Module 4: Financial Literacy & Operational Management

Topic 2: Basic Accounting and Bookkeeping

Accounting is often called the **"Language of Business."** It is the process of recording, summarizing, and analyzing financial transactions. Without proper records, an entrepreneur cannot know if they are actually making money or just spending it.

1. Bookkeeping vs. Accounting

- **Bookkeeping:** The daily task of recording every kobo or cent that enters or leaves the business (e.g., writing down a sale in a ledger).
- **Accounting:** The higher-level process of taking those records and turning them into reports to make business decisions.

2. Essential Financial Records

Every entrepreneur should maintain these basic documents:

- **The Receipt/Invoice:** Proof of a transaction. Never make a sale or a purchase without a paper or digital trail.
- **The Cash Book:** A simple chronological list of all cash received and all cash paid out.
- **The Ledger:** A book where transactions are categorized (e.g., a "Rent" category, a "Salary" category).

3. The Three Key Financial Statements

To understand the health of a business, you need these three "snapshots":

A. The Income Statement (Profit & Loss)

Shows whether the business made a profit or a loss over a specific period (a month or a year).

- **Formula:** Revenue - Expenses = Net Profit

B. The Balance Sheet

Shows what the business **owns** versus what it **owes** at a specific moment in time.

- **The Accounting Equation:**
- *Assets:* Cash, equipment, stock.
- *Liabilities:* Loans, unpaid bills.
- *Equity:* The owner's investment in the business.

C. The Cash Flow Statement

This tracks the physical flow of cash. It is different from profit because you might make a "sale" today but not receive the actual cash until next month. **Cash is King**—a business can be profitable but still go bankrupt if it runs out of cash to pay daily bills.

4. Basic Terms You Must Know

- **Revenue (Turnover):** The total amount of money brought in by sales *before* any expenses are taken out.
- **Gross Profit:** Revenue minus the direct cost of the goods sold (e.g., selling a shirt for ₦5,000 that cost you ₦3,000 to buy = ₦2,000 Gross Profit).
- **Operating Expenses (Opex):** The "overhead" costs like rent, electricity, and internet that you pay regardless of how many sales you make.
- **Depreciation:** The way the value of an asset (like a delivery bike or a computer) goes down over time due to wear and tear.

5. Modern Tools for Accounting

You no longer need thick physical ledgers. Modern entrepreneurs use:

- **Spreadsheets:** Excel or Google Sheets for basic tracking.
- **Cloud Software:** Apps like QuickBooks, Sage, or local Nigerian tools like Kippa that allow you to record sales on your phone.

Student Exercise: The Personal Ledger

To practice, keep a record of your personal spending for one week. Categorize every expense (Food, Transport, Airtime). At the end of the week, calculate your "Net Position." If you spent more than you received, you are "in the red."