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MODULE 3: **Entrepreneurship**

LESSON 4: **Record Keeping**

TIME: **1 hour 30 mins**

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This lesson was made possible with the assistance of the following organisations:

LESSON 4 RECORD KEEPING

TIME:

1 hour 30 mins

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OUTCOMES:

On completion of this lesson you should understand:

- The importance of keeping records in a business.
- The types of records that an entrepreneur should keep.
- The process of keeping the records.

INTRODUCTION:

Record keeping is important in a business for it is the only way to inform the entrepreneur how the business is doing. In order to analyze the 'health' of your business you need data! Therefore, a systematic process of gathering data and recording it should be set up. The following documents should be kept:

- Production records;
- Operation records such as labour, farm inputs, tools and equipment costs;
- Cash transactions.

Importance of Record Keeping

You might be thinking just how critical is the keeping of records? It is important to keep records for the following reasons:

- Future reference;
- Keeping track of business transactions;
- Filing of taxes;
- Compiling final accounts.

In order to fulfil the needs identified above you will need different sets of records. An entrepreneur should maintain records to meet his or her business requirements. The following are examples of records that can be maintained:

- Credit records
- Debtors records
- Production records
- Cash book
- Purchases records
- Stock records
- Assets records

Process of keeping of records

An entrepreneur should entrust record keeping to a knowledgeable person. We will read the case below to understand the importance of record keeping.

JOHN ENTERPRISES

John operated a small scale business which dealt in selling fruits of all varieties, such as pineapples, oranges, passion fruit, bananas, watermelons, grapes and many others. He received his supplies directly from the farmers. To ensure good operation of the business he tried very hard to keep good records. He maintained a supplies book where he recorded all the supplies from each supplier. In the supplier book he recorded the quantities supplied and the amount of money the supplies were worth. He also maintained a cash book where he recorded the cash sales. He also recorded any credit given to his customers on small pieces of paper. He also recorded all the business expenses in a hard cover book.

John was very happy with the record keeping but one day the pieces of paper on which he recorded the creditors disappeared and subsequently, he was not able to tell how much he was owed by his creditors. John found it difficult to reconstruct the credit from his memory.

In 2008, the Kenya Revenue Authority staff visited John's business and demanded to see John's records. John was surprised to hear that he was required to maintain records for inspection by the Kenya Revenue Authority staff. The KRA staff gave him one month to prepare the records. John did not know where to begin.

Activity 1

John Enterprises (20 minutes)

Gather into groups of five and discuss this case. In your journals record:

1. How effective in your opinion was John at record keeping?
2. Identify the records that John should maintain to meet the requirements of the KRA.
3. In the group's opinion, what methods could John employ to improve his system?

Conclusion

We have learned the importance of business records and the different types of records that an entrepreneur should maintain. We have used the John enterprises case to understand how to maintain records.

Summary

Records are a legal requirement. Records help an entrepreneur keep track of business transactions, aid in the filing of taxes, compile final accounts and act as a future reference. Record types include: Credit records, Debtors records, Production records, Cash book, Purchases records, Stock records and Assets records. As the business becomes more sophisticated it will be necessary to hire a knowledgeable book keeper or accountant.

Glossary

Credit
Credit is the trust which allows one party to provide resources to another party where that second party does not reimburse the first party immediately (thereby generating a debt), but instead arranges either to repay or return those resources (or other materials of equal value) at a later date. The resources provided may be financial (e.g. granting a loan), or they may consist of goods or services (e.g. consumer credit). Credit encompasses any form of deferred payment. Credit is extended by a creditor, also known as a lender, to a debtor, also known as a borrower.
Wikipedia: http://en.wikipedia.org/wiki/Credit_(finance) CC: BY-SA

Debtors
A debtor is an entity that owes a debt to someone else. The entity may be an individual, a firm, a government, a company or other legal person. The counterparty is called a creditor. When the counterpart of this debt arrangement is a bank, the debtor is more often referred to as a borrower.
Wikipedia: http://en.wikipedia.org/wiki/Debtor CC: BY-SA

Cash book
A double-entry bookkeeping system is a set of rules for recording financial information in a financial accounting system in which every transaction or event changes at least two different nominal ledger accounts. The name derives from the fact that financial information used to be recorded in books - hence "bookkeeping" (whereas now it's recorded mainly in computer systems) and that these books were called ledgers (hence nominal ledger, etc.) - and that each transaction was recorded twice (hence "double-entry"), with the two transactions being called a "debit" and a "credit".
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