OPERATING A SMALL BUSINESS IN JAMAICA

A Guide

Ministry of Agriculture * Ministry of Construction
Ministry of Youth & Community Development
National Development Foundation * Self Start Fund
Small Businesses Association * Things Jamaican

IICA
Inter-American Institute for Cooperation on Agriculture

OPERATING A SMALL BUSINESS IN JAMAICA
A GUIDE

Integrated Rural Development Project
IICA Office in Jamaica
P.O. Box 349, Kingston 6, Jamaica

July 1985

IICA Miscellaneous Publication #560
ISSN #0534

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INTRODUCTION

This guide to operating a small business was developed for the many small business people who want to know more about operating their businesses better, but find the existing materials too difficult. It was also prepared for the trainers (extensionists, field officers, and promoters) who work together with small business people, trying to improve their management skills.

The materials were developed in Jamaica by the agencies listed on the cover. These agencies joined together in a united effort to produce something that could be useful to all, and expensive to none. They formed a Small Business Training Advisory Committee to guide the preparation of the materials, the training of trainers, the testing of materials and the training of producers.

In addition to this manual, three others complete the series. These are: Starting a Small Business, Financing a Small Business, Marketing Small Business Products.

All four manuals can be used in individual, partnership and cooperative enterprises. They are aimed at four major categories of small producers: manufacturers, farmers retailers, and rural services. These manuals are accompanied by a teacher's manual titled Teaching Guide for Small Business Trainers.

Many agencies have contributed to this manual by providing resource material from their programmes in different countries. These include:

Agricultural Cooperative Service, USDA, USA
Cornell University, USA

Dominican Development Foundation, Dominican Republic
Dominican Women in Development, Dominican Republic
Institute for Social Development and Human Promotion, Argentina
Management Consultants, Ltd., Dominica
Mexican National Development Foundation, Mexico
Peace Corps, USA
Women and Development Unit, UWI, Barbados
Women in Development, Inc., Barbados

Also among the reference material used were:

Administering our Agricultural Enterprise: Technician and Farmer Guide by Hector Murcia
Analysing your Farm Financial Performance by Kenneth H. Thomas, R.N. Weigle and Richard O. Hawkins
Community Profit by Wismer and Pell
Consultancy for Small Business by Malcolm Harper
Farm Management Handbook by Guillermo Guerra
Oklahoma State University - Looseleaf Enterprise Record Book by Mike L. Hardin and Joseph E. Williams
Successful Small Business Management by Tate, Megginson, Scott, Trueblood

USAID in Jamaica contributed by providing financial help. IICA was asked to coordinate the production; we are pleased with the result of this effort and we hope the materials will be useful to all involved.

Claude F. Brouillard
IICA Director in Jamaica

METHODOLOGY

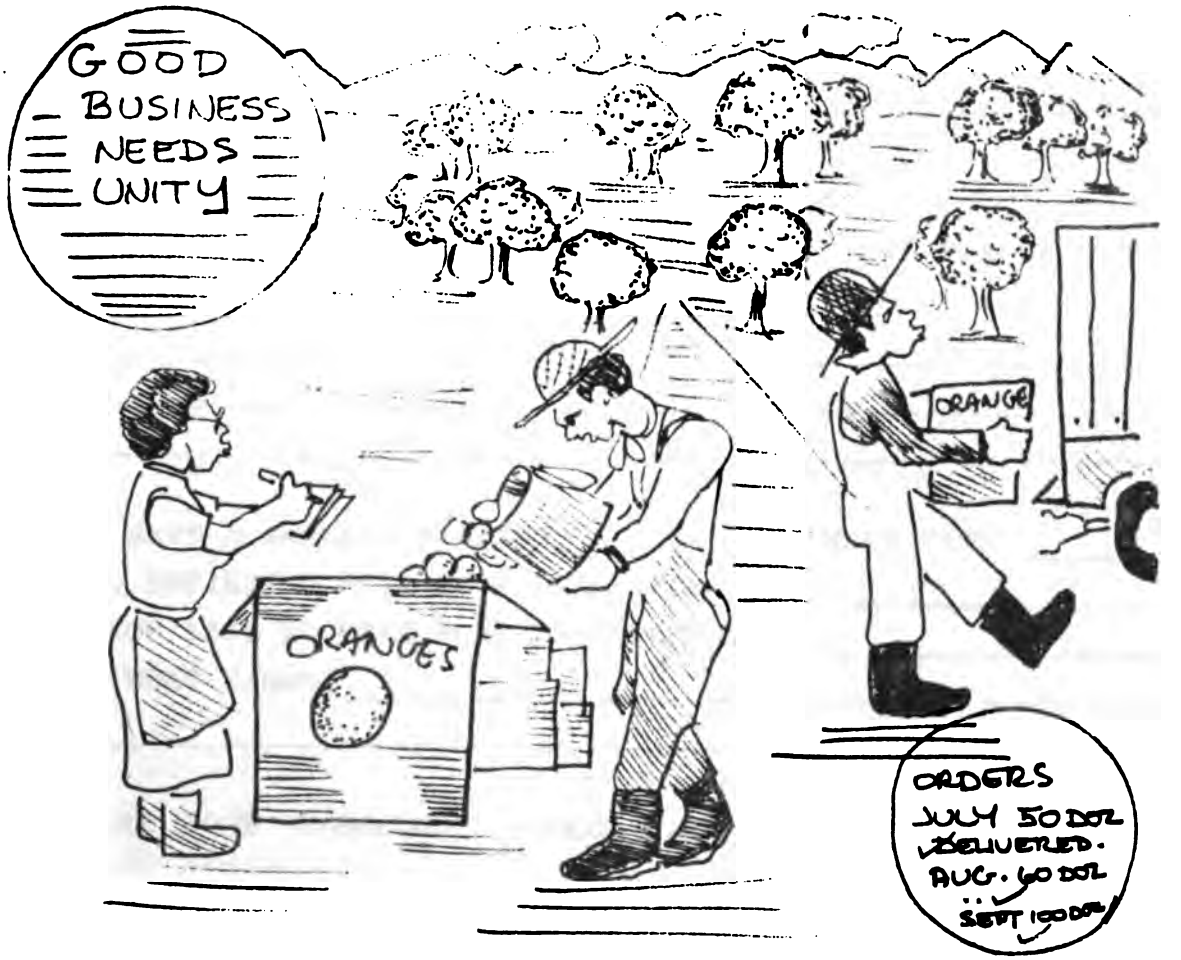
The work on this manual began in January, 1984, and was completed in June, 1985. During this 18 month period, each business exercise (or chapter) was developed, taught to trainers and observed while trainers taught producers. Each exercise was then revised, presented again to trainers who taught new producers, while IICA observed.

During this process, Advisory Committee members also provided feedback to IICA on the training process in each of their agencies. In all, 93 trainers in Jamaica participated in this process, reaching over 2,000 producers. In addition, the materials were pre-tested with 20 trainers in Guyana and discussed with 11 agency representatives in St. Lucia to determine applicability in other Caribbean Basin countries.

We believe that this methodology of participation and dialogue made it possible to produce a manual particularly useful to the Jamaican micro-entrepreneur. It can also be used by other Caribbean Basin countries, although we recommend substituting local examples and "sayings".

Many individuals - advisors, trainers and producers committed their time and thoughtfulness to making this manual a living reality. Without them, it would have been an academic exercise. Because of them, many small producers now have a manual tailored to their needs.

PART I: THE A B C'S OF BUSINESS



WHY IS MANAGEMENT IMPORTANT IN SMALL BUSINESS ? 1

WHAT IS A SMALL BUSINESS?

It is an individual, group or organization producing and/or selling goods or services. It involves a small number of persons, with a small volume of sales. Farmers, bakers, shoemakers, potters and market vendors are all small business people.

WHAT KINDS OF SMALL BUSINESSES ARE THERE IN YOUR PARISH, TOWN OR COMMUNITY?

_____ _____
_____ _____
_____ _____

DO YOU HAVE A SMALL BUSINESS? ____ IF YES, WHAT KIND?_____
ARE YOU SATISFIED WITH YOUR SMALL BUSINESS? _____
WOULD YOU LIKE TO MAKE SOME IMPROVEMENTS? _____
IF SO, WHAT KINDS?_____
_____

WHAT ARE SOME ADVANTAGES (GOOD POINTS) OF SMALL BUSINESSES?

_____ _____
_____ _____
_____ _____

HERE ARE SOME ADVANTAGES (GOOD POINTS):

1. You own your own business
2. You are your own boss
3. You use your skills and develop them
4. You serve local people
5. If things go well, you can make good money
6. You can satisfy special needs of your customers.
7. Your business can usually adapt to changing conditions

WHAT ARE SOME OF THE PROBLEMS OF SMALL BUSINESS?

_____ _____

_____ _____

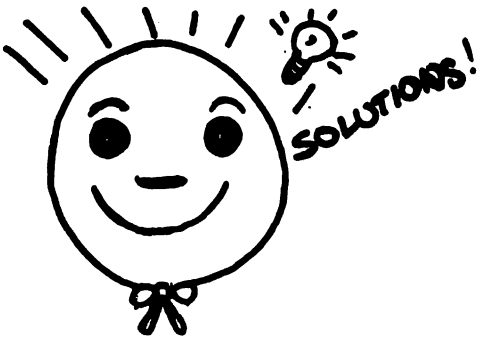
_____ _____

HERE ARE SOME PROBLEMS OF SMALL BUSINESSES:

1. You may be short of capital.
2. You may lack a large market for your product or service.
3. You may be one person trying to do everything.
4. You may have to pay more for services and materials and supplies because of small purchases.
5. The person running the business may not have good management skills.

HERE IS A POSSIBLE SOLUTION FOR EACH PROBLEM:

1. Consider taking a loan to improve your business.
2. Determine if your product or service is needed and if there is room for another business.
3. Plan and organize your time and your activities to make your business run better.
4. Join an association which represents your business interests and take advantage of bulk-buying opportunities.
5. Study this manual to improve your skills.

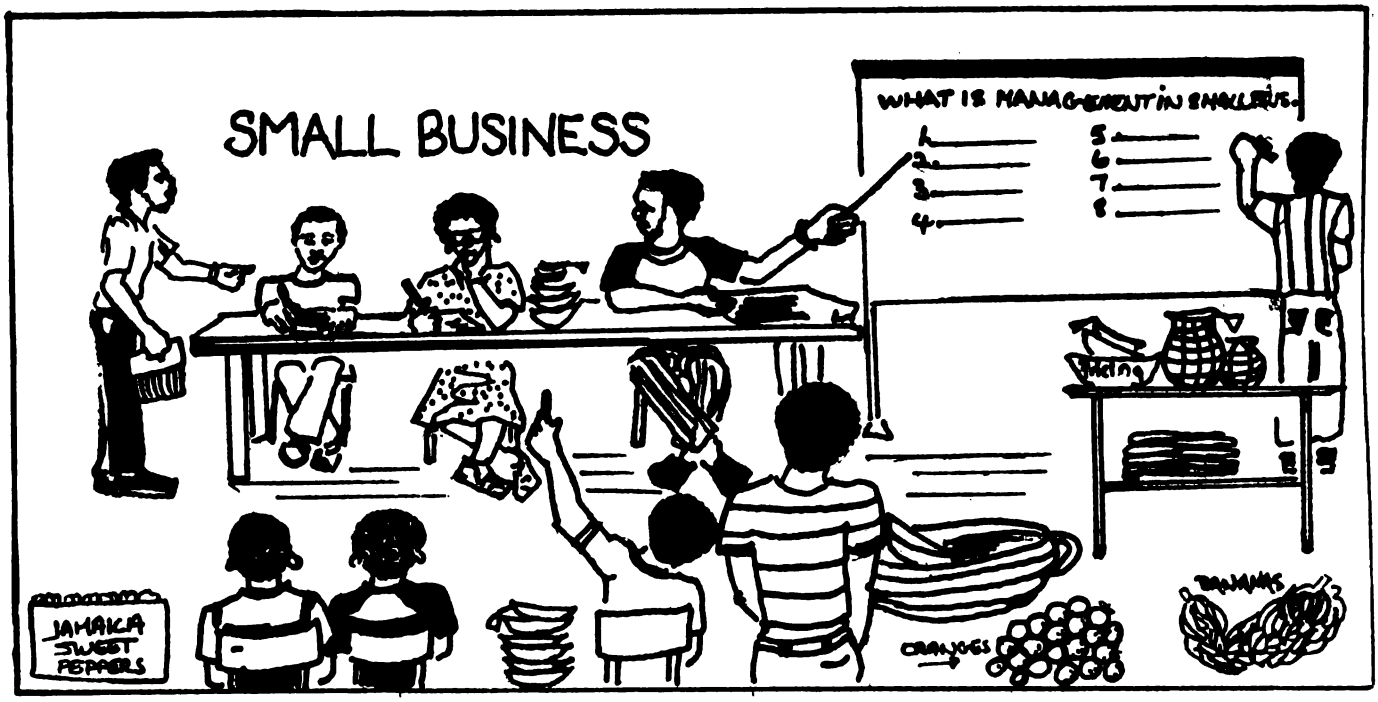


NOW PUT THE SOLUTIONS TO THOSE PROBLEMS YOU LISTED ON THE PREVIOUS PAGE:

WHAT IS MANAGEMENT IN SMALL BUSINESS?

Everything that helps a small business to run smoothly and make a profit, such as:

1. Organizing Production
2. Price calculation
3. Record-keeping
4. Working with people
5. Stock control
6. Production records
7. Planning
8. Budgeting
9. Cash flow planning
10. Valuing your assets
11. Preparing statements of business performance
12. Increasing Income and Profits



Let's discuss these different activities of management, explaining what they are and why they are important:

1. Organizing production - thinking about what you will produce and how you will go about producing it as efficiently as possible.
2. Price calculation - figuring all of the costs to produce an item in order to put a fair price on it and to get a fair profit (fair to you and fair to the buyer).
3. Record-keeping - keeping basic information on how the business is going, such as keeping a receipt book, an order book, and a cash book. These basic records are needed to do other things in the business, such as planning with a budget and with cash flow and determining the yearly performance of your business.

   Working with people - making sure everyone in the business is doing the job well and using their time well. This helps the business to operate better and be more profitable.

5. Stock control - keeping track of amounts of raw material, work-in-progress and finished goods. This will help you to have goods available when buyers appear but not so many that your money will be tied up unwisely.
6. Production records - keeping information on the products to be made each day, which materials will be used, and what was sold each day. These records permit you to make production plans for each week, month and year, as well as to reflect upon sales already made for each week, month and year.
7. Planning - thinking about what your business will do in the future. This is so that you can prevent many problems from arising in your business by thinking about what you will do in advance. Some plans can be made in your head, but others should be written down.
8. Budgeting - thinking about what your business payments and receipts will be in the future. This helps you to make a number of decisions, such as whether to expand, get a loan, or get more orders. A budget should always be written down to be most useful.
9. Cash flow planning - thinking about how cash will come into and go out of your business. This will help you to avoid being stuck with too little cash or poorly used cash at any one time in your business.
10. Valuing your assets - determining the values of what your business owns: stocks, crops, livestock, machinery, equipment, buildings and land, so you can prepare statements of business performance.
11. Statements of business performance - determining how well your business performed by looking at receipts, payments, profits, equipment, buildings and land. This exercise, done once a year, should give you the overall situation of your business. It will also permit you to compare past years' performances and make plans for the coming year.

12. Increasing income and profits - learning how to maximize profits by increasing the volumes of items you make, looking at the prices you sell at and reducing the costs of production.

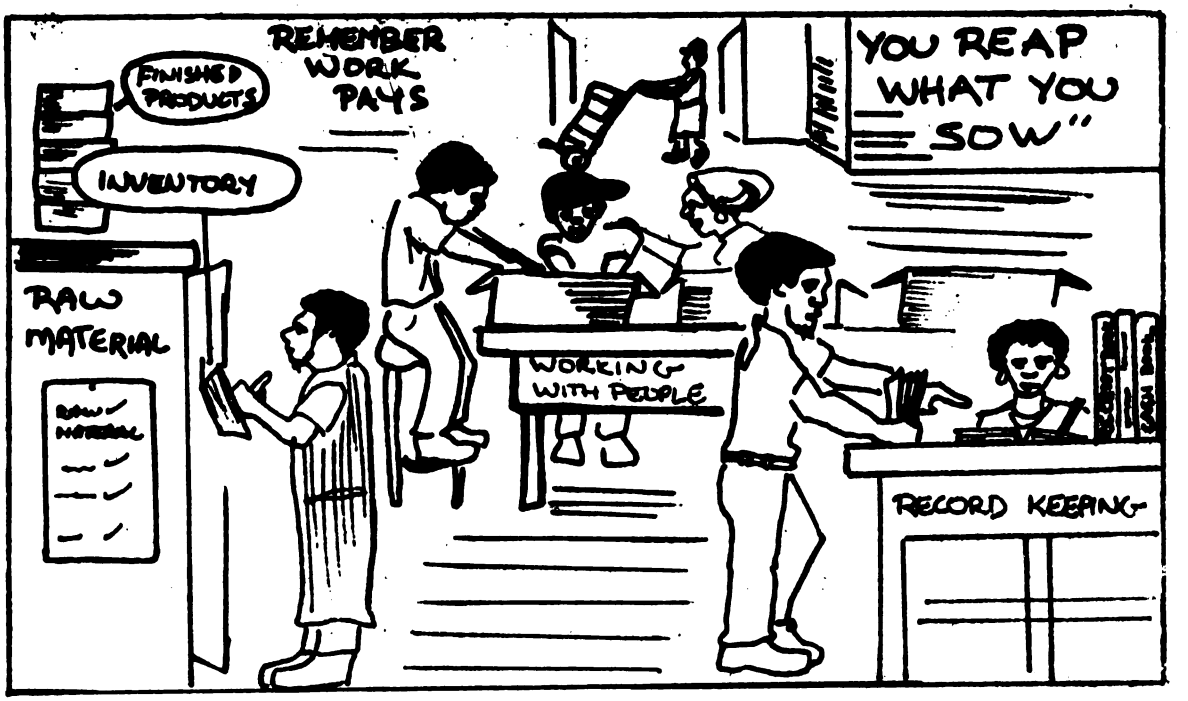
REMEMBER: Running a business well is hard work. Learning how to manage your business well will make that work easier.

	YES	NO
DO YOU MANAGE YOUR BUSINESS WELL?	_____	_____
DO YOU DO ANY OF THE 11 ACTIVITIES JUST MENTIONED?	_____	_____

If 'yes', which ones?

_____ _____
_____ _____
_____ _____
_____ _____
_____ _____
_____ _____
_____ _____

If you answered "no" to either of these questions, try using some of the exercises in this guide to improve your business skills.



REMEMBER: Good management is just as important in small businesses as in large ones. Small business people have been good managers out of necessity and they must continue to improve. Remember, "You reap what you sow".

SO, WHY IS MANAGEMENT IMPORTANT TO SMALL BUSINESS?

HINTS ON MARKETING YOUR PRODUCT OR SERVICE 2

When you decide to go into business or to change to a new product or service, the market (or customers) is the first part to think about. Why is this so? This is so because if you can't sell your product or service, you have no business.

Here are a number of questions and a few hints you should consider about marketing your product or service.

If you are a farmer, or if you make a product:

1. What kind of product do you sell?

   _____

   _____

   If more than one, what are the others?

   _____

   _____

2. Why do you think people buy your product?

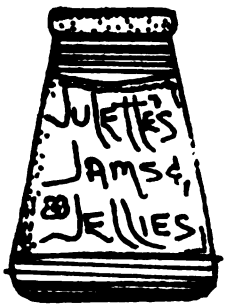
   _____

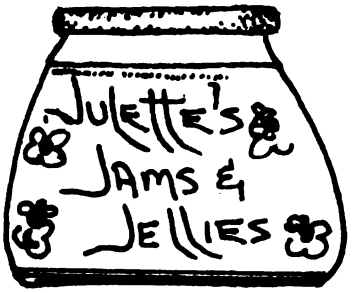
   _____

   _____

   _____

3. Is your product of good quality?_____





4. How do you know?_____
5. Would <u>you</u> buy items of that quality?_____
6. Is your product packaged or presented attractively?_____
7. Do you have a label?_____
8. Is your label attractive and complete?_____
9. Does your label tell a story? Does it have on it.....
   - The name of person or group who made it?_____
   - The Town and Parish where it was made? _____
   - 'Made in Jamaica' _____
   - 'Made by hand' (if it is)? _____
   - 'Made of local raw materials' (if it is)?_____
   - 'Made of natural raw materials' (if it is)?_____

There are some advantages of having a label on your product:

- **Customers can identify you with your product; if they need more of the items you make or if they have complaints.**
- **You can gain new customers when old customers tell others about your product**
- **People will put more trust in your product**

10. Who are your customers (be specific)?

_____ _____

_____ _____

_____ _____

11. Are there other people interested in buying your product?

_____

12. How do you know?_____

13. What marketing channels (ways of getting your product to your customer) do you use?

(a) Do you retail your products yourself?_____

(b) How do you go about it?_____

_____

(c) Do you go to wholesalers?_____

(d) Are you selling enough to make delivery trips worthwhile?_____

(e) If you sell a perishable product (eg. agricultural product), does it get to the consumer in the condition you want it to?_____

(f) Are you satisfied with the way your products are distributed?_____

(g) If you answer no, how might you change it?_____

_____

14. Is the price you are now selling at acceptable to you?____

_____

15. Do you know of anyone else who makes a similar product?___

_____

How do you compare with them,

in terms of price?_____

in terms of the quality of the product?_____

_____

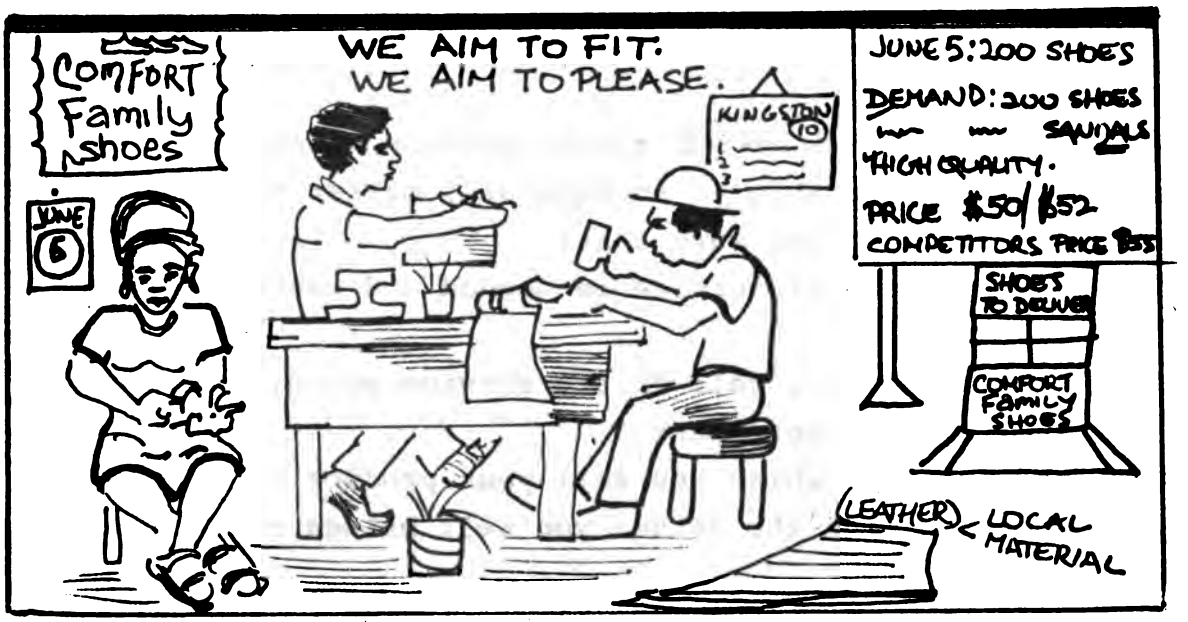
in terms of availability of the product?_____

_____

If you are offering a service (for instance tailoring, dressmaking, hairdressing, shopkeeping, shoemaking or repairing) you should read this section.

1. What kind of service do you offer?_____

_____



2. Do people need or want the service you are offering?

_____

3. Why?_____
4. Are you providing good quality service to your customers?_____
5. How do you know?_____

6. How will you attract additional customers to take advantage of what you have to offer?_____

_____

_____

_____

7. How are you competing with others offering the same or similar type of service,

   (a) in terms of price?_____

   (b) in terms of the quality of the service?_____

   _____

   (c) in terms of location?_____

Now that you have answered these questions you will realise that in order to be able to successfully market your product or service you should make sure that:

* your product or service is needed and wanted by your customers
* the product you sell or the service you offer is the quality consumers want
* the price at which you sell your product or service combined with the volume you sell brings an acceptable income to you
* the price at which you sell your product or service is acceptable to your customers
* you are aware of what your competitors are offering.

HINTS ON HOW TO FINANCE YOUR BUSINESS. 3

WHAT IS FINANCING?

Finding the money to start or expand your business.

WHEN DO YOU NEED FINANCING?

When the money you have is not enough.

WHAT TYPES OF FINANCING ARE THERE?

1. SAVINGS: money put aside for use in the future.

2. FUNDS RAISED: money collected from an event held for this purpose.

3. GRANTS: donations received for doing projects based on good ideas.

4. LOANS: money borrowed to be repaid (usually with interest) over a specific period of time.

Let us discuss how you can use each of these ways to finance your business.

I. SAVINGS

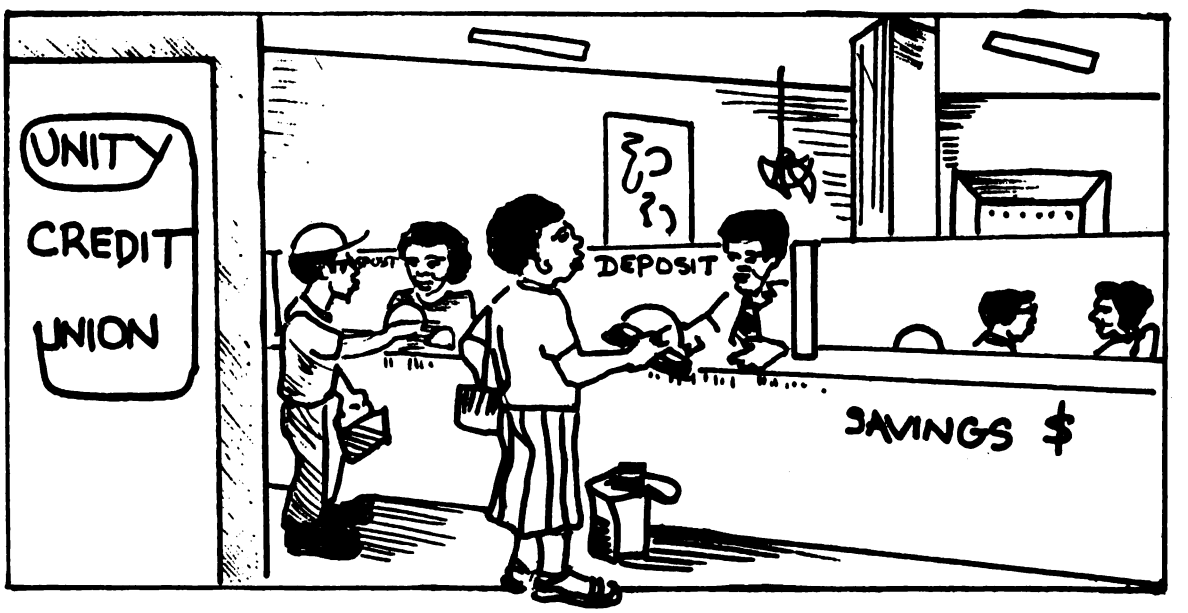
Savings is money put aside for use in the future. You can 'lend' your own savings to your business. This won't cost your business anything since there is no interest added on to it, but you should be aware that it may take you some time to get it all back.

How can you go about saving?

Here are some ways you can save for yourself and for your business.

1. Join a partner.
   This group savings plan is very popular, as you can usually save a small amount at a time and get your 'draw' when you need it most. However, you do not get any interest on your money - in fact you may lose some - if you have to pay your 'banker' a portion of the amount you have saved.

2. Join a Credit Union.
   This is a good way to save. You get less interest on your money than you would at a commercial bank, but you can also get a loan at interest rates which are lower than most institutions will lend at. Remember that you must be a member to qualify for a loan.



3. Open a Savings Account at a bank.
   You can get a higher interest on your money here and maybe a loan, although the interest on the loan will be higher than at the credit union.

4. Plan how you spend your money - make a budget and stick to it.

5. Increase your production and save the extra income.

WHAT WORKS BEST FOR YOU?

1. _____

2. _____

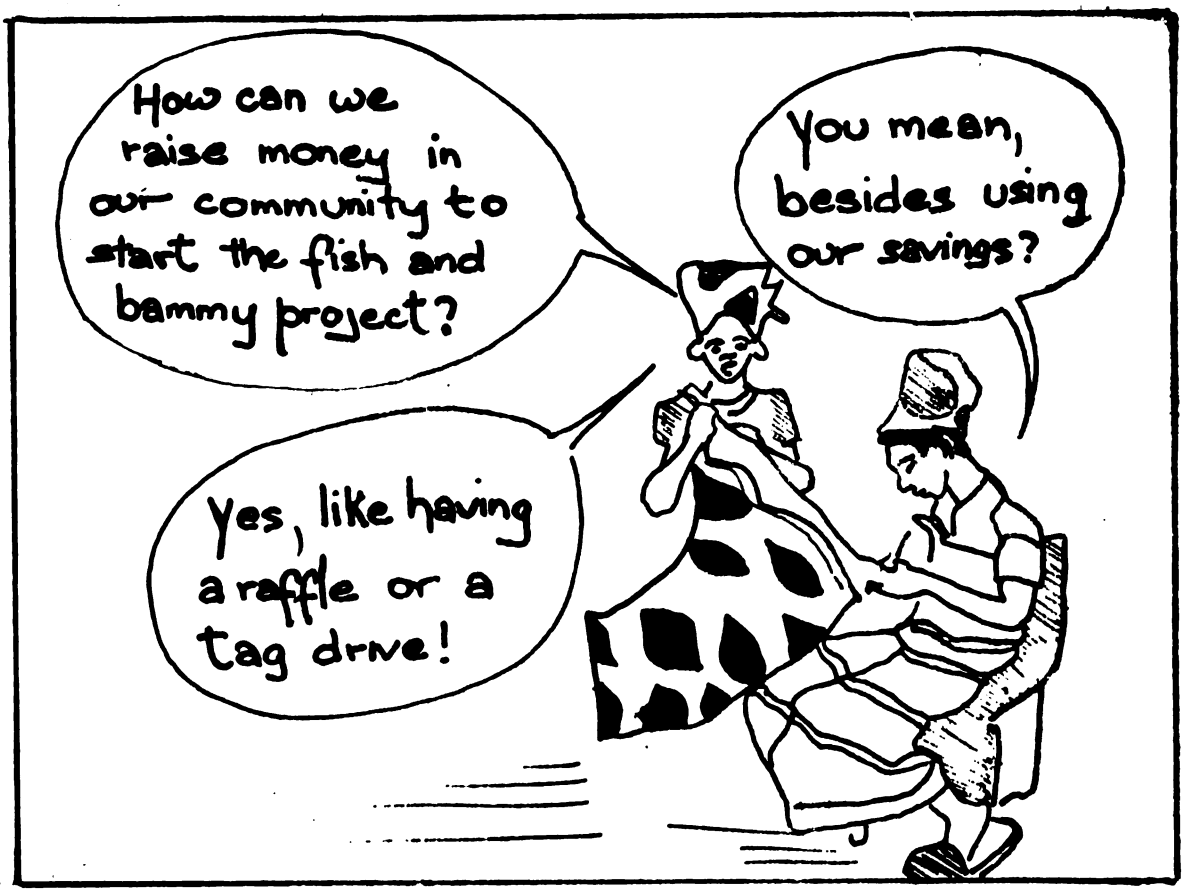
3. _____

4. _____

5. _____

II. FUNDS RAISED

These are monies collected from an event held for this purpose.



List some ways you know of to raise funds:

1. _____

2. _____

3. _____

4. _____

Funds raised can be used for a community group business.

III. GRANTS

Grants are monies donated, usually for groups wishing to start a business project which is based on a good idea, such as a group offering a service which is not available in their community and which people need.

Here are the most common sources from which grants may be obtained:

1. Relatives
2. Churches
3. Big Businesses
4. Commercial Banks
5. Foreign Government Agencies (examples: United States Agency for International Development - USAID; Canadian International Development Agency - CIDA)
6. Foundations (examples: Trickle-up Programme, Inter-American Foundation).

List examples you know of here:

1. _____

2. _____

3. _____

4. _____

IV. LOANS

These are monies borrowed to be repaid, with interest over a period of time.

Here are four types of places from which you can get loans.

1. Government Banks

These are the People's Cooperative Banks, popularly known as P.C. Banks. There are some one hundred and fifteen P.C. Banks in Jamaica, with several branches of the banks in most parishes. Each bank has its own Managing Committee and staff.

The P.C. Banks are mainly intended to serve farmers. Producers in other types of businesses who apply to a P.C. Bank for a loan will have to pay higher rates of interest. The P.C. Banks can lend up to $80,000. Managing Committees can lend up to $5,000 on their own recommendation without seeking permission from the headquarters of the bank. The minimum loan which a P.C. Bank will give, differs from one branch to another.

The rates of interest on loans made by the P.C. Banks are the same at all branches of the bank, and they are considerably less than those charged by the commercial banks.

2. Commercial Banks

These are several privately owned banks with branches throughout the island. Commercial banks charge higher rates of interest than do the government P.C. Banks.

Different commercial banks charge more or less the same interest rates, but it may be worthwhile to check to see which commercial bank will give you the most satisfactory interest on your loan.

Once you have the qualifications the commercial banks require, such as collateral (eg. land, house, car, insurance policies, etc) and show you can repay the loan, you can borrow the sum of money you require. For agricultural loans, the commercial banks prefer to lend sums of over $80,000. Farmers wishing to borrow under $80,000 are usually advised to borrow from the government P.C. Banks.

3. Cooperatives and Credit Unions

All parishes in Jamaica are served by cooperatives and credit unions. In rural areas many agricultural cooperatives have joined with credit unions to form one body. Some cooperatives have no funds which they can lend and so operate mainly as marketing cooperatives, passing on savings from bulk purchases to its members.

Interest rates on loans from cooperative credit unions are even lower than the rates charged at government banks and commercial banks.

The maximum amount available in loans from the cooperative credit unions varies from one ooperative credit union to another.

4. **Special Loan Programmes**

These programmes cater to business people who usually cannot qualify for a loan from a commercial bank or other type of lending institution. They usually give loans at low interest rates and the requirements for getting the loan are usually more relaxed than those at other lending institutions.

Some examples of special loan programmes:

National Development Foundation of Jamaica: This private sector non-profit organization provides loans to individuals or groups at an interest rate of 14%. These loans can be for working capital (raw materials or stock) or for fixed assets (machinery or other equipment). Loan recipients must agree to accept the business training and techincal assistance which the NDF/J offers.

Self-Start Fund: This Government company provides credit to graduates of Government training programmes. Loans are channeled through existing credit institutions (such as the P.C. Banks) and are presently made at 12% interest. Loans are for tools, equipment, raw materials and other resources needed to run the business. Groups (up to five persons) and individuals may apply for loans.

ORGANIZING 4 YOUR PRODUCTION

What do we mean by organizing your production?
Although we usually think of the term 'production' as having to do with the manufacturing of an item, the term can also be used to mean, creating an income by producing goods and services for sale. Therefore, whether you make an item for sale, buy goods for resale, offer a service or grow crops you are producing, in an effort to earn an income for yourself and make enough profits to keep your business going.

Production involves converting and combining Inputs such as raw materials, labour, special skills, planting materials, fertilizers and feed into Outputs - the goods or services you sell.

To be able to organize your production, you should know: what to produce, how to produce it and how much of it to produce.

Before we go into the discussion of how to organize your production you should ask yourself a very important question: CAN I SELL WHAT I PRODUCE? If you are having difficulty selling your product or service, what can you do to help it sell?

* **Improve the quality of the product by improving the quality of the inputs, or the way you make it or both.**

* **Lower the price of the product thus increasing the volume of your sales. Do this only if you can still make as much or more profit.**

Here are some questions you should consider:

MATERIALS (raw materials, supplies, seed):
How much is needed for production?_____

_____

How much is available?_____
Will additional be needed?_____
Where will it come from?_____
Can I get the kind I need?_____
Can I get the quality I need?_____
Will the supply be regular?_____

LABOUR:
What kinds of skills are needed?_____
Are people with these skills available?_____
How many people do you need for production?_____
Are they needed all at the same time?_____
Have you decided who will do what in the production process?

_____

You should already have decided on the following areas of responsibilities. If you have not, think about:

1. **Who will manage (plan, keep records, coordinate, control):**

   _____

2. **Who will purchase raw materials & supplies:**

   _____

3. **Who will produce:**_____
4. **Who will control quality:**_____
   (This should be yourself or someone who can make sure all items are up to the standard you set).
5. **Who will market:** _____

SPACE:

Is the required space available for production activities?

_____

(don't forget about space for equipment)

Is the required space available for storage?

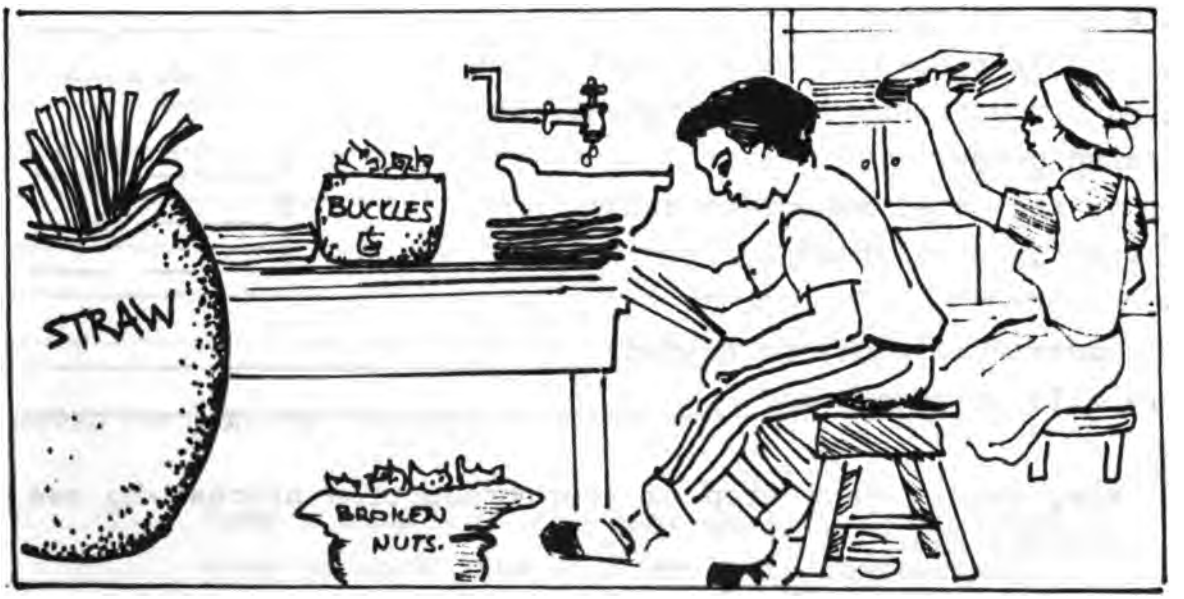
_____

Is the required space available for packaging?

_____

What changes, if any, can be made in order to make better use of the available space?_____

_____



TOOLS & EQUIPMENT:

Do you have those needed for production?_____

_____

Are these available locally?_____

Are spare parts available?_____

Do you need to learn or train other people to use the tools and equipment?_____

UTILITIES (gas, water, electricity):
Are the utilities needed readily available?

Will it be necessary to rewire for 220 volt current?

MONEY:

How much is needed for buying materials?	$_____ ____
How much is needed to pay wages?	$_____ ____
How much is needed for rental of space?	$_____ ____
How much is needed for buying and servicing tools and equipment?	$_____ ____
How much is needed to pay for utilities?	$_____ ____
How much for transporting materials and finished goods?	$_____ ____
What is the total amount needed?	$_____ ____
How much is available?	$_____ ____

Will additional money be needed?_____
Where will it come from?_____

D. Now, review each step of your production process to see how you can:

1) increase the volume of production without sacrificing quality
2) increase the marketable quality of your product
3) lower the cost of making each item

Now that you have thought about each step in the production process, think about the process as a whole and ask yourself these questions:

1. **Is my work layout as convenient as possible?**
2. **Are there some devices which would make my work easier, faster or more precise?**
3. **Is there anything else I could do to make the job easier?**
4. **Is everything scheduled to be on hand when needed (like raw materials, labour, etc.)?**

Write down the changes you think will improve the production process.

_____

_____

_____

_____

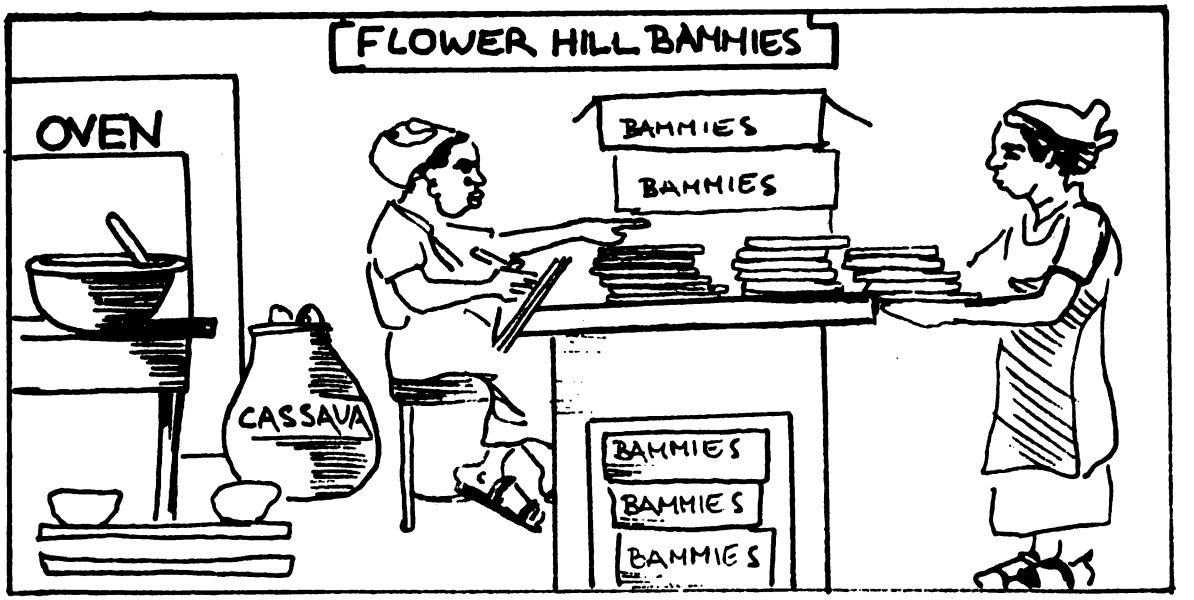
_____

_____

NOTES ON QUALITY CONTROL:

1. **Keep a sample of the best quality and perfect size of each item and use it to compare with future items to maintain consistent good quality and size.**
2. **Of major importance is the quality of raw materials you start with. If these are poor, the end product will be poor.**
3. **Decide on other points during the production process where quality must be examined.**

Let us look at an example of how one business organized its production, becoming more efficient and increasing its earnings.



A group of ten ladies in Flower Hill, near Montego Bay, are members of a cooperative which makes cassava bammies. After a few months in production, they were producing an average of 250 bammies per day. However, they felt that, with some minor changes in the production process, they could increase their output of bammies.

First they listed the steps in their production process:

1. Buy cassava
2. Peel and cut cassava
3. Grate cassava

4. Squeeze cassava
5. Add ingredients
6. Cook the bammies
7. Cool the bammies
8. Package the bammies
9. Deliver and collect payment

Then they asked themselves the questions about materials, labour, space, tools, equipment, utilities and money for each step of their production. On a chart they put an 'X' where problems existed.

PRODUCTION CHART

FACTORS TO CONSIDER:

Production steps:	MATERIALS	LABOUR	SPACE	TOOLS	EQUIPMENT	UTILITIES	MONEY
Buy cassava							
Peel and cut cassava			X				
Grate cassava							
Squeeze cassava				X			
Add ingredients							
Cook the bammies							
Package the bammies							
Deliver, collect payment							

In additon to looking at the chart, they also considered the questions about their layout, the devices they used, etc. They identified two problems:

1. not enough space to cut and peel cassava
2. they had no tools for extracting the juice, and squeezing the cassava by hand was a time-consuming process.

After having a good discussion, the 10 ladies in the Flower Hill bammy group agreed on the following solutions to their problems:

1. They rearranged their available space, by separating the cutting and peeling areas from the grating area, thereby creating enough space for each operation.

2. One of them devised a method for squeezing the liquid out of the grated cassava by using two 2 inch x 12 inch x 6 foot planks of wood. The cassava is placed between the planks which are weighted with rocks.

As the group reviewed each step of the process to see how they might increase the rate of production, they concluded that if the members "specialized" in certain tasks, they could become more efficient and could then speed up the production. As a result, they decided to assign themselves special tasks.

3 members were assigned to cut and peel cassava
4 members were assigned to grate & squeeze cassava
2 members were assigned to add the ingredients, shape and cook the bammies
1 member was assigned to buy the cassava, package and deliver the bammies and collect the payments. She was also put in charge of controlling quality - while packaging the bammies, she would compare them to a sample, to make sure that the size, shape, thickness and colour were up to the correct standard.

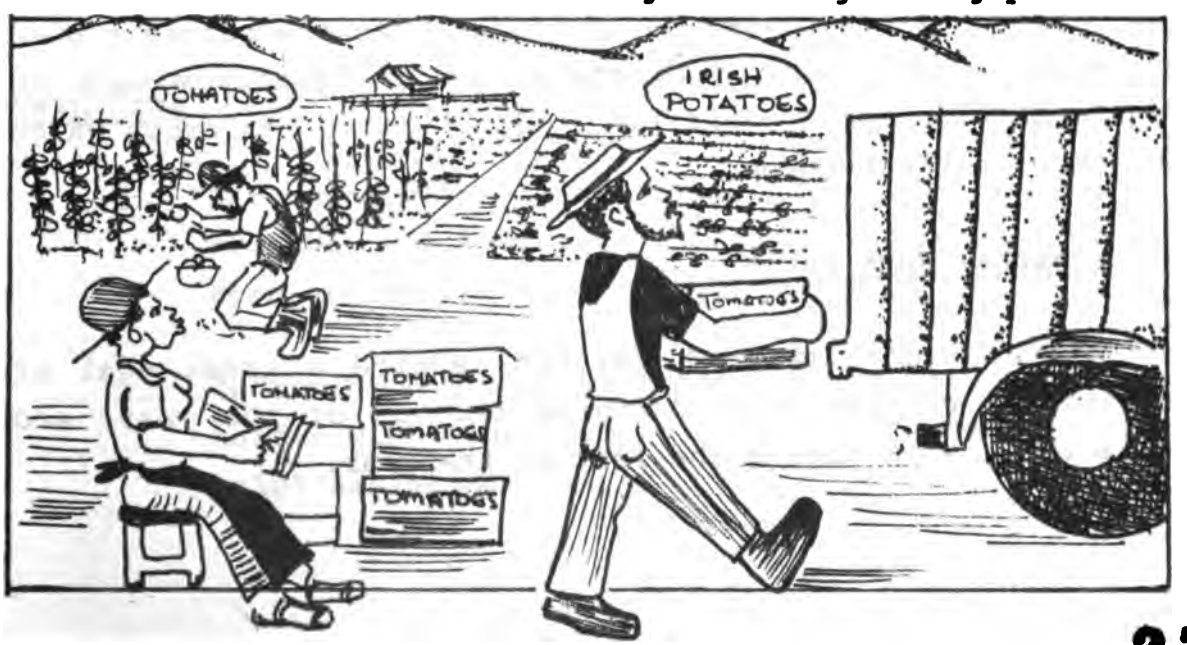
When the group looked at the process as a whole, it became clear that they could also increase their efficiency by staggering their working hours. They decided to have the 3 members who cut and peel, come to work at 8:00 a.m. and work until 4:00 p.m.; the 4 who grate and squeeze come at 8:30 a.m. and work until 4:30 p.m.; and the rest of them come at 9:00 a.m. and work until 5:00 p.m. The result was that the volume of production rose immediately to 300 bammies per day, increasing their earnings considerably. They figure that with time, practice and extra effort, they will eventually get to their target of 500 bammies per day. They know that they can sell these quite easily because the demand for them is high and the price at which they sell the bammies is reasonable.

The exercises which follow will give more hints on how to organize production for farmers and retailers. If you are a farmer you should read Part II. If you buy goods for resale you should read Part III.

PART II

ORGANIZING YOUR PRODUCTION IN FARMING

If you are in the business of farming, there are additional factors to consider when thinking about organizing production.



Before considering markets, farmers must think about what they can produce on their particular farm. To determine this, they have to consider the type of soil present, the amount of rainfall and whether the land is flat, sloping or on a steep hillside. For example, annual cultivated crops should not be considered on steep hillside farms, except where the land is terraced. A farmer would not consider rearing livestock in an area where water is in irregular supply when he can grow a crop like onions instead.

From among the crops which can be produced, or animals which can be reared, a farmer must choose those which will give good profits and which have available markets. In addition, there are other factors farmers must consider. Let's look at two important ones, risk and seasonal work patterns.

1) Risk

Frequently, those farm crops which give the highest average returns over a number of years, are also the most risky. Over 3 or 4 years, they may only make a profit (sometimes quite large) in only one year, while in the other years they lose money. If the entire farm is planted to a crop like tomatoes, 2 or 3 years of low prices may ruin the business before a good year comes along. With such crops, it is usually wisest to produce them in small quantities, along with other crops which give more stable returns.

2) Seasonal Work Pattern

Many crops which give high returns require a great deal of work during certain very definite periods of the year, and little or no work during the rest of the year.

For example, one acre of a very intensive crop may need the full-time work of 10 persons in March and again in September, but little work for the rest of the year. Thus, if a farm has only two persons available to work it, they can only take care of 1/5 of an acre of this crop. If they have a 1½ acre farm, the rest of the farm would be idle. The two persons on the farm might also be idle most of the time except in March and September.

If extra labour cannot be hired when needed, it is usually better to produce a small acreage of such crops in combination with other crops which will provide work the other ten months of the year.

How Much to Produce

We have already touched on this question indirectly in the section under What to Produce. For any given farm, the more acreage you use for one crop, the less acreage you have available for other crops. Let's talk about how you can decide how much of each crop to produce:

Main Crop

1. Determine which of the crops your farm can produce, which will give the best income per acre and per person, without too much risk.

2. Determine how much of this crop you can handle with other people (family or hired help) assisting.

Complementary Crop

3. Determine what periods of the year you will have idle land and time, not required for this crop.

4. a) Select one or more complementary crops whose work requirements fall mainly in these slack work periods of the main crop. They should be the most profitable of those you choose from, even though they are high risk.

   b) Produce as much of them as your available land and time permit, but without competing for the time that must be given to your main crop.

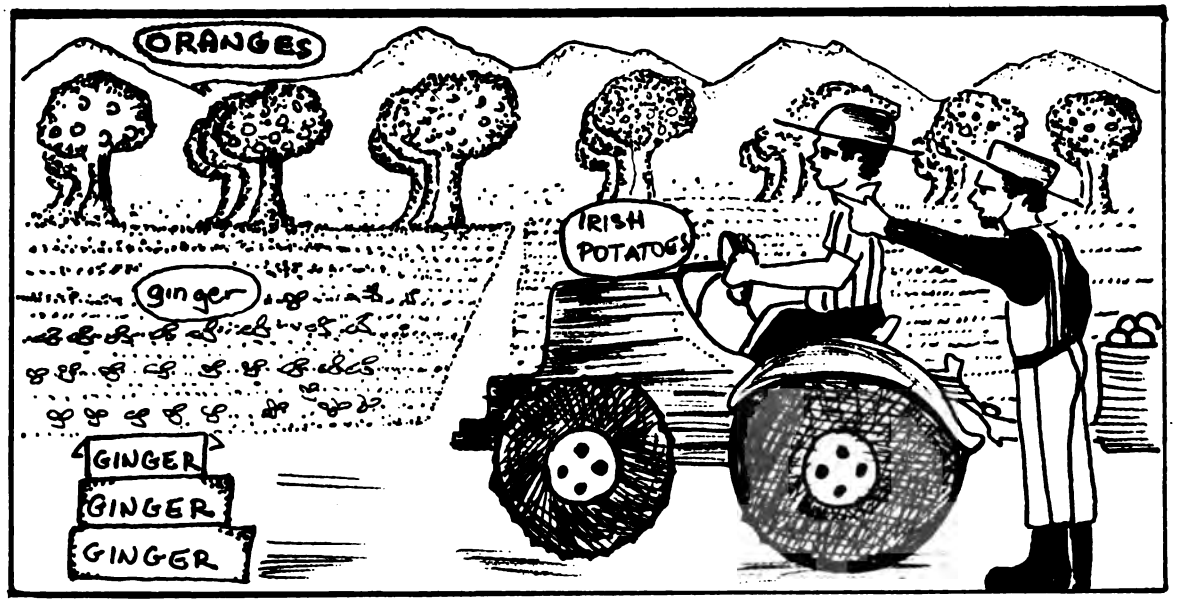
5. Note: If you plan to produce most of the food your family consumes, the land and time required for this must be taken into account.

How to Produce

It is important that the way you produce results in good quality products. The price paid for inferior quality farm products is much lower, and often unprofitable. Within this overall framework of getting quality products, there are several aspects of how you produce which should be considered jointly.

1. Inputs (Seed or breed stock; fertilizer or feed; insecticides; fungicides, etc.)

The volume and quality you produce will often depend on the inputs you use. Better quality and higher production usually require more expenses for inputs.



Before choosing a system of production needing certain inputs, make sure they will be available when you need them. Sometimes, the added cost of inputs is greater than the extra income you would earn by producing more. You should therefore carefully examine the costs and returns of alternative ways of producing and choose the most profitable way - not necessarily the most productive.

For example, let us say farmers can sell their ginger at $1.20/lb. Using a lot of fertilizer and an extra weeding, it costs a farmer $12,000.00 to produce 9,600 lbs. of ginger; but using less fertilizer and only one weeding, it costs him $7,680.00 to produce 8,000 lbs.

The higher yield costs him $\frac{\$12,000.00}{9,600} = \$1.25/lb$

The lesser yield costs him $\frac{\$7,680.00}{8,000} = \$0.96/lb$

So, you can see that it is more profitable for him to produce at the lower yield.

2. Risk

Often, the way of producing which gives higher income involves higher risks. For example, planting a crop such as tomatoes earlier than usual may get it to market when prices are higher, but may involve greater risk of losing the crop if there aren't enough early rains. With livestock, planting feed for them is expensive but in a dry season it may be even more expensive to have to buy the feed or see the animals go hungry, lose weight or die.

3. Financing required

Many systems of production which give high returns are more expensive. Do not select one of these systems, unless you can be sure you will have the required money available. Also, remember that borrowed money usually has a cost (interest payments) and this needs to be considered in deciding how profitable the higher cost system of producing will be.

4. Use of Machinery

Different ways of producing (production systems) require different amounts of machinery use: some, a great deal; others, very little.

In deciding on your production system, and the amount of machinery use it needs, ask yourself these questions:

Will the machinery make it possible for me to produce more?
How much will use of machinery increase my cash costs? My investment?
How does machinery cost compare with doing the same job by hand?
Will I still be busy all year, or will the use of machinery cause me to have a lot of idle time?
(Most important!) Will it increase my net income (profit) after all costs?

Using tractors or other machinery usually gets farm work done much faster. However, it also has an added cost, in the investment, plus depreciation, repairs and operating costs (gas, oil, etc). In addition, buying machinery commits you to its use for several years. Be sure it is justified before buying.

LIVESTOCK

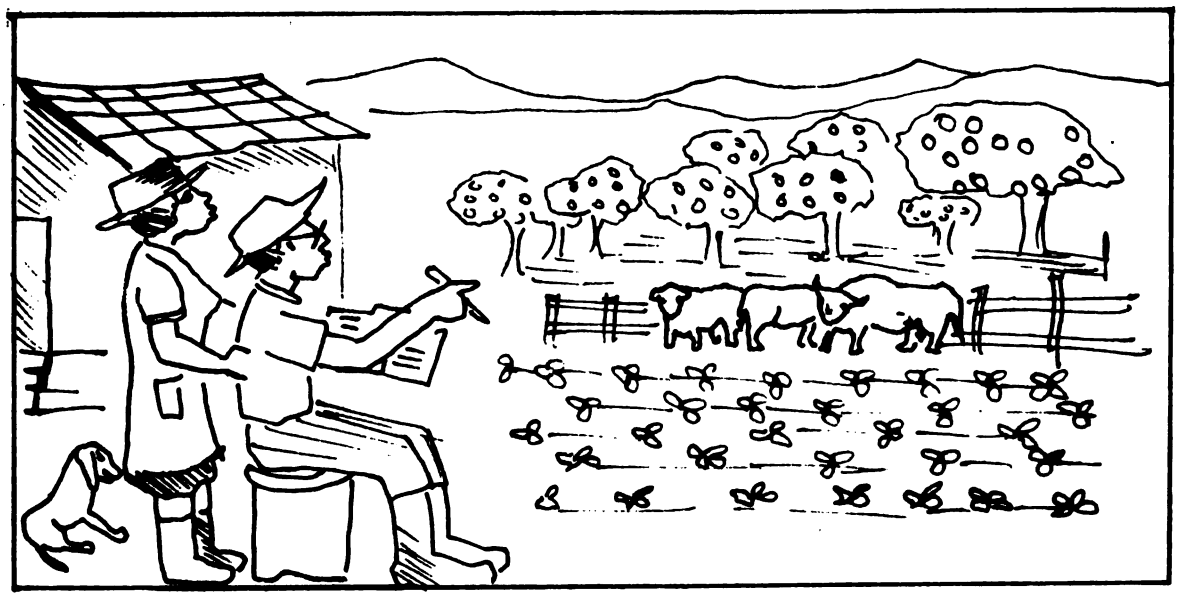
If you have livestock, there are three particular aspects that should be carefully considered in organizing your production: Animal Health, Feed, and Breeding.

1) Animal Health

For livestock in general, but in the tropics in particular, animal health is critical to running a successful business. You can have major losses in your business if your animals get sick.
Be sure you know all the diseases and infections (internal parasites, for example) which your

type of livestock can get. List them, together with the measures required for prevention and cure. (Generally, prevention is more profitable than cure).

In organizing your production, make sure you are prepared to take the necessary action at the most timely moments. This includes having medicines or treatments at the right time, and the money to pay for them.



2) Feed

Animals are "living factories". They convert raw materials (feed) into saleable products (meat, eggs, milk, etc.). If they do not receive enough of the right type of feed (raw materials), they will be unable to produce profitable quantities of livestock products of good quality.

In organizing your production, make sure that you are prepared to provide the quantity and quality of feeds required by your livestock for high production throughout the year.

For example, if your livestock (sheep, goats, cows) eat pasture be sure you will have enough for the dry periods. If in doubt, think about getting more pasture, or growing, cutting and storing some hay as insurance against dry spells.

3) Breeding

a) If you are raising your own livestock, good breeding management is important to making profits.

A ewe that doesn't get pregnant on time is an "idle factory". Worse, she is costing money and labour while being idle. A ram that doesn't get the ewes pregnant is even worse, because his "idleness" may result in many ewes being "idle".

In organizing your production, make sure that you will be able to keep track of the fertility of your animals. Whenever you find an animal that is infertile, get rid of it at once; it is costing you money. (This assumes, of course, that you are keeping your animals well fed and free from diseases and parasites. Diseases, parasites and not enough feed may cause infertility. Improving health and feed may bring back fertility).

b) It is generally more profitable to breed your female to "superior" males (purebreds or half breds from high-producing families). The offspring will usually be larger, grow faster, make you more money. This may require extra work in your production: making sure the females are guarded against impregnation by a "scrub" male and having timely access to a superior male if you don't own one. It is more work, but it generally pays well. Provide for it in the organization of your production.

PART III

ORGANIZING YOUR PRODUCTION - BUYING AND SELLING (RETAILING)

If you buy goods for resale, your main concern in organizing your business should be attracting and keeping as many customers as possible so that you sell as much of your goods as you can. These questions take on different meanings:

What to produce?
How to produce?
How much to produce?

The question of <u>What to produce?</u> becomes: <u>What kinds of goods to purchase for resale</u>?

You should consider some of the possibilities listed below:

Should I continue selling the same items I have been selling?
Should I change to a higher quality of the same kinds of products that I have been selling?
Should I change to a lower quality (economy) range of products?
Should I sell a mix of both high and low quality items?
Should I introduce new, related products?
Should I sell out my present stock and sell completely different kinds of merchandise?

If you are thinking of changing the types of products you sell, you should ask yourself the following questions about each of the possibilities considered:

1. Do I have sufficient market for these new products?
2. Do I have the necessary capital available to make this change?
3. Will the added business be worth the risk to the established part of my business?
4. Do I have the space available?
5. Do I have a good, continuous source of supply for these products?
6. Do I have sufficient knowledge of this product?

Let's look at the following illustration:
Val Russell is considering adding a line of fresh meats to the Russell Family Shop. Val asks herself each of the above questions concerning adding this new line.

1. **Do I have a sufficient market?**
   Since a number of her customers have asked for fresh meat and Val knows that there is no other fresh meat source in the neighbourhood, she decides that the market is sufficient. **Yes**

2. **Do I have the capital?**
   She knows that it will take all of her available cash to put in a stock of fresh meat and she will have to borrow $5,000 to purchase some used refrigeration cases to keep and display the meats. **No**

3. **Will it be worth the risk?**
   Val's banker is willing to lend her $5,000 to purchase the refrigeration cases but she will have to use her existing business as security. Val decides that the risk is too great. **No**

4. **Is the space available?**
   Val notes that by rearranging her stocks she could make space available. **Yes**

5. **Do I have a good, continuous source of supply?**
   Val does not have an established source of fresh meat. **No**

6. **Do I have sufficient knowledge of the meat business?**
   Val admits that she does not know a lot about the meat business. **No**

When Val looks at the answers to these questions, she can see that she has twice as many NO's as YES's. She concludes that this would not be a good time to expand into the fresh meat business. However, since she has the space available and seems to have a sufficient market, she will learn as much as she can about the fresh meat business and search for a good, dependable supplier so that when she has more capital available she can be ready to expand into the fresh meat business.

Do you think Val made the right decision?
Can you think of any ways in which she could turn the No's into Yes's, so that expanding her business would be feasible?

_____

_____

_____

_____

The question of How to produce? becomes
How to sell your products?

Marketing is so important that an entire manual will be devoted to it, however, here are a few points to consider:

* The location of your store is very important. A convenient location helps to attract new customers and keep old ones.

* Do as much as you can to promote the products you sell, eg. run sales, advertise.

* Give your customers prompt service.

* Be sure that your customers are treated by you and your employees in a pleasant and courteous manner!

* Pay attention to the layout of your stocks, so there is easy selection by your customers.

* Keep your products neatly arranged, clean and plainly priced.

* Keep your place of business as tidy and as well lit as possible.

The question of How much to produce? becomes:
How many of each item should I have in stock?

You should try as much as possible to have on hand the goods your customers want in sufficient quantities to satisfy demand. In order to do this you should have a system of stock control, which will give you important information about the goods you sell:

What products you have on hand
What products you need to order
What products are fast movers
What products are slow movers

There are other things you should consider as well:

1) How long the product will remain saleable
   * will it spoil quickly, like fresh fruit, vegetables, dairy products or meat?
   * will it lose its usefulness, after a certain time, like batteries?
   * will it lose its appeal after a certain time (like some kinds of clothing) and fetch a low price.... become difficult to sell?

2) How quickly the product can be obtained from your supplier. You must have enough of each item in stock to satisfy customers' demand between delivery dates.

CALCULATING THE PRICE OF YOUR PRODUCT 5

When you guess the price at which you sell your product, you may underprice it and thus deny yourself and your family the income you should rightly receive from its sale. On the other hand, you may overprice your product and your customers are likely to buy elsewhere. In either case, you may be the loser.

Calculating what it costs you to produce your product is the basis for putting a fair price on it. At the end of this exercise, you will find a blank form for doing the calculation of your selling price.

In order to calculate an accurate and reasonable selling price for each item you make, you should first decide on a set production period, say one day or one week or one month and write down the number of items you will make in that period.

The second step is to calculate the total cost of making these items by adding up all the individual costs (such as those for raw materials, labour, transportation etc.) which went into making the items.

The third step is to calculate the cost of each item (the unit cost) by dividing the total cost by the number of items produced.

NOTES ON THE FORM:

DIRECT COSTS

These include costs for raw materials, packaging and labelling materials, wages and transportation.

a) **Raw Materials**: Include such things as wood, cloth, nails, baking ingredients, thread, wool and any other basic materials you use to make your product. For calculating selling price, you should list each one and put the cost of the actual amounts used to produce the number of items finished in the production period.

b) **Packaging & Labelling**: Include actual cost of materials used in packaging and the cost of labels for the number of items finished within the set production period.

c) **Labour**: In addition to including the wages you pay to employees for the production period, include a reasonable amount for your labour or any family labour which is used. If you are not sure of how much to charge, use the rate you or the family members would get if working for someone else. You should also charge for the time spent in marketing by you or your family.

d) **Transportation**: The cost of transportation for buying raw materials and marketing finished products should be included. In the case where a large quantity of raw materials or finished products is transported all at one time, estimate the portion of the transport costs which would correspond to the items completed within the production period.

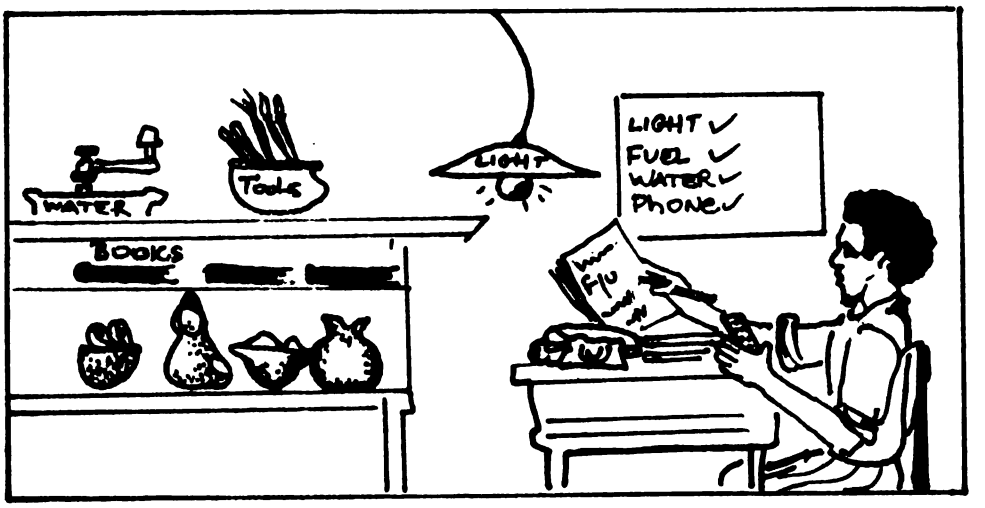
e) **Indirect Costs**: These are the costs of rental, electricity, telephone, water, fuel, supplies, servicing of equipment, stationery, stamps, record books, and advertising.

These costs are 'indirect' because they are costs the business has to meet whether it produces one (1) or six hundred (600) items. When filling out the form, these costs must be listed as accurately as possible and calculated for the production period you have chosen (day, week or month).

For example, if you pay $200.00 per month for rental and the production period you chose was one week, then the rental will be:

$$\frac{\$200.00}{4} = \$50.00 \text{ per week}$$

f) Profit: There is no strict rule about the amount of profit you should add to your cost, however a commonly used profit is 20% of total cost, that is 20 cents on every dollar of cost. You should decide what rate you will use.



CALCULATION OF SELLING PRICE

PRODUCT Wooden trays PRODUCER Junior & Sam Ballestrè

PRODUCTION: 200 (No. of Items) produced in 1 week (Time Period)

DIRECT COSTS

		$	c
a)	RAW MATERIALS		
	Wooden blocks $2,000.00		
	glue $3.13		
	varnish $3.00		
		2,006.	13
b)	PACKAGING & LABELLING		
	2 packs labels $20.00		
		20.	00
c)	LABOUR Rate/day or hour X No. days or hours		
	HIRED ____ X ____		
	SELF $20/day X 5 days (for each)	200.	00
	UNPAID FAMILY ____ X ____		
d)	TRANSPORT (both ways, for buying raw materials and for delivery of finished items)	40.	00
	OTHER COSTS		
e)			
f)			

INDIRECT COSTS

			$	c
g)	RENT	$600.00 per month	150.	00
h)	PHONE BILL			
i)	ELECTRICITY	$300.00 per month	75.	00
j)	WATER RATE			
k)	FUEL/OIL/PROPANE GAS			
l)	SMALL TOOLS & EQUIPMENT	$1500.00 per year	28.	85
m)	SERVICING			
n)	STATIONERY, STAMPS, etc.			
	OTHER COSTS			
o)				
p)				
	TOTAL COST (add a to p)		2,519.	98
	COST PER ITEM (divide Total Cost by No. of items)		12.	60
	PROFIT 25 %		3.	15
	SELLING PRICE (add cost per item and profit)..		15.	75

CALCULATION OF SELLING PRICE

PRODUCT _____ PRODUCER _____

PRODUCTION: _____ produced in _____
No. of Items Time Period

DIRECT COSTS

			$	¢
a)	RAW MATERIALS			
	_____	_____		
	_____	_____		
	_____	_____		
	_____	_____	_____	_____
b)	PACKAGING & LABELLING			
	_____	_____		
	_____	_____		
	_____	_____		
	_____	_____	_____	_____
c)	LABOUR Rate/day or hour X No. days or hours			
	HIRED _____ X	_____	_____	_____
	SELF _____ X	_____	_____	_____
	UNPAID FAMILY _____ X	_____	_____	_____
d)	TRANSPORT (both ways, for buying raw materials and for delivery of finished items)		_____	_____
	OTHER COSTS			
e)	_____		_____	_____
f)	_____		_____	_____

INDIRECT COSTS

g)	RENT _____	_____	_____
h)	PHONE BILL _____	_____	_____
i)	ELECTRICITY _____	_____	_____
j)	WATER RATE _____	_____	_____
k)	FUEL/OIL/PROPANE GAS _____	_____	_____
l)	SMALL TOOLS & EQUIPMENT _____	_____	_____
m)	SERVICING _____	_____	_____
n)	STATIONERY, STAMPS, etc. _____	_____	_____
	OTHER COSTS		
o)	_____	_____	_____
p)	_____	_____	_____
	TOTAL COST (add a to p)	_____	_____
	COST PER ITEM (divide Total Cost by No. of items)	_____	_____
	PROFIT _____ %	_____	_____
	SELLING PRICE (add cost per item and profit)..	_____	_____

What should you do if the selling price you've calculated is different from your present asking price?

1) The first thing to do is check your figures! Make sure that all your estimates are correct and you have made no errors when adding, multiplying, etc.

2) If you find that the selling price you have calculated is a lot less than the price you have been asking, keep selling at your present price, unless you feel that you can make more money by lowering the price and selling more.

3) If you find that the price you have calculated is more than the price you have been asking, you should increase your selling price, but only if you can sell as much as you had been selling before at this higher price. If you cannot sell as much at this higher price, you will have to look for ways to reduce the costs of making your product. To do this, you should look at each of your costs, eg. for raw materials, transportation, etc., and try to find ways to reduce them without reducing quality.

4) By increasing the number of items you make in the production period, you can reduce the cost of each item you make. Increasing the RATE OF PRODUCTION, that is, producing more items in the same length of time, can be done by:

   - working at a faster rate
   - organizing the time you spend producing so that little time is wasted

- using labour-saving equipment
- improving working conditions; making sure that lighting and ventilation are adequate
- using incentives like a bonus to reward extra effort

However, you must be sure that you can sell the additional items you make either to your existing market, or to new markets which you have identified.

Price Calculation for Retail businesses

If you operate a retail business, that is you buy goods for resale, the price at which you sell your goods is obtained by adding to the purchase price, a markup which is large enough to cover all operating expenses, depreciation of your goods and profits.

The amount you add for profit can be as much as you wish, as long as the selling price you set is close to the prices your competitors are selling at.
Usually the mark-up is expressed as a percentage, which varies depending on:

a) the type of goods sold
b) the expenses which have to be covered in handling the goods, and
c) whether or not the selling price is controlled by law.

For example, in Jamaica, grocery stores add a mark-up of 40% on items such as meats, milk, cheese, butter, vegetables, etc. which have to be refridgerated. Other items which do not need refridgeration are marked-up between 25% and 30%. Items for which the selling prices are controlled have a mark-up of between 2% and 15%.

COST/PRICE CALCULATION FOR SMALL FARMERS

The situation is a little different for cost-price calculations if you are making your living as a small farmer.

1. Normally, you have little control over the prices that will be paid to you.
2. Normally, the quantity you produce will not affect the price.
3. Normally, you cannot predict very accurately what price you will sell at this year (unless government guarantees price, or you contract the sale of your product).
4. Weather, diseases, insects and other factors may considerably change yields from the estimates you make.
5. For perennial crops and larger livestock, you often have to produce, no matter what your costs are or what price you expect to get.

So, why bother to estimate cost and price?

1. Even so, it is important that you have available at the beginning of each year the most accurate estimate that you can make.
   - if it looks like you are going to loose money you are forewarned to watch expenses even more carefully than usual; to work hard at controlling disease and insects and get as high yields as possible, to put-off or limit purchase and personal expenses as much as possible.
   - if it looks like you will make money, this gives you time to think about the important ways in which you will use the money, if it's a good year.

2. There are almost always some minor adjustments you can make to improve matters, once you have a good estimate of what is likely to happen during the year. (Some of these are discussed in the exercise on Organizing Your Production).

Here is a format you can use to compare costs and prices for your crops and help you to decide which crop or combination of crops is likely to give you the best "wages".

		Product A	Product B	Total
1.	Estimated price per unit	_____	_____	
2.	Total Expected Production			
	A._____ units	_____		
	B._____ units		_____	
3.	Total Expected Receipts			
	A._____ units x$(1)	_____		
	B._____ units x$(1)		_____	_____
4.	Total Expected Costs (except labour)	_____	_____	_____
5.	Net Receipts	_____	_____	_____
6.	Work time			
	A. (days, weeks, months)	_____		
	B. (days, weeks, months)		_____	
7.	"Wages"			
	A.	_____		
	B.		_____	

Here's how you use the format:

1. Write down your most accurate estimate of the price per unit you expect to receive for each product.

2. Write down the total production you expect for each product.

3. For each product, multiply total expected production by expected price per unit. This gives you total expected receipts from each product.

4. Work out the cost of producing the total production for each of your products but do not include the value of your labour in this calculation.

5. Now for each product subtract total expected costs from total expected receipts. This (Net receipts) gives you the amount available to pay you for your time and effort in growing that product.

6. Next estimate how much time (equivalents of days' or weeks' work) you and your family will spend in growing each product.

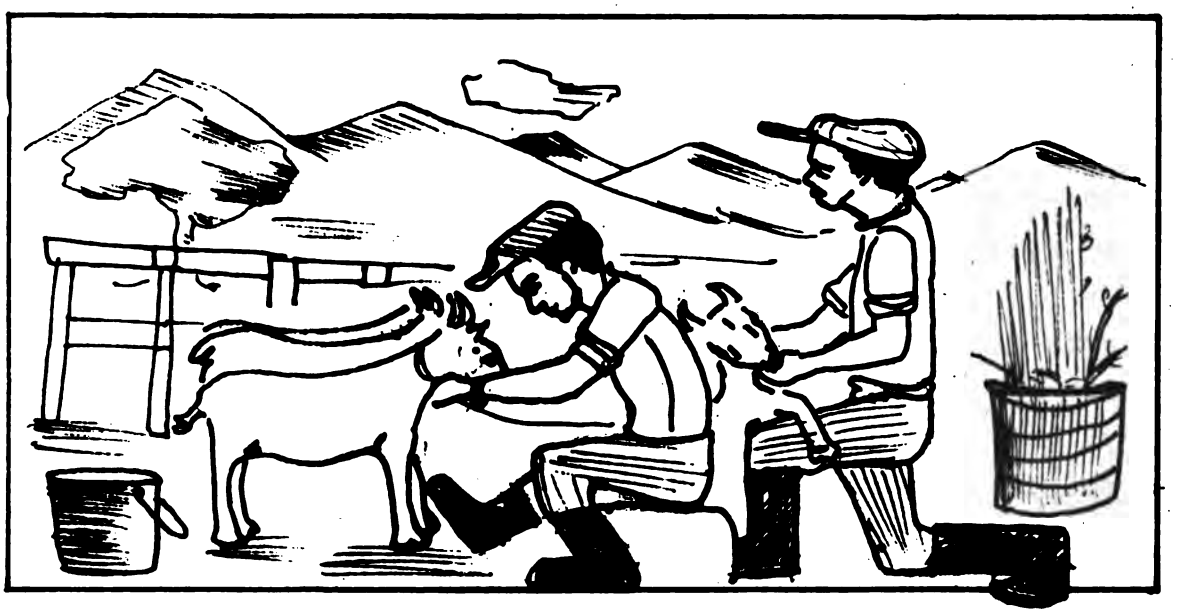
7. Now, for each product divide Net Receipts by the number of days or weeks worked in producing it. This will give you your estimate of what "wage" you are likely to get from your work on each product.

8. a) Add the total receipts expected of Products A & B.

   b) From them subtract total expected costs for Products A & B. This difference is the amount available (Net Receipts) from all your products.

   c) Divide this amount by the total time worked. This will tell you the average "wage" per week or per day received from your total farm business.

9. Some products will pay better (expected) wages than others. See if you can adjust your farm production plan to produce more of the better paying products and less of the poorer paying products.



Here are two simple examples:

A. Farmer Burke produces only products A and B.
Here is a summary of his calculations.

	Product A	Product B	Total
1. Price per unit	1.00	50¢	-
2. Total Expected Production			
A. 6,000 units	6,000		
B. 7,000 units		7,000	
3. Total Expected Receipts			
A. 6,000 units x $1	$6,000		
B. 7,000 units x $0.50¢		$3,500	$9,500
4. Total Expected Costs (except his labour)	$5,500	$2,500	$8,000
5. Net receipts	$ 500	$1,000	$1,500
6. Work time			
A	100 days		
B		100 days	200 days
7. "Wages"			
A	$5.00/day		
B		$10/day	

8. $9500-$8000 = $1500 divided by 200 days = $7.50/day on total farm work.

9. Farmer Burke decided to spend more of his time on Product B (grow more of it) and less on Product A, since Product B pays him much better "wages". He is also looking at other possible products that would pay better for next year.

Can you think of what might be Product A and Product B in your part of Jamaica?

Product A = _____

Product B = _____

B. Goat Example

John Williams has the chance to lease two acres of fairly good natural pasture land not far from his house. He is thinking of leasing this land and raising goats. Before deciding, he estimates the costs and returns he would expect. Here are his estimates:

1. Size of enterprise

   On this kind of pasture, he believes he can feed well, five ewes and their kids per acre, or a total of ten ewes and their kids on the two acres.

2. Production

   Average production in his area is about 1½ kids sold per ewe, per year. He believes that by rotating the pasture's use wisely and strictly controlling internal parasites, he can average two kids sold per ewe or a total of 20 per year.

3. Price and Income

   Kids of 6 months to a year old are selling in his area for around $100 a piece and demand is strong. His 20 kids would produce $2,000 income per year.

4. Investment

   Young half-breed ewes are selling for about $300. With care, they will continue in production for about six years. He would need $3,000 to buy 10 ewes. Pegs and rope or light chain for picketing would cost another $100. He has part of the money needed ($1,100) and a friend is willing to lend him the rest ($2,000) to be paid back from the income earned from the sale of kids.

5. **Repayment**

His friend expects to be repaid during the next four years, with 15% interest per year on the unpaid balance. This averages out $500 loan repayment and about $190 interest per year.

6. **Cash expenses**

Pasture rental $100/year.
Medicines and drenching $240/year.

7. **Labour and Management**

John Williams estimates it will normally take 1½ to 2 hours a day to care for the goats, plus a full day each month for drenching. This is about the same as 90 days or 13 weeks of full time work.

Now let's summarize John's estimates of Investment, Costs and Returns.

Investment		
His own savings		$1,100
Borrowed at 15% interest		2,000
Total		$3,100
Annual Receipts		
20 kids at	$100	$2,000
Annual Cash expenses		
Pasture rental	$100	
Medicines and drenching	$240	
Interest payments	$190	
		530
Net Cash Receipts		$1,470
Loan Repayment		500
Cash available to John		$ 970

1. What should John decide?_____

2. Why?_____

3. In making his decision, should John mainly consider

   Net Cash Receipts ☐

   Cash Available to John ☐

   Both ☐

4. Why?_____

   _____

   _____

5. What will happen if John is only about to raise and sell one kid per ewe per year?_____

   _____

WORKING WITH PEOPLE 6
Customers, Suppliers, Workers.

Getting along with people and working well with people is very important to a successful business.

1. People buy your product or service.
2. People sell you raw materials and other goods for your business.
3. People may work with you to make your business a success.

Let us see how we can work well with the people we come in contact with when we do business.

1. People buy your product or service.
   Remember that no business can survive without its customers. Without customers, a business is sure to fail. Be aware that customers are not obliged to buy your goods or services. They can usually turn to another business, if you do not treat them well. How can you encourage them to buy your goods or services?

Study the following suggestions:

* Be friendly! it takes less effort to smile than to frown.

No!

Yes!

* Be helpful to each customer. If you don't have what he wants,take an order to supply it.
* Be honest: don't make false claims about a product; the truth always comes out in the end.
* The customer should feel important: make him feel he is the most important person in the world to you at that moment - because he is.
* Call him by name, if you can.
* Don't keep the customer waiting needlessly.
* Know your job in order to do it efficiently.
* Know your product: Be prepared to answer any questions the customer may ask about it.
* Do not force your product on your customer. Even if the sale is made, he may not come again nor will his friends.
* Maintain high quality goods: remember "The quality remains long after the price is forgotten".

* Keep your work place, your goods, and yourself, as neat and clean as possible.
* Keep price tags neat and clear.

Following these suggestions means having satisfied customers.
Remember, "there is no advertising like the good words of a satisfied customer".

2. People sell you raw materials and other goods for your business.
Following are some suggestions for having a good relationship with your suppliers. These are the people who supply you with the things needed to make your product or sell your service:

* Be sure all business deals are fair, to both you and the supplier.
* Place orders for raw materials or other goods in good time before they are needed.
* Pay your suppliers within the time agreed on.
* Be pleasant and friendly when you deal with your supplier.
* Be on time for appointments.

3. People may work with you to make your business a success.
In some small businesses, for example partnerships or cooperatives, groups of people work together and reap the benefits together. Other types of businesses, though owned by one person, may require the help of family, friends or hired workers.

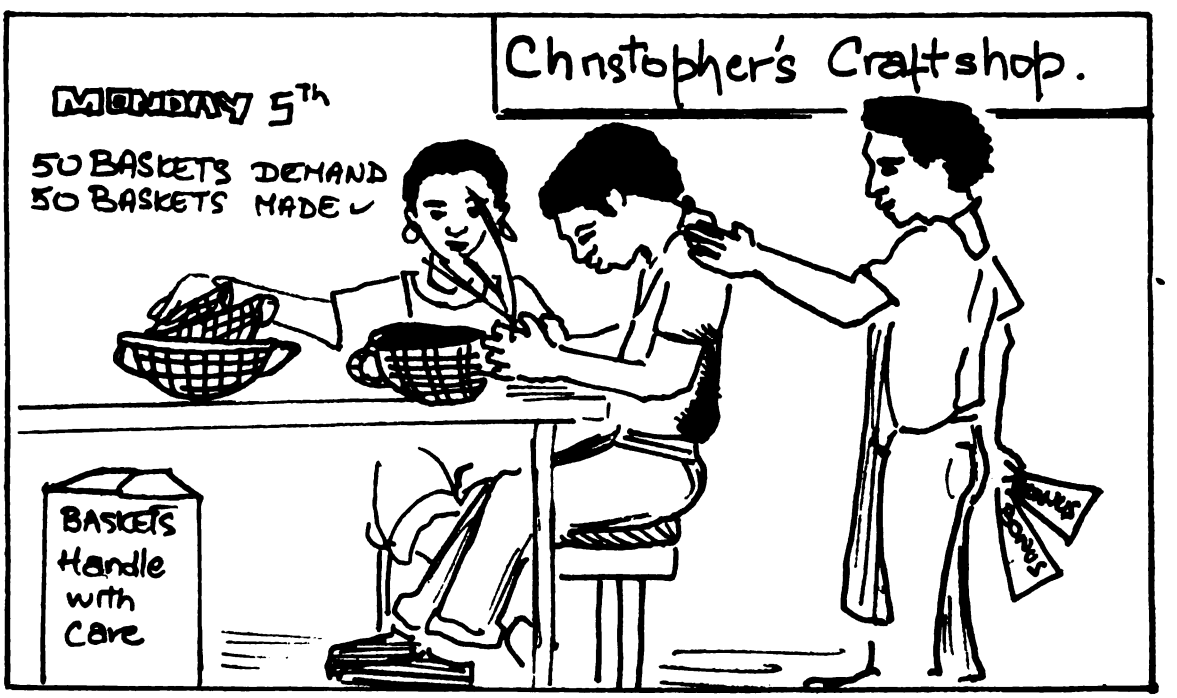
Whichever category your business falls into, there must be someone who has the responsibility of coordinating the activities of the business so that it will operate smoothly and efficiently. That person is the MANAGER. The job of the manager involves planning for the business and making sure that those plans are fulfilled.

Managing the business also means managing the people:

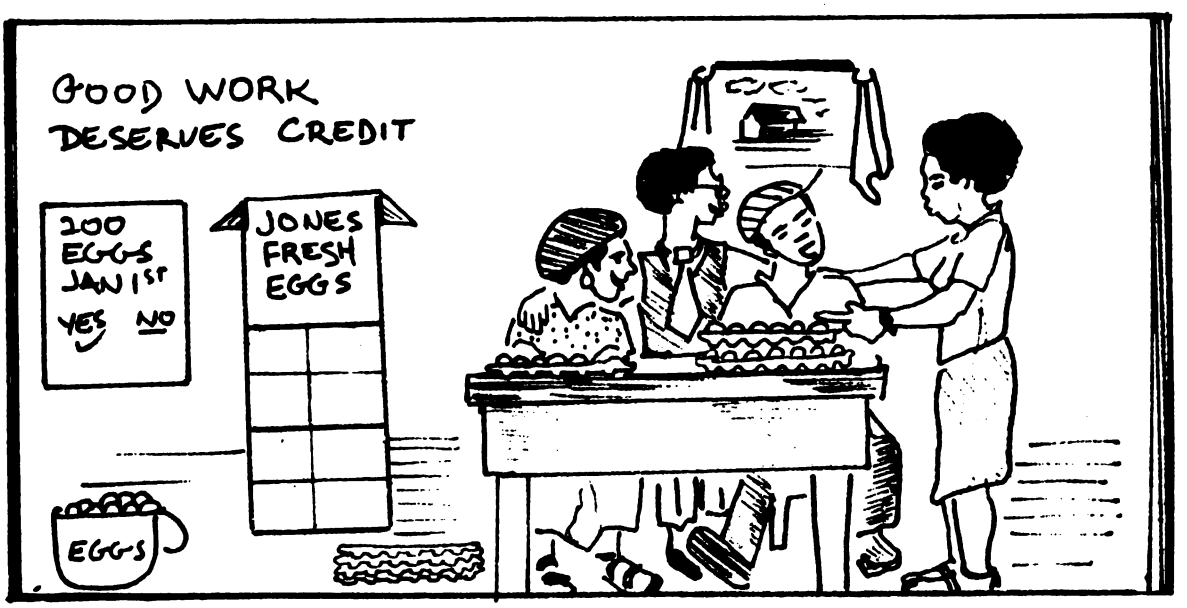
* assigning their tasks
  - making sure that they know which tasks they should perform, how to do them and when to do them.

* coordinating their work
  - getting everyone to work in harmony for the efficient running of the business.

* monitoring their activities
  - observing them to see that they perform their tasks well and use their time well.
  - giving them advice on how to improve their work.



* motivating them
    - praising them when they do well but correcting their mistakes.
    - listening to them and asking for their suggestions on ways to improve the business.
    - giving them more authority or responsibility when they prove they can handle it.
    - when possible, giving them incentives: a pay bonus, a gift or holiday if these are justified.
    - treating them as individuals but encouraging a team spirit.



Always remember that those working with you get satisfaction from good wages, fringe benefits, meaningful tasks, comfortable surroundings and pleasant relationships with the manager and other employees.

As you continue in your business, you will find more ways to successfully work with people and this, in turn, will make your business more successful.

WHAT OTHER THINGS CAN YOU THINK OF TO ENCOURAGE PEOPLE TO BUY YOUR PRODUCT OR SERVICE?

WHAT ELSE CAN YOU DO TO ENCOURAGE A GOOD RELATIONSHIP WITH YOUR SUPPLIER?

WHAT ELSE CAN YOU DO TO ENCOURAGE GOOD WORKING RELATIONSHIPS WITH THOSE WORKING IN YOUR BUSINESS?

SO WHY IS WORKING WITH PEOPLE SO IMPORTANT TO THE SUCCESS OF YOUR SMALL BUSINESS?

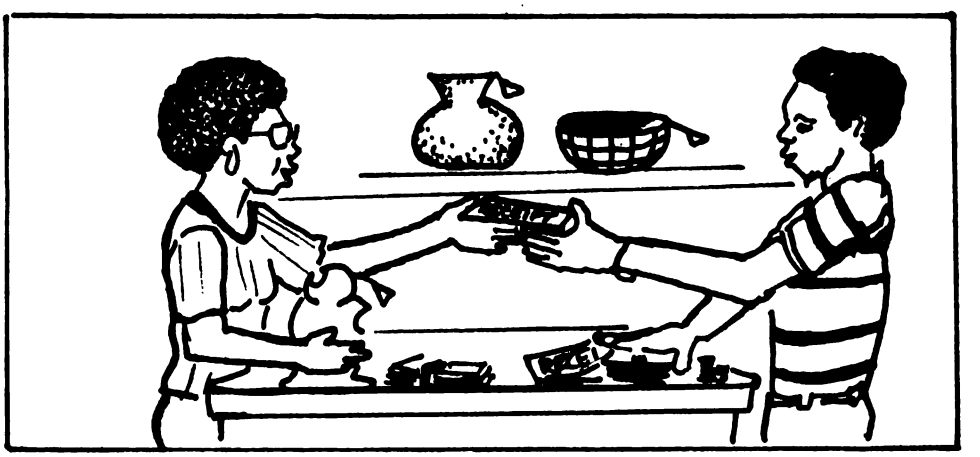
PART II:

BASIC RECORD - KEEPING

YOUR RECEIPT BOOK AND ORDER BOOK 7

It is very important to keep records when you are in business. Every business which has been successful has kept and used business records. Records tell us what has happened in our businesses. No one can tell exactly what will happen in the future. However, we will have a much better idea if we know what has taken place in the past.

Business records should tell us what happens to our cash. Receipt Books will do that. When we receive cash in our business we should give a receipt and keep a copy for our own use. When we pay out cash we should get a receipt from the person to whom we pay, keeping it for our records.

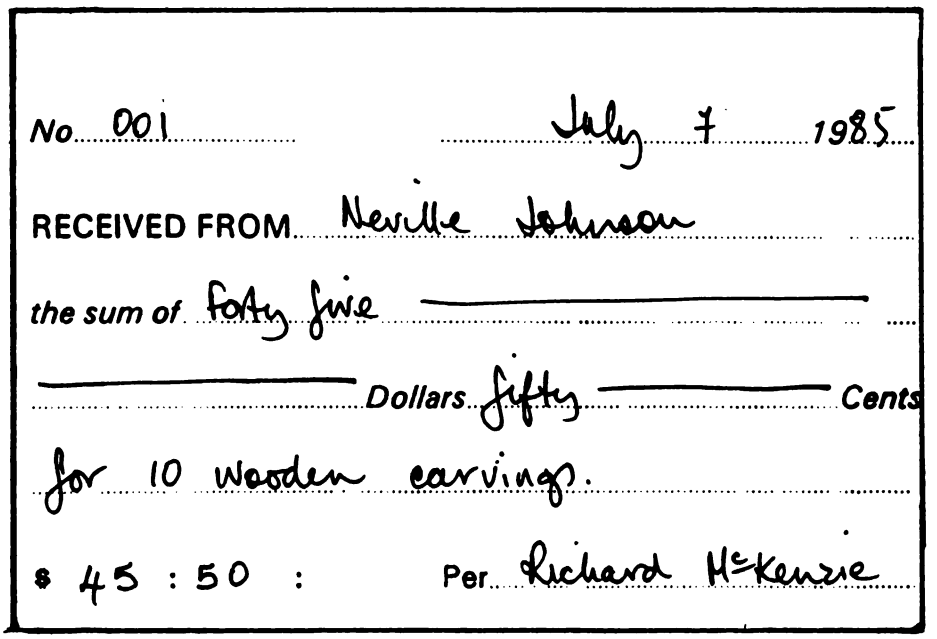


These receipts will be the basis for our Cash Book, one of our most important records. If we look at the receipts we give and those we receive, we will find out a great deal about our business:

* We will know how much money we have received each day, week, month or year in our business.
* We will know who our customers are.

* We will know which of our products sell the best.
* We will know at what time of the week, month or year our business does well.
* We will find out where we spend most of our money. This information will help us to find ways to lower our costs, when we can.

Following is a sample receipt, completed in handwriting in the places where you would write:



To fill in a receipt, you should do the following, writing in ink.

1. Place a piece of carbon paper behind the receipt to make a copy for yourself on the next page.
2. Number each receipt in a continuous series, starting with 001, 002, 003, etc. Do this as soon as you buy each receipt book and continue the numbering from the end of one receipt book to the beginning of the next book. This helps you to have a number system for each sale made.
   For example No. 001

3. Place the date you make the sale in the upper right of the receipt. For example July 7 1985
4. Place the name of the person you make the sale to (and receive the money from).
   For example: Received from Neville Johnson
5. Place, in written form, the amount of money received, in dollars and cents.
   For example: the sum of Forty five _____ dollars fifty _____ cents
6. Place, on the blank line, what items the money was received for. For example:
   for 10 wooden carvings
7. Place, in numbers, the same amount of money received.
   For example: $ 45 : 50 :
8. Sign your name on the last line.
   For example: Per Richard McKenzie
   Remember, the receipt is not complete until you sign your name on the last line.
9. You should stamp the receipt.

Thinking of a sale you made last month or recently fill in the receipt below:

No. ..... 19.....

RECEIVED FROM .....

the sum of .....

..... Dollars ..... Cents

.....

$: : Per .....

Complete the two receipts on this page for two other sales made in the last month. If you did not make two sales in the last month, use the last two sales you remember.

No..... .....*19*.....

RECEIVED FROM.....

the sum of.....

.....*Dollars*.....*Cents*

.....

$: : Per.....

No..... .....*19*.....

RECEIVED FROM.....

the sum of.....

.....*Dollars*.....*Cents*

.....

$: : Per.....

Look at the three receipts you just completed.

* What is the total amount you received? $_____._____
* From whom did you receive the money?

_____

_____

_____

* Which products were purchased?

_____

_____

_____

* What were the dates on these receipts?

_____

_____

_____

From your answers, you should be able to tell:

° Who your best customers are
° Which of your products sell the best
° The time of the week or month your business does best

Now look at some receipts you have received from the people you have spent money with.

* What has the money been spent on?

_____

_____

_____

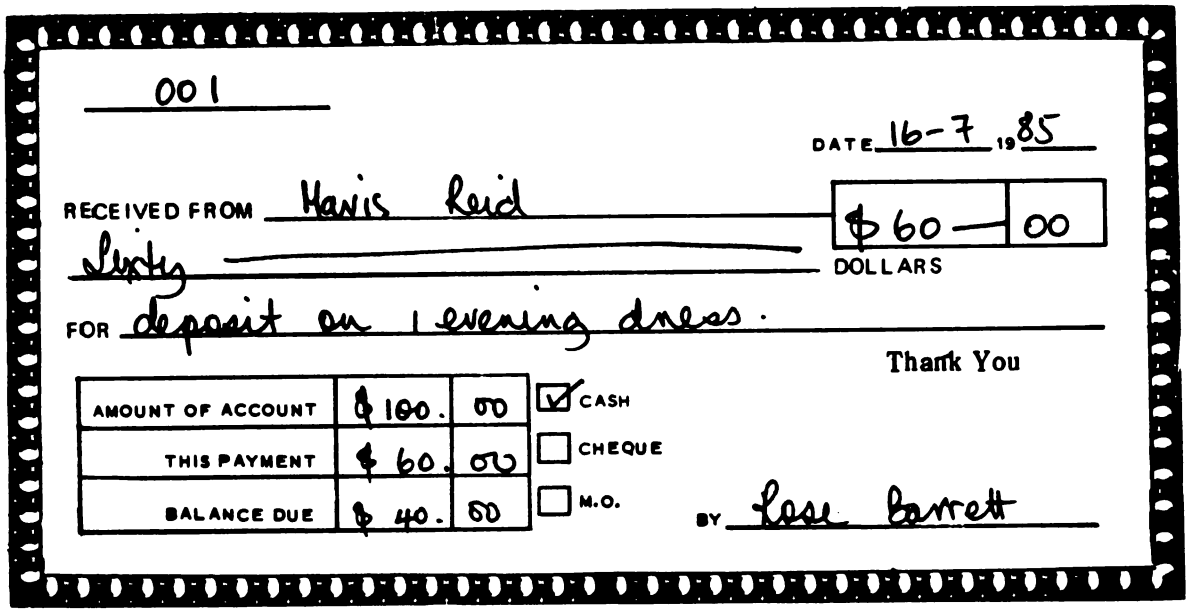
Can you think of ways you can reduce any of these costs?

_____

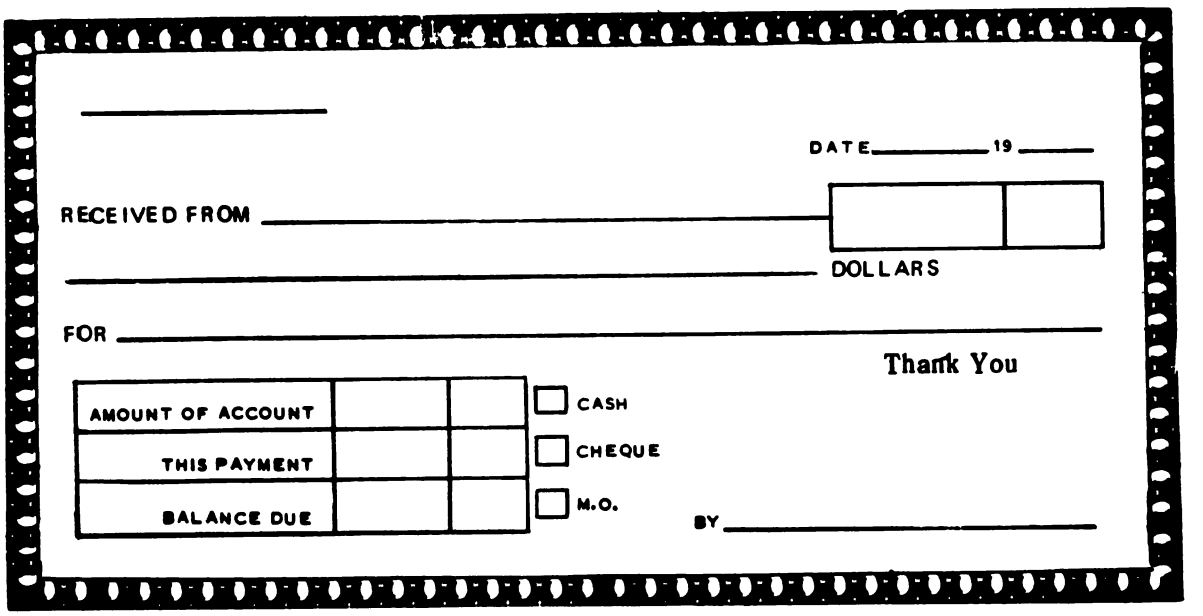
_____

_____

Below you can see another type of receipt. This one allows you to record a part-payment showing the amount due before and after the payment. You can also show whether the payment was made with cash, cheque or money order.



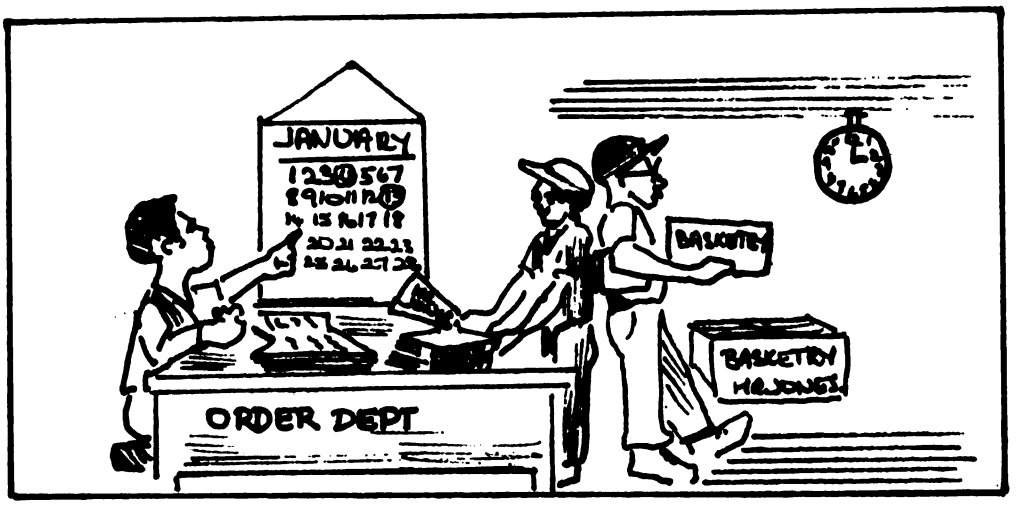
Thinking of a credit sale you made in which you received a part-payment, fill in the receipt below.



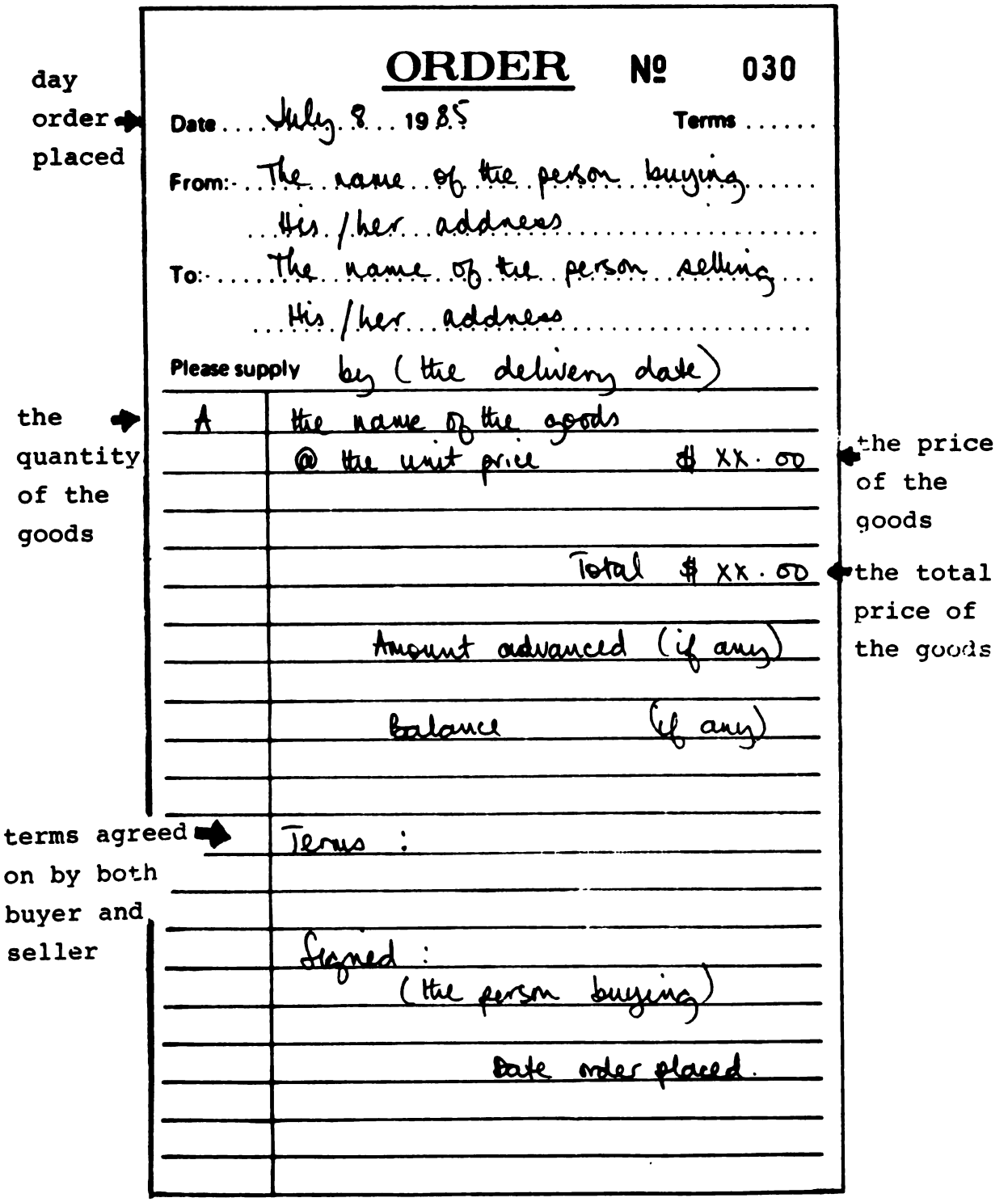
Some businesses sell their products for cash only and sell only the products they have available at the time of sale. Other businesses sell products which will be available at some future time. These businesses need to use an Order Book.

The Order Book is used so that both the buyer and the seller will have a record of the agreement they have made. The order should contain as much information as possible so that there will be no disagreements between the buyer and the seller when delivery of the product is made. This will help the business have satisfied customers. Satisfied customers will come back and buy from the business again and will tell their friends about the business.

When you visit your customers to market your product, always take your order book with you, along with your receipt book.



Following is a sample of a page from an Order Book. Let us see how it is written up.



The following steps should be taken:

1. Place a piece of carbon paper behind the page so that you will have a copy for your records.

2. Date..... 19.....
   Place the date of the day you receive the order in the upper left hand.

3. Terms.....
   Write the terms of payment which have been agreed on by yourself and your customer. There are several ways payment may be made to you. Let us discuss a few of them:

   a) C.O.D. (Cash on delivery)
      This means that your customer will pay the full price of the goods he has ordered on the day the goods are delivered.

   b) Part-payment/balance on delivery
      This means that the customer will advance you a portion of the total cost of the goods when the order is placed and will pay the difference on the day the goods are delivered.

   It is very important to ask your customer for as large a part-payment as he is willing to give you. This payment lessens the chance of the customer "backing out" of the agreement, as he would generally lose the part-payment if he did. The greater the risk to the seller of this happening, the higher the part-payment should be.

For example: Mrs. Jones orders a dress made by Miss Rose's Dress Shop. She picks a colour and style that she likes but one the dressmaker knows would be difficult to sell to anyone else.

This type of sale should have a high part-payment.

c) Credit terms

This means that you have agreed to accept payment for your goods several days after you have delivered them. You should decide how long you are willing to delay payment. Credit terms usually vary from 5 - 60 days depending on the size of the order and the particular customer you are dealing with.

Let's say, for example, you are selling your product on the basis of cash on delivery (C.O.D). You should then write in the space provided:

Terms...C.:.O.:.D..

4. from.....

Place the name of the person who is placing the order, that is, the person buying and his/her address.

e.g. from...Neville Johnson.....
...C/o The Craft Shop, 14 West Rd. Kgn.....

5. to.....

Place your name, that is, the person accepting the order, and your address.

e.g. to...Sheila Mc Kenzie.....
....Woodpark, St. Ann.....

When you get a new Order Book you may want to enter your name (or the name of your business) in this blank on each order in the book.

6. please supply

a) beside this, you may put the date on which you have agreed to supply the goods to your customer.
e.g. please supply ..by..22nd..July..1985

b) under this in the lines provided, you write the quantities the descriptions and the prices of the items which have been ordered.
e.g. please supply..by..22nd..July..1985.

20 Coil baskets (#303) @ $3.00 $60.00

10 Bread baskets (#306) @ $2.00 20.00

5 Laundry baskets (#304) @ $10.00 50.00

Total $130.00

The description of the item should be precise so that there is no misunderstanding about what has been ordered. To prevent errors, you can give each sample a number or a name and put this number or name on the order as has been done in the above example.

7. You may wish to write again the terms of payment you have agreed on, so that it is clearly visible on the order.

8. Next, the person who has ordered the goods should sign his/her name and place the date. If the buyer is a company, a stamp or seal of the company should be placed and signed by the person who placed the order.

Here is the completed order, the original which is for the buyer, and the copy, which you keep for your records:

ORDER № 021

Date July 8 1985 Terms .....

From: Neville Johnson
c/o The Craft Shop, 14 West Rd. Kpn.

To: Sheila Mc Kenzie
Woodpark, St. Ann

Please supply by 22nd July, 1985.

20	Coil baskets (# 303)	
	@ $3.00 ea.	$60.00
10	Bread baskets (# 306)	
	@ $2.00 ea.	20.00
5	Laundry baskets (# 304)	
	@ $10.00 ea.	50.00
	Total	$130.00

Terms: Cash on delivery
$130.00

Signed:
Neville Johnson
8/7/85

COPY ↓

July 8 85
Neville Johnson
c/o The Craft Shop,
Sheila Mc Kenzie
Woodpark, St. Ann
by 22nd July, 1985
baskets (# 303)
3.00 ea.
baskets (# 306)
ea.
baskets (# 304)
a.
Total
50.00
$130.00
delivery
$130.00

In the second example, the seller has given the customer 8 days to pay for the goods after they have been delivered. This usually means 8 WORKING days and the actual date on which payment is due must be written down.

ORDER № 018

Date July 8 1985. Terms .....

From: Neville Johnson
% Tic Craft Shop, 14 West Rd, Kgn.

To: Sheila McKenzie
Woodpark, St. Ann

Please supply by 22nd July, 1985

20	Coil baskets (#303)	
	@ $3.00 ea.	$60.00
10	Bread baskets (#306)	
	@ $2.00 ea.	20.00
5	Laundry baskets (#304)	
	@ $10.00 ea.	50.00
	Total	$130.00

Terms: 8 days credit

Payment of $130.00 due August 1, 1985.

Signed:
Neville Johnson
8/7/85

Here is another example of an order. You may notice that in this example, the terms are different. The seller has accepted part-payment on the goods at the time of placing the order. The seller would therefore give a receipt to the customer for this amount. The balance will be paid by the customer when the goods are delivered.

ORDER **No** 019

Date July 8 1985 Terms .....

From: Neville Johnson

c/o The Craft Shop, 14 West Rd. Kgn.

To: Sheila McKenzie

Woodpark, St. Ann

Please supply by 22nd July, 1985.

20	Coil baskets (#303)	
	@ $3.00 ea.	$60.00
10	Bread baskets (#306)	
	@ $2.00 ea	20.00
5	Laundry basket (#304)	
	@ $10.00 ea	50.00
	Total	$130.00
	Advanced	65.00
	Balance	$65.00

Terms: Part-payment / balance on delivery

Signed:
Neville Johnson
8/7/85

Think of an order someone made to you recently. Now fill in the blank order below as if you had done it on the day the order was placed. Of course the person who placed the order will not be able to sign it but you must remember that this is a very important step in the preparation of the order. BY SIGNING THE ORDER, THE BUYER HAS MADE A FIRM COMMITMENT TO YOU TO RECEIVE AND PAY FOR THE GOODS, BUT IT IS EQUALLY IMPORTANT FOR YOU TO KEEP YOUR COMMITMENTS TO DELIVER GOOD QUALITY ITEMS ON THE DATE YOU HAVE AGREED ON.

ORDER No ..012

Date ..... 19... Terms .....

From .....

.....

To: .....

.....

Please supply

YOUR CASH BOOK 3

You cannot control your business unless you keep track of how much money you collect and how much you spend each day. You must know how your cash is coming in and going out. A simple way of doing this is by using a Cash Book.

The Cash Book should be written up at the end of each day, after you have finished all buying and selling, or as often as your business requires. A cash book has ruled pages with several columns. For each day's record-keeping, both sides of the book must be used.

Money collected (CASH IN or Receipts) is recorded on the left hand side and money spent (CASH OUT or Payments) on the right hand side.

Figure 1

CASH IN (RECEIPTS) +

DATE	QTY.	DETAILS	UNIT RATE	$	¢	$	¢	BANK	NOTES

First, you will have to write the headings at the top of the two pages. Figure 1 shows you how to do this.

In Figure 1, you will see that the first column on the left of each page is headed 'Date', the second 'Qty.' which stands for 'Quantity', the third 'Details', the fourth 'Unit Rate', the fifth and sixth are for 'Dollars' (&) and 'Cents' (¢), as are the seventh and eighth. The ninth column can be used to record bank transactions and the tenth column can be used for notes.

Figure 2 shows you how to write up the Cash Book, and explains what goes under the headings. On the day you start keeping your Cash Book, you will collect all your receipts or your records of sales made and all other monies received for the business, and you will have your list of all payments you made that day. Remember, only your cash transactions go into your Cash Book; these would include payments made by cheque or money order, but not money owed to you on credit.

CASH OUT (PAYMENTS) —

DATE	QTY.	DETAILS	UNIT RATE	$	¢	$	¢	BANK	NOTES

Figure 2

CASH IN (RECEIPTS) +

DATE	QTY.	DETAILS	UNIT RATE	$	¢	$	¢	BANK	NOTES
16-4-85		Opening balance				80.	00		
	100	lbs. Yams	80¢	80.	00				Receipt # 027
		Partner draw		300.	00	380.	00		
		Total cash available				460.	00		
						460.	00		

Start on the left hand side - the Receipts or CASH IN section. Let us go step by step.

1. Write in the date.

2. Under 'Details' you should write 'Opening Balance'. Your 'Opening Balance' is the amount of cash you have in the business when you begin trading on the given date. Any money you have for the business, whether it is in your cash pan or elsewhere, is included in your 'Opening Balance'. In our example in Figure 2, the farmer started keeping the Cash Book on April 16, 1985. That morning he had $80.00 in his cash pan. This is his 'Opening Balance'. He wrote this amount in the 7th and 8th columns under $ and ¢.

3. Next, you must list all receipts for the day - all sales and any other monies that come into the business. (You can get information about your sales from your receipt book).

CASH OUT (PAYMENTS) —

DATE	QTY.	DETAILS	UNIT RATE	$	¢	$	¢	BANK	NOTES
16-4-85		Part-payment-Spray Pam		220.	00				Receipt # 6148
	1	tin lettuce seeds		43.	60				
	1	tin Diazinon		17.	85				
		Transportation		20.	00				
		Total Cash Out				301.	45		
		Closing balance				158.	55		
						460.	00		

In our example, one sale was made and the farmer also got a 'partner' draw. To record the sale (100 lbs yams @ 80 cents per pound; a total of $80.00), he did the following:

(a) In the 'Quantity' column, he put 100

(b) In the 'Details' column, he put lbs. yams

(c) In the 'Unit Rate' column he put 20¢

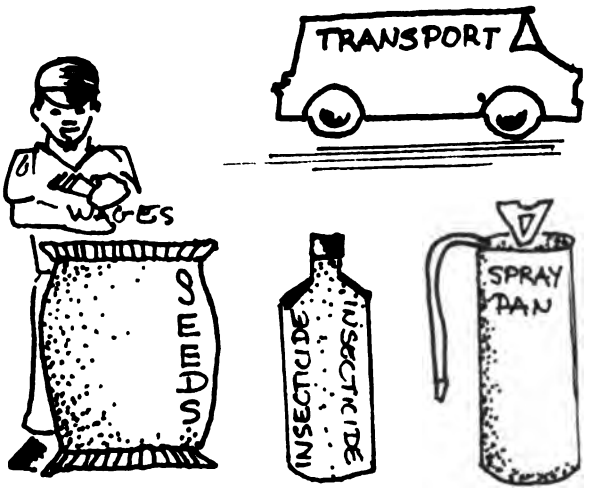
(d) In the 'Dollars & Cents' column he put the total amount collected for the yams - $80.00.

The 'partner draw' is entered in the same way. Next, the total amount of money received on that day is added up and this new total is added to the 'Opening Balance' to give the 'Total Cash Available'.

For Example:	Opening Balance		$80.00
	Day's receipts	80.00	
		300.00	380.00
	Total Cash Available		$460.00

The 'Total Cash Available' is then the total amount of cash the farmer had available to spend for the business that day.

4. Let us now move to the right hand side - the Payments or CASH OUT section. While receiving cash for sales, the business is likely to be paying out cash for raw materials, supplies, rent, wages, transporation, etc. Payments made during the day must be put in the CASH OUT section.



Let us look again at Figure 2:
On the same day, the farmer made the following payments:

Part-payment on 1 spray pan	$220.00
1 tin lettuce seeds, costing	43.60
1 tin insecticide, costing	17.85
Transportation	20.00
The total spent for the day was then:	$301.45

This total is the 'Total Cash Out'. He put this amount on the line under the figures.

5. Next, we will find out how much money is left over at the end of the day. This is the 'Closing Balance'. In the example, we know that the farmer had a 'Total Cash Available' of $460.00, and that the total amount paid

out, or 'Total Cash Out' was $301.45. The 'Closing Balance' - what he had left over at the end of the day is therefore:

Total cash available	$460.00
Minus Total cash out	301.45
is equal to Closing Balance	$158.55

Use the line under 'Total Cash Out' to enter the 'Closing Balance'. Now count the cash you have in your cash pan (and elsewhere) at the end of the day. This amount should be the same as the 'Closing Balance'. If it is not, then:

(a) You may have added or subtracted incorrectly either on the 'Cash In' side or the 'Cash Out' side, or on both sides. Check your figures.

(b) You may have given or received incorrect change when you sold your goods or when you made your purchases that day. Try to recall and change the figures so that the true transactions are recorded.

6. Now we can balance our books. Add the 'Closing Balance' back to the 'Total Cash Out'. This figure is then entered in the $ and ¢ column under the figure for the 'Closing Balance'. It should be the same as the amount, 'Total Cash Available' on the CASH IN side.

In the example,

	Closing Balance	$158.55
plus	Total Cash Out	301.45
	=	$460.00

You will recall that $460.00 was the 'Total Cash Available' on the 'CASH IN' side. This shows that we have 'balanced' our Cash Book. Draw a line across both pages to close off that day's transactions.

7. Start off your entry for the next working day by entering the date and the 'Opening Balance'. This will always be the same as the 'Closing Balance' from the previous day, since your Cash Book is written up <u>when trading is over for the day</u>.

Figure 3 shows you examples of entries for 3 successive days. Look carefully at the way the entries are made and notice the following:

a) The 'Closing Balance' at the end of each day is always the same as the 'Opening Balance' for the following day.

b) In order for your Cash Book to be balanced for the day, the 'Total Cash Out' plus the 'Closing Balance' must be equal to the 'Opening Balance' plus the 'Total Receipts'.

c) The columns on both pages headed 'Notes' may be used to record cheque numbers for payments received or made by cheque, to list receipt numbers, or for any notes you may find useful to you.

d) The 'Closing Balance' should be the same as the amount of money in the cash pan. You should count it to make sure.

Use the sample Cash Book page at the end of this exercise to practice recording the money you collect and spend in your business each day. Do this for as many days as you can fit on the page. After that, purchase a Cash Book or rule the columns in an exercise book and use it to keep your records. Soon you will always be able to tell how your business is making out and you will be well on your way to being a better manager.

Figure 3

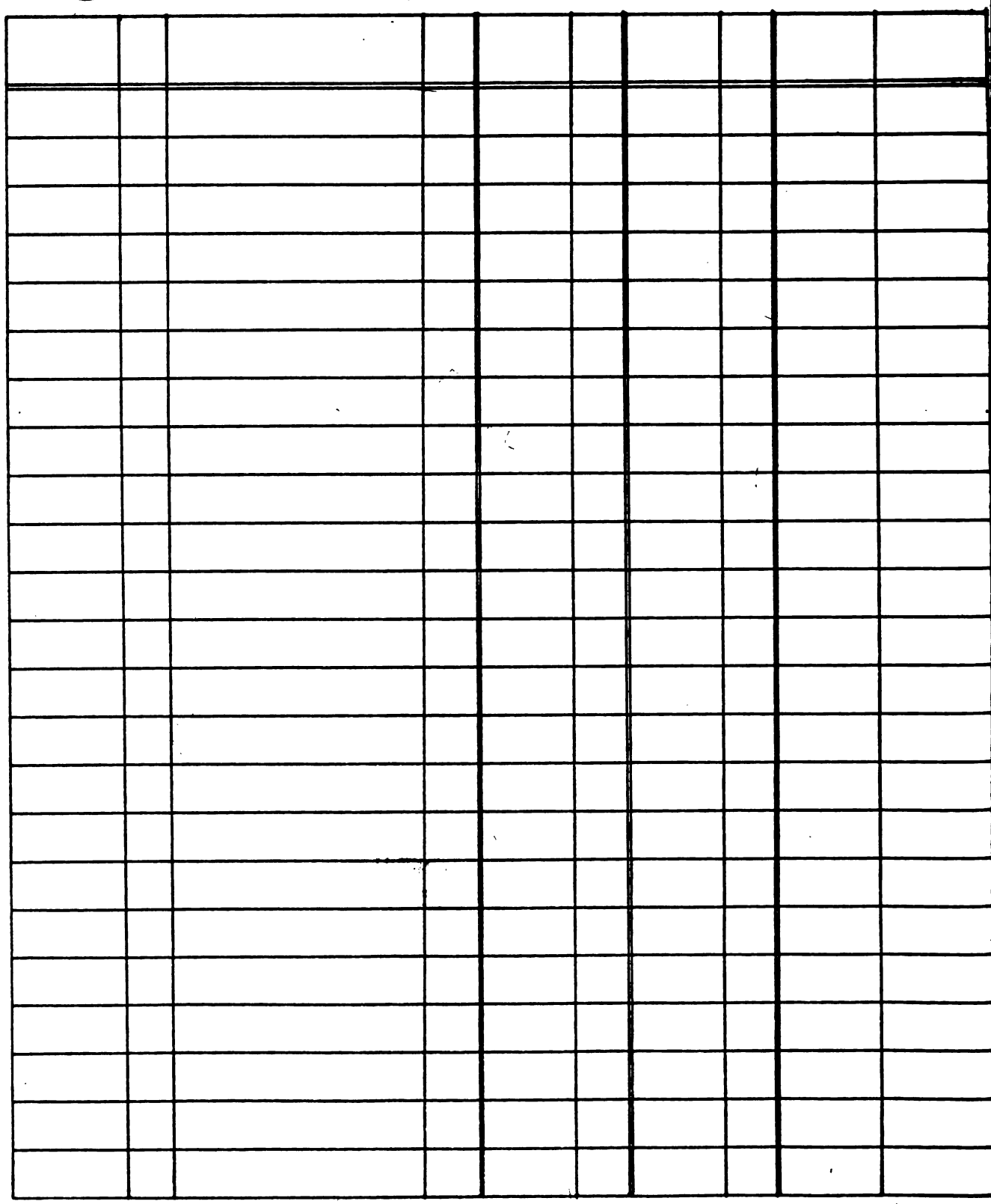
CASH IN (RECEIPTS) +

DATE	QTY.	DETAILS	UNIT RATE	$	¢	$	¢	BANK	NOTES
16-4-85		Opening balance				80.	00		
	100	lbs. Yams	80¢	80.	00				Receipt # 027
		Partner draw		300.	00	380.	00		
		Total cash available				460.	00		
						460.	00		
17-4-85		Opening balance				158.	55		
	1½	cwt. tomatoes	$100-	150.	00	150.	00		Receipt # 028
		Total cash available				308	55		
18-4-85		Opening balance				308.	55		
	100	lbs. yams	80¢	80.	00				Receipt # 029
	1	goat kid		100.	00	180.	00		# 030
		Total cash available				488.	55		
						488.	55		
19-4-85		Opening balance				407.	15		
	100	lbs. yams	80¢	80.	00				Receipt # 031
	220	lbs. cabbage	30¢	67.	20				# 032
	50	lbs. tomatoes	90¢	45.	00	192.	20		# 033
		Total cash available				599.	35		
						599.	35		

CASH OUT (PAYMENTS) —

DATE	QTY.	DETAILS	UNIT RATE	$	¢	$	¢	BANK	NOTES
16-4-85		part-payment - Spray Pro		2[illegible]	00				
	1	tin lettuce seeds		43.	60				Receipt # 6148
	1	tin Diazinon		17.	85				
		Transportation		30.	00				
		Total Cash out				301.	45		
		Closing balance				158.	55		
						460.	00		
18-4-85	30	Crocus bags		15.	00				
	1	tin Fungicide		46.	40				Receipt # 80765
		Transportation		[illegible]	00				
		Total Cash out				81.	40		
		Closing balance				407.	15		
						488.	55		
19-4-85		Wages - self		225.	00				
		Partner hand		[illegible]	00				
		Lease - land		150.	00				Receipt # 00521
		Transportation		[illegible]	00				
		Total Cash out				420.	00		
		Closing balance				179.	35		
						599.	35		

Figure 4



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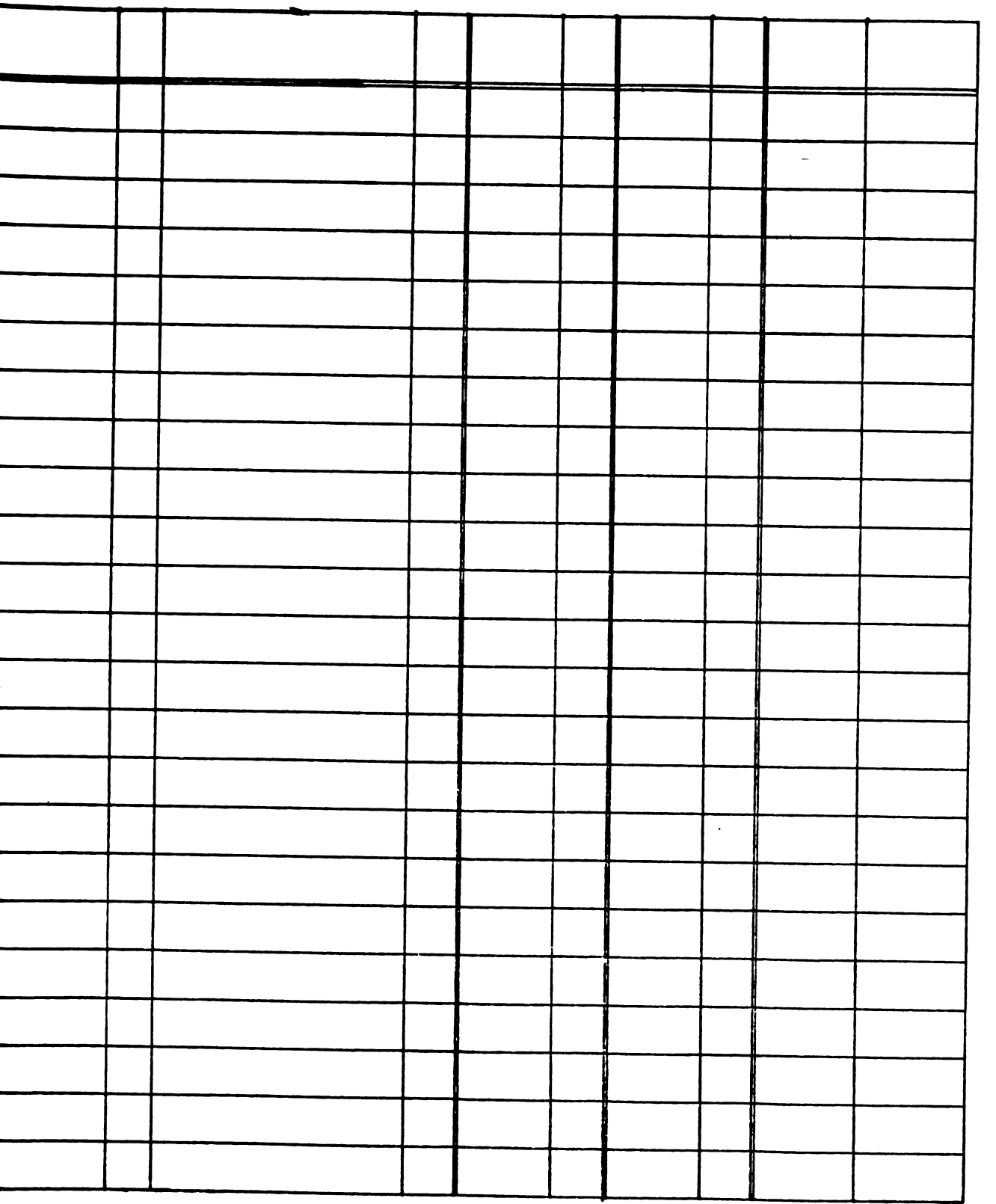


SUMMARISING YOUR CASH BOOK

Your Cash Book, which records the money which is collected and spent in your business, is undoubtedly one of the most important records you should keep. From it you can get information which will help you when you plan for the future and look back at how your business did in the past.

Information about how much money was spent in order to operate the business - buying raw materials and supplies, paying wages, rental, etc - and how much was collected from the sale of your product or service, will be needed when you prepare your budget and financial statements.

Summarising your Cash Book will allow you to easily obtain this information when you need it. You can summarise all your payments in an Expense Record and your receipts in a Sales Record.

THE EXPENSE RECORD

This is a simple way of listing all the Expenses or Payments in your business according to the type of payment, so that at the end of a month or quarter or year, you can easily find out how much was spent on a particular item of expenditure, say Rental or Wages.

Figure 5 shows you the simple format which Doreen uses for her dressmaking business.

You can use this format as well. You can rule the columns in a book or you can copy this format on sheets of paper.

You will see that the first two columns are headed 'Date' and 'Details'. In Doreen's format there are also ten 'money' columns, the first one being used for the 'Total'. You can, however, have as many money columns as you need to fit in the expenses or payments you have in your business.

Here is a list of some expenses you may have:

1. Raw materials or supplies
2. Packaging and labelling
3. Wages (for self)
4. Wages (for others)
5. Transportation
6. Rental
7. Utilities (you may have one column for all of the utilities or you may have a separate column for each)
8. Fuel
9. Rental
10. Insurance
11. Machine, Tools & equipment
12. Repairs and Maintenance

Which expenses do you have in your business?

Figure 5 Expense Record

DATE	DETAILS	TOTAL		SUPPLIES		WAGES (self)	
		$	¢	$	¢	$	¢
May 1	Thread, zippers, bus fares	24.	00	15.	00		
4	Wages	115.	00			65.	00
11	Wages	115.	00			65.	00
14	Thread, hooks, bus fares	29.	00	20.	00		
18	Wages	115.	00			65.	00
24	Public Service Co.	40.	00				
25	Wages	115.	00			65.	00
31	Mr. Chambers	80.	00				
	TOTAL	633.	00	35.	00	260.	00

Now let us see how Doreen wrote up the Expense Record for the month of May. From the CASH OUT section of her Cash Book, Doreen discovered that on May 1, she spent the following:

Threads and zippers	$15.00
Bus fares	9.00
Total	$24.00

First she wrote in the Date, then under 'Details' she wrote thread, zippers bus fares. Under 'Total' she wrote $24.00. Under 'Supplies' she wrote $15.00 and under 'Transport' she wrote $9.00. You can see that in this way, she can tell not only how much she has spent in Total but also what types of expense are most important. Each time an entry is made in the Cash Book under CASH OUT, Doreen lists it on her Expense Record.

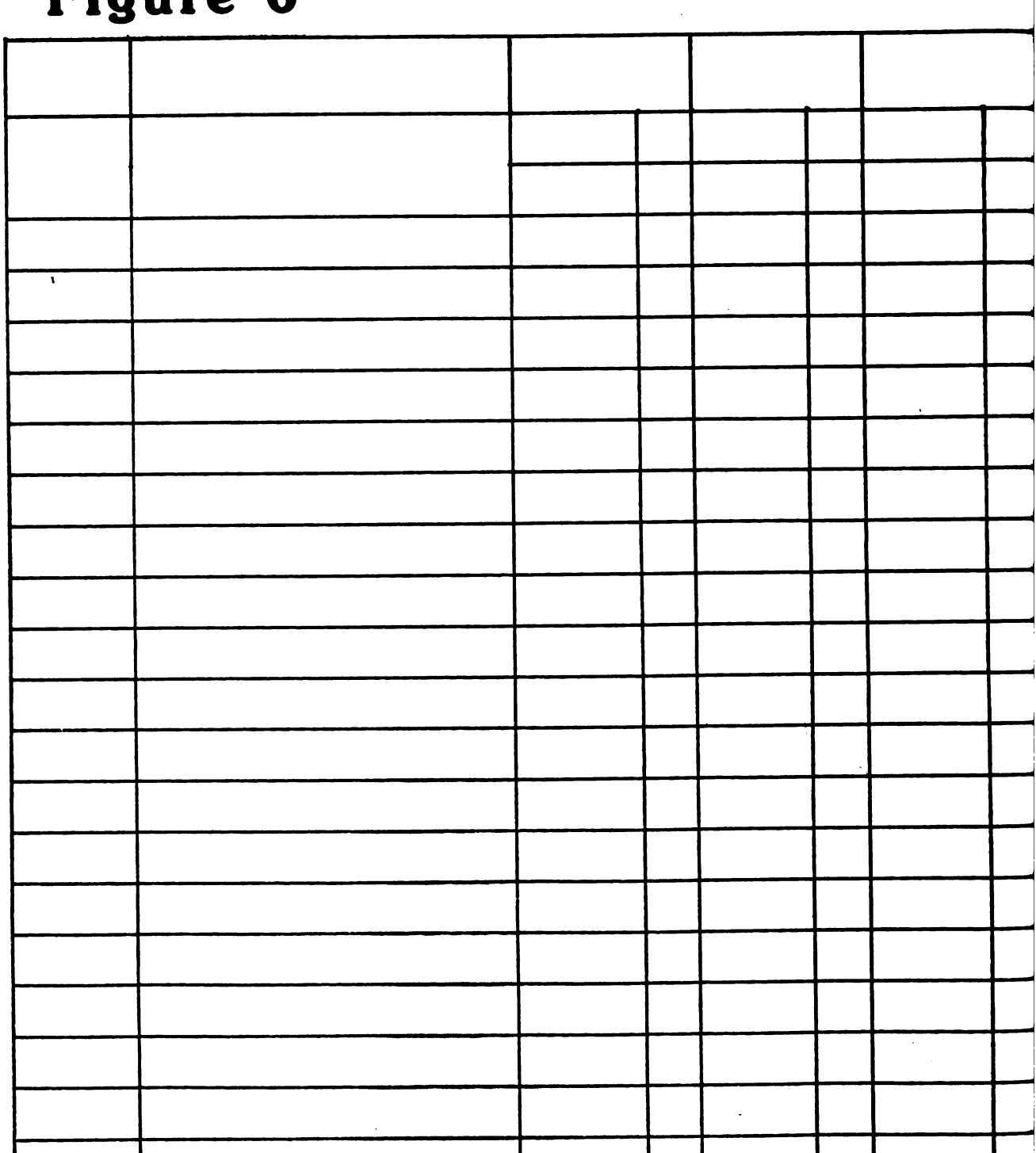
WAGES (Staff)		TRANSPORT		RENTAL		UTILITIES					
$	¢	$	¢	$	¢	$	¢				
		9.	00								
50.	00										
50.	00										
		9.	00								
50.	00										
						40.	00				
50.	00										
				80.	00						
200.	00	18.	00	80.	00	40.	00				

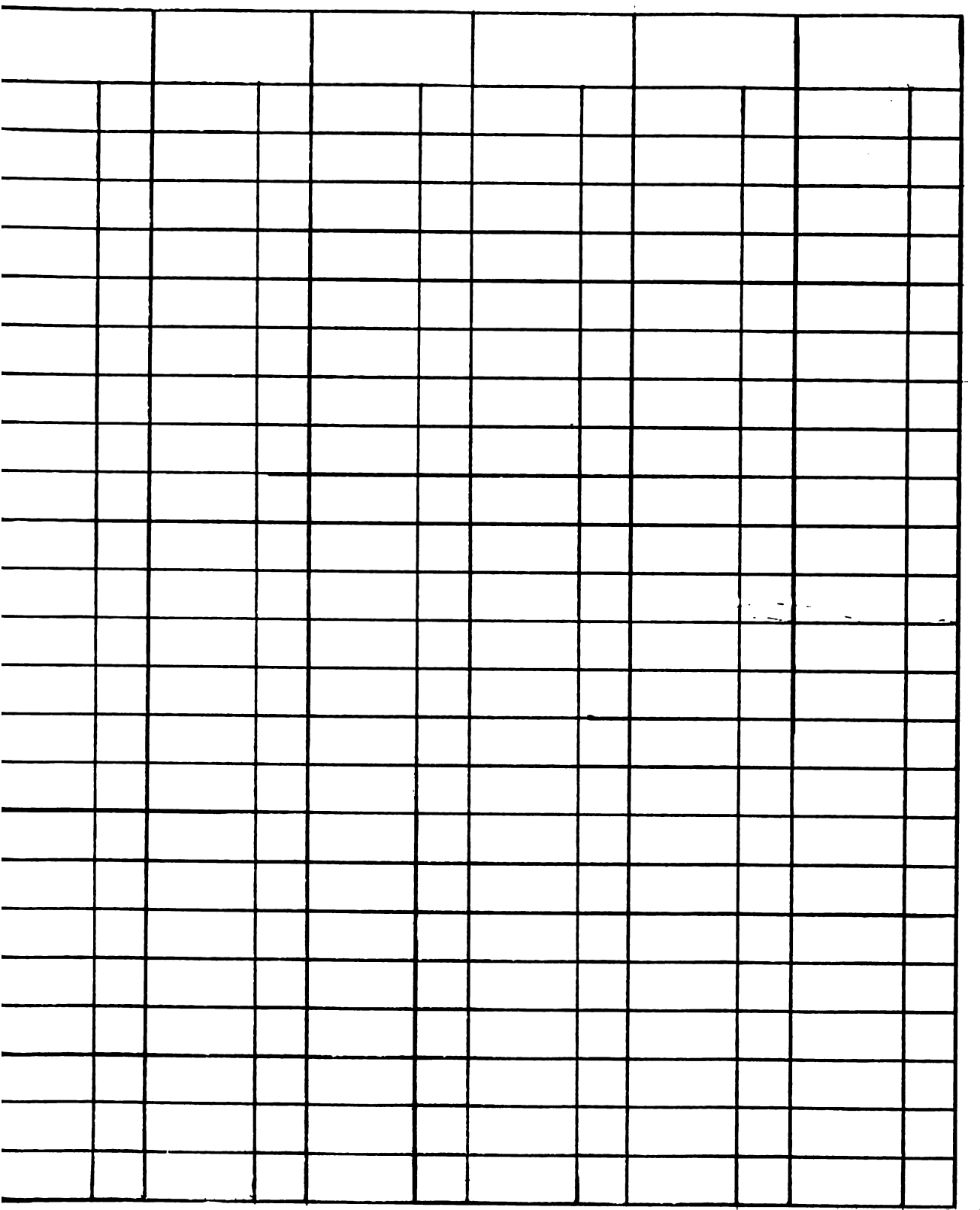
At the end of the month, all the money columns are totalled. In the example, you can see that her Total Expenses were $633.00, the amount she spent on Supplies was $35.00 and so on.

Here's some information which came out of Doreen's Cash Book for the month of June. Use Figure 6 to write up the Expense Record as Doreen would have done for that month.

1. On June 1, 8, 15, 22, and 29, wages of $65.00 were paid to Doreen and $50.00 to her staff.
2. On June 4, 11, 18 and 25 bus fares were $10.00, $8.50, $12.00 and $9.00 respectively.
3. The water bill of $10.00 was paid on the 13th.
4. Accessories were bought on June 4, 11, 18 and 25 for $12.00, $21.00, $18.00 and $16.50 respectively.
5. The rental of $80.00 was paid to Mr. Chambers on June 30.

Figure 6





THE SALES RECORD

Here you will list the sales you make on a daily, weekly or monthly basis. If you sell different kinds of products, this record will be especially useful, as it will allow you to see how much was received from each type of item you sell and to compare this with the receipts from other types of items and with the total receipts for the period. You can also record the quantity and unit price of each type of item sold.

Figure 7 Sales Record

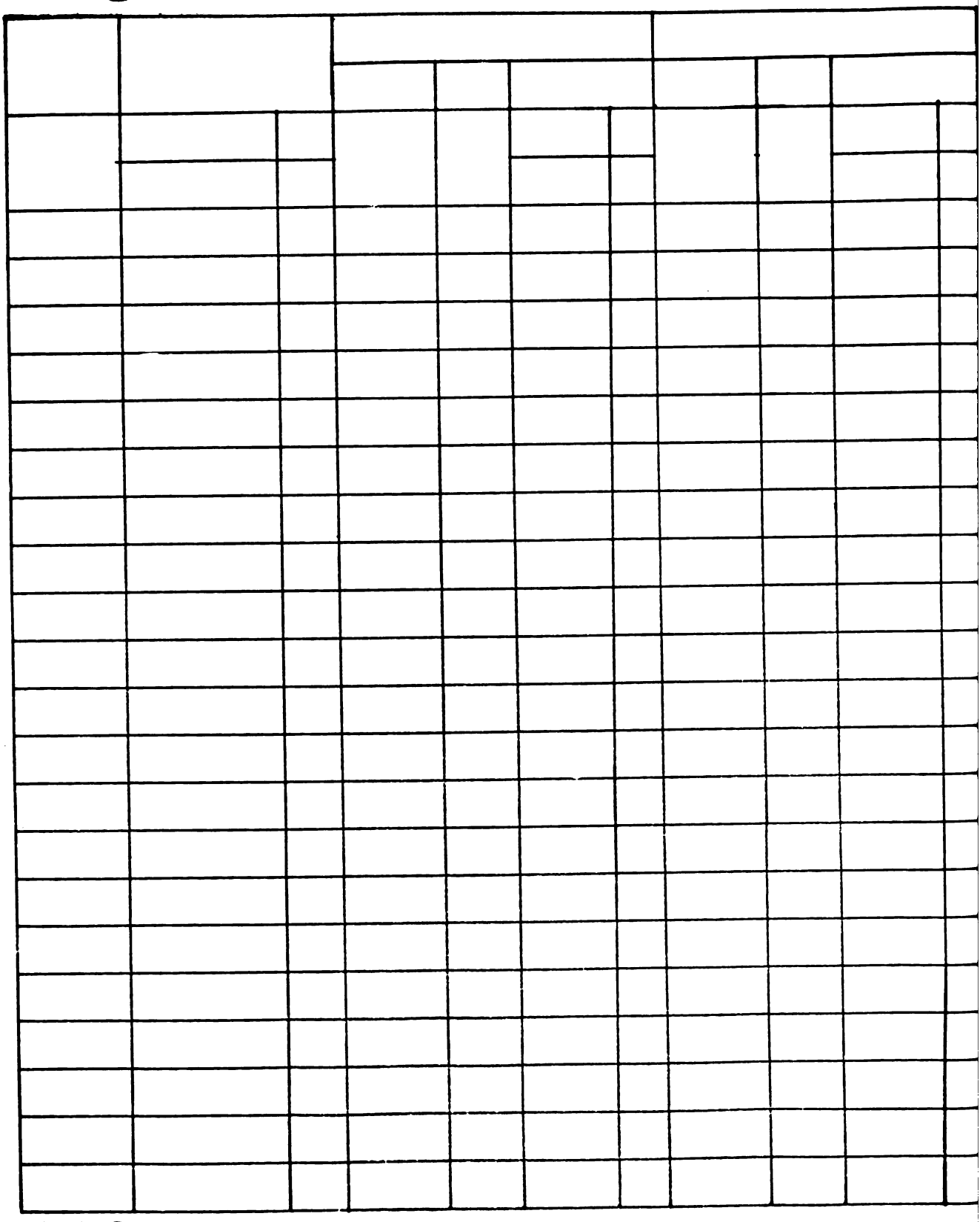
TIME PERIOD	TOTAL RECEIPTS		CIGARETTES (pks. of 20)				SOFT DRINKS (ea.)			
			QUAN.	UNIT PRICE	VALUE		QUAN.	UNIT PRICE	VALUE	
	$	¢			$	¢			$	¢
JAN.	2,516.	40	480	$4.00	1,920.	00	432	$1.40	518.	40
FEB.	2,340.	40	424		1,696.	00	480		576.	00
MAR.	2,519.	60	446		1,784.	00	552		662.	40
APR.	2,574.	00	458		1,832.	00	480		576.	00
MAY	2,811.	30	453		1,812.	00	384		460	80
JUN.	2,744.	50	414		1,656.	00	456		547.	20
JUL.	2,805.	70	437		1,748.	00	408		489.	60
AUG.	2,996.	40	460		1,840.	00	504		604.	80
SEP.	2,829.	70	451		1,804.	00	388		465.	60
OCT.	3,254.	50	396	5.50	2,178.	00	428		513.	60
NOV.	3,332.	90	390		2,145.	00	531		637.	20
DEC.	2,897.	30	303		1,666.	50	568		681.	60
TOTAL	33,522.	70	4,839		22,081.	50	5,611		6,733.	20

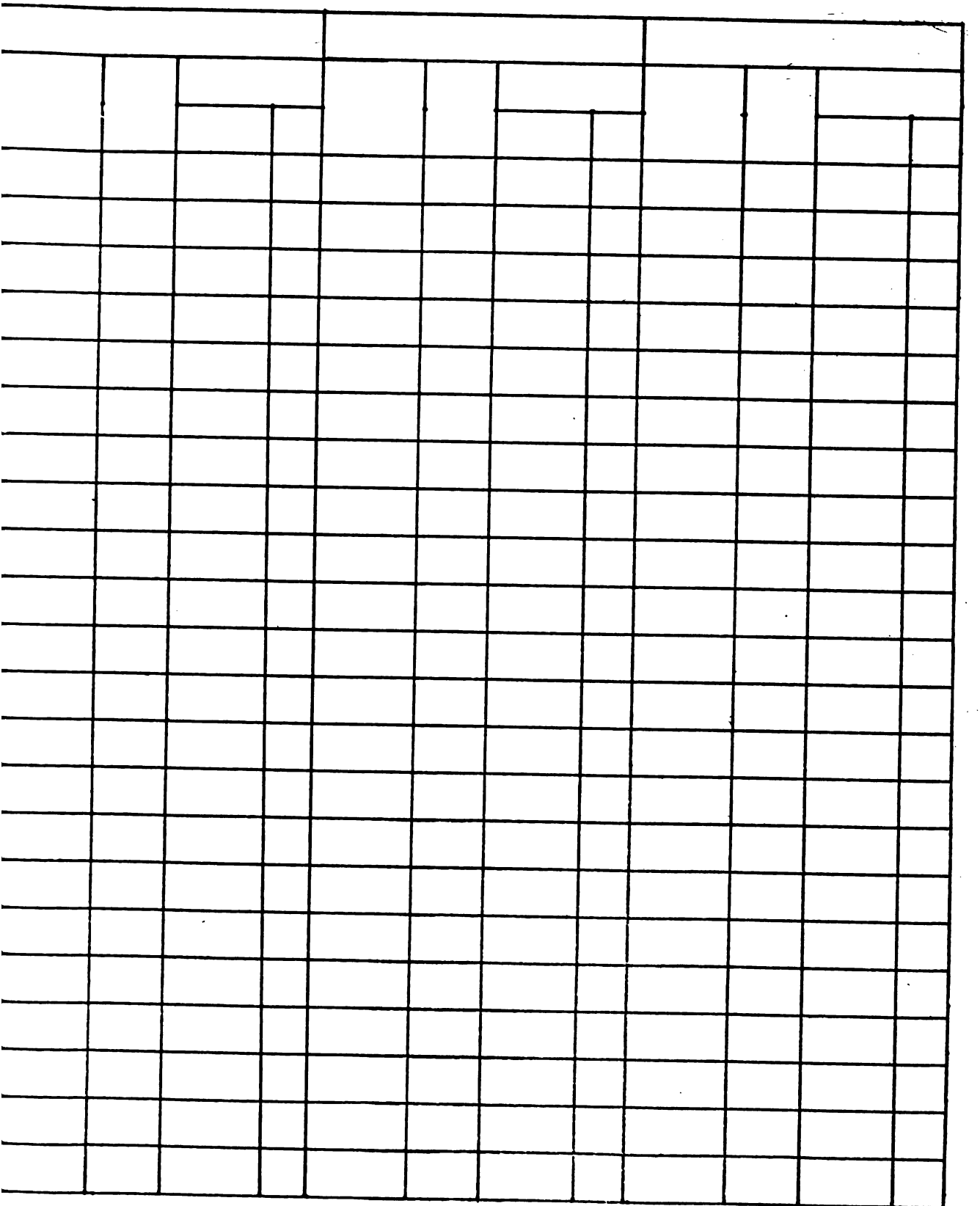
Clarence Baker has a stall at the corner of two busy streets in the city. He sells cigarettes, soft drinks, sweets, rock buns and ripe bananas to passers-by and to people who work in the area. At the end of each day he records the receipts from the sales he made during the day in his Cash Book and in his Sales Record. He also uses the Sales Record to summarise his monthly sales.

Figure 7 shows you the simple format Clarence Baker uses to summarise the receipts from the sale of his goods over one year. Use Figure 8 to write up the record of your sales.

SWEETS (ea.)				ROCK BUNS (ea.)				RIPE BANANAS (ea)			
QUAN.	UNIT PRICE	VALUE		QUAN.	UNIT PRICE	VALUE		QUAN.	UNIT PRICE	VALUE	
		$	¢			$	¢			$	¢
720	10¢	78.	00								
684		68.	40								
732		73.	20								
660		66.	00								
675		67.	50	689	60¢	413.	40	192	30¢	57.	60
709		70.	90	640		384.	00	288		86.	40
761		76.	10	700		420.	00	240		72.	00
698		69.	80	663		397.	80	280		84.	00
717		71.	70	658		394.	80	312		93.	60
688		68.	80	672		403.	20	303		90.	90
653		65.	30	661		396.	60	296		88.	80
686		68.	60	659		395.	40	284		85.	20
8,443		844.	30	5,342		3,205.	20	2,195		658.	50

Figure 8





PRODUCTION RECORDS 9

Records are useful because they allow you to write down **information** which will be helpful in planning or making **important** decisions about your business.

Production records help you to prepare for and organize the work which has to be carried out during production, as well as to keep track of what you have produced and how well you performed during production.

Before Production

If your business is to succeed, your production should run as efficiently as possible. To do this, you will have to spend some time planning for production. This will involve:

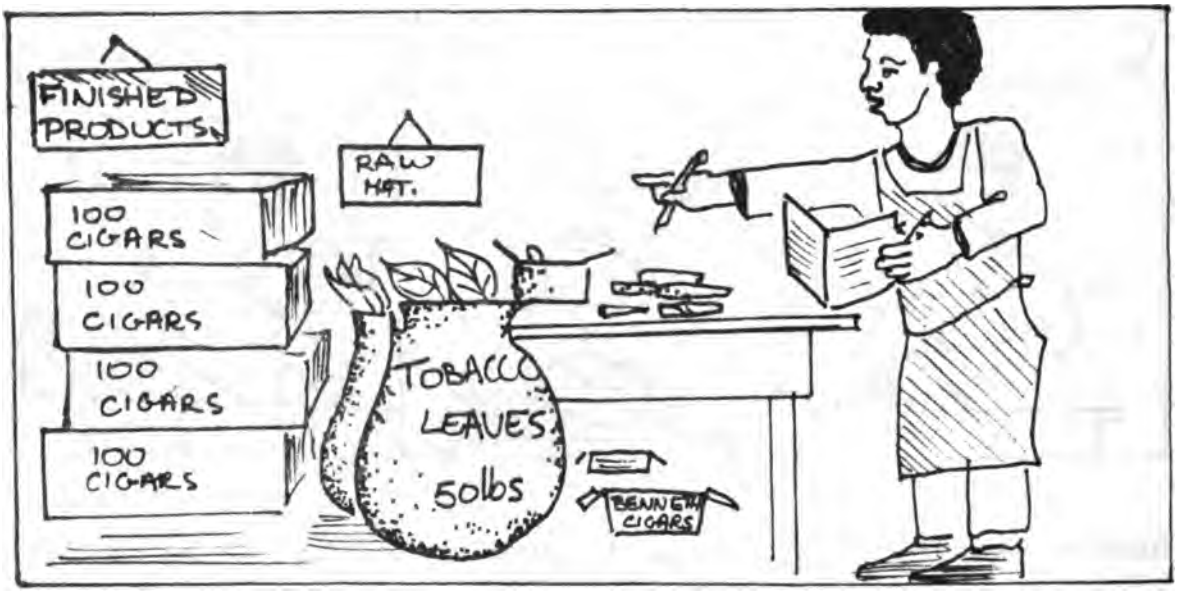
- deciding on which items you will produce
- setting targets for producing the quantities of these items
- deciding on the quantities of the inputs (raw materials, seed, fertilizer, etc.) you will need to produce them
- deciding how many people you need to help you
- estimating the costs of production (the costs of inputs, labour and overheads) and planning your cash flow to meet those payments
- making sure that your product is of "good" quality.

Thinking about these things is just a start; to be properly organized, you need to write them down, to prepare PRODUCTION SCHEDULES. You can make a schedule for each month, then for each week, then for each day. (For farms, a Production Schedule is usually prepared for the year, then broken down into monthly or seasonal production schedules.

Mortimer Bennett has a small cigar making business. He rolls the cigars and sells them to wholesalers who then package them in fancy boxes and export them to overseas markets. Mortimer has a secure market for his cigars and these days he can hardly keep up with the demand for them. Since he works on his own, he must make the best use of the time he has available to produce, so he prepares production schedules monthly, weekly and daily.

When he sits down to prepare his production schedule he first considers what he must produce. He also thinks about how he will produce it and when. Based on this he can figure out what he must produce and how much of it, when he will purchase it and how much it will cost.

Here is the plan Mortimer has made for the month of May, showing what he plans to do each week, in order to fill both the orders he has received and those he expects to receive.



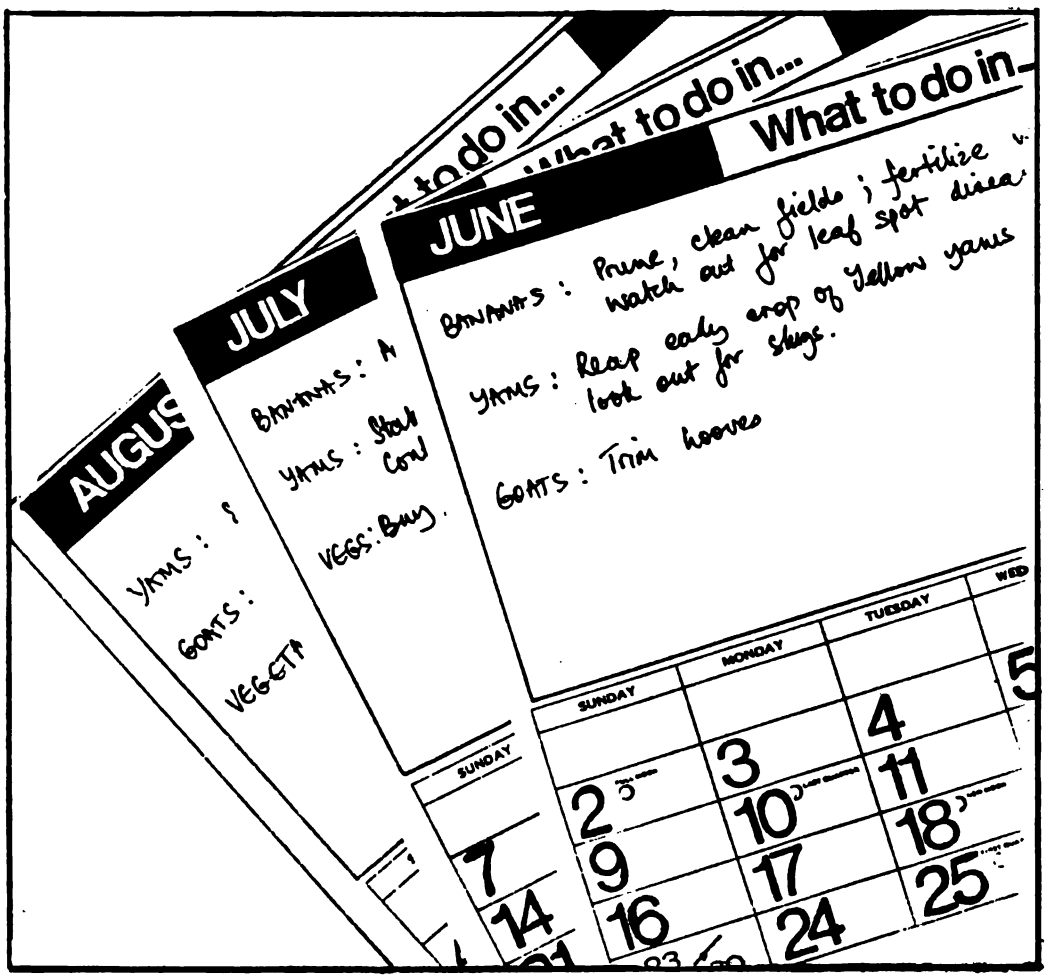
PRODUCTION SCHEDULE FOR MAY

WEEK 1:	Purchase leaves (all grades) wrapping paper; Roll 2,000 cigars-package in 50's.
WEEK 2:	Roll 2,500 cigars-package in 50's.
WEEK 3:	Purchase leaves: roll 2,000 cigars. -package in 50's; Deliver order of 100Pks To CHENS.
WEEK 4:	Roll 2,500 cigars-package in 100's for delivery to Mr Martin.

By making his schedule ahead of time, Mortimer can determine what his raw material needs will be and can so organize his time, that he can meet his targets for production and delivery without affecting the quality of his product.

He can also determine how much money will be required for buying raw materials and packaging materials, so if he doesn't have cash, he can arrange for credit with his suppliers.

Henry Burke is a small farmer. To help him prepare for and organize his production work and expenses, he uses a large calendar which has space on each month's page where he can write.

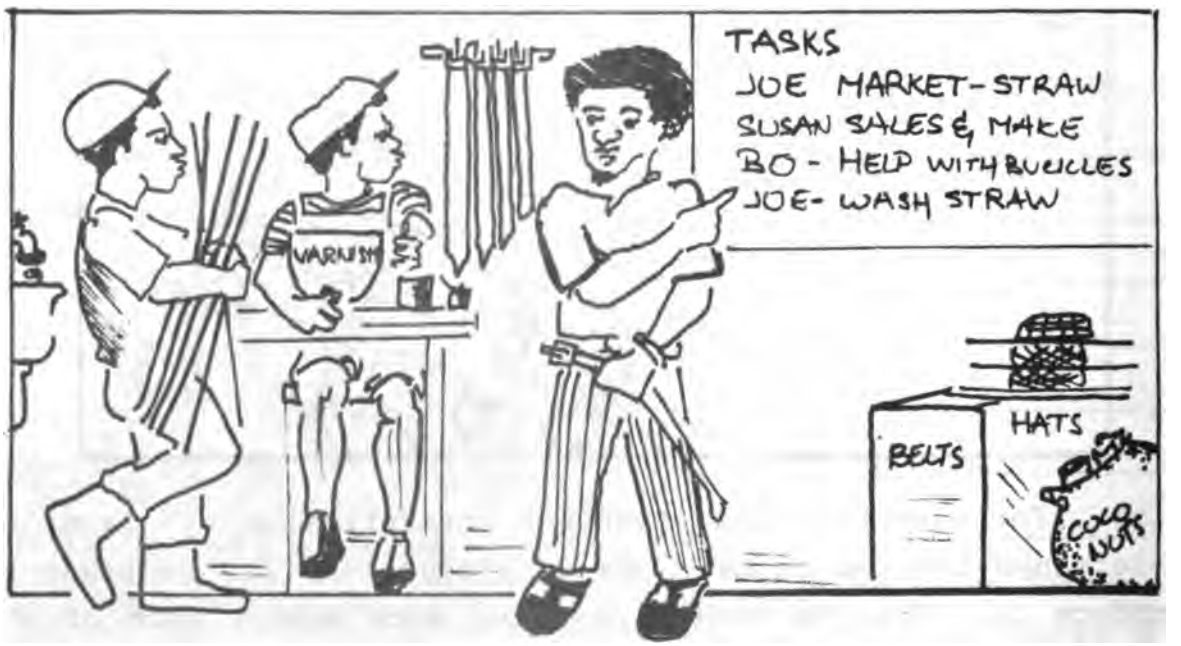


First, for each crop and livestock enterprise on his farm, he determines the amount he plans to produce and how he plans to produce it. Then he writes down for each month, each of the tasks he has to perform. By studying these entries, he can determine what time of the year he may need extra help and when he is likely to have slack periods.

Second, he figures out just when he will need the various inputs (seeds, fertilizer, insecticides, etc.) for his enterprises and writes down the dates when he will purchase them. He makes sure that these dates are well in advance of when the inputs are to be used so he can be sure that they will be available when needed.

Third, he jots down just when he will need to spend money and how much. He also determines when he will be selling products and how much he expects to receive from their sale. By looking at those dates when he will spend money and when he will receive money, he can tell if there will be any periods of cash shortage and take the necessary steps beforehand to deal with them.

Remember, production planning involves making the best use of your time. Wasted time means wasted money and lost opportunities. So when you make your production schedule, be clear about <u>what</u> you will do, <u>when</u> you will do it, and <u>how long</u> it will take.



Have you thought about production plans for your business for next month? Think about the things you need to do and make schedules on this page for the month, for one week in the month and for one day in the week.

SCHEDULE FOR NEXT MONTH	SCHEDULE FOR FIRST WEEK IN NEXT MONTH	SCHEDULE FOR MONDAY NEXT WEEK
WEEK 1:.....	MONDAY.....	7:00.....
.....	.....	8:00.....
.....	TUESDAY.....	9:00.....
WEEK 2:.....	.....	10:00.....
.....	.....	11:00.....
.....	WEDNESDAY.....	12:00.....
WEEK 3:.....	.....	1:00.....
.....	THURSDAY.....	2:00.....
.....	.....	3:00.....
WEEK 4:.....	FRIDAY.....	4:00.....
.....	.....	5:00.....
.....	SATURDAY.....	6:00.....
.....	.....	.....

During and After Production

During production you should keep a close watch on the production schedule you had prepared beforehand. This way, you can monitor your progress and make adjustments if things don't go according to your plan. It is wise to record what actually takes place during production.

If you are a small farmer, you are likely to have several different enterprises, the mix of which may change from season to season. One of the main reasons that a farmer keeps production records is to measure the performance of a particular crop or livestock enterprise. In order to do this, during production you should keep a separate record for each enterprise. This will allow you to compare inputs with outputs and enable you to make sensible decisions regarding the management of each enterprise and to compare the returns of each of them.

If you have crops mixed in one place, it may not be possible to get an accurate figure on fertilizer, labour and other costs for each crop. However, this problem may be overcome by keeping a record for that piece of land and adding all the costs and all of the money you earn from all sales from that area, from the time the first crop was planted until the last crop was reaped and sold.

In effect, a record is kept on the combined costs and total returns of everything grown on that piece of land during the year. It is wise to record your own labour and all family labour, and to put a cost on this in the record even though no actual payment is made.

On the following pages are examples of a single crop production record and a livestock production record. Note that much of the information contained in them can be obtained from your cash book.

SINGLE CROP PRODUCTION RECORD

LUCEA YAMS - 1985

Planted: February 6, 8, 9, 10, 11

Area: Half square

Expenses:

150 plants ½ lb each	45.00
Forking land: 1 day	25.00
Making hills and planting out (50¢ ea.)	75.00
150 stakes at $60/100	90.00
Staking	15.00
Weeding	15.00
25 lb - 12:24:12 fertilizer	10.00
Spreading fertilizer	10.00
20 bags for bagging yams @ $1.50	30.00
Digging and toting	75.00
Treating seed	15.00
TOTAL COSTS	405.00

Sold to Jimmy Jones 500 lbs @ 60¢	=	300.00
Sold to Paul Blake 150 lbs @ 55¢	=	82.50
Sold to Boysie 250 lbs @ 55¢	=	137.50
TOTAL SOLD	=	520.00
Used 50 lb @ 55¢		27.50
TOTAL VALUE		547.50
TOTAL COSTS		405.00
NET PROFIT		$142.50

TOTAL REAPED	975 lbs
Total sold	900 lbs
Total used	50 lbs
Total spoilt	24 lbs
	975

LIVESTOCK PRODUCTION RECORD
PIG ACCOUNT FOR JANUARY 1984

Date	Item	Spent	Received
Jan. 3	10 x 50 lb bags pig feed	$ 350.00	
3	Worm medicine	6.00	
10	Sold 3 piglets to Mrs. Brown		$ 180.00
15	Sold 1 pig to meat shop (150 lb)		450.00
21	To vet for one visit	30.00	
21	For medicine for Scours	20.00	
	Repairs to pig pen: material	46.00	
	labour	10.00	
24	2 piglets died		
28	Sold 2 pigs to meat shop (263 lbs)		789.00
28	Bought 25 bags pig feed	875.00	
		$1337.00	$1419.00

Similarly, during and after production manufacturers need to record:

- the actual quantities of product made each day
- the quantities and costs of raw materials and packaging materials
- the number of persons involved in production and the cost of their labour
- the time spent in production and in non-productive activities (down time)
- production yields, that is, the number of items produced in each production period
- quantities and descriptions of items placed in storage
- quantities and description of items sold

Yvette Morgan, who makes rock buns, keeps track of her daily production by writing up a Batch Card. On it she records the exact amounts of raw materials she uses and their costs, the amounts and costs of packaging and labelling materials used and the amount and cost of her time and that of others helping her.

Here is an example of one of her 'Batch Cards'.

BATCH CARD

PRODUCT: Coconut Rock Buns

BATCH SIZE : 14 dozen

DATE : April 9, 1984

INGREDIENT	QTY.	UNIT QTY.	UNIT COST	TOTAL COST
RAW MAT.				
FLOUR	14	lb	$ .52	$7.28
SUGAR	7	lb.	.82	5.74
EGG	14	ea.	.26	3.64
MILK	7	cup.	.48	3.36
MARGARINE	84	oz.	.066	5.60
COCONUT	14	cup.	.50	7.00
SPICE	14	tsp.	.05	.70
B. POWDER	21	oz.	.30	6.30

TOTAL RAW MATERIAL COST 'A' $ 39.62

PACKAGING

PLASTIC BAG	14	ea.	.05	.70
LABEL	14	ea.	.005	.07

TOTAL PACKAGING COST 'B" $ .77

LABOUR / TIME RECORD

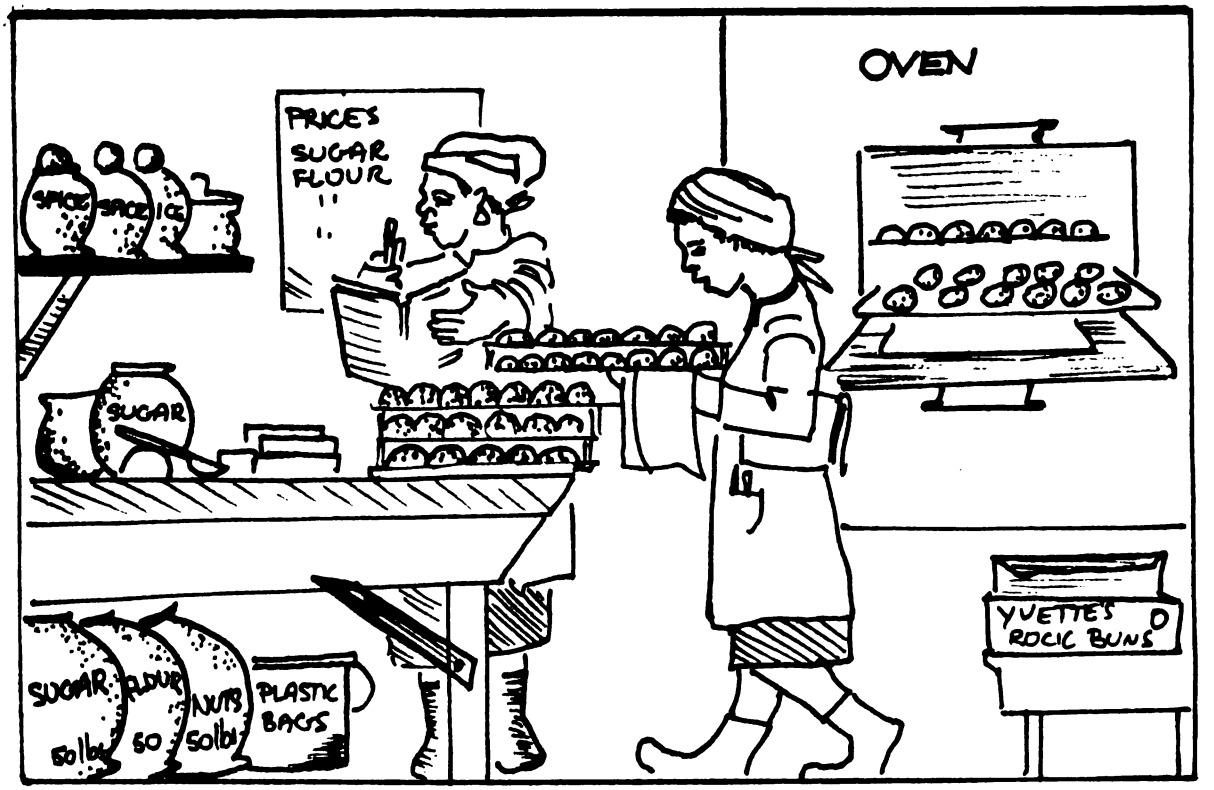
NAME	TIME SPENT	RATE/HR.	TOTAL COST
Me	6 hrs	1.66	10.00
Angella Smith	3 hrs	1.20	3.60

TOTAL LABOUR COST 'C' $ 13.60

TOTAL DIRECT PRODUCTION COST = 'A' + 'B' + 'C'

= 39.62 + .77 + 13.60 = 53.99

DIRECT COST PER UNIT = $3.86 per dozen.



Because of frequent increases in the prices of many of the ingredients she uses in her recipe, Yvette must always make sure that the selling price of her buns adequately covers production costs. When the 'total production cost' on her batch card is increased (or decreased) Yvette does her PRICE CALCULATION exercise again to help her make decisions about the price of her rock buns.

The batch card can be used by other manufacturers too. Bridget Brady makes leather sandals to order. Her customers choose any of several styles she has available. Bridget tries to quote prices keeping in mind that these have to cover the cost of the quantity of leather which each style will require. To make sure her pricing is correct, for each sandal made, Bridget prepares a batch card similar to Yvette's on which she carefully notes the actual amount of material used including the portion which is wasted, and the time it took her to make it. (The Price Calculation exercise cannot be done without this information).

The records you prepare before production begins help you to make sure you are prepared for the work which has to take place during production. The benefit of keeping records during and after production is that you can analyse your production performance so that, if necessary, you can improve your performance in the future.

Production records help you to:

- see how well or how poorly you did compared with what you expected. Farmers in particular, can compare their performance with other years and with the performance of their neighbours

- discover the things that went well and those that went poorly

- measure your efficiency: how many items you made in a certain period of time; crop yields per square or acre; production per animal; time spent per square or per animal; receipts per square or per animal

- compare input with output, look at expenses and profit or loss for your farm or manufacturing business

- detect changing conditions: in the environment (e.g. changing weather conditions), in the market (e.g. prices rising or falling, changes in demand), in the economy (trends in fashion, etc).

Finally, by keeping and then studying these records, you are taking the first important step towards doing a more efficient and profitable job of managing your business in the future (See also exercise on 'Increasing Income and Profits').

STOCK CONTROL 10

If you make a product for sale, that is, you are a manufacturer, your stocks include raw materials, goods-in-process and finished goods. If you are a retailer, your stocks are the items you buy for resale. If you are a farmer, your stocks include seeds, feed and inputs such as fertilizers, insecticides, etc.

When your business has stocks, you have invested money in them. If you have too much stocks, you may be tying up money (which could be put to better use). You may also be having problems with storage, as well as running the risk of losing them as a result of theft, damage or out-datedness. However, if you have too few stocks, your production may be hampered or you may lose valuable sales.

As a manufacturer, you want to be sure that you always have enough raw material on hand, in the right quantities, to make your products. You also need to know how many finished items you have on hand, so you can fill orders already secured. If you are a retailer, you want to have enough goods on hand for your customers to buy from you, but at the same time, you don't want to have too many of those items which do not sell quickly.

Whether you are a manufacturer or a retailer, you need to be able to CONTROL your stocks :

- to decide which materials you must have on hand at all times
- to make sure that you always have on hand enough of the items that you need to carry on your business, but not too much that excess cash is tied up in the stocks. (This is true whether they are raw materials, finished goods or items you have bought for resale)

- to know how much to order at a time and when to order them
- to ensure that stocks do not decrease in value as a result of poor storage or improper handling
- to prevent wastage
- to prevent theft

How do you go about controlling your inventory? You can do this by keeping STOCK CONTROL RECORDS.

Below is an example of how a small shopkeeper controls her stocks of goods using stock control records. If you are a manufacturer with stocks of raw materials, goods-in-process and finished goods, you can use the same method with slight changes to keep track of your stocks.

Val Russell has a small shop at the front of her house from which she sells grocery items to the people living in her small community.

She has over forty items of stock in the shop. She has devised a way to keep track of them to make sure that she can account for each item and that she always has in stock those items which her customers need.

She does not own a cash register, but each day when sales are made, she writes down the items she has sold in her sales records. In another book, she has recorded a list of every item she has in the shop. At regular intervals, she counts these items - she does STOCK-TAKING.

In columns which she has ruled across the pages of her stock book, she notes the following at stock-taking:

- Opening stock (the quantity of the item she had in the shop the last time she took stock).
- Purchases (the quantity of the item she bought since the last time she took stock). She gets this from her purchases record or her Cash Book.
- Sales (the quantity of the item she sold since the last time she took stock). She gets this from her Sales Records or from her Cash Book.
- Closing stock (the quantity of the item she now has in the shop).
- Re-order level (the quantity, experience has taught her, indicates that a new order should be placed so that they will arrive before the item has run out of stock.
- Quantity to order (the amount of the item she will buy to replenish her stock. Her sales records can help her to decide how much this should be).

In addition to these, stock-taking allows Val to physically check the condition of the goods in the store. She can also note which items are slow movers and which are fast movers and can decide if she will sell at discounted prices, those items which are not selling well.

This is what a page from Val's stock book looks like .....

DATE OF STOCK-TAKING _____ 19___						
ITEM	Opening Stock	Purchases	Sales	Closing Stock	Re-order level	Quantity to Order
Milo (large)						
Milo (small)						
Tea bags (pk of 25)						
Coffee, small						
Rice (2 bags)						
Sardines (tin)						
Sugar (dk 1lb)						
Sugar (dk 2lb)						
Sugar (gran. 2lb)						
Condensed milk (tin)						
Corned beef (tin)						
Soap powder (lg)						
Soap, powder (sm)						
Bleach (10oz)						
Soap, cake						
Soap, bath						
Oil,coconut (pt)						
Oil, soya bean (pt)						
Margarine, stick						
Margarine, tub						
Toilet paper, sgl.						
Noodle soup (pk)						
Whole chickens						
Saltfish						
Corned pork (1b)						

Stock-taking also helps her check whether or not goods have been stolen from the shop. She does this by comparing her Sales records with the information in her stock book. In her stock book, the 'Quantity Sold' should be equal to:

(the opening stock + purchases) - the closing stock

Let's look at an example:

The last time Val took stock, two weeks ago, there were 20 tins of condensed milk in the shop (opening stock 20 tins). On Wednesday last week, she bought a case (48 tins). This Sunday, there were 18 tins in the shop (closing stock 18 tins). How many should she have sold? Let's see:

(opening stock	+	purchases)	-	closing stock	=	quan sold
20	+	48 (68)	-	18		50

She should have sold 50 tins.

This agreed with Val's sales records so she was confident that there had been no theft of condensed milk.

By using her sales records and her stock control records, Val can always tell how much stocks she has in the shop. She keeps in mind that the level of the stocks should be high enough so that she has the goods which are in demand in adequate quantities, but not too high that excess cash is tied up in the stocks. She tries as much as possible to buy stocks in the quantities which cost less, so that profits can be high. She is careful to store the goods properly and to protect them from spoilage as much as she can. After all, her stocks are her business' assets and they should be well taken care of!

VALUING YOUR ASSETS 11

Why value your assets?

The resources which are owned by a business are called its ASSETS. In order to prepare the financial statements which tell how well your business is performing financially, your business' physical assets must be listed, counted and valued.

What are these assets?

For manufacturing and retail businesses, these are:

1) Stocks of goods which are for sale
2) Stocks of goods which will be used to produce other goods or services for sale (Raw materials and goods-in-process)
3) Supplies (e.g. office supplies)
4) Equipment, furniture and fixtures
5) Machinery and vehicles
6) Buildings
7) Land

For farming businesses, these include:

1) Feed
2) Inputs such as seeds, insecticides, fungicides, etc.
3) Supplies
4) Machinery, equipment & tools
5) Crops which are growing but not yet harvested
6) Crops harvested but not yet sold
7) Livestock
8) Land and buildings

Listing these assets and their values allows you to prepare the Net Worth Statement and the Income Statement which tell you how well your business did financially over a particular period, usually one year. Assets should be listed and valued each year. Comparing total values of each year with the next year will allow you to find out how well your business is doing over time - whether it is increasing or decreasing in value, and by how much.

When to list them?

Physical assets are normally listed at the beginning of the business year - usually at a time when business activity is lowest. In many businesses, this corresponds to the start of the calendar year on January 1. For farming businesses, assets are usually listed when amounts of crops and supplies on the farm are lowest. Each year the list should be prepared at about the same time.

How to value them?

The main purpose of listing your business' physical assets and comparing the resulting financial statements from year to year, is to see how well your business is performing over time. Therefore the value which you place on each of these assets will affect the value of your business.

There are generally four ways to value them:

1) At cost
2) At cost plus value added
3) At cost less depreciation
4) At market value

You should use one or more of these ways depending on the types of assets your business owns.

1) At cost

This is the price at which the asset was bought. The following assets are normally valued at cost:

1) Raw materials
2) Goods bought for resale
3) Supplies
4) Feed and farming inputs such as seeds, insecticides, fungicides, etc.
5) Land

Note that land is valued at cost and not at market value, despite the fact that real estate prices usually increase over time. This is so because increasing the value of your land on your financial statements tends to inflate the image of how your farm business is doing.

2) At cost plus value added

For manufacturing stocks of goods-in-process and finished goods, there is a value added to the cost of the raw material used to produce them.

Goods in process are items on which work has started but not completed. Their cost is found by adding up all those costs which went into getting them partially completed - the raw materials cost, the labour cost and any other manufacturing costs. This is also true in farming, for growing crops which have not yet been harvested.

Finished goods are costed at the TOTAL of all the costs which went into making them: the cost of raw materials plus other costs of production (direct labour and manufacturing overheads).

3) At cost less depreciation

Assets such as buildings, machinery, vehicles , tools, furniture, fixtures, fences, etc., wear out over time and therefore have a limited 'useful life'. This must be taken into account when they are valued, in order to obtain a true picture of the value of the business. A portion of the cost of the asset is subtracted from its original cost each year for the duration of its useful life. The useful life of the asset can be determined by using guidelines contained in accounting manuals, or by using your own estimate.

The table below shows examples of ranges of useful lives for some assets. When in doubt, use a conservative estimate of the useful life of an asset.

Asset	Useful life (yrs)
Buildings	30-50
Automobiles	5-10
Production machinery and equipment	2-15
Farm machinery and equipment	2-15

If, for example, you estimate that a given machine will have a useful life of ten years, then 1 10th of its cost must be subtracted from its value each year. If you estimate that it will have a useful life of only five years, then 1 5th of its original cost must be subtracted from its value each year.

This is known as 'Straight Line Depreciation'. You are assuming that the asset will decrease in value the same amount each year. This is the simpliest way to estimate depreciation.

(There are other ways which are more exact but more complicated to work out).

4) At market value

The following are valued at their estimated sale price:

a) Livestock
b) Crops which have been harvested but not sold at the time the assets are listed.

It is important that once you have decided to use a particular way for valuing each asset or group of assets that you continue to use the same way each year. If you change the way you value your assets from year to year, then your financial statements may not give as reliable a picture of how your business is doing.

How to list them

Every item owned by the business should be listed and counted. Below is an example of a form you can use to list assets which depreciate in value over time. The information filled in is for a farm business, but the form will work just as well for any other kind of business owning assets which depreciate.

Description	Year Bought	Cost	Years of Life	Annual Depreciation	Value 1984	Value 1985	Value 1986
PLOW	1980	$300	15	$ 20	$220	$200	
TRACTOR	1979	2,000	10	200	800	$600	
SHOVEL	1983	20	5	4	12	8	

Farmers can use the form below when listing items which do not depreciate in value over time (land, for example), or are not kept from one year to the next (such as harvested but unsold crops).

DESCRIPTION	1984			1985		
	Amount	Value per unit	Total value	Amount	Value per unit	Total value
Farm Land	5 acres	$900.00	$4,500	5 acres	$900.00	$4,500
Red peas	10 bu.	3.00	30	100 bu.	2.40	$ 240
Potatoes	20 cwt	40.00	800	5 cwt	25.00	$ 125

Below is an example of a form which can be used when listing stocks (raw materials, goods in process, finished goods, goods bought for resale, supplies).

Type of Stock Raw Material Date 1-1-85
Location Storeroom #1

Description	Quantity	Unit cost	Total cost
Fabric cotton, green	6 rolls	$350.00	$2,100.00
" " blue	3 "	350.00	1,050.00
" linen, white	5 "	480.00	2,400.00
Thread, poly, black	8 spools	18.00	144.00
" " white	8 spools	20 00	160.00
Button, large, wood	2,000	44	80.00
Hooks, stainless steel	5,000	24	100.00

PREPARING STATEMENTS OF BUSINESS PERFORMANCE 12

In this exercise, we will prepare financial statements which will assist you in deciding just how well your business is doing financially and help you to get some ideas on how to improve it.

As the manager of your business, your main goal is to make sure that the business does well enough so it can provide you with a satisfactory income. To find out how well your business is doing financially, you will need to measure how profitable it is and compare its present performance with its performance in the past.

The exercise will be divided into three parts: The first part will help to determine the financial performance of a business which:

1) does not own stocks of goods.
2) owns stocks of goods but the changes in the level of stocks are so small that the worth of the business is not greatly affected by these changes. For example, a street corner vendor starting off each day with about the same total value of stocks.
3) buys goods or services for cash.
4) sells goods or services for cash.
5) does not own equipment, machinery, buildings or land.

If your business falls into this category, you should read Part One of this exercise.

In Part Two, we will prepare statements which will help to determine how well your business is doing financially if it:

1) owns stocks of goods for resale or for use in making items for sale
2) buys goods or services for cash or credit.
3) sells goods or services for cash or credit
4) does not own equipment, machinery, buildings or land.

If your business falls into this category, you should also read Part Two of this exercise.

You should read Part Three as well, if your business:

1) owns stocks of goods for resale or for use in making items for sale
2) owns equipment and/or machinery
3) owns land and/or buildings
4) buys goods or services for cash or credit.
5) sells goods or services for cash or credit

PART ONE

In this part, we will prepare the Net Cash Income Statement (also known as a Profit and Loss Statement). This is a summary of the Cash Receipts (money coming into the business), Cash Payments (money spent by the business) and the Profit or Loss which results from the operation of the business over a period of time.

The Net Cash Income Statement measures the performance of the business over a span of time, and can be done for a month, a quarter, or a year. By comparing the statements over different periods, you will be able to tell how profitable your business is, and whether it is improving or declining.

How often you prepare the statement depends largely on the volume of sales the business makes. For example, if you run a business having sales which go up and down from month to month, you may want to measure its performance monthly. On the other hand, if the business normally has slow periods during the year, you may want to measure its performance every quarter, every six months or once per year, depending on how long those slow periods last.

HOW TO PREPARE A NET CASH INCOME STATEMENT

Let us learn how to prepare this Statement for one year. We will use the Sales Record and the Expense Record to find out what took place in the business over the year, such as:

1) The total amount of money the business received from sales of goods or services.
2) The amounts the business paid out for the year on:
   a) Raw materials, packaging materials or supplies
   b) Wages to the owner of the business.
   c) Wages to the employees
   d) Transportation
   e) Utilities (water, electricity, phone)
   f) Rent
   g) Any other items

Let's see how a small business person, Clarence Baker, prepares the Net Cash Income Statement.

Clarence Baker has been in business for a little over two years. He has a stall at the corner of two busy streets in the city. He sells cigarettes, soft drinks, sweets, rock buns and ripe bananas, to passers-by and to people who work in the area.

Clarence wants to know if his business made a profit last year. From his Sales Record and Expense Record he discovered the following:

1) The sales for the year amounted to $33,522.70
2) He had paid himself $4,940.00 in wages
3) He spent $26,376.44 on purchase of goods for his stall
4) Transportation costs were $1,560.00.

This is the statement he prepared:

NET CASH INCOME STATEMENT
Clarence's Corner Stall
January 1 - December 31 Last Year

Sales (Receipts)		$33,522.70
Payments (Expenses)		
Purchases of goods	$26,376.44	
Wages to self	4,940.00	
Transportation	1,560.00	
Total payments		$32,876.44
Net Cash Income (Profit or Loss)		$ 646.26

Clarence was pleased that the business had made a profit. He thought back to the previous year when he had prepared the Net Cash Income Statement. He remembered that he had just been able to get a small wage for himself each week, as things had not gone well for the business that year. He looked back at his records and compared the statements for the two years.

NET CASH INCOME STATEMENT
Clarence's Corner Stall

	Jan 1 - Dec 31 LAST YEAR	Jan 1 - Dec 31 YEAR BEFORE LAST
Sales (Receipts)	$33,522.70	$23,465.89
Payments (Expenses)		
Purchases of goods	26,376.44	19,007.37
Wages to self	4,940.00	2,860.00
Transportation	1,560.00	1,404.00
Total payments	32,876.44	23,271.37
Net Cash Income (Profit)	$ 646.26	$ 194.52

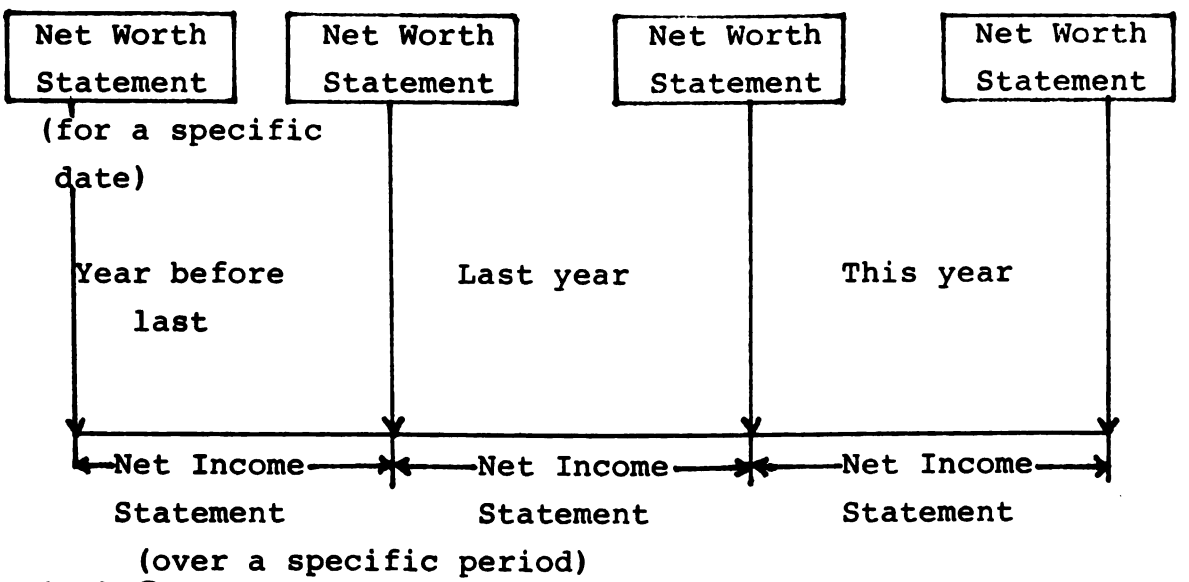
What can you tell about Clarence's business from the Net Cash Income Statement of the two years?

PART TWO

When a business has stocks (merchandise, raw materials, goods-in-process, finished goods, supplies, feed, seeds, fertilizer, insecticide, etc), it is not possible to get a true picture of the financial condition by preparing the Net Cash Income Statement we just discussed. This is so because changes in the quantities (and, therefore, total value) of these assets held by a business at different points in time, affect the financial condition of the business. To get a better picture of what is happening financially in the business, we need to prepare two statements:

1) The Net Worth Statement (also known as a Balance Sheet).
2) The Net Income Statement (or Profit and Loss Statement).

The Net Worth Statement shows the financial position of the business at an instant in time, but the Net Income Statement measures the performance of the business over a period of time, whether it be a month, a quarter or a year. As the illustration below shows, the Net Income Statement records the changes which occur between two Net Worth Statements.



The relationship between these two statements will become clearer after you have looked at the example which follows.

Let us see how the two statements are prepared for a retail business having stocks of goods.

Val Russell operates a small corner shop in the country. Two years ago, the owner, Mr. Brown, died. His wife decided to put the shop up for rental as she was getting old and could not manage the shop. Val lived next door and decided to rent the shop. She had been thinking about starting a small business and the opportunity came at just the right time. Val bought some of the items which had been in the shop and some other items with money she had been saving for a few years.

Val wants to know how well her business has performed over the two years in which she has been operating the shop. She prepares the Net Worth Statement which shows the financial condition of the business at a specific date.

It shows that:

WHAT THE BUSINESS IS WORTH
is equal to

WHAT THE BUSINESS OWNS **minus** **WHAT THE BUSINESS OWES**

What are the things the business OWNS?
Remember, these are called ASSETS. They can be divided into two categories:

1) Current (short-term) assets
2) Fixed (long-term) assets

Current assets are mainly cash and other assets which can be quickly turned into cash; or can be used up in the business in the near future (within 1 year). For example current assets may be:

1) Cash (money in the bank and the cash pan)
2) Money owed to the business by customers
3) Savings belonging to the business
4) Pre-paid bills (insurance premiums, rental, etc)
5) Stocks (merchandise, raw materials, goods-in-process, supplies, feed and farming inputs)
6) Non-breeding livestock, work animals (horses, donkeys, etc) and livestock kept less than one year (broiler, rabbits, etc.)
7) Stored and growing crops

Fixed assets are items which the business uses in the production of goods and services offered for sale, and are not themselves normally used up or sold in the near future (within one year). These include:

1) Land
2) Buildings
3) Machinery (including vehicles) and equipment
4) Furniture and fixtures (e.g. shelves, cupboards etc)
5) Large breeding animals (cows, goats, etc.) and work animals

What are the things the business OWES?

These are called DEBTS. The debts of a business are mainly to lenders or suppliers who have loaned money or given your business credit.

The DEBTS OWED by a business can be placed in two categories:

(1) Short-term debts
(2) Long-term debts

Short term debts are due for payment in the 'near future', that is, anytime within the year and include:

1) Money owed to suppliers (for goods bought on credit)
2) Short-term loans
3) Money owed for services provided eg. wages, (to employees), electricity supplies, etc.

Long-term debts on the other hand, are due for payment over a period longer than one year. These include:

(1) Mortgage loans on land or buildings
(2) Other bank loans

So at the end of Val's business year which was at the end of December, Val prepared the Net Worth Statement which follows.

NET WORTH STATEMENT
RUSSELL FAMILY SHOP
December 31, (Last Year)

ASSETS (WHAT THE BUSINESS OWNS)	
Cash	$1,393.00
Money owed by customers	827.00
Stocks	5,220.00
Pre-paid bill (rental)	120.00
Total assets	7,560.00
DEBTS (WHAT THE BUSINESS OWES)	
Money owed to suppliers	1,104.00
NET WORTH	$6,456.00

Val knew that in order to really find out how well her business had performed she would have to compare the NET WORTH STATEMENT with that of the previous year. This is the result:

NET WORTH STATEMENT
RUSSELL FAMILY SHOP

	December 31 Last Year	December 31 Year before last
ASSETS		
Cash	$1,393.00	$ 493.00
Money owed by customers	827.00	557.00
Stocks	5,220.00	3,350.00
Pre-paid bill	120.00	150.00
Total assets	7,560.00	4,550.00
DEBTS Money owed to suppliers	1,104.00	974.00
NET WORTH	$6,456.00	$3,576.00

What was the Net Worth of Val's business at the end of December last year? $_____.___

What was the Net Worth of Val's business at the end of December year before last? $_____.___

Has the worth of Val's business increased, stayed the same or decreased?

What was the change in net worth over the year? $_____.___

Val then prepares the NET INCOME STATEMENT which summarises the Receipts and Payments, to find out whether her business made a profit or not for the year just past.

To prepare the Net Income Statement for the year just past, Val first had to find out from her records:

1) The total Sales. All sales made by her business for the year, including cash and credit Sales.
2) The Cost of goods sold. To get this, she first adds the cost of the Opening stock to the cost of those items of stock purchased during the year. Then she subtracts the cost of the Closing Stock. (The Opening Stock is the total value of the shop's stock arrived at when she listed and valued her assets on January 1st, last year. The Closing Stock is the total value of the stock at the end of December last year - the same as the value arrived at when she listed and valued her assets on January 1st, this year).
3) The Gross Margin. She gets this by subtracting the Cost of Goods sold from the Sales. The Gross Margin is the 'mark up' she has made for the year on the items she sells in the shop.

4) The Total payments. All payments made by the business for the year. This includes cash and credit purchases: purchases of items of stock, payment for rental, transportation, wages, utilities and interest payments on loans, etc.

5) The Net Income. This is calculated by subtracting the Total payments from the Gross Margin.

This is what her Net Income Statement looks like:

NET INCOME STATEMENT
RUSSELL FAMILY SHOP
January 1 to December 31
this year

	Sales		$36,000.00
	Cost of Goods Sold		
	Opening Stock	$3,350.00	
(plus)	Purchases (of items of stock)	19,510.00	
		22,860.00	
(minus)	Closing Stock	5,220.00	
			$17,640.00
Gross Margin			$18,360.00
Payments			
Wages to Val		$ 7,200.00	
Wages to Son Son		3,000.00	
Transportation		1,080.00	
Rental		1,440.00	
Electricity		2,400.00	
Other payments		360.00	
Total payments			15,480.00
Net income (Profit or loss)			$ 2,880.00

Val was very pleased that she had made a profit this year and she hopes that the business will do well again, next year.

With the help of these financial tools, Val is confident that her business will be able to keep on making profits, if she keeps a close watch on the financial aspects of her business.

It should be noted that Val put back all her profits into her business. (The increase in Net Worth is exactly the same as her profits). This is a good idea if you want your business to grow.

PART THREE

If your business owns FIXED ASSETS, that is, items such as buildings, machinery, equipment, furniture, etc, there is an important factor which you must consider when you prepare the financial statements we have been learning about.

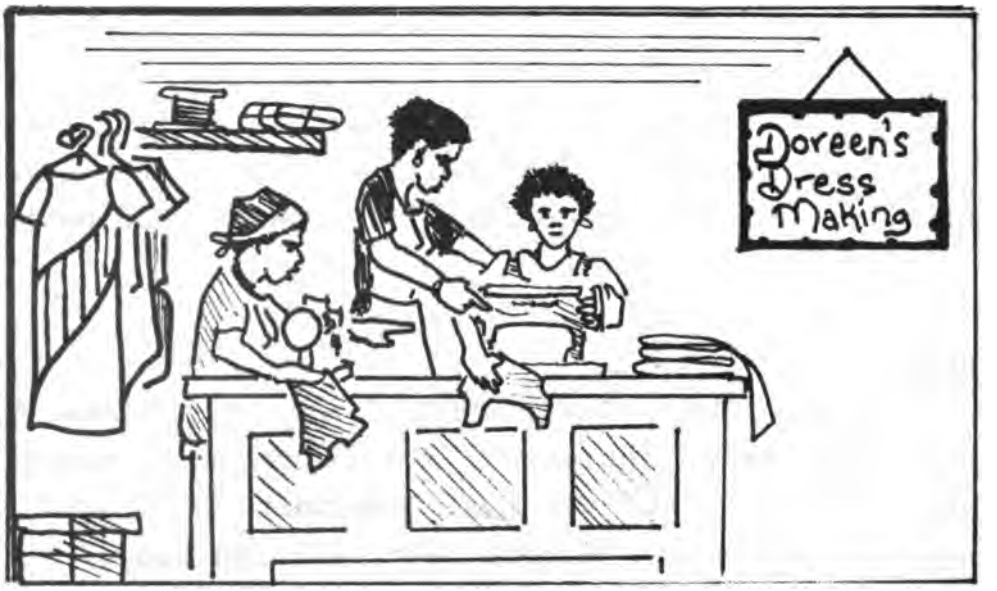
This factor is known as DEPRECIATION.

Except for land, which usually does not depreciate, most Fixed Assets wear out sooner or later and therefore have a limited 'useful life'. A portion of the cost of these fixed assets is therefore considered as an expense to the business and is known as a Depreciation Expense.

Doreen Willie left her regular job at a clothing factory at the end of April last year, in order to start her own dressmaking business. She invested all her savings amounting to $1,530.00 in cash, in the business. At the beginning of May, she used some of the cash and $1,000.00 which she borrowed from the Development Foundation, to buy some furniture and equipment.

This is what she bought:

1) a straight stitch sewing machine, costing $1,800.00
2) three chairs, costing $50.00 each
3) a work table, costing $300.00
4) small tools, costing $150.00



During the first month in operation, the fixed assets of Doreen's business began to depreciate. In order to prepare the financial statements at the end of that month, Doreen had to determine what the depreciation expense was for each of the fixed assets owned by her business.

For example, she found out (from an accounting manual which gives the 'useful life' of various items of fixed assets) that the sewing machine should have a 'useful life' of ten years. She therefore charged as a depreciation expense, an equal portion of the cost of the machine each year for 10 years.

The machine cost her $1,800.00, so she charged as a depreciation expense:

$$\frac{\$1,800.00}{10} = \$180.00, \text{ each year}$$

for 10 years.

Similarly, she determined the yearly depreciation expenses for the other fixed assets:

Item	Useful Life	Cost	Depreciation expense (per year)	
Chairs	5 years	$150	$\frac{(\$150.00)}{5}$	$30.00
Work Table	5 years	$300	$\frac{(\$300.00)}{5}$	$60.00
Small tools	5 years	$150	$\frac{(\$150.00)}{5}$	$30.00

To determine the amount of depreciation for one month she divided these values by twelve. (There are 12 months in the year!) The depreciation expense on the machine was therefore:

$$\frac{\$180.00}{12} = \$15.00 \text{ each month for the year}$$

Similarly, for each month, the depreciation expense on the chairs was estimated to be:

$$\frac{\$30.00}{12} = \$2.50$$

and on the work table:

$$\frac{\$60.00}{12} = \$5.00$$

and on the small tools:

$$\frac{\$30.00}{12} = \$2.50$$

This meant that the total depreciation expense on her Fixed Assets at the end of May last year was:

Machine	$15.00
Chairs	$ 2.50
Work Table	$ 5.00
Tools	$ 2.50
TOTAL	$25.00

How did she record the Depreciation Expense on the financial statements she prepared? Let's have a look at the statements she prepared at the end of May last year.

NET WORTH STATEMENT
DOREEN'S DRESSMAKING EST.
MAY 31 last year

ASSETS		
Current Assets		
Cash	$604.00	
Money owed by customers	196.00	
Pre-paid bill	80.00	
Total current assets		$880.00
Fixed Assets		
Equipment	$1,800.00	
Small tools	150.00	
Furniture	450.00	
	$2,400.00	
Less depreciation	25.00	
Total fixed assets		$2,375.00
TOTAL ASSETS		$3,255.00
DEBTS		
Bank loan	$1,128.00	
NET WORTH		$2,127.00

NET INCOME STATEMENT
DOREEN'S DRESSMAKING EST.
MAY last year

Receipts		
Sales		$750.00
Payments		
Wages to Doreen	$260.00	
Wages to staff	$200.00	
Rental	80.00	
Electricity	40.00	
Interest on loan	12.00	
Trimmings and accessories	35.00	
Transportation	18.00	
Total payments	$645.00	
Depreciation expense	25.00	
Total expenses		670.00
Net Income (Profit or loss)		$ 80.00

On the Income Statement, the accumulated Depreciation expense is added to the Total payments to get the Total Expenses. Notice however, that on the Net Worth Statement, the Depreciation expense is deducted from the original cost of the fixed assets.

What do these statements tell you about Doreen's month old business?

Now one year later, Doreen compares the Net Worth statement of this May with last May.

NET WORTH STATEMENT
DOREEN'S DRESSMAKING EST.

	May 31 this year	May 31 last year
ASSETS		
Current Assets		
Cash	$1,360.00	604.00
Money owed by customers	483.00	196.00
Pre-paid bill	80.00	80.00
Total Current Assets	1,923.00	880.00
Fixed Assets		
Equipment	1,800.00	1,800.00
Small tools	150.00	150.00
Furniture	450.00	450.00
	2,400.00	2,400.00
Less accumulated depreciation	325.00	25.00
Total Fixed Assets	2,075.00	2,375.00
TOTAL ASSETS	3,998.00	3,255.00
DEBTS		
Bank loan	-	1,128.00
Money owed to suppliers	149.00	-
TOTAL DEBTS	149.00	1,128.00
NET WORTH	$3,849.00	$2,127.00

What has happened to the value of Doreen's Fixed Assets over the year?_____

After one year, has the Net Worth of her business increased, decreased or stayed the same?_____

What is the change in the Net Worth? $_____ .___

This is what her Income Statement was like after one year in operation.

NET INCOME STATEMENT
DOREEN'S DRESSMAKING EST.
JUNE 1 (Last year) to MAY 31 (This year)

Receipts		
Sales		$9,600.00
Payments		
Wages to Doreen	$3,120.00	
Wages to staff	$1,850.00	
Rental	960.00	
Electricity	729.00	
Interest on loan	144.00	
Trimmings and accessories	468.00	
Transportation	307.00	
Total payments	$7,578.00	
Depreciation expense	300.00	
Total expenses		$7,878.00
Net Income (Profit or loss)		$1,722.00

How much profit did Doreen's business make for the year?
$_____. ___

How does the Net Income Statement link with the Net Worth Statements for May 31, last year and May 31, this year?

_____

Do you think Doreen has managed her business well? Why?

_____

Can you now find out how well your business is doing?

_____

Preparing financial statements for Manufacturers and Farmers

If you are a manufacturer with stocks of raw materials, goods-in-process, finished goods or a combination of these, there is another way you can prepare your Income Statement. In the example which follows, the Income Statement is prepared in two stages. In the first stage, a Manufacturing Statement is prepared showing the Cost of Goods Manufactured and the Cost of Goods Sold after changes in the levels of stocks, production wages and overhead costs have been taken into account.

In the second stage, the Net Income is calculated. This is done by:

1) Subtracting the Cost of Goods Sold from the Sales to get the Gross Margin
2) Subtracting Selling and administrative expenses from the Gross margin.

The first example which follows, shows a Manufacturing Statement and a Manufacturing Income Statement which have been prepared for one month's operation.

The second example shows a small farm Net Worth Statement. Note that the accumulated depreciation expenses have already been subtracted from the values for the Fixed Assets shown on the Net Worth Statement.

Manufacturing Statement (One month)

	Raw materials		
	Opening Stock	100.00	
plus	Purchases	300.00	
	Total available	400.00	
less	Closing Stock	90.00	
	Raw materials used		310.00
	Production wages		80.00
	Production overheads		
	Rent	40.00	
	Electricity	20.00	
	Depreciation on equipment	5.00	
			65.00
			455.00
	Work-in-progress		
plus	Opening Stock		30.00
			485.00
less	Closing Stock		45.00
	Cost of goods manufactured		440.00
	Finished goods		
plus	Opening Stock		100.00
			540.00
less	Closing Stock		120.00
	Cost of Goods Sold		$420.00

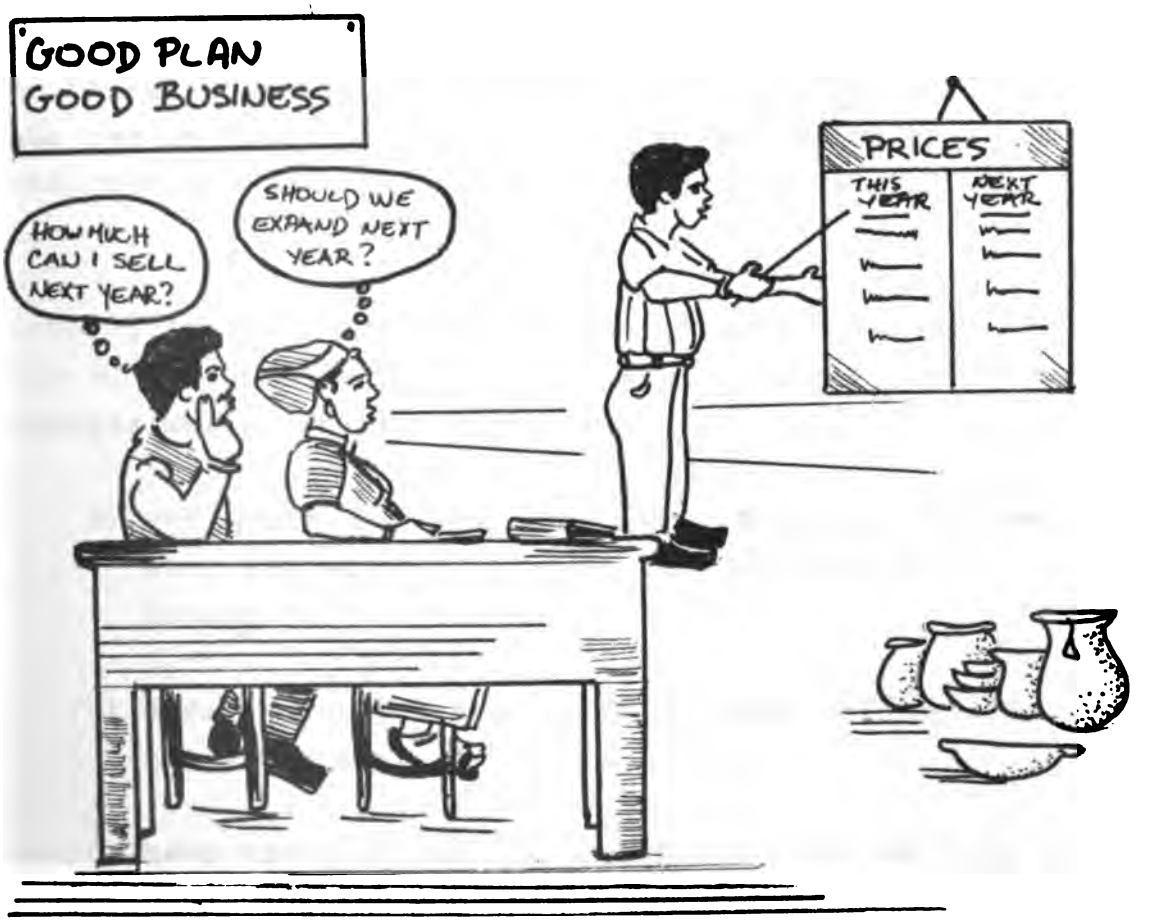
Manufacturing Income Statement (one month)

Sales	$480.00
Costs of Goods sold	420.00
Gross margin	60.00
Expenses	
Selling and administrative expenses	35.00
Net Income	$ 14.50

NET WORTH STATEMENT
SMALL FARM
December 31, 1984

ASSETS	
Current assets	
Cash in bank	3,000.00
Money owed by customers	2,200.00
1 calf (under 1 year) @ $300.00	300.00
2 goat kids @ $25.00	50.00
15 piglets @ $30.00 each	450.00
4,000 lbs yam (harvested, not sold)	2,000.00
2 acres ginger (six months old)	1,800.00
Livestock feed (10 bags pig ration)	
(5 bags calf ration)	350.00
Fixed assets	
Land 6 acres plus improvements	$14,400.00
House	7,000.00
Cow shed $25 per sq. ft. X 150 sq. ft.	3,750.00
Pig pen $15 " " " 100 " "	1,500.00
Storeroom $60 per sq.ft. X 100 sq. ft.	6,000.00
Motorized sprayer (bought June 1984)	670.00
Breeding bull @ $2,500.00	2,500.00
2 cows @ $1,800.00 each	3,600.00
2 in-calf heifers @ $2,000.00 each	4,000.00
1 boar pig @ $555.00	550.00
2 breeding sows @ $400.00 each	800.00
1 doe goat @ $150.00	150.00
TOTAL ASSETS	55,070.00
DEBTS	
Balance on hire purchase of motorized sprayer	420.00
Balance of loan for pig keeping from Agricultural Credit Bank	1,360.00
TOTAL DEBTS	1,780.00
NET WORTH	$53,290.00

PART III: PLANNING AND ANALYSIS FOR YOUR BUSINESS



PLANNING 13

Running a business well involves spending some time thinking about what will happen in the future. This is called Planning. Planning for the future is important so things don't take us by surprise.

When events in our lives take us by surprise, we lose control and things just happen, instead of our making them happen. The same can be true in business. If we are taken by surprise, we lose control and our business runs us, instead of our running it.

Planning for your business can be tiresome work, but well worth your effort in the long run. A plan helps you to run your business well. It allows you to:

a) set goals for your business, that is, to decide what you want to achieve for the business in the future

b) decide what you need to do in order to achieve the goals you set

c) keep track of how you are doing once you have set about putting your plans into action

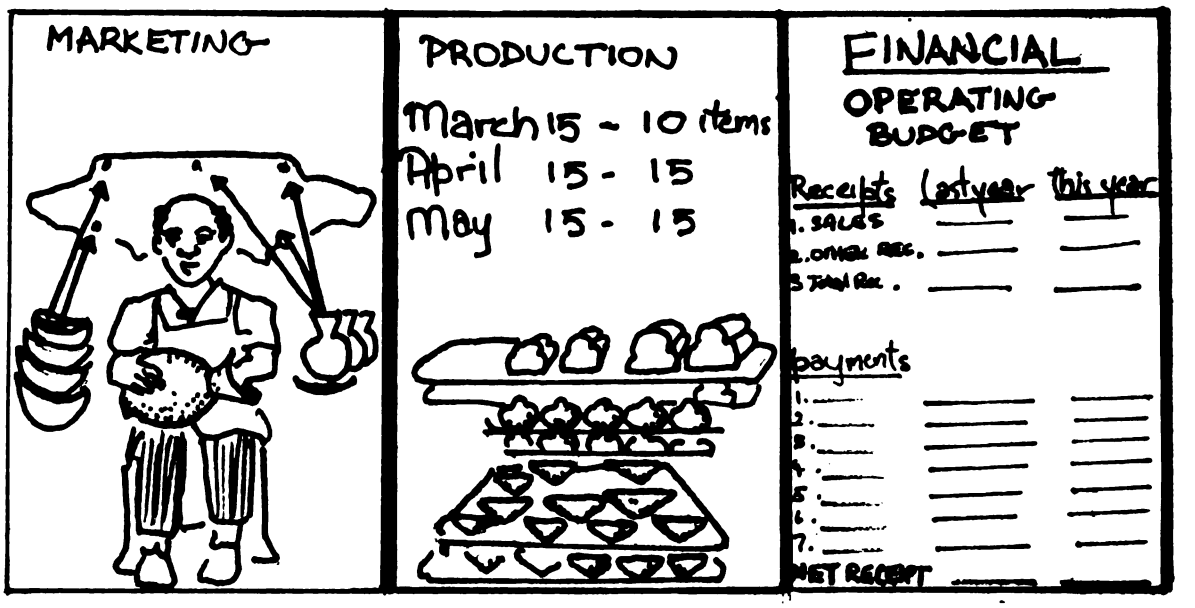
d) show others that you are serious about the way your business is run (especially if you need to seek financial assistance).

So, why is planning important in business?

What goals do <u>you</u> have for your business?

Business plans can be divided into three types:

- MARKETING PLANS: those having to do with selling the product or service
- PRODUCTION PLANS: those having to do with the day-to-day making of the product or delivering of the service
- FINANCIAL PLANS: those having to do with receipts and payments in the future



MARKETING PLANS

If your major goal is to increase the income your business earns from selling your product or service, your marketing plans will be crucial to making that goal happen. When you make your marketing plans, you should consider the several ways in which you can increase the earnings of your business by increasing the volume of sales, such as:

1) selling more of your products to present customers
2) finding new customers to buy your product or use your service
3) creating new products or offering other services for sale to both old and new customers

4) trying out new areas in which you think you can sell your products or service
5) making your products or service more competitive by:
   - lowering the price (do this only if you can make more money by selling more)
   - improving the quality without greatly increasing the cost
   - making other changes to improve its ability to sell.

Have you thought about making marketing plans for your business for the coming year? Write down the ways you think you can increase the sales of your product or service.

_____ _____
_____ _____
_____ _____
_____ _____

Once you have considered how you will increase your sales you should be able to make decisions about the number of items you will sell in the coming year. This is your Sales Target.

PRODUCTION PLANS

Having decided what you will produce and the quantities of them which you will produce, the next step is to make production plans. This will involve:

a) setting targets for daily, weekly and monthly production
b) deciding on the kinds, quantities and quality of inputs (raw materials, planting materials, feed, fertilizers) to be used
c) making sure that the inputs are available and at reasonable costs

d) deciding how many people will be needed for production.

Your production plans can be written down in the form of a production schedule which outlines all the tasks you have to perform and allows you to check on how well you are sticking to your plan.

Let's look at schedules Susan and her husband Joe made for their small business - a stall close to the cruise ship pier on the coast. Joe buys and prepares the materials which Susan uses to make hats, bags and belts. Joe works from home, while Susan is at the stall, working while she sells.

FINANCIAL PLANS

A financial plan is called a Budget. The budget is usually prepared at the start of the business year. It shows the amount of money the business hopes to receive during the year and how that money will be spent in order to meet all expenses and keep the business going. The budget also shows how much money will be left over at the end of the year after all operating expenses have been met (Surplus or Profit), or what the shortfall (Loss) will be. This type of budget is called an 'Operating Budget'. Another type of financial plan, called a 'Cash Flow Plan', helps you to forsee how money will come in and go out of your business daily, weekly or monthly. By making this plan, you can tell ahead of time whether you will be able to make payments when they become due, arrange to delay them or take a loan to pay them off.

The following two exercises explain how to prepare these financial plans.

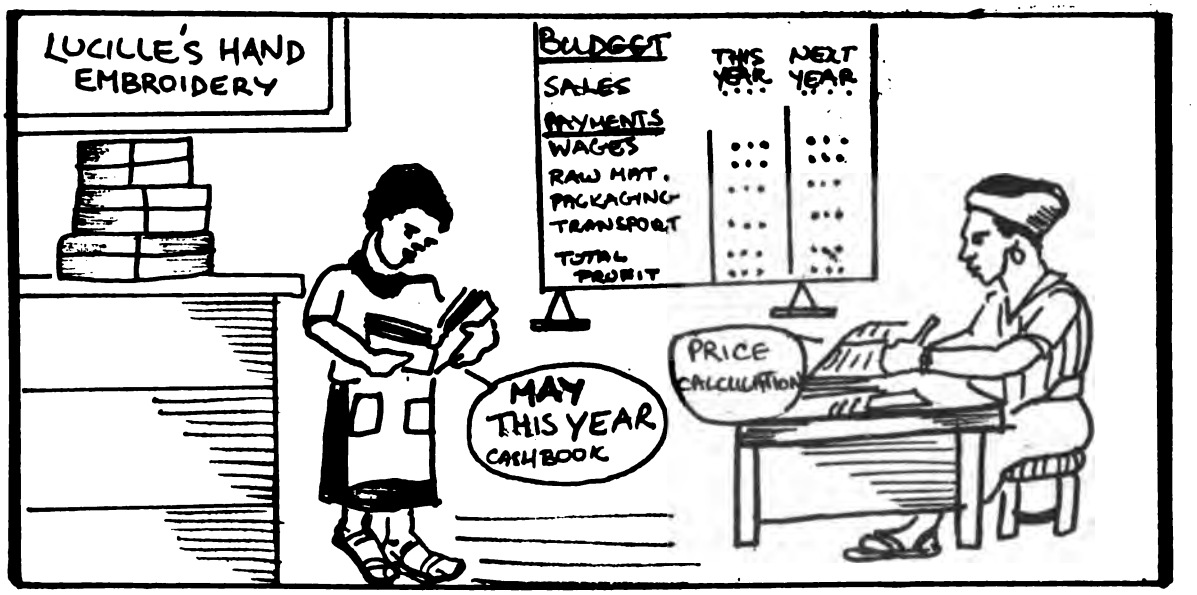
Remember, planning is important for your own life and is a necessary tool for making your business work well. A plan makes you think ahead, so you can set goals for yourself and your business and work towards achieving those goals.
So, the time to start planning is now!

BUDGETING 14

A budget is a financial plan which shows estimates of receipts and payments for a specified period of time. Budgets can be made for any period of time. In this exercise, you will learn how to prepare an annual budget. However, the same method can be used for any time period - a month, a quarter, six months, etc.

Before you prepare your budget for next year, there are certain things about your business which you must consider. It is useful to ask yourself questions about what will happen in your business next year, such as:

a) How much it is likely to cost you to make your product and how many items you are likely to be able to produce and sell
b) What your selling price is likely to be
c) What the total income from sales of your product is likely to be.



So the first thing to do is to think ahead about what each product will cost you to make next year. A good way of predicting this is to look back at what costs were this year and then estimate what costs will be like next year and how they will differ. To find out, look at a price calculation you did very recently or at your Cash Book. For a set production period, say one week or one month, find last year's costs for making the number of items you normally would make in that period.

Here is a format you can use for writing down this year's costs and the costs which you are likely to pay next year.

Product_____

Production period_____

DIRECT COSTS

	THIS YEAR	NEXT YEAR (same volume)	NEXT YEAR (change in volume)
Raw Materials			
Packaging & Labelling			
Labour: Hired			
Self			
Unpaid Family			
Transportation			

INDIRECT COSTS

Rental			
Electricity			
Water			
Telephone			
Fuel			
Small Tools & Equipment			
Servicing			
Stationery, Stamps etc.			

Under THIS YEAR and beside those costs which you paid for this year, fill in the amounts it cost you to make the particular number of items in the production period you have chosen.

Now think about what costs are likely to be NEXT YEAR to make the same number of items in the same production period. Will costs go up, remain the same or go down? By how much do you expect them to change? Decide what you think each cost is likely to be and write this down under NEXT YEAR (same volume).

Thinking over what happened in your business this year, and your estimates about the market next year, what quantity of the item do you think you can produce and sell each week or month (the production period you chose) next year?

QUANTITY OF ITEM/PRODUCT I CAN PRODUCE AND SELL EACH WEEK/MONTH NEXT YEAR.

If you figure that you will produce and sell more or fewer items next year than you did this year, you will have to work out what it will cost you to produce the increased or decreased number of items.

Note that for some costs, like raw materials, packaging and labelling materials and wages, increasing or decreasing the volume of production will result in a proportional increase in them. That is, if volume of production is doubled, these costs also double, or if the volume of production is halved, then they are also halved. These are DIRECT COSTS. Other costs, the INDIRECT COSTS such as rental, are fixed. That is, they are the same whether or not production is increased or decreased.

Now, using the form, first fill in under NEXT YEAR (change in volume), the increased or decreased direct costs which will result from the change in volume of production. Then decide whether or not the indirect costs will go up, or stay the same and fill those in.

Now add up all the costs (Direct and Indirect) you estimate for NEXT YEAR with the changed volume. This will give you the TOTAL COST for making the items each week or month. Next, divide the total cost by the number of items you will produce and sell next year. This will give you the cost per item.

TOTAL COST = $_____.____

COST PER ITEM = $_____.____ (divide total cost by number of items to be produced)

Now that you have worked out the cost to produce each item next year, think about the price at which you will sell each item. Remember that your price per item must be greater than the cost to produce each item in order for business to be good next year. Remember however, asking too much higher a price may mean less sales of your product, which means you would have to plan to make fewer items. To help you decide what price you will sell at, think about your selling price this past year.

Were you able to sell all you produced this past year?

If the answer is yes, do you feel you can increase your price and still sell as many or more items?

If the answer is no, why weren't you able to sell all your products? Was the price too high?

Now make a decision about your selling price for next year and write it down.

SELLING PRICE PER ITEM/PRODUCT FOR NEXT YEAR: $_____.____

Now multiply the price per item by the quantity you will make and sell to get total receipts from sales for one week/month next year.

_____	X	_____	=	_____
price per item		quantity		receipts from sales for one week/month

PREPARING THE BUDGET

Now you have the basic information which is needed to prepare your budget. On the following page you will see the format for preparing the budget for a year. You will have to decide how the business year will run: will it run from January to December, or will this year finish this month and next year begin next month?

Since the budget we will prepare will be for a year, and the figures you have worked out for Receipts and Payments are for one week or one month, you need to convert them in order to include them in your budget.

If the production period you chose was one week, then multiply the figures by 50 to get one year's receipts and payments.

If the production period you chose was one month, then multiply the figures by 12.

BUDGET

For Year beginning _____19____ and Ending _____ 19____

RECEIPTS	PRODUCTION PERIOD Week x 50 Month x 12	NEXT YEAR
A. SALES	_____	_____
B. OTHER RECEIPTS		_____
C. TOTAL RECEIPTS		_____
PAYMENTS		
A. RAW MATERIALS	_____	_____
B. PACKAGING & LABELLING	_____	_____
C. WAGES: To Myself	_____	_____
To Others	_____	_____
D. TRANSPORTATION	_____	_____
E. RENT	_____	_____
F. UTILITIES	_____	_____
G. OTHER PAYMENTS	_____	_____
H. INTEREST PAYMENTS		_____
I. TOTAL PAYMENTS		_____
PROFIT (SURPLUS) OR LOSS		_____

Let's go step by step:

1. RECEIPTS

   A. SALES: In the first column, write down the amount you expect to receive from sales for one week or one month. Multiply this figure by 50 or by 12 to get Sales for next year.

   B. OTHER RECEIPTS: Under NEXT YEAR, write any other monies you expect will come into the business, such as interest on savings or donations.

   C. TOTAL RECEIPTS: Add A & B to get the total receipts you expect to come into the business next year.

2. PAYMENTS

   A. RAW MATERIALS: In the first column, put the expected cost of raw materials for one week or month next year. Multiply by 50 or 12 to get total raw materials cost for NEXT YEAR. For farmers, include here, costs for purchased seed, fertilizer, insecticides, etc.

   B. PACKAGING & LABELLING: Do the same figuring to get the packaging and labelling costs for NEXT YEAR.

   C. WAGES: Do the same to get the expected wages for yourself and others (hired and unpaid family) for NEXT YEAR.

   D. TRANSPORTATION: As before, multiply the expected costs of transportation by 50 or 12 to get the cost for NEXT YEAR.

   E. RENT: Multiply the rental you expect to pay for one week or month by 50 or 12 to get the rental for NEXT YEAR.

You remember Yvette Morgan, don't you? - the lady who has the business baking rock buns for schools in her area? Let's ask her.

"Preparing my cash flow plans helps me to make sure that I can make the payments for the business when they become due, like the repayment of a loan. They also help me to know when the business will be short of cash - then I can make special efforts to collect any money owed to the business, or I may have to take less wages for myself. Also, if I find that at times there will be more cash than is needed, I can put the extras in a savings account at the bank or buy raw materials in bulk".

Yvette has agreed to show us her cash flow plans and she will help us to make some of our own.

"I prepared my cash flow plan for the year after I'd prepared the year's budget. First, I looked at all the receipts the business hopes to have for the year. If you look on the next page at my budget, you will notice that this year the business hopes to make $35,804.00 in sales. Next, I divided this amount among the twelve months of the year, according to the sales expected each month.

The payments to be made each month are worked out in a similar manner. Many of the payments, such as the costs of production (for raw materials, packaging, fuel) will vary depending on the level of sales expected. Other payments will be constant during the year, like the rental and loan payments".

BUDGET

For Year Beginning January 1, 1985
and Year Ending December 31, 1985

RECEIPTS			NEXT YEAR
A.	SALES	$	35,804.00
B.	OTHER RECEIPTS		-
C.	TOTAL RECEIPTS	$	35,804.00

PAYMENTS		
A.	RAW MATERIALS	21,324.00
B.	PACKAGING & LABELLING	377.00
C.	WAGES	4,860.00
D.	TRANSPORTATION	1,501.00
E.	UTILITIES & RENT	6,900.00
F.	OTHER PAYMENTS	210.00
G.	INTEREST ON LOAN	145.00
H.	TOTAL PAYMENTS	35,317.00
	PROFIT OR LOSS	$ 487.00

"On the next two pages is the format I've used to prepare my plan for the year. Let me explain how it is filled in and you can use it to make your own cash flow plan".

		JAN	FEB	MAR	APR	MAY
BEGINNING CASH (E LAST MONTH)	A					
RECEIPTS		////	////	////	////	////
SALES	1					
OTHER RECEIPTS	2					
MONEY FROM LOANS	3					
TOTAL RECEIPTS (ADD 1 - 3)	B					
TOTAL CASH (ADD A & B)	C					
PAYMENTS		////	////	////	////	////
RAW MATERIALS	4					
WAGES	5					
TRANSPORTATION	6					
PACKAGING AND LABELLING	7					
UTILITIES AND RENT	8					
MACHINE & EQUIPMENT PURCHASE	9					
LOAN REPAYMENT	10					
OTHER PAYMENTS	11					
TOTAL PAYMENTS (ADD 4 - 11)	D					
ENDING CASH (C MINUS D)	E					

JUN	JUL	AUG	SEPT	OCT	NOV	DEC	TOTAL
////	////	////	////	////	////	////	////
////	////	////	////	////	////	////	////

LINE A: This is the amount of cash which is carried forward from the previous period, the BEGINNING CASH - in this case, from the previous month. This may be cash in hand, or money in the bank, or both.

LINE 1: Here you will put the figure for the amount you expect in SALES each month.

LINE 2: On this line you should record any OTHER RECEIPTS you expect to come into the business, apart from sales. (You may record a 'partner' draw here, for instance.)

LINE 3: If you had applied for a loan, you should write down the amount of money you will receive in the month you expect to receive it, on the line, MONEY FROM LOANS.

LINE B: On this line, you will add all the receipts (lines 1 to 3) you expect to come into the business to get the TOTAL RECEIPTS for each month.

LINE C: Add the Total Receipts (B) to the BEGINNING CASH (A) to get the TOTAL CASH.

LINE 4: If you buy RAW MATERIALS every month, record the amount you will spend on this line. If you do not buy every month, put the amount you will spend on the line, in the month or months you expect to do so.

LINE 5: Record the WAGES you will pay yourself or your employees each month, on this line.

LINE 6: Record the amount you are likely to spend on TRANSPORTATION each month on this line.

LINE 7: Record the amount you will spend on PACKAGING AND LABELLING materials at the time you will buy them, here.

LINE 8: Record the payments for UTILITIES (like electricity, water, phone, fuel) and RENT each month, on this line.

LINE 9: If you plan to buy tools, machinery or equipment, put the amount you will spend in the month you will do so, on the line, MACHINE & EQUIPMENT PURCHASES.

LINE 10: If you had received a loan, record the payments you will make on the loan every month, on this line, LOAN REPAYMENT.

LINE 11: Any OTHER PAYMENTS you are likely to make for the business during the month should be recorded on this line.

LINE D: Add all the payments for each month (lines 4 - 11) to get the TOTAL PAYMENTS and place on this line.

LINE E: Subtract the TOTAL PAYMENTS (D) from the TOTAL CASH (C) to get the ENDING CASH for the month. This amount becomes the BEGINNING CASH (A) for the following month.

On the next two pages you will see the plan I finally decided to work with. When preparing the plan, I always had to make sure there would be enough cash available at the times when items were to be purchased or bills to be paid. This wasn't always easy, and often I had to plan to put off some payments until enough money became "available". For example, although I would have liked to paint my work area in January, I decided it was best to put it off until Eastertime. Also, in order to increase my rock bun production, I had applied to the Development Foundation for a $1,000.00 loan to buy another oven. I expect that the loan will be approved and that I will receive the money in January. I will have to pay back the loan over 15 months, and this year the payments will be $83.00 per month, excepting January when I will only pay interest of $12.00. Since my profit was not enough to cover the repayment on the loan principal, I had to plan to take less wages than I normally would in the month of August. Hopefully if I can manage to sell more rock buns during the year, I may later be able to take that month's wage in full, after all".

		JAN	FEB	MAR	APR	MAY
BEGINNING CASH (E LAST MONTH)	A	390	291	503	720	376
RECEIPTS		////	////	////	////	////
SALES	1	2,940	3,924	4,265	1,962	4,265
OTHER RECEIPTS	2					
MONEY FROM LOANS	3	1,000				
TOTAL RECEIPTS (ADD 1 - 3)	B	3,940	3,924	4,265	1,962	4,265
TOTAL CASH (ADD A & B)	C	4,330	4,215	4,768	2,682	4,641
PAYMENTS		////	////	////	////	////
RAW MATERIALS	4	1,750	2,338	2,540	1,169	2,540
WAGES	5	405	430	443	377	443
TRANSPORTATION	6	125	165	180	82	180
PACKAGING AND LABELLING	7	177				
UTILITIES AND RENT	8	570	696	802	385	782
MACHINE & EQUIPMENT PURCHASE	9	1,000				
LOAN REPAYMENT	10	12	83	83	83	83
OTHER PAYMENTS	11				210	
TOTAL PAYMENTS (ADD 4 - 11)	D	4,039	3,712	4,048	2,306	4,028
ENDING CASH (C MINUS D)	E	291	503	720	376	613

JUN	JUL	AUG	SEPT	OCT	NOV	DEC	TOTAL
613	675	290	62	69	173	390	////
////	////	////	////	////	////	////	////
4,265	980	940	2,940	3,434	4,265	1,624	35,804
4,265	980	940	2,940	3,434	4,265	1,624	36,804
4,878	1,655	1,230	3,002	3,503	4,438	2,014	////
////	////	////	////	////	////	////	////
2,540	586	560	1,750	2,045	2,540	966	21,324
443	351	220	405	417	443	378	755
180	40	40	125	144	180	60	1,501
200							377
757	305	265	670	641	802	325	6,900
							1,000
83	83	83	83	83	83	83	925
							210
4,203	1,365	1,168	2,933	3,330	4,048	1,812	36,992
675	290	62	69	173	390	202	////

"The plan for the year serves as a guide for preparing cash flow plans for each month. Now let's have a look at the plan I've made for January this year....."

CASH FLOW PLAN for January
(month)

		WEEK 1	WEEK 2	WEEK 3	WEEK 4	TOTAL
BEGINNING CASH (E LAST MONTH)	A	390	68	428	391	//////
RECEIPTS		//////	//////	//////	//////	//////
SALES	1		970	1040	930	2,940
OTHER RECEIPTS	2					
MONEY FROM LOANS	3	1,000				1,000
TOTAL RECEIPTS (ADD 1 - 3)	B	1,000	970	1,040	930	3,940
TOTAL CASH (ADD A & B)	C	1390	1038	1468	1321	//////
PAYMENTS		//////	//////	//////	//////	//////
RAW MATERIALS	4	300	550	450	450	1,750
WAGES	5		25	30	350	405
TRANSPORTATION	6	10	35	50	30	125
PACKAGING AND LABELLING	7			177		177
UTILITIES AND RENT	8			370	200	570
MACHINE & EQUIP. PURCHASES	9	1,000				1,000
LOAN REPAYMENT	10	12				12
OTHER PAYMENTS	11					
TOTAL PAYMENTS (ADD 4 - 11)	D	1,322	610	1,077	1,030	4,039
ENDING CASH (C MINUS D)	E	68	428	391	291	//////

"Before I made that plan, I had been to the manager of the school's canteen and she had given me an order to supply rock buns to the school for the start of the new term in the second week of January.

In the first week, I made my production and cash flow plans and I even bought the ingredients I would need to fill the order. Would you believe that on the day school should have started, I was told that the opening had been put off for a week! Luckily, I was able to make some sales to a few supermarkets, amounting to $518.00, but that set me back quite a bit, since I had planned to make over $900.00 in sales that week. Of course, it meant that I had to make some changes to my cash flow plan for January. Although things didn't work out in the way I'd planned, I still managed to pull through. I think I managed that week, because I had made my plans, keeping in mind that those kinds of unexpected
situations sometimes arise"!

CASH FLOW PLAN for _____
(month)

	WEEK 1	WEEK 2	WEEK 3	WEEK 4	TOTAL
BEGINNING CASH (IF LAST MONTH) A					//////
RECEIPTS	//////	//////	//////	//////	//////
SALES 1					
OTHER RECEIPTS 2					
MONEY FROM LOANS 3					
TOTAL RECEIPTS (ADD 1 - 3) B					
TOTAL CASH (ADD A & B) C					//////
PAYMENTS	//////	//////	//////	//////	//////
RAW MATERIALS 4					
WAGES 5					
TRANSPORTATION 6					
PACKAGING AND LABELLING 7					
UTILITIES AND RENT 8					
MACHINE & EQUIP. PURCHASES 9					
LOAN REPAYMENT 10					
OTHER PAYMENTS 11					
TOTAL PAYMENTS (ADD 4 - 11) D					
ENDING CASH (C MINUS D) E					//////

INCREASING INCOME AND PROFITS 16

Once your business 'gets off the ground', you should look for ways to make it more profitable. After all, the better you manage your business, the better your income will be.

One way to study your business and look for ways to increase income, is to look at each of the following:

- the PRICE you receive for your product or service,
- the COST of making your product or providing your service,
- the amount or VOLUME of your product or service which you sell.

PRICE

The higher the price you receive for your product or service, the greater your income is likely to be.

Normally, the price you can get for your product is determined by market forces - factors which are usually beyond your control, such as:

a) the supply or the amount of the item available to be bought,
b) the demand - how much the item is sought after by customers,
c) what competitors are charging for the same or similar items.

The price at which you sell therefore, will revolve around the market price. It is important then, that you make sure that your selling price adequately covers the costs of making your product leaving enough profits to carry on your business.

Can you think of some ways to successfully increase the price of your product?

_____

_____

_____

COST

The lower the cost of your product, the higher your income is likely to be. Costs should be reduced as much as possible without lowering quality. If you look at your CASH BOOK you can see how you are spending your money. Let's look at some ways money is spent running a business:

- buying raw materials and packaging materials
- buying goods for resale
- paying for transportation
- paying wages
- paying for utilities
- buying tools and equipment
- servicing tools and equipment

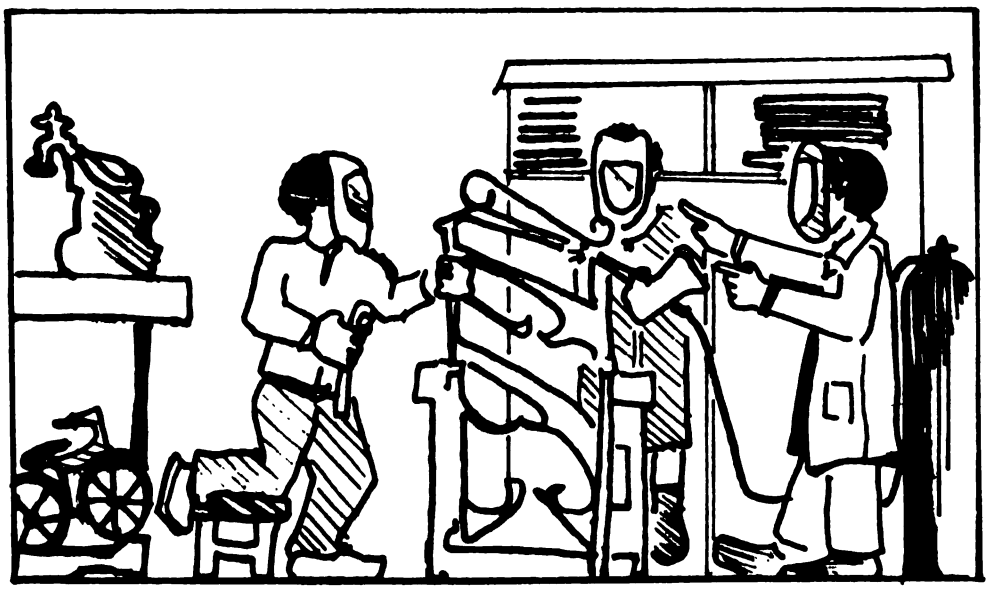
Now let's discuss how we can go about keeping costs as low as possible for each kind of expense.

RAW MATERIALS, PACKAGING MATERIALS AND GOODS FOR RESALE

When buying these items, you should consider the following:

- buy good quality items which are not too expensive (or your costs will increase) or not too cheap (or the quality of your product or service will suffer).

- avoid keeping too many items as stock, since this means money tied up in the business which could be put to better use.
- store stock items properly, in a safe place; this way, you will avoid theft, damage, or spoilage of your goods.
- buy items in bulk where possible as, generally, prices are lower when you buy in large quantities.



Let us look at an example:
Alfred runs a welding business, making outdoor furniture and burglar bars out of steel rods. The rods come in 20 foot lengths and and are sold at different rates:

$10.00 when purchased from 1 to 99 pieces
$ 9.00 when purchased from 100 to 299 pieces
$ 8.00 when purchased in lots of 300 pieces and over

Alfred has just secured an order to make outdoor furniture. He must complete the order in one month and he figures that he will need to use about 50 rods each week in making the furniture.

He has to decide how to buy the rods, so he compares the amount of money he would spend if he bought the rods every week, every fortnight, or once for the month.

QUANTITY	COST	COST OF 200 RODS
50 per week	$10 per length	$2000.00
100 per fortnight	$ 9 per length	$1800.00
200 per month	$ 9 per length	$1800.00

He decides to buy 100 rods every fortnight. This will cost him the same amount as if he had bought all 200 rods at the beginning of the month, and he will have half as much money tied up in stocks of rods.

How much did Alfred save by buying the rods every fortnight instead of every week? $_____._____

Why do you think he bought them every fortnight instead of once for the month?

TRANSPORTATION

Costs for transportation are high and continually rising, so you have to think of ways of keeping these costs as low as possible. You can do this in several ways:

- join with other members of your community and transport goods together
- if several persons buy materials or goods at one place, elect someone to buy for everyone
- look for opportunities to buy goods or supplies and market products on the same trip

- plan the trips you have to make to buy raw materials and supplies and to market your products. You should prepare clear schedules for your daily, weekly and monthly activities, so you can identify all the tasks you need to carry out. Then each time you go out, you should be able to plan your routes and save on time and money.

WAGES

The wages you pay your employees represent money spent for the use of their time. You should therefore make sure that their time is used well (efficiently). How can you do this?

° Look at their work area. It should be:
  - well laid out, so that each person has enough space in which to work,
  - well lit, so everyone can see properly,
  - well ventilated (have enough air passing through).
° Watch them while they work:
  - see to it that each employee knows what his tasks are ,
  - set guidelines for the time they should spend on each task,
  - monitor how well they perform.

Let's look at an example:

Lucille Rodney has a business making sets of hand-embroidered place mats and napkins at her home and she employs her cousin Madge to help her make them. Their production target is 10 sets per week and in order to meet that target they have assigned themselves special tasks.

Lucille was put in charge of the purchasing of raw materials and packaging supplies, marketing the finished sets and all the embroidery. Madge was given responsibility for the cutting, stitching, ironing and packaging of the sets. They each made schedules so that they would be able to work together to meet the target they had set themselves.

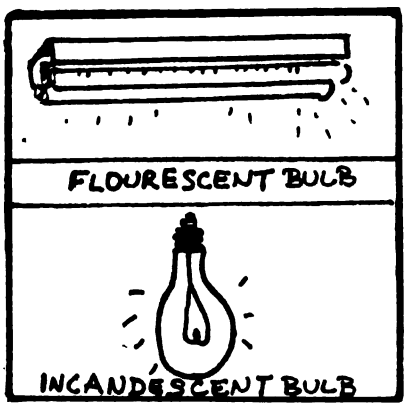
UTILITIES

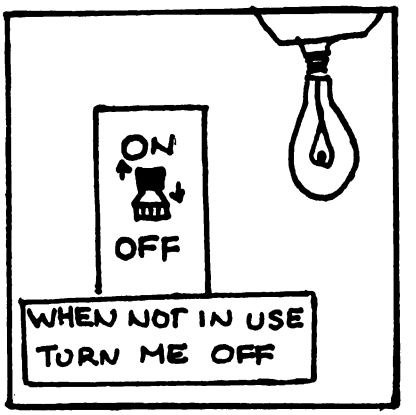
If you use things like electricity, water and the telephone in your business, you no doubt spend a large portion of your budget on these utility payments. It is important to think of how you can keep the cost of these services down without affecting the productivity of your business.

Let's look at a few ways in which we can keep our electricity bills low:

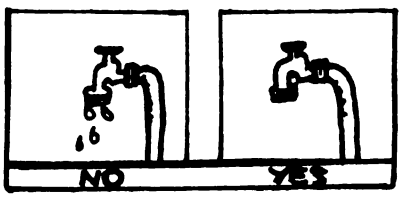
- switch off lights when they are not in use
- use electric tools and equipment efficiently - plan their use wisely and switch them off when they are not in use

- service tools and equipment at regular intervals so that they do not use more electricity than they need to
- if you need lighting for your business and can afford the higher initial cost, use fluorescent lighting rather than incandescent lighting - fluorescent bulbs produce three times more light per unit of electricity than incandescent bulbs do.





You can see then, that in order to keep your electricity bills low, you have to CONSERVE (save on its use).



The same applies to the use of other utilities you pay for in your business. You should check to make sure that water pipes do not leak or drip and waste water; you can see to it that the telephone is used wisely - plan the calls you have to make so that you remember to say the things you meant to say to your customer or to your supplier or banker. You should also keep it locked when it is not in use, so that only those you wish to, will use it.

TOOLS AND EQUIPMENT

If your business owns one or more of the following items - tools, machinery, equipment, vehicles - you are likely to have invested a great deal of money in them. You might have had to

get a loan and pay interest on the loan for a considerable period, in order to buy them. You therefore expect them to be useful to you for a long time. For that to happen however, they must be properly used and regularly maintained. One of the most difficult costs to deal with in a business which owns machinery, equipment or vehicles, is PREVENTIVE MAINTENANCE; that is, taking steps to see that the vehicle or piece of machinery is well take care of, to avoid having to repair it because of lack of proper care. It is not easy to accept the idea that we can sometimes reduce costs by spending more money. Let us look at an example:

Leroy has bought a used pick-up truck to transport his produce from his small farm to the market. The truck cost him $9,000.00 and he figures that it SHOULD last him 10 years, if given proper maintenance. Leroy has decided to look at his expenses for the vehicle for the coming year. He estimates that he will use about 300 gallons of petrol, 30 quarts of oil and he will pay $100.00 for the licence for the pick-up. He knows that, like buildings, machinery and equipment, his motor vehicle will lose some of its value as time goes by. Leroy thinks that he may be able to cut the oil use of the pick-up by 50%. However, he is concerned that by doing this, the estimated life of the pick-up may also be reduced by 50%.

10 YEAR ESTIMATED LIFE	
ORIGINAL COST	$9,000.00
ESTIMATED LIFE	10 years
LOSS IN VALUE PER YEAR	$ 900.00
	($9,000.00 divided by 10 years)

5 YEAR ESTIMATED LIFE	
ORIGINAL COST	$9,000.00
ESTIMATED LIFE	5 years
LOSS IN VALUE PER YEAR	$1,800.00
	($9,000.00 divided by 5 years)

Leroy will treat the loss in value (depreciation) of his vehicle as an expense (cost) in his business, so he compares what the vehicle would cost him for the year if he were to spend $300.00 on oil, or reduce the amount he'll spend on oil by 50%.

10 YEAR ESTIMATED LIFE

LOSS IN VALUE FOR THE YEAR	$ 900.00
PETROL 300 gallons at $9.00/gallon	2,700.00
OIL 30 quarts at $10.00/quart	300.00
LICENCE	100.00
TOTAL YEAR'S COST	$4,000.00

5 YEAR ESTIMATED LIFE

LOSS IN VALUE FOR THE YEAR	$1,800.00
PETROL 300 gallons at $ 9.00/gallon	2,700.00
OIL 15 quarts at $10.00/gallon	150.00
LICENCE	100.00
TOTAL YEAR'S COST	$4,750.00

What was the difference in cost?_____

Which cost him less?_____

What should Leroy do?_____

_____

Can you think of other ways to reduce costs in your business?

_____

_____

_____

VOLUME

The larger the number of products you sell, the higher your income is likely to be.

Here are some ways you can sell more of the products you make or the service you have to offer.

1) Find new customers to buy your product. Explore the market to locate more people who will buy from you. One way to do this is to advertise - tell people about your product. Put notices with information about yourself and your product on notice boards, or hand them out to people in offices, in shops, or at the corner of the street. Ask your friends to tell their friends.
2) Make changes in the design and quality of your product to attract people and convince those who previously bought from your competitors to buy from you instead.
3) Lower the price of your product. This may increase demand and is usually the easiest way to increase the volume of sales.
4) Find a wholesaler who will market your products for you. Whosesalers are usually better equipped for retail selling and will usually buy in large quantities if the price is reasonable. You will of course have to lower your selling price to the whosesaler so that he can add his own markup.

What ways do you think you can use to sell more of your products?

_____

_____

_____

In practice, all three factors of price, cost and volume should be considered together. Considering all three together improves the chances of your business making more profits and therefore of you getting a higher income.

Here is an example:

Marcel Grant lives in Spanish Town and works in a factory which makes clay pottery. A few weeks ago when he was laid off from his job, he decided to start a business producing pottery for sale. After a week or two, he found he was capable of producing ten medium- sized vases in five days. In addition he knew he must work for an extra day each week, marketing. Marcel was very proud of the vases he produced and felt that he could get $35.00 for each of them. The first few times he went out selling, he had an extremely hard time selling the vases. Sometimes it would take three or four days

before he sold one vase. A social worker in his community who also taught business management, helped him to do a price calculation to work out what his costs were. The result showed that each vase cost him about $15.00 to produce before profits were added. This means he had been making a profit of $20.00 on each vase, but selling very few of them. The social worker advised him to consider lowering his price to see whether this would result in more vases being sold. He took the social worker's advice and found that he could easily dispose of 10 vases in one week, at a price of $20.00 each. (The $20.00 covered costs of $15.00 leaving $5.00 for profit). His profits soared to $50.00 each week! (His competitors, a few young men in his community were still trying to sell their vases at $30.00 and $35.00).

Realising that the social worker had given him good business advice, he started going to the training sessions which were organized to help small business people in the community. He discovered that he could increase his profits beyond $50.00, by doing one or more of the following things:

He could either:

1) Produce 12 vases instead of 10 at the same cost of production ($15.00) and sell them all at $20.00 each (a profit of $5.00). His profit would therefore be $60.00 per week.
   That is: 12 vases at $5.00 profit = $60.00

or,

2) Try to cut costs of production from $15.000 per vase to $14.00 per vase. If he still sells 10 vases, at $20.00 each, he will earn $60.00 profit, since $1.00 of his production costs would go to his profit.
   That is: 10 vases at $6.00 profit = $60.00.

3) Increase the price to $21.00 while keeping production costs at $15.00 and selling 10 vases each week. $1.00 added to the price would increase his profit to $6.00. That is: 10 vases at $6.00 profit = $60.00.

He finally decided to try a combination of all these methods and, by trial and error, discovered that he could trim his production costs to $14.75 per vase, increase his selling price to $20.50 and by working harder at producing and marketing, he could make and sell twelve vases per week, giving him a profit of $69.00, each week

Now, how will you go about increasing profits (and therefore income) for your business?

APPENDIX

How to Multiply using the Times Table

Below is a times table of the numbers 1 to 5. It can be used to multiply a number from 1 to 5 by another number from 1 to 5.

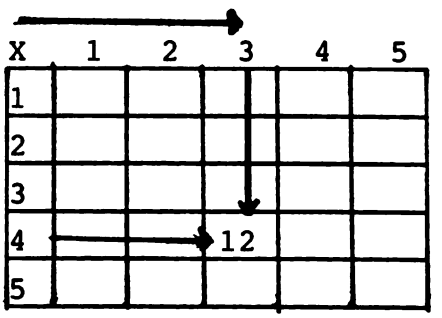
X	1	2	3	4	5
1	1	2	3	4	5
2	2	4	6	8	10
3	3	6	9	12	15
4	4	8	12	16	20
5	5	10	15	20	25

How to use the Times Table

Example: To find the answer to 3 times 4

1. Go across the top row of the table to 3 (as shown by the arrow).

2. Then go down that column to the square opposite 4 on the left side (as shown by the arrow).



There, the number 12 is found. This is the answer to 3 X 4!

On the next page is a times table of the numbers 1 to 25. It is used in the same way to find the solution to problems up to 25 times 25.

Times Table

X	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25
1	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25
2	2	4	6	8	10	12	14	16	18	20	22	24	26	28	30	32	34	36	38	40	42	44	46	48	50
3	3	6	9	12	15	18	21	24	27	30	33	36	39	42	45	48	51	54	57	60	63	66	69	72	75
4	4	8	12	16	20	24	28	32	36	40	44	48	52	56	60	64	68	72	76	80	84	88	92	96	100
5	5	10	15	20	25	30	35	40	45	50	55	60	65	70	75	80	85	90	95	100	105	110	115	120	125
6	6	12	18	24	30	36	42	48	54	60	66	72	78	84	90	96	102	108	114	120	126	132	138	144	150
7	7	14	21	28	35	42	49	56	63	70	77	84	91	98	105	112	119	126	133	140	147	154	161	168	175
8	8	16	24	32	40	48	56	64	72	80	88	96	104	112	120	128	136	144	152	160	168	176	184	192	200
9	9	18	27	36	45	54	63	72	81	90	99	108	117	126	135	144	153	162	171	180	189	198	207	216	225
10	10	20	30	40	50	60	70	80	90	100	110	120	130	140	150	160	170	180	190	200	210	220	230	240	250
11	11	22	33	44	55	66	77	88	99	110	121	132	143	154	165	176	187	198	209	220	231	242	253	264	275
12	12	24	36	48	60	72	84	96	108	120	132	144	156	168	184	192	204	216	228	240	252	264	276	288	300
13	13	26	39	52	65	78	91	104	117	130	143	156	169	182	195	208	221	234	247	260	273	286	299	312	325
14	14	28	42	56	70	84	98	112	126	140	154	168	182	196	210	224	238	252	266	280	294	308	322	336	350
15	15	30	45	60	75	90	105	120	135	150	165	180	195	210	225	240	255	270	285	300	315	330	345	360	375
16	16	32	48	64	80	96	112	128	144	160	176	192	208	224	240	256	272	288	304	320	336	352	368	384	400
17	17	34	51	68	85	102	119	136	153	170	187	204	221	238	255	272	289	306	323	340	357	374	391	408	425
18	18	36	54	72	90	108	126	144	162	180	198	216	234	252	270	288	306	324	342	360	378	396	414	432	450
19	19	38	57	76	95	114	133	152	171	19	209	228	247	266	285	304	323	342	361	380	399	418	437	456	475
20	20	40	60	80	100	120	140	160	180	200	220	240	260	280	300	320	340	360	380	400	420	440	460	480	500
21	21	42	63	84	105	126	147	168	189	210	231	252	273	294	315	336	357	378	399	420	441	462	483	504	525
22	22	44	66	88	110	132	154	176	198	220	242	264	286	308	330	352	374	396	418	440	462	484	506	528	550
23	23	46	69	92	115	138	161	184	207	230	253	276	299	322	345	368	391	414	437	460	483	506	529	552	575
24	24	48	72	96	120	144	168	192	216	240	264	288	312	336	360	384	408	432	456	480	504	528	552	576	600
25	25	50	75	100	125	150	175	200	225	250	275	300	325	350	375	400	425	450	475	500	525	550	575	600	625

ACKNOWLEDGEMENTS

IICA would like to acknowledge the many individuals who contributed to the preparation, testing and publication of this manual. Many craftworkers, vendors, farmers and other small business people attended training sessions; their responses to the material made it possible to improve it for others. We would like to thank these (over 2,000) producers.

Trainers from the following agencies received IICA training and then trained producers.

Bureau of Women's Affairs
4-H Clubs of Jamaica
Ministry of Agriculture
Ministry of Construction
National Development Foundation
Small Businesses Association
Self Start Fund
Things Jamaican, Ltd.

We would like to thank these (over 100) trainers. Key trainers made a special effort to test the materials:

Hyacinth Allen
Isla Banton
Lea Charlton
Joyce Hinds
Yvette Mason
Julette Nelson
Roderick Riley
Doreen Whyte

Members of the Small Business Training Advisory Committee worked diligently from the beginning of 1984 reviewing materials, supervising their trainers and advising IICA of specific problem areas. This committee has become essential to the successful continuation of the project and to a fruitful exchange of mutual concern among the participating agencies.

The members presently serving on this committee are:

Patricia Sinclair & Eileen Orr	- Bureau of Women's Affairs
Harold Folkes & Yvette Mason	- 4-H Clubs of Jamaica
Lorna Gooden & Bernice Lawrence	- Ministry of Agriculture
Julette Nelson & Roderick Riley	- Ministry of Construction
Joan Browne	- National Development Foundation
Althea Mossop & Angela Hamilton	- Small Businesses Association
Chester Burgess & Winston Martin	- Self Start Fund
Sonia Gallimore & Leroy Aldread	- Things Jamaican, Ltd.
David Rybak, Joyce Burton and Roberta Mathis	- USAID

Individuals who have previously served on this committee are:

June Wilson	- Bureau of Women's Affairs
Novlet Jones, Daphne Pinnock and Edie Gidden	- Ministry of Agriculture
Velma Sharpe & Shannon Ricketts	- Small Businesses Association
Rhena Williams	- Things Jamaican, Ltd.

The U.S. Agency for International Development made it possible to bring copies of the manual to so many at such a reasonable price. Valuable suggestions and encouragement were given by David Rybak, Joyce Burton and Roberta Mathis of that agency.

Valuable suggestions for the manual were made by two individuals from the private sector, Mr. Enos Buckley of Courts (Jamaica) Limited and Mr. Eldon Forrest of National Commercial Bank.

Staff of the IICA Office in Jamaica worked together to bring the manual and training sessions to the trainers and producers. The idea and its implementation were possible due to the support and encouragement of Caribbean Area Director, Claude F. Brouillard. The project was coordinated by Jan Hurwitch-MacDonald, Rural Development Specialist. Small Business Management Specialist Sandra Glasgow coordinated the preparation of the manual.

Peace Corps Volunteers Dick Donaldson, Beth Amundson, Charles Kimball and Gallena Stephens completed the production and training team. Irwin Telfer, Agricultural Planning Specialist, and Malcolm MacDonald, Emeritus, provided valuable advice and devoted considerable time to revisions.

The typing was done by Maxine Brown, Oriel Tingling and Latita Williams, the engaging artwork and layout by Marcel Goffe, the printing by Operation Friendship, under the supervision of Sam Harle. The times table exercise in the Appendix was developed by Leonard Amundson.

Before this manual could be printed, numerous mimeographed versions were used during the testing phase. This was possible due to the efforts of Donnie McKenzie, Franklin Hope and Leonie Simmonds, Eustace Foster, Aston Daley, Sharon Smith and Sheila Thompson.

The Peace Corps made it possible for IICA to have the excellent professional services of Dick Donaldson, Beth Amundson, Charles Kimball, Gallena Stephens Leonard Amundson and Sam Harle.

We are extremely grateful to these individuals and institutions for collaborating with us.

GLOSSARY

ADVANCE. To pay money before it is due.

ALTERNATIVES. Two or more different ways of doing things.

ANALYSE. Study, examine.

ANNUAL. Yearly.

ASSESS. Estimate, figure out.

ASSETS. Possessions of a business necessary for the functioning of the business such as cash, buildings, land, equipment, supplies, stocks.

ASSIGN. To pick someone to do a certain job.

ASSOCIATION. Group of people.

BUSINESS. The occupation of buying, or making, and selling a product or selling a service.

BUSINESS SENSE. An understanding of how a business works and how to make a good living from it.

CALCULATING. Figuring out; planning in advance.

CAPITAL. Funds, money put into a business.

CATEGORY. Kind or division.

CHEQUE. Written order for money drawn on one's account at a bank.

COMMITS. Binds you to do something.

COMPETING. Rivalling.

COMPLEMENTARY CROPS. Crops which use up extra resources (land water, fertilizer), not needed by the main crop.

CONSISTENT. Unchanging.

CONSERVATIVE ESTIMATE. An estimate which is moderate or somewhat low.

CONSUMES. Uses up.

CONTRACT THE SALE. Make an agreement to sell to someone.

CONTROL. Direct, regulate.

CONVENIENT. Suitable, well situated, easy to get to.

CONVERTING. Changing from one shape or form to another.

COOPERATIVE. An organization of a group of people who come together to produce, buy and sell or a combination of these.

COORDINATING. Bringing together in an orderly way, arranging, organizing.

DETERMINE. Find out.

DEPRECIATION. An accounting procedure for calculating the loss in value of a fixed asset resulting from wear and tear of the item over time.

DISCOUNTED PRICES. Prices which are lower than normal.

DONATIONS. Money received from individuals or organizations which does not have to be repaid.

DRAW. (as in a 'partner draw') Money accumulated from savings by the 'banker' which is returned to the saver.

EFFICIENCY. The ability to do something well.

ENTERPRISE. A business, firm, organization, agency, institution.

ESTIMATE. To figure out an amount as near as one can to an actual figure.

EXPAND. Enlarge, increase.

EXTRACTING. Taking out.

FEASIBLE. Possible, practicable, workable, achievable.

FETCH. Get, obtain, bring.

FORMAT. Plan, layout.

FRAMEWORK. Structure, organisation.

FRINGE BENEFITS. Extras paid by employer to employee, in addition to a regular salary.

GUARANTEE. Assure.

IDLE. Not being used.

INCENTIVE. Reward, fringe benefit for doing or making something.

INCOME. Money from earnings.

INFERIOR. Poorer quality then the average; unacceptable.

INTERNAL PARASITES. Small animals living inside an animal, drawing nutrients from it, often causing sickness.

INSTITUTIONS. Businesses, enterprises, organizations, agencies.

INSURANCE PREMIUMS. Payments made for insurance on a regular basis.

INTEREST. Money earned on savings; money paid as charge for using another's money.

INVESTMENT. Anything, such as money, put into a business to make profits.

LEND. Allow someone to use something for a period of time.

MANUFACTURING. Making (producing) goods for sale.

MAINTAINING. Keeping.

MAJOR. Most important.

MANAGEMENT. Administration of a business.

MANUAL. Book, guide.

MARK-UP. The amount added to the cost price to cover profit.

MAXIMUM. Largest possible amount.

MERCHANDISE. Goods for sale.

MODIFY. Change.

MORTGAGE. A loan, usually to buy property.

ORGANIZING. Putting in order, planning.

OVERHEADS. Indirect costs of running a business.

PERENNIAL. Continuing or repeating for several years.

PERFORMANCE. Achievement, development.

PERISHABLE. Goods that might spoil.

PRECISE. Exact.

PRODUCTION PROCESS. Method of operation to make goods or grow crops.

PROFIT. Gain.

QUALIFICATIONS. Required skills, characteristics or human traits.

REAP. Harvest, gather.

RESPONSIBILITIES. Duties, obligations.

RETAIL BUSINESS. A business selling goods bought for resale directly to customers.

RISK. Danger of loss.

ROTATING. Changing around.

SACRIFICING QUALITY. Giving up quality for something else.

SECURITY. Safety.

SKILLS. Know-how.

SOUND FINANCIAL CONDITION. (of a business) A business in a healthy state; one which is making profits and growing.

SOW. Plant.

SPECIALISE. Give special attention to one part of production.

STABLE RETURN. An income not varying much from year to year; one which is constant.

STANDARDS. Measurements, values against which one can make comparisons or judgements.

STOCKS. Goods on hand.

SUFFICIENT. Enough, adequate .

TARGET. A result one aims at.

TERMS. Conditions.

VALUING YOUR ASSETS. Deciding how much your assets are worth.

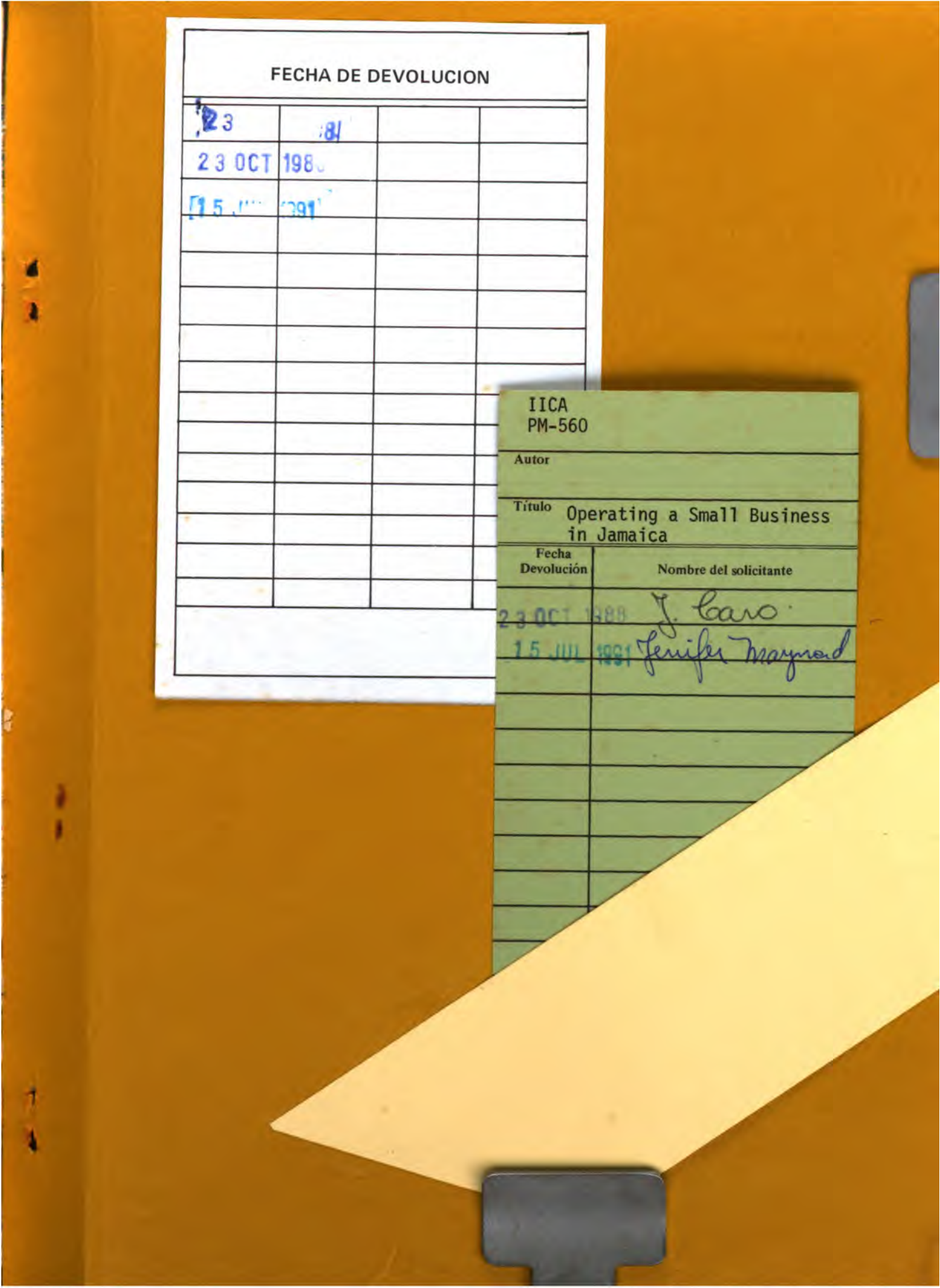
VENTILATION. Supply of fresh air.

VOLUME. Amount, number.

WHOLESALE SHOP. A business selling goods to retailers rather than to customers.

WITHDRAWAL FROM YOUR ACCOUNT. Taking money out of your bank account.

WORK LAYOUT. Arrangement of work space.


FECHA DE DEVOLUCION
23 OCT 198
15 JUL 1991
IICA
PM-560
Autor
Título Operating a Small Business in Jamaica
Fecha Devolución
Nombre del solicitante
23 OCT 1988 J. Caro
15 JUL 1991 Jenifer Maynard

Printed by Operation Friendship Lithographic School
2c East Bell Road, Kingston 11 - Telephone 92-38933