An Introduction to Finance and Accounting for Voluntary and Community Organisations in Hampshire

FUNDED

Foreword

In today's climate great emphasis is placed on accountability and transparency in the management of business and financial matters.

Particularly in the 'third sector' – voluntary and community sector, encompassing charities, voluntary organisations and groups and a variety of clubs, societies and community organisations – there is an ever growing expectation that financial matters will be managed with a high degree of probity, transparency and best practice – particularly where the funding of such organisations comes from public sector grants or fundraising among the general public.

For those who are new to the management of third sector organisations and particularly the financial aspects, these requirements can seem very daunting. This toolkit is designed to provide a simple, easy to use and easy to understand explanation of the basic principles required to manage the financial aspects of voluntary and community sector organisations.

As with all specialist subjects those dealing with financial matters use a considerable amount of jargon and special terms which have particular meanings to describe their activities. A **glossary** is included at the end of this toolkit which explains many of these terms. You will find it helpful to refer to the glossary as you work through the toolkit until you become familiar with the various terms and their specific meaning in a financial context.

In this toolkit symbols are used to help you find the different types of information you may need:

Helpful tips

Best practice advice

Help — Other sources for further information

Example forms and templates

Contents

ChangeUp capacity builders FUNDED

Introduction

Sound management of the finances of a voluntary & community organisation will provide assistance to the organisation in delivering its service and ensuring the efficient and effective use of available funds.

Good financial management is key to organisational sustainability. It will impact on decision-making across the organisation and as such should be integrated into all aspects of an organisation's operations, from managing budgets, to gathering information for decision-making.

Definition – What is financial management?

Financial management can be defined as the system by which the financial aspects of an organisation's business are directed and controlled to support the organisation's goals.

It is at the core of successful management and fundamental to achieving organisational objectives and improving services. The trustees must understand and demonstrate a strong commitment to effective financial management. The senior management team must keep abreast of financial performance and take/recommend remedial action where necessary.

Key aspects:

This toolkit covers the following key aspects of financial activity which are essential to effective financial management:

- Long term financial strategy and planning
- Financial planning and budgeting processes (which must be closely linked)
- Annual budgeting
- Money management
- Value for money and efficiency
- Financial Control
- Providing information (reporting)

The Treasurer's Role

A treasurer should be honest, competent and confident in handling money and keeping simple accounts.

Recording income and expenditure in the bookkeeping system of the group/organisation is very important. It should be done regularly and given sufficient time. The rest of the trustees will need to be confident that proper records are being kept, so that any mistrust or misunderstanding is avoided.

The actual day to day work may be delegated to a bookkeeper, especially in larger organisations. However, the treasurer will still have overall responsibility for supervising this work and ensuring that financial procedures are being followed, as well as presenting financial reports to the trustees.

The treasurer will have a number of responsibilities and will need to receive support from the other committee members, so that they don't feel isolated in their work. Other committee members may need to receive training on financial matters and the systems that are used. This will not only help them in providing support to the treasurer, but will also provide some security in case the treasurer becomes ill or leaves suddenly.

Larger groups/organisations will often have a finance sub-committee to share the responsibilities of the treasurer.

Responsibilities

The treasurer has a number of responsibilities in overseeing the finances of the organisation and needs to ensure that:

- finances are properly handled in accordance with the organisation's objectives
- there are written financial procedures and that they are actually followed
- there is an adequate financial recording and control system in use
- up-to-date records of the finances are kept
- everyone who handles money records all their transactions
- written reports are made to the management committee/trustees, at least once a quarter
- information needed for the year end accounts is prepared
- the accounts have an audit or independent examination, as required by the Charities Act 1993
- a financial report is presented at the AGM
- a budget is produced and monitored throughout the year against actual income and expenditure

The role is a serious one and can be complicated in terms of keeping track of all the money of the organisation, not to mention time-consuming. However, if the job is done well it can be very satisfying.

Responsibility for financial management

Although the treasurer is the person delegated to take responsibility for the finances, ultimately it is the whole committee/board of trustees who have responsibility for the financial matters of the organisation, not just the treasurer; so the treasurer's role is to act as the go-between, between what is happening financially in the organisation and the committee. If a bad financial decision is made by the organisation, and debts are run up, it is the committee that is ultimately liable for those debts.

It follows from this that it is crucial that the treasurer:-

- has a good grasp of the organisation's finances,
- makes sure that all financial tasks that should be done are done, and
- keeps the committee up-to-date with financial information.

Size of organisation

The actual tasks that the treasurer undertakes will vary from organisation to organisation according to the size of the organisation, and whether there are any paid staff with specific financial responsibilities.

In many small organisations the treasurer may undertake all the financial tasks, from working out the salaries each month, to paying income into the bank, to producing reports for the committee.

In medium sized organisations the manager or a paid bookkeeper may be employed to do some of the day to day work of entering transactions into the books, whilst the treasurer takes responsibility for reporting to the committee, dealing with the auditor etc.

In the biggest organisations with perhaps a full-time paid finance manager or even a finance department, the treasurer's tasks will be different again; he or she will do none of the day to day financial tasks and may not even present the financial report to the committee; but he or she should have an excellent overview of the financial planning and management of the organisation and should be in regular contact with the paid officer to discuss major financial decisions, and regularly review all financial information.

So it follows from this that no one treasurer's job will be the same; the important thing is to have a complete list of all the financial tasks that need doing in your organisation, and to be absolutely clear about who does what, so that no task falls between two stools. The following is a list of all the tasks that may need doing, broken down into areas. It's a good idea to work through this, and to put initials against each task that is applicable to your organisation, so that everyone knows who is responsible for that particular task.

A checklist of financial tasks

[Not all these tasks will need to be done by every organisation]

- **Financial Planning and Budgeting**
    - Involving staff and committee in financial planning
    - Writing a 3 year business plan for the organisation
    - Collecting information on funding sources

- Completing fundraising applications; Liaising with funding agencies
- Preparing proposals for contracting services
- Preparing a pricing policy
- Proposing and advising on salary levels and increases
- Preparing budgets and cash-flow forecasts
- Monitoring how actual income and expenditure compares with the budget
- Monitoring and dealing with cash-flow problems

- **Banking and Bookkeeping**
  - Opening bank accounts (as agreed by the committee)
  - Updating bank mandates (a pool of 4 signatories is best, all of which should be approved by the committee) Two people should sign each cheque.
  - Ordering goods
  - Authorisation of expenditure
  - Writing cheques
  - Signing cheques
  - Receiving and banking of income
  - Recording all income and expenditure transactions
  - Recording restricted funds separately
  - Filing income and expenditure documentation including funder's terms and conditions
  - Monthly bank reconciliation
  - Totalling the books at the end of the month
  - Collection of membership subscriptions
  - Chasing debtors
  - Updating and filing all wages records
  - Payment of wages, tax, National Insurance (NI)
  - Maintaining the petty cash box
  - Paying petty cash
  - Recording petty cash
- **Financial Rules, Policies and Controls**
  - Developing a set of financial rules
  - Implementing financial rules
  - Reviewing the financial rules on a one or two yearly basis

ChangeUp capacity builders FUNDED

  - Maintaining a fixed asset register
  - Ensuring that fixed assets are secure
  - Maintaining and reviewing insurance
  - Developing and monitoring a stock control system
  - Developing and reviewing expenses policy
  - Regular review of tax and legal requirements for finances (e.g. VAT)
- **Financial Reporting**
  - Producing reports for the committee
  - Presenting financial reports to the committee
  - Preparing end of year accounts (unless done by outside accountant)
  - Preparing documents for independent examiner/auditor
  - Liaising with the independent examiner/auditor
  - Presenting draft annual accounts to the committee
  - Presenting audited/examined accounts to the AGM
  - Completing and sending returns to the Charity Commission/ Companies House (if applicable)
  - Completing and sending reports to funders
- **Investments and Reserves**
  - Taking professional advice in relation to any investments
  - Ensuring that investments are in line with charity law and the organisation's constitution
  - Making decisions on investments
  - Monitoring progress of investments
  - Producing reserves policy; Monitoring reserves

Choosing /Finding a Treasurer

It is often difficult to find anyone willing to be treasurer; one of the reasons for this may be because the person does not know quite what they are letting themselves in for; however if you have been through the checklist above, and allocated tasks that paid workers will do, and crossed out any tasks that are not applicable to your organisation, you should be able to produce a reasonable 'job description' for the treasurer. If someone is willing to do the job but needs some training, find some resources to provide training. If the current treasurer is planning on standing down, then try to appoint someone to shadow them until they leave.

ChangeUp capacity builders FUNDED

How to Account for Money: Cash, Cheques & Bank transactions

Money takes all forms. Cash is money received or paid out in the form of coins and notes – the absolute amount can be significant; as can the time taken to count and record it. Cheques are easier to track – both receipts and for payments. Bank transactions such as Direct Debits, Standing Orders, Bank Credits & Charges are recorded on bank statements.

It is easy to underestimate the difficulty in keeping track of cash in an organisation. Where possible make payments by cheque. All money handled should be accounted for responsibly – create an audit trail, a complete record. Cash & petty cash books and cash vouchers are available from stationery stores.

Money from a collection and donations should be counted and signed off by two people (at least one being one of the named people responsible for cash) and paid into the bank as soon as possible. Record whether the money was collected for general purposes or for a specific project or a major purchase as this affects the way it can be spent in the future.

See Annexe A: Templates - Petty Cash Book, for worked examples.

Cash

Set up procedures and be clear about who is responsible for cash.

Some key principles to remember:

- All income should be banked including cash income from donations etc. This is to keep it separate from cash you use to buy things.
- To keep track of cash purchases operate a 'Petty Cash System'. It is good practice to use and issue petty cash vouchers to record transactions, attaching receipts, before writing up in petty cash book. This helps filing as well.
- To start and replenish petty cash, draw 'Cash' by cheque from the bank account. Keep sum at or below £30. A term you may have heard for replenishment is 'Imprest'. This is where the petty cash maximum is kept to a fixed sum, say £30. So after cash is spent in the month, a cheque should be cashed to make the sum held equal again to £30.
- Try to keep the use of cash for payments to a minimum e.g. for stamps, tea/coffee/milk.
- Keep your cash in a lockable cash box in a safe place with keys under the responsibility of two named people.
- Keep a second lockable cash box/safe for cash donations prior to banking. The source of the cash donations must be recorded and a copy kept with the cash until banked.

- At the end of the month, as a minimum, write up all the payments that have been made from the petty cash box in the petty cash book. There could be some cash receipts for telephone calls, stamps etc that also need to be written up.
- Record in this book the money you have got out of the bank to put into the box.
- Count the money that is actually in the petty cash box and make sure that it agrees with what the petty cash book says. If there are any differences, try to sort them out straight away. It is a good idea to sign the book to show that it has been reconciled to the box balance at this point.

Cheques

Never sign blank cheques. Ensure that you have enough signatories and plan ahead, so that cheques are only signed when signatories can check the paperwork and are sure that the payment being authorised is correct. It is good practice to make sure that only one member of a family signs a cheque.

- **Paying out money**

  When paying out money there are a number of things that you should check:

  - Do you have an invoice?
  - Is the invoice added up correctly? Is the invoice in the group's name?
  - Were the goods on the invoice ordered? Who by? Is the price correct?
  - Were the goods delivered? Is there a delivery note? It is usually a good idea to attach the delivery note to the invoice.

  If you are happy that the invoice can be paid then you need to get the invoice authorised.

- **Receiving money**

  When receiving money consider:

  - What is the money for; e.g. is it a grant or payment for an invoice?
  - Do you have all the documentation?
  - It is always best to give a duplicate receipt for cash. There is no proof otherwise that you have received the money.
  - All money received, in the form of cash or cheques, needs to be entered into the cash book before being taken to the bank.
  - Remember to enter full details on the bank paying in book

  If you receive funding from grants it is a good idea to keep a file with the original application form and the terms and conditions of each grant you receive.

Simple Bookkeeping

Described in its simplest terms, the process of managing the finances of an organisation means to keep an accurate record of the instances when money is received or expended, and why, and when each of these events happened.

Bookkeeping is the term used to describe the process of recording each transaction of income or expenditure in 'the books' of the organisation. These records are known as Accounts. There are traditionally two principal ways in which the transactions can be recorded:

- Receipt and Payment Accounts
- Accruals Accounts

How to prepare Receipt and Payment Accounts

This format of accounts is available to charities with total income below £100,000 a year.

The accounts need to comply with the requirements of the latest Charities Act and should include a Receipts and Payments Account and Statement of Assets and Liabilities. They may also include some notes. The notes are not a legal requirement, but may help to make the accounts more meaningful where relevant information is included. The accounts are prepared on a cash basis, including items of income and expenditure when the money is actually received and paid.

- **Layout**

  There are no rules as to how the Receipts and Payments Account should be laid out. Receipts and payments can be broken down into the categories that are most appropriate to the organisation. However, both the Charity Commission and the Statement of Recommended Practice: Accounting and Reporting by Charities (SORP) give some guidance.

  The receipts and payments will usually be listed with a surplus or deficit being shown at the end. A further line will then show the total funds brought forward, with this being added to the surplus or deficit to give the balance carried forward.

  If there is more than one fund, a separate Receipts and Payments Account can be produced for each. An alternative is to use a columnar format. There would be a different column for each type of fund, unrestricted, designated, restricted and endowment, as well as a total column. It is then usual to have a column to show the totals for the previous year. Where a columnar format is used a note will be needed to explain each different fund and the total movement on each.

- **Statement of Assets and Liabilities**

  This is basically a list of all the assets and liabilities of the charity. They are divided into two types, monetary and non-monetary.

  Monetary assets and liabilities include bank and cash balances and any short term investments. The total of these balances must be equal to the total funds carried forward on the Receipts and Payments Account.

  The Statement of Assets and Liabilities will then usually show the total balance for each type of fund at the end of the year. The total of all funds should be equal to both the total monetary assets and liabilities and the balance carried forward on the Receipts and Payments Account.

Non-monetary assets and liabilities include fixed assets, debtors and creditors and will be listed at the end of the statement.

- **Fixed assets:** These will be items such as buildings, vehicles, equipment or furniture. These are listed, with approximate valuations, where possible. They may be summarised into different categories rather than listing each individual item.
- **Debtors:** These are people that owe money to the group at the end of the financial year.
- **Creditors:** This will be the amount that is owed by the charity to others, including unpaid bills and loans.

Finally, the accounts should be approved by the trustees and the Statement of Assets and Liabilities signed on their behalf by one or two members of the committee.

- **Notes to the Accounts**

There is no legal requirement to have any notes with Receipts and Payments Accounts, but they are often useful.

There are some notes that are recommended for all organisations. If there is more than one fund the notes should include a description of each designated or restricted fund and the reason for any restriction. It is also necessary to show a breakdown of the balance on each individual fund.

The Charity Commission also recommends that all charities, regardless of their size, have a note to state the amount of any payments that have been made to trustees, in the form of remuneration or expenses.

Other notes may include stating that the accounts have been prepared on a Receipts and Payments Basis and a note of which fund or funds any bank interest received has been allocated to.

How to prepare Accruals Accounts

All charities with total income for the year above £100,000 and all charitable companies must prepare accounts on the accruals basis.

With accruals accounting income is included in the accounts when it is due to be received and expenses when they are incurred. This will not necessarily be when the money is actually received or paid. This is the key difference from Receipts and Payments accounting. Receipts and payments balances need to be adjusted for debtors, creditors and fixed assets. This may mean using some estimates or judgements when producing the accounts. An example of such items would be choosing a depreciation policy, or deciding whether or not to include a donation that has been promised to the charity.

Accruals and prepayments may need to be calculated when preparing accounts on the accruals basis. They are part of matching expenses to the period that they relate to, rather than including them when the money is actually paid.

If similar adjustments are required for income, they are known as accrued income or deferred income.

ChangeUp capacity builders FUNDED

- **Accruals**

  Accruals are included under creditors due within one year on the balance sheet, as a liability.

  They are expenses which have been incurred in the period, but for which no invoice has yet been received. The cost must be included in the accounts for the period it relates to. This may involve estimating the amount due. An example of this would be where a gas or electricity bill for amounts used for the last quarter of the year has not yet been received. The cost may then need to be estimated, based on the bills received in previous quarters.

An example:

Let's assume that the books show that for this accounting period – say the full financial year – £2,000 is recorded as Rent Paid.

Now you know that the rent that should be paid for 12 months is set at the rate of £200 per month. Therefore there is £400 that has to be added to the cash record to show £2,400 as the sum total. This adjustment of £400 is called an accrual and the accounts reports would then show that the rent cost was £2,400. The £400 is shown as an expense on that account in the Income & Expenditure Accounts and included as a liability in the Balance Sheet. This way the records are still in balance – a fundamental requirement of double-entry bookkeeping.

With accruals accounting the example could show that the balance on the rent account of £2,000 was made up of an accrual brought forward from the previous year of, say, £600 and a payment in the year of £2,600. The accrual brought forward is deducted from the payment made – therefore the balance of £2,000. The new accrual is added to the balance shown.

The total amount included as an expense for the period would be: cash actually paid, less any accrual brought forward from the previous period, then add the new accrual at the end of the period.

- **Prepayments**

  Prepayments are included within debtors on the balance sheet, as an asset.

  This is where money is paid out in the period before the one to which the expense relates. In other words, it is something that has been paid in advance.

For example:

Where an insurance premium has been paid for a year; six months of which is in the following period. There would then be a prepayment equal to half of the premium paid.

The total amount included as an expense in the period would be: Cash actually paid, add any prepayment brought forward from the previous period; then deduct the new prepayment at the end of the period.

- **Accrued Income**

  This is income paid to you in arrears, which has been earned in the period, but not actually received. It would be included within debtors on the balance sheet, as a current asset.

  An example would be bank interest, received after the end of the month or quarter that it relates to.

- **Deferred Income**

  This is income that has been received in advance, but has not yet been earned. This would be included within creditors on the balance sheet, as a liability. An example of this would be a grant which has been received before it can be spent, where the organisation is not yet legally entitled to the money and would have to repay it if they ceased to exist.

Guidance on these issues is given in the Charities Statement of Recommended Practice (SORP) and other accounting standards.

Help

The accounts themselves should include:

- Statement of Financial Activities (SOFA)
- Balance Sheet
- Notes to the accounts

The layout and content for the accounts is given in the SORP. These rules are quite specific. All relevant accounting standards must also be followed.

- **SOFA**

  This is similar to an income and expenditure account, but is divided into columns to show the movements on different types of funds. The columns would be: unrestricted funds, designated funds, restricted funds, capital or endowment funds, the totals for the year and a total column for the figures of the previous year.

  There may be, for example, several restricted funds that are added together in the SOFA. The balance of each should then be given in the notes to the accounts. The general headings on the SOFA are also specified in the SORP, to make it easier to compare the accounts of different charities.

- **Balance Sheet**

  This shows all of the assets and liabilities of the charity, which should agree with the total funds.

  Assets will include fixed assets, such as buildings or equipment, and current assets, such as debtors and cash and bank balances.

  Liabilities will include amounts due to be paid by the charity within one year, such as creditors, as well as long term loans.

  The total funds will be the sum of all unrestricted, restricted and capital/endowment funds.

- **Notes to the Accounts**

  The SORP gives requirements for notes to the accounts. Where relevant, they should include:

  - Accounting policies
  - A description of the nature and purpose of each fund
  - A table to show the opening and closing balances and movements on each fund
  - Details of any remuneration or expenses paid to trustees
  - Staff numbers and staff costs
  - Details of any transfers between funds; An explanation of any funds that are in deficit
  - Total amounts paid to the auditor or independent examiner
  - A breakdown of debtor and creditor figures
  - A table showing movements on fixed assets
  - Details of any financial commitments

Guidance on SOFA is given on the website of the Charity Commission at http://www.charity-commission.gov.uk/

Help

Full Cost Recovery

What is Full Cost Recovery?

Many organisations in the voluntary and community sector struggle to make ends meet, especially in relation to funding overhead costs. Costs such as management and leadership, research, development and innovation, and support functions like financial and personnel management are all essential, and integral, for any project to run efficiently and smoothly.

If the full costs of a project or service are not funded or 'recovered' the sustainability of the project, and indeed the organisation, is put at risk. It has traditionally been normal practice for voluntary sector organisations to cost activities based on the direct cost of delivery alone.

Full Cost Recovery (FCR) simply means securing funding for the direct costs of projects plus an amount to cover - or 'recover' – a proportion of general running (or overhead) costs. Every organisation needs to recover all its costs or it cannot pay its employees, rent office space, offer its products and services or plan for future development and delivery of its services.

Direct costs are incurred as a direct result of running a project or service.

Overhead / indirect / core costs are incurred by an organisation in order to support the projects that it runs.

The full cost of your organisation includes the direct costs of all your projects and services plus all your overheads. Therefore, the full cost of each of your projects should include both the direct costs and a portion of overheads.

Working out the cost of providing one service is relatively easy. When your organisation starts providing several different services, calculating the costs for each one becomes more complex, and it is likely that core costs can't easily be allocated to any one activity. Remember that costs are incurred for a purpose – that purpose should be service delivery and therefore should be able to be allocated or apportioned.

These costs all need to be fully analysed and understood in order to add a fair proportion to the direct costs of running the service. The full cost of any project therefore includes an element of each type of overhead cost, which should be allocated on a comprehensive, robust, and defensible basis.

The total represents the total cost of delivery which should then become the price that needs to be paid for that service.

In principle FCR is a simple concept. Its implementation is likely to be more problematic. For example, doing the costing is one thing, obtaining the price from funders is quite another.

Recommendations for voluntary and community organisations

- Own the principle of full cost recovery;
- Use the term **price** for delivery;
- Cost projects and services on an accurate, defensible and sustainable basis.

Principles of full cost recovery

- **Materiality**

  Analyse those core cost areas that are significant in your organisation; i.e.: the ones that make up 80% to 90% of your costs. There is little point spending vast amounts of time on other cost areas.

- **Average costs (rather than marginal costs)**

  Average costs take everything into account

- **No cross-subsidisation**

  Ideally you shouldn't have one project supporting another

- **Allocate costs**

  Analyse the activities that create the various costs

Budgets and budgeting

Financial statements report the financial resources of an organisation and what it has done with them. Most commonly produced are the Income and Expenditure or Receipts and Payments Statement & the Balance Sheet. Income and Expenditure statements are most meaningful where actual income and expenditure is compared with the organisation's budget and anticipated income and expenditure.

Budgeting and cash flow

An organisation's budget is its plan expressed in financial terms. An annual budget, split by month, is usually prepared. Any revisions should be documented in the same format(s) as the original budget and for the same period – call the revisions 'the Forecast'. A budget is only useful if it is used to monitor progress - your actual income & expenditure will be different from your budget.

To prepare an operating budget an organisation needs to determine what it wants to achieve in the coming year and then realistically estimate all the costs and income, leaving some margin for the unexpected. Often the previous year's income and expenditure is a good starting point – look at the detail and timing of receipts and expenditure. Adjust for inflation and any changes to the work programme or funding.

Always produce a cash flow budget predicting the monthly cash/bank balances using estimated receipts and expenses. This is important because revenue and expenses do not coincide and there must be money to cover expenses as they occur. Predicted revenue should be compared to the actual income and expenses at least quarterly. Major differences should be looked into and, if necessary, plans made to change the situation.

See Annexe A: Templates – Budgets, for worked examples.

- **How to prepare & use Budgets**

  The committee owns the budget; the treasurer may present the budget and issue reports on progress.

  Never underestimate the importance and usefulness of budgets. The budget is the cornerstone of any financial system. The budget should be seen as a sub-set of the business plan. Business plans are usually for a period of 2 to 3 and sometimes 5 years. The budget enables the committee to carry out its duty of good financial management and is a key element in establishing Internal Controls. Budgets can be used to plan, to communicate, to control, to motivate and to monitor. No business can know exactly what the future holds – budgeting is intended to reduce the level of uncertainty, helping to anticipate problems, learn from the past and improve your ability to control the business. Prepare the budget in the same way as you will be producing the annual accounts – e.g. receipts and payments, or income & expenditure.

  The budget is simply the plans of the organisation expressed in terms of money. Budgets are normally for a 12-month period – the same months as the financial year of the organisation. There are different ways of doing budgets. Try to avoid being too mechanical, i.e. avoid simply taking the actual/forecast numbers from the current year and adding a bit for next year – you should consider activities and/or changes planned for the budget year.

Hampshire Voluntary Sector Consortium
ChangeUp capacity builders FUNDED

The budget should be broken into months. This way you will see the profile of the receipts of income and payment of expenditure. Both are important for planning cash needs.

You may have different funds and projects that may require their own budgets which can be put together to form the overall budget. Try to keep things simple – assumptions well documented; schedules well laid out; place emphasis on the key matters; show comparative figures from previous period(s), narrative and explanations included; completed in good time; include financial and non-financial components; discuss broadly; think of the audience(s).

- **Timing**

  The best time to prepare a budget is when figures for the first three quarters of the previous year are available. The committee must also agree in advance who will draw up the budget. Ideally, this should be more than just one person.

- **To Balance or Not**

  The committee should set out the overall objective of the budget at the start. It is not always necessary to have a 'balanced' budget. For example, if the organisation has very low General Reserves, the aim might be to run a 'surplus' for a year or so in order to build up Reserves. Conversely, if Reserves are higher than the level required, it may be acceptable to run a deficit budget (i.e., spend more than you get). Where there are different Projects or Funds, it may be acceptable for one to have a budgeted deficit while another runs a surplus so that overall the total budget balances. Of course, you must be careful of any restrictions on the use of Funds.

Types of Budget

- **Capital and revenue budgets**
  - A capital budget is the planned expenditure on fixed assets, which will be used within the organisation for a number of years.
  - A revenue budget will then deal with the day to day activities of the organisation, including both general running and project costs.

  Some funders will want to see separate budgets for capital and operating costs.

Producing a Budget

Keep the numbers to £s – don't use pence. Pence may indicate a level of spurious accuracy of the budget. Larger organisations may issue budgets to the nearest £100 or £1,000. The budget will be built up from many detailed calculations. Remember the budget is a plan for the future and major assumptions are used. The budget will probably go through many drafts before being finalised.

The approval of the budget is the responsibility of the management committee as a whole. The actual preparation may be delegated, then presented to, and discussed by, the whole committee who then agree the final version.

The budget for the next financial year should be prepared during the last quarter of the previous period, to ensure that it is agreed before the year in question begins. However, budgets for funding applications may then need to be prepared at other times.

Where applicable, one budget should be produced for each fund. These can then be put together to produce a budget for the organisation as a whole.

The first thing to think about is what the organisation will be doing over the coming year. It will also be important to think about this in terms of the current year and whether any significant changes will take place. The aim is to be clear about the overall (strategic) objectives of the organisation and the specific goals for the next 12 months. The answer may be, 'the same as last year', or there may be plans for developments of new activities or expansion. This question should form the basis for discussion by the committee.

Once the activities are known, appropriate budget headings can be decided upon. Any assumptions made in producing the budget will also need to be written down for future reference.

- **Income**

  Begin by listing out all current and potential sources of income, beginning with the most secure and important. Some may be new if new activities are planned and some may be dependent on successful grant applications. Other income may be more secure and predictable. When choosing the figures to use you will need to consider the same things as you did for the expenditure. Again, be as accurate as possible and do not be too optimistic.

  From your analysis of current income & expenditure you will know if a particular grant is to be reduced or stopped or increased in the next year or that you have a special drive on donations and expect an increase. If you are setting up a new project then you should have a clear idea of the amount required from the main funding source(s) that you have identified for it, but you need to consider carefully whether you will need to do additional fundraising.

  Considering all these factors you can then work out the estimated total income for the year.

- **Expenditure**

  The next step is to put a cost on these activities. Write down how much you think you will spend under each budget heading and the reason behind that decision. If you are continuing with a similar type and level of work as the current year, you can use the same account headings and format for the budget. You should tailor the account headings to your own organisation, but the main headings typically would be:

  - Staff costs
  - Premises costs
  - Administrative costs
  - Project/Activity costs
  - Capital costs

  Then consider the following:-

  - The projected actual figures for the last year (built up from the actual figures for the first three quarters)
  - The estimated cost of inflation and any pay increases
  - Any factors that are known precisely, e.g. rent

  Considering these factors, you can then work out the budgeted level of expenditure of the organisation. The aim is to be as accurate as possible. Allocate costs and income at the lowest level reasonable and build from there. This is important for projects as well as routine income and expenditure. For some items it may be appropriate to use the current year's figures and add an inflationary increase. Other costs may be known with certainty, e.g. rent for the year. For a new group it may be necessary to get quotes from suppliers, or ask a similar organisation about some of their costs.

If you have employees it is worth taking particular care over the salaries, NI and pension calculations, because very often this is the main part of the expenditure. Do keep notes on how you have calculated each of your figures as you may need to explain them to the committee or a potential funder.

- **Is the result as required?**

The next step is to put the income and expenditure together to see the result. The cash position is often more important than the individual elements of income or expenditure.

What is the overall position for the whole period; then how does it break down into monthly intervals and individual months? If the figures drop as expected, then good news. Quite often the first few attempts will not produce the desired result.

If the first two steps have been done correctly the task is now to reconsider the individual factors within income and expenditure. Can you get to the desired result relatively easily or do the objectives or achievement need to be changed?

Review all assumptions. You should be happy with the planned result before the budget is issued.

A balanced budget is where income is equal to expenditure for the period. However, a surplus may be required, to build up cash reserves, or a deficit may be acceptable if cash reserves are available to fund the difference.

One of the reasons for doing the budget early is so that you can cut 'plans' rather than things already in place. Which costs are fixed and for how long, what are the terms of supply? Look at dependencies – e.g. delaying recruitment may also reduce income. Reconsider the aims of your organisation. It may be that a particular development is critical and may have a higher priority than some existing activities.

- **Revisions prior to acceptance**

If the proposals include changes from the original plans agreed by the committee, the reasons should be given. When people disagree, they should be asked to give an alternative suggestion. It is likely that other committee members may have ideas that have not been considered. As it is the committee who are responsible for the financial viability of the organisation they must make the final decision. They may ask to consult funders once more to get a second opinion, but the setting of the budget should not be delayed too long. Ideally, it would be agreed before the financial year begins.

Using the Budget

Once a budget has been completed, authorised and issued, use it. As a minimum, each quarter a report should be prepared for the committee where the actual results of the activities are compared to the budget.

- **Monitoring**

Prepare reports at least quarterly to show actual results against the budget, with a narrative explanation of the main differences. This will help the committee to see if their plans are being put into action.

To use the budget, a regular report should be produced for the committee by the treasurer which compares the budget with what the organisation has actually received and spent.

These are known as management accounts, and act as a very useful early warning system of any potential problems.

A budget variance is the difference between the actual results and the budget. It is calculated by working out actual minus budget. On the income side it is normally good to have a positive variance, i.e. there has been more income received than budgeted. With expenditure, a negative variance is normally good i.e. less expenditure/cost has been incurred than budgeted. This is not always the case though – whilst not spending money will improve the current cash position the expenditure may have been for an important project or material supply or staff matter and not spending what was budgeted could reduce future income. The reasons for variances need to be clearly written so that the readers have a full appreciation. Showing variances as a percentage can be confusing – it is the £ difference that shows the absolute values. A large % difference on a small budget will probably not be truly significant for the organisation. It must be clear for the reader of the reports just what the variance means.

- **Understanding common budgeting problems**

  This helps ensure that your budgeting procedures work

  Typically, you might work with optimistic, pessimistic and most-likely scenarios.

See Annexe A: Templates – Budgets, for worked examples.

Managing Cash Flow

Cash flow refers to the movement of money into and out of the organisation. It is a measure of whether the organisation actually has physical money to meet expenses as they become due.

A cash flow forecast helps to ensure that there is enough cash in the bank to pay bills as they become due. Cash flow problems can lead to some serious implications, especially if it means that, for example, staff cannot be paid on time.

Cash flow is not too complicated, and it can be very important for some groups.

Even if the budget shows a break-even position over the year, the timing of cash flows may not coincide in practice. The use of a cash flow forecast can help to manage this.

If an organisation is short of money the forecast will help make sure that it doesn't run out. If money is held in reserves it can help maximise bank interest, by knowing how much can be put into a savings account and when.

It will be especially important if the timing of income and expenditure is variable, for example, with irregular grant payments.

If expenditure is likely to have to be made before the corresponding income is received, some reserves will be needed in general unrestricted funds. The largest negative figure on the cash flow forecast for any month will determine how much money will need to be available.

How to prepare a Cash Flow forecast

The forecast will usually be presented in the form of a table.

Budgeted income and expenditure needs to be spread over the period, predicting as accurately as possible in which month they will occur. Any non-cash items, such as depreciation should be ignored.

Start by deciding on the income and expenditure headings that are required and enter them on the forecast. Budget headings can be used for this.

Estimate what the total bank and cash balances will be at the beginning of the year. Then for the first month enter the receipts that are expected and then the payments. Receipts minus payments will give the net cash flow for the month.

The opening balance plus the receipts, minus the payments will give the expected total bank and cash balance at the end of the month. This is then the opening balance at the start of the next month. A negative balance will mean that you are forecasting an overdrawn balance.

Over the year replace the estimated figures with actual figures, so that the projections for later months become more accurate.

Date each version of the cash flow forecast so that you know which is the most recent.

Using the Cash Flow forecast

The forecast should be used to give advance warning of any action that needs to be taken, in the hope that any problems can be avoided.

If an overdrawn balance is predicted in any month action will be needed as soon as possible. Otherwise immediate expenses may not be met, which could result in the organisation becoming illiquid.

ChangeUp capacity builders FUNDED

This may mean delaying some spending plans, having a short-term overdraft, or carrying out some additional fundraising.

See Annexe A: Templates – Cash flow, for worked examples.

Expenses

- **What are expenses?**

  Expenses are the out-of-pocket payments paid out by staff, volunteers and trustees for work-related items required in order to do the work, e.g. bus fares, small items of stationery, stamps, travel etc.

- **Who can claim expenses?**

  It is very important to have a policy for expenses; the committee should approve the policy and issue it. The policy should attempt to eliminate inconsistency in what expenses are paid to whom. If there are permanent, salaried staff then their employment contract will make it clear where their normal place of work is. This could be their home or a specific location. This is important for personal and business tax liability – always expect the policy and its application to be subject to inspection by the tax authorities.

  Volunteers and management committee members can claim expenses for travel to and from their home to the workplace and for carrying out the organisation's work.

  Staff can claim expenses for travel from their normal place of work to carry out the organisation's work, but they cannot claim for the costs of their home to office journeys.

  The policy should state what the organisation is prepared to pay and secondly point out the appropriate tax implications.

- **How to claim expenses**

  An expense form for claims helps people correctly claim what is due. Travel claims should always provide details of where the journey was from and to; receipts should be kept and stapled to the back of the expenses form. The form should always be authorised by an appropriate person e.g. line manager; volunteer organiser; for trustees it should be the most senior, or the treasurer, or another officer of the organisation. Expenses forms should be sent in for payment monthly.

  By definition, volunteers are not paid for their time. Volunteers are legally able to claim reimbursement for travel and other reasonable expenses while volunteering for an organisation, and should be encouraged to do so.

  You must only pay expenses that are reimbursements for actual amounts spent and not round-sum or flat-rate payments, otherwise the Inland Revenue may classify the payment as income and therefore subject to taxation which the organisation would be responsible for paying.

  Any payments made over and above the published tax authority rates would be considered either as taxable benefits, or as part of the employee's salary, and would therefore be liable for tax.

For further information on expenses and mileage rates refer to HM Revenue & Customs website at www.hmrc.gov.uk/

Help

Bank reconciliation

A bank reconciliation is the process that you go through to ensure that the bank statement and the cash book agree. It is of fundamental importance to do this. The reconciliation should be performed at least monthly.

The bank balance as per the cash book is unlikely to instantly agree to the balance on the bank statement at the same date, due to cheque payments and deposits taking a few days to clear. You are checking that the entries in your cash book record are correct and complete. You are also checking that the bank statement is correct.

You will need your cash book record, bank statements, cheque book stubs, paying in book, a new reconciliation form, last month's completed reconciliation form and a calculator.

Always work from the bank statement to the cash book. The entries in the cash book should be in numerical and date order whilst the bank statement will show a transaction by date processed.

Now tick off all the entries on your bank statement against entries in your cash book – not forgetting those entries on the previous bank reconciliation. Only tick entries which appear on the bank statement up to the last day of the month for which the reconciliation is being prepared, not after.

Make sure you check-off (tick) both the book and statement entries where they match. Not ticking one side or the other is a common error and will add time to this job. If any items appear on the statement which are not in the cash book, check they are valid, write them into the book and then tick them off. Watch out where there are other errors, such as the amount being recorded in the cash book being different from that on the bank statement. If this is due to a bank error, the bank should be contacted, rather than amending the cash book.

Check through the bank statement for any receipts, standing orders, direct debits, bank charges or interest that you've not yet written into the cash book, validate them and then write them in the book. All the items on your bank statement should now be ticked.

Make sure you've ticked off the older outstanding amounts from previous months or included any still outstanding items on the new reconciliation form.

Now do the cash book balance calculation. First add up the receipts side and write, in pencil, the total at the bottom of the relevant column, then total the payments side accordingly. Add the opening cash balance to the total of the receipts and deduct the total of the payments. The result is the closing balance for that period (month).

It is quite likely that some transactions in your cash book will not have been ticked. These will form part of the reconciliation between the cash book balance and the balance shown on the bank statement. Cheques drawn but not on the statement are known as un-presented cheques. Amounts paid into the bank that have not cleared may also be part of the difference. These are known as uncleared deposits.

List these on the reconciliation form:

- Start with the balance on the bank statement – [B]
- Deposits not ticked off are listed under 'receipt banked but not yet on the statement'. Record total. [R]
- Payments not ticked are listed under 'cheques not yet on the statement'. Total them. – [C]

- Then add total [B] to total [R] then deduct total [C]
- This will give you an Adjusted Bank balance.
- Compare this to the Balance per Cash Book [CB]'

See Annexe A: Templates – Bank reconciliation, for a worked example.

The Cash Book balance and the Adjusted Bank Statement balance should be the same. If it isn't, calculate the difference between the two balances. It might point you in the direction of a particular deposit or payment that you've wrongly entered. Is the difference a multiple of 9? If it is then it might well be a transposition (e.g. you wrote 72 instead of 27) or one of the common mistakes, entering 0 as 6 or 8.

A check may need to be done on all the entries made. This should then find the error. If this reconciliation job is not done at least once a month then the reconciliation task becomes very time-consuming and laborious.

It is the balance at the end of the bank reconciliation and as per the cash book that is the balance to be used in the reports, rather than the balance shown on the actual bank statement.

The bank reconciliation should be done before totalling up the cash book at the end of the month so that any additions or adjustments can be made to the cash book before the columns are totalled up. Then when all is in balance use ink to write in the final cash book column balances.

- **Dealing with out of date cheques**

  If the organisation or person receiving your cheque does not pay it into the bank within 6 months, it will become out of date, and they will not be able to cash it; so if a cheque appears on your Bank Reconciliation as Unpresented for 6 consecutive months, in the seventh month it should be 'written back' into the cash book. This is done by entering the item on the payments side of the cash book, and analysing it in an identical way to the original entry; but the figures will be entered in brackets and deducted when totalling your book for the month. It is advised that you formally stop the cheque and then make arrangements to issue a replacement cheque – discuss with the payee to see if there is a problem.

  When reconciling your statement at the end of the seventh month you will mark off both the original entry and the written back entry in your cash book with a small C instead of a tick to indicate it is a contra.

- **Cancelled cheques**

  A cheque may have to be cancelled for a number of reasons, e.g. an error on the cheque or it has got lost in the post. If a cheque has to be cancelled, you should record it in one of the following ways as appropriate:

  If the cheque is being cancelled in the same month that it was issued and you still have the cheque, write CANCELLED across the cheque and keep it in a safe place. Draw a line right through the entry in the cash book (do not use correction fluid) and write CANCELLED

ChangeUp capacity builders FUNDED

across the description column. Do not include the figure when totalling your month's transactions and ignore the entry when you are doing the bank reconciliation.

If the cheque is being cancelled after the month it has been issued and you still have the cheque, write CANCELLED across the cheque and keep it. You should then write back the entry in the cash book in the same way as for out of date cheques (see above).

If the cheque to be cancelled has already been sent, telephone your bank immediately and ask them to stop the cheque. They will need the account name and number, the cheque number, the payee's name, and the value of the cheque. Follow this up the same day with a letter to confirm the instruction. Deal with the entry as outlined in paragraphs above.

When a new cheque is drawn then it should be treated as just that – a new cheque with a new entry in the books.

- **Dishonoured Cheques**

When a cheque is received by your organisation and paid into the bank, it is recorded on the income (or receipts side) of your cash book, and it will appear on your bank statement. However at a later date it may be found that the cheque has not been cleared through the bank account of the organisation that sent you the cheque. This is known as a dishonoured cheque, or a bounced cheque, and usually occurs because there are not enough funds in the other organisation's bank account. Your bank will automatically show the original banking as being cancelled by showing the cheque as being paid back out of your bank account. In the cash book it should be dealt with in the following way:

Enter the item on the income side of the cash book using an identical analysis to the original entry, but put a minus or brackets on the figure, and deduct it when totalling the cash book for the month. When you do the bank reconciliation you can tick this entry and the paid back entry on the bank statement.

The reason for the cheque not being honoured needs to be investigated with the sender as soon as possible. It may lead to a permanent loss of income for your organisation. Whilst the sum is still due to you, you may never, in practice, receive the payment.

Internal financial controls

Internal financial controls are rules or procedures that let everyone in the organisation know how things should be dealt with, particularly in the area of finances. The controls should be tight, but not so tight that they are not practical. Thus what should happen - who can do what, when and how.

If these procedures are followed the risk of mistakes or fraud occurring should be reduced. Fraud is rare but not unknown within voluntary/community organisations - there were some high profile cases in 2007. Unintended mistakes are far more common and can lead to serious problems. Obviously if there are mistakes, money can be lost (e.g. an invoice not being sent). Of equal concern is when questions are raised or accusations made which cannot be explained because the records are not there or are incomplete.

The trustees have a legal duty to ensure that the assets of the organisation are appropriately used to achieve the objectives. They therefore need to ensure that all income that is due to them is received and banked and that all expenditure is properly authorised and recorded.

In addition to this, any investigation into a charity by the Charity Commission would focus on the internal controls of the organisation. It is therefore important that they are not only in place, but that there is a written record of such procedures.

Organisations should have written Financial Procedures which are approved and regularly reviewed by the board of trustees.

Types of Internal Controls

There are various types of internal controls that may be used:

- **Physical**

  These may include limiting access to certain assets, having adequate insurance cover, or keeping cash and other valuable items in a safe place.

- **Arithmetical and Accounting**

  Using sequential numbering of invoices, checking that things have been correctly added up and carrying out reconciliations.

- **Authorisation and Approval**

  Authorisation of transactions and documentation to show that this has taken place as well as limits on the levels of authorisation allowed by each person. The most obvious example is the mandate for operating the bank accounts.

- **Segregation of Duties**

  Having responsibility for different aspects of the work allocated to different individuals in such a way that they provide a check on each other. This helps to detect errors as well as prevent fraud. Such controls may be difficult in a small organisation, but should still be considered.

- **Confidentiality**

  Are you clear as to what financial information should remain confidential?

- **Supervision and training**

  Ensuring that staff, volunteers and trustees receive adequate support and training to be able to carry out their duties.

- **Organisation and Management**

  Establishing a suitable structure and ensuring that work is done at the right level.

- **Computers**

  Computerised reports tend to look impressive but they need to be checked, assessed and challenged. Problems also arise because a group relies too much on the one person who has knowledge of the computer system and accounting package.

- **Audits and Independent Examination**

  Although probably an external issue, the choice of examiner is yours and is vital. You need to be aware of the limitations of an audit or independent examination. See sections on Reporting and Annual Accounts.

Some of the main areas where internal controls may be necessary are:

- Bank accounts – ensuring that there are at least two signatories, giving them levels of authority and deciding who reconciles the accounts
- Authorisation of expenditure – there may be different people able to authorise different level of expenditure
- Salaries – procedures as to who does payroll calculations and checks them, as well as who can authorise changes such as pay rises
- Petty cash – the level of cash held, who has access to it and who can authorise cash expenditure
- Cash income – deciding how many people must be present when money is counted, as well as who records and banks the income
- Cash collections – seal and pre-number collection tins and have procedures for opening and counting money, as well as banking procedures
- Financial reports – using regular reports and budgets to review the activities of the organisation
- Opening post – if cash is often received in the post, procedures will need to be in place for counting, recording and banking the money
- Fixed assets – keep a list of the fixed assets owned by the organisation and have regular checks on their existence and condition
- Expenses - use expenses claim forms (attach receipts to the form) and have procedures for authorisation of claims

Reporting

Committee members are responsible for controlling the money of an organisation and making decisions. They therefore need to receive good financial information to enable them to do their job properly. The information that is to be provided to them should be decided on by the committee, according to their requirements. Appropriate advice should be provided to ensure relevant and key areas are included.

Reports help people review what has happened and enables those people who actually manage the money to account for their actions. However, the committee also needs to look forward to see if it needs to take any action. A report may also be required for funders. If possible, the report should be designed in a way that meets all your needs in one go. You do not want to have to spend time producing different reports for different purposes. A written report is best.

Internal Reports

These reports will usually be prepared on at least a quarterly basis and can then be used to monitor progress and make decisions. Prepare the report as soon as possible after the end of the relevant reporting period. Issue it when done.

- **Format of the Reports**

  Avoid using too much jargon.

  Details of income and expenditure may be prepared on a receipts and payments (cash) basis, or on an accruals basis, although a cash basis will often be sufficient. The headings that are used may be those used for the budget or for the annual accounts, summarising the income and expenditure, without giving too much detail. Figures for bank and cash balances, as well as any significant debtors or creditors will also be important.

  Use month and quarter and year to date figures, rather than looking at one month or quarter in isolation. Amounts should also be rounded to the nearest pound, to make the information clearer.

  Whatever system you have for keeping your accounts, one of the most important aspects is the information that goes to the committee. All the committee members are responsible for controlling the money and making the decisions on the activities of your group. If you do not receive good information, you cannot do your job properly as a committee. There is no single rule for financial reports to the committee, as each organisation will have its own needs. Some may have a finance sub-committee, which will have the time to look at more detail than the full committee. It is up to the committee to decide the information that it requires.

- **Preparing the report**

  The members of the committee should receive a written financial report a few days in advance of a meeting. The treasurer and/or senior staff member would normally prepare the report. Sometimes, the treasurer may be inclined to simply give a brief verbal assurance that all is well. This is not sufficient and should not be accepted by the other members of the committee.

- **What level of detail is needed?**

  Financial reports, which are too detailed, are almost as bad as those with too little information. The financial report should provide answers to potential questions. There should always be written comments to explain the importance of the numbers.

- **Reports for different parts of the organisation**

  Many organisations will need to produce reports, which show the results for a particular section of their organisation. This may be a separate project, or some form of restricted fund. These reports should be prepared in the same way as the overall report. Where costs are shared between a number of projects, these may have to be apportioned on a specific or percentage basis – subject to detailed assessment.

- **Key Points about Reports**

  The Financial Report is one of the key tools to be used within the organisation to assist in running it effectively. Year end financial statements are quite different: they are annual and designed to give information to outside agencies and organisations.

- Timely: The information in the report should be up-to-date. Try to complete the report within 7 days of the reporting period. Send it out as soon as finished since timeliness and relevance will enable informed decisions to be made.
- Accurate: All numbers reported need to be based on the actual bookkeeping records. Use estimates when essential.
- Clear: The information needs to be easily understood. Make sure each person understands them - use whatever language you like
- Appropriate: The amount of work done in producing the report should not be greater than the benefit gained in better money management.
- Relevant: The content and level of detail should vary according to the audience for that report. Include:
  - The period covered by the report
  - Actuals and budgets, compare them. Ensure budget is the one agreed by the committee;
  - Comments and narrative
- Format: Create a standard report form (deciding on level of detail and layout)
- Perspective: The main focus has to be forward looking. The notes should also give a general conclusion to guide the committee and point out any decisions, which should be taken.
- Detail: Too much detail provided too often may hide what is really going on
- It may be good to arrange a committee meeting 3 weeks after the end of each quarter to ensure that up-to-date reports are presented

Using spreadsheets

What is a spreadsheet?

It is a number of columns and rows, making a grid. Each square in the grid is called a cell. You can enter information into these cells for different purposes.

- **Isn't that like a sheet of lined paper or a cash book?**

  Indeed, in many ways a spreadsheet is exactly that, but it has the advantage that sums, differences, formulae, equations and other calculations can be programmed into cells by the user so that calculations can be automated.

  Entering information into a spreadsheet is quick, easy and a lot more accurate (as long as it is entered correctly). Spreadsheets can add up columns automatically, they can perform other automatic calculations that could for instance show the sum of all of the entered items of expenditure in a given range of cells (perhaps relating to a particular period).

- **How do spreadsheets work?**

  Information is entered into the cells: this is called data. The data can be in the form of words, numbers or formulae. Words are known as text.

- **Is it easy to learn?**

  Yes! All you need is a computer with a spreadsheet facility, such as Microsoft Excel, and a little background knowledge on how to turn on and off your computer and save and print files!

  There are many books on the subject – such as 'Excel For Dummies' - a good investment for a treasurer unfamiliar with the benefits spreadsheets can bring to the task.

Computerisation of accounts

Keeping accurate accounting records is a crucial part of managing any organisation.

Don't computerise just for the sake of it. If you have problems with your manual procedures, putting everything on computer may only give you computerised problems. Computers are a tool, not a cure all. Your time and money might be better spent sorting out a good manual system.

If it suits you, there is nothing wrong with a mixed system. You can use manual systems for working out wages and keeping your cash and petty cash books. Figures can then be keyed into a spreadsheet program to produce reports and make comparisons with your budget.

If you decide to computerise, allow plenty of time for setting up. You should also keep your old system running until you are sure the computer program is working properly and giving you what you want.

Make sure that sufficient training is taken. Allow plenty of time and money for training. Make sure that more than one person can operate your system.

There are many accounting packages available – some specifically for charities and certainly for small organisations. Accounting packages have strong internal transaction controls which are important.

Spreadsheets are more flexible but without inherent controls.

Some examples of computerised accounts packages are the Sage family of products, QuickBooks, Cashcall and Exchequer Enterprise.

This toolkit does not recommend any particular package – you must set out your requirements and take care to match those.

For a list of available packages refer to the National Council for Voluntary Organisations' (NCVO) website at www.ncvo-vol.org.uk/askncvo/ict/?id=75

Help

Fixed assets and depreciation

Fixed assets

A fixed asset is an item that is purchased for use within an organisation over a number of years. Examples include buildings, furniture, equipment or vehicles.

There should be a minimum capitalisation limit, whereby items below a certain value are included as an expense on the Statement of Financial Activities (SOFA) and items above this are shown as an asset on the balance sheet and depreciated.

- **Fixed Asset Register**

  This is a record of assets owned by the organisation. It will show the date of purchase, a description of the item, the cost and depreciation.

  The register will help the trustees to look after the assets of the organisation. It can be checked on a regular basis to ensure that the assets still exist and are in good condition. It is also advisable to record serial numbers for insurance purposes.

  The information that you need to record about each item is as follows:

  - Asset type
  - Item & serial number/make
  - Date acquired
  - Original cost/value & funder (if applicable)
  - Condition
  - Current Value
  - Location

Example:

Asset Type: Computer

Item, Make, Serial no:	Acquired	Original cost Funder	Condition	Current value	Location
Sony Laptop 012345	6 June 2007	£ 800 Purchased	New	£400	Main office

Depreciation

This is a way of spreading the cost of an asset over the years in which it will be used. The value of the asset on the balance sheet will go down accordingly. The trustees of the organisation will need to decide the expected life of the asset, known as the useful economic life and the method of depreciation.

Residual value is the amount that the asset could be sold for if it was disposed of at the end of its useful life, ignoring the effects of inflation.

ChangeUp capacity builders FUNDED

There are two methods of calculating depreciation: the straight line method and the reducing balance method.

- **Straight line method**

  This charges an equal amount each year over the life of the asset.

- **Reducing balance method**

  With this method a fixed percentage is applied to the net book value of the asset each year, with the net book value being cost minus total depreciation to date. This means that the depreciation charge in earlier years will be greater than in later years.

The method that is chosen should reflect the way in which the asset will be used. If equal benefit will be gained each year, the straight line method would be most appropriate, and if the asset will be more productive in earlier than later years the reducing balance method should be used.

Fixed Assets in the Annual Accounts

- **Receipts and Payments Accounts**

  The entire cost of the asset should be recorded as a payment at the time of purchase. The Statement of Assets and Liabilities shows a list of fixed assets under non-monetary assets and liabilities. No depreciation is necessary.

- **Accruals Accounts**

  The asset will be included on the balance sheet and depreciated. The annual depreciation charge is then shown as an item of expenditure for the year, as well as reducing the net book value shown in the balance sheet. This is because the accruals basis matches income and expenditure to the year it relates to, so the costs needs to be spread to reflect the years in which benefit will be gained from the asset.

The depreciation policy should be explained in the notes to the accounts, under accounting policies.

The notes to the accounts will also need a breakdown per category of fixed assets, showing cost, depreciation and net book value at the start and end of the year, and any movements in between.

FUNDED

Reserves

Reserves - what are they?

This is a difficult area for organisations. The key questions for the committee are whether they are satisfied with the level of reserves and whether they can explain them satisfactorily to anyone who raises questions, both from inside and outside the organisation. The reserves policy should always be discussed, agreed and minuted by the committee.

The Charity Commission's definition in its operational guidance is that reserves are unrestricted income which is not yet spent, committed or designated. More specifically this defines reserves as income which becomes available to the charity and is to be spent at the trustees' discretion in furtherance of any of the charity's objects (sometimes referred to as 'general purpose' income), but which is not yet spent, committed or designated (i.e. is 'free').

For trustees, consideration of the level of reserves their charity needs to hold, and how to acquire them, is an important part of planning and of sound financial management. It is also a key issue for the Charity Commission as the regulator. Reserve levels that are set too high tie up money which could and should be spent on charitable activity. If they are too low, the future of the organisation may be put at risk.

There is no figure set down which organisations must follow.

To maximise an organisation's effectiveness, donors should be encouraged to make general donations. Where donors do have a clear preference over the use of the gift, they should give clear instructions so that the charity can make the correct fund classification.

- **Their importance**

  For organisations to survive they need to be able to absorb setbacks and to take advantage of change and opportunity. If an organisation has little or nothing in reserve then a setback (for example, a funder stops a grant unexpectedly) might have catastrophic consequences. However, if the organisation has sufficient reserves to enable it to continue operating for a period of time (say 3 months) then it might be able to develop another funding stream. Equally importantly, having sufficient reserves may enable the organisation to take advantage of opportunities that may arise.

- **Are reserves the same thing as money in the bank?**

  No. The trick is to make sure that there is always more money available to the organisation than the reserves demand. Let's assume that the reserves needed to survive for 3 months are £12,000 and the bank account shows a £20,000 balance available. If you then have salaries and invoices to pay, therefore committed, of £19,000 from the £20,000 and no likely or imminent receipt of funds then your effective cash reserves will be £1,000. The importance of cash flow monitoring cannot be overstated. An essential part of a treasurer's role will be to keep an eye on the reserves position and guide the rest of the committee on any actions required. It is good practice to be in the position where day to day expenditure needs to be from income sources that enable 'cash' reserves to increase.

  New organisations will need to look at building them up in a gradual manner.

- **Reserves Policy**

  Having a reserves policy is a sign to funders and donors that you are following good practice and that you take financial management seriously. If the level of reserves is too high money is tied up that should be spent on charitable activities, but if it is too low the future of the organisation may be at risk. Individual donors and funding bodies want to see services provided to the beneficiaries of that organisation.

Each organisation's position is different and it is impossible to set a formula for reserves levels that will suit all organisations at all stages of their development. Deciding how much money to hold in reserve, or how to build up reserves, is not an easy task for any organisation. But donors, beneficiaries and the Charity Commission should be able to expect that charities will have a reserves policy, and that it will be robust and fit for purpose providing clear accountability.

Reserves may be needed to protect against a future fall in income or to ensure the continuity of service provision if income is known to fluctuate. When calculating the required level the charity will need to look at factors such as the reliability of their sources of income, projected expenditure and the risk of unforeseen circumstances arising. Remember that reserves of 25% of average annual expenditure will be the equivalent of approximately 3 months running costs – try to keep in mind the perspective, time and money and use. In 2001 the Charity Commission reported that almost 1/6 of medium sized charities reporting had no reserves at all.

The reserves policy should be appropriate to the aims, needs, objectives and risks of the organisation and should be reviewed periodically.

- **The policy should include:**
    - the reason why the organisation needs to hold reserves
    - the level of reserves to be held
    - any action that is to be taken to reach or maintain the agreed level of reserves
    - details of how and when the policy is to be reviewed
    - the link to the annual budget and longer term plan to assess future levels

Annual Report and the Reserves Statement

Organisations which have a reserves policy must disclose it in their Annual Report.

A statement is required in the trustees' Annual Report describing the reserves policy and considering this in relation to the level of reserves actually shown in the accounts. The level of reserves on the last day of the year should be stated and the adequacy or deficiency of this in relation to the policy should be addressed.

The policy for holding reserves will vary from organisation to organisation, and at different times in an organisation's development.

Do a risk assessment of the organisation – what significant things could go wrong and could put the organisation at risk - then assess the likelihood of those needs/risks arising.

Types of Reserves and why you need them

- **General or Unrestricted Free Reserves**

  General funds set aside to cope with reasonable and assessed risks. It is not clever to assume that everything that can go wrong will go wrong and attempt to plan for that coupled with the financial impact. Funders and beneficiaries would no doubt assume that the organisation is at high risk of failure. Often unrestricted reserves are stated as being equivalent to a number of months of average annual expenditure.

- **Restricted Reserves**

  When organisations receive money for specific purposes a `restriction' is imposed by the donor and the organisation is obliged to spend the money on the purposes for which it was given. It is important to inform the reader of the accounts of this restriction. For example, if you are given £10,000 to run a project but you have not spent all of it by the year-end and there is further cost to be incurred then the balance should appear as `Reserves' but the restriction should be made clear. The Accounting Regulations for Charities make specific reference to such funds.

- **Designated Reserves**

  Occasionally, an organisation may decide to set aside some of its unrestricted free funds for a specific purpose – therefore Designated.

Calculating and setting up reserves

There are a number of events that could occur during a year that are generally not budgeted for and would be typically funded from free reserves.

You should create a reserves policy, then monitor and review progress.

Assuming an organisation continues to operate, it is too easy to believe that everything will remain unchanged. Unfortunately organisations need to address the real risk of closure or reductions in service. Certain costs only occur at times of closure and activity reduction.

When an organisation closes there are a number of winding up costs and contractual liabilities - these include redundancy pay, notice pay, lease notice, amounts due to creditors and so on. Additionally, provision should be made for unexpected costs, such as breakdown of essential office machinery, staff cover due to illness, maternity leave, parental leave, and legal costs, replacement and new equipment.

Income receipts can be delayed or may dry up. It is difficult to ensure that the organisation can continue to provide a stable and quality service to those who need it at these times.

From time to time funding has certain restrictions which mean that by law it must be held in restricted reserves until it is spent in line with the funding agreement. Typically it takes 12 months to secure a new funder from initial research through the application process to receiving the first cheque. Some funders repeat their funding each year and the trustees are encouraged to review whether this pattern is likely to continue. Assess the risk that a funder will not renew funding.

- **How to set a contingent level of reserves**

  Itemise all the potential areas that need to be addressed. List out the elements of cost that will be incurred in cases of closure etc.

  Calculate the costs of redundancy as per your policy and legal status. Include an allowance to cover unexpected loss of a regular funder. It is best to assume that most capital purchases will be funded from specific grants and reserves wouldn't normally be required for this.

- **Restricted Funds**

  Where restrictions exist on where funding can be spent liabilities such as redundancy payments will still need to be allowed for. Where possible try to include an allowance for such costs in all funding applications.

- **Establishing and maintaining a prudent level of reserves**

  In the event of reserves dipping below the target, develop a policy and method to restore the reserves to the levels required over a suitable period. Activity may need to be changed - increase fundraising, increase earned income, reduce expenditure; mix of all.

  The reserves policy should be reviewed every two years as a minimum, to bring actual reserves into line with the policy.

  You should then think about the steps you need to take in order to achieve your desired level of reserves. According to whether you have too much or too little in reserves you will need to increase/decrease fundraising for unrestricted funds and/or increase/reduce expenditure out of unrestricted funds.

  This can be done over a period of time. It may be helpful to set a target for each year of how much you intend to put into or take out of reserves during that year. The budget is the place to do that.

  The level of reserves is often expressed as a certain number of months' worth of annual expenditure. For example, if your normal annual expenditure is £50,000 and you decide, after doing some detailed calculations, that you need to keep your reserves level at 3 months' worth of annual expenditure, you would be aiming to have reserves of £12,500 i.e. £50,000/4.

Annual Accounts

This section explains the varying requirements for organisations which fall within different bands of income and expenditure. Where these documents are required to be submitted to the Charity Commission, this must be done within 10 months of the end of the financial year to which they refer, although charities are encouraged to file well before the deadline.

What do I have to do?

While some basic requirements apply to all organisations, exactly what is needed will depend on a number of factors such as the income, gross assets or constitution of the organisation. There is a framework for the accounts of charities - a Statement of Recommended Practice (SORP).

- **What are the requirements for all charities?**

  All organisations must keep accounting records, and prepare annual accounts which must be available to the public on request. This is important for public accountability, and must be complied with in all cases. It is open to trustees to make a reasonable charge to cover the costs of complying with the request (e.g. photocopying and postage).

  All charities unless exempt or excepted from registration must prepare an Annual Report and make it available to the public on request.

  All registered charities will receive an Annual Charity Information Update form, and larger charities will also receive an Annual Return from the Commission. Although trustees of charities with an income of £10,000 or less do not have to complete and return an Annual Information Update form, by doing so they will meet their legal obligation to keep the Charity Commission informed of any changes to the Register. Charities with a total income exceeding £10,000 are under a legal duty to complete and return the Annual Return form to the Charity Commission.

- **How to prepare the accounts?**

  There are two bases on which charity accounts may be prepared: the receipts and payments basis and the accruals basis.

  - Receipts and payments: This is the simpler of the two types and may be adopted where a non-company organisation has a gross income of £100,000 or less during the year. It consists of an account summarising all money received and paid out by the organisation in the year in question, and a statement giving details of its assets and liabilities at the end of the year.
  - Accruals: A non-company charity with gross income of over £100,000 during the year, and all charitable companies must prepare their accounts on the accruals basis in accordance with the Statement of Recommended Practice (SORP). SORP sets out the regulations for accounting by charities. Larger charities must follow the SORP. Smaller charities have different (easier) regulations to follow.

  There will be a balance sheet showing the charity's financial position at the end of the year in question, a Statement of Financial Activities (SOFA) and explanatory notes. The SOFA should show all incoming resources, and resources expended during the year (and for company charities only, an income and expenditure account, except where the SOFA incorporates the income and expenditure account). These accounts are required, in accountancy terms, to show a 'true and fair view'.

The Charity Commission provides packs for Receipts and Payments or Accruals Accounting which are available through their website or in hard copy (order codes CC16 and CC17 respectively). These provide a template, for small non-company charities, to produce accounts in the required form and to meet the SORP's recommendations: http://www.charity-commission.gov.uk/

What goes into the Annual Report?

Detailed activity, financial information and targeted narrative would normally be available in the internal reports.

The Annual Report is quite different from internal 'for decision making' reports. Its audience is not just trustees and members, funders, donors and beneficiaries, but also the wider public who have an interest in what charities do and what benefits they bring to the community. The basic contents of the Annual Report are mandatory. It will usually form part of the same document as the year end accounts. Understanding accounts is not always easy and the numbers in the year end accounts often don't tell you much about the actual activities of an organisation.

The next pages detail what all charities must report, those that smaller charities report, and those that larger charities report. The SORP provides best practice for Annual Reporting consistent with the legal framework: basically two types of information to be included, Legal & Administrative Information and Narrative Information.

The Annual Report is an important milestone in a charity's life, a chance to take stock of how the year compared to the trustees' plans and aspirations, a time to celebrate successes and achievements, and to reflect on difficulties and challenges. The Annual Report is also an opportunity to highlight the benefit to the public of the charity's activities. The Annual Report need not be lengthy. A good Annual Report explains the charity's aims and how it is going about achieving them. It meets all the legal requirements and provides a balanced view of the charity's structure, aims, objectives, activities and performance. Importantly, it brings the charity to life and for those charities that rely on voluntary income as their primary source of funding that really matters. Donors need to see where their money went and how it made a difference.

Specific reporting requirements for different types of charity

Different legal requirements apply depending on whether the charity is a company or not, and into which income category it falls. The next table explains the differences in what should be submitted for company and non-company charities, and what type, if any, of external scrutiny of the charity's accounts is needed.

CHARITY COMMISSION REQUIREMENTS FOR ANNUAL ACCOUNTS (new thresholds for accounting periods beginning on or after 27 February 2007)				
	Basis of Accounts	External Scrutiny	Type of Annual Report	Information to Charity Commission
Non-Company Charity (if Income greater than £500,000 then see Charity Commission site)				
Income under £10,000	Receipts & payments, or Accruals (SORP)	No requirement unless constitution stipulates	A Trustees' Annual Report	Annual Information Update form
Between £10,000 & £100,000	Receipts & payments, or Accruals (SORP)	Either Independent Examiner or Audit	Annual Report – may be simplified	Annual Return, plus Annual Report & Accounts within 10 months of charity's year end
Between £100,000 & £500,000	Accruals (SORP)	Either Independent Examiner or Audit, if I.E. and income > £250,000 then prescribed member of a professional body	Annual Report – may be simplified	Annual Return, plus Annual Report & Accounts within 10 months of charity's year end
Charitable Company				
Less than £90,000	Accruals (SORP)	No requirement	Directors' Report & Accounts	Annual Report being a modified Directors' report, and Annual Return

Help

External examination and audit

Most organisations require some form of external scrutiny of their accounts from time to time either by an auditor or independent examiner.

- **Rules**

  There are different rules depending on the legal form of your organisation. The basic rules are as follows:

  - Your Constitution: You must make sure you do what your constitution says. The only exception to this is for charities with older constitutions where the term 'audit' is used. Many constitutions use the term audit when the intention was not for an audit by a registered auditor. If you fit the criteria below - you can opt for an independent examination, but you must change your constitution as soon as possible.
  - Your Funders:

    Watch out for any particular conditions of grant aid. It is rare for funders to insist on a full audit, but not unheard of. Sometimes funders are unaware of the significance of the term and you may need to educate them about the Charities Act. Sometimes, they insist on a higher level of scrutiny than is legally required.
  - Organisations which are not charities or companies: The only rules are those imposed by your own governing instrument or your funders.

- **Who can Audit?**

  The 1989 Companies Act introduced the concept of 'registered auditors'. These are people, registered by their professional accounting body to carry out audits. Registration implies that the auditor complies with all relevant legislation and standards set or adopted by his/her professional association. So, be careful when using the term 'audit'. If you require or opt for an audit you must ensure that the person or firm is a 'registered auditor'. The Auditor will carry out various tests and investigations to form an 'opinion' on the accounts and report their opinion to the trustees.

- **Who can perform an Independent Examination?**

  The Charities Act states that the independent examiner shall be:

  'an independent person who is reasonably believed by the trustees to have the requisite ability and practical experience to carry out an independent examination of the accounts'.

  Although, in theory, anyone can do this job, the charity's trustees have a legal duty to make sure that the person knows what they are doing. You could ask for references; you could ask what experience they have; you could ask if they follow the guidelines produced by the Charity Commission for conducting an independent examination. The Commission recommends that if your income is over £100,000 you should use a qualified accountant – see guidance note CC61 - Charities Commission website.

  Under the 2006 Charities Act, to examine the accounts of a charity from £250K to £500K, the examiner must be a member of a body recognised under section 249D(3) of the Companies Act 1985, which would currently be one of the following bodies:

  - Institute of Chartered Accountants in England and Wales;
  - Institute of Chartered Accountants of Scotland;
  - Institute of Chartered Accountants in Ireland;
  - Association of Chartered Certified Accountants;
  - Association of Authorised Public Accountants;
  - Association of International Accountants;
  - Association of Accounting Technicians;
  - Chartered Institute of Management Accountants;
  - Institute of Chartered Secretaries and Administrators;
  - Chartered Institute of Public Finance and Accountancy,
  - A Fellow of the Association of Charity Independent Examiners

- **What does an Independent Examination Involve?**

  The examiner reports to the trustees on whether anything has come to his/her attention, which gives reasonable cause to believe that the accounts do not comply with the regulations. The examiner would normally follow the Charity Commission's guidelines for independent examiners. For small charities, examiners may prepare accounts from the accounting records as well as performing the examination. This may seem a bit odd, but it is common practice.

- **To what extent can you rely on an Examination and to some degree, an Audit?**

  The examiner does not say that the accounts are correct; the examiner cannot report on what is not there; the examiner does not pass judgement on whether all expenditure was reasonable; the examiner does not report on the effectiveness of the use of grant aid; the examiner will not guarantee to spot all errors, and may not even look for errors considered to be immaterial; and finally, the examiner's report will be written some time after the events have occurred.

Whistleblowing and Reporting

Any auditor or examiner has a duty of confidentiality to the client. However, in exceptional circumstances, there is a legal duty to report directly to the Charity Commissioners. This would arise for example, where the examiner came across evidence of fraud by the trustees.

- **What is the difference between Audit and Independent Examination?**
  - Audit: is the scrutiny of accounts by a registered auditor who must apply accounting standards in accordance with Audit Practice Note 11 produced by the Auditing Practices Board. A registered auditor is one registered with a recognised supervisory body in accordance with the Companies Act 1989.

    Core role of auditor – to ensure that the accounts give a true and fair view of the organisation's financial affairs.

    The auditor has the statutory right to:-

    - have access at all times to an organisation's books, accounts and all related documentation.
    - require relevant information and explanations from an organisation's directors/trustees and employees.
  - Independent Examination: is a less onerous form of scrutiny than an audit. However it is still very thorough and independent examiners are expected to follow the guidance of the Charity Commission as laid out in the Directions and Guidance notes issued by the Commission. Examiners report on whether specific matters have come to their attention, and the regulations set out the required contents of the examiner's report. There is a statutory requirement on an examiner to 'whistleblow' to the Charity Commission if he/she believes that one or more of the trustees has been responsible for deliberate or reckless misconduct in administering the organisation.

    The description of an independent examiner in the Charities Act 1993 reads as follows 'an independent examiner is an independent person who is reasonably believed by the charity trustees to have the requisite ability and practical experience to carry out a competent examination of the accounts'. So what does this mean?

    - Independence: For an examiner to be independent he/she should have no connection with the organisation which might bias their opinion on the accounts, so trustees and employees, major funders and beneficiaries of the charity should not be considered, along with any of their close relatives.
    - Requisite Ability: What is meant by requisite ability? The examiner need not be a qualified accountant (although above a turnover of £100,000 it is

recommended that you use a qualified accountant – see guidance note CC61 - Charity Commission website);

  - Experience: Finally they need to have real hands-on experience of accounting (ideally charity accounting) and of doing independent examinations. You may want to ask them for a reference from a previous charity/voluntary organisation, in order to be satisfied that they have this, unless they are well-known to you already.

- **Finding an Independent Examiner**

  Some accounting firms do independent examinations. See the website of the Association of Independent Examiners, http://www.acie.org.uk/, who keep a register of independent examiners.

  You can always ask other voluntary sector organisations to see who they use – always approach your local Council for Voluntary Service for advice.

- **Timing**

  It is definitely worth booking your auditor/independent examiner in good time, because, with many organisations having their year end in March, the period April to July is very busy. It is also worth arranging the date for your Annual General Meeting at a reasonable time after the year end. Consult with your auditor/independent examiner about your AGM date, before you set it, to make sure it is realistic from their point of view. Remember that the accounts have to be approved at a trustees' meeting before they can be signed off by the independent examiner, so you need to allow time for that as well. Ensure that a statement is included in the Annual Report that the accounts of the organisation for the year in question are in agreement with the accounting records kept by the organisation.

- **What do you have to provide for the person checking your books?**

  Accountants are expensive and charge by the hour, so the more you can prepare for the end of year accounts the cheaper it should be. The following is a checklist of items that the external checker will probably require. In particular make sure that documents are filed in a clear rational way so that they can be easily found. Not all the documents in the checklist below will be relevant to your organisation; for example if you do not employ anyone you do not need to provide the PAYE documents.

  To prepare for an audit the treasurer should gather the year's financial records, including books, cancelled cheques, cheque stubs, receipts, bills and any financial statements. If you are a company, then the audited accounts must be delivered to Companies House.

  If you receive funding from external sources for specific pieces of work, called restricted funding, you will be required to account for this separately from your general or other funds. You will be required to keep track of that money within your records and budgets so that funders know exactly what the money has been spent on. They usually ask to see a copy of the audited annual accounts.

  The independent examiner provides an external check on the organisation's finances and has to be satisfied that the money raised and spent by the organisation is within the aims and objectives of the organisation's constitution.

Time is expensive and therefore the more things that you have sorted the lower your bill for the examination will be.

Auditors and Independent Examiner(s) will need most if not all the following:

Books & Records	Documents & Reference material	
Cash books fully written up, correctly analysed & totalled for year	A copy of the current year's completed accounts	Bank statements for each account for the whole year
Bank paying-in books	A copy of the previous year's accounts	All documents relating to bank receipts, including letters from funders
Cheque book stubs	Bank reconciliations for each bank account - completed	Invoices and vouchers to support all bank account payments in cheque number order
The petty cash book fully written up, correctly analysed, totalled for year	All the petty cash vouchers and receipts filed in date order	Written confirmation that at the end of the year the amount of cash in the box agrees with the balance of cash as shown by the petty cash book
Salary records (if applicable) including a form P11 for each employee	A record of all PAYE and NI paid to the Inland Revenue	Any changes to tax codes notified by the tax office
Records of any Statutory Sick or Maternity Pay (if applicable)	An up-to-date register of fixed assets with values	Any P45 forms given by new employees if applicable
Contracts & Project information	A copy of the constitution or governing document	A copy of the Employer's Annual Statement form P35 (if applicable)
A list of debtors (those who owed money to the organisation at the end of the year) with the amounts owed.	Minutes of all committee meetings and AGM held during the year	Any additional records for sub committees or projects that come under the group's umbrella
A list of creditors (those who were owed money at the end of the year) with the amounts owed	Copies of the following: a. Risk policy b. Reserves policy c. Copies of insurance certificates d. All funding agreements	The names and addresses of the officers and other committee members, and details of resignations and appointments during the year

How to review Accounts

It is important that non-finance people feel confident in assessing the financial statements of voluntary and charitable organisations. There is a lot of information used in the compilation of the statements and included within the statements.

It is too important to just be left to finance people to produce and review and use. Influencing the content, style and timeliness is just one benefit of obtaining objective assessments. The organisation and the person producing the accounts should always be prepared for questions and comments.

A key task of the reviewer is to tease the information out. Remember not everyone will do this task – it is good practice though.

There are many different reasons for reviewing a set of accounts. Committee members may review accounts to assess the performance of their organisation; funding authorities may be looking for effective use of grants or reserves; statutory authorities may be looking for compliance with the law and/or accounting standards.

Accounts can be complex, and most sets of accounts are unique. Nevertheless, as a basic guide, you could ask the questions below. If the accounts are being published for an audience external to the organisation, they will not include budget numbers or comparatives.

If you are really unsure you should seek clarification from the organisation. They should know the reason behind the figures in their own accounts. Occasionally, a review by a more qualified or experienced accounting mind may be required.

Unfortunately, it is not really possible to pick one aspect of the accounts and focus on that. For example, if you are particularly interested in reserves, you cannot focus only on the ‘balance sheet’. Any assessment of reserves must consider other aspects of the financial statements. This is for the obvious reason that a group may have low reserves because it has spent all its money on 'unnecessary' items.

A review of the accounts often leads to more questions than answers. This is why it is always advisable to read the Annual Report and consider the content by constant referral and cross-checking to the detailed financial accounts.

In any set of accounts, it is almost impossible to avoid using some jargon.

Have access to an Accounting Terms Glossary – see **Glossary**.

The Assessment Process

Very often the approving of the annual accounts at the management committee meeting is one of the main items on the agenda.

- **Accounts tell stories**

  There are usually 3 parts to a set of accounts, each of which can give you particular information about what is going on in that organisation.

  The **first** part (known as the Receipts and Payments Account, the Statement of Financial Activities (SOFA), or Income and Expenditure Account according to the legal status and size of your organisation), tells the story of what has gone on over the last year. You can read down the list of payments/expenditure categories and the amounts spent and get a fair idea of what an organisation has been doing over that year.

- **Income**

  At the top of this account will be the money coming into the organisation which should show where the organisation's funds have come from over the year.

  Some questions to ask are as follows:

  - are grants and donations received for a specific purpose shown separately from income available for general use?
  - is there a large sum in 'miscellaneous' in which case what is included?
  - are there any amounts which seem disproportionately large or small?
  - is the organisation heavily dependent on one source of income?
  - how does each category of income compare with last year's figures (these should be in a column on the far right)?
  - how does the total income (otherwise known as total receipts or total incoming resources) compare with last year's total?

- **Expenditure**

  The expenditure (costs/payments) come next:

  - what is the largest payment category?
  - does this agree with what you thought was happening?
  - are there any amounts which seem disproportionately large or small?
  - how do the payment figures compare with the previous year - (e.g.: ask if salaries have doubled since last year, why, what's happened?)
  - how do fundraising costs compare with fundraising income shown in the section above?
  - what proportion of all expenditure is spent on staff?
  - how does the total expenditure (otherwise known as Total Payments or Outgoing Resources) compare with last year?

- **Surplus or Deficit; Profit or Loss**

  Underneath the money in and money out categories you should have a line called 'surplus/deficit' or 'net incoming resources' for the period. This is a particularly important line and tells you if there has been an excess of income over expenditure over the year or vice versa (in which case the figure will have brackets or a minus sign on it). If there is a large deficit you should find out why and if it was not intended what measures are being put in place to prevent a deficit in the current year. If there is a big surplus particularly on the restricted funds, again it is useful to find out why.

  Below this line you should have a line called Funds Brought Forward; this is the surplus /deficit brought forward at the beginning of the year, which are added to the surplus/deficit for the year in question to give you a figure for total funds carried forward at the end of the year. It is well worth comparing this figure with that for the previous year and if significantly different check out why. Is the balance of funds in the unrestricted funds sufficient to carry you through a cash crisis for example if a funder pays you late?

If there are any significant differences in income or expenditure you do not understand – ask about them.

- **Balance Sheet**

  The **second** part. There may be a balance sheet or Statement of Assets and Liabilities. This gives a snapshot of the organisation's worth crystallised at a specific moment in time (i.e. the last day of your financial year). It tells you what funds your organisation held at the end of the year and in what form they were held e.g. in the bank or as investments. Some headings you may see:

  - Fixed assets: Property, equipment or other major items owned by the organisation e.g. a minibus or computer;
  - Current Assets: include cash held in the bank or the petty cash tin, amounts of money owed to you (known as debtors), and prepayments, which are amounts paid out for goods or services which you will receive /use in a later accounting period (e.g.: insurance)
  - Current liabilities: This includes creditors (who are the people waiting to receive the balance of money you owe to them at the end of the year). It also includes accruals which are estimated amounts for services that you have used but had not been billed for at the end of the year. They are liabilities because you hadn't paid them but will have to pay up eventually.

  A key point to check is does the organisation have more current assets than current liabilities? If it does not, it may have difficulty meeting its debts as they become due.

  Another key question is, what is the distribution of funds between unrestricted funds (i.e. general funds available for the general purposes of the group) and restricted funds (i.e. given for a specific purpose by the funder)? If most of the resources are tied up in restricted funds it means the organisation has very low resources to call on if there is a sudden crisis.

- **Notes to the Accounts**

  The **third** part of a set of accounts is the Notes. They are well worth reading to get explanations and analysis of the breakdown of figures reported. For example, they may tell you where the grants have come from, and what balance remains on each one. They should also tell you if depreciation is being charged and at what rate. The notes should also tell you what each restricted fund is for, and what balance remains on each one.

Tax and VAT

Tax treatment of charity trading activities.

Tax is an area to be wary of. It is complex. Seek and take advice early if you have any concerns. It is essential that all organisations consider this question. Even if you do not think it applies to you, many organisations are actually caught out here.

Much of the information here is taken from pages on the HM Revenue & Customs website, such as -

http://www.hmrc.gov.uk/charities/trading/tax-exemptions.htm

http://www.hmrc.gov.uk/charities/

http://www.hmrc.gov.uk/charities/guidance-notes/intro.htm

Help

VAT (Value Added Tax)

VAT rules for charities are considerably more complex than for commercial businesses with a comparable turnover. Professional advice when first registering is highly recommended. 'A Practical Guide to VAT for Charities and Voluntary Organisations', by Kate Sayer, published by the Directory for Social Change, is clearly written and an excellent practical reference book. Cost approx £15.00.

The term 'charity' has no precise definition in any law. Its scope has been determined by case law. You therefore need to establish whether your organisation is a charity using the following guidelines:

Charities are non-profit distributing bodies established to advance education, advance religion, relieve poverty, sickness or infirmity or carry out certain other activities beneficial to the community.

In England and Wales charities must normally register with the Charity Commission. Some very small charities do not need to register with the Charity Commission. There are also some other special cases where particular bodies do not need to register. If you are uncertain of your position contact the Charity Commission: see http://www.charity-commission.gov.uk/index.asp or local CVS.

Corporation Tax

What constitutes a trade for tax purposes is something that is decided by the Inland Revenue.

Profit from a trade, which is equal to sales minus expenses, may be subject to Corporation Tax.

However, there are exemptions available to charities, which are available if the profits are retained for use in the work of the organisation.

- Primary purpose trading is exempt from Corporation Tax
- Trade carried out by the beneficiaries of the charity will not result in a Corporation Tax liability as long as those the charity exists to support are doing most of the work
- Trades that are ancillary to the primary purpose, such as selling ice creams at a theatre, are also exempt

- Any small scale trading and fundraising is also exempt from Corporation Tax, within certain limits. The limits are income of £5,000 a year from such activities, or 25% of the total income of the organisation up to a limit of £50,000
- A further exempt area is the sale of donated goods, e.g. in a charity shop or at a jumble sale
- Some other specific fundraising events will not be liable to Corporation Tax. These are small events with income of less than £1,000 a week or larger events where there are no more than fifteen a year

If these limits are exceeded the charity will need to make a Corporation Tax Return to the Inland Revenue. Under charity law trading above these limits will also not be permitted within the charity itself. This is because the trustees have a duty to protect the property of the charity from the risks and liabilities of trading. In this situation it will be necessary to set up a separate non-charitable trading subsidiary, which will then be a company that is liable to Corporation Tax.

- **Using a Trading Subsidiary**

  The company would be owned by the charity. If all the profits are then given back to the charity as a Gift Aid donation, no Corporation Tax liability will arise.

  The following questions will need to be addressed if a charity is thinking of forming a trading subsidiary:

  - Does the charity have the investment powers to permit an investment in a trading subsidiary?
  - Would the investment be considered too speculative for a charity?
  - Would the investment be in line with the charity's current investment policy?

  This structure will involve additional work in terms of having two separate legal organisations and therefore needing two sets of financial statements. The company will also have to pay normal business rates if they are using any premises.

  In addition to these there are various other points to consider:

  - Directors and trustees will have two different sets of responsibilities to fulfil. There should therefore be at least one director who is not also a trustee and one trustee who is not a director
  - The financial structures of the two organisations should be kept separate
  - The names of the two organisations should be distinguished from one another and the separate identities should be made clear in any publicity material
  - Being a director of the company cannot be used as a way to pay the trustees of the charity
  - The charity must not settle any debts of the company, or feel any moral obligation to fund it
  - Any financial support that the charity can give to the company should be carefully assessed
  - Plan for the subsidiary to be financially viable as soon as possible, usually within five years

ChangeUp capacity builders FUNDED

- Avoid any situation where the charity buys stock and donates it to the company
- Charity Commission authority will be needed for the charity to lease property to the company
- Social Enterprise could produce vital income for your charity.

Social Enterprise implies trading. If grants reduce and with the uncertainty of investments, it is a good idea to look at the opportunities for your charity to generate at least some income through trade. When charities carry on trades, provided certain conditions are met, the profits of these trades are exempted from Corporation Tax. The definition of trading is:- 'the sale of goods or services to customers as part of a commercial enterprise.'

Lotteries

Finally there are special rules relating to the profits arising from lotteries. Charities may run lotteries in order to raise funds for their charitable purposes as long as they meet the conditions of the Lotteries and Amusements Act 1976. Providing the profits are used only for the purposes of the charity these profits are exempt from tax.

Gift Aid

- **What is Gift Aid?**

  It is a scheme by which charities can reclaim basic rate tax on donations received from UK taxpayers. This increases the value of the donation made to the charity.

  The payment can be made by cheque, cash, postal order, direct debit etc.

  It can be a one off payment or regular amount and can be almost any amount.

- **What are the benefits?**

  Gift Aid is a great way of boosting donations whatever the size, at no extra cost to the donor, and with minimal extra administration for the charity. Before April 2000, Gift Aid could only be used for donations over £250 and required the donor to complete a certificate for each donation. That minimum donation level was removed and the information required from the donor was simplified, making Gift Aid an extremely effective and flexible way to give. A single Gift Aid declaration may now cover any number of donations made since 5 April 2000. This in effect means that all donations since 5 April 2000 can be backdated to qualify for Gift Aid.

- **How do we qualify for Gift Aid?**

  To qualify for Gift Aid the donor must-

  - Pay at least as much tax as the charity will reclaim on donations in the tax year in which they are made (i.e. a normal taxpayer).
  - The donor must also make a declaration to the charity that they want the donation to be treated as a Gift Aid donation.
  - The donor must not receive excessive benefits in return for their gift (more about this later).
  - It cannot be from unidentifiable sources i.e. collecting tins but it can be from sponsorships as long as all the sponsors sign a declaration.

- **How do we make a declaration?**

  The declaration is the charity's authority to reclaim tax from the Inland Revenue on the donor's gift. By giving the declaration, the donor is confirming that they understand this.

  The declaration can be given in writing or even orally!

  The information required is the donor's name and address, the charity's name and address, whether it is for this gift alone or others (either already made or to be made later) and to make clear that the gift is to be treated within the Gift Aid scheme.

  When a declaration is made orally the charity must make a written record and send a copy to the donor. The written record must contain the same information as a written declaration (see above) plus the date the donor made the oral declaration and the date the charity is sending the written record to the donor. It does not need to be signed or returned by the donor.

- **How much can we get?**

  This all depends on how much is donated; the more money donated the more tax can be reclaimed, provided of course, the donor has paid sufficient tax in the first place.

  Using the 2008/9 HMRC rates an example of this is-

  - The charity receives £1,500 of donations covered by Gift Aid.
  - Basic rate taxpayers (at 20%) will have paid over £375 to the Inland Revenue on this amount during this tax year.
  - The charity works out the tax that has been paid on the donations made (£375) and reclaims this from the Inland Revenue.

  The amount of recoverable tax can be worked out by-

  - Dividing the current basic tax rate by 100 minus the basic rate tax;
  - Then multiplying this amount by the total amount of the Gift Aid donations.

An example of this is:

Current tax rate = 20%, divided by (100-20) = 20/80;

20/80 multiplied by £1,500 = £375 tax which can be recovered.

HMRC will then add on an additional 2% to compensate charities for the reduction in Gift Aid incurred as a result of changes to the income tax rates.

The additional 2% allowance was guaranteed for three years – up to April 2011 in the 2008 budget.

- **Higher rate taxpayers**

  If a donor pays higher rate income tax (currently 40%) the charity can only claim the basic rate of tax on the donation (in our example £375); however the donor gets higher rate relief on the difference between the basic rate and the higher rate.

- **Non-taxpayers**

  Donors who are not taxpayers must not make a Gift Aid declaration.

What records do I need to keep?

As you would expect, the Inland Revenue has a duty to ensure that the Gift Aid scheme is used properly and has the right to inspect your Gift Aid records. The basic requirement is that your charity must be able to demonstrate an audit trail from the valid and in-date Gift Aid declarations given by your donors to the donations you claim tax relief on. How your charity does this is up to you. It is very important that you keep your Gift Aid declarations and a record of any change to the donor's details.

- **Allowable benefits to donors**

  Some charities like to thank their donors by way of a benefit to the individual but there are limits on the value of the benefit, and if the limit is exceeded the entire Gift Aid donation is treated as an ordinary donation and so the charity is unable to recover tax on it. The limits are as follows-

- Donation of £100 or less = a maximum benefit of 25% of donation.
- Donation of £101 to £1,000 = a maximum benefit of £25.
- Donation of £1,001 to £10,000 = a maximum benefit of 2.5% of the donation.
- Donation of over £10,000 = a maximum benefit of £250.

- **How do I claim the tax?**

  In order to use Gift Aid and claim repayment of tax, you will need to arrange for Inland Revenue Charities to set up a record for you.

Look at http://www.hmrc.gov.uk/helplines/charities.htm and call the helpline on 0845 302 0203.

For the form look at http://www.hmrc.gov.uk/charities/forms.htm

Help

Business Plans

Most organisations probably write a 'Business Plan' because they have to produce one if they are to stand any chance of receiving a grant. It is a good idea to produce a plan.

Formally writing down the plans for your organisation can be useful.

- it makes sure that it is the whole committee which is in charge
- it is better to plan ahead than simply drift along
- it gives you a chance to think of new things
- it makes you think about things or activities which are not working well

The process

Obviously someone will have to do the writing, but before that, the committee should call a meeting of all interested parties to have an open discussion on the future for the organisation. This may involve the committee, volunteers, staff, users of the service and funders. Hopefully, the discussion will give rise to certain common aims for the organisation. A proposal can then be put together for consideration and comment by interested parties.

Ultimately, it is the committee's responsibility to formally adopt the plan.

- **What should a Plan include?**

  Keep the plan fairly short. If you cannot avoid a lengthy document, it is a good idea to put a summary at the front which highlights the key elements of the plan.

The following elements could be included:

- An introduction:
  - what the point is of the document;
  - who it is for;
  - what the process of consultation was which has led to its production;
  - the contents;
  - an optional (Executive) summary of the key points.
- Setting the context:
  - to explain the field or environment within which your organisation operates;
  - what the current issues are;
  - what other services are available;
  - whether there are any relevant developments in government policy (local or national).
- Your organisation today (where are we now?):
  - a very brief history;

- an outline of the work you do;
- how your organisation is structured - staff, committee, volunteers;
- your strengths, weaknesses, opportunities and threats;
- the current financial position - reserves, current income and expenditure.

- The Need:
  - an analysis of the need for your services, both existing and those not being met;
  - The long term goals (where are we going?);
  - what services will you be providing;
  - how you will provide them (what resources will you need by way of people, offices etc.);
  - this obviously relates to the time span for the plan which may be 3 years or perhaps even longer;
- The short term goals (how will we get there?):
  - what precise steps must be taken over the next 12 months;
  - which are the most important;
  - who will do it;
  - when.
- Finance
  - plans should be produced for the next 3 years, or what is considered most appropriate;
  - this then breaks down to a more detailed budget for the first 12 months of the plan.
- Monitoring and review
  - explain how your committee will know whether the plan is being followed;
  - it makes sense to review the whole thing every year.

A rolling plan

An obvious problem with any plan is that it is rather difficult to predict the future. This is a particular problem for organisations which rely heavily on grant aid. No matter how hard you work, much of the future is in the hands of the funders. It is quite likely, therefore, that any plan will be 'out of date' quite quickly. One way to deal with this is to develop a 'rolling plan'.

Your organisation may conduct an annual review of the plan and rewrite the whole thing every year - i.e., write a 3 year plan every year. This obviously involves more work, but will help to avoid a gap developing between the plan and the reality.

ChangeUp capacity builders FUNDED

Some might say that because of the uncertainty over funding, there is no point in planning ahead. The plan does provide a focus for activity and ensures that the committee is in control. The absence of any plan will lead to an organisation simply drifting along.

Dealing with the financial aspects of employing people

Becoming an employer is a big step.

Any employer has to know how to comply with relevant employment law. Employment law spans all aspects of being an employer, from the advertising of a vacancy, to the termination of a contract. It also changes quite frequently, so organisations need to keep up-to-date. There is a lot to consider, and a variety of policies and procedures to set up, when becoming an employer.

Employing a Worker

This places demands on the organisation's systems and personnel: e.g. payroll provision, training, supervision, statutory & legal obligations. Ignorance of the law is no defence to a claim or prosecution.

There is a range of anti-discrimination legislation covering race, sex, disability, sexual orientation, gender reassignment and religion/belief which applies to recruitment and selection. Also, since January 1997, it is a criminal offence under the Asylum and Immigration Act 1996 to employ people who are not permitted to work in the UK because of their immigration status. Before agreeing to employ someone, employers now have to check that the person has proof of his or her status – e.g. official NI details, passports with appropriate visa stamps or work permits.

It is good practice to develop written policies and procedures to promote equal opportunities and eliminate discrimination.

- **Recruitment and Selection**

  You will need to take the following steps prior to advertising the job, whether part-time, temporary, fixed term or permanent.

  - write a job description (job title, responsibilities, location of post, salary, hours and benefits, e.g. pension scheme)
  - write a person specification (a list of the abilities, qualifications and experience which are essential or desirable for the job description). Check that you will be able to measure these and choose between candidates from the questions in the application form and in the interview
  - design an application form and decide what other papers you should send to applicants
  - decide who will do the shortlisting and interviewing of candidates

- **Interviews**

  Ensure equal opportunities prevail in selection for interview. Keep records of who and why.

- **Selection and appointment**

  You should write as soon as possible to the successful candidate offering her/him the post subject to suitable references and asking her/him to confirm acceptance. You will also need to notify all the unsuccessful candidates in writing once the successful candidate has agreed to take up the post.

- **References**

  The job application form should ask for reference details. References are usually taken up once the successful candidate has been chosen. Make the employment dependent on the receipt of at least 2 acceptable references from previous employers or, if not possible, a source acceptable to you.

- **Insurance**

  All employers must carry employer's liability insurance which covers staff illness and/or injury whilst at work. The policy should also cover an organisation's volunteers.

- **The Contract of Employment or Written Statement**

  It is a legal requirement that employees receive a written statement of their main terms and conditions of employment within 8 weeks of starting, and the document has to include certain items required by the Employment Rights Act 1996 as a minimum. The employer should notify any significant change to the employee in writing within 4 weeks of that change.

  Drawing up a contract sets out what is expected of both parties – the employer and the employee – treat it as a good use of your time. This contract should be in a single document dated and signed by both parties.

  The following table includes a schedule of requirements for a written statement of terms and conditions of employment:

Must have:	
• name and address of employer	• hours of work
• name and address of employee	• holiday entitlement
• rate and interval of pay	• place of work
Good practice:	
• job title	• Whether permanent, temporary, fixed term or casual
• where the employee is required and permitted to work	• if the contract is fixed term, the date it will end
• method of payment of employee's wages	• holiday entitlement, including holiday pay
• sick leave and sick pay	• pension arrangements (if any)
• length of notice required to be given by both employer and employee to terminate the contract	• disciplinary and grievance rules and procedures

- **Unlawful employment**

Since 2001 it has been unlawful to employ anyone to do paid or voluntary work with children (or to supervise such workers), who have been disqualified by reason of having committed an offence against a child. This means applicants for all such posts must be checked through the Criminal Records Bureau. You should make similar checks for posts working with vulnerable adults.

It is also illegal to employ anyone who does not have the right to work in this country. This means that employers must require anyone they intend to appoint to a post to provide evidence of their right to work.

More information on this can be obtained from the Home Office's Employer's Helpline 0845 010 6677 or website www.ind.homeoffice.gov.uk

Help

- **Working Time Regulations**

  These give some minimum rights to employees; for voluntary and community organisations the most important ones are:

  - maximum 48 hour week (although this can be extended by agreement with Trade Unions)
  - maximum working day of 13 hours, with rest breaks at least every 6 hours and 11 consecutive hours rest in each period of 24 hours

  Certain workers are not covered by this: managers and those who agree voluntarily to less favourable terms.

- **Health and Safety**

  Under the Health and Safety at Work Act 1974, all employers must take whatever steps are 'reasonably practicable' to ensure the health and safety of employees and voluntary workers while at work.

- **Redundancy**

  Employees with two years' continuous service will also be entitled to redundancy payments in addition to their normal notice and holiday pay. You can find guidance on the law and procedures in ACAS Advisory Booklet, 'Redundancy Handling'.

- **Holidays**

  The legal minimum holiday entitlement under the Working Time Regulations is 24 days per year for all employees regardless of hours worked and pro-rata for part-time workers. This will rise to 28 days on 1 October 2008. (including bank holidays)

- **Sickness**

  An employer is not bound to pay sick pay. However any sick pay scheme must conform to the DSS Statutory Sick Pay Scheme. Employers can get information and necessary forms from the Contributions Agency, Benefits Agency or Tax Office.

- **Parental and Dependant Care Leave Rights**

  Pregnant employees have a number of rights which include: paid time off for ante-natal care, maternity leave, statutory maternity pay (if they qualify), the right to return to the same job after maternity leave, and the right not to be dismissed for reasons relating to pregnancy, maternity or confinement.

Employees who are the parents of natural or adopted children are entitled to up to 13 weeks unpaid leave during the first 5 years after the child's birth or adoption (18 weeks for a disabled child). To qualify, the child must have been born or adopted after 15.12.1994 and the parent must have completed at least 1 year's service with an employer. In addition, those with caring responsibilities for others are entitled to reasonable unpaid time off for 'family emergencies' affecting the dependant.

Since April 2003, qualifying fathers have been entitled to two weeks paternity leave with statutory paternity pay and adoptive parents are entitled to statutory adoption leave (similar to statutory maternity leave) with statutory adoption pay.

- **Flexible working & part-time and fixed term workers**

  Employers have a duty to consider requests for flexible working (e.g. part-time, job-sharing, shift working) from employees with 6 months or more service who wish to spend more time looking after children under 6 or disabled children under 18 in their care.

  Since March 2000 (for part-timers) and October 2002 (for fixed term workers), it has been against the law to treat these workers less favourably compared to full-time or permanent staff, unless this can be justified objectively.

- **Wages and Pensions**

  Employers are legally required to provide employees with pay-slips – details to be the pay period covered by the payment, the gross wage, the deductions made (e.g. tax, NI & pension contributions), the net wage and the total pay and income tax deducted to date. Employers are responsible for deducting NI and income tax from an employee's wages. No deductions apart from tax and NI can be made from wages without the agreement of the employee. Employers with 5 or more staff must offer their employees a stakeholder pension as a minimum. See http://www.hmrc.gov.uk/stakepension/

- **Employed or Self Employed?**

  For most people most of the time there will not be any problem in trying to decide between employment and self-employment.

  The first important point is that the decision on status does not belong to the individual. The rule here for the organisation is if in any doubt - DEDUCT. In other words, treat the individual as an employee and leave the onus on them to prove that they should be treated as self-employed. Employed individuals pay tax through the PAYE (pay as you earn) system. Self-employed individuals are responsible for paying their own tax.

- **National Minimum Wage**

Help

Rates from 1 October 2007

Main Rate (22 years and over)	Youth Rate (18-21 year olds)	Development Rate (16-17 year olds)
£5.52	**£4.60**	**£3.40**

Rates from 1 October 2008

Main Rate (22 years and over)	Youth Rate (18-21 year olds)	Development Rate (16-17 year olds)
£5.73	**£4.77**	**£3.53**

Hampshire Voluntary Sector Consortium
ChangeUp capacity builders FUNDED

Tax Implications of Fundraising for Voluntary Organisations

The term 'voluntary organisation' can cover a wide range of groups and associations. Generally, they are not-for-profit organisations with a public benefit purpose and are not for the private benefit of their members.

VAT legislation provides that, for certain events arranged by voluntary organisations or charities for the purpose of raising funds for charity, which may otherwise fall within the definition of 'trade' in Section 832 ICTA 1988, and with the result that any profits will be liable to income tax or Corporation Tax, VAT will not be charged on such profits provided:

a) the event is of a kind which falls within the exemption from VAT under Group 12 of Schedule 9 to the VAT Act 1994;

and

b) the profits are transferred to charities or otherwise applied for charitable purposes.

- **Do all events held by a Charity or Qualifying Body qualify for exemption?**

  There are a few restrictions, which are covered in the following paragraphs, to prevent distortion of competition with other organisations holding similar events which do not have the benefit of VAT exemption.

- **What Is a Fundraising Event?**

  For tax purposes, it is an event clearly organised and promoted primarily to raise money for the benefit of the charity or qualifying body. Social events which incidentally make a profit do not fall within the exemption. People attending or participating in the event must be aware of its primary fundraising purpose.

  An 'event' is an incident with an outcome or a result. This means that activities of a semi-regular or continuous nature, such as the frequent operation of a shop or bar, cannot therefore be an event. The relief is not intended to exempt normal trading activities from VAT.

- **Is there a limit to the number of events held?**

  Yes! Eligible events are restricted to 15 events of the same kind in your financial year at any one location by a charity (including its trading subsidiary) or qualifying body. The restriction prevents distortion of competition with other suppliers of similar events which do not benefit from tax exemption. If you hold 16 or more events of the same kind at the same location during your financial year none of the events will qualify for exemption.

Further information on the exemption for charities and other qualifying bodies may be found on the HMRC website at: http://www.hmrc.gov.uk/charities/fundraising-events.htm#11

Help

- **What kinds of events are covered by the exemption?**

  The following are examples of different kinds of events which may be held for fundraising purposes.

  - A ball, dinner dance, disco or barn dance
  - A horticultural show
  - Film showing
  - A sporting performance
  - A performance - such as concert, stage production, and any other event which has a paying audience
  - Sporting participation (including spectators), such as a sponsored walk or swim
  - A bazaar, jumble sale, car boot sale, or a good-as-new sale
  - An auction of bought in goods (an auction of donated goods is pro-ratad)
  - A fete, fair or festival
  - A fireworks display
  - An exhibition - such as art, history or science
  - A game of skill, a contest, or a quiz
  - Participation in an endurance event
  - A dinner, lunch or barbecue

- **What does 'location' mean?**

  Location means in the same place. Similar kinds of events held in different locations would qualify for exemption provided all other conditions were met. For example, 20 balls held by a national charity each in different towns in the same financial year would all qualify for relief.

  Clearly, events which need to be held on special premises, such as a sports ground, swimming pool or theatre are easy to define. Each of these will be accepted as at a different location.

  If the event is held in a complex of cinemas, theatres or concert halls, the location is the specific cinema, theatre or concert hall in which the fundraising event takes place. HMRC regard a charity's entire website as a location for events held over the Internet.

  The rule is designed to be generous to charities which may hold a number of events of the same type in different locations, but in the same town. HMRC will not accept arrangements such as weekly boot sales each held in different, but adjacent fields, as constituting a separate location without considering whether such an arrangement is potentially distorting competition.

- **Does an event run over several days at the same location comprise a single event or a number of separate events?**

  Where an event, such as a concert, is repeated on successive evenings each performance is a separate event and counts towards the maximum number of 15 allowed within the exemption. A single event which takes place at the same location for more than one day, such as a golf tournament, is accepted as one event.

Where a concert or similar event is offered as part of a travel package this may not be exempt.

- **Which events do not qualify for exemption?**

  Each event which counts towards 16 or more of the same kind held at the same location during your financial year.

  Events which are not organised and promoted for fundraising purposes, such as events which form part of a social calendar for members.

  Events which are organised and promoted primarily for another purpose, such as an Annual General Meeting.

  Asking the public for donations through street collections, flag days etc. The receipt of donations is not a business activity and so they are not subject to VAT.

  The activity of selling goods is not an event and so is not eligible for relief under these provisions, even where all the proceeds are received by, or donated to, a charity. Where the sale of goods takes place in the context of a qualifying fundraising event it is covered by the relief and zero-rating may be available in certain circumstances.

- **What evidence must I hold to show that the event was organised and promoted primarily to raise funds?**

  There is no single document that you must hold to demonstrate that the event was organised primarily to raise funds. Minutes of meetings, costing and similar documents should show that the main purpose for holding the event was to raise funds for charitable purposes or a qualifying body's own benefit.

  The event must be promoted in such a way that those attending the event are aware that its main purpose is to raise funds. Publicity material, tickets etc. should therefore clearly refer to fundraising. For example:

  - 'fundraising for'
  - 'in aid of'
  - 'help us to build'
  - 'help us to raise money for'

  Examples of publicity material, tickets etc, should be retained to support evidence of exemption.

- **Do charities still need wholly-owned trading companies for fundraising activities?**

  Charity law governs which activities charities may carry out directly and which must be conducted through a trading company.

For more information you should read the Charity Commission's publication CC20 'Charities and Fundraising' which is available on their website: see http://www.charity-commission.gov.uk/index.asp

Help

- **What fundraising activities can be carried out within a charity?**

  You need to bear in mind guidance from the Charity Commission on fundraising activities.

  Your charity's governing document may mean that the charity lacks the necessary powers to undertake a fundraising activity which is exempt from VAT and the profit of which will not be taxed. Charities in England and Wales seeking power to undertake a fundraising activity should approach the Charity Commission to see if their governing document can be amended.

  If your charity has powers which appear to cover the proposed fundraising activity the charity trustees need to consider carefully whether they in fact do so. Any body which does have the power to engage in substantial trading activities, which involve significant risk to its property is unlikely to be a charity. A charity's assets have been given for charitable purposes and should not be exposed to any serious or substantial risk of loss from fundraising activities. Risks which might be acceptable commercially will not necessarily be acceptable for your charity to undertake directly. Large scale events such as celebrity concerts or sporting events can be a valuable way of raising funds. However, experience shows that they also carry a high degree of risk and your charity trustees should not normally undertake such activities within your charity.

  The Charity Commission strongly advises trustees to take professional advice before doing anything to expand a charity's direct fundraising activities. The best way for your charity to raise funds and take full advantage of the new tax regime is to have a wholly owned trading subsidiary which pays all its profits to your charity under the Gift Aid scheme.

- **When should a charity register for VAT?**

  For VAT purposes, a charity's activities could be what HMRC defines as entirely non-business, exempt business or taxable business (standard rate, reduced rate and zero rate), or any combination of these.

  However, for VAT registration purposes charities only need to take account of the income from their taxable business activities.

  When that exceeds certain limits – for 2007/8 the limit is £64,000 per annum - charities must notify their local VAT Business Advice Centre. These limits and the procedure for registering for VAT can be found in VAT Notice 700/1 'Should I be registered for VAT?'

  The registration limit is reviewed annually in the national Budget.

  Charities can also apply to register voluntarily if they make taxable supplies below those limits.

  Exempt supplies (business supplies which have no VAT charged on them at either the standard or zero-rate, (such as qualifying fundraising events) do not form part of your taxable turnover.

  If you are registered for VAT and make some exempt supplies, it may restrict the amount of VAT recoverable on overhead expenses. You can find further information in VAT Notice 706 'Partial exemption'.

- **What about a shop?**

  If your charity receives donations in the form of goods (usually clothes) and then converts these donations into cash by selling the clothes, then this is NOT considered to be trading. It is merely converting the donation into cash. With such activity, you do not have to set up a separate 'trading arm' and get involved in covenanting profits to the charity.

  However, if you become involved in buying and selling goods then this is a different matter and you may not be able to do this as a charity. This is because the activity may not be a 'primary purpose' of your charity.

- **Do we always have to pay tax on any profits?**

  The answer is, 'not always'. Exemption from tax is given for certain 'trades' where:-

  1. The profits are used for charitable purposes;

  AND:

  2. The trade is exercised in the course of carrying out a 'primary purpose' of the charity;

  OR:

  3. The work is carried out by the beneficiaries of the charity;

  OR:

  4. The value of your trading activity falls below the limits shown in the table below – known as the small trading exemption.

  This exemption can be claimed against the profits from any trading activities that are not otherwise exempt and where the trading turnover falls within certain limits.

  These limits are set in relation to the turnover from small trading in comparison to the overall income of your charity – (including income from this trade).

- **Limits to be applied for Small Trading Exemption**

Total gross income of your charity from all sources	Maximum permitted sales turnover to qualify for the small trading exemption
Under £20,000	£5,000
£20,000 to £200,000	25% of your charity's total gross income
Over £200,000	£50,000

- **What about the jumble sale?**

  In addition, some incidental and insignificant trading is allowed under an Extra Statutory Concession C4 published by the HMRC. This states:-

  'Bazaars, jumble sales, gymkhanas, carnivals, firework displays and similar activities arranged by voluntary organisations or charities with the purpose of raising funds for the charity may fall within the definition of 'trade' in ICTA 1988 Section 832, with the result that any profits would be liable to Corporation Tax. Tax is not, however, charged on such profits provided the following conditions are satisfied:

- the organisation or charity is not regularly carrying out these trading activities;
- the trading is not in competition with other traders;
- the activities are supported substantially because the public are aware that any profits will be devoted to charity; and
- the profits are transferred to charities or otherwise applied for charitable purposes.'

Unsurprisingly much of this is open to debate and the HMRC may not agree with you.

Another example is where a charity may hold a 'regular' fundraising dance. How 'regular' does it have to be before the HMRC consider it to be 'regular'. In one case a charity held a weekly dance to raise funds. The HMRC ruled that `it was not a primary purpose' (i.e., the objects of the charity did not include the promotion of dancing!); it was regular, it was making a profit. The charity had to pay a large bill for Corporation Tax on the profits.

What to do now?

If unclear, don't ignore the issue. It may be wise to obtain a ruling from the HMRC for certain activities. Ignoring this question may prove costly. The HMRC applies the law – you are expected have found out about it and abide accordingly.

An alternative avenue is to establish a separate trading company to carry out that trade and covenant the profit back to the charity using Gift Aid.

An organisation is trading where they are charging for goods or services they provide. This may include activities such as charging fees for courses, receiving rent, selling books, selling tickets for a fundraising event, or the sale of second hand goods.

With charities this trading falls into two broad categories, primary purpose trading and trading for fundraising purposes.

- **Primary Purpose Trading**

  This is trading that is directly related to the objectives of the charity. Examples may include course fees charged by an educational charity, the sale of publications that relate to the objects of a charity, or rent received by a housing charity.

  There are few restrictions on the amount of primary purpose trading that can be carried out, although there may be VAT implications.

- **Trading for Fundraising Purposes**

  These will be activities such as the sale of raffle tickets, selling second hand goods at a jumble sale, or the sale of Christmas cards, where the activity is not part of fulfilling the objects of the charity, but is simply to raise funds for that work.

  There are strict limits on the level of fundraising that can be carried out within a charity, although there are also some exemptions, which are covered below.

The two questions that a charity needs to ask in connection with trading are:

1. Should it be charging VAT on its sales?
2. Is it liable to Corporation Tax if a profit is made?

Glossary

Accounting Terms & Translations – The Glossary

Accountant's report	A report confirming that the annual accounts have been properly prepared by a qualified accountant or a firm of accountants.
Accounting regulations	The Charities Act (Accounts and Reports) are frequently abbreviated to accounting regulations. They refer to the statutory requirements of the Act for the content and form of charity accounts.
Accrual	An amount owed for an expense incurred before the period/year end, but not invoiced until the following year. For example a gas or electricity bill.
Accruals Basis	A method of preparing accounts where income and expenditure is included when it is earned or incurred, rather than when the actual cash is received or paid. It is required for charities with total income over £100,000.
Analysis	A breakdown or summary of what is included in a figure in the accounts.
Annual Report and Accounts	A document containing the financial statements and Trustees' Report. Requirements are set out by the Charity Commission.
Assets	Items owned by, or legally due to an organisation – including money, goods or property. This includes bank and cash balances, debtors, stock, equipment, and buildings. These can be classified as: Fixed assets - valuable items that last more than one year, e.g. vehicle, furniture, equipment, IT, investments. Current - cash or things that can be turned into cash within a short period, e.g. stock, money in the bank, petty cash, prepayments and debtors.
Audit/Auditor	An examination of the accounts undertaken by a registered auditor. The Charities Act states that all charities above the £500,000 threshold must have an audit. Increasingly, charities below this threshold are being required to have an audit by funders – especially local authorities. Auditors are regulated by the accounting body to which they belong. Any registered auditor must follow a set of guidelines issued by the Audit Practice Board. The auditor does not say that the accounts are correct, but simply expresses an opinion on the accounts. Auditors must be registered in accordance with the 1989 Companies Act. A firm of accountants that is registered to be able to carry out audits. The auditor must be independent of the organisation.
Average costs	Average cost is the cost of doing each thing expressed as an equal amount. So the average cost of the last item will be the same as the average cost of the first item. Compare this to the Marginal Cost example later in the Glossary.
Bad Debt	A sum of money that is due but not collectable from a customer or funder.
Balance sheet	Summary of assets or liabilities of a charity at a given date with a breakdown of the funds that the assets and liabilities belong to. This statement is only required for companies and charities with total income above £100,000.

ChangeUp capacity builders FUNDED

Bank reconciliation	A procedure used to check the accuracy of your bookkeeping – and also to spot errors made by your bank.
Bookkeeping	Recording the detail of day to day transactions of the organisation.
Budget	An analysis and summary of expected income and expenditure for the coming year. A budget may also be prepared to show the expected income and expenditure for a particular project for a funding application.
Budget variance	The difference between the expected and actual amount for an item of income or expenditure.
Capital expenditure	Money spent on purchasing fixed assets.
Capital fund	A restricted fund (or funds); capital must be retained by the trustees for the benefit of the charity and not spent. This fund must be kept for the benefit of the charity, either in the form of a financial investment or physical asset, and must not be spent. It may also be known as an endowment fund.
Cash Flow Forecast	A monthly estimate of when cash will actually be received and paid in the coming year, to see if funds are sufficient to meet expenses at the due time.
Charities Act	The 1993 Act of Parliament that regulates accounting standards within charities. The Charities Act 2006 received royal assent in November 2006 - not all the Act's provisions can be implemented at once. Some came into force early in 2007 but others need to wait until new rules or regulations are ready.
Community enterprise	Organisations trading for social purpose with a community base – both community of place and community of interest.
Community Interest Company (CIC)	A new legal form being proposed for social enterprises. The aim is to make them easy to set up, with all the flexibility and certainty of the company form, but with some special features to ensure they are working for the benefit of the community.
Company limited by guarantee	A registered company with members rather than shareholders; members guarantee a nominal sum for paying liabilities in the event of insolvent liquidation and can also pay a membership subscription.
Computerised accounts	Various computer software packages that can be used alongside or instead of the traditional paper-based bank analysis book. Well known packages include Excel, Quickbooks and Sage.
Contra	An entry made into an account or statement to nullify a previous entry.
Credit	In double entry bookkeeping a credit is an item of income or an increase in a liability.
Creditors	These are people and organisations to whom you owe money. A liability on the balance sheet.
Current asset	An asset that is cash or is expected to be converted into cash within the next year. For example, bank and cash balances, stock or debtors.
Current liability	An amount owed by the organisation that is due to be paid within one year.

Debit	In double entry bookkeeping this is an item of expenditure or an increase in an asset.
Debtors	People and organisations who owe money to the organisation. An asset on the balance sheet. Although 'debtors' are rightly considered an asset, if you are owed a vast amount this is not necessarily good. Strive to convert debtors into cash as quickly as possible.
Deferred Grants	These will be grants received in one period but actually intended for spending in a future period. Sometimes this may be called 'grants in advance'.
Deficit	Where more money has been spent than received by an organisation in a given period.
Depreciation (and Amortisation)	Depreciation is a way of spreading the cost of an asset over the expected life of that asset. (Amortisation is exactly the same – just a different term.) It is an expense in the accounts for each year of the expected life of the asset.
Designated funds	Unrestricted funds which the trustees have set aside for a particular purpose.
Direct charitable expenditure	Expenditure that relates directly to carrying out and supporting the objects of the charity i.e. the income and expenditure concerned with the charity's activities & beneficiaries, normally distinct from management and administration costs and fundraising/publicity costs.
Direct cost	A cost that is incurred in relation to a particular activity, rather than in the general running of an organisation.
Dishonoured cheques	Where a cheque is presented to the originator's bank but is returned to you dishonoured (not paid - bounced).
Donated back (expenses)	An in-kind contribution. A person may choose not to take all the expenses due and therefore donates them back to the organisation.
Double Entry Bookkeeping	A system where each item is entered twice. This is to recognise that each transaction will have two equal and opposite effects, one of which will be a debit and the other a credit. For example, if a grant is received it will not only be entered as an item of income, but also as an increase in the bank balance.
Endowment	A type of restricted fund that must be kept intact and not spent. An expendable endowment can eventually be spent at the trustee's discretion.
Financial controls	Procedures that govern how a charity handles its finances.
Financial statements	The organisation's accounts including notes to the accounts and any other statements that need to be included. These will include a Receipts and Payments Account, Statement of Assets and Liabilities and notes if the receipts and payments basis is being used. With the accruals basis they would include a Statement of Financial Activities, Balance Sheet and notes.
Financial year	The period for which an organisation produces its annual accounts. This will usually be twelve months and is often from 1 April to 31 March.
Fixed assets	Assets that have a value for more than one year. It is good practice to maintain a fixed-assets register – detailing list of assets with values and related

ChangeUp capacity builders FUNDED

	depreciation. The register may include buildings, furniture, computer equipment or vehicles.
Full cost recovery	Full cost recovery (FCR) means securing funding for, or 'recovering', all your costs, including the direct costs of projects and all your overheads.
Fundraising and publicity costs	Costs resulting directly from fundraising activities e.g. staff time, advertising, mailing costs.
General funds	An unrestricted fund available for general use in meeting any objects of the organisation.
Governing document	This document sets out the objects and rules of the organisation and needs to be approved by the Charity Commission when a charity is registered or if amendments are made to the governing document. It can also be called: the constitution, trust deed, governing instrument or memorandum and articles of association (for a charitable company).
Gross income	All income of the organisation during a financial year before deductions are made. Under the Charities Act it is defined to exclude all capital (endowment) income, sale of fixed assets and sale of investments.
Imprest System	A method of managing petty cash where the level of cash balance required is set and money is replaced with receipts and/or petty cash vouchers as items are purchased.
In-kind donations	An in-kind contribution. A person may choose not to take all the expenses due and therefore donates them back to the organisation.
Income and expenditure account	A summary of the income due and expenditure incurred during the year, prepared on the accruals basis. Now incorporated in SOFA – see Statement of Financial Activities.
Incoming resources	All resources available to the organisation, including restricted income, capital (endowment) income, gifts in kind and intangible income.
Independent examination	The Charities Act allows for charities below the £500,000 threshold to have an independent examination rather than a full audit. Though less stringent than an audit, the examination is still intended to check that the charity's finances are being managed properly. The person who carries out the examination is called an independent examiner. They can either be an accountant or someone who is recognised to be financially competent. This is a service, similar to an audit, where a group's accounts are checked by an independent person. There are rules for who can do this, and guidelines on how it should be done. It is of particular relevance to charities. It is not required if income is below £10,000. The Charity Commission gives guidance that should be followed in completing an examination.
Indirect or Shared costs	They are often costs that relate to a number of projects or activities.
Inflation	The overall general upward price movement of goods, services and salaries/wages in an economy.

Liabilities	Amounts owed by the organisation. These can be current (payable within one year), or long-term. These may include creditors and loans or overdrafts.
Liquidity/Illiquid	This is the measure of how much cash you have. It can include things that can be turned into cash quite quickly like debtors and other current assets. A 'liquidity problem' is where you don't have enough cash to pay your immediate bills and are therefore 'illiquid'.
Management and administration	Costs directly resulting from the management of the charity's assets, compliance with statutory requirements and organisational administration.
Management accounts	Management accounting is concerned with the provision of accounting information to management within a business. Accountants produce regular and specially requested reports to help managers monitor current performance and plan future activities.
Marginal costs	Marginal cost is the cost of doing one more thing. The marginal cost of the last items will normally be lower than the first – different from the Average Costs example earlier in the Glossary.
Materiality	This is a concept often used in accounts. It basically means 'big enough to worry about'. For example a £100 error in the petty cash may be very 'material' to a small group but 'immaterial' for a big national group. The basic test of materiality is - if the reader of the accounts would form a different opinion if they knew about it, then it is material. This may be due to the size or the type/nature of transaction.
Monetary Assets and Liabilities	Assets and liabilities that are cash or almost cash, such as bank balances.
Net current assets	This is a figure that appears in the balance sheet. It comprises the current assets less the current liabilities.
Not-for-Profit	A term used to describe companies which do not distribute their profits to shareholders but use them for social or community benefit.
Objects	A clause within the charity's governing document that outlines the purpose for the charity's existence. Charities cannot do work outside their objects.
Opportunity costs	These are costs associated with losing the opportunity to do something else with your time, e.g. instead of doing a particular activity, you could have done another – both may be different values. This type of cost is normally used in assessing projects and plans – it is not an accounting cost for external reporting.
Overheads	Otherwise known as central or core costs, overheads are the basic costs of running the organisation – typically office costs, salaries of core staff, rent etc. The line between overheads and project costs can be difficult to draw. However, when fundraising you should note whether funders allow overheads to be included in project costs, e.g. the running of a project will include 25% of a core member of staff's time. These may also be known as central costs and may be shared out among a number of projects or departments. Important in project costing/pricing and full cost recovery calculations.

Permanent endowment	An endowment that must be kept to generate income, but cannot itself be turned into income for the organisation.
Prepayments	An item that has been paid for before the end of the year, but which relates to the following year. For example, rent paid in advance, or an insurance premium that covers a number of months of the new year.
Projects	Charities often receive funding for projects, pieces of work that have specific outputs agreed with the funder(s). Core costs should be included in project budgets to ensure that that the full cost of running the project is shown and needs to be recovered.
Receipts and payments account (Basis)	A summary of the cash transactions of the charity. This simple form of accounts is often used by small charities. These are accounts prepared to show simply what money has been received and paid out through the bank and petty cash during the accounting period. This may be prepared by charities with total income below £100,000.
Related party transactions	Interaction between two parties, one of whom can exercise control or significant influence over the operating policies of the other.
Reserves	Each year income is received and expenditure incurred resulting in a surplus or deficit. Year-on-year, this builds up as a reserve, which can be: Restricted – money where the donor has specified what it must be spent on; General – uncommitted unrestricted reserves; Designated – unrestricted funds set aside by the trustees for a particular purpose.
Restricted fund	A fund where the donor has specified that the money should be used for a particular purpose. This money cannot be used in any other way, unless permission is obtained from the donor.
Revenue Expenditure	Money spent in the day to day running of the organisation, for example rent, wages or stationery, rather than on fixed assets.
Social accounting/ social auditing	The process of collecting, analysing and reporting both quantitative and qualitative information to provide an account of the performance of an organisation from a social perspective.
Statement of Recommended Practice (SORP)	The statement of recommended practice (SORP) for charities gives guidance on how items within charity accounts must be treated. See the Charity Commission website. Larger charities must follow the SORP. Smaller charities have different (easier) regulations to follow. Guidance includes content and format of annual accounts.
Statement of Assets and Liabilities (SOAL)	This is required for charities that prepare accounts on a receipts and payments basis. This is an accounting statement common in the accounts of smaller charities. It's basically a list of what you own (fixed assets, etc) and owe (creditors, etc).
Statement of financial activities (SOFA)	The SOFA summarises all incoming resources and shows income and expenditure under the headings required by the Statement of Recommended Practice (SORP). It must be prepared instead of a receipts and payments

FUNDED

	account for all charities with income over £100,000, or preparing accounts on an accruals basis.
Support Costs	Part of Direct Charitable Expenditure. These costs include the cost of management of projects from a central office, or a proportion of central office running costs, incurred in supporting the main work of the organisation.
Surplus	When more money has been received than spent by a group in a given period. The profit in many social enterprises is referred to as a surplus, to reflect their 'not-for-profit 'status.
Sustainability	This can refer both to the financial stability of an organisation and its ability to sustain itself over the long term, and to the adoption of environmental policies and practices which minimise the negative impact of the enterprise on the environment.
SWOT analysis	SWOT stands for Strengths, Weaknesses, Opportunities and Threats: this analysis helps you to identify both the positive aspects of the organisation's activities, and also the negative or more risky areas.
Total expenditure	The out-goings of the organisation for the financial year, excluding purchases of fixed assets and investments.
Triple bottom line	When an organisation attaches equal importance to social and environmental objectives and outcomes as to financial objectives.
Unrestricted funds	Funds held for the general purpose of the charity.
Variable costs	Costs that vary as you do more activity, e.g. the call charges detailed in a phone bill.

Your organisation name
Simple Petty Cash Book

Date	Description	Folio	Receipts	Payments	Balance
31.3.07	Balance b/f				79.99
5.4.07	Stationery	1		23.50	56.49
8.4.07	Postage	2		9.50	46.99
15.4.07	Volunteers expenses	3		14.90	32.09
26.4.07	New kettle	4		27.09	5.00
28.4.07	Cash from bank		95.00		100.00
7.5.07	Refreshments	5		7.40	92.60
15.5.07	Stationery	6		15.80	76.80
22.5.07	Staff travel expenses	7		24.57	52.23
29.5.07	Photocopying	8		18.00	34.23
4.6.07	Volunteers expenses	9		24.87	9.36
6.5.07	Cash from bank		90.64		100.00
	Balance c/f				

Your organisation name
Analysed Petty Cash Book

Date	Description	Folio	Total	Receipts		Payments							Balance
				Cash from bank		Stationery	Postage	Vol expenses	Staff travel	Equipment	Refresh	Printing	
31.3.07	Balance b/f												79.99
5.4.07	Stationery	1	23.50			23.50							56.49
8.4.07	Postage	2	9.50				9.50						46.99
15.4.07	Volunteers expenses	3	14.90					14.90					32.09
26.4.07	New kettle	4	27.09							27.09			5.00
28.4.07	Cash from bank		95.00	95.00									100.00
7.5.07	Refreshments	5	7.40								7.40		92.60
15.5.07	Stationery	6	15.80			15.80							76.80
22.5.07	Staff travel expenses	7	24.57						24.57				52.23
29.5.07	Photocopying	8	18.00									18.00	34.23
4.6.07	Volunteers expenses	9	24.87					24.87					9.36
6.5.07	Cash from bank		90.64	90.64									100.00
				185.64		39.30	9.50	39.77	24.57	27.09	7.40	18.00	

Your organisation name
Annual budget
April 2008 - March 2009

	Annual budget
Income	**£**
Grants	18,000
Fundraising	2,400
Donations	600
Interest	240
Total Income	**£21,240**
Expenditure	
Staff Costs	
Salaries	12,000
Travel Exp.	360
Training	300
Recruitment costs	1,000
Establishment Costs	
Rent	2,400
Administration	
Full Cost Recovery charge	2,400
Postage	200
Telephone	400
Printing inc. photocopier	1,200
IT purchases	500
IT Supplies	120
Refreshments	50
Room hire	150
Total Expenditure	**£21,080**
Surpus / Deficit	**£160**

Your organisation name
Actual against budget
April - June 2008

	Annual budget	3 month budget	Actual costs	Variance
Income	**£**		**£**	**£**
Grants	18,000	4,500	4500	0
Fundraising	2,400	600	800	200
Donations	600	150	150	0
Interest	240	60	60	0
Total Income	**£21,240**	**£5,310**	**£5,510**	**£200**
Expenditure				
Staff Costs				
Salaries	12,000	3,000	2970	-30
Travel Exp.	360	90	95	5
Training	300	75	100	25
Recruitment costs	1,000	250	0	-250
Establishment Costs				
Rent	2,400	600	600	0
Administration				
Full Cost Recovery charge	2,400	600	600	0
Postage	200	50	42	-8
Telephone	400	100	102	2
Printing inc. photocopier	1,200	300	540	240
IT purchases	500	125	0	-125
IT Supplies	120	30	30	0
Refreshments	50	13	9	-4
Room hire	150	38	45	8
Total Expenditure	**£21,080**	**£5,270**	**£5,133**	**-£137**
Surpus / Deficit	**£160**	**£40**	**£377**	**£337**

Your organisation name
Cash flow statement
April 2008 - March 2009

	M1	M2	M3	M4	M5	M6	M7	M8	M9	M10	M11	M12	Total
Balance b/f		**2,614**	**1,798**	**342**	**2,778**	**1,222**	**366**	**3,205**	**1,714**	**258**	**3,142**	**1,616**	
Income													
Grants	4,500			4,500			4,500			4,500			18,000
Fundraising		800				600			1,000				2,400
Donations	50	50	50	50	50	50	50	50	50	50	50	50	600
Interest	20	20	20	20	20	20	20	20	20	20	20	20	240
Total Income	**4,570**	**3,484**	**1,868**	**4,912**	**2,848**	**1,892**	**4,936**	**3,275**	**2,784**	**4,828**	**3,212**	**1,686**	**21,240**
Expenditure													
Staff Costs													
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
Travel Exp.	30	30	30	30	30	30	30	30	30	30	30	30	360
Training		100			65		75			60			300
Recruitment costs									1,000				1,000
Establishment Costs													
Rent	200	200	200	200	200	200	200	200	200	200	200	200	2,400
Administration													
Full Cost Recovery charge	200	200	200	200	200	200	200	200	200	200	200	200	2,400
Postage	16	16	16	24	16	16	16	16	16	16	16	16	200
Telephone	100			100			100			100			400
Printing	400	70	70	70	70	70	100	70	70	70	70	70	1,200
IT purchases				500									500
IT Supplies	10	10	10	10	10	10	10	10	10	10	10	10	120
Refreshments		10			10			10			20		50
Room hire		50			25			25			50		150
Total Expenditure	**1,956**	**1,686**	**1,526**	**2,134**	**1,626**	**1,526**	**1,731**	**1,561**	**2,526**	**1,686**	**1,596**	**1,526**	**21,080**
Surplus/Deficit for month	**2,614**	**1,798**	**342**	**2,778**	**1,222**	**366**	**3,205**	**1,714**	**258**	**3,142**	**1,616**	**160**	

Your organisation name

Bank reconciliation

			£p	Notes
Balance as per bank statement dated 31 May 2008		B	5,471.17	
Add:	Receipts banked but not yet on statement:			
Total of receipts banked but not yet on statement		R	-	
Less:	Cheques not yet on statement:			
Chq 1497	Leaflets		90.41	
Chq 1523	Volunteers expenses - Sue Knott		40.65	
Chq 1524	Travel expenses - C Smith		120.67	
Chq 1525	Petty cash		16.79	
Total of cheques not yet on the statement		C	268.52	
Adjust bank statement balance		B+R+C	5,202.65	Should be the same a total in box CB
Balance per cash book		CB	5,202.65	Should be the same as total in box B+R-C
Signed:			Date:	