks	4 ÷ 4	= 1 month	1,25	x	4	=	5,00
Blankets	36 ÷ 3	= 12 months	4,00	x	3	=	12,00
Perfume	100 ÷ 2	= 50 months	,05	x	2	=	,10
Flour	24 ÷ 100	= 24 months	,01	x	100	=	1,00
Biscuits	480 ÷ 12	= 40 months	,083	x	12	=	1,00

The length of time to sell existing stock is calculated by dividing the stock level by the sales per month. The resulting amount is the time it will take to sell the stock on hand.

Using the above information the following conclusions can be stated :

- perfume should not be sold - the selling price is less than its cost
- increase stock levels of sugar - current stock will last less than the order period.
- increase stock levels of flour - current stock will last less than the order period.
- maintain stock levels of soft drinks - stock level comparable to order period
- decrease stock levels of blankets - stock level is much greater than order period
- decrease stock levels of biscuits - stock level is much greater than order period .

SECURITY AND CLEANLINESS

WHY IS SECURITY IMPORTANT?

Is the business losing goods to employee or customer theft?

Can the location of the cash register be improved to help control theft?

Are the doors and locks strong enough to prevent break-ins?

Can valuable goods be easily reached and stolen?

Are customers allowed to bring bags and packages into the shop? Is this wise?

WHAT IS SECURITY?

SECURITY refers to the measures taken to protect goods and equipment from theft, and damage.

HOW CAN WE IMPROVE SECURITY?

Every business has four possible SECURITY problems:

- Customer theft
- Employee theft
- Damage to goods
- Break-ins

Some of the following steps may be necessary to improve SECURITY:

Customer Theft:

- Keep small and high value goods behind counters or on shelves away from customers.

- Place the cash register near the entrance/exit.
- Do not allow customers to bring bags and packages into self-service shops.
- Employ security guards.
- Issue receipts or cash register slips.

Employee Theft:

- Take stock regularly.
- Keep a cash book to control cash.
- Keep storage areas locked.
- Limit the number of keys to the shop and storage areas.
- Limit the number of people who handle cash.
- Check cashiers to ensure customers pay for all goods.

Damage to Goods:

- Keep fragile goods on shelves or in cabinets away from customers.
- Have sales assistants help customers with fragile goods.
- Store goods carefully.

Break-Ins:

- Remove cash from the business at night.
- Install heavy duty locks.
- Install burglar bars.
- Hire a security guard.

WHY BOTHER WITH CLEANLINESS?

Are any goods allowed to become dirty so that their value is reduced?

Is there any risk that customers will become sick from eating food prepared in the business because the kitchen is dirty?

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Does the business lose any money because goods are allowed to be damaged or destroyed and cannot therefore be sold?

WHAT IS CLEANLINESS?

CLEANLINESS refers to the steps we take to reduce losses and attract customers by keeping the business neat and clean.

HOW CAN WE ENSURE HIGH STANDARDS OF CLEANLINESS?

There are three reasons to ensure high standards of CLEANLINESS:

- To attract customers.
- To protect goods from damage.
- To protect the health of customers and staff.

Steps can be taken to improve CLEANLINESS in each of these areas:

To Attract Customers:

- Keep displays neat, clean and dust free.
- Remove spoiled goods from display immediately.
- Sweep floors and wash windows.
- Ensure that sales assistants are neat and clean.
- Keep the area in front of and around the business clean.
- Remove all waste frequently.

To Protect Goods:

- Keep storage areas swept and free from rats and insects.
- Store all foodstuffs off the floor.
- Rotate stock frequently, especially food items.
- Use refrigerators, freezers, glass cases and covers to protect food.
- Wrap foodstuffs such as bread.
- Protect goods from exposure to dirt, dust and rain.

To Protect Health:

- Keep the shop area swept and clean.
- Take special care to ensure that kitchen and toilet areas are washed frequently.
- Make provision for employees to wash - especially if they handle food.
- Ensure that employees wash their hands after using the lavatory.
- Protect all foodstuffs in refrigerators, freezers or cabinets.
- Ensure that the shop is free of insects and rodents.
- Do not allow employees to work when they are sick.
- Protect all foodstuffs with bags or wrappers.

DEMONSTRATION EXERCISE/SECURITY AND CLEANLINESS

Mrs. Dijo is planning on opening a take-away food business. She is very concerned that her business establish a good reputation so she wants to ensure high standards of cleanliness. Mrs. Dijo also knows that all of the products she will use to prepare food are very popular and easily stolen. What steps should she take to ensure high standards of both SECURITY AND CLEANLINESS?

Instructions: List steps Mrs. Dijo can take to ensure high standards of SECURITY AND CLEANLINESS.

ANSWER KEY/Demonstration Exercise

DIJO'S TAKE AWAY

Proposals

for

Security

- (1) Keep food in storeroom.
- (2) Display food in glass cabinets.
- (3) Handle all cash personally.
- (4) Have customers pay when served.
- (5) Take money home at night.
- (6) Arrange with nearby businesses to share the cost of a security guard.
- (7) Keep a cash book.
- (8) Take stock weekly.

Cleanliness

- (1) Store food off the floor.
- (2) Display food in glass cabinets.
- (3) Wash kitchen daily.
- (4) Keep toilets clean.
- (5) Sweep shop twice daily, dispose of waste twice daily. Wash tables and chairs daily.
- (6) Buy produce frequently so that it is always fresh.
- (7) Take stock weekly and dispose of any spoiled or rotten meat or produce.

CHECKLIST FOR COMPLETION - SECURITY AND CLEANLINESS

Basic Knowledge

What types of SECURITY problems does the business have?

- Customer theft.
- Employee theft.
- Damage to goods.
- Break-ins.

What are some basic SECURITY measures all businesses should take?

- Keep cash book to control cash.
- Take stock regularly.
- Lock storage areas.
- Secure small, fragile and high value goods.
- Ensure that the business is securely locked when the business is closed.

Why is CLEANLINESS important?

- To: attract customers, protect goods, protect health.

What types of CLEANLINESS serve these three goals?

- Neat, clean shops. Especially areas where food is prepared, sold and stored.
- Protecting goods by use of protective wrappings, refrigeration and careful display.

Implementation:

The client should:

- Examine his business to see how improvements in SECURITY and CLEANLINESS could be made.
- Take specific steps to improve SECURITY.
- Take specific steps to improve CLEANLINESS.

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SECURITY AND CLEANLINESS - ADVISER'S GUIDE

- 1) A client may easily be discouraged by the difficulty of keeping the individual records and by the need to keep records for some time before being able to use them to make any recognisable improvement to the business. It is therefore necessary to be able to make recommendations that can easily and quickly be followed, and which will rapidly result in a visible improvement to the business. SECURITY AND CLEANLINESS are ideal recommendations for this purpose.
- 2) Ask the client to imagine herself to be a dishonest person looking at the business from the outside and then from the inside; what opportunities for theft of goods or money can she see? Work out apparently effective methods of theft, and then decide on any changes to the layout or other aspects in order to make the thief less likely to be tempted or to succeed.
- 3) If the client employs other staff, ask her to put herself in the position of a dishonest employee. How could she steal money and/or goods? Identify weak points in security, and discuss ways of improving them.
- 4) If the client's premises are obviously not as clean as they might be, ask her whether she prefers to buy goods from a clean or a dirty shop. Ask her to compare her shop with others in the neighbourhood, and suggest that the most effective, cheapest and easiest sales promotion tool to use are a duster and a brush. Ask her to ensure that the shop will be cleaned up when you next call.
- 5) Select an obviously dirty or damaged item from the shelves, and compare it with a clean and undamaged one. Ask the client which she would prefer to buy. Stress that when she allows stock to become dirty or damaged, she is actually reducing its value in the same way as if she was throwing cash away. Point out that although the contents of dirty or dented tins or damaged packages may be unharmed, customers have every right to be doubtful and to prefer products that look perfect. They may not complain; they will just buy elsewhere in future.

- 6) Examine the darker corners and hidden parts of the shop and any storage rooms. It is usually possible to find damaged goods in such places. Ask the client whether she ever throws perfectly good salable items into the dustbin. Clearly she does not, but by allowing them to become unavailable through improper storage she is doing exactly the same thing.
- 7) Agree on a small number of specific improvements to SECURITY AND CLEANLINESS, which can make an immediate and visible improvement to the business. Note them down carefully, with a copy for the client as well as yourself if she is literate, and ensure that they have been put into effect on your next visit.
- 8) SECURITY AND CLEANLINESS, like all good management, is not a "one-off" task. Records must be set up and regularly maintained; the shop must be properly cleaned and organised and kept that way. Do not forget, or allow the client to forget, that standards must not be allowed to fall back again after the first enthusiasm.

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SECURITY AND CLEANLINESS - INSTRUCTOR'S GUIDE

- 1) Stress that weaknesses in SECURITY AND CLEANLINESS are often the easiest to identify and the quickest to correct. Trainees can establish client confidence very quickly if they can show them how to improve the appearance of their shop and reduce losses through customer or employee dishonesty.
- 2) Ask trainees to list as many ways as they can in which customers, employees or customers and employees working together, can steal from the business. Write the complete list on the board, and then discuss practical ways of preventing each type of theft, which do not discourage customers from purchasing, or require so much administration that their cost exceeds their value. Stress that the best way to prevent employee theft is to hire honest staff, but even honest people can be tempted if opportunities are thrown in their way.
- 3) Individuals have different standards of cleanliness and tidiness, but a business must maintain the highest standards since customers are free to buy from where they want. There are many reasons why customers choose to purchase from one business rather than another, but the cleanliness of the shop and of the goods in it are one of the most important, and it is certainly the factor which the client can most easily improve.
- 4) Refer to Stock Display and Storage; remind trainees that neat clean storage and display performs five functions:
 - The goods are attractive to customers.
 - Thefts are more easily observed.
 - The goods are more easily counted for stock taking.
 - The goods are more easily kept clean.
 - The goods are less likely to be damaged by damp, rats or mice.Ask trainees to describe how goods are stored in their own homes. Clients should understand that it is even more important to store goods properly in a business:

- Dirt and damage are harder to distinguish because there is a larger amount of goods in stock in a business.
 - Theft is not usually a problem at home.
 - A business will lose not only the value of the goods which are stolen or damaged, but also the loss of business because customers will not come again.
- 5) If possible, take trainees on a brief tour of a number of businesses near the classroom. Ask them to identify opportunities for theft, and examples of dirty conditions. Discuss their conclusions in the classroom; show that the businesses which are in need of improvement in SECURITY AND CLEANLINESS are generally those which are unsuccessful in other ways. Cleanliness and good security are obvious signs of good management.

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COST CODING, MARKING AND PRICING

WHY COST CODE?

Does the owner of the business know exactly how much each item of stock cost at a glance?

Does the owner know whether or not the cost of a particular item has increased or decreased?

When stocktaking can an employee value stock at cost price without too much difficulty?

WHAT IS COST CODING?

COST CODING is the process of marking the cost price of an item in an alphabetic code known only to the businessman.

HOW TO COST CODE

A ten letter word (or sequence of letters) is used as a cost code. No two letters should repeat. Corresponding numbers are assigned to each letter.

Examples:

Number: 0 1 2 3 4 5 6 7 8 9

Code: A B C D E F G H I J
M A K E P R O F I T
P R O F I T A B L Y

COST CODING will:

- Indicate on each item the cost price originally paid for the item.
- Indicate the cost in a way that is known only to the business owner.

- Simplify stocktaking because:

- The person taking stock will not have to examine stock records to determine the cost price.
- It is easy to determine the actual cost of similar goods or of two or more different shipments of the same items.
- The staff taking stock do not need access to stock records such as invoices.

COST CODING greatly simplifies stocktaking, increases the accuracy and makes it much simpler to determine cost price of stock.

WHY MARK-UP AND PRICE GOODS?

Does the owner know what mark-up he wishes to change?

Does the business person price in accordance with applicable law?

Can the owner determine the mark-up and calculate the selling price?

Does the owner know whether the prices she charges are competitive in the marketplace?

WHAT IS MARK-UP AND PRICING?

MARK-UPS AND PRICING is the process that a manager uses to calculate the amount to add to the cost price of goods in order to determine the selling price.

HOW IS MARK-UP CALCULATED?

Mark-up is the amount added to the cost price of an item to arrive at the selling price.

Mark-up percentage is the mark-up expressed as a percentage of the cost price.
The formula is:

$$\frac{\text{Mark-up}}{\text{Cost}} = \text{Mark-up Percentage}$$

Mark-up is a percentage of the cost price.

Mark-up must not be confused with margin.

The margin amount is the same as the mark-up amount. However the margin percentage is expressed as a percentage of the selling price.

Margin percentage is the margin divided by the selling price. The formula is:

$$\frac{\text{Margin}}{\text{Selling Price}} = \text{Margin Percentage.}$$

HOW TO PRICE GOODS

Cost plus mark-up method. This is the method of pricing goods by adding a reasonable mark-up to the cost price.

Competitive (market) method. Pricing by determining the price based on market conditions such as the quality, customers, sales volume and competition.

If the competitive pricing method is used the owner must be aware of the mark-up guidelines contained in the law and price "competitively" within these guidelines.

DEMONSTRATION EXERCISE/COST CODING

Solomons Store purchases a case of 24 tins of coffee for P 28.80. The cost per tin is P 1.20. What would be the cost code on the tin of coffee? How will this make stock taking easier?

ANSWER KEY/Demonstration Exercise/Cost Coding

Solomon uses the cost code ABCDEFGHIJ. He keeps a card with the cost code on the wall of his office and on the wall of the storeroom so the staff will be reminded of the code. The Cost Code Card looks like this:

Cost Code										
Code	A	B	C	D	E	F	G	H	I	J
No.	0	1	2	3	4	5	6	7	8	9



If Solomon wants to code one tin of coffee to indicate a cost price of P 1.20 he looks on the card and finds the code for 1 is B, for 2 is C and for 0 is A. Therefore the code for P 1.20 is BCA. He will now put BCA on the tin of coffee like this:



When Solomon wishes to take stock he now knows the cost price of all stock without having to refer to any other records. Stock taking will be quick, simple and accurate.

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DEMONSTRATION EXERCISE/MARK-UPS AND PRICING 1

Coffee tins which cost P 1.20 each sell for P 1.35.

- What is: (a) the mark-up?
(b) the mark-up percentage?
(c) the margin?
(d) the margin percentage?

ANSWER KEY/Demonstration Exercise/Mark-ups and Pricing 1

- (a) The amount added to the cost price to get the selling price is:
 $P 1.20 + ? = P 1.35; ? = P 0.15$. This is the mark-up.
- (b) The mark-up percentage is: $\frac{0.15}{1.20} = 0.125$ or 12.5%.
Calculated by the formula: $\frac{\text{Mark-up}}{\text{Cost}} = \text{Mark-up Percentage}$.
- (c) The margin is the difference between selling price and cost price, or
 $P 1.35 - ? = P 1.20; ? = P 0.15$.
- (d) The margin percentage is: $\frac{\text{Margin}}{\text{Selling Price}}$ or $\frac{0.15}{1.35} = 11.1\%$.

	Mark-up	Margin
Amount	P 0.15	P 0.15
Percentage	12.5%	11.1%

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DEMONSTRATION EXERCISE/MARK-UP AND PRICING 2

It is determined that the cost of producing a jersey on a knitting machine is P 4.40. The manufacturer decides to mark it up 20% to sell to wholesalers. Other manufacturers in the area are charging P 5.00 for their jerseys.

- (a) What is the price to be charged under the Cost Plus Mark-up Method?
(b) Using the Competitive Method of pricing, what is the mark-up percentage used?

ANSWER KEY/Demonstration Exercise/Mark-ups and Pricing 2

(a) Cost Plus Pricing Method:

cost	+	mark-up	=	selling price
P 4.40	+	20%	=	selling price
P 4.40	+	P 0.88	=	P 5.28

(b) Competitive Pricing Method:

cost	+	mark-up	=	selling price
P 4.40	+	?	=	P 5.00
P 4.40	+	P 0.60	=	P 5.00

The mark-up percentage is 14% : P 0.60 is 14% of P 4.40.

$$14\% = P \frac{0.60}{4.40}$$

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CHECKLIST FOR COMPLETION - COST CODING, MARKING AND PRICING

Basic Knowledge

- How can a business easily take stock at the cost price? - By cost coding each stock item.
- How is cost coding done? - Assign a number to a code letter.
- Why is it necessary to cost code? - Human nature and to assist in stocktaking.
- What are some common cost codes? - Number: 0 1 2 3 4 5 6 7 8 9
Letter: A B C D E F G H I J
M A K E P R O F I T
P R O F I T A B L Y
- What is mark-up, mark-up percentage, margin, and margin percentage? - Mark-up is the amount added to the cost price to arrive at the selling price.
- Mark-up Percentage is the mark-up expressed as a percentage of the cost price.
- Margin is the difference between the selling price and the cost price.
- Margin Percentage is the margin expressed as a percentage of the selling price.
- What are the two methods of pricing? - Cost Plus pricing.
- Competitive pricing.

Implementation:

The client should:

- Use a cost code system.
- Calculate selling prices using the cost plus or competitive system of pricing.
- Be able to use mark-up, mark-up percentages, margin, and margin percentages to calculate prices.

COST CODING, MARK-UPS AND PRICING - ADVISER'S GUIDE

- 1) Do not introduce COST CODING to a client who is unlikely to be able to understand the method or to apply it consistently and correctly. Incorrect COST CODING is worse than no coding at all.
- 2) Ask your client if she has ever noticed goods marked with letter codes in other shops. Does she know what they mean? Does she think they might be useful in her business?
- 3) All clients are aware of price control and of the importance of not charging above the maximum permitted margin. Stress that by using COST CODING and learning about how to calculate prices the client can both avoid breaking the law and increase her profits.
- 4) If the client has already been introduced to stocktaking, she will be aware of the difficulties of checking cost prices. Show how COST CODING can make stocktaking much quicker, by avoiding the need to look up cost prices or to calculate them each time goods are counted.
- 5) If the client understands the reasons for COST CODING and appears able to apply it correctly, help her to design her own code and to start marking goods accordingly. Do not prepare the code of mark the goods yourself, but guide the client to do it properly for herself.
- 6) Select a typical item in the client's shop costing say P 1.00. Ask her whether it is better to sell five units for P 1.20 or ten units for P 1.15 each. Demonstrate the importance of volume and turnover.
- 7) Select an item which appears to be over-stocked. Ask the client to estimate how many are sold each month, and to calculate the total gross profit thus earned. Suggest a suitable reduced price, and help the client to work out how many would have to be sold at this price in order to earn the same gross profit. Does she think that the lower price would increase sales by this amount, or not?

- 8) If you and the client can together identify an item where a lower price would probably achieve a higher gross profit, ask her to make the reduction. Refer to Advertising and Promotion for the importance of informing customers about the reduction, and ask the client to monitor sales of the item carefully. Call back after a suitable interval and discuss the results of the reduced price promotion.

COST CODING, MARKUPS AND PRICING - INSTRUCTOR'S GUIDE

- 1) Trainees should have no difficulty in grasping the simple mathematics of cost coding, and will enjoy setting up their own codes and using them. It is more difficult, and more important, to understand the reasons for coding, in order to be able to explain them to clients.
- 2) Ask trainees to go through the stock taking procedure with and without cost codes; this will demonstrate its value. Remind them that clients must take stock in order to produce a profit and loss statement and a balance sheet. Anything that makes stock taking easier makes it easier to produce the records which really help the client to see how his business is doing and how he can improve it.
- 3) Discuss the price regulations, and the importance of learning how to markup costs correctly in order to avoid breaking the law. Ask an expert from the Pricing Control Department to talk to trainees about the regulations, and to explain how they are enforced. Trainees should be able to warn clients when they are breaking the law, and to show them how to avoid this in future.
- 4) Ensure that all trainees are familiar with the difference between markup and margin percentages. They are clearly two ways of describing the same thing, namely the difference between the cost price and the selling price. It is vital to be clear which is being used, since serious over or under pricing can arise if the client and the adviser are not clear which they are discussing.
- 5) Stress that pricing can be a positive way of increasing profits and is more than a mathematical calculation. Discuss examples of businesses which charge high and low prices for the same item. Show how the higher prices are acceptable if customers also receive a high level of service including credit, delivery, long opening hours, high priced location, after sales service and so on. Other customers may prefer lower prices with less services. Stress that services such as credit or convenient location may in fact be particularly valuable to people

of low incomes so that low prices, with few services, are not necessarily what is best for them.

- 6) Many clients do not understand the importance of high turnover, and think that the price control regulations are the only reason for not charging higher prices. Ensure that trainees understand how lower prices can lead to higher profits, and stress that in most cases both customers and the business can benefit from a low price high turnover policy. The arithmetic must be correct however. Customers are unlikely to correct prices which are too low but will rapidly point out when the mistake has been in the other direction.

EXERCISE/COST CODE

The following items were counted during a monthly stocktaking of a small general dealer. He uses the following cost code: 0 1 2 3 4 5 6 7 8 9

MAKE PROFIT

Quantity	Item	Cost		Code
		P	t	
52 boxes	Lemon Creme Biscuits		49	
122 boxes	Shortbread Biscuits		53	
74 boxes	500g Assorted Biscuits	1	23	
12 boxes	1kg Assorted Biscuits	2	50	
78 boxes	2kg Assorted Biscuits	3	98	
45 boxes	Ginger Snap Biscuits		63	
35 boxes	Digestive Biscuits		35	
123 boxes	Pro-Vita Biscuits		42	
43 tins	250g Ricoffy			ARP
23 tins	500g Ricoffy			EMH
12 tins	750g Ricoffy			PKR
75 boxes	250g Five Roses Tea			AAA
3 boxes	500g Five Roses Tea			KNE
170 boxes	750g Five Roses Tea			EEK
47 bags	1kg Sugar			PF
12 bags	10kg Sugar			PFM
48 cartons	500ml Milk			KK
24 cartons	1 litre Milk			PP
12	Spoons			ER
5	Coffee Cups			AMR
5	Saucers			FP

Instructions: For those items with no code, determine it using the above formula. For those costs which are given in code, determine the cost.

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ANSWER KEY/COST CODE

Quantity	Item	Cost		Code
		P	t	
52 boxes	Lemon Cream Biscuits		49	PT
122 boxes	Shortbread Biscuits		53	RE
72 boxes	500g Assorted Biscuits	1	23	AEK
12 boxes	1kg Assorted Biscuits	2	50	KAM
78 boxes	2kg Assorted Biscuits	3	98	ETO
45 boxes	Ginger Snap Biscuits		63	OE
35 boxes	Digestive Biscuits		35	ER
123 boxes	Pro-Vita Biscuits		42	PK
43 tins	250g Ricoffy	1	54	ARP
23 tins	500g Ricoffy	3	00	EMM
12 tins	750g Ricoffy	4	25	PKR
75 boxes	250g Five Roses Tea	1	11	AAA
3 boxes	500g Five Roses Tea	2	03	EME
170 boxes	750g Five Roses Tea	3	32	ERK
47 bags	1kg Sugar		47	PT
12 bags	10kg Sugar	4	70	FFM
48 cartons	500ml Milk		22	KK
24 cartons	1 litre Milk		44	PP
12	Spoons		35	ER
5	Coffee Cups	1	05	AME
5	Saucers		74	FP

EXERCISE/MARK-UPS AND PRICING 1

Calculate the missing amounts:

Cost	Mark-up/ Margin	Selling Price	Mark-up Percentage	Margin Percentage
P 1.00	P	P 1.20		
P 1.25	P 0.19	P		
P	P 0.30	P 0.90		
P	P	P 1.50		50%
P 5,000.00	P 1,000.00	P		
P 6,000.00	P	P	17.5%	

ANSWER KEY/MARK-UPS AND PRICING 1

(Note: amounts are rounded)

Cost	Mark-up/ Margin	Selling Price	Mark-up Percentage	Margin Percentage
	P 0.20		20%	17%
		P 1.44	15%	13%
P 0.60			50%	33%
P 0.75	P 0.75		100%	
		P 6,000.00	20%	17%
	P 1,050.00	P 7,050.00		15%

EXERCISE/MARK-UP AND PRICING 2

(1) Mark-up the following cost prices:

Cost	Mark-up Percentage
P 0.05	100%
P 0.11	33 1/3%
P 13.35	22.5%
P 15.00	20%
P 7.75	50%

(2) What is the cost price of the following:

Selling Price	Margin Percentage
P 100.00	28%
P 75.00	20%
P 135.00	10%
P 1,500.00	50%
P 6.98	35%

ANSWER KEY/MARK-UP AND PRICING 2

(1)

Cost	Mark-up Percentage	Mark-up	Selling Price
P 0.05	100%	P 0.05	P 0.10
P 0.11	33 1/3%	P 0.04	P 0.15
P 13.35	22.5%	P 3.00	P 16.35
P 15.00	20%	P 3.00	P 18.00
P 7.75	50%	P 3.88	P 11.63

(2)

Selling Price	Margin Percentage	Margin	Cost Price
P 100.00	28%	P 28.00	P 72.00
P 75.00	20%	P 15.00	P 60.00
P 135.00	10%	P 13.50	P 121.50
P 1,500.00	50%	P 750.00	P 750.00
P 6.98	35%	P 2.44	P 4.54

CUSTOMER RELATIONS

WHY WORRY ABOUT CUSTOMER RELATIONS?

Will customers continue to shop in a business if they feel they are not being treated fairly?

Does the reputation of the business in the community make a difference to its sales and profits?

Will a business lose sales if the sales assistants are not friendly and helpful to its customers?

Is honesty important for the business owner?

WHAT ARE CUSTOMER RELATIONS?

CUSTOMER RELATIONS are the manners and methods used by a business and its employees to deal with their customers.

HOW CAN WE DEVELOP GOOD CUSTOMER RELATIONS?

The customer is all important to the business. Without customers the business is nothing. The profits of the business are the reward earned by the business for its service to the customers.

The business is a member of the community and is there to serve the community. A business that is well thought of by the community will enjoy the support of the members of the community.

What are the benefits to the business of good CUSTOMER RELATIONS?

Increased Sales: If it is easy and pleasant to shop customers will buy more.

Repeat Sales: Customers will return to a shop that has the goods they want and treats them well.

Additional Customers: Satisfied customers will tell their friends of their good shopping experiences. Many of these people will then become customers of the business.

All of these things will lead to more sales and the growth of the business.

What factors contribute to good CUSTOMER RELATIONS?:

Honesty: A customer who has been fairly treated will return again and again. Practices such as selling spoiled or damaged goods as new goods will drive customers away.

Courtesy: Customers must always be treated in a polite and courteous manner. Remember the business is there to serve the customer not the customer to serve the business.

Good Value: Prices should be fair, reasonable and competitive with other businesses. A customer who thinks he can get better value elsewhere will shop elsewhere.

Selection: The customer must find the goods he is shopping for. A customer that finds the goods he is seeking will reward that business with his loyalty as a customer.

How should the business treat the customer?

- All employees of the business should be trained to be polite and helpful to the customers.
- Polite, helpful sales assistants increase sales and are thus valuable to the business.
- Sales assistants should know about the goods the business sells. They should be able to tell the customer about:
 - prices,
 - sizes or range available,
 - suitability for intended purpose.

- Sales assistants should seek to help the customer even when the goods he wants are not available by:
 - Offering to order goods.
 - Suggesting substitutes.
 - Informing the customer when they might be available.
 - Referring to other businesses that might assist the customer.

- All employees of the business must recognise that customers are people. Therefore it is very important to acknowledge customers when they enter the shop and greet them when they are being served. A special effort should be made to recognise the regular customers of the business. A customer who is remembered by the business will be loyal to the business.

Customers enter a business to buy. Every effort of the business should be directed to ensuring that the buying experience is a good one and that the customer leaves satisfied with the intention of returning.

DEMONSTRATION EXERCISE/CUSTOMER RELATIONS

Mr. Thuso is in Gaberone to shop for a new suit. He enters Mall Fashions in the Mall which has been recommended by a friend.

Instructions: Answer the following questions:

- (1) What should the sales assistant do?
- (2) What will Mr. Thuso expect concerning the stock and the prices?
- (3) What should the sales assistant know?

ANSWER KEY/Demonstration Exercise

- (1) The sales assistant should
- Be neatly and attractively dressed (particularly in a clothing store).
 - Greet Mr. Thuso and offer to assist him.
 - Determine what Mr. Thuso wishes.
 - Help him find the appropriate goods.
 - Be patient and helpful while he is deciding.
 - Close the sale and wrap the goods when Mr. Thuso is satisfied.
 - Thank him and invite him to return in the future.
- (2) Mr. Thuso will expect to find
- A selection of suits.
 - Complementary goods such as shirts and ties.
 - Clean, attractive displays, logically grouped.
 - Goods of competitive quality and price.
- (3) The sales assistant should
- Know the goods available in the shop.
 - Know the sizes and prices.
 - Be able to suggest substitutes if Mr. Thuso's first choice is not available.
 - Be able to suggest complementary items to go with the desired product.

CHECKLIST FOR COMPLETION - CUSTOMER RELATIONS

Basic Knowledge

- What are good CUSTOMER RELATIONS? - The courteous, honest and efficient treatment of the customer by the employees and owner of a business.
- Why are CUSTOMER RELATIONS important? - Good CUSTOMER RELATIONS will increase sales, encourage customers to return and speak well of the business in the community.
- What are the main factors in good CUSTOMER RELATIONS? - Honesty.
- Courtesy.
- Good Value.
- Selection.

Implementation:

The business owner should:

- Train his sales assistants in good CUSTOMER RELATIONS.
- Observe the way they deal with customers and make corrections and improvements.
- Himself treat his customers courteously and honestly.

CUSTOMER RELATIONS - ADVISER'S GUIDE

- 1) Nobody likes to be told that he does not treat other people correctly. It is therefore vital to deal with this topic tactfully and to encourage the client himself to think about how he treats his customers rather than giving him your impressions.
- 2) Start by asking the client how he likes to be treated when he is buying something. Bring out aspects such as a friendly greeting, courtesy, knowledge of goods on sale, helpful attitude, honest dealing and gratitude for business. Observe how the client himself treats customers who come in during your discussion, and ask the client whether his customers are being satisfied in the various ways he said he would like to be satisfied when he was a customer himself.
- 3) Stress that everyone who works in a business must treat customers properly. If only the owner practices good CUSTOMER RELATIONS, but his staff are rude or unhelpful, customers will not return. Observe how staff treat customers and ask the client how he thinks he can improve their behaviour:
 - Do they know how they ought to behave?
 - Is there any reason why they should behave as they ought, except when the owner is watching?
- 4) Discuss ways of training and encouraging staff to treat customers properly. Stress that the owner's example is the most important method, but he should also point out mistakes and congratulate successes. Discuss the possibility of concentrating on one individual improvement each week. One week they should concentrate on the initial greeting, next on product knowledge and next on a polite and friendly farewell. Help the client to introduce an effective CUSTOMER RELATIONS improvement programme to his business.

- 5) Test the client's knowledge of the goods he sells by asking the kind of questions customers might ask about specific items. Discuss ways in which the client and his staff can find out more about their own stock, and how this information might be used not only to answer customers' questions, but also to increase sales.
- 6) Ask the client how he proposes to dispose of old or damaged stock. Many shops try to sell sub-standard goods to customers who may not notice or dare not complain. Stress that customers who are treated in this way will not return, and will talk about their experience to other people. Discuss the other ways of disposing of such stock, such as clearance sales, which can actively improve the reputation of the business.

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CUSTOMER RELATIONS - INSTRUCTOR'S GUIDE

- 1) Ask trainees to describe a recent occasion when they enjoyed buying something, and to contrast it with another when their shopping experience was unsatisfactory. Identify the ways in which people working in a business can make contact really pleasant or unpleasant for customers.
- 2) Remind trainees that they all have experience as customers. They know what makes them want to continue buying from a particular business, and their task as advisers is to help clients to look at their own business from the customer's point of view. A neat shop with attractive displays of goods that people need is completely wasted if the staff are unhelpful or impolite.
- 3) Advisers must be able not only to explain good CUSTOMER RELATIONS to their clients, but must also help their clients in turn to pass on what they learn to their staff. Discuss ways of doing this. An adviser may talk to the staff as a group of individually, together with the owner, and they may do simple role play exercises, or practice observing one another dealing with actual customers and then commenting on their performance. Stress that advisers must not be seen to come between the owner and his staff; they must always work with and through the client himself.
- 4) Ask trainees to suggest items of information about commonly sold goods which might help the client to answer customers' questions and to promote additional sales. Discuss items such as cattle care products, medicines, seeds or baby foods, where customers may need additional information or may not be able to read what is written on the packages. Show trainees how they can help the client to sell more of these goods by explaining their use to their customers.
- 5) Conduct simple role play exercises with one trainee acting as a customer and another as a shop assistant. They should not attempt deliberately to be impolite, but should act naturally. Ask the other trainees to

analyse the "shop assistant's" performance, and ask other trainees to repeat the role play and to demonstrate improvements. The "customers" should act in a reasonable way, but should also ask awkward questions or otherwise be "difficult" as customers often are. Discuss with trainees ways in which clients and their staff should deal with difficult customers, and how an adviser can teach his clients to improve CUSTOMER RELATIONS.

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CR9

ADVERTISING AND PROMOTION

WHY SHOULD A BUSINESS ADVERTISE AND PROMOTE?

Does the business lose sales because the customers do not know about new stock, specials and clearances?

Can the business lose sales because the public does not know about what it has to offer?

Does the business have old, out of style or unpopular goods that could be cleared by a sales promotion to make way for and raise money for new stocks?

WHAT IS ADVERTISING AND PROMOTION?

ADVERTISING AND PROMOTION is the special effort taken by the business to inform the public about the business and about goods and services offered by it.

HOW DO WE PLAN A PROGRAMME OF ADVERTISING AND PROMOTION?

Decisions to be made:

- Who are the advertisements directed to?
- What should the advertisements say?
- What means of communication or media should be used?
- How much money should be spent?
- The level of sales increase to be expected?
- Which products should be advertised?
- How the results should be evaluated?

What is the Goal of an Advertising Programme?

- To increase sales by attracting customers into the business.

Ideas for Advertising and Promotion

- Place posters on walls and doors calling attention to a special price or service.
- Mailing special offers to known and possible customers.
- Place signs throughout the village directing people to the business.
- Display items for sale in the store in an attractive manner.
- Grand openings of new businesses.
- Discuss the customers' possible improvements in the business.
- Distribute handbills in the community.
- Be involved in the community in order to establish a personal selling relationship.
- Sponsoring sports activities or community events.

Planning an Advertising or Sales Promotion Program

- The total cost of an advertisement or promotion campaign should be calculated.
- The benefits in terms of increased sales, community awareness and customer service should be estimated.
- The benefits to the business should be greater than the costs.
- Once a decision is made to undertake an ADVERTISING AND PROMOTION campaign a detailed plan is prepared.
- An ADVERTISING OR PROMOTION plan should answer the following questions:
 - What are the goals of the programme?
 - How much will it cost?
 - Will it increase sales?
 - Will it serve the business in other ways?
 - Is the benefit to the business worth the cost?
 - Who do we hope to reach?
 - What method will we use?
 - What is the plan?

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Preparing an Advertisement, Handbill, Circular or Poster

A standard advertisement suitable for placing in the newspaper, distributing or poster display has three major parts:

Headline: To attract the customers' attention and give the theme of the promotion. Examples of a headline are:

SALE!! or ***CLEARANCE***

Body: To give details of the product or service. The body must include the name, address and location of the business.

Close: To tempt and challenge the customer. Examples of a dramatic close are:

BUY NOW or While Supplies Last

Examples of successful advertisements are:

FOCUS

SUMMER SALE

Our Special Offers include

Lounges Sales from P442.00

CARPETS REDUCED

Blanketing - No Charge

CURTAINS - Decora of rolls and readywedges all at **CUT PRICES**

We have lots to offer, come while the instance lasts

Lotus Road, Gaborone Botswana, T22899V1

Headline

Body

Close

FRASERS

YOUR FRIENDLY SUPERMARKET WHERE VALUES ARE HIGH AND COSTS ARE LOW.

WE OFFER YOU A COMPREHENSIVE RANGE OF GROCERIES AND HOUSEHOLD GOODS AT UNSEATABLE PRICES.

JOIN THE MONEY SAVERS - SHOP AT FRASERS!

Station Road, Gaborone
Phone 61777

- 22/78

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DEMONSTRATION EXERCISE 1

An advertisement in the weekly paper will cost P 50.00. The Manager of a cosmetics believes his profits will increase by the following as a direct result of the advertisement:

<u>Week</u>	<u>Increase in Profit</u>
1	P 20
2	P 30
3	P 20
4	P 10
5 and later	P 0

Should he place the advertisement?

ANSWER KEY/Demonstration Exercise 1

The total cost of the advertisement is P 50.00

The benefit received from it is the total additional profit received by the business P 80.00

The benefit received is greater than the cost involved - therefore yes, he should place the advertisement.

DEMONSTRATION EXERCISE 2

A Shopkeeper has just purchased a large quantity of sweets from a wholesaler at a favourable price. He wants to make his principal customers (school children) aware of the new stocks and plans to advertise in the weekly newspaper. Should he do so?

ANSWER KEY/Demonstration Exercise 2

His principal market target are children, most of whom do not purchase or read the paper. Therefore he should not advertise in the paper.

An alternative would be to place signs near the school of shop advertising the sweets, or to tell one or two children about the new stock knowing they will talk to their friends.

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APA

CHECKLIST FOR COMPLETION - ADVERTISING AND PROMOTION

Basic Knowledge

What is ADVERTISING AND PROMOTION?

- The practice of informing the public about the business so that sales will increase and the business grow.

What is the main objective of ADVERTISING AND PROMOTION?

- To increase sales.

Are there other reasons to advertise?

- Yes. For example we might advertise to clear old, slow moving or outdated stock.

What are some of the ways we can promote a business?

- Newspaper advertisements, handbills, posters and signs, sponsoring community activities, involvement in community affairs.

How do we plan and ADVERTISING or PROMOTION programme?

- We must consider what is the goal of the programme. Who do we want to reach? The Cost. The benefit. The method available. The best method for our goal and target.

Is there a standard way to prepare a handbill, sign or advertisement?

- Yes, a normal advertising format has a headline, a body and a close.

Implementation

The client should:

- Using the guidelines on ADVERTISING AND PROMOTION to plan a programme to increase sales to solve a business problem.
- Using some forms of ADVERTISING or PROMOTION in his business.

ADVERTISING AND PROMOTION - ADVISER'S GUIDE

- 1) Take the client outside her shop, and ask her to look around at her own and at any other shops that are in sight. Which shop is the most interesting and attractive to look at? Is it also the one that does the most business, and if it is not your client's shop, what can she do to make her own shop more attractive?
- 2) If in the course of your other advice you have recommended the introduction of a new product, a clearance sale of excess stock or any other change, ask the client how her customers will hear about it. Point out that if the only people to hear about a price reduction are those who ask the price of the product, no new customers for that item will be attracted.
- 3) Discuss with the client how customers should be informed about the proposed change, or any other selected feature of the business. Discuss whether it is necessary for customers to know about it before they enter the shop, as soon as they enter the shop or only when they look for the item in question. It may be necessary to attract them from outside, interest them once they enter the shop and then to lead their eyes to the product itself once their interest is aroused.
- 4) Help the client to design and produce a simple poster promoting a specific product or service. Help her to display it in a suitable place, but do not either prepare or display it for her. Ask her to record any extra business resulting from the poster, and return and discuss results. Remember that a small success of this sort will give the client confidence in other advice which may not "pay off" so quickly.
- 5) Stress that promotion is not a "one off" activity but must be continuous. Develop a programme of advertisement and promotion that can make your client's business a focus of attention and interest all the time.

ADVERTISING AND PROMOTION - INSTRUCTOR'S GUIDE

- 1) Discuss what advertising is and what effects it can have on businesses, customers and the economy in general. Trainees may have negative impressions about advertising. Show how good responsible advertising informs people about new products, helps businesses to sell them and, particularly for locally produced goods, helps factories to employ more people by producing them.

- 2) Stress that the list of questions about advertising must be considered before the actual advertisement is designed. Most advertising is wasted because advertisers fail to think about who they want to reach and what they want to tell them.

- 3) Ask trainees to suggest as many different kinds of advertising as they can, which are available to typical clients. Encourage them to include printed tee-shirts, give away balloons, entries in local races and other unusual ideas, as well as posters, leaflets and newspaper advertisements. Summarise the advantages and disadvantages of each type. Ask trainees to suggest an appropriate method for specific advertising tasks.

- 4) Ask trainees individually or in groups to prepare outline promotion plans to achieve typical client objectives and ask them to prepare, display and explain the reasoning behind sample posters, newspaper announcements or other advertisements. Stress that advertising need not be expensive or prepared by specialists. They should help their clients to produce neat and useful posters, leaflets and so on, using local printers or by preparing them themselves.

- 5) Take trainees briefly through a street near the classroom, ask them to look through the window if it looks on to a commercial area or ask them to glance quickly through a copy of the local newspaper. Which advertisements did they see and remember, and which are likely to lead them to buy something? Why, and how can their clients achieve the same positive results?

EXERCISE/ADVERTISING AND PROMOTION

Mall Fashions for Men has an overstock of shirts that have been selling slowly, and the owner has decided to lower the prices in order to reduce stocks. The shop also has a new line of suits and sports coats that they want to inform the public about. The owner would also like to increase his inventory of mens trousers. Unfortunately he does not have enough money for trousers having just bought the new line of suits and sports coats. The owner feels that a programme of newspaper advertisements and handbills distributed in the Mall will help him solve all of the problems indicated above.

Instructions: Prepare a plan of a suitable advertising programme for the owner of Mall Fashions for Men including designs for the advertisements for the newspaper and for the handbills.

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AP8

ANSWER KEY/ADVERTISING AND PROMOTION

Note this is one of many possible solutions.

What are the goals of the programme?

- To clear old stock. To inform the public of new stock. To raise money to purchase new stock. To avoid the trouble and expense of getting a loan.

Will it increase sales?

- Yes, when the public hears of the new stock and the reduced prices on old stock sales will increase.

Will it serve the business in other ways?

- Yes, old stock will be cleared, providing space for new stock and cash to purchase new stock with. The costs of a bank loan will be avoided.

Is the benefit worth the cost?

- Yes. Sales should increase significantly when old customers hear of our sale and new stocks and when new customers hear of us for the first time. New stocks of trousers will follow the sale with more profits from their sale. The cost of loan interest will be saved.

Who do we hope to reach?

- Fashion conscious young men who work in the civil service and businessmen in Gaborone or who come to Gaborone to shop.

What method will we use?

- Advertisements in the newspaper supported by handbills distributed in the Mall in Gaborone.

What is the plan?

- Using the method above place ads in the paper twice a week for the two weeks before payday and the two weeks after payday. Distribute handbills to shoppers in the Mall every day for a week before and a week following payday.

The following advertisement will be placed in the newspaper:

MALL FASHIONS New Stock has arrived and the old stock is on sale! All shirts less 20% with purchase of a new suit or sports coat. WHILE THEY LAST. Mall Fashions, The Mall, Gaborone.

The following handbill will be distributed on the Mall:

NEW STOCK
NEWZE AT
MALL FASHIONS

NEW STOCK OF HI-FASHION
SUITS & SPORTS COATS

★
SALE
★

All SHIRTS discounted 20%
WITH PURCHASE OF A NEW
SUIT OR SPORTS COAT

Buy NOW!

MALL FASHIONS, THE MALL, GABORONE

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CREDIT MANAGEMENT

WHY IS IT IMPORTANT TO MANAGE CREDIT?

Can increased sales due to credit result in reduced profits because the credit sales become bad debts?

Has the business any way of controlling the amount of credit given to each customer or in total?

Is the business ever unable to buy new stocks because too much money is tied up in credit to customers?

WHAT IS CREDIT MANAGEMENT?

CREDIT MANAGEMENT is the development of a credit policy and the management decisions made to control and direct credit according to that policy.

HOW IS CREDIT MANAGED?

The first step in CREDIT MANAGEMENT is to determine the goals of a credit program. A credit policy should accomplish the following goals:

- Increase sales and profits.
- Satisfy customer needs and wants.

Credit and a credit policy can help accomplish these goals because:

- Credit builds customer loyalty.
- Customers like credit and will shop at a business which gives credit.
- Credit is convenient for customers; especially those who do not receive regular incomes such as farmers.
- Credit makes it easier to buy more.
- Competition between businesses often makes this service necessary.

- Credit helps people manage finances, especially those who have occasional big expenses such as school fees or funerals.

However, the following expenses must be considered when developing a credit programme:

- Expenses involved in maintaining records.
- Lost interest. Money "tied up" in credit cannot be earning interest.
- Bad debts.
- Additional time spent by management and clerical staff.
- More complex management.
- Reduced cash available for stock purchase, hence less stock.
- Reduced cash available for stock purchase, hence interest expense for loans.

The type of business and the nature of the products sold will often determine the appropriateness of giving credit. The nature of the goods is an important factor:

- Large, valuable items such as furniture and appliances that often could not be purchased if cash was required and that can be reclaimed if not paid for are more often sold on credit than:
- Food and grocery items that are consumed quickly and require little money in the first place.
- Some items such as liquor are best sold for cash only as the memory of the obligation to pay is often forgotten by the time the product is finished.

When the owner has considered these factors he should then determine a credit policy:

- that limits credit to a fixed percentage of sales, or
- that limits credit given to customers to an amount equal to that received from suppliers, or
- that fixes total credit at a set amount, or
- that restricts credit to certain goods such as basic foodstuffs and excludes such things as tobacco and liquor, or

- that the business gives no credit, or
- combines several of these.

If it has been determined that the business will give credit it then becomes necessary to determine how to allocate credit. A good manager should not give credit facilities to anyone who asks. He should find out enough information to make a good decision. The following should be considered:

Character: What is the reputation of the customer? Is he known to manage his personal financial affairs well, indicating he will pay back the "loan" given to him from the shopkeeper? A person's reputation in the village can be determined by talking to other business people whom the applicant lists as references.

Capacity: Is he or she able to pay back the amount bought on credit? Do they have a job or other means of support? Or are they not able to repay the business?

Capital: Does the debtor have property or assets that will allow payment if it is not otherwise received?

With these characteristics in mind the manager may prepare a list of questions for the potential credit customer such as:

- Do you have a full-time job or other source of income?
- Do you own a house, cattle, land or other assets?
- How long have you lived in this village?
- Are you married?
- Do you have a family?
- Do you have a bank account?
- Do you receive credit from others in the area?

The amount of credit granted can be based on the number of favourable answers to the above or similar questions.

Once it has been decided to extend credit to a customer, the limits on the amount of credit should be established and explained to the customer. The credit limit should state:

- The amount of credit allowed.
- The period it may remain outstanding.
- How often a payment must be made.
- The type or range of goods or services that may be bought on credit.
- What action will be taken in case of default by the credit customer.

The credit policy should plan on the action to be taken in the case of bad debts. The owner can:

- Send an informal note to the customer as soon as the debt is overdue.
- Telephone him to remind him payment is due.
- Speak to him when he is in the business and ask him to pay his debt.
- Write a formal letter telling him payment must be received or legal action will be taken.
- Refer the matter to local authorities.
- Refer the matter to a lawyer for collection.

The best method of avoiding bad debts is:

- Keep good records and review them often so that the manager is aware of the credit situation.
- Limit the amount of time the customer has to pay and remind him of the debt as soon as the time limit is exceeded.
- Select credit customers carefully.
- Take immediate action as soon as the debt is overdue.

DEMONSTRATION EXERCISE 1

The Manager of a business determines his credit outstanding based on supplier credit granted. The total amount owing to suppliers at the end of each month during the previous year was:

<u>Month</u>	<u>Supplier Credit</u>
January	P 25
February	45
March	77
April	108
May	133
June	120
July	140
August	157
September	170
October	177
November	175
December	180

The credit policy is to grant credit up to an amount equal to total credit received. The total credit to be granted to customers will be allocated based on the number of satisfactory applicants.

It is anticipated that only two customers will satisfactorily meet the credit standards set by the business.

Instructions: Determine how much credit to allow to the anticipated credit customers.

ANSWER KEY/Demonstration Exercise 1

The average amount of credit received from suppliers during the previous year was P 1,507 divided by 12, or about P 126 per month. The total credit limit should therefore be P 126 or P 63 for each of the eligible customers.

DEMONSTRATION EXERCISE 2

A customer has asked for a credit limit of P 100.00 from a shop. As part of normal procedure an interview was conducted by the shop assistant. The following are the answers to the questions asked:

- | | |
|---|---|
| (1) Do you have a full time job or other source of income? | Yes, employed by Government of Kotswama - GA-5. |
| (2) Do you own a house, cattle, land or other assets? Is there a loan outstanding on the asset? | Isuzu pickup 1977 model, paid P 500; w. loan outstanding. |
| (3) How long have you lived in this village? | 5 years. |
| (4) Do you have a family? | Wife and one child. |
| (5) Do you receive credit from others in this area? | No. |
| (6) How old are you? | 26. |
| (7) Do you have a bank account? | No. |

Instructions: Based on the above interview should credit be granted to the customer?

ANSWER KEY/Demonstration Exercise 2

The credit manager first investigates the information on the questionnaire to ensure it is correct. Then he uses a system of giving points for certain answers to determine if credit should be given. The points given are as follows:

<u>Question</u>	<u>Answer</u>	<u>Points</u>
1	Full time job or source of income	1
	No job or source of income	0
2	Own assets free and clear	2
	Own assets with balance owed	1
	No assets	0
3	10 or greater years	2
	5 to 9 years	1
	0 to 4 years	0

<u>Question</u>	<u>Answer</u>	<u>Points</u>
4	Yes	1
	No	0
5	Yes	1
	No	0
6	30 or older	1
	under 30	0
7	Yes	1
	No	0

Using the point system the customer received 5 points.

#

The standard for granting credit used by the business is:

<u>Points</u>	<u>Credit Given</u>
0-3	No credit given
4-6	P 50.00 credit limit; payable monthly
7-8	P 100.00 credit limit; payable monthly

Therefore, the credit manager should grant a credit limit of P 50.00 to the customer.

CHECKLIST FOR COMPLETION - CREDIT MANAGEMENT

Basic Knowledge

What is CREDIT MANAGEMENT?

- Management decisions based on credit policy to control credit so that it serves the business.

Can uncontrolled credit reduce profits?

- Yes, credit that becomes bad debts may increase sales but reduce profits when these sales are not paid for.
- Bad debts mean goods are not paid for so less cash is available to purchase stock.

What is a credit policy?

- Credit policy is the set of standards developed by the business to guide the business in making credit management decisions.

What is the credit limit?

- The credit policy should state total amount of credit the business will give and the maximum allowed each credit customer.

How can a business determine who should be their credit customers?

- Determine if the business should give credit.
- Determine the limit to be given in total and to each credit customer.
- Assess the character or reputation of the potential credit customer.
- Determine the applicant's capacity to pay.
- Determine if he has adequate capital that can be used to repay the debt if he does not pay willingly.

What are bad debts?

- Credit that the business has allowed but been unable to collect.

How can a business avoid bad debts?

- Select credit customers carefully.
- Keep good credit records and review them often.
- Take immediate action when credit becomes overdue.

Implementation

The client should:

- Keep debtors records and set a limit for each credit customer.
- Develop a credit policy.
- Use the credit policy to control and direct credit.
- Take action to recover bad debts and overdue credit.

CREDIT MANAGEMENT - ADVISER'S GUIDE

- 1) The client should be keeping a correct debtors record, entering every credit sale when it is made and calculating the balance due at once. Stress that it is only possible to manage credit effectively if the debtors record is correctly kept. If the client fully understands and applies correct CREDIT MANAGEMENT methods he will realise the value of keeping the debtors record.
- 2) Your client may be giving credit more or less at random, or whenever a customer demands it and he does not have a good reason for not allowing it. Analyse the debtors record and show how this can lead to an excessive amount of money being "tied up" in loans to customers, and to bad debts. Stress that as a business expands the manager must have rules in order to make decisions correctly.
- 3) If money is "lent" to customers on credit, it cannot be used to buy stock. Ask the client to describe how he decides what goods to buy for stock, and how much. Very few business people buy new stocks without thinking carefully about whether they will sell, and at what profit. In the same way, decisions to sell on credit must be based on:
 - The alternative uses of the money to be "lent" in this way.
 - The possibility that the customer will not repay.
 - The possibility that the customer will buy less or not at all if he is not given credit, and the loss of profit this might lead to.
- 4) The client may not be able to state the principal on which he grants credit but may nevertheless have some set of informal standards. Ask him about individual credit decisions, and if he does appear to be working on the basis of some sort of rules, help him to build on this in order to have a more comprehensive CREDIT MANAGEMENT policy.
- 5) Clients often feel they have to give credit, particularly to friends or relatives, because refusal would be a personal insult. Stress that it

is easier for the client to say "no" if he can refer to a set of standards which he must obey. Clearly the client's personal knowledge of the customer is the most vital part of the decision whether to grant credit or not, but clients must be careful not to confuse friendship with approval of credit. They should try to be stricter on credit applications from friends than from strangers, if only because later disputes can destroy friendships very quickly.

- 6) If the client is not giving credit at all, there may, or may not be good reasons for this policy. Examine the sales record and the amount of finance available. If the type of goods and the customers are such that credit would probably increase sales and profits, and the client can afford the finance to offer some credit, help the client gradually to introduce credit sales. He may be selling wholly for cash just because he is scared of offering credit.
- 7) If the client appears unable to manage credit properly, or the type of business and its customers are such that credit is not appropriate, help the client to appreciate that he would make more profit by not selling on credit. Discuss and agree on a programme of recovering all outstanding debts and eliminating credit sales. It may be appropriate to avoid customer dissatisfaction by offering some other form of promotion, such as a temporary price reduction to "smooth over" the period of change.
- 8) Nearly all businesses which sell on credit have some slow paying customers who have owed money for a long period. Identify these from the debtors record and discuss each with the client. Stress that effective CREDIT MANAGEMENT such as you are now helping him to introduce will help to avoid such problems in the future. Discuss and agree on a programme to recover long outstanding debts and thus to "clean up" the debtors list.

CREDIT MANAGEMENT - INSTRUCTOR'S GUIDE

- 1) Stress that as with other management topics, CREDIT MANAGEMENT depends on good records. Trainees, and their clients, must be fully familiar with how to keep a correct record of what is owing to the business, in order to be able to manage credit sales in the interests of the business.
- 2) Ensure that trainees are not confused by the terms "CREDIT MANAGEMENT" and "debtors". The terms are unimportant, what they and their clients are concerned about is the management of money that is owed to the business by its customers.
- 3) Trainees may feel that a ranking system with scores for various answers is too rigid for the very personal decisions whether or not to extend credit to a particular individual. Stress that although clients may not actually use a system such as is demonstrated in the exercise, they must try to some extent to "depersonalise" the decision. This will enable their clients to be more objective when making the decision, and will also allow them to have an excuse for having to say no.
- 4) CREDIT MANAGEMENT seems to involve fairly simple decisions. Should this customer be allowed to buy on credit? Ask trainees to identify all the factors that must be taken into account when making such a decision. Demonstrate that it is impossible to make the decision properly on every occasion unless some standards and rules have been set.
- 5) Ensure that trainees appreciate the necessity for correct arithmetic when recording credit sales. After completing the exercises, ask trainees to suggest further problems from their own personal experience. Discuss the difficulty of refusing credit to relatives and friends. Show that a firm "no" at the beginning is less painful for the business and the relationship than a prolonged dispute over an outstanding debt which never ought to have been allowed in the first place.

EXERCISE/CREDIT MANAGEMENT 1 TO 4

Peters Plumbing Supplies has a number of credit customers. The debtors records of Peters Plumbing Supplies are attached.

Instructions: Use the debtors records of Peters Plumbing Supplies to complete the following exercises.

Exercise 1

Peter is preparing end-of-year final accounts. He needs to know the total amount owed by all his debtors on 31st December. Calculate the amount owed Peters Plumbing Supplies on 31st December.

Exercise 2

Peter wishes to buy more stock. He does not have enough money to buy the stock he needs. He has been refused a bank loan. Examine Peter's debtors records and recommend a solution to Peter's cash shortage.

Exercise 3

Peter realises that he needs to establish a credit policy. He is considering several things to include in his set of credit standards including the following:

- Limit the amount of credit given each customer.
- Set a date when all accounts must be settled, perhaps the 15th of the month.
- Limit the amount of time an account can remain outstanding, perhaps 30 days.

Based on your analysis of Peter's debtors records which standards above do you recommend Peter include in his credit policy?

Exercise 4

Explain why you have made each of the recommendations you made in answering Exercise 3.

DEBTORS RECORD									
NAME: David					CREDIT LIMIT:				
P.O. Box 4,					PAYMENT DATE:				
Bchale.					SIGNATURE:				
DATE	DESCRIPTION	TOTAL SALES		AMOUNT PAID		BALANCE		DEPOSIT	
		P	t	P	t	P	t	P	t
20 Nov	Goods	270	00			270	00		
3 Dec	Goods	130	00			400	00		
9 Dec	Goods	50	00			450	00		
21 Dec	Goods	180	00			630	00		
10 Jan	Goods	170	00			800	00		
25 Jan	Goods	220	00			1,020	00		
1 Feb	Goods	400	00			1,420	00		

DEBTORS RECORD									
NAME: John					CREDIT LIMIT:				
P.O. Box No. 6,					PAYMENT DATE:				
Mogoditshane.					SIGNATURE:				
DATE	DESCRIPTION	TOTAL SALES		AMOUNT PAID		BALANCE		DEPOSIT	
		P	t	P	t	P	t	P	t
11 Nov	Goods	100	00			100	00		
30 Nov	Payment			100	00	0	00		
11 Dec	Goods	230	00			230	00		
30 Dec	Payment			150	00	80	00		
15 Jan	Goods	110	00			190	00		
28 Jan	Payment			100	00	90	00		
6 Feb	Goods	140	00			230	00		

DEBTORS RECORD									
NAME: Edward					CREDIT LIMIT:				
P.O. Box No. 5, Oodi.					PAYMENT DATE:				
					SIGNATURE:				
DATE	DESCRIPTION	TOTAL SALES		AMOUNT PAID		BALANCE		DEPOSIT	
		P	t	P	t	P	t	P	t
25 Nov	Goods	220	00			220	00		
2 Dec	Payment			150	00	70	00		
24 Dec	Goods	20	00			90	00		
2 Jan	Payment			100	00			10	00

DEBTORS RECORD									
NAME: Andrew					CREDIT LIMIT:				
P.O. Box No. 1, Tlokweng.					PAYMENT DATE:				
					SIGNATURE:				
DATE	DESCRIPTION	TOTAL SALES		AMOUNT PAID		BALANCE		DEPOSIT	
		P	t	P	t	P	t	P	t
2 Nov	Goods	180	00			180	00		
8 Nov	Payment			150	00	30	00		
4 Dec	Goods	140	00			170	00		
15 Dec	Goods	120	00			290	00		
27 Dec	Payment			100	00	190	00		
29 Dec	Payment			100	00	90	00		
8 Jan	Goods	220	00			310	00		
16 Jan	Goods	600	00			910	00		
29 Jan	Payment			100	00	810	00		
9 Feb	Goods	30	00			840	00		

DEBTORS RECORD									
NAME: Benjamin					CREDIT LIMIT:				
P.O. Box No. 2, Gaborone.					PAYMENT DATE:				
					SIGNATURE:				
DATE	DESCRIPTION	TOTAL SALES		AMOUNT PAID		BALANCE		DEPOSIT	
		P	t	P	t	P	t	P	t
3 Nov	Goods	260	00			260	00		
29 Nov	Payment			260	00	0	00		
26 Dec	Goods	130	00			130	00		
18 Jan	Goods	350	00			480	00		
30 Jan	Payment			350	00	130	00		

DEBTORS RECORD									
NAME: Christopher					CREDIT LIMIT:				
P.O. Box No. 3, Gabane					PAYMENT DATE:				
					SIGNATURE:				
DATE	DESCRIPTION	TOTAL SALES		AMOUNT PAID		BALANCE		DEPOSIT	
		P	t	P	t	P	t	P	t
15 Nov	Goods	130	00			130	00		
28 Nov	Payment			130	00	0	00		
7 Dec	Goods	310	00			310	00		
20 Dec	Goods	280	00			590	00		
27 Dec	Payment			300	00	290	00		
16 Jan	Goods	700	00			990	00		
30 Jan	Payment			200	00	790	00		
10 Feb	Goods	170	00			960	00		

ANSWER KEY/CREDIT MANAGEMENT 1 TO 4

Exercise 1

Peter's customers owed the business P 1,310.00 on 31st December.

Exercise 2

Peter would not have a cash problem if he limited the amount of cash he has "tied up" in outstanding credit. Even though the amount of credit outstanding is an asset it is not an asset the owner can use to buy more stock. Bank loans are costly and can be difficult to obtain.

Recommendation: Peter should make an effort to collect outstanding credit. The money he receives can be used to buy more stock. Excess credit outstanding and no credit policy may be the reasons he was refused a bank loan.

Exercise 3

Peter's credit policy should include:

- Limit the amount of credit given each customer.
- Limit the amount of time an account can remain outstanding.

Exercise 4

An examination of the debtors records shows that Peter should limit credit to each customer because:

- Three of his customers, Andrew, Christopher and David, (50%) have considerable amounts outstanding.
- All three have had their accounts outstanding for several months.
- Two of them, Andrew and David, have never cleared their accounts.

Peter should limit the amount of time an account can remain outstanding because:

- Customer David has never made any payment in a period of almost three months.
- The longer an account remains outstanding the more danger that it will become a bad debt.

PROFIT AND LOSS STATEMENT ANALYSIS

WHY ANALYSE THE PROFIT AND LOSS STATEMENT?

Can the manager determine if his business is improving from year to year?

Does the business owner feel there are problems with his business that he cannot identify?

Does the business owner feel that his business is not doing as well as other similar businesses?

Could the business decline or fail because serious problems are not identified before they seriously damage the business?

WHAT IS PROFIT AND LOSS STATEMENT ANALYSIS?

PROFIT AND LOSS STATEMENT ANALYSIS is a method of measuring the progress or performance of a business by comparing the results of business activity with both historical and projected results.

HOW IS THE PROFIT AND LOSS STATEMENT ANALYSED?

Analysis of a Profit and Loss Statement involves:

- Comparison
- Investigation

The results of the investigation should be followed by management decisions and action, based on the results of the investigation.

The results of the business as shown on the Profit and Loss Statement can be compared against:

Experience and Knowledge:

The experienced manager is aware of Profit and Loss Statement relationships. He will recognize an important change and have an idea of the cause and action to be taken. Although this method is very subjective it is very valuable.

Goals and Budgets:

The results can be compared against the expected results as projected by the owner or manager.

History of the Business:

Businesses often perform in a consistent and predictable way over time. Changes from this normal pattern should be investigated.

Performance of Similar Businesses:

Information on manufacturers is available from the Rural Industrial Officer to show how average business is progressing. A business can compare itself against other similar businesses.

The most useful method of comparison is for the business owner to compare his current results with the previous period or with his expectations.

When comparing results both the actual amount of the change and the percentage change should be noted.

This is done by comparing each line of the Profit and Loss Statement against the previous period or budget (known as the base because we are comparing against it).

Determine the amount of the change.

Determine whether or not the change is an increase or decrease.

Determine the percentage change.

The information should then be examined to identify large or significant changes.

Large or significant changes should then be investigated by asking the following questions:

- What is happening?
- Why is it happening?
- Is the change positive or negative?
- Can the situation be controlled?
- What change should be made?
- Will this change affect other aspects of the business?

The business owner must then take action based on his PROFIT AND LOSS STATEMENT ANALYSIS.

DEMONSTRATION EXERCISE 1

John's Butchery has been in business for two years now. He has just prepared the Profit and Loss Statement for the second year. He wishes to analyse the statements to judge the performance of his business. The Profit and Loss Statements are as follows:

	<u>Year 1</u>	<u>Year 2</u>
Sales	P 6,500	P 7,200
Cost of Sales	<u>5,200</u>	<u>5,760</u>
Gross Profit	1,300	1,440
Expenses	<u>500</u>	<u>600</u>
Net Profit	800	840
Drawings	<u>400</u>	<u>500</u>
Reinvested Profits	P <u>400</u>	P <u>340</u>

Instruction: Using the change and percentage change method, compare the two Profit and Loss Statements. Has John improved the performance of his business in year two? Which accounts should he investigate?

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ANSWER KEY/Demonstration Exercise 1

	<u>Year 1</u>	<u>Year 2</u>	<u>Change</u>	<u>% Change</u>
Sales	P 6,500	P 7,200	700	+ 11%
Cost of Sales	<u>5,200</u>	<u>5,760</u>	<u>560</u>	<u>+ 11%</u>
Gross Profit	1,300	1,440	140	+ 11%
Expenses	<u>500</u>	<u>600</u>	<u>100</u>	<u>+ 20%</u>
Net Profit	800	840	40	+ 5%
Drawings	<u>400</u>	<u>500</u>	<u>100</u>	<u>+ 25%</u>
Reinvested Profit	P <u>400</u>	P <u>340</u>	<u>- 60</u>	<u>- 15%</u>

Although John made a slightly larger profit in year two the amount of increase was not as great as the increase in sales. Sales, cost of sales and gross profit all increased at the same percentage rate (11%), but expenses increased at a faster rate. Expenses should be investigated. Drawings also increased more rapidly than sales, and should be investigated as well.

DEMONSTRATION EXERCISE 2

A small shop has just received details of its first month of operation. On sales of P 1,000 the net profit was P 100. After examining the results the Manager feels the profit can be increased by decreasing miscellaneous expenses (yardwork and cleanup) by having an employee perform these tasks. Because the shop is new he feels it is too early to attempt an increase in sales or hire a new employee. The following budget is prepared for June.

	<u>Actual Results - May</u>	<u>Expected Results - June</u>
Sales	P 1,000	P 1,000
Cost of Goods	<u>800</u>	<u>800</u>
Gross Profit	P 200	P 200
Wages	50	50
Misc. Expenses	30	10
Supplies	<u>20</u>	<u>20</u>
Total Expenses	<u>100</u>	<u>80</u>
Net Profit	<u>P 100</u>	<u>P 120</u>

In this case the budget called for a decrease in miscellaneous expenses by P 20. If all other amounts remain the same, the profit should increase by P 20.

The June operating results were received and showed the following:

	<u>June - Actual</u>	<u>June - Budget</u>	<u>Difference</u>
Sales	P 1,000	P 1,000	P 0
Cost of Goods	<u>800</u>	<u>800</u>	<u>0</u>
Gross Profit	P 200	P 200	P 0
Wages	60	50	10
Misc. Expenses	40	10	30
Supplies	<u>20</u>	<u>20</u>	<u>0</u>
Total Expenses	<u>120</u>	<u>80</u>	<u>40</u>
Net Profit	<u>P 80</u>	<u>P 120</u>	<u>- P 40</u>

Instructions:

Compare the June results with the June budget and note which areas should be investigated. Suggest some possible reasons for the differences.

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ANSWER KEY/Demonstration Exercise 2

After the June operating results have been received a review can be made. The two differences are in wages and miscellaneous expenses. The Manager recalls that the employee had to work a weekend in order to unload new stock from the owner's vehicle and that explains the P 10 difference.

An Example of an Investigation:

The Manager cannot determine why the miscellaneous expenses would have increased over the previous month as the employee is now doing the cleaning of the yard. After reviewing the cash book he finds that money he authorized to be taken from the cash box for school fees for his daughter was erroneously charged to miscellaneous expenses. He corrects the cash box to show the disbursement as a personal drawing.

The Answer:

- Compared the actual results against the budget.
- Analysed significant differences.
- Took action where appropriate to:
 - (a) Correct the records to reflect an increase in drawings and a decrease in expenses.
 - (b) Scheduled his purchasing to reduce the need for weekend overtime.

RATIO ANALYSIS

A ratio is simply one number expressed in terms of another. It is found by dividing the base into the number. A ratio focuses attention on significant relationships in the Profit and Loss Statement. Three common ratios used to analyze profitability are:

Gross Profit Ratio = $\text{Gross Profit} \div \text{Sales}$.

The gross profit ratio is important in that it expresses the ratio of revenue of a business that is left after paying for the goods purchased and sold. This information is useful to the manager in his analysis of markups and turnover.

Net Profit Ratio = $\text{Net Profit} \div \text{Sales}$.

The net profit ratio gives the business manager a picture of the amount of each Pula of sales that is left after all expenses have been deducted.

Expense Ratio = $\text{Total Expenses} \div \text{Sales}$.

The expense ratio expresses the total expenses to sales. By comparing the expense of his business to previous periods or to a similar business, the manager can see whether he is keeping he is keeping expenses under control.

Changes in these ratios over time or differences between businesses can indicate a change in policy or focus attention on an area to be investigated.

DEMONSTRATION EXERCISE

A small shop has the following Profit and Loss Statement for the month ended January 31st:

Sales	P 600
Cost of Goods Sold	400
Gross Profit	200
Expenses	150
Net Profit	P 50

Instructions: Calculate the gross profit, net profit and expense ratios for the above Profit and Loss Statement.

ANSWER KEY/Demonstration Exercise

Gross Profit Ratio	=	Gross Profit	÷	Sales	=	200	÷	600	=	.33
Net Profit Ratio	=	Net Profit	÷	Sales	=	50	÷	600	=	.08
Expense Ratio	=	Expenses	÷	Sales	=	150	÷	600	=	.25

CHECKLIST FOR COMPLETION - PROFIT AND LOSS STATEMENT ANALYSIS

Basic Knowledge

How can a manager determine if his business has changed from a previous year?

- By analysing his Profit and Loss Statement.

What should he do after analysis?

- Make decisions and take action based on his analysis.

What are some questions that should be asked if the PROFIT AND LOSS STATEMENT ANALYSIS shows significant changes from previous periods or expected results?

- What is happening here?
- Why is it happening?
- Is the change positive or negative?
- Can the situation be controlled?
- What change should be made?
- Will this change affect other aspects of the business?

What are the methods of comparing Profit and Loss Statements?

- The change and percentage change method, and the ratio analysis method.

What is the difference between the change and the percentage change?

- The change is the actual amount of change in Pulas. The percentage change is the change divided by the base year.

What are the three principal ratios?

- Gross Profit, Net Profit and Expense Ratios.

Implementation

The client should:

- Compare each Profit and Loss Statement against the previous one and analyse changes.

- Be using the profit and loss analysis information to make decisions about the future of the business.
- Be investigating significant differences when comparing the Profit and Loss Statements and ratios.

PROFIT AND LOSS ANALYSIS - ADVISER'S GUIDE

NOTE: This topic should only be introduced when profit and loss statements are available for at least two periods.

- 1) Ask the client how she feels her business is doing. Her answer will show that she is comparing her present results with some standard, usually last year or last month, or perhaps with what she expected.
- 2) Examine the most recent profit and loss statement and an earlier set of results. Ask your client to compare the various figures, and show that the differences indicate whether the business is doing better or worse than before. If the client has prepared some estimate of what she expected, compare the actual figures with this estimate.
- 3) Help the client to calculate the actual differences. Show that increases in sales or profits show progress, and increases in expenses can be a sign that the business is not doing so well. Compare the results of the comparison with the client's original comment on the condition of the business, and discuss any differences.
- 4) Ask your client to explain any major changes between the results for the two periods. She may mention the weather, the effect of competition or the results of some change she introduced in the business. Isolate any important changes which she cannot explain, and ask her to examine them later and to attempt to find out what caused them. Ensure that an approximate allowance is made for inflation when comparing the two sets of figures.
- 5) If the client can grasp percentages, show that it is not enough to calculate whether sales and expenses have gone up or down, and by how much. If sales have gone up by a large amount, expenses can be expected to have increased as well. The percentage is a better indicator of good or bad results than the amount of the difference.

- 6) Calculate the percentage differences. Ask your client to explain significant changes. Stress throughout that the basic records from which the figures are taken must be correct. Management actions based on analysis of incorrect figures can lead to even more serious problems.

- 7) If the client was able to calculate and understand percentage changes from one period to the next, introduce the three ratios. Help the client to calculate these for the two periods which are being examined, and ask her to explain any major changes which are identified.

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PROFIT AND LOSS ANALYSIS - INSTRUCTOR'S GUIDE

- 1) Present a simple profit and loss statement on the board and ask trainees how well this business is doing. Discuss their answers and show that they are based on some comparison. They may be comparing the figures with examples they have seen in other exercises, or with some ideal in their mind. Stress that any analysis must be based on comparison. Most clients compare their present performance with an earlier period.

- 2) Show how a profit and loss statement can be compared with another by writing the figures for an earlier period for the same business on the board beside those already presented. Ask trainees to compare the two sets of figures. They should calculate the differences between each figure, and suggest possible reasons for the change.

- 3) Discuss reasons why it may not be useful to compare present figures with those for an earlier period:
 - The business may have changed a great deal between the two periods so that the comparison is meaningless.
 - Inflation may make figures for earlier periods difficult to compare with up to date ones.
 - A new business has no earlier results to use.Discuss alternatives, such as goals or budgets set by the client, or results from other businesses if they are available.

- 4) Introduce the use of percentages for comparing results, and show how these are preferable to simply calculating the differences. Introduce the three ratios and show how these are calculated and compared. Ensure that trainees understand and can calculate the various percentages involved, and show by example how errors in calculation can lead to serious misjudgement.

- 5) Go through the demonstration exercise and the other exercises in some detail. Show how analysis and comparison of results must lead to action

and improvement if the effort is to be worthwhile. Stress the importance of correct arithmetic, both in the analysis and in the basic records on which the analysis is based. Stress that analysis is to be carried out not for its own sake, but in order to indicate what action should be taken. Show how a simple error of arithmetic in one of the basic records can lead to actions which may damage the business.

- 6) Stress that it is not enough to say "expenses must be reduced" or "sales must be increased". Go through possible ways in which changes of this sort might be achieved; stress that improvements of this sort are the objective of keeping basic records.

EXERCISE/PROFIT AND LOSS ANALYSIS 1

	<u>Business A</u>		<u>Business B</u>	
	<u>Year 1</u>	<u>Year 2</u>	<u>Year 1</u>	<u>Year 2</u>
Sales	P 24,500	P 27,000	P 31,515	P 37,500
Cost of Sales	19,600	21,600	25,000	30,000
Gross Profit	4,900	5,400	6,515	7,500
Expenses	3,000	4,000	4,500	5,000
Net Profit	P 1,900	P 1,400	P 2,015	P 2,500

Instructions: Prepare comparative financial statements for the Profit and Loss Statements. Identify any significant changes.

ANSWER KEY/PROFIT AND LOSS ANALYSIS 1

<u>Business A</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Change</u>	<u>% Change</u>
Sales	P 24,500	P 27,000	P 2,500	+ 10%
Cost of Sales	19,600	21,600	2,000	+ 10%
Gross Profit	4,900	5,400	500	+ 10%
Expenses	3,000	4,000	1,000	+ 33%*
Net Profit	P 1,900	P 1,400	- P 500	- 26%*

<u>Business B</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Change</u>	<u>% Change</u>
Sales	P 31,515	P 37,500	P 5,985	+ 19%
Cost of Sales	25,000	30,000	5,000	+ 20%
Gross Profit	6,515	7,500	985	+ 15%
Expenses	4,500	5,000	500	+ 11%
Net Profit	P 2,015	P 2,500	+ P 485	+ 24%*

*Significant Changes: The business owner should investigate to determine the reasons for the change in:

<u>Business A</u>	<u>Business B</u>
- Expenses	- Net Profit
- Net Profit	

EXERCISE/PROFIT AND LOSS ANALYSIS 2

	<u>Year 1</u>	<u>Year 2</u>
Sales	P 1,500	P 2,000
Cost of Sales	<u>1,000</u>	<u>1,600</u>
Gross Profit	500	400
Expenses	<u>350</u>	<u>350</u>
Net Profit	150	50
Drawings	<u>50</u>	<u>0</u>
Reinvested Profit	P <u>100</u>	P <u>50</u>

Instructions: Compare the information given in the two Profit and Loss Statements above. Identify significant changes and discuss their possible causes.

ANSWER KEY/PROFIT AND LOSS ANALYSIS 2

	<u>Year 1</u>	<u>Year 2</u>	<u>(2 - 1) Change</u>	<u>(Change + 1) % Change</u>
Sales	P 1,500	P 2,000	P 500	+ 33%
Cost of Sales	<u>1,000</u>	<u>1,600</u>	<u>600</u>	+ 60%
Gross Profit	500	400	- 100	- 20%
Expenses	<u>350</u>	<u>350</u>	<u>0</u>	0
Net Profit	150	50	- 100	- 67%
Drawings	<u>50</u>	<u>0</u>	- 50	- 100%
Reinvested Profit	P <u>100</u>	P <u>50</u>	- P 50	- 50%

The Cost of Goods Sold amount should be investigated. Sales increased by 33%, yet Cost of Sales increased nearly twice as much (60%) resulting in a considerable drop in Gross Profit (20%). This may result from stock build up, missing on stolen goods, poor stock record keeping or a change in the markup and pricing policy. No drawings have been withdrawn from the business in year two. This change should be investigated.

EXERCISE/PROFIT AND LOSS ANALYSIS

A small general dealer in Gaborone has the following financial information for January and February:

	<u>January</u>	<u>February</u>
Sales	P 2,000	P 2,000
Cost of Sales	<u>1,600</u>	<u>1,650</u>
Gross Profit	400	350
Expenses	<u>300</u>	<u>300</u>
Net Profit	100	50
Drawings	<u>50</u>	<u>50</u>
Reinvested Profits	P <u>50</u>	P <u>00</u>

Instructions: Compare the profit and loss results of the business using ratios and comparative Profit and Loss Statements. What can we say about the performance over the two month period?

ANNUAL REVENUE/PROFIT AND LOSS ANALYSIS 3

	<u>January</u>		<u>February</u>		<u>Change</u>	<u>Percentage Change</u>
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>		
Sales	P 2,000		P 2,000		P 0	0
Cost of Sales	<u>1,600</u>		<u>1,650</u>		<u>50</u>	<u>3%</u>
Gross Profit	400	.20	350	.18	- 50	- 13%
Expenses	<u>300</u>	.15	<u>300</u>	.15	<u>0</u>	<u>0</u>
Net Profit	100	.05	50	.03	- 50	- 50%
Drawings	<u>50</u>		<u>50</u>		<u>0</u>	<u>0</u>
Reinvested Profits	P <u>50</u>		P <u>00</u>		- P <u>50</u>	- 100%

Sales did not change between January and February, but the cost of those sales did (shown by the lower gross profit ratio and negative change in the cost of sales column). This could indicate that the average markup has decreased, turnover has slowed or prices need to be adjusted.

The net profit ratio has decreased during the two months, a downward trend that should be investigated. Expense ratio and change were unchanged, indicating that management has been consistent in its expense policy.

CASH FLOW

WHY IS CASH FLOW IMPORTANT?

Can the business run out of money and have problems paying its creditors and its operating costs?

Does the business owner know how much money he is likely to have in the bank the next week or month?

Can the business plan in advance to invest its temporary surplus money more profitably than in a current account?

Would it be useful to the business to be able to avoid overdrafts and expensive borrowing by knowing when periods of cash shortages will be?

WHAT IS CASH FLOW?

CASH FLOW is the movement of cash into and out of a business. A CASH FLOW projection identifies cash needs and shows changes in amounts of cash available to meet those needs.

HOW CAN CASH FLOW AND CASH FLOW ANALYSIS HELP THE BUSINESS?

CASH FLOW means, simply, movements of cash in and out of an enterprise.

A CASH FLOW PROJECTION is an orderly display of projected (predicted) future movements of cash.

CASH FLOW ANALYSIS is the process of studying the CASH FLOW projection and determining the best course of action for the business to follow.

Cash must not be confused with profit. Profit is the return (or loss) after payment of all costs and expenses including such non-cash items as depreciation and credit purchases. CASH simply refers to money easily available for disbursement - usually held in the form of cash or in the bank in current accounts.

The purpose of CASH FLOW projection and analysis is to determine anticipated changes in cash levels, display this flow in a logical way and analyse the result so that the business can:

- (1) Wisely use any excess cash (e.g. in savings deposits).
- (2) Identify cash shortages and plan how to avoid them (e.g. with loans, overdrafts, control of expenses, stock purchase management, credit).
- (3) Display for analysis the effect of alternate courses of action.

CASH FLOW analysis is a technique used to manage our cash situation. It is a decision making technique. The purpose of CASH FLOW analysis is to project the future situation, pinpoint problem areas, and plan the best course of action.

CASH FLOW is primarily a tool for predicting and controlling the future based on past knowledge. As a technique it has two distinct advantages:

- (1) Simplicity.
- (2) It is very well suited to the largely cash dealings of Botswana businessmen.

This is how to prepare a CASH FLOW projection:

- Begin from a known fixed point (Cash on Hand).
- Add anticipated sources of cash income.
- Subtract anticipated cash expenditure.
- Determine cash shortages or excess and plan and project the action to be taken.

The best indicators of future business activity are accurate records of the past.

A typical format for a CASH FLOW statement is as follows:

Cash Balance		XXXX
Cash Sales	XXXX	
Cash Collections from Customers	XXXX	
Other Income	XXXX	
Total Receipts		XXXX
Total Cash In		XXXX
Payments to Suppliers	XXXX	
Operating Expenses	XXXX	
Purchase of Building, Equipment	XXXX	
Drawings, Dividends	XXXX	
Other Payments	XXXX	
Total Cash Out		XXXX
Cash Balance or Defecit		XXXX
Loan or Repayment		XXXX
Cash Balance		XXXX

Important Points to Remember:

- Cash is not the same as profit.
- Our objective is to identify problem areas and "manage" them before they occur.
- Good records lead to good future projections.

DEMONSTRATION EXERCISE 1

A small shop has P 50 in the cash box at the beginning of the month. During the month the cash sales were P 200 and credit sales P 50. Debtors paid P 25 on account, stock was purchased for P 125 in cash, and a loan of P 50 was paid. Cash expenses for the period were P 20.

Instructions: Prepare a CASH FLOW statement for the period.

ANSWER KEY/Demonstration Exercise 1

MONTH ONE

Cash Balance - Beginning of Month		P 50
Cash Sales	P 200	
Cash Collections from Customers	25	
Other Income	-	
Total Receipts		<u>225</u>
Total Cash In		275
Payments to Suppliers	P 125	
Operating Expenses	20	
Purchase of Building, Equipment	-	
Drawings, Dividends	-	
Other Cash Payments	-	
Total Cash Out		<u>145</u>
Cash Balance - End of Month		130
Loan or Repayment		<u>50</u>
Cash Balance		<u>P 80</u>

DEMONSTRATION EXERCISE 2

The next month cash sales go up by P 100, credit sales increase P 100, cash purchases increase P 100. No payments were received from debtors and loan repayments were not made. Operating expenses went up by 10%.

Instructions: Using the data in Demonstration Exercise 1, prepare a CASH FLOW projection for the month. Does the business have enough cash to operate during the month?

ANSWER KEY/Demonstration Exercise 2

Yes, the business has sufficient cash to operate during the month. The CASH FLOW statement is:

<u>MONTH TWO</u>		
Cash Balance - Beginning of Month		P 80
Cash Sales	P 300	
Cash Collections from Customers	<u>0</u>	
Total Cash Receipts		<u>300</u>
Total Cash In		380
Payments to Suppliers	P 225	
Operating Expenses	<u>22</u>	
Total Cash Out		<u>247</u>
Cash Balance - End of Month		P 133 <u> </u>

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CASH FLOW STATEMENT

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Cash Balance												
Sales, Cash												
Payments on Account												
Other Cash In												
Total Receipts												
Total Cash In												
Stock Purchases												
Expenses												
Equipment												
Total Cash Out												
Balance or (Deficit)												
Loan or (Repayment)												
Cash Balance												

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CHECKLIST FOR COMPLETION - CASH FLOW

Basic Knowledge

What is CASH FLOW?

- CASH FLOW is the movement of cash through the business.

What is a CASH FLOW Projection?

- The display of predicted (projected) movements of cash for a future period.

What is CASH FLOW Analysis?

- The study of CASH FLOW Projections to identify problem areas in CASH FLOW and planning solutions to these cash problems.

Why is CASH FLOW useful?

- CASH FLOW is a management tool. CASH FLOW Projections and Analysis are used to identify problem areas so that management decisions can be taken to avoid or deal with these problems.

What is the difference between Cash and Profit?

- Cash is money available for use. Profit is the excess of revenue over expenses.

What sort of problems will CASH FLOW techniques identify?

- A CASH FLOW Projection will identify cash shortages and cash surpluses.

How does a manager use this information?

- The manager can plan alternative courses of action such as expense control, deferred purchasing or overdrafts for cash shortages. CASH FLOW Projections for each possible solution can help a manager determine the best course of action.

What is the best source of information that can be used to project the future?

- Good records of past business activity and estimates of the future.

Implementation

The client should:

- Identify which items of income and expenditure are cash items.
- Prepare a CASH FLOW Statement for the current period.
- Prepare a CASH FLOW Projection for a future period.
- Identify cash surpluses and shortages.
- Determine an appropriate course of action to solve any CASH FLOW problems.
- Prepare CASH FLOW Projections to show the effect of a management decision to follow the course of action decided above.

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CASH FLOW - ADVISER'S GUIDE

- 1) Your client is unlikely to appreciate the difference between profits and cash. Use the example of his own business to demonstrate that if bills had to be paid now, and customers had been allowed until next month to pay what they owe, that the business would be bankrupt. It will not be able to pay bills that are due, even if it is profitable on paper.
- 2) When the client understands the importance of timing as well as the amount of money, discuss ways in which his business might get into trouble because of CASH FLOW problems. What bills might he have to pay unexpectedly, or what risk is there that customers will not pay their bills when they should? Attempt to alert the client to the danger of unexpected CASH FLOW crises, and then go through ways in which these might be avoided.
- 3) Refer to credit and stock management, and the creditors record, to show that CASH FLOW can be estimated and planned in advance. Stress the use of credit limits and the importance of buying stock which sells quickly in order to recover cash for reuse as soon as possible.
- 4) Do not forget the positive side of CASH FLOW management. Ask the client how he might be able to benefit from knowing well in advance that he was likely to have a surplus of cash. Suggest the possibility of buying a special low cost item for a promotional sale, or opening a deposit account for a fixed period in order to earn higher interest rates.
- 5) Help the client to make an attempt at a forecast of CASH FLOW for the following month. Show how past information from the basic records can help a forecast of this type. Discuss specific actions which the client might take to deal with any likely deficit or surplus that is indicated by the forecast. Stress the necessity for producing regular CASH FLOW forecasts, particularly if the sales, or payments by customers, are seasonal. Bank managers are usually willing to help a customer with a temporary overdraft if it is discussed well in advance, but they will "bounce" a cheque without hesitation if they had no prior warning that the account would be going into deficit.

CASH FLOW - INSTRUCTOR'S GUIDE

- 1) Ask trainees how the owner of a business knows when his business has collapsed. Remind them that businesses can make losses for many years, the business only dies when there is no cash, in the cash box or the bank, to pay bills that must be paid. Demonstrate with the demonstration exercise or similar simple examples that profit and cash are not the same thing. A profitable business can collapse because it runs out of cash, and a loss making business can have a healthy cash surplus.

- 2) Discuss the reasons for cash crises. Stress that bad credit management is the most common cause of business collapse. Show how a growing apparently profitable business can easily run out of cash if the new customers are given more credit than suppliers in their turn are willing to extend to a new and untried business. A shrinking business tends to receive cash from customers from previous credit sales, but does not have to pay out for new supplies because few are needed. Shrinking sales are often associated with a cash surplus.

- 3) When working through the demonstration exercise stress that a CASH FLOW forecast is really a summary forecast of the cash book. Show that the cash book is no more than a detailed analysis of past CASH FLOWS. Remind trainees that sales, cost of goods sold and profit or loss include sales and purchases made on credit. They thus omit the timing factor, which is the central difference between CASH FLOW and profit or loss.

- 4) Work through the exercises. Show that there are often more than one solution. A new asset such as a bicycle can be bought for cash, or rented, or bought on hire purchase, or paid for partly in cash and partly over time. Discuss the type of organisations that are most likely to pay their bills, but often delay payments by many months. Identify individual departments or institutions that are particularly likely to behave in this way. Trainees should warn their clients that money due from these debtors, even if they are certain to pay eventually, is not the same as cash in the bank or in the cash box.

- 5) Ask trainees what bank managers need to know about a business before approving a loan. Stress that they are not so much interested in profit but in cash, because cash is what is needed to repay their loan. It is vital for clients who are applying for bank loans to prepare a CASH FLOW forecast and to be ready to discuss it. Trainees must be able to help clients prepare forecasts of this sort as part of bank loan applications.

EXERCISE/CASE FLOW 1

A shopkeeper is considering buying a bicycle to deliver goods to customers. He currently pays a rental fee of P 20.00 per month to rent a bicycle. A new bicycle would cost P 100 and last for one year. After consideration the owner decides it would be best for the business to buy a bicycle.

CASH FLOW STATEMENT

Cash Balance - Beginning of Month		P 100
Cash Sales	P 450	
Cash Collections from Customers	50	
Other Income	-	
Total Cash Receipts		<u>500</u>
Total Cash In		600
Payments to Suppliers	P 400	
Operating Expenses	50	
Purchase of Equipment	-	
Drawings	50	
Loan Repayments	-	
Other Cash Payments	-	
Total Cash Out		<u>490</u>
Cash Balance - End of Month		<u>P 110</u>

Instructions:

Prepare a CASH FLOW Projection for the next month based on the level of business activity indicated in the CASH FLOW Statement above.

Can he afford to purchase a new bicycle?

If he cannot afford to purchase it how much must he borrow to do so?

If he borrows the amount you have recommended will he have enough cash to operate the business?

ANSWER KEY/CASH FLOW 1

If he decides to buy the bicycle his CASH FLOW Projection for the next month will be:

Cash Balance - Beginning of Month		P 110
Cash Sales	P 450	
Cash Collections from Customers	50	
Total Cash Receipts		<u>500</u>
Total Cash In		610
Payments to Suppliers	P 400	
Operating Expenses	40	
Purchase of Equipment	160	
Drawings	30	
Total Cash Out		<u>630</u>
Cash Balance - End of Month		P (20)

So he cannot afford to buy the bicycle; he needs P 20.00 more than he has.

He would need to borrow at least P 20.00 in order to purchase the bicycle.

It would be wise to borrow more than P 20.00 to maintain a safe level of cash in the business.

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REBIBICISE/LETSHOLO'S LORRY SERVICE 1

Mr. Letsholo has a transport business. He owns a lorry he bought for P 20,000.00, paying P 15,000.00 in cash from his savings. He has arranged with the motor dealer to pay the balance of P 5,000.00 in two equal payments of P 2,500.00 during the next two years. He put P 500.00 in the cash box to begin business with.

Mr. Letsholo employs Ben as a driver/mechanic at P 350.00 per month. He rents a garage with a small office for P 100.00 per month. Mr. Letsholo has been awarded a five year contract to transport cattle by the Ministry of Agriculture. This keeps him busy full time. He is paid P 1,500.00 per month.

He keeps a record of other expenses that show the following:

- Petrol and Oil, P 3,000.00 for the year.
- Servicing and Spare Parts, P 300.00 for the year.

He paid the first instalment to the motor dealer at the end of the first year but paid himself nothing as he intended to reinvent profits in the business.

He found that it took the Government 60 days to process and pay his claims so his monthly payment was always at least two months in arrears. Mr. Letsholo was pleased with the business but was worried about replacing his lorry in five years time. Over the course of the first year he had had to use some of his own money in the business and could not remember how much he had put in.

Instructions:

Prepare a CASH FLOW Statement for the first year of operation.

Determine how much money the business should have in cash at the end of the first year of operation.

Prepare a CASH FLOW Projection for the next four years to see if Mr. Letsholo will be able to replace his vehicle at the end of five years.

LETSHOLO'S LORRY SERVICE

AMSEBA 2017/LETSHOLO'S LORRY SERVICE 1

	CASH FLOW STATEMENT		CASH FLOW PROJECTION								
	Year 1		Year 2		Year 3		Year 4		Year 5		
	P	P	P	P	P	P	P	P	P	P	
Beginning Cash		500	1,000		4,500		10,500		16,500		16,500
Cash Receipts		15,000	18,000		18,000		18,000		18,000		18,000
Total		15,500	19,000		22,500		28,500		34,500		34,500
Wages	4,200		4,200		4,200		4,200		4,200		4,200
Rent	1,200		1,200		1,200		1,200		1,200		1,200
Fuel	3,000		3,000		3,000		3,000		3,000		3,000
Repairs	3,600		3,600		3,600		3,600		3,600		3,600
Total		12,000	12,000		12,000		12,000		12,000		12,000
Ending Cash		3,500	7,000								
Loan (Repayment)		(2,500)	(2,500)								
Ending Cash		P 1,000	P 4,500		P 10,500		P 16,500		P 22,500		

The business should have P 1,000 in cash. If there is more than P 1,000 in cash in the business it will belong to Mr. Letsholo.

The business will have P 22,500 at the end of five years. In addition the business will receive two payments of P 1,500 each in the sixth year for work they did in the last two months when the Government has processed and paid their claim. Mr. Letsholo will have P 25,000 available to replace his lorry.

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EXERCISE/LETSHOLO'S LORRY SERVICE 2

Using the information we know about Letsholo's Lorry Service prepare a month CASH FLOW statement for the first six months that the business was operating.

Instructions: Prepare a six month CASH FLOW Statement.

Does the business have enough cash to operate for the first six months?

If not how did Mr. Letsholo manage to operate his business?

What other solutions to his problem could you have suggested?

ANSWER KEY/LETSHOLO'S LORRY SERVICE 2

Letsholo's Lorry Service
Cash Flow
First Six Months of Operation

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
Beginning Balance	P 500	- P 500	- P 1,500	- P 1,000	- P 500	P 00
Revenue	00	00	1,500	1,500	1,500	1,500
Total	500	- 500	00	500	1,000	1,500
Expenses	1,000	1,000	1,000	1,000	1,000	1,000
Ending Balance	- 500	- 1,500	- 1,000	- 500	00	500
Loan (Repayment)	00	00	00	00	00	00
Ending Cash	- P 500	- P 1,500	- P 1,000	- P 500	P 00	P 500

The above CASH FLOW Statement shows that the business did not have enough cash to operate for the first six months. This is shown by the negative cash figures indicating a cash deficit in the first four months. This is caused by the delay in receiving payments due to the time it takes the Government to process and pay a claim.

The problem states that Mr. Letsholo had "had to use some of his own money". Mr. Letsholo had to "loan" his business some money because of the CASH FLOW problem indicated above.

If Mr. Letsholo had done a CASH FLOW Projection before he started he would have foreseen the problem above. He could have:

- Put more money in at the start to see him through until the Government payments started coming in. This is what he has had to do anyway. He is lucky he had the money to do so.
- Included in his contract with the Government that they make a deposit in advance of two months payment to allow him to begin operations.

- Take this CASH FLOW Projection and his contract to his bank and ask for an overdraft to cover his cash deficit until the Government payments started coming in regularly.
- Used this CASH FLOW Projection to support a bank loan for working capital to prevent the CASH FLOW deficit shown above.

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FINANCIAL MANAGEMENT

WHY IS FINANCIAL MANAGEMENT IMPORTANT?

Is the business wasting money on expensive loan interest charges when the money could be "found" in the business?

Is the business worsening its problems by spending time and effort in the search for a loan rather than solving the problem that caused the need for the loan?

Is money tied up in slow moving stock and long outstanding credit so that the business lacks the resources necessary to grow?

WHAT IS FINANCIAL MANAGEMENT?

FINANCIAL MANAGEMENT is the controlled use of the funds of a business in pursuit of its goals and objectives.

HOW CAN A BUSINESS PRACTICE GOOD FINANCIAL MANAGEMENT?

A business owner should ensure that he is making best use of the assets of the business.

When it has been determined that funds are necessary to pursue the goals of a business the owner should consider all possible ways of "finding" funds inside the business before seeking funds from outside.

Most business people have considerable assets in the business that could be converted to money and used to solve the problems of the business.

A business may have six types of assets:

- Buildings
- Equipment
- Stock
- Debtors
- Cash
- Bank Accounts

Good FINANCIAL MANAGEMENT means making the best use of these assets before seeking funds from outside the business.

What are the advantages to finding funds within a business?

- No interest expense.
- No delay while loans are being processed.
- The assets of the business (and often of the owner also) are not committed to secure the loan.
- More efficient use of existing assets.
- Improved internal management.
- No increase in the liabilities of the business.
- Internal problems are brought to management attention.

Most businesses, even those without excess cash or bank accounts, have assets that can be turned into cash. There are a number of ways to "find" funds:

- The credit policy can be made more strict.
 - (a) Less credit allowed.
 - (b) Repayment period decreased.
 - (c) Long outstanding debts collected.
- Stock management improved.
 - (a) Old stock and slow moving stock put on sale or returned to the supplier. Stock levels reduced.
 - (b) Stock mix improved to assure high turnover.

- Better use can be made of buildings and property.
 - (a) Rental rather than buying should be considered.
 - (b) Improvements in layout or design could reduce the need for additional buildings.
 - (c) Renting or lessing of part of the building or property to another business can raise money (and increase customer flow).
 - (d) Sale or rental of unused buildings or land.

- Unused or unproductive equipment can be sold.
 - (a) Unused equipment can be sold.
 - (b) Underutilised or inefficient equipment can be sold, repaired or traded in on new equipment.

- Expenses and Drawings can be reduced and controlled.
 - (a) All expenses should be reviewed to determine how savings can be made and cash generated, by reducing expenses.
 - (b) Drawings can be reduced, at least until the necessary money is accumulated to pursue the goal of the business requiring funds.

- Bank accounts can be used. Banks pay less interest on savings deposits than they charge on loans. The cost of lost interest on a savings account is less than the cost of interest charged on a loan.

The process of seeking funds from within the business will improve the management of the business as the owner sees many areas of internal management that need improvement.

Often the business is doubly served by the process of FINANCIAL MANAGEMENT:

- (1) The business is saved the expense of borrowed funds
or
The need for external funds is reduced.
- (2) The internal management of the business is improved by the process of examining all aspects of the business and making necessary changes and improvements.

All possible sources of internal funds should be tried before external funding is sought. If all or part of the necessary funds are to be sought externally there are several possibilities open to the business:

- Money can be invested by the owner. This money may come from sale of assets such as cattle or property or from savings.
- Trade credit. The owner can seek credit from suppliers. This is an interest free short term loan.
- Sale of part of the business. The owner can go into partnership with someone and sell his part of the business in order to raise money.
- Loans from family or friends.
- Deposits. A producer or processor can arrange with a customer to pay a portion of the total price in advance as a deposit to make funds available to make the product. This is an interest free short term loan.
- Stage payments. This is especially useful to contractors and sub-contractors. Stage payments are payments at each stage of a project or product as that stage is completed. Stage payments are a series of small advances or payments.
- Overdrafts. A short term loan from a bank when cash is needed for a short period or is needed often, such as farmers' seasonal needs.
- Bank Loans. Bank loans are funds from outside the business, usually requiring extensive security and on which interest is charged. This is often the most difficult, time consuming and expensive form of funds. Loans must be repaid. Money "found" in the business belongs to the business, and the owner incurs no obligation to anyone when he makes better use of it.

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DEMONSTRATION EXERCISE/FINANCIAL MANAGEMENT 1

Mr. Nkape has a seasonal business ploughing fields for farmers from his village with his four draught oxen. He has four employees who work in two teams, each with two oxen. He owns an old vehicle for transporting his teams, but this is unreliable. He therefore has often to hire transport during the busy season to take his ploughs and equipment from one field to another so that the oxen will be rested and able to plough when they arrive. This is very hard work and the equipment needs to be replaced each year.

Most of Mr. Nkape's customers are farmers like himself. They usually tell Mr. Nkape that they cannot pay him until their crop comes in and has been sold. He is short of cash now and is afraid he will be unable to pay wages at the end of next month. He has a loan outstanding with the Development Bank that was used to buy equipment. Because of this he has been refused another bank loan for working capital.

Below are the Balance Sheets and Profit and Loss Statement for his business.

NKAPE'S PLOUGHING

BALANCE SHEET

1 NOVEMBER

<u>Liabilities</u>	P	<u>Assets</u>	P
Creditors	200	Cash	50
Loans	500	Debtors	500
Investment	1,200	Bullocks	800
Reinvested Profits	150	Ploughs	200
		Vehicle	500
Total	<u>P 2,050</u>	Total	<u>P 2,050</u>

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**NKAPE'S PLOUGHING
OPERATING STATEMENT**

31 OCTOBER

	P	P
Sales		900
Expenses:		
Wages	100	
Transport	100	
Depreciation	100	
Interest	5	
Storage/Rent	95	
Feed/Water/Medicine	400	
	<hr/>	
Total Expenses		800
		<hr/>
Net Profit		100
Drawings		50
		<hr/>
Retained Profits		P 50
		<hr/>

How can better FINANCIAL MANAGEMENT help Mr. Nkape?

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ANSWER KEY/Demonstration Exercise 1

Mr. Nkapa needs to carefully examine all aspects of his business to "find" the money hidden in his business. Some of the sources of money are:

- Vehicle: He should sell his old vehicle as soon as possible, for whatever price it will bring. This will solve his immediate cash problem.
- Debtors: He is giving more credit than he can afford. He is giving much more credit than he receives. He should ask his credit customers to make partial payments. He should consider asking them to make deposits before he begins work. He should favour those customers who give a deposit in advance and do their work first. He should review his debtors to see if many are long outstanding, perhaps from previous years.
- He should seek increased trade credit. If he can get credit for feed and medicine he can find money to meet the payroll. He should ask his creditors to allow him to pay them when he is paid. As a general rule a business should not give more credit than it receives.
- He should reduce expenses and drawings. He should examine all expenses to see how they could be reduced. Perhaps he need not pay rent and storage fees during the ploughing season when all his equipment and oxen are in the fields in use. Perhaps he can rent these buildings to someone else during the period he does not use them. Perhaps he can arrange for his customers to feed and water his oxen and provide necessary medicines and reduce their bill by this amount. This is a way of balancing debtors with creditors. He can give his customers credit on the ploughing fee and he can receive credit from them for feed and watering expenses.
- He could reduce drawings. If the business does not succeed there will be no future drawings. If he defers his drawings to allow the business to prosper he can take drawings out later when his customers have paid.
- For the future he should consider renting equipment rather than buying equipment. If the cost of rental is less than the cost of depreciation and of loan interest it might be better to rent. If he rents equipment only when he needs it he will have reduced storage expenses.

DEMONSTRATION EXERCISE/FINANCIAL MANAGEMENT 2

Kgololo wants to bid on a contract to build a storeroom for the mine. The building will cost P 5,000 to build and he hopes to charge the mine P 6,000 in order to make a profit for his business. He does not have enough money to pay the materials transport and labour costs of P 5,000. He has all the equipment necessary for the job and about P 1,000 in cash. He does not think the bank will give him a loan because he has no security and in any case does not want to pay the P 250 in fees and interest charges the bank would charge for the loan.

What system of FINANCIAL MANAGEMENT can you suggest that will let Kgololo bid on this job?

ANSWER KEY/Demonstration Exercise 2

Kgololo should submit a bid that calls for a deposit to let him buy materials at the start and that then pays for the work as it is completed in a series of "stage payments". The stage payments will see that he has cash flowing into the business as he needs it to buy more materials and pay his workers and the mine will be protected and assured because they will only be paying for the work as it is done.

His bid might be accompanied by the following proposal for stage payments:

TO: The Mine
FROM: Kgololo's Construction

<u>Proposed Stage Payments, Storeroom Construction</u>	
<u>Work Complete</u>	<u>Payment</u>
Deposit	P 1,000.00
Slab Poured	1,000.00
Walls Complete	1,000.00
Roof On	1,000.00
Doors, Windows Installed	1,000.00
Painted, Finished, Refuse Cleared	1,000.00
Total	<u>P 6,000.00</u>

CHECKLIST FOR COMPLETION - FINANCIAL MANAGEMENT

Basic Knowledge:

What is good FINANCIAL MANAGEMENT?

- The most efficient use of the funds and assets of the business.

How is FINANCIAL MANAGEMENT important?

- When the business is in need of cash to meet problems or to pay for an improvement to the business.

Where can a business find funds?

- The business must first make the best use of internal funds before seeking funds from outside the business.

Is it usually best to seek funds internally or externally?

- The search for funds inside the business usually results in internal improvements in the business. If funds are found internally the business is not obligated for them to a bank or loan agency.

When is it best to seek funds outside the business?

- When the business does not have adequate internal assets to accomplish the goals of the business.

What are some sources of internal funds?

- Stock, debtors, expenses reduction, drawings control, bank accounts.

What are some common sources of external funds?

- Trade credit, overdrafts, deposits from customers, bank loans.

Which is the most costly?

- Bank loans are usually the most costly. A bank loan must be repaid, interest is charged, there are often delays and the assets of the business (and owner) are often used to secure the loan.

When is it best to seek a loan?

- When the business will be served by additional funds and after all internal sources have been used to raise all or part of the funds. Other external sources should have been investigated.

Implementation

The client should:

- Review the present use of assets and management practices.
- Make improvements in his FINANCIAL MANAGEMENT practices.
- Anticipate future needs for funds and plan where these funds will come from.
- If seeking funds:
 - Use good FINANCIAL MANAGEMENT techniques to seek internal funds.
 - Make improvements in internal financial practices.
 - Plan on funding with the best combination of internal and external funding.
 - Implement a financial plan to secure funds.

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FINANCIAL MANAGEMENT - ADVISER'S GUIDE

- 1) Most clients believe that their main problem is their shortage of capital. They think that the only place to get more capital is from a bank loan. If your client wants a loan, ask him why. He will presumably mention his need for more stock or a new machine, or just for working capital to pay wages or to settle bills. Find out how much money he wants; if the business has a balance sheet, ensure that the use he proposes for extra money would in fact be good for the business.
- 2) Clients often regard loans as a privilege, a grant or a gift. Point out that the bank is giving nothing away, and that the client will have to pay interest and also risk losing his house, his cattle or other security if he does not repay the loan. Stress the advantages of obtaining money in some other way which involves no such obligation.
- 3) Examine the assets side of the client's balance sheet, and the physical assets themselves such as goods in stock or equipment. If the business has no balance sheet, ask the client for his estimates of the value of the various assets. You are almost certain to be able to find at least one asset where money is "sleeping" and from which it could be "released". It can then be used to satisfy the need which the client believes he must satisfy with a loan. Slow moving stock, under-used machinery, surplus buildings or excessive debtors, or even excessive savings accounts are common "hiding places" for "sleeping money".
- 4) Help the client to understand that although he has not got idle cash, he has money in other forms which are not productive. Discuss ways of "releasing" or "waking up" the "sleeping money", and agree on a specific target for moving money from one asset to another to be achieved by your next visit.
- 5) If there is no spare money tied up in any of the assets (which is most unlikely), ask the client whether he is making the best use of supplier credit. Could his suppliers be persuaded to allow him longer to pay

his bills? Could he change suppliers, even at the expense of slightly higher prices, in order to obtain credit? Show how money "borrowed" in this way from suppliers can be a permanent interest free loan.

- 6) Examine the expense record of the business. If there is no up to date record, ask the client to estimate how much he withdraws from the business for his own and his family's use every month. If this is any more than the absolute minimum, show how it would be possible to reduce drawings and thus to accumulate the needed money from increased profits, probably in a shorter time than it would take for a loan to be approved. Whatever source of money is identified, agree on a specific amount that will be obtained from within the business by a specific date, and maintain contact with clients to ensure that this is achieved.
- 7) The same improved FINANCIAL MANAGEMENT can be introduced to clients who are not seeking for a loan. Introduce the subject by asking the client whether he would like a windfall "gift" of whatever amount you suspect could be "released" from the business. Clearly he will say that he would, and you can then show him how to obtain it.
- 8) FINANCIAL MANAGEMENT is not a one-off technique for obtaining money for a particular purpose. If the money in a business is correctly managed every There will always be used in such a way that it produces the most profit for the business. Every item of stock, every debtors account and every piece of equipment will be properly selected and controlled. The owner should be able to show himself and the bank that he is managing money in this way, before asking for a loan.

FINANCIAL MANAGEMENT - INSTRUCTOR'S GUIDE

- 1) This topic effectively summarises earlier material on the management of assets, such as stocks and debtors, and on the management of cash flow into and out of the business. Refer back to these topics, and ensure that trainees understand how the balance sheet and profit and loss statement show how much money is being used in the business, and for what purposes.

- 2) Trainees, and their clients, may find it difficult to understand that the manager of a business can decide how to distribute the money in the business among the various assets. He can, in the short and long term, change the way to distribute it if he wishes. Demonstrate with sticks of chalk, coins or some other item that money for a new asset can be obtained from one or two sources:
 - From within the business, without increasing the total amount of money employed.
 - From outside the business, by increasing one of the liabilities.

- 3) Stress that additional funds are additional "liabilities". Unless the owner is willing to invest more capital of his own the business will incur an obligation to the bank or to the supplier giving credit. If money can be found from within the business, no obligation is incurred.

- 4) Ensure that trainees are not fooled by terms such as "loan approval" or "granting a loan" into believing that loans are a gift. Show that they are a business transaction, and that it is the borrower who assumes the risk and the high cost, not the lender.

- 5) Work through the exercises, ensuring that every trainee understands how to identify possible sources of money. They should relate the amount of money tied up in every asset to the sales. Clearly the amount of stock, or debtors, depends on the type of goods sold or whether customers receive their income every month or, like farmers, less frequently.

Show that as a general rule, if stocks or debtors are worth more than twice monthly sales there is a good chance that they are higher than they need be. Trainees can use this as a basic indicator to show them where to look for "sleeping" money.

- 6) Stress that examination of figures must be accompanied by physical examination of stock, equipment, buildings and the debtors record. The total figures can easily conceal individual items of stock, or individual debtors or equipment, where a large sum of money is "sleeping". A client who agrees she needs a loan to buy more stock may have the money already in stock, but tied up in the wrong items.
- 7) If time allows, visit a few businesses with trainees and practice identifying potential sources of money by examining stock. Stress that stock need not be "dead" to be excessive. A client who keeps six months worth of an item in order to save a few Pula in transport costs may be depriving herself of the money to buy other items on which she would earn far more than the money she is saving. Show by reference to cash flow calculations that a recommendation to stop buying an item, without attempting to dispose of it more quickly than normal, will itself release cash that would otherwise have been spent on maintaining the stock at an excessive level.
- 8) Summarise the topic by asking trainees to list all the possible ways in which clients of various types might be expected to accumulate under-employed money. Stress that the search for money requires ingenuity. Clients seem able to "hide" money far more effectively than if they were to bury the cash in a hole in the ground. The adviser must help them to find it, and to release it in order to avoid the need for the expense and time involved in borrowing from the bank.

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EXERCISES/FINANCIAL MANAGEMENT 1 TO 5

Each of the following five business people feel that they need a loan to solve their business problems. Each of them could improve their FINANCIAL MANAGEMENT to find the funds within their business and avoid the difficulty, delays and expense of a loan.

Instructions: Examine the Profit and Loss Statement and the Balance Sheet that is shown for each of the five businesses and explain how each business could "find" the funds internally through good FINANCIAL MANAGEMENT.

Exercise 1 : The Clothing Store

Balance Sheet, 1 February

<u>Assets</u>	P	<u>Liabilities</u>	P
Cash	100	Creditors	500
Debtors	500	Loan from Family	1,000
Stocks	4,000	Investment	1,000
Equipment	1,000	Reinvested Profits	3,100
Total	<u>P 5,600</u>	Total	<u>P 5,600</u>

Profit and Loss Account, January

	P	P
Sales		1,000
Opening Stocks	3,900	
Goods Bought	950	
Total	<u>4,850</u>	
Less: Closing Stocks	<u>4,000</u>	
Cost of Goods Sold		<u>850</u>
Gross Margin		150
Rent	50	
Wages	60	
Licences	10	
Transport etc.	20	
Total Expenses		<u>140</u>
Net Profit		<u>P 10</u>

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Exercise 2 : The Fresh Produce Dealer

Balance Sheet, 1 February

<u>Assets</u>	P	<u>Liabilities</u>	P
Cash	1,000	Creditors	-
Debtors	900	Loans	-
Stocks	3,000	Investment	5,000
Equipment	600	Reinvested Profits	500
Total	P 5,500	Total	P 5,500

Profit and Loss Account, January

	P	P
Sales		5,000
Opening Stocks	3,100	
Goods Bought	4,700	
	<u>7,800</u>	
Less: Closing Stocks	<u>3,000</u>	
Cost of Goods Sold		<u>4,800</u>
Gross Margin		200
Rent	100	
Wages	100	
Licences	10	
Transport	60	
	<u>270</u>	
Total Expenses		<u>270</u>
Net Loss		<u>P (70)</u>

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Exercise 3 : The Carpenter

Balance Sheet, 1 February

<u>Assets</u>	P	<u>Liabilities</u>	P
Cash	50	Creditors	500
Debtors	4,500	Loan	-
Materials	1,500	Investment	9,800
Equipment	450	Reinvested Profits	5,700
Building	9,500		
Total	<u>P 16,000</u>	Total	<u>P 16,000</u>

Profit and Loss Account, January

	P	P
Sales		1,500
Opening Stocks	1,800	
Materials Purchased	950	
	<u>2,750</u>	
Less: Closing Stocks	<u>1,500</u>	
Cost of Materials		<u>1,250</u>
Gross Margin		250
Wages	100	
Transport	50	
Licences	10	
	<u>160</u>	
Total Expenses		<u>160</u>
Net Profit		<u>P 90</u>

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Exercise 4 : The Camera Shop

Balance Sheet, 1 February

<u>Assets</u>	P	<u>Liabilities</u>	P
Cash	30	Creditors	100
Debtors	570	Loan	-
Stocks	2,500	Investment	5,000
Equipment	1,000	Reinvested Profits	9,000
Building	10,000		
Total	P 14,100	Total	P 14,100

Profit and Loss Account, January

	P	P
Sales		2,000
Opening Stocks	2,800	
Goods Bought	1,300	
	<u>4,100</u>	
Less: Closing Stocks	<u>2,500</u>	
Cost of Goods Sold		<u>1,600</u>
Gross Margin		400
Rent	50	
Wages	400. (owner/manager sole employee)	
Licences	10	
Transport, Wrapping, etc	<u>40</u>	
Total Expenses		<u>500</u>
Net Loss		<u>P (100)</u>

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Exercise 5 : The Bottle Store

Balance Sheet, 1 February

<u>Assets</u>	P	<u>Liabilities</u>	P
Cash	300	Creditors	300
Bank Account	800	Loan	-
Debtors	-	Investment	2,000
Stocks	1,200	Reinvested Profits	500
Equipment	500		
Building	-		
Total	P 2,800	Total	P 2,800

Profit and Loss Account, January

	P	P
Sales		750
Opening Stocks	1,400	
Goods Bought	400	
Less Closing Stocks	1,800	
	1,200	
Cost of Goods Sold		600
Gross Margin		150
Wages	50	
Rent	100	
Licences	10	
Transport, etc.	40	
Total Expenses		200
Net Loss		P (50)

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ANSWER KEY/EXERCISES 1 TO 5

Each of the exercises is structured to emphasise a particular aspect of FINANCIAL MANAGEMENT.

The answer given is one of many possible solutions. When discussing these exercises you should consider factors that might support or change the answer given.

Answer Key/Exercise 1 : The Clothing Store

The stock level is too high. There is approximately 4.5 months of stock on hand. The net profit margin is only 12%. This is too low. This is probably a combination of both low prices and high expenses.

Source of Funds: Reduce stock, reduce expenses, review pricing system.

Answer Key/Exercise 2 : The Fresh Produce Dealer

Debtors are very high, especially when compared to creditors. The gross profit margin is very low, about 4%, and there is a net loss. High expenses may contribute to the net loss.

Source of Funds: Seek trade credit, reduce debtors, review pricing, reduce expenses.

Answer Key/Exercise 3 : The Carpenter

The debtors are excessive. He has three months sales tied up in debtors. He should reduce these to no more than one months sales in debtors. The gross profit margin seems low. He should check his prices against the competition and see if they can be adjusted.

Source of Funds: Reduction of outstanding debtors, review pricing.

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Answer Key/Exercise 4 : The Camera Shop

Debtors are high especially when compared to creditors. The business owns a building and pays rent though it is a small business. Wages are very high in relation to other expenses.

Source of Funds: Reduce debtors, seek more trade credit, make better use of the building asset by selling it or renting it, control owners drawings (wages). The owner is paying himself more than the small business can afford.

Answer Key/Exercise 5 : The Bottle Store

The business has money in the bank. Expenses are too high for this small business resulting in a net loss.

Source of Funds: Use the money in the bank for all or part of the funds needed. Reduce expenses, particularly rent. Perhaps the building is not well located if rent is high but sales are low.

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EXERCISE/FINANCIAL MANAGEMENT 6

A small general dealer is thinking of expanding his shop. His Profit and Loss Statement is as follows:

	₱
Sales	1,000
Cost of Sales	800
	<hr/>
Gross Profit	200
Expenses	100
	<hr/>
Net Profit	100
Drawings	60
	<hr/>
Reinvested Profit	₱ 40
	<hr/>

A loan from the National Development Bank can be secured for 12% per year. The shopkeeper believes that with a ₱ 5,000 loan he can increase his sales from ₱ 1,000 to ₱ 1,500 per month. The gross profit margin will remain the same.

Instructions: Determine whether the shopkeeper should obtain the loan in order to expand his business.

ACCOUNTS KEY/FINANCIAL MANAGEMENT 6

A projected Profit and Loss Statement after the loan would be as follows:

	P
Sales	1,500
Cost of Sales	1,300
	<hr/>
Gross Profit	100
Expenses	150
	<hr/>
Net Profit	150
Savings	60
	<hr/>
Reinvested Profits	P 90
	<hr/>

Based on the above information the business owner should request the loan. Even with the increased expenses of P 50 per month interest the net profit increases from P 100 to P 150. Assuming there are no other additional costs (such as additional labour or management time) and that gross profit margin and margins can be maintained, the business will be making greater profits after the expansion.

If the objective of the business is to increase profits, then this alternative will achieve the objective.

Note: The businessman should prepare a cash flow projection for the repayment period to assure that adequate cash will be available to pay back the loan. The P 3,000 in proceeds from the loan must be paid back as well as the interest.

COSTING

WHY IS COSTING IMPORTANT?

Does the business ever lose money because it has sold something for less than cost?

Are all costs such as electricity, rent and wages included in the costs of products?

Does the owner of the business know whether he can afford to reduce the price of an item to meet competition?

WHAT IS COSTING?

COSTING is the calculation of the total cost of a manufactured item or service including the components of labour, materials and overheads.

HOW IS THE COST OF A MANUFACTURED PRODUCT OR SERVICE DETERMINED?

The cost of a manufactured product is the sum of its component costs. The components are labour, materials and overheads:

Labour: The cost of the labour actually used to make the product or provide the service.

Materials: The total value of the amount of all stock used to produce the product or perform the service.

Overheads: The indirect costs of manufacturing such as rent, depreciation and management salaries.

Labour and materials are costs that can be assigned to a specific product or service. They are direct costs because they can be "directed" to a specific product or service.

There are several steps to determining labour cost:

- Observe or estimate the number of workmen needed for the project.
- Calculate how long the work will take.
- Determine the cost in wages or salaries of this amount of work.
- Assign this cost to the project as labour cost.

Material costs are determined by:

- Observe or estimate all materials used in the produce or service.
- Calculate the cost of these materials.
- Assign this cost to the project as material cost.

When calculating materials cost remember to:

- Include all materials used or used up in the project.
- Include all small items such as nails, glue and paint.
- Include multiple units or parts of units such as half of a tin of paint or 10 blocks.

Overheads are all the costs involved in the process of the manufacture or providing the service that cannot be assigned directly to a particular project or product. Overheads are the indirect costs. When COSTING it is necessary to assign overhead or indirect costs to the product or service being costed. There are two ways of assigning indirect costs:

- Based on level of production.
- Based on labour hours involved in completing the product or service.

Overhead costs are usually fixed; that is, they do not change with changes in level of production.

For this reason fixed costs (overheads) per unit of production will decrease as production increases and increase as production decreases.

Total fixed costs will increase when new overheads are added such as renting an additional workshop or buying new equipment.

Overhead cost is determined by:

- Determining all the indirect costs, both cash and non-cash for the period.
- Calculating the total value of all these costs.
- Dividing this amount by:
 - Total hours worked during the period
 - or
 - Total units of production.

A business that manufactures one product or that provides one service can use either method.

A business that produces many things or provides a number of services should use the overhead cost per hour method.

If the overhead cost per hour method is used the following steps are necessary:

- Determine the overhead cost per labour hour.
- Determine the number of hours involved.
- Multiply the cost per hour times the hours.
- Assign this amount to the project as overhead.

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DEMONSTRATION EXERCISE 1

What type of cost is each of the following? (Labour, Materials or Overhead)

- (1) Wood to make coffins
- (2) Nails to make coffin maker's shop
- (3) Rent
- (4) License for business
- (5) Wages paid to employees
- (6) Salary paid to manager
- (7) Wages paid to the owner who works in the shop
- (8) Transport to bring in wood
- (9) Petrol for vehicle
- (10) Depreciation on shop
- (11) Water bill for shop
- (12) Maintenance of grounds
- (13) Varnish to paint coffins

ANSWER KEY/Demonstration Exercise 1

- (1) Materials
- (2) Materials
- (3) Overheads
- (4) Overheads
- (5) Labour
- (6) Overheads
- (7) Labour
- (8) Overheads
- (9) Overheads
- (10) Overheads
- (11) Overheads
- (12) Overheads
- (13) Materials

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004

DEMONSTRATION EXERCISE 2

A tinmith works outside in the marketplace under a tree making tin boxes.
The materials for each box cost:

Tin	P 9.20
Handles	1.20
Rivets	0.20

It takes him three hours to complete each box. He believes that his labour is worth 30c per hour. There are no overheads.

Instructions: Calculate the total cost of the box.

ANSWER KEY/Demonstration Exercise 2

The cost of the box is simply the cost of the components that make up the box; labour, materials and overheads:

<u>Materials</u>		<u>Labour</u>	<u>Overheads</u>
Tin	P 9.20	3 hours x 30c = 90c	nil
Handles	1.20		
Rivets	0.20		
	<u>P 10.42</u>		
Total Cost		= P 10.42 + P 0.90	= <u>P 11.32</u>

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DEMONSTRATION EXERCISE 3

A chair maker has the following costs:

Materials	P 3.00 per chair
Labour	P 4.00 per chair
Overheads	P 60.00 per month

- (1) 30 chairs are produced each month. What is the cost per chair?

- (2) The Manager is planning to increase production to 60 chairs per month. What would the cost per chair be, assuming the overheads amount is the same?

- (3) What other considerations must be taken into account if the Manager is to increase production?

Instructions: Answer the above questions allocating the overheads based on production.

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ANSWER KEY/Demonstration Exercise 3

- (1) Allocating the overheads based on a production of 30 chairs (P 2.00 per chair) the total cost per chair would be:

Materials	P 3.00
Labour	4.00
Overheads	<u>2.00</u>
Total Cost	<u>P 9.00</u>

- (2) With a production run of 60 chairs, the overhead costs can be allocated at P 1.00 per chair. Therefore, the cost per chair would be:

Materials	P 3.00
Labour	4.00
Overheads	<u>1.00</u>
Total Cost	<u>P 8.00</u>

- (3) The Manager should determine whether or not the market exists for an additional 30 chairs per month and if he can market them. He should also determine if the price he charges for the chairs will change if additional ones are placed on the market. The fixed costs are only "fixed" in certain production ranges and may increase if production is increased substantially. For example if a new workshop were required the overheads would be increased. The overheads would then become "fixed" at a higher level equal to the old overhead plus the rental of the new workshop.

BUSINESS NAME: _____

DATE: _____

COSTING FORM

ITEM: _____

DESCRIPTION: _____

SIZE: _____

(1) MATERIAL USED

QUANTITY	DESCRIPTION:	PRICE PER UNIT	AMOUNT
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
TOTAL MATERIALS			_____

(2) LABOUR

_____	HOURS	@ _____	_____
_____	HOURS	@ _____	_____
_____	HOURS	@ _____	_____
TOTAL LABOUR			_____

(3) OVERHEADS (Rent, Electricity, etc.
Note: use OVERHEADS COMPUTATION FORM)

_____ Hours OR One Unit of Production @ _____
(Overhead Rate)

TOTAL OVERHEADS _____

TOTAL COSTS _____

(4) MARK-UP FOR WHOLESALE : _____ % OF TOTAL COSTS (above) _____
WHOLESALE PRICE

(5) MARK-UP FOR RETAIL : _____ % OF WHOLESALE PRICE (above) _____
RETAIL PRICE

CHECKLIST FOR COMPLETION - COSTING

Basic Knowledge

What is COSTING?

- COSTING is the process of determining the total cost of a manufactured product or of a service provided.

What are the component parts of the cost of a product or service?

- The total cost is made up by calculating the total cost of:
Materials
Labour
Overheads

What are direct costs?

- Direct costs are those that can be assigned to the manufacture of a particular product or to the performance of a particular service.

Which costs are direct costs?

- Materials and Labour.

Is labour always a direct cost?

- No. Labour is a direct cost when the efforts of the worker are applied directly to a specific product or service.

What are indirect labour costs?

- Indirect labour costs are those that cannot be assigned directly to a specific product or service. Examples of indirect labour costs are management salaries and drivers' wages.

How are these included when total costs are being calculated?

- They are included in the overheads.

What are overheads?

- Overheads are all costs, both cash and non-cash, that cannot be assigned directly to a specific project or product.

What are examples of overheads?

- Rent, electricity, depreciation, management salaries, insurance, etc.

How are overheads calculated?

- There are two steps:
 - (1) First find the total by adding all overhead costs.
 - (2) Second, divide this sum by total hours of labour or total units of production.

Should overhead costs be allocated by labour hours or by units of production?

- Allocation by labour hours is more accurate, especially when many products are being manufactured.

Is COSTING a management tool?

- Yes. COSTING can give management the information they need to decide if it is possible to make and sell a product at a competitive price and can help management decide between several products or means of production.

Implementation

The client should:

- Calculate total overhead costs.
- Calculate overhead rate to allocate overhead costs.
- Determine costs of products manufactured or services provided.
- Use COSTING as a way to:
 - Determining selling price.
 - Deciding whether or not to make a product or provide a service.

COSTING - ADVISER'S GUIDE

- 1) This topic is intended for manufacturing clients, since the cost to a retail business is what he pays for his stock. Point out to your client that he should be able to state the cost of everything he makes, just as a shopkeeper knows the cost of what he buys.
- 2) Most manufacturing clients will have some idea of their costs, even if they are very inaccurate. Ask your client to suggest the cost of his most commonly produced item, and ask him how he arrives at the figure he gives you. Do not value the material used and add a margin of some sort, or he may also add an estimate of the cost of labour, and add a standard margin to the cost of material and labour together. Be sure to build on his present methods, rather than starting as if he had no idea of his costs at all.
- 3) Most manufacturing clients make some attempts to allocate the costs of material to individual products. Even if they do not allocate their own or their staff's labour on the basis of the time spent, it is not difficult to introduce this idea. Indirect costs, or overheads, are more difficult to understand. Go through the various expenses involved in making a typical product, starting with the raw material, and ask the client how he can be sure he recovers each item. When he gets beyond the stage at which he allocates costs to individual items, he will probably say that other costs are covered by his "profit". Remind that any part of the selling price which covers costs is not profit, and that it is dangerous to treat it as such.
- 4) Show the client that he will not start to make profits until all his costs have been covered. Introduce the concept of overheads by comparing a manufacturing with a retail business. A retailer knows the purchase cost of his stocks, but it is obvious that he must add on a margin to cover wages, rent and so on before he starts to make a profit. In the same way, raw materials and labour are the basic costs of a manufactured product, but the overhead costs must also be covered.

- 5) Discuss various ways of allocating costs, but stress that the method of allocation is not so important; what matters is that all the overheads are covered by selling prices, and that there is a profit in addition.
- 6) Your client may be producing some items at a high profit while the selling price of others barely covers the cost of raw materials. Help the client to calculate his costs, and compare these with selling prices. Discuss ways of increasing sales of the profitable items, and eliminating losses on the others. Stress that any sales which contribute something to overheads are better than nothing, but most clients can alter the "mix" of their sales towards more profitable products, even if they cannot increase the prices of less profitable items.
- 7) Clients may be unnecessarily frightened of the effects of increasing prices. Show that it is better not to call heavy loss returns at all than to continue making losses, and encourage the client to risk charging a higher price. He may be surprised to find that sales are not seriously affected.
- 8) Refer to the pricing topic. Stress that manufacturers must calculate their production costs and compare competitive prices. If the cost is well above equivalent competitive prices, they should not make the item at all, but if there appears to be a wide margin, it is reasonable to add on a higher profit margin than if competition is strong.
- 9) The key to many clients' success and growth in manufacturing is their ability to tender for official contracts—for school uniforms, buildings and so on. Stress that it is vital to be able to calculate costs properly in order to bid for official contracts. Help the client to identify appropriate tendering opportunities for his business, and help him to calculate a price which will produce a reasonable profit but also be low enough to be competitive.

COSTING - INSTRUCTOR'S GUIDE

- 1) Take a familiar item where production trainees can personally observe near to the classroom such as a cup of tea or a typed letter. Ask trainees to write down three items which make up the cost. The materials are easy to identify but of little importance in relation to the total cost. Direct labour is less easy. Overheads which make up the vast majority of the total cost are very difficult to identify and to allocate. Use this example to distinguish between direct costs and overheads, and to demonstrate the importance of including overheads in the total cost of a product. A price which included only the materials which are used in a cup of tea or a letter would be insignificant.
- 2) Select a number of items manufactured by typical clients, and if possible bring samples into the classroom. Ask trainees to list the direct and indirect costs involved in making each one. Ensure that nothing has been omitted, and then discuss how the overhead costs might be allocated to individual products. Remind trainees that they should be able to recommend methods which can easily and quickly be used by their clients.
- 3) Distribute the form; stress that the particular layout is unimportant, what matters is that every cost is included. Some form of checklist is therefore useful. Discuss the relative advantages of allocating costs according to the hours worked on each item, or the number produced in a month. Stress that the objective should be to introduce clients to a system they can understand and will continue to use without the adviser's assistance. Trainees should teach clients the method they are most likely to understand and use.
- 4) Manufacturers differ from one another far more than retail shops. Trainees must realize that the COSTING method will depend very much on the nature of the product that is being produced and the ability and inclination of the client. Discuss service businesses such as

restaurants or clothing repairs, or the tannery and vehicle repair businesses illustrated in Exercises One and Two. A barber, for instance, uses no materials at all, but is not a retailer. All his costs are overheads, and they must all be covered in the cost calculation.

- 5) Show by example that the volume of sales is the most important factor in the cost of any product or service when raw materials are insignificant. Compare the costs of an identical cup of tea served by a restaurant which serves ten cups of tea a day, and nothing else, and another which sells 100 cups a day, assuming that both could be handled by one man. Stress that if overhead costs are allocated on the basis of under-employed labour and facilities, they will probably remain under-employed because the resulting prices will be too high. Advisers should help their clients to establish the likely level of sales at certain prices, and then to calculate whether their costs will be covered at this volume and price or not.
- 6) Refined business of the material on pricing, or deal with it at this stage. Advisers should not encourage their clients to ignore competitive prices. Costs should be calculated in order to see if clients can compete with other local products or with imports, and then to decide what products to make.

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EXERCISE/COSTING 1

A rural tanner buys skins from hunters for P 10.00. He tans the skins and then sells them to Botswana Craft. He needs P 2.00 for himself and the following to tan one skin:

- 2 kg Salt at 30c per kg.
- 1kg Chemicals at a cost of 90c per kg.

Instructions: Calculate the cost of a tanned skin. What must the tanner determine before he sells his skins to Botswana Craft?

ANSWER KEY/COSTING 1

The cost of the tanned skin will be the cost of the components:

Materials: Skin	P 10.00
Salt	0.60
Chemicals	0.45
Labour	2.00
Overheads	nil
Cost of One Tanned Skin	= P 13.15

The P 13.15 is his cost. He must consider his markup in order to determine the selling price before the Botswana Craft buyer comes.

EXERCISE/COSTING 2

Katsheko's Auto Repairs has been asked to give an estimate for the repair of a council vehicle. He intends to assign his assistant to the job. He pays this assistant P 10.00 per day.

Katsheko examines the vehicle and determines the following will be required to repair it:

- Engine costing	P 100.00
- Paint, 2 tins costing	5.00 each
- Bumper	250.00
- 2 Headlights costing	25.00 each
- 3 days Labour by the Assistant	

Katsheko has calculated his overheads at P 20.00 per day. This includes rent, depreciation, tools and his salary.

He expects that he and his assistant will be fully employed working on this job.

Instructions:

- (1) Calculate the cost of the repair.
- (2) What must Katsheko determine before he gives his quote to the council?

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ANSWER KEY/COSTING 2

(2)

RAHSHOKO'S AUTO REPAIRS

Costing Form

		P	
Materials	1 x Bumper	250.00	
	1 x Bonnet	100.00	
	2 x Headlights	50.00	
	2 x tire Pair	10.00	
		<u>410.00</u>	
Labour		30.00	
Overheads	3 x days @ P20 per day.	60.00	
Total Cost		<u>P 500.00</u>	

(2)

Rahshoko must determine the amount he wishes to add as markup before preparing his estimate for the council.

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EXERCISE/KOPO'S KNITTER

Miss Kopo has just purchased a knitting machine and plans to make jerseys for sale in the Mall. She believed the P 300 machine will last ten years with proper care and maintenance.

After doing some research she finds that the following expenses will be incurred for a month of operation:

Material	50 cones of high bulk acrylic wool	P 300.00
	50 spools of thread	20.00
Labour	150 hours @ 30c per hour	
Overheads	Rent	P 50.00
	Electricity	20.00
	Transport	2.50
	Depreciation	2.50

Output per month is expected to be 100 jerseys.

Instructions: Calculate the cost per jersey allocating overheads based on labour hours.

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ANSWER KEY/SCOP'S NUMBER

To find the cost of one Jersey we must first find the cost of the components.
The production run is 100 Jerseys.

Materials: $\frac{P\ 320.00}{100\ \text{Jerseys}} = P\ 3.20\ \text{per Jersey.}$

Labour: 150 hours x 30¢ per hour = P 45.00 for 100 Jerseys.
 $\frac{P\ 45.00}{100\ \text{Jerseys}} = 45¢\ \text{per Jersey} : 1.5\ \text{hours per jersey.}$

<u>Overheads:</u>	per hour allocation	Rent	P 50.00
		Electricity	20.00
		Transport	2.50
		Depreciation	2.50
		Total Overheads	<u>P 75.00</u>

The allocation based on labour hours would be:

$\frac{P\ 75.00}{150\ \text{Labour hours}} = 50¢\ \text{per hour.}$

Therefore the allocation to each jersey would be:

50¢ x 1.5 hours = 75¢ per jersey.

The cost per jersey is:	Material	P 3.20
	Labour	0.45
	Overheads	0.75
		<u>P 4.40</u>

Business Name: KROPP'S KNITTER Date: 1 June

Period: 1 May to 31 May 19

OVERHEADS COMPUTATION

(A) Rent	<u>P 50-00</u>
(B) Electricity	<u>20-00</u>
(C) Repayment and Interest	<u> </u>
(D) Office Expense	<u> </u>
(E) Telephone	<u> </u>
(F) Transport	<u>2-50</u>
(G) Insurance	<u> </u>
(H) Depreciation	<u>2-50</u>
(I) Repairs and Spares	<u> </u>
(J) Dead-Time	<u> </u>
(K) Management Salaries	<u> </u>
(L) Other	<u> </u>
TOTAL	<u>P 75-00</u>

OVERHEAD RATE

Total Overheads per
(period) P 75-00

divided by:

Total Working Hours OR Units of Production per Month
(period) 150

equals

Overheads per Hour OR per Unit of Production 50c

(Overhead Rate)

Instructions:

- (1) List all overhead costs both cash and non-cash.
- (2) Determine number of labour hours or number of units of production.
- (3) Ensure that all calculations are for the same period (week, month, etc.)
- (4) Delete above whichever is not applicable (hours or production units) to avoid confusion.

BUSINESS NAME: KROPP'S KNITTING

DATE: 1 June

COSTING FORM

ITEM: JERSEY

DESCRIPTION: _____

SIZE: All

(1) MATERIAL USED

QUANTITY	DESCRIPTION	PRICE PER UNIT	AMOUNT
<u>3 coils</u>	<u>High 3/4 24/24 L.C.C.</u>	<u>6.00</u>	<u>3.00</u>
<u>3 Spools</u>	<u>THREAD</u>	<u>40</u>	<u>.20</u>
_____	_____	_____	_____
_____	_____	_____	_____
TOTAL MATERIALS			<u>3.20</u>

(2) LABOUR

<u>Knitting</u>	<u>1</u> HOURS	<u>\$ 30¢</u>	<u>30</u>
<u>Sewing</u>	<u>1/2</u> HOURS	<u>30¢</u>	<u>15</u>
_____	HOURS	¢ _____	_____
TOTAL LABOUR			<u>0.45</u>

(3) OVERHEADS (Rent, Electricity, etc.
Note: use OVERHEADS COMPUTATION FORM)

1 1/2 Hours OR One Unit of Production @ 50¢
(Overhead Rate)

TOTAL OVERHEADS	<u>0.75</u>
TOTAL COSTS	<u>4.40</u>

(4) MARK-UP FOR WHOLESALE : _____ % OF TOTAL COSTS (above) _____
WHOLESALE PRICE

(5) MARK-UP FOR RETAIL : _____ % OF WHOLESALE PRICE (above) _____
RETAIL PRICE

MANUFACTURING MANAGEMENT

WHY IS MANUFACTURING MANAGEMENT IMPORTANT?

Is there any chance that the business might produce high quality products that no one wants to buy?

Does the owner know whether it might be more profitable sometimes to have someone else perform part of the production of a manufactured good?

Can the business make more profit selling through wholesalers, retailers or the Government or by selling direct to users?

WHAT IS MANUFACTURING MANAGEMENT?

MANUFACTURING MANAGEMENT refers to the direction, planning and controlling of a manufacturing business. Manufacturing businesses take raw materials, add labour, and change those raw materials into a different, more complete product for sale.

HOW TO MANAGE A MANUFACTURING BUSINESS

There are management decisions unique to manufacturers. Some of these decisions include:

What to Make

- The manufacturer must take into account his skills and the skill level of available employees.
- The manufacturer should assess the availability of raw materials used to produce his product and the cost of transport to bring the raw materials to his workplace.
- The manufacturer should be aware of the demand for his product in the marketplace the quantity he could sell and the price he could sell for.

How to Make It

- The manager should be aware of the appropriate technology for his place of business and level of production.
- The manager should be sure that any machinery used can perform at the site chosen, and can be serviced for reasonable cost in a short time period.
- The manager must be certain that any necessary skilled labour force is available or can be trained in a reasonable time for a reasonable cost.

How Much to Make

- The manager should prepare estimates of demand for the product he intends to manufacture to assure that the demand is adequate for the production level.
- Using costing techniques, he should prepare an estimate of the total cost of producing one item, an estimate of the selling price, and determine if it can be profitably sold in the market at the production levels estimated.

How to Market the Products

- To wholesalers and distributors.
- To retailers.
- To the general public.

DEMONSTRATION EXERCISE

Mrs. Nagols has just completed a knitting course sponsored by her Rural Industrial Officer. She is now able to knit a variety of products, including jerseys. Before setting up business with her new skill, she decides to go into her village of Gubank to find out about her market.

Instructions: Prepare a list of questions Mrs. Nagols should ask in the village. What market information should she find out?

ANSWER KEY/Demonstration Exercise

Mrs. Nagols should find out:

- (1) The price the villagers are paying for jerseys.
- (2) The quality expected.
- (3) The number of jerseys which are and could be sold.
- (4) Places (such as shops) they could be sold.
- (5) If other garments could be sold.
- (6) If raw materials are available locally.
- (7) If other skilled artisans are available to be hired.
- (8) Transport to other nearby villages.

BREAK-EVEN POINT

Often a manager needs to make a decision regarding production or sales levels. What level must sales reach in order for a profit to be made?

This information is useful when the size of the potential market is known.

The break-even point formula calculates the level of sales or production necessary for a business to begin making a profit. It is the point where total sales will equal total expenses.

$$\text{The formula is: } \frac{\text{Break-even}}{\text{Quantity of}} \text{ Production} = \frac{\text{Fixed Expenses}}{\text{Price} - \text{Variable Cost per Item}}$$

Fixed expenses are overheads such as rent and depreciation which do not change with the level of production.

Variable cost per item is the total of the materials cost and the labour cost for each unit of production.

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DEMONSTRATION EXERCISE 2

A chair manufacturer has the following situation:

- Fixed Expenses (rent) of P 20.00 per month,
- Variable Costs per chair of P 4.00, and
- a Selling Price of P 6.00 per chair.

Instructions: Calculate the number of chairs he needs to sell in order to make a profit.

ANSWER KEY / Demonstration Exercise 2

Using the formula above we substitute the various amounts to get:

$$\text{Break-even Quantity} = \frac{\text{Fixed Expenses}}{\text{Selling Price} - \text{Variable Costs}} = \frac{P20}{P6 - P4} = 10 \text{ Chairs}$$

Therefore, 10 chairs need to be sold before a profit is made. Verify the results of the formula by preparing a Profit and Loss Statement for the sales level:

Sales (10 x 6)	P 60.00
Cost of Sales (10 x 4)	40.00
Gross Profit	<u>20.00</u>
Expenses	<u>20.00</u>
Net Profit	<u>P 0.00</u>

This means that he must be able to make and sell more than ten chairs if he is to make a profit.

CHECKLIST FOR COMPLETION - MANUFACTURING MANAGEMENT

Basic Knowledge

- What is the manufacturing process?
- Manufacturers take raw materials and add labour and convert the raw materials into a valuable product.
- What do manufacturers have in common with other businesses?
- All businesses must keep records, control buying and selling, control credit, finance their operations, and plan for the future.
- What management problems are unique to manufacturers?
- What to make, how to make it, how much to manufacture, and how to market the products.
- What is the Break-Even Point?
- Break-Even Point is the determination of the level of production necessary for a business to begin to make a profit.
- How can the manager use Break-Even Point Analysis?
- Break-Even Point Analysis along with estimates of market demand will indicate whether or not it is worthwhile to manufacture a product.

Implementation

The client should:

- Use break-even point analysis to assist in making production decisions.
- Using market information to make decisions on production levels and selling price.
- Investigate different ways of marketing his products and select the most appropriate for his business.

MANUFACTURING MANAGEMENT - ADVISER'S GUIDE

- 1) Manufacturing clients have craft skills which you almost certainly do not share. It is important to recognize this and compliment clients on their skills, and at the same time to show that their skill must be checked by effective management.
- 2) Underused assets are even more common in manufacturing businesses than in trading ones. Careful observation will almost certainly reveal stocks of slow moving raw materials or finished goods, or excessive accumulation of half finished products as work-in-progress. The amount of dust lying on an item is a useful indicator of how long it has been there. Show clients how stocks of this sort are in fact absorbing their scarce capital.
- 3) Many manufacturers buy machinery that they do not really need. Careful observation may reveal machines which are never, or hardly ever used, which might be rented out or sold in order to raise money.
- 4) The uninformed outside observer can often suggest major improvements just because the conventions of the trade are unfamiliar to him. Critically examine your client's products, to see whether money could be saved by using different, lighter, less or otherwise changed materials, by eliminating components or operations, or by any other means. Many products are made as they are because they have been designed for a different manufacturing method, or when materials were of different costs. It is often possible to lower prices and improve quality at the same time.
- 5) Help your client to identify the break-even point of his enterprise, and discuss ways in which profits may be attained, if the business is losing money. Discuss the possibility of "marginal pricing", where some goods are sold at prices far lower than others, so long as they contribute something to overheads.

6) Manufacturing clients often ignore the potential for savings or improved sales by changing their marketing methods. Help your client to examine every possible channel through which his products reach the public, and to select that which is likely to yield the highest return. Beware that this is not necessarily the same as selling for the highest price, since a discount may achieve higher volume which earns higher profits in the end.

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MANUFACTURING MANAGEMENT - INSTRUCTOR'S GUIDE

- 1) Trainees may feel doubtful about advising manufacturing clients, because of their ignorance of the technology. Stress that management is basically the same in trading and manufacturing enterprises, and that an ignorant outsider with common sense can often make a very substantial contribution, particularly to a craftsman who is so close to his trade that he is unable to view it objectively.
- 2) Ask trainees to identify all the ways in which money might "sleep" in a manufacturing business. Show that the possibilities for underused capital are far more numerous than in a shop, and discuss ways in which money which is "sleeping" in excessive raw material, work-in-progress or finished stocks, or machinery, might be "woken up".
- 3) If time permits, examine a familiar item such as an envelope or a pencil with trainees, and ask them to identify possible ways in which its manufacture might be simplified or made less expensive. Demonstrate that it is possible for anybody to make realistic suggestions even about something which has been made in a particular way for a very long time.
- 4) If practicable, take trainees to visit a number of small and possibly larger manufacturing units. Demonstrate the importance of well organised workshop layout, to avoid double handling and damage to goods, and ask trainees to note down points of criticism about the apparent layout and management of the units which should be discussed on their return to the classroom.
- 5) It is easy to be pessimistic about the potential for manufacturing small businesses in Botswana, because of competition from imports. Discuss examples of successful manufacturing enterprises in Botswana with trainees, and identify the reasons for their success. How can clients be encouraged to succeed in the same way?

- 6) Stress that retail shops are the final link in most manufacturers' marketing chain. Manufacturers, even small-scale clients, must select the most appropriate marketing chain for their products, in relation to the market and the scale of output. Discuss the various alternatives and examples of companies which choose one method or another. Examine typical clients marketing practices, and discuss whether they are the most effective.

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EXERCISE/CHAIR MANUFACTURER

A chair manufacturer has the following Profit and Loss Statement with a production of 25 chairs:

Sales (25 chairs at P 8 per chair)	P 200
Cost of Sales	150
	<hr/>
Gross Profit	50
Expenses (Rent, Wages)	80
	<hr/>
Net Profit	P (30)
	<hr/>

Questions

- (1) How many more chairs does he need to sell to break even?
- (2) He is thinking of raising the selling price to P 10 per chair, but feels he can only sell 20 chairs at that price. What would his Profit and Loss Statement look like in that case?
- (3) What would his break-even point be if he raises his price to P 10? (Expenses will remain the same).
- (4) He might instead lower his price to P 7.50 per chair. The manufacturer believes he can double sales to 50 chairs at that price. What would his Profit and Loss Statement look like in this case?
- (5) What is his break-even point at P 7.50 per chair? (Expenses remain the same).
- (6) The manufacturer finds that at the higher rate of sales (50 chairs) he must hire an assistant for P 20. What will his Profit and Loss Statement and break-even point be with the increased expenses?

ANSWER KEY/CHAIR MANUFACTURER

- (1) Using the break-even point formula, the quantity of chairs sold needed to reach 0 profit would be:

$$\text{Break-Even Quantity} = \frac{\text{Fixed Expenses}}{\text{Selling Price} - \text{Variable Costs}} = \frac{P 80}{8 - 4} = 20 \text{ chairs.}$$

*The variable costs per chair are calculated by taking the cost of goods sold (190) and dividing that amount by the number of chairs sold (25).

To check this answer a Profit and Loss Statement can be prepared:

Sales (40 x 8)	P 320
Cost of Sales (40 x 6)	240
	<hr/>
Gross Profit	80
Expenses	80
	<hr/>
Net Profit	P 00
	<hr/>

- (2) If the selling price is raised to P 10 per chair and sales of 20 per month, the new Profit and Loss Statement would be:

Sales (20 x 10)	P 200
Cost of Sales (20 x 6)	120
	<hr/>
Gross Profit	80
Expenses	80
	<hr/>
Net Profit	P 00
	<hr/>

- (3) Using the break-even point formula we get:

$$\text{Break-Even Quantity} = \frac{\text{Fixed Expenses}}{\text{Selling Price} - \text{Variable Costs}} = \frac{P 80}{10 - 4} = 13 \frac{1}{3} \text{ chairs.}$$

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(4) With a price of P 7.50 and sales of 50 chairs the Profit and Loss would be:

Sales (7.50 x 50)	P 375
Cost of Sales (6 x 50)	<u>300</u>
Gross Profit	75
Expenses	<u>90</u>
Net Profit	<u>P (5)</u>

(5) The break-even point would be:

$$\frac{\text{Fixed Expenses}}{\text{Selling Price} - \text{Variable Costs}} = \frac{\text{P } 90}{7.50 - 6.00} = 53.3 \text{ chairs.}$$

or 54 chairs to make a profit.

(6) With increased expenses of P 20 the Profit and Loss would be:

Sales	P 375
Cost of Sales	<u>300</u>
Gross Profit	75
Expenses	<u>100</u>
Net Profit	<u>P (25)</u>

Break-Even Point would be:

$$\frac{\text{Fixed Expenses}}{\text{Selling Price} - \text{Variable Costs}} = \frac{\text{P } 100}{7.50 - 6.00} = 67 \text{ chairs.}$$

EXERCISE/RUSSELL'S METAL WORKS

The redevelopment of the business area in Ramotswa posed a difficult problem for Russell, proprietor of the Russell Metal Works. He had been offered different sites, and had to decide within two days which he should take. A plan of the market area appears as Exhibit I. Site A was about 100 square metres, and the rental was P 100 a year. Site B was about 200 square metres, and the rental was P 200 a year.

The metal works had until then been carried on in one of the thirty poorly constructed 'traders' buildings which had surrounded the old open market place. Each of these buildings had been about 100 square metres in area, although it had always been possible to overflow onto the roads in front and behind the building itself. A group of local investors, supported by Government loans, had completely reconstructed the market area and the traders' buildings. Tenants would not be allowed to use any space beyond the boundaries of their plots. The new market had purposely been designed to suit different traders' needs, and Russell had to take Site A or Site B if he was going to stay in business at all.

Russell manufactured a wide variety of metal articles, but about four-fifths of his business consisted of constructing large water tanks, which were made to order, of different sizes and shapes for each customer. The tanks were sold for about P 35 each and Russell made about four in a month. In addition, when there were no orders for tanks he kept himself and his assistant busy making standard sized drinking troughs and bowls. He sold these to passing customers at a slightly higher price than was charged for similar goods which could be bought from the nearby town. Russell hoped that the Government's efforts to encourage rural development and the construction of piped water schemes in his district would lead to a steady increase in his business over the next few years. His most recent Balance Sheet and Profit and Loss Account are shown in Exhibit II.

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Russell's main competition was from metal works in the town, which had better equipment than the Russell Metal Works and could afford to buy a large quantity of materials each time for lower prices. The prices which they charged were therefore lower than the Russell Metal Works, but the travelling time and cost of delivery of bulky tanks were factors in Russell's favour. The only competitor in Karaman itself was Doug who made up small items such as drinking troughs as a side line to his carpentry business.

Russell made a rough note of the advantages of Site A and B, which is shown as Exhibit III. He was still unable to make his decision, however, and he realised that if he did not decide quickly, he would not get a place in the market at all.

Exhibit I : Plan of the New Market at Karaman

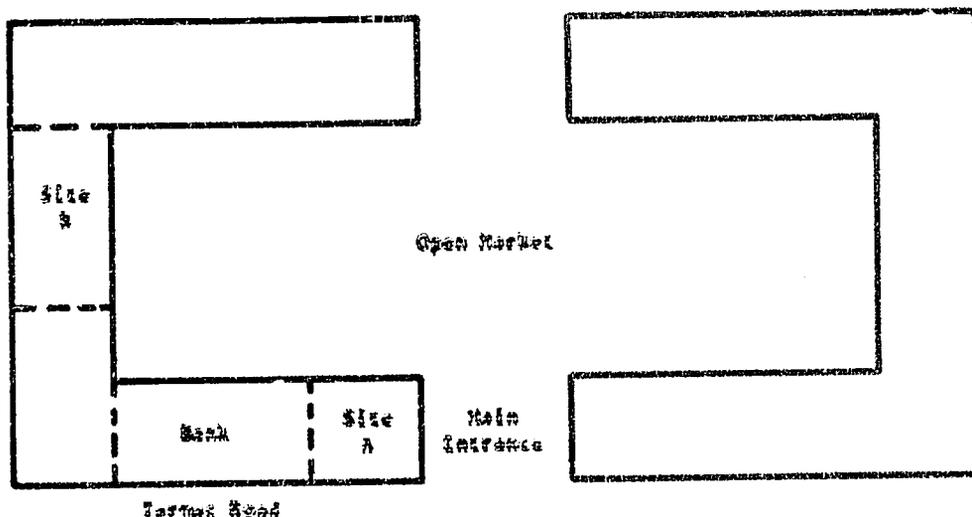


Exhibit II

Balance Sheet for the Russell Metal Works on 31.12.81

<u>Liabilities</u>	<u>P</u>	<u>Assets</u>	<u>P</u>
Owed to Suppliers	50	Equipment	350
Loan for Equipment	150	Stocks of Raw Materials	100
Profit left in the business from earlier years	130	Owed by Customers	150
Original Investment	110	Value of Completed Work not yet sold	130
		Cash	30
Total	P 440	Total	P 800

Profit and Loss Account of the Russell Metal Works for 1975

	<u>P</u>	<u>P</u>
Sales		2,000
Expenses: Materials	1,000	
Wages	700	
Rent	30	
Interest	20	
Equipment and Maintenance	100	
Total Expenses		1,850
Net Profit		P 150

Exhibit III - Advantages

Site A:

- Large numbers of passers-by.
- Near to bank and other high prestige firms.
- Easily visible from the main road.
- Three open sides for the display of work.
- Lower rent.

Site B:

- More room.
- Better road access for deliveries.
- Less distraction from passers-by.
- Less risk of pilferage.

Questions for the Russell Retail Market:

- (1) Which of the expenses of the Russell Retail Market would be likely to change if the sales increased, and which would be likely to stay the same?
- (2) Would the sales of the Russell Retail Market be likely to remain the same whether Russell chooses Size A or Size B? How would Size A be likely to affect his sales or large items? Would it affect the sales of towels in the same way?
- (3) Make estimates of the likely sales of the Russell Retail Market and of its expenses and profits or loss, in Size A and in Size B.
- (4) Can Russell afford to take a big loss for a year or so in order to make big profits later on?
- (5) Which size should Russell choose and why?

Instructions: Answer questions 1 to 5.

ANSWER KEY/RUSSELL'S METAL WORKS

- (1) Materials and wages expenses would increase as production increases, as they change with the level of production. Rent, equipment and maintenance, and interest would be likely to remain the same, as they are fixed expenses and are not affected by the level of production.
- (2) Sales should increase due to the new location in the new market site. Customers would react to the impulse item. More customers, more sales. As sales of large tanks are by order only, probably little or no effect on sales. The impulse item would benefit by the increased customer flow however, the increase in sales is constrained by the amount of space available in which to expand. Russell believes that sales will increase, and so expansion is necessary to produce at the increased production level.
- (3) Assume sales and cost of sales increase by twenty-five percent. The Profit and Loss Statement for the two sites would be:

	<u>Site A</u>	<u>Site B</u>
Sales	P 2,500	P 2,500
Expenses:		
Materials	P 1,250	P 1,250
Wages	700	700
Rent	100	200
Interest	20	20
Equipment and Maintenance	125	125
	<u>2,195</u>	<u>2,295</u>
Total Expenses		
Net Profit	P <u><u>305</u></u>	P <u><u>205</u></u>

- (4) Yes. Although the profits are greater in Site A in the short term, expansion is serverely limited at that site. Russell believes that the construction of piped water in his district would lead to a steady increase in his business of large water tanks. He would need an area for future expansion for the increased sales level.
- (5) Site B. Russell needs to expand. Site A is not suitable for that reason as there is no available space for future level of activity. Site A is not suitable for a manufacturer due to its small size, large number of distracting passers-by, lack of access for deliveries and shipments.

DECISION MAKING

WHY IS DECISION MAKING IMPORTANT?

Can the business owner predict the results of several courses of action and decide between them?

Does the business owner know what to look for when considering several courses of action?

Can a business succeed and prosper without decisions being made and guidance being given to the employees?

WHAT IS DECISION MAKING?

DECISION MAKING is the process of considering several alternative courses of action and choosing the course of action most likely to accomplish objectives of the business.

HOW ARE DECISIONS MADE?

DECISION MAKING is the principal activity of management. DECISION MAKING is a continuous process. All business managers make big and small decisions every day.

DECISION MAKING is guided and greatly aided by the information provided to the manager by the records of the business and by the knowledge and skills the manager has learnt in such areas as credit management and stock management.

The manager has the information he needs from:

- Business Records
- His Knowledge and Experience
- Investigation of the Situation

He has a variety of "tools" to assist him in evaluation and analysing the information, and in guiding his decision such as:

- Credit Management
- Cash Flow
- Profit and Loss Statement Analysis
- Costing
- Stock Management
- Manufacturing Management
- Financial Management

The manager must then take this data and using the "tools" of management skills produce the product of management - decisions followed by action.

To do this the manager should:

- Determine the objectives of the business.
- Determine the possible choices of action available to achieve these objectives.
- Consider all the costs, both in terms of money and social costs of each option.
- Consider the benefits, again in terms of money and social benefits of each course of action.
- Eliminate those possibilities where the costs exceed the benefits.
- Choose the best course of action among the remaining alternatives.

DECIDE - AND THEN ACT ON YOUR DECISIONS!

No business can progress unless the manager is guiding and controlling the business.

Decisions made by knowledgeable management based on good information and followed by action is the best way to guide and control a business.

No decision is final. Because the business is changing every day there is a constant need to make decisions to guide the business through these changes.

A decision made today may well override a decision made previously. The manager should know this and expect it. He should realise the constantly changing nature of the business makes it necessary.

Use "common sense" when making decisions. Consider the following common sense aids to DECISION MAKING:

- Use imagination when seeking alternatives.
- Consider all factors; do not decide on one or two factors alone.
- There are other factors to consider along with financial information.
- Remember that it is easy to overlook the total cost of something new; remember to consider the costs of the small things that are part of the costs of a major decision (e.g. maintenance, labour).
- Do not count the number of reasons for or against but consider the importance of each reason.
- Double check all estimates to ensure they are realistic.
- Get other opinions, especially of experienced or knowledgeable people such as bankers and advisers.
- Do not expect everyone to agree that one alternative is clearly best.
- Make a decision.

DECISION MAKING is a continuous process of management. Some examples of common business situations requiring DECISION MAKING are:

I : Pricing and Markup

Pricing: The amount of markup added to the cost of an item is influenced by many factors. The total cost including freight charges, delivery, etc, is used as a base for pricing decisions. Prices charged should be reasonable and competitive or customers will shop elsewhere.

A lower markup may increase demand for the product, turnover, and profit, but this may not always be the case. An analysis must be made based on expected sales levels, stock levels, and markup percentages before a decision is made.

II : Credit Management

Credit to customers: The manager must decide how much credit to give, and to whom, as well as the credit. The cost of giving credit should not be more than the benefit derived by it.

III : Stock Management

Stock control decisions business people face include what stock to order, how much to have on hand in the shop, and what price to pay. The key to stock control is to have the minimum suitable amount of stock on hand. Determining factors for the level of stock include transport costs, order quantities, turnover levels, profit margin, delivery time, financing, money available, durability of the product.

IV : Financial Management

Financing: There are different methods of obtaining funds to expand or operate a business. The more conventional include commercial and development banks for loans and overdrafts. Suppliers are often overlooked as a source of credit. Buying something now and paying later is similar to a bank loan in that a business has the use of the money before it must be paid back.

A decrease in the amount drawn by owners also serves to the increasing needs of cash of a business. If the owner can be convinced to reduce drawings for the growth of the business, this less expensive method of obtaining funds can be used effectively.

V : Decisions with Social Factors

Adding a new employee to a business: The cost of adding a new employee to a business should be less than the additional profit which can be made by the new employee's presence if he or she is to be hired. A new employee can create additional problems for an owner as well. The day-to-day operation, turned over to someone else can represent a loss in control. Administrative expenses will increase in training and supervising. Often there are other objectives than profit. If employment of family members is important, regardless of profit, then they should be employed.

DEMONSTRATION EXERCISE

The owner of a business is deciding whether or not to expand his small general goods shop. He estimates that his wages will be P 40 a month, and that profits will increase by P 60 a month as a result.

Instructions: Should the shopkeeper hire the extra worker?

ANSWER KEY/Demonstration Exercise

Yes. The fact that the profits exceed the costs make it beneficial to hire the extra worker. Many businesses lose profitable opportunities because their owners hesitate too long and the opportunity passes. If a businessman delays a decision and does not grasp an opportunity, he is actually deciding not to do it. Decisions cannot be avoided. An avoided decision is a decision not to change, which may be the wrong thing to do.

CHECKLIST FOR COMPLETION - DECISION MAKING

Basic Knowledge

What is DECISION MAKING?

- Usually DECISION MAKING in a business is choosing between alternatives, picking the best one for the business.

Why should costs other than money costs be considered in making a decision?

- The objectives of a business may include non-profit items such as prestige, employment and stability.

Where does the manager get information necessary for DECISION MAKING?

- From the basic records, his knowledge and experience, and an investigation of the situation.

What tools does the manager have available to guide his decisions?

- All the marketing and management skills.

What should follow the DECISION MAKING process?

- Action to implement the decision.

Implementation

The client should be:

- Setting out the objectives of his business.
- Using the management tools to give information about the state of the business and costs and benefits of alternative courses of action.
- Investigating all alternatives which are practical.
- Making management decisions.
- Implementing all decisions made.

DECISION MAKING - ADVISER'S GUIDE

- 1) Many clients are not aware that they can make decision about many aspects of their businesses. They regard prices, opening hours, goods to be stocked, amounts to be purchased and services to be offered as fixed by custom or competition. Show your client that business success consists of recognising all the possible alternatives and choosing the best ones.
- 2) Remember that your job is not to make decisions for your client, but to assist them to make their own decisions. Help them to identify alternatives and the advantages and disadvantages of each, but always avoid suggesting what they should do; the decisions must be theirs.
- 3) Show your clients that they cannot avoid making decisions. Refusal to face a decision is in fact a decision in favour of not changing from whatever is being done at the moment. This may or may not be right, but is still a decision.
- 4) Encourage and assist your clients to use information from their records and accounts which they have learnt to keep. Clients will, and should, only continue keeping accounts if they can make good use of them to improve their decisions.
- 5) It may be appropriate to leave the client with the decision which has been clearly defined but not yet made. Say that you will hope on your next visit that the decision will have been made and at least started to be implemented. Stress that decisions which are made but not implemented are not decisions at all.
- 6) Record decisions which the client has made in the client file, and review them later. Discuss whether or not each decision was correct, why and how future decisions can be improved as a result of the experience.

DECISION MAKING - INSTRUCTOR'S GUIDE

- 1) Show trainees that simple choices such as when to cross a road, what food to eat or what clothes to wear are in fact decisions. Ask one or more trainees to describe in detail any such decision which he or she has made recently, and to identify the available alternatives, the advantages and disadvantages of each, and why the decision was taken as it was.
- 2) Ask trainees to list as many as possible of the types of decisions which clients can make. Stress that one major role of an adviser is to introduce their clients to the very idea that they can make decisions about and control aspects of their environment and their business that they previously thought were beyond their control.
- 3) When going through the exercises, ensure that trainees are able in every case to identify the source of the data on which decisions must be based. Stress at all times that accounting data is of no value unless it is used as a basis for decisions.
- 4) Trainees may be familiar with school examinations and other problems where there is a right and a wrong answer. In most cases there are no right and wrong answers to management decisions, but this does not mean that business people need not take care about their decisions. The very exercise of identifying the alternatives, and the advantages and disadvantages of each, will improve the client's ability to implement the decision correctly, whatever it is.
- 5) Stress that good management consists not only of making the right decisions, but of implementing them effectively. The "wrong" decision, that is one which most people would not agree with, is far more likely to produce profitable results than a "right" decision which is in-effectively implemented.

EXERCISES/DECISION MAKING 1 TO 5

Exercise 1

A shopowner is considering buying a bicycle for P 120 (which will last two years and then be worthless) to make deliveries of bread and groceries. He also must hire a new employee at P 80 a month. The owner currently uses a delivery service which costs P 100 per month.

Exercise 2

A busy shop is considering hiring a new employee at P 4 per day. It is estimated by the owner that sales would increase by P 10 per day. The gross profit margin is 20% of sales. Should the manager hire the employee?

Exercise 3

A restaurant owner does not know the difference between cash and profits, and wants to withdraw all the cash for his personal use. Is this a wise decision? Why?

Exercise 4

A small general goods dealer feels it is important to employ his sister-in-law in his shop even though it may not be profitable. What should he do?

Exercise 5

An entrepreneur wants to set up a tanning business but cannot find anyone suitably qualified to be a tanner. Should he give up the idea?

ANSWER KEY/DECISION MAKING 1 TO 5

- Look at the information available.
- Consider all factors.
- DECIDE AND TAKE ACTION.

Exercise 1

Alternative A : The Delivery Service

Cost: Monthly Charge P 100.00

Benefit: Goods Delivered

Alternative B : New Employee on Bicycle

Cost: Wages per month P 80.00

Depreciation per month
on bicycle = $\frac{P\ 120}{24\ months}$ 5.00

85.00

Cost Reduction of Alternative B P 15.00

Benefit: Goods Delivered
Job Created
Increased Control
Employee Available for Other Tasks
Reduced Costs

Decision : Buy the bicycle and hire the employee.

Exercise 2

Increased Sales P 10.00

Gross Profit of Increased Sales (P 10 x 20%) 2.00

Less: Increased Costs, Wages 4.00

Benefit: P (2.00)

It will cost the business P 2.00 to hire the new employee.

Decision: Do not hire the new employee.

Exercise 3

No, this is not a wise decision. The owner does not have enough knowledge of business to make a good decision. If he knew that he would seriously damage his business by taking all the cash he would decide to limit drawings to what the business could afford.

Decision: Leave the money in the business. Seek more information about the costs of creating a cash crisis in the business.

Exercise 4

The social factors overcome the figures. The benefit in social terms of employing the sister-in-law are greater than the cost in money to the business.

Decision: Employ the sister-in-law.

Exercise 5

Technical skills are critical.

Decision: Give up the idea of a Tannery.

EXERCISE/EWETSE AND MAURICE

Ewetse and Maurice had worked together making water tanks since 1980. By early 1983 they were making about twelve tanks a month. They sold them for P 35 each. Each tank included the following material:

4 flat steel sheets for top and bottom at P 1.50 each	P 6.00
½kg. rivets at 40t a kg.	0.20
12 sticks of solder at 25t a stick	3.00
6 sheets of corrugated iron 1 metre square at P 1.80 a sheet	10.80

In addition to the cost of the corrugated iron sheets themselves, the partners had to pay 30t each for having them curved on a special rolling machine. They could have bought the straight sheets for the same price from the stockists in their township, but they had to be curved in the city. It was therefore necessary to go to the city to buy the sheets and have them curved. It cost 10t to bring each sheet back from the city when it had been curved. One of the partners had to make the journeys as well, and it took a whole day. The return bus fare was P 1.00 and they would usually collect about 30 sheets at a time. In spite of this difficulty in getting the sheets curved, the partners had done well with their business and they had saved P 800 between them. The money was in a joint account at the bank.

One day a machinery salesman visited Ewetse and Maurice and offered them a new corrugated sheet curving machine just like the one used in the city. It was hand operated, and there were hardly any parts that could go wrong. The price was P 800 delivered to their plot. Ewetse knew that such machines lasted over 20 years of hard use, and he wanted to order one. Maurice was not so sure. He asked Ewetse what use such a machine would be if the business was to fail. Maurice said he would prefer to keep his share of the P 800 safe in the bank in case something went wrong with their business. Ewetse said that they would be able to make far more money if they bought the machine and they would also have more time to make more tanks. The demand for their tanks seemed to be increasing, and he wanted to be able to take advantage of this.

Questions:

- (1) If Ewetse and Maurice made 12 tanks a month and nothing else, how much did they earn for themselves during the month if they sold the tanks for P 35 each?
- (2) What was the full cost of one corrugated iron sheet, curved and delivered to the partners' plot?
- (3) What would be the benefits to the partners if they bought the sheet curving machine?
How much more would they earn?
- (4) Was Maurice wise to want to keep a large sum of money in the bank in case the business was not successful?
- (5) How could Ewetse persuade Maurice that they should buy the machine?

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ANSWER KEY/EWETSE AND MAURICE

- (1) If the business makes and sells twelve tanks per month the profit of the business would be the total sales less the total costs (or selling price of one tank less the total cost of one tank multiplied by the number of tanks sold).

The cost per tank is:

Materials

4 sheets @ P 1.50 per sheet	P 6.00
½kg. rivets @ 40t per kg.	0.20
12 sticks solder @ 25t per stick	3.00
6 sheets iron @ P 1.80 per sheet	<u>10.80</u>

Total

P 20.00

Expenses

Curving @ 30t x 6 sheets	P 1.80
Transport @ 10t x 6 sheets	0.60
Transport @ P 1/30 x 6 sheets	<u>0.20</u>

Total

2.60

Total Cost per Tank Constructed

P 22.60

Therefore the Profit and Loss Statement would be:

Sales	P 35.00 x 12	P 420.00
Cost of Goods Sold	P 22.60 x 12	<u>271.20</u>
Gross Profit		<u>P 148.80</u>

- (2) The full cost of one corrugated iron sheet curved and delivered would be the sum of its component costs:

Sheet	P 1.80
Curving	0.30
Transport	0.10
*Transport	<u>0.03</u>
Total	<u>P 2.23</u>

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*This portion of transport expenses is the allocation of the bus fare (p 1.00) to the sheets.

- (3) The benefit of purchasing the sheet curving machine can be expressed through a Profit and Loss Statement. The savings in costs is P 2.60, the cost of curving 6 sheets of iron. However, the machine will depreciate over its useful life (20 years). The depreciation can be calculated as:

$$\frac{P\ 800.00}{20\ \text{Years}} \quad 40\ \text{per year, or} \quad P\ 3.33\ \text{per month.}$$

Assuming the level of production would not change, the allocation per tank would be $P\ 3.33 \div 12\ \text{tanks per month} = P\ 0.28\ \text{per tank}$, or $P\ 0.05\ \text{per sheet}$.

The new cost per tank would be $P\ 20.00 + P\ 0.28 = P\ 20.28$, a saving of $P\ 2.32\ \text{per tank}$.

Their Profit and Loss Statement would be:

Sales	P 35.00 x 12	P 420.00
Cost of Sales	P 20.28 x 12	243.36
Gross Profit		<u>P 176.64</u>

This is an increase of P 27.84 over the previous profit. Over the life of the machine the increase in profit would be:

$$P\ 27.84 \times 12 \times 20 = P\ 6,681.40.$$

- (4) No. It is a better alternative for the business to invest the P 800 in the new machine. The increased profit is an objective of the business.
- (5) He should show him the projected profit and loss amounts and explain that the curving machine is an investment which will improve the business's performance.

POLICIES AND PROCEDURES

The POLICIES AND PROCEDURES are the operating procedures used by the Business Advisory Service to direct and structure the work of the programme personnel.

The POLICIES AND PROCEDURES detail how many clients a Business Adviser should have (Client Load), how to add to and conclude service to clients (Client Suspension, Completion of Basic Records and Conclusion), whether a client is formally considered a client (Client Status) and how a Business Adviser plans his time (Client Scheduling).

The POLICIES AND PROCEDURES detail the records the Business Advisers should keep (Client Files) and the reports they should submit (Reporting Requirements).

In addition other operating and administrative details are described in POLICIES AND PROCEDURES.

All forms referred to in POLICIES AND PROCEDURES are included in the text as well as in the Forms Glossary. Use the master copies in the Forms Glossary to make additional copies of forms. The Forms Glossary is designed for this purpose.

The POLICIES AND PROCEDURES are designed to co-ordinate with and complement the General Orders of the Government of Botswana. The Business Advisers will be guided in the first instance by these General Orders and by the instructions of their seniors in the Business Advisory Service and the Ministry of Commerce and Industry.

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DEFINITION OF CLIENT

DEFINITION

Client - a person receiving training or assistance from the Business Adviser.
A client is not a business, a client is a business person.

PURPOSE

To ensure that the files and records of a person receiving instruction apply to that person. To avoid the confusion that results from a file being kept on a business rather than a person which may mean that several clients are recorded together. The purpose of the BAS is to assist people in improving their businesses by improving their business skills. In order to do this we must have an accurate individual record for each person assisted.

POLICY

- To ensure that the individual receiving instruction is listed as the client.
- To ensure that all files and records reflect that the person receiving instruction is the client.
- To ensure that client files and records are not listed according to business name, licensee, owner or any other category except the person who is actually receiving instruction or assistance.

PROCEDURE

Each client must have an individual file. All client files and records must be listed according to who is actually receiving instruction or assistance.

When a person becomes a client for a second time (or more) the Business Adviser should call for the old file from Headquarters and resume using the old file.

CLIENT LOAD

DEFINITION

CLIENT LOAD refers to the number of active clients being assisted by the Business Adviser. Suspended clients and dropped or graduated clients are not part of the CLIENT LOAD.

PURPOSE

- To establish guidelines for the number of clients the Business Adviser is actively assisting.
- To ensure that the Business Adviser has neither too many nor too few clients.
- To ensure that the Business Adviser's schedule allows adequate time for administration, vehicle maintenance, and other duties such as Trade Fairs, etc.
- To see that enough time is allowed each client to effect progress.

POLICY

The Business Adviser should have not less than 15 nor more than 20 active clients.

Dropped/Graduated and Suspended Clients are not part of the CLIENT LOAD.

Business Advisers must have permission from a Field Supervisor to have more than 20 or less than 15 clients.

The Business Adviser should allow adequate time each visit and schedule regular visits to ensure that sufficient time is given to training or assisting the client. Each client should be allowed a weekly visit of one hour in the Client Schedule.

PROCEDURE

The Client Selection procedure should be used to add clients whenever the CLIENT LOAD falls below the minimum.

See that the CLIENT LOAD remains within the guideline of 15 to 20 clients.

Report the CLIENT LOAD monthly on the Monthly Reports.

413

CLIENT SELECTION AND ADDITION

DEFINITION

CLIENT SELECTION AND ADDITION refers to the standards and guidelines used to select clients for training or assistance by the BAS.

PURPOSE

- To establish guidelines for the field staff to use in determining who will become a client.
- To establish the authority of the field staff to select clients within the guidelines on Client Load and Client Mix established by BAS Headquarters.

POLICY

The Business Adviser can add clients at his own discretion.

Clients must be added whenever the Client Load falls below the minimum.

Clients should be added whenever the Client Load is below the maximum.

Diversity of clients is encouraged.

Clients must be citizens of Botswana.

When selecting clients the Business Adviser should consider:

- The person's willingness to learn.
- The person's willingness and ability to take the time necessary to receive training or assistance.
- The person's position in the enterprise. Preference should be given to owners or managers who can use the assistance provided to improve the business.

414

PROCEDURE

The Business Adviser must start a Client File when a client is added.

The Business Adviser must report the addition of a new client on the monthly reports for the month end following the selection and addition of the client.

415

FP8

CLIENT FILES

DEFINITION

A CLIENT FILE refers to the group of documents maintained by the BAS on a person being assisted by the Service.

PURPOSE

- CLIENT FILES are maintained in order to organise the reports prepared by the extension officers.
- Well organised files help the extension officers to provide efficient and effective assistance to the clients.
- CLIENT FILES will ensure continuity of assistance or instruction if several Business Advisers assist a client.
- Headquarters review requires complete records of field activity.

POLICY

CLIENT FILES are opened when a client begins BAS training or seeks assistance.

All meetings between the client and the Business Adviser must be recorded in the CLIENT FILE. An entry in the CLIENT FILE should indicate one of the following:

- (1) Training Provided
- (2) Assistance Provided
- (3) Client Unavailable

CLIENT FILES are maintained by the extension officers.

CLIENT FILES must contain the following:

Client Log
Client General Information Sheet
Conclusion of Service Form
(when service had been concluded)

CLIENT FILES should contain the following:

- Client Improvement Record with instructions (if the client is receiving training).
- All correspondence between the BAS and the client.
- Any correspondence, documents and plans that are background to or result from assistance provided to the client.

The Client Log:

The Client Log should be started when the first client visit is made. There should be an entry made in the client log each time a client visit is made even if the client was not present for instruction or assistance. The Client Log is a complete record of service the BAS has rendered to an individual client. The Client Log is necessary in case a client is transferred to another Business Adviser so that Adviser has a record of previous assistance provided. The Client Log is the principal source of information used by the Field Supervisor when assessing a client.

The Client Improvement Record:

The Client Improvement Record is used to record the progress or improvement the client is making. The Client Improvement Record is used to guide the Business Adviser in training the client and to record the improvement the client makes during training.

The system for recording client improvement is detailed on the Client Improvement Instructions.

The information from the Client Improvement Records will be used to report progress when making monthly reports. Refer to the Policy and Procedures chapter on Reporting Requirements.

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The Conclusion of Service Form:

The use of the Conclusion of Service Form is explained in the Policies and Procedures chapter on Conclusion of Service.

Extension offices maintain files for active and suspended clients only. Following conclusion of service a client file will be forwarded to Headquarters.

PROCEDURE

A Client File is opened as soon as training or assistance begins.

The Client File must be listed according to the person receiving training or assistance.

All meetings between the client and the Business Adviser must be recorded in the client file.

The Business Adviser will record all training given to the client on the Client Improvement Record.

Documents and correspondence that concern the client are to be included in the Client File.

A Client File is closed when service is concluded. The approved Conclusion of Service Form will be the final entry in the Client File.

The Client File should be forwarded to Headquarters when the file is closed.

A Client File cannot be transferred to another client. The Client File is non-transferable.

If a client resumes training after service has been concluded the Business Adviser should call for the closed file from Headquarters. The closed file of a previous client should be re-opened when training or assistance resumes.

CLIENT GENERAL INFORMATION

CLIENT INFORMATION

Client Name: _____ Date of First Session: _____

Postal Address: _____ Business Adviser: _____

Is the Client the (circle appropriate answer(s)):

Owner Wife of Owner

Family Member (specify): _____

Manager Partner Employee Other (specify): _____

PROFILE INFORMATION OF CLIENT

Age: _____ Single / Married / Widow

Number of Wives: _____ Number of Children: _____

Education: _____ Vocational Training: _____

Other Training: _____

Number of Years Experience in Business: _____

BUSINESS INFORMATION

Type of Business: _____ Year Business Began: _____

Number of Employees (wage earning): _____

Number of other people working in the business
such as family members that do not receive wages: _____

OWNER INFORMATION

Name of Owner(s) of Business: _____

Owner Residence: _____

Owner Occupation: _____

CLIENT IMPROVEMENT RECORD : FOR THE YEAR:

CLIENT: _____

BUSINESS ADVISER: _____

TOPIC TAUGHT	C/F	Status at the End of the Month of											
		J	F	M	A	M	J	J	A	S	O	N	D
Cash Record													
Bank Reconciliation													
Purchase and Expense													
Sales Record													
Stock Record													
Debtors Record													
Creditor/Loan Record													
Profit and Loss													
Balance Sheet													
Shop Layout													
Stock Display/Storage													
Stock Mix and Management													
Security and Cleanliness													
Coding/Markup/Pricing													
Customer Relations													
Advertising and Promotion													
Costing													
Manufacturing Mngt.													
Credit Management													
Financial Statement Ansl.													
Cash Flow													
Financial Management													
New "C's" Monthly													

Note: For use of this form refer to Client Improvement Record Instruction Sheet.

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CLIENT IMPROVEMENT RECORD
INSTRUCTIONS

The C/F (carried forward column is used:

- (1) When a client first begins training. He should be evaluated by the Business Adviser to determine his abilities. Any areas he is competent in before beginning training should be indicated with a "C".
- (2) At the beginning of the year. A new record is started each year and this column is used to record the current status of the client in each subject. This should include all competencies ("C") to date.

At the end of each month the Business Adviser is to assess the client's progress in the course. The following letters are used to describe the client's status. After starting ("S") there should be an entry for each month until competency ("C") is achieved.

- C = Competent Client has demonstrated to the Business Adviser that he/she has satisfactorily learnt the topic and can apply all the material taught by the Business Adviser.
- S = Start A topic has been introduced and instruction has begun.
- P = Progress Business Adviser is currently teaching a topic and progress is being made. A "P" must be preceded by an "S".
- R = Relapse Client had been making progress ("P") or had been competent ("C") and is now no longer able to satisfactorily prepare the record book taught or understand the topic as well as he/she had previously.

NOTE: The topics need not be taught in the order shown. Business Advisers should use their judgement in determining the order which is best for each client. We should concentrate our training where there is both need and client interest. A client need not master all topics on the page before proceeding to another.

422

CLIENT STATUS

DEFINITION

CLIENT STATUS refers to whether the client is being currently assisted or whether assistance has been temporarily discontinued (suspended). All clients will be either Active or Suspended.

<u>Status</u>	<u>Definition</u>
Active Clients	- Clients who are currently being trained or assisted.
Suspended Clients	- Clients whose assistance or training has been temporarily discontinued.

PURPOSE

- To identify how many clients are being actively assisted.
- To classify clients with a view to having Business Advisers plan their time efficiently.
- To inform Headquarters of the level of activity in the field.
- To make provision for temporary interruptions in service to a client when service is expected to resume within 90 days.

POLICY

Anyone receiving assistance is a client. All clients being assisted by the Business Adviser will be either Active or Suspended.

The total of all clients, both Active and Suspended will be reported on the Monthly Reports.

When assistance has been concluded the person who was being assisted is no longer a client.

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PROCEDURE

A client is considered Active when assistance begins. A Client File should be opened at once.

If assistance to the client is temporarily discontinued the client should be reclassified as suspended. The Monthly Reports should reflect this change.

If a suspension exceeds 90 days, service to the client should be concluded unless the Business Adviser has permission from the Field Supervisor to continue the Suspension.

If the Business Adviser begins actively assisting a Suspended Client the client should be reclassified as Active.

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CLIENT SUSPENSION

DEFINITION

CLIENT SUSPENSION refers to a situation where a Business Adviser has stopped training or assistance for a temporary period. A client is suspended when either a decision is being made concerning his status or circumstances prevent him from receiving assistance for a short period.

PURPOSE

To provide for a situation where it is impractical or impossible to continue seeing a client and a decision from Headquarters is pending. For example a client will be suspended for Client Absenteeism pending a decision from Headquarters on whether or not to drop the client.

To provide for a situation where service to the client is temporarily suspended but the Business Adviser expects to resume service within 90 days. For example, a client may be suspended due to maternity leave or during periods of traditional activity such as ploughing.

POLICY

The Business Adviser has the authority to suspend clients. Clients may be suspended due to:

- Maternity
- Illness
- Traditional Activity (e.g. ploughing)

When a decision from Headquarters is pending on whether or not to drop a client and it is impractical to continue assisting the client, the client should be suspended.

Clients who are unavailable for training should be suspended. Clients may normally be suspended for periods of up to 90 days.

PROCEDURE

The Business Adviser should record in the Client Log whenever a client is suspended.

The Business Adviser should report on every suspended client monthly.

The Field Supervisor will review all suspended clients in trips to extension offices.

CONCLUSION OF SERVICE

DEFINITION

CONCLUSION OF SERVICE - The standards and guidelines used to end a period of training or assistance to a client. Service is formally concluded whenever the Business Adviser finishes assisting or training the client.

PURPOSE

- To establish that clients should be active only as long as they are receiving assistance and progressing.
- To establish the guidelines and procedures for concluding service.
- To make provision for replacing them with other clients to assure that the Business Advisers' time is well utilised and the client effectively serviced.
- To establish guidelines that will assure good relations with both current and former clients.

POLICY

Service to a client is always formally concluded.

The client is always formally advised of the reason for concluding service using the CONCLUSION OF SERVICE Notification form.

CONCLUSION OF SERVICE requires approval from Headquarters.

The CONCLUSION OF SERVICE procedure, using the CONCLUSION OF SERVICE form is initiated by the Business Adviser.

A client may become a client again after he has been dropped.

Service to the client is concluded for one of the following reasons:

- (1) Completion of Basic Records (standards and procedures are dealt with in a separate chapter).
- (2) The assistance requested by the client has been provided.
- (3) Excessive client absenteeism makes continued assistance impractical. When a client misses more than 30% of scheduled visits CONCLUSION OF SERVICE should be recommended.
- (4) The client is no longer available for training. This can occur, for instance, when the client takes employment elsewhere or the business is closed.
- (5) The client does not have the ability or resources to master the training or utilise the assistance.
- (6) The client will not co-operate with the Business Adviser.

PROCEDURE

The Business Adviser initiates a CONCLUSION OF SERVICE proposal using two copies of the CONCLUSION OF SERVICE Form.

The Business Adviser states the reason for the proposed CONCLUSION OF SERVICE.

The Business Adviser will forward the completed CONCLUSION OF SERVICE Forms to Headquarters as per the instructions on the CONCLUSION OF SERVICE Form.

The Business Adviser may suspend the client or continue them as Active while the CONCLUSION OF SERVICE proposal is being processed.

Headquarters will investigate as is deemed appropriate. One copy of the CONCLUSION OF SERVICE Form will be retained at Headquarters and the action copy including instructions from Headquarters returned to the Business Adviser.

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The Business Adviser will receive one of the following instructions from Headquarters:

- (1) Drop, conclude service.
- (2) Suspend.
- (3) Transfer. The client should be transferred to another Business Adviser or another office.
- (4) Modify Course Programme. The Business Adviser is instructed to change the training or assistance. For example, when the client is having difficulty with the subject matter being taught or the course of assistance recommended by the Business Adviser.
- (5) Continue the training or assistance.

The Business Adviser will comply with the instructions from Headquarters and take the appropriate action.

Instructions to Drop a client should be accompanied by a CONCLUSION OF SERVICE Notification when returned from Headquarters. The Business Adviser should deliver the CONCLUSION OF SERVICE Notification to the client.

The action copy of the CONCLUSION OF SERVICE Form returned to the Business Adviser should be included in the Client File.

When the Business Adviser has received an instruction to Drop a client he should forward the Client File to Headquarters.

If a client becomes Active after service has been concluded previously the Business Adviser should call for the Client File from Headquarters and continue using the old file during all periods the client is being assisted or trained.

The Client File always follows an Active or Suspended Client. If the client is transferred to another Business Adviser or office the Client File should be immediately transferred to that person or office.

CONCLUSION OF SERVICE or COMPLETION OF BASIC RECORDS

(Use for drop or completion of basic records; prepare in duplicate)

Business Adviser: _____ Client: _____

Business Name: _____

Station: _____

Type: _____

This client has received instruction for _____ months.

He/She has successfully advanced through the _____ stage.

I recommend this client be dropped/awarded a certificate because:

Signature

Date

FIELD SUPERVISOR

I recommend _____

Signature

Date

HEADQUARTERS

I agree/do not agree with the above recommendation. I recommend that you

Signature

Date

INSTRUCTIONS:

- 1) Complete in duplicate and forward both to Headquarters. You will follow the instruction on the action copy returned to you.
- 2) If you are having difficulty with a client you may suspend him/her pending a decision from Headquarters.
- 3) When a client has been dropped or graduated his/her file should be forwarded to Headquarters

COMPLETION OF BASIC RECORDS

DEFINITION

COMPLETION OF BASIC RECORDS -- Recognition and Certification of satisfactory completion of the book-keeping part of the BAS training programme.

PURPOSE

- To establish standards and guidelines that will specify qualifications for completion of the book-keeping part of the BAS training programme.
- To detail how these standards and guidelines will be applied.

POLICY

COMPLETION OF BASIC RECORDS applies only to those clients who have been instructed in the BAS training programme.

Proposals of clients for COMPLETION OF BASIC RECORDS are initiated by the Business Advisers.

The assessment of a COMPLETION OF BASIC RECORDS proposal is done by the Field Supervisor as a regular part of his routine extension office visits.

The final decision on COMPLETION OF BASIC RECORDS is made by a Headquarters Committee based on the Completion Standards and the Field Supervisor's assessment.

Clients will be assessed for COMPLETION OF BASIC RECORDS according to the following standards:

- 1) The client must have sufficient knowledge of all the basic records necessary to prepare a Profit and Loss Statement and Balance Sheet for his business.

- 2) The client must be demonstrating this ability by maintaining the appropriate basic records and preparing final accounts on a regular basis.
- 3) The client must be able to do so unassisted.

Though book-keeping ability only is assessed to determine qualification for the certificate all assistance and training given the client is assessed during a COMPLETION OF BASIC RECORDS assessment.

An assessment will result in one of the following instructions to the Business Adviser:

- (1) Award certificate and continue service.
- (2) Award certificate and conclude service.
- (3) Do not award certificate, continue service.
- (4) Do not award certificate, conclude service.

A client may continue as a client after COMPLETION OF BASIC RECORDS if he has met the standards but can benefit from further assistance.

An assessment may result in the client being refused a certificate for one of the following reasons:

- 1) The client failed to demonstrate ability in and knowledge of the basic records. The client did not meet the standards.
- 2) The client wishes to receive further training in the basic records before receiving certificate.

PROCEDURE

The Business Adviser proposes the client for COMPLETION OF BASIC RECORDS:

- 1) The proposal is prepared in duplicate using the Conclusion of Service or COMPLETION OF BASIC RECORDS Form.
- 2) Both copies of the proposal are forwarded to the Field Supervisor with the Business Adviser's recommendation.

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The Field Supervisor conducts the Assessment:

- 1) The Field Supervisor will schedule an Assessment as soon as he receives the COMPLETION OF BASIC RECORDS Proposal.
- 2) Assessment will take place as soon as possible during the monthly extension office visit by the Field Supervisor.
- 3) Assessment will be carried out using the Client Evaluation Form. The Client Evaluation Form will be prepared in duplicate.
- 4) The Field Supervisor reviews the Client File noting all topics taught and assistance given on the Client Evaluation Form.
- 5) The Field Supervisor will make a Site Visit to determine what training and assistance is in use by observation and inspection.
- 6) The Field Supervisor will interview the client during the Site Visit to determine client understanding and knowledge.
- 7) The Field Supervisor will record his findings and make a recommendation concerning client COMPLETION OF BASIC RECORDS on the Client Assessment Form.
- 8) The Field Supervisor will conclude his assessment by recommending one of the four following instructions be given the Business Adviser:
 - (a) Award certificate, continue service.
 - (b) Award certificate, conclude service.
 - (c) Do not award certificate, continue service.
 - (d) Do not award certificate, conclude service.
- 9) The Field Supervisor will forward both copies of the COMPLETION OF BASIC RECORDS Proposal and of the Assessment to Headquarters.

The Business Advisory Service Headquarters will make a final decision on client COMPLETION OF BASIC RECORDS:

- 1) Final determination of qualification for a certificate will be made by a Headquarters Committee based on the findings and recommendations of the Field Supervisor using the COMPLETION OF BASIC RECORDS Standards.
- 2) The final decision of Headquarters will be sent to the Business Adviser as an instruction on the copy of the COMPLETION OF BASIC RECORDS Proposal returned to the Business Adviser.

- 3) Clients approved for COMPLETION OF BASIC RECORDS will be presented with certificates at a ceremony organised by Headquarters.
- 4) Presentation Ceremonies will be scheduled regularly in keeping with the volume of clients to be awarded certificates.
- 5) Clients will be notified of details concerning the COMPLETION OF BASIC RECORDS using the Certification Notice.
- 6) Certification Notices will be prepared by the Field Supervisor and forwarded to the Business Adviser for distribution to the client.
- 7) If service is to be concluded follow Conclusion of Service Procedure.

CONCLUSION OF SERVICE or COMPLETION OF BASIC RECORDS

(Use for drop or completion of basic records; prepare in duplicate)

Business Adviser: _____ Client: _____

Business Name: _____

Station: _____

Type: _____

This client has received instruction for _____ months.

He/She has successfully advanced through the _____ stage.

I recommend this client be dropped/awarded a certificate because:

Signature

Date

FIELD SUPERVISOR

I recommend _____

Signature

Date

HEADQUARTERS

I agree/do not agree with the above recommendation. I recommend that you

Signature

Date

INSTRUCTIONS:

- 1) Complete in duplicate and forward both to Headquarters. You will follow the instruction on the action copy returned to you.
- 2) If you are having difficulty with a client you may suspend him/her pending a decision from Headquarters.
- 3) When a client has been dropped or graduated his/her file should be forwarded to Headquarters

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CLIENT EVALUATION

Client Name: _____ Sex: _____
Owner / Wife / Relative / Employee
Business Name: _____ Type: _____
Location: _____ P.O. Box: _____
Business Owner: _____ Licensee: _____
Date of First Call: _____ 19____ Months as Client: _____

EVALUATOR'S FINDINGS

Review of Client File Material Taught (From File)	Site Visit/Records Check Material In Use	Client Interview Material Understood
(1)		
(2)		
(3)		
(4)		
(5)		
(6)		
(7)		

Stage Reached: _____

Evaluator determined that _____ visits were made over _____ months.

SUMMARY

Evaluation of Client: _____

Evaluation of Client Records: _____

Evaluation of Files: _____

Recommendations: _____

Evaluator

Date

Date: _____

To: _____

Certification Notice

Dear _____,

Congratulations! I am pleased to inform you that upon the recommendation of the Business Adviser assigned to you, _____, you are to receive a Certificate indicating successful completion of our course in Basic Records. You are invited to attend a ceremony to be held:

Date:

Time:

Venue:

Certificates will be awarded at the time and place indicated above.

Sincerely,

-
- Directions: (1) Use only after graduation approved.
(2) Complete in duplicate.
(3) Copy to client, copy to client file.

ATTENDANCE CERTIFICATE

THIS IS TO CERTIFY THAT

HAS COMPLETED A COURSE PROGRAMME

DESIGNED TO ASSIST BATSWANA BUSINESS OWNERS

IN

BASIC RECORDS

DATE

TIME SCHEDULING

DEFINITION

TIME SCHEDULING is the planned, efficient use of the Business Adviser's time to allow maximum efficiency and impact. The Time Schedule is the plan of action the Business Adviser will follow during the month.

PURPOSE

Business Advisers operate according to a planned monthly Time Schedule to increase efficiency, make best use of resources and time in order to offer as much assistance to the business sector as possible. The BAS officers will develop and use the management skills of planning (activities), budgeting (time), allocation of resources (transportation, staff) and decision making when preparing and using Time Schedules. It is important that the Business Advisers develop, teach and demonstrate high standards of planning and management. The BAS must demonstrate the same punctuality and regularity that are expected from clients. The best method of reducing client absenteeism is for the Business Advisers themselves to be punctual and regular. TIME SCHEDULING is important so that Headquarters can plan support and assistance to extension offices and assure that the BAS is achieving programme goals.

POLICY

The Business Adviser Time Schedule is prepared in advance for each month.

All visits to clients, whether for training or assistance, should be scheduled.

Visits to clients receiving training should be made every week.

Assistance to clients and all other Business Adviser activities should be scheduled.

The Business Adviser should consider the following when preparing his monthly Time Schedule:

- Client Visits
- Staff Meetings
- PDC Meetings
- Agricultural Shows
- Trade Fairs
- Vehicle Servicing
- Administrative Time
- Leave/Holidays

Vehicle servicing should be scheduled to cause minimum disruption of the client visit schedule.

Business Advisers should reschedule client visits disrupted by other activities such as staff meetings so as not to deny training or assistance to the client.

When there are two officers posted to a station they should co-ordinate schedules to maximise office efficiency.

Only one officer should attend to the clients in an outlying area particularly when there are few clients.

In outlying areas an effort should be made to have more than one client to make efficient use of Business Adviser time.

Only one officer from each station should represent that station at meetings such as the PDC and agricultural shows to allow client visits to continue.

Administrative time is used to update files and prepare reports. The Business Adviser will be available to the public during administrative time.

Two officers in a station should ensure that their administrative time does not coincide. An officer should schedule his administrative time when the other officer is visiting clients or at a meeting or other activity.

The Business Adviser should plan his time to accomplish the following goals:

- (1) At least 50% of time with Clients.
- (2) Not more than 20% of time in Administration.
- (3) Not more than 20% of time on Travel.
- (4) Not more than 10% of time on Other Matters.

The Business Adviser should use a diary to record all activities.

PROCEDURE

The Time Schedule is prepared monthly in advance. A copy is submitted to the Field Supervisor.

The Business Adviser will record all activities in a diary. This information will be useful in preparing the monthly reports.

The Business Adviser will schedule the next appointment to the client during the client visit.

BUSINESS ADVISER'S TIME SCHEDULE

Business Adviser: _____ Office: _____
From: _____ To: _____ 19 _____

Day	Date	/Location	/Location	/Location	/Location
Mon					
Tue					
Wed					
Thu					
Fri					
Mon					
Tue					
Wed					
Thu					
Fri					
Mon					
Tue					
Wed					
Thu					
Fri					
Mon					
Tue					
Wed					
Thu					
Fri					
Mon					
Tue					
Wed					
Thu					
Fri					

Instructions: List the client or activity and the location you expect to visit each working day during the month.

REPORTING

DEFINITION

A summary of Business Adviser activities during the previous month and a plan of scheduled activities for the upcoming month. Monthly reports are prepared by each Business Adviser and for each extension office.

PURPOSE

To establish a regular flow of information to headquarters to demonstrate the extent to which extension officers are accomplishing programme goals and to provide a basis for determining support and assistance necessary to field offices. To develop the managerial skills of Business Advisers in recording, gathering and presenting information on their activities in report form.

POLICY

Reports are made every month.

Individual Reports

Individual reports are prepared by each Business Adviser. The required individual reports are:

Business Adviser Monthly Summary
Client Checklist
Time Schedule

The Business Adviser Monthly Summary shows a summary of all activity of each Business Adviser such as number of clients taught, number of new business and new skills topics introduced.

The Client Checklist is a summary list of all active and suspended clients of each Business Adviser and information about the clients.

The Business Adviser Monthly Summary and Client Checklist are due the first Friday of the month for activities of the previous month.

The Time Schedule is a schedule of the upcoming month's activities. The Time Schedule should be submitted to the Field Supervisor before the end of the month for the month following.

Office Report

The Office Report is a general report of all the activities of an extension office. The Senior Business Adviser in a station will prepare the Office Report. The Office Report should be submitted to the Field Supervisor along with the individual reports.

All reports will be checked and verified by the Field Supervisor.

The Business Adviser should assume his reports are correct as submitted if he is not informed of necessary corrections by the Field Supervisor. Reports should be submitted on a timely basis.

PROCEDURE

All reports are sent to the Field Supervisor.

All reports are prepared in duplicate. A copy of each report should be maintained in the files of the extension office.

The Time Schedule should be prepared by each Business Adviser and submitted prior to the end of the month for the month following.

The Field Supervisor will make changes in the Business Adviser Time Schedules as necessary to make best use of transportation resources, make most efficient use of the Business Advisers' time and meet the obligations and goals of the Business Advisory Service. The Business Advisers will be informed of necessary amendments to their Time Schedules.

The Field Supervisor will plan his schedule of monthly visits to extension offices based on the Time Schedules of the Business Advisers.

The individual reports are submitted to the Field Supervisor by the first Friday of each month.

The Senior Business Adviser in a station submits the Office Report by the first Friday of each month.

The Field Supervisor checks each report for correctness and cross referencing and advises the Business Advisers of amendments necessary.

The Field Supervisor will maintain a file of all reports submitted.

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BUSINESS ADVISER MONTHLY SUMMARY

Business Adviser: _____ Month _____ Year _____

Office: _____

CLIENT LOAD SUMMARY

- | | | |
|--|-------|-------|
| 1) Total Clients b/f from previous month (Line 5a) | _____ | _____ |
| 2) a. Add: New Clients | _____ | _____ |
| b. Add: Clients transferred in | _____ | _____ |
| c. Total: Clients added (2a + 2b) | _____ | _____ |
| 3) Gross Clients (1 + 2c) | _____ | _____ |
| 4) a. Less: Clients dropped | _____ | _____ |
| b. Less: Clients transferred out | _____ | _____ |
| c. Total: Clients subtracted (4a + 4b) | _____ | _____ |
| 5) a. Total Clients, end of month (3 - 4c) | _____ | _____ |
| b. Less: Clients suspended | _____ | _____ |
| c. Total: Active Clients (5a - 5b) | _____ | _____ |
| 6) Active Client Status | | |
| Receiving Training | _____ | _____ |
| Loan Assistance | _____ | _____ |
| Business Start-Up | _____ | _____ |
| Problem Solving | _____ | _____ |
| Total: | _____ | _____ |

CLIENT IMPROVEMENT SUMMARY (Training Clients)

- | | |
|--|-------|
| 7) Total "c's" of all Clients (b/f from previous month - Line 9) | _____ |
| 8) New "c's" of Clients this month | _____ |
| 9) Total "c's" since start with all clients | _____ |

BUSINESS ADVISER USE OF TIME

- | | Hours | % |
|-----------------------------|-------|-------|
| 10) Time Training/Assisting | _____ | _____ |
| 11) Time Travelling | _____ | _____ |
| 12) Time in Administration | _____ | _____ |
| 13) Other | _____ | _____ |
| 14) Total Hours | _____ | _____ |

Notes on Use of Form:

- (1) Transfers "in" and transfers "out" refer to clients that are reassigned to or from another Business Adviser. For example when a Business Adviser is on course leave his clients would be transferred to another Business Adviser.
- (2) The Client Improvement Summary is used to measure the overall progress of clients receiving training. The number of new "c's", indicating the number of subjects mastered by all clients during the month is determined by adding the New "c's" for every client for the month. This information is found in the individual Client Improvement Summaries.

CLIENT CHECK LIST

Business Adviser: _____ Month 19 _____

Office: _____

ACTIVE CLIENTS

Client Name	Business Name	M/F	Stage of Training or Assistance Provided

Total Active

SUSPENDED CLIENTS

Client Name	Business Name	M/F	Reason

Total Suspended

Total Clients

BUSINESS ADVISER'S TIME SCHEDULE

Business Adviser: _____ Office: _____

From: _____ To: _____ 19 ____

Day	Date	/Location	/Location	/Location	/Location
Mon					
Tue					
Wed					
Thu					
Fri					
Mon					
Tue					
Wed					
Thu					
Fri					
Mon					
Tue					
Wed					
Thu					
Fri					
Mon					
Tue					
Wed					
Thu					
Fri					
Mon					
Tue					
Wed					
Thu					
Fri					
Mon					
Tue					
Wed					
Thu					
Fri					

Instructions: List the client or activity and the location you expect to visit each working day during the month.

OFFICE REPORT

BUSINESS ADVISERS _____ OFFICE _____ MONTH _____ 19 _____

I : ACTIVE CLIENT LOAD

Location	Number	Location	Number
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	Total Active Clients =	_____

II : SUSPENDED CLIENTS

Business Adviser	Number of Suspended Clients
(a) _____	_____
(b) _____	_____
(c) _____	_____
Total Suspensions	_____

III : INCREASES AND DECREASES DURING MONTH

- (a) Increases (Total) = _____
- (b) Decreases (Conclusion of Service):

Name/Reason	Name/Reason
1) _____ / _____	6) _____ / _____
2) _____ / _____	7) _____ / _____
3) _____ / _____	8) _____ / _____
4) _____ / _____	9) _____ / _____
5) _____ / _____	10) _____ / _____

IV : CLIENT BREAKDOWN

Type/Number	Status/Number
Trading/_____	Owner/_____
Vending/_____	Wife of Owner/_____
Hawking/_____	Family Member/_____
Service/_____	Relative/_____
Producer/_____	Employee/_____
Transport/_____	_____/_____
_____/_____	
Total _____	Total _____

OFFICE REPORT CONTINUED

V : TRAINING AND MEETINGS ATTENDED

	Business Adviser	Activity	Dates
(1)	_____	_____	_____
(2)	_____	_____	_____
(3)	_____	_____	_____
(4)	_____	_____	_____
(5)	_____	_____	_____

VI : GENERAL REPORT

PREPARED BY: _____

DATE: _____

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STAFF MEETINGS

DEFINITION

STAFF MEETINGS are the regular gathering together of all personnel of the Business Advisory Service.

PURPOSE

- To ensure regular two-way communication and consultation between the field operations and headquarters.
- For control, co-ordination and planning of the BAS.
- To formulate, revise and discuss policies and procedures.
- To ensure field staff participation in the development of the BAS.
- To ensure that headquarters is informed of current conditions in the field.
- As a training vehicle to put in practice the staff skills of planning, time and resource allocation, decision making, personnel management and information collection and presentation acquired in the process of planning, carrying out and reporting on Business Adviser field activities.
- To develop the administrative skills of staff to participate in the structured formulation and application of development plans and projects.

POLICY

To have regular STAFF MEETINGS.

To co-ordinate STAFF MEETINGS with in-service training to make most efficient use of transportation resources.

To schedule vehicle maintenance while staff are in STAFF MEETINGS and training to minimise disruption of client service.

To have the Senior Business Adviser in each station present a report on the activities of that station to the meeting.

To discuss, propose solutions for and resolve administrative problems.

To make official announcements.

To make adjustments in the Business Adviser Schedules and plan and assign special activities such as trade fairs and client graduations in staff meetings.

To discuss and evaluate training and future training needs.

PROCEDURE

The STAFF MEETINGS will be schedule regularly at headquarters' discretion. Agenda will be prepared and minutes taken and distributed.

The Field Supervisor will take and distribute minutes of STAFF MEETINGS.

The STAFF MEETINGS will be co-ordinated with training for most efficient use of vehicles.

Review topics, discuss current client problems, (Government regulations, etc) share problems and successes.

SUPERVISION

DEFINITION

SUPERVISION is the observation, review of and assistance to the Business Advisory Service staff.

PURPOSE

- To manage and direct the resources of the BAS.
- To provide better service to clients.
- To assist field staff with technical and administrative problems.
- To communicate ideas and information between headquarters and the field.

POLICY

The Business Advisory Service by the nature of its organisation requires a process of deliberate and continuous communication between headquarters and the field. SUPERVISION is necessary to see that the policies of the BAS are being carried out.

To conduct periodic evaluations of field staff through review of files, interviews with clients and observation.

To ensure that seniors in a station control and direct staff assigned to that station.

Positive SUPERVISION is emphasised: to encourage mutual achievement of BAS goals.

The Field Supervisor must be personally familiar with every business person who is being advised and spend a certain amount of time each month calling on clients, sometimes with and sometimes without the Business Advisor.

PROCEDURE

The Field Supervisor should visit each extension office every month.

The Field Supervisor should review client files and visit clients.

The Field Supervisor should address technical and administrative problems and questions of field staff.

Senior Business Advisers in each office are responsible for supervising office operation, including the junior staff (drivers, cleaners), time schedules and use of transportation.

Headquarters staff should schedule periodic field office trips to visit clients and discuss operations with field staff.

EVALUATION

DEFINITION

A regular and continuous measurement of results, and comparison of these with costs and with targets, carried out by Business Advisers themselves.

PURPOSE

To measure the achievement of the Business Advisers, in order that they themselves may continually improve their performance and their supervisors may have information on which to base their assessment of training needs and general performance level of the Business Advisers.

POLICY

EVALUATION is a continuous process, and is based on the Business Advisers' monthly summaries and client check lists.

The Senior Business Advisers will collect information from individual Adviser's reports and summarise this in the office report. This will in turn be submitted to Field Supervisors in order to provide overall EVALUATION data.

EVALUATION, and action for improvement based on it, is primarily and principally the responsibility of the individual Business Adviser; Senior Advisers and Field Supervisors roles should merely be to check that Business Advisers are monitoring their own performance, and to provide advice and assistance where necessary.

It may from time to time be necessary to conduct formal EVALUATIONS of the Service as a whole, and external consultants or others may be employed to do this. Business Advisers should co-operate with such EVALUATIONS but if the proper documentation procedures have been followed it should be relatively simple for any external monitor to obtain all the necessary information without disturbing the working routine of Business Advisers.

PROCEDURE

Business Advisers, field offices and the Service as a whole will be evaluated by the number of clients covered and the number of improvements achieved by each client. Client graduations achieved are a further measure of the results, but Business Advisers, Senior Advisers and Supervisors must be aware that the overall objective, by which the Service as a whole and each staff member within it should be evaluated, is the business success of clients in terms of their profits and employment. Improvements and graduation must not be regarded as ends for their own sake, but as means to the end of business success.

INSTRUCTOR'S GUIDE - HOW TO TEACH POLICIES AND PROCEDURES

- 1) The following pages describe the administrative systems which are used to operate the Business Advisory Service (BAS). Trainees must both learn how to follow the procedures, and understand the reasons for them. They must therefore be included in the training programme.
- 2) These POLICIES AND PROCEDURES are those which apply specifically to the BAS. Trainees must also be familiar with the General Orders of the Government of Botswana which relate to them such as:
 - Pay and Expenses,
 - Time Keeping,
 - Leave Entitlement,
 - The Use of Government Vehicles,
 - Staff Evaluation Criteria.These should be included in the initial training programme.
- 3) There is a danger that trainees will concentrate on the mechanics of the various procedures and forms. It may be useful to introduce each topic by describing the kind of situation which might arise if the particular procedure was not applied. Trainees will then appreciate the reasons for what they are learning to do, and will be more likely to adhere to the procedure in future.
- 4) The material on client definition and client load can be covered early in the advisers' training programme, while trainees are being introduced to what the Business Adviser's job really is, and why it is important. The remaining topics are best covered after Basic Records and Business Management Skills have been covered. It is difficult to understand the reasons for the various procedures without any knowledge of what the Advisers are attempting to teach their clients.
- 5) Further instruction and revision of the procedures should also be given to all Advisers at the regular BAS Meetings. Field Supervisors should also further explain reporting procedures, and correct errors in their use, when they are working with Advisers in the field.

- 6) Stress throughout that one of the best ways in which individual Advisers, and the whole BAS, can introduce better management techniques is by demonstrating that the Service itself is well managed. Advisers can show that they themselves are good managers in the following ways:
- They should always be in time for client appointments.
 - They should carry and be familiar with up-to-date information about each client's progress.
 - They should know exactly what they propose to achieve at each client meeting.
 - They should arrange an alternative Adviser when they themselves are on leave or otherwise prevented from servicing their clients.
 - They should be completely familiar with the procedures that affect their clients, such as suspension or conclusion of service, and graduation.
- 7) Emphasise the importance of planning. If Advisers maintain a regular calling schedule with their clients, and are able to give the full client load an effective service, clients will themselves learn how to plan their activities more efficiently. If their Adviser is obviously disorganised, clients will not accept his advice.
- 8) Remind trainees that the BAS is expensive to run. Their objective should be to spend as high a proportion of their time as possible in the field, working with clients, in such a way that clients improve their own businesses. The various forms and procedures are designed to help them do this and thus gain the maximum benefit for clients, and the country in general, from the money that is spent on the BAS.
- 9) Trainees should practice filling in the forms, not in isolation but in combination with one another so that they see how the information on each form is relevant to the others. Prepare copies of forms of clients who were concluded some time ago, or of hypothetical clients. Trainees should study these and be ready to answer questions about the client and his performance in order to confirm their understanding of the meaning of every entry.

Trainees should work through sequences such as the following:



They should also role play the client suspension and graduation procedures, with trainees playing the role of Client, Adviser and Field Supervisor, in order to confirm their understanding of the procedure.

- 10) The entries in the client improvement record are a measure of client progress, and thus of the individual Adviser's performance. The graduation ceremony is intended to congratulate the client on his achievement, but his Adviser can also share in the credit.

Advisers should be encouraged to evaluate their own performance in this way, and some friendly competition between Advisers is also to be encouraged. Trainees should however be warned against the following dangers:

- They should not concentrate on "easy" recommendations in order to achieve a high number of "C" for competence. They must introduce those skills which the client needs.
- They must ensure that "C" skills are maintained. If too many skills are introduced at once, the client may achieve temporary competence but each skill will rapidly be replaced by the next, and will be forgotten.
- They must only suggest graduation for clients who have made a genuine improvement in their business skills, and not those who have adopted a number of skills without really understanding their purpose.

Generally, they should concentrate on the quality of the improvements they suggest to their client load, rather than the quantity.

- 11) Stress throughout the importance of keeping clients' business private. If clients and potential clients hear that an Adviser has been talking about his clients' business affairs, they will refuse to work with him and the reputation of the whole BAS will suffer. A Business Adviser is like a doctor; the content of client files is only to be seen by the client, the Adviser and his Supervisor.
- 12) Supervisors should if possible be involved in this part of the training course. Trainees should appreciate that the forms and procedures, and the Supervisor, are there to help them do their job better and not to spy on them or restrict them. Show how each form can be used by the Adviser, and his Supervisor, to help him do his job more effectively.
- 13) Graduation is often misunderstood by trainees, who regard it as the end of the advisory process; they may also believe it symbolises the passing of test, like a school examination. Stress that clients who graduate must be regularly using the skills which are relevant to and valuable for their business. Neither the Adviser nor his client gets any credit if a client who never gives any credit is keeping a debtors record.
- 14) Trainees should if possible spend some time during training working with experienced Advisers in the field. They should observe the way in which the procedures and forms are used, and should be encouraged to discuss their experience on their return to the classroom.

Trainees should also attend the graduation ceremony if this can be arranged. The Adviser whose client is graduating should briefly describe the history of the client's involvement with the BAS, and the client himself should be asked to talk to the Trainee Advisers about his experience and why he found the advice useful.

FORMS GLOSSARY

- a) The Master Forms Glossary is provided for ease of reference to all forms referred to in E Thusa Bagwabi and to make duplication of these forms easy and convenient.

There are two types of forms: (i) Teaching Aids
(ii) Administrative and Reporting

- b) Use of the Forms Glossary:

- 1) Refer to the Table of Contents to determine the form required.
- 2) Select the master form.
- 3) Duplicate as necessary.
- 4) DO NOT USE THE MASTER FORM. RETURN THE MASTER FORM TO THE FORMS GLOSSARY AFTER DUPLICATION.
- 5) Forms are listed as they appear in the text.

- c) Table of Contents:

<u>Teaching Aids</u>	<u>Use Described In</u>	<u>Page</u>
1) Cash Book	Cash Book	CB6
2) Cash Book (Two Column)	Cash Book	CB9
3) Purchase & Expense Record	Purchase & Expense Record	PE5
4) Sales Record	Sales Record	SR4
5) Stock Record	Stock Taking and Recording	ST3
6) Debtors Record	Debtors Record	DR4
7) Creditor/Loan Record	Creditor/Loan Record	CL5
8) Cash Flow Statement	Cash Flow	CF6
9) Overheads Computation	Costing	CO8
10) Costing Form	Costing	CO9

<u>Reporting Forms</u>	<u>Use Described In</u>	<u>Page(s)</u>
11) Client Log	Client Files	PP12
12) Client General Information	Client Files	PP13
13) Client Improvement Record	Client Files	PP14/15
14) Conclusion of Service or Completion of Basic Records	Conclusion of Service	PP23
15) Client Advice	Conclusion of Service	PP24
16) Client Evaluation	Completion of Basic Records	PP30
17) Certification Notice	Completion of Basic Records	PP31
18) Attendance Certificate	Completion of Basic Records	PP32
19) Business Adviser's Time Schedule	Time Scheduling	PP36
20) Business Adviser Monthly Summary	Reporting	PP40
21) Client Check List	Reporting	PP41
22) Office Report	Reporting	PP43/44

PURCHASE & EXPENSE RECORD

Date	Description	Total	Purchases	Expenses					Drawings		Fixed Assets	
			Stock						Cash	Goods		

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SALES RECORD

DATE	CASH SALES	CREDIT SALES	TOTAL SALES	SALES RETURN	NET SALES

DEBTORS RECORD

NAME :

CREDIT LIMIT :

ADDRESS :

PAYMENT DATE :

SIGNATURE :

Date	Description	Total Sales		Amount Paid		Balance Due		Deposit	
		P	t	P	t	P	t	P	t

CREDITOR/LOAN RECORD

NAME: _____

ADDRESS: _____

DATE PAYMENT DUE: _____

Date	Description	Amount Paid		Loan or Purchases		Balance Owed		Deposit	
		P	t	P	t	P	t	P	t

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C A S H F L O W S T A T E M E N T

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Cash Balance												
Sales, Cash												
Payments on Account												
Other Cash In												
Total Receipts												
Total Cash In												
Stock Purchases												
Expenses												
Equipment												
Total Cash Out												
Balance or (Deficit)												
Loan or (Repayment)												
Cash Balance												

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Business Name: _____

Date: _____

Period: _____ to _____ 19 __

OVERHEADS COMPUTATION

(A) Rent	_____
(B) Electricity	_____
(C) Repayment and Interest	_____
(D) Office Expense	_____
(E) Telephone	_____
(F) Transport	_____
(G) Insurance	_____
(H) Depreciation	_____
(I) Repairs and Spares	_____
(J) Dead-Time	_____
(K) Management Salaries	_____
(L) Other	_____
	=====
TOTAL	_____

OVERHEAD RATE

Total Overheads per _____
(period)

divided by:

Total Working Hours OR Units of Production per _____
(period)

equals

Overheads per Hour OR per Unit of Production _____

Instructions:

- (1) List all overhead costs both cash and non-cash.
- (2) Determine number of labour hours or number of units of production.
- (3) Ensure that all calculations are for the same period (week, month, etc.)
- (4) Delete above whichever is not applicable (hours or production units) to avoid confusion.

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BUSINESS NAME: _____

DATE: _____

COSTING FORM

ITEM: _____

DESCRIPTION: _____

SIZE: _____

(1) MATERIAL USED

QUANTITY	DESCRIPTION	PRICE PER UNIT	AMOUNT
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
TOTAL MATERIALS			_____

(2) LABOUR

_____	HOURS	@ _____	_____
_____	HOURS	@ _____	_____
_____	HOURS	@ _____	_____
TOTAL LABOUR			_____

(3) OVERHEADS (Rent, Electricity, etc.
Note: use OVERHEADS COMPUTATION FORM)

_____ Hours OR One Unit of Production @ _____ (Overhead Rate)

TOTAL OVERHEADS	_____
TOTAL COSTS	_____

(4) MARK-UP FOR WHOLESLE : _____ % OF TOTAL COSTS (above) _____

WHOLESALE PRICE

(5) MARK-UP FOR RETAIL : _____ % OF WHOLESALE PRICE (above) _____

RETAIL PRICE

CLIENT GENERAL INFORMATION

CLIENT INFORMATION

Client Name: _____ Date of First Session: _____

Postal Address: _____ Business Adviser: _____

Is the Client the (circle appropriate answer(s)):

Owner Wife of Owner

Family Member (specify): _____

Manager Partner Employee Other (specify): _____

PROFILE INFORMATION OF CLIENT

Age: _____ Single / Married / Widow

Number of Wives: _____ Number of Children: _____

Education: _____ Vocational Training: _____

Other Training: _____

Number of Years Experience in Business: _____

BUSINESS INFORMATION

Type of Business: _____ Year Business Began: _____

Number of Employees (wage earning): _____

Number of other people working in the business
such as family members that do not receive wages: _____

OWNER INFORMATION

Name of Owner(s) of Business: _____

Owner Residence: _____

Owner Occupation: _____

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CLIENT IMPROVEMENT RECORD : FOR THE YEAR: _____

CLIENT: _____

BUSINESS ADVISER: _____

TOPIC TAUGHT	C/F	Status at the End of the Month of											
		J	F	M	A	M	J	J	A	S	O	N	D
Cash Record													
Bank Reconciliation													
Purchase and Expense													
Sales Record													
Stock Record													
Dabtors Record													
Creditor/Loan Record													
Profit and Loss													
Balance Sheet													
Shop Layout													
Stock Display/Storage													
Stock Mix and Management													
Security and Cleanliness													
Coding/Markup/Pricing													
Customer Relations													
Advertising and Promotion													
Costing													
Manufacturing Mngt.													
Credit Management													
Financial Statement Anal.													
Cash Flow													
Financial Management													
New "C's" Monthly													

Note: For use of this form refer to Client Improvement Record Instruction Sheet.

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CLIENT IMPROVEMENT RECORD
INSTRUCTIONS

The C/F (carried forward column is used:

- (1) When a client first begins training. He should be evaluated by the Business Adviser to determine his abilities. Any areas he is competent in before beginning training should be indicated with a "C".
- (2) At the beginning of the year. A new record is started each year and this column is used to record the current status of the client in each subject. This should include all competencies ("C") to date.

At the end of each month the Business Adviser is to assess the client's progress in the course. The following letters are used to describe the client's status. After starting ("S") there should be an entry for each month until competency ("C") is achieved.

- C = Competent Client has demonstrated to the Business Adviser that he/she has satisfactorily learnt the topic and can apply all the material taught by the Business Adviser.
- S = Start A topic has been introduced and instruction has begun.
- P = Progress Business Adviser is currently teaching a topic and progress is being made. A "P" must be preceded by an "S".
- R = Relapse Client had been making progress ("P") or had been competent ("C") and is now no longer able to satisfactorily prepare the record book taught or understand the topic as well as he/she had previously.

NOTE: The topics need not be taught in the order shown. Business Advisers should use their judgement in determining the order which is best for each client. We should concentrate our training where there is both need and client interest. A client need not master all topics on the page before proceeding to another.

CONCLUSION OF SERVICE or COMPLETION OF BASIC RECORDS

(Use for drop or completion of basic records; prepare in duplicate)

Business Adviser: _____ Client: _____

Business Name: _____

Station: _____ Type: _____

This client has received instruction for _____ months.

He/She has successfully advanced through the _____ stage.

I recommend this client be dropped/awarded a certificate because:

Signature

Date

FIELD SUPERVISOR

I recommend _____

Signature

Date

HEADQUARTERS

I agree/do not agree with the above recommendation. I recommend that you

Signature

Date

INSTRUCTIONS:

- 1) Complete in duplicate and forward both to Headquarters. You will follow the instruction on the action copy returned to you.
- 2) If you are having difficulty with a client you may suspend him/her pending a decision from Headquarters.
- 3) When a client has been dropped or graduated his/her file should be forwarded to Headquarters

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Date: _____

Client Advice

Dear _____,

A review of your file indicates that you are unable to continue receiving assistance or training from BAS. We are pleased that you have progressed to the _____ stage. However, as a result of _____ we can no longer assign a Business Adviser to call on you. Therefore a decision has been made to drop you from our client rolls with effect from _____.

Sincerely,

HQ USE ONLY

Directions:

Date Drop Approved: _____

- 1) Use only after drop approved.
- 2) Prepare in duplicate.
- 3) Indicate stage reached and reason for drop.
- 4) One copy to client, one copy to client file.

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CLIENT EVALUATION

Client Name: _____ Sex: _____
Owner / Wife / Relative / Employee
Business Name: _____ Type: _____
Location: _____ P.O. Box: _____
Business Owner: _____ Licensee: _____
Date of First Call: _____ 19__ Months as Client: _____

EVALUATOR'S FINDINGS

Review of Client File Material Taught (From File)	Site Visit/Records Check Material In Use	Client Interview Material Understood
(1)		
(2)		
(3)		
(4)		
(5)		
(6)		
(7)		

Stage Reached: _____

Evaluator determined that _____ visits were made over _____ months.

SUMMARY

Evaluation of Client: _____

Evaluation of Client Records: _____

Evaluation of Files: _____

Recommendations: _____

Evaluator

Date

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Date: _____

To: _____

Certification Notice

Dear _____,

Congratulations! I am pleased to inform you that upon the recommendation of the Business Adviser assigned to you, _____, you are to receive a Certificate indicating successful completion of our course in Basic Records. You are invited to attend a ceremony to be held:

Date:

Time:

Venue:

Certificates will be awarded at the time and place indicated above.

Sincerely,

-
- Directions: (1) Use only after graduation approved.
(2) Complete in duplicate.
(3) Copy to client, copy to client file.

ATTENDANCE CERTIFICATE

THIS IS TO CERTIFY THAT

HAS COMPLETED A COURSE PROGRAMME

DESIGNED TO ASSIST BATSWANA BUSINESS OWNERS

IN

BASIC RECORDS

DATE

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BUSINESS ADVISER'S TIME SCHEDULE

Business Adviser: _____ Office: _____

From: _____ To: _____ 19 ____

Day	Date	/Location	/Location	/Location	/Location
Mon					
Tue					
Wed					
Thu					
Fri					
Mon					
Tue					
Wed					
Thu					
Fri					
Mon					
Tue					
Wed					
Thu					
Fri					
Mon					
Tue					
Wed					
Thu					
Fri					
Mon					
Tue					
Wed					
Thu					
Fri					

Instructions: List the client or activity and the location you expect to visit each working day during the month.

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BUSINESS ADVISER MONTHLY SUMMARY

Business Adviser: _____ Month _____ Year _____

Office: _____

CLIENT LOAD SUMMARY

- | | | |
|--|-------|-------|
| 1) Total Clients b/f from previous month (Line 5a) | _____ | _____ |
| 2) a. Add: New Clients | _____ | |
| b. Add: Clients transferred in | _____ | |
| c. Total: Clients added (2a + 2b) | _____ | _____ |
| 3) Gross Clients (1 + 2c) | | _____ |
| 4) a. Less: Clients dropped | _____ | |
| b. Less: Clients transferred out | _____ | |
| c. Total: Clients subtracted (4a + 4b) | _____ | _____ |
| 5) a. Total Clients, end of month (3 - 4c) | | _____ |
| b. Less: Clients suspended | | _____ |
| c. Total: Active Clients (5a - 5b) | | _____ |
| 6) Active Client Status | | |
| Receiving Training | _____ | |
| Loan Assistance | _____ | |
| Business Start-Up | _____ | |
| Problem Solving | _____ | |
| Total: | _____ | _____ |

CLIENT IMPROVEMENT SUMMARY (Training Clients)

- | | |
|--|-------|
| 7) Total "c's" of all Clients (b/f from previous month - Line 9) | _____ |
| 8) New "c's" of Clients this month | _____ |
| 9) Total "c's" since start with all clients | _____ |

BUSINESS ADVISER USE OF TIME

- | | Hours | % |
|-----------------------------|-------|-------|
| 10) Time Training/Assisting | _____ | _____ |
| 11) Time Travelling | _____ | _____ |
| 12) Time in Administration | _____ | _____ |
| 13) Other | _____ | _____ |
| 14) Total Hours | _____ | |

Notes on Use of Form:

- (1) Transfers "in" and transfers "out" refer to clients that are reassigned to or from another Business Adviser. For example when a Business Adviser is on course leave his clients would be transferred to another Business Adviser.
- (2) The Client Improvement Summary is used to measure the overall progress of clients receiving training. The number of new "c's", indicating the number of subjects mastered by all clients during the month is determined by adding the New "c's" for every client for the month. This information is found in the individual Client Improvement Summaries.

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CLIENT CHECK LIST

Business Adviser: _____

Month

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Office: _____

ACTIVE CLIENTS

Client Name	Business Name	M/F	Stage of Training or Assistance Provided

Total Active

SUSPENDED CLIENTS

Client Name	Business Name	M/F	Reason

Total Suspended

Total Clients

OFFICE REPORT

BUSINESS ADVISERS _____ OFFICE _____ MONTH _____ 19 _____

I : ACTIVE CLIENT LOAD

Location	Number	Location	Number
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	Total Active Clients =	_____

II : SUSPENDED CLIENTS

Business Adviser	Number of Suspended Clients
(a) _____	_____
(b) _____	_____
(c) _____	_____
Total Suspensions	_____

III : INCREASES AND DECREASES DURING MONTH

- (a) Increases (Total) = _____
- (b) Decreases (Conclusion of Service):

Name/Reason	Name/Reason
1) _____ / _____	6) _____ / _____
2) _____ / _____	7) _____ / _____
3) _____ / _____	8) _____ / _____
4) _____ / _____	9) _____ / _____
5) _____ / _____	10) _____ / _____

IV : CLIENT BREAKDOWN

Type/Number	Status/Number
Trading/_____	Owner/_____
Vending/_____	Wife of Owner/_____
Hawking/_____	Family Member/_____
Service/_____	Relative/_____
Producer/_____	Employee/_____
Transport/_____	_____/_____
_____/_____	_____
Total _____	Total _____

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OFFICE REPORT CONTINUED

V : TRAINING AND MEETINGS ATTENDED

	Business Adviser	Activity	Dates
(1)	_____	_____	_____
(2)	_____	_____	_____
(3)	_____	_____	_____
(4)	_____	_____	_____
(5)	_____	_____	_____

VI : GENERAL REPORT

PREPARED BY: _____

DATE: _____

12/31