



Module 4

**Keeping the Books:
Creating Records
that Help You
Manage Revenue
and Cost**

- A. Keeping Track of the Details**
- B. Two Parts to Every Business Transaction**
- C. The Journal**
- D. Account Ledgers**

Module 4: Creating Records that Help You Manage Revenue and Cost

Keeping records is crucial for managing a business. A comprehensive recordkeeping system makes it possible to develop **accurate and timely financial reports that show the progress and condition of the business.**

Objectives:

By the end of this session, you will:

- describe the importance of developing and using a comprehensive recordkeeping system to produce financial reports.
- discuss how a recordkeeping system uses journals and ledgers to organize the daily transactions of a clinic
- understand the relationship between journals, ledgers, and financial statements
- develop the basic requirements for a record-keeping system for your clinic

A. Keeping Track of the Details

Being in business is a dynamic, three-dimensional, real-life experience. The business owner often wears many hats—that of owner, clinician, manager, and more!

This is why it is important that systems and processes exist to capture data for the clinic manager, when and how he or she needs it. To run a health care business well, it is important that the owner knows what money has been received, how much money was spent, and how it was spent.



Keeping records is crucial for successfully managing a business. A comprehensive recordkeeping system makes it possible to develop **accurate and timely financial reports that show the progress and condition of the business.**

With the financial reports you can generate from a good recordkeeping system, you can compare performance during one period of time (such as month, quarter, or year) with another period, calculate trends, and plan for the business's future.

Purpose of Recordkeeping

A good recordkeeping system provides management with information to use in operating a business.

Because cash flow and profitability are tied to financial analysis, it is vital that business owners understand the external and internal financial factors that affect their business.

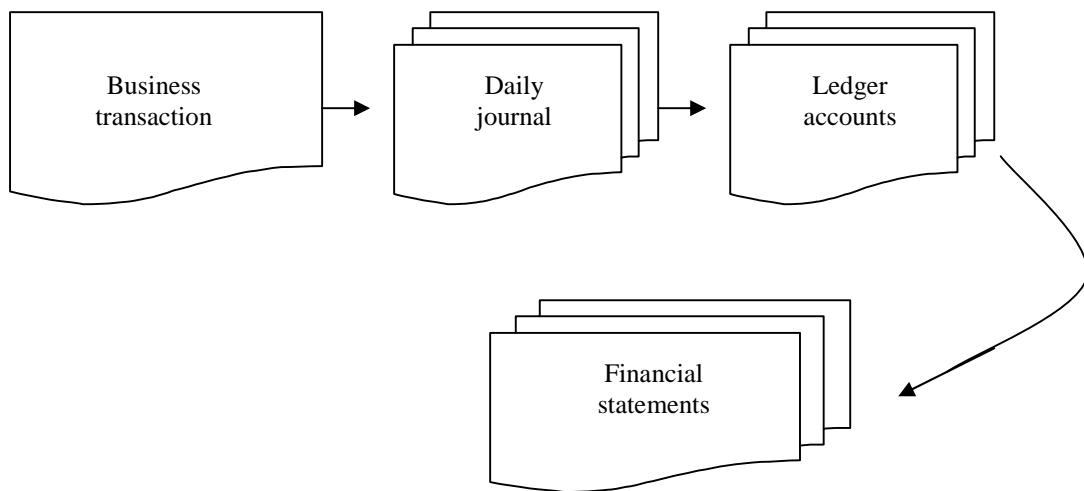
The financial recordkeeping system provides:



- the foundations for monitoring and measuring the progress of a business
- a blueprint for fiscal control by monitoring and measuring sales, the costs of goods sold, gross profits, expenses, and taxes

The Financial Recordkeeping System for a Private Clinic

The foundation for accurate financial statements is a comprehensive recordkeeping system.



Setting up a Basic Recordkeeping System

The following diagram is a simplified map of basic recordkeeping that demonstrates what a general accounting system should look like.

A **journal** is a record of all the transactions that occur in a business. Transactions are entered in the journal by date, amount, description, and account to which it has been assigned.

A **ledger** is a book of accounts in which each transaction type is maintained separately. Information about each type of business activity (for example, sales and purchases) is recorded in these books.

The number of ledgers used depends on the size of the clinic and the kind of business that is conducted. Information from the ledgers is used to create financial reports.

B. Two Parts to Every Business Transaction

Business transactions consists of two parts: one part that gives and one that receives.



When considering any transactions, it is essential to recognize

- what (and how much) has **gone out** of a clinic, in exchange for
- what (and how much) has **come into** a clinic

If you sell an item, for example a bottle of medicine, that item **goes out** of your business to your customer. If your customer pays for that item with cash, cash **comes into** your business.

Therefore you must recognize both aspects of this sales activity. When you write down this sale, you will make two entries:

Item **out**

Cash **in**

As every transaction consists of two parts, you always must make two entries: one **in** and one **out**.

When your business purchases equipment for the laboratory, the clinic receives a new piece of equipment and pays with cash. What are the two parts of this transaction?

Cash **goes out** of your business as payment

and

Equipment **comes into** your business

Solve this example:

A patient who is not feeling well comes into the clinic and receives a general examination. What are the two parts of this transaction?

_____ goes out of the clinic

and

_____ comes into the clinic

C. The Journal

The general journal is the daily diary in which every transaction is recorded.

A **journal** is a record of all of the transactions that occur in a business. The transaction is entered in the journal by date, amount, description, and account to which it has been assigned.

In documenting your transactions, here are a few simple rules:

- Revenues increase with credits and decrease with debits
- Expenses increase with debits and decrease with credits
- Assets increase with debits and decrease with credits
- Liabilities increase with credits and decrease with debits
- Owner's equity increases with credits and decreases with debits

Once you know your ledger accounts (or columns), you will write each activity in your journal. These items are called **entries**.

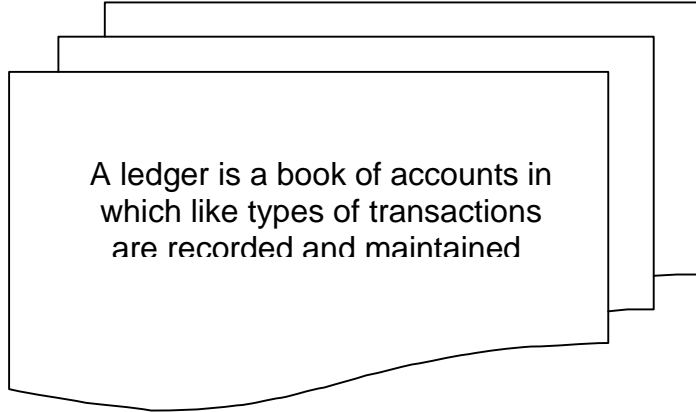
- Each entry should be written in a journal in the order in which it occurs.
- For each transaction, write the date, a short description of the transaction, an identification number (if appropriate), and the amount of money.

The Daily Journal

Daily Journal—ABC Clinic

Date	Account ID/Title	Description of transaction	DR	CR
3/2/08		Purchase supplies Cash Purchased cleaning material	100	100
3/3/08		Miscellaneous expense Accounts payable Maintenance on vehicle	900	900
3/5/08		General expense Cash Paid insurance	500	500
3/7/08		Cash Service revenue Sales week 1	7000	7000
3/8/08				
3/10/08				

D. Ledger Accounts



After each business transaction is recorded in the general journal, the transaction also is entered in a specialized document, a ledger, that documents like business transactions.

The number of ledgers a business has depends on its size and kind of business operations. By keeping ledgers based on the clinic's operations, financial data will be maintained that can then be readily available to create financial reports.

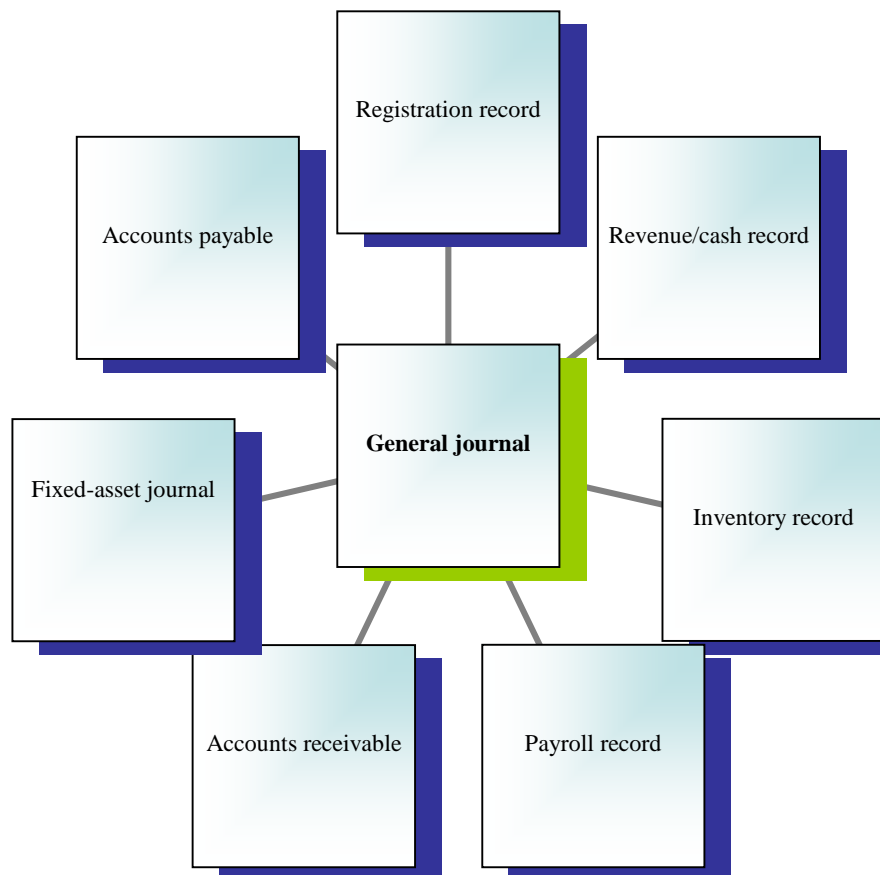
Exercise:

Services	Ledgers to track items going out of a clinic	Ledgers to track items coming into a clinic

Here is a list of common ledgers.

- A **sales ledger** includes a record of sales invoices.
- When you purchase goods and services, but do not pay for them at the time of purchase, you will record the amounts you owe and when they are due in an **account payable**.
- If you have an inventory of goods and products, you will depend on a **stock or materials ledger** to tell you how many units are available on a given day.
- For equipment or vehicles your business owns, you should use an **equipment ledger** to report their costs. This journal also will show you the total value of your business's equipment.
- When your business is big enough to employ extended family members or outside employees, you will keep a record of payments to these people in a **wages or labor ledger**.
- A **cash ledger**, a specialized record book, will provide the details of your cash sales and payments. It will be described in more detail later.
- If you have customers who make regular purchases, but do not pay you at the time of each purchase (corporate credit clients), you should keep **corporate account ledgers (accounts receivable)**. To maintain this kind of ledger, there should be a separate page for each account and client. This way you can easily track sales and payments for each account.

Here is a depiction of where the information captured in the Journal goes:



Sample Materials and Supplies Ledger

Good Day Higher Clinic Ledger															
Account title: Materials and supplies				Year				Account number:				Page:			
	Date	Description of transactions	Cash		General supplies		Lab		X-ray		TB		Medical		Balance
			DR	CR	DR	CR	DR	CR	CR	DR	CR	DR	CR	DR	
1															
2															
3															
4															
5															
6															
7															
8															
9															
10															
11															
12															

Sample General Expenses Ledger

Good Day Higher Clinic Ledger															
Account title: General expenses				Year				Account number:				Page:			
1	Date	Description of transactions	General		Lab		X-ray		TB		Professional Fees		Other		Balance
			DR	CR	DR	CR	DR	CR	CR	DR	CR	DR	CR	DR	
2															
3															
4															
5															
6															
7															
8															
9															
10															
11															
12															

Sample Corporate Credit Ledger (Accounts Receivable)

Corporate credit ledger—Accounts receivable
Company A

	Patient name	Type of service	Date of service/ payment	Amount due	Amount paid	Balance due	End of month balance
1	Abdela	General Ultrasound	3 Feb 08/2008 27-Mar-08	105	0 105	105	0
2							
3							
4							
5							
9							

Total received

Total outstanding

Sample Accounts Payable Ledger Summary

	Account name	Invoice number	Type of service	Date of invoice/ payment	Amount due	Amount paid	Balance due	End of month balance
1	AAA Medical Supplies	1234	Medical Supplies	11-Feb-08 11-Mar-08	3865 3865	0 1000	3865 2865	2865
2								
3								
4								
5								

Paid

Balance