

Module 2

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

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

Module 2—Keeping the Books: Creating Records that Help 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 current 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 recordkeeping system at your clinic

A. Keeping Track of the Details

Introduction

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 are in place to capture data for the clinic manager, when and how he or she needs it. To run the 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 the successful management of a business. A comprehensive recordkeeping system makes it possible to develop **accurate and timely financial reports that show the progress and current conditions of the business**. With the financial report you can generate from a good recordkeeping system, you can help the business owner to compare performance during one period of time (month, quarter or year) with another period, calculate trends and plan for the business's future.

Purpose of Record Keeping

The purpose of a good recordkeeping system is to provide management information to use in operating the business. Because cash flow and profitability are closely tied to financial analysis, it is vital that business owners understand the external and internal financial factors that affect their business. The recordkeeping system provides



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

B. Two Parts to Every Business Transaction

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

When considering any transactions in your clinic, it's essential to recognize

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

If you sell an item, for example a bottle of medicine, that item **goes out** of your business to your customer. When 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 must always make two entries: always, one **in** and one **out**.

When your business purchases a piece of 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

Setting up a Basic Recordkeeping System

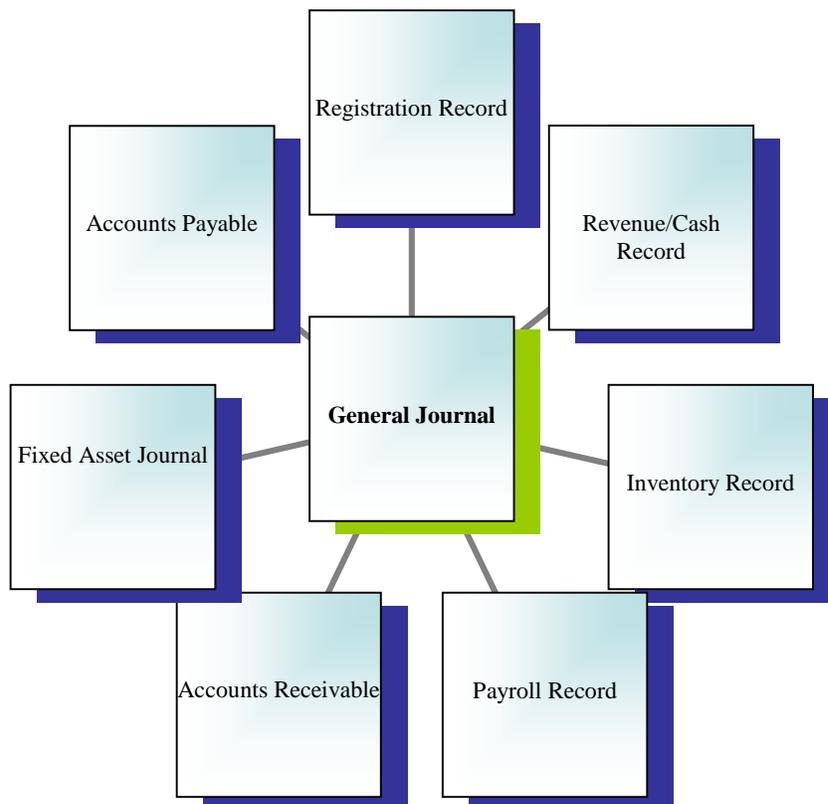
The following is a simplified map of basic recordkeeping that demonstrates what a general accounting system should look like.

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

A **ledger** is a book of accounts in which each different transaction type is maintained separately. You will record specific information about each type of business activity (for example, sales and purchases) 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.

Graphic: Information from the General Journal feeds into specific ledgers of accounts



C. The Journal

The General Journal is the daily diary in which every transaction is recorded.

In documenting transactions here are a few simple rules to remember:

- 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**.

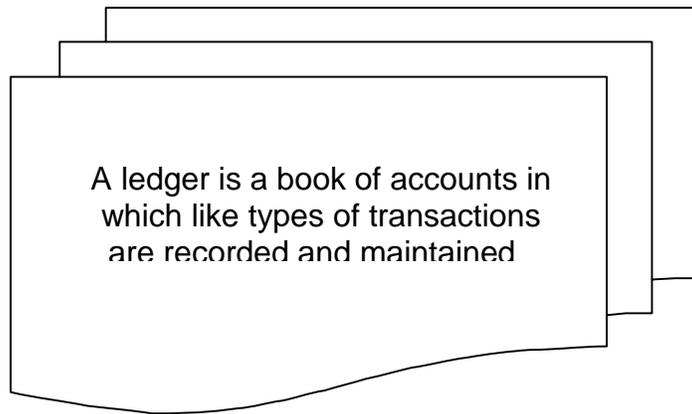
- Each entry should be written in your journal in the order in which it occurs
- For each transaction, write the date, a short description of the transaction, an identification number (if appropriate), and the amount of money

The Daily (General) 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 is also recorded in a specialized document—called a ledger—that documents like business transactions.

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

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

Sample Materials and Supplies Ledger

Good Day Higher Clinic Ledger															
Account Title: Materials and Supplies				Year				Account Number:				Page:			
1	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	
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	

Check Daily

- Cash on hand
- Bank balance—Keep business and personal funds separate
- Daily summary of sales and cash receipts
- That all errors in recording collections on accounts are corrected
- That a record of all monies paid out, by cash and checks, is maintained

Check Weekly

- Accounts receivable—Take action to motivate payment on past-due accounts
- Accounts payable—Take advantage of early pay discounts

Check Monthly

- That all journal entries are classified according to like elements and posted to the general ledger. Classifications generally should be accepted and standardized for both income and expense.
- That a profit and loss statement for the month is available within a reasonable time, usually 10 to 15 days following the close of the month. This statement shows the income of the business for the month, the expenses incurred in obtaining the income, and the profit or loss resulting. If there is a loss, you may need to adjust your mark-up, reduce overhead expenses, reduce pilferage, correct tax reporting, change buying procedures, or take advantage of cash discounts.
- That a balance sheet accompanies the profit and loss statement. The balance sheet shows assets, liabilities, and the investment of the owner or owners.
- The bank statement is reconciled and that the owner's books are in agreement with the bank's record of the cash balance.
- The petty cash account is in balance. Cash in the petty cash box, plus the total of the paid-out slips that have not been changed to expense, should total the amount set aside as petty cash.
- That accounts receivable are aged (for example 30, 60, and 90 days past due).

Small Group Activity: Constructing Financial Reports Using Ledger Data

The owners of the Good Day Higher Clinic just told their bookkeeper, Abinet Berhanu, that they need a copy of the following financial reports for the month of March: the income statement, the cash flow statement, and the balance sheet.

As Abinet reviews the financial data for the month of March she realizes that she had so much work to do during the month that the financial data is not organized properly. Abinet quickly realizes that unless she gets help she will not be able to produce the financial reports.

You have been asked to assist Abinet in organizing the financial data and producing the financial reports. The following is what needs to be done:

1. The first thing that Abinet asks you to do is to use the client cash sales journal to determine the **total client cash sales** for the month. A table summarizing the first three weeks is complete. You need to summarize cash sales for week 4 and add this information to the Summary of Client Cash Sales.

As a final step add the week 4 of cash sales to the daily journal (this transaction will be your last one for the month.)

2. Review the daily journal that Abinet has recorded. For each business transaction determine:
 - the ledger to post the transaction to; write it in the ledger column
 - based on the transaction determine debit and credit; write the transaction information in the appropriate column
3. Using the ledgers provided post the transactions to the ledger. Tally the information for each ledger to determine the total amount received, payable, receivable, or expended. For the salary ledger, use the percentages in the ledger to allocate the equivalent birr value to a specific line of service.
4. Use the information from the ledgers to create an income statement.
5. Use the information from the ledgers to update the balance sheet. There is a balance sheet for February. Abinet tells you that the accounts receivable on the February balance sheet has not been collected. There were two kinds of repairs done during the month (to the vehicle and to the clinic building), and she instructs you to include this information on the balance sheet as an account payable and also on the asset side as increases in the values of the vehicle and building.

Good Day Higher Clinic											Per Week
Summary of Client Cash Sales—March											
	Doctor Consultation/Fee	Lab	X-Ray	Ultrasound	EKG	Injections	TB	Delivery	Bed	Other	
Week 1	1380	2400	1100	500	275	1400	0	1000	600	500	9155
Week 2	1518	2640	1210	550	302	1540	0	1255	660	725	10400
Week 3	1290.3	2150	1028	468	257	1215	0	1083	561	600	8652
Week 4											
Total											

Good Day Higher Clinic

Client Cash Sale Journal—Week ending 28 March

Date	Cash	Description	Doctor Consultation /Fee	Laboratory	X-Ray	Ultrasound	EKG	Injection	TB Services	Delivery	Bed	Other
22-Mar-08	55		15		40							
22-Mar-08	75		35				40					
22-Mar-08	95		15	40								40
22-Mar-08	15		15									
22-Mar-08	120		15	65				40				
22-Mar-08	145		15	55				75				
22-Mar-08	15		15									
22-Mar-08	95		15		80	0						
22-Mar-08	40			40								
22-Mar-08	435							85		350		
22-Mar-08	55		15		40							
22-Mar-08	65		35									30
22-Mar-08	145		15					30			100	
		Daily Total	205	200	160	0	40	230	0	350	100	70
23-Mar-08	50		15	35								
23-Mar-08	115		35	35				45				
23-Mar-08	105		15		65							25
23-Mar-08	15		15									
23-Mar-08	150		35	65				50				
23-Mar-08	160		15								120	25

23-Mar-08	65			65								
23-Mar-08	15		15									
23-Mar-08	115			40		75						
23-Mar-08	80		15					65				
23-Mar-08	45		15									30
23-Mar-08	325								325			
23-Mar-08	40		15									25
23-Mar-08	55		15	40								
23-Mar-08	40		15	25								
23-Mar-08	135		15					30			90	
		Daily Total	235	305	65	75	0	190	0	325	210	105
24-Mar-08	50		15	35								
24-Mar-08	105		15		55			35				
24-Mar-08	135		15			75						45
24-Mar-08	115		15								100	
24-Mar-08	130		15	60	25			30				
24-Mar-08	190		15		125							50
24-Mar-08	95			65				30				
24-Mar-08	40		15					25				
24-Mar-08	55			30	25							
24-Mar-08	325								325			
24-Mar-08	85		15	35								35
		Daily Total	120	225	230	75	0	120	0	325	100	130
25-Mar-08	50		15	35								
25-Mar-08	85		35	35				15				
25-Mar-08	130		15		65							50
25-Mar-08	55		15					40				
25-Mar-08	130		35	65				30				

25-Mar-08	165		15							100	50	
25-Mar-08	50		15	35								
25-Mar-08	155					100		55				
25-Mar-08	95		15		55						25	
25-Mar-08	80		15	65								
25-Mar-08	380							30		350		
25-Mar-08	15		15									
		Daily Total	190	235	120	100	0	170	0	350	100	125
26-Mar-08	50		15	35								
26-Mar-08	85		35	35				15				
26-Mar-08	155		15		65			40			35	
26-Mar-08	15		15									
26-Mar-08	130		35	65				30				
26-Mar-08	155		15							90	50	
26-Mar-08	65			65								
26-Mar-08	15		15									
26-Mar-08	140			40		75		25				
26-Mar-08	65		15					50				
26-Mar-08	65		15								50	
26-Mar-08	125		35				90					
26-Mar-08	15		15									
26-Mar-08	40		15					25				
26-Mar-08	40		15		25							
26-Mar-08	15		15									
26-Mar-08	15		15									
		Daily Total	285	240	90	75	90	185	0	0	90	135
27-Mar-08	80		15		65							
27-Mar-08	55		15					40				

27-Mar-08	130		35	65				30				
27-Mar-08	65		15									50
27-Mar-08	65			65								
27-Mar-08	15		15									
27-Mar-08	115			40		75						
27-Mar-08	40		15	25								
27-Mar-08	45		15					30				
		Daily Total	125	195	65	75	0	100	0	0	0	50
28-Mar-08	50		15	35								
28-Mar-08	85		35	35				15				
28-Mar-08	160		15		65							80
28-Mar-08	15		15									
28-Mar-08	170		35	105				30				
28-Mar-08	140		15								75	50
28-Mar-08	65			65								
28-Mar-08	15		15									
28-Mar-08	100			40								60
		Daily Total	145	280	65	0	0	45	0	0	75	190
		Weekly Total	1305	1680	795	400	130	1040	0	1350	675	805

DAILY JOURNAL – MARCH: Good Day Higher Clinic					
Date	Account ID/Title	Description of Transaction	Amount	DR	CR
3/2/08		Company B Credit Client (Negussie Lab/Birr105)	0		
3/3/08		Company C Credit Client (Abdela Ultrasound/B105)	0		
3/5/08		Purchase Supplies—Cleaning Material	260		
3/5/08		Purchase Supplies—Stationary	125		
3/5/08		Company A Credit Client (Mohammed—Delivery/B350)	0		
3/6/08		Purchase Lab Supplies	680		
3/6/08		Purchase X-Ray Supplies	500		
3/7/08		Client Cash Sales Week 1	9155		
3/8/08		Company C Credit Client (Alemayehu Delivery/B320)	0		
3/10/08		Rent	4000		
3/10/08		Company A Credit Client (Gemechu—X-Ray/bone set/B190)	0		
3/10/08		Company B Credit Client (Haile/Deliery B345)	0		
3/12/08		Minor Surgery Supplies	380		
3/12/08		Company B Credit Client (Burka Ultrasound/Birr 165)	0		
3/13/08		Protective Gear—TB Service	200		
3/14/08		Cleaning Material	1150		
3/14/08		Client Cash Sales Week 2	10400		

Participant Guide—Module 2 Keeping the Books: Creating Records that Help Manage Revenue & Cost

Date	Account ID/Title	Description of Transaction	Amount	DR	CR
3/15/08		Communication	750		
3/15/08		Water	200		
3/15/08		Electricity	350		
3/15/08		Repairs to X-Ray Machine	1200		
3/16/08		Company C Credit Client (Berhanu Sutures/B95)	0		
3/20/08		Lab Supplies	1080		
3/20/08		X-Ray Supplies	750		
3/21/08		Client Cash Sales Week 3	8652		
3/21/08		Company A Credit Client (Tsegaye Lab/B85)	0		
3/22/08		Minor Surgery Sup.	380		
3/22/08		Cleaning Material	200		
3/23/08		Company C Credit Client (Kussa Lab/B105)	0		
3/24/08		Drugs	2300		
3/25/08		Salary Doctor A	5000		
3/25/08		Salary Doctor B	5000		
3/25/08		Salary Nurse A	1000		
3/25/08		Salary Nurse B	1000		
3/25/08		Salary Nurse C	1000		

Participant Guide—Module 2 Keeping the Books: Creating Records that Help Manage Revenue & Cost

Date	Account ID/Title	Description of Transaction	Amount	DR	CR
3/25/08		Salary Technician E	1500		
3/25/08		Salary Technician F	1200		
3/25/08		Salary Administrator G	350		
3/25/08		Salary Administrator H	450		
3/25/08		Salary General Labor	500		
3/26/08		Specialist—ENT	400		
3/27/08		Company C Credit Client (Abdela Ultrasound/B105)	105		
3/27/08		Company C Credit Client (Alemayehu Delivery/B320)	320		
3/27/08		Company C Credit Client (Berhanu Sutures/B95)	95		
3/28/08		Specialist—Internist	250		
3/28/08		Company A Credit Client (Mohammed—Delivery)	350		
3/28/08		Company A Credit Client (Gemechu—X-Ray/bone set	190		
3/28/08		Company A Credit Client (Tsegaye Lab)	85		
3/28/08		General Contracting LTD (Building Repair/B5470)	2735		
3/29/08		Uniforms	350		
3/29/08		Transport Charges	900		
3/29/08		Yosef's Auto Body (Vehicle Repair/B3590)	1795		
3/29/08					

Salaries Ledger – Weekly/Monthly: Good Day Higher Clinic

DATE	DESCRIPTION	General Administration	Laboratory	X-Ray	General Services	TB Service	Delivery	Bed	Other
	Doctor A		25%		75%				
	Doctor B				50%	25%	25%		
	Nurse A				50%	25%	25%		
	Nurse B					100%			
	Nurse C		50%		25%			25%	
	Technician E		100%						
	Technician F			199%					
	Administrator G	100%							
	Administrator H	50%		50%					
	General Salary	100%							
	Total for Week/Month								

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															

Good Day Higher Clinic Ledger															
Account Title: General Expenses				Year				Account Number:				Page:			
	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	
1															
2															
3															
4															
5															
6															
7															
8															
9															
10															
11															
12															
13															
14															
15															

Corporate Credit Ledger (Accounts Receivable): Good Day Higher Clinic

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							
2							
3							
				Total Paid		Total End of Month Balance	

Company B

1							
2							
3							
				Total Paid		Total End of Month Balance	

Corporate Credit Ledger—Accounts Receivable
Company C

	Patient Name	Type of Service	Date of Service/ Payment	Amount Due	Amount Paid	Balance Due	End of Month Balance
1							
2							
3							
4							
5							
				Total Paid		Amount Due End of Month	

Accounts Payable Ledger Summary: Good Day Higher Clinic

	Account Name	Invoice Number	Type of Service	Date of Invoice/ Payment	Amount Due	Amount Paid	Balance Due	End of Month Balance
1								
2								
3								
4								
5								
6								
7								

Paid

Balance

Income Statement—Good Day Higher Clinic March	
Revenues	Birr
Doctor consultation/fee	
Laboratory	
X-ray	
Ultrasound	
EKG	
Injections	
TB service	
Bed	
Delivery	
Other	
Revenue from credit sales	
Total revenue	
Cost of goods sold	
Laboratory	
X-ray	
Medical supplies	
TB supplies	
Salary—Direct	
Professional fees	
Total cost of goods sold	
Gross margin	
Operating Expenses	Birr
General supplies	
Salaries general and administrative	
Total Operating expenses	
Net profit or loss ()	

Balance Sheet: Good Day Higher Clinic			
Date: February			
Date: February			
Current assets		Current liabilities	
Cash	8450	Short-term loans	0
Accounts receivable	1050	Accounts payable	8590
Supplies	2030	Tax payable	
Other current assets			
Subtotal current assets	11530	Subtotal current liabilities	8590
Non-current assets		Long-term liabilities	
Equipment	70,470	Long-term loan	
Building		Subtotal long-term liabilities	0
Land			
		Total liabilities	8590
Subtotal non-current assets	70470	Capital	
		Contributions from owner	20,000
		Previous years' accumulated profit/loss	52810
		Current year profit/loss	600
		Withdrawals for personal use	
		Total capital	73,410
Total assets	82000	Total liabilities + Capital	82,000

Balance Sheet: Good Day Higher Clinic				
Date: March				
Current assets			Current liabilities	
Cash			Short-term loans	
Accounts receivable			Accounts payable	
Supplies (inventory content)	2030		Tax payable	
Other current assets				
Subtotal current assets			Subtotal current liabilities	
Non-current assets			Long-term liabilities	
Equipment (no depreciation)	70,470		Long-term loan	
Building (increased value)			Subtotal long-term liabilities	
Vehicle (increased value)				
			Total liabilities	
Subtotal non-current assets	75000		Capital	
			Contributions from owner	20,000
			Previous years' accumulated profit/loss	52810
			Current year profit/loss	
			Withdrawals for personal use	
			Total capital	
Total assets			Total liabilities + Capital	86556.8