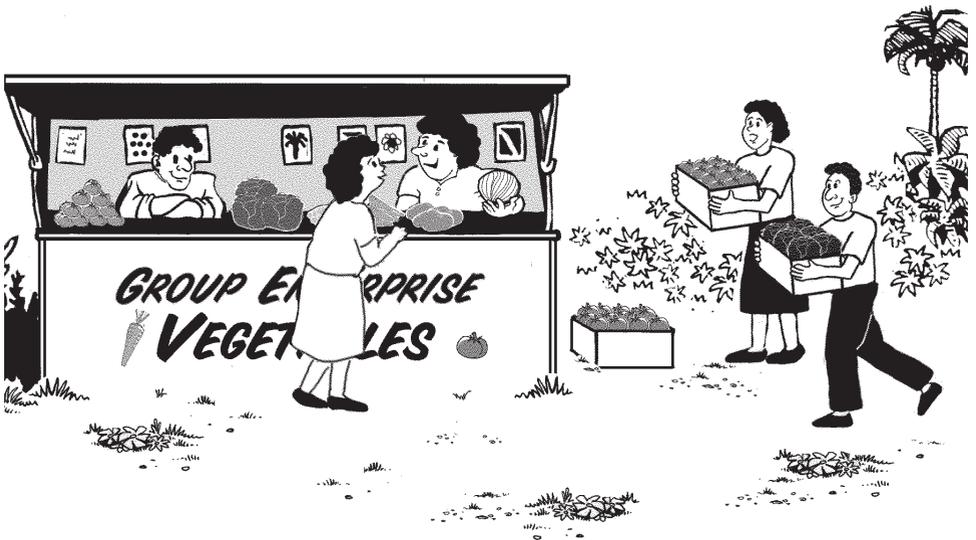




The group enterprise book

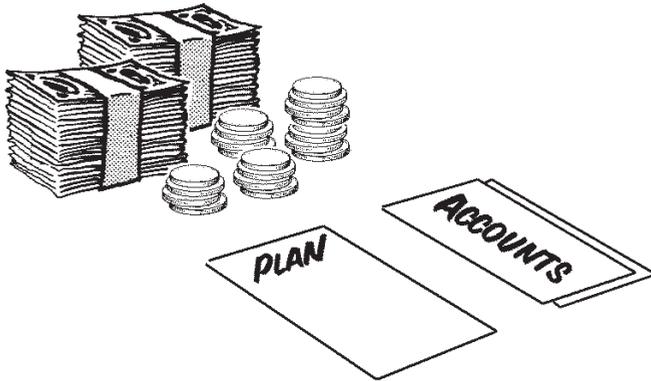
A practical guide for Group Promoters to assist groups in setting up and running successful small enterprises



**Food
and Agriculture
Organization
of the United Nations**

Part 3

Managing the business



Keeping records

Why should the group keep records?

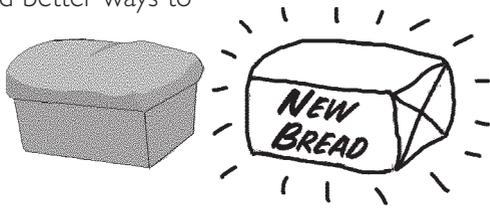
The GP should make sure that the group is well aware of the importance of keeping records and doesn't consider it just a waste of time.



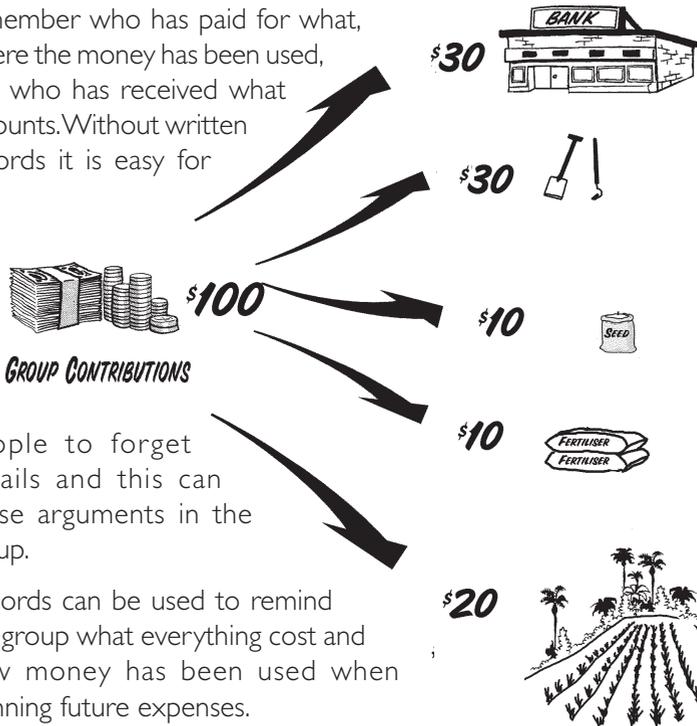
Ask the group to suggest reasons why they need to keep records. Add the following reasons to the discussion only if they are not mentioned by the group:

- Without any records of what is spent and earned, the group won't know if something is going wrong until it is too late. Just because some cash is coming in doesn't mean the business is making a profit. Records make it easy to see whether the business is doing well or badly.

- By knowing exactly how the money is spent and where it comes from, the group can find better ways to manage the business. For example it is easy to see where savings can be made by spending less on something, or the difference it would make if one supplier could be paid a week later. It could also show if spending more on packaging has increased the sales and is worth continuing.



- Keeping records helps the group to remember who has paid for what, where the money has been used, and who has received what amounts. Without written records it is easy for



people to forget details and this can cause arguments in the group.

- Records can be used to remind the group what everything cost and how money has been used when planning future expenses.

Record keeping does not need to be difficult or take a lot of time. It can be simple and still effective and useful. What is important is that records should not be kept just for the sake of keeping them, but to make it easier for everyone in the group to see how much money the business is making and how it could make more.

What information does the group need?

Simply watching the day to day activity will not tell the group how well the business is doing. Neither will counting the cash they have in the counter at the end of the day. What is needed is some specific information on the running of the business.



The group accountant will need to know and understand this entire section well. However, the whole group should also understand the basic ideas of profit and loss so that they will be able to follow how well the business is doing.

In particular, they need to know:



- How much money the group had at the start of the business, how it has been spent and how much is left.

- If the amount of money has gone up while running the business,



- or gone down while running the business.



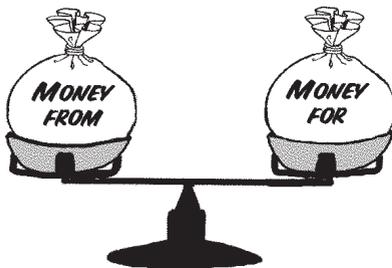
The Accountant will have to explain these points regularly to the group. S/he could use the diagrams as shown later in this section, to help the less literate and less numerate members of the group to understand the two aspects of the business.

To find out how much money the group has, they need to consider where the money came from and what has been done with it. This information is recorded in something called a **Balance Sheet**. Like a set of weighing scales, this records on one side the money the group has put into the business and on the other, how the money has been used.

A different record called a **Profit and Loss Account**, is used to find out whether the business has made money or lost money.

The Balance Sheet

Every time something is bought for the business, it needs to be written down in the Balance Sheet. This makes it easy to remember what has been done with the money and how much money is left.

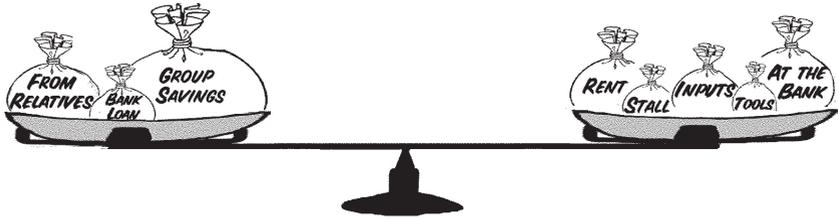


The Balance sheet is used to record two things:

- The money that is put into the business (money from group savings, from loans, etc.)
- What has been done with it (used to buy things, put in the bank, etc.).

It is called a balance sheet because the two lists should balance, which means that they should add up to the same number. This is not surprising since the group cannot use more money than it has, and something is done with all of the money it has (even if it is just kept in a box).

Checking that the two lists balance is a way of making sure nothing has been forgotten in the calculations. This calculation should be made as often



as the group thinks is necessary for their group meetings. If nothing is bought or sold, there is no need to make a new balance sheet. When a lot of money comes into or leaves the group it would be a good time to revise the balance sheet. The balance sheet gives a picture of the group's money at the moment it is calculated.

The GP should use the following example to explain the balance sheet to the group.

A group decides to start producing vegetables.

To start the business they decide what each of them can contribute and put the money together:

SEEDS

FERTILISER

RESERVE

RENT

BANK

TOOLS

MR A

MRS C

MR D

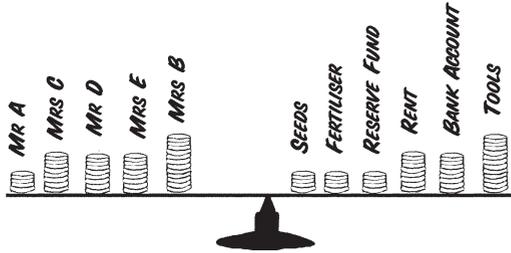
MRS E

MRS B

They then buy seeds for a total of \$10, fertiliser for \$10, tools for \$30 and pay the rent for the land they need to grow vegetables, spending an additional \$20. They reckon that the tools they bought would be good for 10 seasons, so they will not need to buy new ones again until then.

They then decided to put \$20 in a group bank account at the local bank and keep the remaining \$10 as an emergency reserve fund. This money would be kept just for unexpected costs such as breakages and not spent on normal day to day costs.

The Balance Sheet at this point looked like this:

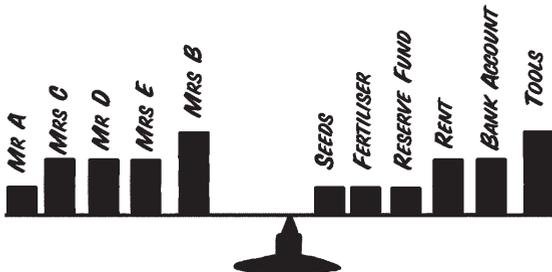


The money came from:

<i>Mr A</i>	<i>\$10</i>
<i>Mrs C</i>	<i>\$20</i>
<i>Mr D</i>	<i>\$20</i>
<i>Mrs E</i>	<i>\$20</i>
<i>Mrs B</i>	<i>\$30</i>
<hr/>	
<i>Total</i>	<i>\$100</i>

The money was used like this:

<i>Seeds</i>	<i>\$10</i>
<i>Fertiliser</i>	<i>\$10</i>
<i>Tools</i>	<i>\$30</i>
<i>Rent</i>	<i>\$20</i>
<i>Bank account</i>	<i>\$20</i>
<i>Reserve fund</i>	<i>\$10</i>
<hr/>	
<i>Total</i>	<i>\$100</i>



When explaining this to the group, make sure that the group understands why the amount in the bank (\$20) is put under money used, not where the money comes from. Help them to see that there are two separate operations

- Collecting the money
- Using the money for different purposes

Putting the money in the bank, or even in the group saving box, is therefore using it for something.

When the first harvest was over, they took \$15 out of their bank account (leaving \$5 in it) and spent \$5 in bags to pack the vegetables, \$5 in a market stall, \$5 in bus tickets to go to the market in town to sell their vegetables. The Balance Sheet then looked like this:

<i>The money came from:</i>		<i>The money was used like this:</i>	
<i>Mr A</i>	<i>\$10</i>	<i>Seeds</i>	<i>\$10</i>
<i>Mrs C</i>	<i>\$20</i>	<i>Fertiliser</i>	<i>\$10</i>
<i>Mr D</i>	<i>\$20</i>	<i>Tools</i>	<i>\$30</i>
<i>Mrs E</i>	<i>\$20</i>	<i>Rent</i>	<i>\$20</i>
<i>Mrs B</i>	<i>\$30</i>	<i>Bags</i>	<i>\$ 5</i>
		<i>Market stall</i>	<i>\$ 5</i>
		<i>Bus tickets</i>	<i>\$ 5</i>
		<i>Bank Account</i>	<i>\$ 5</i>
		<i>Reserve fund</i>	<i>\$10</i>
<i>Total</i>	<i>---</i> <i>\$100</i>	<i>Total</i>	<i>---</i> <i>\$100</i>

When they left the market they had sold all their vegetables for \$60. They were all quite happy about this. But did they really make more money than they spent?

(Ask the group for their answer before continuing).

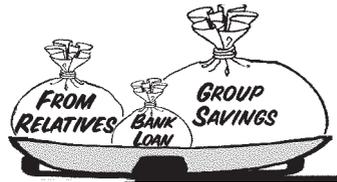
Unless they know whether or not they have made a profit they cannot say whether their business has been successful and if they should plant vegetables even for the next season.

The GP should help the group calculate their first balance sheets.



Ask the group where the money came from to run their group business. Sources may include:

- Group members contributions
- Loans from relatives
- Profit put back in the business after it has been running for a while
- Bank or other loans once the business has been running successfully for a while.



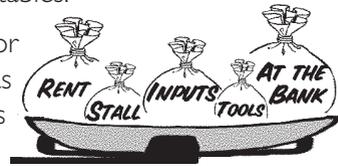
Now the GP should ask how the money has been used. Where did it go? What did the group do with it?

- Part of the money is used to buy things which are used up to make what is produced

E.g. for the Vegetable enterprise, these would include seeds,

fertilisers, and bags to pack the vegetables.

- Part of the money is used to pay for things which the business uses and has to pay for but it cannot keep. (Such as rent for the land, bus tickets to go to the market and sell the vegetables)
- Part of the money is used to buy things needed to run the business and which will be used also in the future to make more of the group product. (Such as a plough, spade, table for the market stall)
- Part of the money is not spent and is kept in the group savings or at the bank.



The GP should make sure that the two sides balance and that the group understand the calculation.

The balance sheet only tells the group how much money has been put in the business and what it was spent on. It doesn't tell them if they have made a profit or not. The Balance sheet is needed to avoid arguments about where the money went and by recording everything, makes it easy to see where costs could be reduced.

To find out if they have made a profit or not, however, the group should use the information recorded on the balance sheet to make another kind of account called a **Profit and Loss account**.

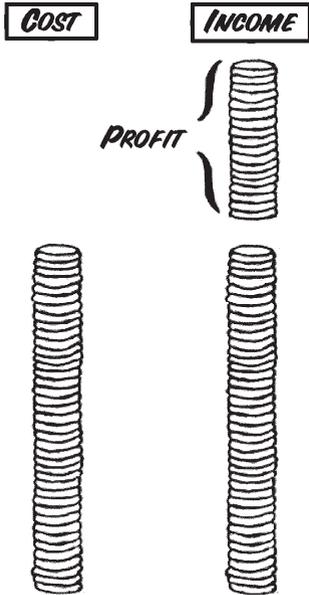
The Profit and Loss Account

This calculation will show the group whether the money put into the business has become more or less than they started with. The GP should explain that the group will need to work out two things:

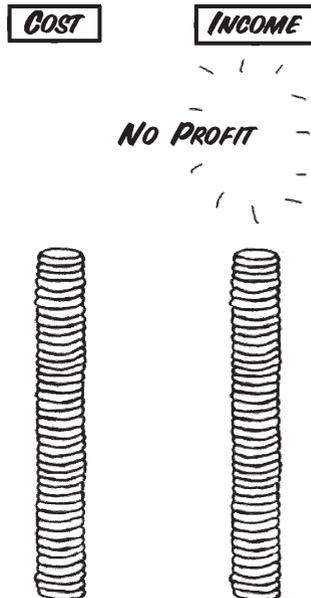
- How much they got for selling the product (sales)
- What it costs to produce the group product (costs).

The difference between the two will tell if the group has made a profit or a loss. This calculation should be made once or twice per year since many of the costs are difficult to split up over shorter periods. For example it

has little meaning to calculate profit for one day when some days nothing is sold and on other days several months production are sold at once.



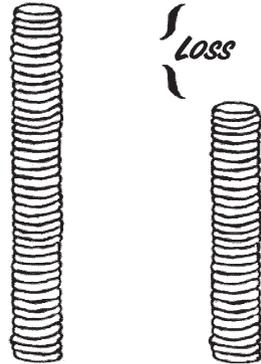
If sales are higher than costs the money has grown and the group has made a profit.



If sales are the same as costs, the group has just broken even: no profit, and no loss either.

COST**INCOME**

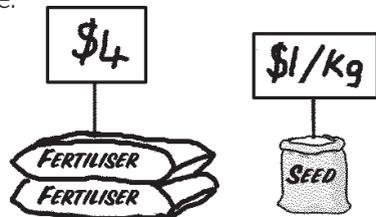
If sales are lower than costs they have made a loss.



Costs are only those things which relate to one accounting period (however often the group decides to prepare the profit and loss account - usually once per season or once per year). So while many of the costs are the same things as were listed in the balance sheet, an important difference is with those costs which will be spread over more than one period such as equipment and tools.

Costs for one production period include:

- **All** the things that have gone directly into what the group produced (seeds, fertilisers, bags to pack the vegetables, cost of transport to the market, cost of renting the market stall).



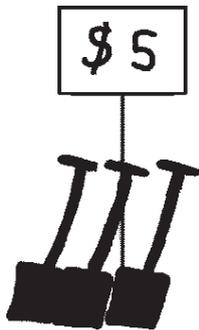
- **All** those things that were needed to run the business and are paid for at intervals such as rent for land and buildings, sales permits etc.

If the profit and loss account is calculated more often than these costs are paid, only part of the cost should be included. For example, rent

for land might be \$40 paid once per year but two crops are grown in the year and the profit and loss account is calculated after sale of each harvest. In this case, the cost of the land for one production period (and one profit and loss account) would be one half of the year's rent i.e. \$20.



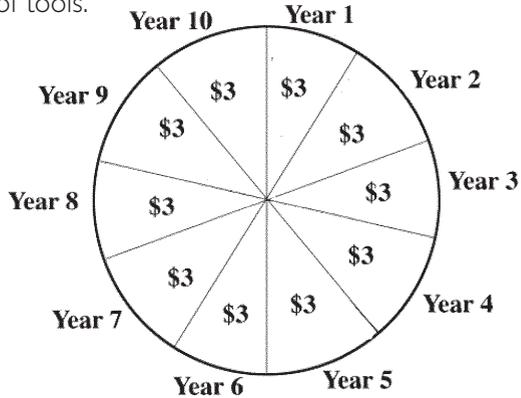
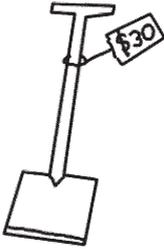
- Part of those things the group needed to produce what they sold but that they will still be able to use in the future (plough, spade, table for the market stall).



Since the group had to buy some tools and equipment which they use in the business but which will last for some years, this cost has to be included in the business costs. However, although they were paid for all at one time, they are still owned by the group and can be used for several years. So they still have a value to the group and only need replacing after some time. For this reason, the cost of the tools and equipment are thought of as being spent a bit at a time over the period they will be used.

To calculate how much of the cost of the tools and equipment are counted in the first year, the cost of these items is divided by the number of years (or seasons) in which the group will be able to use them.

For the Vegetable Enterprise Group, the equipment they bought cost \$30 and they expect it to last for 10 seasons after which they will have to buy new ones. In each season therefore one tenth of the cost of the tools (i.e. $\$30/10 = \3) is counted as the cost of tools.



After one year then, the value of the tools is \$27 ($\$30 - \3), i.e. the original cost minus the part that have been used up during the year. After the second year they are worth \$3 less again i.e. $\$27 - \$3 = \$24$. This way the value of the tools is slowly used up over the ten years, until they are of no value at the end of the tenth year. Up until this time though, they still have a value and so need to be included in the accounts.

A Profit and Loss account for the group business cannot be calculated until the business has been running for long enough to have sold some of its product. The GP should use the following example to explain the meaning of the Profit and Loss account to the group and how to calculate it. Later, when the business has been running for some time, the GP should help the group make the first Profit and Loss account for their business.

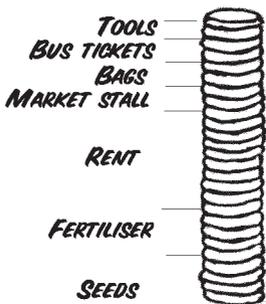
The Profit and Loss account of the Vegetables Enterprise Group after the first production season looks like this:

<i>Cost of production</i>		<i>Sales of vegetables</i>
<i>Seeds</i>	\$10	<u>\$60</u>
<i>Fertiliser</i>	\$10	
<i>Rent for land</i>	\$20	(half the year's rent)
<i>Market stall</i>	\$5	
<i>Bags</i>	\$5	
<i>Bus tickets</i>	\$5	
<i>Tools (\$30/10)</i>	\$3	(only part of the cost of tools)
<i>Total</i>	<u>\$58</u>	<u>(\$58)</u>
<i>Profit</i>		<u>\$ 2</u>

COST

INCOME

PROFIT 



So, though the group was happy thinking they had just sold all their vegetables for \$60, once the costs of growing them is taken away, the profit made was just \$2.



What does this mean? They have not lost any money, but they have not made much either. They need to look carefully at their balance sheet and the profit and loss account. Two dollars is very little for all the work they have put in, so they need to plan how they can make a better profit next season.

The GP should make sure the group members have understood the difference between what they receive for the sales, the profit they have made and the money they have in the bank (or their group savings box).



Ask the group how they think more profit could have been made by the Vegetable Enterprise Group. When a number of suggestions have been made, continue with the following example.



So, the Vegetable Enterprise Group held a discussion about how they could make more profits. Before starting to keep



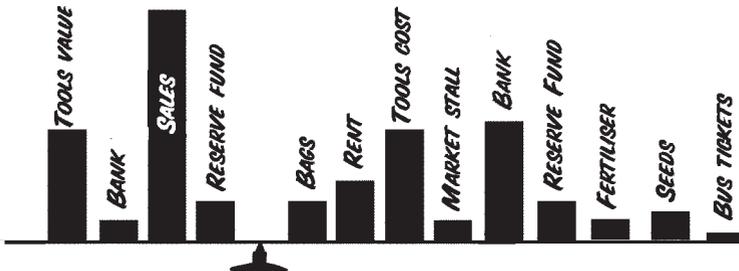
their accounts they would have thought that the only way would have been to produce and sell more vegetables. But from their accounts it was clear that producing more would not have increased the profit. Instead, they had to cut some costs.

- Somebody said that the local agricultural extension officer has just told him about a new and better fertiliser that only cost \$5 instead of \$10
- Another group member said that it was not really necessary to all go to the market and maybe just two of them should go next time, saving on the tickets
- A third suggested that if next season they spend an extra \$5 on bags they could pack the vegetables better and charge a slightly higher price for them.

The following season the group bought seeds for \$8, the new fertiliser for \$5, and made an agreement with the landlord to pay a lower rent of \$15 per season for the land. The group then spent \$10 on better bags, \$5 for the market stall, and \$1 for bus tickets. They put the money from sale of the vegetables in the bank account for the moment as it would all be needed to grow the next season's crop.

This time they did not need to buy any more tools as they could continue using the same ones as last season. When they went to the market this time, their balance sheet looked like this:

<i>The money came from:</i>		<i>The money was used like this:</i>	
<i>Sales of last season's vegetables</i>	<i>\$60</i>	<i>Seeds</i>	<i>\$ 8</i>
<i>Value of tools (\$30-\$3)</i>	<i>\$27</i>	<i>Fertiliser</i>	<i>\$ 5</i>
<i>Bank balance</i>	<i>\$5</i>	<i>Rent</i>	<i>\$15</i>
<i>Reserve fund</i>	<i>\$10</i>	<i>Market stall</i>	<i>\$ 5</i>
		<i>Bags</i>	<i>\$10</i>
		<i>Bus tickets</i>	<i>\$1</i>
		<i>Tools</i>	<i>\$27</i>
		<i>Bank Account</i>	<i>\$21</i>
		<i>Reserve Fund</i>	<i>\$10</i>
<i>Total</i>	<i><u>\$102</u></i>	<i>Total</i>	<i><u>\$102</u></i>

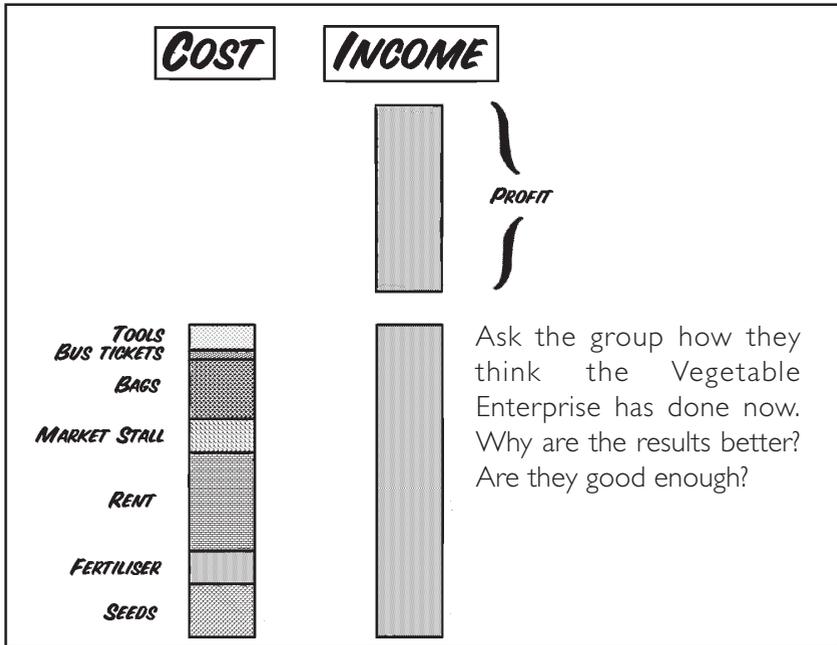


The \$21 left in the bank account is the money left after paying for everything else.

The tools are shown on both sides of the balance sheet to show what has happened to the money. They have a value of \$27 at the beginning of the season, but since they are still needed, the same amount is spent to keep them for the business.

Due to the better packaging as well as to the better farming of the second season (better seeds and better fertiliser) their total sales are higher than the previous season and are \$75. The profit and loss account of the Vegetable Enterprise Group now looked like this.

<i>Cost of production</i>		<i>Sales of vegetables</i>
<i>Seeds</i>	\$ 8	<u>\$75</u>
<i>Fertiliser</i>	\$ 5	
<i>Rent</i>	\$15	
<i>Market stall</i>	\$ 5	
<i>Bags</i>	\$10	
<i>Bus tickets</i>	\$ 1	
<i>Tools (\$30/10)</i>	\$ 3	
<i>Total</i>	\$47	\$47
	<i>Profit</i>	<u>\$28</u>



The Vegetable Enterprise certainly did much better in the second season. So by keeping these two records, the balance sheet and the profit and loss account, the group can see how well the business is doing and try to get better results each season. When the profits start to get high enough, some of the money can be shared out among the group members



according to the agreements they made earlier (See Part 2 Step 3). In the early stages of the business, the group members should not expect to make large profits because all businesses need money to be invested to make them grow.

The group should also keep in mind that eventually the tools will need to be replaced and some money will be needed for this. What other costs will occur in the future that will need money to be kept by for?

In the early stages the group should be prepared to take as little money as possible from the business. As the business grows however, more of the profits can be used to pay for labour by the group members.