Accounting & Bookkeeping

Every organization needs some way of recording what it spends and receives. The person who keeps these records is called a bookkeeper. Bookkeeping is the record-keeping part of accounting. Accounting is the art or system of keeping and analyzing financial records. People who work as accountants:

1. prepare financial statements,
2. study an organization's costs,
3. calculate its taxes,
4. and provide other information to help in making business decisions.

Personal record keeping often uses a single entry system. Such entries include:

1. the date of the transaction,
2. what type of expense,
3. and the amount of money spent.

DATE	WHAT EXPENSE	AMOUNT
Nov 10	Transport	5,000
Nov 11	Vegetables	10,000
Nov 11	Transport	5,000
Nov 12	Chop Bar	8,000

Numbers and letters need to be readable.

Take extra care to make all your work readable. One of the most costly problems in business happens when employees fail to write neatly, especially in writing numbers.

There is a question to ask yourself when keeping accounts, “Can someone else read my numbers correctly?”

Here are a few working hints that will improve your number writing.

1. Do not hurry when writing numbers. Take time to form each number perfectly.
2. Write each number slanted slightly to the right.
3. The size of each number should be slightly less than one-half the line space. You need to leave enough space above the numbers to make a proper correction if necessary.
4. Never correct a mistake by erasing or writing a correct figure over an incorrect one. When you make an error, draw a neat horizontal line through the figure and write the complete correct above it.

The Simple T Account:

Underlying all bookkeeping is the simple T account. It was named this because its form resembles the letter T. This account shows that money flows either in or out.

The example shows that 94,000 has been taken in and 27,000 has been paid out. The difference of 67,000 (called the balance on hand) is added to the out side of the account to make both totals the same. Writing in an account's balance, or balancing it, may be done whenever it is desirable to know whether the ins exceed the outs, or vice versa.

CASH

(IN)		(OUT)	
	75,000		12,000
	19,000		15,000
			27,000
		Balance	67,000
	94,000		94,000
Balance	67,000		

Assets and Liabilities:

Opening a cash account is only the first step in establishing a bookkeeping system. Assets represent property or rights to property that can be expressed in terms of money. Liabilities are debts owed to others. Assets and liabilities together determine the wealth of an individual, a firm, or a nation.

Organizations need accounting systems in order to know whether or not they are operating profitably.

	RECEIVED	
Nov. 16	Mrs. Daniels paid bill	87,000
" 17	Dr. Jones paid on account	95,000
" 30	Newspaper sales (month)	190,000
	Prescriptions	137,000
	Total	509,000

	PAID	
Nov. 1	Rent	55,000
" 10	Water bill	90,000
" 11	Electricity bill	100,000
" 17	Ghana Telecom	24,000
	Total	269,000
	Balance on hand as of Dec. 1	240,000

The basic types of accounts are:

(1) An asset account, such as a cash account
(2) A liability account, such as accounts payable.

There the received and paid entries are made on opposite pages of the account book. The sums received are written on the left-hand page under the heading Received. All money paid out is written under the heading Paid on the right-hand page. Often the account is contained on just one page. The received column is labeled Dr., and items in that column are called debits. The paid column is labeled Cr., and items there are credits.

Basic Bookkeeping:

A Sample of Basic Bookkeeping

Balance on hand December 1, 2001		224,800
Receipts		
Tithes	207,000	
Ladies Fundraiser	1,373,650	
Men's Fellowship	432,300	
Total Receipts		2,012,950
		2,237,750
Disbursements		
Rent	700,000	
Electricity	92,800	
Widows	250,000	
New Fan	125,000	
New Microphone	500,000	
Total Disbursements		1,667,800
Total		569,950
Balance on hand January 1, 2002		569,950

Income:

Income is money or other gain resulting from goods or services produced in a given period of time. Income can be received by an individual, corporation, or government.

There are four major types of income in the private sector:

1. Wages – return for labor
2. Rent – return for use of land
3. Interest – return for the use of capital
4. Profit – return to the business owner

Income in the public sector (national income) is the money measure of the annual flow of goods and services in an economy.

Income is normally measured in money terms, although nonmoney definitions are sometimes used.

Budget:

A budget is a plan specifying how an individual's or family's money is to be spent over a designated period of time. People use budgets to make efficient use of their money and avoid spending more than they earn. Budgets also help individuals to distribute their incomes between present and future needs.

> "Annual income twenty pounds, annual expenditure nineteen ninety six, result happiness.
> Annual income twenty pounds, annual expenditure twenty pounds ought and six, result misery"
> (Mr. Micawber of Charles Dickens' 'David Copperfield').

In order to escape misery, people often use a budget for spending their money. A family can use a budget to guide its spending to avoid debt. A business uses a budget as a way of planning its activities. Each division of the company has its own budget, and all of these individual budgets fit together into the whole company's budget. Governments develop budgets in order to decide how much money will be spent on defense, on social services, on highways, and for other purposes.

Spending Money:

In planning personal budgets, individuals weigh choices about how to spend or save money. People might make choices between saving for expensive goods and services or buy cheaper substitutes immediately. They might also decide to go into debt to purchase expensive goods and services, or save for such purchases over a long term. If a person decides to go into debt, they should find the most economical way to finance such purchases by comparing the cost of credit offered by various institutions (banks).

Three questions an experienced budgeter might ask before spending:

1. Do I want it?
2. Do I need it?
3. Can I do without it?

By establishing a budget and following it faithfully, individuals and families can set patterns for efficient spending and saving, and help themselves avoid periods of severe financial stress.

Planning a Budget:

The steps of a budget:

1. It often starts with a plan of weekly or monthly spending for a definite period of time. A person can make a budget by:

    a) Estimating the short and long term income
    b) Estimating short and long-term expenses that need to be covered by that income.

2. The second step in a budget is to set up a record of money actually spent.

Together, these two steps are the basis for drawing up a balance sheet.

3. The final step is to use the balance sheet to keep track of how the planned budget compares with actual spending, and adjust it for inconsistencies.

A person’s goal in budgeting is to achieve a positive end balance on the bottom line of the balance sheet, so that the income is more than the expenses. If a negative balance appears on the bottom line, a person will want to find a way to spend less or to earn more in order to have a positive end balance.

Most people have a number of immediate financial responsibilities and certain financial objectives. In planning a budget, people generally keep both their immediate and long-range objectives in focus. Before drawing up a budget, it helps to answer the following questions:

1. What are my earnings?
2. What may they be in the future?
3. How will they affect my personal spending and saving habits?
4. What are my assets and liabilities?
5. How much money will I need to put aside to pay for expenses such as rent, fixed utility charges, or taxes?

6. How much money should I keep in savings for expenses such as food, clothing, transportation, and other personal goods and services?
7. How much money should I keep in savings for unexpected costs such as changes in the cost of living, unemployment, medical emergencies, or natural disasters?
8. What are my long-term financial objectives? (For example: How much will I need to save to pay for a trip, college tuition for myself or my children, a home, or retirement?)
9. How much money do I plan to invest?
10. What kinds of short and long-term yields can I expect from my investments?

After answering these questions, the next step is to establish a budget best suited to your personal needs.

Setting up a Budget:

Budgeters may want to consider setting goals for saving and spending. People making more money than they spend should establish goals for saving. Those with lower incomes will save less.

Budgets should be according to people's:

1. habits
2. tastes
3. needs

Budgets are generally simpler for younger, single people, and become more complex for working adults, especially those with families.

For example, a high school student's budgeted items might include: lunch; bus fare; and some savings for larger personal expenses such as a car or college tuition.

College students with more control over their finances, might budget such items as: tuition; room and board or rent, and utilities; books and other class supplies; food; transportation; clothing and other personal expenses.

A family budget typically includes a wide variety of expenses as well as options for building reserve income and keeping it safe.

A person who earns income in reasonable excess of their expenses will usually deposit earnings in two or more bank accounts, one or more for spending and usually one for writing checks. In this case, the individual may set aside a percentage of earnings to put into savings each month. This savings deposit is then listed as an item on the budget.

The figures in a personal budget need not always balance perfectly, as required in a business or government system. A personal budget is a guide to better use income, but not an end in itself.

A Sample Budget

One Month = 250,000 cedis

How can the 250,000 cedis be divided correctly to cover each liability?

Tithes	25,000
Rent	45,000
Water	20,000
Electricity	20,000
Telephone	20,000
School Fees	35,000
Food	50,000

Transport	20,000
Savings or Emergencies	15,000
	250,000

Family Budgets:

When a family decides to save money, it has taken the first step toward making a budget. In order to save, it must plan. The family begins by estimating its total income per month or year. This may be simple if there is only one wage earner in the family and no other source of income. More often, however, there are two or more family members working not only adults but sometimes young people with part-time jobs. It is necessary for the family to know how much cash flow it can count on.

The most difficult part of budgeting is keeping track of expenses and making sure that they do not exceed income. The amount to be saved should be set-aside before budgeting the remainder of the income. The big items, of course, are food, shelter, clothing, and transportation. Different families have different requirements. For some families medical expenses may be a significant item. After these basic costs come a variety of expenses on recreation, personal care, religious and charitable contributions, and unexpected needs.

Modern merchandising has invented ways of outwitting budgeters. Advertising tugs at their wallets. Styling and design make them feel uncomfortable in last year's clothing. Perhaps the most dangerous opponent of budgeting is the credit card, which enables one to buy things, on the impulse of a moment, without using money. Many people have a dozen or more credit cards and allow themselves to be continuously in debt by hundreds or even thousands of dollars. One way to control the use of credit cards is to pay the complete balance every month so that the debt does not add up from month to month.

If there are several income earners in the family, it may be possible to live on one person's income and save the others'. For most families, however, budgeting requires determination and a readiness to do without some of the better things of life.

Saving and Investment:

Two of the most important functions performed in any economy are saving and investment. Without these, economies would not grow and flourish.

The concept of saving is at least as old as Aesop's fable "The Ant and the Grasshopper." The ant worked diligently all summer to put away enough food for the winter, while the frivolous grasshopper chirped and played. When winter arrived the grasshopper had no food to eat; the ant, however, had plenty.

In any economy, people have two ways to use income:

1. spend it
2. save it

Much of what is spent is used to purchase goods; much of what is saved is used to invest in the companies that produce the goods. If too much is spent and too little saved, the economy's ability to produce will decrease. If, on the other hand, too much is saved and too little spent, there will be more money available for investment than can possibly be used, and not enough people will buy what is produced. Under such circumstances, only when people begin to spend more will there be any reason for companies to invest in new buildings, machinery, or employees.

Saving and investment are related, but different. Saving means using income in such a way that there will be more in the future to use. The simplest way to save, is to put money in a box and continue adding to it periodically. However, money saved in this manner is not being put to use. It is not earning interest or serving any productive function. In order for saving to be economically valid, money must be invested.

Investment is a means of exchanging present income to produce earnings at some future date. When an automobile firm builds a manufacturing plant, it is using money to construct something that the firm believes will increase its earnings in the future. Banks, insurance companies, universities and colleges, pension funds, and governments all invest excess income.

This practice is most obvious in planning for retirement. Members of the labor force anticipate that their incomes will decrease when they retire. In order to maintain their standard of living in the future, they know that they must set aside a part of their income now. They may decide to invest their savings in order to end up with more money than they saved. This is achieved by putting the money to work, and the ways to do this are many.

Notes for this section are taken from:
(1) "Accounting and Bookkeeping" – Microsoft Corporation 1993-99 CD ROM,
(2) Compton's New Media, Inc. 1994-95 CD ROM, and
(3) Accounting: A Systems Approach by Kaluza