Basic Business Planning and Bookkeeping

by Katie Wood in Partnership with Village Volunteers

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What are Goals?

Goals are something we strive to achieve because we believe that achieving them will make our lives better. They are sometimes set because of challenges we wish to overcome.

For Example:

“ I don’t have enough money for my child’s education” is a challenge.

A corresponding goal might be:

“I will earn money to send my child to school by learning tailoring and opening a shop.”

Other goals associated with this statement might be:

“I will sew 5 dresses per day.”

“I will sell dresses to a local shop for sale.”

“I will advertise my dresses to my village and nearby villages.”

“I will sell fabric and thread at my shop.”

How to Achieve your Business Goals

1 - Plan Steps

To determine the necessary steps, think about all of the items needed to setup and run your business. Will you need to make a trip into the nearest town to buy supplies? What supplies will you need? Is there work to be done building or plowing fields?

2 - Calculate Costs

To determine your costs, look at each step and estimate as best you can what each step will cost. Also determine how much you can sell your goods for based on what other people are selling their goods for. If no one is selling the good you are making, then do research and ask others what they would pay for your goods if they bought them. Determining and calculating costs will help you learn if you will be able to make money achieving your business goals.

3 - Plan Timeframe

To plan the timeframe, think about when your costs will need to be paid and when you will start earning money. This will help you determine how long it will be before you start making money. If your plan is to raise chickens, you will need enough money for food and medicine until your chickens get old enough to sell their eggs (about 6 months).

4 - Evaluate (Is this a good idea?)

Evaluate your business plan, costs, and timeframe to determine if your business goal is achievable. Look at the costs over a period of time and then at your income from sales. Will you be able to make more money than you spend? If so, you have a good business plan. If not, what obstacles could be overcome to accomplish your goal?

Journal: ____________________

Date	Type: Description	Revenue	Expense
	Journal Totals (transfer totals to ledger)		

Journal: ____

Date	Type: Description	Revenue	Expense
	Journal Totals (transfer totals to ledger)		

Example

Goal: Raise baby chicks to sell their eggs and some adult chickens.
Challenge to overcome: Not enough money to pay for child's education.

List the steps required in this business and the associated costs and timeframe. Food and medicine are calculated for 6 months since chickens will not start laying eggs reliably until they are 6 months old. Unknown information is marked with a question mark (?).

Plan Steps, Calculate Costs, and Determine Time Required

	Steps	Costs (KShs)	Timeframe
A.	Go to/from market	-150	1/3 day
B.	Buy materials for building a coop	-5000	1/3 day
C.	Buy feeder and laying boxes	-1000	1/3 day
D.	Build a coop for chicks to live*	0	2 weeks
E.	Go to/from market	-200	1/4 day
F.	Buy 24 baby chicks from market	-1200	1/2 day
G.	Buy chicken food for 6 months	-2400	1/8 day
H.	Buy medicine for 6 months	-500	1/8 day
I.	Collect water for 6 months*	0	100 hours
J.	Clean Coop for 6 months*	0	75 hours
K.	Go to/from market to sell eggs*	-50	1/8 day
L.	Sell Eggs/month (18 eggs * 20 days * 16 Kshs)	5760	1/2 day
M.	Sell Chickens (12 * 250Kshs)	3000	1/2 day
N.	Rent kiosk in market for a month*	-2500	1 month
O.	Pay back loan	?	?
P.	Go to/from market	-200	1/3 day
Q.	Buy more baby chicks	-1200	1/3 day
R.	Buy more food and medicine	-2900	1/3 day

** Some of these items are essential, while others could be substituted for less expensive alternatives. For example, building a coop would essentially be free (except for the cost of materials) if you did it yourself, but if you hired someone to build it it would cost more. Another example: Selling eggs from a kiosk will have a monthly cost associated with it. If you sell from your house, it would be free, but you have to weigh the options since you may be able to sell more eggs at the market. Another option would be partnering with someone who already has a kiosk and sharing the costs.*

Evaluate Costs and Time Required

Steps A-H are all steps required to set up the business. The costs take into acccount transportation to and from the market to purchase supplies to the supplies themselves. The total time required is 2 weeks to build the coop, a day to go to market to buy the coop materials, and a day to go to market to buy the chickens, their food, and medicine. If these are all added up, the total setup time, assuming all of your time would be dedicated to this business would be 2 weeks and 2 days. This time will be higher if you have other duties, or lower if you have others helping you.

Steps I and J are ongoing costs and time to keep the chickens alive. Collecting water for the chickens and cleaning their coop could take you a total of an hour or more day. If you do not have the time, you may have to estimate how much it would cost to hire someone to do this.

Steps K-N start at the end of 6 months when you are ready to sell eggs and chickens. The amount you earn will depend on what you are able to sell your eggs and chickens for. Your time will be required to sell the eggs and chickens in the market. If you do not have the time to sell eggs and chickens in the market, you may need to estimate how much it would cost to pay someone to do it for you.

Step O is marked with a question mark (?) because you may or may not be required to get a loan. If you do, the payback rate will be scheduled for you. You will need to see how this fits into your timeframe and if it would be possible to pay back when required. If a family loan or microfinance is used, the terms may be more flexible although payback will be required.

Steps P-R are the costs and time associated with returning to the market to replenish the supplies of chickens sold and starting the process over.

Journal: ______________________________

Date	Type: Description	Revenue	Expense
	Journal Totals (transfer totals to ledger)		

Journal: ______________________________

Date	Type: Description	Revenue	Expense
	Journal Totals (transfer totals to ledger)		

Will the Business be Profitable?

As you can see, in the first 6 months, there will be no income from selling eggs or selling adult chickens. Therefore, at the start of this project, you will need enough cash to last you the first 6 months or longer, depending on how much income you will be generating after that point by selling eggs and chickens.

We can evaluate how much money we will need at the start of our business by looking at the costs for the first 6 months and projecting what our income will be in the future.

Months 1-6

	Steps	Costs (KShs)
A.	Go to/from market	-150
B.	Buy materials for building a coop	-5000
C.	Buy feeder and laying boxes	-1000
D.	Build a coop for chicks to live*	0
E.	Go to/from market	-200
F.	Buy 24 baby chicks from market	-1200
G.	Buy chicken food for 6 months	-2400
H.	Buy medicine for 6 months	-500
I.	Collect water for 6 months*	0
J.	Clean Coop for 6 months*	0
K.	Go to/from market to sell eggs daily	-50
N.	Rent kiosk in market for a month*	-2500
	Total Kshs needed for months 1-6	**13,000**

Before we start thinking about how we are going to get the 13,000 Kshs, we will need to do some additional evaluation to determine if the business, in the long-run, will make money for us. Afterall, the reason for our goal is to educate our children. If the business is not profitable, we will not be able to achieve our goals.

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Let's take a look at the costs and income that will be generated during the following 6 months:

Months 6-12

	Steps	**Costs (KShs)**
G.	Buy chicken food for 6 months	-2400
H.	Buy medicine for 6 months	-500
I.	Collect water for 6 months*	0
J.	Clean Coop for 6 months*	0
K.	Go to/from market to sell eggs* (50 Kshs * 20 days * 6 months)	-6000
L.	Sell Eggs/month (18 eggs * 20 days * 16 Kshs * 6 months)	34,560
M.	Sell 12 Chickens (12 chickens * 250Kshs)	3000
N.	Rent kiosk in market for a month* (2500 * 6 months)	-15,000
	Total Income for months 6-12	**13,660 Kshs**

On the following page, the next 6 months will look like this if you do not have a loan you are paying back and you choose not to invest some of the money back into your business. This barely covers your first 6 months of expenses shown above.

Ledger (continued)

Date	Type: Description	Revenue	Expense
	Ledger Totals (transfer totals to next ledger)		

Ledger (continued)

Date	Type: Description	Revenue	Expense
	Ledger Totals (transfer totals to next ledger)		

Months 12-18 (no investment into business)

	Steps	Costs (KShs)
G.	Buy chicken food for 6 months	-2400
H.	Buy medicine for 6 months	-500
I.	Collect water for 6 months*	0
J.	Clean Coop for 6 months*	0
K.	Go to/from market to sell eggs* (50 Kshs * 20 days * 6 months)	-6000
L.	Sell Eggs/month (9 eggs * 20 days * 16 Kshs * 6 months)	17,280
N.	Rent kiosk in market for a month* (2500 * 6 months)	-15,000
	Total Income (Loss) Months 12-18	**(6620 Kshs)**

Alternatively, you could invest some of the income from the first 6 months:

Months 12-18 (extra investment into business)

	Steps	Costs (KShs)
G.	Steps	KShs
X.	Invest in business**	2250
A.	Go to/from market	-200
F.	Buy 36 more baby chicks	-1800
G.	Buy chicken food for 6 months	-3600
H.	Buy medicine for 6 months	-750
I.	Collect water for 6 months*	0
J.	Clean Coop for 6 months*	0
K.	Go to/from market to sell eggs* (50 Kshs * 20 days * 6 months)	-6,000
L.	Sell Eggs/month (40 eggs * 20 days * 16 Kshs * 6 months)	76,800
M.	Sell 12 Chickens (12 chickens * 250Kshs)	3,000
N.	Rent kiosk in market for a month* (2500 * 6 months)	-15,000
	Total Income for Months 12-18	**54,700 Kshs**

*** The investment assumes that a portion of the income from the previous period will be invested and a portion will be used to pay back loans if necessary.*

The previous scenario is for the second year of business. The first 6 months was all expenses and no income. The second 6 month period was a small income, but after investment, the third 6 month period had a much higher income level. This illustrates the importance of investment.

Investment

As you saw in the previous example, investing back into your business will increase your profits over time. Not all money spent in a business is an Investment, so knowing the difference between investments and other business expenses will help to grow your business. The goal is to invest wisely and reduce business expenses.

What is an Investment?

An investment adds to your businesses potential of making money. There are short-term investments and long-term investments.

Short-term investments

Short-term investment is money spent on your business that produces a result greater than the money you spent in a short period of time. Short-term investments include purchases made with the purpose of growing your business. In the previous example, you saw that purchasing a larger inventory of baby chicks was an investment. Please note that replacing the chicks that were sold is not considered an investment since it will not help you produce a greater profit than previously achieved. Other product examples that might have their inventory increased for invesment purposes are beans, maize, clothes, fabric, chicken. Notice the short-term nature of these investments. Once the inventory is sold, there is no more potential for earning additional income without additinal short-term investment into more inventory.

Use the following ledger and journals to log all transactions. If you choose to use the journals for your separate business activities, remember to log the totals from the separate journals back into this ledger.

Ledger

Date	Type: Description	Revenue	Expense
	Ledger Totals (transfer totals to next ledger)		

Mrs. X's Loan Journal

Date	Description	Revenue	Expense
01/01/2013	Initiation of Loan		1000KShs
15/01/2013	Payment	400	
29/01/2013	Payment	400	
15/02/2013	Payment + Interest	300	
01/03/2013	Initiation of Loan		1100
15/03/2013	Payment	500	
29/03/2013	Payment	710	
	Totals	2310	2100
	Total as of 01/04/2013	210	

This same type of journal would be kept for every individual loan the lender makes (one for Mrs. X, one for Mrs. Y, and later one for Mrs. Z).

Business Loans Journal

Date	Description	Revenue	Expense
01/01/2013	Borrow: Loan from Bank	10000	
31/01/2013	Payment: Loan + Interest		11000
	Total as of 31/01/2013		-1000

Business Expenses Journal

Date	Description	Revenue	Expense
01/01/2013	Stationary Supplies		40
01/01/2013	Transportation		80
01/02/2013	Transportation		80
	Total as of 28/02/2013		-200

If you raised chickens, your various journals might be; Buying and selling chickens, Selling Eggs, Feed and Medicine Expenses, Other Expenses, Transportation Costs, etc.

As you can see, while possible to run a business off just one complete ledger, the information is more easily available when you use separate journals for different areas of the business, and then sum them up in a general ledger.

Long-term investments

Long-term investment is money spent on your business that produces a result greater than the money you spent, but over a longer period of time, generally a year or more. Long-term investments include investments into buildings or equipment that will assist in growing your business and help you make a larger profit in the long-run. In the chicken example, investing in a chicken coop is considered a long-term investment because the chicken coop will help us raise chickens and make a profit over the long-term. Also, investing in a storefront and a vehicle to transport the chickens would be considered long-term investments. Other examples of long-term investments in other busineesses are buying a sewing machine, buying a grinding machine for maize, buying equipment to set up an internet cafe, building a factory, and purchasing land to grow crops. Hiring employees is also a long-term investment because the skills they learn will continue to help grow the business over the long-term.

Both short-term and long-term investments have ta place in business. How much and how fast you want your business to grow and your access to investment capital will determine if long-term or short-term investments are the best choice.

Investment Capital

Investment capital is the money used to fund or pay for an investment. Investment capital will be needed no matter whether a short-term or long-term investment strategy is the right solution to helping you make a larger profit.

Where do you get Investment Capital?

Investment capital can come from a variety of sources. Each source has its negative traits. Below is a list of investment capital sources along with the tradeoffs:

Source of Investment Capital	Negative Aspects	Benefits
Bank Loan	High Interest Rate Required Payback	Readily Available
Microfinance Loan	Most Charge Interest Required Payback	Lower Interest Group Support Empowerment to Achieve Goals
Friend/Family	Money Disputes Shared Decision Making	May Not be Required to Pay Back May be Lower Interest
Self-Funded	Money Diverted From Food or Education	No Interest Empowerment to Achieve Goals No Reliance on Anyone
Business Profits	Not Available When No Profit	No Payback No Interest Empowerment to Achieve Goals No Reliance on Anyone Shared Decision Making Not Affected by Money Satisfaction of Achieving Self Set Goal

General Ledger and Journals

General Ledgers and Journals are another bookkeeping option. Instead of logging every transaction into a single complete ledger, journals for each business activity can be created and then the totals from the journals entered into the general ledger at intervals you determine (weekly, monthly, quarterly, etc.).

The benefit to using journals is that your business activities can be easily tracked. For instance, you can see at a glance how much someone has paid back on their loan or how many eggs you've sold in a month.

General Ledger

Date	Type: Description	Revenue	Expense
31/01/2013	Totals from: Bus. Loan Journal		-1000
28/02/2013	Stationary Supplies		-200
01/04/2013	Totals from: Mrs. X's Loan Journals	210	
01/04/2013	Totals from: Mrs. Y's Loan Journals	210	
01/04/2013	Totals from: Mrs. Z's Loan Journals	210	
01/04/2013	Totals from: Mrs. A's Loan Journals	210	
01/04/2013	Totals from: Mrs. B's Loan Journals	210	
01/04/2013	Totals from: Mrs. C's Loan Journals	210	
	Totals	1260	-1200
	Totals as of 01/04/2013	60	

Journals

Journals, like Ledgers, are the paperwork you do your bookkeeping on.

Journal: one set of records on one area of your business. For example, if you are a microcredit lender. Mrs. X and Mrs. Y are your first borrowers, and you keep track of each loan on its own journal, as seen for Mrs. X.

This additional example shows how these same concepts can be used for other types of businesses, such as Chicken Farming:

Date	Type: Description	Revenue	Expense
01/01/2013	Receive Loan	10000	
01/01/2013	Purchase 15 Chickens		6750
01/01/2013	Purchase Feed for Chickens		300
15/01/2013	Sold Eggs at Market	2250	
15/01/2013	Loan Payment		2000
15/01/2013	Purchase Feed for Chickens		300
29/01/2013	Sold Eggs at Market	2250	
29/01/2013	Loan Payment		3250
	Totals	14500	12600
	Totals as of 01/04/2013	1900	

As we can see, all the same ideas used for the microfinance lenders work for farmers as well.

The drawback to the complete ledger is that it makes finding specific transactions difficult. Suppose you wanted to find how much Mrs X paid back during a 3 month period. Or in the following example, how many eggs you sold at the market in a month. In the complete ledger, you would need to look through every transaction to find the answer. In a general ledger with journals, you could break out these business activities into their own journals.

The source of investment capital you choose will affect how succesful your business is. Choosing a source with no interest and no payback is most desirable. If you need to take out a loan to start your business, make sure your business will be earning a sufficient amount of money in the timeframe required for payback. The investment you do back into your business should all come from your own business income and not from an outside source.

Once you have determined you have a sound business plan, you will need a way to track its success over time. The next chapter discusses bookkeeping.

Basic Bookkeeping

Bookkeeping is a tool for success because it empowers you to make more informed and better financial decisions that will help you achieve your goals.

Single Entry Bookkeeping

Bookkeeping is the practice of keeping track of your money through a formal system of records. Recording how and when money is spent and earned helps to keep an overall view of how your money is working for you.

The two most common bookkeeping methods are single entry and double entry. Single entry systems are far easier to understand and use, but they do not offer the same level of accuracy and complexity that a double entry system can provide. This guide will focus on the single entry system, which will teach the basics of bookkeeping. For all of the examples in this guide, we will use a microcredit lender and a chicken farmer as our focus. Keep in mind that these same practices can be used for any type of business or even to keep track of money within a family.

Before you begin bookkeeping, you must understand some of the basic terms, and how these are used in keeping track of your finances. Revenue and Expense are the two primary ways a business tracks its money. Profits are the extra money a business has after the revenue and expenses have been tracked.

Revenue: Money that has been made.
Expense: Money that has been spent.
Profits: Occur when total revenues are greater than total expenses.

Revenue - Expenses = Profits

Anytime a business receives money by selling a good or service, it is counted as revenue. Anytime a business has to spend money, such as buying goods to sell, buying business supplies, paying for transportation, or paying for medical costs it is counted as an expense. Profits occur when revenues are more than expenses. Businesses that will not make a profit should not begin operating.

Methods to Keep a Ledger

Ledger: The record of all the transactions of the business. it brings all the journals (if used) together to show the overall financial picture. There are two ways this can be done, either with journal type entries for every transaction all in one large ledger, or by summarizing each journal into one ledger entry. The spreadsheet below shows all entries in a single ledger:

Complete Ledger

The complete ledger is a list of every transaction (revenues and expenses) entered in the order they happened. This is the simplest form of bookkeeping.

Complete Ledger

Date	Type: Description	Revenue	Expense
01/01/2013	Fuel: Trip to Bank		80
01/01/2013	Borrow: Loan from Grameen Bank	10000	
01/01/2013	Stationary Supplies		40
01/01/2013	Loan to Mrs. X		1000
01/01/2013	Loan to Mrs. Y		1000
15/01/2013	Received: Mrs. X's First Payment	400	
15/01/2013	Received: Mrs. Y's First Payment	500	
29/01/2013	Received: Mrs. X Payment	400	
29/01/2013	Received: Mrs. Y Payment	600	
31/01/2013	Bank Loan:Payment: Loan+Int.		11000
01/02/2013	Transportation		80
15/02/2013	Received: Mrs. X Final (interest)	300	
	Totals	12200	13120
	Totals as of 01/04/2013		920