



DERBY COMMUNITY ACCOUNTANCY SERVICE

DCAS SERVICES:

- * Independent Examinations
- * Payroll Services
- * Advice
- * Training & Support



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NEWSLETTER SPRING 2021

Are you sitting comfortably? Then I'll begin



Once upon a time in the long lost kingdom of Derbland, there was a Queen who had ruled for many years.

It had always been the custom for her court officials, the Chancellor and his assistant, to prepare the Annual Budget for the Kingdom, and she took no part in the activity, being mainly concerned with Foreign Affairs.

Since time immemorial the Kingdom's budget had been prepared giving a 5% surplus. The Chancellor and his assistant had a problem! No matter how hard they tried, they could not get the budget to show the required surplus.



"I know!" said the Chancellor, "We will just make up the difference by increasing the amount of Fundraising shown in the budget."



So that was what they did.....



Several months later, the Queen heard that the King of Snottingham was paid a lot more than she. She looked at the Royal Budget and concluded there was enough money available to be able to afford her a substantial pay rise, and to appoint a Manservant.

Some time later, the Kingdom's finances were in disarray, and the Queen demanded to know when would the extra Fundraising Money be raised to pay for this increased expenditure?

The answer that she was given did not please her. "Oh! That extra fundraising was just put in the budget to make the thing balance!!"

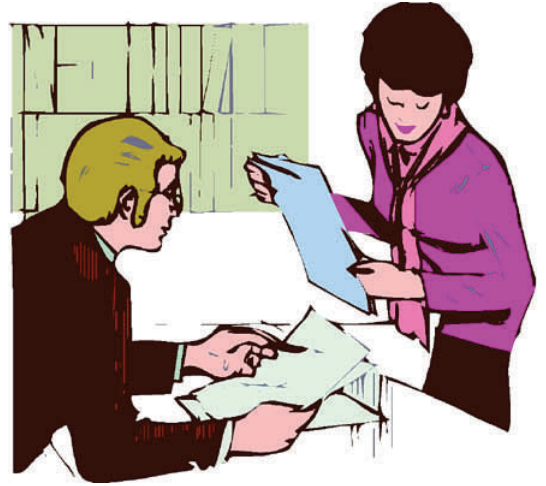
However, the Queen had a forgiving nature, and thought to herself, "I cannot put my Realm at risk by leaving these two in charge of my finances. I know! I'll put them in charge of Human Resources!"

Margaret's Pages

Budgeting

One of my major roles at DCAS is helping groups to set budgets, and then working with them to help them monitor actual performance against the budget as the year progresses.

This approach to monitoring finances means that the group is constantly assessing its financial situation and can put strategies in place quickly to deal with changes in circumstances.



During the current pandemic, the value of budgeting could never have been more important, as no-one setting a budget in January 2020 could have foretold what the year would hold for us.

So how do you go about preparing a successful budget? A key thing to remember is that:

A Budget is not just an academic exercise

A budget is a tool for Financial Planning which should be referred to constantly throughout the year. It is based on a set of assumptions about income and expenditure for the year ahead and realistic assumptions are key and don't have to be complicated. Simple is best.

Remember to write down the assumptions!

Decisions about expenditure levels during the year should always be checked against budget to ensure that they are within an acceptable range so that overall expenditure doesn't become so onerous that it can't be sustained. Equally, if unrealistic income projections are included, this could endanger the future of the charity. If actual income levels are too low compared to budget, then the charity will be unable to meet its expenditure commitments.

Communication

The budget must involve all the people affected by the budget and gain their acceptance. Without effective communication, there will be a lack of acceptance by those capable of committing the charity to expenditures not budgeted for.

Comparison of previous years' actual figures with this year's budget

This is vital to effective budgeting. For instance, from an income perspective it could show that the level of fundraising budgeted for was unrealistic. Expenditure-wise the comparison would identify where predicted expenditure had been set at an unrealistically higher or lower level compared to previous years. Explanations should be provided to justify such variations.

Monitoring of the budget

There is nothing wrong, in theory, with deciding to spend more than was budgeted for, provided there is enough money available to afford it. The budget should be referred to constantly throughout the year when reviewing finances. This will help the group to gain a more accurate financial picture throughout the year and assist with informed ongoing decision making. For example, the group may want to engage in a new activity which would enhance its service to its members. In the absence of a budget, it may well just go ahead and end up with considerable additional costs, but not much extra income to support the increased service. If the group does have a budgeting process, then it can look at the overall picture and assess whether it has the scope to absorb those extra costs without jeopardising the future of the charity, or whether it has to generate more income to make the new provision viable.

Budgeting for uncertainty

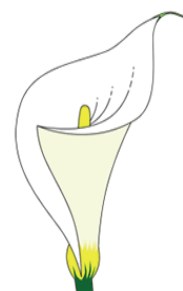
Budgets, once exposed to the real world, can be found to be flawed. This is because the assumptions upon which the budget is based can soon prove to be out of date. For instance, a Funding Body, in the light of financial constrictions, may decide to cut their funding to the group, or on the expenditure side the landlord might increase rent charges. Equally, on a more positive note, new funding opportunities may arise, and so the group's income may be higher than expected. These changes can be built into the budget as the year progresses. The process whereby we build-in flexibility to the budget is known as **Sensitivity Analysis**.

SAD NEWS FROM DCAS

Derby CAS is very sad to let you know that our President, Ted Cassidy, has died on January 8th 2021.

It was Ted who set up and delivered the Community Accountancy Service in Derby between 1991 and 1997. The reputation he gained for our service was vital when we became an independent charity in 2002. Ted continued to support us in the role as our independent examiner until 2018. All those in the voluntary sector who remember Ted were as saddened, as we were, by the news. They all spoke of their gratitude to Ted for all his help, and remember his great kindness.

We send our sincere condolences to his wife Una and all the family. **RIP Ted**



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Cashflow Forecasting

A **cash flow forecast** is an estimate of the amount of money you expect to flow in and out of your charity and includes all your projected income and expenses. A forecast usually covers the next 12 months, however it can also cover a short-term period such as a week or month.

The most important reason for a cashflow forecast is to make sure that the charity can afford to pay suppliers and employees. Suppliers who don't get paid will soon stop supplying the charity. It is even worse if employees are not paid on time!

Be careful! Annual Accounts are soon out of date !!

Relying on annual accounts can be misleading for future decision-making. Remember, the annual accounts are actually a historic record. They are prepared after the current accounting period has ended, and quite often there is a time lag between the accounting year ending and the preparation of the accounts. They may show the group made a surplus in the last financial year, but that might have been 10 months ago... and things might have changed for the better... or worse!

Financial accounts from the past do not always predict what will happen in the future!

Reserves versus Cashflow

The annual accounts might show the group's reserves as looking healthy:

- * The group might own a building.
- * It might be owed money at the end of the financial year for services it has already provided.

These would both be included in the closing reserves on the balance sheet, but they are not 'cash reserves'. When you want to pay your bills or wages, it is money in the bank that you need available!

How does a Cashflow Forecast help with monitoring?

A cash flow forecast concentrates on the flow of money within the group.

It predicts:

- * how much income and expenditure you expect to have this year actually flowing through the bank accounts.
- * by plotting income and expenditure in date order it allows you to calculate the bank balance on a weekly or monthly basis, and allows you to schedule receipts and payments to ensure that you can always meet your commitments without going overdrawn.

Decision Making with the help of a Cashflow Forecast

Armed with this knowledge, you will be well placed to make important decisions about your charity. Here are some questions that a cash flow forecast can help you answer:

- * Could you offer a new service?
- * Could you start providing services in a different location?
- * Can you afford to employ new members of staff?
- * Should you outsource some of your day-to-day tasks?
- * If you need more space for your charity, can you afford to rent an office or would home working be a preferable solution?
- * Are you at risk of running out of cash? Should you look at borrowing money?