

Talking About Money



No.4

EXPLAINING FINANCIAL RECORD-KEEPING

by
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2011

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Rome
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Introduction

This booklet is part of a series that is designed to be used by farmer discussion groups, farmer field schools and extension or advisory officers involved in agricultural or rural development.

The ability to adopt or introduce changes to agricultural production methods and non-farm enterprises depends on the availability of money. It is, therefore, very important for farmers to be able to think carefully about their financial circumstances. Predicting costs, prices, profit margins and cash flow patterns is vital for planning and decision-making and the poorer the farmer, the more important it is.

These concepts need to be explained in a way which small scale, possibly illiterate, farmers can understand. The "Talking About Money" booklets aim to introduce financial topics to farmers using a variety of tools, some of which can be used even when people are not able to read or write. The concepts are intended to provoke discussion and be used in a participatory manner.

Field officers involved in giving agricultural advice in developing countries are most commonly technical experts of some kind, e.g. agronomists, livestock, irrigation or engineering specialists. They usually do not have much experience in giving advice about money and this topic is generally avoided, apart perhaps from some simplified profit calculations. It is hoped this series will help them "talk about money" more readily and enable them to give good advice to farmers about the use of financial services for saving, borrowing and risk management.

The figures used in this book are largely fictitious and should not be taken as representative of any particular currency at any given point in time. The \$ symbol is used simply as a generic money symbol. If the book is being translated for a specific local context, the figures can be replaced with appropriate amounts in the local currency.

CONTENTS

1 FINANCIAL TRANSACTIONS	
Is it possible to remember them?	1
Do you keep the paperwork?	3
Do you need your own documents?	7
2 STARTING A RECORD-KEEPING SYSTEM	
Why bother?	11
Monitoring your cash flow	13
3 KEEPING A CASH BOOK	
A simple cash book	19
A cash analysis book	22
Supplementary records	27
4 USING A BANK ACCOUNT	
Bank account basics	31
Incorporating bank transactions in a cash book.....	34

1 FINANCIAL TRANSACTIONS

Aim:

- To illustrate the difficulty of remembering financial transactions without records
- To examine the paperwork associated with financial transactions and how the documents can be stored and used as a source of information

Is it possible to remember them?

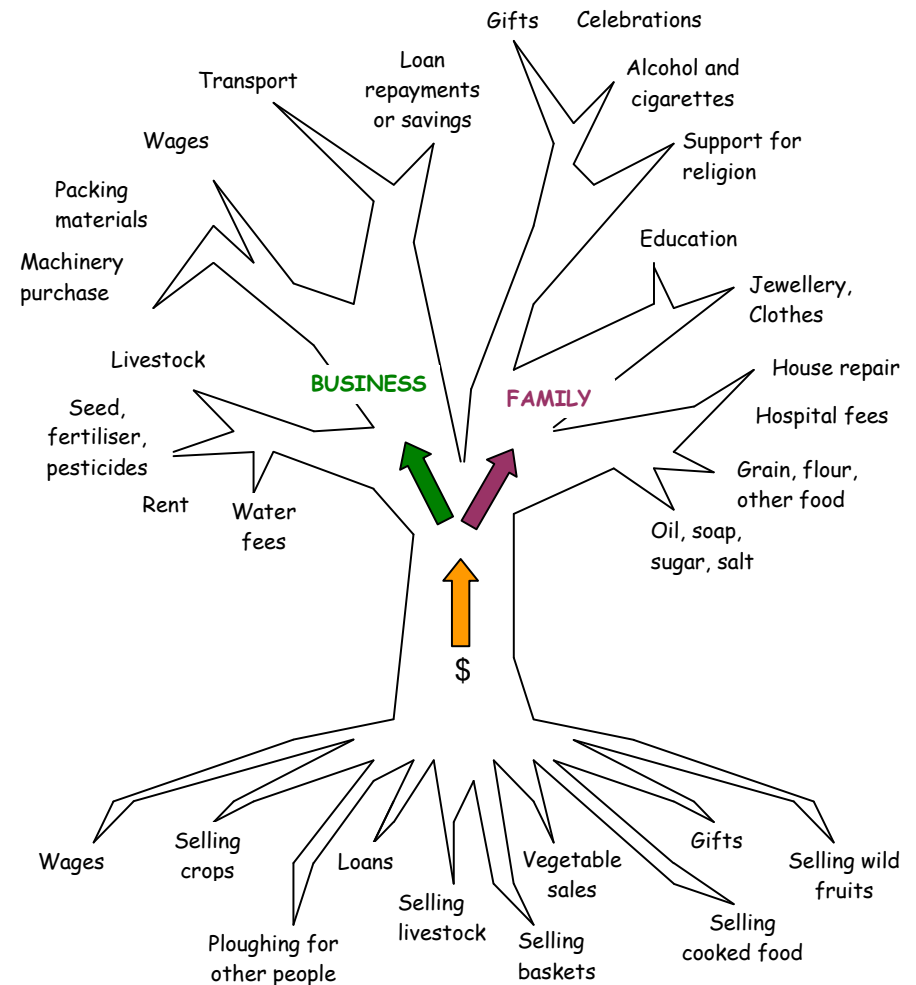
We engage in financial transactions all the time. Take another look at the cash flow tree from Book 1. There are so many things we need to buy for our business enterprises and for our family use, and so many things we might be selling or doing to earn money.

We may pay for things with cash or by exchanging goods or, if we have a bank account, by cheque or mobile phone. We may pay for things straight away or arrange to pay after a period of time - maybe a week or a month. We may sell things and agree to wait some time for payment and we might be paid in cash or with goods or a cheque issued by a bank.

These are all financial transactions and if we want to manage our business effectively, we need to remember the transactions we make - how much we have bought or sold, how much money was involved, when we paid or received the money or, indeed, if we have not yet done so. If we don't remember, we will not be able to work out how much profit we have made or manage our debts or our cash flow.

Can we do this in our heads? Many people are very good at remembering the details of their business activities and in farming, financial transactions may be quite occasional and thus easier to remember. However, if you want to improve your business and make more money, remembering may not be quite good enough.

Cash Flow Tree



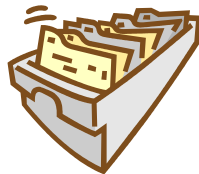
So one thing you can do is to think of a way of keeping all the papers related to your financial transactions safe and accessible when you need them.

You could just put them all in a box but it would not be very easy to find the information you want later, if they are all mixed up together!



It would be better if you could organise the papers somehow. They need dividing into groups and numbering to keep them in order. What could you use to separate the different groups of paper?

You could place dividers in a box:



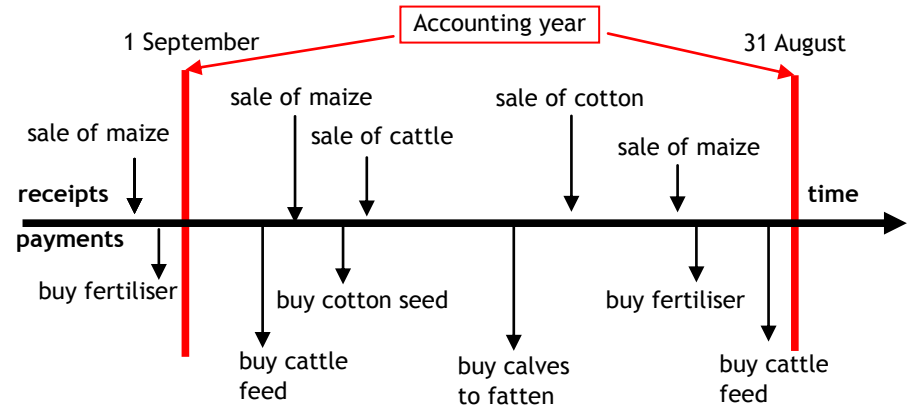
You could use labelled envelopes:



You could use files:



What groups would you use? You would certainly separate purchases from sales and personal from business transactions. You will also need to separate one year from the next. Do you remember how we defined an accounting year when calculating the profit or loss of a business enterprise?



You should keep your financial documents according to the same accounting periods.

One way you could supplement the information to be gained from invoices, receipts and other documents is to make notes on a calendar.

You could write details of items you have bought or sold, wages you have paid or received, reminders of bills you have yet to pay and so on. It is a very basic and simple form of record-keeping that can help you remember your financial transactions.



Think about and plan how you could set up a system for organising your papers in line with your accounting year.

Do you need your own documents?

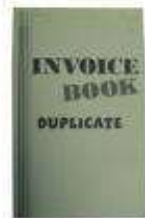
When you are involved in buying and selling goods or services, you may need to produce documents for your own customers or suppliers. This is particularly true when there is a delay between different stages of a transaction.

Thus if you place an order for something to be delivered at a future date - seed, for example, or a hired tractor to plough your land - it is a good idea to confirm this with an order form. If you sell something or supply a service to somebody and expect payment at a future date, you should hand them an invoice. When they pay, you will then need to give them a receipt.

The easiest way to produce these documents is to purchase a simple duplicate book. Then you can write the necessary information out, give a copy to the supplier or customer and keep a copy for yourself.



You can buy duplicate books that are designed specifically to provide receipts, invoices or orders.



You can also design your own documents using a simple writing pad if that is all you have available.



Let's have a look at the information needed in these basic documents. Here is an order form from an agricultural cooperative to an input supplier:

DELTA COOP West Bank, ZARIANNA	Order	No: <u>346</u>
		Date: <u>4.8.85</u>
To: <u>Agro Supplies Ltd</u> <u>High Street, Johnstown</u>		
Please, deliver the following goods:		
Commodity:	Quantity:	Unit price:
<u>Chickenfeed Vx in 50kg bags</u>	<u>80 bags</u>	<u>6.20/bag</u>
Payment conditions: <u>30 days credit</u>		
To be delivered by: <u>your truck, no extra charge</u>		
To be delivered to: <u>our warehouse in Zarianna</u>		
Time of delivery: <u>8-10 August 1985</u>		
Delivery cannot be accepted later than date stipulated above, unless our agreement has been obtained.		
<u>V. West</u> for Delta Co-operative		



Have a look at it and then list the information you think you should include in an order form.

Did you identify the following items?

- Your name and address
- The supplier's name and address
- The goods ordered - type, quantity and price
- The date the order was placed and the order number
- The date delivery is required
- Your signature

Additional details may be helpful and can be included.



Now try and list the information you think should be included in an invoice. You could try and design an invoice for some ploughing work you have done for another farmer.

An invoice should contain the following information:

- Your name and address
- Your customer's name and address
- The invoice number and date
- A description of the goods or service supplied, including quantities and unit prices
- Total amount payable and terms of payment, e.g. cash on delivery or completion, or 30 days if customer is allowed credit

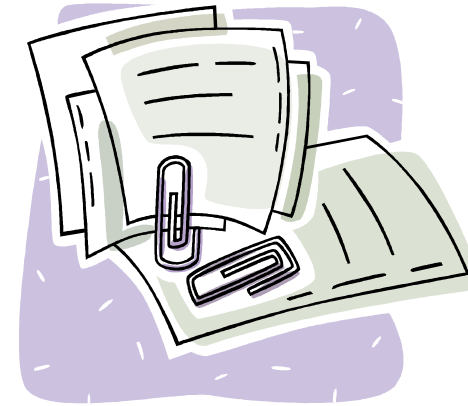
You might include your mobile phone number if you have one.

<i>A.Saidi</i>	<i>Invoice No. 21</i>
<i>Karangai Village</i>	
<i>Meru</i>	<i>15 Aug 2010</i>
INVOICE	
<i>To: C. Kabaghe</i>	
<i>Tembe Farm</i>	
<i>Kapembwa</i>	
<u><i>Item / Service</i></u>	<u><i>Amount</i></u>
<i>Ploughing 1.5 ha @ K300/ha</i>	<i>K450.00</i>
<i>Please settle this account within 14 days of above date.</i>	
<i>Signed: A. Saidi</i>	

A receipt is set out in a very similar way.

<i>A. Saidi</i>	<i>Receipt No. 15</i>
<i>Karangai Village</i>	
<i>Meru</i>	<i>29 Aug 2010</i>
RECEIPT	
<i>Received from:</i>	<u><i>C. Kabaghe</i></u>
<i>The sum of:</i>	<u><i>K450.00</i></u>
<i>Being payment for:</i>	
	<u><i>1.5 ha Ploughing (Invoice 21)</i></u>
<i>Signed: A. Saidi</i>	

So the first step in keeping track of your financial transactions is to improve the management of the paperwork associated with the transactions better.



2 STARTING A RECORD KEEPING SYSTEM

Aim:

- To consider the pros and cons of record-keeping
- To introduce the simplest way of starting to keep a record and check if your financial transactions are going to plan

Why bother?

Filing the documents related to financial transactions in an organised manner is a good way to start keeping records that will help you manage your business.

But should you go further and start a proper record-keeping system in which you write down all the money that comes in and goes out of your business? It is a significant commitment to make and takes time and self-discipline. You will need paper, files, pencils, pens, a ruler and a calculator, which you have to purchase.



So you will need some very clear reasons for starting to keep records. We have already mentioned some of them but it is important that you have your own reasons, if you are to succeed.



What reasons would encourage you to start keeping financial records in your business and what, if anything, would stop you from doing so?

Here are a number of good reasons for keeping records:

1. You will know how much money you have received, how much you have spent and how you have spent it in any given time period. This will enable you to keep a close check on whether things are going according to plan or not.

2. You can use the records to help you work out whether you have made a profit or a loss. With this information you can make sure that you do not spend too much on family expenses and thus avoid getting into money difficulties.
3. Records will provide a history of what has happened in your business. By comparing one year's records with the next, you will be able to see what progress you are making and identify any weaknesses.
4. Records will provide you with figures you can use for planning and budgeting and help you make decisions that will improve your income.
5. Keeping records of credit transactions will help to ensure that you always collect money due and pay money owed on time.
6. Competent records will impress a loan officer or branch manager of a financial institution and thus make it easier to open an account or secure a loan if it is needed.

Despite all these advantages of record-keeping, many farmers do not keep any records. What stops them?

1. Literacy - people may feel they do not have enough education to read documents, write information in books and add up figures.
2. Fear of the government or a wish to avoid tax may make people reluctant to write down their business information.
3. Tradition - people generally do not like to do new things and may not think it is relevant if most of their transactions are made in cash.
4. Lack of time - farming is very hard work and people are tired at the end of the day.
5. Lack of money to buy the materials needed for record-keeping.



Some of these barriers can be overcome with technical assistance and support. It is possible to design simple recording systems that use symbols to overcome reading difficulties. With regard to taxation, citizens should always adhere to the tax laws in their country and avoidance is not recommended. Records should ensure any income tax levied is accurate.

Ultimately the deciding factor which will determine whether these barriers are overcome and a recording system is introduced will be the business owner's perception of potential usefulness. There is never any point in keeping records for the sake of keeping records. If they can be used to help someone achieve their desire for a better business or a greater income, then the effort is worthwhile.

It is probably safe to say that no business can achieve significant growth in its commercial operations without the information and control gained through financial record-keeping.

In the following sections of this study book we will look at some alternative ways of introducing simple financial record-keeping.

Monitoring your cash flow

We are going to start by looking at a way of undertaking one of the most important tasks in financial record-keeping - checking whether your income and expenditure is taking place as you anticipated at the start of your accounting year.



In other words has your money come in and gone out as planned?



In Book 1 of this series we learned how to construct a cash flow plan. This document sets out month by month what money we expect to receive and what money we expect to spend. A reminder of the layout can be seen on the next page.

Name:	CASH FLOW PLAN												Year:				
	Month:	Month:	Month:	Month:	Month:	Month:	Month:	Month:	Month:	Month:	Month:	Month:	Month:	Month:			
MONEY COMING IN																	
Sales of:																	
Wages																	
Remittances																	
Other sources:																	
TOTAL (A)																	
MONEY GOING OUT																	
Farm / business inputs:																	
Capital equipment:																	
Household expenses																	
Other expenses																	
TOTAL (B)																	
MONTHLY BALANCE (A - B)																	
Add or subtract the monthly balance each month to or from the previous month's savings (or savings at start) to get the new savings figure.																	
SAVINGS																	
Savings at start:																	

Here is an extract from a completed cash flow plan:

MONEY COMING IN	Month: <i>May</i>	Month: <i>June</i>
Sales of:		
<i>Groundnuts</i>	450	0
<i>Tomatoes</i>	120	150
<i>Honey</i>	50	50
<i>Chickens</i>	75	100
<i>Firewood</i>	110	0
Wages <i>Casual work</i>	0	120
Remittances <i>from Joseph</i>	0	200
Other sources:		
<i>Contract work</i>	520	750
TOTAL (A)	1325	1370
MONEY GOING OUT		
Farm / business inputs:		
<i>Seeds</i>	0	165
<i>Fertiliser</i>	0	380
<i>Poultry feed</i>	50	50
<i>Pesticides</i>	25	55
<i>Jars for honey</i>	100	0
<i>Transport</i>	70	70
Capital equipment:		
<i>Cultivator</i>	1800	0
Household expenses	200	200
Other expenses		
<i>Rent</i>	0	300
TOTAL (B)	2245	1220
MONTHLY BALANCE (A - B)	- 920	150
SAVINGS		
Savings at start: ...1,500...	580	730

Now if you have made one of these, it is really important to use it to monitor your actual cash flow. One simple way of doing this is to have a second blank copy of the cash flow planning form. This should be set up with all the same headings as the plan but without the figures.

You can then use this form during the year to write in the actual amounts of money that you receive or spend. You can either do this as each transaction happens or you can sit down at the end of each month and use your filed papers to help you remember and fill in the relevant figures. If you receive money or spend money on items that are not in the plan, you must include the amounts in the actual cash flow, using a new line if necessary.



Once you have entered all the figures for a month, you should compare them to the planned figures for that month to see if there are any differences.

Let's look at the process using the last example.

	PLANNED CASH FLOW	ACTUAL CASH FLOW	DIFFERENCE
MONEY COMING IN	Month: <i>May</i>	Month: <i>May</i>	
Sales of:			
<i>Groundnuts</i>	450	375	Down 75
<i>Tomatoes</i>	120	130	Up 10
<i>Honey</i>	50	67	Up 17
<i>Chickens</i>	75	23	Down 52
<i>Firewood</i>	110	52	Down 58
Wages <i>Casual work</i>	0	0	
Remittances <i>from Joseph</i>	0	100	Up 100
Other sources:			
<i>Contract work</i>	520	310	Down 210
TOTAL (A)	1325	1057	Down 268

As you can see, by comparing the planned and actual figures we can clearly see which are higher than we expected and which are lower. This enables us to ask questions, e.g. did the groundnuts fetch a lower price than expected or were there losses in storage; what were the problems with the chicken and firewood sales; has less contract work been done or have customers been slow to pay?



Now compare the planned and actual figures for expenses and work out the differences. Then consider what questions you would ask.

	PLANNED CASH FLOW	ACTUAL CASH FLOW	DIFFERENCE
MONEY GOING OUT	Month: <i>May</i>	Month: <i>May</i>	
Farm / business inputs:			
<i>Seeds</i>	0	0	
<i>Fertiliser</i>	0	350	
<i>Poultry feed</i>	50	42	
<i>Pesticides</i>	25	0	
<i>Jars for honey</i>	100	110	
<i>Transport</i>	70	65	
Capital equipment:			
<i>Cultivator</i>	1800	0	
Household expenses	200	283	
Other expenses			
<i>Rent</i>	0	0	
TOTAL (B)	2245	850	
MONTHLY BALANCE (A - B)	- 920	207	
SAVINGS			
Savings at start: ...1,500...	580	1707	

You should have noted that the big differences were the unplanned purchase of fertiliser this month and the failure to purchase the cultivator. It would be important to know the reasons for both these changes. Was it something the farmer decided, e.g. perhaps there was a discount on the fertiliser that made it worth purchasing early? Is there a problem obtaining the cultivator or has the farmer changed his plans? If the purchase has been delayed, the farmer will have to take care that he manages his savings carefully so that he can still buy the machine when it is available. This is important because his household expenditure is much higher than planned this month. What are the reasons for that?

This process of first making a cash flow plan and then checking through the year whether or not you are staying in line with this plan is one of the most useful ways of managing your money more effectively.

If you take a loan from someone it is even more important to monitor your cash flow and notice if something is not going to plan. If this is likely to have an impact on your ability to repay your loan on time, you should immediately contact the loan officer or person responsible for managing your loan and discuss the situation with them.



Staying in control like this means you will always be able to find a way to adjust your plans, e.g. by reducing expenditure or bringing forward a sale or increasing the amount of contract work you do.

This system of monitoring your cash flow by writing your actual transactions directly into a blank cash flow form is only really possible if your transactions are relatively few each month. This may be the case on a small farm but if you have more regular transactions, you may feel the need to write these down in a separate book before transferring the totals to a cash flow form to compare them with your budgeted figures.

So we will now move on to look at how to keep a cash book as part of your recording system.



3 KEEPING A CASH BOOK

Aim:

- To introduce different types of cash book layouts
- To show how they can be used

A simple cash book

The purpose of a cash book is to record money in (receipts) and money out (payments) whenever it occurs. You can use a simple exercise book to do this by drawing lines to make the columns or you can use a book that already has columns printed in it.

This is how you could set it out:

Year: 2010

Date	Details	Receipts	Payments
12 Sep	27 Chickens at market	1700.00	
18 Sep	50 kg chicken feed from Delta Coop Supplies		187.00
25 Sep	75 kg maize seed from ABC Trading Co.		295.50
27 Sep	Contract work for G.Nada	220.00	
30 Sep	Contract work for S.Temba	352.00	

The amount of information you include in the details column is entirely up to you. If you have filed your paperwork and given each invoice and receipt a number, it might be helpful to include this number in the relevant details section or add an extra column in which to include it.

An alternative layout is to have separate pages for payments and receipts. An example is shown on the next page.



Year: 2010

RECEIPTS			PAYMENTS		
Date	Details	Amount	Date	Details	Amount
15/4	100 kg groundnuts	315.40	14/4	Veterinary fees - cattle	93.00
26/4	Wages - piece work	155.00	16/4	Vegetable seeds	17.80
			25/4	School uniforms	47.60
			30/4	Charcoal	25.00
MONTHLY TOTAL		470.40	MONTHLY TOTAL		183.40
10/5	Hire charges for ox cart	130.00	1/5	Wages for P. Owenya	55.90

A completed cash book makes it very easy to transfer figures into a cash flow form for comparison with your budgeted figures. You can also total up the figures each month and work out the balance which should have been added to or taken away from your savings.

If reading and writing words is a problem, it is possible to use a system of symbols. For example:

Sources of income:



Types of expenditure:



Here is a cash book produced with symbols. The + side is receipts and the - side is payments. An opening balance of 8000 in cash has been included and the closing balance is 1700.

١٩٩٣	⊕	₪	١٩٩٣	⊖	₪
1-9-93	1000	8000	1-9-93	⊕ 2 × 2000	4000
1-9-93	⊕	1000	1-9-93	⊕ 1 × 2500	2500
1-9-93	⊕	600	1-9-93	⊕ 1 × 1200	1200
1-9-93	⊕	400	1-9-93	⊕	600
		10,000			8300
			1-9-93	⊖ 1000	1700
				10,000 - 8300	10,000

Source: Simple Bookkeeping and Business Management Skills, FAO

This type of simple cash book is likely to be sufficient for a small farming business. However there is a way of improving the layout which will make it easier to construct a profit and loss account at the end of the year and provide the totals you need to transfer into the cash flow form when there are a larger number of transactions.



Prepare a simple cash book layout on paper and then enter your financial transactions for the last month.

If you prefer to use symbols, design ones that are appropriate for your business.

If you are using this booklet in a study group discuss your examples with your colleagues.



A cash analysis book

A small change to the layout of the cash book can make the information it contains even more useful. By adding some additional columns you can organise the receipts and payments into different categories and, thus, make analysing your financial transactions easier.

Let's first look at the general principle of a cash analysis book. The first three columns are basically the same as the columns in the simple cash book, although an extra column can be added to list the reference number of any documents associated with the transaction.

Date	Ref.	Details	Amount			

The extra columns are then labelled with headings that suit your particular farm enterprises. If you have made a cash flow plan it is best to label the columns to match the items in your plan. Thus on the receipts or "money in" page you might use headings such as these:

- | | |
|------------|---------------|
| Maize | Cattle |
| Groundnuts | Pigs |
| Sunflower | Charcoal |
| Cotton | Fish |
| Eggs | Contract work |
| Milk | Wages |
| Poultry | Miscellaneous |

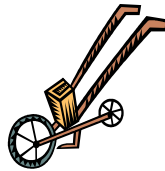
A heading like "miscellaneous" can be used for any occasional sales such as firewood, garden produce, etc.

On the payments or “money out” page you might use headings such as these to label your extra columns:

Seeds	Fuel
Fertiliser	Repairs and spares
Sprays	Hire charges
Cattle feed	Wages
Veterinary charges	Rent
Livestock purchases	Interest
Transport	Miscellaneous

Once again “miscellaneous” can be used for occasional payments that do not fit into any other category. There may seem to be too many different types of payment but you can combine them into groups such as “crop expenses” or “livestock expenses” if you do not need the details.

On each page, two columns should be set aside for capital items and personal items. The purchase or sale of machinery and equipment - things we call capital items - need separating from other transactions because they are not included directly in your profit and loss account. As we explained in Book 3, the total cost of machines is spread out over a number of years by calculating an annual depreciation charge. The purchase and sale of capital items are part of this calculation.



Personal receipts and personal expenditure are also items which must be excluded from any calculation of business profit or loss.



Personal receipts are things like remittances from family members, wages earned from off farm work or gifts. Personal expenditure includes household purchases, school fees, travel, funeral expenses and so on. They are clearly not business inputs.

If you have a loan, it is important to separate interest from repayment of the loan itself in the analysis columns.

So how do you use a cash analysis book? You begin in exactly the same way as in a simple cash book by entering the date, details and amount paid or received. Then you enter the amount again in the most appropriate analysis column. Like this:

Payments

Date	Ref.	Details	Amount	Seed	Fert.
25/9	P21	100kg urea	135.00		135.00
30/9	P22	5 kg sunflower seed	56.50	56.50	

Receipts

Date	Ref.	Details	Amount	Veg	Eggs
24/9	R14	13kg tomatoes	36.00	36.00	
28/9	R15	4doz eggs	25.60		25.60

A more comprehensive example of pages from a cash analysis book can be seen on the next two pages.

At the end of each month you should add up the entries in each column and write the totals at the bottom. You should then cross check that you have not made any mistakes by adding up all the analysis column totals and comparing that figure with the total in the amount column. The figures should, of course, be the same.

The analysis column totals can be compared directly with the figures in your cash flow plan or you can copy them into a cash flow form to compare with your budget more easily.



Take the transactions that you wrote into your simple cash book and enter them on to some cash analysis pages that you have prepared with some appropriate analysis column headings.

Receipt page from a cash analysis book

RECEIPTS		Maize	Soya beans	Onions	Poultry	Contract work	Capital items	Personal receipts	
Date	Details	Amount							
1 13-Jul	0.5 ha ripping - W.Lemu	151.00				151.00			
2 18-Jul	250 kg maize - ABC Mills	556.00							
3 19-Jul	Cash from Annie	250.00						250.00	
4 21-Jul	Eggs, beans, onions - market	195.70	93.00	77.00	25.70				
5 25-Jul	1.Oha ripping - M.Shalabi	302.00				302.00			
6	TOTAL	1454.70	556.00	93.00	77.00	25.70	453.00	0.00	250.00
Crosscheck totals			←			1454.70	→		

Payments page from a cash analysis book

PAYMENTS		Seed	Fert & sprays	Cattle feed	Mach. repair	Wages	Capital items	Personal drawings	
Date	Details	Amount							
1 05-Jul	Casual labour - onion harvesting	69.00				69.00			
2 10-Jul	Seed drill - Coop	1100.00					1100.00		
3 14-Jul	Veg seed, fertiliser, salt lick - Coop	159.40	25.40	96.00	38.00				
4 15-Jul	Cottonseed cake - Salawa Ginnery	155.00		155.00					
5 15-Jul	Household goods - Isak Welding - sprayer repair	37.30						37.30	
6 23-Jul		48.00			48.00				
7	TOTAL	1568.70	25.40	96.00	193.00	48.00	69.00	1100.00	37.30
Crosscheck totals			←			1568.70	→		

Supplementary records

It is usual to enter a transaction in the cash analysis book when the money has actually been received or paid. If you purchase goods on credit or sell goods on credit, these transactions will not appear in the cash book until they are paid. So it may be helpful to maintain a credit book to supplement the information in the cash book.

This book will firstly enable you to remain in control of your credit transactions and then at the end of the accounting year, it will enable you to adjust your cash book totals to incorporate unpaid bills, thus rendering the figures more accurate.

If you frequently provide services or sell goods on credit, maintaining a list of debtors is vital to remaining in control. Without follow-up your customers may delay repaying or may not repay you at all. Without records you may forget who owes you money or you may get into arguments about amounts and dates, and while your customers have your money, you cannot use it to buy your inputs or improve your business.



A credit book will also remind you of items you purchase on credit, although you may find it more effective to use a diary or calendar to remind you of when to pay.



What information do you think you need in a credit book?

You will need the name of the customer or supplier, details of the goods or service supplied or purchased, the date of the transaction, the total amount payable, amount already paid if any, the balance due and the due date.

Here is an example of a credit book completed for goods and services sold on credit.

CREDIT SALES BOOK

Date	Details	Total amount	Amount paid	Balance due	Date due	Paid
25/2	S.Pandey, Chongo Village 2 ha inter-row cultivation Invoice No. 42	56.00	11.20	44.80	25/3	SM 24/3
5/3	J.Garcia 2 doz. eggs	12.00	4.00	8.00	19/3	SM 20/3
7/3	P. Martins, Chongo Village 1 ha spraying Invoice No. 43	35.00	10.00	25.00	6/4	

At the end of the year you need to adjust the cash analysis totals by adding any unpaid bills to the relevant analysis columns on the payments page and adding any unclaimed sales income to the relevant analysis columns on the receipts page. People who owe you money are known as debtors and those to whom you owe money are known as creditors.

This is how you would adjust your cash analysis book:

Receipts

Date	Amount	Milk	Poultry	Onions	Contract work
End of year totals	3487.00	567.00	392.35	222.70	967.00
+ debtors at end		53.00	18.25		60.00
Adjusted total		620.00	410.60		1027.00

If you do adjust your totals in this way, you will have to remember to subtract the same amounts from next year's pages or they will be double counted in your profit calculations. This is because the credit transactions will be written in your cash book under receipts or payments in the normal way when they are eventually paid in full.

So the complete adjustment process will look like this:

Receipts

Date	Amount	Milk	Poultry	Onions	Contract work
End of year totals	3487.00	567.00	392.35	222.70	967.00
+ debtors at end		53.00	18.25		60.00
- debtors at start		38.00			75.00
Adjusted total		582.00	410.60	222.70	952.00

Here is an extract from a payments page adjusted for outstanding creditors at the beginning and end of the year:

Payments

Date	Amount	Fertiliser	Cattle feed	Vet and med	Transport
End of year totals	2791.57	336.81	195.00	81.67	234.00
+ creditors at end		127.00	60.00		
- creditors at start			44.00		30.00
Adjusted total		463.81	211.00	81.67	204.00

There is one other book that you may wish to keep if you want to make an accurate assessment of the profitability of your business. If you use a significant amount of farm produce in your home, it might be worth keeping a note of it so that you can include it in the output calculation of your profit and loss account.

A record of produce used in the home might look like this:

Date	Details	Value
6 Mar	10kg maize	25.00
9 Mar	2 chickens	10.00
13 Mar	1 kg onions	6.50
18 Mar	1 tin beans	12.00
20 Mar	10 eggs, 2kg vegetables	8.50

Alternatively you could just write down monthly estimates of produce used. The value recorded should be equal to the price you would have had to pay, if you had bought the food in the local market.



Discuss the role and need for supplementary records to complement cash book records.

4 USING A BANK ACCOUNT

Aim:

- To introduce the basics of bank account management
- To show how bank transactions can be incorporated into a cash analysis book

Bank account basics

We noted briefly in the first chapter of this book that using a bank account would provide you with a source of information about your financial transactions through the bank statements, cheque books and paying in slips they provide. However we also noted that access to commercial banks is very limited in rural areas and very few small scale farmers use a bank account.

If your business is growing, however, and the number of financial transactions is increasing, it is worth considering finding a bank and opening an account. But first what is the point of a bank?



A bank is a financial service provider. You may like to look at Book 1 again where we first introduced the idea of a financial service provider. There the emphasis was on the important role that financial service providers have in providing a safe place for people to keep their savings and how they can lend the deposited money to people who want to use it.



However commercial banks also provide a place to keep money that you wish to use yourself on a regular basis. These are called current or checking accounts. You can deposit money into this type of account and withdraw it when you wish. Using a cheque book or debit card you can pay for goods without carrying cash with you. Most banks charge fees for operating a current account.

To open a current account you normally have to complete an application form and provide identification documents. You may have to have an initial deposit to open the account and the bank may insist that you maintain a minimum amount in the account. The process of opening an account and using a bank is covered in more detail in Book 6 of this series.



Why don't you try to visit one or more local banks and find out the rules and conditions for opening and operating a current account?

The main advantage of using a bank to keep your money is the security it provides. It also enables you to separate business transactions from personal spending more easily. If you belong to a farmers' group or association, a bank account is normally essential for the group to operate a business or receive grants and payments.

Let's take a closer look at the key documents provided by a bank account. A cheque is an instruction to the bank holding your account to pay a specified amount of money to the person or business named on the cheque. It is set out like this:

Date_____	ABC Bank 11 The Street, Anytown	00 -21-34
Payee_____	Pay _____	Date_____
_____	The sum of _____	\$
Amount_____	_____	
_____	Signed _____	
	123783 002134 987654321	

There are two sections - the cheque on the right, which you tear out of the cheque book to give the person you are paying, and the counterfoil on the left, which you keep in the cheque book as a record of what you have paid.

A paying-in slip is completed whenever you deposit money at the bank. It also has two sections - one which you keep for your records and the other which you hand to the bank with the money or cheque you are depositing. Here is an example:

Date _____	Date _____	ABC Bank 11 The Street Anytown	\$50 _____ \$20 _____ \$10 _____ \$ 5 _____ \$ 2 _____ \$ 1 _____ 50c _____ 20c _____ 10c _____ 5c _____ Chq _____
Cash _____	Credit: Your name		
Cheques _____	Paid in by: _____		
Total _____	002134	987654321 11	Total

A bank statement is a list of all the transactions that have taken place in a specified time period in your account. It is set out as follows:

ABC Bank 11 The Street, Anytown				
STATEMENT				
A/c Name: M.Banda		Statement date: 30 June, 2010		
A/c No: 987654321		Statement No: 14		
Sort code: 002134				
DATE	TRANSACTION	IN	OUT	BALANCE
1 Jun	Brought forward			412.46
3 Jun	Cheque No 409		35.27	377.19
10 Jun	M.Banda	125.00		502.19
18 Jun	ATM 1405		40.00	462.19
26 Jun	Cheque No 410		17.50	444.69
29 Jun	Service charge		2.32	442.37

The "IN" column may be headed Credit and the "OUT" column may be headed Debit.

There is an alternative to cheques these days. Many banks supply customers with a debit card which they can use to make payments to businesses that have a card reader. If you use a debit card the retailer will give you a paper receipt which you should keep as your record of that transaction.



A debit card also enables you to withdraw cash from an ATM (automated teller machine) which means you can get money from your account even when the bank is closed.

Incorporating bank transactions in a cash book

The easiest way to modify your recording system to incorporate bank transactions is to replace the amount column in your cash analysis book with two columns, one labelled "Cash" and the other "Bank".

Then when you pay a bill using a cheque drawn on the bank or your debit card, you can enter the amount in the bank column. If you pay for something using cash, you will enter the amount in the cash column. Whichever payment method is used you should enter the amounts in the analysis columns in the same way as before. Here is an example:

Payments

Date	Details	Cash	Bank	Seed	Fert.
25/9	200kg urea - Farm Supplies		270.00		270.00
30/9	5 kg beans	56.50		56.50	

On the receipts side you may continue to be paid in cash but if you are paid by cheque you will need to pay it into your bank account and record it like this:

Receipts

Date	Details	Cash	Bank	Poultry	Rice
4/5	2 ton rice - EFG Mills		850.00		850.00
10/5	3 doz eggs	22.60		22.60	

That seems quite straightforward but a further modification is needed to deal with transfers between the cash and bank accounts. Sometimes you will pay cash into the bank and sometimes you will take it out. To cope with that in your records you will have to add an additional column to the analysis section on both the payments and receipts pages. This column should be headed “Cash from/to Bank”. It will enable you to keep the two sides balanced.

Here is an example which presumes you have withdrawn money from the bank to pay your workers’ wages and to meet some personal expenses. Note that the withdrawal from the bank must be entered both on the payments page and the receipts page. The money comes “out” of the bank on the payments page and goes “in” to the cash account on the receipts page. On both pages the amount is entered into the “Cash from/to Bank” analysis column.

Payments

Date	Details	Cash	Bank	Wages	Personal	Cash from/to Bank
6/10	Cash from bank		300.00			300.00
7/10	Wages	200.00		200.00		
8/10	Hospital charges	50.00			50.00	

Receipts

Date	Details	Cash	Bank	Rice	Cash from/to Bank
6/10	Cash from bank	300.00			300.00



How much cash in hand do you have after paying the wages and hospital charges?

You withdrew 300.00 and have used 200.00 for wages and 50.00 for hospital charges. Therefore you have 50.00 left.

A similar process would apply if you were paying cash into the bank. In this case the money would go “out” of the cash account on the payments page and “in” to the bank account on the receipts page.

This example presumes you have been paid in cash for some rice and decide to deposit most of it into the bank but retain a small amount for personal use.

Payments

Date	Details	Cash	Bank	Wages	Personal	Cash from/to Bank
13/11	Cash to bank	400.00				400.00
14/11	Household goods	40.00			40.00	

Receipts

Date	Details	Cash	Bank	Rice		Cash from/to Bank
12/11	1 ton rice	450.00		450.00		
13/11	Cash to bank		400.00			400.00

Following these transactions you should have 10.00 left in your pocket.

If you always record your transactions in your cash analysis book, the bank column should correspond exactly to the entries on the bank statement that will be sent to you.



It is a good idea to check this by comparing the entries in your book with the bank's statement. This is known as doing a bank reconciliation.

You can tick each item off as you check it. If you find new items such as bank charges on the statement, enter them in your cash book. You may have recent items in your book that have not yet reached the bank. In this case you should be able to reconcile the figures like this:

	Bank balance from statement	
Less :	cheques not yet included in the bank's records	
Plus:	items paid in but not yet included in the bank's records	
Equals:	Bank balance in the cash book	

It appears to be very complicated to use a bank account but it soon becomes familiar with use. Book 6 in this series will help you understand the products and procedures associated with banks and other financial institutions.



If you learn to manage a current account successfully, the bank may permit you to use an overdraft facility which is a form of borrowing that is highly beneficial to a farming business.

With an overdraft facility you can take more money out than you have in your account up to an agreed limit. You pay interest on this but it does help you to manage your cash flow and overcome any temporary shortfall in your funds.



Why not invite a local bank manager to come and talk to you about using a bank account to manage your business finances better?