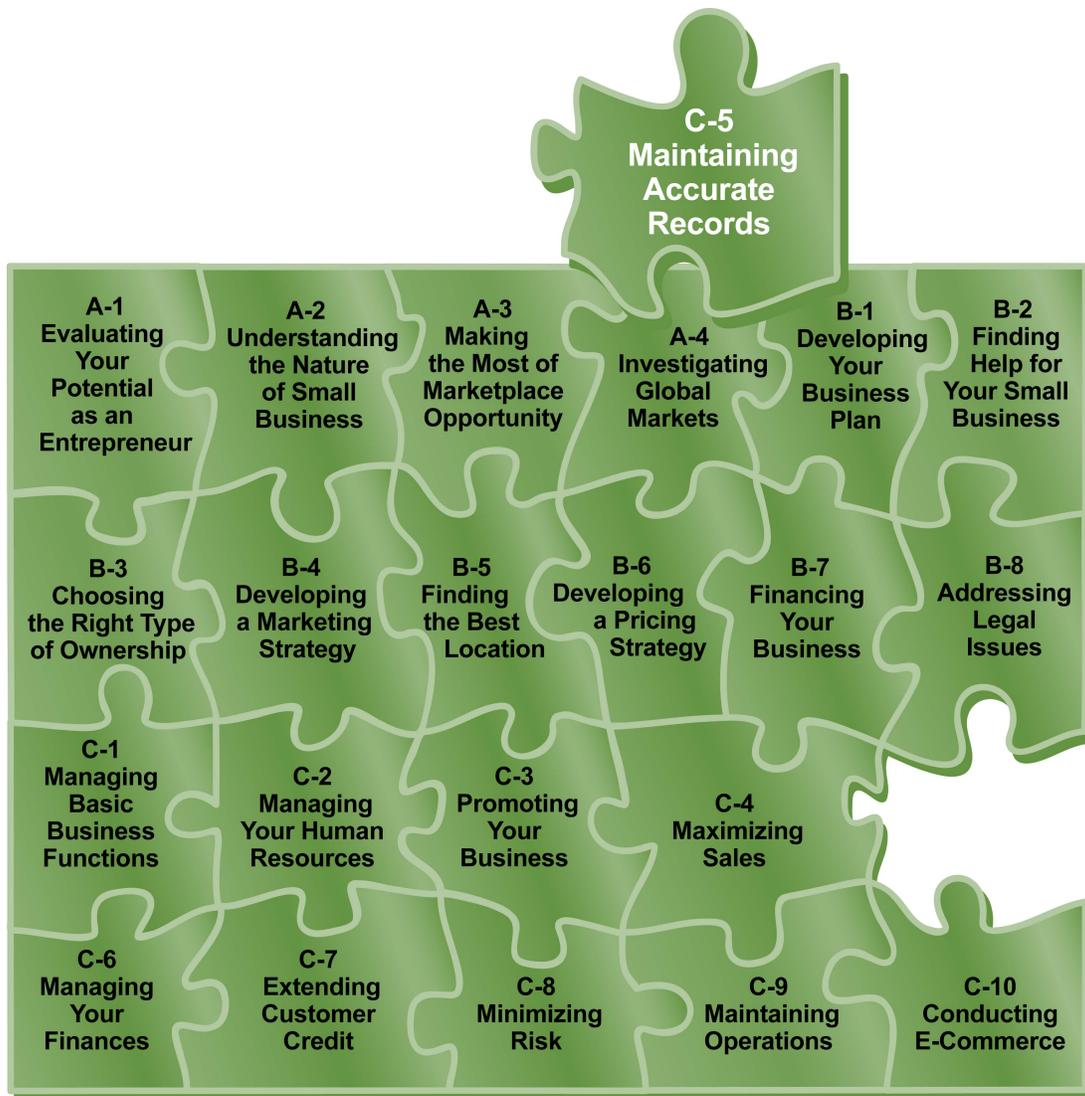


# PACE

## Fourth Edition

## Program for Acquiring Competence in Entrepreneurship

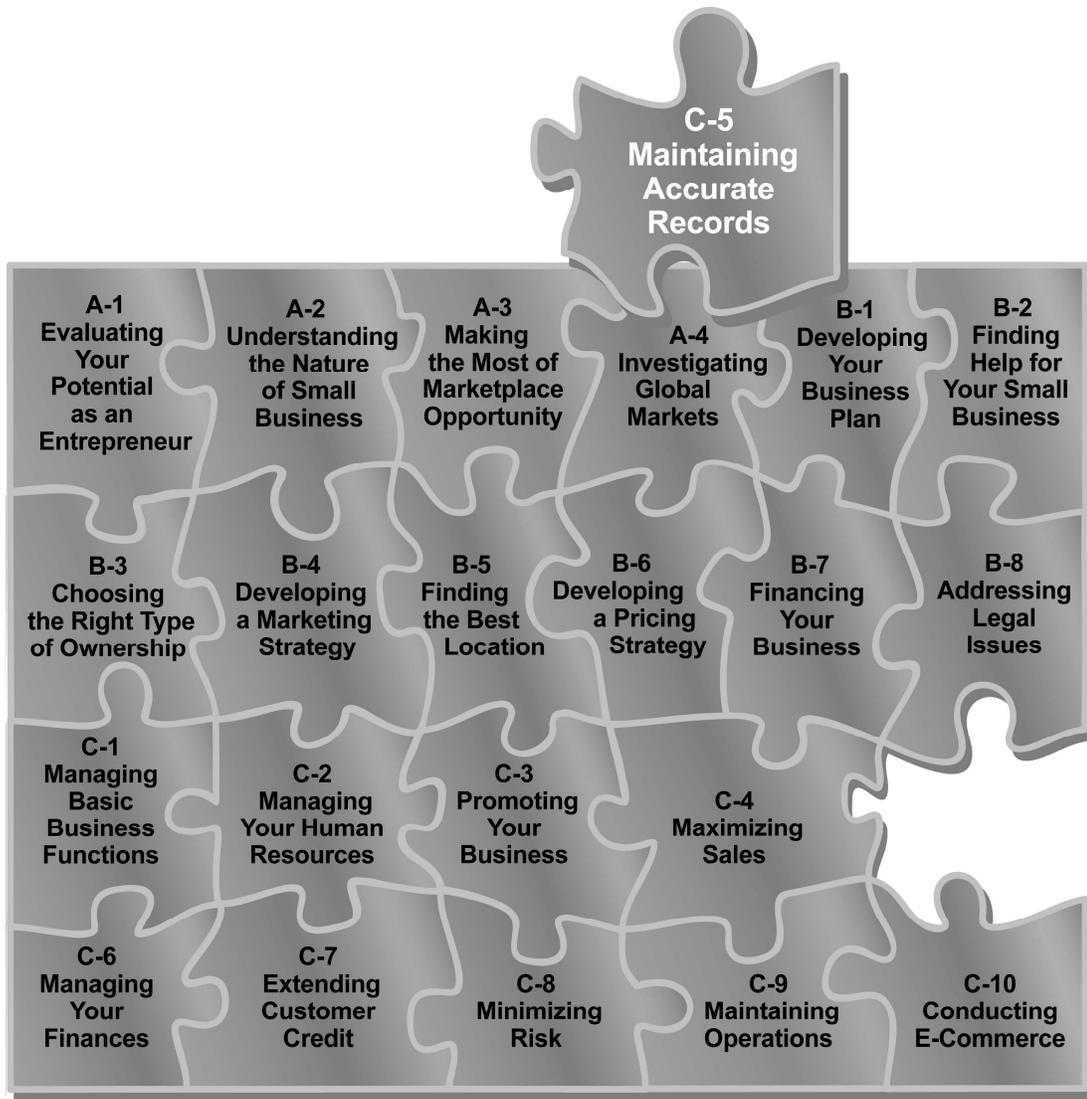




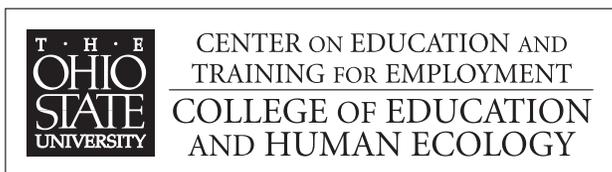
# PACE

## Fourth Edition

## Program for Acquiring Competence in Entrepreneurship



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This version of PACE was supported in part by a grant from OSU Extension.

## Foreword

I am pleased to introduce you to the Fourth Edition of the Program for Acquiring Competence in Entrepreneurship (PACE). PACE represents our continuing effort to respond to the needs of the education and business communities. At no other time in history has understanding entrepreneurship been as important. For one thing, promoting entrepreneurship carries the societal imperative as small businesses as a whole contribute much to the growth and renewal of regional and national economies.

When first published in the late 1980s, PACE properly emphasized that entrepreneurship was based as much on sound planning as having products and services that were responsive to the marketplace. Through its various revisions, PACE continued to focus on the general importance of planning and managing the startup of a small business.

The current PACE edition represents a necessary break from past versions in both its format and some content. For one thing, the text format has been substantially changed from paragraphs to a series of related sections with subheadings. This change allows readers to have greater accessibility to the information, whether it is delivered via a printed booklet or a technology-based approach. And the format allows the instructor/facilitator to have greater flexibility in selecting content to accommodate the needs of various audiences and settings.

In terms of the content, PACE continues to emphasize the importance of planning and managing of a small business. But it now includes a renewed emphasis on meeting customer expectations. Any business cannot exist without a comprehensive understanding of who receives its products or services. In this sense, PACE introduces the topic of conducting e-commerce. Until recently, the entrepreneurial horizon may have been limited to serving local customers only. The advent of the Internet offers the promise of serving many more customers, but not without the accompanying challenges.

This edition was supported in part by a grant from OSU Extension and in partnership with OSU South Centers – Piketon. We hope that PACE will provide you with the understandings necessary to help you to achieve your entrepreneurship goals.

Ronald L. Jacobs  
Director  
Center on Education and Training for Employment



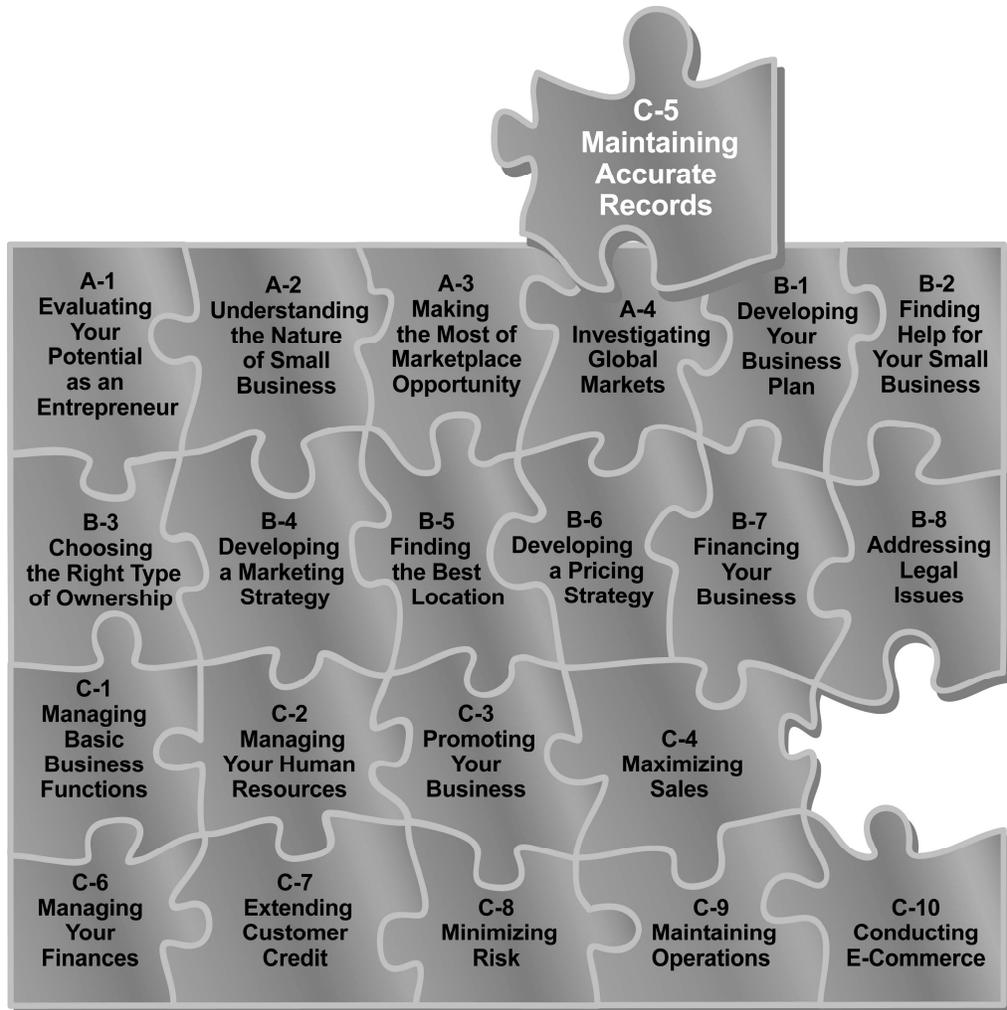
# Overview

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## Introduction

Successful entrepreneurs follow sound record keeping practices. Maintain financial stability and increase your likelihood of continuing success by keeping detailed records and acquiring the help of qualified professionals when necessary.

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## Overview, Continued

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**Rationale** A common reason that businesses fail is lack of adequate record keeping, especially financial records. Keep accurate and complete records to maintain stability and profitability.

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**Objectives** By the conclusion of this module, you will be able to:

- Explain why your business will benefit from precise record keeping and the results of improper record keeping on your bottom line.
- Identify the people who may play roles in your record keeping effort.
- Describe the features and benefits of various records including:
  - basic records
  - required records
  - recommended records.
- State the main rule of the double-entry accounting method.
- Describe the types of accounts found on the general ledger.
- Compare and contrast the different types of budgets.
- Describe inventory control including:
  - types of inventory
  - maintaining proper inventory levels
  - stock turnover levels
  - functions of inventory control.
- Name some other potential record keeping needs.

---

**Relevant NCSEE standards** This module aligns with the following National Contents Standards for Entrepreneurship Education (NCSEE):

- G.20 Maintain financial records.
- K.01 Explain the nature of business records.
- K.02 Maintain record of daily financial transactions.

More information on the NCSEE is available at: [http://www.entre-ed.org/Standards\\_Toolkit](http://www.entre-ed.org/Standards_Toolkit).

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*Continued on next page*

## Overview, Continued

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### Topics

The topics in this module are:

Topic	See Page
Why Keep Records?	4
Who Keeps Records?	6
Features and Benefits of Various Records	8
Double-Entry Accounting Method	11
General Ledger	12
Budgeting Systems	16
Inventory Control Systems	18

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### Exhibits

There are no exhibits in this module.

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### Before you begin

After reviewing the above objectives for this module, determine whether you can already meet those objectives and consult your instructor if you can.

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# Why Keep Records?

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## Functions

Your business records are the most efficient way to keep track of your operations. With a current set of records, you can:

- track day-to-day, week-to-week, and month-to-month operations for
  - spotting business and sales trends
  - documenting operating costs
  - controlling inventory levels
  - monitoring credit totals
- control costs and develop competitive, profit-inducing prices
- obtain financing and credit from creditors and suppliers
- meet tax and legal obligations
- provide information to potential partners and stockholders and buyers
- control your investments in
  - inventory
  - accounts receivable
  - buildings
  - equipment.
- understand consumer buying patterns for implementing your business strategy.

---

## Results of improper record keeping

Problems may arise if you don't keep proper records on a daily basis. You won't know if you're operating at a profit or at a loss until you compute the bottom line at tax time when you hire an accountant to do the books, and then it may be too late to take corrective action.

Key point: You need to know where your business stands on a day-to-day basis. Annual reports are useful, but timely knowledge of operating conditions is even more important in order to grow your business.

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## Why Keep Records?, Continued

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### Cash flow

Controlling your cash flow enables you to meet your monthly expenses and reconcile bank statements with your own records. To manage your cash flow, a wide range of financial records is kept. Use the following tools to control your cash flow.

**Daily sales and cash summary** – The daily sales and cash summary enables you to:

- reconcile what you actually have in cash and what your sales receipts show you should have in cash
- summarize sales and amounts received on accounts used in completing other records.

**Journal of sales and receipts** – This report serves as a trial balance to sum up daily debits and credits, and it functions as a posting medium for the general ledger. Follow these steps to complete this documentation:

Step	Action
1	Each day, enter both debit and credit items from the daily sales and cash summary.
2	Check that total debits equal total credits for each day.
3	At the end of the month, summarize these entries and make entries to the general ledger.

**Cash disbursement journal** – The cash disbursement journal tracks money spent, including the amount and to whom the money is given. Summarize this record monthly and use it as a posting reference to the general ledger.

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### Summary

You can answer many important questions by preparing and studying basic financial statements and reports. Use record keeping tools to answer questions such as:

- What is my gross profit margin? My net profit?
  - How much cash do I have on hand and in the bank?
  - How much do I owe suppliers and how much am I owed?
  - Are there any discernable trends in my receipts, expenses, profits, and net worth?
  - Is my financial situation growing better or worse?
-

# Who Keeps Records?

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## **Introduction**

Record keeping systems can be very simple for a small business, but they may grow more complex as the size of the business increases. In either case, assign a qualified person to keep records in your company based on the requirements of the job and their qualifications.

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## **Keeping your own records**

When you first start out in business, you might choose to keep your own records. An accountant or other professional could help you set up a system. Or you can decide to purchase record keeping software, but if you decide to keep the required records, the experience of doing it will:

- give you an appreciation for the importance of the records
  - illustrate how record keeping helps you run your business efficiently
  - provide a first-hand view of how the business is operating
  - give you insight into which tasks you can delegate and which you can't
  - provide you the experience and knowledge to teach the system to others.
- 

## **Sharing the responsibility**

As your business grows, you may feel that the job is too large to handle yourself. You have several alternatives for maintaining business records.

- Delegate selected record keeping tasks to a qualified employee
  - Hire a part-time accountant to assist with record keeping duties
  - Hire a student wanting real life experience or volunteer as a case study for a college program.
- 

## **Reassigning the record keeping function**

As your business continues to grow, the job may get more complex and require more specialized skills. At this point, you may find it beneficial to hire a full-time accountant to:

- make daily entries
  - redesign your record keeping procedures
  - prepare taxes
  - conduct regular financial analyses.
- 

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## Who Keeps Records?, Continued

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### Tasks to keep for yourself

You will want to maintain control over in more vital areas. The tasks that you should retain for yourself include:

- signing checks
  - reviewing contracts
  - monitoring inventory
  - conducting periodic reviews.
- 

### Available help

Most small businesses don't need an elaborate record keeping system. You can obtain information about standardized systems from these sources:

- Office supply stores sell record keeping software programs such as Quicken or Quickbooks.
  - Trade groups and business associations recommend record keeping systems.
  - Many books have been written on record keeping and documentation which you could purchase or borrow from your local library.
  - The Small Business Administration (SBA) ([www.sba.gov](http://www.sba.gov)) provides a range of general-purpose and industry-specific information about keeping records through the Small Business Development Centers and SCORE (formerly the Service Corp of Retired Executives).
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## Features and Benefits of Various Records

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**Introduction** You may be concerned that record keeping is time consuming and expensive. Remember that accurate and complete records will help you control costs and manage your business effectively, saving time and money in the long run.

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**Main features** A good record keeping system doesn't have to be complicated and difficult to maintain. Systems with the following main features will be sufficient:

- simple to use
  - easy to understand
  - reliable
  - accurate
  - consistent
  - timely.
- 

**Components** Effective record keeping systems are comprised of a few basic components that give it integrity. Implement a system that incorporates:

- source documents capturing each business transaction
- procedures specifying how to retain, summarize, and use this information
- reports and formats supporting managerial decision making and regulatory compliance.

Note: Your role as the small business owner is to design the documents and develop the procedures, then train employees in their use. It's also your responsibility to ensure that each system is kept up to date.

---

**Record keeping guidelines** When keeping records, follow a few simple guidelines to comply with regulatory standards and company policy.

- Keep the records in a specified location
  - Maintain records for the prescribed duration
  - Identify a means to back up files in case of an incident – a hard, paper copy as well as an electronic copy saved to a disc.
- 

**Basic records** Although every business has a unique set of records, some documentation is common to most. The following basic records are kept in most companies:

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*Continued on next page*

## Features and Benefits of Various Records, Continued

Document	Description
Checkbook	<p>Similar to your personal checkbook. It may require more details, including the purpose of the check and the balance carried forward.</p> <p><u>Note:</u> Keep your personal and business checking accounts separate in order to prevent serious tax and record keeping problems.</p>
Bank statement	Arrives monthly with a current balance. Reconcile the balance on the statement with the amount carried forward in your checkbook.
Daily sales and cash summary	<p>Provides you with data about total cash received:</p> <ul style="list-style-type: none"> <li>• the amount of cash on hand at the end of the day vs. sales receipts</li> <li>• cash received and charge sales made</li> <li>• income from accounts receivable.</li> </ul>
Accounts receivable	Documents sales made on credit. Helps you manage how quickly and how completely your customers pay you what they owe.
Accounts payable	Report how much you owe others for cash items such as inventory purchases, repair services, and payroll taxes.
Payroll records	<p>Records payroll tax deductions for your employees. The amounts deducted, along with your contributed portions, are documented for timely reporting and payment. The types of payroll deductions include:</p> <ul style="list-style-type: none"> <li>• total wages paid</li> <li>• city, state, and federal taxes</li> <li>• Federal Insurance Contributions Act (FICA) tax payable (which supports Social Security and Medicare)</li> <li>• workers compensation</li> <li>• unemployment insurance.</li> </ul>

### Required records

Each area is governed by specific regulatory agencies. Since the requirements differ from area to area, contact the appropriate agencies to determine how to comply with the rules that apply to you.

**Who can help** – Many states maintain a program within their department of commerce or secretary of state’s office to assist you in identifying the regulatory requirements.

**Types of records** – The table below identifies the types of records required by regulatory agencies.

*Continued on next page*

## Features and Benefits of Various Records, Continued

### Required records (continued)

**Types of records** – The table below identifies the types of records required by regulatory agencies.

Regulatory Agency	Type of Record
Federal	<ul style="list-style-type: none"> <li>• tax withholding (<a href="http://www.irs.gov">www.irs.gov</a>)</li> <li>• hazardous materials (<a href="http://www.epa.gov">www.epa.gov</a>)</li> <li>• interstate commerce (<a href="http://www.dot.gov">www.dot.gov</a>)</li> <li>• agriculture (<a href="http://www.usda.gov">www.usda.gov</a>)</li> <li>• food and drugs (<a href="http://www.fda.gov">www.fda.gov</a>)</li> </ul>
State	<ul style="list-style-type: none"> <li>• tax withholding</li> <li>• unemployment insurance</li> <li>• workers' compensation</li> <li>• corporate registration</li> <li>• industry permits and licenses</li> </ul>
County and local	<ul style="list-style-type: none"> <li>• tax withholding</li> <li>• sales tax</li> <li>• vendors licenses</li> <li>• zoning</li> <li>• construction</li> </ul>

### Quarterly reporting

At the end of each quarter, you are required to report taxes withheld from each employee. The Internal Revenue Service (IRS) will provide you with instructions on calculating and filing quarterly tax reports.

### Recommended records

In order to maintain your company's balance and profitability in each functional area, obtain information regarding each important activity. The SBA recommends that you maintain records on the following activities:

- cost accounting
- finance and credit
- payroll and personnel
- sales
- quality control
- inventory and purchasing
- petty cash.

# Double-Entry Accounting Method

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**Introductions** Double-entry record verifies that assets equal liabilities plus capital. Therefore, any transaction will always affect two accounts in opposite directions in order to maintain the equations balance.

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**Major rule** The major rule is that for every debit there must be a credit of an equal amount.

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**Result** Each transaction is recorded twice. The recording of one transaction requires the debiting and crediting of two accounts to offset or balance each other.

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**Quality check** The double-entry accounting method ensures that an accuracy and completeness check occurs. It requires recapping each entry whereby total debits must equal total credits.

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# General Ledger

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## Introduction

The general ledger is the largest grouping of accounts that, in turn, reflect groupings of your most frequent expenses.

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## Categories of information

Ledger entries summarize the following categories of financial information:

- balance of assets
  - balance of liabilities
  - net worth of your business
  - income accounts (sales)
  - expense accounts.
- 

## Close of business year

The table below illustrates the process for reconciling accounts at the close of the business year.

Stage	Description
I	Sales and expense items are transferred to the profit-and-loss account.
II	The profit-and-loss account is then transferred to the capital account.
III	Balances of all other account categories in the general ledger (assets, liabilities, and net worth) appear on the balance sheet.

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## Number of accounts

The number of accounts that you should establish depends on the specific activity of your business. But there are certain basic accounts common to all businesses, regardless of business activities. Expand these account categories as needed to maintain the financial record keeping integrity of your company.

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## General Ledger, Continued

**Types of basic accounts** Although every business requires different types of accounts, some categories are common to most. The following basic accounts are part of most ledgers:

Category	Description
Assets	<p>Assets are items that a company owns. Some typical accounts for assets are:</p> <ul style="list-style-type: none"> <li>• cash in bank</li> <li>• cash on hand</li> <li>• accounts receivable</li> <li>• prepaid expenses</li> <li>• inventory</li> <li>• building</li> <li>• equipment.</li> </ul>
Liabilities	<p>Liabilities are debts that a company owes. Some typical accounts for liabilities are:</p> <ul style="list-style-type: none"> <li>• Federal Insurance Contributions Act (FICA) tax payable (which supports Social Security and Medicare)</li> <li>• federal withholding tax payable</li> <li>• state withholding tax payable</li> <li>• mortgage payable</li> <li>• notes payable.</li> </ul>
Net worth	<p>Net worth is the balance of your investment in the business. This group of accounts also reflects the accumulation of profit-and-loss balances from income and expense statements. Some typical accounts for net worth are:</p> <ul style="list-style-type: none"> <li>• proprietorship account</li> <li>• proprietorship withdrawals</li> <li>• retained earnings.</li> </ul> <p><u>Note:</u> Debts payable within one year and long-term debts are differentiated in the net worth category.</p> <p><u>Reference:</u> See the page after next for more details on each type of these net worth accounts.</p>

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## General Ledger, Continued

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**Types of basic accounts (continued)**      The following basic accounts are part of most ledgers:

Category	Description		
Income	<p>Income reflects the business income, and it shows a credit balance. Entries for this category originate from your sales records. Some typical accounts for income are:</p> <ul style="list-style-type: none"> <li>• retail sales</li> <li>• service income</li> <li>• miscellaneous income.</li> </ul> <p><u>Note:</u> This group of accounts is closed out at the end of the business year, and the amounts are transferred to the profit-and-loss statement.</p>		
Expenses	<p>Expenses reflect the cost of doing business, and this category of accounts is usually the largest. Some typical accounts for expenses are:</p> <table style="width: 100%; border: none;"> <tr> <td style="vertical-align: top;"> <ul style="list-style-type: none"> <li>• salaries and wages</li> <li>• payroll taxes</li> <li>• contract labor</li> <li>• utilities</li> <li>• rent</li> <li>• insurance</li> <li>• office supplies</li> </ul> </td> <td style="vertical-align: top;"> <ul style="list-style-type: none"> <li>• interest on debt</li> <li>• depreciation</li> <li>• travel</li> <li>• entertainment</li> <li>• advertising</li> <li>• miscellaneous.</li> </ul> </td> </tr> </table> <p><u>Note:</u> It's advisable to establish accounts that represent frequent or substantial expenditures. However, try to avoid establishing separate expense accounts for items infrequently used.</p>	<ul style="list-style-type: none"> <li>• salaries and wages</li> <li>• payroll taxes</li> <li>• contract labor</li> <li>• utilities</li> <li>• rent</li> <li>• insurance</li> <li>• office supplies</li> </ul>	<ul style="list-style-type: none"> <li>• interest on debt</li> <li>• depreciation</li> <li>• travel</li> <li>• entertainment</li> <li>• advertising</li> <li>• miscellaneous.</li> </ul>
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## General Ledger, Continued

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### Net worth account

The typical net worth accounts are described below.

**Proprietorship account** – Usually the first account established, the proprietorship accounts reflects the original investment plus any additional investments that you make in the business. The balance is a credit balance, as it reflects amounts invested by the business owner.

**Proprietorship withdrawals** – The proprietorship withdrawals account reflects the amount of withdrawals the owner has made from the business, so it shows a debit balance. It doesn't represent your salary, but rather a withdrawal of previously made business investments.

**Retained earnings** – The retained earnings account represents the accumulation of earnings over the years. This balance is hopefully a credit balance. However, if a business is operating at a loss, this balance appears as a debit.

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# Budgeting Systems

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## Introduction

A budget is an estimate of future income and expenses. Among other decision-making duties, following a budget helps you avoid overbuying and anticipate when borrowing is necessary.

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## Types of budgets

The comprehensive budget is comprised of several specialized ones. The major types of smaller budgets include:

- sales
  - merchandising
  - purchasing
  - advertising.
- 

## Sales budget

The sales budget forecasts sales for a specified period of time. It computes estimated sales on the basis of:

- sales territory
- salespeople
- particular commodities or services.

**Outputs** – You can use your sales budget to develop sales quotas or goals for your sales staff. It's also one input for preparing other budgets such as merchandising and purchasing.

**Factors** – Use the following factors as a guide to budget sales:

- previous sales
  - sales force
  - economic trends
  - buying habits
  - shifting population
  - availability of merchandise
  - weather conditions
  - location
  - season of the year.
- 

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## Budgeting Systems, Continued

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### **Merchandising and purchasing budgets**

After preparing the sales budget, develop both the merchandising and purchasing budgets, which are closely related.

**Outputs** – When you’ve developed these budgets, you can determine:

- the kinds of stock to have on hand
- when they should be available
- inventory levels (maximum and minimum)
- cash needs
- supply sources
- delivery schedules
- requisitions and orders.

**Key vendor relationships** – After developing these budgets, you can decide whether to have blanket purchase orders or open accounts with key vendors. This relationship will reduce paperwork and increase the efficiency of executing frequent orders, as well as strengthen the relationship with vendors.

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### **Advertising budget**

The development of your advertising budget depends on projected sales. Keep advertising expenses within reason, because it’s not true that sales will always be in direct proportion to advertising.

**Resources** – When deciding how much to spend on advertising, review industry resources to identify the return on advertising dollars spent in sales. Over time, you will gain a thorough understanding of the relationship between the amount, type, and timing of advertising costs to sales.

**Development along with sales budget** – Because these two areas are closely related, you will benefit from developing your advertising budget along with your sales budget.

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# Inventory Control Systems

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**Introduction** Inventory is a large item for manufacturing, wholesaling, and retailing businesses. It tracks the raw materials, goods to be sold, shop and office supplies, machinery, and equipment that the business uses to operate.

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**Purpose** Each type of inventory exists for the same purpose, sale to customer. Each one represents a different type of readiness for sale.

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**Break down of costs** Inventory costs are usually broken down into invoice price and transportation charges from seller to buyer.

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**Types of inventory** There are three types of inventory for accounting purposes.

**Raw material** – This type of inventory refers to items acquired but not part of work-in-progress.

Example: A craft store that creates its own handbags and belts stocks leather as a raw material.

**Work-in-progress** – This category represents the costs incurred while working on goods that have been started but not yet completed (as of the date of the balance sheet describing the current state of business). Work-in-progress inventory includes these three cost elements:

- raw materials currently in use
- direct labor
- factory overhead.

**Finished goods** – This inventory usually refers to the items carried by retail stores inventories. It includes the total costs incurred to produce sale units that have not yet been sold.

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## Inventory Control Systems, Continued

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### Challenge of inventory control

The challenge of inventory control is to maintain enough inventory to satisfy customer demand without keeping too large an inventory. Excess inventory has the following drawbacks:

- It ties up capital
  - You risk holding goods that may become outdated
  - Storage costs can be costly and a drain on your bottom line.
- 

### Maintaining the proper inventory level

The ideal amount of inventory is enough to keep sales from being lost but not so much that it ties up capital or becomes outdated. To maintain the proper inventory level, consider the points below.

#### Retail

- the number of brands of a particular item (enough to satisfy demand)
- the quantity on hand (too much or not enough)
- stock items as fads or fashions (fads quickly lose their appeal).

Note: When determining inventory levels for retail, it is tempting take advantage of quantity discounts in order to get the lowest per unit cost. But to get quantity discounts, you may have to buy an excessive quantity and tie up capital on items that can abruptly become outdated.

#### Manufacturing

- the production rate for each specific product
  - the frequency of supplier deliveries for raw materials
  - efficiency of your production process.
- 

### Inventory turnover rates

**Calculating inventory turnover rates** – Calculating inventory turnover rates helps you determine the amount of inventory to keep on hand. Use the formula below to calculate the number of times during a given period that the average inventory is sold (turnover rate).

$$\text{Cost of Goods Sold} \div \text{Average Inventory} = \text{Stock Turnover Rate}$$

Example: A business has a profit-and-loss statement that shows the cost of goods sold as \$100,000 and an average inventory of \$25,000. Their turnover rate is 4.

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## Inventory Control Systems, Continued

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### Inventory turnover rates (continued)

**Evaluating inventory turnover rates** – A high turnover rate doesn't always mean greater profits. Turnover rate doesn't reflect the profits on sales that were LOST because you failed to have enough inventory or the right inventory, available for sale. You could have a high turnover rate on inventory while losing business because you turned customers away dissatisfied.

Key point: Lack of the product in demand or a poor selection of items on inventory directly results in lost revenue and minimized profits.

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### Tips for maintaining proper levels

**Retail** – Turning away sales because of understocking is more harmful than having markdowns on overstocked items. Follow these guidelines to maintain proper inventory levels.

- Track your sales records by item to prevent either of those costly dilemmas
- Anticipate customer demand by researching trends in order to differentiate between short-term fads and enduring staples
- Make your investments realistic and based on objective data about trends and customer demand.

**Manufacturing** – The cost of excessive inventory severely limits your competitiveness. Pay close attention to the drain on your bottom line caused by these costs associated with excessive inventory:

- Excessive storage space has to be devoted to raw materials and work-in-progress inventory
- Unnecessary handling is necessary to move the raw materials in and out of various temporary storage locations
- Inventory may be used as a crutch to avoid correcting equipment maintenance, floor layout, and production problems
- Obsolete or degraded inventory is often salvaged at very low value
- Excessive inventory is associated with quality control rejects from suppliers and work-in-progress problems.

Note: Just-in-time (JIT) production has been developed to allow a much lower minimum level of inventory. It reduces the costs related to excessive inventory.

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## Inventory Control Systems, Continued

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### Functions of inventory control

Each variation of inventory control systems supports four basic business functions in accounting and inventory management.

**Decision making** – You can base your business decisions about when and how much to order on sound financial data.

**Reporting** – Both exception and regular management reports based on inventory levels allow you to take corrective action or refine inventory policy.

**Forecasting** – Your record keeping system is a valuable source of information for forecasting the demand for supplies.

**Counting** – There are two types of inventory counting systems – perpetual and physical. These two systems are often combined with the support of electronic tracking and automatic input of inventory data.

Reference: See the information directly below for details on perpetual and physical inventories.

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### Elements of the counting function

**Perpetual inventory** – Perpetual inventory is the continuous tracking of receipt and withdrawal of inventory. With this counting system, you have a running total of current stock of goods as you bring them into the business (added), keep them in stock (on hand), and ultimately sell them (subtracted). The features below characterize perpetual inventory record keeping.

- At year's end, add up perpetual inventory records and compare them to the periodic physical inventory. If you find it necessary to investigate major differences, adjust perpetual inventory records as needed.
- A bin system integrates decision-making rules about buying stock (when and how much) with basic accounting operations. Adapt this system to fit your business need.

Example: In the two-bin system, you divide your storage locations into two parts. When stock in the first bin is depleted, open the second (back-up) bin and place an order for the appropriate quantity of items. The quantity in the back-up bin is designed to last for the duration of lead time required to obtain more stock from the supplier.

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## Inventory Control Systems, Continued

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**Elements of the  
counting  
function  
(continued)**

**Physical inventory** – Taking physical inventory consists of counting and listing the goods in stock with their cost and resale price. The features below characterize physical inventory record keeping.

- By taking a company-wide physical inventory once or twice a year, you will cover the previous accounting period
  - You may also find it beneficial to take a physical inventory on a particular line of goods
  - Even if you keep a perpetual inventory system, these physical counts are required to check the accuracy of unit balances on individual records. With this approach, you can easily determine:
    - mistakes
    - losses due to spoilage or theft
    - whether you've made a profit.
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# **PACE**

## **Program for Acquiring Competence in Entrepreneurship**

### **Fourth Edition**

#### **Cluster A – Exploring Entrepreneurship**

Module A-1 Evaluating Your Potential as an Entrepreneur  
Module A-2 Understanding the Nature of Small Business  
Module A-3 Making the Most of Marketplace Opportunity  
Module A-4 Investigating Global Markets

#### **Cluster B – Planning for Business Success**

Module B-1 Developing Your Business Plan  
Module B-2 Finding Help for Your Small Business  
Module B-3 Choosing the Right Type of Ownership  
Module B-4 Developing a Marketing Strategy  
Module B-5 Finding the Best Location  
Module B-6 Developing a Pricing Strategy  
Module B-7 Financing Your Business  
Module B-8 Addressing Legal Issues

#### **Cluster C – Business Management for the Entrepreneur**

Module C-1 Managing Basic Business Functions  
Module C-2 Managing Your Human Resources  
Module C-3 Promoting Your Business  
Module C-4 Maximizing Sales  
Module C-5 Maintaining Accurate Records  
Module C-6 Managing Your Finances  
Module C-7 Extending Customer Credit  
Module C-8 Minimizing Risk  
Module C-9 Maintaining Operations  
Module C-10 Conducting E-Commerce



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