



The Basis Project

Financial Management online toolkit

Foreword

The Basis Project

Across the UK there are many refugee community organisations (RCOs) providing vital services and support to refugees and asylum seekers from all over the world. In England alone there are over 650 RCOs and this figure is constantly changing. RCOs are run by refugees for refugees, and carry out an incredible scale and variety of work, much of which is done on a voluntary basis and with very little resources.

The Basis Project is a five-year Big Lottery (BIG) funded project which aims to empower RCOs across England to achieve their goals. This might involve, for example, managing funded projects more effectively, developing skills to secure sustained funding or improving overall organisational development skills and knowledge.

From January 2008 until November 2011, the project will deliver customised support and training for RCOs throughout nine regions in England. Refugee Council is leading delivery in London, West Midlands, East of England and North East regions. Refugee Action is leading delivery of the project in the North West, East Midlands, South East and South West regions. Project delivery in Yorkshire and Humberside is being shared between Refugee Action and Refugee Council.

Eleven Organisational Development Officers (ODOs) - just over one in each region - will provide one to one advisory support and group training in key organisational skills including, financial management; governance; fundraising; and project development.

The Basis Project will provide support to RCOs in different ways depending on the RCO's needs, for example, through the use of: information products and toolkits; one to one support; group training; networking; peer support; seminars and events. The Basis Project will also work with funders and second-tier service providers to improve their understanding of the issues facing RCOs, refugees and asylum seekers, and to improve the RCOs' links to them.

Acknowledgments

Authors:
The Basis Project team

Thanks to colleagues from Refugee Council and Refugee Action who contributed to the development and production of this toolkit. We would also like to thank John O'Brien, Chief Executive of Community Accounting Plus for reviewing and commenting on this draft toolkit.

Much of the content in this toolkit has been taken from the invaluable Refugee Council publication, *Doing it for Ourselves (2003)* – a step by step guide to setting up and managing an RCO. We would also like to thank the following organisations for allowing us to reproduce their copyright materials.

Community Accountancy Self Help (CASH) (www.cash-online.org.uk)
The Financehub (www.financehub.org.uk)
The Resource Centre (www.resourcecentre.org.uk)

The Basis Project toolkits, while checked for accuracy, are for information and guidance only. The Basis Project cannot accept responsibility for loss to any organisation or individual as a result of action taken (or refrained from) based on the content of the Basis Project toolkits.

We hope this resource tool will enable refugee community organisations to develop and provide high standard services to their communities.

The Basis Project would like to thank the Big Lottery Fund for its generous support.

Contents

Introduction		3
Section one	Financial controls	6
Section two	Which accounting system should your organisation use?	9
Section three	Reserves	10
Section four	Budgeting	12
Section five	Cash flow	21
Section six	Bookkeeping	24
Section seven	Petty cash	27
Section eight	Bank reconciliation	30
Section nine	Finance reports	34
Section ten	Annual accounts	36
Section eleven	Glossary of financial terms	43
Section twelve	Useful contacts	46

Introduction

The aims of the Basis Project toolkits are to provide refugee community organisations (RCOs) with practical and accessible information and advice on four key areas of organisational development. For this reason the toolkits are divided into four user-friendly sections: financial management; governance; fundraising and project development. For those RCOs who are receiving support from the Basis Project, the toolkit will also complement any training materials received or learning sessions attended.

The Basis Project toolkits are targeted at small to medium RCOs who have a reasonable infrastructure in place. By this we mean a written constitution, a management committee (MC) with at least three members. We hope that RCOs will be able to adapt information from these toolkits to suit their particular needs and aspirations and to use the toolkits as a guide for their MC, staff and volunteers who are involved in the day to day running of the RCO.

Copies of the toolkits can be downloaded free from the Basis Project website at: www.thebasisproject.org.uk. The website also provides further information about the Basis Project.

We hope that you find the Basis Project toolkits useful and look forward to your comments.

About this toolkit

This financial management toolkit is designed to be an interactive and practical guide for small to medium sized refugee community organisations (RCOs). The aim of the toolkit is to outline what is meant by financial management and to enable RCOs to develop simple finance systems so that they can manage their funds more effectively and achieve long term financial sustainability. If this relates to your organisation, then read on.

Keep your finance systems simple

People are often anxious about getting involved in what they think will be a very complicated, difficult and intellectual process. But do not forget that the best financial systems are those that are very clear, simple and easy to follow. The more complicated the system, the greater chance that something will go wrong or that someone will make a mistake. The secret of good financial management is not devising the perfect, foolproof system (it does not exist!), but rather to keep things simple, develop routines and get into good habits.

Legal responsibilities

It is important to remember that the legal responsibility for financial management lies with **every member** of your MC, and not just the treasurer. The MC may delegate carrying out the daily duties of banking and entering information into the cash books to the treasurer or a staff member, but the MC nonetheless retain ultimate responsibility and authority [see the Basis Project **governance toolkit**]. Your MC and members of your RCO must know who is responsible for the financial

tasks in the organisation and these should be clearly defined in the written roles and responsibilities of your MC.

In extreme cases, where something is seriously wrong with the accounts, each and every member of the MC may be liable. In British law, ignorance is no defence, and we would strongly encourage that every member of your MC reads this toolkit on 'financial management' and lets the Basis Project team know if there is anything that is not easy to understand.

The following sections will look at some of the most important aspects of finance and financial management.

Section one will start by looking at financial controls which all RCOs should follow and what those controls should contain.

Section two will focus on which accounting system is most appropriate for your organisation to use.

Section three will look at having 'reserves' or some money set aside for that 'rainy day' when things might go wrong.

Section four will look at the budgeting process and give practical guidance on drawing up a budget.

Section five will look at how the budget will then be developed to produce a cash flow forecast to help your organisation plan your resources over a complete financial year, which usually runs from 1 April until 31 March.

Section six will look at the implementation of a simple bookkeeping system, suitable for most small and medium sized organisations.

Section seven will look at creating a properly regulated system of petty cash.

Section eight will focus on how to carry out a monthly bank reconciliation.

Section nine will look at how to produce finance reports for the MC.

Section ten will focus on annual accounts, how to produce them, including legal requirements which must be satisfied.

Section eleven contains a glossary of financial terms.

Section twelve contains a list of useful contacts.

Throughout this toolkit, you will find practical examples and templates to illustrate each area.

Section one Financial controls

1.1 What are financial controls?

Financial controls are the written 'rules' and procedures that let everyone know what should happen – who can do what, when and how. These include, for example, who can sign cheques, who maintains the cashbooks, and how petty cash is administered. Some of these rules will be laid down by the constitution (or memoranda and articles of association, in the case of registered companies) and others may simply be unwritten understandings, or ways of working traditionally adopted by the management committee (MC) or staff of the organisation. All organisations should have financial controls to ensure effective financial management.

1.2 Why does your organisation need financial controls?

In order for your organisation to develop and sustain a robust financial system, it is essential that **everyone** in your organisation knows exactly how things are to be done, who does them and the extent of responsibility that someone has. Good financial procedures and internal controls are just as important in smaller organisations. In many organisations, members of the MC will use these controls.

Your organisation should have the following internal financial controls in place:

- ✓ Cheque payments should require two signatures or equivalent authorisation controls if making automated payments.
- ✓ If possible, two people should always open the post and count cash receipts.
- ✓ Petty cash should be managed on an 'imprest system' (see **Section seven**).
- ✓ Bank accounts should only be opened by the MC.
- ✓ Personnel records should be kept by someone other than the person who pays salaries.
- ✓ A fixed assets (see **Section eleven** for the glossary of financial terms) register should be maintained and (if applicable) a list of investments.

The above internal controls have been suggested as the 'minimum requirements' for good practice with internal financial procedures. The questions written below will help your organisation to think about the best way of developing its own financial controls:

A. Records and reports

Who maintains the cash books? Where are they kept?

How often is information entered into the cash books, and by whom?

Are the cash books checked by another member of the MC? How often?

How often are finance reports presented to the MC?

Who is responsible for preparing and presenting finance reports?

What should finance reports contain?

Who is responsible for ensuring that the annual accounts are audited/independently examined?

B. Banking arrangements

Who is authorised to sign cheques?

Is there one person who always signs (for example, the treasurer)?

Where are the cheque books kept? Who has access?

Is there an upper limit of how much money can be spent on any one item without MC approval?

Who is responsible for liaising with the bank?

How often are bank reconciliations carried out, and by whom?

Who is authorised to make bank transactions (for example paying in money, transferring money between accounts)?

How often is money paid into the bank, and what supporting documentation is kept?

What is the policy on the organisation borrowing money/ arranging overdraft facilities? Who is authorised to do this?

Who is authorised to make investments on behalf of the organisation?

C. Authorisation and certification

Who is authorised to order work, goods or services on behalf of the organisation?

Is there an upper limit of how much money can be spent, above which it has to be referred to the MC?

Who is authorised to pay invoices?

Who is responsible for arranging salaries and wages documents?

Is there a mechanism for negotiating salary increases? Who is responsible?

D. Budget

When is the annual budget prepared, and by whom?

Who is consulted when drawing up the budget?

Who is responsible for monitoring the budget?

Who is authorised to make adjustments to the budget?

E. Expenses and allowances

What expenses can be claimed (for example travel, lunch, refreshments)?

Who can authorise expenses payments?

What documentation is kept (such as photocopies of travelcards used)?

F. Petty cash

What petty cash system will the organisation operate? (We recommend the Imprest system – see **Section seven** 'Imprest petty cash system').

What will be the amount of the petty cash (float - see **Section eleven** for the glossary of financial terms)?

Who will be authorised to make petty cash payments?

Is there an upper limit for petty cash payments, above which a cheque must be issued?

What supporting documentation should be kept (for example, petty cash vouchers, receipts)?

How often will petty cash payments be reconciled to the main cash book? Who will do this?

G. Income

Who is responsible for paying money into the bank?

When is this done (for example, weekly or when a certain amount is received)?

What documentation is kept?

H. Inventories

Who is responsible for maintaining an inventory (see **Section eleven** for the glossary of financial terms) of the organisation's fixed assets?

Is there a minimum purchase price for an item to be considered a fixed asset?

Is there an annual physical check of the fixed asset register? Who does this?

Are the fixed assets on the register marked for security purposes? Who does this?

Does the organisation have a depreciation policy? (See **Section eleven** for the glossary of financial terms)

I. Security

Who is responsible for introducing and maintaining adequate security arrangements for the organisation's staff, volunteers and equipment?

Who holds keys to the office and what is the policy on lending these to other people?

The above is not an exhaustive list, but rather a series of questions, which you need to think about when drawing up a set of financial controls for your organisation. These and other questions need to be considered by your treasurer, co-ordinator and anyone else involved in the management of your organisation's finances, and recommendations put to the MC for discussion and approval.

Further rules to add to your financial controls:

- Never sign a blank cheque under any circumstances.
- Always keep income separate from expenditure (for example, money from fundraising event is not used to pay volunteers' expenses).

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.

Section three Reserves

(Adapted from the Community Accounting National Network, see www.communityaccounting.org)

All organisations need to think about reserves and should ideally have some money held in reserve. However, organisations have been criticised in the past for accumulating too much in reserve and not spending it on achieving their objectives. High reserves may also affect the fundraising of your organisation as potential donors or funders may say - "why don't you use up some of your reserves instead?" Obviously, the consequences of **not** having adequate reserves are usually of more concern, particularly for small to medium charities.

3.1 Types of reserves and why you need them

A. General or uncommitted reserves

Trustees of organisations have a duty to act 'prudently' (carefully) when managing their finances. In the event of any financial crisis - cuts in funding, unexpected demands, and so on, your organisation will have to honour its commitments. In simple terms your organisation needs to have money set aside for a 'rainy day' – when things may not go to plan. This might mean avoiding problems of cash flow or having sufficient funds to close down your organization, which often includes, for example, redundancy payments.

B. Restricted reserves

Organisations often receive money for specific purposes. In this case, the donor imposes a 'restriction', and the organisation is obliged to spend the money on the purposes for which it was given. In the accounts, it is important to inform the reader of the accounts of this restriction. For example, if you are given £10,000 to buy a vehicle but you have not spent it by the year end this will appear as 'reserves' but the restriction should be made clear. The accounting regulations for charities make specific reference to such funds (see the Charity Commission website).

C. Designated reserves

Occasionally, an organisation may decide to set aside some of its own resources for a specific purpose. Typical examples would be a building fund or a fund to redecorate and refurbish every few years. It is important that your organisation ensures that these funds are not 'taken from' restricted funds but are generated from your organisation's own income or general reserves.

If, in addition, you are carrying out particular fundraising to build up these funds then these funds become restricted as the donor has given money on the understanding that it is for a specific purpose. It is important that such funds are not simply created to manipulate the figures and reduce the 'general reserve'. The need for a designated fund should be clear to see and decisions recorded in minutes of your management committee's (MC's) meetings.

3.2 What level should be maintained - a reserves policy?

There is no set figure that organisations must follow. The only guide is the general

demand for prudence mentioned above. However, a widely accepted figure is that the general or uncommitted reserves should be maintained at a level approximately 25% of your organisation's average annual expenditure. Some would say that this is the minimum, and that to have less is too risky. Each organisation should consider its own situation - how secure is your future income? What is the value of your obligations under any contracts? How much would it cost you to close down?

Each organisation's MC should set its desired level and record the agreed policy. This should be reviewed each year – “do we need more or less?” An essential part of a treasurer's role will be to monitor the reserves position and guide the rest of your MC on any actions or decisions required.

The link to your budget

Once your organisation has agreed a target for its level of general reserves, your annual budget can be used to move towards the target over a number of years. For example, a new organisation may decide that within 5 years it wishes to have accumulated a general reserve of £10,000. In its first year, it should plan for an underspend (or 'surplus') of about £2,000. This should be repeated until the £10,000 is reached, after which, a balanced budget should be set.

Of course, it is sometimes difficult to persuade funders of this need. Your organisation may need to look to other sources of income generation so that it can have the freedom to build up reserves.

As each year passes, your actual surplus or deficit must be reviewed and adjusted in connection with your reserves policy. It may be decided that a deficit budget can be set as the 'loss' during the year and can be covered by the reserves. The group may decide to let the level of reserves fall below the target because it has a higher priority. Obviously, this is only a short-term possibility.

3.3 Conclusion

This is a difficult area for organisations and there are many different opinions on what is acceptable and how they should be treated in accounts. Unfortunately, although it is primarily a matter of common sense, it is an area which is usually neglected. The key questions for your MC are whether they are satisfied with the level of reserves and whether they can explain them satisfactorily to anyone who raises questions, both from inside and outside your organisation.

Recap:

- √ Think about reserves.
- √ Clearly identify different types in your accounts - restricted, general and designated.
- √ Set a target and review, vote and minute this every year, before financial year-end.
- √ When setting the annual budget, bear in mind the reserves position and policy.
- √ Throughout the year, regularly review the reserves position (for example, every three months).
- √ Be open about the whole issue, particularly with members and funders.

Section four Budgeting

4.1 What is a budget?

A budget is an estimate of the **income** (receipts) that you hope to receive and **expenditure** (payments) you expect to make. In simple terms, it is money **in**, balanced against money **out**. A budget can be drawn up by any group of people who need to know how much it will cost them to carry out an activity or service. For example, if you are planning to hold a cultural event to bring different communities together, you need to know how much it will cost and where you will get the money to fund it. Once your budget is drawn up, it should be approved by your management committee (MC).

It is not difficult to produce a budget; it involves using your common sense and simple mathematical skills like addition and multiplication. All you need is a basic calculator and some lined paper. However, using a computer spreadsheet programme, such as Microsoft Excel, may help to make this process easier.

Any organisation which either receives or expects to receive money needs to draw up a budget showing how they plan to spend it. It is a statement of your organisation's annual financial aims and is also an extremely important tool for financial management.

A budget is usually prepared for a 12 month period, known as a 'financial year' and this often runs from April to March, although you may have a different period if you wish.

4.2 Why do you need a budget?

- To act as the cornerstone of your financial controls. Staff, management and signatories must operate within the agreed budget.
- To help the whole MC to take responsibility for the finances by approving the budget.
- To work out what you can and cannot afford to do.
- To set up your bookkeeping system. You use the budget headings and sub headings (usually referred to as **line items**) as the column headers in your cash analysis book.
- To keep your finances 'on track' – you can compare your budget with what you actually spend and raise, and put things right before you run into difficulties.
- To show funders how their money will be spent.

4.3 Writing your budget

There are **six** simple stages to follow in order to produce a successful budget:

1 Prepare the plan

Make a list of all the things you think your organisation will spend money on (a bit like a shopping list), such as salaries, rent, telephone, postage. **Do not think of actual money at this stage.** When you are planning your expenditure, think of your plan of activities/services in logical order over the coming year. Think carefully about **how** these activities are going to be done, by **whom**, **when** and with **what resources**, this might be, people – paid staff and volunteers, premises, equipment or expenses.

You should consider:

- **one-off items** such as, recruitment advertisements
- **capital costs** (fixed assets) for example, computer and office furniture will last for a few years
- **running costs**, which are ongoing expenses, for example, electricity, rent, rates, salaries, stationery, postage and telephones

When you think your list is complete, group all related expenditure headings (line items) together, for example:

People costs

Salaries
Staff expenses
Volunteer expenses

Property costs

Rent and rates
Electricity and gas
Cleaning

You should keep running cost headings separate from capital cost headings. There are no standard headings that all organisations must use, and remember, the idea is not to hide things, but to keep things clear and simple. See **figure 1** and **figure 2** [at the end of this section] to give you some ideas about what expenditure headings you could use.

When choosing what headings to use, remember that these will be used later when you prepare reports. Reports can be confusing if they are too long or detailed so try and limit your list to whatever fits on one side of paper. That is usually about eight income headings and about 20 expense headings.

2 Fill in the figures

The more people you involve (for example, your treasurer, volunteers, workers and others connected with your organisation) the more likely you will produce a good budget. Others can also help you to carry out research. But remember, no budget is 100% accurate.

Now you have your list of headings, try to calculate how much you think you will need to spend under each heading. The best way to do this is to start by looking at the previous year's figures. You may not have the actual figures yet, so in this case you will need to look at last year's budget, or the actual figures for part of the current year.

New organisations will need to do some initial research to come up with the figures (see **Further contacts** at the end of this toolkit for a list of organisations that can provide advice and information). It is also a good idea to network with other community organisations and ask their opinion based on their experience.

The following questions will help you:

- Was last year's budget accurate?
- Was anything forgotten?
- Are there any changes in your activities?
- Are there any other changes (such as an increase in rent)?
- Will the cost of some things increase with inflation (usually around 3%)?
- Have your funders agreed to give you the same amount of money as last year?

If your organisation is more established, and you plan to carry out similar activities next year, then planning and estimating is easier. You can use your plans and figures for this year and last year to develop next year's budget, with a small increase, to incorporate inflation. However, you may of course want to do things differently and provide new services. In this case, you will have to start from the beginning following these six stages.

3 Make notes

It is not good enough to just guess the expenditure, or to put nice round figures for each of the headings (for example, £3,000 volunteers' expenses, £1,000 telephone). Once the budget has been approved, you will need to stick to it, so it is in your interest to make sure that it is as **accurate** and **realistic** as possible.

If your organisation needs to move money to a different budget heading, find out from you funder if they would like to know in advance. In some cases, you may even have to complete a form to get this agreement.

A Show how each figure has been calculated. For example:

Volunteers' expenses: £2,304 per year

Calculation process:

Volunteers are given £8 per day towards lunch and travel costs, so based on this, you can make the following calculations:

2 volunteers working 3 days per week: $8 \times 2 \times 3 =$ £48 per week
Organisation open 48 weeks per year: $48 \times 48 =$ £2,304 per year

Please note: You should always calculate volunteers' expenses, based on the receipts they give you for their lunch and travel. Expenses should be reasonable and necessary.

- B Some expenses in the budget will be based on guesses and assumptions. For example:

Telephone = £2,320 per year

Assumption process:

Last year's telephone bill was £1,745, but you now have an extra advice worker and are also starting an interpreting project, so you anticipate a 30% increase in telephone usage, plus 3% inflation increase.

Do not forget to estimate employer's National Insurance (NI), which is in addition to the salary, not part of it. Currently, employer's NI is 12.8% of the salary, minus the first £5,435, but this changes each year. See www.hmrc.gov.uk/rates/nic.htm

Again, when estimating your organisation's income be realistic. Start by talking to funders and other similar organisations about what they think is a realistic budget. You could consider the possibility of charging for your services, but be aware that there are rules for charities which 'trade' in this way. For example, community organisations which are charitable, can charge for room hire because this is consistent with their charitable objects.

The important thing to remember when writing a budget is that other people should be able to understand where your figures come from. It is essential to make clear notes about why you included each item, how you arrived at each figure for the cost of an item, and also on any items that you are not sure about.

Researching realistic figures for your budget:

- ✓ look in shops (like Argos) or catalogues in order to research average costs for office equipment
- ✓ search the internet
- ✓ compare existing staff posts for new paid staff posts
- ✓ find out what other voluntary organisations are paying for similar positions
- ✓ look in the jobs section of your local newspaper for hourly paid staff
- ✓ for salaried staff (annual), particularly if professionally qualified, look at the jobs section in *The Guardian's Society* supplement (published on Wednesdays)

4 Revise the figures

Show the draft budget to people inside your organisation: workers, volunteers and management committee members. Have you forgotten anything? Are your assumptions and guesses fair and accurate? Do you need more information? If so, where are you going to get it?

Do not panic - you are unlikely to get your budget right the first time round. You may also find, in your first budget, that your planned expenditure is more than your likely income. Do not forget, that you also need to get the approval of your entire MC, your paid staff and volunteers – ultimately, they have to deliver your organisation's plan. If there is disagreement from your

MC and other colleagues, you may have to revise the figures. If changes have to be made, make sure that you revise your notes clearly and accurately.

5 Approval

The budget has to be approved by the MC, incorporating any comments and changes that they want to make.

6 Monitoring and revision

The budget is an important tool for financial management. Regular finance reports, comparing actual income and expenditure with the budget, should be prepared and presented to the MC, preferably monthly but **at least** every three months.

Recap:

Your budget should:

- ✓ fit your planned activities/services. Do not make your activities fit your budget.
- ✓ look forward (showing what you plan to do). Your accounts look back (recording what you actually did).
- ✓ cover all the activities you want to undertake. If it is not in your plan, you will not have kept any money aside for it or arranged to find the money to pay for it.
- ✓ be compatible with your organisation's vision, mission, aims and objectives. If you are registered as a charity, all your planned activities must reflect the objects clause in your governing document.

See **sample budget: figure 3** [at the end of this section].

Further information

- CASH (Community Accountancy Self Help) has a factsheet on budgeting. Go to www.cash-online.org/cashfacts which contains lots of useful tips.
- Funderfinder, who help to put groups and individuals looking for funding in touch with potential funders, provide free software called Budget Yourself, which you can download from www.funderfinder.org.uk - this helps voluntary groups to write effective budgets, particularly if you are new to budgeting.
- To find out what the current rate of inflation is, go to the Bank of England website at: www.bankofengland.co.uk.

Figure 1 – Adapted budget headings from Cash Online

Equipment:

- Office equipment
- Furniture
- Fixtures and fittings
- Other equipment
- Finance leases (Long term rental of equipment)

Trading:

- Lunch club outgoing
- Playgroup outgoing
- Coffee bar outgoing
- Purchase of goods for sale

Costs of fundraising:

- Cost of fundraising

Office expenses:

- Telephones
- Volunteer expenses
- Trustees' expenses
- Photocopying
- Postages
- Stationery

Finance:

- Bank charges and interest paid
- Repayment of loans

Organisation expenses:

- Accountancy and audit fees
- Conferences and courses
- Advertising

Other outgoing:

- General expenses
- Gifts and donations

Maintenance:

- Cleaning expenses
- Alarm system maintenance
- Repairs and renewals

Overheads:

- Heat and light
- Insurances
- Rent and rates

Salaries:

- Operations salaries
- Lunch club wages
- Cleaning wages
- Care-taking wages
- Playgroup wages

Contingency:

- Contingency

Figure 2 – Sample budget headings from an RCO

Sub code	Income heading					
101	Grant					
102	Fundraising					
103	Membership					
104	Bank interest					
105	Donation					
106	Other fees					
107	Management fees					
108	Other income					
Sub code	Payment heading					
10	Salary					
11	Employer NI					
12	Volunteers					
13	Staff training					
14	Interpreting					
15	Rent & service charge					
16	Telephone					
16a	Mobile					
16b	Fax					
16c	Internet service					
17	Insurance					
18	Print and stationery					
19	Postage and stamps					
20	Staff travel					
21	Books and subscriptions					
22	Audit fees					
23	Office equipment					
24	Photocopying					
25	Cleaning and cleaning materials					
26	Hall hire					
27	Payroll services					
28	AGM					
29	Seminar					
30	Bank charge					
31	Recruitment					
32	Annual report					
33	Publicity					
34	Outing/summer activity					
35	Social activity					
36	Sport activity					
37	Sundry					
38	Legal fees					
39	Management Committee exp.					
40	Comput maintenance/upgrading					
41	Newsletter					
42	Petty cash					

Figure 3 - Example budget figures

Example budget	Refugee community organisation - supplementary school		
	Budget: 1 April 20XX - 31 March 20XX		
INCOME		NOTES	
	Awards for All	3,155	1
	Borough Council	4,000	1
	The Nice Trust	2,500	2
	Children in Need	1,500	3
	Donations and membership fees	585	4
	Total Income:	11,740	
EXPENDITURE			
	Salary and National Insurance	3,801	5
	Volunteers expenses	780	6
	Rent, light & heating	1,586	7
	Insurance	250	7
	Stationery	120	7
	Telephone	100	7
	Refreshments	1,170	7
	Teaching materials	750	7
	Workshop fees	90	8
	Outings	900	9
	Christmas events	345	10
	Photographs	60	9
	Membership/Affiliations	30	11
	Computer, printer and ink	1,500	12
	Contingencies	100	13
	Reserves	158	14
	Total Expenditure:	11,740	

Notes

- 1 Already approved
- 2 Decision in June 20XX. This is for the Autumn Term
- 3 Computer and printing equipment. Decision in September 20XX
- 4 Donations from supporters and membership fees - already collected
- 5 Janet's salary, as agreed. £12 per hour, 8 hours per week for 39 weeks.
National Insurance: £57*

- 6 £5 per volunteer, 2 volunteers, 2 nights per week for 39 weeks
- 7 Last year's expenditure plus 3% for inflation
One craft workshop per term. The tutor has quoted £30 per
- 8 workshop,
but this still needs to be confirmed in writing.
- 9 Three outings, including minibuses, estimated at £300 each
Cinema and Pizza Express: £120; Party with entertainer and
- 10 bouncy
castle: £120; Presents: £105
Membership of Social Council and Federation of Supplementary
- 11 Schools
- 12 Computer, printer and stationery, as quoted in February 20XX.
- 13 General contingency, for unforeseen circumstances
- 14 To be transferred to 'reserves account'

* Please note the salary and NI figures are for illustrative purposes only

Section five Cash flow

5.1 What is a 'cash flow forecast'?

A cash flow forecast follows on from the budget. Whereas the budget covers one year, the cash flow forecast will break this down into 12 months (or four quarters if the organisation's income is very small). Its role is to balance the money coming into your organisation at different times of the year with the money going out, so that your organisation does not find itself in a situation where it does not have enough money in the bank to pay its bills at the correct time.

Like the budget, the cash flow forecast is a prediction of what will happen. In order to be of use, it needs to be prepared before the beginning of the financial year for which it is intended.

5.2 Preparing a cash flow forecast

When is a cash flow forecast needed?

Always. Particularly if your organisation does not have much money in the bank and/or your income and expenditure are:

- uncertain
- irregular
- regular – by this we mean that although your income and expenditure may be predicted at certain times of the year, when you have to make payments is not when you have the money coming in.

When is a cash flow forecast not needed?

Never. All organisations should prepare a cash flow forecast. In practice your organisation may survive without one if:

- your organisation is very small
- your activities are 'one-off' events during the year, and are self financing
- your organisation has a lot of money readily available in a bank current account

5.3 Forecasting cash flow

If you have done things properly, your budget should tell you what it costs to run your organisation and where the money will come from to pay for this. The next thing you have to do is work out when the money will be **needed** (for example, to pay bills) and when it can be **expected**. This is known as a cash flow forecast.

Headings

Keeping the same headings as in the budget, allocate income and expenditure to the appropriate month. For many of the headings, such as staff salaries or rent, this may be a simple case of dividing by 12, since the amount will be the same each month. However, this will not be true in every instance. For example, grants are often received in instalments; telephone bills usually arrive every three months; your organisation may be more active in the summer months and less in winter; there

may be end of year costs associated with the preparing of independently examined accounts and annual reports.

Figure 4 - Sample cash flow forecast

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Income													
Revenue grant	4,500	4,000	2,200	4,500			4,500	2,200		4,500			26,400
Capital grant		2,300											2,300
Membership	600	250				50			50				950
Donations	40	40	40	40	40	40	40	40	40	40	40	40	480
Fundraising				300				400			200		900
Total (A)	5,140	6,590	2,240	4,840	40	90	4,540	2,640	90	4,540	240	40	31,030
Expenditure													
Salary & NI	1,590	1,590	1,590	1,590	1,590	1,590	1,590	1,590	1,590	1,590	1,590	1,590	19,080
Volunteer Exp.	200	200	200	200	200	200	200	200	200	200	200	200	2,400
Training						200				200			400
Rent	1,500						1,500						3,000
Heat & light			150			150			150			150	600
Telephone			400			400			400			400	1,600
Postage	150	150	30	30	30	30	30	150	30	30	30	30	720
Stationery	40	40	40	40	40	40	40	40	40	40	40	40	480
Insurance			250										250
Professional fees				200									200
Office equip.			2,300										2,300
Total (B)	3,480	1,980	4,960	2,080	1,860	2,610	3,360	1,980	2,410	2,060	1,860	2,410	31,030
Net cash flow (A-B)	1,660	4,610	(2,720)	2,760	(1,820)	(2,520)	1,180	660	(2,320)	2,480	(1,620)	(2,370)	-
Opening bank balance		1,660	6,270	3,550	6,330	4,510	1,990	3,170	3,830	1,510	3,990	2,370	-
Closing bank balance	1,660	6,270	3,550	6,330	4,510	1,990	3,170	3,830	1,510	3,990	2,370	-	-

You will notice from the sample in **figure 4** that the opening bank balance is zero. This is, of course, rarely the case, and you should show any money being brought forward from the previous year. Remember, the cash flow forecast is not merely an accounting exercise, but should be a practical tool to help you plan your income and expenditure.

The cash flow forecast allows the organisation to identify possible problems in advance and plan for these. For example, in **figure 4**, we see it is clearly vital that there is no delay in the revenue grants, which are expected to arrive at the beginning of the financial year. Failure to receive the first instalment, due in April, would mean that the organisation would not be able to pay the staff salary or the rent. A delay in the capital grant is perhaps less problematic, but would mean having to delay buying the office equipment, scheduled for June.

The preparation and use of cash flow forecasts enables an organisation to take control of its finances, avoid crises (which often result in bank charges) and helps to create a stable financial base on which the organisation can build.

Using your cash flow forecast

Once you have a prepared cash flow, you can use it in three ways:

1. As each month passes, you can replace the budgeted figures with actual figures.
2. You can set up your cash flow spreadsheet to always look 12 months ahead – simply delete the past and add the future. This way your management committee (MC) will always be able to see 12 months ahead.

3. You can amend your predictions at least once a month to always have a best estimate of your cash flows in the months ahead.

Good practice:

- The cash flow forecast should be referred to regularly, and should form the basis of monthly finance reports to the MC (see **Section nine** on **finance reports**). In this way, your organisation will be able to plan its spending more accurately and not find itself in a situation where the arrival of a number of bills causes panic.
- If you can see in advance that a particular month will be difficult, your organisation should think about adapting your spending plans, organise fundraising activities or apply for a short term bank loan.
- Similarly, if there are some months when your organisation has a large surplus, you can arrange for this to be maintained in a savings account and earn some interest.

Section six Bookkeeping

What follows is a system of manual accounting, (that is using cash books). However, your organisation might want to use computerised accounting systems (for example Quickbooks, Microsoft Money) particularly if your organisation needs to keep track of different funds. Please seek professional advice in this area if you are uncertain (see www.communityaccounting.org).

6.1 What is bookkeeping?

Bookkeeping is the recording of financial transactions in an orderly and systematic way. It is necessary so that information regarding the financial position of your organisation is readily available to the members, management committee (MC) and funders.

The main objectives of a bookkeeping system are to provide a record of all transactions, to record the information in a way that makes it easy to retrieve, and to provide an accurate picture of your organisation's financial position.

6.2 How many cash books do you need to keep?

Bookkeeping should require as few cash books as possible. For most RCOs, only **three** books are needed in order to keep all the necessary records outlined above:

- 1 Cash received analysis book – records and analyses all money (cash and cheques) paid into your bank account
- 2 Cash paid analysis book – records and analyses all payments paid by cheque
- 3 Petty cash analysis book – records the amounts withdrawn from your bank for petty cash use, and the payments made using that cash

Cash received analysis book

When money is paid into your bank, all the details (the source of the money, the amount, the date, and any other relevant information) must be recorded on the 'paying in slip'. This is then used to enter the details into the cash received analysis book, and is also filed as supporting documentation.

The columns of the cash received analysis book must correspond to the headings, which appear as 'income' in the budget. This means that you can see at a glance how much money has been received from each source (grants, membership fees, donations, and so on).

In addition, the book has a 'banked' column, which records the total amount of money banked each time. This is useful because you may bank lots of different amounts of money using just one paying in slip. Only the total amount banked each time will appear on your bank statement, and the banked column helps you to identify exactly what this corresponds to when you come to do your bank reconciliation.

Figure 5 - Sample cash received analysis book

Date	Details	Reference	Total	Capital Grant	Revenue Grant	Membership Fees	Donations and Fundraising	Refreshments	Banked
01/04/20XX	Council 1st Quarter grant (inc capital)	001	8,683	7,323	1,360				8,683
05/04/20XX	Membership fees (1-30)	MB 1-30	150			150			150
30/04/20XX	Jumble sale	002	200				200		
30/04/20XX	Coffee bar receipts	003	247					247	
30/04/20XX	Membership fees (31-44)	MB 31-44	70			70			517
	April total	c/c	9,350	7,323	1,360	220	200	247	9,350

Cash paid analysis book

The payments you make by cheque must have the details (payee, amount, date, what the payment is for) written clearly on the cheque stub, which is then used to enter the details into your cash paid analysis book.

The columns of the cash paid analysis book must correspond to the headings, which appear as 'expenditure' in your budget. This means that you can see at a glance how much money has been spent under each budget heading (volunteers' expenses, telephone, stationery, and so on).

The book will also have a column to record cash withdrawn from the bank for use as petty cash.

Figure 6 - Sample cash paid analysis book

Date	Details	Chq No	Total	Salary, NI, Recruitment	Rent & Rates	Heat & Light	Phone & Post	Stationery & copying	Insurance & Audit	Travel & Training	Capital Equip.	Petty Cash
2/4/00	Cash from bank	001	50									50
2/4/00	Guardian job advertisement	002	450	450								
6/4/00	Rent and rates (12 months)	003	3,000		3,000							
6/4/00	BT phone installation	004	200				200					
6/4/00	The Voice - job ad	005	100	100								
6/4/00	Gazette - job ad	006	85	85								
7/4/00	Jean - Co-op (stationery)	007	76					76				
15/4/00	Co-op Insurance (12 months)	008	340						340			
16/4/00	GLS Supplies - computer	009	807								807	
18/4/00	MFI - office equipment	010	375								375	
30/4/00	J Tambo - salary for April	011	1,073	1,073								
	April Total	c/c	6,556	1,708	3,000		200	76	340		1,182	50

Petty cash analysis book

This is a smaller version of the cash paid analysis book, since the budget headings for which petty cash can be used should be limited and agreed in advance (it will usually cover things like volunteers' expenses and refreshments).

The petty cash analysis book should be reconciled with the cash paid analysis book on a regular basis, usually monthly.

Please refer to **Section seven on Petty cash**, which explains how your petty cash system should be set up and maintained, and gives a sample of how a petty cash analysis book may look.

6.3 Filing

In this modern age, when many organisations use computer software, such as Excel, it is essential to create a cash book file and ensure that you file one or more pieces of paper relating to every entry you make in the cash received and cash paid analysis books. It is crucial to have paper records, because mistakes on computer software can be corrected and changes made without anyone knowing. A common term that is used for 'paper records' to explain each entry, is 'vouchers'.

The three golden rules of filing

1. Keep everything – receipts, invoices, statements, wages records.
2. Keep everything in order – keep one file for income vouchers, one for expenditure vouchers, keep them in order by the date received or paid.
3. Cross-reference everything – you need to link all your receipts and payments together so that you can find, for example, the receipt that relates to a particular cheque. Give each piece of paper you file away, a reference number, and use this number as the reference in your cash books.

Key tips for a good filing system:

- ✓ Reference everything in a logical order.
- ✓ For paid invoices - use the cheque number as your reference and file in number order. For income documents - start from 001 at the start of each financial year, using the reference column in the cash received analysis book and file in this number order.
- ✓ Keep income documents separate from expenditure documents.
- ✓ Keep all documents in ring binder files and not plastic wallets where they are likely to get mixed up.
- ✓ Keep a permanent record of all capital items (such as computers, office furniture) – this should include a brief description of each item, the serial number, its cost, the supplier and where it is kept. If you get rid of any item, make a note of the date and sale price (if you sell it).
- ✓ Keep copies of all MC meeting minutes, particularly those that include financial matters.
- ✓ Finally, do not throw all this filing away once your auditor has agreed your accounts. Any charity must keep records for at least **six years**.

Section seven Petty cash

7.1 What is petty cash and why do you need it?

Petty cash is the name given to systems and procedures for making small payments in cash. Most organisations need to have a small amount of cash available to pay for items like volunteers' travel expenses, photocopying (if this is done in a local shop, for example) and stamps. However, there is a tendency for organisations, particularly smaller ones, to rely too heavily on the use of cash. It is therefore necessary to set some 'ground rules', or rules agreed by everyone in your organisation, as a fundamental part of any petty cash system. These should be incorporated into your organisation's written financial regulations (see **Section one** on **financial controls**).

7.2 Six 'ground rules' for an effective petty cash system

1. Petty cash should only be used for a limited number of budget headings, and only where it is really not possible to use a cheque. Each time you think about using petty cash, you should ask yourself if you could use a cheque instead. For example, rather than buying £10 worth of postage stamps every two weeks, why not buy 100 stamps, pay by cheque and store them in the petty cash box? If you always use the photocopier in the local shop, ask them if it would be possible to open an account and pay at the end of each month.
2. Set a maximum amount for payments by petty cash. You should not be making £70 payments from the petty cash box, and if a shop or supplier refuses to accept a cheque for this amount, then change your supplier.
3. **One** person should ideally be in charge of the petty cash box, which should be kept locked and secure. The more people there are with access to the petty cash, the harder it will be to regulate and control.
4. Petty cash is for reimbursing expenses and making purchases in line with the budget, and as such is no different to payments made by cheque. It should never be used to make short term loans.
5. Only cash drawn from the bank, under the petty cash system, which will be explained below, should be used as petty cash. Cash received from any other source should be kept separate from petty cash and banked immediately.
6. A petty cash voucher (books of vouchers are available at most stationers, such as WH Smith) should be completed and signed for every payment from the petty cash box at the time the cash is taken.

Payments by cheque are relatively easy to trace and regulate. There will be an entry in the cash paid analysis book, a record on the cheque stub and an entry on the bank statement. This is the main reason why cheque payments are preferred. When a payment is made by cash, however, it is much more difficult to trace, and it is therefore necessary to have in place a reliable system for monitoring and controlling petty cash. There are a number of systems, but the one most suitable for RCOs is the **Imprest system**.

7.3 Imprest petty cash system

Under this system, your organisation (that is, your management committee (MC), on guidance from your treasurer) decides on an amount of petty cash (the float – see **Section eleven** for the glossary of financial terms) that will cover your cash purchases each month. It is important not to set the amount too high, since you do not want large amounts of money being stored in the office. You might find it difficult to decide on an amount when first setting up the system, but if you think about what the petty cash will be used for (such as volunteers' expenses), it will make it easier.

The amount decided on (let us say £50) is withdrawn from the bank account and placed in the petty cash box. Every time cash is taken out of the box, a petty cash voucher is completed, detailing who has received the money and what it is for. The voucher is then signed by the recipient and by the person authorising the payment, and placed in the petty cash box.

Receipts or sales tickets (or photocopies of travelcards in the case of volunteers' expenses) should always be obtained for petty cash payments, and these should be stapled to the back of the petty cash voucher.

The information from the petty cash vouchers should be entered into the petty cash analysis book on a regular basis, usually weekly, by the treasurer or another designated person, and the vouchers filed.

At the end of each month, the treasurer should calculate the totals in the petty cash analysis book and check that the amount remaining in the cash box corresponds to the amount that should be remaining from the bank withdrawal at the beginning of the month. If the amounts do not agree, s/he should try to establish the reason – it may be that someone forgot to fill in a voucher.

At the end of each month, the amount spent through petty cash (for example, £46) is withdrawn from the bank and added to the cash remaining in the petty cash box, bringing the amount in the box back to the original level of the float, £50 in our example. This means that at the beginning of each month there should be the same amount in the petty cash box.

There is a sample 'petty cash analysis book' using the Imprest system, in **figure 7** below.

Figure 7 – Sample petty cash analysis book

Receipts				Payments							
Date	Details	Chq No	Amount	Date	Details	Voucher number	Total	Travel & Training	Stationery & copying	Postage	Other Expenses
3/4/XX	Cash from bank	001	50.00	4/4/XX	D. Clarke - travel	001	10.00	10.00			
				14/4/XX	D Lang - photocopying	002	8.50		8.50		
				20/4/XX	coffee, tea, etc	003	6.76				6.76
				21/4/XX	Postage	004	9.20			9.20	
					Total expenses	c/c	34.46	10.00	8.50	9.20	6.76
				30/4/XX	Balance	c/down	15.54				
			<u>50.00</u>				<u>50.00</u>				
1/5/XX	Balance	b/down	15.54	20/5/XX	J. Tambo - travel	005	16.00	16.00			
2/5/XX	Cash from bank	012	34.46	27/5/XX	Tea, coffee, etc	006	4.50				4.50
				30/5/XX	Postage	007	14.78			14.78	
					Total expenses	c/c	35.28	16.00		14.78	4.50
				31/5/XX	Balance	c/down	14.72				
			<u>50.00</u>				<u>50.00</u>				
1/6/XX	Balance	b/down	14.72	5/6/XX	R Kid Stationers	008	7.65		7.65		
1/6/XX	Cash from bank	029	35.28	15/6/XX	Postage	009	2.70			2.70	
				16/6/XX	D Lang - Photocopying	010	7.50		7.50		
				23/6/XX	J. Tambo - travel	011	18.50	18.50			
					Total expenses	c/c	36.35	18.50	15.15	2.70	
				30/6/XX	Balance	c/down	13.65				
			<u>50.00</u>				<u>50.00</u>				
30/6/XX	1st Quarter										
	Cash from bank		119.74		Expenses	c/c	106.09	44.50	23.65	26.68	11.26

Section eight Bank reconciliation

8.1 What is bank reconciliation?

Bank reconciliation is the process of comparing your cash book entries with your bank statement balances at the end of each month, explaining any differences. Your organisation should receive a bank statement for your current account at the beginning of each month, detailing all transactions (that is, money coming in and going out of the account) for the month just ended.

Organisations which make few transactions each month may find that, unless they insist on monthly statements, they will receive them only when a statement sheet is full – and that may take several months. **If you do not currently receive monthly statements, ask your bank to start sending them.**

The balance shown on the bank statement may not be the same as that shown in the cash analysis books, and it is likely that neither shows the true financial situation of the organisation. This is because there is a delay between the date the entries are made in the books and their appearance on the bank statements, and some items on the bank statement may have gone unrecorded in the cash analysis book (such as bank charges, interest, standing orders, direct debits). Also, cheques issued by the organisation, particularly towards the end of the month, may not yet have cleared through the account, and therefore do not appear on the statement.

8.2 Why do you need to do a bank reconciliation?

The main reason for the bank reconciliation is to make sure that your accounting records are complete. There may still be errors – you may have put something under the wrong heading, but at least you will know that you have recorded everything you should.

Without the bank reconciliation, there is a serious risk that your accounting records are unreliable.

8.3 How do you do a bank reconciliation?

It is very straightforward to do a bank reconciliation as long as you follow the nine steps below – **one at a time and in the correct order** using the sample: 'bank reconciliation form' below.

Figure 8 – Sample bank reconciliation form

Bank reconciliation for the month of _____

Section A: Cash book summary for the month

Cash book balance brought forward from last month: _____

Add: Total Cash Received for the month: _____
(from Cash Received Analysis Book)

Sub-total: _____

Less: Total cash paid for the month: _____
(from cash paid analysis book)

Equals: Closing cash book balance: _____
(to carry forward)

* * * * *

COMPARED TO:

Section B: Bank statement summary for the month

Bank statement balance at the end of the month: _____

Add: Outstanding receipts
(unticked in cash received analysis book)

<u>date</u>	<u>reference no.</u>	<u>amount</u>
-------------	----------------------	---------------

Total of outstanding receipts: _____

Sub-total: _____

Less: Outstanding cheques
(unticked in cash paid analysis book)

<u>date</u>	<u>cheque no.</u>	<u>amount</u>
-------------	-------------------	---------------

Total of outstanding cheques: _____

Equals: Adjusted bank statement balance: _____

Signature: _____ Date: _____
(by person who has prepared the bank reconciliation)

Signature: _____ Date: _____
(counter signature)

1. Place a small pencil tick against each cheque payment in the cash paid analysis book that also appears on the bank statement. Tick the bank statement entry too. (If you are using an electronic spreadsheet such as Excel, you could create a spare column, in which you could type 'r' = received.)
2. Place a pencil tick against each entry in the 'banked' column of the cash received analysis book that also appears on the bank statement. Tick the bank statement entry too.
3. Check the bank statement for any entries which have not been ticked (which means they did not appear in the cash books), and enter them into the corresponding cash analysis book. For example, bank charges should be entered into the cash paid analysis book, and bank interest should be entered into the cash received analysis book (direct debits and standing orders should be dealt with in the same way). Once any entry has been made, tick it off in the cash book and on the bank statement.

When you have completed these three steps, you know that every entry on the bank statement also appears in the cash analysis books.

4. Underline the end of month row in your Excel spreadsheet (or rule off your manual cash received and cash paid analysis books) and sum all the columns (in your manual books, add up all the columns) 'crosscast' (see **Section eleven** for the glossary of financial terms) to check that the adding-up is correct.
5. Complete the 'Cash book summary' (Section A) on the **bank reconciliation form**, using the figures from the 'total' columns in the cash received and cash paid analysis books. Calculate the 'closing cash book balance' for the month.

You are now ready to complete Section B of the bank reconciliation form.

6. Look at the bank statement. Find the balance at the end of the month and enter this figure on the bank reconciliation form.
7. Check the cash received analysis book for any entries (in the relevant month) which have not been ticked. These are called **outstanding receipts** - they have been banked but have not yet cleared through the account. They should be entered in the 'outstanding receipts' section of the bank reconciliation form.
8. Check the cash paid analysis book for any entries (in the relevant month) which have not been ticked. These are called **outstanding cheques** - the cheques have been issued but have not yet cleared through the account. They should be entered in the 'outstanding cheques' section of the bank reconciliation form.

Do not forget! - there may be some items from the previous bank reconciliation process that are still outstanding and these need to be listed here as well.

9. Finally, **add** all the outstanding receipts to the bank statement balance and **subtract** all the outstanding cheques. This will give you the **adjusted bank statement balance**.

The closing cash book balance should be the same as the adjusted bank statement balance, which proves the accuracy of your bookkeeping for the month. If the two figures are different, then you should first check your calculations and make sure that you have not missed anything. If, after checking, the figures still do not correspond, then it may mean that you have made a mistake with your cash book entries for that month, and you will need to check all of them carefully.

Following all of these checks, if the figures still do not add up properly, then it is possible that the bank has made an error (it does happen!), and it will need to be contacted immediately.

For further information, see Bank reconciliation on Community Accountancy Self Help's (CASH) website www.cash-online.org.uk/cashfacts

Section nine Finance reports

9.1 Why do you need to produce finance reports?

The finances of an organisation are important, since without money it becomes difficult for an organisation to carry out its functions and deliver its services. It is therefore vital that the management committee (MC), who is ultimately responsible for the running of the organisation and the delivery of services, manages the finances professionally and prudently.

It is crucial to remember that it is the MC collectively, not just the treasurer, who are responsible for managing your organisation's finances [see toolkit on **Governance** for information on MC responsibilities]. The MC can only do this effectively if they are kept regularly informed of the organisation's financial situation.

A fundamental part of any system of financial management is the preparation of regular finance reports. These do not have to be very complicated or intricate. On the contrary, the purpose of the reports is to show the true financial situation of the organisation, and like everything else, they should be clear and easy to understand.

9.2 Preparing a finance report

Every MC meeting should be presented with a finance report. This may sound like a lot of work, but if your organisation is maintaining a proper bookkeeping system and carrying out a monthly bank reconciliation, as outlined in other sections of this toolkit, then the preparation of a finance report should not take longer than an hour. The simplest form of finance report is one which details the actual expenditure of the organisation and compares it to the planned expenditure, as outlined in the budget and cash flow forecast. This enables the MC to see at a glance how the income and expenditure varies from what was planned.

Your regular finance reports should include:

- A summary of the receipts and payment for the year to date, compared to the budget
- A written explanation for the person in charge (for example, the treasurer or another MC member) of any significant differences between the budget and the actual figures
- A statement of what you have (your assets) and what you owe (liabilities) at the date of the report – this might be something complex like a balance sheet, or simply a list
- A cash flow forecast for the next 12 months, if you have one
- A written comment on what the past tells you and what the future may bring, so that the MC can look beyond the numbers

Figure 9- Sample finance report

Finance report for April 220XX				
	Budget	Actual	Difference	Notes
Income				
Revenue Grant	4,500	4,500	-	
Capital Grant			-	
Membership	600	510	(90)	1
Donations	40	75	35	2
Fundraising			-	
Total	5,140	5,085	(55)	
Expenditure				
Salary and National Insurance	1,590	1,590	-	
Volunteer expenses	200	140	60	3
Training		35	(35)	4
Rent	1,500	1,500	-	
Heat and light			-	
Telephone		56	(56)	5
Postage	150	180	(30)	6
Stationery	40	77	(37)	7
Insurance			-	
Professional fees			-	
Office equipment			-	
Total	3,480	3,578	(98)	
Deficit for April:	1,660	1,507	(153)	8

Notes

1. Due to less volunteer support than expected, we were not able to 'phone all members to remind them to pay their subscriptions.
2. We received a generous donation of £55 from Mr G Brown, and £20 from Mr C Smith. Letters of thanks have been sent.
3. Due to work commitments and sickness, John, Maria and Helen were unable to help in the office this month.
4. Julia attended a one day training course on stress relief and time management.
5. Connection charge and line rental for the extra 'phone line, for internet access.
6. Although we spent more than was anticipated, there are still a lot of stamps in the petty cash box, so next month's expenditure will be lower.
7. Julia took advantage of going to the shops in her car, and bought enough stationery for the next 3 months!
in hand (stamps and stationery) so expenditure in May should be lower. **We need to prioritise the collection of members' subscriptions.**

As well as the notes explaining the figures, the MC will need to be made aware of any important forthcoming income and expenditure, for example, when the next grant instalment is expected. This is so that any action which needs to be taken, such as a letter from the chair of the organisation, can be organised in plenty of time. Also, it may be necessary to adapt planned activity in the light of the finance report, for example, delaying the purchase of a new piece of office equipment.

If the finance report shows that the actual income and expenditure is different from that planned in the budget and cash flow forecast, then the MC needs to consider what action to take, which may include looking for extra sources of funding, reducing expenditure on particular budget headings (such as decreasing the use of the phone), or taking money from the reserves to cover extra spending. The MC cannot ignore problems or refuse to take action. **The committee is legally responsible for the organisation, and finance problems do not go away if ignored – they only get bigger!**

Section ten Annual accounts

(adapted from the Resource Centre's information sheet, *Charity Reports and Accounts*)

This section is written assuming that most RCOs will have charitable aims. Even if you are not a registered charity, your organisation might want to consider adopting the procedures outlined below as good practice.

Please also be aware that accounting rules are constantly changing, so it is important that the people responsible for your accounts update their knowledge on a regular basis. You should get professional advice from a community accountant if you are unsure about any of the rules. [See www.communityaccounting.org to find a community accountancy service in your region]

10.1 What is the aim of preparing annual accounts, reports and returns?

By law, every charity must prepare a set of accounts. Most registered charities must prepare a trustees' annual report, a set of accounts, and an annual return. The aim of accounts and reports is to provide a clear picture of your charity's activities and financial position.

Although these requirements might initially seem difficult for a small charity, they do require you to define your aims and activities clearly and to manage your finances well, both of which will help to make your organisation more effective. The trustees' report is also an opportunity to describe your work to the public and to funding bodies.

10.2 Accounts, reports and returns – what do you have to do?

- Every charity, even if it is not required to register with the Charity Commission, must keep accounting records. These include cash books, receipts, records of grants, and they must be retained for six years.
- Every charity must prepare annual accounts and make them available on request. Every charity with an annual income **above £5,000** is required by law to register with the Charity Commission and to produce a trustees' annual report. (There are a few exceptions to this rule).
- Every registered charity with annual income or expenditure **above £10,000** must submit a trustees' annual report, set of accounts, and an annual return to the Charity Commission each year. These must be sent or filed online within ten months of the end of the financial year. If you are a charitable company you must file your accounts at Companies House within nine months.
- Your constitution or other governing document will usually require you to send the annual accounts (where appropriate) to members and approve them

at an annual general meeting (AGM). It is certainly good practice to do so even if you are not required to.

- The type of accounts and report which your charity has to prepare depends on your legal structure, your income and the value of your assets.

10.3 Legal structures

Charities can be divided into two basic categories:

- a) Charities which are unincorporated associations (referred to as unincorporated charities) and
- b) Charities which are incorporated
 - i. Limited companies (referred to as charitable companies)
 - ii. Charitable Incorporated Organisations (CIO)

[See the **governance toolkit** for more information about legal structures.]

10.4 Who needs to prepare accounts?

- An unincorporated charity with a gross income of **£10,000 or less** during the financial year may prepare accounts on either the receipts and payments basis or the accruals basis [as described in **Section two**].
- At present every charitable company must also prepare accruals accounts. However the Charities Act 2006 and Companies Act 2006 are introducing a number of changes. Charitable companies which qualify as small companies under company law will be subject to charity law provisions – they will come under the same accounting regulations as unincorporated charities above. This change is expected to affect charitable companies during 2008.
- Some time in 2008 a new form of charity – the Charitable Incorporated Organisations (CIO) – will come into existence. This too will have to follow the same accounting regulations as unincorporated charities above.

[**Please note:** Gross income is defined by the Charity Commission as your total recorded income excluding loans, proceeds from the sale of assets and certain other 'specialist' types of income.]

10.5 Receipts and payments accounts

This is a simplified form of accounting which summarises the money your charity has received and paid out during the financial year [see **Section two**]. The final balance shows how much money your charity has at the end of the year.

You do not have to prepare receipts and payments in any particular format but they should be prepared in a consistent way from year to year (see the Charity Commission website for templates to assist you).

If you present receipts and payments accounts, you must also provide a statement listing assets and liabilities at the end of the year. This shows debtors (that is, money owed to the charity), creditors (that is, money which the charity owes) and the value of equipment, land and buildings.

When the financial structure of the charity becomes more complicated, it may be better to adopt accruals-based accounting. You may need to get professional advice if you move over to accruals accounting in order to ensure that you make the change smoothly, and keep the right sort of records during the year to enable your charity to complete the annual accounts required.

10.6 Accruals accounts (referred to as 'income and expenditure')

Accruals accounts present a clearer picture of the charity's income and expenditure during the year [see **Section two**]. They show income and expenditure as these relate to the year in question, rather than simply recording money received and paid out. The balance sheet gives a 'snapshot' of the charity's financial position at the end of the year.

A charity preparing accruals accounts must follow the Statement of Recommended Practice (Charity SORP). The report and accounts must consist of a balance sheet, a statement of financial activities (SOFA) showing incoming resources, how they were used, and explanatory notes.

The Charity Commission provides packs to help an unincorporated charity prepare accruals accounts and meet SORP requirements.

[**Please note:** All charities that prepare accruals accounts must follow the SORP. Smaller charities preparing receipts and payments accounts should follow the Charity Commission's guidance (see CC16/CC17 on the Charity Commission website). Although SORP is relevant to smaller charities, they do not have to follow all the recommendations in the same way.]

10.7 Checking (referred to as scrutiny of) accounts

There are two types of external account checking:

1. Independent examination
2. Audit

10.7.1 Independent examination and accounts

What is independent examination?

- This is the process of checking (scrutinising) a charity's accounts below the level of a professional audit. The procedures are defined by law and by the Directions of the Charity Commission.
- The independent examiner will develop an understanding of the charity, look at the accounts and supporting documents and write an independent report to accompany the accounts and trustees' report.

What is the role of an independent examiner?

- The role of the independent examiner is to give what is called 'negative assurance'. After looking at the evidence the examiner reports whether or not certain matters "have come to my attention". These include lack of accounting records and the failure of accounts to comply with the Charities Act.
- As well as checking the accounts, the independent examiner may also help prepare the accounts in the format required and help prepare the trustees' annual report.

Who can be your independent examiner?

- An independent examiner could be your treasurer or finance worker or an accountant from industry or the public sector. The key is that they must have a good understanding of charity finance and the law.
- To carry out an independent examination of a charity with an income above £250,000 the examiner must have a professional qualification or be a Fellow of the Association of Charity Independent Examiners (ACIE).

How should you choose your independent examiner?

- When choosing an independent examiner, you should make sure that he or she is fully independent of your charity and able to carry out a proper charity independent examination.
- The Charity Commission gives guidance on its website and in its publications on selecting an examiner. ACIE can give you the details of local examiners who are on its register. However, you do not have to register with the ACIE as there are many unregistered examiners who fully meet Charity Commission standards.

10.7.2 Audit

The audit process is defined by law and is carried out by a registered auditor (a chartered accountant). An audit is the highest level of account checking and the auditor looks for positive evidence to enable the accounts to be described as a 'true and fair' view.

All charitable companies must have their accounts checked by a registered auditor, though smaller companies may only require an 'accounting report' rather than a full audit. Every charity with an annual income above £500,000 is required to have an audit.

Funders may ask for a copy of your audited accounts. If your charity is not required to have an audit, point this out and explain the legal basis of the independent examination or the accounting report (as appropriate) – the term 'audit' is often used very loosely.

10.7.3 What type of checking is required?

The type of checking required depends on whether the charity is a company and its income.

A. Unincorporated charities

- *Unincorporated charities with an income below £10,000* in the relevant financial year is not required to have its accounts externally checked, unless its constitution specifies an independent examination or audit. However it is good practice to have your accounts prepared or examined by someone independent.
- *An unincorporated charity with gross income above £10,000 but not exceeding £100,000* in the relevant financial year must have its accounts externally checked. Management committee members may choose either an independent examination or an audit, unless its constitution is specific.
- *An unincorporated charity with gross income above £100,000 but not exceeding £500,000* in the relevant financial year and total assets not exceeding £2.8m must have its accounts externally checked. Committee members may choose either an independent examination or an audit, unless its constitution is specific. If the charity chooses an independent examination and its gross income exceeds £250,000, the examiner must be a member of a body specified by the Charities Act 2006.
- *An unincorporated charity with a gross income above £500,000* in the relevant financial year or one whose gross assets exceed £2.8m and gross income exceeds £100,000 must have an audit.

B. Charitable companies and Charitable Incorporated Organisations

- A charitable company with either a *gross income above £500,000 or gross assets above £2.8m* must have its accounts audited by a registered auditor.
- A charitable company with *gross assets not exceeding £2.8m and income above £90,000 but below £500,000* may currently have an accountant's report (or audit exemption report) rather than a full audit.
- A charitable company with *gross income not exceeding £90,000 and assets not exceeding £2.8m* does not at present require any external checking (scrutiny). However, it must prepare a director's report and accounts under the Companies Act, and submit these to Companies House. Even a very small company is advised to use the services of a chartered accountant.
- In future, a charitable company with a *gross income below £500,000 and gross assets below £2.8m* will have to follow the same auditing procedures as unincorporated charities above. This change is expected to affect charitable companies sometime during 2008.

Note:

- A Charitable Incorporated Organisation will be expected to follow the same rules as an unincorporated charity.
- Charitable companies must send accounts to Companies House within **nine months** of the end of their financial year.

10.7.4 Trustees' annual reports

Every charity with a gross income above £5,000 must prepare a trustees' annual report. The report should explain the aims of the charity and how it is achieving them. It is a chance to show the benefit to the public of the charity's work and also show funders how their money was used and what was achieved with it.

From the financial year 2008-09 every charity will be required to demonstrate that its activities are for the public benefit, [see **governance toolkit**] as set out in Charity Commission guidance. Every charity with a gross income above £10,000 must submit its trustees' annual report to the Charity Commission.

There are legal requirements for the contents of the report and these depend on the type of charity and its income. There is a useful list of headings which meet these legal requirements in the Charity Commission publication CC15 (see Charity Commission website). The headings cover reports from a simplified report to a full report. A simplified report must give basic details such as the names of trustees, the structure of the charity and a brief financial review as well as details of its aims and activities.

Who should prepare a trustees' annual report?

- A charity with a *gross income of £10,000 or less* must prepare a simplified annual report. A charity of this size should not send its annual report and accounts to the Charity Commission unless the Commission asks for them.
- A charity with a *gross income of over £10,000 but not exceeding £500,00 and with total assets not exceeding £2.8m* must prepare an annual report but it may be simplified. However charities are expected to provide 'full disclosure', so you should aim to give the maximum amount of detail appropriate to the size of your charity.
- A charity with a *gross income above £500,000 or whose gross assets exceed £2.8m and gross income exceeds £100,000* must complete a full annual report.

Note:

- Charities are not limited by the Statement of Recommended Practice (SORP) and may also include other matters such as an environmental impact report or a chair's report.

- The annual report and accounts must be sent to the Charity Commission or filed online within ten months of the end of the financial year. It is an offence not to submit the trustees' annual report and trustees can be fined.
- A charitable company must also prepare a **directors' report** under Companies Act. In practice, this report is usually expanded to include all the information required in the trustees' annual report. A charitable company must file its accounts at Companies House within nine months of the end of its financial year.

10.7.5 Annual return

The Charity Commission will send an annual return to every charity with a gross income of over £10,000. This asks you to update details such as:

- Name of trustees
- Bank account and charity classification and activities

You are also asked to confirm that there have been no serious incidents, for example, fraud or lack of policy to protect vulnerable people (where appropriate). You must return this by the deadline written on the annual return. It is an offence not to submit it.

Who does not have to complete an annual return?

A charity with a gross income of up to £10,000 does not have to complete an annual return. The Charity Commission will send this category of charity an *annual information update form* which it should complete in order to keep its entry on the Charity Register up to date.

10.7.6 Registered status to appear on documents

A registered charity with a gross income of £10,000 or more in the last financial year is required by law to state on a range of documents that it is a registered charity and to quote its registration number. These documents include:

- Cheques
- Headed notepaper
- Advertisements
- Material placed on websites
- Any documents used for fundraising or membership purposes

More information

- You can find out more about accounting requirements on the Charity Commission website on their Charity Accounts Page, Help with preparing Charity Accounts and Reports at www.charitycommission.gov.uk/investigations/sorp/default.asp
- If your organisation needs advice on completing its annual return or annual update form – you can call Charity Commission Direct on 0845 300 0218

Section eleven

Glossary of financial terms

Accounting regulations	The Charities (Accounts and Reports) Regulations 1995 and 2000. The legal requirements under the 1993 Charities Act, for the content and form of charity accounts and the trustees' annual report.
Accruals basis	An accounting procedure which relates all income and expenditure to the financial period to which it applies.
Assets	Money, goods and property which an organisation possesses. On the balance sheet, this will include money owed to the organisation by debtors.
Bank reconciliation	A procedure used to check the accuracy of your bookkeeping – and also to identify errors made by your bank. See www.cash-online.org.uk CASHFACTS: Bank reconciliation.
Capital costs	Money spent on buying fixed assets .
Capital funds	see ' Endowment funds ' below
Capital grant	Money given specifically to buy fixed assets, such as office furniture or computers.
Cash	Cash paid, cash received, cash in hand and cash at bank refer to all forms of money, including cheques, standing orders, direct debits.
Creditors	People, companies or other organisations that are owed money by your organisation.
Crosscast	This is where you add the total column in the cash book and compare it to the sum of all the other columns, which should come to the same figure.
Debtors	People, companies or other organisations that owe money to your organisation.
Depreciation	A method of spreading the cost of a piece of equipment over the length of its useful life. For example, a computer might be depreciated over three years, so that at the end of this period, its value will be zero.
Designated funds	Unrestricted funds which have been allocated for a particular use by the management committee.

Endowment	Sometimes known as 'capital funds' this is a special type of restricted fund. The income from the capital can be used, but the trustees have no power to convert the capital into income.
Financial controls	A set of procedures that govern how a charity manages its finances. See www.cash-online.org.uk CASHFACTS: Financial controls.
Fixed assets	Items of significant value with a useful life of more than one year. For example, office equipment, land, buildings or motor vehicles.
General funds	Unrestricted funds which have not yet been allocated for a particular use by the management committee.
Gross income	All the income of an organisation for the financial year before deductions of any expenses. For the purposes of SORP, this excludes all capital (endowment) incoming resources, sale of fixed assets and sale of investments.
Inventory	A detailed list of articles, goods, property and so on
Liabilities	Amounts owed by the organisation on the date of the balance sheet. They will include creditors, loans and bank overdraft.
Petty cash float	A small cash fund (usually topped up monthly) used for minor expenses, such as volunteer expenses and stamps.
Quarter	A three-month period. Thus, the year is divided up into four equal quarters.
Receipts and payments account	A simple form of accounts which summarises all receipts and all payments for the financial year. This form of presenting the accounts is only permitted where unincorporated organisations have a gross income of less than £100,000
Restricted funds	Funds received by the organisation for a specific purpose, stated by the donor, which cannot be used for any other purpose. Any interest earned on restricted funds is also restricted to the purpose of the fund which earned the interest.
Revenue grant	Money given specifically to spend on running costs.
Running costs	Ongoing expenses, for example, electricity, rent, rates, salaries, stationery, postage and telephones

SORP	Statement Of Recommended Practice on Accounting and Reporting by Charities, approved by the Charity Commissioners for England and Wales. A charity does not have to follow the SORP by law, but will find it difficult to convince the Charity Commissioners that its accounts comply with the Accounting regulations if it does not.
Statement of assets and liabilities	A summary required for organisations preparing receipts and payments accounts. It is not the same as a balance sheet since non-monetary assets do not have to be valued.
Support costs	Part of the Direct Charitable Expenditure on the Statement of Financial Activities (SOFA) - see Section ten on Annual accounts. They may be the management of projects from a central office and may include a fair proportion of central office running costs.
Total expenditure	All the outgoings of the organisation in the financial year, excluding purchases of fixed assets and investments.
Unrestricted funds	Funds held for the general purposes of the organisation, to be spent within the stated objects.

Section twelve Useful contacts

Association of Charity Independent Examiners

Bentley Resource Centre
High Street Bentley
Doncaster DN5 0AA
Tel: 01302 828 338
Email: info@acie.org.uk
www.acie.org.uk

Business in the Community ProHelp

137 Shepherdess Walk
London N1 7RQ
Tel: 020 7566 8650
Email: information@bitc.org.uk
www.bitc.org.uk

The Resource Centre

Prior House
6 Tilbury Place
Brighton
BN2 0GY
Tel: 01273 606160

Email: info@resourcecentre.org.uk
www.resourcecentre.org.uk

CASH (Community Accountancy Self Help)

1 Thorpe Close
London W10 5XL
Tel: 020 8969 0747
Email: services@cash-online.org.uk
www.cash-online.org.uk

Charity Commission

The Charity Commission for England and Wales
Tel: 0870 333 0123
www.charity-commission.gov.uk

Charity Finance Directors' Group (CFDG)

3rd Floor
Downstream Building
1 London Bridge
London SE1 9BG
Tel: 0845 345 3192
Email: info@cfdg.org.uk
www.cfdg.org.uk

Community Accountancy National Network

Community Accounting Plus
1st Floor Ormiston House
32-36 Pelham Street

The Basis Project online toolkit
www.thebasisproject.org.uk

Nottingham NG1 2EG
Tel: 0115 947 0839
Email: enquiries@communityaccounting.co.uk.
www.communityaccounting.org

The Finance Hub

Charities Aid Foundation
St Andrew's House
18-20 St Andrew Street
London EC4A 3AY
Tel: 020 7832 3017
Email: financehub@cafonline.org
www.financehub.org.uk

Funder Finder

65 Raglan Road
Leeds LS2 9DZ
Tel: 0113 243 3008
www.funderfinder.org.uk

HM Customs and Excise

Has national enquiry line for VAT questions:
Tel. 0845 010 9000
www.hmce.gov.uk

Inland Revenue

Has a help-line for new employers.
Tel: 0845 714 3143
www.inlandrevenue.gov.uk

© Refugee Council and Refugee Action 2008

British Refugee Council, (commonly called the Refugee Council) is a company limited by guarantee registered in England and Wales, [No 2727514] and a registered charity, [No 1014576]. Registered office: 240-250 Ferndale Road, London SW9 8BB, United Kingdom

Refugee Action, The Old Fire Station, 150 Waterloo Road, London SE1 8SB, UK
Refugee Action is a registered charity
Charity no. 283660

This information has been produced by the Basis Project, run in partnership by the Refugee Council and Refugee Action, supported by the Big Lottery Fund (BIG). It is not intended to be comprehensive or to provide legal advice. No legal responsibility is attached to the publisher. It can be reproduced free of charge for non-commercial use, but credit must be given to the Basis Project and Refugee Council and Refugee Action.