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Financial Management for CBOs and Small NGOs

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Abstract:

The various engagement with owners, managers and key stakeholders of Community-Based Organisations (CBOs), Faith-Based Organisations (FBOs) and other small non-profit organisations had revealed capacity constraints in the areas of basic administration and financial management. It was this realisation that led to the development of this manual on financial management as a starting point of building capacities on basic accounting procedures. This manual is specifically designed to assist officers of organisations with basic accounting skills in managing the finances of such organisations. Often the trouble of having to manage funds received by these organisations and the corresponding requirements to submit financial reports of these funds has created a huge accountability challenge for these organisations and their donors or stakeholders. The resultant effect is dwindling funding in some instances loss of funding for these organisations. The manual is designed in such a way as to be easily read, worked and understood by people with no formal knowledge of accounting at all. It addresses the challenges normally encountered in the day-to-day financial operations of these organisations. It looks specifically at key areas as: Overview of Basic Accounting Procedures; Chart of Accounts; Some Basic Forms that should be Used; The Analytical Cashbook; Income and Expenditure Statement; Frequently Asked Questions. It has been observed that the manual, if properly used, would go a long way to reduce the challenges faced in accounting for funds and also deal with financial misappropriation in these organisations. It is highly recommended for use as a training guide for non-financial starters.

Keywords: Accounting system, chart of accounts, analytical cashbook, contra entry, advances, refunds

1. Introduction

1.1. This Manual

This manual is specifically designed to assist officers of community-Based Organisations (CBOs), or Faith-Based Organisations (FBOs) and other small non-profit organisations with basic accounting skills in managing the finances of such organisations. Often the trouble of having to manage funds received by these organisations and the corresponding requirements to submit financial reports of these funds has created a huge accountability challenge for these organisations and their donors or stakeholders. The resultant effect is dwindling funding in some instances loss of funding for these organisations.

The various engagements with owners and managers or key stakeholders of these organisations had revealed capacity constraints in the areas of basic administration and financial management. It was this realisation that led to the development and publication of this manual on financial management as a starting point of building capacities.

The manual is designed in such a way as to be easily read, worked and understood by people with no formal knowledge of accounting at all. It is divided into six units as follows:

- Overview of Basic Accounting Procedures
- Chart of Accounts
- Some Basic Forms that Should be Used
- The Analytical Cashbook
- Income and Expenditure Statement
- Frequently Asked Questions

While the manual can and should be used for ongoing reference, as you read through it you will see that each unit builds on the knowledge gained in the previous units. Generally, therefore, it is not advisable to skip over large portions of the manual.

1.2. Target Audience

- Treasurers of community-based organisations (CBOs) and small non-governmental organisations (NGOs) and FBOs
- Managers/directors of small to medium-sized NGOs
- Administrative staff of small to medium-sized NGOs and enterprises charged with responsibility of the accounts

1.3. Objectives of the Manual

The manual is specially designed to build the financial capabilities of treasurers and administrative and managerial staff of CBOs/FBOs and small to medium-sized NGOs.

Specifically

- The manual will equip non-financial managers of NGOs and CBOs/FBOs with the requisite skills in understanding some basic accounting to enable them to analyse, understand and interpret whatever might be presented to them by their accountants or treasurers in their periodic reports.
- It should also help managers who are unable to hire the services of Accountants to keep and prepare simple financial records.
- It is aimed also at redirecting the treasurer/accountants of CBOs/FBOs and small NGOs to adopt simple and straightforward, but standard, accounting procedures in their work.

2. Overview of Basic Accounting Procedures

2.1. What is Your Accounting System For?

Even in small organisations, keeping track of the funds coming in and going out can become confusing if an effective system is not consistently and diligently followed. On the other hand, if the system is too complicated, it can become very difficult to operate through and derive the desired benefits.

A good accounting system can be an important tool for the leaders of NGOs and CBOs/FBOs. It lets them answer a wide variety of questions and to make plans for the future.

If you are reading this manual, presumably you are one of the leaders of non-profit organisation, or else a treasurer, finance officer or one of the administrative staff. Take a moment now to think about your role and the information that you need to easily get from your accounting system. Write down the questions that you normally need to answer about your organisation's finances.

For your organisation to thrive it will need good management, and one important part of management is financial management. Good financial management requires good accounting, and this entails having answers to questions such as the following:

- What money have we received and from whom?
- What have we received the money for?
- How much of it have we spent?
- What have we spent the money on?
- How much of the money is available to be spent and on what?

An appropriate accounting system should help to provide you with answers to all these questions. The system should make it possible for you to be financially accountable to your donors, Board of Trustees, members and regulatory bodies, etc.

2.2. Desirable Qualities of Financial Information

Every accounting system must provide financial information to meet the following qualities:

- **Relevance:** Information from accounting books must meet the needs of the user. It should tell you what you need to know at a particular point in time. For example, it should be able to tell you how much you have received from a particular donor.
- **Understand ability:** Financial information should be presented in a way that can be easily understood.
- **Reliability:** Financial information should give information that is always correct and can be trusted.
- **Completeness:** It should give all the information you need to know.
- **Impartiality:** It should not be geared towards the selfish interest of one or more individuals.
- **Up-to-Date:** Financial information should tell you what your financial stand is now.
- **Standard:** It should be acceptable outside the organisation. E.g., by auditors, donors, etc.
- **Comparability:** It should provide information that can be compared with others of similar organisations and also that can be compared with information from one period to the next.

If your accounting system provides financial information to meet all these qualities then your financial reports will present a picture of your financial situation that is true, fair and useful.

2.3. The Basic Elements of an Accounting System

Accounting is about recording, classifying and summarising the transactions (financial events) of an organisation over a period to provide interested parties (such as the Director, Executive Committee, Board of Trustees, etc.) with information about the performance and position of the organisation and to help these parties in their decision-making processes. A good accounting system will usually include the following elements:

- A chart of accounts (basically, a list of all your categories of activities and expenditures).
- Appropriate vouchers and other source documents, which you ensure are duly endorsed for payment.
- One or more books of accounts to record transactions, and organised according to your chart of accounts. The books of accounts can be traced to, and checked against, your vouchers and source documents.
- Financial reports summarising and organising key information from the book of accounts.

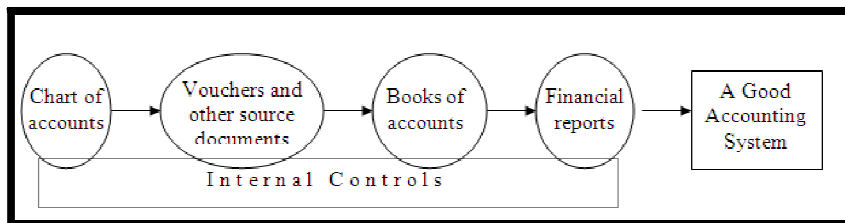


Figure 1

The table below summarises some of the key components of an accounting system for small non-profit organisations. This manual covers the most basic components that you will need to establish a simple accounting system for your CBO or small NGO, or for you to understand enough basics of accounting to allow you to properly monitor your finance officer or accountant.

Accounting Component	Purpose	Refer to:
Chart of accounts	To allow for categorising and organising information about your financial transactions.	Unit 2
Basic forms (petty cash payment voucher, cheque payment voucher, certificate of honour)	These forms are the foundation of financial record keeping, their purpose being to ensure the availability of key information so that transactions can be tracked.	Unit 3
Analytical Cashbook	To track funds on a day to day basis, to record information for later use in final accounts and other reports, and to be able to quickly know your balance at any time.	Unit 4
Income and Expenditure Statement	To summarise income and expenditures over a certain period for presentation to others, to see at a glance how much you have spent in your various accounting categories, and to have at your fingertips information for budgeting	Unit 5
Other Financial Reports	Varies with each report	Not covered in this manual
Internal Controls	To ensure accuracy and reliability of all your financial records, and thereby contribute to transparency, accountability and trustworthiness	Not covered in this manual
Balance Sheet	To summarise the overall financial position of your organisation at a specific point in time	Not covered in this manual
Fixed Assets Register	To record information about your physical resources	Not covered in this manual
Bank Reconciliation Statement	Calculations bringing the balance of the bank column in the analysis book to agree with the bank balance on the bank statement	Not covered in this manual
Budgeting/cash flow statement	A statement of the future projections of income, expenditure and cash	Not covered in this manual

Table 1: Basic Accounting Requirements

2.4. What is Your Accounting System For? (Continued)

Of course, one of the purposes of your accounting system is to provide information. From time to time, that information will be presented in summary reports. One of the very common types of reports that you will need to produce is the Income and Expenditure Statement, which is described in detail in Unit 5. However, it will be worthwhile for you to have this report in mind as you work through all of the subsequent units. Take a moment now to study the example below.

Office P&L (Cost Income and Expenditure Statement) for the period ended 31 December, 2019		
Income		
Anticipated programme funding	€250,000,000	
Assessors' Railway Local Group Programme	27,000,000	
Marketing fee	1,000,000	
Total income	278,000,000	€278,000,000
Expenditures		
Working costs	€250,000,000	
Community mobilisation	2,400,000	
Printing of publications	24,000,000	
Office program costs	2,000,000	
Bank charges	140,000	
Salaries	1,400,000	
Insurance	1,200,000	
Printing	80,000	
Fuel	2,000,000	
Per diem	1,400,000	
Repair and maintenance	1,400,000	
Telephone phone calls	1,200,000	
Administration	100,000	
Transporting	110,000	
Office administration (rental)	1,200,000	
Total expenditures	258,000,000	€258,000,000
Surplus (Income less Expenditures)		€20,000,000

Figure 1: Sample Income and Expenditure Statement

2.5. Formats Can Vary

The system introduced in this manual is based on the Analytical Cashbook. It should be noted, though, that there are different formats and styles for recording and reporting on an organisation’s finances. Whilst some organisations may choose to use the analytical cashbook, some organisations, typically larger organisations with more complicated financial systems may not use the Analytical Cashbook, but rather use a “two-column cashbook” plus a system of ledgers. The system presented in this manual is one possible accounting system that you can use; it is not hard and fast rule though. The choice of a system may depend on the complexities and nature of the organisation, about its transactions and record keeping policy, etc.

In any case, even if your organisation is not using exactly the same system presented here, most of what you find in this manual will be useful to you. The system is also flexible enough that as your organisation grows and becomes more complex, it can adapt to meet your changing needs. This manual introduces the basics and gives enough information that you can begin implementing a simple accounting system.

3. Chart of Accounts

3.1. Purpose/Use

The starting point of recording transactions in your books is to know what headings you want in your records. This list of headings, or “cost centres”, is the chart of accounts. To be more precise, it is a set of identifiable headings given to various groupings of financial transactions. The chart of accounts is also sometimes referred to as *budget lines* or simply *accounts*. Its purpose is to allow you to categorise and organise information about your financial transactions.

Objective

After studying Unit Two, the reader should understand the purpose of drawing up a chart of accounts, and should be ready to prepare such a chart for their organisation.

Figure 2

If you have done a budget, usually, it will be very helpful to then use the same headings you used in your budget for the chart of accounts. This will help you to capture all the information you need in your financial reports and make your reporting very simple and straightforward. In particular, it will help you later by letting you easily compare your actual expenses to the original budget.

3.2. How to Design a Chart of Accounts

To decide how to create your chart of accounts, think about the following:

- What reports do you want to prepare at the end? Is the report just for internal use, just for external use such as for reporting to donors, or both?
- What financial monitoring and evaluation do you need to carry out? What decisions will you need to make in the future? Do you want to analyse every bit of your activities individually, in small groupings, or in large groupings?
- What level of detail do you require? Do you want to know every bit about a particular item in your records?
- Do you have more than one project going on? Do some of the projects have similar activities?

After going through these questions, you should be able to create your chart of accounts. For a small organisation without too many complications in their accounts, we recommend having between five and fifteen cost centres in the chart of accounts. If you have more categories than this, you will have difficulty fitting all of the cost centres into your cashbook. For those who need a greater level of detail than allowed for by fifteen cost centres, some special techniques are needed, which are not covered by this manual. You may be required to read other manuals to build up on this.

3.3. Three Options

- If you have already done a budget, look at the headings that your budget uses and use these headings to create your chart of accounts.
- Prepare a mock Income and Expenditure Statement for your organisation such as was shown on page **Error! Bookmark not defined.** (without the amounts). At the end of the year, what headings and what level of detail will you want to use? Use the expenditure headings from this mock Income and Expenditure Statement to create your chart of accounts.
- Group related items together under a number of headings. For example, EMS, FedEx and purchase of postal stamps could all be grouped under "Postage". Pens, pencils, and reams of A4 paper could be grouped under "Stationery".

What if I have expenditure categories that cut across different activities funded by different donors?

You may have some category in your chart of accounts that is applicable to two or more very different activities. For example, you may have "per diems" as one of your cost centres, and have a situation in which two or three projects all have per diem expenses. In this case, a system of coding is adopted. E.g.: Per diem for AIDS Project = "per diem 01"; per diem for Advocacy Project = "per diem 02"; per diem for Microfinance staff = "per diem 03", etc. This is covered in more detail in a later Module.

Figure3

3.4. Sample Chart of Accounts

- Workshop costs
- Community mobilisation
- Printing of publications
- Other programme costs
- Bank charges
- Salaries
- Stationery
- Postage
- Fuel
- Per diem
- Repairs and maintenance
- Telephone
- Accommodation
- Photocopying
- Other administration/overhead

3.5. Purpose of the Chart of Accounts

To allow you to categorise and organise information about your financial transactions

4. Some Basic Forms That Should Be Used

4.1. The Forms

Vouchers and other “source documents” are the foundation of financial record keeping. Their purpose is to ensure the availability of relevant information so that transactions can be tracked and financial discipline enhanced. Various forms are used in day-to-day financial record-keeping, including the petty cash payment voucher, cheque payment voucher, certificate of honour, receipt of payment, travel authorisation, purchases/stores requisition, goods received note, debit note, credit note, bin/tally card, and others. For the purposes of this manual we will limit ourselves to three of the most basic forms mentioned above.

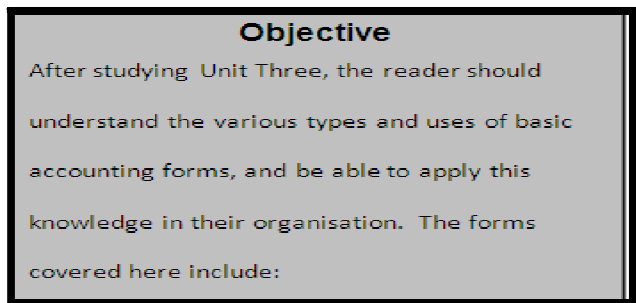


Figure 4

4.2. Petty Cash Payment Voucher

Organisations usually keep some amount of cash in hand in order to meet their day-to-day expenses. This cash is topped-up when it is exhausted to some set limit. This system is known as the Imprest system. The cash is kept by someone in the organisation who is designated as the petty cashier. In small organisations such as CBOs and small NGOs, it might be the treasurer or the Finance Officer. Ideally, however, the person keeping the petty cash should not be the same as the person who authorises payments. Therefore, in medium-sized and large organisations, the petty cash is normally managed by another member of the administration/accounting staff (not the finance officer or treasurer).

In order that this cash is not misused by the petty cashier, accountants have developed a way of making sure that all payments are properly recorded, using the Petty Cash Payment Voucher (also known as the Disbursement Voucher and abbreviated as PV or DV). A petty cash voucher should be issued for all payments (including floats and advances).

Notes:

- Pay: Write down the name of the person or organisation to whom payment is to be made. E.g. Kofi Asante
- Purpose: Write the reason for which you are to make payment. E.g. Taxi fare to town.
- Cost centre. Depending on the particular situation of your organisation, it may be the finance officer, treasurer or petty cashier who assigns each item to one of the cost centres, or it might be the Director, Project Coordinator, or some other person.
- PV number: The petty cashier should number the vouchers serially, so that each voucher has a unique number.

RTU Self-Help Society			
Petty Cash Payment Voucher			
Pay: _____			
Purpose: _____			
PV Number: _____			
Date	Description	Cost Centre	Amount
Total			

Figure 5: Sample Petty u Voucher

Rules:

- One person (e.g. the treasurer) should not be the same person preparing, authorising and receiving. Where this happens, a suspicion of fraud can be created.
- Before any payment is made, the PV should be prepared and duly authorised by the officer in charge.
- A receipt should be obtained for any payment made and attached to the PV. When it is impossible to obtain a receipt, a certificate of honour may be used.

4.3. Cheque Payment Voucher

The cheque payment voucher follows the same procedure as the petty cash voucher but, as you have probably guessed, is used when payment is to be made by cheque. The main difference in the form is that there is a space for cheque number. Also, the authorisation for the cheque payment voucher must be done by someone assigned this task. While this depends on the financial policies of an organisation, it is usually the Executive Director, Program Manager or Chairperson.

RTU Self-Help Society Cheque Payment Voucher			
Pay: _____		Cheque No.: _____	
Purpose: _____		PV Number: _____	
Date	Description	Cost Centre	Amount
Total			
Total amount in words: _____			
Prepared by:	Received by:	Authorised by:	
_____	_____	_____	
(name)	(name)	(name)	
	_____	_____	
	(signature)	(signature)	

Figure 6: Sample Petty Cash Payment Voucher

4.4. Certificate of Honour

Normally, receipts are obtained whenever payment either in cash or cheque is made. However, there are instances where receipts cannot be obtained on some payments, e.g., expenditure on taxi fares, carriage of goods by loading boys, hire of truck to convey some goods, etc. Here, there must be some kind of supporting document to testify that an expenditure was incurred by somebody on something. This document is the Honour Certificate or Certificate of Honour. A sample is shown below.

Certificate of Honour		
I _____ certify that the following expenses were made by me for which no receipts were available:		
Date	Description of Expenses	Amount
Total		
Signature: _____		Approved by: _____

Figure 7

5. The Analytical Cashbook

5.1. What is the Analytical Cashbook?

The analytical cashbook records all cash and bank transactions (funds received and funds paid out) as and when they occur. It is your daily record of what is happening to your money.

Objective

After studying Unit Four, you should:

- A) Have the skills needed to track the daily cash and bank transactions of your organisation, and
- B) Have enriched knowledge on how to keep and present useful financial information for easy preparation of final accounts

Figure 8

You may be familiar with the simple cashbook (sometimes called the *Receipts and Payments Account*). Like the simple cashbook, the analytical cashbook records the receipts and payments of cash and cheques. The main difference is that the analytical cashbook also includes columns for categorising your expenditures according to your chart of accounts.

5.2. Purpose/Use

- To track funds on a day-to-day basis
- To record information for later use in final accounts and other reports
- To be able to quickly know your balance at any time

As mentioned above, the analytical cashbook tracks the funds coming into your organisation and the funds going out of your organisation on a daily basis. It tells you how much you should have on hand at any time. At the end of any particular period you can do a “reconciliation” to be sure that the amount you actually have is the same as what your records say you should have. The analytical cashbook is also useful in providing the needed information for the annual final account and any other reports you need to provide.

5.3. How Can We Start This Analytical Cashbook?

Acquire an analysis book from a stationery shop near you. (You can use a notebook instead, but the analysis book is good because it is nice and wide and gives you ample space for all of your entries).

Rule out lines for the various columns. You will have eleven columns plus one column for each category in your chart of accounts – so anywhere from sixteen to twenty-two or twenty-three columns. The columns will be as follows:

- Date
- I.D. No.
- Details
- Cash In
- Cash Out
- Cash Balance
- Chq. No.
- Bank In
- Bank Out
- Bank Balance
- Unretired advance

One column for each of the categories in your chart of accounts

- Between the “Bank Balance” and “Unretired Advance” columns, rule a double line. All of your chart of accounts columns together with the “Unretired Advance” column can be labelled “Analysis”.
- Find your opening balances of funds in the bank and cash. Enter these amounts in the first row under the columns “Cash Balance” and “Bank Balance”.
- You can now start to enter transactions as and when they occur. Each transaction should appear on a separate row.
- Each time cash is received or paid out, mark the amount in the appropriate column. Also calculate the balance and write it in the “Cash Balance” column. The same applies every time money is paid into or out of the bank.
- For all expenses made, the amount should be shown not only in the “Cash Out” or “Bank Out” column, but also in one or more of the analysis columns.
- At the end of the month find the totals for the “Cash In”, “Cash Out”, “Bank In” and “Bank Out” columns and for all of the analysis columns. Write the totals in the last row. This means that you have “closed” the book for the month.
- Turn the page and rule out the same columns for the next month. The closing cash and bank balances from last month become the opening balances in the first row of the new month.
- It must be noted that as an alternative, the analytical cash book can be created in an excel worksheet, where you are using a computer for your work

Solution:

Obiba J.K. Club Analytical Cashbook for the Month of July 2005

	Date		Details	Cash In	Cash Out	Cash Balance	Chq. No.	Bank In	Bank Out	Bank Balance	Analysis						
	ID No.										Unretired Advance	Workshops	Salaries	Travel & Trans.	Other Prog.	Admin. Overhead	
		1/7	Balance forward	450,000		450,000		1,150,000		1,150,000							
		2/7	Wages - watchman				233001		200,000	950,000							
		2/7	Wages - field officer				233002		300,000	650,000			300,000				
		4/7	Soap-making workshop				233003		400,000	250,000			400,000				
		5/7	Membership dues	100,000		550,000											
		9/7	Donation rec'd					50,000		300,000							
		15/7	Stationery		250,000	300,000											250,000
		24/7	Travel: Kumasi Ghana Soap Network meeting		100,000	200,000								100,000			
Closing balance				550,000	350,000	200,000		1,200,000	900,000	300,000			400,000	500,000	100,000		250,000

Table 3

5.4. Contra Entries, Advances and Refunds

- **Contra entry:** From time to time it may be necessary for your organisation to withdraw funds from the bank to keep as cash. Similarly, cash may be deposited into the bank. Even though you have not spent any funds, you only moved them from one place to another, the event should be recorded. In these situations, the event is recorded in two columns in the same row of the cashbook concurrently. Also, under the "Details" column, it is designated as a contra entry. Accountants have a way of distinguishing these transactions from other transactions by attaching the letter "C" to them ("C" for "contra entry"): for example, "C – Withdrawal from bank for petty cash". Quite simply, when funds are withdrawn from the bank to be kept as cash, show the amount in both the "Bank Out" column and the "Cash In" column. When you take funds from your petty cash and deposit it into the bank, show the amount in both the "Bank In" column and the "Cash Out" column. An example is shown on the next page.
- **Receipts of bank drafts, money orders, or cash paid directly into the bank.** When funds of whatever form are paid directly into the bank, they can be noted in the bank column. However, if you receive cash and you are going to keep it with the rest of your cash for any amount of time until you are ready to go to the bank, you must record it under the "Cash In" column. It does not matter that you are sure you will deposit the amount two or three days later. When the time comes and the money is deposited, you can make another entry – a contra entry – to show that.

Payments vs. Expenditure

Note that not all **receipts** are **income** and not all **payments** are **expenditure**. For example, an advance may be issued to someone in the organisation for travel expenses. At the time the advance is issued we do not know exactly how much the person will spend, but a **payment** has been made, so it is noted in the analytical cashbook. *Payments* include expenditures, but also include unretired advances and refunds made by the organisation. Similarly, when a staff member returns unspent advance money that he has received, these funds are not considered **income** for the organisation; after all, he is only returning what he did not spend of the organisation's own money. But these returned funds are a **receipt** and are therefore recorded in the analytical cashbook.

Figure9

- **Advances.** These amounts are shown in the "Unretired Advance" column. That is to say, when you take funds as an advance for some activity and you do not yet know how much the exact expenditure will be, show the amount in "Unretired Advance" column. For example, you provide your field officer with funds for travelling to a project site, where she will spend one, two or three nights, depending on how her work goes. She does not know how much she will spend so you write a cheque to her for GH¢1,000,000. Show this amount in two columns: "Bank Out" and "Unretired Advance". When advances are paid from your petty cash, you also show the amount in two columns: the "Cash Out" and "Unretired Advance" columns. An example is shown on the next page.

Date	ID No.	Details	Cash In	Cash Out	Cash Balance	Chq. No.	Bank In	Bank Out	Bank Balance	Analysis						
										Unretired Advance	Workshops	Salaries	Travel & Trans.	Other Prog.	Admin. Overhead	
16/7	2	C-Excess cash deposit		300,000	419,000		300,000		804,150							
14/7	1	C-Withdrawal for petty cash	500,000		719,000			500,000	504,150							
1/7		Balance forward	219,000		219,000		1,004,150		1,004,150							

Table 4: Examples of Contra Entries

Date	ID No.	Details	Cash In	Cash Out	Cash Balance	Chq. No.	Bank In	Bank Out	Bank Balance	Analysis						
										Unretired Advance	Workshops	Salaries	Travel & Trans.	Other Prog.	Admin. Overhead	
16/7	2	Advance to director-workshop costs		100,000	119,000					100,000						
14/7	1	Advance to field officer for trip				200001		1,000,000	4,150	1,000,000						
1/7		Balance forward	219,000		219,000		1,004,150		1,004,150							

Table 5: Examples of Entries for Unretired Advances

- Retiring Advances. From the example, above, when the field officer returns from her trip and accounts for the funds, you will need to “retire” the advance. On a new column you will write the amounts that she spent under the various analysis headings, and also enter a corresponding negative number in the “Unretired Advance” column. The negative number will be shown in parentheses. For example, if she spent GH¢500,000 under “Workshop Costs”, GH¢400,000 under “Travel & Transport”, and GH¢100,000 under “Other Program Expenses”, then you would write “(GH¢500,000)”, “(GH¢400,000)” and “(GH¢100,000)” under the respective columns all on the same row. You would also write “(GH¢1,000,000)” under the “Unretired Advance” column. An example is shown on the next page.

**Advanced by Cheque –
Refunded in Cash?**

There may be cases where an advance is given by cheque, and later the staff member returns unspent funds as cash. In all cases, the amount should be noted in the appropriate column so that you always know where your funds are.

Figure10

- Refunds. What if the field officer only spends GH¢900,000 and refunds the other GH¢100,000? In that case, if the GH¢100,000 is put into petty cash the amount should be shown in the “Cash In” column. If it is deposited directly into the bank, it should be shown in the “Bank In” column. The other GH¢900,000 would be recorded under the appropriate analysis columns and the “Unretired Advance” column would show “(GH¢1,000,000)” (i.e., negative one million). See the following page for an example. Note that the amounts in the analysis columns plus the refund amount shown under “Cash In” or “Bank In” should correspond to the negative amount under “Unretired Advance”. In the case of our example GH¢ 100,000 + 500,000 +400,000 = the retired advance of GH¢ 1,000,000.

Date	ID No.	Details	Cash In	Cash Out	Cash Balance	Chq. No.	Bank In	Bank Out	Bank Balance	Analysis					
										Unretired Advance	Workshops	Salaries	Travel & Trans.	Other Prog.	Admin. Overhead
1/7		Balance forward	219,000		219,000		1,004,150		1,004,150						
14/7	1	Advance to field officer for trip				200001		1,000,000	4,150	1,000,000					
16/7	2	Advance to director-workshop		100,000	119,000					100,000					
18/7	3	Field officer trip								(1,000,000)	500,000		400,000	100,000	
20/7	4	Director - workshop								(100,000)	100,000				

Table 6: Examples of Retiring Advances

Date	ID No.	Details	Cash In	Cash Out	Cash Balance	Chq. No.	Bank In	Bank Out	Bank Balance	Analysis					
										Unretired Advance	Work-shops	Salaries	Travel & Trans.	Other	Admin. Overhead
1/7		Balance forward	219,000		219,000		1,004,150		1,004,150						
14/7	1	Advance to field officer for trip				200001		1,000,000	4,150	1,000,000					
18/7	2	Field officer trip	100,000		319,000					(1,000,000)	500,000		400,000		

Table 7: Example of Retiring an Advance Together with a Refund

5.4.1. Activity 2

Youth Home Development Association recorded the following transactions for the month of March 2003. The categories in their chart of accounts include the following: Workshops, Salaries, Travel & Trans., Other Programme Costs, and Administrative Overhead. Show this in the analytical cashbook.

- 1) March 1, balance brought forward, cash GH¢100,000 and bank GH¢300,000.
- 1) March 2, bought A4 paper, GH¢40,000, paid by cash.
- 2) March 5, received cheque from ActionAid, GH ¢5,000,000, for a literacy project.
- 3) March 5, paid salaries of the watchman and the field officer, GH¢300,000 and GH¢600,000, respectively. Paid by cheque.
- 4) March 10, received cash of GH¢1,000,000 from Help the People for general core funding.
- 5) March 15, gave a cash advance of GH¢500,000 to the project officer for trip to the field.
- 6) March 17, bought fuel for motorbike GH¢40,000, paid by cash
- 7) March 18, withdrew GH¢500,000 from the bank for petty cash.
- 8) March 20, sent a parcel to Accra by EMS paying GH¢20,000 by cash
- 9) March 22, received cash of GH¢4,000,000 from USAID for a microfinance project and deposited it immediately into the bank.
- 10) March 26, the project officer returned from her trip, having spent GH¢400,000 on transport and she returned GH¢100,000 in cash.
- 11) March 30, bought a computer for ¢GH2,500,000, paid by cheque.

Notes:

* The project officer took a cash advance of GH¢500,000 for a trip and later returned GH¢100,000. The GH ¢500,000 was recorded in the "Cash Out" column and also in the "Unretired Advance" column. Later, when she returns the unspent funds, these are recorded in the "Cash In" column. At the same time, her GH¢400,000 expenditure for transport is recorded in the appropriate column and the advance is retired by showing (GH¢500,000) in the "Unretired Advance" column.

** We have already learned what a contra entry is, and that it should be marked with a (C). An example of this occurred on March 18th when GH¢500,000 was withdrawn from the bank. It is recorded in both the "Bank Out" and "Cash In" columns.

*** On March 22nd, GH¢4,000,000 were received in cash and deposited directly into the bank. In this case it is shown as a bank receipt and is only recorded in the "Bank In" column. However, if for some reason we had kept the GH¢4,000,000 at the office for two days before depositing it at the bank, it would be preferable to record it as a cash receipt. Later, when the deposit is made, another entry would be made in the cashbook thus, a contra entry showing GH¢4,000,000 coming out of cash and showing same amount going into the bank.

Remember!

Any time that money flows into or out of your organisation, it should be recorded in the analytical cashbook.

Figure 11

Solution:

Youth Home Development Association – Analytical Cash Book, for March 2003

Date	ID No.	Details	Cash In	Cash Out	Cash Balance	Chq. No.	Bank In	Bank Out	Bank Balance	Analysis						
										Unretired Advance	Workshops	Salaries	Travel & Trans.	Other Prog.	Admin. Over-head	
1/3		Balance forward	100,000		100,000		300,000		300,000							
2/3	1	A4 paper		40,000	60,000											40,000
5/3	2	ActionAid disbursement -					5,000,000		5,300,000							
5/3	3	Watchman salary				231001		300,000	5,000,000							
5/3	4	Field officer salary				231002		600,000	4,400,000			600,000				
10/3	5	Help the People grant	1,000,000		1,060,000											
15/3	6	Advance for trip		500,000	560,000							500,000				

- At every point in time, you can compare the amount in your “Bank Balance” column against your bank statement. You can also check to see that the actual cash you have in hand is equal to what the “Cash Balance” column says it should be.

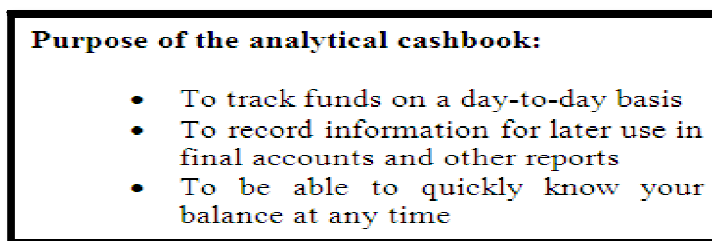


Figure 12

6. Income and Expenditure Statement

6.1. What is the Income and Expenditure Statement?

You have recorded your daily receipts and payments in your analytical cashbook, but how do you report to the Board of Directors or to your donors? Most of them are not interested to see every detailed entry in the cashbook. Furthermore, you don't want to put the book into a giant envelope and mail it. An Income and Expenditure Statement is how you can present the necessary information to other stakeholders.

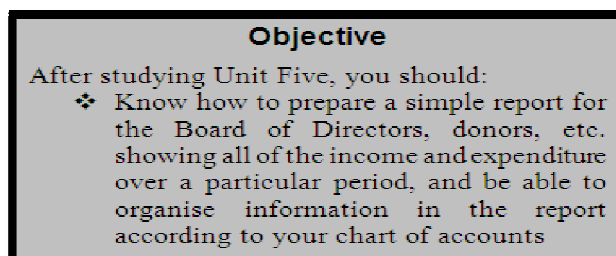


Figure 13

6.2. Purpose/Use

- To summarise income and expenditure over a given period for presentation to your boss, to Board Members, to your annual general meeting or to donors
- To see at a glance how much you have spent on your various cost centres (with the cost centres or categories drawn up according to your chart of accounts – see Unit Two)
- To have at your fingertips information that will be needed for making a budget for next year or for the next project

6.3. How Do We Prepare this Income and Expenditure Statement?

6.3.1. Step One: Expenditure Calculations

- Decide on the period that you are reporting on. (One year? Three months? The total life of a particular project?). Normal accounting period is one year.
- Get a sheet of paper for your rough calculations (or, if using a computer, open Microsoft Excel or some other spreadsheet programme).
- Across the top, prepare columns equivalent to the analysis columns in your analytical cashbook. Also include one column for “Total Expenses”.
- Down the side, prepare rows for the months and one final row for the grand totals
- Add up the expenses in each row and show this under the “Total Expenses” column.
- Total up each column and show this in the “Grand Total” row. You should calculate the Grand Total under “Total Expenses” twice – once by adding vertically all of the totals in the “Total Expenses” column and once by adding horizontally all of the totals in the “Grand Total” row. The two calculations should agree.

Month	Workshops	Salaries	Travel & Trans.	Other Program Costs	Admin. Overhead	Total Expenses
Jan.	2,320,000	1,200,000	200,000	0	350,000	4,070,000
Feb.	1,200,000	1,200,000	120,000	0	100,000	2,620,000
Mar.	0	1,200,000	950,000	0	45,000	2,195,000
Apr.	400,000	1,650,000	400,000	0	540,000	2,990,000
May	4,500,000	1,650,000	200,000	2,350,000	600,000	9,300,000
Jun.	0	1,650,000	200,000	0	600,000	2,450,000
Jul.	120,000	1,650,000	200,000	0	505,000	2,475,000
Aug.	0	1,650,000	1,000,000	340,000	1,955,000	4,945,000
Sept.	0	1,650,000	120,000	0	0	1,770,000
Oct.	1,200,000	1,650,000	200,000	0	45,000	3,095,000
Nov.	0	2,600,000	200,000	0	650,000	3,450,000
Dec.	0	2,600,000	200,000	0	0	2,800,000
						42,160,000
Grand Totals	9,740,000	20,350,000	3,990,000	2,690,000	5,390,000	42,160,000

Table 10: Sample Expenditure Calculations for Income and Expenditure Statement

6.3.2. Step Two: Income Calculations

- Calculating income is a little more complicated. Prepare another sheet of paper for your rough calculations (or on the computer open another worksheet in Excel).
- Down the side, prepare rows for the months and one final row for the grand totals
- Across the top, prepare columns for your various sources of income. Leave a few blank columns in case you have forgotten any – these can be added as you find them.
- Now you will have to look through your cashbook month-by-month and line-by-line to see where you had received income. Add all the income from each source for the month and enter it in your calculation sheet.
- Be careful to include only real income. Do not include things like refunds on advances, and any cases where you are simply moving funds from petty cash to the bank or from the bank to petty cash.
- Total up each column and show the amount in the “Grand Total” row.
- On the right side, add a column for “Total Income”. Add up and show the monthly totals.
- You should calculate the Grand Total under “Total Income” twice – once by adding vertically all of the totals in the “Total Income” column and once by adding horizontally all of the totals in the “Grand Total” row. The two calculations should agree.

Month	ActionAid	American Embassy	Membership Dues	Total Income
Jan.	5,000,000			5,000,000
Feb.			200,000	200,000
Mar.		20,000,000	400,000	20,400,000
Apr.	5,000,000		800,000	5,800,000
May				0
June				0
July	5,000,000			5,000,000
Aug.				0
Sept.				0
Oct.	10,000,000			10,000,000
Nov.		17,340,000		17,340,000
Dec.				0
				63,740,000
Grand Totals	25,000,000	37,340,000	1,400,000	63,740,000

Table 11: Sample Income Calculations for Income and Expenditure Statement

6.3.3. Step Three: Preparing the Report

- The report will be divided into three sections: “Income”, “Expenditure” and “Surplus/Deficit”
- Label the first section as “Income” and list all sources of income and the amounts received from those sources during the period. Then show the total income received.
- Label the second section as “Expenditure” and list all categories of expenditure according to your chart of accounts. Based on the calculations that you have just done, show the total amounts spent in each category. Then show the total expenditure for the period.
- Calculate the difference. If your income is greater than your expenditure, label the third section “Surplus”. If not, label its “Deficit”. Show the amount.

- Note that a deficit should be shown in parenthesis “()”

<i>Obiba J.K. Club Income and Expenditure Statement for the Period ended 31st December, 2002</i>		
Income		
ActionAid programme funding	GHe25,000,000	
American Embassy Small Grants Programme	37,340,000	
Membership dues	<u>1,400,000</u>	
Total income	GHe63,740,000	GHe63,740,000
Expenditures		
Workshop costs	e9,740,000	
Salaries	20,350,000	
Travel and transportation	3,990,000	
Other program costs	2,690,000	
Administration/overhead	<u>5,390,000</u>	
Total expenditure	GHe42,160,000	GHe(42,160,000)
Surplus (Income less Expenditure)		GHe21,580,000

Figure 14: Sample Income and Expenditure Statement:

6.4. Activity 3

The following tables show the monthly expense and income totals for the Triple Aid Group Association. Prepare an annual Income and Expenditure Statement.

Month	Workshops	Salaries	Travel & Trans.	Other Program Costs	Admin. Overhead
Jan.	1,020,000	500,000	40,000	0	35,000
Feb.	200,000	500,000	20,000	0	10,000
Mar.	50,000	500,000	95,000	0	45,000
Apr.	0	500,000	40,000	345,000	54,000
May	0	500,000	20,000	0	60,000
Jun.	0	500,000	20,000	0	600,000
Jul.	620,000	500,000	20,000	330,000	50,000
Aug.	0	500,000	100,000	0	195,000
Sept.	0	500,000	20,000	0	0
Oct.	1,400,000	500,000	20,000	0	45,000
Nov.	0	500,000	20,000	0	0
Dec.	0	500,000	20,000	0	0

Table 12: Triple Aid Group Association Monthly Expense Totals

Month	Sale of Baskets	OXFAM	Private Contributions
Jan.	50,000	0	0
Feb.	27,000	0	1,000,000
Mar.	36,000	2,500,000	400,000
Apr.	250,000	0	0
May	0	0	0
June	0	2,500,000	0
July	60,000	0	150,000
Aug.	99,000	0	0
Sept.	0	2,500,000	0
Oct.	120,000	0	0
Nov.	85,000	0	0
Dec.	100,000	0	0

Table 13; Triple Aid Group Association
Monthly Income Totals

Solution:

<i>Triple Aid Group Association</i>		
<i>Income and Expenditure Statement for the period ended</i>		
<i>31st December 2002</i>		
Income		
Sale of Baskets	GHC827,000	
OXFAM	€7,500,000	
Private Contributions	<u>€1,550,000</u>	
Total income	GHC9,877,000	GHC9,877,000
Expenditures		
Workshops	GHC3,290,000	
Salaries	€6,000,000	
Travel & Transportation	€435,000	
Other Program Costs	€675,000	
Administrative Overhead	<u>€1,094,000</u>	
Total expenditure	GHC11,494,000	GHC(11,494,000)
Deficit (Income less Expenditure)		GHC(1,617,000)

Figure 15

6.5. Test Yourself

What is the report that summarises an organisation’s income, expenses, and surplus or deficit for a particular period of time?

Double Do Association’s total expenditure for the year was €920,000. They received for the year donations of €1,000,000 and membership dues totalling €200,000. Do they have a deficit or a surplus for the year? How much is it?

When preparing an Income and Expenditure Statement, what are the various expenditure headings based on?

- Your bank statements
- Your chart of accounts
- The directives of the Ghana Association of Chartered Accountants
- The advice of your mother

Purpose of the Income and Expenditure Statement:

- To summarise income and expenditure over a given period of time for presentation to your boss, to Board Members, to your annual general meeting or to donors
- To see at a glance how much you have spent in your various accounting categories (with the categories drawn up according to your chart of accounts – see Unit Two)
- To have at your fingertips information that will be needed for making a budget for next year or for the next project

Figure 16

6.6. Frequently Asked Questions

Q. What if each donor wants us to keep a separate set of books for the particular project that they are funding?

A. No problem. Simply treat each of these projects as a separate entity, with its own chart of accounts, its own analytical cashbook, its own bank account and its own petty cash. While it might sound tedious, this is actually the simplest way to handle multiple projects each having their own source of funds. You might have one set of books for your ActionAid project, one set of books for your GARFUND project and one general set of books which would include all of your overhead costs and expenditures made from your organisation's discretionary funds.

Even if having a separate set of books is not a requirement imposed upon you, you may want to do it anyway. Having a separate set of books for each project makes it easy for you to track expenditure and prepare reports in relation to each project. One possible exception is short-term activities – for example, when you receive funds to hold one workshop. Transactions related to such activities can be included in your general books.

Q. How do we show our balance situation when doing our end of year report? The Income and Expenditure Statement does not show balance carried forward from last year or closing balance.

A. This would be shown on your Balance Sheet. Preparation of Balance Sheets is not covered in this manual.

Q. What if one of our staff is still holding some funds as unretired advance at the end of the fiscal year? How do we show this in our reports?

A. Ideally, you should try to tie up such loose ends and not carry forward outstanding unretired advances. But if it is unavoidable, this could be shown as carried forward in your analysis book.

Q. How do we show bank charges in the analytical cashbook? By the time we receive our bank statement, it is sometimes two or three months after the expenses have actually been deducted from our account. For example, if in July we receive our April bank statement and there was a bank charge of GH¢40,000, where do we record this as an expense?

A. Record this in your analysis book in the month that you receive the bank statement. As your accounting system becomes more sophisticated, you will also do a bank reconciliation statement. This is not covered in this manual; you may need to do further readings on it.

Q. How do I use the analytical cashbook to crosscheck our bank balance? Sometimes at the end of each month, cheques that we have written have not yet been cashed, and bank charges have not yet been noted in our cashbook. This throws everything off and the actual bank balance according to our bank statement does not agree with what our cashbook says it should be.

A. In order to factor in bank charges and the fact that some of your cheques have not yet been cashed at the end of the month, it is necessary to do bank reconciliation statement. How to do a bank reconciliation statement is explained in other financial management books or manuals which you may have to search and read more on it.

7. Acknowledgment

It is important to acknowledge the support received from Lance Robinson (PhD) for the valuable efforts in type setting and proof reading of this manual.

8. Glossary

- Analytical cashbook – a type of cashbook used to record the day-to-day transactions of an organisation, and to categorise expenditures as they are made
- Certificate of honour – a form that is used when it is impossible to obtain a receipt for some expenditure that has been made
- Chart of accounts – a list of headings or “cost centres” that allow you to categorise your various financial transactions
- Cheque voucher – a form used to record all types of payments made by cheque
- Contra entry – an entry in the cashbook describing movement of funds from bank to cash or from cash to bank, i.e., a movement of funds within the organisation. For example, funds are withdrawn from the bank to keep as petty cash.

- Cost centre – a category of expenditure in the chart of accounts
- Expense– payment made by the organisation for a particular purpose. *Expenses*, along with advances and refunds, are type of *payments*
- Honour certificate – see certificate of honour
- Income – new funds received by the organisation. *Income*, along with refunds of advances, loans received and loans repayments, are types of *receipts*.
- Income and expenditure statement – a report summarising all income and expenditures over a particular period
- Internal controls – systems used to ensure accuracy and reliability of all financial records within an organisation’s accounting system
- Payment – any financial transaction in which funds flow out of the organisation or one of its accounts. Payments include expenses but also include advances, floats, loans and refunds made.
- Petty cash payment voucher – a form used to record all types of cash payments
- Receipts – any financial transaction in which funds flow into the organisation or one of its accounts. Receipts include income but also include refunds, and repayments of floats and loans.
- Retiring an advance – the process of accounting for an “unretired advance” (see below) and noting the expenditure under one or more cost centres
- Source documents – the basic forms from which information is obtained for accounting records
- Unretired advance – an amount of funds issued as a float or advance, for which either the actual amount spent or the items on which it will be spent has not yet been identified and accountedFor. Once the actual amount spent and the categories of expenditure are known, the amount can be “retired”

9. References

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