



DCAS Services
- Independent Examinations -
- Payroll Services -
- Advice -
- Training & Support -
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NEWSLETTER SUMMER 2014

Charities and Reserves

What are Reserves?

The Charities 'Statement of Recommended Practice' (**SORP**), defines Reserves as that part of a charity's income that is freely available to spend. Reserves therefore **exclude** endowment or restricted income funds which have particular restrictions on how the funds may be used. Trustees need to consider how the funds of the charity are held and how they are being used in order to identify those resources that are freely available to spend.

Why is a Reserves Policy important?

A reserves policy explains to existing and potential funders, donors and other stakeholders why a charity is holding a particular amount of reserves. A good reserves policy gives confidence to stakeholders that the charity's finances are being managed and can also provide an indicator of future funding needs. The Charities **SORP** requires a statement of a charity's reserves policy within its annual report. In addition, if a charity operates without a reserves policy, the Regulations require this fact to be stated in the annual report.

All charities need to develop a policy on reserves which establishes a level of reserves that is right for the charity and clearly explains to its stakeholders why holding these reserves is necessary.

In particular, a reserves policy can help to:

- give confidence to funders by demonstrating good stewardship and financial management
- demonstrate the charity's sustainability and capacity to manage unforeseen financial difficulties
- give voluntary funders, such as grant-makers, an understanding of why funding is needed to undertake a particular project or activity
- give assurance to lenders and creditors that the charity can meet its financial commitments
- manage the risk to a charity's reputation from holding substantial unspent funds at the year-end without explanation.

Developing a reserves policy is also an important part of the internal financial management of a charity. Developing a reserves policy is likely to:

- Assist in strategic planning, for example, considering how new projects or activities will be funded.
- Inform the budget process, for example, is it a balanced budget or do reserves need to be drawn down or built up?
- Inform the budget and risk management process by identifying any uncertainty in future income streams.

For a more detailed look at **Charities and Reserves**, and help on developing a Reserves Policy, document **CC19** is available for download from the Charity Commission website:

<http://www.charitycommission.gov.uk/>

RECORDING TRANSACTIONS IN A DOUBLE ENTRY LEDGER

This book has two identical sides.

The left hand side is for *income* and has two columns - one for income to the bank and one for cash income.

The right hand side is for *expenditure* and it too has two columns - one for expenditure from the bank and one for cash expenditure.

Income received by cheque

Income received by cheque (e.g. grants) should be paid into the bank and entered in the Bank Income column on the left hand side of the cash book.

Payments from bank

Whenever possible, bills should be paid by cheque. Cheques should be made out to the company or person providing the service, and entered in the Bank Expenditure column on the right hand side of the cash book.

Income received in cash

Income received in cash (e.g. from fund raising) should be paid into the bank as soon as possible and entered in the Cash Income column on the left hand side of the cash book.

Payment in cash

There will be occasions when the Treasurer will have to pay some small bills (e.g. travel expenses) in cash, and it will therefore be necessary for him/her to have a small **cash float**. The way to deal with this is to draw cash from the bank by cheque, enter this in the Bank column on the right hand side of the book, ***BUT you have not spent it yet***, so enter it in the Cash column on the left hand side of the cash book. ***It is CASH INCOME.***

In the example, the book now shows that you have a cash balance of £10. Then when you start paying the small bills in cash, enter these amounts in the Cash column on the right hand side of the book.

The cash and bank balances

The Bank and Cash balances are the differences between the Income and Expenditure sides. These figures can be entered in a convenient place on the cash book (see example). It is also a good idea to note the current bank balance on the stub of the cheque book.

GOOD PRACTICE IN YOUR BOOKKEEPING

It is important to have some evidence of monies coming in and going out, so get two Receipt Books, one for **MONIES COMING IN** and one for **MONIES GOING OUT**. ***ALSO Give*** a receipt for all monies received, and ***Get*** a receipt for all monies paid out.

SOME DOs AND DON'Ts

DO

- ❖ buy a good double-column, hard backed, ledger
- ❖ write up the book with a pen
- ❖ keep the book up-to-date
- ❖ correct mistakes by crossing out errors and entering the correct figure above the error, e.g. :
756
~~765~~
- ❖ retain all cancelled cheques
- ❖ make sure the bank account requires two signatures
- ❖ see the Invoice before issuing any cheque

DON'T

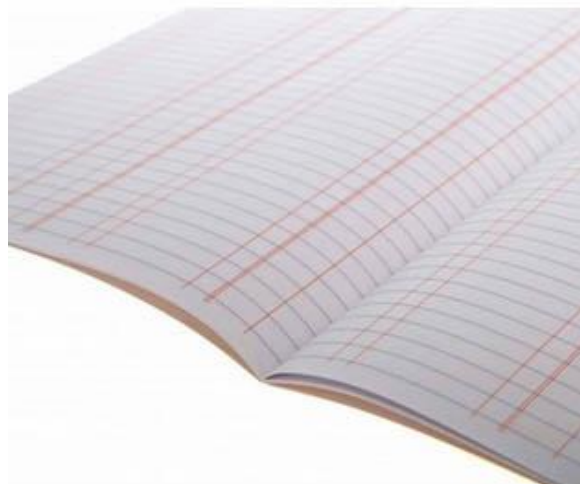
- ❖ make do with any cash book that happens to be around
- ❖ write up the book in pencil
- ❖ let the book get into arrears
- ❖ use Tipp-ex to correct mistakes
- ❖ destroy cancelled cheques
- ❖ ever sign a blank cheque
- ❖ sign a cheque without seeing an invoice



EXAMPLE OF A WRITTEN-UP LEDGER

The following items need to be entered in the Ledger:

April 1 received a grant of £500 and paid it into the bank
 April 3 paid £10 by cheque for room hire—cheque no. 001
 April 5 paid £15 by cheque for publicity leaflets - cheque no. 002
 April 6 drew £15 in cash from the bank - cheque no. 003
 April 7 paid £2 in cash for telephone call—receipt no. 1
 April 10 received a grant of £100 and paid it into the bank
 April 28 paid £15 by cheque for postage - cheque no. 004
 April 3 paid £5 in cash for travel expenses - receipt no. 2



The **Balance** is the difference between the total in the left hand and right hand columns, and this can be entered in any convenient place - see below.

INCOME				
Date	Description		Bank	Cash
Year – 2014				
April 1	Grant		500.00	
6	Received from bank			15.00
10	Grant		100.00	
	Total		600.00	15.00

EXPENDITURE				
Date	Description	Cn/Rn	Bank	Cash
Year – 2014				
April 3	Room hire	001	10.00	
5	Publicity leaflets	002	15.00	
6	Cash	003	15.00	
7	Telephone call	1		2.00
28	Postage	004	15.00	
May 3	Travel expenses	2		5.00
	Total		55.00	7.00

Note: **Cn** – cheque number **Rn** – receipt number

Bank balance: £600 income - £55 expenditure = £545

Cash balance: £15 income - £7 expenditure = £8

Our Services at Derby Community Accountancy Service (DCAS)

Accounts

Every year **DCAS** examines the accounts of over 60 voluntary groups in Derby. They ensure that money is spent in accordance with the objects of the charity and the grant providers. Based on **DCAS's** examinations they produce annual accounts that comply with the Charity Commissions regulations. **DCAS** reports to the organisation's management committees on any system weaknesses identified and offer solutions as appropriate.

Payroll

DCAS prepares the payroll for over 30 organisations in Derby including major charities in the city that employ well over 30 members of staff. They produce payslips and all relevant details, enabling the groups to be compliant with HM Revenue and Customs regulations. They complete end of year returns for these organisations which are filed online to HMRC.

Training

DCAS delivers 12 training courses a year covering all aspects of charity finance, the legalities of operating a charity and strategic management. **DCAS** uses highly experienced specialists to deliver these courses.

Management Accounts

DCAS prepares management accounts for the management committee meetings.

Support and Advice

DCAS gives advice and support to organisations covering every aspect of finance and financial management. They do this in person, over the telephone and by email. A newsletter is produced three times a year that covers current aspects of charity financial management.

Access route/Referral criteria

Existing groups recommend services to other groups in the City. **DCAS** has a long standing excellent reputation within the voluntary and community sector in Derby. Organisations such as **Community Action Derby** and **Business in the Community** refer groups to the service. Indeed the service is recommended to others via some of the local charitable organisations and sections of the Local Authority.

Seminar on Pensions Auto-Enrolment

on Tuesday 16th September 2014

from 10am prompt — 12 noon

Guest Speaker : Darren Wheatcroft IFA

of Derwent Financial Planning LLP

Venue: Derby Bosnia & Herzegovina Centre
99 Curzon Street, Derby, DE1 1LN

Tea and Coffee will be available from 9:30am

More details later



Have you seen our new website?

<http://derby-community-accountancy.org.uk/>



Derby Community Accountancy Service