What is bookkeeping?

Bookkeeping is the recording of an organisation's financial transactions on a day-to-day basis.

Why is bookkeeping important?

- To help you manage your organisation's finances
- To comply with tax requirements and preparation of annual accounts (and possibility audit)
- To comply with requirements from Companies House and/or regulators
- To show funders how their money is being spent
- To show external stakeholders that you are practising good financial management

The key to bookkeeping: understanding cash flow vs. profit

Many organisations set out with Many organisations set out with the goal to post a profit but what they don't realise is that cash flow is what keeps you running on a day-to-day basis. Understanding the difference and the key financial documents associated with both is key to managing your finances throughout the year.

Profit is the income remaining after you have deducted your expenses and taxes and is reported periodically. But, the cash flow is your actual bank balance going up and down with the flow of cash in and out of your account. You might be able to create a large profit at the end of a quarter, but you may still not be able to pay the bills depending on when they are due.

Finance Buzzwords

Cash at bank and in hand
The amount left over when you subtract expenses and taxes from income Money in the bank and petty cash

Income
The amount of money (or money equivalent) received in exchange for providing goods or services (e.g. subscriptions, donations, grants, sponsorship)

Expenditure
The amount of money spent (e.g. expenses, payments, overheads, core costs)

Assets
Any item of value to the company: tangible (property, stock, equipment, accounts receivable, debtors) or intangible (patents, trademarks, copyrights and goodwill/reputation)

Liabilities
The amount of money due to be spent or owed at a point in time (e.g. expenses, payments, overheads, core costs)

Example: The club sells a £200 tennis racquet to Nadia on March 1st and emails her an invoice. The club can then record £200 income, but Nadia doesn't pay the invoice until March 31st. Therefore income is posted on the Income Statement immediately, but the cash of £200 is not posted on the Cash Flow Document for another 30 days.

FAQ: "But we are a non-profit…?"
If you are a non-profit you might be confused as to why you need to understand 'profit'. This is a traditional term given to the amount remaining after you have deducted business costs. Non-profits can also think of this as a 'surplus' because your main goal is to deliver your activities and pay your expenses, not produce a profit.

The big three financial documents

There are three major financial documents that your organisation needs to master in order to manage and report on your finances throughout the year.

Cash Flow Document
A document summarising incoming and outgoing cash

Income Statement
A statement of financial activities showing the income and what has been spent in order to earn that income

Balance Sheet
A statement showing assets and liabilities

Cash Flow Document

A document summarising incoming and outgoing cash

It is important to have a Cash Flow Document because it informs the reader of the organisation's cash position throughout the reporting period. For an organisation to be successful, it must always have sufficient cash. That means understanding where it is coming from and how it is being spent.

How to create a Cash Flow Document?
When setting up a Cash Flow Document your goal is to record the changes in cash over a specific period of time. This can often look like a structured online bank statement. You start by setting up:

Beginning cash amount – Ending cash amount = Change in cash amount (+/-)

Then your goal is to explain the difference through the following:

1. **Cash flow from operating activities** - e.g. cash received or paid out in terms of regular business

2. **Cash flow from investing activities** - e.g. purchasing of fixed assets, constructing of buildings, purchasing stock, or selling of the long term capital assets of the organisation

3. **Cash flow from financing activities** - e.g. borrow money from the bank or another company - pay off liabilities or debt

Download our Cash Flow Document example

Tips for your Cash Flow Document

Keep a cashbook or spreadsheet - It will help you track of all activity into and out of your bank account and enable easy reconciliation with bank statements. You'll also have a really good 'at a glance' view of accounts.

Reconcile you bank account at least once a month - This involves taking the previous balance as shown in your bank statement, adding all subsequent receipts in and subtracting payments you have made. The new balance should reflect your new bank balance. If it doesn't, either you or the bank has made an error.

Income Statement

A statement of financial activities showing the income and what has been spent in order to earn that income - typically monthly.

An Income Statement is a summary of an organisation's income and expenses over a period of time. It is vitally important because it tells its reader a story about what has happened over that period.

For external stakeholders, it can show an organisation's past performance and predict how it will perform in the future (e.g. looking for a loan to cover an unexpected situation). Internally, it is very important in dictating your strategy and spending. You can:

- measure your health against different operating periods
- determine profitability of each activity and your ability to continually cover those costs
- compare line items and identify movement across different statement periods for trends

How to create an Income Statement?
When setting up an Income Statement your goal is to identify your profit or loss over that statement period by subtracting expenses from your income. It can be broken down into this simple equation:

Total Income – Total Expenses = Profit/Loss (+/-)

Total Income
The total income that an organisation receives over the statement period. This includes:

- **operating income** - income received from services rendered or sale of goods
- **non-operating income** - grants, donations, rent received from renting out your space
- **gains on the sale of long-term assets** (above the value on the organisation's books)

Total Expenses
The total costs that an organisation incurred over the statement period. This includes:

- **operating expenses** - payroll, overhead (rent, utilities, insurance, communications costs, etc.) and marketing
- **non-operating expenses** - the non-core costs of doing business, the most significant are interest expenses on loans, lines of credit, etc
- **cost of goods sold** - the expenses that you can directly attribute to the production of goods, such as the purchase of raw materials and costs associated with inventory
- **losses on the sale of assets** (less than the asset's value on the organisation's books)

What format should it be in?
The format and complexity of your income statement should reflect the size and reporting requirements of your organisation. We have developed a simple example that you can use to get you started.

Download an Income Statement template

Tips for your Income Statement

Keep good records of money coming into you and money going out - All income and expenses should be logged carefully and separately. For example, you might want to list all utility bills, transport, mileage costs and subsistence expenses separately. If you are VAT registered, you will also need a column for VAT inputs and outputs. It's vital that you keep VAT receipts.

Keep all your invoices and receipts of purchases/money spent in a folder - Allocate a unique reference number to every invoice and note it in your books or on your computer system. Then file the invoices in that order in the relevant folder. That way you can find paperwork quickly if you have specific question on your income statement.

Keep monthly sheets - It is recommended that you keep monthly totals and start new sheets for each month

Balance Sheet

A statement showing assets and liabilities balanced with your available funds - should be completed alongside Income Statement

A Balance Sheet can be described as a 'snapshot of a business's assets, liabilities and total available funds at a single point in time.'

It is the third crucial statement which must be produced in order to show a full picture of your financial health. Like its name, it allows you to keep your organisation balanced across all areas, taking into account non-monetary assets as well (e.g owned equipment and facilities).

Externally, the Balance Sheet will give an overall impression of your organisation's health and will be a major determining factor in a lender's, partner's and/or funder's confidence in you.

How to create a Balance Sheet.
The aim of the Balance Sheet is to balance the Net Assets (Assets-Liabilities) with Total Available Funds. Then you will know that all financial resources are accounted for. The simple equation is like this:

Assets – Liabilities = Available Funds

Assets
Assets can be divided into two different sections:

- **current assets** - are those items that are the most liquid. This means that if you needed cash quickly, these could be sold more easily than with fixed assets. Common examples include cash in hand, cash at bank accounts, stock and accounts receivable.
- **fixed assets** - are those items that are less liquid and will include vehicles, property and equipment. These get shown net of any depreciation you have added into the Income Statement on a cumulative basis.

Liabilities
Liabilities can be divided into two different sections:

- **short-term liabilities** - are those items your organisation owes that are due within one year and include wages, income tax, dividends (if your organisation has shareholders), VAT, corporation tax other short term liabilities.
- **long-term liabilities** - are those items your organisation owes and expects to pay over more than one year and may include some of the items mentioned above.

Available Funds

The Total Available Funds are the remaining funds after subtracting liabilities from assets. This will ultimately feed into your organisational reserves. These may be split into restricted and unrestricted reserves if you are a charity. For tips on your reserves policy, or how much money you want to retain as available funds please see our How-To Guide: Reserves Policy.

Download a Balance Sheet example

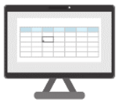
Tips for your Balance Sheet

It should balance – If it doesn't, you need to double-check your record keeping.

A Balance Sheet does not equal the worth of your business - In reality, that may not be the case, as it doesn't include goodwill (the worth of customers built up by the business) and your valuable know-how. So, your business may be sold for more than the equity amount on the Balance Sheet.

What are the different bookkeeping options available to me?

Keep books manually
This is the easiest and cheapest method. You can buy inexpensive bookkeeping sheets/notebooks from most stationers. However, manual bookkeeping is time consuming and not good for producing analysis or management reports.



Use a spreadsheet
Typically, the most efficient and cost effective method. You will need some basic spreadsheet skills to ensure your spreadsheets self-check and to design models for analysis and reporting.

Hire a freelance bookkeeper
This method saves you time as well as the need to learn bookkeeping. The downside is the expense involved.

Give your bookkeeping to an accountant
This method may cause delays. Some accountants end up seeing their books only once a year, so they may never get to grips with the dynamics of the organisation. It may also be an expensive solution if you are paying a professional for a task that a non-professional could complete.

Use a personal finance package on a computer
Some personal finance packages have facilities for organisation bookkeeping but some important functions, such as handling VAT, may be missing. There is also not much scope for analysis.

Use a dedicated computer accounting package
There are various levels of accounting packages, from the small and inexpensive to fully-fledged accountancy packages. All but the easiest generally require some knowledge of accounting.

Are there legal bookkeeping requirements?

Your legal filing requirements will depend on your legal structure:

- If you are incorporated, Companies House outlines detailed guidance
- If you are a charity you will need to check your relevant charity regulator website (The Charity Commission, Office of the Scottish Charity Regulator, The Charity Commission for Northern Ireland)
- If you are a small voluntary organisation, you may still have a regulator (e.g. Friends of, CASC) and thus will need to consult with them

Note: Most general bookkeeping processes apply to you whatever kind of organisation you are, but again it is important to investigate further with Companies House and/or your regulator to ensure that you complete all the required information within the deadlines.

Need more guidance?

If you have any questions about this guide or would like to learn from a Sported volunteer about how to manage your daily finances, request Volunteer Support from the Sported Hub.

Sources

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