



8.0 Managing Money

Basic Bookkeeping

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Introduction

All organisations must keep records of their financial transactions and these records may be open to scrutiny by the **Charity Commission** (where the organisation is a registered charity) and/or **HMRC**.

It is important that all documentation is kept securely and retained for the required period of time. This is usually 6 years plus the current year, but there are some exceptions to this.



Image: Person doing their accounts



External Link

More information on recording and retaining of records is available on the HMRC website:

[HMRC website](#)

Although bookkeeping may be delegated to a volunteer, paid worker, or even an accounting firm, the trustees retain overall responsibility for the accuracy and effectiveness of the records. At the end of each accounting year the information in the bookkeeping will be used to compile the accounts and it is the trustees that must approve the accounts. It is vital the trustees are confident the information within the accounts is reliable and correct.

During the year the trustees will therefore need to review the bookkeeping information by receiving regular monitoring reports on income and expenditure and on the value of assets ([money, buildings, vehicles etc.](#)) and liabilities ([bills unpaid or not yet received, loans etc.](#)).

Before you set up your bookkeeping records you need to be very clear about what your charity objects are. Make sure you have a copy of the governing document ([for example, constitution, Memorandum and Articles, trust deed etc.](#)). It is a legal requirement that you always act within the objects. [For example, if the objects state you will operate within Wales, you must not fund activities in England, even if your organisation is on the border of both countries.](#)

Likewise, if your objects say you will only work with children you must not work with adults. To do so would mean your trustees were in “[breach of trust](#)” and potentially ([although this rarely happens](#)) they could have to personally repay any funds spent outside the objects.

What Records Do You Need?

You can keep your bookkeeping records manually by using accounting books (sometimes called **analysis books**), or in Excel, or you can purchase a software package such as QuickBooks, Sage, Xero etc.

Whichever system you choose it is important to ensure that more than one person is trained to use it. Otherwise, if the person becomes long-term sick or leaves unexpectedly, the organisation could be in real difficulties.



Remember

Your records need to separately record transactions for each bank account that you hold (and any floats or petty cash) so that you can monitor what is spent and what is received.

You will need to separately record any income/receipts and any expenditure/payments. Make sure you record the date of the transaction, what the transaction was, and keep a file of the documents to prove the transaction occurred. Some people like to file documents by type (e.g. **all utility bills together, all payroll documents together etc.**) and others file by date order.

Whichever filing system you use; make sure you put a reference number on the document and record it in your bookkeeping record. This will make it easier for the independent examiner or auditor to check your work at the end of the financial year and is also useful if you want to locate the file later, for any reason, yourself.

At the end of the month you should reconcile your records against the bank statement(s). If you are using manual books you can use the format below to help you reconcile your accounts. Check each entry in your book against the statement and identify the uncleared items (**cheques you have paid out/received but are not appearing as yet on the bank statement**). Then complete the box below.

Uncleared Income		Uncleared Expenditure	
Detail	£	Detail/Cheque No.	£
Total (E)		Total (F)	

		Book	Bank
A	B/F Balance		
B	Income		
C	Expenditure		
D	Bank Balance		
E	Uncleared Income		
F	Uncleared Expenditure		
Net Funds		A+B-C	D+E-F

If you have done things correctly the net funds in each column should be the same.

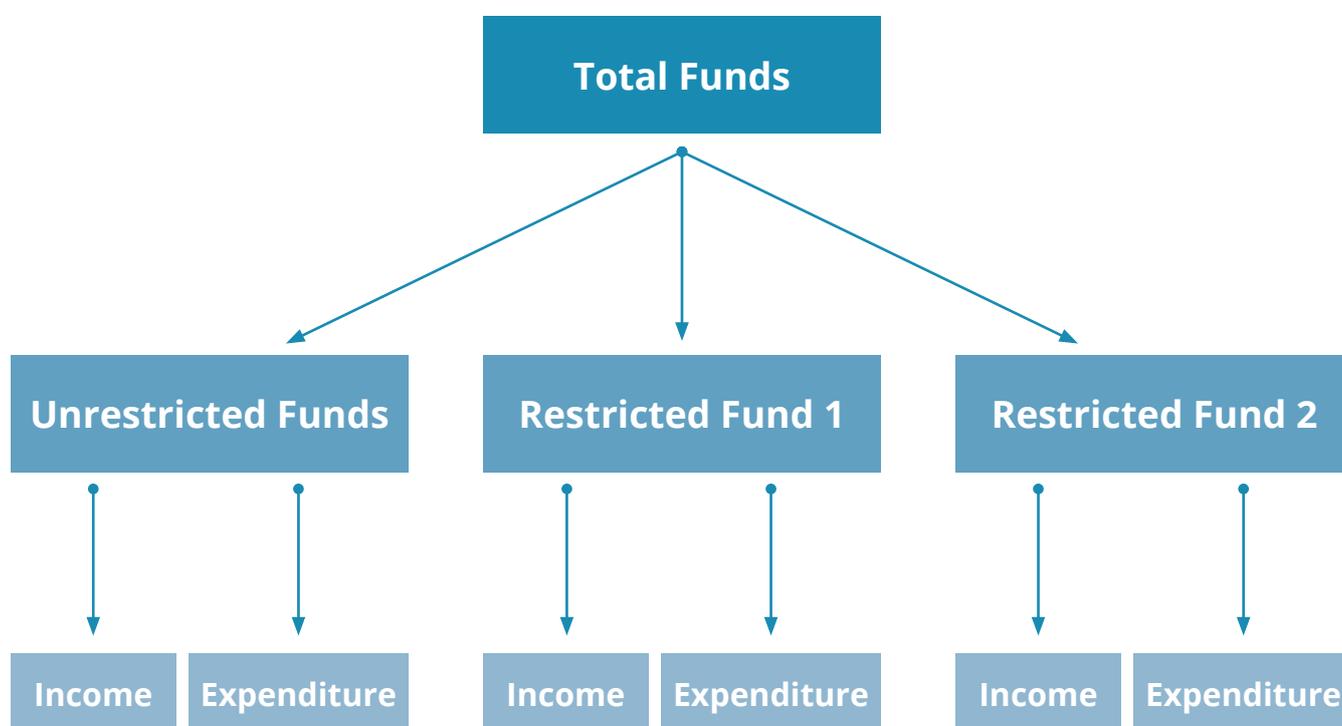
Restricted and Unrestricted Funds

Restricted money is money appealed for, or received, for specific purposes. This means it has to be used for that purpose. [For example, an appeal may say “we are raising money for new chairs”](#). This money would have to be used for new chairs and cannot be spent on something else. If you have restricted money; it is best to monitor each pot of restricted money separately.



Remember

Remember that, under charity legislation, it is illegal to use restricted money for the wrong purpose!



Funds donated to your organisation are not legally yours until used in accordance with the restriction imposed. If unused; the funds may have to be returned to the donor.

Funds that have no restrictions are called “[Unrestricted](#)” and can be used for any purposes within the objects of your charity. Any unrestricted funds that are not used in the year may be kept, as reserves, to cover unplanned needs [e.g. emergency repairs or a shortfall due to lower donations than expected](#).

For example:

Date	Ref	Amount	Utilities	Activities	Travel	Postage	Other	Total
05/06/XX	45	20.00	0	0	0	20.00	0	20.00
12/06/XX	46	218.20	218.20	0	0	0	0	218.20
23/06/XX	47	156.50	0	156.50	0	0	0	156.50
Month Totals		394.70	218.20	156.50	0	20.00	0	394.70

In software packages the system will require you to set up the headings you want (e.g. [Chart of accounts](#), [nominal codes](#) etc). The same principles apply in terms of headings but with software packages you won't need to add figures up yourself and reports can be automatically generated by the system.

If the trustees have agreed to specific people holding petty cash, or floats, then they must keep a record of every transaction and provide you with the paperwork and the evidence of any payments made (e.g. [a receipt from a shop](#)). Never issue a float or petty cash to someone without the authorisation of the trustees.

Monitoring Reports

Find out how often the trustees meet and whether a finance report is required at every meeting. Agree what information they want to see, when, and in what format. [For instance, some organisations will want a breakdown of income/receipts and expenditure/payments bi-monthly and others every quarter.](#)

The trustees of larger organisation may also want to see a Statement of Assets and Liabilities/Balance Sheet which lists what money is held (e.g. [in the bank, petty cash](#) etc.), the value of any furniture, buildings etc, and any money owed e.g. loans, invoices not paid etc. Many organisations only review this at the end of the financial year ([in which case the accountant will produce it as part of the accounts](#)) but where there are concerns about the solvency of an organisation this information should be reviewed more regularly.

If you have a software package it will be easier to produce reports. Memorised reports can be set up to automatically update as more information is inputted.

If you are producing your accounts manually you may wish to set up excel spreadsheets to provide the reports. You will need to update them manually each time reports are due.

Budgets and Cashflows

It is the responsibility of the trustees to approve budgets for the organisation. The task of compiling budgets can be delegated to staff but once compiled they should be checked and approved by the trustees. Information on how to write a budget is available in our online training course modules.

A cashflow shows how the income and expenditure flows through the organisation and can be very helpful in identifying where rescheduling of expenditure needs to occur, or whether moving to monthly payments rather than annual payments might be helpful. It can also show you where you may need to draw on reserves during the year, which might impact on your reserves policy.

The following shows how to set out the cashflow ([The income and expenditure can be broken down into more details and the cashflow should be for the full year](#)).

	April	May	June	July	August
B/F	A	D	E	F	G
Income	B	B	B	B	B
Expenditure	C	C	C	C	C
C/F	$A+B-C=D$	$D+B-C=E$	$E+B-C=F$	$F+B-C=G$	$G+B-C=$

Accounts

When setting up your bookkeeping records you need to be aware of the type of accounts your organisation produces at the end of the year.

There are two types of accounts:

1. Receipts and Payments
2. Accrual accounts.

Receipts and Payments accounts simply record what was received and paid during the year and make no adjustments for when something was due or the period it relates to.

Accrual accounts are more complex because they try to give a “[true and fair view](#)” of the financial performance of the organisation. This means that if the accounting year runs from April to March and income was due in March but only received in April the income would be added to the year in which it was due.

Likewise, if you have a bill in March but don't pay it until April it will be included in the year as if paid in March. These adjustments are known as accruals. If your organisation prepares accruals accounts, you will need to be able to identify these items. This means ensuring you:

- Record in your manual books when something was/is due so adjustments can be made by the accountant. Or, for software packages, enter things as they are due, rather than when they are received or paid. The receipt or payment can be entered later when it occurs.
- Entering gifts in kind on a separate register so that these can be identified by the accountant. Gifts in kind are donations of non-monetary nature [e.g. a donation of furniture, free use of a room you would otherwise rent etc.](#) If you would otherwise spend money to acquire the items; you should record the item(s) and their value. ([Gifts in kind are not included in Receipts and Payments accounts](#)).

If you have a set of accounts you can check which type they are by looking at the notes to the accounts, which should state the basis on which the accounts have been written up, usually under a section headed Accounting Policies.

If you are manually preparing your accounts (rather than using a software package) you may wish to use the Charity Commission accounts packs to compile them. These are [CC16 Receipts and Payments](#) and [CC17 Accruals](#). Each of these have forms to complete plus completion notes.

Many charities will use an accountant to complete their accounts for them. It must be remembered that the trustees still remain responsible for the accuracy of the accounts and will need to formally approve them at a properly constituted meeting.



External Links

If your organisation has not yet produced accounts; the Charity Commission has guidance publications you can refer to:

[Charity Commission - CC16: Receipts and Payments](#)

[Charity Commission - CC17: Accruals](#)

[Charity Commission - CC32: Receipts and Payments](#)

Asset Register

It is important to set up an asset register, irrespective of the nature of your accounts. Receipts and Payments accounts have a Statement of Assets and Liabilities, and Accruals accounts have a Balance Sheet, on which this information will appear.

Assets fall into two main categories Current Assets and Fixed Assets. Current assets include such items as bank accounts, petty cash, savings accounts, and investments etc. Fixed accounts include the value of furniture and fittings, computer equipment, vehicles etc.

An asset register has two functions. It is used to list fixed assets held so the value can be included in the accounts but is also useful when considering insurance.

It is a good idea to review the asset register annually, especially if you have an accountant and they are maintaining the asset register for you. It is not uncommon to find items on the asset register that have been thrown away or damaged.

Independent Examination or Audit

Charity law requires that all charities with more than £25,000 gross income have to have some form of external scrutiny. The trustees can normally choose an independent examination if the charity's gross income is:

- More than £25,000, but not more than £1 million, provided that
- If its gross income is more than £250,000, its gross assets (**fixed assets plus current assets**) are £3.26 million or less

If the gross income is above these thresholds, then an audit is required. Additionally, if your governing document states an audit is required, this will over-rule the requirements, stated above, and you will need to have an audit.

If you would otherwise only be required to have an independent examination you may wish to amend your governing document, following the usual procedures for this, to allow independent examination, as this will save your organisation money.



External Link

More information on this topic is available from the Charity Commission website:

[Charity Commission - Independent Examination of Charity Accounts](#)

For more help with setting up a financial system and financial controls please see our online training course.



Cefnogi Trydydd
Sector **Cymru**

Third Sector
Support **Wales**

Third Sector Support Wales is a network of support organisations for the whole of the third sector in Wales.

It consists of the 19 local and regional support bodies across Wales, the County Voluntary Councils (CVCs) and the national support body, Wales Council for Voluntary Action (WCVA).

For further information contact
<https://thirdsectorsupport.wales/contact/>

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