straight to the

# POINT

# Assessing Basic Accounting Practices

Taking into consideration implementers' limited time and resources, the tools in Pathfinder International's *Straight to the Point* Series provide clear, concise guidance on a variety of issues related to program design, implementation, and evaluation.

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## Purpose of this Tool

This checklist will help you quickly assess some of your basic accounting practices. There is much more to know about accounting than is covered by this tool, however. This tool presents just a few basic requirements to get you started as you think about improving your accounting practices.

## How to Use this Tool

Go through the checklist with colleagues who have administrative or financial duties. Circle YES or NO for each question. If the answer is NO, strategize together about how to fix the problem or improve the situation. Some problems are easy to fix, but others will require more time and effort. If you don't know how to address an issue, you can look for outside help.

## Key Accounting Terms & Concepts

There are many technical terms and concepts related to finance and accounting. Below are a few terms and definitions that will help you as you work on accounting and communicate with donors and stakeholders.

**Income:** This is the money you receive (e.g., grants, donations). When you are making a budget you will have to think about "projected" or "estimated" income, which is the money you expect to receive. You will also compare your projected income to "actual" income, which is the money you *actually* received.

**Expenditure/Cost:** This is the money you spend (e.g., on staff salaries, equipment). When you are making a budget you will have to think about "projected" or "estimated" costs/expenditures, which is the money you *expect* to spend. You will also compare your projected costs/expenditures to "actual" costs/expenditures, which is the money you *actually* spent.

**Budget:** A budget is a tool that expresses activities in financial terms. It shows the money you need to spend to carry out your planned activities and run you organization. You must regularly compare your budget to your actual expenditures/costs and your actual income.

**Bank reconciliation:** This is when you compare your records of actual income and expenditure (recorded in your cash book/bank book) to your bank statements. Each entry in your cash/bank book must be supported by a piece of documentation (e.g., invoice, receipt, purchase order). If the entries in your cash/bank book don't match the figures in your bank statement, you must investigate immediately.

**Petty cash:** This is *small* amounts of money for *small* expenditures. Staff may ask to be reimbursed (paid back) for small amounts of work-related money they have to spend (e.g., cost of cleaning supplies for the office, stamps). Staff must present receipts in order to be reimbursed.

**Timesheet:** Timesheets are records showing the actual hours that employees worked. They must be kept for staff whose salaries are fully or partially paid from grants budgets. Records should be: completed on at least a monthly basis, reviewed and approved by supervisors, and kept with financial records.

**Accountability/Transparency:** You are accountable to your stakeholders (e.g., donors, partners, staff), meaning that you are responsible for showing them how you are receiving and spending money, and assuring them that you are following sound financial procedures. To be transparent you must make sure your financial records are clear, up to date, and available to your stakeholders. To ensure transparency and accountability, you need formal written procedures for accounting and a system for verifying that they are followed.

## Checklist

| | | CIRCLE ONE | IF NOT, HOW CAN YOU FIX THIS? |
|---|---|---|---|
| 1 | **Do you have written procedures for accounting and finance that are regularly updated and revised?** You need formal rules and procedures (e.g., about how to record financial transactions, purchase requisitions, timesheets) that everyone knows and follows. | YES NO | |
| 2 | **Do you have a supporting document for every transaction?** *Every* time money is spent you need to document it (e.g., with a receipt, invoice). This gives evidence of and details about the money spent. | YES NO | |
| 3 | **Do you have a cash book/bank book for every bank account?** A cash book is a book or spreadsheet where you record *all* of your expenditures and income. This is a way of organizing and summarizing your transactions. | YES NO | |
| 4 | **Are cash, cash books, and checks stored in a safe, secure place?** A few specific people should have responsibility for securing items like these. | YES NO | |
| 5 | **Do you make sure your cash book and bank account agree/match up every month? (This is called bank reconciliation.)** You must compare your cash book and your bank statements each month, so you can make sure your records are accurate and there are no mistakes or differences between the two. | YES NO | |
| 6 | **Do you have a budget detailing your estimated income and expected costs/expenditures (the money you will spend)?** A budget is essential for planning and carrying out activities, fundraising, reporting to donors, and running your organization. | YES NO | |
| 7 | **Do you regularly (e.g., once a month) compare your budget with your records of what you have actually spent and received?** It is key to make sure that you are not spending too much (or receiving too little) in each budget category. If your budget and your actual expenses and income do not match, you must take action immediately. | YES NO | |
| 8 | **Do you prepare financial statements?** You should periodically summarize all financial activities so that you are transparent and accountable to your stakeholders and organization. You also need to do this to make sure that you are following your budget. | YES NO | |
| 9 | **Are roles and responsibilities regarding finance and accounting clearly defined?** It is essential to know who is responsible for what and who has the authority to make specific decisions. | YES NO | |
| 10 | **Can one person be responsible for a single financial transaction (e.g., can the same person request, approve, and sign a check to purchase something)?** At least two people must be involved in financial transactions to prevent opportunities for theft and fraud. | YES NO | |

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This tool was created by Pathfinder International with partial support from the Positive Action for Children Fund and the Flemish International Cooperation Agency. Visit Pathfinder's website to see more *Straight to the Point* tools, such as *Workplanning* and *Budgeting Basics*.

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