

# SIMPLE ACCOUNTS

Keeping records is part of a group's overall financial responsibility. A group should have a financial policy or set of procedures that dictates how they handle money. This should include:

- ◆ opening a bank account in the group's name
- ◆ having two signatures on each cheque
- ◆ having a number of people authorised to sign cheques, e.g. 2 of 4
- ◆ keeping incoming and outgoing money separate
- ◆ setting amounts of money that sub groups, staff etc. can spend without the permission of the full management committee
- ◆ issuing receipts for money received
- ◆ obtaining receipts for money paid out
- ◆ paying all income into a bank or building society as soon as possible
- ◆ restricting access to the petty cash system
- ◆ keeping cash transactions to petty (small) amounts – pay as many bills as possible by cheque
- ◆ keeping detailed records of all transactions
- ◆ reconciling balances and transactions with bank statements as soon as these are received
- ◆ preparing and working to a budget ( see Links sheet on Budgeting and Budgetary Controls).



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## Record keeping

Keeping records of how much money has come into the organisation, where it has come from and how it has been spent is the process called book-keeping. Along with the books, documentation such as invoices and receipts must also be kept to prove that the money was spent in the way shown. It is good practice to keep this information for at least six years ( the required time for unincorporated charities).

The organisation should aim to keep books necessary to maintain adequate financial control and the information the committee needs. For small groups two books may be sufficient:

- ◆ the **cash analysis book**: to record money paid into and out of the bank (this includes cheques, standing orders and direct debits)
- ◆ the **petty cash analysis book**: to record incidental expenses made in cash

Subsidiary records might be needed to record additional detailed information that might be difficult to enter into the cash analysis book, e.g. full details of membership subscriptions.

Analysis books are books with columns in which you can separate different types of receipts/payments. They can be purchased ready made from large stationers, you can make your own, or you can set up a spread sheet on a computer. Whichever method you choose you need to know how many columns you will need to enter cash amounts. To establish this you must decide how you need to segregate your income and expenditure. You also need to file documentation in date order and give it a reference number. This allows easy access for the treasurer and the management committee or an accountant to examine the 'records'.

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The following is an example of a receipts page of a cash analysis book.

**Receipts 2002/2003**

Date	Source	Ref	Total £	Grants £	Subscriptions £	Fundraising £
05/04/02	Grant DCC	R1	500	500		
09/04/02	Annual Membership	R2	50		50	
09/04/02	April subscriptions	R3	25		25	
09/04/02	Raffle	R4	100			100
			675	500	75	100

The following is an example of a payments page of a cash analysis book:

**Payments 2002/2003**

Date	Source	Ref	Total £	Rent £	Postage £	Travel £	Fundraising £
09/05/02	Transport	203	100			100	
09/05/02	Rent	cash	5	5			
09/05/02	Raffle tickets	cash	5				5
			110	5		100	5

If you are buying a cash book you would need one with 5 cash columns to segregate your accounts in this way. You can use the same book for both receipts and payments even though you need more columns for one than the other. The date, source and a small column big enough for a reference number come as standard in all books. If you are ruling your own book or setting up a spread sheet you need to include all the columns that you will use.

Cash transactions should be kept to a minimum and all transactions should be recorded in a similar way to the cash book entries. Your group should decide how much cash you should keep in hand at any one time. If you make a lot of cash transactions you should make sure that your insurance policy covers you for the amount of cash you need. Whenever possible obtain a receipt, keep the receipts in date order, give them a consecutive number. You should enter details of the transaction – the amount, what it was for and the voucher number- into the petty cash analysis book.

To make sure that you have recorded all your transactions and that the bank has not made a mistake you need to check your bank statement against your cash book as soon as possible. This is called bank reconciliation. The balance on the bank statement and the balance in your cash book may be different because it can take a few days for credits and debits to appear on the bank statement. Cheques not presented should be taken away from the bank statement balance and payments not shown should be added. This should then make the balances in the cash book and on the bank statement the same. If they are not something is wrong. It is advisable to go back and recheck the figures entered in the cash book - you might have written the wrong figure down. Also check the figures on the bank statement- banks have been known to get figures wrong.

## ANNUAL ACCOUNTS

The final stage of accounts is the annual financial report, commonly called the 'accounts'. This is a statement that informs people of the current financial situation at the same date each year. This is called the financial year end. You can choose this date as there are no set rules as to what the date should be.

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A lot of groups however, choose 31<sup>st</sup> March because it is near the tax year end and coincides with most funders' grant rounds. The Annual Accounts will show:

- ◆ the sources of income during the past year
- ◆ funds brought forward from previous year
- ◆ a list of funders **not** just an entry entitled "grants"
- ◆ where the money has been spent under various headings
- ◆ funds carried forward to next year.

There are two kinds of accounts: Income and Expenditure and Receipts and Payments. For most groups the Receipts and Payments type is the one that is used. It is a summary of the cash book reflecting in a simple statement what money has been received and what has been paid out.

The balance sheet is designed to show how much the organisation is worth on a particular day (normally the last day of the financial period). To construct a balance sheet, list down the left hand side the analysis headings that you are using in your cash book. List all the income first then the payments second. In the next column fill in the total amounts for each heading – but round the figures to the nearest pound. You also need a column to compare the current year with the last year.

**The following is an example of a receipts and payments balance sheet:**

Balance sheet as at 1 <sup>st</sup> April 2003	2003	2002
	£	£
<b>Receipts</b>		
Grants	500	300
Membership	50	40
Subscriptions	300	250
Fundraising	1200	700
<b>Total receipts</b>	<b>2050</b>	<b>1290</b>
<b>Payments</b>		
Rent	60	60
Postage	35	30
Travel	1200	1000
Fundraising	180	100
<b>Total payments</b>	<b>1475</b>	<b>1190</b>
<b>Surplus/deficit</b>	<b>575</b>	<b>100</b>
<b>Bank balance</b>	<b>500</b>	<b>75</b>
<b>Cash in hand</b>	<b>75</b>	<b>25</b>
	<b>575</b>	<b>100</b>

An Income and Expenditure account is Receipts and Payments, but also includes money owed to and by the organisation, and payments made or income received in advance. It gives a more accurate surplus/deficit position but requires records that show not only what has been spent and received, but

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also the period to which that expenditure or income applies. It also includes the value of assets including property & equipment.

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If the organisation has a large amount of cash in hand at the end of the financial year then the accounts should show why. It is usual to separate the surplus into the following categories.

**Endowment Funds** - are those resources held by the organisation in a particular form of Restricted Fund and must be held permanently although usually any interest earned can be used.

**Restricted Funds** - are those resources held by the organisation that are subject to specific conditions imposed by the donor(s) – grant aid, special fundraising event.

**Designated Funds** - are those resources held by the organisation for purposes specified by the committee. The designation and removal of designation is at the discretion and decision of the committee.

**Unrestricted Funds** - are those held by the organisation for the general purposes of running the group.

These categories are important when applying for grants as many funders want to know about "free reserves" i.e. unrestricted funds and what designated funds are being held for and how much.

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