

Financial Administration and Accounting

Guidelines

Step ONE - Bookkeeping

Column journal for the "Project" Year: 20XX																
Date	Text	Ver	Cash		Bank		From PMU		Salaries		Taxes		Material		Transport.	
			Deb	Cre	Deb	Cre	Deb	Cre	Deb	Cre	Deb	Cre	Deb	Cre		
01-01	From PMU	1			40 000			40 000								
01-01	Bank withdrawal	2	5 000			5 000										
01-01	Cement	3				3 300							3 300			
01-01	Petrol	4		430											430	
02-01	Educational material	5				553							553			
02-01	Salary Oct –xx	6		4 000				3 000		1 000						
04-01	Bank withdrawal	7	4 000			4 000										
04-01	Tires for the car	8				2 000									2 000	
05-01	Books	9		87									87			
07-01	Copies	10		112									112			
07-01	Pens	11		58									58			
		12														
		13														

Ex. Column journal

Document information

Document name: Finance Administration and Accounting - Guidelines, Step ONE

Authors: Lissi Perséus, Camilla Johansson and Cecilia Öman

Editor: Anders Kinding

With remarks from: Alexis Akotchaye (IDH, Togo)

File name: FAA Guidelines step one v.4 English.docx

Revision history	Version No.	Date
This version	4.0	3 August 2013

Table of Contents

Foreword	3
Purpose.....	3
The Financial Administration and Accounting.....	4
Financial year.....	4
The Basics in Bookkeeping	4
To book an activity	5
Supporting documents.....	6
Lack of evidence	6
Auditing	7
Archiving.....	7
Examples.....	8
Example 1	8
Example 2	9
Example 3	11

Foreword

This document represents the first step in the Human Rights and Science and Action10 guidelines on Financial Administration and Accounting¹. The Financial Administration and Accounting (FAA) procedures presented in this Guideline Step ONE include the Financial Year, Basics of Bookkeeping, To Book an Activity, Supporting Documents, Auditing and Archiving.

Purpose

The purpose is to support Human Rights and Science and Action10 and its partners with the Financial Administration and Accounting. Proper Financial Administration and Accounting is required to ensure project quality and transparency. The bookkeeping shows that the financial resources invested in a project were used in an efficient way. Thus, the bookkeeping is important means of communication between partners. The information is also used for monitoring and evaluation planning. And proper bookkeeping is required for transparency and accountability.

¹ The Guideline was been developed by Ms Lissi Perséus, Ms Camilla Johansson and Dr Cecilia Öman in November 2012, and refined and edited by Anders Kinding, Action10 Head of Finance, in August 2013.

The Financial Administration and Accounting

Financial year

The financial year must be decided on for each organisation. It is often relevant to use 1 January to 31 December as the financial year.

The Basics in Bookkeeping

A separate bookkeeping is set up for each project. Thus the collaboration between Action10 and a Partner may include one, two or more projects, such as basic education, small scale businesses and workshops.

The bookkeeping can be done with pen and paper in the form of a book or electronically, often using excel. The compilation is named Bookkeeping Journal. The bookkeeping shall be developed in the form of “the double entry bookkeeping system” as described below.

The Bookkeeping Journal is a chart of accounts. The accounts can be “Cash Account”, “Bank Account”, “Source of funding” and project activities such as “Transportation”. Please see the example below.

Bookkeeping journal for the "Project" Year 20XX											
1	2		3	4		5		6		7	
Date	Text		Ver.	Cash account		Bank account		Funding ACTION10		Transport	
				Debet	Credit	Debet	Credit	Debet	Credit	Debet	Credit
07-jan-12	Petrol for transportation to schools in the villages		1		200						200

Each activity is noted on a separate line stating the below.

- 1. Date:** Enter the transactions in date order.
- 2. Text:** Provide a short description of the activity which is easy to understand for all stakeholders.
- 3. Ver.:** The verification (ver.) number should follow an unbroken sequence of numbers. The verification could be an invoice, a receipt or other supporting documents.
- 4. Chart of Accounts:** The chart of accounts shall be predefined at the start-up of the project and shall have a maximum of ten accounts (columns).
- 5. Debit and Credit:** The debit and credit are the two fundamental aspects of every bookkeeping transaction in the double entry bookkeeping system. Every account has two sides, the left side is called debit and the right side is called credit. This means that every debit transaction must have a corresponding credit transaction and vice versa and that the debit and credit for each activity shall equal zero.

To book an activity

When booking an activity the income or the expenditure is booked on the appropriate accounts. The accounts to be selected are often obvious and follow a common standard*).

The follow questions have been compiled to support in selecting the appropriate account:

1. Which project does the activity belong to?
2. How has the payment been made, e.g. in cash or by the bank?
3. What does the payment concern?

*) Common standards for accounts:

“Asset accounts” show where the money is kept:

Cash account		Bank account	
Debit	Credit	Debit	Credit
“add money to the cash box”	“take money from the cash box”	“deposit money to the bank account”	“withdraw money from the bank account”

“Income Accounts” show from where we got the money:

Sales account		Investor’s account	
Debit	Credit	Debit	Credit
do not use	“any income from sales”	do not use	“contribution from any investor”

“Cost Accounts” show for what purpose we use the money:

Transports’ account		Building Material		School materials		Bank costs	
Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
“any cost for transportation; tickets, fuel, etc.”	do not use	“any cost for building materials; bricks, cement, wood, pipes, etc.”	do not use	“any cost for the material school kids need for their schoolwork”	do not use	“any cost that the bank takes for their services”	do not use

Auditing

The book-keeping must be audited at the end of the financial year. The auditing must be performed by an external and professional auditor approved in advance by all Partners. It is the responsibility of the auditor to control each supporting document and verify its correctness in relation to the bookkeeping. The Auditor compiles her findings in a document which she signs. This document shall be sent to the Partners, together with the financial report, in the beginning of the coming year.

Archiving

The bookkeeping documents including the supporting documents must be safely archived. They shall be stored in the same format as when the books were developed and audited. The documents must be kept five, seven or ten years after the project has closed, depending on the regulations of the country. Paper copied must be protected from fire, water and sunlight and electronic copies must have a back-up.

Examples

Please find the below examples which have been compiled in order to support in the bookkeeping.

Example 1

In January the 5th 2013 we buy 25 schoolbooks that costs 10 Euro each and we pay in cash. Now it is time to update the bookkeeping with the receipt that we have received. It will be our 1st verification for this year. The financial year of our organisation equals the calendar year.

First we need to reply to the below questions:

1. Which project does the activity belong to?

“The school project”

Thus, we use the separate bookkeeping for this specific project.

2. How was the payment made; e.g. with cash or through bank transfer?

With cash

This means that we should credit the *“cash account”*.

Please note that in bookkeeping the *“cash account”* always decreases in credit.

Then we ask ourselves:

3. What does the payment concern?

We will now know which account to debit (as all credit transaction must have a corresponding debit) in this case the schoolbooks means that you will debit the *“School material account”*.

We now control our debit and credit on the transaction line equals zero.

On our receipt we have the information of the date which we transfer to the Bookkeeping Journal.

Thereafter we add Ver. No. 1 on the receipt and then archive it in chronological order, together with our other bookkeeping material we have archived regarding this project

Bookkeeping Journal for the School Project Year 2013 In Euro

Date	Text	Ver.	Cash account		Bank account		Investments from Action10		School material	
			Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
15 January	25 schoolbooks for 25 children in the school of Agbodjékpoé	1		250					250	

Example 2

On the 20th of January 2013 we receive an invoice presenting costs of both construction material 1 600 Euro and petrol 400 Euro. The costs refer to the renovation of the school in Agbodjékpoé. We have paid the invoice with cash 2 000 Euro, and we now need to do the book-keeping entry.

First we answer the following questions:

1. What project is the activity for?

“The school project”

Thus we use the separate bookkeeping for this specific project.

2. How was payment made, e.g. with cash or through bank transfer?

With cash

This means that we should credit the *“cash account”* with 2 000.

Then we ask:

3. What does the payment concern?

We will know which account to debit (as all credit transaction must have a corresponding debit) in this case it is both the costs for construction material 1 600 Euro and petrol costs 400 Euro for transporting the material, this means that we will debit the *“building material account”* and the *“transportation account”*.

Thereafter we control that the debit and the credit on this transaction line equals zero.

On our receipt we have the information of the date.

We write Ver. no. 2 on the invoice and then archive it in chronological order together with your other bookkeeping material for this project.

**Bookkeeping Journal for the School Project Year 2013
In Euro**

Date	Text	Ver.	Cash account		Bank account		Investments from Action10		School material		Building material		Transportation	
			Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
15 January	25 schoolbooks for 25 children in the school of Agbodjékpoé	1		250					250					
20 January	Building material and transportation for the school of Agbodjékpoé	2		2 000							1 600		400	

Example 3

On the 28th of January we receive 4 000 Euro from an investor and the funds are transferred to our bank account. The bank charges a commission costs for the transfer of 50 Euro. The funds are for the school project. Now it is time for bookkeeping...

First answer the following questions:

1. What project is the activity for?

"The school project"

So we use the separate bookkeeping for this specific project.

2. How has the payment been made e.g. with cash or through the bank?

Funds have been paid to our bank account

This means that we should debit the *"bank account"*.

Then we ask:

3. What does the payment concern?

In this case we have received 3 950 Euro on our bank account and paid a commission to the bank of 50 Euro, this means that we will debit the *"bank account"* and the *"bank costs account"*, and credit the *"Investment from Action10"*.

After that we check our debit and credit on this transaction line equals zero.

It is also important for the follow up, to note in the verification text, the currency and the related amount that we received from the investor.

On our receipt we have the information of the date.

We write "Ver. no. 3" on the receipt and then archive it in chronological order together with our other bookkeeping material related to this project.

**Bookkeeping Journal for the School Project Year 2013
In Euro**

Date	Text	Ver.	Cash account		Bank account		Investment by Action10		School material		Building material		Transportation		Bank costs	
			Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
15 January	25 schoolbooks for 25 children in the school of Agbodjékpoé	1		250							250					
20 January	Building material and transportation for the school of Agbodjékpoé	2		2 000					400				1 600			
28 January	Investment by Action10	3			3 950			4 000							50	

