Section 1

The Ledger

LOOK at the example in Figure 1.

- Every transaction is entered into an account called a **Cash Account** as well as an account that describes the transaction (the business carried out). The reasons for this are because cash is involved on each occasion. Sometimes items are bought or sold on credit, but the recording of such items is complicated and we will not look at it in this article.
- Every transaction should be dated with the day it took place. This is very important when you are trying to sort out accounts. It is much easier, if possible, to record transactions as they happen.
- Notice the layout – **debits (Dr)** are on the left hand side of the page and **credits (Cr)** are on the right.
- Appropriate headings are made to the various accounts. Normally each account would use a separate page.
- There are two entries for every transaction…

  For every debit there is a credit.

  For every credit there is a debit.

  This is the basis of this system of accounting.

If we were to total all the entries recorded on the debit side, the total should agree with the total of all the entries on the credit side. Every entry is in fact **two** entries. For example, if goods are bought for cash, goods are received and this needs to be shown in the **Purchases Account**, but cash has gone out of the business and therefore this needs to be shown in the Cash Account.

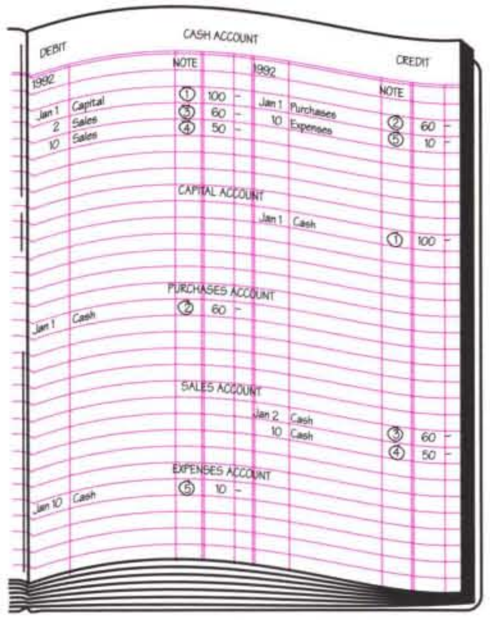

Figure 1

NOTE 1	Jan 1: Samuel Gomez begins his own business selling cooking pots with 100.00 cash.
NOTE 2	Jan 1: He buys four cooking pots, paying 60.00 in cash.
NOTE 3	Jan 2: He sells two cooking pots for 60.00 cash.
NOTE 4	Jan 10: He sells two pots for 50.00 cash.
NOTE 5	Jan 10: He spends 10.00 on advertising.

Section 2

The Question of Profit

UNDER THIS SECTION, we are going to look at the **Trading Account**, the **Profit & Loss Account** and the **Balance Sheet**.

I do appreciate that not all of you will be involved in projects or businesses that make a profit. However, there will be times when you want to know how the project is performing and perhaps, at the end of a project, what funds are remaining.

It is important that we understand that making a profit is not wrong! In India, where I have a particular interest through ACTS Institute, the students are trained to establish their own businesses, and at the same time to be church leaders. They live on the profit that they make from their business.

Using the example above, Samuel now wants to know if he made any profits from the transactions.

(Normally you would only check the book-keeping, either at the end of each month or every three months. For small businesses, books are often only balanced once a year. However, these examples are deliberately kept short to make them simpler to follow.)

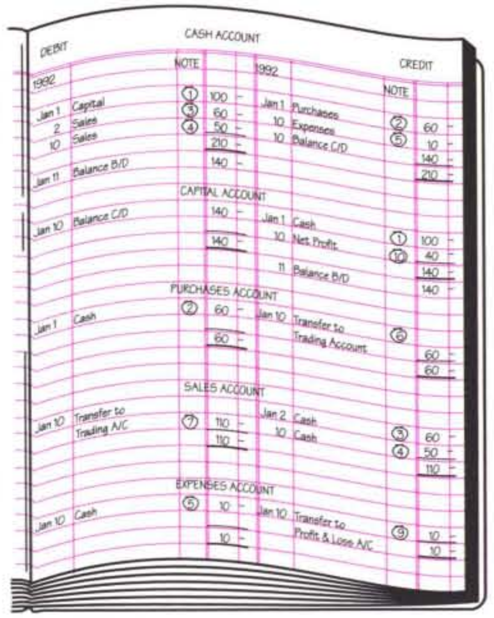

Figure 2a

Gross Profit

The difference between the cost of buying the goods and their selling price is known as the **Gross Profit** (or **Loss**). This is worked out by looking at the **Purchases and Sales Accounts**…

Look at Figure 2a. Purchases total 60.00 (NOTE 6) and Sales total 110.00 (NOTE 7). For book-keeping purposes, these are transferred to a new account called the **Trading Account** (Figure 2b) and the Purchases and Sales Accounts are closed as they have served their purpose. The difference of 50.00 is known as the Gross Profit (NOTE 8).

Net Profit

We still have a 50.00 Gross Profit debit entry on the Trading Account for which, under double entry book-keeping, we must create a credit entry. This is made in a new account called a **Profit & Loss Account** (NOTE 8).

The Profit & Loss Account is a summary of the profit or loss made and the expenses of the business. There were expenses of 10.00 for advertising. We therefore credit the **Expenses Account** with 10.00 (NOTE 9) by transferring the balance to the Profit & Loss Account. Like the Purchases and Sales Accounts, the Expenses Account has served its purpose.

We are now able to see that our **Net Profit** is 40.00 (NOTE 10). It is possible for the expenses to be greater than the Gross Profit, in which case the business would have made a loss.

The balance of the Profit & Loss Account is one entry and in this example is on the debit side and therefore a credit entry must be made.

The net profit is a result of the trading activities of the owner of the business, or manager of the project, either by him or her directly, or through others. The profit therefore belongs to the owner of the business. The Net Profit is transferred to the owner's **Capital Account** as a credit. This is in addition to the original sum of money that he or she put into the business. If the business had made a loss, it would have reduced the owners Capital Account.

All that remains now, is for the Cash Account to be balanced and the balance carried forward. The balance carried forward is the amount of cash available for the next trading period.

The Balance Sheet

The **Balance Sheet** is in two parts; the **assets** and the **liabilities** of the business.

ASSET	all forms of property and possessions that the business holds, including amounts owing to the business.
LIABILITY	all sums owed by the business.

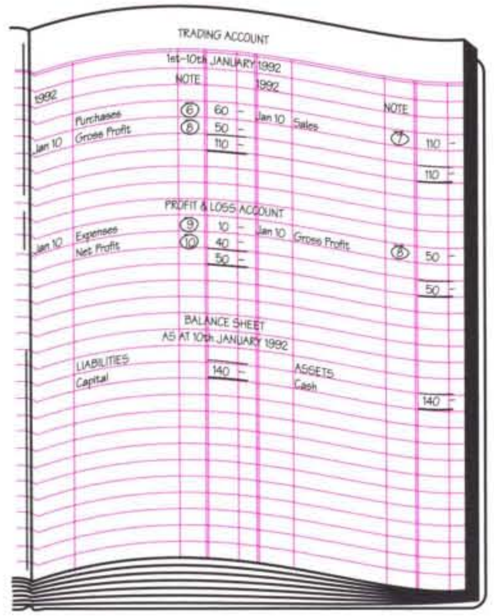

Figure 2b

The balance of the Cash Account brought down (140.00) represents the amount of cash in hand at the date of balancing and which is available for future trading. The cash in hand is an asset and is a possession of the business. The Capital Account balance of 140.00 represents the amount to the owner's credit at the date of balancing.

The Balance Sheet is a statement of all the assets and liabilities of the business after all the transfers have been made in preparing the Trading and Profit & Loss Accounts. All remaining balances are either assets or liabilities and the Balance Sheet statement is prepared with assets on the right hand side and liabilities on the left hand side.

ACTS in India, where the author has provided training in accounting.

FROM THE EDITOR

KEEPING GOOD RECORDS of whatever we are involved with, is rarely anyone's favourite work. Yet without clear and useful records, most of us waste a great deal of time and money.

This issue of *Footsteps* is not the easiest to read, yet we hope it will prove to be a very useful resource to keep and use in sorting out your own record keeping. If you are in any kind of leadership role – whether this is looking after a health centre, running a village co-operative, or operating a small business – you will be expected to keep records. Without them, goods and drugs will not be available when needed, donor agencies will be unable to send funds, money may go missing and you may not be able to prove that you are not responsible – these results will mean that your work may be of little value.

So please take time to study these articles and think of ways in which your own record-keeping can be improved. The article on book-keeping is worth careful study and can be pulled out and kept with your own book-keeping records.

The next issue will look in particular at the work of health projects and the training of primary health workers. Future issues will cover immunisation and soil erosion. Please write with any contributions you may have on these subjects.

Isabel Carter