FINANCE

FINANCIAL MANAGEMENT FOR NSOs

Vol. 1:
Understanding Financial Accounting


© WSF / Yoshi Shimizu

SCOUTS®
Creating a Better World

World Scout Bureau, Global Support Centre
Kuala Lumpur

Suite 3, Level 17,
Menara Sentral Vista, No 150
Jalan Sultan Abdul Samad
Brickfields, 50470
Kuala Lumpur, MALAYSIA

Tel.: + 60 3 2276 9000
Fax: + 60 3 2276 9089

worldbureau@scout.org
scout.org

Photos by:

FINANCIAL MANAGEMENT FOR NSOs

Vol. 1:
Understanding Financial Accounting

Table of Contents

Introduction

Strengthening support for National Scout Organizations (NSOs) in the area of financial management was one of the objectives of the World Triennial Plan 2017-2020. As we collectively face the impact of the COVID-19 global pandemic, providing support to NSOs for transparent and accurate management of finances will be critical. To accomplish this within NSOs, steps are needed to map the financial reality and budget implications as well as understand how to best leverage existing financial and physical resources. This area of importance is also part of building the NSO’s image as a responsible and stable partner for initiatives contributing to the development of the Scout Movement.

Financial Management for NSOs is a three-part Toolkit providing explanations of the topics presented, examples of solutions and references to further resources.

* **Volume 1** guides NSOs through the basics of financial accounting and financial roles within an NSO

* **Volume 2** describes budgets and the budgetary process, including information about the fixed assets register, inventory and procurement procedures and guidelines

* **Volume 3** unveils advanced topics of financial reporting and financial control

The information and solutions presented through the Toolkit are designed to help NSOs move towards effectively utilisingavailable resources and obtaining financial stability and growth. Achieving this will ultimately help the NSO raise finances through lower cost expenditure, maximize their income and expand their capital value in the long-term. The toolkit is kept as simple as possible to serve as a reference for NSOs on various stages of development. More resources and relevant support in the area of financial management is available to NSOs through the **WOSM Services.**

Financial Roles for NSOs

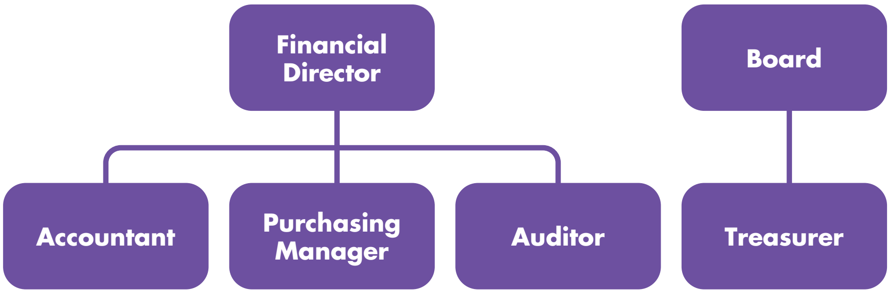
Financial management is an important component of the Scout Movement. The way National Scout Organizations (NSOs) manage their finances must always be aligned with Scout values – through transparency, honesty, compliance and accountability to all stakeholders (including NSO members, National Council, suppliers, donors, the public sector and civil society). This will minimise financial risks, such as financial bankruptcy, breach of obligations and fraud.

Depending on the size of each NSO, the number of people and positions managing finances can vary. In identifying roles and responsibilities for financial management, it encourages accountability and good management of resources.

Financial Roles and Basic Organisational Chart

The roles and basic organisational chart described below serve as a guide for small or medium-sized NSOs and can be used by volunteers or executives responsible for financial management.

Depending on the size of the NSO, an individual could assume all functions of these roles.



Understanding Financial Accounting

Financial accounting is a system of recording, classifying and summarising information for various purposes, including reporting.

The main objective of financial accounting is to display an accurate and fair picture of the organisation's financial situation. To understand the fundamentals of financial accounting, the eight key areas below are essential:

- Bank Account Management
- Accounting Records
- Accounting Methods
- Full Bookkeeping Systems
- Accounting Software
- A Chart of Accounts
- Cash Flow
- Accounting Closing

1. Bank Account Management

All NSOs must operate bank accounts to receive and use funds for administrative and project-based expenses. Opening/closing bank accounts and maintaining updated mandates throughout the whole lifecycle is both time consuming and costly, and a primary source of risk-error or fraud. It must be handled in a structured manner to support compliance and audit requirements.

It is important for NSO bank account management guidelines to be integrated in financial management policies.

Operating Bank Accounts

A bank account for an NSO shall only be opened with a nationally recognised bank or banking institution authorised by the central bank of the country. The necessary written authorisation and/or resolution should be obtained from the governing board (subject to local requirements of the bank) for operations of the bank account, including but not limited to opening and closing the bank account, or making changes to operation matters of the bank account. It is advisable to maintain separate designated bank account(s) for special projects or functions; if deemed necessary, and a similar authorisation control as the main bank accounts shall be adopted.

Authorised Signatory/Authorisation Matrix

The NSO bank account should have a defined signatory and approved workflow for controlling account related activities. It is important to implement an appropriate segregation of duties, a clear policy for the use of bank accounts and audit trails to prevent internal and external fraud.

The authority to sign should lie with selected executive members of the NSO. The bank is authorised to undertake any written instructions, signed by at least two of the signatories jointly, for transacting any financial business from time to time. It is advisable to implement a threshold control, where designated thresholds/signing limits are assigned to various individuals/positions at the NSO in accordance with their roles. If a signatory does not have a sufficient limit to authorise a transaction, the transaction must be approved by another signatory (typically a more senior person) with a sufficient limit.

A staff member who has access to the bank account, cash account and/or cheque book is not permitted to be an authorised signatory. Any change to signatories must be registered with the bank within two weeks of the change.

It would also be advisable to designate a second line of authorised signatories in the absence of the default signatories.

The common practice today is to utilise electronic banking systems to manage bank accounts and to execute transactions. It is vital to deploy the same control mechanism as the approved authorisation on the electronic banking platform to ensure proper control.

The authorisation on electronic banking platforms define different levels of access to bank accounts. A user can authorise transactions up to his/her daily limits and/or transaction limits.

Closing Bank Accounts

Any bank account that is not operational must be closed immediately and the following actions should be completed:

- Transfer the balance in the account (leaving the minimum amount required) to another account
- Surrender all the cheque leaves to the bank under receipt
- After receipt of the resolution, deliver it to the bank under receipt and transfer the balance to another account; and
- Confirm closure of the bank account and transfer of the balance to the competent authority
- Update bank account record accordingly.

Bank Account Database

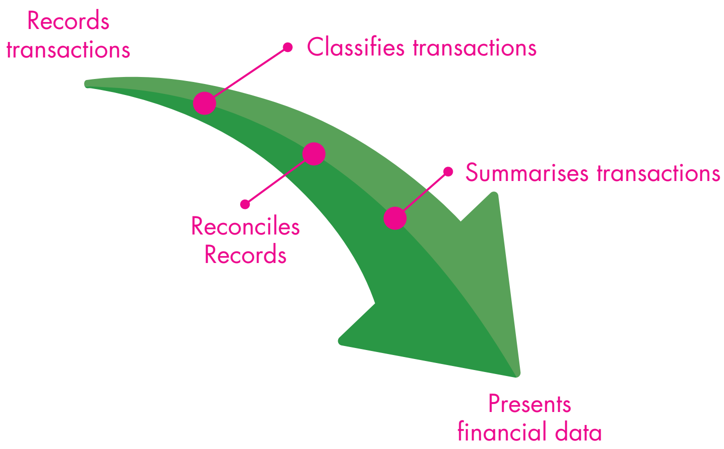
A finance officer should maintain a centralised record for all bank accounts and authorised signatories of the NSO. The record shall be reviewed by a senior finance executive at least once every quarter.

2. Accounting Records

Accounting records are an NSO's financial transactions and current financial position. They are important for tax purposes, legal accountability and adequate financial oversight. This is done through supporting documents and books of accounts.

Every organisation must keep accurate records of financial transactions to show how funds have been used towards achieving its objectives:

- To provide reliable information for management's decision-making
- For budgetary control and monitoring, to help the organisation spend within its financial means
- To stay organised when dealing with customers and suppliers
- To have a good platform for preparing management and statutory financial reports
- To file tax returns and to have a good platform for internal controls
- To keep records in compliance with financial laws and regulations



For NSOs with very few financial transactions, a simple bookkeeping system will suffice. As an organisation grows and acquires different sources of funding, its reporting requirements and financial systems will become highly developed.

Supporting Documents

Every NSO should keep files of the following original documents to support every transaction. With theste documents on file, it will always be possible to construct a set of accounts:

- Receipts or vouchers for money received
- Payment vouchers for money paid out
- Purchase orders
- Goods received notes
- Invoices certified and stamped as paid
- Bank deposit slip/credit advice, stamped and dated when money is taken to the bank
- Journal vouchers for one-off adjustments and non-cash transactions
- Bank statements

Books of Accounts – Minimum Requirements

a. Petty Cash

Petty cash records are kept in a similar way to bank book records. As both sets of figures will eventually have to be combined to produce financial reports, it makes sense to set out the books in a consistent manner, like the fixed float method.

We have established an initial petty cash float of $500.

On 1/1/20xx, we gave this $500 to Mr. A, who is now the petty cash custodian.

Mr. A has been issuing petty cash to pay staff claims. Subsequently, on 19/1/20xx, he had only $50 left, so he will seek reimbursement in the form of $450 to top up the petty cash float to the original float of $500.

Fixed Float Method

A cash balance of $200 is established in the float. When the cash balance in the float gets low, it is topped up by exactly the same amount that has been spent since the float was last reimbursed. An advantage of this system is that any time the money and vouchers in the petty cash box are counted, they should always add up to the fixed float amount. In addition, it is much easier to incorporate petty cash spending into the accounts as the reimbursement cheque is entered in the cash book.

b. Cash Book

This is the main book of accounts for recording bank transactions, e.g. cash transactions. It is normal to maintain a separate cash book for each bank account held, as this makes it easier to reconcile each account at the end of the month.

Reconciliation of the Cash Book

The cash book should be checked against the bank statement at least once a month, and more frequently for busy bank accounts. This is called a bank reconciliation. A bank reconciliation involves taking the closing bank statement balance for a particular date and comparing it to the closing cash book balance for the same date. If there is a difference between these two closing balance figures, the difference must then be investigated.

> The purpose of a bank reconciliation is to ensure that the organisation's cash book records agree with the bank statement and to pick up any errors or omissions made by the bank or the organisation.

In practice, there will usually be a difference because of timing delays, such as:

- Unpresented cheques
- Bank charges and bank interest, which are added to the bank statement by the bank periodically
- Bank lodgement, funds received in the bank but yet to be recognised in the books

3. Accounting Methods

Keeping accounts simply means finding a way to store financial information so that the organisation can show how it has spent its money and where th◦e funds came from. Accounting records can be digitised through existing accounting software.

The two important methods for keeping accounts to classify, record and report financial situations are:

- Cash basis
  - Prepares accounting records and statements, and recognises income and expenses as they occur
  - Produces Receipts and Payments Account for a given period, showing movement of cash in and out of the organisation
  - Shows the cash balances at any given time
- Accrual basis
  - Recognises income earned, rather when it is received
  - Recognises expenses incurred, instead of when the organisation paid the bill

Cash Accounting

The cash basis of accounting is a way of recording the accounting transactions for revenue and expenses made in cash.

- Payment transactions are recorded in a bank book or cash book when they are made, and incoming transactions are recorded when they are received.
- The system takes no account of time lags and any bills that might be outstanding.
- The system does not automatically maintain a record of any money owed by (liabilities) or to (assets) the organisation.
- The system cannot record non-cash transactions, such as a donation in kind or depreciation.

Accrual Accounting

The accrual basis of accounting is one of the most accepted accounting methods. Accrual accounting uses a double-entry system. You record two entries in your books for every transaction, debit or credit. The entries should be equal and opposite, and the total credits should equal the total debits.

With the accrual method, you make records when you incur a transaction. You record an expense when you receive it, not when you pay it (e.g. you get an invoice). In addition, you record revenue when you earn it, not when you receive cash (e.g. you invoice a customer).

- Expenses are recorded in a general ledger as they are incurred, rather than when the bill is actually paid. In turn, income is recorded when it is truly earned, e.g. the organisation is 100% certain it will be paid, rather than when received.
- By recognising financial obligations when they occur, not when they are paid or received, it overcomes the problem of time lags, giving a truer picture of the financial position.
- The system can deal with all types of transactions and adjustments, and automatically produces up-to-date information on assets and liabilities.

In a nutshell, it is:

- An income & expenditure account, summarising all income and expenditures committed during a given period; and
- A balance sheet that demonstrates money owed to and by the organisation on the last day of the period.

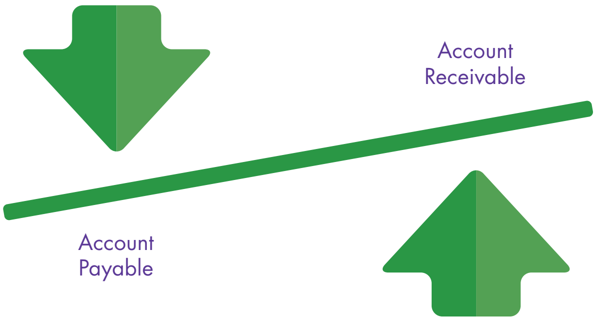
CASH VS ACCRUAL ACCOUNTING

	Cash	Accrual
Accounting	Single entry	Double entry
Transaction types	Cash only	Cash and credit
Terminology	Receipts and payments	Income and expenditure
Main book of account	Bank (or cash) book	General ledger
Skill level	Basic bookkeeping	Advanced bookkeeping
Non-cash transactions	No	Yes
Assets & liabilities	No	Yes
Reports produced	Receipts and payments report	Income and expenditure report with balance sheet

Cash Accounting

Accrual Accounting

4. Full Bookkeeping Systems



Organisations requiring a full bookkeeping system use a series of ledgers, depending on the organisation's activities.

Account Payable (AP)

An outstanding bill from a vendor that the organisation has an obligation to pay.

DATE	ACCOUNT DESCRIPTION		DEBIT	CREDIT
			$	$
	EXAMPLE 1			
1/3/2019	ELECTRICITY		40	
	ACCOUNT PAYABLE			40
	TO RECORD PAYABLE FOR ELECTRICITY BILL			
	EXAMPLE 2			
15/3/2019	PRINTING		100	
15/3/2019	OFFICE SUPPLIES		200	
15/3/2019	RENTAL		500	
15/3/2019	TELEPHONE		100	
	ACCOUNT PAYABLE			900
	TO RECORD PAYABLE FOR CORPORATE CREDIT CARD BILL			
	EXAMPLE 3			
5/3/2019	ACCOUNT PAYABLE		40	
	BANK			40
	TO RECORD PAYMENT OF ELECTRICITY BILL			

Accounts Receivable (AR)

Money owed to the organisation by another party. An AR is recorded when services are rendered to earn revenue for the organisation.

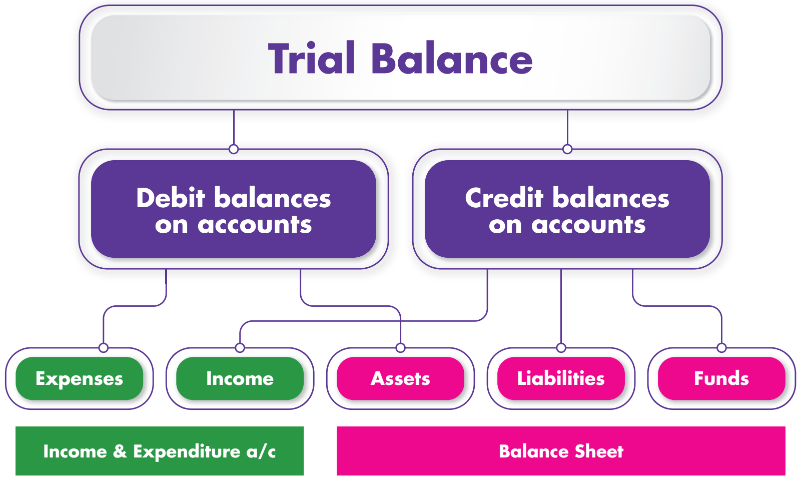
DATE	ACCOUNT DESCRIPTION		DEBIT	CREDIT
			$	$
	EXAMPLE 1			
1/3/2019	ACCOUNT RECEIVABLE		3000	
	CONTRIBUTION - DONOR			3000
	TO RECORD INCOME AGREE TO CONTRIBUTE			
	EXAMPLE 2			
15/3/2019	ACCOUNT RECEIVABLE		500	
	EVENT INCOME			500
	TO RECORD INCOME DUE FROM MARCH 10TH EVENT			
	EXAMPLE 3			
20/3/2019	BANK ACCOUNT		3000	
	ACCOUNT RECEIVABLE			3000
	TO RECORD RECEIPT OF INCOME			

Receipt of an AR item is reflected in a deposit made to your cash account. When you have an AR, it is vital to review it before assigning revenue accounts to your deposits. This is to ensure you offset against AR that you have.

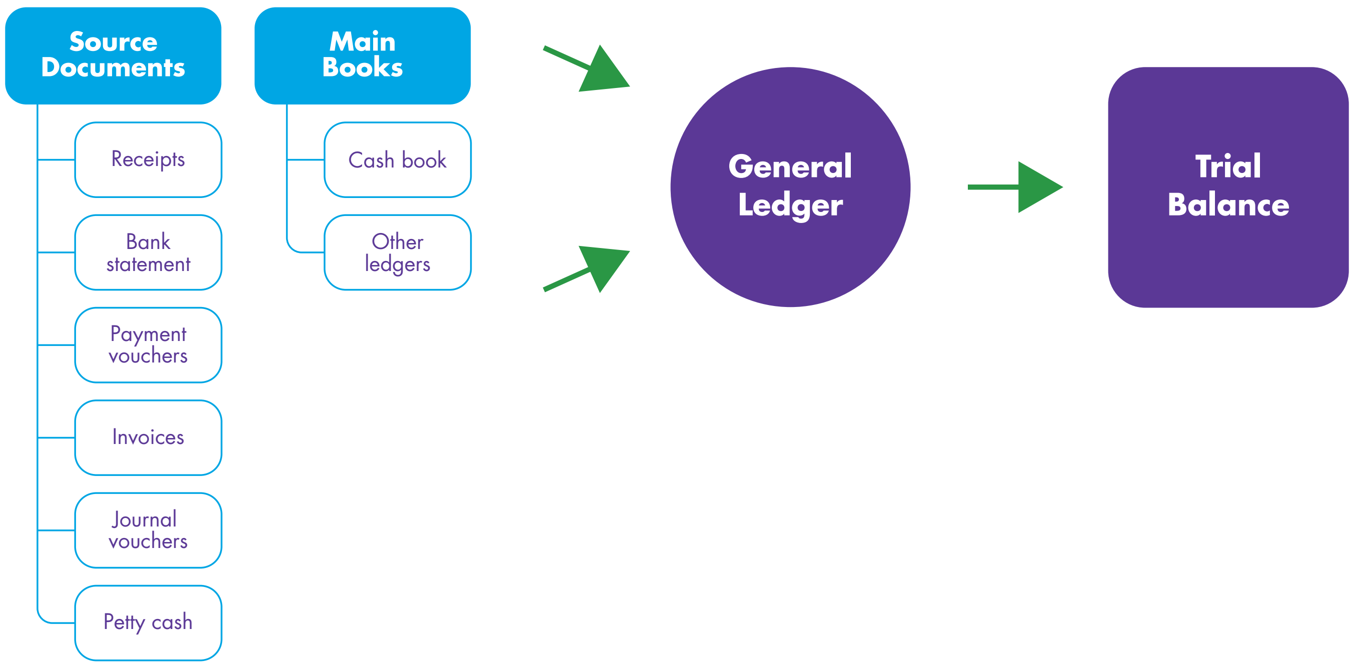
Trial Balance

A trial balance (TB) is an arithmetical check on the accounts maintained using the double-entry method of accounting and the basis for preparing accrual-based financial statements. At the end of an accounting period, all account categories with a balance in the general ledger are listed on a summary sheet to form a trial balance; the total of the debit balances on the list will equal the total of the credit balances.

TRIAL BALANCE LEADING TO FINANCIAL STATEMENTS:



The trial balance is the final stage of the accounting process, resulting from recording, classifying and summarising the many different transactions that occur in an organisation.



5. Accounting Software

An accounting software allows you enter transactions, automate totals and reports. Both desktop and cloud accounting software solutions are available. An accounting software will include:

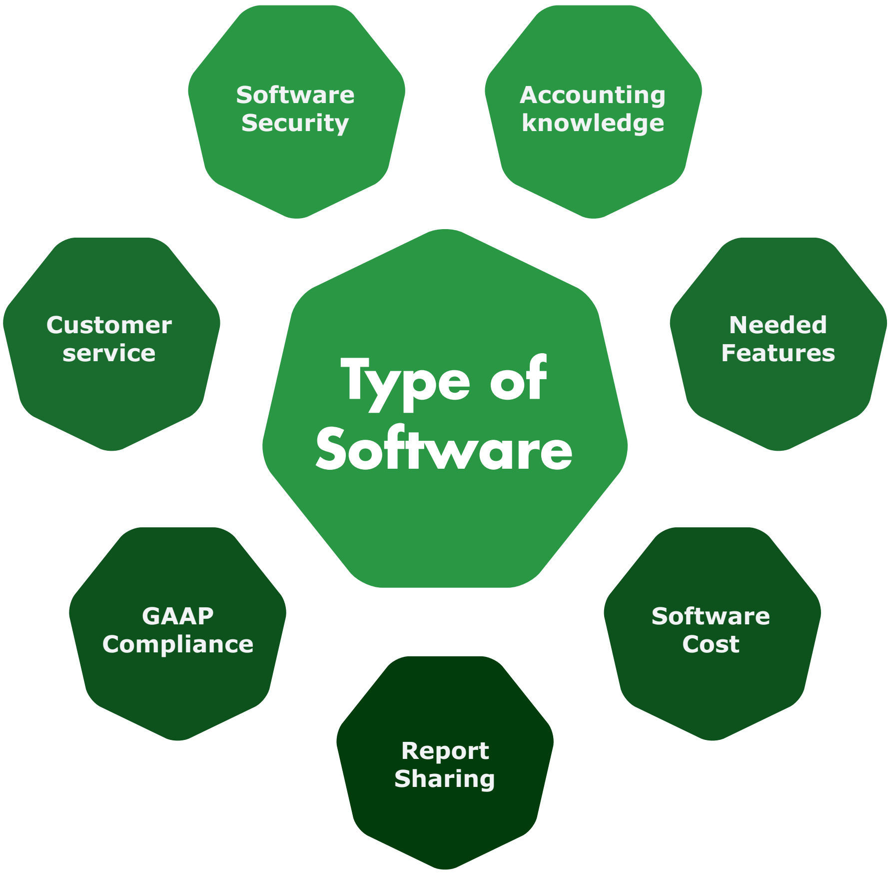
- General Ledger
- Accounts Payable
- Accounts Receivable
- Billing
- Stock
- Purchase Order
- Bookkeeping

Benefits of an accounting software

COST	SPEED	ACCURACY	UP-TO-DATE INFORMATION	AVAILABILITY OF INFORMATION	EFFICIENCY	SECURITY	REPORTING
Reduces staff and audit expenses	Data entry is faster than manual processing	Removes the risk of human error	Updates automatically	Instantly accessible information and available remotely in different locations	Better use of time/ resources, easier debt collections and stock control	Adds a layer of security to records, and only allows authorised access to financial data	Provides an eagle-eye view of financial situations; reports can be customisable and easily produced for specific datasets

Choosing the Right Software

Choosing accounting software starts with your budget and familiarity with it. Here are seven things to consider when choosing accounting software:



Choosing Software and Understanding It

- Do I need an online and have regular internet access?
- Do I need a desktop software?
- Is my current desktop/laptop powerful enough to manage a desktop software?
- Will others need access to the software?
- Is my accounting knowledge enough to operate this software?
- How much time am I willing to invest in training and upskilling to manage it?

Accounting Software Features

- What features are must-haves and what features do I want/prefer?
- Are there any features I would like for the future when the organisation grows?
- How much time do I have for accounting / what is my skill level?

Software Cost

- What is my budget and what are the features this will cover?
- Is there a fee for setup, cloud storage or customer service?
- Is there a free trial or demo?
- Am I willing to commit to a contract?
- How often might I use features that require extra fees?

Report Sharing

- The three ways to share reports are printing, emailing or a separate accountant login. Ask your accountant if they have a preferred method for receiving your accounting information.

GAAP Compliance

- Generally accepted accounting principles (GAAP) are standards for organising common financial statements and allows others to easily understand your accounting reports. Many organisations are required to follow GAAP.
- If you are not required to follow GAAP, you can choose to follow the principles to have consistent and understandable accounting reports. Your accounting software should allow you to either become or remain GAAP compliant. To learn more about GAAP, read: GAAP: Your Accounting Rulebook.

Customer Service

- How often will I use customer service?
- What will I need from customer service – setup assistance, software assistance or others?
- How am I most comfortable contacting customer support?
- Will customer support representatives be available at the times I might need them (if they are based in a different time zone)?

Software Security

- Is my work computer secure and do I have a back-up system in a for data management?
- Does the software have encryption in place to protect passwords and personal information?
- What do reviews say about the software's security measures?
- What other companies/organisations use this software?
- How does the company manage breach of security?

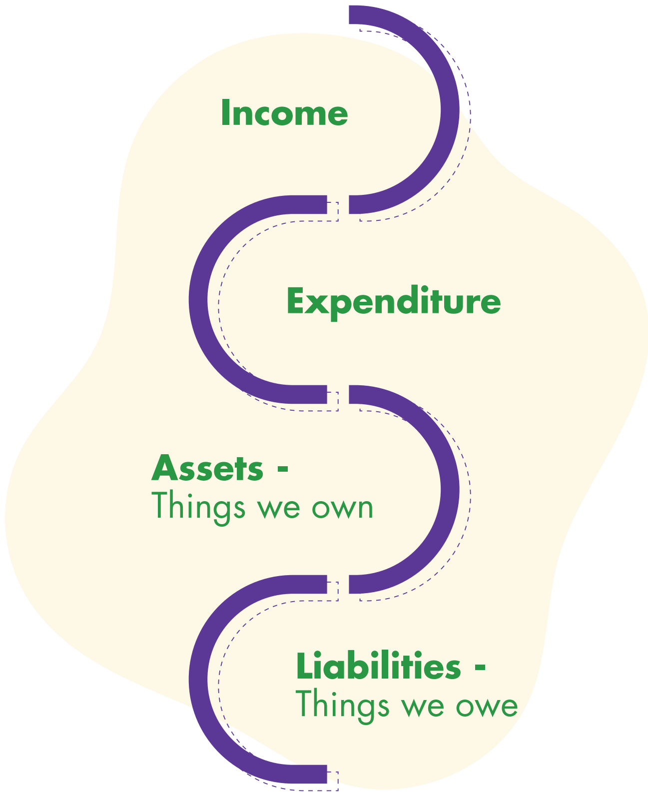
6. A Chart of Accounts

NSOs do a lot of different financial transactions. We buy a variety of goods and services to help achieve our objectives, and we receive income such as grants, donations and membership fees.

Using a Chart of Accounts 'sorts' the different types of transactions into a series of pre-determined descriptive categories or 'accounts', together with an account code and description.

Project codes on the other hand are like cost centres, indicating different projects, donors or departments.

When a transaction takes place, it is recorded in the account and categorised according to the guidance held in the Chart of Accounts. For consistency and transparency, the same categories are used in the organisation's budget and financial reports.



Each organisation's Chart of Accounts will be different. The layout will include:

- Account code numbers, letters or both
- Account name
- Sub-account (groups)
- Special notes on when to use the account code

Note that the categories have been sorted into sub-groups under 'family' group headings, such as Administration, Personnel and Vehicle running. The coding system follows the same logic, using a sequence of numbers for the family group. Family headings are especially useful for presenting summarised information.

Cost Centres

It is helpful to further classify financial transactions according to the budget, activity, department or donor that they 'belong' to, so that we can report and monitor income and expenditure by activity. We use cost centres (also known as activity or budget centres) to separately identify these transactions in the accounting records.

- **Operating fund**

  It is especially important to identify donor-funded activities in the accounts, so that the organisation can demonstrate how the funds have been utilised. This is known as operating fund accounting and requires care when setting up accounting systems to identify and separate the necessary information. If you have multiple departments, you will need to design a cost centre structure that allows you to meet financial reporting requirements.

- **Creation of cost centres**

  The starting point for designing your cost centre structure is the organisation chart and donor funding agreements. There is no effective limit on the number of cost centres that can be used, especially if you use an accounting software. However, do not over-complicate the structure; only include costs centres for activities that you need to report on and monitor.

How are cost centres used?

Cost centres are used to assign specific accountability for revenue generated and expenses incurred. Each cost centre is given a unique code. For example, a question that may arise is 'which department budget does this belong to?'

With a cost centre, financial situation reports can be produced more easily, helping budget owners to monitor their own area of responsibility.

7. Cash Flow

Why Cash Flow Matters

Cash flow is one of the most powerful tools in cash management for any organisation. Based on accrual accounting principles, cash is a key requirement for an organisation to stay solvent. When an organisation no longer has enough cash to pay its dues, it is often declared bankrupt.

A cash flow projection is a forecast of an organisation's cash (and cash equivalents) income and expenditures on a weekly or monthly basis, identifying up and down cash fluctuations. This is especially important for groups that earn a significant portion of their revenue during specific times, and have expenses that must be addressed throughout the year. Unlike the organisation's annual budget or long-term strategic plan, the cash flow projection records only cash transactions over a specific time period.

The Process of Creating a Cash Flow Projection

The cash flow report is an important tool as it illustrates the actual flow of money through the organisation and identifies how much cash is available to pay expenses each month. By managing cash flow and referencing a weekly or monthly cash flow projection, the organisation can be more effective and efficient. One of the most important objectives of managing cash flow is to make sure there is enough cash on hand to cover payroll, payroll taxes and current bills.

Non-profits can manage cash flow by examining a cash flow projection. The cash flow statement includes total cash received minus total cash spent. Cash management looks primarily at actual cash transactions. (Note that non-profits must file a financial statement called 'Cash Flow Statement' or 'Statement of Cash Flow'—this statement is not the same as a cash flow projection.)

How to Manage Cash Based on Cash Flow Projection

Having an updated cash flow projection gives the organisation the time it needs to plan for cash deficits and cash surpluses, exploring all its options before a crisis occurs. Knowing that cash will be needed for some key expenses that cannot be put off such as payroll, taxes, insurance, rent and utilities, can help the organisation be better prepared to manage the intake and outflow of cash.

Where cash resources are limited, it is important to monitor the organisation's ability to pay creditors on time and to take action when there are early warnings of potential financial difficulty.

Options available for managing cash flow include:

- Exercise good credit control – chase debtors for prompt payment
- Review grant schedules – encourage payment in advance rather than in arrears
- Bank in all money received daily
- Request special payment terms from major suippliers (and stick to them)
- Pay certain overheads by installment, such as insurance premiums
- Prioritise major payments

8. Accounting Closing Steps

The accounting cycle begins with your starting account balances. Throughout the cycle, you will adjust the balances as you make transactions. At the end of the cycle, you will close your books.

1. **Identify transactions:** What did you spend and earn?
2. **Record transactions in your journal:** This is a running list of operation transactions.
3. **Post entries to the general ledger:** This separates transactions into categories.
4. **Unadjusted trial balance:** Check to see if your accounts balance.
5. **Adjusting entries:** Use adjusting entries if your accounts are not balanced.
6. **Adjusted trial balance:** Check to see if your accounts balanced after adjusting entries.
7. **Create financial statements:** Compile reports to review progress.
8. **Close your books:** Wrap up financial activities for the cycle.

RESOURCES

Handbook on Financial Resources Management and Development (2007, WSB-APR) (DC OK) in English; Download: https://www.scout.org/node/6108

Publication: Are we doing it right? – some do's and dont's in the management of non-profit organizations, by H. Eric Frank (© 1983, World Scout Bureau, Geneva) (in English) (44 pages). OUT OF PRINT. (DC-578.13) In Repository dossier 8270 under Management.
Scan available for Download: http://scout.org/node/6196

Publication: Could we do better? by H. Eric Frank (September 1997, published by World Scout Bureau/Asia-Pacific Region, Manila, Philippines) (in English) ISBN 971-91927-1-2. (DC-578.13); Download: https://www.scout.org/node/22295

Risk Management: Publication: Guideline on Risk Management Policy (June 2010) (WOSM/Asia-Pacific Region) (in English) (23 pages, A5) (DC-578.13 and in library APR section); Download: https://www.scout.org/node/6194

NOTES

NOTES

SCOUTS®

Creating a Better World

SCOUTS
Creating a Better World

World Scout Bureau,
Global Support Centre
Kuala Lumpur

Suite 3, Level 17,
Menara Sentral Vista, No 150
Jalan Sultan Abdul Samad
Brickfields, 50470
Kuala Lumpur, MALAYSIA

Tel.: + 60 3 2276 9000
Fax: + 60 3 2276 9089

worldbureau@scout.org
scout.org