Finance for Non-Finance Managers 2

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DSC Associate Trainer

5th March 2024

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online etiquette

Mute yourself

Press spacebar to unmute

Want to speak

Yes / agree

No / disagree

Use chat box

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Introduction and Objectives

- **What will I get out of it?**
- Understand all the various types of accounts
- Learn how to create your own budget, including estimates of costs and incomes, and how to present it to your managers along with your project plans.
- Understand where your own budget fits into the wider picture of your charity's finances.
- Learn the various terms, obligations and practices of charity finance so you no longer have to bluff it.

What would you like to be able to do by the end of the course?

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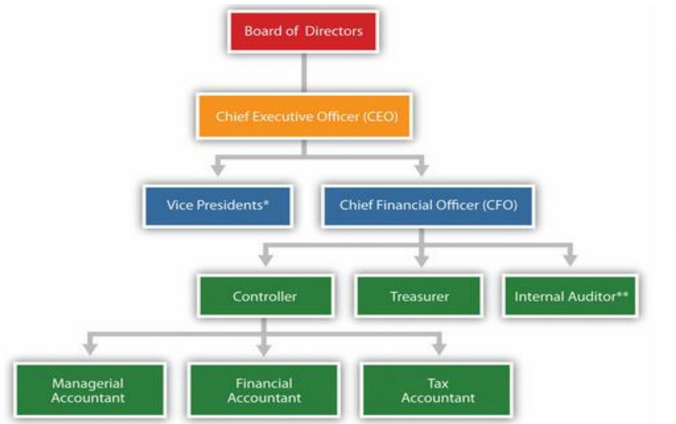
The why of finance

- Statutory obligations (Charity law, Company Law etc)
- Managers need to report to stakeholders (owners)
- enabling external stakeholders to understand and compare results
- Produce reports that can be used ' decision making



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The why of finance

Statutory Duties

- Maintain accounting records
- Prepare and submit statutory accounts
- Audit responsibilities
- Maintain statutory registers
- File returns and reports
- Meetings and other administrative matters

Financial Reporting

- The law requires summary of finances to be produced
- so that stakeholders can understand the organisation's financial position
- Organisations can be compared
- Managers can be called to account
- Relevant decisions can be made going forward

Bookkeeping Documents

- Invoices
- Credit Notes
- Cheques
- Etc…

Record entries

Spreadsheet
Software

Ledgers

Sales Ledger
Customer
Debtors
(Credit Control)

Nominal Ledger
(General Ledger)
- Assets
- Liabilities
- Income
- Expense

Trial Balance

Purchase Ledger
Suppliers
Creditors

Income/Expenditure and Balance Sheet

Management & Financial Accounts Basis of preparation

Receipts & Payments

- Cash Basis – money in and out of bank/cash accounts
- Receipts & Payments

Accruals

- Cash Basis – money in and out of bank/cash accounts
- + Accounting Adjustments
- Profit and Loss Account
- Balance Sheet
- Notes to Accounts

Accruals Accounting Adjustments

- EXPENDITURE (incurred during the year)
- Prepaid expenditure e.g Rent -
- Accrued Expenditure e.g Audit fee +

Accrued expenses. An accrued expense is an expense that has been incurred before it has been paid

- Supplier Unpaid Invoices e.g British Telecom +
- Other creditors – e.g HMRC. Loans +
- Depreciation of fixed assets – charge for the year +

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Accruals Accounting Adjustments

- INCOME (earned during the year)
- Grant/Income in advance -
- Accrued income- Accrued income. Accrued + income is income that has been earned by the organisation, but the customer has not yet been billed.
- Trade Debtors – Customers unpaid invoices +
- Other Debtors – eg employee loan +
- Appreciation of fixed asset +

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There are different types of adjustments

There are five types of adjusting entries:

1. Accrued Income
2. Deferred income
3. Accrued expenses
4. Prepaid expenses
5. Depreciation

Accrued Income

- Accrued Income – when a service is performed for a customer in a particular month but then the service is not billed until the following month you would need to debit accounts receivable and then credit service revenue.

  E.G - We have delivered consultancy worth £5,000 and this needs to be added to the Income(Credit) and Balance Sheet Accrued Income (Debit)

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Deferred Income

- Deferred income – Monies received in advance of the accounting year.

E.G We received £3,000 on the 15th of March, but it's for work to be completed in April start of our financial year.

Accrued expenses

- Accrued expenses – We know we will incur the service for the financial yet but the work has not yet been done.

E.G- We negotiated with our accountants that the audit fee will be £750 for the year.

Prepaid expenses

- Prepaid expenses – these are expenses we have paid for in advance.

E.G – We paid £1,200 on the 1st of March for our annual insurance costs.

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Depreciation

Depreciation – this process allocates the cost of a particular asset over its economic lifespan

To be classified as a **Fixed Asset**, rather than an **Expense**, the purchase would tend to have significant value.

This should be in your fixed asset policy. You might say any equipment with value of £500 should be treated as an asset instead of expense.

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Fixed Assets Types

Fixed Assets are classified as Assets in the Balance Sheet, not Expenses in the Profit and Loss Account.

Fixed Assets fall into two categories:

- Tangible Fixed Assets (eg. Cars, Machinery, Computers, Buildings, Desks)

- Intangible Fixed Assets (eg. Goodwill, Intellectual Property)

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Straight Line Depreciation

Straight Line Depreciation

For example, a computer costs £1,000, and is expected to last 4 years, ie. an annual depreciation rate of 25%.

On a **straight line method** the annual depreciation is £250, which is transferred to the Income and Expenditure Account from the Balance Sheet every year for 4 years.

So after 1 year, the Balance Sheet value becomes £750, and the £250 has been charged as Depreciation to the Income and Expenditure accounts,.

In the second year, the computer depreciates to £500, and another £250 is charged to Income and Expenditure.

Reducing Balance Depreciation

Reducing Balance Depreciation

Another depreciation method is the **reducing balance method**. This method may be suitable when the Fixed Asset will be gradually losing its value, but its useful life cannot be precisely estimated.

For example a van may cost £8,000.

In the first year 25%, ie £2,000 could be depreciated, leaving a balance of £6,000.

In year 2, 25% is depreciated from the reduced balance of £6,000, ie. £1,500, leaving a balance of £4,500, and so on.

Fixed Asset Register

Fixed Asset Register

A **Fixed Asset Register** is the record of a business's Fixed Assets. The basic record includes the original cost, date purchased and supplier's name. Then the depreciation each year is recorded, giving a **Net Book Value** for each Fixed Asset.

Some charities will also record where a Fixed Asset is located, maintenance schedules, etc.

Specialist software is available for a Fixed Asset Register, but for most small charities a spreadsheet will be fine.

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Other Adjustments

Stock – Opening and Closing Stock

Write offs – membership fees, bad debts, stock etc

Allocation of Funds – (Restricted/unrestricted/Designated)

Allocation of overheads to project – what basis?
Staffing – Time?
Other overheads -???

Management Charges

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Complete Task

Amending receipts and payments to Income and expenditure with adjustments

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10 minutes break

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Year End Accounts

- Audit   Or Independent Examination

- If your annual income is £25,000 or more you will need to get your accounts independently examined .
- Your will need to get a qualified accountant or someone who is a member of the Association of Charity Independent Examiners to compete the Independent Examination if your Income is over £250,000

- You will need a full audit if you have: income over £1 million. gross assets over £3.26 million and income over £250,000.

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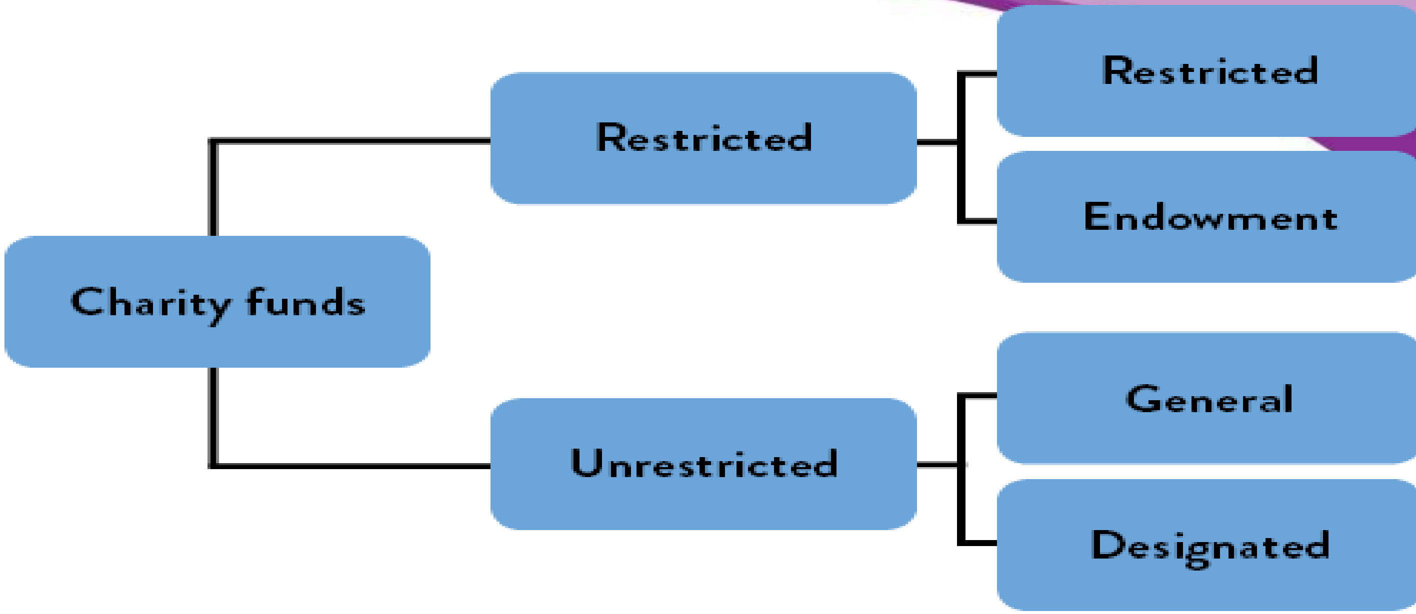
Charity Funds



Designated funds – these are unrestricted funds that the trustees have set aside for a particular purpose. Such funds can be undesignated or re-designated.

Restricted funds – restricted funds have been given to a charity for a particular purpose and can only be spent on that purpose.

In simplest terms, Endowment Funds are **funds that typically have certain donor-imposed restrictions placed upon the principal and/or income**. For True Endowments, the principal can never be spent and income from the endowment will be expended as stipulated by the donor.

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Types of year end account Accounts

Cash basis

- Cash Basis – money in and out of bank/cash accounts
- Receipts & Payments
- List of Assets and Liabilities
- Trustees Annual Report

Accruals

- Cash Basis – money in and out of bank/cash accounts
- + Accounting Adjustments
- State of Financial Activities - by Funds
- Balance Sheet
- Notes to Accounts
- Trustees/Director’s Annual Report

Issues that can arise with year end accounts

1. Costs not allocated during the year between the funds/projects
2. Figures on reports send to funders does not match year end figures
3. Charity prepares management accounts on receipts and payments but year end accounts is done on accruals.
4. Bookeeping not up to date/ missing receipts/ agreements etc
5. Trustee details not updated
6. Minutes of meetings/Number of meetings
7. Financial procedures not followed – e.g use of credit card etc
8. Not all reimbursed expenses have been received

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SOFA

- The Statement of Financial Activities (SOFA), also known as the Statement of Activities or Income Statement, provides information about the financial performance of a charity over the financial year.. It helps in understanding the sources of income and the allocation of funds to different activities of the charity.

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What's in the SOFA?

1. Income Sources by funds – Restricted/Unrestricted/ Endowment

2. Expenses and Activities: - . Restricted/Unrestricted/ Endowment

3. Net Income/Deficit: The surplus or shortfall of revenue over expenses. A positive net income indicates that the charity generated more revenue than it spent during the period, while a deficit suggests that expenses exceeded the income. This figure reflects the financial health and sustainability of the charity.

4. Financial Comparison : By comparing the SOFA across multiple periods, can help identify financial trends.

5. Donor Transparency: The SOFA offers transparency to donors, supporters, and stakeholders, as it provides a comprehensive overview of the charity's financial activities. It shows how funds are being utilized and whether the organization aligns with its stated mission and objectives.

Statement of Financial Activities
for the year ended 31 March 2022

	Notes	Unrestricted fund £	Restricted funds £	2022 Total funds £	2021 Total funds £
INCOME AND ENDOWMENTS FROM					
Donations and legacies	2	53,231	63,159	116,390	5,770
Charitable activities					
Charitable activities	4	268,748	587,317	856,065	800,358
Investment income	3	136	-	136	125
Other income		12,162	-	12,162	12,332
Total		334,277	650,476	984,753	818,585
EXPENDITURE ON					
Charitable activities	5				
Charitable activities		244,120	500,037	744,157	752,719
Raising funds		19,960	-	19,960	7,347
Total		264,080	500,037	764,117	760,066
NET INCOME		70,197	150,439	220,636	58,519
Transfers between funds	15	49,801	(49,801)	-	-
Net movement in funds		119,998	100,638	220,636	58,519
RECONCILIATION OF FUNDS					
Total funds brought forward		179,999	30,500	210,499	151,980
TOTAL FUNDS CARRIED FORWARD		299,997	131,138	431,135	210,499

What key Questions could you ask when presented with the SOFA?

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Questions to ask re SOFA

1. What where are major sources of Income and Expenditure?
2. What Percentage of expenses went Toward project Activities?
3. Are there any unusual or non-recurring items Impacting the financial Statement?
4. What Is the charity's net Surplus (or Deficit) for the Reporting Period?
5. How does the balance of our reserves related to our reserves policies?

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Balance Sheet
Statement of Financial Position

- The purpose of the charity balance sheet, also known as the statement of financial position, is to provide a snapshot of a charity's financial position at a specific point in time.
- It presents a summary of the organization's assets, liabilities, and net assets (or equity) to help stakeholders understand the financial health and stability of the charity.

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Going concern

- Under the going concern basis of accounting, the financial statements are prepared on the assumption that the charity is a going concern and will continue its operations for the foreseeable future.

BALANCE SHEET
Company limited by guarantee
As at 31 December 2018

Company Number: 02320712
Charity Number: 800517

	Note	2018 £	2018 £	2017 £	2017 £
FIXED ASSETS					
Tangible assets	10		4,431		9,697
Intangible assets	11		76,956		97,019
			81,387		106,716
CURRENT ASSETS					
Stock	12	678,711		497,725	
Debtors	13	241,986		469,899	
Cash at bank		53,716		67,911	
		974,413		1,035,535	
CURRENT LIABILITIES					
Creditors: amounts falling due within one year	14	(679,678)		(591,125)	
NET CURRENT ASSETS			294,735		444,410
Creditors: amounts falling due after more than one year	14		(37,101)		(44,854)
NET ASSETS	19		£339,021		£506,272
CHARITABLE COMPANY FUNDS					
Restricted funds	18		149,428		313,641
Unrestricted – designated funds	17		4,431		9,697
Unrestricted – general funds	17		185,162		182,934
			£339,021		£506,272

The financial statements have been prepared in accordance with the special provisions relating to companies subject to the small companies regime within Part 15 of the Companies Act 2006.

The notes on pages 29 - 45 form part of these financial statements.

The financial statements were approved and authorised for issue by the Trustees on **30th April 2019** and were signed below on their behalf by:

EHughes

Emily Hughes
Trustee

A.J. Purkis

Andrew Purkis
Trustee

What key questions could you ask when presented with a balance sheet?

Assets and Liabilities:

-
- What are the charity's current assets and how liquid are they?
- The bank balance how much is restricted./unrestricted
- Are there any outstanding debts or liabilities, and how are they managed?
- Is there a healthy ratio between assets and liabilities?

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Reserves and Fund Balances:

Does the charity maintain reserves, and if so, what is their purpose?

Does the reserve policy need to be amended e.g from having 6 months reserves to just 3 months?

How is the fund balance allocated among different programs or projects?

Is the organization operating within its budget, or is it relying on reserves to cover expenses?

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What the balance sheet tells us

1. **Financial Position:.** It shows what the charity owns (assets), what it owes (liabilities), and the residual value after deducting liabilities from assets (net assets or equity).

2. **Liquidity Assessment:** The charity's ability to meet short-term financial obligations. By examining the current assets (such as cash, debtors , and comparing them to current liabilities (such as creditors and short-term debt).

3. **Financial Stability**: It shows the composition and value of the charity's assets, including cash, investments, property, and equipment.

4. **Debt and Liabilities**: Long-term and short-term liabilities, such as loans, mortgages, and creditors.

5. **Net Assets**: Represent the residual value of the charity's assets after deducting its liabilities (Funds)

6. **Financial Analysis**: Comparing balance sheets over different periods,

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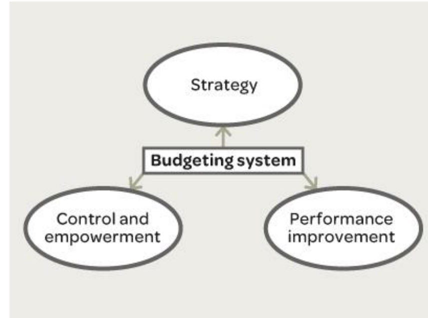
10 minutes break

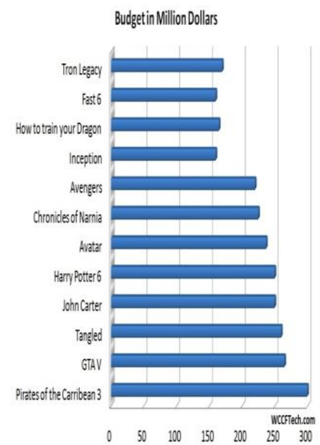

TIME
FOR
LUNCH!

Budgets- as a Tool



Establish a mission or strategy

- Budgeting used to:
  - Allocate/ maximise resources
  - Implementing plan
  - Identify financial/ resource problems
  - Actions required to fulfil goals



Budgetary Control:

- *Helps to maintain and monitor finance*
- *Budgets should be prepared in in advance of an accounting period, ideally for 3 years and should be reviewed.*
- *Budgets are compared with actual performance to establish any variances.*
- *Managers should be made responsible for the controllable activities within their budgets.*
- *The budget should be approved, signed and dated*

Approach to budgetir

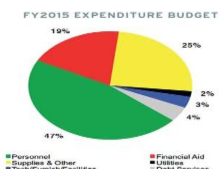
•**Zero-based budgeting -** where current year's budget is prepared from the scratch i.e. taking the base as zero.

•**Incremental budgeting** - where current year's budget is prepared by making changes in the past year's budget and increment by a % or fixed amount.

Budgeting for Income/Expenditure

Income sources e.g

- Service agreements and contracts
- Grants from trusts and companies
- Sponsorship
- Donations – Gift Aid



Expenditure e.g

- Salaries/NIC/Pension
- Equipment upgrade
- Volunteer
- Management
- Project costs
- Contingency

Key Points

- Understand your budgeting process,
- Have a plan of what your organisation wants to do for the year.
- Split budget into:- Direct Project Costs,

  Overhead costs and by Funds
- Consider basis of apportionment of overheads
- Involved budget holders
- Make sure budget headings are clear
- Review and Revise budget

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Budgeting

- **<u>Project Costs –</u>**
- Have template with common headings that all projects can use with additional lines for items unique to each project.
- **<u>Core Costs/Overhead Costs</u>**
- Group into meaningful headings e.g
  - Staff costs , Premises costs, General office costs
- **<u>Allocation of overhead costs to Projects e.g</u>**
- Staff costs – based on time
- Premisses and office costs – based on number of staff

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Full cost recovery - FCR

- Full cost recovery is a financial management concept that emphasizes the importance of covering all costs associated with delivering programs and services, including both direct and indirect costs. Understanding and implementing full cost recovery is essential for financial sustainability

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Direct Costs

- :

- **Program Costs:** This includes all costs directly associated with delivering programs or services. It encompasses expenses such as staff salaries directly tied to program delivery, materials, and any other costs directly attributable to a specific program.

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Full cost calculations

- To determine the full cost of a program or service, both direct and indirect costs should be considered. This ensures that the organization is not only covering the immediate expenses associated with program delivery but also contributing to the sustainability of the organization as a whole.

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INCOME	Total	Restricted	Unrestricted
Parental Contribution	4,750		4,750
Grants	25,000	25,000	
Donations	4,000		4,000
Fundraising	7,000		7,000
	40,750	**25,000**	**15,750**
EXPENDITURE	**Total**	**Restricted**	**Unresricted**
Projectt Costs	10,325	10,000	325
Overheads	18,078	15,000	3,078
Capital cost	1,725		1,725
	30,128	**25,000**	**5,128**
Surplus/Deficit	**10,622**	**-**	**10,622**

Do you use Full Cost Recovery?

- How do you manage the allocation of costs?

Young Pioneers Project Budget		
Details	Basis/Assumptions	Amount
Recruitment of project Manager	One off fee to advertise post (Third Sector half page advert)	2,325
Project manager's salary	£34k per annum prorate for 3 days of the week (i.e 3/5)	20,400
Employer's cost of PM's salary	Salary of £20,400 x 18.8% as on-costs	3,835
Total Project Manager salary		26,560
Cost of Facilitators	2 Facilitators for 24 days x £80 per Facilitator per day	3,840
Cost of Guides	4 Guides for 24 days x £40 per Guide per day	3,840
Cost of Volunteers	2 Volunteers per day for 24 days x £10 per Volunteer per day	480
Additional staffing costs		8,160
Premises costs	£85 per day cost of the project/training room, for 24 days	2,040
Course materials	Estimated cost of £10 per beneficiary x 40 youth	400
Other direct costs		2,440
Total direct costs		37,160
Share of organisational overhead	On the basis of expected income. Young Pioneers Project expected to raise (45K/565K) 8% of total income, so would "absorb" 8% of overheads. I.e. 8% x £98k	7,840
Total project costs		45,000

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What key Questions could you ask when presented with the budget

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What Questions could you ask when presented with your budget?

1. What Are the Key Revenue Sources
2. What Are the Major Expenses and Priorities?
3. How Will This Budget Impact Our Programs and Services?
4. What Is the Contingency and Reserve Plan?
5. How Does this Budget Reflect Our Strategic Plan?
6. What Key Performance Indicators (KPIs) Will Be Used to Measure Financial Success?

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Cash-flow forecasts

J Williams for DSC 2020

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Cash-flow forecasts: why

The budget will show whether there is enough overall income to cover overall expenditure

The “when” when are expecting income and when we are making payments becomes more critical in the short t medium term especially in an adver financial climate.

Cash-flow forecasts: what

Cash-flow forecasts provide estimates about:

- Income when realistically expected
- Expenditure: when payment wo made
- And the impact of these timing overall cash position

SAMPLE

Cash flow Budget	April	May	June	July	August	Sept	Total
Inflows							
Grant	8000.00	0.00	0.00	20000.00	0.00	0.00	28000.00
Dontions							
	8000.00	**0.00**	**0.00**	**20000.00**	**0.00**	**0.00**	**28000.00**
	April	**May**	**June**	**July**	**August**	**Sept**	**Total**
Outflows							
Furniture and Equipment (One off)	4000	0.00	0.00	0.00	0.00	0.00	4000.00
Salary Costs	2,500.00	2,500.00	2,500.00	2,500.00	2,500.00	2,500.00	15000.00
Project Resources	1,000.00	0.00	1400.00	0.00	0.00	200.00	2600.00
Office Costs contibution	800.00	800.00	800.00	800.00	800.00	800.00	4800.00
Other costs	300.00	50.00	200.00	50.00	120.00	100.00	820.00
	8,600.00	**3,350.00**	**4,900.00**	**3,350.00**	**3,420.00**	**3,600.00**	**27,220.00**
Balance b/fwd	0.00	-600.00	-3950.00	-8850.00	7800.00	4380.00	0.00
Inflows - outflows	-600.00	-3350.00	-4900.00	16650.00	-3420.00	-3600.00	780.00
Balance c/fwd	**-600.00**	**-3950.00**	**-8850.00**	**7800.00**	**4380.00**	**780.00**	780.00

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What questions could you ask when presented with the cashflow?

▶ Cash Inflow:

- What are the primary sources of cash inflow, and how reliable are these sources?
- Are there any anticipated changes in donation patterns or funding sources?
- How sensitive are the cash flow projections to fluctuations in revenue?

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Cash outflow

- What are the major categories of cash outflow, and how well are they controlled?
- Are there significant upcoming expenses or capital investments that could impact cash flow?
- How flexible is the organization in adjusting its spending if necessary?

Debt and Liabilities

- Are there any outstanding debts or liabilities that could affect cash flow?
- What is the repayment schedule for any existing loans, and how does it align with the projected cash flow?
- Is the organization taking steps to reduce or manage debt effectively?

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Contingency Planning

- Does the charity have contingency plans in case actual cash flow differs from projections?
- What measures are in place to handle unexpected expenses or revenue shortfalls?
- Are there reserves or lines of credit that can be tapped into if needed?

Management Accounts

Financial accounts

- Statutory compliance
- Charity Law
- Companies Act

Management accounts

- internal decision-making
- forms the basis of financial accounts.

Management Accounts

Information will come from the Accounting books and records or the computerised system made up of:-

- Nominal ledger
  - Cash records
  - Records of all sales and income receivable
  - Records of all purchases and expenses
  - Details of capital expenditure
- **Sales ledger** (Debtors/Accounts receivable)
- **Purchase ledger** (Creditors/Accounts payable)

Management Accounts- Format

•No prescribed format

•There will be many different types of information

•Depends on audience

•What they need to know

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Management Accounts

Operating Statements for board reporting

- (Re) forecasting
- Budget Vs Actuals – Variance Report
- Update on fundraising targets
- Update on projects and fund balances
- Summary of year-to-date position
- Cashflow issues and projections for future months
- KPI - Key performance Indicator

* Review Financial Risk Register

Key Performance Indicator - KPI

A Key Performance Indicator (KPI) is a measurable value that demonstrates how effectively the organisation is achieving its key organizational objectives. ... KPIs can also be specific to certain organizational processes/areas. Some examples

1. Fundraising secured
2. Fundraising ROI or “Return on Investment”. Divide your total costs by total funds raised
3. The number of beneficiaries served.

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CompleteTask

Example management Accounts

	Stage1 Budget	Stage 1 Actual	Variance	Reason
Income	£	£	£	
Income from Big Lottery	15,000	15,000	0	
Donation	0	3,000	3,000	
Total income	15,000	18,000	3,000	
Expenses				
Recruitment of PM	2,325	0	2,325	
Project Manager salary	6,800	6,800	0	
Employer salary costs	1,279	1,279	0	
Facilitators	1,280	1,280	0	
Guides	1,280	1,280	0	
Volunteers	160	500	-340	
Premises costs	680	680	0	
Course Materials	400	0	400	
Organisational Overheads	2,614	2,614	0	
Total Expenditure	16,818	14,433	2,385	
Surplus/deficit	-1,818	3,567	5,385	

What key Questions could you ask when presented with the management accounts?

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Financial Overview:

Can you provide an overview of the organization's financial performance for the current fiscal year and any significant trends or changes compared to the previous year?

Revenue Sources:

What are the primary sources of revenue for the charity, and how have they evolved over the past few years? Are there any new fundraising initiatives or partnerships in place?

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Expenses and Allocations:

Could you break down the major expense categories and allocations within the budget? Are there any specific programmatic areas or projects that have experienced significant changes in funding or costs?

Fundraising and Donor Engagement:

How has the charity been engaging with donors and supporters? Have there been any shifts in donor demographics, giving patterns, or strategies for donor retention and acquisition?

Reserves and Financial Sustainability:

What is the current level of reserves or financial reserves policy in place?
How does the organization plan to ensure long-term financial sustainability and mitigate any potential financial risks or uncertainties?

These questions will help you assess the financial stability, transparency, and strategic direction of the charity, enabling you to make informed decisions or recommendations regarding support or involvement.

Remember to tailor your questions to the specific context and goals of your interaction with your own charity,

Identify potential financial risk

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Identify potential financial risk

Financial controls policies – when was this last reviewed?

Bookkeeping and Accounting policies and procedure – is this up to date? E.g Fundraising cash collection and banking, card machines, authourisation of payments?

Key staff member leaves the organization or is unwell for long term

Management Accounts – is this done regularly and do trustees and managers understand the figures?

Year end external scrutiny – Do you need to move from Independent examination to full audit?

Training and staff development - do we have a plan for this?

T**axation** – VAT, PAYE, Corporation tax, fines

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Impact of financial risks

1. Reduction in services/activities
2. Users – feel let down if services close
3. Funders – more scrutiny, may withhold funding
4. Staff morale and retention
5. Committee members- reputation
6. Supporters – may not want to donate or support

Steps to reduce financial risks.

- Financial control policies and procedures reviewed.
- Supervision and training of staff and committee members.
- Monitoring of cashflow and Budgets.
- Regular timely management accounts.
- Insurance cover, Legal, financial and taxation advise.
- External and internal audits. E.g management letters from accountants about your bookkeeping and accounting systems.
- Key Staff cover for sickness etx
- Procedure manual/ Passwords security and access

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Summary of the Bookkeeping and Accounting Cycle

Budget- three years

Cashflow – Monthly

Bookkeeping –Daily

Management Accounts- Monthly or Quarterly

Financial Accounts - Yearly

Thank you for attending

We value your feedback..

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