



Financial management

Section two Which accounting system should your organisation use?

Accounts can be simple or complex, and it is usually best to keep them simple.

Simple accounts are sometimes called 'cash accounts' or 'receipts and payments accounts'. This system only recognises money received or paid out **when it takes place**. The basic rule is: "if it happened, write it down".

More complex accounts are sometimes called 'accrual accounts' or 'income and expenditure accounts'. RCOs which are set up as companies, or which are charities with an income over £100,000 (current level) have to prepare their annual accounts on this basis (see **Section ten**). However, their books and records, which they keep themselves during the year can still be kept on the more simple 'cash account' basis.

Accrual accounts reflect not only what happened in a period (usually one year), but what should have happened in the period. For example, if you receive an electric bill the day after the year-end, in accruals accounting it would be included because the electricity was actually used before the year-end.

So, unless you like making things complicated, stick to simple cash based accounting for your own system. This toolkit assumes this will be the choice.

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