



Community & Voluntary Service

Mid and North Bedfordshire

A Brief Guide to Keeping Accounts and Book-Keeping

For a voluntary organisation a set of accounts normally consists of the following:

1. An Income and Expenditure Account
2. A Balance Sheet
3. Notes to the Accounts

In addition a charity may have an additional document called a "*statement of financial activities*" or SOFA. This is broadly similar to an income and expenditure account with last year's reserve funds added to this year's surplus or deficit.

1: Income and expenditure account

This shows the operating position of the organisation in the year. It shows all income due (whether or not it has been received) and all expenses incurred (whether or not they have actually been paid).

In other words it reflects the transactions relating to that period not just to amounts physically paid and received.

2: Balance sheet

This shows the net worth of the organisation at a specific point in time, normally the year-end. The balance sheet shows:

Fixed assets

These are items that the organisation physically owns, e.g. minibus, computers, etc. These are shown at net book value that is the cost less an amount written against income each year to reflect the use of the asset.

Other assets

- ***Current assets*** - are amounts in the organisation's favour that are easily convertible into cash, e.g. a fee that is due to you

- **Debtors** - are amounts owed to the organisation, e.g. an outstanding installment of a grant
- **Accrued income** - occurs where monies are accumulating and will be due to you on a certain date after the period end, e.g. bank interest. It is an accounting estimate of the amount relating to the financial period
- **Prepayments** - are amounts paid in advance, e.g. insurance premiums.

Liabilities

These are classified into current and long-term liabilities.

- **Current liabilities** - are due within the next year
- **Liabilities** - are amounts you owe or amounts that belong to a future period, e.g. bank overdrafts, loans and hire purchase agreements
- **Creditors** - are people to whom the organisation owe money
- **Deferred income** - is income that belongs to a future accounting period, e.g. a grant received in advance
- **Accruals** - are estimates of amounts owed where the bill has not yet been raised. The organisation should always aim to have current assets greater than current liabilities, i.e. in simple terms:
 - Money due in + cash balances is more than money due out
- **Reserves** - are unspent funds and are made up of cash, fixed assets and other net assets (amounts owed to organisation less amounts owed by organisation). The reserves figure should (hopefully) always be a positive figure. A negative figure would suggest the organisation has overspent or over-committed itself and you should seek further advice from your accountant

3: Book-keeping

What records do I need?

The best point to start at is to set up a "cash book". You don't need an expensive hardback book. Paper with columns or a spreadsheet will do.

What is a cashbook?

At its simplest this is a record of cash coming in on one side and cash going out on the other. For example:

- *Cheques and petty cash*

Most people keep a separate record for cheque transactions and one for loose cash (petty cash). This makes it easier to check the bank statement. A similar record can be kept for payments.

Do I keep my receipts?

Yes. It is very important to keep any remittance advices/letters that are sent with your incoming cheques. You should also keep a copy of any receipt or invoice that you issue to anyone, e.g. to acknowledge a donation. When you purchase something you should be given a receipt or invoice. If you are not using a ledger system it will probably be easiest to keep these in date or cheque number order. You may wish to give each one your own reference number and write this

number beside the payment in the cashbook. Keep your system tidy and simple, as others may need to use it if you are away:

- **Petty cash vouchers** - Petty cash vouchers purchased from a stationery shop can be attached to small till receipts. These have a space to add details and also for your treasurer/manager to approve the payment. Number these in the space provided and reference it to your petty cash book
- **Bank statements** - These should be kept safely and checked to your cashbook records as they arrive. You can add to your cashbook if you find something on the statement that is not in your records, e.g. bank interest or a direct debit that you have missed. If there are any unexpected items on the statement you can then query them. You may have written out some cheques that have not yet cleared the bank. Remember to follow these through the next month. If cheques do not clear after six months you can cancel them in your records.

4: Further help

CVS – Mid & North Beds,

43 Bromham Road, Bedford, MK40 2AA.

Tel: 01234 354366. Fax: 01234 347503.

Email: info@cvsmidandnorthbeds.org.uk.

Website: www.cvsmidandnorthbeds.org.uk

Reg. Charity No. 1091423; Company Limited by Guarantee No. 4312967

Reference Books:

- **The Charity Treasurer's Handbook** – by Gareth G Morgan – Directory of Social Change – www.dsc.org.uk - £9.95
- **A Practical Guide to Charity Accounting** – edited by Kate Sayer – www.dsc.org.uk - £18.95
- **A Practical Guide to Financial Management – For Charities & Voluntary Organisations** – by Kate Sayer - www.dsc.org.uk - £18.95

CVS – Mid & North Beds have some of the aforementioned books in our reference library & these can be loaned to CVS members

See Other Related CVS – Mid & North Beds Information Sheets:

- **How to Develop Budgets and Cashflow Forecasts**
- **How to Look After Your Groups Money**
- **Charities & VAT**

This is one in a series of fact sheets produced by CVS – Mid & North Beds, on subjects of interest to voluntary and community groups. It is intended for guidance only and is not a comprehensive statement of the law.