
The Wheel

Money Counts

A Financial Toolkit for Small and Medium Sized Voluntary Organisations (For non-finance managers)

Version 1.1 – March 9th 2009

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Please refer to the 'Money Counts Excel Templates' which accompany this information sheet. They are provided in excel format for easy transfer to use in your organisation.

Appendix A – The Basics: why keep accounts and what accounts to keep?

Introduction

This resource guide has been written as a stand alone resource for community / voluntary / charitable organisations facing challenging financial times. It is intended for non finance managers and is targeted at small and medium sized community / voluntary / charitable organisations.

'Money Counts' takes a back-to-basics approach to the financial management of an organisation acknowledging that in times of financial uncertainty organisations need to spend some time making sure that they are not exposed to unhealthy level of risks. It is precisely during time of financial uncertainty that organisations need to devote time and energy into actively managing their finances and their cash flow. This guide provides clear and simple practical guidance on what organisations can do to ensure that they are managing their finances in the most appropriate way. Some readers will already be doing all that is listed here, in which case they will gain the certainty that they are well on the right path. For other readers, this document and its accompany excel sheet templates will be an invaluable aid.

We welcome feedback on this document at any stage and comments can be emailed to deirdre@wheel.ie.

1. Budgeting

- 1.1 In good times, you may have paid relatively little attention to budgeting or to monitoring outcomes against budgets and available resources, apart from project budgets and outcomes that you needed to submit to donors. You will benefit by budgeting all the time, and in difficult times budgeting for the organisation as a whole is essential. Like businesses in difficult times, revenue falls for community and voluntary bodies. Unlike businesses, demand for the services supplied by such groups tends to increase greatly in difficult times.
- 1.2 If you manage your finances well, you will be able to spend more with confidence and spend more effectively on your causes. If you do not continue to have funds to operate, you can close down smoothly, providing for clients and staff in an appropriate manner, giving them warning and helping them to find alternatives.
- 1.3 Budgeting is normally done for a 12 month period, and best done if you can allocate forecasts for each month. If you are doing it for the first time, and do not have monthly accounts for the current year, you will be able to use the annual accounts prepared by your accountant. These will be for the previous year, but are a starting point. If staff salaries cost €50,000 in the last year, and you have more or fewer staff, or have provided an increase or decrease in salaries, you can estimate what the total cost is in the current year and what it is likely to be next year. Then divide it out for each of the 12 months. Then take the next biggest item – maybe fundraising costs for example? What did you spend last year? On what did you spend it? Do you think that you should do the same again this year, or do more/less/something different? What is it likely to cost this year? When are you likely to have events? Allocate costs to the relevant months. Do not spend time initially getting the numbers accurate to the last cent, what is important is that they are good estimates.
- 1.4 If you do have monthly categorised accounts for the current year, you will find this task easier as you will have more up to date numbers to work from. Whatever base you are using, make sure that you have a 'workings sheet' where you write down all the adjustments you have made for cost/salary increases etc. so that you will have a record of what you have included.
- 1.5 When you have gone through all the expenditure items, checked them and spread them over the 12 months, you have your baseline. Now it is time to look at funds coming in.
- 1.6 How much would you expect to earn? Having information as to what you got from collections, donations, events you ran and so on from the current or the last year provides a basis for estimating what you will get in the next year.

Then consider if it is likely to be up or down as for expenditure, and divide into the relevant months on your table.

- 1.7 This is your initial draft budget.
- 1.8 But maybe it has proved hard for you to come up with numbers. Yes, you can work out salaries and fundraising costs etc. on the basis of what you think you are likely, and/or would wish to spend, but you may be much more uncertain about income. Will fundraising raise similar amounts as it did last year for the same/similar kind of events? You can find out from media comments and reviewing your own experience in recent months what percentage increase/decrease it might be prudent to apply. Are you going to try some new event? Be prudent in the amount of resources you estimate it will raise. When will Government agencies pay you for work done? Will they run the same schemes this year and will they pay for work this year on the same basis as last year? There are huge costs for charities (and ultimately for Government) associated with uncertainty about Government schemes and payment patterns, and you have to provide for it. Maybe you have other major donors – what are they likely to provide in the year?
- 1.9 Find out as much as you can about what is to happen and use your judgement as an organisation (this should not be left to one individual) to work out a best case and a worst case scenario. The best case is where the issues which are uncertain work in your favour, you get the money on time to pay for your plans; the worst is where the issues that are uncertain work against you and you get none of the items that are uncertain, or only a very small amount. Seek to come up with a most likely estimate, and slot in the figures for this and separately slot in the figures for the worst case scenario and see what the results are. Be realistic – do not let your sense of urgency and commitment to delivering services let you overestimate the likelihood of your getting prompt funding.
- 1.10 If the total for expenditure is larger than the total for income, you will need to cut back the expenditure or raise the income. (You may have reserves from earlier years you can dip into – see section 5 below). Do not do anything unrealistic. If you look at what you have put in for income and genuinely think you could raise more and identify specific actions which you commit to doing, by all means raise the income. If not, you will need to cut back expenditure ... see section 4 below.
- 1.11 The budget exercise should be completed about 3 months before the year end, so that you do not have a period coming up to the year end when you really have no view as to the future beyond those last few months.

Scenarios and risk analysis

- 1.12 Now look back on the worst case scenario you have prepared. How likely do you judge the risk to be that this will materialise? Think through what would happen if it materialised. Would it have a major impact on your organisation – would you find that you have incurred expenditures that will not be paid for and the organisation would become insolvent, closing down the services you have fought so hard to get underway and to keep running? Is there anything you could put in place now that would protect the services in a worst case scenario? If you are considering launching new services, you may need to wait to see whether you actually get the money, although this is very difficult when needs are short term and critical. If you are currently running services, it is even more difficult; if you stop running a service until the uncertainty is resolved, you have staff and other resources which are under occupied and this is very costly.
- 1.13 None of the options are easy – finding more funding from other sources, cutting down on the level of service provided, reducing pay, putting staff on part time contracts, layoffs etc – especially in the light of the needs of the clients that you serve, but if the contingency planning is done early, it is likely to be better and more efficiently executed than if it is introduced only when the cash runs out. You will have made best use of your resources and made them stretch as far as possible.
- 1.14 When looking at the risk of something happening, it is helpful to separate out how big the risk is – how likely it is to occur - from how bad it can be if it occurs. For example, if I am trying to decide whether to buy sandbags, I might find out that flooding very rarely happens in my area, but my office is at the edge of a flood plain and no insurance is available. If there is a flood, the effect would be devastating if I do not have sandbags to keep it from entering the building. The risk is not very big, but it would be very bad if it occurs. I may decide to buy and store them and set in action a policy of going round building sites as they are finishing projects to see if I can obtain a number of sandbags at low prices to meet my needs.
- 1.15 If you find it helpful to use graphs to give a picture of risks analysed in this way, it might look like this. Risks here are measured on a scale of 1-5, from small to large. You decide where to place a risk on the basis of whatever information you have. It is not an exact science, but it does help clarify issues. Once you have analysed them in this way, you may find it easier to estimate what amount to put in your forecast. For example, if you have a funding source which normally provides €100,000, and you consider that there is a 4 out of 5 chance (very likely but not certain) that they will pay this year, but that the amount is likely to be €80,000, you might put €64,000 in your draft budget. (80% of €80,000 is €64,000).

How Likely?

High	5					a*
	4	d				
	3					
	2				c	
	1	b				
Low		1	2	3	4	5

How Bad an Impact?

Low

High

The Risks

- a - Major funder, large possibility they will not pay this year - very big and bad
- b - Very small funding source, likely to come through - not significant risk
- c - Substantial funder, pretty likely to fund, but will have large impact if they do not
- d - Relatively small funder, very likely not to come through, limited risk

1.16 You will want to devote most attention to risk (a) which is clearly the most significant for the organisation and its work and to risk (c) where a limited effort may get them over the line, but if they do not fund it would have a large impact. This sort of analysis helps decide on the priorities and you can also use it to estimate what income you would put in your budget. For example, you know enough to know that you will get something from funder (a), but at worst case scenario it will be 30% of what you need and will arrive 6 months late. Put this amount in your worst case scenario budget.

1.17 This simple risk analysis approach can be used for other uncertainties also, as can scenario planning, but to discuss this is beyond the scope of this note.

Cash Accounts

1.18 In the discussion to date, we have talked about the budget, spending and funds coming in without reference as to whether they are an income and expenditure budget, taking account of non-cash items such as depreciation and putting items in the correct month from an accounting point of view – e.g. when you order something, you put the expenditure into the month you order it in, not into the month when you pay it.

1.19 If income and expenditure take place smoothly over the year, with income matching expenditure in each month, there is likely not to be a problem with cash flow. For many organisations both commercial and charitable, this is not the case. Some expenditures are regular every month; some take place every quarter or irregularly; income is received in irregular amounts by most charities, adding significantly to their costs and the risks of their operations. Having a very clear grasp of your cash flow will help you manage your resources and prevent an unexpected and unbridgeable gap opening up which may require you to take drastic and irreparable action to your services and your reputation. It will not, however, solve an underlying problem where you do not have enough money coming in to cover the costs which have to be paid for.

- 1.20 A cash budget is very similar to the budget you have already prepared on a 12 month basis, with some key differences. Add an extra line at the bottom of your excel table for 'Total cash at end month' and put on top of the table, above the line for each month, the cash balance coming into the year. Then in the same way as for the budget income and expenditure, estimate the total amounts that will ACTUALLY be paid into and out of your account every month and calculate the cash balance at the end of every month. The first month's cash balance will be done by taking the cash balance coming into the year – say it was €100 – and adding the income and subtracting the revenue received in the month. So for example, €100, plus €1000 in fundraising cash received, less €800 costs actually paid out. The total cash at end of month will be €300, and this is the figure you will use to do the same sum for the next month and so on.
- 1.21 You will see very quickly if you have a forecast cash deficit in any month, and if you do, now is the time to deal with this. You may visit your bank, armed with your forecasts and letters of commitment from donors if any, to ask them for an (increase in) overdraft for the period you will be in the red. You will get a better reception if you go early to the bank, and if you get a refusal from them, you have more time to try other options. You may have to cut back on certain expenditures or on new projects until you get beyond the cash deficit period.
- 1.22 It may be that you are involved in a multi-year major development project for example and are on bank funding all the time, so that you have a negative cash balance at the beginning of the year. If this is so, there is all the more reason for doing cash forecasts and then see if you could delay or change expenditures to reduce your exposure to bank interest charges.
- 1.23 With increasing uncertainty and delay in payment of funds, it is critical that organisations are prudent in their cash flow analysis – assume that income will come in later than it should. The impact of this is to raise your costs to the extent that you have to incur overdraft costs and/or delay work because you do not know if it will be funded or not, or to what extent, making your delivery of services less efficient and effective than they otherwise would be. It is not ideal, but it is better than a sudden cash crisis that stops services completely and may put you out of business.

2. Efficient Financial Planning – some simple rules

- 2.1 Some people are paid monthly and organise their own finances to pay the big bills – credit card and mortgage just after the salary cheque comes in. Some self employed people are paid irregularly when jobs are completed and have to organise their budgets to ensure that they can meet their regular bills in the months in which they may receive no income.
- 2.2 Likewise a community and voluntary body must be aware of its cash flow – the regularity or otherwise of its income and expenditure and that the two may not match. There may also be a mismatch between the certainty of its expenditure on payroll for example and the uncertainty of its income, both in any financial year and over several years. It is very, very important to understand the pattern of your cash flow if you are to avoid nasty surprises. Firstly, having simple forecasts and accounts and monitoring what happens each month is the best way of getting that understanding. See section 1 above on setting up your forecasts: your accounts simply slot in the actual figures each month.
- 2.3 Looking at the numbers, can you do anything to match the pattern of receipts and expenditure? Can you use contract staff for work for which you have time limited grants? If you make substantial payments to clients, can you review the timing of your payments to match when you get cash, without causing them undue hardship?
- 2.4 Thirdly, you may need to closely manage your payments at certain times of the year – defer purchasing less urgent items for example until the money comes in as outlined above in the section on cash flow.
- 2.5 Fourthly, are there other funding sources you might look to for resources? Fundingpoint.ie set up by The Wheel will be a useful source in this case. While many funding schemes run efficiently and effectively, for some there are a lot of delay and uncertainty as to how they will be run and delays in respect of payments. It is important to develop a strategy for dealing as effectively as possible with these situations – identifying the real decision makers and factors which they take into account in making decisions, and the real timing of their disbursements. This kind of Key Account Management can be particularly time consuming, using up resources that might otherwise go into delivering services, but it is critical to success. It may be helpful to seek to open up a dialogue with the donors that will make them aware of their own costs of slow and unclear decision-making, for example of having staff allocated to an area but not making decisions for much of the year.
- 2.6 Fifthly, most community and voluntary organisations are now careful not to apply for grants where the overhead costs in terms of preparation of the proposal and periodic and final reporting exceed the value of the grant, and/or the delays in cash flow of staged payments is not fundable from other

resources. If the funding is for an activity where your organisation is active, have you considered trying to open a dialogue with the donors? For example, linking up with other organisations to send a paper to the donor showing what the costs are and asking if the size of grant could be substantially increased and/or the administrative/financial arrangements standardised/simplified? Donors have to be sure that money is accounted for properly and keeping good, basic accounts of the kind set out here which are open for inspection as required should make it possible to reduce and make more effective the administrative overhead incurred by donors also.

- 2.7 Sixthly, can you manage your debtors (money due to you / receivable by you) and creditors (money that is due to others from you) more tightly? There are a number of key issues which are very important and even more so in difficult times are – how quickly are you collecting money due to you and when are you paying for your supplies and other accounts as they fall due?
- 2.8 Unlike a business which has trading income which is generally received according to an accepted pattern – cash/credit card sales in a shop for example, or say 45 days credit for some business to business transactions, it can be difficult for a community and voluntary organisation to get its debtors paid promptly, but it is essential that you do the best you can to get in amounts due as quickly as possible, and in particular, not to allow the total amount to increase and become ever more long standing.
- 2.9 A table that you may find helpful to set up will show this to you very clearly – it is an 'Aged Debtors' table. This will be very simple if you have a small number of relatively large payments due to you in a year, and you will easily be able to track when they came in last year, and when they actually come in this year, and to chase up those that are late. If there are very many it is a bit more complicated, but no less necessary.
- 2.10 You need to know the total amount of debtors (amounts receivable) outstanding and categorise them by the length of time they have been outstanding, into say
- 1 month
 - 2-3 months
 - 3-6 months
 - More than 6 months

If you are not keeping the totals already, to get the total amount of debtors, you may be able to work from a recent balance sheet which will have a number for the last day of the financial year, and to add and subtract debtors which have come in or been paid since then. Look at when the amounts were due in each case and list them in a table under the period outstanding and total them. Large amounts outstanding the longest should be chased as a priority and you should have a system for chasing overdue amounts so that you get in money quicker. Comparing your aged debtors at the end of every month and with the same period last year, will give you a good idea as to

whether you are collecting your funds more effectively. If you do not keep a running total of debtors and there are quite a few of them, now is the time to start. What amounts are due to you now – what grants, fundraising income, membership fees etc? Put them down in a spreadsheet by age category and chase up....

- 2.11 Likewise, what is the situation with your creditors (amounts payable)? Do you have a structured systems for paying bills when they fall due and, if you had a problem with cash flow coming up, would you have a good track record with your suppliers so that if you needed to ask if you could pay a bit later than usual in a particular instance, they would know that you are reliable and agree to this? It is a serious offence to trade when insolvent and insolvency is defined as being unable to meet your bills when they come due.
- 2.12 If you can tighten up on your debtors and manage your creditors better, you may be able to release some extra cash in the organisation. It will never be like a supermarket which gets paid instantly at the check-outs and pays its suppliers on 45 days or more credit, so that it can invest funds it gains in the timing difference, but it will help all the same.
- 2.13 Not directly a financial point, but one with important financial consequences - make sure that you regularly update and keep a back up of all your records off-site. If ever your computer stops or there is an accident or theft at your premises, you do not want to find that you cannot reconstitute your financial and other key files. Losing your records can have serious financial consequences and major reputational ones – there are all too frequently cases in the media where community and voluntary – and other bodies – have inadequate records to support their work. Do not let this happen to you.

3. Monitoring results

- 3.1 There is no point in planning your budget and in gathering the information if you do not use it. You should keep simple spreadsheets of actual expenditure and income and actual cash flow if you do not have a bookkeeper/accountant do this for you. Have a review each month of your own numbers, even if you have an accountant to prepare quarterly management accounts only. Keep a very close eye on the cash balance, but also on the numbers generally – are they up or down on expectations in the budget – why? If they are very far off, either from an income or expenditure point of view, you may need to revisit the budget assumptions and revise the budget to make it more realistic. You may need to make further cuts as a result or make other changes in your operations. If the variations are minor, stay with the initial budget and just show the variations and understand why they have happened. Next year this information will enable you to get your budget more accurate.
- 3.2 If you know exactly what your cash position is and can see that your forecasts are proving reasonable, you will be able to spend with confidence up to the limits of your budget. You will be better able to plan your forthcoming activities and to adjust as need be. While there is a bit of work involved in getting the material set up as described in this note, it is not very time consuming to monitor it, and the benefits to you and your organisation will outweigh the effort involved.
- 3.3 After the end of the year, you or your accountant will need to prepare a balance sheet, a financial photograph of your organisation at the end of the year. We have already looked at cash, debtors (accounts receivable), creditors (amounts payable) and reserves are covered in section 5 below. The other items are tangible assets (everything from property to furniture to computers and stocks of stationery etc) which the community and voluntary organisation has to operate, and perhaps long term loans or special funds.
- 3.4 You should ask your accountant to discuss with you the comparison of your results for this year as compared with the previous year. Allowing for any change in the scale of your operations represented by the total turnover of the organisation, are your accounts receivable (debtors) rising or falling? What has happened with your creditors? How satisfactory is your cash position and reserves given the scale of the business and the market conditions it faces? It would also be valuable to compare your results with other similar organisations of a similar size. This should give you a good insight into the effectiveness of your management of the organisation in financial terms. It will get you thinking about further measures which you might take to enable you to deliver more services and/or mitigate the effects of the recession.

4. Cost Cutting and Making Ends Meet

- 4.1 If as is usually the case, there is a shortfall between what you forecast you can earn and what you need to spend in the coming year, you have to find ways of closing the gap. If you can raise more income, well and good, but note if that has associated costs and provide for them in the expenditure part of the budget. It may be worth having a brainstorming session to see if you can come up with new fundraising ideas – difficult economic times are the most fruitful in terms of innovation in business and this should apply to community and voluntary organisations also.
- 4.2 In most operational budgets there are a few big items and a lot of little ones. If you need to cut 25% from your forecast budget and all of the little ones amount to 10% in total, it is clear that you will need to tackle the biggest ones also, even if they represent your core resources. It may be that your best case scenario requires a cut of 5% and your worst case 25%, in which case, one option would be to go for the 5% cut now and to develop a contingency plan for much larger cuts depending on what happens. Do not leave it too late to make the deeper cuts if the worst case scenario looks like being the realistic scenario.
- 4.3 Only the organisation can make decisions as to what to cut, but do so on the basis of your core values. There is not much point of cutting all of the funding needed to deliver a service and keeping the staff on the books but unable to do anything. Try and develop options – are there different levels of service you could offer some of your clients while still meeting their needs? If you spent some funds on say, new communication methods or on innovative ways of delivering the services can you provide as good a service in a different way? Engage all your staff in looking for solutions, the people who are likely to have the best ideas are on the front line of delivering services.
- 4.4 In relation to staff, while community and voluntary staff are not that well paid in general, instead of widespread redundancies, could you do some pay cuts (heavier at the top than at the bottom), some short term working, lay-offs etc. If you are making people redundant, make sure that you do so in a way that keeps your most productive and flexible staff on your books, so that you can best survive difficult times. (For this reason, the traditional last in first out or LIFO system is much less frequently used nowadays, and you must be very careful that the system you do use is fair and non-discriminatory). Make sure you provide for redundancy costs in your calculations, they will reduce your savings in the short term. You will get some funds back from the Department of Enterprise, Trade and Employment, but this takes time and you have to pay your departing employees as they leave.
- 4.5 Fundraising costs – can they be reduced – or should they be increased to do more of what you are doing at present or something different to bring in more funds? Do you always do the same things? Are they yielding more money

every year, or are they declining? Is your message dated? The various techniques for reviewing fundraising are beyond the scope of this paper, but it is important not just to roll over what you have done before. In hard financial times, it may be counter productive to automatically cut expenditure on fundraising in line with other cuts, when it is this activity that holds the key to the organisation's financial future. Reviewing expenditure on fundraising is definitely required, and you may find that the most sensible and strategic route to take is to increase funding on fundraising expenses.

- 4.6 Service costs may be limited, but there may be savings to be obtained by reviewing competitors' offerings for utilities and rent, bank charges etc. If you do not do so already, you might consider joining or setting up a group of similar organisations to seek a group discount. You should be careful to ensure that the billing arrangements for such propositions do not expose your organisation to debts rightly belonging elsewhere.
- 4.7 Could you merge your organisation with another and save funds? If so, this may be an excellent route, but it is a longer term option, not a short-term fix. Do out a business case for the merger in each organisation, setting out how it could be done and what the costs would be. Do not underestimate the costs and time involved in doing this and the dangers of loss of service to clients by both organisations. You may well need to engage legal/accounting advice to deal with pooling of reserves for example and any covenants/contracts you have with donors. Very many business mergers fail to deliver synergies as they are poorly planned and executed, and too much is paid by one company for another. Make sure that you plan carefully and take account of the need to merge the people as well as the services. It is critical that you communicate clearly and honestly with the staff and bring people with you. If there are to be redundancies, make sure that you retain the most effective and flexible staff who are willing to commit to the new organisation.
- 4.8 A less ambitious target and one which might be a stepping stone to longer term merger would be to merge back-office services – accounting/admin support etc. You need to look at what is currently provided in each of the organisations and work out how/if funds could be saved. The structure of the arrangements would have to be worked out carefully and with some legal and accounting advice. Would one organisation offer all services to the other(s) at cost, taking over some staff with others let go? Would different organisations offer different elements of the service? What protections in respect of data and in respect of payments would be required? There needs to be a contract to govern whatever arrangements are made. Again, there is a need for a business plan to identify what can be done and how and with what costs and benefits.

5. Reserves

- 5.1 A community or voluntary organisation may have a cash surplus at the end of a year, where it has disbursed less than it got in income in a year. This may simply be a timing difference where it has received funds which are for expenditure which has not yet been paid for and the income and expenditure account will be adjusted for this, or there may be a real surplus as the total income has exceeded its expenditure. This may be because a project has been delayed in which case the amount will be shown in the reserves as restricted for use on that project, or it may be a surplus which can be put to use for the organisation's purposes in a later year. The amounts are shown on the balance sheet as reserve.
- 5.2 Community and voluntary organisations, like businesses, are operations with long term objectives needing continuity of effort year after year, and the Revenue Commissioners recognise that reserves are appropriate within certain constraints. (See The Wheel website for a set of guidelines on developing a Reserves Policy for your organisation). Reserves provide a buffer to enable businesses and charities bridge difficult periods, but charities are not commercial entities and it would be inappropriate for them to build levels of reserves to unnecessary levels. Funds given to the charity should in principle be used for those purposes, and excessive funds should not be retained. The appropriate level of reserves may be calculated having regard for example to the need for cash flow to meet delays and uncertainties in donor funding and to meet redundancy costs in the event of closure. Having reviewed the position, some organisations may determine that they do not need reserves. It is reasonable for a charity to dip into its unrestricted reserves in difficult times to meet its current expenditure – in fact this is one of the key reasons for having reserves.

6. Add your ideas.....

6.1 This is an initial outline of ways to make any money you get work harder for your organisation and we at The Wheel would very much like to hear from you as to other ways of doing so. We would also like comments on how this pamphlet could be made more useful to you.

Copy and paste this section into an email and email it to liz@wheel.ie if you have any ideas.

Name:

Organisation:

Role in Organisation:

Suggestion:

Remember to get a copy of the Money Counts Excel Template document that accompanies this resource guide.

About the author – Etain Doyle

- Etain Doyle consults on regulatory and governance issues. She was the first Regulator for the Irish communications sector (1997-04). She is currently Vistage Group Chair Ireland.
- Previously she worked for ESBI on international energy consultancy 1995-7 and in Moscow in 1993-5 she set up and managed the central monitoring and evaluation team for the European Communities' technical assistance programme to Russia.
- Her earlier career (1973-92) was mainly in the Irish civil service, in the Department of Finance, where she worked on setting up the Government's debt management programme, the EU budget and funding for Irish agriculture and in Foreign Affairs where she worked on EU Affairs in Brussels, and later on Anglo-Irish Relations and then headed up the Irish Bilateral Aid Programme.
- Etain has a BA from UCD and is qualified as an accountant (FCCA).

The Basics: why keep accounts and what accounts to keep? – for those for whom €, \$ or £ before a number makes them nervous...

Once you collect money for a cause, you know it is not yours to do what you wish with, to spend on treats or food and clothing, lose behind the sofa or invest in a horse race...you need to treat the donated money with care and be able to account for what you got and what you did with it.

Relying on the Bank.....

So, you collect money, get a grant or donation for a specific cause, put it in a bank account specially opened for this purpose, get a cheque book and spend it carefully on the cause. The bank provides statements of the income and expenditure. Why is more needed?

Limitations for donors

If the money is to be spent in a very few transactions, this may be in principle sufficient provided that you keep very clear detail on the cheque stubs so that you can identify exactly each item on the bank statement when it comes to you. However, this will not normally satisfy donors/agencies who do not expect to deal with a situation where the financial information is only on cheque stubs for example.

Limitations for you

It also does not give you a clear overall picture of what has happened. On the bank statement every item is in date order of being handled by the bank, rather than grouped by type of expenditure for example.

Also, very often there is a wide range of transactions, from discrete grants to those to being helped by the charity for example to purchase of stamps and stationery. It is not cost effective, convenient nor often indeed possible to use cheques or bank transfers for the small items and the solution is often to draw an amount – say €20 - periodically for petty cash for which a separate record of the detail needs to be kept.

Basic Cash Account

So a record of the amounts you have paid out as well as of the amount(s) paid in should be kept by you so that you can see clearly what you are doing, know what money you still have available to you, and account for it as required. The simplest way of doing this is by setting up a cash account, recording each item of money coming in and going out.

Money Received

Date	Description	amount	lodged	Total
1/1/09	donation	€50	2/1/09	€50
12/1/09	collection	€47	13/1/09	€97

You should issue receipts in respect of each item you receive and keep copies.

Money Spent

Date	Description	Amount	chq/PO no	Total
15/1/09	bus hire	€40	0001	€40
15/1/09	picnic	€30	0002	€70
17/1/09	entry tickets	€27	0003	€97

You should ensure that you keep invoices and receipts to back up this account.

This very simplified example shows the amounts received and spent on taking children on an outing. At any stage you can balance the account by taking the total in the end column for your receipts and the total in the end column for your expenditure and you will know what money you have left, without waiting for the bank statement.

Categorising expenditures in ways that are useful for you

However, as the year goes on, and there are lots of entries, the information is not easily organised to help you plan for future fundraising or for the events. It may be useful to keep either project accounts – in the example above, these would be spending accounts for each outing as well as the main spending account. The outing account would be a duplicate of the main account items for each event. This way you could monitor what each event costs you and plan your budget for future events more effectively.

Or it may be useful to keep accounts categorising specific types of expenditure – in this example, all the bus hire items, all the picnics, all the entry tickets as well as the main spending account.

Computer based accounting software provides for coding items so that the computer can sort items into differently categorised accounts. This is useful in working out how much you are spending and are likely to need for a future event or a project, or how much you need for payroll or telephone expenses or whatever.

As described in paragraphs 1.18-1.20, there is a difference between a cash account which records every item as cheques/cash is spent or received and an income and expenditure account which has somewhat different timing rules and includes depreciation for example. For very small organisations with limited assets, the difference is not likely to be material, and if you keep a)

good cash accounts, and b) records of tangible assets (equipment and furniture and stocks of stationery for example), c) debtors (money due to you) and d) creditors (money you are due to pay) you will be able to keep good control during the year.

A basic record of assets can simply be a list on a spreadsheet showing what you own – what you paid for them. In the paragraphs on company accounts below, there is an explanation about depreciation of assets.

Assets	Bought	Cost
4 desks	1/6/2008	€1,200
2 PCs	1/3/2006	€1,500

Each item should have a label attached which is not easily removed, which gives the item a number (1, 2, 3, 4 respectively for each desk) and your organisation's name. This helps ensure that it is not lost in any moving round of furniture or stolen.

In this simplified example, all assets are being depreciated over 3 years – one third of the original cost is written off each year.

The debtors and creditors listings can be equally simple. The debtors' one is simply a total of all the requests for payment (including invoices and membership fees) that you have issued, and all the requests for payment you have received and that have not yet been paid. It is very useful to keep these lists if only as a reminder to yourself as you chase up payments, and you have all the key information in front of you as to when you issued the invoice or request for member's fee, or received the notification of grant and the amounts of all the suppliers you need to pay, so nothing will be overlooked.

A Summary Debtors' Listing for end April 2008 is provided in the excel templates accompanying this note.. A creditors listing would be prepared in the same way.

If you have an accountant to do monthly accounts this work will be done for you. If not, at the end of the quarter/year, your accountant can complete an income and expenditure account and balance sheet for you and explain to you the financial implications of what is involved. Some questions you might like to ask are covered in the final accounts section (below).

Company Accounts

As an organisation grows and if it becomes a company, it needs additional accounts which are somewhat more developed than these. Are these just extra things that have to be done to be compliant with law and donor conditions or do they have a value for the community or voluntary organisation itself? The answer is yes, they do have value if you have

equipment or other things you own which you will use for more than one year. If you put such items into the cash accounts we have already set up above, you will know your cash position – which is very important and you do need to continue to keep these – but it will not fully reflect the value to you of the items which is spread over a number of years.

The balance sheet, which is required if your organisation is a company starts with a statement of your assets – the things the organisation owns, such as property, furniture and equipment and the amounts shown are net of depreciation which is the process which writes down the value of assets as they are used. (There will also be a note in the 'Notes to the accounts' section giving a full picture of the assets and the amount of depreciation that has been written down – charged to the income and expenditure account.)

Reviewing again what you do with assets, suppose you buy an item at the very end of the year, what you do is that you record the full cost of such items as an asset on the Balance Sheet. This is a separate statement showing the financial value of the organisation at the end of a year. If the item will last 3 years, you divide the cost by 3 and put that amount (1/3) into the income and expenditure account as 'depreciation' in the following year. The balance sheet at the end of that following year will show the item at the remaining 2/3 of full cost – the value remaining after you have used the item for a year. For the next two years, the process is repeated, until the item has been 'written off'. In reality it is probably replaced, in which case the process starts again. Using the example of the desks and PCs we have already had above, the position would be like this:-

Assets	Bought	Cost	Depreciation	Net Value
4 desks	1/6/2008	€1,200	€400 (1 year)	€800
2 PCs	1/3/2006	€1,500	€1,000 (2 years)	€500

Other items on the balance sheet are debtors – amounts to be received by you, maybe grants owed to you, refunds etc; and creditors – amounts you owe to suppliers and anyone else. There will also be any cash and or (deposit savings/bonds etc) which you had at the end of the year and the balance on any loans outstanding. There may also be reserves – if you have had lower expenditure than income in one or more years – that is money left over to carry forward to the next year.

The balance sheet will always balance as it is a full statement of all the things owned and due to the organisation – its property, the amounts due to it and its cash less the amounts its owes in loans and in amounts payable for example to suppliers, and this is exactly balanced by the reserves. It is normally stated for two years, so it shows the state of the resources of the organisation at the beginning of the year, and then the end year balance sheet shows the state of the resources at the end of the year. The income

and expenditure account shows the amounts that came in and out in the year. The three elements opening and closing balance sheets and income and expenditure accounts lock into one another and were designed to ensure that all of the resources supplied to a company have been fully accounted for.

Final accounts – financial summary of the story of the year, not a surprising new interpretation.....

There should be no surprises for you in the final year accounts if you have been keeping your records up to date all through the year. Your cash accounts will be different to your final income and expenditure account by the amount of the non-cash items and differences in the timing for accounting purposes for payments/receipts and actually making them, but normally these differences are small. You should go over these items with your accountant carefully and ensure that they are correctly recorded, and that you understand what has happened.

Your balance sheet will show you the total amount of your debtors (amounts receivable by your organisation) and your creditors (amounts payable by your organisation at the beginning and at the end of the year. You should review whether the value of amounts due to be received and amounts due to be paid are rising or falling and also whether it is taking longer to collect money into your account. Your debtors (amounts receivable) and creditors (amounts payable) listings will give you more information and your accountant will be able to help you assess whether you need to take further action to handle cash more efficiently, or whether the increasing size of the organisation means that debtors and creditors are higher and that you need more cash to operate.

A cash flow statement for the year may be prepared by your accountant. It will start with the profit or loss made for the year, add back any non-cash items such as depreciation to show the cash surplus or loss made for the year, adjust for changes in debtors and creditors (amounts receivable and payable) and other elements. For a commercial company this is important to show how much money the business is generating and how efficiently it is using its cash. It is less useful to a not-for-profit where a higher balance at the end of the year may or may not reflect efficient and effective management.

Your accountant will take you through the numbers in your annual accounts, and remember Brecht's line –'what you don't not know yourself, you don't know', and there are no stupid questions