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Record Keeping for Small Rural Businesses

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**TECHNICAL
NOTE NO.
26**



RECORD KEEPING FOR SMALL RURAL BUSINESSES

Eligia Murcia

SUMMARY: This note aids rural community development workers design training materials for helping semi-literate villagers to keep records for their small businesses.

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21. **Q-SORT AS A NEEDS ASSESSMENT TECHNIQUE:** describes how a research technique can be adapted for needs assessment in nonformal education.
22. **THE LEARNING FUND: INCOME GENERATION THROUGH NFE:** describes a program which combines educational and income generation activities through learning groups.
23. **GAMES OF CHILDHOOD DISEASES:** describes a board game which addresses health problems of young children in the Third World.
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26. **RECORD KEEPING FOR SMALL RURAL BUSINESSES:** describes how facilitators can help farmers, market sellers and women's groups keep track of income and expenses.

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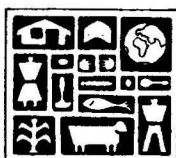
TECHNICAL NOTES

This note is based on the actual experience of the author who worked with the Colombian and Bolivian governments in collaboration with the Mennonite Central Committee. In the interest of disseminating information about successful, innovative methods and materials for adult, nonformal education, the publications office of the Center for International Education has included this material as the 26th installment in its Technical Note Series.

This publication focuses on the development of record keeping skills for small income-generating groups in Third World countries. While the examples given use farmers and their record keeping needs as their target, the same system is transferable to women's groups, cooperatives, marketsellers and other small scale entrepreneurs. The information is intended for immediate use by practitioners, to adapt to their own situations and implement in their own settings.

We encourage readers to share their reactions and particularly relevant, similar experiences which you may have had in other contexts from the one presented in this note. Other Technical Notes are available from the

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Background

My interest in rural development began several years ago when I was invited to give a five day training course in Bebedo, a small community in the jungle near the Pacific coast of Colombia. Unlike Bogota, the capital, Bebedo has no cars, no electricity and no marketplace.

When I arrived, I heard no familiar noises except for occasional sounds from the few portable radios that were left behind by foreign mining companies that had dragged the San Juan river for its gold and silver. Taking these riches, foreigners left behind a town of unemployed miners who had turned to agriculture and related activities as their new source of income.

Unfamiliar with their new trade, the ex-miners lacked the skills needed to create income from agriculture. I had been contracted to teach the townspeople how to keep track of the assets and expenses of their new businesses.

Soon after my arrival I realized that the two volumes on general accounting resting in my suitcase did not mean much in this setting. I not only lacked appropriate materials, but I also lacked an audience capable of understanding the language used in my business books. Most of the villagers were semi-literate or illiterate.

What follows in this note are materials that I first developed in Bebedo which were subsequently tested and revised over a 3-year period in the lowlands of Bolivia. The materials are written for fieldworkers who are training villagers in the Third World how to keep records for their businesses. The goal of this record keeping system is to help members of the community become better managers.

Preparations

Before describing the record keeping system, I will share some field

considerations regarding the learners, facilitators and materials that must be taken into account when using this guide.

Learners

The minimum requirements of learners are ability to read and write simple words and sentences and the ability to add, subtract and multiply. If learners feel insecure in these skills, they can be encouraged with literacy exercises. They should be reminded that this record keeping system is not something from another planet! It is a simple and useful tool that can help them manage their money.

I usually spent a few hours practicing literacy and numeracy skills. This helped learners to improve and to gain confidence. In some situations I involved literate family members or close friends to help the learners. By involving a third party in the learning process, I reinforced the learners' interest, motivation and self-assurance.

Facilitators

In addition to literacy and numeracy skills, facilitators need awareness of the learners' circumstances. Who are they? What is the community like? Are the roles of women and men well defined? What is the schooling level of the learners?

Frustrations that I had using this material were due to my tendency to assume or generalize the answers to the above questions. In Bebedo, for example, I failed to ask background questions in preparation. I did not consider the community's expectations. I ended up teaching courses to three different groups rather than first identifying the needs of each which could have resulted in one training program. To avoid future frustrations, I kept in mind the following characteristics of learners:

1. Limited literacy skills. Many of the learners I worked with had limited literacy skills. One's literacy level is not related to one's level of intelligence, yet patience is required to work with people of limited skills.

Creativity is required to explain or demonstrate concepts until the ideas become clear to learners. No matter how simple the material

seemed to me, I could not assume that it was just as simple to all learners.

2. Limited numeracy skills. Teaching these materials to groups, I found that not everyone is on the same numeracy skill level. Some learners mastered arithmetic operations while others did not. I introduced training with numeracy exercises that allowed learners to help each other. I began with simple operations and moved to complex ones needed to use the record keeping system.

3. Low self-esteem. In many rural settings in Latin America tension exists between city people and country people. There may be racial tension as well. Farmers and villagers often view themselves as "less than persons." This tendency has partially grown out of the belief that schooling is a magic wand. They believe that because they lack education, they are nobodies. Reassuring learners that learning this record keeping system falls within the realm of their capabilities is important. They and their activities must be treated with respect.

4. Lack of motivation. I found that being together with a group of villagers in itself is not a good motivator for learning. In the Latin American context, however, I discovered that learners can be motivated by duty as well as by interest. There has to be a balance. One way to create interest is with a conversation or role play listing as many advantages of learning the record keeping system as possible. The facilitator may then want to have the group prioritize the items in a list. With a group of housewives, for example, the facilitator might try a problem-solving activity to raise interest. How could they feed their families with less money? And how would they know if they are spending less? The task of the group would be to come up with practical solutions to these problems. The most important consideration in raising interest in any group is tailor made activities that are relevant to the specific needs and interests of the individuals.

5. Multiple roles and responsibilities. Like the facilitator, learners in the group are busy people. They play roles of spouse, parent, farmer, community council member and the like. With these roles they have respective responsibilities. The training program

should respect the multiple responsibilities of learners. Meeting times should be arranged with the input of learners. Activities should not be viewed as a burden but as a means of solving some of their real life problems.

Beginning the sessions is often the most difficult part for facilitators. I do not feel sure of my audience until I have made them smile. I often begin with tales, sayings or jokes to break the ice. I recall one incident in particular when I was asked to teach the record keeping system to a group of men in an animal traction training program in Bolivia. When I entered the room, the men were eating breakfast. As they heard my hellos, they stopped eating. A woman like me did not make much sense to them in an animal traction training program. I immediately retorted with a joke relating to our mutual surprise. Our ability to laugh together brought a sense of easiness and harmony.

Materials

Learners need a notebook, a pencil, an eraser and a ruler or any straight edge that can be used for drawing straight lines. A blackboard is useful for the facilitator, but if there is none available, a large piece of cardboard or newsprint can be used as well. In the extreme case, the ground can be used with an index finger or a stick. Creativity and a sense of humor are the key materials.

Record keeping System

The record keeping system that I devised in Colombia and Bolivia was a simple procedure for helping farmers keep track of their money so that they would be able to make decisions that would help their businesses flourish. The system, however, could be used for any income-generating activities for individuals, cooperatives or groups concerned with better home management.

This system was built basically on three assumptions:

- 1) That most fieldworkers are familiar with a bank account balance, thus by drawing upon something familiar will ease the job of understanding and

communicating these concepts. This system operates on the same principles as a bank account.

2) That record keeping as an activity has to be incorporated in the daily routine as a habit, therefore this system is an introduction to it. The system provides the tools to set up a solid ground for financial management. It won't provide all the answers but leaves room for adjustment and creativity by the users.

3) Any bookkeeping system should at the end provide the necessary information to answer the key questions: a) How am I doing financially? and b) How can I improve my financial situation?

The procedure first requires that workshop participants draw with rulers a box with five columns as illustrated below:

As a variation, groups of participants can draw the box on newsprint. Different colors may also be used to distinguish among columns.

The next step is to name each column. I tried to make this activity fun and participatory, so I related the naming of columns to baptizing of children. In most Latin cultures, baptizing involves a priest, the parents and a member of the community in the ceremony of naming the child. Role playing the characters allows all participants to remember the names of the columns. Facilitators might want to create their own naming activities that

are culturally appropriate. As naming proceeds, headings for each column should be written in as shown:

DATE	DESCRIPTION	MONEY-IN	MONEY-OUT	MONEY-LEFT

An analogy for this document is the birth certificate. This official paper registers the newborn's date of birth, name and parents' names. The names in the columns help learners to remember when and what happened and for how much. The columns refer to all uses of money. Each column is dealt with separately below.

Date

Learners should be encouraged to discover the importance of dating transactions. Facilitators can ask learners to imagine not knowing their own birthdate. Depending on the setting, some learners may not even know their own birthdate. If this is not a useful example, one that relates to the community such as the date it began, or the importance of dates when borrowing or lending money can be used instead.

The facilitator and learners should agree on a standardized way of writing the month, day and year in order to avoid communication problems. The facilitator can suggest the most practical way if consensus is not possible. In this text, I use the day/month/year model with numbers. For example, April 15, 1984 appears as 15/4/84.

The importance of dates should also be related to the activities of the specific learning groups. Farmers, for example, must know when to plant corn and when to plant soybeans. Participants should be encouraged to ask questions before moving on to the next column. As in all groups sessions,

participants should be encouraged to engage in dialogue and discussion with each other so that mutual problems can surface.

Description

In this space we will write any economic activity that we undertake. An economic activity for us will be any activity that involves money. If we sell eggs, for example, we need to write how many eggs we sold, and the price per egg. It is important in this case to write the price per unit. We know that the price of eggs, as the price of other produce, changes. (If time and the dynamics of the group is conducive, this is a good time for a discussion on price fluctuations, better prices for farmers' products, etc.)

To facilitate the practice in the use of these columns in one instance I used an example of a hypothetical Bolivian farmer, Segundino Huertas. Bolivian pesos used in the transaction are represented by \$b., and in Mr. Huertas' community quintals (qq.) are the unit of measure. Using visual aids, I introduced Mr. Huertas to the group, giving him characteristics similar to the participants. I spoke of him with respect and admiration. After presenting a bit of his background, I told them:

Very early in the morning on April 15, 1984,
Mr. Segundino Huertas decided to start keeping
track of his money. The first thing he did was to
empty his pockets and his wallet to see how much
money he and his family had. His wife helped him
count the money. All the money that the Huertas
family had on April 15 totaled \$b. 60.00.

I wrote the transaction on the blackboard and had participants first focus attention on the date. They wrote the date in the appropriate form and column. I then asked learners to write the essential information in the Description column:

DATE	DESCRIPTION	MONEY-IN	MONEY-OUT	MONEY-LEFT
15/4/85	<i>Money on hand to start keeping track of my money.</i>			

Money-In

I had learners focus on the third column. I told participants that whenever they wanted to start their own system to keep track of their money, they should start by counting all the money they had on hand. (Due to the specific purpose of this manual, I will concentrate on the "cash flow" of the participants leaving other considerations such as other assets, for later.) I told them that they should record (write) in this column all the money they receive from sales of produce, tools or services, loans, wages and/or gifts.

Going back to Mr. Huertas' example, ask the participants: How much money does Mr. Huertas have to start his system? Do we have a volunteer to write this amount in the proper place?

DATE	DESCRIPTION	MONEY-IN	MONEY-OUT	MONEY-LEFT
15/4/85	<i>Money on hand to start keeping track of my money.</i>	60.00		

I continued with the example to help learners get the chance to use this column:

Well, Mr. Huertas was not aware of the amount of money he had until he counted it. He decided that it was time for him to sell some corn he had stored. So in the afternoon of the same day Mr. Huertas sold 20 quintals of corn to his neighbor, Ana Ramirez. The price of each quintal was \$b. 150.00.

Again, I wrote the transaction on the blackboard and had participants tell me what to do first. Yes, write the date and then write a short description of the economic activity. Then review the uses of the column Money-In by asking where to put the amount and why. Oh, but how much money did Mr. Huertas receive from the sale of corn? I called on volunteers to do the equation: $20 \times 150.00 = \$b. 3,000.00$. If all participants did not understand the derivation of this amount, I introduced more numeracy practice, having those who did know help those who did not. When this was done, I had participants enter the correct amount in the Money-In column,

paying attention to how we write each figure of the number, since we had a previous transaction written:

DATE	DESCRIPTION	MONEY-IN	MONEY-OUT	MONEY-LEFT
15/4/85	<i>Money on hand to start keeping track of my money.</i>	60.00		
15/4/85	<i>Sale of 20 qq. of corn at \$b. 150.00 each.</i>	3,000.00		

At this point I discussed with the group about the things Mr. Huertas should do with all that money. Shall we tell him to keep it under the mattress? I discussed with the group about the importance of knowing "how to save", also I would discuss the role of an agricultural bank and savings and loan cooperatives. The advantages of saving in either institution, such as money safetyed, interest's earnings, possibilities of acquiring loans according to size of savings, etc. Please keep in mind that the purpose of teaching this system is to help individuals make better decisions. Maybe after the discussion the group would like to explore the type of credit institutions available. The group can decide who should do it and when.

After the discussion, I asked learners to make a list of things they sell, such as chickens, eggs, corn, and tools, and other sources of income including wages. I had volunteers go to the blackboard and enter the Date, Description and Money-In appropriately. For practice, individuals entered their own income information on a separate sheet, following Mr. Huertas' example. Other times I had one volunteer give oral examples while others translated this into the items needed for columns. As learners gained confidence, I moved away from the center of attention allowing them to turn to each other for help.

Notice that so far, I have been using round numbers to ease the process but if the group is ready for a more complex exercise, I would start at their level. Let's go back to Mr. Huertas' example. Emphasize the need

to keep the records periodically, remember that we want to create a good habit!

In the evening Mr. Huertas wanted to add up all the money transactions he had recorded so far.

All Mr. Huertas has to do is draw a line under the column Money-In, all the way until the end of money left. He needs to write the date of the last transaction recorded, as follows:

DATE	DESCRIPTION	MONEY-IN	MONEY-OUT	MONEY-LEFT
15/4/85	<i>Money on hand to start keeping track of my money.</i>	60.00		
15/4/85	<i>Sale of 20 qq. of corn at \$b. 150.00 each.</i>	3,000.00		
15/4/85	<i>Sub-total to date.</i>	3,060.00		

I would explain that \$b. 3,060.00 represents all the money that Mr. Huertas has available. He needs to think what will be the best use of this money. Because with time money loses its value, e.g. a year from now we can't buy the same number of things with \$b. 100.00, it is important to invest the money right away if possible, or to put that money in a savings account to earn some interest. The facilitator can ask the group how many things they were able to buy ten years ago with a given amount of money. Believe me, they can tell you in detail! From this information the facilitator can illustrate the importance of using the money right away.

Money-Out

Keeping track of money spent is just as important as recording income. Likewise, recording the date and reasons for spending money is useful for determining the success of a business. Going back to the Mr. Huertas example, I described that:

On April 18, Mr. Segundino Huertas wanted to plant rice, but he realized that he had no rice seed left. He therefore went to Pauline Ramos and bought two quintals of rice seed at \$b. 350.00 each.

I had learners recall the first transactions of Mr. Huertas. Below them, I asked them to record the necessary date and description of the expense. I had some participants tell the group orally what they recorded, and the group responded with appropriate feedback. Next, learners worked out the multiplication problem: $2 \times 350.00 = \$b. 700.00$. Because this was money spent, I directed participants to record the amount in the Money-Out column:

DATE	DESCRIPTION	MONEY-IN	MONEY-OUT	MONEY-LEFT
15/4/85	Money on hand to start keeping track of my money.	60.00		
15/4/85	Sale of 20 qq. of corn at \$b. 150.00 each.	3,000.00		
15/4/85	Sub-total to date.	3,060.00		
18/4/85	Purchase of 2 qq. of rice seed at \$b. 350.00 each.		700.00	

Once again, learners can be asked to give example of ways they spend their money. Discussion among themselves might even uncover price discrepancies or spark ideas on how to cut expenses. Opportunities can also be given to volunteers to practice entering their examples in the appropriate columns in the box.

On the same day, Mr. Huertas paid a loan of \$b. 45.00 to Mr. Munoz. Mr. Huertas had borrowed this money a month ago.

DATE	DESCRIPTION	MONEY-IN	MONEY-OUT	MONEY-LEFT
15/4/85	Money on hand to start keeping track of my money.	60.00		
15/4/85	Sale of 20 qq. of corn at \$b. 150.00 each.	3,000.00		
15/4/85	Sub-total to date.	3,060.00		
18/4/85	Purchase of 2 qq. of rice seed at \$b. 350.00 each.		700.00	
18/4/85	Payment of loan to Mr. Munoz.		45.00	

Money-Left

Learners can now focus on the Money-Left column. The first thing we need to do is to draw a line similar to the one we drew to find a sub-total. Then, after writing the date of the last transaction, we should add separately the columns Money-In and Money-Out. Finally, we need to do a subtraction to find out how much money is left.

$$\text{Money-In} - \text{Money-Out} = \text{Money-Left}$$

Let's find out how much money is left to Mr. Huertas.

DATE	DESCRIPTION	MONEY-IN	MONEY-OUT	MONEY-LEFT
15/4/85	Money on hand to start keeping track of my money.	60.00		
15/4/85	Sale of 20 qq. of corn at \$b. 150.00 each.	3,000.00		
15/4/85	Sub-total to date.	3,060.00		
18/4/85	Purchase of 2 qq. of rice seed at \$b. 350.00 each.		700.00	
18/4/85	Payment of loan to Mr. Munoz.		45.00	
18/4/85	Sub-totals.	3,060.00	745.00	2,315.00

Make sure they understand the subtraction:

$$\text{\$b. } 3,060.00 - 745.00 = 2,315.00$$

Mr. Huertas wanted to be sure that he had done everything right, so he went and counted his money just to find that he was \$b.25.00 short. He asked his wife if by any chance she had spent the \$b. 25.00. No, was her reply. Mr. Huertas went back and added everything again. All his additions and subtractions were correct. Oops! He almost forgot that he went out with some of his friends and spent \$b. 25.00 on beer! "Shall I record the money I spend in drinking?" he asked himself.

I asked the group what they thought Mr. Huertas should do, because he has \$b. 2,290.00 in his pocket and his book shows that he should have \$b. 2,315.00 instead.

Again this will be a good opportunity to raise some issues of uses and misuses of money. Remember we are not there to judge but to facilitate discussion that may lead to awareness and action.

I agreed with the group as to where the \$b. 25.00 should be recorded. It could be done as follows: We write the same date, then describe what happened - purchase of beer and we write the \$b. 25.00 amount in the Money-Out column underneath our last transaction.

DATE	DESCRIPTION	MONEY-IN	MONEY-OUT	MONEY-LEFT
15/4/85	Money on hand to start keeping track of my money.	60.00		
15/4/85	Sale of 20 qq. of corn at \$b. 150.00 each.	3,000.00		
15/4/85	Sub-total to date.	3,060.00		
18/4/85	Purchase of 2 qq. of rice seed at \$b. 350.00 each.		700.00	
18/4/85	Payment of loan to Mr. Munoz.		45.00	
18/4/85	Sub-totals.	3,060.00	745.00	2,315.00
18/4/85	Purchase of beer.		25.00	

To find the total of money left we can add up the columns Money-In and Money-Out, and apply the formula we already know:

$$\text{Money-In} - \text{Money-Out} = \text{Money-Left}$$

$$3,060.00 - (745.00 + 25.00) = \$b. 2,290.00$$

DATE	DESCRIPTION	MONEY-IN	MONEY-OUT	MONEY-LEFT
15/4/85	Money on hand to start keeping track of my money.	60.00		
15/4/85	Sale of 20 qq. of corn at \$b. 150.00 each.	3,000.00		
15/4/85	Sub-total to date.	3,060.00		
18/4/85	Purchase of 2 qq. of rice seed at \$b. 350.00 each.		700.00	
18/4/85	Payment of loan to Mr. Munoz.		45.00	
18/4/85	Sub-totals.	3,060.00	745.00	2,315.00
18/4/85	Purchase of beer.		25.00	
18/4/85	Sub-totals	3,060.00	770.00	2,290.00

Please notice that:

- 1) You add only the figures under the line of the last sub-total.
- 2) The Money-Left sub-total of the last transaction can also be obtained by directly subtracting the \$b. 25.00 from \$b. 2,315.00. In other words:
last Money-Left sub-total - next Money-Out = new Money-Left sub-total
 $\$b. 2,315.00 - \$b. 25.00 = \$b. 2,290.00$

If it looks complicated for your audience, leave it. Maybe one of the participants will bring the issue up, as s/he discovers another way. The "rule of thumb" is to follow the easiest way to facilitate the learning process and the putting into practice of the lessons learned.

As necessary, numeracy exercises that emphasize adding and subtracting can be supplemented. Learners should be given other examples to work on and should be encouraged to discuss their own personal examples. Discussion about ways to keep the balance figure as high as possible might also be stimulated by the facilitator.

Further Practice

I emphasized that all of Mr. Huertas' transactions are entered in a similar fashion. Some months there is income and other months only expenses. Nevertheless, all money transactions are entered accordingly. Below are additional examples from Mr. Huertas for learning groups to practice with:

1. On April 21, Mr. Huertas sold a pig for \$b. 2,000.00.
2. On Sunday (market day), April 29, Mr. Huertas sold two boxes of tangerines for \$b. 95.00 each. He then bought groceries for \$b. 1,800.00. What's the new balance on April 29? (Even though two transactions occurred on the same day, they should be entered separately.)
3. On April 30, one of Mr. Huertas' sons got sick. He spent \$b. 152.60 for medicine.

The facilitator can create more examples until all participants get enough practice to keep track of Mr. Huertas', or another appropriate figure's money. Exercises should begin simple and work up to increasingly more complex operations.

After we have followed Mr. Huertas' record keeping experience his book should look like this:

DATE	DESCRIPTION	MONEY-IN	MONEY-OUT	MONEY-LEFT
15/4/85	Money on hand to start keeping track of my money.	60.00		
15/4/85	Sale of 20 qq. of corn at \$b. 150.00 each.	3,000.00		
15/4/85	Sub-total to date.	3,060.00		
18/4/85	Purchase of 2 qq. of rice seed at \$b. 350.00 each.		700.00	
18/4/85	Payment of loan to Mr. Munoz.		45.00	
18/4/85	Sub-totals.	3,060.00	745.00	2,315.00
18/4/85	Purchase of beer.		25.00	
18/4/85	Sub-totals	3,060.00	770.00	2,290.00
21/4/85	Sale of pig.	2,000.00		
29/4/85	Sale of two boxes of tangerines at \$b. 95.00 ea.	190.00		
29/4/85	Purchase of groceries.		1,800.00	
29/4/85	Sub-totals to date.	5,250.00	2,570.00	2,680.00
30/4/85	Medicine for son.		152.60	
30/4/85	Sub-totals to date.	5,250.00	2,722.60	2,527.40

But our task has not finished with the example of Mr. Huertas. We need to remember our two-fold purpose: creating a habit of incorporating record keeping into the participants' routine, and, equally important, learning to use our records to make decisions.

At this point I would ask the participants to become Mr. Huertas' advisors. What would they recommend Mr. Huertas do with the total amount of money? Can we group this information into more specific categories? Could

Mr. Huertas assign himself a salary? When and how does the money come in and go out? Are there any seasonal cycles? (This question can be asked as a general one. The example is too short to draw an answer right away.) Nevertheless, it is a question to keep in mind, especially for someone starting a business. It will shed some light on decisions for marketing purposes, planning and budgeting.

Classifying Information

As I discussed the above questions with the group, I helped them discover how and why it would be good for Mr. Huertas to keep separate accounts for the different activities on his farm. (The same reasoning follows for a manufacturer or retailer.) If Mr. Huertas' pigs are eating more than what he planned for, (if they are costing him more than expected), he should make a decision regarding at which point a pig represents a profit or a loss. It might be profitable for him to have the pigs for six months instead of a year, etc.

Mr. Huertas' information could be classified as follows:

HOUSEHOLD

DATE	DESCRIPTION	MONEY-IN	MONEY-OUT	MONEY-LEFT

* Depending on whether or not Mr. Huertas wants to assign himself a specific amount of money as his salary.

CORN

DATE	DESCRIPTION	MONEY-IN	MONEY-OUT	MONEY-LEFT

RICE

DATE	DESCRIPTION	MONEY-IN	MONEY-OUT	MONEY-LEFT

PIGS

DATE	DESCRIPTION	MONEY-IN	MONEY-OUT	MONEY-LEFT

As learners show confidence and competence in accounting for Mr. Huertas' money, they should be encouraged to keep ledgers for their own record keeping.

To determine categories, participants need to first identify which products or services are the source of income and expenses. Keeping track of money in this manner allows participants to compare income from different sources. This comparison can enable them to direct their efforts toward higher income-generating activities. If participants discuss purposes of keeping records, facilitators will know whether focusing on categories is appropriate for a particular group.

Recommendations

I taught this system to different groups and individuals in a variety of contexts in Latin America. They consisted of farmers, mother's clubs, small businessmen, health promoters and mixed groups. I adapted the material to the needs of each group. Having learners first define their own purposes for keeping records is crucial to teaching success.

Timing class sessions for presenting the material can be flexible as well. I taught the course in daily 1-hour blocks as well as in intensive all-day sessions. Timing of classes depends on the constraints and needs of the groups. Facilitators must be cautioned not to rush through the exercises leaving no time for practice. Before moving on to new material, all participants should demonstrate competence in practice exercises. Facilitators should be concerned with process as well as content.

The facilitator's responsibility does not end with teaching the material. Ways to evaluate the workshops should also be built into the program. After presenting the material, I usually returned to the sites for follow-up visits with individuals to check the mechanics of the system. I also interviewed participants to find out if record keeping changed their decision making. One-day workshops can also be planned for participants to discuss problems and successes with the system.

Facilitators are encouraged not to present material exactly as I did for use in Latin America. Rather, they should use measurements, current prices and commercial language of the region or community where the materials will be used. Examples should be as realistic as possible. If, for example, they relate to harvesting corn, dates should correspond to the actual dates of harvesting corn in that region. Wages, too, should reflect the local situation.

If facilitators are working with semi-literate or illiterate audiences, the concepts of record keeping can be communicated using drawings or actual things to convey the ideas. Where in the house do families keep their money? A pot? A special kind of basket or bag? Drawings can replace and/or reinforce the titles of each column. Attention must be given to use the drawings. The system does not require three columns if you provide the space for figuring out the balance, again be creative.

If facilitators are not familiar with any record keeping system, they are encouraged to keep track of their money for at least two weeks or one month, following this system. This will help them deal first-hand with possible problems, as well as providing time and opportunity to observe their audiences to draw examples and exercises relevant to the particular group. At the end of this manual, there are some blank charts for the facilitator's personal use.

This system also can be used in the assessment of potential entrepreneurs. An entrepreneur needs both management skills (or the willingness to acquire them) and money to succeed. In Bolivia I worked with an organization that provides credit and other technical assistance to individuals who are or want to become entrepreneurs. Before disbursing any loan the individual or the group had to attend a record keeping workshop and a management seminar. I used this system with its variations with them. We learned that being skillful in one trade or having money available is not enough to make a person into a good entrepreneur!

Once the group has gone through the first stage of this manual, and if there is the need for a more detailed system, this might be true for businesses such as retail or manufacturers, here are some other concepts to help them. Again these will be simplified as much as possible and will only represent an overview of those concepts. The intent of this manual is not to make of every user an accountant, but to give enough material for you to understand the uses and power of a record keeping system, and to encourage you to put into practice these concepts. Remember that the system, however you want to design it, must meet your needs or the needs of the learners. So take the things that are relevant to you or to those you intend to help.

I will explain two important financial statements: The Balance Sheet and the Profit and Loss (P & L) Statement. I will show how they are formed and how they can be used in the decision-making process - just the basics! (I don't want to add to the countless accounting volumes that are floating around.) Then I would like to explain the concept of Double-Entry Bookkeeping. I am leaving out the whole arena of cost accounting and inventories. These concepts could easily cover at least another technical note!

The Balance Statement

The Balance Sheet of any business is made up of three parts:

1. What the business has in money or in kind: All the things that have a money value, including the collectable monies from loans that the business has given out. Anything that the business has that can be converted into money, these are called ASSETS. They will be organized according to availability or easiness to conversion into money.

Assets:

- Cash
- Savings Accounts
- Bank Accounts
- Accounts Receivable (Total of money the business has lent out.)
- Merchandise (Total of inventories.)

Tools (In good shape, that could be sold.)
 Equipment
 Vehicles
 Animals
 Buildings
 Land (If owner has title of ownership, good to discuss
 land tenure.)

Maybe the businesses that you are dealing with have half or less of what is listed here, but this will give a wholesome idea if the business expands!

2. What the business owes: All short- and long-term loans that the business has taken from banks or friends. These are called LIABILITIES, anything that the business is liable for. They will go in order of urgency of payment, short-term loans first, and long-term second.

Liabilities:

Accounts payable (Amounts owed to suppliers of merchandise, and friends.)
 Notes payable (Amounts owed to banks and cooperatives.)
 Wages payable (Wages owed to employees.)
 Taxes payable (Taxes owed to government.)

3. Capital or owner's equity: Represents the rights of the owner and results from the following formula:

What the business has - What the business owes = Capital

Or: Assets - Liabilities = Capital

Due to math laws, the above formula is equivalent to:

$Assets = Liabilities + Capital$

meaning that the amount of all what the business has equals the sum of what the business owes and the owner's equity. The Balance Sheet, in most cases, will present the assets on the left side, and the liabilities and owner's equity on the right side of the page. Below are two examples for you to examine.

When a person is looking at any business' Balance Sheet, attention may be paid to how the assets are distributed. When most of the assets are in terms of cash on hand or in bank accounts, that business is said to have a high liquidity. But if the assets are represented by "fixed" assets such as buildings, land and equipment, the liquidity of the business is low.

Lending agencies and business' financial advisors will pay close attention to this distribution.

Let's assume that Mr. Milton and Mr. Dorse are requesting a loan of \$1,500.00 for a six-month period from the organization you are working with. You can disburse only one loan. Given their Balance Sheets shown below, to whom will you give the loan? Explain your rationale. (The information is limited but try to come up with a decision.)

Milton's Shoe Factory
Balance Sheet: July 31, 1984

<u>Assets</u>		<u>Liabilities & Owner's Equity</u>	
Cash	40.00	Liabilities	
Accounts Receivable	80.00	Accounts Payable	3,500.00
Land	3,000.00	Notes Payable	700.00
Building	<u>5,000.00</u>	Mortgage Payable	<u>400.00</u>
Total Assets	\$8,120.00	Total Liabilities	\$4,600.00
		Owner's Equity	<u>3,520.00</u>
		Total Liabilities	
		& Owner's Equity	\$8,120.00

Dorse's Carpentry Shop
Balance Sheet: July 31, 1984

<u>Assets</u>		<u>Liabilities & Owner's Equity</u>	
Cash	200.00	Liabilities	
Accounts Receivable	380.00	Accounts Payable	1,100.00
Tools	950.00	Notes Payable	300.00
Land	1,000.00	Mortgage Payable	<u>400.00</u>
Building	<u>3,000.00</u>	Total Liabilities	\$1,800.00
Total Assets	\$5,530.00	Owner's Equity	<u>3,730.00</u>
		Total Liabilities	
		& Owner's Equity	\$5,530.00

Profit and Loss (P & L) Statement

This statement deals exclusively with the income and the expenses of a business. This statement is like a thermometer that show you how the business is doing, and thus it tells or reflects how you are doing as a manager. If your reason for being in business or for wanting to be in business is to make profits, this is the statement to be looking at.

It has also three parts:

1. The Income: The income of a business comes basically from the sales of goods (materials things such as food, clothing, furniture, books, etc.), or services (repairs, funeral services, transportation, etc.).
2. The Expenses: All the business-related expenses such as salaries, rent, utilities, maintenance, office supplies, depreciation, etc.
3. The Profit of the Loss: The profit or the loss of any business will depend directly on the relationship between income and expenses. If,

Income is greater than Expenses -----> PROFIT

Or, if: Income is less than Expenses -----> TROUBLE!!! The business is LOSING
\$\$\$\$\$\$\$\$.

Below is an example. Again, maybe all the categories don't apply to every business, but it is always good to leave room for that conditional statement, (the owner's dream) "What if things get better and better?"

Eliana's Shop Profit & Loss Statement Period Ending July 31, 1984

Gross sales -----> XXXXXX

Less Cost of Sales:

Opening Inventory	XXXXXX		
* Purchase of Merchandise	+ XXXXXX		
Sub-total	XXXXXX		
Less Ending Inventory	- XXXXXX		
Total Cost of Sales	----->	- XXXXXX	XXXXXX

Gross Profit

Less Operating Expenses:

Salaries (excluding owner)	XXXXXX	
Rent	XXXXXX	
Interest (if any loans)	XXXXXX	
Utilities	XXXXXX	
Office Supplies	XXXXXX	
Car Expenses (transportation)	XXXXXX	
Maintenance	XXXXXX	
Insurance	XXXXXX	
Telephone	XXXXXX	
Depreciation	XXXXXX	
Miscellaneous	XXXXXX	
Total Operating Expenses	----->	- XXXXXX
Net Profit (before owner's salary), or		XXXXXX
Net Loss (depending on the size of the figures representing these items!)		

* The purchases refer to those purchases of items to be sold in the business, if it is a retail business (purchases that increase an inventory.)

Special attention must be given at the rate of turnover inventories, for how long does an item "sit" in the shop before it can be sold? How can sales be increased? How can the owner make better use of equipment and personnel? Can s/he cut expenses without sacrificing quality of service to customers? etc...

Double Entry Bookkeeping

Every business transaction represents an exchange of one thing for another. For example, when a business writes out a check to buy a \$500.00 typewriter, its bank account will decrease by \$500.00 while in another account, equipment will increase by \$500.00. In the first part of this manual we dealt only with one side of the transactions, due to the audience and the purpose of the manual, but a record keeping system should double register the transactions to keep a better control of the money. Also in the manual we have been using this chart (and probably you won't find the same in any accounting book):

[illegible]

The above chart represents a de-mystified version of the accounting chart:

[illegible]

It is important to make this connection, mainly because the accounting and bookkeeping texts use the debit, credit and balance terminology. These texts will refer to accounts with debit balance or accounts with credit balance. Translated into ordinary people's language this means that all the accounts have been "born to public life", so to speak, with a "birth-mark" that can be either debit or credit. In Mr. Huertas' example, we were dealing with the Cash account which is a Debit account. When we open the account (register the first transaction) we will write it on the debit column. Also we will write any transactions that increase the account in the debit column (or Money-In column we were using in the Manual). Any amount that decreases the account will be written on the credit column (or Money-out column) but the balance "by the account's nature" should be

debit. In other words, the amounts in the debit column of the Cash account should be greater than those amounts written in the credit column. The following chart will help you in learning which accounts have a debit balance and which ones have a credit balance.

TYPES OF ACCOUNTS	When transaction increases or decreases account write it the column indicated below:		TYPE OF BALANCE
	+	-	
ASSETS: Cash, Bank Accounts, Accounts receivable, Merchandise, Tools, Equipment, Vehicles, Animals, Buildings, Land, etc.	DEBIT	CREDIT	DEBIT
LIABILITIES: Accounts Payable, Notes payable, Mortgages, Wages, Taxes.	CREDIT	DEBIT	CREDIT
OWNER EQUITY or CAPITAL	CREDIT	DEBIT	CREDIT
INCOME: Sales or other income.	CREDIT	DEBIT	CREDIT
EXPENSES: Salaries, Rent, Phone, Utilities, Transportation, Travel, Office supplies, Maintenance, Insurance, Interest, Misc.	DEBIT	CREDIT	DEBIT

* Due to limitations in this publication, I purposely left out Reserves for Depreciation and Depreciation Accounts. They are special accounts and require special attention.

The above chart will help to keep in mind that for any amount written in the DEBIT column, we need to affect one or more accounts in the CREDIT column for the same amount. This principle will help any business; keep it in balance!