



# TOOLKIT: SIMPLE BOOK KEEPING & COSTING FOR SMES IN FOOTWEAR MAKING

COMMON MARKET FOR EASTERN AND SOUTHERN AFRICA,  
LEATHER AND LEATHER PRODUCTS INSTITUTE

## FACILITATOR'S GUIDE



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UNOPS

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# CHAPTER I: IMPORTANCE OF BOOK KEEPING

## 1.0 Introduction

Every business deals with money to pay for expenses, buy equipment and stock, receipts from sales and so on. These transactions are either in cash or credit (promise to pay or be paid later). Financial management would therefore involve recording of business activities that are of financial nature (bookkeeping), organizing and summarizing this data and presenting it in reports for use by stakeholders. The first and most important user of this information is the owner of the business.

### 1.1 *STEP 1: DISCUSSION*

1.1.1 What is a business (oral answers from participants)

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**1.1.2 Answer: All activities whereby you try to earn an income on a regular basis are called businesses.**

1.2 What do you think bookkeeping means (oral answers from participants)

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**1.2.1 Answer: Bookkeeping means writing down all the money that comes in and goes out of your business**

1.3 How do you think bookkeeping could help your business? (oral answers from participants)

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**1.3.1 Answer: It will help you to take better decisions about your business, so that you can earn more money.**

1.4 What do you expect to learn from the course

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### 1.5 *STEP 2: EXPLANATION*

1.5.1 Why book keeping?

Many people do not write down how much money comes in and how much money goes out of their business. This is because they do not know how to do it, and they do not know that it can help their business. Therefore people do not really know how much money they are earning, which customers have bought on credit and how much stock

they have bought on credit. Where groups of people work together, lack of a proper bookkeeping system often leads to mistrust and accusations between group members.

**1.5.2 Bookkeeping means that you write down all the money that comes into your business and all the money that goes out of your business.**

**1.5.3 Bookkeeping is important because you cannot keep everything in your head. People are forgetful by nature.**

**1.5.4 The advantages of regular bookkeeping are:**

- You will know how much money you have received, how much money you have spent and how you have spent it;
- You can calculate whether you are making a profit or a loss
- You will be able to make better decisions on what to buy and sell
- You can keep records of buying and selling on credit, so that people cannot cheat you;
- You can keep records of money coming in and going out of a group project, and therefore prevent misuse of the money and avoid mistrust amongst group members.

All this will help you to improve your business, and to increase your profit!

### **1.6 STEP 3: CONCLUSION**

At the end of this lesson, ask the following questions to find out whether the participants have understood the lesson:

- What is a business?
- What is bookkeeping?
- How can bookkeeping help your business?

### **1.7 HOMEWORK**

Ask all learners to go home and think about at least three sources from which they receive money and three things on which they spend their money.

## CHAPTER II: RECORD KEEPING

### 2.0 Cash Book

What is a cash book: oral discussion, followed by one participant drawing a cash book on the flip chart.

The book in which we write all the money that comes in and goes out is called a 'cash book'. You can use an ordinary arithmetic exercise book as a 'cash book'.

- All money that comes in is written on the left page
- All money that goes out is written on the right page

### 2.1 Simple Cash Book

#### *INCOME*

Date	Description	Amount
2nd January, 2014	2 Pairs Sold	33

#### *EXPENDITURE*

Date	Description	Amount

### 2.2 Example

Draw a 'cash book' on the chalkboard. Ask the following questions and invite Participants to illustrate the answers by drawing a symbol on the correct side of the 'cash book'.

Which side does you record the following:

- Purchase of leather from market;
- Sold to pairs to Mr Mekonnen
- Purchase of soles from EIFCCOs;
- Sold 1000 pairs to Mr Nicholas
- Purchase of glue from Kenya;
- Income received from joint orders with EIFCCOS

### 2.3 Conclusion

At the end of this lesson the participants should be able to draw symbols in their exercise books to indicate the money that comes in and the money goes out.

Ask the following questions to find out whether they understood the lesson:

- What is a cash book?
- Where in the cash book do you write the money that comes in, and where the money that goes out?

## 2.4 Homework

Ask the participants to go and draw a cash book and record their transactions of the previous week.

## 2.5 Separating Business and Family Income and Expenditure

Most small scale entrepreneurs do not keep their business and private money separate, but this is necessary to know whether you are making a profit or a loss. In this lesson we will be looking at the money that comes in and goes out of your business. This is called income and expenditure.

### 2.5.1 Why do you think it is important to separate the two?

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*It is important to keep the two separate, otherwise you will not be able to calculate whether your business gives profit or not.*

### 2.5.2 How could you keep the business and household money separate?

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*Keep separate bank accounts or cash boxes*

### 2.5.3 What is income?

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*Money that comes in to your business*

#### 2.5.3.1 How does money come in to your business?

- by producing and selling goods;
- by buying and selling goods;
- by giving a service (like a taxi driver who provides transport);
- by receiving gifts from friends or family members;
- by getting a loan;
- by inheritance.

### 2.5.4 What is expenditure?

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*Money that goes out of your business.*

#### 2.5.4.1 How does money go out of your business?

- Materials (leather, glue, soles, insole etc);
- Services like: transport (taxi, bus); - market toll; - electricity; - rent.
- Wages: If people are helping you in your business they will have to be paid a salary. If household members are assisting you, you may decide not to pay them, but you will have to pay for their food and clothing. You also have to think about the amount of money you will be able to take from your business money as your own 'salary' (or pay), so that you do not mix up your private and business expenses.

- Replacement and repair of equipment and tools: You will have to keep money separate so that you will be able to pay for things like repair of a machine, replacement of tools when they are worn out, or unexpected costs.

**2.5.4.2 What are unnecessary expenses?**

- Unnecessary expenses are expenses that people make out of temptation, but they are not really necessary. People often forget about these expenses when they calculate their business expenditure, and therefore their income is less than they expected.

**2.5.4.3 You are now aware from which sources you receive money and what you spend your money on. Can you mention some expenses that are unnecessary, or which you could reduce?**

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**Suggest the following:** - Are you tempted to buy snacks, drinks or ice-cream when you go to the market?

- Do people expect you to wear a new cloth at every ceremony?

- Do you regularly buy nail polish and other beauty products?



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## CHAPTER III: PROFIT AND LOSS

### 3.0 Background

The cash book is used to write down all the money that comes in and goes out. But the cash book does not show whether you have made a profit or a loss. How to calculate profit or loss will be explained in this lesson.

### 3.1 What is your income?

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*Money that comes in from the sale of your product or the provision of your services.*

### 3.2 What is profit?

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*Profit is the difference between the money that comes in from your sales (or your services) and the money that went out to produce those goods or provide the service. Profit is not same as income!*

**Money from your sales – Money out due to production = Profit or Loss**

**PROFIT** means that there is more money coming in than there is going out.

**LOSS** means that you spend more money on producing or buying your goods than you receive by selling the goods.

### 3.3 How to calculate profit or loss

To find out whether you are making a profit or a loss, we will go through the process as was discussed before:

What is the money that goes out of your business to produce your goods (or provide your service)?

- what materials do you buy;
- what services do you pay for;
- how much do you pay for wages;
- how much do you need for replacements and repair of your tools and equipment.
- How much do you receive by selling the same goods (or providing the service)?

The cash book will help you to remember how you have spent the money that has gone out of your business and how much money has come in from your sales.

### 3.4 Example

Give the following examples of profit and loss. Ask the participants to assist in writing the income and expenditure on the chalkboard and calculating the profit or loss.

Mr Sintie is a shoe maker, in the month of September he made the following transactions:

- Bought leather at MerkMr at Birr2000;
- Page13
- Bought glue from Kenya at Birr50;
- Bought soles from China at Birr1000
- Pay wages of 30Birr
- Sold shoes worth birr5000
- A friend used his skiving machine for birr200

Ask one participant to come and calculate the profit.

## CHAPTER IV: COSTING AND PRICING

### 4.0 What is costing?

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Calculating the total cost of making a product, on the basis of the materials used

### 4.1 Pricing

Pricing is the method or system followed in setting up the price of a particular product or service. So price is the worth (value) of a product or service expressed in monetary terms. Once the cost of producing a unit of product has been worked out, the next step is working out a reasonable price to charge customers for the product. The price set should be fair and affordable by the customers and at the same time guarantee some profit margin to the entrepreneur.

**Step 1: List all the Materials required making a shoes (ask one participant to come and list using the following format)**

Shoe Size (Adult)

Description of material	Quantity	Unit Cost	Total Cost

Overheads: These are unavoidable costs e.g (ask one participant to list the costs they must pay every month)

Rent

Salaries

Electricity etc

## 4.2 Footwear Costing Model

Material	Quantity	Unit Cost	Total Cost
<b>Direct Material</b>			
Leather uppers	3	2.50	7.50
Leather lining	2	1.00	2.00
Other lining	2	0.50	1.00
Insole	1	1.00	1.00
Shank	1	0.50	0.50
Stiffener	1	1.00	1.00
Toe Puff	1	1.00	1.00
Sole	1	4.00	4.00
Other material including packaging	1	2.00	2.00
Labour Cost per Unit (wage bill + Social Cost / # of pairs)	1	0.33	0.33
Overhead (Total Overhead / #number of pairs)	1		-
Depreciation	1		-
Allowance for reject	1	0.25	0.25
Sales Costs	1	0.50	0.50
<b>Total Production Cost per Unit</b>			-
Gross Margin			-
Ex-works Price			-
Freight and Insurance			-
Financial Costs			-
Selling Price			-

## 4.3 Price Setting

In setting prices it is important to know:

- Direct and indirect costs in the business
- Competitors' prices, and
- How much customers are willing to pay

The price must be:

- Low enough to attract customers to buy;
- High enough to cover all costs and give the business a profit.
- Ask participants – How do they set their prices:

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Ask each participant to list the prices of his two most important footwear models and their estimated costs.

## **4.4 Profit**

**4.4.1** *Gross profit = Income from Sales – Cost of goods sold*

**4.4.2** *Net Profit = Gross profit – overhead expenses*

Use an example to compute the above.

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