

Section 4 Finance

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Checklist

Step 1 Keep records and evidence

We have:	Yes or No?	Actions we need to take	Completed on date
A Cash/Account book – a paper copy or an electronic version (e.g. Excel spreadsheet)			
A ring binder or file with our receipts, bank statements and other paperwork			

Step 2 Create financial tools

We have:	Yes or No?	Actions we need to take	Completed on date
A budget			
A cashflow forecast			
Completed a bank reconciliation			
IT Data back up systems			
Financial controls			
Reporting according to our organisational structure			

Step 3 Know what else exists and where to get help

We have:	Yes or No?	Actions we need to take	Completed on date
We know where we can find help if we want to grow, and what a Profit and Loss account is.			

Step 1 Keep records and evidence

Most of us need to deal with money to run our groups and projects. Some groups find this a worry, others a chore. Others ignore finances until a crisis happens.

The benefits of organising your finances include:

- ✓ **Peace of mind** - you know that you can afford to run the project properly without running out of money. You have the information to take decisions, so can cut back on wasteful activities and fund successful ones.
- ✓ **Ability to budget** - your activities can be flexible because you know how much money you have overall. You can even keep some reserves in case something unexpected happens (e.g. boiler repair, rise in insurances). You also know how long you have to pay your bills/taxes to avoid fines.
- ✓ **Ability to apply for funding** - few funders will consider you without a set of accounts or projections (future predictions based on trends).
- ✓ **Legal obligations** - you can meet your legal obligations and become **financially compliant**.
- ✓ **Financial control** - helps your committee to be in proper financial control of the organisation.

Keeping Records

You need to record all your **transactions** (exchanges of money):

- Receipts (income) - money coming in
- Payments (expenditure) - money going out

Before you write things down in your records, make sure you keep paperwork to prove that the transactions took place. This means you must keep all your original receipts (income) and invoices (expenditure) for any income you receive or costs you incur in order to run the group and/or the project.

How and where do I keep my records?

Cash Account Book

■ Hard (Paper) copy

This is a plain paper book with columns to record your transactions (cheques, petty cash, transfers etc). The figures are added up as you go along and at the end of the year. This process is called bookkeeping.

■ Electronic Cash Account Book (e.g. Excel spreadsheet)

This is an electronic document in the form of a grid. It allows you to create columns to record your transactions (cheques, petty cash, transfers). It will calculate totals and you can add, change and move items easily. We have created some templates in an Excel spreadsheet, ask any of the support organisations on page 54 for a copy.

Some charities use accounting software (electronic systems that calculate accounts and give you reports). It is worth asking these charities what they use, how much time and effort it saves in proportion to the money you spent on it (**cost-effectiveness**) and if they can demonstrate it to you.

Receipt Book

Use this as a method of giving receipts and keep the duplicates so you have a record of cash or cheques received (money in) or deposits for anything.

Ring binders and Electronic Files

- ✓ Keep your receipts (income) and receipts for payments (expenditure) in separate ring binder files to avoid confusion.
- ✓ Divide your ring binders into months. Use dividers (and if you wish, clear polythene pockets) to keep your invoices, receipts, bank statements and any notes for that month separate and to hand.
- ✓ For electronic files, use folders and sub-folders to keep your information where you can easily find it again.

More information

When recording information, it is important to separate:

- **Restricted Funding** - grants or contracts that are given or intended for a special purpose
- **Unrestricted Funding** - donations that can be spent on the area of greatest need

Be careful when explaining your level of reserves (cash in the bank) - if it covers over 3 months running costs, a funder may give money to a group that they think needs the money more.

Step 2 Create financial tools

Here are the different tools that you can use. They will all add up to making you **financially compliant** and 'funding ready':

Tick the boxes when you have these in place.

A Budget

A budget is a **financial plan**. Here are the key features:

- ✓ The budget is usually produced for a defined period of time, for example 12 months.
- ✓ It lists the predicted income and expenditure that your group or project will either receive or pay out over the stated period of time. The budget should be detailed enough to show all of the costs associated with a project or running of the group, page 40.
- ✓ You use it to check whether your project is viable - will it stand on its own two feet?
- ✓ You know how much money you have to spend, so you can try and keep to that budget and not overspend.

Actual Income and Expenditure

This is a summary of your actual income (money in) and actual expenditure (money out) on a month by month basis. You compare this to your budget/your original plan to see and learn from the difference.

Bank Reconciliation

This is one of the most basic and important of your financial checks. You check that the bank balance on your bank statements can be **reconciled** (is the same as) the bank balance in your Cash/Account book.

Cashflow Forecast

Your cashflow forecast shows the predicted timing of your income and expenditure.

Are there any months when you will go close to £0 or into minus figures?

What plans will you put in place to either:

- a) not start the project, so you do not get into this situation?
- b) solve the problem if the unexpected happens?

Predicting and managing your cashflow is **essential**. You may have enough budget overall - but if you receive a grant late or have a customer that has not paid their bill you may not be able to pay your suppliers or staff.

IT Data Back up systems

If you are using electronic book keeping systems, you will need to have a back up procedure in case you lose your data. A memory stick or Internet storage may be suitable but check what is best for your group or organisation.

Financial controls

Simple rules - procedures about how you sign off expenditure, how you bank your money received, how you distribute your petty cash etc. For example, what is the maximum amount a member of staff can claim for monthly travel expenses?

Reporting

See who you need to report to each year. This will depend on your size and set-up. Check your structure, page 14, then check requirements with your Regulator(s):

- [Charity Commission](#) - Charity Reporting and Accounting: The essentials
- [Companies House](#) - Annual Requirement
- [CIC Regulator](#) - Statutory Guidance

It is important to submit your reports on time, otherwise you may be fined.

For further help with any of this section, contact your local support organisation, page 54.



Step 3 Know what else exists and where to get help

Where can I get help if I want to grow?

- If you want to build on the steps you have taken so far, you may wish to use the [Firm Foundations Toolkit](#). Look at the website and contact the Development Worker at WVSC for more information, page 54.
- WVSC also employs a Capacity Builder (Finance) who provides free support and advice to voluntary and community organisations within Wolverhampton.
- If you need to have your accounts prepared, choose someone who has experience of charity and enterprise accounts.
- If you have employees, it is only cost-effective to run your payroll with 5 people or less. If you have over 5 people, you can pay others to run this service for you. Some support organisations have these services, page 54.

What else exists?

Here is an overview of other types of financial reports you may produce if you are a medium/large organisation:

A: Profit and Loss Account

Contains information on your organisation's trading performance over a set time period, usually a year. It uses your total income and expenditure figures to give you a net profit (or surplus) figure - the amount of profit or loss after deducting tax. You then help locate the reasons why, so you learn for future years.

B: Balance Sheet

A Balance Sheet is an historic document and a snapshot of your complete financial situation - assessing your assets and your net worth - by taking certain financial criteria into account.

C: Notes to the Accounts

These are additional pieces of information that help to explain specific items as well as to provide more detailed information. These can be used to explain anything unusual, different or not obvious from the Accounts.

Useful Information

Charity Commission	Charity Reporting and Accounting: The Essentials Registers and regulates charities. Lists all registered charities.	www.charity-commission.gov.uk/Publications/cc15b.aspx
Companies House	Annual requirement for registering your organisation as a company.	www.companieshouse.gov.uk/about/pdf/gp2.pdf
CIC Regulator	Statutory Guidance Regulates all Community Interest Companies.	www.bis.gov.uk/cicregulator/guidance/chapter-8
Department for Business, Innovation and Skills	Various pieces of guidance relating to companies and social enterprise.	www.gov.uk/government/organisations/department-for-business-innovation-skills
HM Revenue and Customs (HMRC)	Tax guidance for individuals and charities.	www.hmrc.gov.uk/charities/tax/
WVSC	Firm Foundations Toolkit Similar function to this Guide but for medium/large scale organisations	www.wolverhamptonvsc.org.uk/content/firm-foundations-vcs-good-practice-toolkit

Finance Examples

These are examples, so you can see what they look like and do your own paper copies if you wish.

There is a separate document that may help - an electronic Excel spreadsheet. To receive a copy, contact your local support organisation, page 54.

Project Budget Fun Day - Fundraiser

Income - Money In	Breakdown of figures	£	
Entrance charge	50p x 150 people	£75	
Teas and coffees	50p x 100 people	£50	
Stalls	£10 x 30 stalls	£300	
Other Donations	?	£50	This guess is based on last year's figure
TOTAL Income		£475	This total is £75 + £50 + £300 + £50
Expenditure - Money Out	Breakdown of figures	£	
Volunteer expenses	£4 bus fare x 5 volunteers	£20	
Bouncy Castle		£150	
Tea and Coffee	20p x 100 servings	£20	
Insurance		£20	
Safety Signs		£15	
TOTAL Expenditure		£225	This is £20 + £150 + £20 + £20 + £15
TOTAL Profit/Surplus		+£250	This is the TOTAL income minus the TOTAL expenditure: £475 - £225 = £250 We will make a small profit

Cash Account Book

Our Group - July 2013

Income				
Date	Invoice No.	Name	Item / Service Provided	Amount
19.07.13	001		Fun Day income	£475
22.07.13	002	Co-op	Donation from Supermarket ***	£50
TOTAL				£525
Expenditure				
Date	Invoice/Receipt No.	Name	Item / Service	Amount
05.07.13		Mr Safe	Safety Signs	£15
05.07.13		Insurance 4 you	Event Insurance	£20
06.07.13		Nisa	Milk Tea Coffee	£20
19.07.13			Bouncy Castle	£150
20.07.13			Volunteer expenses - Derek	£4
20.07.13			Volunteer expenses - Sharon	£4
TOTAL				£205
Summary				
Total Income		£525	From above	
Total Expenses		£205	From above	
Cash Surplus/Deficit		£320	Income minus expenses = 525 - 205	
Opening bank balance at start of period			The money you started with at the beginning of the month (check your bank statement/records)	
Closing balance for the period		£0.00	Money remaining - Bank balance minus cash surplus/deficit	