



Basic Accounting for Small Groups

Second Edition

with Exercises for Individual and Group Learning

John Cammack

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Preface

The thought of taking on the responsibility for keeping financial records fills many people with horror. ‘*What does it all mean?*’, ‘*What do I do with all these figures?*’, and ‘*Where do I start?*’ are common reactions. But proper financial management can be the key to the success of a venture, whatever its size, and the basic principles, being logical and consistent, are not difficult to apply – once they have been explained.

If you are running a small group or project without any experience of keeping accounts, this book is for you. It should help you to understand the basic rules and put them into practice with confidence. More detailed guidance will be needed in some cases, if (for example) you need to calculate profits in a trading operation. Such information is beyond the scope of this book; but if you have no other source of help, at least the system explained here will keep your records in order.

The first edition of this book was published in 1992. This second edition includes questions and activities (together with solutions), based on a case-study, to give you a chance to practise the steps involved. This is intended to build your confidence before you move on to apply the lessons that you have learned to your own circumstances.

No currency has been quoted in any of the examples in the book, because (we hope) it will be used in many different countries. Technical terms are printed in bold in the text and are explained in the Glossary (page 144).

This book is the result of many years’ experience of giving advice on financial systems to international development groups and organisations. The procedures which the book describes, however, are not specific to development programmes. It is hoped that it will be useful to any small group which needs to keep accurate records of its financial transactions.

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Many people who have participated in training events which I have facilitated have helped me, often unknowingly, to develop the material and my own understanding of the ways in which people learn. I thank them too.

Special thanks are due to Freda and Stephen, who have given me consistent support and enabled me to concentrate on the task of writing this new edition.

John Cammack
Oxford, 2003

Using the activities at the end of each chapter

This book is based on two fictitious case-studies. The first is *Primary Health-Care Programme*, featured in the main text; and the second is *Training for Development*, on which the activities are based.

The practical activities will be found at the end of each chapter. Their purpose is to build your confidence in keeping basic accounts in an imaginary context, and to develop skills which can be then used in a real organisation.

The length of these activities varies; you may be able to complete some of them in one session, for others you may need longer. Some of the activities are designed to go a little further than the text and encourage you to think through what the information means, and how it might be used.

You will find the solutions to the activities in Appendix 3. Although it is tempting to check if you have the right approach, it is probably better to attempt the question before referring to the answer!

The book aims, by itself, to provide enough help to enable a person without formal qualifications to maintain a basic accounting system. However, if you are doing the activities on your own, you may find it helpful to ask a friend or a colleague who has some experience of financial record keeping to act as your mentor or adviser. Such a person may increase your motivation to complete the activities, and help you, if you wish, to go further than the scope of this book allows.

1 Introduction: why keep accounts – and who should keep them?

‘Clear accounting maintains friendship.’

(Nicaraguan proverb)

Why keep accounts?

All small groups and projects need clear accounting, for a number of reasons:

- All members of the group need to know how much money is available, and how it has been spent.
- Accounting is often required by law.
- Donors – the people who have given money to the group – need to know how their funds have been used.
- The information provided by clear accounts helps to run the group.
- It ‘maintains friendship’, by showing that the person responsible for keeping the accounts is honest.

The aim of this book is to help you to maintain records of money coming in and going out; to show you how to make use of the information provided; and to show how to prepare a summary of the way in which the money has been used.

Who keeps accounts?

It is usual for a group to appoint one person to take a leading role in looking after financial information. This could be a paid book-keeper, or sometimes a member of the group. Such a person is often called the **treasurer**.

The treasurer will help members of the group to plan what they want to do with the available funds. Other duties include keeping accurate accounting records, preparing summaries of how money has been spent, and arranging for an independent person to check the accounts once a year. The treasurer will deal with the bank and arrange the payments of salaries and bills.

However, it is the responsibility of the entire group – or a **management committee** on its behalf – and any members of staff to ensure that the accounting is in good order, and that they understand the information presented by the treasurer. The group (or its committee) may rely on the treasurer for technical information, but everyone is responsible for sound financial management. This is because the money belongs to the group and to the people who have donated it.

What personal qualities should a treasurer have?

It is beneficial if a group appoints a treasurer who has some previous accounting experience. This is not always possible, but if you work your way through this book, you will understand the basic requirements for keeping accounts in good order.

The following are some of the qualities required in a treasurer. He or she should be

- honest, and seen to be honest
- methodical
- able to keep accurate records
- confident in dealing with money
- confident in communicating with employees of a bank and other organisations
- able to explain financial matters to people who have less experience.

It may be possible to give support to the treasurer if he or she is not confident to do all the technical tasks of accounting. Someone from outside the group may be able to provide this help, for example an **accountant**. Such a person may require payment for this service.

Activities for Chapter 1 *answers on p 108*

1.1

List five reasons why groups need to keep accounting information.

- a.
- b.
- c.
- d.
- e.

1.2

Mark each of your answers to the questions in 1.1 with the letter 'L' if the reason is required by the law or an outside organisation, or with the letter 'I' if it is needed for the group's internal purposes.

1.3

Name six qualities required in a person who is acting as treasurer.

- a.
- b.
- c.

- d.
- e.
- f.

1.4

Answer the following questions:

- a. What tasks would you expect a treasurer to do?
 - b. For each task listed in 1.4 (a), decide whether the level of skill required is high (**H**), medium (**M**), or low (**L**). If a treasurer does not have the skills required to complete all the high-level tasks, what could be done?
- c. Does anyone other than the treasurer of a group or organisation need to be concerned about the accounts? If so, who? And why?

2 Deciding what your group's activities will cost

The first stage in keeping accounts comes before any money has been spent! It is the stage when you decide what you want to do, and how much it will cost.

Establishing your plans

Firstly, you need to decide your **objectives** – that is to say, what you want to achieve – and secondly you should decide how your activities will help to achieve these objectives. This is not something that the person responsible for the accounts can do alone. As far as possible, every member of the group should be involved in the discussion, so that they will all feel committed to what happens.

The next stage should also be discussed with the entire group. This is to decide what is needed in order to achieve these objectives; for example:

- How many people will be needed?
- Will they need to travel?
- What materials are required?
- Will premises be needed?

You should then find out what these items will cost. Some of these costs will be more obvious than others. Sometimes you will need to talk with merchants or suppliers to obtain estimates of the cost of materials. You should choose the most appropriate estimate (which will not necessarily be the lowest).

After you have gathered together all the information about costs, you need to write it all down on paper, item by item. It is important at this stage to make sure that each type of cost is written down separately, as shown in Figure 1. This listing is called a **budget**.

How to construct a budget

The budget should cover a fixed period of time, for example, one year. In the examples used in this book, the financial year (January to December) is the same as the calendar year. This is not always the case.

The budget should include not only details of costs (also called **payments**, **expenses**, or **expenditure**), but also money that you know (or are fairly certain) you will receive. When you apply to donors for money, you will need to give them your proposed budget, excluding the amount of money that you hope they will give you.

Budgets usually include detailed calculations, for example '12 months' salary at 400.00 per month, plus employer tax and benefits of 360.00'.

Let's look at an example of a budget. Figure 1 relates to a primary health-care programme, but the same rules apply to all budgets.

Figure 1: Example of a budget

Primary Health-Care Programme budget for the period 1 January to 31 December 20--

Money coming in

Grant from donor (note 1)	19,000
Grant from Department of Health (note 1)	28,000
Miscellaneous sales (note 2)	<u>600</u>

Total **47,600**

Money going out

Salaries (note 3)	12,000
Rent of premises (note 4)	5,000
Purchase of drugs (note 5)	10,000
Medical supplies (note 6)	17,600
Electricity (note 7)	1,000
Office expenses (note 8)	<u>2,000</u>

Total **47,600**

Notes

1. Funding is confirmed for both grants.
2. Miscellaneous sales: drugs and medical supplies for 12 months at 50.00 per month.
3. Salaries: Medical Director: 12 months' salary at 400.00 per month, plus employer tax and benefits of 360.00 per year. Nurse and Administrator: 12 months' salary at 260.00 per month x 2, plus employer tax and benefits of 300.00 per year x 2.
4. Fixed contract for one year's rent.
5. Drugs: two purchases of 5,000.00 each, based on a detailed breakdown prepared by the Medical Director.

6. Medical supplies: four purchases of 4,400.00 each, based on a detailed breakdown prepared by the Medical Director.
7. Electricity: based on the current year's consumption, plus projected increase of 5 per cent.
8. Annual insurance of 170.00 and audit fee of 150.00 for the year. Postage (20.00), telephone (50.00), stationery (20.00), and travel costs (50.00): a total of 140.00 per month.

When you apply for money from a donor, you will need to submit your proposed budget. In Figure 1, two grants are included. This would indicate that these donors have already agreed to fund the programme. Copies of the detailed breakdown for drugs and medical supplies, notes 5 and 6, should be attached to the budget.

We will go through Figure 1 item by item, to see how the budget was made.

Grants

This budget assumes that the grants have already been agreed. There may be a stage before this when, for example, the Department of Health has definitely promised a grant, but the grant from the other donor is uncertain. If so, either it should be excluded from the budget, or a note could be written at the side of the item, to say that it is not guaranteed.

Miscellaneous sales

Some drugs or other medical supplies will be sold. It is always difficult to estimate how many sales there will be – particularly with medical programmes, because the demand for drugs and medical supplies is difficult to predict. The only way to estimate sales is to take your best guess, for example by calculating a monthly average, and try not to be too optimistic.

Salaries

Calculate the number of people employed by the group, and the amount paid to them. Remember to include any extra costs, such as insurance, government taxes, and benefits paid by the employer.

Rent of premises

If you have selected a building, the rent can be agreed with the owner. If you have not yet rented a building, find out what a similar one is likely to cost.

Purchase of drugs and medical supplies

For large items such as these, you should ask for written estimates from several suppliers.

Electricity

Ask other people in your area about the local charges for items such as electricity and water.

Office expenses

Although only one amount is included in the budget, in this example it covers a number of different items, such as insurance, audit, post, telephone, stationery, and travel costs. A breakdown of these is shown in the notes to the budget.

Remember that costs may rise from the time when you prepare your budget to the time when you spend the money. Try to allow for this in your calculations.

Breaking down the budget

The next stage of preparing the budget is to decide how much money will come in and go out in each individual month. Figures 2a and 2b give an example of how this breakdown looks, using the information in Figure 1. There are two reasons for presenting the budget in this way:

- It helps you to monitor money coming in and going out month by month. (We will look at this again in Chapter 9.)
- It shows whether or not you will have enough money coming in to pay for what is going out. There are three sections in this breakdown.
 - 1 Money coming in, listed by budget item, month by month (Figure 2a).
 - 2 Money going out, listed by budget item, month by month (Figure 2b).
 - 3 A summary of the money held at the start, plus the total coming in, less the total going out. This is shown month by month and can be used to show the times of the year when you are likely to run out of money (Figure 3).

In the example in Figure 3, the Primary Health-Care Programme has 1,000.00 held at 1 January and at the end of December, because the 'money coming in' and 'money going out' are exactly the same (47,600.00).

Figure 2b shows a few of the 'money going out' items as different figures for individual months. This may be because items have different payment dates. 'Office expenses', for example, show a total payment of 2,000.00 for the year; the payment of the insurance premium (170.00) is due in January, and the audit fee (150.00) is due in December; the other costs are spread evenly at a rate of 140.00 per month.

Figure 2a: Primary Health-Care Programme budget of money coming in, broken down January to December

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
MONEY COMING IN													
Grant from donor	9,500						9,500						19,000
Grant from Dept. of Health	14,000						14,000						28,000
Miscellaneous sales	50	50	50	50	50	50	50	50	50	50	50	50	600
Total [A]	23,550	50	50	50	50	50	23,550	50	50	50	50	50	47,600

Figure 2b: Primary Health-Care Programme budget of money going out, broken down January to December

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
MONEY GOING OUT													
Salaries	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Rent of premises	417	417	417	417	417	417	417	417	416	416	416	416	5,000
Purchase of drugs	5,000					5,000							10,000
Medical supplies	4,400			4,400			4,400			4,400			17,600
Electricity	83	83	83	83	83	83	83	83	84	84	84	84	1,000
Office expenses	310	140	140	140	140	140	140	140	140	140	140	290	2,000
Total [B]	11,210	1,640	1,640	6,040	1,640	6,640	6,040	1,640	1,640	6,040	1,640	1,790	47,600

Figure 3: Primary Health-Care Programme budgeted money available at the end of the month, January to December (cash-flow forecast)

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Money at start of month [C]	1,000	13,340	11,750	10,160	4,170	2,580	(4,010)	13,500	11,910	10,320	4,330	2,740
Plus total money coming in [A]	23,550	50	50	50	50	50	23,550	50	50	50	50	50
Less total money going out [B]	11,210	1,640	1,640	6,040	1,640	6,640	6,040	1,640	1,640	6,040	1,640	1,790
Money at end of month [C+A-B]	13,340	11,750	10,160	4,170	2,580	(4,010)	13,500	11,910	10,320	4,330	2,740	1,000

Brackets around the figure show that it is a negative amount. The monthly totals of money coming in and going out are identified by the letters [A] and [B] respectively. Letter [C] is the amount at the beginning of each month. In Figure 3 the amount held at the end of each month becomes the money held at the start of the following month.

In the example shown in Figure 3, the month of June (just before more money comes in) is the one when funds are expected to run out. To avoid problems, examine the breakdown carefully to see if you could pay for purchases later than planned, or ask the people giving you grants to pay slightly earlier. If this is not possible, you may need to arrange a temporary loan for the period when you have insufficient money.

A breakdown like the one shown in Figures 2 and 3 will alert you in advance to the financial situation, and whether or not you need to do anything about it. This is called a **cash-flow forecast** or **cash budget**. The information contained in this document should be up-dated each month.

Whenever you request funds from a donor or government department, or you need a bank loan, it is important to support your request with a budget and cash-flow forecast.

Towards the end of each year, you will need to prepare a budget and cash-flow forecast for the next financial year. When you are preparing a second budget, you will, however, have gained valuable experience of what is likely to happen, and how much items cost. You will, for example, know about any monthly variations in expenditure.

You must keep referring back to the budget and cash-flow forecast as the year progresses. Sometimes you will need to revise the figures. If you do, always tell your donors. It is helpful to prepare a budget for one or two years in advance; donors will sometimes ask for this.

Budgets and price increases

Because budgets are prepared in advance, price increases may affect items in your budget even before you start to spend. This is often referred to as **inflation**. You will be aware from your own personal finances what this means. There are no simple solutions to dealing with it!

You should build into your budget an amount to cover possible increases. There are several categories of price increase:

- *Items that are likely to increase in price.* If you do not know what the increase is going to be, the rate of previous changes will give you a guide. There may be a government forecast of how prices will increase. Use this with care, because governments tend to be over-optimistic! It is far better to use your own best estimate.
- *Salaries* are more difficult to estimate, because they will depend on the general level of price increases. Unless you have already agreed on salary increases for the following year, you will have to put your best estimate in the budget. Such a guess can lead to trouble: staff may assume that it will be a reality.
- *Items to be purchased at a fixed price:* if you have already agreed a price with a supplier, you should include that figure.
- *Increase in income:* remember that if inflation occurs, you may also increase your fees and charges. Include this in your income.

However you calculate the budget items, it is essential to keep a record of your working figures, to show to donors. This is especially important if you estimate the budget incorrectly. Donors may be willing to consider giving you a supplementary grant, but only if you can show how the original budget was calculated, and what has happened to change it.

Keeping to the budget

Preparing the budget is the first step. However, it is vital to compare the budget figures with what has actually happened as you go through the year. Advice on monitoring the budget is included in Chapter 9.

Key points of this chapter

- Establish your objectives, and involve everyone in the decisions.
- Decide what is needed to fulfil these objectives.
- Work out the costs, with help from other people.
- Write the costs down, item by item, for a fixed period of time.
- Record details of money coming in and money going out month by month.
- Use the budget and the cash-flow forecast when applying for funds.
- Prepare a similar budget for each year.
- When an increase in prices is likely to occur, include these costs in the budget, and keep a record of all your calculations.

Activities for Chapter 2 *answers on pp 109–112*

2.1

A group called *Training for Development* has recently started to provide courses. Courses take place near to where the participants live. List the items of 'money coming in' and 'money going out' that may occur during the first year.

Money coming in

Money going out

2.2

Using the following information about the income and expenditure that *Training for Development* is expecting next year, make a list of the main amounts (only) that you expect for each item of 'money coming in' and 'money going out'. Calculate the total for each section of the budget. (Note: extra information is included here for use with activity 2.3.)

- The group has already been allocated a 'start-up' grant of 25,000.00 by the Department of Education, to cover the cost of office and training equipment.
 - Two grants from donors of 30,000.00 and 40,000.00 have been confirmed.
 - Fees for training are expected to be 66,000.00 (based on 10 courses per month, producing 550.00 each). The proceeds from the sale of materials are estimated at 1,200.00 (based on sales worth 100.00 per month).
 - The group's Co-ordinator will be paid 12,000.00 per year; the Administrator will receive 9,000.00 per year; and four part-time trainers will each be paid 6,000.00 per year. All these salaries include employer's taxes.
 - The fixed contract for rent of an office has been agreed at 12,000.00 per year.
- There will be the following yearly costs:
 - Electricity (7,000.00); water and telephone (10,000.00 combined): a total of 17,000.00.
 - Training materials: 6,000.00 (based on 10 courses per month at 50.00 per course).
 - Office expenses (including an audit fee of 5,000.00 and other costs at 750.00 per month): total 14,000.00.
 - Travel and accommodation costs: 18,000.00 (based on five people at 300.00 per month).
 - Hire of training rooms: 21,000.00 (based on five courses per month at 350.00 each; other accommodation will be provided by trainees' own organisations).
 - Office equipment will cost 13,000.00 (four desks at 500.00; seven chairs at 250.00; filing cabinet at 700.00; additional furniture for offices at 8,550.00); and training equipment 11,000.00 (overhead projectors and screens at 4,800.00; video and television at 3,000.00; and audio equipment at 3,200.00).

2.2

cont'd

Money coming in
Item

Amount

Money going out
Item

Amount

2.3

Using the details in activity 2.2, write notes to accompany the budget. These should provide the detailed calculations for the budget figures. (The first two notes have been included to start you off.)

Notes

1. Funding is confirmed for all grants.
2. Fees for training, based on 10 courses per month, producing 550.00 each.

2.4

If you were donating funds to *Training for Development*, what questions would you ask the group when you received a copy of the details listed in 2.2?

What information might the group provide to accompany the budget, to anticipate these questions?

Questions for *Training for Development* Information to provide

2.5

Having prepared its budget, the group has provided details of when money will come in and go out (see opposite). Use this information to complete an outline cash-flow forecast (Figure 4) for April to December, by

- a. Entering the sums of 'money coming in' and totalling them.
- b. Entering the sums of 'money going out' and totalling them.
- c. Calculating the closing balance at the end of each month.

The forecast for the first three months has been done for you.

Budget item	Money coming in
• 'Start-up' grant (Dept. of Education) 25,000	Received January
• Grants from donors - 30,000	Received January/ May (half each)
40,000	Received June
• Fees for training 66,000	Received monthly
• Sale of materials 1,200	Received monthly
Budget item	Money going out
• Co-ordinator's salary 12,000 per year	Paid monthly
• Administrator's salary 9,000 per year	Paid monthly
• Four part-time trainers' salaries at 6,000 each per year, totalling 24,000	Paid monthly
• Office rent 12,000 per year	Paid January/June (half each)
• Water charges 7,000 per year	Paid January
• Electricity and telephone, total 10,000 per year	Paid March/June/ September/December (quarterly)
• Training materials 6,000 per year	Paid monthly
• Office expenses 14,000 per year (including audit fee of 5,000)	Paid monthly (audit fee paid December)
• Travel and accommodation 18,000 per year	Paid monthly
• Hire of training room 21,000 per year	Paid monthly
• Purchases of office equipment 13,000 and training equipment 11,000	Paid January

Figure 4: Training For Development cash-flow forecast for 1 January to 31 December

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
MONEY COMING IN													
DOE 'start-up' grant	25,000												
Grant – donor 1	15,000												
Grant – donor 2													
Fees for training	5,500	5,500	5,500										
Sale of materials	100	100	100										
Total [A]	45,600	5,600	5,600										
MONEY GOING OUT													
Co-ordinator's salary	1,000	1,000	1,000										
Administrator's salary	750	750	750										
Trainers' salaries	2,000	2,000	2,000										
Office rent	6,000												
Electricity, water, telephone	7,000		2,500										
Training materials	500	500	500										
Office expenses (incl. audit)	750	750	750										
Travel/accommodation	1,500	1,500	1,500										
Hire of training rooms	1,750	1,750	1,750										
Office equipment	13,000												
Training equipment	11,000												
Total [B]	45,250	8,250	10,750										
Money at start of month [C]	0	350	(2,300)	(7,450)									
<i>Plus</i> total money coming in [A]	45,600	5,600	5,600										
<i>Less</i> total money going out [B]	45,250	8,250	10,750										
Money at end of month [C+A-B]	350	(2,300)	(7,450)										

Brackets around the figure show it is a negative amount.

The monthly totals of money coming in and going out are identified by the letters [A] and [B] respectively. Letter [C] is the amount at the beginning of each month.

The amount held at the end of each month becomes the money at the start of the following month.

2.6

On the evidence of the cash-flow forecast, what problems are likely to arise for *Training for Development*? How could these problems be solved?

Problems

Solutions

2.7

If a donor saw this cash-flow forecast, what comments would you expect to receive?

Comments from the donor

2.8

If you have access to a computer, try putting the answer to Activity 2.5 on to a spreadsheet programme.

3 Records of money coming in and going out

One of the most important rules in keeping accounts is to *make sure that everything is written down, and that every piece of paper is kept*. However, without any previous experience of keeping accounts, it is difficult to know how to write things down. This chapter will show you the way to do it.

Recording the money

First, you can divide the finances of your group into two parts: money coming in, and money going out. You will need a book to use for this purpose only. It is called a **cash book**, because it records money (cash) coming in and going out. You can either buy a cash book with lines already drawn, or use an exercise book and draw your own lines, as shown in Figure 5.

This page is then ready for you to write down any money that comes in or goes out of the group, the date when it happens, what it is, how much it is, and (in the balance column) how much cash is left.

Figure 5: Layout of a cash book

Date	Details	Cash amount IN	Cash amount OUT	Balance

Figure 6: Example of a completed cash book

Date	Details	Cash amount IN	Cash amount OUT	Balance
1 Jan	Opening balance	1,000.00		1,000.00
3 Jan	Grant from donor	9,500.00		10,500.00
3 Jan	Stationery for office		10.00	10,490.00
5 Jan	Purchase of medical supplies		650.00	9,840.00
7 Jan	Driver's salary		200.00	9,640.00
7 Jan	Purchase of drugs		3,450.00	6,190.00
9 Jan	Grant from Dept. of Health	7,000.00		13,190.00
9 Jan	Sale of drugs	14.50		13,204.50
10 Jan	Cash to bank (grant paid in)		7,000.00	6,204.50

Figure 6 gives an example of a completed cash book. This example, and others which follow, assume that the group had some cash available to use at the beginning of the month. This is referred to as the **opening balance**.

Figure 6 shows a record of cash coming in and going out. It also gives the balance of cash after each entry has been included. This is important, because it shows how much should remain, and enables you to count the actual cash to make sure that it agrees with the cash book. The cash must be counted regularly. If the amount you have counted does not agree with the balance in the cash book, it may be that you have miscounted the cash, or forgotten to write something down, or made an error in addition or subtraction (mistakes which you can correct). More seriously, it could be that some money has been lost or stolen. If so, it is essential to know this as soon as possible and alert the group leader.

Figure 6 shows that 7,000.00 in cash was paid into the bank on 10 January. This was the grant, received on 9 January. (Chapter 5 shows how this would be accounted for in the bank records.)

As far as possible, entries should be recorded in date order. We have already noted that it is important to write everything down, and that every piece of paper relating to money should be kept. We will now look at the pieces of paper that you are likely to need.

Payment receipts

When you pay an amount in cash, for example the driver's salary in Figure 6, you could just hand over the money. However, one day the driver might claim that he or she was not paid. Although you may be certain that you did pay the salary, there would be no written proof of this.

To avoid this type of situation arising, every time you pay a salary, or indeed any other item, you must ask the person receiving the money to sign, or make their mark/thumb-print, for it. This signed piece of paper is called a **receipt**. All receipts must be kept together in a separate file. Figure 7 shows an example of a receipt. Some people refer to receipts as **vouchers**.

Figure 7: Example of a receipt

GROUP NAME	
	Receipt number
Date	Amount
Received from	
Description	
Received by	

Each receipt should be numbered (if at all possible, they should all be pre-numbered before you start to use them), and its number should be written against the entry in the cash book, as shown in Figure 8. This makes it easier to find the receipt.

If any other paperwork is available (such as a request for payment from a merchant or supplier – called an **invoice**), this too should be attached to the receipt and filed. In the future, these documents will show exactly what happened.

Income receipts

In the same way, when people give money to your group, they will want a receipt from you, to prove that they have paid you the money. Even if they do not ask for one, it is good practice to give them a receipt. You will need to keep a duplicate copy of this for your own records, which should be filed in an income-receipts file.

The format of an income receipt can be the same as the payment receipt, but it is helpful to identify them in some way – perhaps by a different colour – and to have a different sequence of receipt numbers, as shown in Figure 8 (500 to 502). Again, the receipts should be pre-numbered, and these numbers should be included in the cash book for reference.

Unfortunately, the word 'receipts' has two meanings. Firstly, it means these signed pieces of paper. But secondly, accountants and book-keepers use it to mean money coming in. It has a similar meaning to the word 'income'. When the word 'receipts' is used for money coming in, the word used for money going out is 'payments'.

Figure 8: Example of a cash book with receipt numbers

Date	Details	Receipt number	Cash amount IN Receipts	Cash amount OUT Payments	Balance
1 Jan	Opening balance	–	1,000.00		1,000.00
3 Jan	Grant from donor	500	9,500.00		10,500.00
3 Jan	Stationery for office	1		10.00	10,490.00
5 Jan	Purchase of medical supplies	2		650.00	9,840.00
7 Jan	Driver's salary	3		200.00	9,640.00
7 Jan	Purchase of drugs	4		3,450.00	6,190.00
9 Jan	Grant from Dept. of Health	501	7,000.00		13,190.00
9 Jan	Sale of drugs	502	14.50		13,204.50
10 Jan	Cash to bank	-		7,000.00	6,204.50

For the remainder of this book, we will use the words 'receipts' and 'payments' to describe money coming in and going out. The cash book will then look like the example in Figure 8. (Note that the opening balance is the cash already held, so it does not need a receipt number.)

Another method of presentation

Receipts and payments may be shown on separate pages of the cash book, which would look like the example in Figure 9.

This needs more space in your book, and no 'balance' column is shown. To find the balance (at any time), you need to add up all the payment amounts, and subtract this total from the total of the opening balance, plus all the receipts amounts. You can then total the cash columns (as shown in Figure 9) and write down the closing balance. (Note that there are no cash entries in this example after 10 January.)

Whichever way the cash book is presented, a total of the cash balance must be shown at the end of each month. You will also wish to calculate and count the cash balance during the month, possibly daily or weekly. This will ensure that the balance is the same as the cash that is actually held.

At the beginning of each month, start a new page in your cash book, and write in the opening balance figure, which is the **closing balance** at the end of the previous month.

Figure 9: Example of a cash book with receipts and payments shown separately

RECEIPTS				PAYMENTS				
Date	Details	Receipt number	Cash amount	Date	Details	Payment number	Cash amount	
1 Jan	Opening balance	–	1,000.00	3 Jan	Stationery for office	1	10.00	
3 Jan	Grant from donor	500	9,500.00	5 Jan	Purchase of medical supplies	2	650.00	
9 Jan	Grant from Dept. of Health	501	7,000.00	7 Jan	Driver's salary	3	200.00	
9 Jan	Sale of drugs	502	14.50	7 Jan	Purchase of drugs	4	3,450.00	
				10 Jan	Cash to bank	–	7,000.00	
	Total		17,514.50		Total		11,310.00	
							Closing balance (10 January)	<u>6,204.50</u>

Rules to help you to control your cash

So far, we have looked at accounting for money, but not at the actual cash itself (that is, the notes and coins). There are a few rules to make your cash control much easier.

- 1 Always keep your cash secure, preferably in a lockable tin which is kept in a safe or locked cupboard. Keep the key securely.
- 2 Make sure that only one person is responsible for the cash. Whenever a new person takes on this task, the outgoing person and the incoming person should count the cash and agree the amount together. This should be written down and signed by both.
- 3 Ideally, the person responsible for the cash should be a different person from the one keeping the accounts.
- 4 Someone in a senior position within the group (for example, the project or group leader) should count the cash regularly, and agree the figure with the cash book. This helps the person looking after the cash, because it shows him or her to be honest.
- 5 A senior person should also authorise any large or unusual payments. You may like to set a limit, beyond which the person handling the money should obtain (written) approval for expenditure.
- 6 Always issue receipts for any cash received or paid, and make an entry in the cash book.
- 7 It is often possible to obtain insurance to cover the holding of cash. If amounts are large, it is worth considering this. (If you do, don't forget to include the cost of the insurance premium in your budget.)
- 8 You should know in advance how much cash you are likely to need. Don't wait until you need to pay someone before realising that you have no money left.
- 9 If your group's money is running out, take action as soon as possible.

Key points of this chapter

- Keep all documents relating to the accounts.
- There should be a piece of paper to support every transaction.
- Open a cash book to record money coming in (receipts) and money going out (payments).
- Record all details as you go along, in date order.
- Remember that the word 'receipts' has two meanings: one relates to money received, the other relates to the piece of paper which says that an amount of money has changed hands.
- Have pre-numbered receipts available to be signed by people to whom you give money, and for you to sign when you are given money.
- File receipts for receipts and for payments separately, along with any other relevant paperwork.
- Include the receipt numbers in your cash book as a reference.
- Count the cash regularly, and agree the total with the balance in your cash book.
- Make sure that you use the rules to control your cash.

The cash book will be enough to record what is happening to the cash for very small groups. The next chapter will show you a way of arranging the information in a more useful order for groups which have more than, say, 20 or 30 entries in the cash book each month.

Activities for Chapter 3 *answers on pp 113–118*

3.1

Training for Development began its work in January. The following details show what the group received and paid out.

Money coming in		Amount
January 1	Fees for training	1,300
January 4	Fees for training	2,800
January 10	Sale of booklet	25
January 15	Fees for training	1,350
January 20	Sale of materials	15
January 27	Sale of booklet	25
Money going out		
January 4	Purchase of stationery	400
January 4	Purchase of desks	1,000
January 7	Photocopying training booklets	200
January 7	Purchase of training materials	900
January 9	Purchase of stationery	250
January 10	Hire of training rooms	400
January 14	Purchase of filing cabinet	700
January 19	Travel expenses: Co-ordinator	320
January 25	Purchase of small office items	240

- Enter this information in the cash book in Figure 10. Enter the items from the 'money coming in' and 'money going out' sections in date order. A few entries have been included to start you off.
- Calculate the balance after each transaction.

Figure 11d

TRAINING FOR DEVELOPMENT

Receipt number **4**

Date Amount

Received from

Description

Received by

Figure 11f

TRAINING FOR DEVELOPMENT

Receipt number **6**

Date Amount

Received from

Description

Received by

Figure 11e

TRAINING FOR DEVELOPMENT

Receipt number **5**

Date Amount

Received from

Description

Received by

3.3

- a. Using Figure 12, use the same information given in activity 3.1 to prepare the cash book, showing 'receipts' and 'payments' separately.
- b. Enter the 'receipt numbers' from activity 3.2; and the 'payment number' for payments, in a sequence starting with P1.
- c. Total the two cash-amount columns.
- d. Calculate the closing balance at 31 January (total receipts *less* total payments) and enter this figure below the table.
(Check to see that it is the same figure shown in activity 3.1.)

3.4

After the cash book has been prepared, the actual cash in the cash box will be counted. Figure 13 shows the notes and coins that are in *Training for Development's* cash box.

Figure 13: *Training for Development* cash counted in cash box at 31 January

Denomination of notes	Number of notes
20	11
50	8
100	1

Denomination of coins	Number of coins
1	33
5	17
10	27

- a. Use the table in Figure 14 to calculate the total amount of cash. Compare this with the balance as at 31 January, shown in the cash book in activity 3.3.

- b. Explain the action that you would take in case of any difference.

Figure 14: *Training for Development* cash count as at 31 January

Cash counted:					
	Denomination	<i>multiplied by</i>	Number	<i>equals</i>	Total value
Notes:	20	X		=	
	50	X		=	
	100	X		=	
Coins:	1	X		=	
	5	X		=	
	10	X		=	
Total cash counted					_____
Cash-book balance at 31 January					
Difference* (if any)					_____

*Action taken regarding any difference:					
Counted by Date					
Agreed by Date					

3.5

Which of the answers (a)-(d) do you consider the most appropriate for each of the following questions? State the reason why you have chosen this answer.

1 Where, ideally, should cash be kept at night?

- a. Anywhere, as long as it is in a locked tin.
- b. In a locked tin placed in a lockable cupboard or safe.
- c. Taken home by the person responsible.
- d. Left with the office guard until the person responsible returns the next day.

Reason

.....

2 What should the person responsible for the cash do if the group is running out of money?

- a. Alert the group leader as soon as possible.
- b. Keep going until all the money is used up.
- c. Ensure that there is enough money to pay for essential items.
- d. Ask friends to provide a loan.

Reason

.....

3 If payment for a large unusual item is required, what should the cashier do?

- a. Pay it if there is enough money available.
- b. See if the item is in the budget before payment is made.
- c. Obtain written approval from a senior person within the group.
- d. Go to the bank to obtain more money.

Reason

.....

4 Why should a receipt be issued each time cash is received?

- a. So that the person paying the money has proof of payment.
- b. In case an auditor inspects the accounts.
- c. To ensure that proper control of cash is in place.
- d. In case the cash book is lost.

Reason

.....

4 Arranging your records to give more information

If you have read Chapter 3, and you think that the way of completing a cash book that is shown there is sufficient for your group, there is no need to read this chapter. However, if you want to extract more information from your accounts, or if you just want to make sure you are not missing anything, then read on!

One of the problems with the cash book that we looked at in Chapter 3 is that, although it will tell you exactly what cash has come in and gone out, and the balance of cash left, it does not tell you anything about the money.

The analysed cash book

You are likely to need to know, for example, how much of the money recorded in the cash book refers to income from grants, rather than income from sales, and how much has been spent on salaries, rather than on the purchase of medicines. With only a few entries in the cash book, you can easily add them up. However, as the number of entries increases, you will need to have a system to help. This is done in an **analysed cash book**, which, in addition to the cash-book columns, has extra columns which show what *type* of money it is. More space will be required when completing an analysed cash book, so you need either to rule up a larger book, or to buy a book ready ruled.

Let us look at an example, using the same figures as we used in the previous chapter. Because of lack of space here, we will first look at the receipts side (Figure 15), and then at the payments side (Figure 16).

A few points to note from the analysed cash book:

- The figure received or paid is always listed in the amount column and then again in one of the other columns.
- The headings are the same as those included in the budget. This will help when you compare the actual figures with the budget figures.
- There is an extra column, called 'other', on both the receipts side and the payments side. This is useful in practice, because items arise which do not belong under any one heading. If a payment, for example, does appear here, you may well want to question why the money was spent, because it would not have been included in the budget.
- On the payments side on 10 January, the 'cash to bank' item represents money paid into the bank. In these cash records, it is shown in the 'other' column. Chapter 5 will show how this item is recorded in the bank records.
- At the end of the month, you need to add up all the columns. The total of all the analysed receipts columns (ignoring the amount column) should equal the total of the receipts amount column. (In Figure 15, for example, $1,000.00 + 16,500.00 + 14.50 = 17,514.50$.) If it does not, you have entered something in the wrong place. (Remember that you have entered each item in two columns.)
- Similarly, the total of all the analysed payments columns (other than the amount column) should add up to the total of the payments amount column. (In Figure 16, for example, $200.00 + 3,450.00 + 650.00 + 10.00 + 7,000.00 = 11,310.00$.)
- The cash balance can be obtained by subtracting the total of the payments amount column from the total of the receipts amount column.

Figure 15: Receipts side of an analysed cash book

Date	Details	Receipt number	Cash amount	Opening balance	Grants	Sale of drugs	Other receipts
1 Jan	Opening balance	–	1,000.00	1,000.00			
3 Jan	Grant from donor	500	9,500.00		9,500.00		
9 Jan	Grant from Dept. of Health	501	7,000.00		7,000.00		
9 Jan	Sale of drugs	502	14.50			14.50	
31 Jan	Totals		17,514.50	1,000.00	16,500.00	14.50	–

Figure 16: Payments side of an analysed cash book

Date	Details	Payment number	Cash amount	Salaries	Rent	Drugs	Medical supplies	Electricity	Office expenses	Other payments
3 Jan	Stationery for office	1	10.00						10.00	
5 Jan	Purchase of medical supplies	2	650.00				650.00			
7 Jan	Driver's salary	3	200.00	200.00						
7 Jan	Purchase of drugs	4	3,450.00			3,450.00				
10 Jan	Cash to bank	–	7,000.00							7,000.00
31 Jan	Totals		11,310.00	200.00	–	3,450.00	650.00	–	10.00	7,000.00

Key points of this chapter

- An analysed cash book will be useful if you have more than 20 or 30 entries in your cash book each month. It will give you more details of the money that you have received and paid.
- You will need more space for this, and it is easier if the receipts and payments are on separate pages.
- Each part will have an amount column, and analysis columns drawn up using the headings from the budget.
- The amount received or paid is always entered twice: once in the amount column, and once in an analysis column.
- The total of the receipts amount column will be equal to the total of all the receipts analysis columns. This will also be the case for payments.

Activities for Chapter 4 *answers on pp 119–121*

4.1

Complete the following sentences:

- The extra columns of an analysed cash book show the of money that has been spent.
- The headings of the columns in an analysed cash book should follow those shown in the Some categories might have to be grouped together, because there is a limited number of
- It is good practice to have a column entitled on each of the receipts and payments sides of an analysed cash book.
- At the end of the month the columns should be
..... . The total of all totals of the analysed columns for receipts should be the same as the total amount of the column.
- The cash balance at the end of the month can be found by subtracting the total amount of the column for from the total amount of the column for

4.2

Training for Development wish to provide further information in their cash book. They will use the budget headings in the receipts and payments columns, as follows:

Receipts

- Grants from donors
- Fees for training
- Sale of materials
- Other receipts

Payments

- Salaries
- Rent/electricity/water/telephone charges
- Training materials
- Office expenses (including audit fee)
- Travel/accommodation
- Hire of training rooms
- Office/training equipment
- Other payments

4.2

cont'd

- a. Using Figures 17a and 17b, and the information shown in the cash book (from activity 3.1), prepare an analysed cash book for the month of January.
- b. When the information has been included, add up the columns and make sure that the total of the analysis columns is the same as the total of the cash amount column.

Figure 17a: *Training for Development* analysed cash book (receipts side)

Date	Details	Receipt number	Cash amount	Opening balance	Grants from donors	Fees for training	Sale of materials	Other receipts
1 Jan	Opening balance		0	0				
	Totals							

Figure 17b: *Training for Development* analysed cash book (payments side)

Date	Details	Payment number	Cash amount	Salaries	Rent/ electricity/ water/ telephone	Training materials	Office expenses (incl. audit)	Travel/ accommodation	Hire of training rooms	Office/ training equipment	Other payments
	Totals										

Closing balance _____

4.3

If you have access to a computer, try preparing the analysed cash book in Activity 4.2 on a spreadsheet programme.

5 Bank accounts

As any group grows, there comes a point when it can no longer rely on cash for everything. It will also need to use a bank account.

What the bank will offer

Most banks can operate a range of accounts for you.

Current account

A **current account** is the most common type of account. It is sometimes referred to as a **cheque** (or **check**) **account**. You can pay money in, and write cheques to make payments, as often as you like (as long as there is enough money in the account!). Sometimes it is possible to take out more money than you have in the account; this is called an **overdraft**. It can only be done with the agreement of the bank, and you will have to pay to do it; the charge is called **interest**.

Banks will often make a charge for operating your account (called a **bank charge**). They are unlikely to pay you interest on a current account.

Deposit and savings accounts

If you have money which you do not need for some time, it can usually be placed in a **deposit account**. The bank is likely to pay you **interest** for holding the money in the deposit account, but you will usually have to tell the bank in advance if you want the money repaid. Your bank may also offer you a **savings account**, paying a different rate of interest from a deposit account, possibly with extra restrictions. Sometimes the deposit and savings accounts are the same.

How to account for bank accounts

Accounting for your money at the bank is similar to accounting for cash. Instead of a cash book, you need a **bank book**. This is *your* record of your money at the bank, and it should be kept accurately. Sometimes the term **cash book** is used (rather than bank book) to mean the cash *and* bank records. Here we will distinguish between the two records by using the separate names.

You can buy a bank book, or draw lines in an exercise book, as with the cash book. In reality, it may be the same physical book, with the cash part at the beginning and maybe the bank part towards the end. It is also useful to have separate pages (usually opposite each other) in the bank book, to show money coming into the account, and money going out of it. Figure 18 shows an example.

In the bank book, people often use the 'paying-in reference' as a receipt number. Therefore the 'receipt number' column is not needed, because any paperwork will be filed under the paying-in reference number. Items received into the bank account will not need a receipt in the way that cash receipts do.

As with the cash book, we can obtain an up-to-date (or 'closing') bank-book balance by subtracting the payments total from the receipts total. In Figure 18, the balance will be $7,147.00$ less $6,150.00 = 997.00$.

If you have more than one bank account (for example, a current account and a deposit account), it is important to keep a separate bank book, or separate pages in the same bank book, for each account.

Figure 18: Example of entries in a bank book

RECEIPTS				PAYMENTS				
Date	Details	Paying-in reference	Bank amount	Date	Details	Payment Number	Cheque number	Cash amount
1 Jan	Opening balance	–	0	10 Jan	Rent of premises	5	1701	2,500.00
10 Jan	Cash to bank (grant paid in)	856	7,000.00	11 Jan	Medical supplies	6	1702	3,000.00
10 Jan	Sale of drugs	857	20.00	16 Jan	Purchase of drugs	7	1703	550.00
12 Jan	Sale of medical supplies	858	127.00	27 Jan	Office equipment	8	1704	100.00
	Total		7,147.00		Total			6,150.00
Closing balance (31 January)								<u>997.00</u>

Transfers between cash and bank

When cash is paid into the bank account, or when a cheque is written for cash, this will affect both your cash book and your bank book. Firstly, if you pay cash into the bank (as on 10 January), your cash balance will *decrease*, and your bank balance will *increase*. Your cash and bank books will look like Figure 19.

Secondly, if you decide that your cash is low and you wish to take money out of your bank account by writing a cheque, your bank balance will *decrease*, and your cash balance will *increase*. Your cash and bank books will then look like Figure 20.

Always remember to make entries in both your cash book and your bank book, if you pay cash into the bank or take cash out of the bank.

Figure 19: Entries in the records when cash is paid into the bank

BANK-BOOK RECEIPTS			
Date	Details	Paying-in reference	Bank amount
10 Jan	Cash to bank	856	7,000.00

CASH-BOOK PAYMENTS			
Date	Details	Payment number	Cash amount
10 Jan	Cash to bank	–	7,000.00

Your cash balance will *decrease* and your bank balance will *increase*.

Figure 20: Entries in the records when cash is taken out of the bank

CASH-BOOK RECEIPTS			
Date	Details	Receipt number	Cash amount
14 Feb	Bank to cash	–	600.00

BANK-BOOK PAYMENTS				
Date	Details	Payment number	Cheque number	Bank amount
14 Feb	Bank to cash	–	1708	600.00

Your bank balance will *decrease* and your cash balance will *increase*.

Points to remember when filling in your bank book

- 1 The bank may give you a **bank paying-in book** with which to pay cash and cheques into your account. Each form has either two copies, one for the bank and a copy for you to keep, or one form plus a 'stub' for you to retain. If the bank does not give you a special book, it will provide paying-in slips for this purpose, and you should retain a record of the slip, which the bank should stamp and initial. This is proof that you have paid the money in. The bank paying-in slip (if available) should then be filed according to the paying-in reference order (shown in Figures 18 and 19). If the number is not given by the bank, you should start your own sequence.
- 2 The items received that are recorded in your bank book will be either money that you have paid into the bank, or amounts that have been paid directly into your account by someone else. The bank will sometimes give you additional details about money paid in by other people. You should file this information from the bank together with the paying-in slips.
- 3 The payments part of your bank book includes a column for a payment number. You could ask the person receiving a cheque to sign a receipt (as you should in the case of cash). However, it is not so important to obtain a receipt for cheque payments. Many large organisations do not bother with receipts for payment by cheque. However, it is useful to start a sequence of 'payment number' references, whether or not receipts are received. All paperwork (for example, invoices) can then be filed in order of the payment numbers.
- 4 Each time a payment is made, the cheque number (or the last three or four digits) should be written in the bank book.

Two other methods of presentation

It is possible to arrange the bank book in an analysed format, as shown with the cash book in Chapter 4. Extra columns would be needed to record the paying-in references and cheque numbers. Another possible presentation would be to combine the cash book and bank book columns into one book. The column headings would then look like Figure 21. This method looks slightly more complicated than keeping separate books, but it means that all related information is kept in one place. Find the presentation which suits your group best. As mentioned above, this combined book may be called simply the 'cash book', even though it contains bank entries as well.

Key points of this chapter

- There are different types of bank account: current, deposit, and savings.
- Start a bank book and enter in it everything that happens in the bank account.
- Use a separate page in the bank book for items going in (receipts) and items going out (payments).
- An analysed bank book will show you the type of payment made from the bank.
- You can combine the cash book and the bank book. Sometimes this is simply called the 'cash book'.
- When transfers of money are made between bank and cash, always remember to make an entry in both records.

Figure 21: Headings of a combined cash and bank book

RECEIPTS						PAYMENTS					
Date	Details	Receipt number	Paying-in reference	Cash amount	Bank amount	Date	Details	Payment number	Cheque number	Cash amount	Bank amount

Activities for Chapter 5 *answers on pp 122–127*

5.1

List all that you know about these three topics:

- Bank current account.
- Bank deposit account.
- The difference between cash and bank amounts, in accounting.

5.2

The following amounts were paid through *Training for Development's* bank account in January. (Paying-in references or cheque numbers are shown in the reference column.)

		Amount	Reference
Money paid directly into the bank			
January 5	Start-up grant	25,000	201
January 14	Grant from donor 1	15,000	202
January 15	Fees for training	480	203
Money paid out by cheque			
January 4	Rent	6,000	406781
January 7	Purchase of office chairs	1,750	406782
January 16	Water charge	6,670	406783
January 16	Purchase of overhead projectors and screens	4,800	406784
January 18	Hire of training room	890	406786
January 24	Purchase of video and television	3,000	406787
January 24	Accommodation: Co-ordinator	400	406788
January 31	Salaries	3,225	406789

- Using Figure 22, prepare the bank book, showing 'receipts' and 'payments'.
- Enter the 'paying-in references', 'payment numbers', and 'cheque numbers'. Start the 'payment numbers' with a new sequence, starting with P701.
- Total the two bank amount columns.
- Calculate the closing bank balance at 31 January and enter this below the table.

Figure 22: Training for Development bank book

RECEIPTS				PAYMENTS				
Date	Details	Paying-in reference	Bank amount	Date	Details	Payment number	Cheque number	Bank amount
	Total				Total			

Closing balance (31 January) _____

5.3

Using Figure 23, prepare a combined cash and bank book, based on the information contained in activities 3.1 and 5.2. Some of the information has already been included.

Figure 23: Training for Development cash and bank book (combined cash and bank record)

RECEIPTS						PAYMENTS					
Date	Details	Receipt number	Paying-in reference	Cash amount	Bank amount	Date	Details	Payment number	Cheque number	Cash amount	Bank amount
1 Jan	Opening balance	–				4 Jan	Rent	P701	406781		
1 Jan	Fees for training	1				4 Jan	Purchase of stationery	P1			
4 Jan	Fees for training	2				4 Jan	Purchase of desks	P2			
5 Jan	'Start-up' grant		201			7 Jan	Photocopying	P3			
10 Jan	Sale of booklet	3				7 Jan	Purchase: office chairs	P702	406782		
14 Jan	Grant		202			7 Jan	Purchase of training materials	P4			
15 Jan	Fees for training		203			9 Jan	Purchase of stationery	P5			
15 Jan	Fees for training	4				10 Jan	Hire of training rooms	P6			
20 Jan	Sale of materials	5				14 Jan	Purchase of filing cabinets	P7			
27 Jan	Sale of booklet	6				16 Jan	Water charge	P703	406783		
						16 Jan	Purchase: OHP and screen	P704	406784		
						18 Jan	Hire of training rooms	P705	406786		
						19 Jan	Travel: Co-ordinator	P8			
						24 Jan	Purchase: video	P706	406787		
						24 Jan	Accommodation: Co-ordinator	P707	406788		
						25 Jan	Purchase: office items	P9			
						31 Jan	Salaries	P708	406789		
	Total						Total				

Closing balance (31 January) _____

Notes

- The entries are in date order, regardless of whether they are cash or bank.
- The 'payment numbers' could be in one sequence for both cash and bank payments. This example, however, has retained the two sequences of numbers used in previous activities.

Figure 24b: *Training for Development* analysed cash and bank book (payments side)

Date	Details	Payment number	Cheque number	Cash amount	Bank amount	Salaries	Rent/ electricity/ water/ telephone	Training materials	Office expenses (including audit)	Travel/ accomm.	Hire of training rooms	Office/ training equipment	Other payments
4 Jan	Rent	P701	406781										
4 Jan	Purchase of stationery	P1											
4 Jan	Purchase of desks	P2											
7 Jan	Photocopying	P3											
7 Jan	Purchase of office chairs	P702	406782										
7 Jan	Purchase of training materials	P4											
9 Jan	Purchase of stationery	P5											
10 Jan	Hire of training rooms	P6											
14 Jan	Purchase of filing cabinets	P7											
16 Jan	Water charge	P703	406783										
16 Jan	Purchase: OHPs and screens	P704	406784										
18 Jan	Hire of training rooms	P705	406786										
19 Jan	Travel: Co-ordinator	P8											
24 Jan	Purchase of video	P706	406787										
24 Jan	Accommodation: Co-ordinator	P707	406788										
25 Jan	Purchase of office items	P9											
31 Jan	Salaries	P708	406789										
	Total												

Closing balance (31 January) _____

6 Ensuring that your figures agree with the bank's figures

The bank will tell you how much money they think you have in your account. This will be shown in either a **bank statement** or a **bank pass book**. Bank statements tend to be more widely used, especially for current accounts.

Whenever you receive a bank statement, or have your bank pass book brought up to date, you must make sure that your bank-book figures agree with the bank's and that you know the reasons for any differences. This agreement of the two records is called a **reconciliation** or **bank reconciliation**. An outline of a table used is shown in Figure 26.

Figure 26: Outline of a bank-reconciliation statement

BANK-RECONCILIATION STATEMENT AS AT			
	Amount	Total amount	
Bank balance at (from statement/pass book)		.....	[A]
<i>Less:</i> cheques not yet included in the bank's records			
– cheque number .....	.....	
– cheque number .....	.....	.....	[B: total cheques]
	<i>Sub-total</i>	.....	[A–B]
<i>Plus:</i> items paid in but not yet included in the bank's records			
– paying-in reference .....		.....	[C]
Balance in bank book at (group's own record)		.....	[A–B+C]

[The letters A, B, and C are included to show where the calculations are made.]

The example shown in Figure 27 shows the information that you are likely to have available to reconcile. You will need to go through a number of stages to make sure that your bank book and the bank statement (pass book) reconcile:

- 1 Enter any outstanding items in your bank book, to bring it up to date.
- 2 Include any charges or interest from the bank statement in your bank book.
- 3 Tick off the items that appear in your bank book *and* in the bank's records.

- 4 Construct a table (as shown in Figure 26) to show how the two records agree. Include all items that are not ticked off.

If your figures do not agree, check them again. If they still do not agree, it is worth checking the adding up on your statement/pass book: banks do sometimes make mistakes! Look through the example in Figures 27a and 27b and 28. Figure 27a shows examples of a bank book and bank statement. Figure 27b shows the same information, with the bank book updated and items in both this record and the bank statement ticked off. Figure 28 shows the bank-reconciliation statement.

Figure 27a: Example of a bank book and a bank statement

BANK BOOK

RECEIPTS				PAYMENTS				
Date	Details	Paying-in reference	Amount	Date	Details	Payment Number	Cheque number	Cash amount
1 Jan	Opening balance	–	0	10 Jan	Rent of premises	5	1701	2,500.00
10 Jan	Cash to bank (grant paid in)	856	7,000.00	11 Jan	Medical supplies	6	1702	3,000.00
10 Jan	Sale of drugs	857	20.00	16 Jan	Purchase of drugs	7	1703	550.00
12 Jan	Sale of medical supplies	858	127.00	27 Jan	Office equipment	8	1704	100.00
	Total		7,147.00		Total			6,150.00

Closing balance (7,147.00 less 6,150.00 =)

997.00

BANK STATEMENT

Date	Details	In	Out	Balance
1 Jan	Opening balance			0.00
10 Jan	Sundries 856	7,000.00		7,000.00
10 Jan	Sundries 857	20.00		7,020.00
14 Jan	Cheque 1702		3,000.00	4,020.00
19 Jan	Cheque 1703		550.00	3,470.00
31 Jan	Bank charges		20.00	3,450.00
31 Jan	Closing balance			3,450.00

Figure 27b: Example of a bank book and a bank statement, including updating of the bank book, and items in this record and the bank statement 'ticked off'

BANK BOOK

RECEIPTS				PAYMENTS				
Date	Details	Paying-in reference	Amount	Date	Details	Payment Number	Cheque number	Cash amount
1 Jan	Opening balance	-	0	10 Jan	Rent of premises	5	1701	2,500.00
10 Jan	Cash to bank (grant paid in)	856	✓ 7,000.00	11 Jan	Medical supplies	6	1702	3,000.00
10 Jan	Sale of drugs	857	✓ 20.00	16 Jan	Purchase of drugs	7	1703	550.00
12 Jan	Sale of medical supplies	858	o/s 127.00	27 Jan	Office equipment	8	1704	100.00
				31 Jan	Bank charges	-	-	20.00
	Total		7,147.00		Total			6,150.00

Closing balance (7,147.00 less ~~6,150.00~~) = 997.00
 6,170.00 (revised balance)

BANK STATEMENT

Date	Details	In	Out	Balance
1 Jan	Opening balance			0.00
10 Jan	Sundries 856	7,000.00 ✓		7,000.00
10 Jan	Sundries 857	20.00 ✓		7,020.00
14 Jan	Cheque 1702		3,000.00 ✓	4,020.00
19 Jan	Cheque 1703		550.00 ✓	3,470.00
31 Jan	Bank charges		20.00	3,450.00
31 Jan	Closing balance			3,450.00

→ update bank book

o/s = outstanding items

Figure 28: Primary Health-Care Programme bank reconciliation as at 31 January, based on information in Figure 27a

	Amount	Total amount	
Bank balance at 31 January (from bank statement)		3,450.00	[A]
<i>Less:</i> cheques not yet included in the bank's records			
– cheque number 1701	2,500.00		
– cheque number 1704	100.00	2,600.00	[B: total cheques]
	<hr style="width: 50px; margin-left: auto; margin-right: 0;"/>	<hr style="width: 50px; margin-left: auto; margin-right: 0;"/>	
		<i>Sub-total</i> 850.00	[A–B]
<i>Plus:</i> items paid in but not yet included in the bank's records			
– paying-in reference 858/12 January		127.00	[C]
		<hr style="width: 50px; margin-left: auto; margin-right: 0;"/>	
Balance in bank book at 31 January (group's own record)		977.00	[A–B+C]

Comments on the reconciliation

- The figures here have been given a letter, for example [A], to show which amounts are used in the calculations.
- The balance of 977.00, adjusted from 997.00, is shown in the bank book (Figure 27b), because the 20.00 for charges is included on the payments side on 31 January. If the bank book had been finalised and the bank statement was received in February, this adjustment could instead be made in the February bank book, and then the 20.00 would be included in the bank-reconciliation statement at 31 January as an addition.
- You may want to ask the bank why it has not yet credited the 127.00 to your account. (This is shown in the bank book as received on 12 January.)
- Cheque 1704 will, we assume, be included in the bank's records in early February.
- Cheque 1701 does not show on the bank's records, perhaps because the person you paid it to has been slow in paying it into his or her account.
- Remember that it may take up to a week (or more) for the bank to process the cheque that you have written.

Rules to help you to control your bank account

There are rules which need to be observed when operating a bank account.

- 1 Whenever a bank account is opened, it should always be registered in the name of the group, never in the name of the leader or treasurer.
- 2 Arrange with your bank for all cheques written by your group to be signed by at least two named people. More than two people may be signatories.
- 3 Cheques should be used as much as possible in making payments, as this avoids having to hold large amounts of cash. However, cheques are not always accepted as a method of payment. In this case you will have to pay in cash.
- 4 You should never sign blank cheques. Signed cheques are the equivalent of cash. If you really have no alternative, make sure that the name of the payee is included, and a limit set on the amount payable. Some banks will allow you to write this on the face of a cheque (for example, 'amount not to exceed two hundred ...').
- 5 Any money that you receive should be deposited with the bank as often as practical. This is especially important before holidays and weekends, when surplus cash should not be left on the premises.
- 6 Cheques not cleared through the bank within a certain time-limit (often six months) should be cancelled, and the payee should be contacted in case the cheques have been lost.
- 7 Cheque books should be kept in a locked safe or some other secure place. Check through the unused cheque books occasionally, to make sure that no cheques are missing.
- 8 Banks can be asked to query any unusual items with a senior member of the group's staff not involved in the day-to-day accounting. This is a protection against theft.

Key points of this chapter

- Complete a bank reconciliation to agree your bank book with the bank's records. This should be completed each time you receive a bank statement, or each time your pass book is updated.
- A bank account should be kept in the name of the group, never in the name of an individual.
- Keep cheque books in a safe place.
- At least two named people should always sign cheques or requests for money from the account.
- Do not sign blank cheques.
- Always pay money into the bank as soon as possible.
- Ask the bank to query any unusual items.

Activities for Chapter 6 *answers on pp 128–134*

6.1

Complete the following sentences:

- A bank statement is

- A bank reconciliation is

- A bank reconciliation should be completed every

- The stages to go through in reconciling a bank statement with your own bank book are as follows:
 - a. Enter any items in your bank book to bring it up to date.
 - b. Include any or from the bank statement in your bank book.
 - c. the items that appear in your bank book *and* in the bank's records.
 - d. Construct a to show how the two records agree. Include all the items that are not

6.2

Using the outline in Figure 30 and the information from the bank book and the bank statement in Figures 29a and 29b, go through the stages of completing a bank reconciliation for *Training and Development*.

Figure 29a: *Training for Development* bank book as at 31 January

RECEIPTS				PAYMENTS					
Date	Details	Paying-in reference	Bank amount	Date	Details	Payment number	Cheque number	Bank amount	
1 Jan	Opening balance		0	4 Jan	Rent	P701	406781	6,000	
5 Jan	'Start-up' grant	201	25,000	7 Jan	Purchase: office chairs	P702	406782	1,750	
14 Jan	Grant	202	15,000	16 Jan	Water charge	P703	406783	6,670	
15 Jan	Fee for training	203	480	16 Jan	Purchase: OHPs and screens	P704	406784	4,800	
				18 Jan	Hire of training rooms	P705	406786	890	
				24 Jan	Purchase: video and television	P706	406787	3,000	
				24 Jan	Accommodation: Co-ordinator	P707	406788	400	
				31 Jan	Salaries	P708	406789	3,225	
	Total		40,480		Total			26,735	
								Closing balance (31 January)	13,745

Figure 29b: *Training for Development* bank statement as at 31 January

NATIONAL COMMERCIAL BANK: <i>Training for Development</i> current account				
DATE	DETAILS	IN	OUT	BALANCE
1 Jan	Opening balance			0
5 Jan	Credit	25,000		25,000
8 Jan	Cheque 406781		6,000	19,000
15 Jan	Cheque 406782		1,750	17,250
15 Jan	Credit	480		17,730
19 Jan	Cheque 406783		6,670	11,060
24 Jan	Cheque 406786		890	10,170
29 Jan	Cheque 406787		3,000	7,170
30 Jan	Bank charges		430	6,740
31 Jan	Closing balance			6,740

Figure 30: Training for Development bank-reconciliation statement as at 31 January

	Amount	Total amount	
Bank balance at 31 January (from bank statement)		[A]
<i>Less:</i> cheques not yet included in the bank's records			
– cheque number		
– cheque number		
– cheque number	<u>.....</u>	<u>.....</u>	[B: total cheques]
		<i>Sub-total</i>	[A–B]
<i>Plus:</i> items paid in but not yet included in the bank's records			
– paying-in reference		<u>.....</u>	[C]
Balance in bank book at 31 January (group's own record)		<u>.....</u>	<u>[A–B+C]</u>

(NOTE: include a figure wherever there is a dotted line)

6.3

What actions would you take after preparing the reconciliation in activity 6.2?

Actions

6.4

Figures 31a and 31b show another organisation's bank reconciliation, for extra practice.

Using the bank book and bank statement in Figures 31a and 31b, complete a bank-reconciliation statement as at 31 May (Figure 32b).

Help in answering

Take care! The *opening* balances in the bank book and the bank statement are not the same. This is because there are two cheques from a previous month which did not go through the bank statement until the beginning of May. Therefore a bank-reconciliation statement is first needed for the end of the previous month. The closing bank-book balance and the bank-statement balance on 30 April are, of course, the same as the opening balances on 1 May. The 30 April bank-reconciliation statement is shown in Figure 32a.

Figure 31a: Northern Agricultural Programme bank book

RECEIPTS				PAYMENTS					
Date	Details	Paying-in reference	Bank amount	Date	Details	Payment number	Cheque number	Bank amount	
1 May	Opening balance	–	5,205	4 May	Bank to cash	P1003	4017	250	
9 May	Transfer from deposit account	–	5,000	7 May	Rent (1 Jan to 30 June)	P1004	4019	4,754	
29 May	Amount received from PNY	156	3,497	12 May	Repairs	P1005	4020	601	
				19 May	Telephone	P1006	4021	143	
				23 May	Bank charges	–	–	58	
				28 May	Bank to cash	P1007	4022	300	
				28 May	Salaries	P1008	4023	4,167	
				28 May	Tax payment	P1009	4024	1,305	
				28 May	Pension payment	P1010	4025	280	
	Total		13,702		Total			11,858	
								Closing balance (31 May)	1,844

Figure 31b: Northern Agricultural Programme bank statement

STANDARD BANK: Northern Agricultural Programme current account				
DATE	DETAILS	IN	OUT	BALANCE
1 May	Opening balance			7,764
2 May	Cheque 4015		195	7,569
6 May	Cheque 4016		2,364	5,205
10 May	Cheque 4017		250	4,955
10 May	Cheque 4019		4,754	201
17 May	Cheque 4020		601	400 OD
23 May	Interest	145		255 OD
23 May	Transfer	5,000		4,745
23 May	Charges		58	4,687
28 May	Cheque 4022		300	4,387
31 May	Closing balance			4,387

OD = overdrawn amount

Figure 32a: Northern Agricultural Programme bank-reconciliation statement as at 30 April

	Amount	Total amount	
Bank balance at 30 April (from bank statement)		7,764	[A]
<i>Less:</i> cheques not yet included in the bank's records (included on 2 and 6 May)			
– cheque number 4015	195		
– cheque number 4016	2,364	2,559	[B: total cheques]
	_____	<i>Sub-total</i>	5,205 [A–B]
<i>Plus:</i> items paid in but not yet included in the bank's records			
– paying-in reference 858		–	[C]

Balance in bank book at 30 April (group's own record)		5,205	[A–B+C]

Notes

- The cheque numbers (4015 and 4016) are before the number of the first cheque recorded in the bank book for May (4017). This shows that the two outstanding cheques relate to the previous month.
- In preparing the bank reconciliation at the end of the *current* month, 31 May, ignore these two outstanding cheques altogether, because they are shown on the May bank statement. Indeed, if they had been presented a few days earlier in April, the opening balances of the bank statement and the bank book would have been exactly the same.

Figure 32b: Northern Agricultural Programme bank-reconciliation statement as at 31 May

	Amount	Total amount	
Bank balance at 31 May (from bank statement)		[A]
<i>Less:</i> cheques not yet included in the bank's records			
– cheque number		
– cheque number		
– cheque number		
– cheque number	<u>.....</u>	<u>.....</u>	[B]
		<i>Sub-total</i>	[A–B]
<i>Plus:</i> items paid in but not yet included in the bank's records			
– paying-in reference		<u>.....</u>	[C]
Balance in bank book at 31 May (group's own record)		<u>.....</u>	<u>[A–B+C]</u>

(NOTE: include a figure where there is a dotted line)

6.5

What questions would you ask about the information shown in Activity 6.4?

- 2. The group's bank should be told that all cheques must be signed by:
 - a. One officer of the group on his/her own.
 - b. The treasurer on his/her own.
 - c. At least two named people together.
 - d. The most senior person available, along with the treasurer.

Reason

6.6

Which of the answers (a)–(d) is the most appropriate for each of the following questions? State the reason why you have chosen this answer.

- 1. A group's bank account should be opened in the name of:
 - a. All of its members.
 - b. The treasurer.
 - c. The person who opens the account.
 - d. The group.

Reason

- 3. Cheques should always be used instead of cash wherever possible, because:
 - a. Cash is difficult to obtain.
 - b. It avoids having to hold a large amount of cash on the premises.
 - c. Cheques are much easier.
 - d. It is important to keep the bank happy.

Reason

- 4. Blank cheques should not be signed, because:
 - a. They are the equivalent of cash and could be misused.
 - b. The cashier may not know the amount, which is put in later.
 - c. The bank would complain.
 - d. The auditor would complain.

Reason

7 Summarising the accounts

You should now be able to complete your cash and bank books, and reconcile your bank statements. Next, you will want to summarise what you have received and what you have paid. Your group will need this information, and you may want to give it to a donor too. The next two chapters will show you how to complete such a summary.

Receipts

Firstly, we will look at the receipts recorded in the cash and bank books in Figure 33.

Figure 33: Cash-book receipts and bank-book receipts

CASH-BOOK RECEIPTS			
Date	Details	Receipt number	Cash amount
1 Jan	Opening balance	–	1,000.00
3 Jan	Grant from donor	500	9,500.00
9 Jan	Grant from Dept. of Health	501	7,000.00
9 Jan	Sale of drugs	502	14.50
	Total		17,514.50

All the items need to be summarised, except for the ‘cash’ received into the bank on 10 January. There is a similar entry on the payments side of the cash book for 7,000.00, described as ‘cash to bank’ in Figure 35. These two entries will cancel each other out, and therefore neither needs to be included in the summary. This makes sense, because the only change is *where* the money is held. It was cash, and now it is in the bank. There has been no new money received or paid.

We can see from the information available that this item refers to the 7,000.00 cash received as a grant from the Department of Health on 9 January. We will include the *original* receipt of 7,000.00 from the cash book in the summary.

BANK-BOOK RECEIPTS			
Date	Details	Paying-in reference	Bank amount
1 Jan	Opening balance		0
10 Jan	Cash to bank (grant paid in)	856	7,000.00
10 Jan	Sale of drugs	857	20.00
12 Jan	Sale of medical supplies	858	127.00
	Total		7,147.00

In summarising the receipts, the categories are described as in the original budget:

- grants received (donor and Department of Health)
- miscellaneous sales

The receipts summary will appear as in Figure 34.

Figure 34: Summary of receipts

RECEIPTS	Amount	Total amount
Opening balance, (cash/bank) 1 January		1,000.00
Grants received		
– Donor	9,500.00	
– Dept. of Health	7,000 00	
Miscellaneous sales	<u>161.50</u>	
Total receipts		<u>16,661.50</u> 17,661.50

There are several points to note in this summary:

- The ‘opening balance’ figure for cash and bank is included as a ‘receipt’ of money, even though this is held at the beginning of the period.
- If there are several grants, you could put in one figure to summarise them. However, it is better to list them separately, as donors like their names to be shown!
- The miscellaneous sales include sales of drugs and medical supplies. You may prefer to show each of these separately.

If you are using an analysed cash and bank book, you can use the total at the bottom of each of the analysed columns as the figure to include in the summary.

In reality, a group or larger organisation is likely to have more items than are shown here, but the following rules apply whenever you summarise receipts:

- Start off with the total of your opening cash and bank-book balances.
- Summarise the items in the same order as the budget.
- Sub-divide the categories to give extra information.

Payments

Now let us look at the summary of the payments. An example is shown in Figure 35.

The 7,000.00 from 'cash to bank' in the cash-book payments on 10 January will be excluded from the summary. It also appears on the receipts side of the bank book, and the entries cancel each other.

In January no cheques have been written to obtain cash. If there were any, they would not have been included in the summary of receipts and payments. This is because money would only be transferred from the bank account into cash. No money would have changed hands. The only difference would be *where* the money is held.

Figure 35: Cash-book payments and bank-book payments

CASH-BOOK PAYMENTS			
Date	Details	Payment number	Cash amount
3 Jan	Stationery for office	1	10.00
5 Jan	Purchase of medical supplies	2	650.00
7 Jan	Driver's salary	3	200.00
7 Jan	Purchase of drugs	4	3,450.00
10 Jan	Cash to bank (grant paid in)	–	7,000.00
	Total		11,310.00

The main categories of payments are for the following items:

- salaries
- rent of premises
- purchase of drugs
- medical supplies
- office expenses

These are the same as the budget headings shown in Figure 1. There is a heading for 'electricity' in the budget, but nothing has yet been paid against it.

BANK-BOOK PAYMENTS				
Date	Details	Payment number	Cheque number	Bank amount
10 Jan	Rent of premises	5	1701	2,500.00
11 Jan	Medical supplies	6	1702	3,000.00
16 Jan	Purchase of drugs	7	1703	550.00
27 Jan	Office equipment	8	1704	100.00
	Total			6,150.00

Figure 36: Summary of payments

PAYMENTS	Amount	Total amount
Salaries	200.00	
Rent of premises	2,500.00	
Purchase of drugs	4,000.00	
Medical supplies	3,650.00	
Electricity	–	
Office expenses	<u>110.00</u>	
Total payments		<u>10,460.00</u>
Closing balance (cash/bank), 31 January		<u>7,201.50</u>

The summary of payments would, therefore, look like Figure 36.

You will see that the payments summary has a figure included for the ‘closing balance’ (cash/bank) on 31 January. This should agree with the amount of cash held at that date, plus the balance in the bank book (which has been agreed with the bank statement or pass book). This will be used as the opening-balance figure in the following month’s accounts.

This summary of the receipts and payments is usually prepared at the end of the year (or end of a project period). The summary is called a **receipts and payments account**. It shows what has happened to your cash and bank items, and gives an overall picture of what you have received and paid.

Whenever this kind of summary is used, the heading will say that it is a receipts and payments account, and it will state the name of the group or project involved, and the period of time that it covers.

Putting it all together

Figure 37 shows a presentation of the whole account.

The columns in this example merely provide a sub-total of the information. By having the individual receipts in the left column, we are able to produce a total receipts figure in the right column [B]. The same is true for the payments [C]. This enables us to add or subtract one figure at a time in the right column.

Receipts and payments accounts should be presented with the same main headings as in your budget. This makes comparisons easier, as we shall see in Chapter 9. Also, make sure that the ‘closing balance’ is underlined (as shown in Figure 37: 7,201.50).

It is usual, and important, to add notes to the receipts and payments account, to explain the reasons for what has happened. Notes are discussed in detail in Chapter 9. The example of the notes shown in Figure 44 could be equally well included after this receipts and payments account. An example of another organisation’s receipt and payment account, with notes included, is shown in Appendix 1.

This receipts and payments account is only for the month of January, to cover the information shown. It is more usual for a receipts and payments account to be presented at the end of the financial year or project period.

Figure 37: Example of a receipts and payments account

Primary Health-Care Project: receipts and payments account for the period 1 to 31 January 20__			
	Amount	Total amount	
RECEIPTS			
Opening balance, 1 January		1,000.00	[A]
Grants received			
– Donor	9,500.00		
– Dept. of Health	7,000.00		
Miscellaneous sales	<u>161.50</u>		
Total receipts		<u>16,661.50</u>	[B: total receipts]
		17,661.50	[A + B]
PAYMENTS			
Salaries	200.00		
Rent of premises	2,500.00		
Purchase of drugs	4,000.00		
Medical supplies	3,650.00		
Electricity	–		
Office expenses	<u>110.00</u>		
Total payments		<u>10,460.00</u>	[C: total payments]
Closing balance, 31 January		<u>7,201.50</u>	[A+B-C]

[The letters A, B, and C are included to show where the calculations are made. These would not normally be shown in a receipts and payments account.]

Key points of this chapter

- Summarising your accounts can be done by preparing a receipts and payments account, usually at the end of the year or project period.
- Include the receipts and the payments under the same headings as used in the budget.
- If cash is paid into the bank account, exclude these items from the summary. The same applies when cash is withdrawn from the bank.
- If the budget heading includes several items, sub-divide them to give more information.
- Include the total cash/bank-book balances at the beginning and end of the period covered.
- Remember to give the summary a title: 'Receipts and payments account'. State the name of the group or project, and the period covered.
- Notes can be added to the account to provide additional information.

Activities for Chapter 7 *answers on pp 135–136*

7.1

The receipts side of an analysed cash and bank book for January is shown in Figure 38. Using Figure 39 and the analysed cash and bank-book analysis columns in Figure 38, prepare the receipts part of the receipts and payments account. Include all the items here, even though some have a nil balance.

Note: the receipts and payments account would often be produced at the end of the financial year or project period, rather than monthly.

Figure 38: *Training for Development* analysed cash and bank book – receipts side

Date	Details	Receipt number	Paying-in reference	Cash amount	Bank amount	Opening balance	Grants from donors	Fees for training	Sale of materials	Other receipts
1 Jan	Opening balance			0	0	0				
1 Jan	Fees for training	1		1,300				1,300		
4 Jan	Fees for training	2		2,800				2,800		
5 Jan	'Start-up' grant		201		25,000		25,000			
10 Jan	Sale of booklet	3		25					25	
14 Jan	Grant		202		15,000		15,000			
15 Jan	Fees for training		203		480			480		
15 Jan	Fees for training	4		1,350				1,350		
20 Jan	Sale of materials	5		15					15	
27 Jan	Sale of booklet	6		25					25	
	Total			5,515	40,480	0	40,000	5,930	65	0

Figure 39: *Training for Development* receipts side of receipts and payments account

RECEIPTS	Amount	Total amount
Opening balance bank/cash, 1 January	
	
	
	
	<u>.....</u>	
Total receipts	.	<u>.....</u>

7.2

The payments side of the analysed cash and bank book is shown in Figure 41. Using Figure 40, and the information in Figure 41, prepare the payments part of the receipts and payments account. Again, include all the items. You may wish to identify separately some items that are grouped together in the analysed cash and bank book, to provide more information.

Figure 40: *Training for Development* payments side of receipts and payments account

PAYMENTS	Amount	Total amount
	
	
	
	
	
	
	
	
	
	<u>.....</u>	
Total payments		<u>.....</u>
Closing balance bank/cash, 31 January		<u>.....</u>

Figure 41: Training for Development analysed cash and bank book (payments side)

Date	Details	Payment number	Cheque number	Cash amount	Bank amount	Salaries	Rent/ electricity/ water/ telephone	Training materials	Office expenses (incl. audit)	Travel/ accomm.	Hire of training rooms	Office/ training equipment	Other payments
4 Jan	Rent	P701	406781		6,000		6,000						
4 Jan	Purchase of stationery	P1		400					400				
4 Jan	Purchase of desks	P2		1,000								1,000	
7 Jan	Photocopying	P3		200					200				
7 Jan	Purchase of office chairs	P702	406782		1,750							1,750	
7 Jan	Purchase of training materials	P4		900				900					
9 Jan	Purchase of stationery	P5		250					250				
10 Jan	Hire of training rooms	P6		400							400		
14 Jan	Purchase of filing cabinets	P7		700								700	
16 Jan	Water charge	P703	406783		6,670		6,670						
16 Jan	Purchase of OHP and screen	P704	406784		4,800							4,800	
18 Jan	Hire of training rooms	P705	406786		890						890		
19 Jan	Travel: Co-ordinator	P8		320						320			
24 Jan	Purchase of video	P706	406787		3,000							3,000	
24 Jan	Accommodation: Co-ordinator	P707	406788		400					400			
25 Jan	Purchase of office items	P9		240					240				
31 Jan	Salaries	P708	406789		3,225	3,225							
	Total			4,410	26,735	3,225	12,670	900	1,090	720	1,290	11,250	0
Closing balance (31 January)				1,105	13,745								

7.3

Using the space provided in Figure 42, present the receipts and payments account in full, with:

- the name of the organisation, a title, and the period covered by the account;
- the correct format for a receipts and payments account.

Figure 42: *Training for Development* receipts and payment account

	Amount	Total amount

8 Summarising the accounts in more detail

The previous chapter showed how to put together a receipts and payments account. This is a useful way of summarising all the money that has come in and gone out. However, there are some limitations to this. This chapter will show you some steps to improve the usefulness of the receipts and payments account.

How to improve the receipts and payments account

Amounts paid in advance, or owed by you

The receipts and payments account gives you a summary of all items. It does not tell you how much relates to a specific period of time. For example, if the electricity charge for January were paid in February, it would not appear in the January account, so it would look as though no electricity had been used. There are two ways of avoiding this.

- Try to avoid having items outstanding at the point when you prepare the receipts and payments account for the year-end. In practice this is not easy, but as far as possible you should keep amounts to the minimum by paying invoices for the period before the date of the receipts and payments account. Also, try to ensure that as many as possible of the amounts owed to the group are collected before that date.
- Keep a record of which items are outstanding at the end of a period, and include the total for that budget item as a note at the bottom of the receipts and payments account. An example of this kind of note is shown in Figure 44 (on page 82).

Saving money to replace items that will wear out

It is important to save for the eventual replacement of items such as equipment, vehicles, or machinery. Each month (or less frequently if you prefer), put aside some money towards the cost of replacing each item. Pay this into a savings or deposit account and create a separate 'savings account' bank book in your own records.

The transfer will be shown as a payment out of your 'current account' bank book, and as a receipt into your 'savings account' bank book. In the receipts and payments account, the transfer will appear as a payment, but a note at the bottom of the account should show that this account is for replacements. Any interest gained should be added to the 'savings account'.

How much should you set aside? You could divide the cost of the item by the number of months that it is likely to last. For example, you could say that a computer which originally cost 480.00 will last four years. So you would put 10.00 per month (480.00 divided by 48 months) into a savings account over each of the four years.

However, with ever-increasing prices, it is likely that in four years' time a computer will cost more than 480.00, and you would not have enough money to replace it. The amount to be set aside each month depends on the circumstances, the expected life of the item, the rate of inflation, and the exchange rate (for international purchases). As a guide, an amount based on double the original cost may be appropriate.

Your group, or the donor who is funding the programme, may say that it is not possible to put money aside in this way. If so, you need to ask yourself what will happen when the item is no longer usable. You may feel that the only way to replace it would be to ask for a further grant or to arrange additional fundraising. If the future of the group depends on an item – for example, a vehicle – arrangements should be made well in advance, and not left until it is beyond repair.

Separating longer-term items from day-to-day expenses

The receipts and payments account treats all expenditure in the same way. It will not be obvious in the summary if a large amount has been spent on items that you intend to keep for a long time, such as furniture and equipment. (Such items are sometimes called **fixed assets**.) So you should make a note of such purchases at the end of the account. An example for a full year is shown in Figure 43.

Figure 43: A record of fixed assets appended to a receipts and payments account

Fixed assets bought during the year:	
	Cost
Office equipment	890.00
Furniture	<u>1,655.00</u>
Total	<u>2,545.00</u>

Has a surplus been made?

The receipts and payments account may show how you are doing in terms of cash or bank balance available, but it will not show whether you have made a surplus or a deficit. For this, a further account summary would be needed, which may require the help of a professional accountant.

Additional notes

In the receipts and payments account (Figure 37), some of the items would have been explained further if additional notes had been added. The notes needed for this example are added to the summary shown in Figure 44.

Another example of a receipts and payments account for a full year, with notes and comparative figures for the previous year, is shown in Appendix 1.

Key points of this chapter

- Keep a list of any items outstanding at the date of your receipts and payments account, and include a note of them at the end of the account.
- It is important to set aside money for the eventual replacement of longer-term items.
- This money should be put into a savings or deposit account each month.
- The calculation of the correct amount will depend on the inflation and exchange rates and the life of the item.
- Show in a note how much has been spent on items with a life of more than one year.
- The receipts and payments account will show you the cash/bank position, but not the surplus or deficit that your group has made.
- Additional notes to the receipts and payments account will further explain the items included.

The receipts and payments account will produce a summarised statement at the end of the accounting period. When a group starts to grow (for example, when it has more employees or owns vehicles and equipment), it will need to consider preparing a more complex financial summary. Such accounts are, however, outside the scope of this book. If they are needed, further help should be sought from a professional accountant.

Activities for Chapter 8 *answers on p 137*

8.1

What are some of the limitations of the receipts and payment account?
How might you overcome these limitations?

a. Limitation:

How to overcome:

b. Limitation:

How to overcome:

c. Limitation:

How to overcome:

8.2

How can money be saved to replace items that will wear out?

9 Providing the information that your group needs

One of the reasons why a group should keep accounts is to have an accurate record of its financial transactions. Another reason is to be able to use this information to manage and improve the group's activities. Good use of financial information is often the key to a group's success or failure.

When queries arise, the information in the cash and bank books will help to answer them. Start there, and if the entry in the book itself does not help, the references to supporting documents will tell you where to find more information.

How much money is left?

The cash and bank books will tell you if you have enough money to pay your expenses. You need to look at the cash book constantly, to make sure that you do not run out of cash. Likewise, the bank book will show what is left in the bank account. If you are likely to run out of money altogether (use the cash-flow forecast to help you to predict this), as soon as possible you must alert the people responsible for running the group. If this is not done, the whole programme could be in danger of failing.

Regular reporting

When we looked at budgeting in Chapter 2, we said that in addition to making the overall budget, it was also helpful to divide it up, showing what money would be available month by month (Figure 2).

Looking again at our example of a primary health-care project, we will prepare a summary for January, comparing what was planned with what has actually been received or paid. This is referred to as a **budget and actual statement**. It uses the same headings as the budget (Figure 44).

Figure 44 includes the following columns:

- **Items:** a listing of the budget headings for receipts and payments.
- **Note:** a reference to additional information at the bottom of the table. It is important to inform users of the reasons for differences between budgeted and actual figures.
- **Budgeted amount for January:** the proportion of the budget that is expected to be received or paid in the first month.
- **Amount received/spent in January:** actual receipts and payments in January, which can be compared with the budget to see if there are differences.
- **Difference:** the over-spend on payments and the under-collection of budgeted receipts.

This final column highlights the main differences and shows where to concentrate our effort to ensure that we keep to the budget. These details for this example are shown on page 83, in the section headed 'What does the statement show?'.

Figure 44: Example of a budget and actual statement with notes

Item	Note	Budgeted amount for January	Amount received/spent in January	Difference
RECEIPTS				
Grants received				
• donor		9,500.00	9,500.00	0.00
• Dept. of Health	2	14,000.00	7,000.00	(7,000.00)
Miscellaneous sales		50.00	161.50	111.50
Total receipts		23,550.00	16,661.50	(6,888.50)
PAYMENTS				
Salaries		1,000.00	200.00	800.00
Rent of premises	3	417.00	2,500.00	(2,083.00)
Purchase of drugs		5,000.00	4,000.00	1,000.00
Medical supplies	4	4,400.00	3,650.00	750.00
Electricity	5	83.00	–	83.00
Office expenses	4	310.00	110.00	200.00
Total payments		11,210.00	10,460.00	750.00
Total difference		12,340.00	6,201.50	(6,138.50)

Notes

- Amounts in brackets ()** show negative differences – an overspend on payments and an under-collection of budgeted receipts.
- The Department of Health** grant was to have been paid in two instalments; it will now be paid in four instalments.
- Rent of premises** has been paid in January for the six months from January to June.
- Fixed assets** bought during January:

	Cost
Medical supplies	
Medical equipment	1,250.00
Total	<u>1,250.00</u>
Office expenses	
Office equipment	100.00
Total	<u>100.00</u>

- Electricity** is due to be paid in March. It is estimated that 95.00 is owed for January.
- Amounts held in cash and bank:**

	Amount
Balance held in cash 31 Jan	6,204.50
Balance in current account 31 Jan	<u>997.00</u>
Total	<u>7,201.50</u>

Notes like those that are also needed at the end of the receipts and payment account (explained in Chapter 7) are included in Figure 44, to give more information. These notes are an essential explanation of the reason for the differences in the budgeted amounts and the actual amounts received or spent.

This type of report, with its regular breakdown, gives an overall picture of the group's finances, which will be needed by group members, or the management committee.

What does the statement show?

- Showing negative differences in brackets helps to draw users' attention to the figures that may cause concern.
- The statement shows that the group has received significantly less than expected in the budget, mainly because the Department of Health grant is now being received in four instalments, rather than two. This could have serious consequences for the group, but it seems that the money was not in fact all needed in January. You will need to consult and amend the cash-flow forecast to see what effect this will have on future months.
- Rent paid in January for six months in advance may mean that the group will run short of cash. Again, consult the cash-flow forecast.
- One of the reasons for the overspending of rent may be that prices have increased. If this is the case for a specific item, or if the increase distorts the figures, it is important to draw attention to the fact in a note, explaining what has happened.

- Note 4 shows that medical equipment and office equipment, longer-term items, have been purchased. It is worth asking if these items were included in the budget. If not, less money will be available for planned expenditure, and it will be necessary to decide on the highest priorities. Ideally, long-term items should be identified separately in the budget.
- Always look closely at what has actually happened, and keep asking questions. If there is a difference, always check whether it has been caused by timing (if receipts have come in or payments have gone out earlier or later than you had planned), or whether it is an activity that you had not planned at all. If so, ask what will be done about it.
- This monthly report will be important when your organisation takes policy decisions, so be sure that the information is as accurate and up to date as possible.
- A column for the percentage difference between the 'budget' and 'actual' figures could be added, to highlight major variations.

It is important to produce a summary like the one in Figure 44 regularly, so that everyone can see the financial situation. Encourage the management committee, especially, to ask questions about financial information.

Reporting from the beginning of the year to date

In addition to the monthly report shown in Figure 44, it is useful to present a report for the months from the beginning of the financial year to date. This is sometimes called a **cumulative budget and actual report**. In January, or whenever your year starts, there would, however, be only one month to report on. The headings for such a report at the end of March would look like Figure 45.

Figure 45: Headings for a cumulative budget and actual statement, January–March

Item	Note	Budget: March	Amount received/ spent: March	Difference	Budget: Jan-Mar	Amount received/ spent: Jan-Mar	Difference

Key points of this chapter

- The information in the accounts is important to the running of any group.
- Make use of the cash book and bank book to answer queries.
- Know how much money you have left in cash and/or at the bank.
- Present your budget and actual statement regularly to the group or its management committee.
- Add notes to the statement to give more information.
- Include a similar report from the beginning of the year to date (a cumulative budget and actual statement).
- Be critical, and keep asking questions about anything in the statement that you do not understand. Encourage others to ask questions too.

Activities for Chapter 9 *answers on pp 138–139*

9.1

Using Figure 46, prepare a budget and actual statement for *Training for Development* for the month of January. Use the figures for January, the 'budget' from activity 2.5 on page 15 and the 'actuals' from the analysed cash and bank book in activity 5.4 on pages 50 and 51.

You will notice that, in order to find the required figure for this statement, some amounts will need to be added together, and others should be separated out.

9.2

Explain the reasons why the 'difference' column has a negative figure for receipts, when less is received than budgeted; but a positive figure for payments, when less is spent than budgeted. How can the negative figures help interpret the statement?

9.3

Training for Development has not made an entry for a 'transfer to a savings account'. If it had, where would the entries appear in the statement shown in activity 9.1?

9.4

Add notes to the budget and actual statement for January, based on the following headings:

- Office and training equipment

- Amounts held in cash and bank

Information to help with these notes will be found in activity 5.4.

Figure 46: *Training for Development* budget and actual statement for the month of January 20--

Item	Note	Budgeted amount for January	Amount received/spent in January	Difference
RECEIPTS				
Dept. of Education 'start-up' grant				
Grants received from donors				
Fees for training				
Sale of materials				
Total receipts				
PAYMENTS				
Salaries				
Office rent				
Electricity/water/ telephone				
Training materials				
Office expenses (including audit)				
Travel and accommodation				
Hire of training rooms				
Office equipment				
Training equipment				
Total payments				
Total difference				

9.5

As a member of the management committee of *Training for Development*, what questions would you ask about the budget and actual statement for January shown in Figure 46?

10 Having the accounts checked

The work of the person who keeps a group's accounts must always be checked by another person, at least once a year. In this way, mistakes can be found and corrected, and the person who is keeping the account can prove that she or he is honest. This type of check is called an **examination** or **audit**, and the person carrying it out is called an **examiner** or **auditor**.

Who is appointed to check the accounts?

It is most important that the person who is appointed as examiner or auditor should be independent. Sometimes the person checking the accounts is called an **independent examiner**. The person must not be involved in the keeping of the accounts, or be related to any of the group leaders. The person should be respected, and able to communicate with people well. He or she should have some knowledge of book-keeping, and ideally be a qualified accountant. In some countries it is a legal requirement to have a qualified accountant or auditor. The examiner or auditor may require a fee or payment, and donors are often willing to pay for this – but do not forget to include this item in your budget!

What happens when the accounts are checked?

The examination/audit will usually take place once a year, soon after the end of the period covered by your accounts. The examiner/auditor will want to count your cash, and will ask to see the following records:

- cash book and bank book
- receipts for money coming in and payments going out
- invoices
- information from donors
- any correspondence about the group, and especially about the accounting
- bank statements or pass books
- cheque books and old cheque 'stubs', paying-in slips/books
- bank reconciliations, especially for the year-end
- budget and actual statements
- receipts and payments account
- a record of group meetings
- staff records
- a list of items owned, for example, vehicles, equipment, and furniture.

The examiner/auditor will inspect these and other documents in detail, and will ask questions to clarify the information. She or he will also ask for information about the way in which the group is run.

After the examination/audit, a detailed letter will often be written to the leader of the group or to the management committee to report what has been done (this is sometimes called a **management letter**). The letter may suggest ways to improve the accounts and the group management as a whole. This can be very useful, and it may help you to make your group's activities more effective. Finally, the examiner/auditor will 'sign the accounts' (usually a copy of the receipts and payments account) to say that they are correct. Copies of this document may then be sent to anyone who is interested.

If the term 'audit' is used for the checking of the accounts, this is likely to imply a more formal inspection of the accounts; sometimes it is required by law.

Other checks

In addition to the annual examination/audit, other people may want to see your accounts for themselves. It is good practice to agree to such requests. It will help to maintain a good relationship with people who are likely to give you money in the future! In reality, however, if an examination/audit has already been carried out, many people will be happy to accept a copy of the signed receipts and payments account.

Key points of this chapter

- An independent examiner/auditor must be appointed to check the accounts.
- He or she should have some knowledge of book-keeping, or be a qualified accountant.
- The inspection should take place soon after the period covered by your accounts, and all records should be made available on request.
- A management letter is likely to be written, with recommendations for improving the group's financial management.
- The receipts and payments account should be signed, to say that the examination/audit has taken place.
- Other people may want to inspect your accounts. Welcome them!

Activities for Chapter 10 *answers on p 140*

10.1

What is the most important quality of an examiner/auditor of a group's accounts?

10.3

What is the purpose of a management letter?

10.2

List the records that the examiner/auditor will expect to see when conducting an examination/audit of a group's accounts.

10.4

What might be the consequences of not having your accounts examined or audited?

11 Relations with donors

Many groups rely on external funders to provide money to help them to carry out their programmes. This chapter looks at the ways in which groups relate to these funders, or **donors**. Each donor's requirements are different, so this chapter will provide some general points which apply to the majority of donors.

Who are the donors?

Those organisations described as donors fall into a number of categories:

- United Nations organisations, for example UN High Commissioner for Refugees (UNHCR), UN Children's Fund (UNICEF)
- government or inter-government agencies, for example Danida, the Indian Government, the European Union
- international non-government organisations (NGOs), for example the Aga Khan Foundation, Concern, Oxfam
- national non-government organisations, for example Sudanaid, Thaicraft
- trusts or embassies
- companies or local businesses.

All of these demand a high standard of accounting from the groups that they fund.

Approaches to donors

The first stage of applying to a particular donor is to discover the types of programme that they are likely to fund. Most donors will produce written details, available on request or posted on their (Internet) website. If other similar groups have already worked with a particular donor, it is helpful to talk with them and discover the kind of programme that is likely to be funded.

It is important to understand each donor's way of operating. Most will request information about your group. It is polite to send this quickly and to send additional information regularly (for example, newsletters and annual reports).

If changes occur, for example a delay in the start of a programme, you should keep the donor informed. This contact will often lead to an agreement, for example to extend the length of the programme. However, the donor may refuse to fund a programme, if it is not the one that they had originally approved. If you are unhappy with the donor's decision, it is acceptable to negotiate with them. If you would like to do something different from what they are offering, talk with them about this.

Any communication to or from donors should be recorded in writing, and copies should be kept on file. These written records are essential for future reference, especially when the people who made the original agreement are replaced by new members of staff.

Accounting requirements

An application for funding will usually include a budget, with notes of detailed calculations and a written description of the programme. You may also be required to give a justification for individual items within the budget. Some donors provide their own application forms, listing their requirements.

When an agreement to fund is made, there will usually be a **letter of agreement** or **contract**. This will give details of the following items.

Reporting requirements

The frequency of reporting back to the donor will be stated. The letter will give deadlines for reports (often six-monthly and at the end of the year); these should be strictly followed.

Tendering and purchasing

The letter may indicate the rules for tendering and purchasing of goods. It is likely to say that, where possible, three quotes should be obtained for larger purchases, for example vehicles. It may also state what will happen to these items at the end of the programme.

Auditing

Donors may require their own annual audit, although usually a copy of the annual accounting statements, independently examined or audited, will be sufficient. It is essential to keep all accounting documentation relating to the programme for at least six years, or longer if required by national law.

All changes to the programme must be agreed in advance by the donor. If not, the donor may be unwilling to fund anything that is not included in the original budget. The donor should agree all changes in writing.

'Building blocks' of accounting

The systems described in this book form the basis of what a group needs in order to monitor its own financial management. When donors are involved, however, this may become more complicated. While some donors expect only to receive a copy of the annual accounting statements, others may ask the group to provide a budget and report on actual receipts and payments in the donor's own format. This may be different from what the group has prepared for its own purposes.

Indeed, if there are several donors, each one may ask for something different. It is important, therefore, when designing the budget for a group or a project, to be aware of what donors are likely to require, thus avoiding extra work in the future. Try to use the budget items as 'building blocks', so that they provide the data required and thus make reporting easier. This may mean that items are broken down further than would otherwise be the case, in order to report in the format requested by a donor.

For example, if a donor agrees to fund part of the annual drugs budget, all invoices connected with purchases may have to be presented at the year-end. It may then be worth breaking the drugs budget into two parts, rather than one, so that the information is classified separately throughout the year. This avoids the time-consuming task of having to re-analyse expenditure at the end of the year.

It is a good idea to seek advice on establishing such a system at the beginning of a donor's involvement, particularly where a significant amount of funding is received, or complex activities are funded.

Reporting to people who have given you money

A financial report will normally be sent regularly (for example, every six months) to organisations which have given you money. Each donor will require something slightly different, but the requirements will often include the following items:

- the receipts and payments account (or other accounting statements which are outside the scope of this book) for the period to which the amount relates (at the end of the funding period);
- an examiner's or auditor's statement (at the end of the funding period);
- the cumulative budget and actual statement for the period;
- copies of (or original) invoices (some donors instead require the right to audit the accounts);
- if money was given for a particular purpose, details of how the individual donation has been spent, and a note to say how much money is left over;
- an explanation of any changes to this year's budget;
- a budget for next year, if funding is to continue.

It is sometimes difficult to know what to do with money that has not been spent for the purpose it was given. Some donors will ask for it to be returned to them, while others may permit it to be used for other parts of the programme. It is worth discussing this with the donor if you expect that there will be money left over; if it is appropriate, you might propose a way of using these excess funds.

Increases in workloads

Requesting and receiving additional funding can often create more work, both for the programme staff and the accounting staff.

If the funding is likely to enlarge the group's activities significantly, it is worth looking again at the accounting requirements before the funds are requested. There will be additional transactions, extra budgeting, and extra work involved in reporting back to donors. There is often a need to review financial systems more generally, in order to respond to the high standards demanded by donors. It may be necessary to recruit a finance officer or to give further training to existing staff. This can be justified if large additional amounts are involved; a donor may be willing to fund an extra person. It may be necessary to ask a qualified accountant to provide advice.

Key points of this chapter

- There is a wide variety of donors, but all will require a high standard of accounting.
- It is wise to talk with other groups who have worked with a particular donor.
- Keep donors informed about any changes to the programme; retain copies of all correspondence relating to such changes.
- It is acceptable to negotiate with donors.
- Donors will produce a contract or letter of agreement to formalise the arrangement, containing details of how and when to report back, rules about tendering and purchasing, and information about accounting and audit.
- Break down the original budget in a way that will enable you to report to donors in the format required. If in doubt, seek advice.
- Send regular reports to your donors. Consult donors about the use of 'excess' funds.
- Accepting a donor's funds may lead to an increase in workload for those producing accounting information. Seek advice about the need for changes in staffing or in financial systems.

Activities for Chapter 11 *answers on p 141*

11.1

Complete the following sentences in relation to donors:

- All donors require a
from groups that they fund.
- The first stage of applying to a particular donor is to discover
.....
- When changes occur,
- Any correspondence with donors should be

11.2

Which of the answers (a)–(d) is the most appropriate for each of the following questions? State the reason why you have chosen this answer.

1. When donors are involved in funding the purchase of a new vehicle, they are likely to ask for:

- a. Photographs of the vehicle.
- b. Three quotes to be received before a purchase is made.
- c. An explanation of who will be responsible for maintaining the vehicle.
- d. A record of all journeys made.

Reason

11.2

cont'd

2. When significant extra funding is received, the effect on those who prepare the accounts may be that:

- a. They will stop inspecting travel claims in so much detail.
- b. Visits to the programme become more frequent.
- c. They can take a holiday.
- d. Their workload increases.

Reason

3. A letter of agreement between a group and a donor will usually show:

- a. Details of when and how reports should be provided.
- b. Which party is responsible if things go wrong.
- c. The name of the auditor of the programme.
- d. Background information about the programme.

Reason

12 Regular financial tasks

You will have realised from reading this book that some accounting tasks need to be performed on a regular basis. Some are completed daily or weekly, others monthly, and some yearly.

The main tasks are presented below as a checklist. You may find it helpful to tick off and date the items as you complete them. Add to the lists as you find other requirements for your own group.

Daily financial tasks

	DATE TASK COMPLETED
1 Make payments of cash.	
2 Bank all cheques received.	
3 Write down details of money coming in and going out in the cash and bank books.	
4 The cashier should agree the cash-book balance with the actual cash amount.	
5 Monitor the cash balance to decide whether more is required from the bank account.	
6 Pay urgent invoices.	

Weekly financial tasks

	DATE TASK COMPLETED
1 Arrange for a senior member of the group to check the cash-book balance against the actual cash amount. This should be done at different times each week, and the cashier should be present.	
2 Pay outstanding invoices.	
3 Update the records of outstanding payments and amounts due. Send out invoices to people who owe you money.	

Monthly financial tasks

	DATE TASK COMPLETED
1	Ensure that the cash book and bank book are up to date.
2	Enter any outstanding items from the bank statements not already included in the bank book (for example, bank charges, interest, and standing orders).
3	Prepare a bank reconciliation to agree your bank book with the bank statement (or pass book).
4	Follow up any questions raised by this reconciliation.
5	Examine the details of any amounts advanced to staff and ensure that they have been accounted for and/or repaid. Remind those who have not paid back their advances.
6	Take appropriate action if people have owed you money for more than one month: send a reminder or contact them by telephone.
7	When the monthly accounts have been completed, produce a statement of the budget, compared with actual receipts and payments. (Small groups may do this less frequently, for example every two or three months.) Add notes to this and investigate any unusual differences. The statement should be presented to the management committee.
8	Update the cash-flow forecast and take any action needed.
9	Provide any regular information required by donors. Make sure that donors are aware of any changes in activities that they are funding.

Annual/year-end financial tasks

	DATE TASK COMPLETED
1	Ensure that the cash book and bank book are completely up to date. Include items from the final month's bank statement. Prepare the bank reconciliation before the accounts are finalised.
2	Update the records of outstanding payments and amounts due. Try to ensure that these are kept to a minimum. Prepare a list of outstanding items at the year-end.
3	Examine any outstanding amounts advanced to staff and ensure that they have been accounted for and/or repaid before the year-end. Remind those who have not repaid their advances.
4	Produce a final year-end budget and actual statement.
5	Prepare the annual receipts and payments account, together with accompanying notes.
6	Ensure that the management committee appoints an independent examiner/auditor for the accounts (in good time before the end of the year).
7	Check that all records are filed in order, and that the documents likely to be required by the examiner/auditor are available.
8	Consult this person about the timetable for the examination of the accounts.
9	Follow-up any points raised by the examiner/auditor. Present these, and any correspondence, to the management committee. Decide any action needed as a result of the examiner/auditor's comments.
10	Review the financial systems/information more generally and make any necessary changes. Identify any weaknesses and find ways to improve them.
11	Have the accounts approved by the management committee and the annual group meeting (if one is held).
12	Ensure that the Chair of the management committee and the examiner/auditor have signed one copy of the receipts and payments account. Keep this document in a safe place.
13	Send a copy of it, and a report of the group's activities, to donors and anyone else who might be interested.
14	Provide any additional information required by donors.
15	Prepare a budget and cash-flow forecast, in advance, for next year.

Key points of this chapter

- It is important to complete financial tasks methodically and at the right time.
- Daily tasks include providing cash; ensuring that the cash and bank books are updated; monitoring the cash balance; and paying urgent invoices.
- Weekly tasks include a cash count by a senior group member; payment of outstanding invoices; and management of records of money owing and money due.
- Monthly tasks include updating cash and bank records and preparing a bank-reconciliation statement; managing money advanced and outstanding invoices; preparing a budget and actual statement; updating the cash-flow forecast; and providing information required to donors.
- Annual/year-end tasks include updating all records and investigating outstanding advances; preparing a final budget and actual statement and the annual receipts and payments account; appointing and working with the examiner/auditor, and following up his or her recommendations; having the accounts formally approved; sending copies to donors and other interested parties; providing other information to donors; and preparing the budget and cash-flow forecast for the forthcoming year.

Activities for Chapter 12 *answers on p 142*

12.1

List the financial tasks that should be performed at the following intervals:

Daily

Monthly

Annually/at the year-end

Weekly

Highlight, or add, any tasks

- that are priorities in the group or organisation where you work;
- that are tasks which are not currently undertaken, but should be. Think about how these tasks could be completed.

Appendices

Appendix 1: Example of a receipts and payment account

(with added notes and comparative figures for the previous year)

Waterside Community Centre Group

Annual Receipts and Payments Account for the period 1 April 20-- to 31 March 20--

Last year's amount		Note	Amount	Total amount
	Receipts			
3,687	Opening balance, 1 April 20--			8,946
	Development grant	1	6,000	
31,329	Donations	2	31,365	
25,468	Fees	3	34,751	
56,797	Total receipts			72,116
60,484				81,062
	Payments			
	Purchase of equipment	4	6,155	
	Transfer to savings account	5	1,862	
33,125	Salaries		40,028	
6,205	Materials		8,759	
3,520	Travel costs		3,812	
5,933	Rent of centre	6	7,780	
902	Electricity	7	861	
296	Water charge	6	396	
	Office costs			
450	- telephone	8	572	
1,045	- printing, postage, stationery		959	
62	- bank charges		104	
51,538	Total payments			71,288
8,946	Closing balance, 31 March 20--	9		9,774

Notes to the account

1 The **development grant** was given by the Education Department for the purchase of new equipment (see also note 4).

2 **Donations** received from:

	Amount
Development Trust	5,000
Co-operative Skills Association	11,365
Rural Assistance Fund	<u>15,000</u>
Total	<u>31,365</u>

3 **Fees** include 810.00 paid in advance for June 20-- .

4 **Purchase of fixed assets** (equipment):

	Cost
Overhead projector and screen	4,257
Audio equipment	<u>1,898</u>
Total	<u>6,155</u>

5 **Amount transferred to savings account** is for the eventual replacement of the overhead projector and screen and the audio equipment.

6 **Rent of centre and water charges** cover the period 1 April 20-- to 31 March 20--

7 **Electricity** paid is for 11 months (April to February). It is estimated that the March charge will be 75.00, payable in June.

8 Telephone payment includes 35.00 for two months' rental in advance.

9 **Breakdown of cash/bank amounts** held at 31 March 20--:

	Amount	Total amount
Balance in cash, 31 March		648
Balance in current account, 31 March		3,756
Balance in deposit account, 31 March		<u>5,370</u>
Total of cash, current, and deposit accounts		<u>9,774</u>
Balance in savings account, 31 March:		
- replacement of overhead projector and screen	1,288	
- replacement of audio equipment	<u>574</u>	<u>1,862</u>
Total		<u>11,636</u>

Figure 48: An analysed cash and bank-book format (receipts side)

Date	Details	Receipt number	Cash amount	Bank amount							
	Opening balance										
	Totals										

Figure 49: An analysed cash and bank-book format (payments side)

Date	Details	Payment number	Cheque number	Cash amount	Bank amount								
	Totals												

Closing balance _____

Figure 50: A cash-count format

Cash counted as at					
	Denomination	<i>multiplied by</i>	Number	<i>equals</i>	Total value
Notes:		X		=	
		X		=	
		X		=	
		X		=	
		X		=	
Coins:		X		=	
		X		=	
		X		=	
		X		=	
		X		=	
Total cash counted				_____	
Cash-book balance at 31 January					
Difference* (if any)				_____	

*Action taken regarding any difference:					
Counted by	Date				
Agreed by	Date				

Figure 51: A bank-reconciliation statement format

BANK-RECONCILIATION STATEMENT AS AT			
	Amount	Total amount	
Bank balance at (from bank statement)		[A]
<i>Less:</i> cheques not yet included in the bank's records			
– cheque number		
– cheque number		
– cheque number	<u>.....</u>	<u>.....</u>	[B]
		<i>Sub-total</i>	[A–B]
<i>Plus:</i> items paid in but not yet included in the bank's records			
– paying-in reference		
– paying-in reference	<u>.....</u>	<u>.....</u>	[C]
Balance in bank book at (group's own record)		<u>.....</u>	<u>[A–B+C]</u>

Appendix 3

Solutions to activities in Chapters 1-12

1 Introduction: why keep accounts — and who should keep them?

1.1

Answers should include the following:

- a. Members of the group need to know what money is available, and how it has been spent. (I)
- b. Accounting is often required by law. (L)
- c. Donors require a report on their funds. (L)
- d. The information is valuable in running the group. (I)
- e. It shows that the person who looks after the money is honest. (I)

1.2

See above. Although some accounting is required by law or an outside organisation, one of the main purposes is to help the group to achieve its objectives.

1.3

Answers should include:

- a. Honesty.
- b. A methodical approach.
- c. Ability to keep accurate records.
- d. Confidence in dealing with money.
- e. Confidence in communicating with employees of a bank and other organisations.

- f. Ability to explain money matters to those who have less experience.

1.4

Answers should include:

- a. Help the group to plan objectives (M); to keep accurate accounting records (M); to prepare summaries of how money has been spent (H); to arrange for an independent person to check the accounts once a year (L); to communicate with the bank (M); to arrange payment of salaries and bills (M).
- b. See above, for suggestions of 'high' (H), 'medium' (M), and 'low' (L). If the treasurer does not have skills to complete all the high-level tasks (for example, summarising the accounts at the year-end), it may be possible to pay someone, possibly an accountant, who has these skills to complete this task.
- c. All of the group, or the management committee on their behalf, and the staff, if any, need to be concerned to ensure sound financial management. This will be demanded by those who give you money and will help to make the most of the resources available to achieve your objectives.

2 Deciding what your group's activities will cost

2.1

Possible answers:

Money coming in

grants
fees for training
sale of materials

Money going out

salaries
office expenses
 for example electricity, water, travel, accommodation
 training venue, equipment, audit fee
training equipment

2.2

Money coming in

Item	Amount
Department of Education 'start-up' grant	25,000
Grant 1	30,000
Grant 2	40,000
Fees for training	66,000
Sale of materials	<u>1,200</u>
Total of 'money coming in'	<u>162,200</u>

Money going out

Item	Amount
Co-ordinator's salary	12,000
Administrator's salary	9,000
Part-time trainers	24,000
Office rent	12,000
Electricity, water, telephone	17,000
Training materials	6,000
Office expenses (including audit fee)	14,000
Travel and accommodation	18,000
Hire of training rooms	21,000
Office equipment	13,000
Training equipment	<u>11,000</u>
Total of 'money going out'	<u>157,000</u>
Difference	<u>5,200</u>

2.3

Notes

(If additional information were available, these notes could include more detail.)

- 1 Funding is confirmed for all grants.
- 2 Fees for training, based on 10 courses per month, producing 550.00 each.
- 3 Sale of materials, based on sales worth 100.00 per month.
- 4 Co-ordinator's salary at 12,000.00 per year includes employer's taxes.
- 5 Administrator's salary at 9,000.00 per year includes employer's taxes.
- 6 Part-time trainers: four at 6,000.00 per year, including employer's taxes.
- 7 Fixed contract for one year's rent.
- 8 Annual electricity charge of 7,000.00, plus combined water and telephone costs of 10,000.00.
- 9 Training materials: 10 courses per month at 50.00 per course.
- 10 Office expenses: audit fee of 5,000.00, plus other costs at 750.00 per month.
- 11 Travel and accommodation costs, based on five people at 300.00 each per month.
- 12 Hire of training rooms – needed for five courses per month at 350.00 each. Other accommodation provided by trainees' own organisations.
- 13 Office equipment: four desks at 500.00; seven chairs at 250.00; filing cabinet at 700.00; additional furniture for offices 8,550.00.
- 14 Training equipment: overhead projectors and screens 4,800.00; video and television 3,000.00; audio equipment 3,200.00.

2.4

A donor's questions might include the following:

- What is the basis for the estimates?
- Are the estimated training fees realistic?
- For how long are the donors committed to the project?
- When will the money be received?
- Are the salaries similar to other organisations?
- Will the 1,000.00 not needed for start-up equipment be returned? (25,000.00 grant *less* 24,000.00, planned spending on equipment)
- What is the 'additional furniture'?

Information to be provided:

- A breakdown of the calculations for each budget item. (The notes in Activity 2.3 provide this.)
- Further notes added to the budget to justify any unusual items.
- A cash-flow forecast, to predict when money will be received and paid.
- Written estimates from suppliers for the cost of office and training equipment, if available.

2.5

Figure 52: Training for Development cash-flow forecast for 1 January to 31 December

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
MONEY COMING IN													
DOE 'start-up' grant	25,000												25,000
Grant – donor 1	15,000				15,000								30,000
Grant – donor 2						40,000							40,000
Fees for training	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	66,000
Sale of materials	100	100	100	100	100	100	100	100	100	100	100	100	1,200
Total [A]	45,600	5,600	5,600	5,600	20,600	45,600	5,600	5,600	5,600	5,600	5,600	5,600	162,200
MONEY GOING OUT													
Co-ordinator's salary	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
Administrator's salary	750	750	750	750	750	750	750	750	750	750	750	750	9,000
Trainers' salaries	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000
Office rent	6,000					6,000							12,000
Electricity, water, telephone	7,000		2,500			2,500			2,500			2,500	17,000
Training materials	500	500	500	500	500	500	500	500	500	500	500	500	6,000
Office expenses (incl. audit)	750	750	750	750	750	750	750	750	750	750	750	5,750	14,000
Travel/accommodation	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	18,000
Hire of training rooms	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	21,000
Office equipment	13,000												13,000
Training equipment	11,000												11,000
Total [B]	45,250	8,250	10,750	8,250	8,250	16,750	8,250	8,250	10,750	8,250	8,250	15,750	157,000
Money at start of month [C]	0	350	(2,300)	(7,450)	(10,100)	2,250	31,100	28,450	25,800	20,650	18,000	15,350	
Plus total money coming in [A]	45,600	5,600	5,600	5,600	20,600	45,600	5,600	5,600	5,600	5,600	5,600	5,600	
Less total money going out [B]	45,250	8,250	10,750	8,250	8,250	16,750	8,250	8,250	10,750	8,250	8,250	15,750	
Money at end of month [C+A-B]	350	(2,300)	(7,450)	(10,100)	2,250	31,100	28,450	25,800	20,650	18,000	15,350	5,200	

2.6**Problems:**

- Overdrawn position in February, March, and April.
- Large amounts of money in hand later in the year.

Solutions:

- Contact the donors, show them the cash-flow forecast, and ask if they could pay the grant earlier.
- Look at the pattern of money going out to see if anything could be paid later, for example: equipment.
- If neither is possible, approach the bank in advance, show them the cash-flow forecast, and arrange for a temporary overdraft for the period February to April.
- Also consider the possibility of temporarily investing some of surplus money in later months.

2.7

The donor may suggest delaying the purchase of equipment, which may be possible if the whole programme is not dependent on having the equipment in place. The donor may be willing to pay grants earlier, if funds are available.

2.8

See Figure 52.

3 Records of money coming in and going out

3.1

Figure 53: *Training for Development* cash book

Date	Details	Cash amount IN	Cash amount OUT	Balance
1 Jan	Opening balance			0
1 Jan	Fees for training	1,300		1,300
4 Jan	Fees for training	2,800		4,100
4 Jan	Purchase of stationery		400	3,700
4 Jan	Purchase of desks		1,000	2,700
7 Jan	Photocopying		200	2,500
7 Jan	Purchase of training materials		900	1,600
9 Jan	Purchase of stationery		250	1,350
10 Jan	Hire of training rooms		400	950
10 Jan	Sale of booklet	25		975
14 Jan	Purchase of filing cabinet		700	275
15 Jan	Fees for training	1,350		1,625
19 Jan	Travel: Co-ordinator		320	1,305
20 Jan	Sale of materials	15		1,320
25 Jan	Purchase of office items		240	1,080
27 Jan	Sale of booklet	25		1,105
31 Jan	Closing balance			1,105

Note: it is usual to show the balance at the beginning and end of the month. Here the opening balance is zero, because this is a new organisation.

3.2

Figure 54a

TRAINING FOR DEVELOPMENT	
	Receipt number I
Date <i>1 January</i>	Amount <i>1,300.00</i>
Received from <i>(name of person giving cash)</i>	
Description <i>Fees for training</i>	
Received by <i>A Cashier</i>	

Figure 54b

TRAINING FOR DEVELOPMENT	
	Receipt number 2
Date <i>4 January</i>	Amount <i>2,800.00</i>
Received from <i>(name of person giving cash)</i>	
Description <i>Fees for training</i>	
Received by <i>A Cashier</i>	

Figure 54c

TRAINING FOR DEVELOPMENT	
	Receipt number 3
Date <i>10 January</i>	Amount <i>25.00</i>
Received from <i>(name of person giving cash)</i>	
Description <i>Sale of booklet</i>	
Received by <i>A Cashier</i>	

Figure 54d

TRAINING FOR DEVELOPMENT

Receipt number **4**

Date *15 January* Amount **1,350.00**

Received from *(name of person giving cash)*

Description *Fees for training*

Received by *A Cashier*

Figure 54f

TRAINING FOR DEVELOPMENT

Receipt number **6**

Date *27 January* Amount **25.00**

Received from *(name of person giving cash)*

Description *Sale of booklet*

Received by *A Cashier*

Figure 54e

TRAINING FOR DEVELOPMENT

Receipt number **5**

Date *20 January* Amount **15.00**

Received from *(name of person giving cash)*

Description *Sale of materials*

Received by *A Cashier*

Figure 55: *Training for Development* cash book (including receipt-number column)

Date	Details	Receipt number	Cash amount IN	Cash amount OUT	Balance
1 Jan	Opening balance				0
1 Jan	Fees for training	1	1,300		1,300
4 Jan	Fees for training	2	2,800		4,100
4 Jan	Purchase of stationery			400	3,700
4 Jan	Purchase of desks			1,000	2,700
7 Jan	Photocopying			200	2,500
7 Jan	Purchase of training materials			900	1,600
9 Jan	Purchase of stationery			250	1,350
10 Jan	Hire of training rooms			400	950
10 Jan	Sale of booklet	3	25		975
14 Jan	Purchase of filing cabinet			700	275
15 Jan	Fees for training	4	1,350		1,625
19 Jan	Travel: Co-ordinator			320	1,305
20 Jan	Sale of materials	5	15		1,320
25 Jan	Purchase of small office items			240	1,080
27 Jan	Sale of booklet	6	25		1,105
31 Jan	Closing balance				1,105

3.3

Figure 56: Training for Development cash book

RECEIPTS				PAYMENTS			
Date	Details	Receipt number	Cash amount	Date	Details	Payment number	Cash amount
1 Jan	Opening balance	–	0	4 Jan	Purchase of stationery	P1	400
1 Jan	Fees for training	1	1,300	4 Jan	Purchase of desks	P2	1,000
4 Jan	Fees for training	2	2,800	7 Jan	Photocopying	P3	200
10 Jan	Sale of booklet	3	25	7 Jan	Purchase of training materials	P4	900
15 Jan	Fees for training	4	1,350	9 Jan	Purchase of stationery	P5	250
20 Jan	Sale of materials	5	15	10 Jan	Hire of training rooms	P6	400
27 Jan	Sale of booklet	6	25	14 Jan	Purchase of filing cabinet	P7	700
				19 Jan	Travel: Co-ordinator	P8	320
				25 Jan	Purchase of small office items	P9	240
	Total		5,515		Total		4,410
Closing balance (31 January)							<u>1,105</u>

3.4

Figure 57: *Training for Development*: cash counted in cash box at 31 January

	Denomination		Number		Total Value
Notes	20	X	11	=	220
	50	X	8	=	400
	100	X	1	=	100
Coins	1	X	33	=	33
	5	X	17	=	85
	10	X	27	=	270
Total cash counted					<u>1,108</u>
Cash book balance at 31 January					<u>1,105</u>
Difference* (if any)					<u>3</u>
*Action regarding any difference					
The cash has been re-counted, and the receipts have been checked.					
As this is a small amount, no action is to be taken.					
A note of the difference has been made in the cash book and authorised by the group leader.					
Counted by	<i>A Cashier</i>		Date	31 January	
Agreed by	<i>A Manager</i>		Date	31 January	

3.5

- 1: b.
Reason: cash should be as secure as possible. In practice, it is better to keep the tin in a locked cupboard or safe on the premises and keep the amount of cash held to a minimum.
- 2: a.
Reason: the group leader needs to know as far in advance as possible if you are running out of money. This allows maximum time to try to raise more funds.
- 3: c.
Reason: Non-regular payments must be referred to a senior person for approval, to protect the cashier from pressure to pay. It would be sensible to ensure that the item is in the budget before making payment (option b).
- 4: c.
Reason: issuing receipts is a basic financial control which should always be followed.

4 Arranging your records to give more information

4.1

... type ...

... budget ... columns ...

... 'Other' ...

... added up ... receipts ...

... payments ... receipts ...

4.2

Figure 58a: *Training for Development* analysed cash book (receipts side)

Date	Details	Receipt number	Cash amount	Opening balance	Grants from donors	Fees for training	Sale of materials	Other receipts
1 Jan	Opening balance		0	0				
1 Jan	Fees for training	1	1,300			1,300		
4 Jan	Fees for training	2	2,800			2,800		
10 Jan	Sale of booklet	3	25				25	
15 Jan	Fees for training	4	1,350			1,350		
20 Jan	Sale of materials	5	15				15	
27 Jan	Sale of booklet	6	25				25	
	Totals		5,515	0	0	5,450	65	0

Figure 58b: *Training for Development* analysed cash book (payments side)

Date	Details	Payment number	Cash amount	Salaries	Rent/ electricity/ water/ telephone	Training materials	Office expenses (including audit)	Travel/ accommodation	Hire of training rooms	Office/ training equipment	Other payments
4 Jan	Purchase of stationery	P1	400				400				
4 Jan	Purchase of desks	P2	1,000							1,000	
7 Jan	Photocopying	P3	200				200				
7 Jan	Purchase of training materials	P4	900			900					
9 Jan	Purchase of stationery	P5	250				250				
10 Jan	Hire of training rooms	P6	400						400		
14 Jan	Purchase of filing cabinet	P7	700							700	
19 Jan	Travel: Co-ordinator	P8	320					320			
25 Jan	Purchase of small office items	P9	240				240				
	Totals		4,410	0	0	900	1,090	320	400	1,700	0

Closing balance (31 January) 1,105

4.3

See Figure 58a and 58b.

5 Bank accounts

5.1

See main text for details, Chapter 5.

5.2

Figure 59: Training for Development bank book

RECEIPTS				PAYMENTS				
Date	Details	Paying-in reference	Bank amount	Date	Details	Payment number	Cheque number	Bank amount
1 Jan	Opening balance		0	4 Jan	Rent	P701	406781	6,000
5 Jan	'Start-up' grant	201	25,000	7 Jan	Purchase of office chairs	P702	406782	1,750
14 Jan	Grant	202	15,000	16 Jan	Water charge	P703	406783	6,670
15 Jan	Fee for training	203	480	16 Jan	Purchase of OHPs and screens	P704	406784	4,800
				18 Jan	Hire of training rooms	P705	406786	890
				24 Jan	Purchase of video and television	P706	406787	3,000
				24 Jan	Accommodation: Co-ordinator	P707	406788	400
				31 Jan	Salaries	P708	406789	3,225
	Total		40,480		Total			26,735

Closing balance (31 January)

13,745

5.3

Figure 60: Training for Development cash and bank book

RECEIPTS						PAYMENTS					
Date	Details	Receipt number	Paying-in reference	Cash amount	Bank amount	Date	Details	Payment number	Cheque number	Cash amount	Bank amount
1 Jan	Opening balance	–		0	0	4 Jan	Rent	P701	406781		6,000
1 Jan	Fees for training	1		1,300		4 Jan	Purchase of stationery	P1		400	
4 Jan	Fees for training	2		2,800		4 Jan	Purchase of desks	P2		1,000	
5 Jan	'Start-up' grant		201		25,000	7 Jan	Photocopying	P3		200	
10 Jan	Sale of booklet	3		25		7 Jan	Purchase of office chairs	P702	406782		1,750
14 Jan	Grant		202		15,000	7 Jan	Purchase of training materials	P4		900	
15 Jan	Fees for training		203		480	9 Jan	Purchase of stationery	P5		250	
15 Jan	Fees for training	4		1,350		10 Jan	Hire of training rooms	P6		400	
20 Jan	Sale of materials	5		15		14 Jan	Purchase of filing cabinets	P7		700	
27 Jan	Sale of booklet	6		25		16 Jan	Water charge	P703	406783		6,670
						16 Jan	Purchase of OHPs and screens	P704	406784		4,800
						18 Jan	Hire of training rooms	P705	406786		890
						19 Jan	Travel: Co-ordinator	P8		320	
						24 Jan	Purchase of video	P706	406787		3,000
						24 Jan	Accommodation: Co-ordinator	P707	406788		400
						25 Jan	Purchase of small office items	P9		240	
						31 Jan	Salaries	P708	406789		3,225
	Total			5,515	40,480		Total			4,410	26,735

Closing balance (31 January)

1,105

13,745

5.4

Figure 61a: *Training for Development* analysed cash and bank book (receipts side)

Date	Details	Receipt number	Paying-in reference	Cash amount	Bank amount	Opening balance	Grants from donors	Fees for training	Sale of materials	Other receipts
1 Jan	Opening balance			0	0	0				
1 Jan	Fees for training	1		1,300				1,300		
4 Jan	Fees for training	2		2,800				2,800		
5 Jan	'Start-up' grant		201		25,000		25,000			
10 Jan	Sale of booklet	3		25					25	
14 Jan	Grant		202		15,000		15,000			
15 Jan	Fees for training		203		480			480		
15 Jan	Fees for training	4		1,350				1,350		
20 Jan	Sale of materials	5		15					15	
27 Jan	Sale of booklet	6		25					25	
	Total			5,515	40,480	0	40,000	5,930	65	0

5.4

cont'd

Figure 61b: *Training for Development* analysed cash and bank book (payments side)

Date	Details	Payment number	Cheque number	Cash amount	Bank amount	Salaries	Rent/ electricity/ water/ telephone	Training materials	Office expenses (including audit)	Travel/ accomm.	Hire of training rooms	Office/ training equipment	Other payments
4 Jan	Rent	P701	406781		6,000		6,000						
4 Jan	Purchase of stationery	P1		400					400				
4 Jan	Purchase of desks	P2		1,000								1,000	
7 Jan	Photocopying	P3		200					200				
7 Jan	Purchase of office chairs	P702	406782		1,750							1,750	
7 Jan	Purchase of training materials	P4		900				900					
9 Jan	Purchase of stationery	P5		250					250				
10 Jan	Hire of training rooms	P6		400							400		
14 Jan	Purchase of filing cabinets	P7		700								700	
16 Jan	Water charge	P703	406783		6,670		6,670						
16 Jan	Purchase: OHPs and screens	P704	406784		4,800							4,800	
18 Jan	Hire of training rooms	P705	406786		890						890		
19 Jan	Travel: Co-ordinator	P8		320						320			
24 Jan	Purchase of video	P706	406787		3,000							3,000	
24 Jan	Accommodation: Co-ordinator	P707	406788		400					400			
25 Jan	Purchase of office items	P9		240					240				
31 Jan	Salaries	P708	406789		3,225	3,225							
	Total			4,410	26,735	3,225	12,670	900	1,090	720	1,290	11,250	0

Closing balance (31 January)

1,105 13,745

5.5

Figure 62: *Training for Development* cash and bank book

RECEIPTS						PAYMENTS					
Date	Details	Receipt number	Paying-in reference	Cash amount	Bank amount	Date	Details	Payment number	Cheque number	Cash amount	Bank amount
10 Feb	Cash to bank	–	210		1,200	10 Feb	Cash to bank	–	–	1,200	
12 Feb	Bank to cash	–	–	4,000		12 Feb	Bank to cash	–	406795		4,000

6 Ensuring that your figures agree with the bank's figures

6.1

- A bank statement is a list produced by a bank, showing all entries in an account over a period of time, and the balance held at the end of that period.
- A bank reconciliation is a way of confirming that a group's own accounting records agree with those of the bank.
- A bank reconciliation should be completed every time a bank statement is received or a pass book updated.
- a. ... outstanding
- b. ... charges ... interest ...
- c. Tick off ...
- d. ...table ... ticked off

6.2

The hand-written adjustments are shown in Figures 63a and 63b to explain how the bank book and bank statement are compared before the bank-reconciliation statement is presented.

In addition, in this example, the bank charges are added to the bank book in January. This would often not be possible if the statement were received at a later date. In that case, the bank book would be updated in the following month, and a figure for bank charges would be added in the bank-reconciliation statement in January.

Figure 63a: Training for Development bank book

RECEIPTS				PAYMENTS				
Date	Details	Paying-in reference	Bank amount	Date	Details	Payment number	Cheque number	Bank amount
1 Jan	Opening balance		0	4 Jan	Rent	P701	406781	6,000 ✓
5 Jan	'Start-up' grant	201	✓ 25,000	7 Jan	Purchase of office chairs	P702	406782	1,750 ✓
14 Jan	Grant	202	<i>o/s</i> 15,000	16 Jan	Water charge	P703	406783	6,670 ✓
15 Jan	Fee for training	203	✓ 480	16 Jan	Purchase: OHPs and screens	P704	406784	4,800 ✓
				18 Jan	Hire of training rooms	P705	406786	890 <i>o/s</i>
				24 Jan	Purchase of video and television	P706	406787	3,000 ✓
				24 Jan	Accommodation: Co-ordinator	P707	406788	400 <i>o/s</i>
				31 Jan	Salaries	P708	406789	3,225 <i>o/s</i>
				30 Jan	Bank charges	-		430
	Total		40,480		Total			26,785 27,165

Figure 63b: Training for Development bank statement as at 31 January

Closing balance (31 January)

~~13,745~~
13,315
(revised balance)

NATIONAL COMMERCIAL BANK: Training for Development current account				
DATE	DETAILS	IN	OUT	BALANCE
1 Jan	Opening balance			0
5 Jan	Credit	25,000 ✓		25,000
8 Jan	Cheque 406781		6,000 ✓	19,000
15 Jan	Cheque 406782		1,750 ✓	17,250
15 Jan	Credit	480 ✓		17,730
19 Jan	Cheque 406783		6,670 ✓	11,060
24 Jan	Cheque 406786		890 ✓	10,170
29 Jan	Cheque 406787		3,000 ✓	7,170
30 Jan	Bank charges		<i>update cash book</i> → (430)	6,740
31 Jan	Closing balance			6,740

o/s = outstanding items

6.2

cont'd

Figure 64: *Training for Development* bank-reconciliation statement as at 31 January

	Amount	Total amount	
Bank balance at 31 January (from bank statement)		6,740	[A]
<i>Less:</i> cheques not yet included in the bank's records			
– cheque number 406784	4,800		
– cheque number 406788	400		
– cheque number 406789	<u>3,225</u>	<u>8,425</u>	[B]
		<i>Sub-total</i> (1,685)	[A–B]
<i>Plus:</i> items paid in but not yet included in the bank's records			
– paying-in reference 202 / 14 January		15,000	[C]
		<hr/>	
Balance in bank book at 31 January (group's own record)		<u>13,315</u>	<u>[A–B+C]</u>

The amount in brackets shows that the figure is negative.

6.3

Actions:

- Find out what has happened to cheque 406785, which is missing in the sequence. If it has been cancelled, it should be retained in the cheque book and clearly marked 'cancelled'.
- Ask the bank why the grant of 15,000.00 has not been credited to the account on 14 January. How was *Training for Development* notified? Did the bank charges result because this amount is not in the account? If so, could a refund be claimed?

Figure 65b: Northern Agricultural Programme bank statement

STANDARD BANK: Northern Agricultural Programme current account				
DATE	DETAILS	IN	OUT	BALANCE
1 May	Opening balance			7,764
2 May	Cheque 4015		195	7,569
6 May	Cheque 4016		2,364	5,205
10 May	Cheque 4017		250 ✓	4,955
10 May	Cheque 4019		4,754 ✓	201
17 May	Cheque 4020		601 ✓	400 OD
23 May	Interest	145		255 OD
23 May	Transfer	5,000 ✓		4,745
23 May	Charges		58 ✓	4,687
28 May	Cheque 4022		300 ✓	4,387
31 May	Closing balance			<u>4,387</u>

OD = overdrawn amount

Figure 66: Northern Agricultural Programme bank-reconciliation statement at 31 May

	Amount	Total amount	
Bank balance at 31 May (from bank statement)		4,387	[A]
<i>Less:</i> cheques not yet included in the bank's records			
– cheque number 4021	143		
– cheque number 4023	4,167		
– cheque number 4024	1,305		
– cheque number 4025	<u>280</u>	5,895	[B]
		<i>Sub-total</i> (1,508)	[A–B]
<i>Plus:</i> items paid in but not yet included in the bank's records			
– paying-in reference 156/29 May		3,497	[C]
Balance in bank book at 31 May (group's own record)		<u>1,989</u>	<u>[A–B+C]</u>

6.5

Questions to ask include:

- Why did the transfer from the deposit account go through the bank book on 9 May but not appear on the bank statement until 23 May?
- Where is cheque number 4018? Has it been cancelled?
- What is the reason for the bank charges? How have they been calculated?
- Is it possible to negotiate payment of rent every three months?

6.6

- 1: d.
Reason: any bank accounts should be opened in the name of the group.
- 2: c.
Reason: to avoid errors or theft.
- 3: b.
Reason: generally improves security.
- 4: a.
Reason: tightens financial control and is good practice.

7 Summarising the accounts

7.1

Figure 67: *Training for Development* receipts and payments account (receipts side)

RECEIPTS	Amount	Total amount
Opening balance bank/cash, 1 January		0
Grants from donors	40,000	
Fees for training	5,930	
Sale of materials	65	
Other receipts	<u>0</u>	
Total receipts		<u>45,995</u>

7.2

Figure 68: *Training for Development* receipts and payments account (payments side)

PAYMENTS	Amount	Total amount
Salaries	3,225	
Rent	6,000	
Electricity/water/telephone	6,670	
Training materials	900	
Office expenses (including audit)	1,090	
Travel and accommodation	720	
Hire of training rooms	1,290	
Office equipment	3,450	
Training equipment	7,800	
Other payments	<u>0</u>	
Total payments		<u>31,145</u>
Closing balance, 31 January		<u>14,850</u>

7.3

Figure 69: *Training for Development* receipts and payments account for the period 1-31 January

	Amount	Total amount	
RECEIPTS			
Opening balance, 1 January		0	[A]
Grants from donors	40,000		
Fees for training	5,930		
Sale of materials	65		
Other receipts	<u>0</u>		
Total receipts		<u>45,995</u>	[B]
		45,995	[A+B]
PAYMENTS			
Salaries	3,225		
Rent	6,000		
Electricity/water/telephone	6,670		
Training materials	900		
Office expenses (incl. audit)	1,090		
Travel/accommodation	720		
Hire of training rooms	1,290		
Office equipment	3,450		
Training equipment	7,800		
Other payments	<u>0</u>		
Total payments		<u>31,145</u>	[C]
Closing balance bank/cash, 31 January		<u>14,850</u>	[A+B-C]

[The letters A, B, and C are included to show where the calculations are made. These would not usually be shown in a receipts and payments account.]

8 Summarising the accounts in more detail

8.1

a. **Limitation:**

The receipts and payments account does not state how much relates to a specific period of time. For example, if rent is paid for 15 months it will be included, regardless of the fact that the account is merely for 12 months.

How to overcome:

- Keeping outstanding amounts to a minimum at the date when the receipts and payments account will be prepared.
- Keep a record of outstanding items and include as a note at the bottom of the receipts and payments account.

b. **Limitation:**

Long-term and short-term items are treated in the same way.

How to overcome:

- Add a note of 'fixed assets' at the bottom of the receipts and payments account.

c. **Limitation:**

A surplus (profit) or deficit (loss) figure is not shown at the end of the period. The receipts and payments account only shows the cash and bank balance at this date.

How to overcome:

- Notes added to the account will show outstanding commitments.
- If it is essential to have details of surplus or deficit figures, help should be sought from an accountant.

8.2

Money should be put aside regularly in a savings or deposit account to replace 'fixed assets'.

9 Providing the information that your group needs

9.1

Figure 70: *Training for Development* budget and actual statement for the month of January

Item	Note	Budgeted amount for January	Amount received/spent in January	Difference
RECEIPTS				
Dept. of Education 'start-up' grant		25,000	25,000	0
Grants received from donors		15,000	15,000	0
Fees for training		5,500	5,930	430
Sale of materials		100	65	(35)
Total receipts		45,600	45,995	395
PAYMENTS				
Salaries		3,750	3,225	525
Office rent		6,000	6,000	0
Electricity/water/ telephone		7,000	6,670	330
Training materials		500	900	(400)
Office expenses (including audit)		750	1,090	(340)
Travel and accommodation		1,500	720	780
Hire of training rooms		1,750	1,290	460
Office equipment		13,000	3,450	9,550
Training equipment		11,000	7,800	3,200
Total payments		45,250	31,145	14,105
Total difference		350	14,850	14,500

9.2

This is because the negative difference indicates an under-collection of budgeted receipts but an overspend on payments (rather than an underspend). The brackets help to show the areas where we need to concentrate our efforts: where receipts have not arrived or there is overspending.

9.3

If an entry for 'transfer to a savings account' had been made, a figure would have been shown in the 'amount received/spent' column of the payments section of the statement in Activity 9.1. A note would be added at the bottom of the table to explain this.

9.4

Notes

1. **Office and training equipment** represents fixed assets bought during January

Office	Cost
Desks	1,000
Office chairs	1,750
Filing cabinets	<u>700</u>
Total office equipment	<u>3,450</u>
Training	Cost
Overhead projectors/screens	4,800
Video and television	<u>3,000</u>
Total training equipment	<u>7,800</u>

2. **Amounts held in cash and bank**

Balance held in cash, 31 January	1,105
Balance in current account, 31 January	<u>13,745</u>
Total	<u>14,850</u>

9.5

Questions include:

- Salaries can usually be accurately calculated in the budget. Why were they less than estimated?
- Why are the training materials and office expenses greater than estimated?
- Why are travel/accommodation and hire of training rooms under budget?
(Remember that the receipts and payments account is not always an accurate comparison with the budget, because payments in advance and in arrears are not adjusted. This may be the answer.)
- Is there more office equipment and training equipment still to be purchased? If so, for what amount?
- If there is no money set aside for the replacement of the fixed assets already purchased, how will they be replaced?

The management committee may also wish to see a copy of the revised cash-flow forecast, along with the budget and actual statement.

10 Having the accounts checked

10.1

Independence.

10.2

- cash and bank books
- receipts for money coming in and payments going out
- invoices
- information from donors
- any correspondence about the group, and especially about the accounting
- bank statements or pass books
- cheque books and old cheque 'stubs', paying-in slips/books
- bank reconciliations, especially for the year-end
- budget and actual statements
- receipts and payments account
- a record of any group meetings.

10.3

A management letter suggests ways for a group to improve its internal organisation and make its activities more effective.

10.4

Points to include:

- No-one outside the group looks at the accounting, and there is a lack of transparency. The group may not be seen to be honest.
- Valuable advice from an examiner/auditor is not available to the group.
- The group lacks the credibility that an examination/audit provides.
- Donors may refuse to fund the group.

11 Relations with donors

11.1

... high standard of accounting ...

... the types of programme that they are likely to fund

... keep the donor informed

... kept carefully

11.2

1: b.

Reason: donors will wish to see that you have contacted a range of suppliers to find the best value. Donors may also ask for some of the other options!

2: d.

Reason: accounting staff have to prepare additional budgets and report on financial activities to donors.

3: a.

Reason: the letter of agreement will give details of reports required and their frequency.

12 Regular financial tasks

12.1

See the text in Chapter 12 for details.

Suggestions for further reading

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M. Kandasami (1998) *Governance and Financial Management in Non-Profit Organisations*, New Delhi: Caritas India. (Available from Caritas India, CBCI Centre, Ashok Place (Gole Dakhana), New Delhi 110 001, India.)

J. Shapiro (1995) *Financial Management for Self-Reliance*, Durban: Olive (Organisation Development and Training). (Available from Olive, 21 Sycamore Road, Glenwood, Durban 4001, South Africa.)

Glossary of terms used

Accountant:	Someone who is qualified (usually by passing professional examinations) to give financial advice.	Bank statement:	A list produced by a bank, showing all entries in an account over a period of time, and the balance held at the end of that period. (See Chapter 6.)
Accounting:	The method of recording and using information to prepare and interpret financial summaries/statements and reports.	Book-keeper:	A person who keeps records of accounts.
Accounts:	The records kept and statements produced to show how a group has used its money.	Budget:	A financial summary of a plan relating to a period of time. (See Chapter 2.)
Analysed cash and bank book:	The record of all cash and/or bank amounts coming in and going out, with additional columns to identify the type of receipt or payment. (See Chapter 4.)	Budget and actual statement:	A report comparing budget and actual receipts and payments. (See Chapter 9.)
Audit:	An independent assessment of a group's accounts and other records. (See Chapter 10.)	Cash book:	A record of all cash coming in and going out. The term is also used to mean the cash <i>and</i> bank-book records. (See Chapter 3.)
Auditor:	A person who carries out an audit. (See Chapter 10.)	Cash-flow forecast (or cash budget):	A way of stating, in advance, what money is expected to come in and go out of a group or project over a fixed period of time. (See Chapter 2.)
Bank book:	A record kept by the group itself, showing all items going in or out of the bank account. (See Chapter 5.)	Cheque:	A document provided by a bank to enable you to draw money from your bank account.
Bank charge:	A charge made for operating a bank account.	Cheque (or check) account:	See <i>current account</i> .
Bank pass book:	A book provided and updated by the bank to show the record of money in an account. (See Chapter 6.)	Closing balance:	A figure included in the accounts as an amount remaining at the end of an accounting period. This will be the same as the opening balance in the next period.
Bank paying in slip/book:	A document provided by the bank to enable you to pay money into your account.	Contract (with donor):	An agreement between a donor and a group, setting out terms and conditions for the relationship. (See Chapter 11.)
Bank reconciliation:	A way of confirming that a group's own accounting records agree with those of the bank. (See Chapter 6.)		

Cumulative budget and actual report: A statement comparing budgeted and actual receipts and payments from the beginning of the year to date.

Cumulative total: The total for the current period, added to the total for previous periods.

Current account: A type of bank account into which money can be paid, and from which cheques can be written and money withdrawn. (See Chapter 5.)

Deposit account: A bank account that gains interest. The bank may require several days' advance notice to withdraw funds. Sometimes called a savings account. (See Chapter 5.)

Donor: An individual or organisation providing financial support or other forms of support to a group.

Examination: An independent assessment of a group's accounts and other records. (See Chapter 10.)

Examiner (or independent examiner): An independent person responsible for assessing the accounts at the year-end. (See Chapter 10.)

Expenditure (or expenses): Costs which have been paid.

Fixed assets: Items which are kept for more than one year, for example vehicles and equipment.

Income receipt: A piece of paper which gives details of an amount of money received, and the signature of the person receiving the money. (See Chapter 3.)

Independent examination: *See examination.*

Independent examiner: *See examiner.*

Inflation: A term used to refer to an increase in prices.

Interest: An amount added to your money when someone else holds it, for example, a bank, or an amount charged on a bank overdraft.

Invoice: A written request for payment.

Letter of agreement: An agreement between a donor and a group, setting out terms and conditions for the relationship. (See Chapter 11.)

Management committee: People who are (legally) responsible for the running of a group.

Management letter: A letter sent to the group's leader or management committee at the end of an examination of the accounts or (especially) a formal audit.

Objectives: A summary of future plans.

Opening balance: An amount of money which is included in the cash book, bank book, or other record as a starting point at the beginning of a new accounting period.

Overdraft: An amount that a bank allows to be temporarily over-spent from your account. It is, in effect, a short-term loan.

Paying-in slip/book: A document provided by a bank which you complete when you pay money into your account.

Payment: Money given to someone else for the provision of goods or services.

- Payment receipt:** A piece of paper which shows an amount paid and the signature of the person who has received the money. (See Chapter 3.)
- Receipt:** Money coming in; or a piece of paper acknowledging money received or payment made. (See Chapter 3.)
- Receipts and payments account:** A summary of bank and cash items coming in and going out of a group over a period of time. (See Chapter 7.)
- Reconciliation:** A means of agreeing one part of the accounts with another.
- Savings account:** A bank account which pays interest and is intended for money that is not required immediately. May also be called a deposit account. (See Chapter 5.)
- Treasurer:** The person who keeps records of the accounts and interprets their meaning to others in the group. (See Chapter 1.)
- Voucher:** A receipt for money; and a document which supports a financial transaction. (See Chapter 3.)

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The success of any venture, whatever its size, depends on proper financial control. This book offers a step-by-step guide to basic accounting and financial management techniques. It is written in plain language for people who have no previous experience of accounting and book-keeping. Using simple case studies, the author shows how to:

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John Cammack is a freelance trainer and consultant with international non-government organisations.

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