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# Financial Management and Record Keeping Guide for BlueStar Franchisees

TOOL



Strengthening Health Outcomes  
*through* the Private Sector

This guide is intended for owners and managers of clinics operating within Marie Stopes International's (MSI) BlueStar network in Malawi. Because clinic managers are often both clinicians and business managers, this dual role means that skills in clinical care and business management are essential for running a successful health clinic. This guide is intended to have practical application for managers of small health care businesses seeking to improve their practices' financial management, function sustainably, access financing if needed, and continue to offer and expand essential services. Templates are included for planning, stocktaking, and goal setting. This guide was developed by Banyan Global. Published: November 2011

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## Acknowledgements

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### About SHOPS

SHOPS is a five-year global USAID-funded project that focuses on increasing availability, improving quality, and expanding coverage of essential health products and services in family planning (FP) and reproductive health (RH), maternal and child health, HIV/AIDS, and other health areas through the private sector. Among its core objectives, SHOPS improves the viability of private-health-sector businesses and increases their access to financing, thereby improving their capacity to deliver high-quality RH and FP services and products.

### About Marie Stopes International's (MSI) BlueStar Network

MSI is known as Banja La Mtsogolo (BLM) in Malawi. BlueStar is MSI's network model to strengthen RH service delivery by working with existing private health care providers that offer affordable, quality, and confidential RH services. BlueStar gives more people access to quality private health care in a sustainable way. MSI has introduced BlueStar in 10 countries with more than 1,100 participating clinics.

# Introduction

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## **Welcome to the *Financial Management and Record Keeping Guide!***

This guide is a business-management training tool for owners and managers of clinics operating in Marie Stopes International's (MSI) BlueStar network in Malawi. Clinic managers are often both clinicians and business managers; this dual role means that skills in clinical care and business management are essential for running a successful health clinic.

This guide is intended to have an immediate and practical application for managers of small health care businesses seeking to

- improve their practices' financial management
- function sustainably
- access financing if needed
- continue to offer and expand essential services

This guide empowers you to critically examine your clinic from a business perspective. Its main objective is to impart basic business and financial management skills to support the development of private clinical practices, move them towards greater sustainability and profitability, and improve their capacity for growth. The guide covers key elements of business management, including goal setting, record keeping, stock management, financial management and reporting, and accessing finance.



## How To Use This Guide

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This guide leads you through a series of case studies and activities that introduce business concepts to improve your clinic's chances for success. Work sequentially through the material, as each module builds on previous ones.

### Working with the Guide

The materials in this guide should be delivered with the assistance of a business-management trainer and completed in four half-day sessions.

Alternatively clinic owners may work through this guide independently. It should take approximately two to three weeks to complete, if you work through the guide for one hour each day, implementing the changes and new ideas in your clinic as you proceed.

Assembling a small group of clinic owners to work through the guide together should enrich the learning process. You could learn from each other, see how systems and processes are adapted for the needs of different clinics, and assist each other in areas that require further thought and discussion.

Read the background information in each section, review the case studies as they are presented, work through the exercises, and immediately set up the system and implement it in your clinic. Apply your new knowledge in your clinic as soon as you finish each topic, rather than waiting until you have completed all of the material. For example, while reviewing the section on setting business goals, immediately develop and write your goals.

When working through the stock-control section, set up or improve your stock-control procedures and systems immediately.

You can write directly in the guide in the spaces provided. Alternatively you can use a small exercise book to perform the exercises and make notes and plans for your clinic.

### Overview of the Content of the Guide

The Assessing Your Business and Setting Goals section explores the essentials for diagnosing your clinic's business health, setting goals, and exploring the opportunity of working with insurance companies. Recordkeeping introduces forms for retaining information related to stocktaking and bookkeeping. Financial Statements and Projections leads you through the process of preparing and using those tools. This topic can be challenging for clinics that do not yet prepare financial statements, yet they are useful for improving the operation of your clinic. Accessing Finance to Meet Your Business Goals explores different sources of financing to support the growth and cash-flow needs of your clinic and the advantages and disadvantages of each of them.

In Annex 1 you will find the answer sheets to several of the exercises. Once you have completed an exercise, turn to this annex and see if your calculations are correct.

Annex 2 contains blank templates of all forms and tools the guide introduces. These templates are unmarked so you can use them in your clinic. Do not write on the templates in the guide, but rather copy them so that you can reuse them again and again (you can duplicate them by redrawing them in an exercise book or making photocopies).

## Module 1: Assessing Your Business

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As the owner and medical officer of a medical clinic you have two distinct roles:

- ☑ providing quality health products and services to your patients, the clinics' clients
- ☑ managing business operations to ensure the clinic is operated efficiently and profitably

This section is an opportunity for you to reflect on the state of your clinic's business operations and begin to plan for your business goals.

### Diagnosing the Business Health of Your Clinic

As a medical clinic business owner it is important to take the temperature of your clinic's business side periodically and assess the health of its business operations. Using the Self-Assessment Checklist: Diagnosing the Health of Your Clinic is an easy way to

- gauge how the business side of your clinic is performing
- identify areas of the business that you can improve

By better understanding your business, you will be better able to adjust to your environment, manage your operations profitably and sustainably, and plan how to achieve your business goals.



**The self-assessment checklist will assist you in diagnosing your clinic's health.**

To use the checklist:

- ☑ read the statement
- ☑ put an X in the column that best reflects the situation in your clinic
- ☑ add the scores

The final scores tell you whether your clinic's business is well or sick and what symptoms you need to address. Be realistic and note how your clinic really operates—doing so will enable you to determine where to focus to improve your clinic's business. Soon you will start scoring higher each time you complete the checklist.

**Tips to Remember**

When a patient does not tell you about all of his or her aches and pains—even the small ones—you cannot accurately diagnose and treat him or her or see how he or she is improving.

The more realistic you are when completing this checklist, the more useful it will be for your clinic.

**For each statement in the checklist realistically assess the state of your business operations.**

For example if you do not have easily accessible financial information about your clinic, answer the first question like this:

		Always	Sometimes	Seldom	Never
		3	2	1	0
<b>General</b>					
1	I have timely and reliable financial information about my clinic.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>



If you have financial information that you can access quickly and is current, but you are unsure whether it is always correct, answer the first question like this:

		Always	Sometimes	Seldom	Never
		3	2	1	0
<b>General</b>					
1	I have timely and reliable financial information about my clinic.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

*There is a blank copy of the checklist in Annex 2.*

Make copies of the checklist and reuse it to diagnose the business health of your clinic. Do so at least once every three months to quickly assess which areas you need to improve.

## **Exercise**

Fill in the checklist to reflect the situation of your clinic today. Be realistic.

After you complete the checklist, calculate and determine the health of the clinic's business operations.

### **Self-Assessment Checklist: Diagnosing the Health Of Your Clinic**

		Always	Sometimes	Seldom	Never
		3	2	1	0
<b>General</b>					
1	I have timely and reliable financial information about my clinic.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2	I make business decisions based on facts and not just on feelings.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3	My clinic is growing, and I have many reasons to be optimistic.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4	I have a plan with goals for business in the next year.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<b>Total Points</b>				

		Always	Sometimes	Seldom	Never
		3	2	1	0
<b>Delivering Products and Services</b>					
5	I know which health products and services my customers demand the most.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6	I am certain that my prices are affordable to customers and cover the costs I incur to offer them.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7	I have the staff I need (or a solid plan to obtain new employees) to offer my clinic's products and services on an ongoing basis.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8	I have the equipment and facility required to operate my clinic and offer the products and services my customers demand.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<b>Total Points</b>				

<b>Stock Management</b>					
9	I record all stock I buy and sell so that I always know how much of each product I have in my clinic.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10	I anticipate my drug and supply needs and buy in quantity to reduce costs.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11	I have procedures in place so that no one can steal drugs from my clinic.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12	I have a system for tracking expiration dates of drug supplies so that I rarely stock or need to discard expired drugs.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<b>Total Points</b>				

<b>Cash Management</b>					
13	All cash received and spent is recorded with details of each transaction.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14	Only authorized people can handle cash.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
15	I have enough cash to pay my bills and my staff on time.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
16	I reconcile at the end of each day the cash on hand with the ending balance in the record book(s) and understand any discrepancies.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<b>Total Points</b>				

		Always	Sometimes	Seldom	Never
		3	2	1	0
<b>Other Assets and Liabilities</b>					
17	I record how much each customer and insurance company owes me and I follow up to collect.*	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
18	I know how much I owe my creditors.*	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
19	I pay my creditors on time.*	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
20	I have a file containing the receipts for all of my equipment and furniture and proof of clinic ownership (if my clinic is owned).	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<b>Total Points</b>				

<b>Profitability</b>					
21	I include my own time when calculating the costs of my services, and I price my products and services to cover all of the costs.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
22	I produce monthly income statements.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
23	I know whether or not my business is profitable and can measure how profitable or loss-making it is.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
24	My business is profitable.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<b>Total Points</b>				

<b>Future Needs</b>					
25	I prepare monthly cash flow plans using past financial information and assumptions about the future.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
26	I know the financial and non-financial inputs that are needed to reach my business goals.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
27	I have a budget for the investments I want to make in the next two years.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
28	I have ideas about how I can finance investments and cash shortfalls.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<b>Total Points</b>				

\* If you do not have any debtors or creditors, score Always for questions 17, 18, and 19.

## Exercise

Calculate the present health of your clinic:

1. Record the total points your clinic received in each category.
2. Identify how healthy your clinic is in each category by using the total points for each category to mark the appropriate cell on the following health index.
3. Add the points for all the categories and write this number at the bottom of the total points column.
4. Complete the clinic's overall health index.

1. Record the total points for each category from the previous checklist.

2. Mark an X in the appropriate column in each line based on the total points for that category.

↓

Categories from the self-assessment checklist	Total points	Very healthy (11–12)	Average health (8–10)	Slightly sick (5–7)	Very sick (0–4)
General					
Delivering Products and Services					
Stock Management					
Cash Management					
Other Assets and Liabilities					
Profitability					
Future Needs					
<b>Overall Health</b>					

3. Add the total points for all categories in the previous table and write the total in the following one.

4. Mark an X in the appropriate column based on the total points.

↓

	Total points	Very healthy (11–12)	Average health (8–10)	Slightly sick (5–7)	Very sick (0–4)
<b>Overall Health</b>					

My healthiest category is

---

The categories that need critical care are

---

The overall health of my clinic is

---

Review this checklist every three months to check in on the health of your clinic.

## Case Study: The Healthy and the Unhealthy Clinics

This case study introduces examples of a healthy clinic and an unhealthy one.

### Exercise

Read the case study and answer the following questions. When you have finished this exercise, refer to Annex 1 for examples of the type of answers that you could have for each question.

#### Healthy and Unhealthy Clinics

##### *Ask yourself these questions.*

- Which of the following examples best describes my clinic?
- If I want my clinic to be like the healthy one, what can I do to make it healthier?

#### The Healthy Clinic

In 2003 Mrs. Sarah Gondwe used her government pension when she retired from working as a medical assistant at the district health office to start her own clinic in Blantyre. The Medical Aid Society of Malawi (MASM) approved Mrs. Gondwe's clinic, and her primary source of income is from treating malaria. She diversified her business by joining the BlueStar Network in 2008, adding family planning (FP) products and services at that time. She recently began offering voluntary counseling and testing and antiretroviral services.

Mrs. Gondwe has four employees: a receptionist, a cleaner, a watchman, and a cashier/bookkeeper. The receptionist keeps the waiting room orderly and records every patient visit in the logbook. The cashier/bookkeeper manages patient payments and petty cash. Mrs. Gondwe keeps detailed notes for each patient, writing down the diagnosis and treatment. She is the only person with the key to the drug cabinet, and every time she dispenses drugs, she records the transaction on stock cards.

Occasionally at the end of the day, Mrs. Gondwe checks to ensure the books are current. And every Monday morning, she meets with her receptionist and cashier/bookkeeper to review the patient logbook, daily cash record, debtor's book, and stock cards.

Mrs. Gondwe conducts spot-checks with these two staff members to ensure that

- each patient visit is reflected in the daily cash record or the debtor's book



- every drug shown on the stock cards as being sold also is reflected in the daily cash book or the debtor's book
- the ending cash balance in the daily record book equals the amount she has in the bank account plus the balance in petty cash

The cashier/bookkeeper prepares an income statement every month, showing a summary of revenue and expenses by category. Mrs. Gondwe uses this information to analyze trends and understand which products and services are the most profitable. Mrs. Gondwe then makes business decisions based on this information, including reviewing her price list, which is posted in the waiting room. She also advises her cashier/bookkeeper when to call or visit patients and insurance companies that owe the clinic money.

Mrs. Gondwe also uses the financial information to plan for her future business needs, including ensuring that she has money for drug purchases, ongoing regular expenses, and investments (such as new equipment or building improvements). She plans and budgets for spending on preventive maintenance and repairs, such as painting walls and repairing a leaking pipe, to be sure she can address these issues before they cost a lot more money to fix. Some of Mrs. Gondwe's drug suppliers offer her the option of paying in 30 days without any extra cost. She knows that she must save some of her profits in case something unfortunate that is out of her control should occur.

Mrs. Gondwe is optimistic about her clinic's future growth. She always is thinking about creative ways to increase her business and offer new products and services.

### **The Unhealthy Clinic**

Mr. George Malemia, a clinical officer, worked in a public hospital in Zomba for eight years while dreaming about starting his own clinic. When he found the perfect location to rent for his clinic, he convinced his brother to loan him start-up money so that he could buy the basic furniture and equipment required to treat patients needing general health care.

In 2008 Mr. Malemia joined the Banja La Mtsogolo BlueStar Network, hoping to

- increase the number of patients he could serve
- provide more-complete services to existing patients
- increase the income of his clinic by offering FP services

Mr. Malemia employs four people: a receptionist, a gardener, a cleaner, and a watchman. The receptionist greets customers and keeps track of appointments. Mr. Malemia does not trust her to record information or handle drugs or money. Therefore he treats patients and runs the rest of the business himself.



As Mr. Malemia is the only person supposed to dispense drugs, he does not worry about counting the inventory. He replenishes drugs only when he runs out and often has to discard some because their expiration date has passed. He buys the drugs in small quantities because he does not have excess cash. And his suppliers do not offer him credit, so the cost of the drugs is high.

He charges his clients whatever they can pay and hopes it cover his costs. He prefers that his customers pay cash when they receive treatment, but everyone in the neighborhood knows that Mr. Malemia will let them pay later if they do not have the money when they are treated. Mr. Malemia is usually the only person who handles payments. Occasionally someone who owes him money will come with a payment while he is seeing a patient, so the receptionist will take the cash and give it to Mr. Malemia when the customer leaves.

Mr. Malemia has operated his clinic for eight years now and is proud of the business he has created. He is always busy with a steady flow of patients. Yet he often lies awake at night thinking he should be able to improve the clinic's profitability so he can finally repay his brother the money he still owes him.

Recently he has noticed that the small crack in the front step of his clinic has spread, making the entire step collapse. Now he must hire a contractor to construct a new one. This expense is an unexpected one and he has no savings to pay for it. He knows that other BlueStar franchise owners are buying new equipment and supplies so they can offer more FP services and that new private clinics nearby are creating more competition, so he is worried that without making new investments, his clinic's future may not be bright.

### Questions About the Case Study

1. List at least three major differences between how Mrs. Gondwe and Mr. Malemia run their clinics. Consider stock management, cash management, and general differences.
2. What can Mr. Malemia learn from Mrs. Gondwe about how to manage his drug inventory?
3. How do the responsibilities of Mrs. Gondwe's staff differ from those of Mr. Malemia's staff?



4. How should cash be managed? What can Mr. Malemia learn from Mrs. Gondwe regarding inflows and outflows of cash?
  
5. What problems could arise in Mr. Malemia's business? How would Mrs. Gondwe advise Mr. Malemia to avoid or solve each of those problems?
  
6. What do you think the benefits are of having monthly income statements (in addition to being able to file accurate and timely tax returns)?
  
7. How does Mrs. Gondwe's strategy of always thinking about the future help her to run her business well?
  
8. Which clinic owner are you most like?
  - a. Why?
  
  
  
  
  
  
  
  
  
  
  - b. What can you do differently to better understand and manage your business?

## Module 2: Assessing Your Business

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### Growing a Healthy Clinic: Goals for Your Clinic

To set a healthy growth strategy for your clinic, have an idea of your business goals. You may not have all the information you need to predict what will happen in the next year, but it is useful to think about what could happen and how you would address those situations. This preparation helps you plan how your clinic will grow and forecasts problems it may face in the future.

Planning a business is like preparing to climb a mountain. For a traveler to scale a mountain, he or she must know where he or she is coming from and where to go so as not to get lost. A mountain climber also must decide what needs to be done to prepare for the climb. For example, the climber may need to eat healthier foods and exercise beforehand to reach the summit. In the same way, for your clinic, you must know its health, where it is going, and what needs to be done to get there if it is to succeed.

Continually reassess if your plan is working, constantly taking the clinic's temperature and deciding how to make it healthier and stronger. An important step in the planning process is setting goals. Goals are the end result, where you eventually want to be. It is helpful to think of them in both the short and long terms. This way you can track whether you are on the right path or veering away from the direction in which you want to be heading.

When setting your goals, be sure that the goals are SMART!

- ✓ **S**pecific
- ✓ **M**easurable
- ✓ **A**chievable
- ✓ **R**elevant
- ✓ **T**ime Bound



*Addressing your medical clinic's health is like treating the health of one of your patients. At first you may focus on reducing his or her fever. Over the long term you may concentrate on having him or her eat a more nutritious diet or take medication to become healthy again. Likewise with your business, you may focus on solving problems in the short term and making improvements or expanding in the long term.*

**Specific:** What exactly do you want to achieve?

<i>Good example:</i> Provide male circumcision services	<i>Bad example:</i> Provide a new service
---	---

**Measurable:** How much? How many? How will you know when it is accomplished?

<i>Good example:</i> Receive a qualification or certification to perform male circumcisions	<i>Bad example:</i> Be able to perform male circumcisions
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**Achievable:** Is it reasonable that you will accomplish your goal considering your situation?

<i>Good example:</i> Attend a local educational institution to learn how to perform male circumcisions and receive a certification	<i>Bad example:</i> Go to South Africa for a training to learn how to perform male circumcisions
--	--

**Relevant:** Is your goal appropriate for your situation?

<i>Good example:</i> Receive certification to perform male circumcisions	<i>Bad example:</i> Receive certification to perform heart surgery
--	--

**Time bound:** What is the time frame in which you want to accomplish the goal?

<i>Good example:</i> By the end of this calendar year receive certification from a local educational institution to perform male circumcisions	<i>Bad example:</i> Someday receive certification from a local educational institution to perform male circumcisions
--	--

The following examples are SMART goals as they include all five elements, making them invaluable when planning:

- offer two additional FP services in order to attract new customers and meet needs of existing customers within six months
- learn how to perform male circumcisions and offer this service at the clinic within two years
- register with the MASM insurance scheme by the end of the year

Although those examples are SMART goals, can you improve them by making them even more specific or more measurable?



## **Exercise**

Now is the time to think through the short-, medium-, and long-term goals for your clinic. Write them in the space provided. There are no right or wrong answers—as long as they are SMART. Write goals that are as specific as possible to your own clinic though. After writing them, complete the table in the following exercise, which will help you plan to reach those goals.

A blank copy of the plan is in Annex 1, so you can make copies and reuse it to plan how to meet new goals for your clinic as it grows. Perform this process at least every six months to ensure that you always are aware of your goals and how to reach them.

### **Goals for My Clinic**

These goals are what I hope to accomplish in the next

six months

one year

two years

## Exercise

Plan for each of your clinic's goals by taking another look at them. List them in the table on the next page in order of priority. This ranking ensures that resources are directed towards the most important goals while less significant ones are given a lower priority.

Use the table on the next page to plan the sources for the inputs you need to achieve your goals and the steps you can take to achieve them. The following table contains an example to give you an idea of how best to use it.

My goal	Skills I need to achieve this goal and where I can obtain them	Equipment or supplies I need to achieve this goal and where I can obtain them	Steps I can take to achieve this goal	How much it will cost to achieve this goal (in Kwachas) and where I will get the funds
Perform male circumcision at the clinic within two years	Clinical skill to perform male circumcision, which a local medical college teaches	Small scalpel, which can be purchased at the Blue Medical Supply company	<ol style="list-style-type: none"> <li>1. Talk to a local health officer to find out which institutions are the best ones for a course in male circumcision</li> <li>2. Talk to local medical schools to find a course on clinical skills for circumcision</li> <li>3. Call medical equipment suppliers to find out how much equipment costs</li> <li>4. Talk to other medical officers who already perform circumcision to understand how it is offered and marketed, and the price to charge for the service</li> <li>5. Complete training and get certified to offer the service</li> <li>6. Purchase the scalpel</li> <li>7. Advertise this new procedure to clients</li> <li>8. Perform first procedure in clinic</li> </ol>	<ul style="list-style-type: none"> <li>• Cost of training</li> <li>• Cost of equipment</li> <li>• Cost of additional supplies</li> <li>• Funds will come from reinvested profits and savings (K20,000 saved now)</li> </ul>

**Table: Planning to Accomplish My Goals**

<b>My goal</b>	<b>Skills I need to achieve this goal and where I can obtain them</b>	<b>Equipment or supplies I need to achieve this goal and where I can obtain them</b>	<b>Steps I can take to achieve this goal</b>	<b>How much it will cost to achieve this goal (in Kwachas) and where I will get the funds</b>

## **Consider This: Working With Insurance Companies**

Health insurance in Malawi is limited and mainly an option just for middle- and upper-income groups. In the past MASM was the only provider of health insurance. Recently, however, new companies have begun offering health insurance.

A provider must be accredited for insurers to allow patients to use insurance to cover a visit to that clinic. Clinics must apply to the insurance company for accreditation and they must meet certain quality standards. The insurance company will send a quality-assurance team to the clinic as part of the accreditation process.

### ***Factors to consider for working with insurance companies***

Being accredited by an insurance company could

- attract new clients
- provide a new source of revenue

But you should also consider that

- clinics are not paid directly after providing services, which may create cash flow problems (for example, MASM pays after 30 days)
- clinics may need to make investments in their facilities to meet an insurer's quality standards
- there is a limited pool of patients that have insurance and depending on what segment of the population your clinic serves, it may not be beneficial

## Module 3: Record Keeping

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Record keeping is an important part of proper clinic management. With good records you can assess your clinic's performance and understand how and where changes can be made to improve its profitability.

The essence of good record keeping is writing down what happens in the clinic every day. Among other things, this process includes what is happening with the stock that is maintained and the money that is being handled.

### Stock Control

To better manage your clinic and make it more efficient and profitable, it is critical to be in control of your stock (that is your drugs and other supplies). You must know how much stock you have available to sell to your customers, when you should reorder more, and what items do not sell quickly and should be reduced in the future.

This process of managing your inventory is called stock control. It is important because it helps you to

- keep the right drugs and supplies
- keep the right amount of stock
- keep your stock in good condition
- prevent stock from getting lost or wasted because it passed its expiration date
- re-order stock at the right time
- prevent theft
- manage cash flow



Make sure that your clinic maintains the correct amount of stock so you can

- ✓ **maximize the amount of cash it has on hand to cover its regular costs**  
Many small businesses fail because they do not have enough cash to pay for their ongoing expenses. Instead, their money is tied up in their stock and they are unable to sell it quickly enough to cover recurring costs, such as rent and salaries.
- ✓ **have enough stock so that the clinic is not always running out of drugs and supplies**  
A customer may come back once or twice, but the third time he or she is told that an item is not in stock, he or she likely will find another outlet from which to buy drugs or contraceptives.

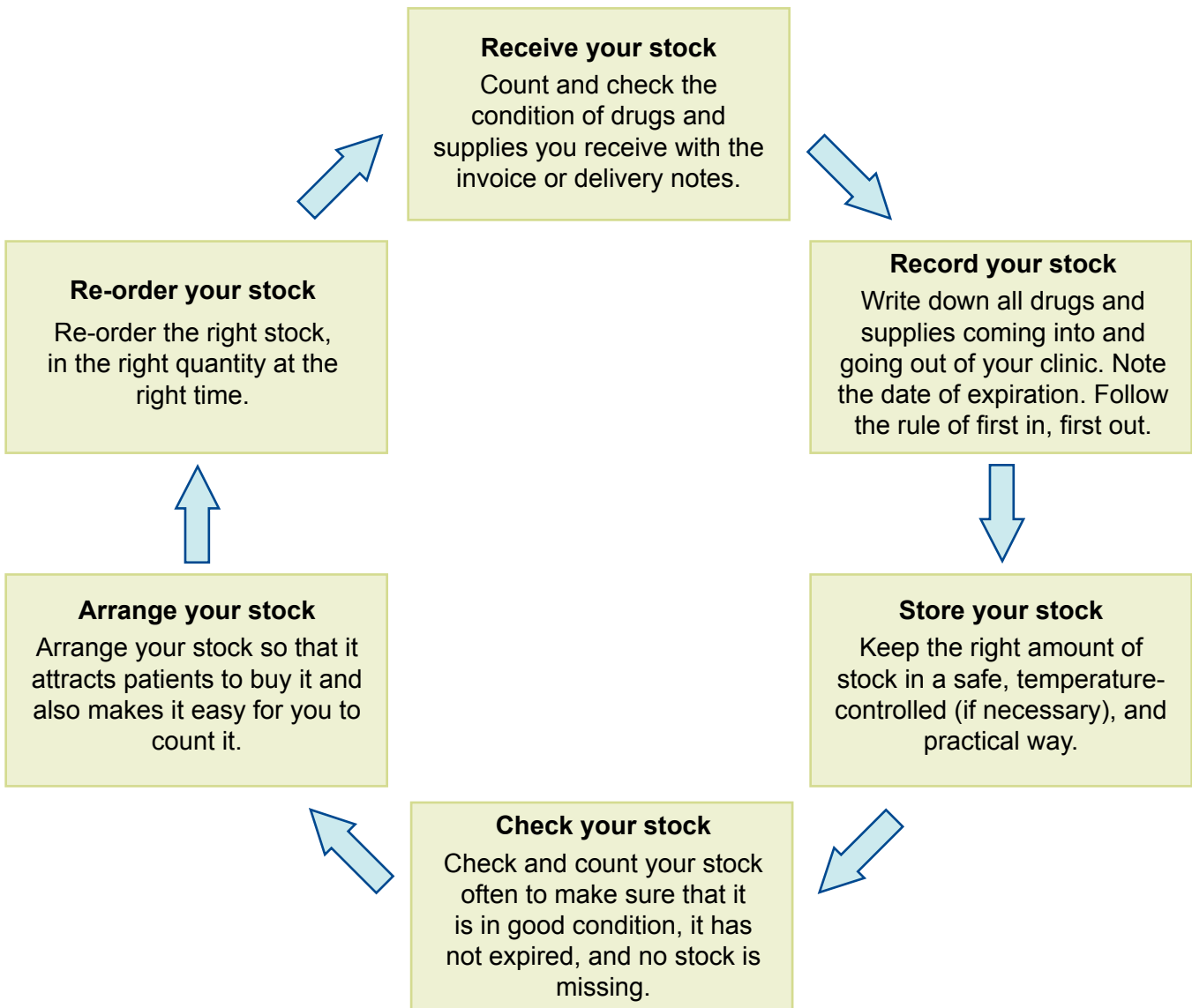


## Tips to Remember

There are a number of easy steps you can take to manage your stock and, in turn, the flow of cash in your business.

Two examples are keeping stock records and maintaining stock cards for each item you carry.

Stock control means organizing the way you:



## Definitions

### Re-order level

This status is the point at which the available units for an item are low and you need to re-order from your suppliers.

### Stock

This term means all the items your clinic has for sale, for example drugs, contraceptives, and supplies used for medical treatments (like syringes).

### Stock cards

These records for each item of stock you maintain in the business detail the date an item enters and exits your clinic and includes a running balance so you can tell at any time how much is remaining. Stock cards for drugs also note their expiration date.

### Stock records

These records summarize which stock items you bought for the clinic and which ones you sold to customers or used to treat customers.

### Stocktaking list

The physical activity of counting by hand and writing down all of your stock on a list allows you to compare what you are supposed to have (from your stock records) with what you actually have (from the count).

## Exercise

This exercise allows you to think through and record issues relating to stock control in your clinic. There are no right or wrong answers.

Check all of the stock problems that your clinic has experienced:

- I sometimes run out of drugs and other supplies (called stockouts)
- Drugs in my stock sometimes expire
- Once in a while I do not have enough cash to buy the stocks and supplies I need when I need them
- I am not sure which products are more popular and which sell slowly
- I have no way of knowing for sure whether drugs or supplies have been stolen, discarded, or otherwise gone missing
- Other problems: \_\_\_\_\_

**Here are ideas for how I can solve each of the stock problems that I checked:**

How can I prevent stockouts?

How can I decrease the amount of stock that I waste?

How can I decrease the cost of buying stock?

### **Stock Card**

A stock card is a record of each item of inventory you maintain in the business. Stock includes medical supplies, medicines, and contraceptives. Each item of stock should have a stock card. The card details the date an item enters and exits the business, and it has a running balance of how much of the supply is available.

#### **Tips to Remember**

Where do you find the information to write on a stock card?

When stock is received at the medical clinic the information described in this section should be written on the stock card. Each time stock is used it should be recorded immediately.

At the end of each day you can use your other records (such as the daily cash record, receipts, and the debtors' book) to identify stock that was used and record this information.

## How to Write a Stock Card

Information on the stock card includes the following:

- the name of and details about the drug or other supply
- its expiration date (if applicable)
- the price you pay the supplier for one item
- the price you charge your customer for one item
- the balance at which you order new stock (called the re-order level)
- the number of items you have in stock when you start your stock card (brought forward)
- the signature (or initials) of the staff person responsible for each transaction

If you buy the same product but with a different expiration date, cost, or selling price, make a new stock card. In this way, you can be sure you sell the product with the older expiration dates first. If you raise the price on existing product, make a note with the date of the change on the same stock card.

### Example of a Stock Card

<b>STOCK CARD</b>					
<b>Product:</b> <u>Injectable contraceptives</u>					
<b>Expiration date:</b> <u>December 2011</u>					
<b>Cost per item:</b> <u>K 75</u>					
<b>Selling price:</b> <u>K 150</u>					
<b>Re-order level:</b> <u>7 batches</u>					
Date	Details	In	Out	Balance	Staff initials
2 Oct. 2010	Brought forward			10	SG
3 Oct. 2010	Sold		2	8	SG
9 Oct. 2010	Sold		1	7	SG
10 Oct. 2010	Order placed for 2				SG
17 Oct. 2010	Bought	2		9	SG
20 Oct. 2010	Damaged		4	5	MB
21 Oct. 2010	Order placed for 5				MB
23 Oct. 2010	Sold		2	3	MB

### Re-Order Level

When completing a stock card, know the re-order level (the number of units you estimate that you need until you get new stock). Figure out and write down the re-order level for your drugs and supplies. When your stock falls to the re-order level, it is time to purchase more of it.

Determine the re-order level for each drug and supply you have in stock using the following steps:

1. Ask yourself the following: How long it takes for this stock to arrive after you ordered it?

*Example:* Oral contraceptive pills take one week to arrive from the supplier.

2. After using stock cards for a while, verify how many units of that supply have been used or sold in the amount of time it takes for them to arrive after ordering.

*Example:* I usually sell six to eight boxes of oral contraceptive pills per week.

3. The amount of stock used or sold in that time period, plus a few extra in case you sell more than usual, is the re-order level.

*Example:* In one week I normally sell six to eight boxes of oral contraceptive pills, and it takes one week for the pills to arrive after I order them.

Therefore I need at least eight boxes to keep my clinic supplied when I place an order.

To ensure that I do not run out of oral contraceptives, I will re-order when there are 10 boxes remaining. Therefore 10 boxes is my re-order level for oral contraceptive pills.

## Tips to Remember

What are some ways to decrease the cost of purchasing stock?

- Buy in large quantities and ask for a bulk discount from the supplier.
- Make purchases during the slow season when prices may be lower.
- Make group purchases with other clinic owners to get bulk discounts.
- Manage your cash so you can purchase in cash (not credit), which may allow you to negotiate lower prices.
- Shop around to different suppliers for the best price.

## Stocktaking

Stocktaking is the process of physically counting and writing down all of the stock in your business on a list. You can compare what you have on hand to what your records indicate was sold or used.

### Importance of Stocktaking

It helps you to find out

- if, and how much, stock is missing
- if any stock is damaged or in bad condition

- which drugs and other goods sell quickly and which ones sell slowly
- which supplies you use a lot of and which you do not use that often
- when to re-order, if you do not keep stock cards

### Steps to Follow in Stocktaking

1. Make sure your stock is well arranged.
2. Prepare your stocktaking list (an example of one follows these steps). Include columns for the name of the stock, how much of it is on-hand, how much has been used or sold, and the difference between those two amounts.
3. Count the stock and write down the quantities on the stocktaking list.
4. Copy how much stock should be on-hand from your stock cards to your stocktaking list.
5. Compare the quantity of stock on-hand (in the stocktaking column) with the quantity on the stock card. Determine the difference. Write this figure in the difference column.
6. If there is a difference in the quantity of stock on-hand investigate the reason for the difference.

You should perform stocktaking monthly.

### Example of a Stocktaking List

<b>STOCKTAKING LIST</b>				
<b>Date:</b> _____ 29 Nov. 2010 _____				
Details	Quantity			Comments
	Stocktaking	Stock Card	Difference	
Antimalaria tablets	27	27	0	Quantity correct
Coldcap syrup	17	19	-2	Missing! Why?
Depo-Provera (Exp.12/27/11)	10	9	+1	More! Why?
Gauze rolls	5	5	0	Quantity correct
Cotton wool rolls	0	3	-3	Missing! Why?
Panadol box	4	4	0	Quantity correct

## **Exercise**

The following questions allow you to contemplate and record plans relating to stocktaking in your clinic. There are no right or wrong answers. Consider stocktaking plans that are as specific as possible for your own clinic.

### **Stocktaking Exercise**

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Think of your own clinic and decide

- how often should you do stocktaking
- what day and time should you perform stocktaking
- who should do the stocktaking

## **Bookkeeping**

### **What Is Bookkeeping?**

Bookkeeping records all transactions involving money

- coming into your clinic
- going out of your clinic

Money can take the form of cash or credit (an obligation to pay at a later date).

### **Importance of Financial Records**

Financial records are important because they:

- ✓ help you control your cash
- ✓ show you how your clinic is performing
- ✓ act as proof to other organizations (like banks) of how your clinic is performing
- ✓ help you to plan for the future

The key to a clinic staying in business over the long run is being profitable. Keeping proper records to understand your financial position is a critical step in that direction.

## Definitions

### **Bookkeeping**

A system for tracking all financial transactions

### **Cash reconciliation**

The process of comparing records with cash on hand and determining causes of discrepancies

### **Daily cash record**

A specific kind of book that lists all items sold in receipt of cash and all items bought for cash

### **Daily record book**

A book where you write down all transactions that occurred at your clinic, including cash, banking, and credit activities; it should be filled in each day

### **Debtors' book**

A book where you maintain information on clients who purchase from your clinic on credit

### **Receipt**

A voucher that verifies a financial transaction; it is provided to customers when they pay (it also can be obtained from suppliers who sell drugs and supplies to your clinic, or for transport or equipment expenses or staff wages)

### **Transaction**

Any exchange of money (cash or credit) for something, such as drugs or treatments

## Types of Record Books

We will consider the following books of accounts:

- receipt book
- daily cash record
- debtors' book
- daily record book



## Receipt Book

### What Is a Receipt?

A receipt is a formal record of the transfer of money from one person or business to another. It indicates that money has been paid for services or goods. You need a written document, such as an invoice, to prove that you have received or paid money. If there is no document, you must write down the information yourself. For record keeping, receipts and other documents are called vouchers, which are the proof for all transactions.

During your clinic's business hours, write down each transaction for cash coming into it in a receipt book. Write a new number on each voucher, starting with 1 for the first entry and continue with 2, 3, etc. until the end of the day. Numbering makes it easy to find a voucher you need.

Obtain and keep receipts and other vouchers for all cash going out of your clinic for expenses, such as to purchase drugs and pay wages. You can keep vouchers in the cash box until you close the clinic each day.

A receipt should be completed in duplicate. The original is given to the person paying the money and the duplicate remains in your receipt book. It will be used to:

- record revenue in the daily record book
- identify discrepancies

When issuing a receipt it is ideal to have carbon paper between all original and duplicate receipts to properly identify all payments made. If carbon paper is not available, the duplicate receipt must be filled out in pen. If one makes a mistake while issuing a receipt, the receipt should be cancelled, left in the receipt book, and a new one issued.

If a customer cannot pay the full amount of the fee but can pay part of it, then he or she should be given a receipt for the amount paid. The balance still owed should be written in the customer account record or debtor's book.

### Tips to Remember

Cash reconciliation—ensuring there is agreement between the cash you have on-hand and all of your receipts—should be performed at the end of the day.

If there are any discrepancies (you have less cash than your records indicate or you have more cash than your records indicate), they should be researched and the cause identified.

After reconciliation, the cash collected that day is deposited in the bank or placed in a safe.

Use the information recorded in the receipt book to complete the daily record book.

### Example

On 8 Feb. 2011, Mrs. Sarah Gondwe, owner of Gondwe Clinic, received money from Mr. James Msiska for the sale of one dose of antimalarial tablets, a one-liter bottle of cold syrup, and one box of *Panadol*.

### Example 1: Simple Receipt

RECEIPT	
Gondwe Clinic Chiladzulu	
Receipt number	001
Date	8/02/2011
Patient number	374
Received from	James Msiska
Payment for	Antimalarial treatment, cold syrup, and <i>Panadol</i>
Amount in words	One thousand one hundred and thirty Kwacha only
Amount	K 1,130
Signature	S Gondwe

## Example 2: Detailed Receipt

### RECEIPT

**Gondwe Clinic**  
Chiladzulu

Receipt number 001 Date 8/02/2011

Patient number 374

Received from James Msiska

Description	Quantity	Unit Cost	Amount
Antimalarial treatment	1 dose	770	770
cold syrup	1 liter	300	300
Panadol	1 box	60	60

**Total** K 1,130

**Total amount in words** One thousand one hundred and thirty Kwachas

**Signature** S Gondwe

## Daily Cash Record

A daily cash record is used to write down all cash that comes into your clinic and where it comes from, for example cash from sales of medicines and supplies and from providing services. The record also includes all cash that leaves the clinic when items are purchased with cash.

The daily cash record describes at the end of the day how much cash came into your clinic and left it. You can record this information at the end of the day based on the receipts you wrote and received for all the transactions that are stored in your cash box.

### Tips to Remember

Keep receipts that you get for all cash that goes out of your clinic for all expenses, including:

- receipts obtained for drugs and other supplies
- pay slips for wages and salaries
- invoices or receipts for rent, telephone, and all other expenses

When you use money from your cash box for expenses, keep the receipts in the cash box until you close the business each day.

## How to Record Transactions in the Daily Cash Record

### Example

On 8 Feb. 2011, Mrs. Sarah Gondwe, owner of Gondwe Clinic, received K 1,130 cash from Mr. James Msiska for the sale of drugs and K200 from Mrs. Banda for oral contraceptives. Also on that day, Mrs. Gondwe purchased *Depo-Provera* with cash totaling K 750 and paid the utility bill for the clinic, which was K 3,800.

### DAILY CASH RECORD

Date	Description	Cash In	Cash Out	Balance
8 Feb. 2011	Balance brought forward			K 10,000
8 Feb. 2011	Sale of drugs to Mr. Msiska	K 1,130		K 11,130
8 Feb. 2011	Purchase of <i>Depo-Provera</i> from BLM		K 750	K 10,380
8 Feb. 2011	Sale of oral contraceptives to Mrs. Banda	K 200		K 10,580
8 Feb. 2011	Paid January Utility bill	K 3,800		K 6,780

## Debtors' Book

A debtors' book is a record of customers who receive service or buy something on credit.

In general, it is risky to sell on credit. Some customers will not pay on time and others will not pay at all. It is a common practice in most clinics, however, to extend credit to customers the owner trusts as a strategy to retain them. Therefore, it can be a good idea to give credit to reliable customers.

If you sell on credit, keep a record of all your credit sales. With written records, you

- avoid arguments with clients
- can follow up with customers who do not pay their accounts on time

A record of customers' credit helps you to know

- which customers owe your clinic money
- how much money each customer owes
- which customers pay their accounts on time

Make a debtors' book, with one page or section for each patient. Refer to the following template and the blank template at the back of this guide. You can use one of the following methods:

- a book with a page for each customer
- a separate page in a file
- a separate book for each customer, if you have very few customers who each buy a lot

### Example of a Debtors' Book

This is a page from a debtors' book. It is an individual customer's (Mrs. Mapemba's) account record.

DEBTORS' BOOK						
<b>Name of customer:</b> _____ Mrs. Mapemba						
<b>Address:</b> _____ Liwonde						
<b>Telephone number:</b> _____						
<b>Credit Limit:</b> _____ K 15,000						
Date	Details	Quantity	Credit sale	Amount paid	Balance	Signature
1/10	Panadol	4	K 240		K 240	Mrs. Mapemba
12/10	Anti-Malaria Treatment	1	K 770		K 1,010	Mrs. Mapemba
15/10	Mrs. Mapemba pays account			K 800	K 210	Mrs. Mapemba Mrs. Sarah Gondwe

The sections of the customer account page in the Debtors' Book are

- **credit limit**—the highest amount of credit you will give to the customer
- **date**—the date the customer buys on credit, or pays his or her account
- **details**—the names of the items and services the customer buys
- **quantity**—the number of items and services the customer buys
- **credit sale**—the value of the items or services the customer buys and will pay for later
- **amount paid**—the amount the customer pays
- **balance**—the total amount the customer now owes your clinic
- **signature**—the customer's autograph, acknowledging the credit amount and the autograph of a clinic representative acknowledging receipt of the amount paid

### Tips to Remember

1. When a credit client makes a payment this is cash coming into the clinic from sales.
2. This information must be recorded in the Daily Cash Record.
3. If your business uses a receipt book, write the information in the receipt book. Give the receipt to the customer. The copy of the receipt is the proof that you received cash from the credit customer. It stays in the receipt book until the end of the day.

Refer to Annex 2 in this guide for a blank template that you can redraw or photocopy to prepare a debtors' book customer account page for each of your customers who owe you money.

## Daily Record Book

A daily record book is where you write down all financial transactions that occur in your clinic. It is completed each day. See Annex 2 for a blank template that you can copy to use for your clinic. After trying it for one day, decide when you will permanently start to use the record book for your clinic.

### Write down every transaction

Use information from all the transactions in a day to fill in your daily record book.

In your daily record book, perform the following.

- Write down all the money that came into your clinic that day and from where it came.
  - If your clinic uses a daily cash record, get the amounts and details from there.
  - If your clinic uses a receipt book, get the information from the copies of the receipts.
  - Include sales on credit, which also are reflected in your debtors' book. When a patient pays his or her debt (all or part of it), this transaction is reflected in the daily record book as cash in and credit reduced; the payment is also recorded in the debtors' book.
- Write down all the money that went out of your clinic that day and what it was used for. Keep receipts or pieces of paper that you receive or that you have vendors or staff sign as official records of all money that went out of your clinic. These could be
  - receipts for material cost (drugs and other items)
  - pay slips for staff costs
  - receipts for other costs

### Completing the daily record book

1. **Date:** Write when the transaction occurred.
2. **Details:** Describe the transaction.
3. **Receipt number:** Write the number of the receipt for each transaction.
4. **Cash:** Write all the money that came into or went out of your cash box. The balance column always should show the amount of money you have in the cash box.
5. **Bank:** Write all the money that came into or went out of your bank account. The balance column always should show the amount of money you have in the bank.
6. **Credit sales:** Write all your credit sales in this column (if you do not extend credit to clients, you do not need this column). Note that credit sales also are called "accounts receivable."
7. **Total sales for the day:** Add up the cash and credit sales for the day to see how much revenue you made that day.
8. **Total expenses for the day:** Write the total amount that was spent that day.
9. **End-of-day balance:** In this row you can bring down the final balances and see how much cash you should have on hand, how much you have in the bank, and what is owed to you.

All receipts should be filed in numerical order after the information on them is entered in the daily record book. The receipts are your only proof that your records are correct. If there are mistakes in your record keeping, receipts help you discover where they were made.



<b>DAILY RECORD BOOK</b>												
<b>Date</b>	<b>Details</b>	<b>Receipt Number</b>	<b>Cash</b>			<b>Bank</b>			<b>Credit</b>			<b>Totals for the Day</b>
			<b>In</b>	<b>Out</b>	<b>Balance</b>	<b>In</b>	<b>Out</b>	<b>Balance</b>	<b>Credit sales</b>	<b>Account payment</b>	<b>Balance</b>	
												----
												----
												----
												----
Total sales for the day												
Total expenses for the day												
End-of-day balances			----	----		----	----		----	----		

## **Exercise**

### **Mr. Marunda's Daily Record Book**

Mr. Marunda owns a small clinic that recently joined the BlueStar network. After taking the Financial Management and Record Keeping course, he started to keep proper business records. Using the blank template of the daily record book in Annex 2, please help Mr. Marunda make the proper entries for the following transactions that occurred on July 30. Then answer the following questions.

Calculate a new balance after each transaction that affects the balance, and then add up the total sales and expenses for the day.

- On July 29, Mr. Marunda has a cash balance of K 5,302 in his cash box, K 68,175 in his account at the bank, and K 9,847 due him from patients to whom he gave credit.
- Mr. James Msiska purchased malarial treatment, spirit, and cotton wool for a total of K 1,130 and was given a cash receipt numbered 021.
- Mrs. K. Banda paid K 50 for a consultation and was given a cash receipt numbered 022.
- The cashier took K 2,400 from the cash box to pay the electricity bill that was due and the utilities clerk signed the receipt numbered 023 to prove the bill was paid.
- Mrs. M. Phiri had a family planning consultation and had an injectable contraceptive administered at the clinic. She didn't have any money with her, so Mr. Marunda told her she could pay the K 200 due later in the week.
- At the end of the day, Mr. Marunda withdrew K 27,000 from his bank account to pay salaries.

### **QUESTIONS:**

1. How much money did Mr. Marunda have in the cash box and in the bank account at the end of the day?
2. By how much did Mr. Marunda's cash balance change and why?
3. By how much did Mr. Marunda's bank account balance change and why?
4. Which balances would be affected and how if Mr. Marunda took K 2,000 from his cash box at the end of the day and deposited it into his bank account?
5. By how much did Mr. Marunda's credit balance change and why?
6. Which balances would be affected and how if Mrs. Mapemba paid K 800 on her credit balance?

## Seasonality and Your Business

Seasonality refers to the increases and decreases in the volume or nature of your clinic's business. The reasons for these changes can include issues such as malaria season, rainy season, and agricultural planting. As a clinic owner you must be aware of the seasonality of your business so that you can plan for these increases and decreases.

Ask these questions about your clinic's business and seasonal changes:

- ✓ What are my clinic's busiest and quietest times of the year?
- ✓ During the busy times, what are the most prevalent medical conditions we're treating?
- ✓ How does seasonality affect the planning, record keeping, and management of my clinic?

## Exercise

Read the case study that follows and then answer the questions for your clinic. The case study allows you to think through the affect of seasonal changes on your clinic.



## Seasonality Case Study

Mr. Marunda knows that each season his clinic sees a different number of patients. During malaria season, from October to February, he often has double the patients, many to whom he sells antimalarial medication. He often hires additional nurses and medical assistants to help him in his clinic during this time. During the winter season, he performs far more male circumcisions than during other times.

How can he use this information to help him run a healthier business?

**Income:** Mr. Marunda knows that during malaria season he will receive more income from customers via consultation fees from patients being treated for malaria (although he does not always charge his customers for their visits) and the sale of antimalarial medication. He knows that in winter he will receive more income from performing male circumcisions.

**Expenses:** Mr. Marunda knows that he must order more antimalarial drugs before the malaria season and will need money to pay the suppliers for them. And he knows that he will have to order more medical supplies to perform male circumcisions before the winter season. He also knows that he will need money to pay the extra nurses and medical assistants that he will hire to help at the clinic during the busy times.

What strategies can Mr. Marunda use to manage the seasonal changes in his clinic's business?

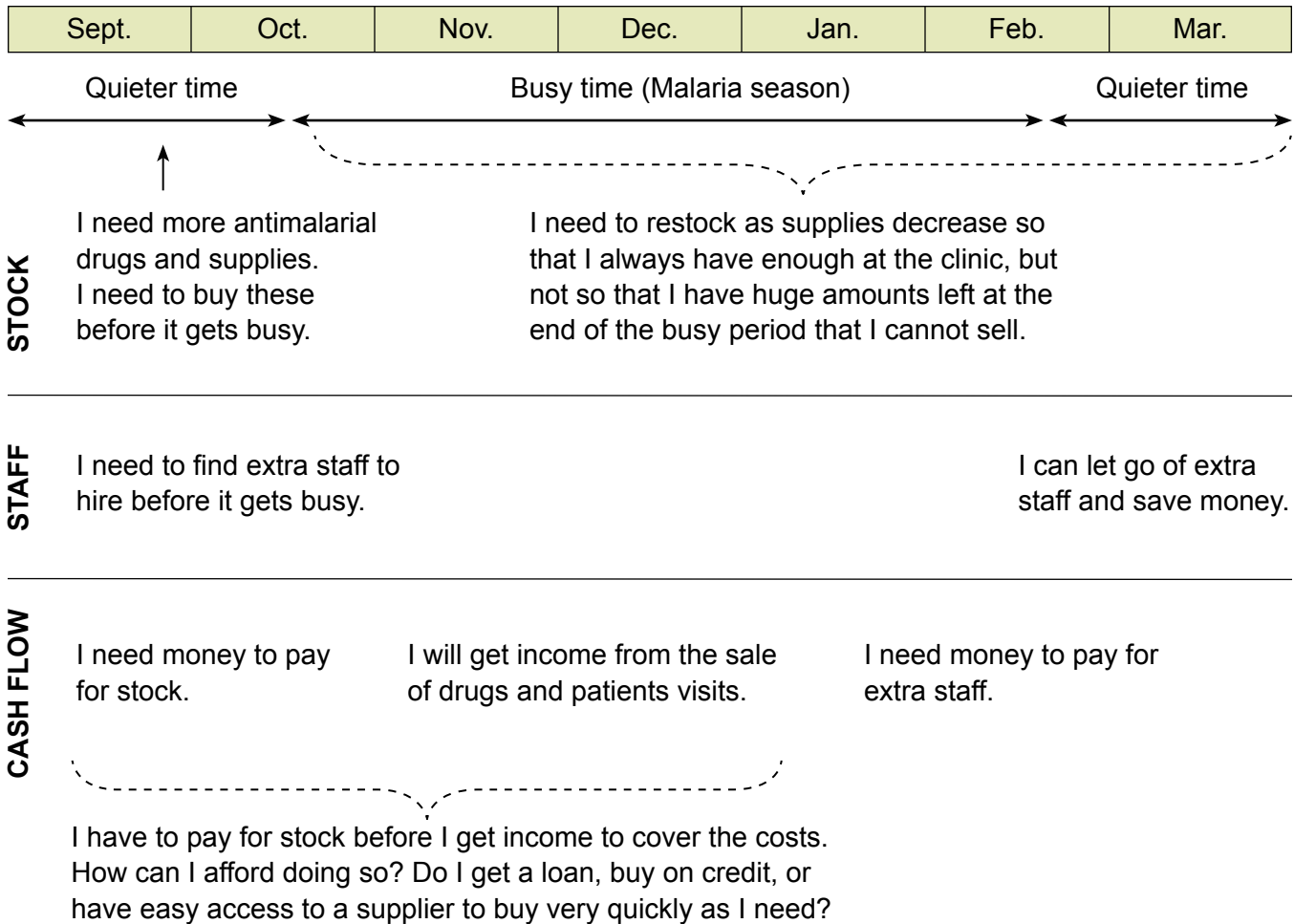
## Exercise

Think about the seasonality of the business in your clinic and write these answers directly into the spaces provided. There are no right or wrong answers. Be as specific as possible to your clinic.

### Seasonal Changes Exercise

1. How do seasonal changes in demand for my clinic's services affect my stock needs?
2. How do seasonal changes in demand for my clinic's services affect my staffing needs?
3. How do seasonal changes in demand for my clinic's services affect my financing needs?

This example shows seasonal implications for a clinic when looking at the months as they appear on a calendar.



The following page contains a seasonality-planning tool to map out time periods with specific needs. This tool is most useful to understand the high and low seasons of your business to plan for stock needs, staffing, and cash flow needs.

When you think about the seasonality of your clinic, consider the following questions:

- ✓ When is the malaria season? What is needed before and during that time?
- ✓ Are there times of the year when your patients have trouble paying (for example, before the harvest)? Are there times when they can more easily pay for services? How does that fluctuation impact your business?
- ✓ Are there other seasonal changes in demand related to your customers' lifestyle (for example, their jobs, school enrollment requirements, or other family changes)?
- ✓ Are there times of the year when supplies are easier or harder to get for any reason?
- ✓ Are there any other considerations that impact your patients' demand for services and products, ability to pay, and your ability to meet their demands depending on the time of year?

**Seasonality Planning Tool**

	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Months that have specific demand (up or down)												
Cause of fluctuation												
Stock needs												
Staff needs												
Cash needs												
Other needs or considerations												

## Module 4: Financial Statements and Analysis

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Financial statements organize and summarize financial information that already has been collected in the financial records.

This guide introduces two types of financial statements, the income statement and the statement of financial position (also known as the balance sheet), as well as a financial projection (a cash flow plan).

Financial statements are important tools for a clinic owner because they organize information in a way that allows you to analyze and interpret what is happening financially in your clinic. This information allows business owners to make decisions and plan using actual information.

### Income Statement

The income statement is a tool to record information over a period of time, and it tells you whether the clinic made a profit or incurred a loss during that period. The income statement is like a moving video of the information over time. The information recorded includes the revenues or income generated and the expenses or costs that were paid out during the period.



Reviewing income statements from two periods of time is similar to reviewing a patient's history to understand how a healthy person one year ago became unhealthy during the year.

From the income statement you can see:

- whether your sales have increased or decreased
- whether your costs have increased or decreased
- whether your profits have increased or decreased

Having this information can make it easier to take action to help your clinic.

### Tips to Remember

If your income is decreasing, you should think of ways to increase your revenue:

- improve and increase your outreach
- adjust your prices
- diversify your services

If your costs are steadily increasing, look more closely at your operations and figure out ways to reduce your operating expenses.

You should produce an income statement at the end of every month. The simple formula for determining profit or loss is the equation:

$$\text{Net Income (profit or loss)} = \text{Revenues} - \text{Expenses}$$



## Definitions

### Expenses

Money paid or owed by a business for goods and services to assist in earning revenue

### Net income

The amount of money that remains after subtracting all expenses from revenues; this figure is the business's profit or loss (you can calculate net income both before and after owner's draw)

### Revenue

Money a clinic receives or is owed for goods and services over a certain period of time

The financial information, or data, used to construct an income statement is taken from the daily record book. You need to compile and group all the financial transactions into revenue items (transactions that bring money into the clinic) and expense items (transactions for which money exits the clinic).

## How to Complete an Income Statement

To complete your income statement, you calculate the following items.

**Total revenue:** This figure will tell you your total income in a month; the following equation is an example of how it can be calculated.

$$\text{Total revenue} = \text{Family planning} + \text{Curative services} + \text{Drug sales} + \text{All other services and product sales}$$

**Total expenses:** This figure is the sum of all clinic expenses; the following equation is an example of how it can be calculated.

$$\text{Total expenses} = \text{Drugs and other supplies} + \text{Rent} + \text{Salaries} + \text{All other expenses}$$

Examples of expenses that are included in the income statement are provided in this table.

Salaries	Drugs	Supplies
Utilities	Rent	Petrol and and maintenance for vehicle
Communication and phone	Depreciation	Membership dues

**Net income:** This figure shows the financial result of your clinic's business during a period of time. Net income can be positive or negative.

- Positive net income means that your clinic has earned income over that time period.
- Negative net income means that your clinic has not been able to cover its costs over that period of time and incurred a loss.

$$\begin{array}{|c|} \hline \text{Net} \\ \text{income} \\ \hline \end{array} = \begin{array}{|c|} \hline \text{Total} \\ \text{revenue} \\ \hline \end{array} - \begin{array}{|c|} \hline \text{Total} \\ \text{expenses} \\ \hline \end{array}$$

Refer to Annex 2 for a blank copy of an income statement so that you can make copies and reuse it as a tool for your clinic.

## **Exercise**

The following exercise introduces an example of information that will be captured in a monthly income statement. Read the exercise and then answer the following questions. You can write directly into the spaces provided.

See Annex 1 for the answers for each question.

### **Income Statement Exercise**

#### ***Mr. Chirwa's BlueStar Clinic***

Mr. Dumisani Chirwa owns a small clinic near Liwonde. He is a clinical officer who started his clinic with savings six years ago. In 2008 he joined the BlueStar Network and is happy with the many benefits he has received as a franchisee. He now realizes that financial management is important as it allows him to have the information required to make decisions about improving the clinic's performance. He therefore just hired a part-time bookkeeper.

Mr. Chirwa has asked you to help the bookkeeper to prepare a monthly income statement for March. After collecting the daily record books and receipts for the month, the bookkeeper was able to determine this information.

- The clinic was open 5.5 days per week, and the average number of patients seen per day was 30. Half of the customers paid a consultation fee of K 50. (The other half could not afford to pay a consultation fee.)
- Sale of drugs amounted to K 115,000 in March. Mr. Chirwa charges 2.5 times his cost for the drugs and estimates the transportation to buy the drugs equals about 50 percent of the cost of the drugs.
- Patients paid K 9,300 for laboratory tests performed at the clinic.
- Salaries paid for the month totaled K 27,000 (not including the owner's withdrawals).
- Mr. Chirwa owns the building, but in March he had to pay K 35,000 to repair an electrical problem. Water and electricity together cost K 4,500 for March.
- Other miscellaneous expenses for March totaled K 3,200
- Mr. Chirwa took K 1,000 out of the business for his personal expenses.

Use this information to create an income statement for Mr. Chirwa.

<b>March income statement for Mr. Chirwa's BlueStar clinic</b>	
<b>Revenue</b> (in Kwachas)	
Consultations	
Laboratory services	
Sale of drugs	
<b>Total revenue</b>	
<b>Expenses</b> (in Kwachas)	
Salaries	
Cost of drugs	
Transportation	
Maintenance	
Utilities	
Miscellaneous	
<b>Total expenses</b>	
<b>Net Income or loss</b> (in Kwachas)	
Owner's draw	
<b>Net after draw</b> (in Kwachas)	

1. What can you say about the profitability of Mr. Chirwa's clinic in March?
2. What circumstances could make other months' income statements different from March?
3. What questions should Mr. Chirwa be asking himself or his bookkeeper when he looks at his income statement?

## Statement of Financial Position

The statement of financial position is a picture of your business on a particular day. It is also known as a balance sheet.

The statement of financial position can be compared to an X-ray of a patient. An X-ray is taken so that a doctor can evaluate what is happening to the patient at that point in time. If the patient has a broken arm, the X-ray taken of the arm will produce the image of the bone that is broken.

The statement of financial position is a picture of

- ✓ what the business owns, called assets
- ✓ what the business owes, called liabilities
- ✓ the value of the money that has been invested in the business, which includes capital and other investments



## Definitions

### Assets

Resources that a business owns and uses to generate income

### Capital (or equity)

The money or assets that have been put into the business to purchase assets and keep the business going

### Current assets

Resources that a business has that can be converted easily into cash within the next 12 months; they include inventory, money in the bank, and money to be collected from clients

### Current liabilities

What a business owes and payment is due within one year from the date of the statement of financial position

### Fixed assets

Resources that a business possesses and uses to generate income that have a life span of more than one year and cannot be converted easily or sold for cash; they include equipment, buildings, vehicles, and land

### Liabilities

What the business owes

### Long-term liabilities

What a business owes and payment is due after one year from the date of the statement of financial position

### Net current assets (or net working capital)

Current assets minus current liabilities; this amount indicates whether there is sufficient liquidity to continue operations and meet short-term obligations—if net current assets are negative, the clinic may be having serious difficulties

### Net total assets

The value of everything the business owns after all the debts have been taken into account

### Net worth

What has been invested in the business; equals net total assets

This table is an example of a statement of financial position.

<b>Statement of Financial Position (in Kwachas)</b>		
What the business possesses	1. Fixed assets	550,000
	2. Current assets	
	3. Inventory	180,000
	4. Debtors	28,000
	5. Cash and bank accounts	21,000
	<b>6. Total current assets (3 + 4 + 5)</b>	<b>229,000</b>
What the business owes	7. Long term liabilities	0
	8. Current liabilities	28,000
	<b>9. Net current assets (6 – 8)</b>	<b>201,000</b>
	<b>10. Net total assets (1 + 9 – 7)</b>	<b>751,000</b>
What has been invested in the business	Financed by:	
	11. Capital	707,000
	12. Net profit for year	275,000
	13. Previous retained profits	220,000
	14. Drawings for year	451,000
	<b>15. Net worth (11 + 12 + 13 – 14)</b>	<b>751,000</b>

The statement of financial position also is referred to as a balance sheet because everything the business possesses and owes must be equal to—or balance—how the business is financed. You can see in the previous example that

- net total assets, everything the business owns and owes, is equal to 751,000
- net worth, everything that has been invested in the business, is equal to 751,000

### **What the Statement of Financial Position Tells You (and Other Interested People)**

- the value of everything the business possesses
- the value of everything the business owes to other parties
- what has been invested in the business and by whom
- the ability of the business to pay liabilities (if you needed to pay your liabilities immediately, the statement of financial position shows if you have enough liquidity to do so)
- the commitment the owners of the business have to the business (if you are applying for a bank loan, a banker will be interested in how much capital that you as the owner have invested in the business)

## Where Do the Numbers Come from for the Statement of Financial Position?

CATEGORY	ITEM	SOURCE
Assets	Cash, bank, debtors	Daily record book, cash box, and bank statements
	Inventory (stock)	Stock cards and stocktaking list
	Fixed assets	Invoices minus depreciation
Liabilities	Payables due suppliers	Invoices
	Short- and long-term debt	Loan agreement and bank statement
Net worth	Capital	Investments by owner; or net total assets – profits + drawings
	Net profit for current and previous years	Income statements
	Drawings	Owner's records

## How to Make a Statement of Financial Position

To construct a statement of financial position you have to compile

- the value of your assets—use your records to determine the value of your inventory; how much is in the bank and your cash box; how much money is owed to you from clients; and the value of your equipment, land, and physical buildings
- the value of your liabilities—use your records to compile how much money you owe to others (this figure can be for purchases such as medicines, supplies, equipment, and bank loans)
- the value of what is invested in the business (this figure is the net worth, which includes owners' contributions and profits reinvested in the business)

Refer to Annex 2 for a blank copy of a statement of financial position so that you can make copies and use it as a tool for your clinic.

## Exercise

The following exercise introduces an example of information that will be captured in a statement of financial position for your clinic. Read the exercise and then answer the questions.

After you have finished the questions, see Annex 1 for the answers to check your work.

### Statement of Financial Position Exercise

Nine months have passed and Mr. Chirwa is so happy he has the bookkeeper trained so that year-end financial statements now are produced easily. He gave the bookkeeper the following information from his records and asked him to produce a statement of financial position dated December 31.

- There is K 21,250 in the clinic's current account, and K 4,750 in the petty cash box.
- Patients owe Mr. Chirwa K 32,000.
- Mr. Chirwa bought a new sterilizer for K 200,000. The equipment supplier gave him credit for the balance, and as of December 31 he has K 29,000 left to pay by March 31 of the next year.
- Other equipment and furniture total K 441,000 (net of depreciation).
- Drugs and other supplies total K 280,000.
- Profits for the previous years totaled K 335,000, and for the current year they were K 326,000.
- Mr. Chirwa took K 518,000 out of the business during the year to compensate himself as owner. He plans to reinvest what he has left after paying for all of his household expenses and his daughter's education.
- The initial capital that Mr. Chirwa invested in the business was K 607,000. A few years after he started the clinic his father died and left him some money and he put in K 200,000 into the business to refurbish and increase his stock supply.

Using this information, create a statement of financial position for the clinic as of December 31.

<b>Statement of Financial Position (in Kwachas)</b> December 31, 20XX	
1. Fixed assets	
2. Current assets	
3. Inventory	
4. Debtors	
5. Cash and bank accounts	
<b>6. Total current assets (3 + 4 + 5)</b>	
7. Long term liabilities	
8. Current liabilities	
<b>9. Net current assets (6 – 8)</b>	
<b>10. Net total assets (1 + 9 – 7)</b>	
Financed by:	
11. Capital	
12. Net profit for year	
13. Previous retained profits	
14. Drawing for year	
<b>15. Net worth (11 + 12 + 13 – 14)</b>	

1. How can you tell if you have recorded everything and recorded it correctly?
2. In addition to the daily record book, from what other specific documents does the information come?
3. If Mr. Chirwa had to pay the K 29,000 he owes to the equipment supplier today, would he be able to do so? What information will you consult in the statement of financial position to determine his ability to do so?
4. If Mr. Chirwa applies for a bank loan of K 350,000 for new laboratory equipment, what do you think the loan officer will say about Mr. Chirwa's investment in the clinic?



## Module 5: Assessing Your Business

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### Cash Flow Plans

A cash flow plan shows how much cash you can expect to enter and exit your clinic during a given future period of time.

Knowing how much cash you can expect to come into your clinic is critical to understanding

- how much you can afford to spend on replenishing your stock
- whether you will have sufficient funds to make additional investments
- whether you will be able to cover all of your operating costs
- if monthly fluctuations exist due to seasonality

A cash flow plan is an essential part of running a clinic, and most clinic owners already undertake this kind of planning, whether formally or informally. For example, you can project when to make capital improvements, whether there are stock items you could buy in bulk to save money or whether you should maintain minimal stock and replenish it regularly to maximize your cash flow, and when you may need outside financing to meet your needs.

### How to Make a Cash Flow Plan

When you are making your cash flow plan, look at all of the sources of money that come into the clinic and compare them to the sources of money that go out of the clinic. It is useful to do a cash flow plan each month.

To make a cash flow plan you need to estimate cash in and cash out.

### Cash in

**Step 1 A. Beginning balance:** This figure is the cash that was left in your clinic from the previous month. You have this money in your cash box and bank account at the beginning of the month. It is carried forward from one month to the next.

**Step 2 B. Cash in**

**Cash from owner:** This amount is the estimated cash contributed to the clinic by the owner, such as if you have invested your savings or profits.

**Cash from debtors:** This figure is the estimated cash that people owe your clinic. It is cash payments from customers for previous sales on credit.

**Cash from sales:** This amount is the estimated cash from sales of items and services in your clinic. Total cash sales = Number of services and items sold for cash x unit price.

**Cash from loan:** This amount refers to money that is lent to your clinic.

**Step 3 C. Total cash in:** Total cash in = The sum of step 1 and step 2.

**D. Total cash available:** A + C

## **Cash out**

- Step 1** **Cash out for planned investment:** This amount refers to the estimated money you will spend on investments, such as constructing or renovating a facility or buying equipment or furniture.
- Step 2** **Cash out for labor costs:** This amount is all the money your clinic spends on salaries and wages of the people directly engaged in offering its services, for example the wages to a receptionist, bookkeeper, or laboratory technician.
- Step 3** **Cash out for drugs and supplies:** This figure is the estimated cost of all materials used in providing your services, such as drugs, syringes, and cotton wool.  
Material cost = Quantity purchased with cash x unit cost.
- Step 4** **Cash out for transportation:** This amount is the total for all estimated costs for transportation.
- Step 5** **Cash out for other expenses:** These costs are all other estimated expenses that you need to run a clinic. This figure includes rent for buildings, electricity, and water.
- Step 6** **Cash out for taxes:** This amount refers to cash used to pay taxes.
- Step 7** **Loan repayment:** This amount refers to the money you will be paying back each month to repay funds lent to you. It includes the principal and the interest.
- Step 8** **F. Total cash out:** This figure refers to the sum from steps 1 through 7.  
**G. Cash at end of period before drawings:**  $D - F$   
**H. Drawings**  
**I. Cash at end of period net of drawings:**  $G - H$

## Difference Between Cash Flow Statements, Cash Flow Plans, and Income Statements

A cash flow statement shows the movement of money in and out of a business over a past period of time.

The cash flow plan shows how much money, over a future time period, will come into and out of a business. A cash flow plan is used to forecast how much money is available from time to time.

Income statements show whether or not a clinic has made money and was profitable over a past period of time.

A clinic can have negative cash flow over a certain period and yet be profitable at the end of the year. Managing cash flow is a part of managing your clinic so that it can be profitable. If you do not manage your cash flow well enough, however, you quickly can go out of business even if there is long-term profit potential. Without cash, you will be unable to pay your obligations. A cash flow plan can help you make sure that your clinic never runs out of cash and is able to stay in business.

Refer to Annex 2 for a blank copy of a cash flow plan so that you can make copies and reuse it as a tool for your clinic.

### Tips to Remember

You can ensure that you have cash on hand to pay expenses by managing and planning

- debtors
- purchases of supplies
- loans and investments

## Exercise

The cash flow plan exercise introduces an example of information that will be captured in a cash flow statement for your clinic. Read the exercise and then answer the questions. See Annex 1 for the answers for each question.

### Cash Flow Plan Exercise

Mr. Chirwa has received clinical training from the BlueStar Network for male circumcision and bilateral tubal ligations. Demand for both procedures is growing since he began offering these services in June. He would like to expand his clinic in July by adding a new treatment room so he

can use his old one as a recovery room. The budget for the expansion is as follows:

• Construction	K 1,550,000
• Painting and remodeling	K 178,000
• Equipment and furniture	K 472,000

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<b>TOTAL INVESTMENT</b>	<b>K 2,200,000</b>
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Mr. Chirwa is pleased with his bookkeeper, who keeps the cash flow statements current. Now Mr. Chirwa has requested projections for cash flow through year end to see how much additional cash he will need for the expansion and whether or not he can afford a loan. He gave the bookkeeper the following assumptions to prepare the projections:

- (a) Mr. Chirwa plans to invest K 400,000 of his own money in July and wants to borrow K 1,500,000 that same month so he can begin construction. He will invest the remainder from his savings in August to complete the expansion.
- (b) Monthly loan repayments will be K 60,000 beginning in July.
- (c) Revenues for services other than male circumcisions and bilateral tubal ligations remain the same for the remainder of the year, except for malaria (mentioned in f) for October to December.
- (d) Revenues increased dramatically in June because of the new services. In June Mr. Chirwa performed 15 circumcisions and four bilateral tubal ligations. In July Mr. Chirwa plans to perform 20 male circumcisions and four bilateral tubal ligations. He plans to charge K 1,600 for a circumcision and K 1,500 for a bilateral tubal ligation. In August and for the remaining months of the year, circumcisions will drop to 10 each month while bilateral tubal ligations will increase to 10.

Hint: Calculate the incremental sales using June as the base month.

- (e) Drugs and supplies will increase K 10,000 each month from July through the end of the year due to these new reproductive health services.
- (f) The only other revenue changes will be in October, November, and December, when monthly revenues will increase K 50,000 because of malaria. A nurse will be hired for those months at K 18,000 per month and drugs will cost an additional K 20,000 each month.
- (g) Collections from customers and insurance companies will continue at K 25,000 per month.
- (h) Mr. Chirwa will draw only K 20,000 per month beginning in July as his wife now has a job that supplements their income.
- (i) Estimated taxes will be paid in December in the amount of K 50,000.

On the next page is the historical monthly cash flow statement for January through June. Your job is to

- (1) assist the bookkeeper in preparing the projections using the previous assumptions
- (2) analyze the options for Mr. Chirwa by answering the questions that follow

### Cash Flow Plan Exercise

In Kwachas	Cash flow statement						Cash flow plan					
	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
A. Beginning balance	26,000	11,000	21,000	35,000	21,000	14,000						
B. Cash in												
Cash from owner												
Cash from debtors	20,000	40,000	50,000	25,000	25,000	20,000						
Cash from sales	160,000	128,000	120,000	120,000	120,000	153,000						
Cash from loan												
Other												
C. Total cash in	180,000	168,000	170,000	145,000	145,000	173,000						
D. Total cash available (A + C)	206,000	179,000	191,000	180,000	166,000	187,000						
E. Cash out												
Cash out for investment												
Cash out for labor	50,000	35,000	28,000	28,000	28,000	28,000						
Cash out for drugs and supplies	85,000	60,000	50,000	55,000	50,000	50,000						
Cash out for transportation	40,000	25,000	42,000	20,000	18,000	20,000	25,000	25,000	25,000	25,000	25,000	25,000
Cash out for other expenses	10,000	8,000	6,000	6,000	6,000	6,000	6,000	6,000	8,000	8,000	8,000	8,000
Taxes												
Loan Payment												
F. Total cash out	185,000	128,000	106,000	109,000	102,000	89,000						
G. Cash before drawings (D – F)	21,000	51,000	85,000	71,000	64,000	98,000						
H. Drawings	10,000	30,000	50,000	50,000	50,000	50,000						
I. Cash end of period net of drawings (G – H)	11,000	21,000	35,000	21,000	14,000	48,000						

## Cash Flow Exercise Questions

1. As Mr. Chirwa's financial consultant, what can you tell him that is good about his cash position?
2. Do you have any bad news to share with him? What do you think Mr. Chirwa should be careful about in managing his cash?
3. What are some options for Mr. Chirwa to improve his cash flow situation?

## Module 6: Accessing Finance To Meet Your Business Goals

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In the section Assessing Your Business and Setting Goals, you performed a self-assessment of your clinic's business operations. You then used information from that self-assessment to set goals for future business activities. Depending on your clinic's goals, you might require access to finance for your business to accomplish the goals. This section discusses different finance options that you can consider to support the growth and cash flow needs of your clinic.

### **Exercise**

Think about the goals that you set for your clinic. Choose one goal and think about how you would finance it.

#### **Financing Needs**

1. Describe the goal.
2. Why do you think investing in this goal is a good idea (for example, demand for it, competitive advantage, or profitability potential)?
3. What do you need to make this investment operational (such as equipment, supplies, training, or additional staff)?
4. How much will the total investment cost? Develop a detailed budget according to the previous list.

There are several finance options to consider. As the owner of the clinic you need to analyze, justify, and quantify your financing needs and then determine the best method of financing that would work for your situation.

We will review four sources of financing:

- equity
- supplier credit
- leasing
- loans

## Equity

Equity is the money and property an owner or investor contributes to the business. There are three main sources for increasing your equity in a clinic.

- **Savings:** You can increase your equity by investing some of your savings in the clinic.
- **Profit reinvestment:** You can increase your equity in the clinic by reinvesting profits from ongoing operations back into the clinic rather than taking them out.
- **New investors:** You can get equity from an outside investor. Generally outside investors earn a return for the money they invest. For many small businesses like your clinic, outside equity often comes from sources such as friends, family members, employees, or other colleagues in the health sector (like doctors and pharmacists).

Equity should be the first place to look for funds. The more of your own money you use, the less you will depend on others.

### Advantages of Equity

- It is important to invest your own money in your business, especially if you anticipate applying for a loan. Lenders like to see that you have invested substantially in your operation.
- Outside investors may have expertise and experience that will improve the business.
- Equity is usually less expensive than borrowing money.

### Disadvantages of Equity

- If you use equity from an outside investor you will share the ownership, profits, and decision-making of the company with that investor.
- It takes time to save money and you might have to wait a long time to have sufficient resources to invest your own money into your clinic.
- By investing all of your savings, you have no cushion for emergencies. If savings are invested into facilities or equipment that cannot be quickly sold, you reduce your ability to use these funds should an unforeseen event require cash.

## Supplier Credit

Another important source of financing for clinics is supplier credit. Many pharmaceutical suppliers, distributors, and wholesalers will provide drugs and medical supplies to clinics on credit. They require clinics to pay for the drugs within 30 to 60 days, but they generally do not charge interest. They typically provide this grace period for payment as a courtesy to clinics with a good reputation.



### **Advantages of Supplier Credit**

- Supplier credit enables providers to manage their cash flow by not having to use cash to purchase a large supply of drugs; you can wait to sell some of the stock before you have to pay for it.
- Suppliers usually do not charge interest, although the cost may be less if you pay cash at the point of sale.

### **Disadvantages of Supplier Credit**

- Suppliers set credit limits, especially if they think a client may be risky.
- Suppliers may offer credit only for certain items and for short terms (often only 30 days and seldom more than 60 days).
- Suppliers may charge higher prices for goods sold on credit. Although the difference in price between supplies purchased on cash and those purchased on credit is not called interest, it is a real cost of credit.

### **Leasing**

Clinic owners can lease equipment, vehicles, and space.

Equipment leasing is when a clinic owner (as lessee) rents equipment from the owner of the equipment (lessor). There is a contract between the clinic and the owner of the equipment that includes the monthly charge and a specified number of months that the equipment is leased. The leasing arrangement benefits both the clinic and the equipment's owner. The clinic generates income from the use of the equipment, and the equipment owner also earns income while retaining ownership. If the clinic owner defaults on a lease payment, the owner can just take back the equipment. There are several possible sources of leases:

- ✓ medical-equipment manufacturers
- ✓ medical-equipment distributors
- ✓ specialized leasing companies
- ✓ financial institutions (such as banks and microfinance institutions)
- ✓ other clinics or medical facilities

### **Advantages of Leasing**

- You can test and evaluate equipment without committing to purchase it.
- As technology is changing so quickly, you can update equipment more often if you do not own it.
- You can often buy the equipment at the end of the lease for a reasonable amount.
- No collateral is required as the equipment owner retains ownership.

### **Disadvantages of Leasing**

- Leasing only may be available for certain kinds and brands of equipment.
- Leasing may not be available in your geographic area.

## Loans

A loan is money that is lent and repaid with interest within a specific timeframe. Loans can be short-term with full repayment due in less than a year or long-term with repayment due after one year. Loans typically require security (guarantees or collateral).

Clinics should consider taking a loan only if the increased investment will lead to increased income and the business has sufficient cash flow to repay the loan without difficulty.

There are many sources of loans, including family members and friends, banks, cooperatives, credit unions, and microfinance institutions. Examples of financial institutions in Malawi where you could access a loan include National Bank, New Building Society, Standard Bank, Malawi Savings Bank, Indebank, Opportunity Bank, and FMB Bank.

### Advantages of Loans

- The lender does not gain an ownership interest in the clinic and does not have a management role.
- Loans can be used for a variety of purposes, including working capital financing (for inventory) or fixed-asset purchases (equipment).

### Disadvantages of Loans

- A start-up clinic may find it difficult to get a loan without a track record.
- Financial information is required.
- Acceptable collateral is required, often valued at more than the loan.
- The clinic needs sufficient equity to support debt and prove to the lender that the owner is committed to the business and believes it will succeed. The bank only will finance part of the total investment.
- Most lenders require the regular repayment of principal and interest without a grace period, which may be difficult during the start-up period of a clinic or a new clinic activity.

## Exercise

Considering the cost of your investment; your contribution in the form of savings and reinvested profits; and the advantages and disadvantages of procuring new investors, supplier credit, leases, and loans, which financing option or options best fits your needs and situation? A combination of financing sources will most likely be your best choice. You need to decide what the best mix will be for your clinic.

Consider this simple equation when thinking about whether you need or want a loan.

### Financing Plan

$$\begin{array}{ccccccc} \text{Total cost of} & & & & & & \\ \text{investment} & - & \text{Owner's} & - & \text{Other} & = & \text{Loan amount} \\ & & \text{contribution} & & \text{non-bank} & & \text{required} \\ & & & & \text{financing} & & \end{array}$$

Now go back to the Financing Needs Exercise at the beginning of this section. What was the total cost of the investment that you identified in question 4?

**Total investment cost:** \_\_\_\_\_

Now complete the following table with details about where the financing will come from, what is required, and what steps need to be taken to obtain the financing to meet your investment goal.

Access to Finance Planning Table				
Source	Amount	From where?	Requirements	Next steps
Owner's contribution (savings and profit reinvestment)		(Such as from personal savings or previous profits)	_____	_____
Other non-bank finance options (such as new investors, suppliers, or leases)				
Loan			(Such as collateral and financial information)	
Total				

### More about Loans

The connection between you and your lender is a business relationship. You are a customer of that institution and are buying goods and services: you are buying money (the loan) and perhaps other services like business training or savings.

Interest and other fees are the costs you pay to borrow money. Interest is generally charged on the amount of the loan outstanding, called the declining balance. Typically a borrower also pays a flat fee (a percentage of the loan amount) for processing and disbursement of the loan. Penalty interest may apply if you are late in making a repayment.

The length of time that a clinic has to repay the loan is called the loan maturity or term. The term will be decided based on the purpose of the loan and your repayment capacity reflected in your cash flow projections. If you are borrowing for working capital, that is to finance current assets, then your loan term should reflect your business cycle, that is, the time it takes for you to buy something and then sell it. If your investment is to purchase a fixed asset or construct a clinic building, the term will have to be for more than one year, to give the business time to generate enough cash to repay the loan.

For a given loan amount, the shorter the term, the larger the monthly payments. Although monthly payments will be smaller if the term is longer, the cost will be greater because you will be borrowing for a longer time and paying more interest.

The loan payment follows a repayment schedule that is normally provided to you when you receive the loan. The schedule identifies the dates on which specific payments are due, how much of the payments go towards the loan itself (principal), and how much towards interest. Monthly payments are the most common.

**Example of repayment schedule for a K 200,000 loan with an annual interest rate of 15 percent**

Months	Payment	Interest	Principal	Outstanding balance
0				K 200,000
1	18,052	2,500	15,552	184,448
2	18,052	2,306	15,746	168,702
3	18,052	2,109	15,943	152,759
4	18,052	1,909	16,142	136,617
5	18,052	1,708	16,344	120,273
6	18,052	1,503	16,548	103,725
7	18,052	1,297	16,755	86,970
8	18,052	1,087	16,965	70,005
9	18,052	875	17,177	52,828
10	18,052	660	17,391	35,437
11	18,052	443	17,609	17,828
12	18,052	223	17,828	(000)
<b>Totals</b>	<b>K 216,620</b>	<b>K 16,620</b>	<b>K 200,000</b>	

**How Do Lenders Evaluate Creditworthiness?**

Before a bank agrees to give a loan, it evaluates the business’s ability to repay the borrowed money, ensures the business and investment meet the bank’s requirements, and assesses the business owner. Lenders analyze certain characteristics in their borrowers to determine their likelihood of timely repayment. These attributes are called the 5 Cs of credit.

- ✓ **Character**
- ✓ **Capacity**
- ✓ **Capital**
- ✓ **Conditions**
- ✓ **Collateral**



## **Exercise**

For each of the following 5Cs read the information provided and then answer the questions as they relate to you and your clinic. Write your answers directly into the spaces provided. Remember, the more honest you are in answering these questions, the more likely you will be able to establish a trusting relationship with a lender.

**Character**—This term refers to your integrity. Lenders try to assess whether you will fulfill your legal and financial obligations. Lenders learn about someone’s character by visiting the business and speaking to customers, neighbors, and other creditors (like suppliers or other banks).

*What can I tell my lender to show I am honest? How can I ensure the site visit to my clinic will leave a good impression on the lender? Who should the lender interview to learn about my integrity?*

**Capacity**—Capacity refers to whether your household and clinic have the financial resources and cash flow to repay their debts. Before applying for a loan, know the maximum loan that you have the capacity to borrow given your existing cash flow and financial projections.

*What can I give to a lender and discuss with him to show that I have the capacity to repay the debt?*

**Capital**—Capital is the money you already have invested in your clinic. It demonstrates your commitment to your business. If you are risking a significant amount of your own money, it shows the lender that you are confident in your ability and in the clinic’s potential for success.

*How can I prove to the lender my commitment to my business? What can I give to a lender to show the capital that I have invested in the clinic?*

**Conditions**—This term refers to the economic and regulatory climate of the market in which the business operates. The conditions are impacted by the level of demand for your services, the competition, and government regulations that influence business opportunities.

*How can I convince a lender that the conditions are favorable for my business to grow and be profitable? What relevant documents written by respectable third parties are available?*

**Collateral**—Collateral is a type of tangible guarantee that lenders require for securing loans. Collateral includes buildings, land, equipment, and other valuable assets that you pledge as a guarantee. If you do not repay the loan on time, the lender has the right to take the collateral, sell it, and repay the loan from the proceeds.

*What can I give to a lender as collateral and what is the value of the collateral relative to the loan amount?*

## Tips for Accessing Credit

The relationship you establish with a lender will be mutually beneficial and long lasting if based on trust.

- ✓ **Be realistic and reasonable.**
  - *Submit projections that are based on past performance.*
  - *Request a loan amount that matches, and doesn't exceed, your needs.*
  - *Understand that the bank may have an equity and collateral requirement.*
  
- ✓ **Be responsive.**
  - *Anticipate questions and respond directly to lender's concerns.*
  - *Submit documents in a timely manner.*
  - *Meet the deadlines that are agreed upon by you and the lender.*
  
- ✓ **Be patient.**
  - *Apply for financing before you need the funds.*
  - *Try not to get frustrated if it takes time for the bank to approve your loan.*
  
- ✓ **Be confident.**
  - *Prove that your financial information is accurate.*
  - *Show your belief in the business and in its future.*
  - *Demonstrate that you understand the seriousness of your obligations.*
  
- ✓ **Be enthusiastic.**
  - *Convey your passion for improving the health of your community.*
  - *Show your appreciation for the time and trust of the lender.*

## Annex 1: Case Study Answer Sheets

### Case Study: The Healthy and the Unhealthy Clinic

1. List at least three major differences between how Mrs. Gondwe and Mr. Malemia run their clinics. Consider stock management, cash management, and general differences.

#### **Stock Management**

- Mrs. Gondwe uses stock cards to control her inventory; Mr. Malemia has no way of verifying his inventory levels or recording when items are purchased or sold. Mr. Malemia also has to discard many expired drugs because he does not keep track of what he needs and what he uses.
- Mrs. Gondwe purchases drugs before she runs out; Mr. Malemia waits for drugs to run out before purchasing, so some customers may not be able to get the drugs they need when they need them.
- Mrs. Gondwe keeps her drug cabinet locked and is the only person with a key; Mr. Malemia's drug inventory is not secured.
- Mrs. Gondwe lists the prices of her product and services for customers to see; Mr. Malemia charges whatever his customers can pay.

#### **Cash Management**

- Mrs. Gondwe's cashier and receptionist record all transactions; Mr. Malemia does not record any transactions.
- Mrs. Gondwe checks that the cash books match reality; Mr. Malemia does not have any cash books.
- Mrs. Gondwe's cashier and receptionist record when customers owe money and follow-up with collection efforts; Mr. Malemia does not have an established procedure for collecting, and his customers know that can get away without paying him promptly or ever.

#### **General**

- Mrs. Gondwe trusts her employees and delegates administrative responsibilities to them; Mr. Malemia does not.
  - Mrs. Gondwe thinks about the future and plans accordingly; Mr. Malemia is only just beginning to worry about his obligations and increased competition.
  - Mrs. Gondwe conducts regular preventive maintenance on her clinic facility and equipment, and plans for the costs of this maintenance. Mr. Malemia doesn't address problems immediately, nor does he do regular maintenance and so his clinic is in disrepair, he is taken by surprise when things break own, and isn't prepared financially for the costs of these repairs.
2. What can Mr. Malemia learn from Mrs. Gondwe regarding how to manage his inventory of drugs?
    - Mrs. Gondwe
      - uses stock cards to record additions and sales of each drug item
      - reviews her stock cards to know when she needs to order new drugs in advance of running out and avoids wasting drugs that may expire
      - keeps her drug cabinet locked and is the only person with the key

3. How do the responsibilities of Mrs. Gondwe's staff differ from those of Mr. Malemia's staff?
  - Mrs. Gondwe's staff helps with the business management of the clinic. The receptionist maintains the patient log, and the cashier and bookkeeper records all transactions, both cash and credit. Mr. Malemia does not trust his receptionist and he has not hired a cashier/bookkeeper.
4. How do you think cash should be managed? What can Mr. Malemia learn from Mrs. Gondwe regarding inflows and outflows of cash?
  - Control is important to ensure that cash is not stolen. Only certain people should be authorized to handle it. Clear procedures need to be written and implemented regarding spending and collecting money. Each transaction should be recorded, and there should be periodic (both regularly scheduled and surprise) checks to reconcile that the records match the actual cash.
5. What problems could arise in Mr. Malemia's business? How would Mrs. Gondwe advise Mr. Malemia to avoid or solve each of those problems?
  - Theft, of both money and drugs: procedures and controls need to be established and followed.
  - Lack of needed drugs: stock cards should be used and reviewed often so that shortages can be anticipated and drugs purchased before they run out.
  - Lack of needed cash: bills and staff need to be paid on time to avoid ruining your reputation and credit record. If the clinic does not generate enough cash, other arrangements (for example, short term credit or savings) need to be made to cover cash shortfalls. Using cash flow projections to plan will help the owner understand future needs and potential shortfalls.
  - Less revenue: pricing is haphazard and customers know if they do not pay cash, Mr. Malemia will not follow up to collect. Pricing policy should be reviewed periodically to ensure costs are covered, and prices should be posted in the waiting room. Patient credit records should be kept and collection efforts organized in a timely and regular manner.
  - Higher costs of drugs: they are bought in small quantities. Stock management would allow Mr. Malemia to know in advance what drugs are needed and buy in larger quantities. Also, Mr. Malemia could investigate buying with a group of other clinic owners (through a professional association such as NAPPPAM) to receive better prices.
  - Problems with the tax authorities, creditors, or regulatory agencies because of lack of accurate and timely data: Mr. Malemia needs to either produce monthly financial statements himself or hire part-time staff with the skills to perform basic bookkeeping.
6. What do you think the benefits are of having monthly income statements (in addition to being able to file accurate and timely tax returns)?
  - The owner knows whether the business is profitable or not.
  - The owner understands seasonality fluctuations and can plan accordingly.
7. How does Mrs. Gondwe's strategy of always thinking about the future help her to run her business well?
  - She will have cash when she needs it to buy inventory or use it for other working capital needs (such as payroll and monthly utility bills).



- She will have cash when she needs to buy new equipment or invest in building improvements because she will have budgeted for them and procured financing or used her savings.
  - She will be prepared for seasonal fluctuations because she has analyzed trends and planned for them with appropriate staffing, inventory, and cash.
  - She will be better able to survive unexpected crises because she has a cushion (savings or available credit).
8. Which clinic owner are you most like? Why? What can you do differently to better understand and manage your business?
- If you identify with Mrs. Gondwe, there is always room for improvement in refining procedures to be more efficient, reviewing pricing and collection policies, saving more, investing wisely to ensure good returns, improving customer service, and adding competitive advantages to set your clinic apart from others.
  - If you identify with Mr. Malemia, you can adopt stock management procedures, including stock cards and control over drug dispensing; list prices for all products and services offered for customers to see; establish a credit policy and follow up with timely collection efforts; record all patient visits and business transactions; adopt cash-handling procedures to ensure that the money the receptionist collects is recorded and reconciled daily; consider hiring a part-time bookkeeper or take a financial management course; and make informed decisions and plan for the future.

**EXERCISE: Mr. Marunda's Daily Record Book**

DAILY RECORD BOOK												
Date	Details	Receipt Number	Cash			Bank			Credit			Totals for the Day
			In	Out	Balance	In	Out	Balance	Credit sales	Account payment	Balance	
7/30	Balance from previous day				5,302			68,175			9,847	83,324
7/30	Mr. James Msiska purchase of malarial treatment, spirit, and cotton wool	021	1,130		6,432							----
7/30	Mrs. K Banda Consultation	022	50		6,482							----
7/30	Payment- Electricity	023		2,400	4,082							----
7/30	Mrs. M. Phiri Consultation and injectable contraceptive	024								200	10,047	
7/30	Withdraw from bank to pay salaries						27,000	41,175				
Total sales for the day			1,180							200		1,380
Total expenses for the day				2,400			27,000					29,400
End-of-day balances			----	----	4,082	----	41,175		----	----	10,047	55,304

## Case Study: Financial Statements - Mr. Chirwa's BlueStar Clinic

**Exercise - Income Statement:** Use this information to create an income statement for Mr. Chirwa.

<b>March income statement for Mr. Chirwa's BlueStar clinic (Answers in italics)</b>	
<b>Revenue (in Kwachas)</b>	
Consultations	<i>16,500</i>
Laboratory services	<i>9,300</i>
Sale of drugs	<i>115,000</i>
<b>Total revenue</b>	<b><i>140,800</i></b>
<b>Expenses (in Kwachas)</b>	
Salaries	<i>27,000</i>
Cost of drugs	<i>46,000</i>
Transportation	<i>23,000</i>
Maintenance	<i>35,000</i>
Utilities	<i>4,500</i>
Miscellaneous	<i>3,200</i>
<b>Total expenses</b>	<b><i>138,700</i></b>
<b>Net Income or loss (in Kwachas)</b>	<b><i>2,100</i></b>
<b>Owner's draw</b>	<b><i>1,000</i></b>
<b>Net after draw (in Kwachas)</b>	<b><i>1,100</i></b>

### Discussion questions

- What can you say about the profitability of Mr. Chirwa's clinic in March?  
*He only made K 1,100 profit which is essentially breakeven. We don't know what his cash situation is yet.*
- What circumstances could make other months' income statements different from March?  
*There are hopefully no maintenance costs in other months and malaria treatment in other months may increase income and also costs.*
- What questions should Mr. Chirwa be asking himself or his bookkeeper when he looks at his income statement?
  - How can I earn more revenue or reduce my expenses?*
  - Should I be charging more for the drugs?*
  - Can my savings support future losses?*

**Exercise—Statement Of Financial Position:** Using the previous information, create a statement of financial position for the clinic as of December 31.

<b>Statement of Financial Position</b> <i>(in Kwachas)</i> December 31, 20XX	
1. Fixed assets	641,000
2. Current assets	
3. Inventory	280,000
4. Debtors	32,000
5. Cash and bank accounts	26,000
<b>6. Total current assets (3 + 4 + 5)</b>	<b>338,000</b>
7. Long term liabilities	0
8. Current liabilities	29,000
<b>9. Net current assets (6 – 8)</b>	<b>301,000</b>
<b>10. Net total assets (1 + 9 – 7)</b>	<b>950,000</b>
Financed by:	
11. Capital	807,000
12. Net profit for year	326,000
13. Previous retained profits	335,000
14. Drawings for year	518,000
<b>15. Net worth (11 + 12 + 13 – 14)</b>	<b>950,000</b>

## Discussion Questions

1. How can you tell if you have recorded everything and recorded it correctly?  
*Line 9 = Line 14; or Total assets – Total liabilities = Net worth = Net total assets*
2. In addition to the daily record book, from what other specific documents does the following information come?
  - *Bank statement*
  - *Cash box*
  - *Daily cash daily record book*
  - *Debtors' book*
  - *Stock cards and/or stocktaking list*
  - *Previous and current income statements*
  - *Invoices*
  - *Owner's records*
  - *Loan agreements*
3. If Mr. Chirwa had to pay the K 29,000 he owes to the equipment supplier today, would he be able to do so? What information will you consult in the statement of financial position to determine his ability to do so?  
*Mr. Chirwa will be able to do this only if he either sells some inventory for cash or some patients pay what they owe in cash.*
4. If Mr. Chirwa applies for a bank loan of K 350,000 for new laboratory equipment, what do you think the loan officer will say about Mr. Chirwa's investment in the clinic?  
*Mr. Chirwa has invested in his business substantially. If you look at the capital line item you can see Mr. Chirwa has invested more than K 800,000. A bank loan officer will know that the clinic owner has a commitment to the business by seeing this kind of investment. And Mr. Chirwa has no debt other than the K 29,000 he owes a supplier.*

## Exercise—Cash Flow

1. As Mr. Chirwa's financial consultant, what can you tell him that is good about his cash position?
  - *Expansion has been financed and successfully completed.*
  - *New services are producing increased revenue.*
  - *Mr. Chirwa never ran out of cash.*
2. Do you have any bad news to share with him? What do you think Mr. Chirwa should be careful about in managing his cash?
  - *Mr. Chirwa came close to running out of cash at year-end.*
  - *Mr. Chirwa has not accumulated cash for the future.*

<i>(in Kwacha thousands)</i>	Cash flow statement						Cash flow plan					
	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
A. Beginning balance	26	11	21	35	21	14	48	50	45	38	43	48
B. Cash in												
Cash from owner							400	300				
Cash from debtors	20	40	50	25	25	20	25	25	25	25	25	25
Cash from sales	160	128	120	120	120	153	161	154	154	204	204	204
Cash from loan							1,500					
Other												
C. Total cash in	180	168	170	145	145	173	2,086	479	179	229	229	229
D. Total cash available (A + C)	206	179	191	180	166	187	2,134	529	224	267	272	277
E. Cash out												
Cash out for investment							1,900	300				
Cash out for labor	50	35	28	28	28	28	28	28	28	46	46	46
Cash out for drugs and supplies	80	60	50	55	50	35	45	45	45	65	65	65
Cash out for transportation	45	25	22	20	18	20	25	25	25	25	25	25
Cash out for other expenses	10	8	6	6	6	6	6	6	8	8	8	8
Taxes												50
Loan Payment							60	60	60	60	60	60
F. Total cash out	185	128	106	109	102	89	2,064	464	166	204	204	254
G. Cash before drawings (D – F)	21	51	85	71	64	98	70	65	58	63	68	23
H. Drawings	10	30	50	50	50	50	20	20	20	20	20	20
I. Cash end of period net of households expenses (G – H)	11	21	35	21	14	48	50	45	38	43	48	3

3. What are some options for Mr. Chirwa to improve his cash flow situation?

- *Borrow less.*
- *Borrow for a longer term to reduce monthly loan repayments.*
- *Only do part of the investment now and finish it next year.*
- *Collect debt from customers sooner.*
- *Increase net cash inflow (that is, earn more, spend less, or both).*

## Annex 2: The Clinic Owner's Business Toolkit

The following templates can be copied for regular use in your clinic operations.

1. Self-Assessment Checklist: Diagnosing The Health Of Your Clinic
2. Goal-Setting
3. Planning to Accomplish My Goals
4. Seasonality Planning Tool
5. Stock Card
6. Stocktaking List
7. Receipt
8. Detailed Receipt
9. Daily Cash Record
10. Debtors' Book
11. Daily Record Book
12. Income Statement
13. Statement of Financial Position
14. Cash Flow Plan



## Self-Assessment Checklist: Diagnosing the Health of Your Clinic

		Always	Sometimes	Seldom	Never
		3	2	1	0
<b>General</b>					
1	I have timely and reliable financial information about my clinic.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2	I make business decisions based on facts and not just on feelings.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3	My clinic is growing, and I have many reasons to be optimistic.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4	I have a plan with goals for business in the next year.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<b>Total Points</b>				
<b>Delivering Products and Services</b>					
5	I know which health products and services my customers demand the most.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6	I am certain that my prices are affordable to customers and cover the costs I incur to offer them.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7	I have the staff I need (or a solid plan to obtain new employees) to offer my clinic's products and services on an ongoing basis.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8	I have the equipment and facility required to operate my clinic and offer the products and services my customers demand.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<b>Total Points</b>				
<b>Stock Management</b>					
9	I record all stock that I buy and sell so that I always know how much of each product I have in my clinic.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10	I anticipate my drug and supply needs and buy in quantity to reduce costs.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11	I have procedures in place so that no one can steal drugs from my clinic.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12	I have a system for tracking expiration dates of drug supplies so that I rarely stock or need to discard expired drugs.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<b>Total Points</b>				

		Always	Sometimes	Seldom	Never
		3	2	1	0
<b>Cash Management</b>					
13	All cash received and spent is recorded with details of each transaction.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14	Only authorized people can handle cash.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
15	I have enough cash to pay my bills and my staff on time.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
16	I reconcile at the end of each day the cash on hand with the ending balance in the record book(s) and understand any discrepancies.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<b>Total Points</b>				
<b>Other Assets and Liabilities</b>					
17	I record how much each customer and insurance company owes me and I follow up to collect. *SEE NOTE	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
18	I know how much I owe my creditors. *SEE NOTE	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
19	I pay my creditors on time. *SEE NOTE	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
20	I have a file with the receipts for all of my equipment and furniture and proof of clinic ownership (if my clinic is owned).	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<b>Total Points</b>				
<b>Profitability</b>					
21	I include my own time when calculating the costs of my services, and I price my products and services to cover all of the costs.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
22	I produce monthly income statements.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
23	I know whether or not my business is profitable and can measure how profitable or loss-making it is.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
24	My business is profitable.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<b>Total Points</b>				

\* NOTE: If you do not have any debtors or creditors, score "Always" for questions 17, 18 and 19.

		Always	Sometimes	Seldom	Never
		3	2	1	0
<b>Future Needs</b>					
25	I prepare monthly cash flow plans using past financial information and assumptions about the future.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
26	I know the financial and non-financial inputs that are needed to reach my business goals.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
27	I have a budget for the investments I want to make in the next two years.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
28	I have ideas about how I can finance investments and cash shortfalls.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<b>Total Points</b>				

**1**  
Record the total points for each category from the previous checklist.

**2**  
Mark an X in the appropriate column in each line based on the total points for that category.

Categories from the self-assessment checklist	Total points	Very healthy (11–12)	Average health (8–10)	Slightly sick (5–7)	Very sick (0–4)
General					
Delivering Products and Services					
Stock Management					
Cash Management					
Other Assets and Liabilities					
Profitability					
Future Needs					
<b>Overall Health</b>					

**3**  
Add the total points for all categories in the previous table and write the total in the following one.

**4**  
Mark an X in the appropriate column based on the total points.

	Total points	Very healthy (11–12)	Average health (8–10)	Slightly sick (5–7)	Very sick (0–4)
<b>Overall Health</b>					

My healthiest category is

---

The categories that need critical care are

---

The overall health of my clinic is

---

Review this checklist every three months to check in on the health of your clinic.

## ***GOAL-SETTING***

### **Goals for My Clinic**

These goals are what I hope to accomplish in the next

six months

one year

two years

**Planning to Accomplish My Goals**

My Goals	Skills I need to achieve this goal and where I can obtain them	Equipment or supplies I need to achieve this goal and where I can obtain them	Steps I can take to achieve this goal	How much money (investment) will it cost to achieve this goal and ideas about where I will get this funding





## STOCKTAKING LIST

**Date:** \_\_\_\_\_

Details (with expiration date if relevant)	Quantity			Comments
	Stocktaking	Stock Card	Difference	



## RECEIPT

\_\_\_\_\_  
**Clinic name:** \_\_\_\_\_

Clinic address: \_\_\_\_\_  
\_\_\_\_\_

Receipt number \_\_\_\_\_ Date \_\_\_\_\_

Patient number \_\_\_\_\_

Received from \_\_\_\_\_

Payment for \_\_\_\_\_

**Amount in words** \_\_\_\_\_

**Amount** \_\_\_\_\_

**Signature** \_\_\_\_\_

## DETAILED RECEIPT

\_\_\_\_\_  
**Clinic name:** \_\_\_\_\_

Clinic address: \_\_\_\_\_  
\_\_\_\_\_

Receipt number \_\_\_\_\_ Date \_\_\_\_\_

Patient number \_\_\_\_\_

Received from \_\_\_\_\_

Description	Quantity	Unit Cost	Amount
-------------	----------	-----------	--------

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**Total** \_\_\_\_\_

**Total amount in words** \_\_\_\_\_

**Signature** \_\_\_\_\_

# DAILY CASH RECORD

Date: \_\_\_\_\_

Details	Quantity	Unit Price	Total	Balance
Beginning balance				K _____
Ending balance				K _____

**DEBTORS' BOOK**  
**Customer Account**

Name of customer: \_\_\_\_\_

Address: \_\_\_\_\_

Telephone number: \_\_\_\_\_

Credit Limit: \_\_\_\_\_

Date	Details	Quantity	Credit sales	Amount paid	Balance	Signature

DAILY RECORD BOOK										Totals for the Day				
Date	Details	Receipt Number	Cash			Bank			Credit					
			In	Out	Balance	In	Out	Balance	Credit sales	Account payment	Balance			
	Balance from previous day													
														---
														---
														---
														---
Total sales for the day														
Total expenses for the day														
End-of-day balances			----	----		----	----		----	----		----	----	

## INCOME STATEMENT

Income statement for the period (*which month or year*): \_\_\_\_\_

<b>Revenue</b>	
Family planning	
Curative care	
Drug sales	
Other:	
<b>Total revenue</b>	
<b>Expenses</b>	
Drug costs	
Labor costs (such as clinician and cleaner)	
Rent for building	
Electricity	
Water	
Equipment	
Stationery	
Interest on loan	
Taxes	
Other:	
<b>Total expenses</b>	
<b>Net income</b>	

## STATEMENT OF FINANCIAL POSITION

Date of statement of financial position: \_\_\_\_\_

<b>Statement of Financial Position (in Kwachas)</b>	
1. Fixed assets	
2. Current assets	
3. Inventory	
4. Debtors	
5. Cash and bank accounts	
<b>6. Total current assets (3 + 4 + 5)</b>	
7. Long term liabilities	
8. Current liabilities	
<b>9. Net current assets (6 – 8)</b>	
<b>10. Net total assets (1 + 9 – 7)</b>	
Financed by:	
11. Capital	
12. Net profit for year	
13. Previous retained profits	
14. Drawings for year	
<b>15. Net worth (11 + 12 + 13 – 14)</b>	

**Cash Flow Plan**

	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
<b>A. Beginning balance</b>												
<b>B. Cash in</b>												
Cash from owner												
Cash from debtors												
Cash from sales												
Cash from loans												
Other												
<b>C. Total cash in</b>												
<b>D. Total cash available</b>												
<b>E. Cash out</b>												
Cash out for investment												
Cash out for labor												
Cash out for drugs and supplies												
Cash out for transportation												
Cash out for other expenses												
Taxes												
Loan Payment												
<b>F. Total cash out</b>												
<b>G. Cash end of period</b>												
<b>H. Drawings</b>												
<b>I. Cash end of period net of households expenses (G – H)</b>												

## Annex 3: Trends and Ratios

Putting numbers from financial statements into a context in order to analyze and interpret their meaning allows business owners to make informed management decisions. We will learn two methods to interpret financial statements:

- Historical trends - compare one period to another period of the same duration and explain the differences.
- Financial ratios - divide one number by another to understand the financial relationships and interpret their meaning. Also used to compare similar businesses with each other.

### Analyzing the Income Statement

The income statement is a financial tool used to understand how profitable a business is during a period of time. For a business owner to use this information to his or her advantage, it is useful to compare the change in a clinic's profitability over a period of time.

Calculating the percentage change of revenue, expenses or net profit between two income statements allows owners to compare business operations from two different periods. The two time periods must be of equal length, and the longer the time, the more reasonable the comparison. If there are significant seasonal fluctuations, it is best to compare the same month from two different years, and not two consecutive months of the same year.

The formula to understand the change in a business between two time periods is:

$$\frac{\text{Difference in kwacha between the two time periods}}{\text{Amount in the earliest time period}} = \text{Percentage change in revenue, expenses or net profit between the two time periods}$$

For example if the total revenue for period A is K 150,000 and period B is K 180,000, you can calculate the percentage change for this period as follows:

$$(180,000 - 150,000)/150,000 \text{ or } 30,000/150,000 = 20\%.$$

Another approach to interpret the income statement is to look at the percentage of cost (expense) it takes to generate one kwacha of revenue. It is important to compare the percentage of each cost to revenue in order to understand how your costs are structured and how you can operate your clinic more efficiently. You can also examine the percentage change between two time periods. This information will alert you to changes in expenditures relative to sales over time.



The formula is:

Expense item	Tells you the percentage of every kwacha you spend to earn one kwacha of revenue
Total revenue	

## ▶ Exercise

Use the following two income statements from Mr. Chirwa’s clinic to answer the questions below.

Income statement (in Kwachas)	March 2010	March 2009
<b>Revenue</b>		
Consultations	16,500	13,700
Laboratory services	9,300	9,100
Sale of drugs	115,000	103,000
<b>Total revenue</b>	<b>140,800</b>	<b>125,800</b>
<b>Expenses</b>		
Salaries	27,000	19,000
Cost of drugs	46,000	31,450
Transportation	23,000	25,200
Maintenance	35,000	4,500
Utilities	4,500	4,000
Miscellaneous	3,200	6,500
<b>Total expenses</b>	<b>138,700</b>	<b>90,650</b>
<b>Net Income or loss</b>	<b>2,100</b>	<b>35,150</b>

1. Calculate the following percentage changes from 2009 to 2010 (rounded to the nearest whole percentage):
  - Total revenue
  - Total expenses
  - Net income or loss
  
2. Identify any significant changes and explain why might they be happening.

3. Use the following chart to calculate the expense to revenue ratios for 2009 and 2010. REMEMBER TO USE THE TOTAL REVENUE FROM THE APPROPRIATE YEAR AS THE DENOMINATOR.

Income statement	March 2010		March 2009	
	Expense	% Revenue	Expense	% Revenue
<b>Expenses</b>				
Salaries	27,000		19,000	
Cost of drugs	46,000		31,450	
Transportation	23,000		25,200	
Maintenance	35,000		4,500	
Utilities	4,500		4,000	
Miscellaneous	3,200		6,500	
<b>Total</b>	<b>138,700</b>		<b>90,650</b>	

4. What are the significant differences between the ratios from the two years?
5. What might some of the reasons be for the changes and what do you recommend Mr. Chirwa do to be more efficient in the future?

NOTE: Please remember that you cannot draw definitive conclusions by analyzing and comparing monthly statements, especially not atypical months, as March 2010 was due to the maintenance expense. It is recommended to analyze and compare a longer period of time, preferably one year, to include the entire seasonal cycle.

## Analyzing the Statement of Financial Position

The statement of financial position (balance sheet) provides details of what the business has (assets), owes (liabilities) and owns (net worth). Financial ratios help interpret the clinic's financial condition by showing the relationship of these numbers to each other.

We will explore two ratios: liquidity with the current ratio, and financial solvency with the leverage ratio. The current ratio shows how well a business manages its operating cycle to generate enough cash to pay its short-term obligations.

The higher the current ratio, the more capable the company is of paying back its short-term obligations. A ratio less than 1 suggests that the company would be unable to pay off its obligations if they came due at that point.

Current assets		The current ratio reveals a business' ability to meet its current obligations.
Current liabilities		

The leverage ratio compares total liabilities to total net worth. It shows how financially stable the business is and how much of the financing of the business is from owners (or investors) compared to debt owed to suppliers or financial institutions (banks). A high ratio means that most of a business was paid for by its creditors. A low ratio indicates that its owner(s) have financed most of the assets. A ratio greater than 2:1 is considered risky.

Total liabilities		A high ratio means that most of a business was paid for by its creditors. A low ratio indicates owner(s) have financed most of its assets. A ratio > 2:1 is considered risky.
Total net worth		

## Exercise

Calculate and interpret balance sheet ratios from Mr. Chirwa's clinic and answer the questions below.

Statement of Financial Position	31 Dec 2010	31 Dec 2009
1. Fixed assets	641,000	692,000
2. Current assets		
3. Inventory	280,000	412,000
4. Debtors	32,000	124,000
5. Cash and bank accounts	26,000	225,000
<b>6. Total current assets (3 + 4 + 5)</b>	<b>338,000</b>	<b>661,000</b>
7. Current liabilities	29,000	211,000
<b>8. Net current assets (6 – 7)</b>	<b>309,000</b>	<b>550,000</b>
<b>9. Net total assets (1 + 8)</b>	<b>950,000</b>	<b>1,142,000</b>
Financed by:		
11. Capital	807,000	807,000
12. Net profit for year	326,000	250,000
12. Previous retained profits	335,000	380,000
13. Drawings for the year	518,000	295,000
<b>14. Net worth (10 + 11 + 12 – 13)</b>	<b>950,000</b>	<b>1,142,000</b>

6. Calculate the two financial ratios for both years.

31 December 2010			
		Calculation	Ratio
Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$		
Leverage ratio	$\frac{\text{Total liabilities}}{\text{Net worth}}$		
31 December 2009			
		Calculation	Ratio
Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$		
Leverage ratio	$\frac{\text{Total liabilities}}{\text{Net worth}}$		

7. a) The current ratio for 2010 means:  
  
(b) The current ratio for 2009 means:  
  
(c) Reasons for the change in liquidity include:  
  
(d) The leverage ratio for 2010 means:  
  
(e) The leverage ratio for 2009 means:  
  
(f) Reasons for the change in leverage include:
8. During which year would the clinic be more likely to stay in business if patients could not pay for a few weeks and liabilities became due tomorrow? Why?
9. If you were a supplier or banker, which year would you prefer if you were considering giving credit to Mr. Chirwa and why? In other words, is the clinic getting stronger or weaker from 2009 to 2010 and why?





The Strengthening Health Outcomes through the Private Sector (SHOPS) project is USAID's flagship initiative in private sector health. SHOPS focuses on increasing availability, improving quality, and expanding coverage of essential health products and services in family planning and reproductive health, maternal and child health, HIV/AIDS, and other health areas through the private sector. Abt Associates leads the SHOPS team, which includes five partners: Banyan Global, Jhpiego, Marie Stopes International, Monitor Group, and O'Hanlon Health Consulting.

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