8. Managing money

8.1 Setting up a financial system

Responsibility for money management

The governing body of a voluntary organisation (management committee, board of directors, trustees etc) is ultimately responsible for all aspects of the organisation's finance. Those organisations with charitable status and those with a legal form/structure that is regulated (companies, friendly societies, industrial and provident societies) must follow the relevant regulations on financial reporting carefully.

Why are financial management systems so important?

The voluntary management committee must ensure that proper accounts are kept which comply with all relevant statutes and regulations - of which there a number. In many cases this will mean that accounts need to be presented in a way that complies with the best practice as outlined in the current *Charity Statement of Recommended Practice* or 'Charity SORP'. The SORP is available from the Charity Commission for England and Wales.

Members of the governing body should keep careful control and management of finances by regular budgeting and monitoring of results against pre-agreed budgets, both in the short and long term. They must be aware of all the tax, insurance and VAT implications of their actions. They must also control the investment policy and monitor investment performance.

Record keeping system

A basic recordkeeping system should be easy to use, understandable, reliable, accurate, and timely. Such a system should include some type of organisation journal to record transactions (receipts, sales, purchases) and a well-organised filing system. Additionally, you should be generating monthly reports on cash flow, accounts receivable, accounts payable, payroll, an overall income statement (balances income against expenses), and a balance sheet (which gives an overall picture of the current worth of the organisation).

The usual rule-of-thumb is that you should have enough money on hand to operate your organisation for a year. Some of the operational expenses that might be included are:

- deposits on property, rent, equipment
- equipment

- legal/accounting services
- licenses/permits
- loan payments
- marketing
- office space
- professional fees
- salaries
- supplies
- utilities

It is important to make as accurate an estimate as possible of your expenses in each of these areas and any other categories that you might anticipate. When in doubt, err on the side of caution and estimate too high.

Financial management

In setting up a financial management system the first decision for the governing body is whether it will manage its financial records itself or whether it will have someone else do it for them. There are a number of options.

- The governing body can manage everything itself.
- Employ a member of staff who manages it for you; keep your records in house, but have an accountant prepare specialised reporting such as tax returns.
- Use an external bookkeeping service that manages financial transactions and an accountant that handles formal reporting functions.

Some accounting firms also handle bookkeeping functions. Software packages such as Sage, QuickBooks, CashCall etc are also available for handling bookkeeping and accounting.

Bookkeeping refers to the daily operation of an accounting system, recording routine transactions within the appropriate accounts. An accounting system defines the process of identifying, measuring, recording and communicating financial information about the organisation. So, in a sense, the bookkeeping function is a subset of the accounting system.

A bookkeeper compiles the information that goes into the system. An accountant takes the data and analyses it in ways that give you useful information about your organisation. They can advise you on the systems needed for your particular organisation and prepare accurate reports certified by their credentials.

While software packages are readily available to meet almost any accounting need, having an accountant at least review your records can lend credibility to your organisation, especially when dealing with funding bodies and government agencies.

Some of the type of reports you might see in a financial management system and what they mean are:

Income statement

An income statement simply shows income and expenses for a given time period. It gives you a picture of whether you are making a surplus or not.

Balance sheet

A balance sheet looks at the bigger picture of your organisation, comparing all your assets to all your liabilities. It essentially tells you if you closed the organisation and sold everything today, how much money would you have (or how much would you owe). The reason this is called a Balance Sheet is that Assets need to balance (equal) Liabilities. The amount you would have if everything were liquidated today is called Net Worth and is listed under liabilities. If you would lose money, the net worth is negative.

Cash flow statement

Cash flow is an accounting term that refers to the amounts of cash being received and spent during a defined period of time, sometimes tied to a specific project. This may be one of the most critical and least understood documents you can prepare. Some of the information that can be gained from this statement is:

- Are the operating activities generating a surplus? It is not critical if they are not, but it is a good sign if they are.
- Which working capital components have large uses of cash? What might be happening to cause this? This helps you understand how the cash got used.

Operating budget

A budget for the organisation projects income and expenses to estimate the flow of cash over each month of a year. This helps you predict times that you may have cash shortfalls and prepare for them. It also allows you to compare over the year how you are performing in relation to your projections.

- How much cash is provided for or used in investing activities? Compare this year's capital expenditures to last year's capital expenditures.
- Were there any significant increases or decreases? A reduction in capital expenditures may indicate a cash flow problem.
- What cash is provided by or used in financing activities? This will tell you how much debt has been paid (or borrowed.) It will indicate if you are using more debt or have paid down your credit line in the past year. It will also tell you if there were other unusual financing activities, which were not highlighted elsewhere in the analysis.

These are only a sampling of the many types of financial reports that might be appropriate for your organisation.

Recordkeeping

While you may be able to employ staff to manage your financial operations, good recordkeeping systems are your organisation. Your recordkeeping system will be the basis for all your financial management systems so accurate processing and easy access to these records is critical.

The basic financial systems for your organisation should include information from the following functional areas:

- Banking Relationships -Cheques/Credit
- Bill Payment - Payroll, Taxes, Suppliers, Rent
- Money Collection - Cash, Credit, Payment Terms, Collections
- Purchases - Suppliers
- Sales - Pricing, Marketing, Advertising
- Information Gathering and Reporting - Cash Flow, Balance Sheet, Net Worth
- Other Professional Relationships - Accountant, Bookkeeper, Suppliers

Systems need to be developed to keep track of each of these types of information.For a start, set up a separate current account for your organisation. If you need to make cash purchases, write a cheque for petty cash so that is recorded in an official record - don't take money from your cash receipts to pay expenses. You need to be able to substantiate receipts with your records. Petty cash itself needs a separate ledger supported by receipts so that cash transactions are recorded appropriately.

Further information

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