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Complete Cash-Analysis Accounts System for
Businessmen

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Published by:

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P.O. Box 26
Ukunda
Mombasa, Kenya

Available from:

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A COMPLETE CASH-ANALYSIS

ACCOUNTS SYSTEM

FOR

BUSINESSMEN

by G. H. BARKER

The Author

The author has at various times been:

In Africa (1956 - to present)

A Government Trade Development Officer responsible for the development of Africans in Trade (10 yrs).

A General Manager of a National Trading Corporation.

A Head of a Business Studies Dept. in a College of Commerce.

An Examiner with East African Examinations Council.

A Founder Fellow of the Institute of Management.

A Member of the British Executive Service Overseas with voluntary assignments to aid development of small business-men in various countries.

A private business-man semi-retired.

In U.K.

A Managing Director of a Distributive Company.

A Member of the British Institute of Management.

A Cambridge Examiner in Commerce.

A Training Supervisor with the Distributive Industry Training Board.

These often parallel experiences have created not merely a wide and practical knowledge of commerce, particularly in the distributive trade, but a deep understanding of the problems facing African Business-men. Though these problems emerged through cultural and educational causes they were worsened by foreign dominance of trade and lack of training opportunities. Few African business-men of today were "born behind the counter". Economic independence can be hastened if a simple and practical introduction to commerce and accounts is encouraged in schools, (and how useful this in all walks of life), and more directly relevant study material made available to budding business-men.

Hence this book.

Small Industries

The Cash-analysis system is adaptable to any business; one merely needs to increase the number of columns and, or, change their headings. This book is arranged mainly for retailers and small wholesalers but is equally suitable for small industrialists. See Page 36.

HOW TO USE THIS BOOK

Every business-man needs to control his cash, whether this be in his safe or in his cash register or in the bank. By entering all movements of cash in and out he should know at any time what his "cash in hand" is. Likewise by entering all cheques drawn and deposits made to his bank he will know the amount of his current account balance.

All money received whether in notes, silver, copper, postal orders or cheques is income. Some of this will be used in business expenditure. Some, particularly cheques received, will be banked. These deposits will be entered into the Bank column (2) when physically taken to the bank. Not before. As they are entered in column 2 so also will they be entered as cash going out of column 5. In other words we must not regard cheques as being in the bank until actually sent. Initially they are ordinary income, as cash. The Cash/Cheques-to-Bank entries are known as "contra" entries for cash outgoing entry (col. 5) appears on the right whilst the incoming entry (col. 2) is written on left, i.e. opposite or "contra". This is contrary to the normal procedure of making two entries (double-entry) on one side. This exception has to be, because the cash is not in fact leaving the business but merely being transferred into the bank.

On the expenditure side we must bear in mind that expenditure means all money going out. Some of this will be in expenses (col. 9) i.e. costs of operations and lost forever. But much will be in purchases of new stock or assets and thus retaining their value for some time. Column 7 shows the amounts spent on purchases. Obviously these involve movements of cash either through column 5 or by cheques through column 6. Thus our double-entries of expenditure are entirely on the right hand page.

Money received from selling (usually the contents of the cash-register emptied, apart from our "float", as we close) must be shown as income (col. 1) and in our Sales column (3). Again both entries are on one side. We appreciate the reason for the two entries when we realise that the system provides us not only with cash control but with the totals of all forms of income and expenditure analysed ready for use at the end of each trading period. If we merely kept records of cash and bank movements we would find great difficulty in extracting the information we need for our annual accounts.

The Transport column is an expenses column but most businessmen need to separate this from other expenses. Where the expenditure is mainly on transport of goods from sources of buying, as is the case with most African businessmen, then the total transport expenses should be regarded as costs of purchasing. The amount must appear with purchases in the Trading Account at the end of our trading period. The Trading A/c tells us how much gross profit we have made, i.e. the difference between our buying costs and our sales income. The Profit and Loss Account, which follows, tells us our net profit, i.e. the balance remaining after all the expenses of selling have been deducted. If our transport costs are outwards, i.e. in sales deliveries, then they would terminate in the Profit & Loss account. If both occur then the delivery costs should be included in column 9, and only transport costs of purchases in column 8. We then do not deceive ourselves as to the true costs of our buying. Our gross profit is accurate. If it is adequate but our net profit is too low then it is to our selling expenses in column 9 that we must turn to effect economies.

The net profit remaining unspent in any business belongs to the investors. In the case of a partnership it should be divided according to the partners capital contributions. In the case of a company it will be allocated as dividends on shares held. The more shares the greater the income. But there may, in any business, be investments in the form of loans. The repayments of these must be made out of net profits before the ordinary business owner or owners receive theirs. Most businessmen cannot afford to wait until the end of the trading year

before receiving their net profit. Therefore a column (No. 10) is provided for the recording of profits drawn. At the end of a trading period the total of column 10 will be subtracted from the net profit realised. The remainder can then either be retained within the business, increasing the owners capital account(s) or withdrawn. Obviously a business can only grow if some net profits are "ploughed back". Drawings are usually entered as "self" or "personal cash" or named.

Do not enter money taken out by an owner as wages except in the case of a partnership where there is a working partner and a sleeping partner (or more than one). The salary of the working partner must be paid, like wages, before the net profit is calculated. Column 10 can therefore then be used to record the drawing of net profits by any investor. Simply enter their names in the detail column. Their capital accounts plus shares of net profit after drawings will then appear in the Balance Sheet.

Other items appearing in the Balance Sheet will have been recorded in the "Others" columns (No. 4 and 11). Typical of these will be a loan coming in from the bank or from an owner or partner, (cols 1 and 4) or the repayment of these (cols. 5/6 & 11) or the purchase of new assets. The latter will be added to existing assets in the Balance Sheet. Assets include premises, equipment, motor vehicles etc.

Sales debtors, i.e. persons owing us money for sales purchased on credit, are also regarded as assets. However, in the cash-analysis book we make no entry of any transaction until it is paid. Therefore when debtors pay to us their accounts the money simply goes through our cash register and is included along with our daily sales. Obviously we should keep separate customer records showing goods taken and payments made in order to know and control our credit accounts. These records must appear in another book. Wise traders endeavour to avoid these debts. They remove precious capital from our business. Naturally, if we do have credit sales outstanding at the end of a trading period these must be included in that period accounts for sake of accuracy. In the cash analysis system we do this by adding the total sales outstanding to our closing stock figure. Strictly speaking the stock still belongs to us.

Purchases on credit help our capital earn more profits. We are using a supplier's stocks to supplement our own. Therefore when taking stock at the close of a trading period we deduct the figure of purchase-creditors before entering our closing stock figure in the balance sheet. Stocks unpaid are not really ours. Thus, again, there is no entry in the Cash-analysis book until we pay our creditors. The fact that we might buy in one trading period and then pay in the next period brings no inaccuracy to our accounting. We have already adjusted for this in our stock figure. A simple method of keeping account of credit purchases is to use a bill file (or simply a nail standing upright through a piece of wood!) for filing of invoices. We then later check these against the suppliers monthly statement before payment and entry.

Assets purchased on credit will cause no entry in our cash-analysis book until we make payment. If this occurs around the end of a trading period we simply ignore the new asset until we make payment. In other words we exclude it from our balance sheet valuations of assets unless paid for.

Expenses on credit should likewise be ignored until payment is made. Any small amounts outstanding for electricity or repairs etc. at a trading period end can be left for entry in the new period. One year's outstanding will be approximately offset by the next. However should we have a large debt and a desire for greater accuracy we can include the amount outstanding in our Profit & Loss A/c expenses (not in the cash book) and then show it also as a liability in our Balance Sheet. When payment is later made it is essential that the amount is entered not in the expenses column but in column 11 under **Other** expenditure. For if we have included it in last year's final accounts (without decreasing our cash) we cannot include it again (though it now reduces our cash) in next year's expenses. All items in the two "Others" columns are extracted singly and dealt with when we "close our books" at the trading period end.

Returning to the income side; many businessmen prefer to keep a daily sales book or "Sales Day-Book" rather than handle their main cash book repetitively. They then transfer or "post" their sales figure for a week or a month into their cash book income column and column 3. The page of examples shows first the daily method and then the weekly. For a monthly entry one can use the foot line opposite "Totals" These simplifications save time and wear on the main book. They also obviate the need to write daily the same word - "sales".

Finally there is no necessity to reserve an entry line for a particular day. Sometimes we might make several payments in one day and then none for subsequent days. It is of course easier for the purposes of checking, to show contra entries on the same line. It is not essential. Contra entries need, as shown, merely be described as C in the reference column. Payments should show receipt or cheque numbers.

The check or trial balance below the expenditure columns proves that all transactions have been entered twice. Cash columns should be balanced and physical cash checked, the bank columns balanced and later reconciled with the bank statement. Balances remaining unspent at the close of one page are carried forward to the next. When a bank account is overdrawn the balance will, of course, appear on the left (foot of column 2) and be carried forward to the right (expenditure column 6) of the following page. This entry is naturally impossible with cash since we cannot use more than we have!

The following examples will help the reader to understand the purpose of book-keeping; to control a business and to measure its growth. Please make allowances throughout this book where figures seem unrealistic due to differing currency areas.

Let us say a man begins business with 2,000-00 of capital. He finds premises to rent, spends 200-00 on equipment, 1,500-00 on stocks and retains 300-00 for immediate expenses. He could prepare his first balance sheet like this:—

Opening Balance Sheet as at 1/6/79

Liabilities		Assets	
Capital	2,000-00	Premises	nil
		Equipment	200-00
		Stocks	1500-00
		Cash	300-00
	<hr/>		<hr/>
	2,000-00		2,000-00
	<hr/>		<hr/>

- as yet there are no other liabilities (such as bank loans) and if the business were sold the assets would realise sufficient to repay the owner his investment. It is "solvent".

Now let us assume that he begins business and makes the transactions shown as example entries in this cash-analysis book. Let us then further assume that he wishes to close the trading period as at the end of June (1year would be more normal). He would first value his stock (see note) then prepare a Trading Account as follows:

Trading A/c for June 1979

Opening stock 1/6/79		1,500-00
Add Purchases	2264 (Col 7)	
+ Transport	36 (Col 8)	2,300-00
	<hr/>	
Total stocks received =		3,800-00
* deduct closing stock, say,		1,112-00
		<hr/>
Stocks sold (cost price)		2,688-00
Difference between cost Price and selling price of sales		
i.e. Gross Profit =		424-00
		<hr/>
* Sales (total of cols 3) —		3,112-00
		<hr/>

* see notes

MONTH June

DAY	DETAILS	REF	INCOME	BANK	SALES	OTHERS	DAY
1	BALANCES	B.F.	300--				1
1	Sales		132--		132--		-
2	"		127.50		127.50		-
3	Cash to Bank	C		150--			3
4	Sales		97.50		97.50		5
5	"		102--		102--		6
"	Bank loan			500--		500--	"
6	Sales		109.50		109.50		12
7	"		96--		96--		-
14	C to B	C		500--			14
"	Week's Sales (from day-book)		662.50		662.50		15
18	C to B	C		615--			18
21	Week Sales		722--		722--		24
25	Added capital		100--			100--	28
28	Week Sales		803--		803--		30
30	2 days Sales		260--		260--		"
TOTALS					3112--	600--	
			3512--	1765--			

Note. 1 It is normal to show Sales on the right side of the Trading A/c making both sides balance by insertion of gross profit. See end of book.

Note. 2 Stock-taking is easier at selling price because we are less aware of cost prices, particularly for slow-moving stocks and when price changes have occurred. It is therefore easier to calculate their total selling value and then deduct a reasonable estimate of average gross profit. Empties should, of course, be then added at their "net" value. The gross profit belongs to the period in which the actual sales and the expenses of selling occur. Hence the cost valuation of unsold stock. Slight inaccuracies are not serious; no-one can forecast breakages, spoilage, price changes exactly.

We now proceed to the Profit & Loss Account where we find the net profit remaining after the deductions from gross profit of our selling expenses:—

Profit & Loss Account			
Expenses	155-00	Gross Profit b/d	424-00
Balance (Net profit) c/d	269-00		
	424-00		424-00

Note - b/d = "brought down". We correctly show here a two-sided account with a balancing figure to make both sides agree. In many businesses expenses are analysed into different categories e.g. wages, rent, lighting, repairs etc and these would have separate columns in a wider cash-analysis book, and appear separately in the above Profit & Loss Account.

To complete the exercise we shall now prove the accuracy of our accounting and show up-dated values in our:—

CLOSING BALANCE SHEET as at 20/6/79.

Liabilities		Assets	
Capital at 1/6/79	2,000-00	Equipment 1/6/79	200-00
Owner added 25/6/79	100-00	Add new 5/t/79	240-00
+ Net Profit b/d	269-00		440-00
less drawn	40-00	Closing Stock	1,112-00
	229-00	Cash in hand (c.5)	1,148-00
	2,329-00		
Bank loan			
5/6/79	500-00	Cash in bank ('6)	79-00
less repaid	50-00		
	450-00		2,779-00
	2,779-00		

Our business has grown a little. Our capital consequently has increased. Remember - capital is the debt (liability) a business owes to its investors. We must first be paid for the work we do. Our investment must then also enjoy profits as indeed it would if we had placed it instead in a bank deposit account.

Note: the Balance Sheet balances by itself. We do not insert any figures to make it balance

DETAILS	REF	CASH	BANK	EXPENSES	EXPENSES	TOTAL
County Alres 281		125	125			
Rent in advance		80				
Personal cool drum		80				
cool tags to bank		150				
oughlt cool register		240				
County Alres 345		172	172			
B.C. Automobile #17461		289	289	9		
County Alres 918		512	512			
County Transport Co		14		14		
C to B		500				
Algers Advance		10		10		
Advance	973	20		20		
C to B		65				
Acc'd drawn		20		20		
County Transport Co	541	682	682			
Insurance deduction		19		19		
B.C. Automobile 212	493	493	493			
County Transport Co		13		13		
Shipping (1st mailment) door		50		50		
Algers		26		26		
TOTALS		2364	2264	155		
BALANCES		1148	79			
CASH		3512	1765			
TOTAL EXPENSES			2785			

COI 7
10
15
36
2264

2785
1686
1099
1265
2364
2785

End of Trading Period

You now need to gather all the necessary information to produce your final accounts. You should have one blank accounts page remaining after 12 months (12 sheets) worked. Use this or similar to conveniently summarise the entries of the others as in the following example of the right-hand side of a summary page:

(example figures only)

	Purchases	Transport	Expenses	Drawings	Others	
Page 1 Totals	32,216-00	814-00	2,312-00	1,800-00	Nil	
.. 2 ..	29,143-00	782-00	1,900-00	1,981-00	425-00	New deak
.. 3 ..						
.. 4 ..						
.. 5 ..						
.. 6 ..						
etc etc						
Totals (say)	428,000-00	7627-00	21,265-00	19,000-00	2475-00	

We then move the total figures shown (apart from "Others") into the final accounts. We note to the right on what any "Other" expenditures were incurred. These are then separately dealt with in the appropriate final account (usually the balance sheet). Do likewise with the left-hand side, though this is merely to summarise sales and others. The Cash & Bank account columns require no summary. The balances remaining unspent at the period end are merely shown in the balance sheet and carried forward to begin the next period.

Now complete the following blank accounts at the end of your first trading period:

Stock - taking

Total value of stocks held at close of period calculated at selling price	=	
Deduct estimated average profit margin	—	<hr/>
Saleable stocks at approx cost price	=	
 Add returnable empties	 +	 <hr/>
Total stock held	=	
 Add Sales debtors at close of period (i.e. total of unpaid sales)	 +	 <hr/>
 Deduct Purchase - creditors (i.e. stocks received but currently unpaid)	 —	 <hr/>

* Stock figure to Trading Account

Trading Account for period -

Opening stock -----		Sales (Col 3) -
Add Purchases (7)		
+ Transport(8)	<hr/>	
Total stocks received	=	
* Deduct closing stock	—	<hr/>
Stocks sold (C.P.)	=	
Balance (Gross Profit) c/d=	<hr/>	<hr/>
	<hr/>	<hr/>

Profit and Loss Account

Expenses (9)	=	Gross profit b/d -
* Balance (Net profit)	=	
		<hr/>
		<hr/>

Balance Sheet as at -

Liabilities	ASSETS
Opening Capital.....	Premises - - - -
Added ?	Equipment
Plus Net profit —	+ additions
less drawings ---	* Motor Vehicles
	Closing Stock -
	Cash
Bank Loan --	Bank
	<hr/>
	<hr/>

*** Depreciation**

In spite of inflation some assets, particularly motor vehicles, lose value. You may allow for this, and thus perhaps reduce your tax assessment, by entering the loss as a figure of depreciation in your Profit & Loss Account. This, as in the case of expenses, reduces your net profit, (do not make any cash-book entry as there is no movement of cash). The net profit figure in the balance sheet is also therefore lower and so balances the reduced assets figure opposite.

Small Industries

Where a business is involved in manufacturing or assembling use column 7 for purchases of materials and column 8 for their transport and transforming costs (including labour) i.e. bringing the article into readiness for sale. These columns will then provide a useful breakdown between costs of materials and their completion. Both will terminate in the Trading Account as does the total cost of purchased stocks in the accounts shown above. Expenses of selling (col. 9) will, also as above, then appear in the Profit & Loss A/c.

Stocks should be valued at cost of materials plus labour etc., where partly or wholly finished. Their profit margins will belong to the period in which the selling costs are involved. Adjust for debtors and creditors as on page 35.

A 2 - day training manual is available for this book. This covers first the principals of double-entry book-keeping and deals in greater detail with records, commercial documents, banking etc.

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