



RURAL SUPPORT PROGRAMMES NETWORK

GUIDELINES FOR DEVELOPING COMPLETE FINANCIAL RECORDS OF LOCAL SUPPORT ORGANISATIONS



By

**Mohammad Ali Azizi
Specialist Social Mobilisation**

August 2012

Table of Contents

Preface	2
A: Income/funds/other receipts.....	2
B: Expenditures/payments	4
C: Preparation of supporting documents	4
D: Documents to be present at the time of financial record keeping follow up visits	4
E: Writing cash and bank books.....	5
F: Recording Fixed Assets and Goods/Stocks.....	6
G: Posting of entries from Cash and Bank Books to the General Ledger and preparation of a Trial Balance.....	10
H: Posting of entries into Stock Register	10
I: Preparation of the Trial Balance	11
Annex 1	12
Annex 2	14

List of Tables

Table 1: List of Income/donations received by LSO from dd/mm/yy to d/mm/yy	3
Table 2: Checklist of Financial Records of LSO.....	5
Table 3: Schedule of Fixed Assets.....	6
Table 4: Schedule of Depreciation Expense on Fixed Assets	7
Table 5: Schedule of Stock and Stores	8
Table 6: Schedule of Stock and Stores consumed	9

Preface

Financial record keeping is a crucial component of grassroots organisations such as Local Support Organisations (LSOs). Proper and up to date financial record keeping improves their transparency and accountability, fund raising capacity and hence sustainability. Since the financial records of the majority of LSOs has not been maintained properly under the guidance of trained book keepers, most of their financial transactions are unwritten. A number of documentary supports are missing and those available are not properly authorised by any competent authority. Updating complete records of such organisations from scratch, therefore, is not an easy task. It requires proper understanding of complete set of financial transactions of the organisation. The LSOs would not be in position to do this at their own, therefore, they would need technical support of the Rural Support Programme in streamlining the records, train the LSOs book keeper through practical demonstration and gradually transfer the responsibilities of complete record keeping to them.

The RSP staff must be able to speculate and trace out the unwritten financial transactions incurred by the organisation, trace out their supporting documents if available and obtain or prepare supporting documents for the missing transactions and get all supporting documents verified by the competent authorities of the organisations before entering them into their relevant books of accounts.

This guideline was developed in order to ensure that field staff of the RSPs follow a proper method for updating the financial records of LSOs. To make it more practical, the Rural Support Programme Network (RSPN) through its European Union (EU) funded “Capacity Building of Local Grassroots Organisations in Governance, Transparency and Gender Sensitisation” project first carried out field visits to monitor the financial record keeping process in Mardan region (National Rural Support Programme) during 19-20 July and 6 August 2012. During the monitoring visits, RSPN checked the current financial documentation status of project LSOs and gauged gaps in them. Based on these field experiences, RSPN's Specialist Social Mobilisation developed this guideline. It is hoped that the guideline will help RSP field staff in systematically updating the books of accounts of LSOs with minimum time and effort.

A: Income/funds/other receipts

The first task will be to ascertain the income of the LSO right from the date of formation till this day. LSOs start their functions with some cash or non-cash funds or resources like stationery, furniture and computers etc. donated by its Executive Committee members or some other person and organisation. These are income of the LSO. Since such income and funds are normally generated at the time of the formation of the organisation, no written records are maintained for them, because no accounting system is developed till that time. Therefore, the RSP staff should first ask the President, General Secretary and other members about such unaccounted funds and resources and prepare a list. Moreover, the LSO might have received a revolving fund/CIF for using as internal lending to its members. Such funds, if received, will be treated as loan, not income. However, the service charge or process fee on such lending operations will be treated as income.

At the same time the staff should ask the LSO leaders to present their available records in financial matters, like the carbon copies or counter foils of used receipt books, cash memos and bills, bank deposit slips, counter foils of used cheques, bank statement, cash book, ledger and stock register and any other records maintained. Moreover, the RSP staff should also check financial matters in agreements, ToPs and partnership agreements the organisation signed with others regarding implementation of programmes and projects and ascertain funds received in the form of cash, kind and services from internal and external donors in government, non-government and private sector. They should also enquire about any social enterprises run by the organisation, like a community school, computer centre etc. and ascertain the original investment in them and who provided that investment as well as any income generated by such enterprises till this date. With the help of these documents and information and questions and queries with the leaders of the organisation, the RSP staff would have to ascertain:

- a) Cash donations from GB/CO members to meet operational expenses of the organisation.
- b) Donations from CO/VO/LSO members or local philanthropies to execute self-help development activities or as community contribution in donor funded projects.
- c) Cash, donations from donor, NGO, or any Welfare Society for general purposes.
- d) Donations from donors, NGOs, and government organisations for execution of development projects in cash or through bank.
- e) Income from any social enterprise like fee from computer centre.
- f) If bank account is opened, ascertain from where the account opening cash amount came from. Generally it is donated by the Executive Committee members.
- g) Donations from members or external agencies in kind. A number of LSOs have collected huge amounts of food and non-food items to support the flood affected people. The real value of such items must be accounted for in their books.
- h) Fixed assets items (furniture, computers and equipment, both new and old), received from any internal or external donors. If such items have been received, then locate them and ascertain their market price on the date of their acquisition.
- i) Any fixed assets or goods sold and the sale proceeds of such transactions.
- j) Prepare a table of income/grant of the LSO from its inception till today on the following format:
- k) If the LSO has received goods or fixed assets as donation, their market value at the time of their acquisition will have to be ascertained to calculate the amount.
- l) If the LSO has been implementing CIF or any other activity that involves receipt of service charge or process fee from a large number of individual borrowers or service receivers which are not documented properly, the RSP staff should first complete the accounts of such activities and reconcile them to ascertain the net income from that operation.

Table 1: List of Income/donations received by LSO from dd/mm/yy to d/mm/yy

S. NO	Type of income/ Donation	Donor or source of income	Purpose	Date	Amount
1					
2					
3					
4					
5					
6					
7					

8					
9					
10					
	Total				

B: Expenditures/payments

The LSO must have made different kinds of payments through both cash and bank, if bank account has been opened. Therefore, the next tasks will be to ascertain:

- a) All types of expenses made through cash and bank
- b) All types of payments (like loan, advance payments etc. which are not expenses) made by cash and bank
- c) Any goods/stock used or given out to users. For instance goods and supplies distributed among flood victims.
- d) Any fixed assets broken down, out of use, or given out
- e) In respect of each payment or expense, ascertain 1.Date, 2. Name of payee, 3. Purpose, and 4. Amount.

C: Preparation of supporting documents

The next step is to prepare proper supporting documents for all types of receipts and payments duly verified by the competent authorities of the organisation as follows:

- a) All receipts, either in cash, bank or kind must have a verifiable documentary proof. If the organisation has a printed receipt book, then receipts should be issued signed by the treasurer or accountant. If receipt has not been issued, and also for receipts during the early periods when receipt book was not printed, the details of incomes or receipts should be listed down on a piece of paper and the President and General Secretary or the Treasurer should sign it. In the cases of donor funds, copies of agreements, photocopy of cheques, challans of goods received and the like, if available, would also serve as documentary proof.
- b) Get all supporting documents verified by the president and finance secretary if not done already and stamp them.
- c) Physically count cash in hand and prepare a statement of the balance and get it verified by the president and the finance secretary.
- d) Obtain bank statement and confirm latest bank balance from the bank.
- e) Physically count fixed assets and prepare a list.
- f) Finally file all receipts and payment supporting documents in separate files in order of date.

D: Documents to be present at the time of financial record keeping follow up visits

To save time and efforts of both the LSO leaders and the RSP staff, it is suggested to ensure that all relevant documents are available during the follow up visits. Below is the

checklist of financial documents for updating LSO records. The RSP staff should use the checklist to ensure availability of all relevant documents before starting the actual record keeping follow up visit. Moreover, the checklist should be given to the LSO book keepers in advance so that they can complete their documents well on time.

Table 2: Checklist of Financial Records of LSO

S. No	Name of financial document	Status (Yes/No)	Remarks
1	Receipt book (old and new). Also verified statements for those income/receipts which have been received without issuing any formal Receipt.		
2	Cash in hand statement duly signed by the LSO President and Finance Secretary		
3	Bills/cash memos (signed and stamped by the President and Finance Secretary)		
4	Counter foils of all old and current cheque books		
5	Bank deposit slips		
6	Bank statement (day one to till today)		
7	List of fixed assets		
8	List of goods/stocks (if any)		
9	Cash book (current and old)		
10	Bank book (current and old)		
11	CIF loan appraisal and approval forms		
12	CIF loan register		
13	Ledger (old and new)		
14	Stock register (old and new)		
15	Others (Pl specify)		

E: Writing cash and bank books

Below are some useful tips for writing the cash and bank book in proper order:

1. In case of LSOs who are maintaining a cash book, and most of the transactions are already recorded in it, the field staff should make the missing entries in it and close it after reconciling the cash balance with the Cash in Hand and the bank balance with the Bank Statement. There is no need of re-writing all entries into the new cash book.
2. Where there is no cash book at all, or there is a cash book, but it is full of mistakes, then the field staff should teach the LSO book keeper how to write the receipts and payments in the cash and bank book in order of date.
3. A gap of few lines should be left at the end of each month, so that missing and adjusting entries, if any, can be entered in proper order.
4. Reconcile bank book with the bank statement and trace out bank charges and profit as well as any unaccounted receipt or deposits and payments.

5. Prepare Journal Vouchers of such transactions, and get them verified by the President and Finance Secretary of the LSO. (For bank charges, Bank Charges Dr and Bank Cr, while for profit, Bank Dr and Bank Profit Cr)
6. Enter the Journal Vouchers into the bank book at the end of the relevant months.
7. Reconcile cash in hand statement with the cash book.
8. Prepare vouchers of unaccounted receipts and payments disclosed during the cash reconciliation process and get them verified by president and finance secretary, and enter them into the cash book at the end of the relevant month.

F: Recording Fixed Assets and Goods/Stocks

Fixed Assets: If any LSO has received any fixed assets as donation from any internal or external donors, these should be recorded through passing Journal Vouchers. First using the format shown below, prepare the list of fixed assets under three broad heads of a) Furniture and Fixture, b) Computers and Printers, and c) Equipment. If the LSO has received any motorbike or vehicle, there should be a fourth category of Vehicles as well.

Table 3: Schedule of Fixed Assets

DESCRIPTIONS	ACQUISITION DATE	QUANTITY	UNIT PRICE	TOTAL COST
FURNITURE AND FIXTURES:				
Total Furniture and Fixture				
COMPUTERS AND PRINTERS:				
Total Computers and Printers				
EQUIPMENT:				
Total Equipment				
Grand Total				
Signature of: President _____ Finance Secretary _____				

With the help of the above statement, prepare the Journal Voucher (shown below) and post it directly into the General Ledger:

Date _____

JOURNAL VOUCHER

Descriptions	Reference	Debit	Credit
Furniture and Fixture			
Computers and Printers			
Equipment			
Donation from (name of donor)			
Total			
Signature of: President _____ Finance Secretary _____			

Depreciation on fixed assets

Now calculate depreciation expenses on fixed assets using the format given as below. All fixed assets items will be depreciated by 10% annually. So the fixed asset items acquired during last year would be depreciated by 10%, while those which were acquired 2 and 3 years ago would be depreciated by 20% and 30% respectively.

Table 4: Schedule of Depreciation Expense on Fixed Assets

DESCRIPTIONS	ACQUISITION DATE	NO OF YEARS	@	DEPRECIATION EXPENSE
FURNITURE AND FIXTURES:				
Total Dep. on Furniture and Fixture				
COMPUTERS AND PRINTERS:				
Total Dep. on Computers and Printers				
EQUIPMENT:				
Total Dep. on Equipment				
Grand Total				
Signature of: President _____ Finance Secretary _____				

Now pass the following Journal Entry and post it to the General Ledger.

Date _____

JOURNAL VOUCHER

Descriptions	Reference	Debit	Credit
Depreciation Expense			
Accumulated Dep. Furniture and Fixture			
Accumulated Dep. Computers and Printers			
Accumulated Dep. Equipment			
Total			
Signature of: President _____ Finance Secretary _____			

Goods/Stocks: If any LSO has collected goods and stocks, these should be recorded into the stock register. Then based on the stock register, prepare a schedule on the format shown below:

Table 5: Schedule of Stock and Stores

S. No	Descriptions	Date	Quantity	Unit Cost	Total Cost
Total					

With the help of this schedule, prepare a Journal Voucher, as given below, to record it and post it directly into the General Ledger. Name of the particular goods should be mentioned in the debit sides, like Clothes Men, Clothes Women, Clothes Children, Shoes etc.

Date _____

JOURNAL VOUCHER

Descriptions	Reference	Debit	Credit
Name of Goods 1			
Name of Goods 2			
Name of Goods 3			
Name of Goods 4			
Name of Goods 5			

Donation from (name of donor)			
Total			
Signature of: President _____ Finance Secretary _____			

If the goods received are still with the LSO, then there is no need of any further entry. However, if the LSO has utilised part or all of them, then there could be two possibilities:

1. The LSO has used part or all of the stock by itself (example stationery consumed by the organisation) - then first prepare a schedule of goods utilised and then prepare a Journal Voucher and post it into the general ledger:

Table 6: Schedule of Stock and Stores consumed

S. No	Descriptions	Date	Quantity	Unit Cost	Total Cost
	Total				

Date _____

JOURNAL VOUCHER

Descriptions	Reference	Debit	Credit
Name of expense 1 (stationery)			
Repair of office building (cement)			
Stock and Store 1			
Stock and Store 2			
Total			

Signature of: President _____ Finance Secretary _____

2. And if the stock has been used in a project or given out to deserving community members, then prepare the following Journal Voucher:

Date_____

JOURNAL VOUCHER

Descriptions	Reference	Debit	Credit
Name of Project			
Stock and Store 1			
Stock and Store 2			
Total			
Signature of: President_____ Finance Secretary_____			

G: Posting of entries from Cash and Bank Books to the General Ledger and preparation of a Trial Balance

1. With the help of list of accounts (see annex 1), open accounts in the general ledger
2. Post date-wise entries from cash book and bank book into their respective accounts in the general ledger
3. Do not make postings into the ledgers before reconciliation of cash and bank books
4. Prepare statement of accounts/trial balance from the general ledger and cash and bank books.
5. Check that the Debit and Credit sides of the trial balance tallies. Otherwise trace out the difference by re-checking first the balances of the accounts in the general ledger and then the postings into the general ledger
6. Prepare list of fixed assets and write their actual price or market value on the date of their acquisition and mention the same in the list of accounts under three heads of Furniture and Fixture, Computers and Printers, and Equipment.

H: Posting of entries into Stock Register

1. Make entries of Fixed Assets from the Schedule of Fixed Assets into the Stock Register
2. Similarly make entries of goods and stocks into the Stock Register from the schedule of Stocks and Stores

I: Preparation of the Trial Balance

Now using the following format given as Annex 2, prepare the Trial Balance of the LSO.

Annex 1

Chart of Accounts for LSOs

S. No	Name of Account	Account No
	Current Assets	
1	Cash in hand	101
2	Bank No 1	102
3	Bank No 2	103
4	Loan Receivable	106
5	Other Receivables	107
6	Stock and stores	110
	Fixed Assets	
7	Furniture and Fixture	201
8	Accumulated Depreciation Furniture and Fixture	202
9	Computer and Printer	203
10	Accumulated Depreciation Computer and Printer	204
11	Equipment	205
12	Accumulated Depreciation Equipment	206
13	Vehicle	207
14	Accumulated Depreciation Vehicle	208
	Expenses	
15	Stationery and Photocopy	301
16	Telephone Bills	302
17	Office Rent	303
18	Electricity Bills	304
19	Meeting Expenses	305
20	Transport Charges	306
21	Postage Charges	307
22	Bank Charges	308
23	Salary/Honorarium	309
24	Depreciation Expense	310
	Programmes and Projects	
25	Project 1	401
26	Project 2	402
27	Project 3	403
	Liabilities	
28	Loan Payable	501
29	Other Payables	502
	Incomes and Donations	

	From Internal Sources	
30	Donation from members	601
31	Membership Fee	602
32	Donation from local philanthropies	603
33	Bank Profit	604
34	Service Charge from Loan/CIF	605
35	Process Fee on Loan/CIF	606
36	Tuition Fee	607
37	Training Fee	608
	From External Sources	
38	Donations from Government Departments	631
39	Donation from Local Donors	651
40	Donation from National Donors	661
41	Donation from International Donors	671
42	CIF Donation	680
43	Donation from Private Sector	681

Annex 2

LSO XYZ

Trial Balance for the period Date/Month/Year to Date/Month/Year

S. No	Name of Account	Folio	Debit	Credit
	Current Assets			
1	Cash in hand			
2	Bank No 1			
3	Bank No 2			
4	Loan Receivable			
5	Other Receivables			
6	Stock and stores			
	Fixed Assets			
7	Furniture and Fixture			
8	Accumulated Depreciation Furniture and Fixture			
9	Computer and Printer			
10	Accumulated Depreciation Computer and Printer			
11	Equipment			
12	Accumulated Depreciation Equipment			
13	Vehicle			
14	Accumulated Depreciation Vehicle			
	Expenses			
15	Stationery and Photocopy			
16	Telephone Bills			
17	Office Rent			
18	Electricity Bills			
19	Meeting Expenses			
20	Transport Charges			
21	Postage Charges			
22	Bank Charges			
23	Salary/Honorarium			
24	Depreciation Expense			
	Programmes and Projects			
25	Project 1			
26	Project 2			
27	Project 3			
	Liabilities			
28	Loan Payable			

29	Other Payables			
	Incomes and Donations			
	From Internal Sources			
30	Donation from members			
31	Membership Fee			
32	Donation from local philanthropies			
33	Bank Profit			
34	Service Charge from Loan/CIF			
35	Process Fee on Loan/CIF			
36	Tuition Fee			
37	Training Fee			
	From External Sources			
38	Donations from Government Departments			
39	Donation from Local Donors			
40	Donation from National Donors			
41	Donation from International Donors			
42	CIF Donation			
43	Donation from Private Sector			