

# CAP Mozambique

Strengthening Leading Mozambican  
NGOs and Networks

## FINANCIAL MANAGEMENT CBO HANDBOOK

Training

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English Version

MAPUTO

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## The Purpose of this Guidebook

This guidebook is a compilation of the training materials used in the CBO Basic Skills Training and CBO Intermediate Skills training on financial management. It is a guide to support those people who have participated in these trainings, to help them implement their new skills at their CBOs.

## The Principles of Financial Management

**Transparency:** Being open so that people are given the information they need when they need it. This means that all financial records are made available to anyone who is authorized to view them when they need to view them. This may include an organization’s members (if it is a membership organization), the executive committee, management, and donors. Transparency also includes being open about how financial decisions are made and about how an organization’s resources are used.

**Clarity:** Keeping records neat and well organized, making sure things are easy to find, easy to read, and easy to understand. This means that all financial records should be filed and clear. It also means that policies should be well written and understood by all relevant people.

**Accountability:** Doing what agreed you would do when you agreed to do it. Keeping your word and accepting responsibility for it. This means that money and resources have to be used in accordance with whatever has been agreed with the organization’s membership, executive committee, and donors. It means that an organization must keep documents in accordance with any contracts it has signed with a donor. This means that those people in the organization who are responsible for the use of funds and resources must read and understand all contractual agreements.

# What Is Financial Management?

## 1. What is financial management?

Financial management is the way that an organization (or an individual) uses its material resources to achieve its objectives. Material resources are both the organization's money and its assets (the things it owns).

## 2. Who is responsible for financial management?

Everyone in an organization who handles money or uses assets is responsible for the financial management of an organization. For example, some people in an organization are responsible for deciding how to use the organization's money. They decide to purchase a cell phone. They have to be able to answer the questions:

- Why does this organization need a cell phone?
- How will it help the organization to achieve its objectives?

Perhaps they have decided that improving communication will help the organization to achieve its objectives. They should then be able to answer the question:

- Is purchasing a cell phone an effective way to improve communication?
- Are there other more effective and less costly ways?
- Is the cost of the cell phone worth the benefits?

And finally, they should ask:

- If we purchase a cell phone, can and will the people in the organization use it effectively?

Once the decision is taken to purchase the cell phone, the persons who decide on the model of the cell phone are responsible for the appropriateness of the phone in terms of its purpose. A very cheap phone may not work, a very expensive phone may be a waste of resources that could have been used for something else. The persons who purchased the phone are responsible for finding the best price. The persons who use the phone are responsible for taking care of it and for using it for the organization's purposes.

- Is it being used to communicate within the organization
- Or is it used for personal reasons?

## 3. Who are financial managers accountable to?

For most CBOs financial managers are accountable to their Executive Committees, to their donors, and, as a legally registered organization, to the government if it decides to conduct an audit. If the CBO is a membership organization the financial managers may be accountable to their members.

## 4. Who needs to read and understand the financial reports?

The Executive Committee, the CBO's management, and the CBO's bookkeepers need to read and understand the financial reports. If the CBO is a membership organization, the CBO should provide a written report and an oral presentation at an Annual General Meeting and answer any

questions that members may ask. Financial reports must be understandable to the CBO's donors.

#### **5. Is financial management related to programmatic management? If so, how?**

Financial management is directly related to programmatic management. When developing a program, an organization identifies

- Its goals and objectives,
- The activities to achieve the goals and objectives,
- And the resources required to carry out the activities.

A budget is developed and agreed to procure the resources required to carry out the activities. The budget is therefore a planning agreement to ensure that funds are spent in a manner that most effectively supports an organizations programmes and hence its goals. Financial management involves ensuring that funds are used effectively and according to the budget.

#### **6. How can the lack of financial management influence implementation of activities? Be specific.**

Using funds effectively and honestly is necessary for programmatic success. Using funds ineffectively or dishonestly destroys an organization's chances of success. Poor financial management affects the timely procurement of resources that are required to carry out activities. Some common problems encountered by organizations that lack good financial management are:

- Not enough funds to carry out activities because the managers do not produce financial reports in time, which delays the next funding installment.
- Funds are available, but resources are not procured or available in time to carry out activities according to plans.
- Line items in budgets are overspent without permission. This undermines donor confidence and often leads to a reduction in donor funding.
- Things that are not in the budget are purchased without permission, undermining confidence. This often leads to a reduction in donor funding.
- Theft and misuse of an organization's resources is common when financial management is poor because people quickly understand that the managers are not able to track the organization's funds and assets. This often leads to a reduction in donor funding.

#### **7. How can good financial management influence the implementation of activities?**

Good financial management helps activities to be implemented on time. Direct benefits of good financial management on the implementation of activities are:

- The organization has enough funds to carry out activities when they are planned to happen.
- Resources are procured and available in time to carry out activities according to plans.
- Line items in budgets are spent according to agreements. This often leads to continued donor support, which allows organizations to continue implementing their activities.
- Resources that are not budgeted are not purchased or are purchased only with prior written permission, and this builds donor confidence. With new donors it is best to stick to the budget and the plan and not ask for something different. An organization can develop a new budget after the first one has been fully implemented. This builds donor confidence and leads to continued donor support.

- Theft and misuse of an organization's resources is significantly reduced when financial management is good because people understand that the managers track the organization's funds and assets. This means that funds are available to implement activities as planned.

# The Basic Elements of a Financial System

## Basic Documents

### Budget

A budget is a plan for how money can be spent. A budget is divided into categories or line items and each line item will have a specific amount of money assigned to it. So the budget informs people how much money is available and for what purposes it can be spent. Often, a budget is written in a formal agreement or contract between the members of an organization themselves, and if there is a donor, between the organization and the donor. A typical budget is below.

<b>Budget for CBO: January 2016 to November 2016</b>		
1	<b>CNCS</b>	<b>458,000</b>
<b>Expenses</b>		
1	<b>Bank Charges</b>	<b>4,000</b>
2	<b>Rent</b>	<b>25,000</b>
3	<b>Utilities</b>	<b>8,000</b>
4	<b>Office Equipment</b>	<b>51,000</b>
5	<b>Workshops</b>	<b>142,000</b>
6	<b>Transportation</b>	<b>60,000</b>
7	<b>Communication</b>	<b>6,000</b>
8	<b>Incentives</b>	<b>150,000</b>
9	<b>Office Supplies</b>	<b>12,000</b>
	<b>Total</b>	<b>458,000</b>

Notice that the budget contains:

*1) How much total money the CBO plans to spend.*

*2) Broadly how the money will be spent (line items). Many donors will ask for specific details within a line item. In the example above, a detailed breakdown of the workshop costs may include: costs of food, costs of accommodations, cost of room rental for the workshop, and the cost of materials. The donor will want the organization to have real figures that have been researched, not simply guesses.*

*3) When the money will be spent. Notice that there is a date at the top of the budget.*

*4) A proposal will also include the purpose for spending the money and the activities that will achieve the purpose. In other words a budget is used to achieve specific aims that an organization wishes to achieve.*

## **Contract.**

A contract is a legal, written agreement between two or more people or organizations (e.g., a CBO and a donor). A contract usually contains the overall purpose of the agreement, who is party to the agreement, and the responsibilities of each of the parties. As a legal document it means that if an organization fails to uphold its side of a contract, the organization can be taken to court. It is critical that organizations read and understand their contracts before they sign them. The best time to negotiate for something that does not appear in a contract or that is unacceptable is before a contract has been signed, not after.

## **Policies and Procedures**

Policies and procedures are internal documents that an organization develops to ensure that it operates in a transparent manner that is in the best interests of the organization. Policies and procedures must be in agreement with any contracts that have been signed. Remember, contracts are legal documents and supersede policies and procedures.

Examples of policies are:

- Vehicle use policy (if an organization has a policy) will clearly spell out how and when a vehicle can be used;
- Vacation and sick leave policies tell employees how much vacation and sick leave they are entitled to, when they can take it, and how they can apply for it;
- Use of office or other assets will explain if the organization's how the organization's assets can be used, who can use them, and how to use them.

Examples of procedures include:

- How financial documents will be kept;
- How purchases can be made;
- When and how reports are to be submitted.

# The Ledgers

## Bank Book

The bank book is a record of all transactions that involve money being put in or taken out of your bank account. It is filled out each time money enters or leaves your bank account. This allows you to know how much you have in your bank account, from where it came and where it went. Note that each and every time cash leaves the bank account, it is registered as 'transfer to cash' in the bank book, no matter what the final destination is. Below is an example of a bank book

### Bank Book Example

Year: 2008	Month: January	Bank Account Name: CBO Feliz - Standard Bank
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Ref	Date	Check No.	From/To	Description	In	Out	Balance	Reconciled
1	1-Jan-07			<b>Opening Balance</b>			<b>27,890</b>	
2	2-Jan-07		CNCS	Funding	50,000		77,890	
3	2-Jan-07		BIM	Wire Transfer Fee		500	77,390	
4	3-Jan-07		BIM	Overcounter Statement		50	77,340	
5	6-Jan-07	001	Miguel's Hotel Hotel do	Accommodation for Workshop Participants		8,995	68,345	
6	8-Jan-07	002	Cash	Transfer to Cash		7,000	61,345	
7	10-Jan-07	003	Cash	Transfer to Cash		6,000	55,345	
8	11-Jan-07	004	Custovao's Outstanding Office Furniture	Desk, Table, Chairs		8,957	46,388	
9	14-Jan-07	005	Cash	Transfer to Cash		10,000	36,388	
10	28-Jan-07		Moz Telcomm	Jan Telephone		2,525	33,863	
	31-Jan-07			Closing Balance			33,863	

**Ref.** Ref is the reference number. It is used so that each transaction can be easily identified. Every new transaction is given a new number.

**Date.** Date is the date that the transaction is made.

**Check No.** Check No. is the number that is printed on the check.

**From/To.** If the money is coming into your bank account, write where is coming **from**.

If money is going out of your bank account, write the name of the person or company who you are giving money **to**.

**Description.** In the description column, write something about the purpose of the money, that will help you know why the money was deposited or why it is being spent.

**In.** In the 'In' column, write the amount of money that came in to your bank account.

**Out.** In the 'Out' column, write the amount of money that left your bank account.

**Balance.** In the balance column, write down the remaining money in your bank account.

**Reconciled.** The reconciled column is used when you reconcile your bank book with your bank statement. When doing a bank reconciliation, this column is ticked whenever the transaction agrees with the bank statement. The section in this manual on reconciliation explains how to do this in detail.

Remember each time money goes in or out of your bank account you write it in your bank book. Use one line each time money moves. So if money goes out, that's recorded on one line, and if the money later comes in that's recorded on another line. Also remember that you only write it in your bank book when you know that the money has moved. You know money moved **out** of the bank account when you write a cheque or you see that money has left your bank account by reading your bank statement. You know money moved **in** to the bank account when you receive a bank receipt showing a deposit into your account or from reading your bank statement.

## Cash Book

The cash book is a record of all transactions in which physical cash (bills and coins) is either received or spent. Cash is received either from your bank accounts or from any source whatsoever (e.g., association dues, sales of goods, cash donations).

The cash book allows you to know how much cash you have, from where it came and where it went. Every time money enters or leaves the cash box, a receipt or a cash advance report must be provided.

Every time cash is physically taken from the bank account it must be registered in the cash book as 'transfer to cash'. For example, an association writes a cheque for 5,000 metacais to pay incentives. A member goes to the bank with the cheque and receives cash. She then gives 5 members 1,000 metacais each for their incentives. 5,000 will be entered in the "OUT" column of your bank book. 5,000 will be entered in the "IN" column of the cash book and 1,000 will be entered in the "OUT" column of the cash book for each member who received cash. This is done even though she did not put the cash in the cash box. If you do not understand this, then always put the cash in the cash box first before spending it.

Every time physical cash is given as a cash advance, it is registered as 'cash advance [Number of cash advance report] to [name of the person receiving the cash advance]. All cash returned from a cash advance is registered as 'Change from cash advance [Number of cash advance report] from [Name of Person returning cash]

Below is an example of a cash book.

### Reconciled Cash Book: Example 1

Ref	Date	From/To	Description	In	Out	Balance	Recon-ciled
1	21-Oct-07		Opening Balance			3,445	c
2	22-Oct-07	CNCS	Oct – Dec 07 Funding	29,000		32,445	c
3	29-Oct-07	Claudia Magunde	November office rent		2,100	30,345	c
			<b>Reconciliation</b>				
	30-Oct	Cash book balance				30,345	
	30-Oct	Cash Counted				30,345	
		Difference				0	
	30-Oct	Signature	<i>Palmira Macuaeva</i>				

**Ref.** Ref is the reference number. It is used so that each transaction can be easily identified. Every new transaction is given a new number.

**Date.** Date is the date that the transaction is made.

**From/To.** If the money is coming into your cash book, write where is coming **from**.

If money is going out of your cash box, write the name of the person or company who you are giving money **to**.

**Description.** In the description column, write something about the purpose of the money, that will help you know why the money was deposited or why it is being spent.

**In.** In the 'In' column, write the amount of money that came in to your bank account.

**Out.** In the 'Out' column, write the amount of money that left your bank account.

**Balance.** In the balance column, write down the remaining money in your bank account.

**Reconciled.** The reconciled column is used when you reconcile your cash book with your physical cash and with the receipts. When doing a cash reconciliation, this column is ticked whenever the transaction agrees with the receipts. The section in this manual on reconciliation explains how to do this in detail.

## Income Ledger

The income ledgers are records of all income that comes in to the organization. Every source of income will have its own income ledger. For example, a separate income ledger will be made for each donor. If membership dues are collected, there will be an income ledger called “Membership Dues”. If the organization sells something, there will be an income ledger called “Sales”. Each time income comes to the organization it must be recorded in its appropriate income ledger page. There should be an income ledger for each month.

We already record all of the receipts in either the bank book, the cash book, or the cash advance report. So, why do we need an income ledger? In the bank book, the cash book and the cash advance reports, the receipts are organized by date. They are not organized by budget line. If you want to know how much income you have received in a budget line, you would have to go through all of the books and try to find each income related to that budget line. Then you would have to add them up. By writing them also in the income ledger you can find all of the income related to a budget line in one place.

Why is it important to know how much has been received in a budget line? Donors give a fixed amount of income. If a CBO knows how much it has received from each donor, it also knows how much money is remaining to be received. This way CBOs will not lose money by forgetting to ask for it. Also, if a CBO has other sources of income, such as membership dues or sales, previous year’s information can help when planning a new budget. If the CBO knows that it received 10,000 metacais in membership dues last year, for example, it might estimate that it will receive close to this next year, or it might estimate that it will receive much more, if it plans to capture new members. Either way, the new budget can be based on previous information. Donors also like to know if a CBO has any means of self-funding. By keeping track of this a CBO can show precisely the amount of funds that it raises on its own. An example of an income ledger is below.

## Income Ledger

Year: 2015	Month: June
Name: CNCS	Budget total: 120,000

Receipt No.	Date	Description	Amount	Running Total	Reconciled
		Opening Balance		10,000	
	4-June-2015	CNCS Funding	15,000	25,000	

		<b>Total</b>	<b>15,000</b>	<b>35,000</b>	

**Year.** The current year.

**Month.** The current month.

**Name of Budget.** The name of the Income Ledger. If it is funding from a donor, it will be called by the donor’s name (e.g., CNCS, Oxfam, Trocaire, etc.). If it is from membership dues, it will be called “Membership Dues”).

**Budget Total.** The total amount expected for the budget period.

**Receipt No.** The number on the receipt.

**Date.** The date of the receipt.

**Description.** Source of income and a brief description.

**Amount.** The amount of income deposited.

**Running Total.** The cumulative total received for this ledger, this amounts recorded in this column get larger with every receipt recorded.

**Total (at bottom).** The first column is the total for the month. The second column is the running or cumulative total that is the amount spent since the beginning of the project.

## Expense Ledger

The expense ledgers are records of all expenses made by the organization. Every line item in the budget will have its own expense ledger. For example, if a donor gives funds for wages, communication, and transportation, each one of these line items will have its own expense ledger. Each time a payment or purchase is made the payment or purchases must be recorded in its appropriate expense ledger page.

We already record all of the receipts in either the bank book, the cash book, or the cash advance report. So why do we need to write them again in an expense ledger? In the books and cash advance report, the receipts are organized by date, but they aren't separated by budget line. If you want to know how much you have spent in a budget line, you would have to go through all of the books and try to find each expense related to that budget line. Then you would have to add them up. By writing them also in the expense ledger you can find all of the expenses related to a budget line in one place.

Why is it important to know how much has been spent in a budget line? Donors give a fixed amount of money for each budget line. They do not allow a CBO to spend over that amount. By knowing how much you have spent, you can know how much money is left to spend. An example of an expense ledger is below.

### Expense Ledger

Month and Year: June 2015

Budget Line Name and Number: Utilities 2

Budget Amount: 8,000

Receipt #	Date	Description	Amount	Running Total	Reconciled
		Balance Forward from Previous Month (Zero if this is first month of budget)		0	
004	18-Jun-20015	Moz Water	2,567	2,567	
CL 8	12-Jun-20015	Moz Electric	1,200	3,767	
		Total	3,767	3,767	

**Year.** The current year.

**Month.** The current month.

**Name of Budget.** The name of the Expense Ledger (e.g., electricity, communication, workshops, etc.)

**Budget Total.** The total amount to spend for the budget period.

**Receipt No.** The number on the receipt.

**Date.** The date of the receipt.

**Description.** Vendor name and a brief description of the service or goods.

**Amount.** The amount on the receipt.

**Running Total.** The total amount spent since the beginning of the project for this line item (this total is summed with every receipt recorded)

**Total (at bottom).** The first column is the total for the month. The second column is the cumulative total.

# The Four Registers

There are four registers in this system:

## Check Register

A check register is a record of all checks that are given. A check register is kept so that if a check is lost or stolen the main details that are on the check can be easily found and reported. It is filled out each time a check is issued, and must be signed by the person who takes the check. If your organization has more than one bank account, then keep a separate check register for each account. Below is an example of a check register.

Check Register							
Check No.	Payable to	Amount	Date of Check	Check Prepared By (name)	Both Check Signatories	Check taken by (signature)	Date Check taken
101	Moz Telcomm	565.00	5-July-2015	Ana Lourdes	<i>Maria Chumbe</i> <i>Vicente Tembe</i>	Miguel Simbone	5-July-2015

**Check No:** Number that is on the check. Each check will have a unique check number.

**Payable to:** Who (or what in the case of “Cash”) the check is made out to. In other words, who will receive the money.

**Amount:** The amount of the check.

**Check Prepared By:** The Person who wrote out the check

**Both Check Signatories:** Both people who signed the check, sign the check register

**Check Taken By:** The person who took the check signs here. This may be different than who it is “payable to”. In the example, above, Miguel Simbone, a field officer, took check 101 to Moz Telcomm to pay the Telephone Bill.

**Date Taken:** The date that the check was taken.

## Asset Register

An asset register is a list of each and every asset that the CBO owns. An asset is something that stays with the organization and is not used up and replaced on a regular basis. A cell phone, a vehicle, a copy machine, and a chair are all assets. Paper, toner, arch lever files, and pens are not assets. The asset register is filled out each time an asset is acquired. If an asset changes location within the organization, its new location must be recorded in the asset registry immediately.

The asset register allows the organization to know

- what it owns,
- where its assets are located,
- and how much they are worth

It is used to verify that its assets are still with the organization. Verification of assets – checking to see if all the assets in the asset register are where they are supposed to be, should be done regularly. An example of an Asset Register is below.

### Asset Register

Asset Register						
Item	Description, Make, color	Serial Number	Date of Purchase	Cost of Item	Location	Donor
Cell Phone	Nokia N95	76AD8941	3-Sept- 2015	2,500	Main Office	Oxfam Australia
Chair	Pinter	Task 13030	4-Sept- 2015	3,000	Main Office	Self

**Item:** Describe the asset (a chair, a table, a cell phone).

**Description, Make, Color:** Describe the model, the color, other characteristics to help identify it. Who made the asset (Nokia, Hewlett Packard, Acer) and the model, usually a number or name that tells us specific information about the asset (e.g. Nokia N95 is a specific cell phone, a DeskJet 460cb Mobile Printer tells us the exact model of this Hewlett Packard Printer).

**Serial Number:** Many assets come with a serial number that identifies the specific asset. This is useful, especially if it has to be returned for repair (and you want to confirm that you received your asset back) or if it was stolen and the police need some evidence that it is yours in case they recover it.

**Date of Purchase:** The date the asset was purchased or acquired by the organization.

**Location:** Where the asset is kept on a regular basis. If it is temporarily moved, this is recorded in the equipment location register (see below).

**Donor:** This is the donor that gave the funds to make the purchase or if it from self-generated funds write "Self".

## Equipment Tracking Register

An equipment Tracking register is a record of every piece of equipment that leaves the organization for a temporary period of time. It ensures that the organization does not lose equipment because it forgot where it went. It is filled out when equipment goes for repairs or if somebody takes a piece of equipment out of the office. For example, if the organization has a camera and somebody takes it to the field to take pictures, this will be recorded in the Equipment Location Register. The person who takes the equipment will sign in the register. An example of an equipment location register is below.

### Equipment Tracking Register

Item	Make	Serial Number	Date Taken	Place it went to	Person who gave it	Signature of Person Who Took it	Date returned	Person who returned it	Signature of person who received it
Printer	HP Deskjet 460cb	892437-ABB2	3-Oct-2015	Sam's Repair Shop	Palmira Fuentes	<i>Inocencio Macuacua</i>	19-Oct-2015	Inocencio Macuacua	<i>Palmira Fuentes</i>

**Item:** The asset type (e.g., printer, chair, camera, etc.)

**Make:** The specific company and model of the asset. It should be in the asset registry.

**Serial Number:** The serial number for this particular item, usually printed somewhere on the back or underneath. It should also be in the asset registry.

**Date Taken:** The date that it leaves its normal location (as specified in the asset registry).

**Place it went to:** The location that item is being taken to.

**Person Who Gave It:** The name of the person who handed over the item to the person who took it.

**Signature of Person Who Took It:** The signature of the person who has taken the equipment.

**Date Returned:** The date that the asset is returned to its normal location.

**Person Who Returned It:** The name of the person who returned it

**Signature of Person Who received it:** The signature of the person who received the asset when it was returned to the organization.

## Cash Monitoring Register

This register is used every day to compare the actual cash in the safe with the cash balance in the cash book. The person who checks the cash against the cash book, which is the bookkeeper, fills in this register each day to ensure there are no mistakes in the cash book. By verifying cash each and every day, any mistakes that are made, can be found quickly and do not accumulate. An example of a cash monitoring register is below.

### Cash Monitoring Register

Date	Cash In Safe	Cash Book Balance	Difference	Signature
13-Nov-2015	3,675	3,675	0	<i>Marcia Orlando</i>
14-Nov-2015	5,024	5,024	0	<i>Marcia Orlando</i>

**Date:** The date the cash book and actual cash are reconciled.

**Cash In Safe:** The total amount of the physical cash in the safe.

**Cash Book Balance:** The last balance recorded in the cash book. If the last balance has not been filled out or receipts have not been recorded, first enter these.

**Difference:** Subtract the amount of money in the safe from the amount of money written in the cash book.

**Signature:** Signature of the person responsible for managing the cash.

If there is a difference between the balance in the cash book and the actual cash in the safe before completing the cash monitoring record do the following:

- 1) Recount the cash.
- 2) If there is still a difference, check to see that all of the receipts have been entered in the cash book. If receipts have not been entered, enter them and enter the new balance.
- 3) If there is still a difference, check that all the receipts have been correctly entered and that the math is correct since the last reconciliation.
- 4) If there is still a difference, fill in the cash monitoring register, sign it, and report the difference immediately to your organization's management.

## Miscellaneous Forms

There are five miscellaneous forms in this system:

### Cash Advance

A cash advance is when cash is given to a particular person who, on behalf of an organization, is authorized to make agreed expenditures. A cash advance is recorded in the “OUT” column of the cash book and the same amount is written in a cash advance report.

When a person receives a cash advance, they sign a cash advance report showing that they received cash. Once they have used the cash, they must, return all of the receipts and the remaining cash. The bookkeeper will then list all of the expenditures that were made with the cash as well as the remaining cash that is returned to the organization. The total of the expenditures plus the remaining cash should equal the amount that was originally taken (unless the person spent more than what they took AND was authorized to do so). The bookkeeper will then reconcile the cash advance by reporting the total amount that was taken, the total of the receipts and the cash returned. The bookkeeper will then sign the cash advance report. If cash is missing, the bookkeeper will report this as per the organization’s policy.

- The amount of the cash advance (in step one) is also recorded in the cash book.
  - In the To/From column, write the name of the person who took the cash advance.
  - In the description column, write ‘cash advance # X’.
  - In the ‘Out’ column, write the amount of the cash advance.
  
- The receipts brought back (in step 2) are also recorded in the expense ledgers
  
- The change brought back (in step 3) is also recorded in the cash book.
  - In the To/From column, write the name of the person who returned the cash advance change.
  - In the description column, write ‘change from cash advance # X’.
  - In the ‘In’ column, write the amount of the change brought back.

An example of a Cash Advance Report is below.

### **CASH ADVANCE REPORT**

**STEP1:CASH ADVANCE VOUCHER    Step 3: Reconciliation**

<b>1</b>	<b>Date:</b>	<b>Row</b>		<b>Amount</b>
<b>2</b>	<b>Amount in Words:</b>	A	<b>Total of Receipts</b> (See Total in Step 2)	
<b>3</b>	<b>Amount in Numbers:</b>	B	<b>Cash Returned</b>	
<b>4</b>	<b>Cash Received by</b>	A+B	Add Rows A and B	
<b>5</b>	<b>Signature of Cash Recipient</b>	C	<b>Cash Taken</b> (Enter Row 3 in Cash Advance Voucher)	
<b>6</b>	<b>Bookkeeper Signature</b>			

**STEP2: RECORD RECEIPTS**

<b>Date</b>	<b>Vendor</b>	<b>Description</b>	<b>Amount</b>	<b>Budget Line</b>
<b>TOTAL</b>				

## Internal Receipt

An Internal Receipt form is filled out when a vendor has no receipt. The vendor has to sign this form which substitutes for the vendor's receipt. An example of a Supplier without Receipt form is below.

# Receipt

*Association name:*

Vender:	
Amount received (in words)	Amount received (in numbers)
Description of goods or services	
Name of person purchasing	
Date:	Vender signature

**Vender:** Name of shop or if it is an individual, name of individual.

**Amount Received in Words:** The vender spells out the amount of money received.

**Amount Received in Numbers:** The vender spells out the amount of money received.

**Description of Goods or Services:** Describe the items purchased or the services provided

**Name of Person Purchasing:** The name of the person making the purchase or payment

**Date:** The day the purchase was made.

**Vender Signature:** The vender signs here. Can be signature of whoever sells the items (It does not have to be the owner or manager).



## Cash Transfer Receipt

A cash transfer receipt is filled out when: 1) money is moved from the bank to the cash safe; 2) money is moved from the cash safe to the bank; 3) money is returned from a person and given back to the cash safe. For each transfer between the bank and cash two identical receipts will be completed. One is filed with the cash book receipts; the other is filed with the bank book receipts. An example of a cash transfer receipt is below.

### Cash Transfer Receipt

---

Transfer from Bank to Cash

Transfer from Cash to Bank

Date
------

Amount in Words	Amount in Numerals
-----------------	--------------------

Signature of Person Collecting Cash	Signature of Bookkeeper
-------------------------------------	-------------------------

**Transfer from Bank to Cash.** Tick this box if the cash is transferred from the bank to cash.

**Transfer from Cash to Bank.** Tick this box if the cash is transferred from the cash to the bank.

**Date:** Date of transfer.

**Amount in Words:** Write the amount in words (e.g., five thousand metacais)

**Amount in numerals:** Write the amount in numerals (e.g., 5,000 mt)

**Signature of Person Collecting Cash:** The person who moves or transfers the cash from one place to the next.

**Signature of the Bookkeeper:** The bookkeeper or person responsible for the cash. They either give cash from the cash safe to go to the bank or they receive cash from the bank and put it into the cash safe.

### Three Quotes for Supplier Selection:

CBOs should have a policy that when they want to make a purchase over a certain amount, they need to compare prices to make sure they get the best value for their money. Also, sometimes donors insist three quotes be found for purchases over a certain amount. It is good financial management to compare before prices before big purchases. An example of a three quotation form is below. Note that there is space for up to 5 quotations on this form. Three quotes is just the minimum.

## 3 Quotes for Supplier Selection

---

Name and address of supplier	Description of goods	Quantity	Unit price	Total Price	Comments (quality...)

Name of Supplier Selected	Date Supplier Was Selected
Reasons why supplier was selected	
Supplier approved by:	

*Attach the supplier quotations to this document*

**Name and Address of Supplier:** Write the name and address of one of the suppliers to be considered in this price comparison

**Description of Goods:** Describe the items that are being considered. Note any differences between the items, since it is not always possible to compare identical items. However items should be similar. There is no point in comparing for example a Honda 125 cc motorcycle from one supplier with a Honda 250

cc motorcycle from another supplier. The items are significantly different and will have different prices as a result.

**Quantity:** How many items are in this quote

**Unit Price:** How much each item costs

**Total Price:** How much all the items cost together, including tax, shipping or any other charges

**Comments:** Are there important differences in terms of quality, durability, a guarantee offered, etc.

**Name of Supplier Selected:** Write the name of the supplier that was selected after considering all the quotations.

**Date supplier was selected:** Write the date the supplier was selected

**Reasons why supplier was selected:** Explain the reasons why this supplier was selected. (You don't have to choose the most inexpensive if the quality is poor)

**Supplier Approved By:** Signature of the person who approved the selection

**Attach supplier quotations to this document:** All the quotations listed on this form, should have an accompanying quote, if the supplier supplies quotes (not all do).

## Purchase Request:

When someone in an organization wants to make a purchase, they must fill out a purchase request form, which describes the items to be purchased, the quantities and the prices. Once this part is filled out, it must be approved by the appropriate person in the organization, who determines if these items are in the budget, necessary, and a good use of project funds. Once approved, the purchase request must be verified by the treasurer, who verifies if there is enough money in the line items for the purchases, and if there is, they then verify if there is enough money in the bank or the safe, to make this purchase. Once the purchase request is approved and verified, the purchase can be made.

# Purchase Request

---

Requested by: \_\_\_\_\_

Date: \_\_\_\_\_

Requested Materials / Payments	Unit Pirce	Quantity	Total Price
1.			
2.			
3.			
4.			
5.			
6.			
7.			
8.			
9.			
10.			

	Total:	
--	--------	--

Approved by: \_\_\_\_\_

Date \_\_\_\_\_

Verified by: \_\_\_\_\_  
(Treasurer)

Date \_\_\_\_\_

**Requested By:** The name of the person requesting the purchase(s) be made.

**Date:** The date the purchase request is filled out

**Requested Materials/Payments:** A description of the items being requested

**Unit Price:** How much does each one cost?

**Quantity:** How many will be purchased

**Total Price** (usually unit price times quantity, sometimes tax is included, sometimes it is not)

**Total:** The sum of all the totals

**Approved by and date:** The signature of the person authorized to approve purchases, IF they think the purchases are in the budget, necessary, and a good use of project funds. The date of the approval is written.

**Verified by and date:** The signature of the treasurer AFTER they have checked and seen that there is money in the bank or the safe, for these items, and that the line items they belong to, still have money in them to be spent.

The date of the verification is written.

# Reconciliations

Two of the ledgers are reconciled monthly: The Cash Book and the Bank Book.

## Cash Reconciliation.

Cash reconciliation refers to the process of confirming that the balance in the cash book is equal to the actual cash on-hand and with the receipts submitted. It helps the account holder to keep track of his/her money. If receipts have not been entered correctly, this is an opportunity to correct such mistakes. If the cash book and the cash on hand do not equal each other then a mistake has been made or money could be missing.

Theft most often happens to organizations that are not careful with their money. An organization that is careful and is known to be careful is less likely to be abused by theft. Reconciling cash is one way to show people that you are careful with your money.

### Who should reconcile the cash?

The person who does the weekly and monthly reconciliation should be different from the one who is handling the cash.

### When should a cash reconciliation be done?

- Cash book entries should be compared with the receipts at the end of each week or whenever a difference is noted between the actual cash and the cash reported in the cash book.
- Cash should be counted at the beginning of each day before it is handled and compared with the balance in the cash book just to make sure that nothing is missing.
- Whenever responsibility for the cash is handed over to another person, a reconciliation must be done, otherwise if cash is missing it will be impossible to know who was responsible for the cash when the incident occurred.

If missing cash becomes a chronic problem cash must be counted at the end of the day and at the beginning of the next day, and the person who is handling the cash should be changed immediately.

### How does one reconcile the Cash?

- 1) Count the cash. Write down the amount in the cash monitoring register.
- 2) Compare the counted cash with the balance in the cash book. If there is a difference:
  - Is the math correct? If there are math errors, correct them. (The section in this manual 'How to correct mistakes' explains how to correct mistakes in the cash book.)
  - If correcting the math errors does not solve the problem, then:
- 3) Compare the entries in the cash book with the receipts. Each entry in the cash book should have a corresponding receipt.
  - Is the amount written on the receipts the same as the amount in the cash book? If not, calculate the difference and make a correction after the last entry. “

- Are cash ledger entries missing? If there is a receipt, but it has not been entered in the cash ledger, enter it.
  - If the receipt is valid and if it shows the same amount as the entry in the cash book, put a check in the reconciliation column of the cash book. If they do not agree, correct the error in the cash book. Note that if they do not agree then the balance will be wrong.
- 4) Are receipts missing? If a receipt is missing:
    - Ask the Cash holder to get a receipt from the vendor, if the receipt was lost;
    - Very rarely, the President or Manager can sometimes allow the Cash holder to write an honor receipt with an explanation that the receipt was lost and a replacement could not be found;
    - The Executive Officers should meet with the Bookkeeper/Cash Holder to decide what to do if people suspect that there is no adequate explanation.
  - 5) Next draw a line under the last entry in the cash book. Below this, write the date, the cash amount counted, the cash balance in the cash book, and the difference, sign and date it.

Was there still a difference between the cash and cash book after the reconciliation?

As stated above, this can be because:

- 1) A receipt is missing and it could not be replaced.
- 2) Someone paid the wrong amount to a supplier (e.g., the correct amount was for 960, but the person paid 950).
- 3) Someone gave the wrong amount and the person accepting the cash did not notice (e.g., dues are 1,200 and someone gave 1,300).
- 4) Someone stole money.

### **Reconciled Cash Book, Example 1**

“Reconciled Cash Book, Example 1 shows at the end of the month, how to close out the cash book after a reconciliation.

**Reconciled Cash Book, Example 1**

<b>Ref</b>	<b>Date</b>	<b>From/To</b>	<b>Description</b>	<b>In</b>	<b>Out</b>	<b>Balance</b>	<b>Reconciled</b>
1	1-Dec-2015		Starting Balance			3,445	
2	3-Dec-2015	CNCS	Funding	29,000		32,445	
3	4-Dec-2015	Claudia Magunde	November office rent		2,100	30,245	
4	4-Dec-2015	Cash	Transfer to Cash		5,005	25,240	
5	4-Dec-2015	EDM	October Electric bill		567	24,673	
6	11-Dec-2015	Paulo Monguera	Final payment for Land		2,800	21,873	
7	29-Dec-2015	Members	November dues	450		21,423	
8	31-Dec-2015	Cash	Transfer to Cash		1,500	19,923	
	31-Dec-2015	Cash book balance				19,923	
		Cash Counted				19,923	
		Difference				0	
	31-Dec-2015	Signature	Miguel Vicente				

## Bank Reconciliation.

A bank reconciliation is an accounting term. It refers to the process of confirming that the balance in one's bank book is equal to the balance in the bank statement. The importance of a bank reconciliation is to help the account holder keep track of his/her money. Comparing the bank book and bank statement ensures that all money is properly accounted. If the two do not equal each other then a mistake has been made or money could be missing. So, Bank Reconciliations help to prevent mistakes and theft.

The bank book is your record of transactions that move in and out of the money kept in your bank account. The bank statement is the bank's record of the same transactions. Since both records are about the same money, the records should be the same. But, often they not.

There are three main reasons for discrepancies (i.e., differences between the bank book and the the bank statement):

- 1) you might not have included a transaction in your bank book;
- 2) the bank might not have included a transaction in the bank statement; or
- 3) one of you might have recorded the wrong amount.

Bank Book	Bank Statement
What we think we have	What the bank thinks we have

A bank reconciliation is done every month because the bank should issue a bank statement every month.

## When the bank book and the bank statement do not agree

What to do when bank book entries and bank statement entries do not agree: There are basically six possibilities. The possibilities for disagreement are listed below along with suggested actions.

- 1) **Bank charges appear on the bank statement, but not in the bank book.**
  - a) If it is a valid bank charge, add the entry in the Bank Book. If you are not sure, go to the bank and ask.
  - b) If it is not a valid bank charge, you will **not** enter it in your bank book. You will enter it in the bank reconciliation sheet under "deposits not shown on the bank statement."

- i) Get the bank to reverse the charge. If it is not reversed the next month, go to the bank and remind them to reverse it. Meanwhile you have to keep the error recorded in the bank reconciliation each month until it is corrected.
  - ii) When the bank reverses the charge, your reconciliation will balance.
  
- 2) **A cheque appears in the bank statement, but not in the bank book.**
  - a) Check your cheque book to see if there is a missing check. Also check your cheque registry. Check the receipts to see if you forgot to enter the cheque in the bank book. If you find a receipt and there is evidence that the cheque has been written, add it to your bank book. If you are not sure, go to the bank and ask the bank for a copy of the cheque.
  - b) If you do not find a receipt and you do not think it is a correct cheque, go to the bank and ask for a copy of it.
    - i) If it is not your cheque, ask the bank to reverse the charge and record the cheque in the bank reconciliation statement under “deposits not shown on the bank statement.” It is a “deposit not shown” because the bank has mistakenly deducted this amount and it will reverse the charge. The reversal means that they will **deposit** the wrongly deducted amount.
    - ii) If it appears to be your cheque (signatures match authorized signatories) enter the cheque in the bank book. Meanwhile, ask the bookkeeper and the person(s) who signed the cheque to discover why it was not recorded in the bank book.
  
- 3) **A cheque appears in the bank book, but not the bank statement.** The vendor has not presented the cheque to the bank in time for it to appear on the bank statement. This should be entered in the bank reconciliation statement under “cheques not shown on the bank statement.”
  
- 4) **Income appears in the bank statement, but not in the bank book.**
  - a) Banks often don't issue receipts when income is received. The CBO may not learn about the income until it gets the bank statement. If it is clearly coming from an expected source (i.e., a donor) enter it in the bank book.
  - b) If it is a mistake, alert the bank and enter the amount in the bank reconciliation statement under “cheques not shown on the bank statement.” It is not technically a cheque that is not shown, but it will be reversed in the bank statement, so the amount will have to be deducted from the closing bank balance. Do not keep the money! Eventually, the bank is very likely to discover the amount and then reverse the deposit. You might then find yourself with no money in your account!
  
- 5) **Income appears in the bank book, but not the bank statement.** This should be entered in the bank reconciliation statement under “deposits not shown on the bank statement.”
  
- 6) **Entries that appear on both the bank book and the bank statement but the amounts are different.** Imagine that the bank statement shows an amount of 8,467 for Miguel's Hotel. In the bank book, the same transaction is 8,476. What do you do?

- a) Check the original receipt and the cheque. The correct amount is the original receipt.
- b) If the original receipt and the cheque correspond to the amount in the Bank Statement, change the amount in the Bank Book to the correct amount.
- c) If the original receipt corresponds to the amount in the Bank Book, go to the bank and get a copy of the cheque.
  - i) If the amount on the cheque is the same as the receipt, but different from the amount in the bank statement, have the bank correct their mistake.
    - (1) If the bank statement amount is less than the bank book amount, record the difference as a cheque not shown on the bank statement. So in the example with Miguel's Hotel, we would record 9 metacais as a cheque not shown. This would then be subtracted from the bank balance. It is not technically a cheque not shown, but the bank will **deduct** this amount when making the correction and it will then match the bank book amount.
    - (2) If the bank statement amount is greater than the bank book amount, record the difference as a deposit not shown on the bank statement. It is a deposit not shown because the bank will **deposit** this amount when making the correction.
    - (3) The next month make sure that the bank error is reversed. If it not reversed you have to record it again in the bank reconciliation statement in the same place. Keep doing this until it is reversed.
  - ii) If the amount on the cheque is different from the receipt, but the same as the amount in the bank statement, you wrote the amount incorrectly on the cheque.
    - (1) Change the amount in the bank book to match the cheque; and
    - (2) Go to the supplier with the copy of the cheque and the original receipt and correct the difference (either pay the supplier the balance or get a refund from the supplier).

## What Problems Reconciliations Can and Cannot Solve

There are two reconciliations that we have presented in this training – the cash reconciliation and the bank reconciliation. The cash reconciliation is meant to ensure that the physical cash and the amount in the cash book are the same. The bank reconciliation is meant to ensure that any differences in the amount in the bank book and the amount in the bank statement can be clearly shown and understood.

A reconciliation will help to locate the differences that come from

- A math error in the cash or bank book.
- A receipt that was not entered for withdrawals or deposits.
- A receipt that was entered incorrectly

Reconciliations will find and resolve these problems because these are math errors, entry errors, and omissions.

BUT

A reconciliation will not resolve all problems. Problems that it will help to find, but will not resolve include:

- Someone paid the wrong amount to a supplier OR to someone receiving a cash advance
- Someone gave the organization the wrong amount of money and the person who accepted the money on behalf of the organization did not notice
- A receipt was made for the wrong amount.

- Someone stole money
- A receipt is missing.

These difference will be discovered by doing a reconciliation, but it will not resolve the problem.  
The difference between the cash and the cash book or the bank and the bank statement will remain.

The organization should have a policy to help them resolve differences that remain because of the following reasons:

- 1) a receipt is missing.
- 2) someone paid the wrong amount to a supplier or to cash advance.
- 3) someone gave the organization the wrong amount of money and the treasurer did not notice.
- 4) theft.

For example, if someone paid the wrong amount to a supplier or the supplier did not write the correct amount in the receipt and the supplier refuses to return the money or correct the receipt, perhaps the person making the purchase will have to pay the money back or perhaps the organization will make a receipt that documents the mistake. If it happens several times for small amounts or if it happens once, but the difference is large, perhaps the person will be fired or perhaps the supplier will not be used again. If someone is caught stealing money, they might be fired immediately. If the organization ends up with extra cash and a legitimate claim can be made that someone gave too much, then the organization should give it back.

It is best to make a policy about these potential problems before they happen and make sure that all people handling money understand the policy. That way if something happens, nobody can say they did not know. If new people enter the organization, it is important to give them the policies and make sure they understand them. It is also important to review policies periodically to remind people. If you encounter a new problem without a policy, make a policy so that if it happens again everybody is clear about how the problem will be handled.

## Double Entry Accounting

In the accounting system that we are teaching and that donors expect CBOs to use, each receipt is recorded twice. If the transaction involves the receipt of income or an expense, then the transaction is written once in the bank book, cash book or cash advance report and again in the income or expense ledger. One side (the bank book, cash book, and cash advance reports) keeps track of how much available money the CBO has; the other side (the income and expense ledgers) keeps track of how much is left in the budget.

Entering transactions in the accounts twice is called Double Entry Accounting. In Double Entry Accounting we can see two sides to the accounts. One side is the cash book, bank book and outstanding cash advances, and the other side is the income ledger and the expense ledger.

So if income comes into the organization it is entered once where it comes in (either the bank book or the cash book) and once again under the income ledger (e.g., a donor's name, membership dues, etc.) Like income, an expense is entered one time in either the cash book, bank book, or Cash Advance Report side and one time on the Ledgers side (income or expense). If incentives were paid with a cheque, you enter the transaction in the bank book and in the expense ledger. If they were paid with cash, you enter the transaction in the cash book and in the expense ledger.

What happens if there is a transfer from the bank book to the cash book? Does this get entered into the income or expense ledger? No, because money is not coming in or leaving the CBO. It is only moving from one place to another place within the CBO. It is not income, nor is it an expense. But it is entered twice. It is entered as Out of the bank and In to the cash. Notice that the Out and the In cancel each other. If a CBO transfers 5,000 from the bank to the cash then the bank balance is 5,000 metacais less, but the cash balance is 5,000 metacais more. The total amount of money that a CBO has is not changed. What has changed? The place where the money is kept. It has moved from one pocket to another pocket, but the amount is the same.

What happens if there is a transfer from the cash book to a cash advance report? Where would this be entered? Again, money is not leaving or entering the CBO, it is only moving from one place (the cash) to the cash advances (a person who is holding the money on behalf of the CBO). Money held in a cash advance is not spent until the person buys something. So it is entered as Out of the cash book and In to the Cash Advance Report. If a CBO gives Miguel a 7,000 metacais cash advance from its cash, then the cash balance is 7,000 less, but the cash advance report will show that there is 7,000 more. What has changed? The place where the money is kept. It has moved from one pocket to another pocket, but the amount is the same.

Let's say that Miguel returns 2,000 metacais in cash and gives a CBO a 5,000 receipt for Office Equipment. Where do you enter the cash returned? It is entered in the cash book as In and it shows in the Cash Advance Report as returned, which is Out of the Cash Advance. So the amount that a CBO has stays the same. The amount in Cash Advances decreases by 2,000, but the amount in cash increases by 2,000. Where is the 5,000 receipt entered? It is entered in the Cash Advance Report and it is entered in the Office Equipment Expense Ledger. It is entered in the Expense Ledger because this money has left the CBO.

## The Trial Balance

A trial balance ensures that for every entry into one of the books/report (cash, bank, or cash advance) there is a corresponding entry in one of the ledgers (income or expense). In the accounting system that we have taught, every receipt is entered twice. It is entered in a cash book, bank book, or cash advance report **AND** it is entered in the income or expense ledger. By entering a receipt in the cash book, bank book or cash advance report you know how much money you have. By entering a receipt in the income or expense ledger, you know how much of your budget you have received or spent. A trial balance ensures that for every entry into one of the books/report (cash, bank, or cash advance) there is a corresponding entry in one of the ledgers (income or expense). This means that the total amount of money in your cash book, bank book, and cash advance reports should equal the total in the income ledgers (one ledger for each income source) minus the total in your all of your expense ledgers (one ledger for each expense category).

A trial balance is a tool to ensure that the accounts are being done correctly. This comparison helps us to see if any mistakes have been made. If mistakes have been made the two sides will not be equal.

**If the accounts have been kept correctly the**

$$\frac{\text{ending bank book balance} + \text{the ending cash book balance} + \text{outstanding cash advances}}{\text{Total Income Received} - \text{Total Expenses}} =$$

**Trial Balance that balances:**

Ending Bank Book Balance	13,707		Income Received	401830
Ending Cash Book Balance	1,814		Expenses	380,309
Outstanding Cash Advances	6,000			
Total	21,521		Income – Expenses =	21,521

If your trial balance does not balance then a mistake has been made.

**Trial Balance that doesn't balance:**

Ending Bank Book Balance	13,707		Income Received	422,500
Ending Cash Book Balance	1,814		Expenses	380,309
Outstanding Cash Advances	6,000			
Total	21,521		Income – Expenses =	42,191

The following are mistakes that a trial balance can help detect

- 1) *The amount written on one side – in the cash book, the bank book, or the cash advance - is different from the amount written on the other side (income and expense ledger)*
- 2) *An addition or subtraction error in the totals/balances*
- 3) *The Balance Forward from the previous month was not recorded correctly (you have the previous month's accounts so you can easily check this) in the bank book, cash book, expense ledger or income ledger*
- 4) *An addition or subtraction error in the trial balance itself.*

## **HOW TO FIND THE MISTAKES IN A TRIAL BALANCE**

Looking for mistakes has to be done very methodically. We have to go down each transaction one at a time in each book and compare it with the ledgers. When a mistake is found, we correct the mistake, then change the trial balance to see if we are finished or if there are more mistakes.

### **STEP ONE**

Look at EACH of the transactions in the CASH BOOK one by one and compare the amounts written there with what was written in:

- the bank book if it was a transfer,
- the cash advance reports if it was a transfer,
- the income ledger if income came in,
- the expense ledger if money went out. (Of course, you have to look in the correct ledger.)

The amounts should be the same. If they are different what will you do?

- *Find the receipt, which will prove which is the correct amount.*
- *Correct the entry that was incorrect by adding or subtracting the difference between the correct and incorrect amount. Enter this at the end of the bank book, cash book, cash advance report, income ledger, or expense ledger (whichever was wrong).*
- *Put the correct information in the trial balance*
- *Recalculate the trial balance*

### **STEP TWO**

Look at EACH of the transactions in the BANK BOOK one by one and compare the amount that was written there with the amount written in:

- the cash advance reports,
- the income ledger,
- the expense ledger.

(Why don't we have to compare any cash transfers with what was written in the cash book? *Because we already did it in step one.*)

The amounts should be the same. If they are different what will you do?

- *Find the receipt, which will prove which is the correct amount.*
- *Correct the entry that was incorrect by adding or subtracting the difference between the correct and incorrect amount. Enter this at the end of the bank book, cash book, cash advance report, income ledger, or expense ledger (whichever was wrong).*
- *Put the correct information in the trial balance*
- *Recalculate the trial balance*

### **STEP THREE**

Look at the transactions in each of the RECONCILED CASH ADVANCE REPORTS and compare each one with what was written in

- the expense ledger.

The amounts should be the same. If they are different what will you do?

- *Find the receipt, which will prove which is the correct amount.*
- *Correct the entry that was incorrect by adding or subtracting the difference between the correct and incorrect amount. Enter this at the end of the bank book, cash book, cash advance report, income ledger, or expense ledger (whichever was wrong).*
- *Put the correct information in the trial balance*
- *Recalculate the trial balance*

### **STEP FOUR**

If the trial balance still shows that the accounts are not correct, we have to check to make sure that the balance forwards were correctly recorded in

- the expense ledgers
- the income ledgers
- The cash book
- The bank book

If there were mistakes, we have to:

- recalculate the total in that ledger where you found the mistake (either the cash book, bank book, expense ledger or income ledger)
- Then recalculate the trial balance

### **STEP FIVE**

If the trial balance still shows that the accounts are not correct, we have to

RECALCULATE THE BALANCES from the first transaction to the last (not just the mistakes that we found) in:

- the cash book,
- the bank book,
- the cash advance reports,
- income ledger,
- expense ledge,

and again,

- we have to recalculate the trial balance.

**NOTE: If there are still mistakes you have to repeat steps 1 to 6 until the trial balance is correct.**

# Financial Reports

## 1) Why do organizations write financial reports?

- Financial Reports are a management tool. They help the organization to know:*
  - *How much money it has on-hand.*
  - *How much money it needs to have on-hand to accomplish its immediate activities.*
  - *How much more money it can expect.*
  - *How much it has spent and for what purpose.*
  - *How much more it can spend and for what purpose.*
- Financial Reports are a monitoring tool for its leadership and for the donors. By providing financial reports, the leadership and the donors can assess if the management is using the money in accordance with agreed plans and contracts.*
- By providing timely reports, organizations are able to demonstrate transparency and accountability. This helps to ensure that money will be used for the purposes that it is meant to serve.*

## 2) How often should financial reports be submitted?

*Basic financial reports should be done on a monthly basis. By basic, we mean a statement about cash on-hand, in the bank, and in cash advances, and a budget report that compares the budget and the amount expended to date.*

## 3) Is it really necessary to do this every month?

*Yes, it is critical. By writing a monthly report, organizations ensure that they are keeping track of their money.*

- This reduces the chances of misuse or theft.*
- It ensures they have enough money to do what they need to do.*
- It ensures that they are spending their money in accordance with agreed contracts.*

## 4) What if our donor contracts only tell us that we have to submit reports every two months or every three months? Why should we do it more often?

*Financial reports are done for yourselves first and foremost. You need to know the status of how you are using your money so that you can manage yourselves. The donor is only trying to monitor the money. If you make a mistake in the way that you manage your money you will not achieve your objectives and you will probably lose opportunities for future funding. The donor may lose you, but they will find someone else.*

5) **What happens if we submit reports late?**

*Donors do not appreciate late reports, especially late financial reports. You might be doing wonderful work in your communities, but if your reports are late, donors will think that you are not responsible or reliable. It indicates to your donors, to your executive committee, to your members, and to the people working in the organization that you are not keeping up to date records. This means that you are not tracking the use of your money properly.*

**! This is likely to adversely affect your opportunities to get future funding. Submit your reports on time.**

6) **What happens if you overspend?**

*You should never overspend in a budget line without informing your donor and getting written agreement that it is acceptable **before** you overspend. If, however, you have made a mistake, you **must** report this. Failure to report it immediately is likely to result in serious consequences, even termination of an agreement.*

7) **What happens if you submit inaccurate reports?**

*Sometimes mistakes happen. If you notice a mistake in a report, tell your donors immediately. Inaccurate reports are a reflection on your capacity.*

**! Poor, inaccurate reports are likely to adversely affect future funding.**

**Financial Report**

**Report Title:**

**Project Period:**

**Current Reporting Period:**

**Cash on Hand**

<b>Amount of money on hand at beginning of this month</b>	
<b>Amount Received this month</b>	
<b>Amount Spent this month</b>	
<b>Amount of money on hand at end of the at end of this month</b>	

**Trial Balance Ending \_\_\_\_\_**

Ending Cash Book Balance			Income	
Ending Bank Book Balance			Expenses	
Outstanding Cash Advances				
Total			Income – expenses =	

**Funds received that are not part of the CNCS funding**

**Total Budget and Total Expenses to Date**

The Budget Report below compares Feliz’s CNCS budget with the actual expenses at the end of this reporting period. The budget report shows that Feliz expects to receive Mt. \_\_\_\_\_ from CNCS as stated in its contract. It has received Mt. \_\_\_\_\_ from CNCS. It expects to receive an additional

Mt. \_\_\_\_\_ from CNCS. Feliz has spent a total of Mt. \_\_\_\_\_; Mt. \_\_\_\_\_ remains to be spent in the budget.

**Budget Report:** \_\_\_\_\_

Income				
	Donor	Budget	Income to Date	Balance
Expenses				
No.	Line Item	Budget Amount	Expenses to Date	Balance
1				
2				
3				
4				
5				
6				
7				
8				
9				
	<b>Total</b>			

**Financial Report**

The project period ends on \_\_\_\_\_. The project therefore has \_\_\_\_\_ more months before it will end.

**Under Expenditures**

**Over Expenditures**

**Conclusion**

### Guide for filling out the financial report

- 1) **Line A: the Title of the Report**
- 2) **Line B: the project period (the date is began and the date it will end)**
- 3) **Line C: The current reporting period (the month of the report)**
- 4) **Line D: Amount at beginning of period.**
  - a) **Where will you get this information?**  
*Either by adding the opening balance in the cash book, the bank book, and the outstanding cash advances or by taking the total of the trial balance from the previous month.*
- 5) **Line E: Amount received during period.**
  - a) **Where can you get this information?**  
*The income ledger's monthly total.*
- 6) **Line F: Amount spent during period.**
  - a) **Where can you get this information?**  
*Add up all of the monthly totals in the expense ledgers.*
- 7) **Line G: Amount Remaining at End of Period.**
  - a) **How much is remaining at the end of the period?**
  - b) **Where do you get that information?**  
*Either by adding the opening balance of the cash book, the bank book, and the outstanding cash advances + income received during the month – expenses during the month or from the trial balance of the current month.*

! Notice that this is the amount that should appear in the trial balance. If it is different something is wrong either with the trial balance or with this report.
- 8) **Trial Balance.** Include the trial balance table just below the cash on hand table. The trial balance shows the cumulative income and expense totals, while the cash on hand shows the income and expense totals for the month of the report. But, the amount remaining at the end of the period

in the cash on hand table and the total cash in the trial balance must be equal. If they are not then there is a mistake.

**9) Funds Received that are not Part of CNCS Funding. Why do we have to report this?**

*Donors have a right to know about other funds that are being received by your organization.*

*Reporting them is being transparent and makes your organization more credible and trustworthy.*

*If your organization does receive funds from different sources, your cash on hand will be more than the income less the expenses from any one budget. The donor will see this and wonder where the money came*

*from. **NEVER** change your figures to hide money. This is unethical. You will lose your donor funding if they discover this. If you have many donors, you risk losing all of your funding. Donors often tell each other about organizations that act unethically.*

**10) Line H: Budget (income).**

**a) Where do you get this information?**

*It is in the donor agreement.*

! In the financial report, this appears three times – once in the narrative, once in the budget table and once as the total of all the budget lines (line N).

**11) Line I: Income to Date.**

**a) Where do you get this information?**

*It is in the trial balance and can also be found in the income ledger's total received (accumulated) column.*

! In the financial report, this appears twice, once in the narrative and once in the budget table

**12) Line J: Balance (income).**

**a) Where does this information come from?**

*It is the total budget less the amount received.*

! In the financial report, this appears twice, once in the narrative and once in the budget table.

**13) Line K: Budget Amount (expenses) for each budget line.**

**a) Where do you get this information?**

*It is in the donor contract.*

**14) Line L: Expenses to Date for each budget line.**

**a) Where do you get this information?**

*It is in the expense ledgers under total spent for each budget line.*

**15) Line M: Balance (expenses) for each budget line.**

**a) Where do you get this information?**

*It is the budget minus the amount spent.*

**16) Line N: Total Budget Amount (expenses).**

**a) Where do you get this information?**

*It is the total of all the budget lines.*

! This amount must equal the total budget in Line H.

**17) Line O: Total Expenses to date.**

**a) How much are the total expenses to date? Mt. 121,558**

**b) Where do you get this information?**

*It is the total of all the expense to date for each budget line. Ask participants to add them up to make sure they are correct.*

! This figure appears twice in the report, once in the narrative and once in the table.

**18) Line P: the total balance of expenses.**

**a) What does this number represent?**

*It is the total amount that is remaining to be spent in the budget.*

**b) Where do you get this information?**

*It is the total expense budget minus the amount spent to date (line N minus line O) or it is the sum of all the balance amounts for each budget line.*

! This appears twice in the report, once in the narrative and once in the table.

! The amount remaining to be spent (Line P) must equal the amount of money on hand remaining (Line G) plus the balance of income to be received (Line J)

**19) Line Q: when the project ends.**

**a) Where can you find this information?**

*In the donor contract.*

**20) Line R: months remaining in the contract.**

! It is useful to look at this time, the activities remaining, and the amount of money remaining to estimate if there is enough time and money to complete the project as planned. This is the place to report that there will or will not be financial problems to complete the project as planned.

**21) Under-expenditures.**

**a) What are under expenditures?**

*These are line items that are under spent. Under spent means that the CBO may not spend the entire amount that was planned in the budget. If there are line items like this, it is important to report them and it is important to request if these funds can be shifted to another budget line, if so desired.*

*Mentioning this in a report does not constitute a formal request. A formal request must come as a separate letter to the donor.*

**22) Over expenditures. What are over expenditures?**

*Over expenditures are line items that the CBO will spend more on than is in the budget. This is not allowed so it should not happen unless the CBO has received written permission in advance.*

**23) Conclusion. What should be said in the conclusion?**

*Make a brief statement confirming that all of the funds are expected to be used and all of the activities completed, if you think this will happen. If you see a problem, use this area of the report to tell the donor about it.*

- ! It is important to be forthcoming and honest about your problems!*
- ! It is always better for people to hear about a problem from you in advance, than to learn about it themselves.*

**24) How did we make the Budget Report Table?**

*The budget is in your contract with your donor. The expenses to date are in the expense ledgers under total spent. The balance is math (budget – expenses to date).*

# HOW TO CORRECT MISTAKES

There are two types of errors,

1. math errors (when the total is incorrect)
2. entry errors (when the amount is incorrect)

This section explains :

1. How to correct Math errors in the
  - Cash Book
  - Bank book
  - Income and expense Ledgers
  - Opening balance of the income/expense ledgers
2. How to correct Entry errors in the
  - Cash Book
  - Bank book
  - Income and expense Ledgers

**You cannot erase, cross out or use white out in a ledger.**

## How to correct Math Errors in the Cash Book

On the first blank line in the ledger:

**Ref:** Write the reference number where the error occurred.

**Date:** Write today's date

**From/To** Write the date when the error occurred followed by the same thing you wrote in the From/To.

**Description:** Write 'Math error'

**In/Out:** If the balance is **less** than it should be, the difference is entered in the "**IN**" column  
If the balance is **more** than it should be, enter it in the "**OUT**" column and subtract

**Balance:** Recalculate the new balance

### Cash Book Example

Ref	Date	From/To	Description	In	Out	Balance	Recon- ciliation
			<b>Opening Balance</b>			<b>13,077</b>	
22	3-Jun	Miguel Santos	Cash Advance #5 Change	27		13,104	
23	2-Jun	Ophelia's	Office Materials		2,453	10,651	
24	9-Jun	Bank	Cash Transfer	7,000		17,651	
25	10-Jun	Papelaria Rex	Office Materials		954	16,697	
26	10-Jun	ML 7607	Taxi Rental for w/shop		3,580	13,105	
27	12-Jun	Bank	Cash Transfer	20,000		33,105	
	30-Jun		<b>Ending Balance</b>			33,105	
26	30-Jun	10 June,	Math Error	12		33,117	

Note that the same method is used if a mistake is made when entering the **opening balance**. In the example below the January Ending Balance is Mt. 1,905, but the February Opening Balance was entered as Mt. 1,705.

January Cash Book							
Ref	Date	From/To	Description	In	Out	Balance	Reconciled
			<b>Opening Balance</b>			0	
1	6 Jan	Bank	Transfer	15,000		15,000	
2	7 Jan	Activistas 19	incentives		12,350	2,650	
3	8 Jan	Mcel	GIRO		200	2,450	
4	9 Jan	Miguel	Transportation		545	1,905	
			<b>Ending balance</b>			<b>1,905</b>	

February Cash Book							
--------------------	--	--	--	--	--	--	--

Ref	Date	From/To	Description	In	Out	Balance	Reconciled
			Opening Balance			1,705	
5	4 Feb	Bank	Transfer to cash	15,000		16,705	
6	6 Feb	19 Activistas	incentives		12,350	4,355	
7	26 Feb	Ignacio Ramero	Roof Repair		1,350	3,005	
	28 Feb	Opening Balance	Math Error	200		3,205	

## How to correct Math Errors in the Bank Book:

On the first blank line in the ledger:

**Date:** Write today's date

**Check No:** Write the check number where the math error occurred, if there is one.

**To/From:** Write:

- 1) the date that the error occurred,
- 2) the same thing you wrote in the to/from column, on that line

**Description:** Write 'Math error'

**In/Out:** - If the balance is *less* than it should be, the difference is entered in the "**IN**" column  
 -If the balance is *more* than it should be, enter it in the "**OUT**" column and subtract

**Balance:** Recalculate the new balance

### Bank Book Example with Two Math Errors

Date	Check No.	From/To	Description	In	Out	Balance	Reconciliation
			<b>Opening Balance</b>			47,365	
9-Jun	24	Cash	Transfer to cash		7,000	40,365	
12-Jun	25	Cash	Transfer to cash		20,000	30,365	
15-Jun		CNCS	Funding	22,500		52,865	
15-Jun		BIM	Wire Transfer Fee		250	53,115	
21-Jun	26	EDM	June Bill		1,070	52,045	
21-Jun	27	TDM	June Bill		351	51,694	
			<b>Ending Balance</b>			<b>51,694</b>	
30-Jun	25	12 Jun, Cash	Math Error		10,000	41,694	
30-Jun		15 Jun, BIM	Math Error	500		41,194	

## How to correct Math Errors in the Income and Expense Ledgers:

On the first blank line in the ledger:

**Receipt #:** Leave this blank

**Date:** Write today's date

**Description:** Write the date of the receipt, the vendor, and write 'Math error'

**Amount:** Leave this blank

**Running Total** Write the difference between the correct total and the incorrect total  
 - If the balance is *less* than it should be, the difference is entered with a + (plus)  
 -If the balance is *more* than it should be, the difference is entered with a - (minus)

Then on the next line:

**Description** write 'Corrected Total'

**Running Total** calculate the new total,( if there is a minus sign, subtract it from the previous total and if there is a plus sign, add it to the previous total )

### Expense Ledger Example

**Budget Name** Transportation      **Month & Year** June  
**Budget Line #** 3                      **Budget Amount** 60,000

RCT #	Date	Description	Amount	Total Spent	Recon
		Opening Balance		<b>3,711</b>	
	2-Jun	Taxi Fare: 5 People to Xia Xia	2,455	6,156	
	10-Jun	Taxi Rental for Workshop	3,580	9,736	
	30-Jun	2-Jun, Taxi Fare, Math Error		+10	
		Corrected Total		9,746	
		<b>Totals</b>	<b>6,035</b>	<b>9,746</b>	

Note that the same method is used if a mistake is made when entering the **opening balance**. In the example below the May Ending Balance is Mt. 3,711, but the June Opening Balance was entered as Mt. 505.

**Budget Name** Transportation      **Month & Year** May  
**Budget Line #** 3                      **Budget Amount** 60,000

RCT #	Date	Description	Amount	Total Spent	Recon
		Opening Balance		505	
	3-May	Taxi Fare: Inhambane	50	555	
	18-May	Taxi Rental for Workshop	3,156	3,711	
		<b>Totals</b>	<b>3,206</b>	<b>3,711</b>	

**Budget Name**      Transportation      **Month & Year**                  June  
**Budget Line #**         3                              **Budget Amount**                  60,000

RCT #	Date	Description	Amount	Total Spent	Recon
		Opening Balance		505	
	2-Jun	Taxi Fare: 5 People to Xia Xia	2,455	2,950	
	10-Jun	Taxi Rental for Workshop	3,580	6,530	
	30-Jun	2-Jun, Taxi Fare, Math Error		+10	
		Corrected Total		6,540	
	30-Jun	Opening Balance Error		+3206	
		Corrected Total		9,746	
		<b>Totals</b>	<b>6,035</b>	<b>9,746</b>	

## How to correct Entry Errors in a Cash Book:

On the first blank line in the ledger:

- Ref:** Write the reference number that has the entry error.
- Date:** Write today's date
- To/From:** Write the date the entry error occurred and what was in the original From/To column.
- Description:** Write REVERSAL
- In/Out:** *If the entry error is in the OUT column, write this same number in the IN column.  
If the entry error is in the IN column, write this same number in the Out column  
\*Note, you must use the incorrect number that was originally entered*
- Balance:** Recalculate the new balance

### Then on the next line:

- Ref:** Write the reference number where the error occurred
- Date:** Write today's date
- To/From:** Write the date when the error occurred followed by the original From/To.
- Description:** Write "Re-enter:" then write the original description
- In/Out:** Write the correct amount of the receipt in the appropriate column
- Balance:** Recalculate the new balance

### Cash Book Example

January Cash Book							
Ref	Date	From/To	Description	In	Out	Balance	Reconciled
			Starting Balance			0	
1	6 Jan	Bank	Transfer	15,000		15,000	
2	7 Jan	Activistas 19	incentives		1,235	13,765	
3	8 Jan	Mcel	GIRO		200	13,565	
4	9 Jan	Miguel	transportation		545	13,020	
2	31 Jan	7 Jan, Activistas 19	Reversal	1,235		14,255	
2	31 Jan	7 Jan, Actistas 19	Re-enter: incentives		12,350	1,905	

## How to correct Entry Errors in a Bank Book:

On the first blank line in the ledger:

**Date:** Write today's date

**Check No.** Write the check number that has the entry error, if there is one.

**From/To:** Write the date when the error occurred and the same thing you wrote in the original From/To column

**Description:** Write REVERSAL

**In/Out** *If the entry error is in the OUT column, write this same number in the IN column.  
-If the entry error is in the IN column, write this same number in the Out column  
\*Note, you must use incorrect number here*

**Balance** Recalculate the new balance

### Then on the next line:

**Date:** Write today's date

**Check no.** Write the check no. of the entry error, if there is one.

**From/To:** Write the date and the original From/To

**Description:** Write "Re-enter:" then write the original description

**In/Out** Write the correct amount of the receipt in the appropriate column

**Balance** Recalculate the new balance

### Bank Book Example with Two Entry Errors

January Bank Book							
Date	Check	From/To	Description	In	Out	Balance	Reconci-
			Opening Balance			1,575	
1 Jan		CNCS	Funding	20,000		21,575	
3 Jan	1	TDM	Dec bill		548	21,027	
4 Jan	2	EDM	Dec bill		866	20,161	
6 Jan	3	Cash	Transfer		15,000	5,161	
28 Jan		1 Jan, CNCS	Reversal		20,000	-14,839	
28 Jan		1 Jan, CNCS	Re-enter: funding	30,000		15,161	
28 Jan	2	4 Jan, EDM	Reversal	866		16,027	
28 Jan	2	4 Jan, EDM	Re-enter, Dec Bill		688	15,339	



# How to correct Entry Errors in Income and Expense Ledgers

On the first blank line in the ledger:

**Receipt #:** Write in the number of the receipt that was incorrectly entered

**Date:** Write today's date

**Description:** Write the date the error occurred, the vendor's name, and write "Reversal"

**Amount:** Write the wrong amount again, with a minus sign in front of it

**Running Total:** Recalculate the new total by subtracting the wrong amount from the previous total

**Then on the next line:**

**Date:** Write today's date

**Receipt #:** Write in the number of the receipt

**Description:** Write the date the error occurred, the vendor's name, and write "Re-enter."

**Amount:** Write the correct amount of the receipt

**Total Spent** Calculate the new total by adding the correct receipt amount to the previous total

<b>Budget Name</b>	Communication	<b>Month &amp; Year</b>	March
<b>Budget Line #</b>	2	<b>Budget Amount</b>	25,000

RCT #	Date	Description	Amount	Total Spent	Recon
		Opening Balance		<b>17,895</b>	
	6-Mar	TDM: Feb bill	987	18,882	
	15-Mar	Mcel: Air Time	300	19,182	
	31-Mar	6 Mar, TDM, Reversal	-987	18,195	
	31-Mar	6 Mar, TDM, Re-enter	897	19,902	
		<b>Totals</b>	<b>1,197</b>	<b>19,902</b>	



Some entry errors occur when the correct number is put in the wrong column. They are corrected like all entry errors. You must reverse them and re-record them. You reverse them by putting them in the opposite column and calculating a new balance, then re-recording them correctly on a new line.

# Filing System

Seven arch level binders, Preferably in different colors:

*(on the left is the title of the binder, on the right are the names of the dividers)*

Cash Advance Forms and Cash Advance Receipts	Outstanding cash advance
	Reconciled cash advance forms (one divider per month) and their receipts

Cash Receipts	One divider per month
---------------	-----------------------

Check Receipts	One divider per month
----------------	-----------------------

Trial Balance, Financial Reports and Donor Contracts	Trial Balance
	Financial Reports
	Contracts

Bank Strata and Bank Reconciliation	Bank Strata
	Bank Reconciliation

Income and Expense Ledgers	<b>income ledgers</b>
	(One divider for EACH) <b>expense ledgers</b>
	<b>budget</b>
<ul style="list-style-type: none"> <li>Note: use dividers to separate expense ledgers by category. Example: If there are 9 expense ledgers, you will need nine divider.</li> </ul>	

<b>FORMS for making photocopies</b>	<ol style="list-style-type: none"> <li>purchase request</li> <li>cash advance</li> <li>three quotes</li> <li>Internal Receipt</li> <li>cash Transfer Receipt</li> <li>expense ledger</li> <li>income ledger</li> <li>bank reconciliation</li> <li>trial Balance</li> </ol>
<p><i>(these forms should be kept in individual plastic covers and be marked 'original' in a yellow highlighter.</i></p>	

**Two Ledgers Books:**

BANK BOOK  
CASH BOOK

**Four Register Books:**

CHECK REGISTER  
ASSET REGISTER  
EQUIPMENT TRACKING REGISTER  
CASH MONITORING REGISTER

# How to Handle Cash and Checks Safely

## Checks

- 1) Three people in the association should be signatories, with two signatories mandatory
- 2) Never sign blank checks
- 3) Use checks for all large payments
- 4) Always fill in the check register for each check written
- 5) Immediately report lost or stolen checks to the bank.

## Cash

- 1) Sign a "cash received" receipt when receiving cash
- 2) Cash should be counted and reconciled with cash book on a frequent and regular basis.
- 3) The "cash monitoring register" should be filled out whenever a reconciliation is done.
- 4) Document movement of cash in and out of bank (in the bank book)
- 5) Document movement of cash in and out of the safe (in a cash advance form and in the cash book)
- 6) Don't hold cash overnight, put it back in the bank or in the safe
- 7) Keep receipts for all purchases, expenditures
- 8) Keep most cash in the bank, where it is safer. A CBO should have a policy about the maximum amount allowed in the cash safe.

## The Safe

- 1) One person only can have the key to the safe
- 2) The safe must remain locked, when you open it, do not leave it open any longer than necessary
- 3) Before handing over the keys to the safe, a reconciliation must be done. The new person taking over the safe should sign the reconciliation.

## Criteria for Spending Money

- 1) Is it in the budget? *If the answer is yes, then*
- 2) Is there enough money for it in the budget line? *If the answer is yes, then*
- 3) Does it make sense to buy it? Does it support project activities?

# Steps for Making Purchases

## Verifying Donor Deposits

1. CBO gets a call from the donor saying the money has been deposited.
2. Authorized person (President or Manager) confirms the amount of the deposit and makes sure it corresponds to the agreed budget that is in the contract.
3. A CBO member goes to bank to get bank strata ATO (competency: requesting bank strata)
4. The amount is written in the bank book and in the income ledger.

## Getting money out of bank and into safe

5. A check is written to get money out of bank and into safe.
6. An authorized person (e.g., manager, treasurer, or bookkeeper) documents this check in the check register.
7. A member goes to bank with check and withdraws money.
8. This person returns and hands over money to the person who is handling the cash.
9. A receipt for transfer to cash, is made
10. Bookkeeper documents the withdrawal in the bank book (it is a transfer to cash)
11. Bookkeeper documents entry of the money into the safe in the cash book
12. Bookkeeper puts money into safe

## Asking to make a purchase/payment

13. A person wanting to buy something for the association fills out a purchase request form.
14. An authorized person (e.g., manager or treasurer) looks at the expense ledger to see if there is money in the budget for the request. If so, s/he signs.
15. An authorized person (e.g., manager, treasurer, or president) sees if the item is really necessary. If so, s/he signs.

## Cash Advance

16. An authorized person (e.g., bookkeeper, manager or treasurer) and the person getting cash fill out step 1 of the **Cash Advance Report**.
17. After filling out the Cash Advance Report, the bookkeeper (or whoever is handling cash) gives the person the cash.
18. Bookkeeper puts Cash Advance Report in the Finance File under Outstanding Cash Advance forms.

### Making the purchase

19. Person buys the items, gets VALID receipts.

### Bringing back the goods and reconciling cash advance

20. Person brings the goods bought, change, and the receipts and sits down with the bookkeeper to reconcile the Cash Advance (Use the Cash Advance Report).
  - a) Fill out step 2 and 3 of Cash Advance Report.
  - b) Sign Cash Advance Report.
  - c) **IF.**
    - i) the person who took the cash advance does not owe any money AND
    - ii) the association does not owe money to the person AND
    - iii) all of the receipts are for authorized purchases.**THEN**, the bookkeeper moves the Cash Advance Report to the 'reconciled cash advances' section of the Finance Folder
  - d) If the association owes the person money AND the receipts are for authorized purchases, but the association does not have enough money in the cash box, then the Cash Advance Report remains in the "Pending" section until the person is paid.
  - e) If something is not correct then a meeting needs to be called with the appropriate people (e.g., manager, President, Treasurer, and the Person who took the cash advance) to understand what happened and what are the next steps that the Association will take. Meanwhile, the Cash Advance Report is kept in the "Pending" section. Possible mistakes are:
    - i) The person who took the cash advance hands in receipts that are not for authorized purchases.
    - ii) The person who took the cash advance owes money to the association.

### Documenting the purchase into the expense ledger and cash book and filing the receipt

21. Bookkeeper copies out the expenses from step two on the cash advance form into:
  - a) the appropriate Expense Ledger by budget line item.
  - b) And the change brought back from the cash advance is documented in the cash book
22. Bookkeeper glues each receipt to a piece of paper and files them by date (oldest on bottom, most recent on top) in the Receipt file.

# Dealing with Donors

## How a Donor Evaluates a Proposal

- The activities will achieve clearly stated results
- The activities will be accomplished within the stated time frame
- There is a plan to evaluate or measure the results
- The activities are budgeted,
- The budget lines make sense: they clearly fund the activities in the proposal.
- The number of items requested are reasonable. Donors do not want to get additional requests for more funding during an ongoing contract, so make sure that the amounts required are enough. At the same time donors will look negatively upon quantities that are clear overestimates.
- The price of items are reasonable. The process for approving a proposal may take time. If so, it is advisable to add a bit more to items to account for expected increases in prices.
- The amount requested is not seriously above the organization's track record. Each donor will have a different idea about what "seriously" means. But they will usually compare the request with previous amounts that were handled by the organization.
- The items requested are reasonable and represent a real need.
- A donor will often ask for an audited statement, especially if the amount requested is considerable. It is therefore advantageous to include an external audit in your budget request to establish a formal track record.
- A donor may visit the organization before approving a proposal. Make sure that all financial documents are **ready and easy to locate**. A sure way to be rejected is to tell a donor that the books are at your bookkeeper's house or the President's house. If you know when the donor is coming, be prepared! Make sure that all of your financial documents are up-to-date and accurate.

## Important Things To Know About Your Donor Contract

- 1) Length of funding
- 2) When money will be disbursed. And how much will be disbursed. Do you get it all at the beginning? Do you get some at the beginning, some in the middle?
- 3) How to request funding disbursements to your account
- 4) Conditions for utilizing contingency funds if they have been granted.
- 5) Can you move some money around to different budget lines without asking the donor? Or do you need prior written approval? How much can be moved from one line to another? This is called budget line flexibility.
- 6) What happens if you don't spend all the money by the end of the project, will they take the remaining amount of money back? Or is it possible to extend the project dates so you can spend any remaining money?
- 7) When do they want reports?
- 8) What happens if reports are late, have errors, or are not submitted?
- 9) How are reports linked to funding disbursements?
- 10) Do they have a special reporting format you have to use?
- 11) Are there things you are not allowed to do or purchase?
- 12) Are there amounts of money that can't be spent without prior approval from the donor?

Although this may not be in the contract, you should know:

- Will they be visiting your project? If yes, how much notice will they give you?
- Can they tell you ahead of time what documents and activities they want to see?
- What should you do if there is something that you agreed to do, but cannot do because of something beyond your control?

## Working with Multiple Donors

Having more than one donor can be beneficial for an organization because it helps it to diversify its funding sources and can help the organization to expand its activities. But, it also means more work. Often, in the euphoria of getting more funding, organizations do not consider the extra administrative work that is required to satisfy a new donor. This will include extra narrative reports, additional financial accounting and reporting, additional correspondence with the donor, additional donor visits, and increased monitoring and evaluation. Many small organizations struggle to meet these extra requirements.

Financially, the burden is often great for small, inexperienced organizations. Minimally, a new donor will mean:

1. A new bank account and a new cash safe.
2. A new cash book, a new bank book, and a new set of cash advance reports.
3. A completely new set of income and expense ledger line items, **even if it is the same category.**
4. A completely new filing system to keep the documents separate from the other donor(s).
5. A new financial report.

For example, the CNCS may give 10,000 metacais for communication and Oxfam may give 15,000 metacais for communication. The organization will need to open a new income ledger for Oxfam and then keep a communication: CNCS expense ledger AND a communication: Oxfam expense ledger. The donors will also require separate financial reports, including separate budget reports. An additional bank account means an additional bank book, an additional bank statement, and an additional bank reconciliation each month. An additional cash safe means an additional cash book and a doubling of the cash reconciliations. Some donors may also require an aggregated financial report (a report on all funds and all expenses) in addition to the report for that specific donor. As the system expands, the possibility for errors also expands.

Organizations should not be afraid to negotiate reasonable administrative requirements with donors. For example, one well written report that includes all of the activities may be acceptable for all of the donors rather than a report for each donor. Reporting periods should also be clear and negotiated to the organization's advantage. Three quarterly reports and one annual report is generally acceptable. If both donors require external audits, then make sure that one audit is done for all donors rather than separate audits for each donor.

# Assessing an Organization's Financial Management Capacity

The list below contains the competencies that an organization should have or be in the process of developing if it is to be accountable, clear, and transparent. Any assessment of an organization will include most if not all of these competencies.

No.	Competency
1.	<b>Bank accounts are in the name of the organization.</b> <i>Accountability</i>
2.	<b>There is a clear, documented authorization schedule.</b> <i>Clarity</i>
3.	<b>Authorized signatories on bank accounts are in accordance with the authorization schedule and with information provided to donor.</b> <i>Accountability</i>
4.	<b>Produces valid receipts on request</b> <i>Transparency</i>
5.	<b>Few Honor Receipts are accepted</b> <i>Transparency</i>
6.	<b>Receipts are correctly filed according to date with the most recent receipts on top.</b> <i>Clarity</i>
7.	<b>Receipts are filed according to bank, cash, and cash advance reports.</b> <i>Clarity</i>
8.	<b>Receipts that have not been entered in the books are filed and easy to find. Either they are filed with a separator between them and the entered receipts or they are put in a temporary file folder.</b> <i>Clarity</i>
9.	<b>The CBO is using the funds for agreed purposes only (no unauthorized loans or out of budget expenditures).</b> <i>Accountability</i>
10.	<b>Produces cash book on request. Cash receipts that are more than one week old have been entered correctly in the cash book.</b> <i>Transparency</i>
11.	<b>Entries in cash book and bank book are made in chronological order.</b> <i>Clarity</i>

No.	Competency
12.	<b>There is evidence that the organization regularly reconciles the cash book and the cash on hand (cash book should be signed)</b> <i>Accountability</i>
13.	<b>Cash on-hand and cash book reconcile.</b> <i>Accountability</i>
14.	<b>Produces bank book on request. All receipts that are more than one week old have been entered correctly in the bank book.</b> <i>Transparency</i>
15.	<b>Bank statements are filed with the most recent on top.</b> <i>Clarity</i>
16.	<b>There is evidence that the bank statements and bank book are correctly reconciled every month.</b> <i>Accountability</i>
17.	<b>Produces reconciled and outstanding cash advance reports on request.</b> <i>Transparency</i>
18.	<b>All receipts associated with cash advance reports are kept just beneath the report or if receipts are filed according to expense ledger then the receipts are clearly referenced.</b> <i>Clarity</i>
19.	<b>Cash Advance Reports are accurately reconciled within one month of the issuance of the cash advance.</b> <i>Accountability</i>
20.	<b>Cash advance reports are filed with the most recent on top.</b> <i>Clarity</i>
21.	<b>Cash advances appear to be reasonable (reasons are valid and the amounts correspond with the tasks to be accomplished).</b> <i>Accountability</i>
22.	<b>Purchases for large amounts of money are made with cheques NOT cash or cash advances.</b> <i>Accountability</i>
23.	<b>Balances in the expense ledgers are correct.</b> <i>Accountability</i>
24.	<b>Produces expense ledgers on request. All receipts that are more than one week old have been entered in the correct expense ledger.</b> <i>Transparency</i>

No.	Competency
25.	<b>Quotations are procured in accordance with project agreements and CBO regulations.</b> <i>Accountability</i>
26.	<b>Quotations are filed with the purchase order and the related receipts</b> <i>Clarity</i>
27.	<b>Quotations are comparable</b> <i>Accountability</i>
28.	<b>Purchase requests agree with actual purchases made.</b> <i>Accountability</i>
29.	<b>Purchase requests are signed and filed with their related receipts.</b> <i>Clarity</i>
30.	<b>Trial balances have been correctly prepared each month and indicate that accounts are accurately entered.</b> <i>Accountability</i>
31.	<b>There is evidence demonstrating that authorization schedules are observed.</b> <i>Accountability</i>
32.	<b>Finance Advisor on the Executive Council and CBO Management are able to trace receipts and ensure that they are correctly entered in the accounts.</b> <i>Transparency</i>
33.	<b>Financial reports are in agreement with income and expense ledger, comparisons with budgets are accurate, and the reports comply with both the organization's internal requirements and donor requirements.</b> <i>Accountability</i>
34.	<b>Executive Council and Management understand financial reports</b> <i>Transparency</i>

No.	Competency
35.	<b>Produces reports in accordance with CBO's formatting and scheduling requirements as per CBO's constitution. <i>Transparency</i></b>
36.	<b>Produces reports in accordance donors' formatting and scheduling requirements. <i>Transparency</i></b>

# Annex 1: Goods Received Note

The Goods received note is not taught in the Litchi Training, however some CBOs might find it useful, so it is included here.

A Goods Received Note is filled out when goods are received by the CBO. This ensures that all items purchased are received by the CBO in good condition, as intended when the purchase request was approved, and in the same quantity as stated on the receipt. An example of a Goods Received Note is below.

## Goods Received Note (GRN)

Date \_\_\_\_\_ Supplier \_\_\_\_\_ GRN No. \_\_\_\_\_

Purchase Order Number	Quantity Counted	Quantity in Delivery Note/ Receipt	Shortages/Overs	Description	Condition (Good, Damaged)

Carrier \_\_\_\_\_

### RECEIVED

Signature \_\_\_\_\_

Name (Printed) \_\_\_\_\_

### Checked by

Signature \_\_\_\_\_

Name (Printed) \_\_\_\_\_

**Date:** Date the goods are received.

**Supplier:** The name of the company or individual who has supplied the goods.

**GRN No:** The organization should number its GRNs (1, 2, 3, 4, etc). Each new GRN should have a new number.

**Purchase Order Number:** Every purchase should be pre-approved and should have a purchase order associated with it. The purchase order will have a number printed on it. This should be recorded on the GRN.

**Quantity Counted:** Whoever is receiving goods should count the items and record the number for each item in this column.

**Quantity in Delivery Note/Receipt:** The quantity recorded in the delivery note and receipt should be the same. This should be recorded in this column. If they are not the same note that there is a difference on the back of the GRN and put a star in this column.

**Shortages/Overs:** The difference between the quantity counted and the quantity in the Delivery Note/Receipt is the shortage/over. If the quantity counted is less than in the Delivery Note/Receipt, then this is a shortage. A shortage should have a minus sign (e.g., if 10 boxes of A4 paper are counted, but 12 boxes appear in the Receipt, we would write -2 in the shortages/overs) If the quantity counted is more than in the Delivery Note/Receipt then this is an over (e.g. if 15 pens were counted, but 5 pens appear in the receipt, we would write 10 in the shortages/overs).

**Description.** Describe the goods as they are described in the Receipt.

**Condition:** Write good, if they appear to be good. Write damaged, if they have been damaged. If goods have been damaged, alert the manager so that she or he can contact the supplier and get the damaged goods replaced.

**All your receipts** from all your purchases and payments will be filed neatly into three categories:

- Receipts for things bought with a check
- Receipts for things bought with cash
- Receipts for things bought with a cash advance

