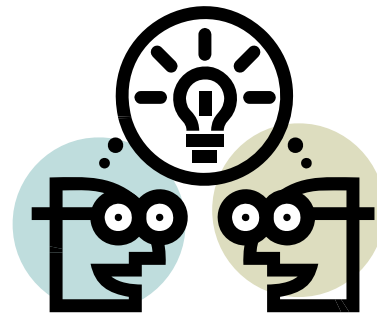
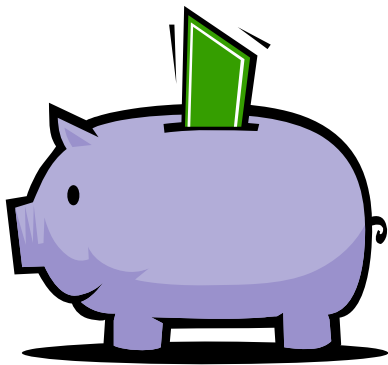


A Simple Guide To Book-Keeping

Suitable for
Charities, Groups and Clubs



Distributed by Voluntary Action Merthyr Tydfil

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Acknowledgements

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This guide has also been supported by the following:-



Cefnogwyd gan
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Glossary

Voucher – a useful term for any piece of paper which is evidence for what you are paying or receiving.

Restricted Funds – restricted funds arise when donations, grants etc. are specifically given towards a specific subject matter e.g. a football team's kit. The donations/grants can **only** be spent on football kits. Even after buying new kits, any money left over will have to stay in that fund. A restricted fund could also be set up by a donor making conditions as to the use of the asset at the time of donation. It is therefore very important to keep track of the exact status of the different funds.

Unrestricted Funds - funds are expendable at the discretion of the trustees, as there are no conditions on what they can do with the cash.

Use of Brackets () – in the presentation of Accounts, brackets are generally used instead of a minus sign.

Minuted – recording of minutes of meetings describing what was discussed and agreed during that meeting.

- **Introduction**

Allowing yourself to drift into paper chaos is understandable, but failure to organise your records will result in you being buried in a quagmire of bills, invoices and demands. All voluntary groups should keep accounts and in most cases all groups are required to do so by their constitution and the law. It is also good practice since accounts prove to funders, members and the general public that the organisation is well run.

This manual has been written to guide you through the necessary book-keeping issues that are required to comply with legal and other requirements and to ensure that your organisation and its finances are being managed well.

Please note that this manual is just a guideline and issues with reference to PAYE, Grants and VAT are only briefly mentioned and further advice will have to be taken if needed.

- **The Cash Book**

The first and most important record you need is for 'cash'. You need some way of keeping information about payments into and out of your bank account and you also need to keep records of any petty cash which you keep on the premises. The aim of your cash records should be to enable you to know at any moment how much cash you have in hand and in the bank.

All accounting work can be done with a simple, well laid out cash book and a file of supporting vouchers. It is advised that you purchase a cash book with a dozen or more columns to provide enough detail for analysis of major headings. You can put receipts and payments on facing pages which has the advantage of keeping all the transactions in full view. Traditionally receipts go on the left and payments on the right.

Two important principles are;

- 1) Make the layout of headings in the cash book as close to the headings on your financial income & expenditure account as possible.
- 2) Make sure that the figures you write in the cash book can be followed through, and ticked off, to the bank statements and to supporting vouchers.

In order to achieve these principles, we will start by explaining how the cashbook should be completed.

Cash book receipts (Income)

You should group receipts into logical areas e.g subscriptions, hall lettings, fund raising events, donations, cash for coffee and biscuits, rent received etc. This is important in order to identify where your income is coming from.

Below is an example of a *cash book receipts page*. The main headings for receipts analysis should be taken from last year's accounts and the organisation's main sources of income. The amount of detail across the page is a personal decision. (Please note that the sub dividing headings should be the same every year as far as possible.)

Receipts for the month of February 2004

					Membs	Use of	Fund		
Date	Descrip.	Ref.	Bank	Dons	Subs	Hall	Raising	Grants	Sundry
02.02.04	Mr Williams	0010	45.00			45.00			
20.02.04	Disco	0011	150.00				150.00		
25.02.04	BAVO	0012	1500.00					1500.00	

Explanations;

- Date - the date you receive the money
- Description - whom it is from
- Reference - to the supporting vouchers
- Bank – amount banked (this amount should also appear on the bank statement)

Always try to leave three columns for;

1. Notes and scribbles
2. Deposit Transfer
3. Sundry or miscellaneous

Cash book payments

Payments should also be analysed to identify your expenditure. Again the main headings should be taken from last year's accounts and the organisation's main sources of expenditure.

Below is an example of the *cash book payments page*;

Payments for the month of February 2004

						Repairs &	Light &	Rates &	
Date	Payee	Cheq. no	Ref.	Bank	Equip	Renewals	Heat	Insurance	Sundry
05.02.04	Swalec	100409	0110	21.00			21.00		
10.02.04	lights	100410	0111	39.99	39.99				
29.02.04	Council	DD	0112	45.00				45.00	

Explanations;

- Date - the date of the cheque/DD
- Payee - whom it is to
- Reference - to the supporting vouchers
- Cheque No – taken from the cheque book (or mark 'DD' if Direct Debit payment)
- Bank – amount spent (should be the value on the bank statement.)

Again always try to leave three columns for;

1. Notes and scribbles
2. Deposit Transfer
3. Sundry or miscellaneous

▪ Petty Cash Book

A petty cash system is useful when someone needs to spend small amounts regularly. The way you run a petty cash system is similar to the cash book; however you strictly only deal with cash transactions. (i.e. it does not include automated bank receipts (bacs), cheques, or direct debits). It is important that you write a voucher or piece of paper each time you use petty cash, and file vouchers in a separate petty cash file. If you get a receipt for the money you spend, staple this to the back of the voucher. Vouchers should be signed by an appropriate responsible person with the authority to do so, to indicate that they have authorised that expenditure. A suitable float should be kept to cover a month's expenses (say £50-£100.) The float should be kept in a locked box and only accessed by an authorised person.

Below is an example of how a petty cash book may be set up;

Cash receipts

Date received	Description	Reference	Amount £	Paid into bank £
01.02.04	Cash b/f		25.00	
18.02.04	Float	Frombank	50.00	

Cash payments

Date paid	Payee	Reference	Amount £	Wages £	Cleaning £
19.02.04	S.Rogers	Week 48	40.00	40.00	
28.02.04	GoClean	00210	20.00		20.00

At the end of each month you should calculate the actual amount of cash you have in hand, and reconcile the petty cash book. For example, the above petty cash book would indicate that at the end of February the amount of cash in hand should be £15.00. This is worked out as follows;

	£
Total cash received	75.00
Total cash payments	<u>(60.00)</u>
Cash in Hand	<u>15.00</u>

It is good practice to bank all cash income immediately and to extract money from the bank as your petty cash float (as above). However in reality this may be difficult as you may pay large amounts of cash out e.g. as wages & therefore it is very important that you keep a record of all your cash transactions. For example, if you receive £100.00 from donations but only bank £50.00 your cash book will look as follows:

Cash receipts

Date received	Description	Reference	Amount £	Paid into bank £
01.02.04	Cash b/f		25.00	
18.02.04	Donations		100.00	50.00

Your cash payments should then show what the remaining £50.00 has been spent on.

- **Bank reconciliation**

Each month, when you receive your bank statement, a bank reconciliation should be prepared in order to;

- Pick up errors/mistakes
- Make sure money paid in has actually been credited to the account
- Identify cheques not yet presented.
- Check the balance in hand after everything has gone through

A Bank reconciliation is basically a calculation of ‘how much is there really in the bank?’ Starting from the cash book, mark off each item on the bank statement. Make a note of any differences or omissions and investigate them against the cheque book, paying-in-slip and supporting vouchers: it may simply be a written error on the cash book or possibly a mistake by the bank. Where there is an entry on the bank statement that you recognise and agree but is not entered in the cash book, write it up using the date given on the bank statement. (These are likely to be standing orders and direct debits). You should then total up your receipts and payments for the month on the cashbook and work out the balance in hand or overdrawn.

An example of how to do this is shown below;

Feb 2004													
<u>Receipts</u>						<u>Payments</u>							
Date	Desc	Ref	Bank	Hall Lettings	Grants	Date	Payee	Cheq no	Ref.	Bank	Heat & Light	Wage	Repairs
02.02	Thomas	0009	55.00	55.00		01.02.04	Swalec	-	DD	16.95	16.95		
10.02	P.Ltd	0010	2,000.00		2,000.00	10.02.04	Hopper	100410	Wage	145.00		145.00	
25.02	Williams	0011	55.00	55.00		10.02.04	Davies	100411	Wage	198.33		198.33	
28.02	Jones	0012	250.00	250.00		10.02.04	Long	100412	Wage	89.95		89.95	
						25.02.04	Hammer	100413	0021	617.54			617.54
			2,360.00	360.00	2,000.00					1,067.77	16.95	433.28	617.54
Total Receipts		2360.00											
Total Payments		-1067.77		Bal c/f	1292.23								

When the cash book is up to date for everything you recognise, you can prepare the formal bank reconciliation which should be carried out as follows:

LX Jay Current a/c:135289
Bank reconciliation at 28.02.04

Balance per bank at 28.02.04 £1659.77

(List all the items where cash has been paid in but the bank does not show them on the statement)

Add: Banking not yet credited, Pd in 28.02.04 £250.00

(Then List all the cheques which you have marked in the cash book because they have not yet appeared on a statement – these should be marked O/S - for outstanding)

Less: Cheques not yet presented

100413	25.02.04	<u>617.54</u>	<u>(617.54)</u>
			1292.23***

***This figure should be the same as the figure you worked out in your cash book at the end of the month after deducting the payments from the receipts.

After you have completed your bank reconciliation the first entry in the cash book for the next month should be the balance brought forward. If there is a cash balance at the bank it will be brought forward on the receipts page. If the balance is overdrawn it will be brought forward on the payments page. (In the example above the balance would be brought forward on the receipts page).

As Roderick Boucher says “Cash books are like string, leave them to their own devices and they get tangled up”. Depending on the number of entries, consider ruling off the cash book monthly or quarterly. Check that the totals of all the columns to the right of ‘bank’ add up to the same figures that the bank column does (as they do in the example above).

There is nothing in the cash book design above that cannot be done on a spreadsheet if you prefer to use computers.

(NB. It is also important that you set up a permanent file that includes a list of all the bank accounts, bank mandates and signatories.)

▪ **Supporting records**

All of your payments and receipts should have a 'voucher' of some sort to support them. In order to achieve this, the most important starting point is to have a **filing system**. It is recommended that lever arch files and dividers are used and the following sections have been found to be convenient:

5. Invoices not yet paid
6. Bank reconciliations
7. Bank statements
8. Bank correspondence
9. Other correspondence
10. Receipt vouchers
11. Payment or expense vouchers
12. Bank authorities for standing orders and Direct Debits
13. Bank mandate
14. Other/Wages

It is usually easier to file old to bottom and new to top. It is important that all receipts are filed as soon as possible. Also write the date paid and the cheque number on the vouchers to avoid paying twice. When you enter them in the cash book, allocate the reference and write it clearly on the voucher. ('Reference' meaning that all documentation should be kept in numbered order, for example your first expense voucher for the year could be number '0001' the second voucher '0002' and so on. The same should be done for all your income supporting vouchers.

Flimsy receipts should be stuck to an A4 piece of paper to avoid walk abouts! Several scraps of paper that make up evidence of payment should be summarised at the time they are paid and attached in order of the summary.

If there is no receipt, write a note explaining why.

▪ Controls

Controls are about having an approach to safeguarding money and possessions. Control awareness leads to ways of organising so that errors are picked up promptly and opportunities for fraud are severely limited. Good controls protect individuals from the possibility of wrongdoing. Just as important, they also protect the individual from accusation of wrongdoing.

Therefore, we will briefly discuss which aspects within the organisation need controls and how you should go about them;

▪ Income Controls

Income is by far the biggest problem. For each type of income it is important that you find out;

1. How the money arrives
2. Who receives it
3. Who records what is received
4. How we would know if we did not get the money

Here are just a few examples of how different types of income can be controlled;

Collections/donations

There must always be more than one person involved wherever cash is being handled. When counting collections or donations, the result should be recorded and minuted. Refuse to do the job alone and make sure no one else does either.

Hall Lettings

Split the job between one person handling the bookings and the other handling the money. A diary should be kept showing who has used the hall. Keep a duplicate receipt book and enter full details for every user. It is important that a third person makes a periodic inspection of the diary to confirm that the money you are receiving looks right. If the income is regular, use printed and numbered booking forms. Print the normal letting prices and put any special deals in writing. For users that have the same slot every week, think about asking for payments by cheque or standing order.

Subscriptions

When collecting subscriptions it is again important to split the job. One person collecting and counting and the other entering the amounts in the cashbook. In order to determine whether the correct amounts have been collected, you should set up a membership book with the details of each member (name and membership number) and the amount received from each individual. This record should be kept by someone other than the person collecting the cash.

Banking and custody procedures

Cheques received by post should be recorded in a post book alongside details of the sender. All incoming receipts must be recorded immediately and should be banked at least on a weekly basis. All incoming receipts should be stored prior to banking in a locked draw (two responsible authorised persons should hold the keys). The amount of cash held on the premises should never exceed £100.

- **Expense controls**

It is important that all expenditure is agreed and authorised before payment is made; this includes wage rates etc. The first person the organisation needs to worry about is the person involved with holding the organisation's cheques and the ability to write them out and sign them. That also includes the person with the ability to instruct the bank. In order to avoid accusations it is important that cheques are signed by two people. The second signature makes it hard for the treasurer to pay his/her own personal bills out of the organisation's funds. Kind second signatories who sign blank cheques to make the treasurer's life easier should be avoided.

▪ **Fixed Assets**

It is important that the organisation is aware of all the fixed assets that it owns. A fixed asset is usually something held to be used in the longer term (land, buildings, computers, cars etc). ‘Fixed’ implies that it is bought to be used rather than for resale or an expense.

A fixed asset register should be kept to show what assets are owned by the organisation, where they can be found and how much they are worth. Each asset should have supporting documents; for example a building should have evidence of ownership, a car should have a ‘log book’, and equipment such as a computer should have a receipt. For any items that have been donated e.g. a TV, then the cost/value should be estimated.

An example of a Fixed Asset register is shown below;

Fixed Asset Register for LX Jay						
Date		Area	Cost	Ref.	Date	Proceeds
	Land & Buildings				Disposed	
01.01.99	Community centre building	18 CleveRd	50,000.00	Property		
				File		
	Motor Vehicles					
05.04.01	Renault Clio Y239 VUM	Sarah	6,000.00	0098	30.05.03	1,500.00
	Office Equipment					
20.06.02	IBM Computer	Main Office	550.00	0150		
21.08.03	Compaq Laptop	2nd Office	350.00	0205		
	Fixtures & Fittings					
01.06.02	Desks & Chairs	Main Office	250.00	0104		

Explanations;

- Date – Date asset was purchased
- Area – Where the asset can be found
- Cost – The cost to buy the asset (estimated if donated)
- Reference – Where supporting documents can be found
- Date Disposed – When the asset was sold or scrapped
- Proceeds – The selling proceeds of the asset (if any) when disposed

The list of fixed assets should be updated annually. The annual check should ensure that the assets are in good repair and that sufficient insurance cover is held.

Any purchase of a fixed asset should have at least three quotations of cost where available to ensure that that the best value for money has been obtained.

▪ **Employment**

Once you start employing people, your employee records need to be meticulously kept. You have certain legal duties towards your employees; these include giving an itemised pay statement and deducting tax and national insurance contributions from salaries and wages. Proper records need to be kept and the Inland Revenue will send you forms to complete.

You must keep the following information for all employees;

- A. Name and address
- B. National insurance number
- C. PAYE reference number
- D. Pay
- E. Other deductions authorised by the employee

The actual wages records need to show the payments made which include;

- A. Gross wage
- B. Total pay this period
- C. Tax free pay to date (see tables from Inland Revenue)
- D. Tax paid to date
- E. Tax due on earnings for this period
- F. Employee national insurance contributions this period
- G. Other deductions
- H. Net pay
- I. Employer's national insurance contributions.

This information also needs to be set out on an employee's pay slip. You also need to keep records on Statutory Sick Pay and Statutory Maternity/Paternity Pay and to keep records to show that you are meeting the requirements on the national minimum wage.

Please be aware that there are a number of penalties that may be imposed on yourself if you do not meet Inland Revenue requirements. For further information on employing people, here are some useful contacts that will help you get started and answer any queries;

- New Employers 0845 60 70 143
- Experienced employers 0845 7 143 143
- Inland Revenue employers website: www.inlandrevenue.gov.uk/employers
- The Inland Revenue also offer a business support team who can arrange one-to-one visits at your organisation's address to sort out your payroll needs: this can be arranged by calling the new employer's helpline above.

- **Grants/Funds**

Monies received as grants MUST be recorded and dealt with accordingly. It is very important that, when grants are received, they are recorded in the cash book detailing whom they are from, and a separate file should be set up to include the details of applications, objectives, conditions and rules. It is even more important to record exactly what has been spent from that grant. Time limits must be observed because if you do not spend the grant within a specific time it is more likely that the remaining grant will have to be repaid.

It is also important to specify what funds are restricted or unrestricted in their use. All funds under the control of the trustees must be identified and information must be obtained to say that they have been correctly accounted for and applied.

- **VAT**

Many charities, groups & clubs will suffer irrecoverable VAT either because they are not VAT registered or have a mixture of activities which are zero and standard rated, exempt and outside the scope of VAT.

There is no universal VAT relief for charities. A charity is generally treated like any other person or business within the VAT system. VAT is designed to be a tax on consumption. It works by VAT registered persons charging VAT to their customers, and recovering VAT that their suppliers have charged them. A VAT registered person can only recover VAT which is a cost of their business. VAT relating to non-business activity is non-recoverable.

If the total of the organisation's income exceeds the annual registration threshold (currently £58,000 per year) then the charity may potentially have to register for VAT if it has not already done so. There is a number of issues that have to be looked at in more detail when you become VAT registered, for example grant funded activities and donations are generally treated as outside the scope of VAT. Therefore further advice should be taken if you are thinking about becoming VAT registered.

If you are VAT registered it is very important that you record your input and output VAT on your cash book. You can do this by adding another column. The bank column will show the gross amount, whereas the analysis will show only the net amount and the VAT column will show the amount of VAT claimed or charged.

For example your cash book will look as follows;

<u>February</u>													
<u>Receipts</u>						<u>Payments</u>							
Date	Desc	Ref	Bank	Output Vat	Hall Lettings	Date	Payee	Cheq no	Ref	Bank	Input vat	Heat & Light	Repairs
02.02.04	Thomas	0009	55.00	8.19	46.81	01.02.04	Swalec MC	100409	0020	16.95	2.52	14.43	
25.02.04	Williams	0011	55.00	8.19	46.81	25.02.04	Hammer	100413	0021	617.54	91.97		525.57
30.02.04	Jones	0012	250.00	37.23	212.77								
			360.00	53.61	306.39					634.49	94.49	14.43	525.57

Further Reading

- Boucher, R, *The Hon.Treasurer* (Right Way,1994)
- Charity Commission for England and Wales publications, including Statement of Recommended Practice (SORP).

Information for the above publications can be found at;

www.charity-commission.gov.uk

Or

Telephone: 0870 333 0123