PRINCIPLES OF FINANCIAL MANAGEMENT

These principles can be remembered by **CATCINS**.

1. **Custodianship** – There must be people who are holding the responsibility as financial managers. This refers to stewardship in safe keeping of financial resources.

2. **Accountability** – Those have invested in the organization believe that the people responsible shall give an account of how the money has worked. Accountability is both a moral and a **legal** duty.
   Moral should touch our hearts - have a moral obligation. Taking care of a young baby till the time he reaches of age.

3. **Transparency** – System must be established for all financial information and this must be recorded accurately.

4. **Consistency** – If we start writing cash book, we must be consistent. If there is a salary to be drafted then it should be reported / recorded as required. The financial system of a C.B.O. should be recorded over the years, so that comparison can be made, which must show by way of clarity.

5. **Integrity** – Honesty and reliability of financial records. They should not be doctored.

6. **Non – deficit financing** – We have to finance our projects with the limits of financing. An organization should not set out to achieve its activities – *Starting a project and believes that the finder will come. They remain white elephants*

7. **Standard Documentation** – Internationally Accounting Accepted Standards – The system of maintaining records follow Internationally Accepted Accounting Standard called <u>IAAS</u>.

A donor also is a major customer who must be encapsulated in the system.

Another major stakeholder existing in the environment is the Government, other collaborators, potential donors and analysts.

Major considerations are:

PESTE

P –Political environment should be taken into consideration
E- Economic environment – economic consideration of the community
S – Social, culture, religion
T – Technology
E – Environment
L – Legal environment

Financial management therefore involves:

i) Managing scarce resources
ii) Managing risks
iii) Managing strategically
iv) Managing by objectives , plan, do and review

"When people address their food security they will live".

Splash: Abraham Maslow's Hierarchy of need.

SELF ACTUALIZATION

EGO NEED

SOCIAL NEEDS

SECURITY NEEDS

BASIC NEEDS

i) Managing Risks – Risks are threats that are possible make an organization to fail. They should be managed to minimize failures. Your social behavior should be withstanding.

ii) Managing strategically –From the diagram of the focused CBO, we can see that it's an entire thing .Ref. The six Indians who went to touch "Liech" Elephant. Generally what is Liech? You must think whole it is not finances alone. You must consider time, information and markets. In managing CBO you must think wholistically. Then we must not look at a programme. We must be concerned about salaries, stationeries, Design resource mobilization Gutena.

    Managers must keep an eye on the bigger picture.

iii) Managing by objectives – MBO
It's the objectives that will guide us in managing simply planning – performing and then review the performance.

PLAN PERFORMANCE

REVIEW

At the end of every month there must be variance analysis.

Item	Budget	Actual	Variance
Salaries	10,000	12,000	2000 (unfavourable) variance
Travel	5,000	4,000	1000 (Favorable)

The variance is telling us weather its good or bad. MBO is a good aspect of Financial Management.

MBC – Management by Crisis.

MBWA – Management by Walking About.

How do change people's habits – involve youths in extra activities

(1)
PLAN – Set budgets

Every activity to be undertaken must go through sequence and operation.
The theme of financial management is financial control – putting procedures guiding the use of money.

WHAT I S FINANCIAL CONTROLS

AND IF IT IS NOT THERE WHAT WILL HAPPEN

Financial control occurs when systems and procedures are put in place to check the use of financial resources.

Therefore one of the controls must be:

i) Record keeping
ii) Authorization – Authority to incur expenditure (A.I.E).
iii) Must be separate from actual handling of financial resources (Two people are better than one in terms of accountability
iv) Reporting – Flash back – finances should be managed by objectives. There should be some standards of reporting. Reporting for what you have done
    - Reporting on variances (management report)
    - Financial report (Income expenditure) Statements
    - Balance sheet

EFFECTS OF POOR FINANCIAL CONTROL

Some of the effects of poor financial control are as follows:

i) Poverty – We are poor because some people have misused our resources
ii) Collapse of organization
iii) High cost of production resulting in high prices
iv) Loose morals
v) Misallocation of resources

With poor financial control in an organization

i) Assets will be put to risks of theft , abuse (using and frauds – stealing using money)
ii) Funds may not be spent in accordance with the CBO (S) objectives and the donor wishes.
iii) The competence of the managers may be altered to question.

Authority – Question – in your existing CBO what is your legal procedure? A constitution made.

Authority emanates from the legal structure of an organization.

There are two types of legal structure.

"IGNORANTIA JURIS NEMINEM EXCUSAT"

"Ignorance of the law excuses no one". From the legal authority there are two types of organizations

UNINCORPORATED ORGANIZATION (CBO)

Challenge – if the organization is indebted then everybody will liable legal liability rests with members of CBO jointly and severally.

WHAT IS A CBO

The term stands for community Based Organization. CBO's operates in a wide range of fields and come in all shapes and sizes. Whilst each other is unique most share common features.

- They are value based – their prime motivation is a desire to improve the world in which he live "In some cases this value is averaged" (Mobilization resources for social issue).
- They are not for profit they are allowed to do business. They have many stakeholders.
- A C.B.O is an alliance of many different interests
- They are governed by committee of volunteers – "the governing body"
- They are private autonomous organization independent of the state, that is why most of their issues are covered;
  - *Telecom – 41 - a government company*
  - *Those who own safaricom - Vodacom – 49*
  - *Mobiltelea - 10 (Moi and Biwott)*
  - *Now they want to withdraw 35% of the shares of government and sell to individuals*
  - *Equity bank- Michuki and Mwangi owners of Equity bank and citihopper*
  - *Vodacom initially needed 60 % but they reduced to 49%*
  - *Because of diverse interest there's always a problem in having professional governors.*

INCORPORATED C.B.O – Features

The liability of members and governing body is limited to Kshs. 10/= meaning if the CBO is indebted members pays Kshs.10. Lets say 100 members and have taken a loan of 1 million, each member shall pay Kshs.10 to recover. This is after all the other assets of CBO have been sold. Meaning upto a given percentage can be recovered. Legal status limits their liability.

This should be well stipulated in the constitution. This comes when the organization is indebted.

Reference 1893 – Pr if there are 3 partners and one partner is bankrupt, then the other partner pays on their behalf .This kind of constitution was being made in England in the year 1993.

(1,000,000)	Johnson	Onyando	Ngwalla
	333,333	333,333	333,334
		10,000	

Incase of death the estate will be solved or to solvent partners
What happens is that Onyando's and Ngwalla shall be paid by Johnson.

Constitution is a document that is very important in CBO operations and management. The constitution also provide for organo gram called Organization Structure.

E.g if you buy something the buying price must be recorded.

TIME MANAGEMENT
(Assuming all factors are constant)

URGENT IMPORTANT	NOT URGENT IMPORTANT
URGENT NOT IMPORTANT	NOT URGENT NOT IMPORTANT

You have to identify in life what happens and the decisions surrounding the four factors.

If register a company under the company act, then you are a Limited Liability – which means that if the company is bankrupt, the properties of the company is sold to redeem debts but not individual properties.

- Companies Act (Cap 487)
- Societies Act (Cap 109)
- NGOs Act (537) of the laws of Kenya
- Partnership Act (29) – Limited Partnership Act
  Capt. (31) – Partnership Act only.

Agents can sue on behalf of the company and the company and the company itself cannot sue.

Limited Liability under the companies act must have two things Memorandum of Association and Articles of Association.

CPS (K) –

- 1494 – Vasco Da Gama entered Kenya and then crossed to Goa

- 1494 – From GENOA – Lucca Paccioli started the Double Entry book keeping system.

LHS Gain	Loss RHS	LHS	RHS
Cotton	Ivory	Ivory	Cotton

THE BUILDING BLOCKS OF FINANCIAL MANAGEMENT

1. **Accounting Records**

Every CBO must keep accurate records of financial transaction that take place to show how funds have been used.

(a) **Petty cash voucher**

Always attaching receipts to the petty cash.

(b) **Cash Book**

Its divided into two sections, the left hand side and the right hand side. The cash book records receipts and payments made in cash.

Date	**Description**	**Amount**	**Date**	**Description**	**Amount**
2007 Sept.	Bal b/f	10,000	2007 Sept.	Casual Labour PV 001	450
	Sale of honey 001	5,000	5	Pack Mat. R / No. 7101	1550
	002	3,000	5	Travel	2,000
	003	6,000	5	Rice seeds	1,000
5	Bank	8,000	5	Salary advance	7000
			5	Bal. c/d	10,000
		32,000			32,000
Sept. 6	Bal b/d	10,000			
		NIL			

NB: Cash book should be filled daily. At the end of the day the Treasurer should fill the book. Other documents: Cash Count Form to vet the cash and if there is a difference it should be commented.

Where can the differences arise?

(i) The Cashier overpaid somebody. The treasurer comments that the cashier will be responsible.

(ii) The Cashier underpaid somebody. This money is put under suspense account pending investigation.

2. **FINANCIAL PLANNING**

- The budget is the cornerstone of any financial management system and plays an important role in monitoring the use of funds.
- When you are doing a budget you must consider all the things an organizations is going to go through.
- Its worked out on information that is available.

PROJECT:
BUDGET PERIOD:
BUDGET CURRENCY:
TOTAL BUDGET:

VIREMENT - Taking some money from contingencies to put in other activity. You must put your budget in a currency that is stable e.g. Us Dollar and not Kenyan Dollar.

Stringent conditions for donor funding is that you are not allowed to take money from another account to use in another account. Hence don’t take money from existing vote to another vote.

3. FINANCIAL MONITORING

Providing a CBO has set a budget and has kept an reconciled his financial records in a clear and timely manner its then very easy to produce financial reports which allow managers to assess progress of the CBO.

Document: Management Report

Committed Expenditures: - Sometimes an organization can decide to purchase something and sent a LPO to an Muindi, yet he had not paid fully. The balance is put at committed expenditure. Others are payment benefits, salary increments not yet effected. E 1 – Expenditure code.

4. INTERNAL CONTROLS

These are systems of control (checks and balances) that are put in place to safeguard the assets of the organization as well as to manage internal risks. Finally their purpose is to deter opportunistic- thefts and frauds, and to detect errors in accounting or financial records.

There are only two errors that can occur in recording:

(i) Error of Omission
(ii) Error of Commission

Error of Omission – somebody has just forgotten
Error of Commission – Deliberately or purposely committing

SYSTEMS DESIGN

1. Constitution of CBO
2. Organization structure
3. Financial Manual
4. Strategic plan
5. Budget
6. Financial reports and accounts

ACCOUNTS FOR CBO

Honey Production
Profit and Loss Account statement
For the year ended 31.12.2006

Turn over Sales		60,000
Cost of Sales		
Opening Stock 1.1.06	3,500	
Cost of Manufacturing	40,000	
	43,500	
Closing stock 31.12.06	700	
	42,800	
Drawings	7,000	
Cost of Goods sold		35,800
Gross Profit		24,200
Expenses		
Transport	2,000	
Telephone & Postage	500	
Salaries	6,000	
Utilities/water	1,000	
Rents and rates	3,000	
Cleaning materials	2,000	
Depreciation	500	

Total operating expenses	15,000
Profit from Honey sales	9,200

NB: Because it's a CBO, the money is not distributed, its transferred to the Income side.

- Drawings in kind are not a business activity hence should not be paid in the Expense column but it should appear at the Expenditure column of Income and Expenditure.

Flash: The concept of Balance Sheet

In business, there are only two places where money can come from:
(i) Owners contribution (capital)
(ii) Borrowings (loans)

In business, there are only two places where money can go to:
(i) Things we want to keep (fixed assets)
  - Buildings and land
  - Plants and machinery
  - Equipment
  - Furniture and fittings
(ii) Things we want to sell
  - Creditors
  - Cash
  - Debts
  - Stocks

Balance sheet

IN	OUT
(i) Owners contribution - Capital	(i) Things we want to keep - Fixed assets - Buildings and land - Plants and machinery - Furniture and fittings - Motor vehicle
(ii) Borrowings - Loan	(ii) Things we want to sell - Stock - Debt - Cash - Creditor

CEPAT

Balance sheet as at 31.12.06

1. Accumulated fund		Things we want to keep	
	xxxx	Fixed assets	
		Furniture & Fittings	80,000
2. Restricted Fund	xxxx	Less: Accumulated Depreciation	16,000
		Net book value	64,000
3. Surplus	164,467	Things we want to use:	
		Cash at Bank	xxxx
		Cash on Hand	xxxx
		Subscription Due	xxxx

CASH BOOK

IN		OUT		
Sales	10,000	Cost of goods		4,850
		Gross profit		5,150
	10,000			10,000

Gross profit b/d	5,150	Rent	500		
O.S	100	Salaries	800		
Purchases	5,000	Utilities	200		
COG available	5,150	Travel	100		
Less C/Stock	200	Rates	50		
	4,900	Misc.	50		
Less good taken	50	Dep.	50	1,750	
	4,850	Net Profit		3,400	
					5,150

PROFIT & LOSS A/C

Turn Over (Sales)	10,000
Cost of Sales	

Opening Stock	100	
Purchases	5,000	
Cost of goods Available for sale	5,100	
Less: closing stock	200	
Drawings	50	
Cost of goods sold	250	
Cost of goods sold		4,850
Gross profit		5,150

Deduct Expenses (Operating Expenses)

Rent & Rates	550	
Salaries & Wages	800	
Utilities WE & C	200	
Interest on loans	100	
Depreciation	50	
Miscellaneous	50	
Total Operating Expenses		2,250
NET PROFIT		2,900

P/L A/C

Opening stock	100	Sales	10,000
Add purchases	5,000		
COG available for sale	5,100		
Less closing stock	200		
Drawing	50		
Cost of goods sold	250		
Gross profit	4,550		

BALANCE SHEET FOR BUSINESS

IN		OUT	
Owners contribution		Things we want to keep	
Capital	20,000	Fixed assets	
Stock	100	Equipment & utensils	7,500

		Furniture	2,500
			10,000
Borrowing		Less depre.	50
Cosove	5,000	Net book value	9,950
Less repayment	1,000		
	4,000		
Retained profit		Things we want to sell	
Net profit	2,400	Current assets	
Less drawings	50	Cash	16,400
		Debtors	400
		Stock	200
		Current liabilities	
		Creditors	17,000
		Working capital	
	26,950		26,950

		Sales	
		Cash	9,600
PHL	10,000	Debtors	400
	10,000		10,000

		Debtors	
Sales	400		
		To bal. sheet	400
	400		400

CASH BOOK

Balance b/f	Nil	Fixed Assets	10,000
Capital	20,000	Purchases	5,000
Loan Cosove	5,000	Expenses	1,700
Sales in Cash	9,600	Interest	500
		Loan Repayment	1,000
	34,600	Bal. c/d	34,600

SALARY SHEET

Gross Pay	H.A.ll	Med.	Trav.	Tax	NSSF	Sacco	NHIF	Net pay	Name	Sign
20,000				4088	200	3500	320	16,892	C. OSOO	
40,000				488	200	20,000	320	8312	J. AKUMU	

15,000				1088	200	4,000 320	9712	ONYANDO	
47,000				5654	600	7500	34916		

NB:

- *If your salary exceeds 5/100 of Kshs. 320, then you are to pay Kshs. 320 as NHIF.*
- *If 5% of your salary do not exceed 275, then you are just to pay the standard 275.*

CASH BOOK

It is the book of original entry.

Date	Description	Ref No.	Amount	Code	Date	Description	Amount	Code
2007 Oct. 1	Balance b/f	Cc	15,000		2007 Oct.	J. Akumu casual wages	450	
2	Hire of chair & tents	1	10,000			Net Salary	37,734	
3	Subscriptions for members for 2007	1001	3,000			KRA (PAYE)	4,776	
5	Hire of C.B.T	1030	10,000			NSSF (x2)	1,600	
10	Harambee and Donations		105,000			NHIF	1,190	
13	Hire of CBT		10,000					
15	Grants from AMREF		125,000					
16	Hire of C & t		10,000					
17	Raffles		1,200					
18	Hire of C & T Welfare contribution Entrance		10,000 24,000 400 3,500			SACCO Reg. fees Stationery & office supplies Tel, fax, email Committee meetings Funeral expenses	4,500 200 3,400 3,600 12,000 80,000	

	fee Members function					Rates Travel & Account Capacity building Field trips Misc. Expenses	3,200 6,000 20,000 10,000 1,600	
			327,100			Balance c/d	327,100	

Cc – Cash Account sheet 1 – A business cash book must be different

Having developed such a cash book, the amount of money Kshs. 137,850. we now go to BANK ACCOUNT. Documents checked Bank reconciliation form and Bank Account.

BANK ACCOUNT

GAIN		LOSS	
AMREF	125,000	AMDC	23,000
		KRA	4,776
		NSSF	1,600
		NHIF	1,190
		Net pay	37,734
		Ledger fees	750
	125,000	Bal. c/d	125,000

BANK STATEMENT

CREDITORS LOSS

GAIN		LOSS	
Goods	xxx	Debt	xxx

GOODS

GAIN		LOSS	
Cash	xxx	Debt	xxx

If you have a credit balance in the bank, it means you have cash. If you have debit balance in the bank you don't have cash (you have overdraft).

Shareholders – Contributes Capital

Capital contributed into portions called share capital

Shs. 5	Share Certificate	NB: Your name cannot be wriiten on the Certificate.
	Per Value Sh. 5	

Example: In the Daily Nation magazine, the value of I share was Kshs. 31 therefore if somebody wants to buy. He can sell = 10,000 x 31 = 31,000

- Why share certificate moves from Kshs. 5 to 31. This is because the company is growing – making a profit.
- Limited Liability under the Company's Act (Cap 487) of the laws of Kenya. Limited Liability comes when the company is falling.
- When the company is insolvent, then this schedule of payment should be followed.

Scheduled of payments

1. **Debenture Holders**
2. **Preferred Creditors** – Salaries and wages for 4 months taxes, NSSF, NHIF, SACCO and court fines.
3. **Unsecured Creditors** – Those who provide goods and services to the company.
4. **Shareholders – Contributors** – This is done by an appointed accountant by court

Sometimes you may wonder that some organizations have not remitted money to the NSSF and what should be done is that a bank reconciliation must be done.

BALANCE SHEET OF A CBO

M. A. D. P
BALANCE SHEET

IN	OUT
1. FUND	THINGS TO KEEP
Accumulated Funds	Fixed Assets
contribution from members	1. Land and building
	2. Plant and Machinery
2. GRANTS	3. Equipment
- Donors	4. Motor Vehicles
3. DONATIONS	THINGS TO USE:
- Harambee	- Current Assets
	- Stocks
	- Debtors
Surplus	- Subscription due
(Deficit)	- Cash at Bank
	- Cash on Hand
xxxxx	xxxxx

Accompanied by Income and Expenditure

NB:
For an activity that a CBO is undertaking, it must have a profit and loss account.

Where a CBO conducts business it will prepare separate books of records

Valid – where a CBO operates business activities.

In terms of planning, vision should be there. In the real sense whoever does not have plan, a vision is not likely to grow.

(b) Mission

A mission clarifies the purpose of an organizaiton and helps to identify values with which the organizaiton can be upheld. It's the reason why a CBO exists.

To integrate Agro forestry intervetis as an engine to economic growth and a means to combat poverty
To enhance productivity of small holder farmers in western kenya through access to agricultural inputs and services with the view of ensuring food security and poverty reduction. CNFA / AGMARK KENYA.

(c) Objectives

Objectives are the building blocks which helps an organizaiton achieve its mission. They give focus to the CBO (s) work and state in real terms what it is the CBO wants to achieve over a given period of time. They should be smart e.g. to construct a shallow well at Masogo by 2008.

(d) Strategy

Strategy tries to set out the overall approach the aCBO is going to take to achieve its objectives. It will outline the actions which will be to augments its operation, it must keep separate books of records and prepare profit and loss statements for the individuals businesses. These are subsequently amalgamated in the Income and Expenditure Statements of the CBO.

PLANNING AND BUDGETING

"Failing to plan is planning to fail".

DIFFERENT TYPES OF PLANS

(i) Operational Plans – commonly refers to no BUDGET

Planning also has got a pyramid called the PLANNING PYRAMID

VISION

MISSION

OBJECTIVES

STRATEGY

TACTICS

(ii) Strategic Plans

(a) The VISION represents the very long term goal of our CBO e.g. A society in which every member lives in happiness and dignity.
(iii) To eradicate poverty and hunger from the phase of the earth.
(iv) To make people happy – is the vision of Kenya Breweries.

Why has never been world peace? They lack a vision taken for each objective. e.g. If our objective is to construct and Protect a shallow well at Masogo by June 2008.

They are like:
1. Identify sites e.g. hire labour
2. Engage Ministry of water to engage
3. Salinity
4. Engage skilled labour
5. Procure materials
6. Construct protective fence
7. Install pump
8. Commission water supply

Strategic Planning needs some logical sequence in thinking you think logically and systematically.

(e) BUDGETING

What is a budget?

A budget describes the expected costs (and sometimes benefits) of a set of activities. It is a realistic estimate of costs associated with project activities. And presents the picture of resources required. When you have over – budgeted, you might deny other opportunities other projects not to receive money.

If you under – budgeted other activities might not be accomplished.

In this case where the balance is, the budget must be dome realistically. It guides people in terms of implementing their activities.

Under – budgeting is also poor management. The tendency in GOK budgeting is the tendency to add 10% of the total cost. E.g. when the cost was Kshs. 80,000 then the next 105 is added.

ZERO – BUDGETING - Is started at the grass roots. There is no value to be added upon. E.g. if you are building and you have started foundation while budgeting next, you don't budget for foundation, you budget for walls.

As a financial management tool, a budget assists in making comparison between actual expenditure and planned costs.

Code	Item	Actual	Budget	Variance	Comment
A 1	Personal Emoluments	40,000	50,000	10,000	F
C 3	Capacity building workshop	200,000	120,000	80,000	U

A 1 This variance must actually be investigated as to why the money was not spent.

C 3 Unfavourable – Overspending by 80,000 is almost more than 50%

DRAWING A BUDGET

A budget must follow logical sequence of events in an activity or programme.

SHALLOW WELL PROJECT

CODE	DESCRIPTION	UNIT	QTY	UNIT COST	TOTAL COST	NOTES
PLANNING						
A – 1	Drawing	MAP	1	3,000	3,000	
A – 2	Survey & salinity	Report	1	1,000	1,000	
A – 3	Water permit	Permit	1	200	200	
A – 4	Land	Title	1	Assorted	100,000	
					104,200	
CONSTRUCTION						
B- 1	Hire skilled labour	No.	3	10,000	30,000	
B – 2	Ground cleaning		1	500	500	
B – 3	Materials cement	Bags	10	800	8000	
B – 4	Stone and bricks		1000	5	5000	
B – 5	Sand and ballast	Trips	1	6000	12000	
B – 6	Twisted ballast	Rods	10	500	5000	
B – 7	Twisted bars	Pieces	4	400	1600	
B – 8	Hand pump	No.	1	45000	45000	
B – 9	Pipes	No.	4	1000	4000	
B – 10	Rods		16	1000	16000	
B – 11	Chain link	Rolls	1	3000	3000	
B – 12	Poles	No.	20	300	6000	
B – 13	Gate	No.	1	4500	4500	
B – 14	U – nails	Kg	2	200	400	
B – 15	Gate pillars	No.	2	2000	4000	
B – 16	Inspection	No.	1	700	700	
B – 17	chamber	No.	3	200	600	
B – 18	Padlocks	Length	2 ft	450	900	
B – 19	Chain	Mondays	4 days	100	400	
B – 20	Labour	4 litres	1	1450	1450	
B – 21	Paint	Mondays	10	500	5000	
B – 22	Supervision	---			4500	
B – 23	Transport	Mondays	12	200	2400	
B - 24	Security miscellaneous	----			16000	
					176,950	
ADMINISTRATION						
C 1	Water committee allowance	Member meetings	5	200	5000	
C 2	Water attendant		12	5000	60,000	

C 3 C 4 C 5 C 6 C 7	Training technical Doc. Report Uniforms Record books Launching	No.	2 2 3 1	10000 5000 2000 400 30,000	20,000 5000 4000 1200 30000	
					125,000	
WATER USE D 1 D 2 D 3	 Water & San. Facilitation Training materials	 Household No.	 160 10 10	 1000 500 500	 100,000 5,000 5,000	
					110,000	
CONTINGENCIES E 1	 Contingencies				 25,818	
					542,168	

FINANCIAL REPORTS

Who is interested in a financial report of a CBO and why?

Who needs financial information about a CBO	**Why for they need it?**
Members and management	To know how much money and resources are available for their project and to know how much has been spent
Collaborators Donors Creditors	
Governing body Committee	To keep an eye on how projects money is being used, especially compared to the original plans. To help them plan for the future
GOK Researchers	
Financial Installments Stakeholders and other CBO	

Financial reports must be timely accurate and relevant. Financial reports are needed primarily by those responsible for managing the organization and by current ans potential donor agencies. But those responsible for financial management of CBO also need to give an account of their stewardship to a wide range of stakeholders.

PROJECT STAFF

To make sure that there is enough money in the bank to buy the things the CBO need to run its programme.

BOARD OF TRUSTEES

Keep an eye on how resources are being used to achieve the CBO's objectives.

DONORS

To make sure that their grants are being used as agreed and that the projects objectives are being fulfilled. Also to consider whether to support the CBO in future.

GOVERNMENT

To make sure the CBO pays any tax due and that its does not abuse its status as a not for profit organization.

PROJECT BENEFICIARIES

To know what it costs to provide the services they are benefiting from and to decide if this is good value in their community.

GENERAL PUBLIC

It's interested to know what the CBO raises and its uses during the year. And what they money is used for.

ANALYSTS

Use the information for analyzing trends in development initiatives.

Finally during the financial year accounting information is summarized and turned into management accounts to monitor progress against budget and at the end of the year the records are used to produce annual accounts. (that is the Balance sheet and Income and Expenditure Account) together with profit and los account for business conducted by the CBO.

In summary, the annual account.
The Balance Sheet and the Income and Expenditure shows in summary form
Where money has come from
For what purpose it has been received

How the money has been spent
The outcomes of the CBO’s operations

MANAGEMENT REPORTS

Part of the management account is the management report whose interests are beheld by the management committee and the donor. The management account is made any time it is not tied to any period.

MANAGEMENT REPORTS

	WORKING ASSETS	J	F	M	A	M	COM. EXP.	TOTAL Y TO DATE	BU	% SPENT	VARIANCE
A1	Poultry cash balance	10	5	2	7	20	n/a	50	-	-----	
A 2	Honey	3	3	5	8	10	n/a	25	-	---	
A 3	Rice	1	3	3	70	100	n/a	50	-	----	
A 4	CBO	10	40	70	20	150	n/a	30	-	------	
A5	Co – save	---	1-	15	2-	25	25	5	-	-----	
	INCOMES										
A1	Poultry	10	5	10	10	30	n/a	75	8	94%	5.v
A2	Honey	5	5	5	7	12	n/a	54	5	108%	4 F
A3	Rice	---	---	---	90	130	n/a	320	3	106%	20F
A4	CBO	5	105	---	10	180	n/a	350	4	87%	50U

A5	Co – save	---	15	17	22	30	n/a	114	1	95%	6 U
	EXPENSES										
A1	Poultry	15	10	13	5	17	12	82	1	55%	68 F
A2	Honey	4	5	3	4	10	8	39	5	156%	11 F
A3	Rice	19	8	---	23	100	---	300	2	151%	100 U
A4	CBO	10	75	20	10	50	20	355	3	118.4%	55 u
A5	Co – save	---	5	12	17	25	15	99	8	123%	19 U

The manager starts making decisions from the report of the management. Each allocations affect the other.

Is there a significant variance and an insignificant variance.

SAFEGUARDING ASSETS

- Safeguarding assets in a CBO involves managing internal risks in a day to day basis achieved wth a series of controls, checks and balance which if operated properly will avoid losses and defect errors and omissions in the accounting records.
- Controls are also very important in protecting the organization as they remove suspicion or temptation and dishonesty.
- There are several different categories of internal controls measures.

(i) Delegated authority

LEADERS	MANAGERS
Do the right things	Do things right. Always follow stipulated things rightly. What are being done is that he wants to do right regardless whether they are bad or not.

Delegation is not surrendering authority. Flash Theory X and Theory Y.

(ii) Separation of duties
(iii) Reconciliation

BANK RECONCILIATION

Balance as per Cash book	75,000
Add Bank: Unpresented Cheque 003	25,000
	100,000
Less: Bank Commission	5,000
Balance as per Bank statement	95,000

This is the Bank reconciliation statement

The other way round
Start with

Balance as per Bank statement	95,000
Less: Unpresented Cheque 003	25,000
Balance	70,000
Add: Bank reconciliation	5,000
Balance as per cash book	75,000

Book and cash book must be reconciled as one of the control System.

(iv) Cash control – Physical counting using cash count sheet.
(v) Physical control

AUDITING

Is of two types
(i) Internal auditing
(ii) External auditing

Internal auditing

Is undertaken as a routine exercise by management. They are influenced by 3 “E”. They are:

1. E is Economy
2. E is efficiency – doing things right

3. Effectiveness – doing the right things with fewer resources.

An audit is an independent verification and examination of records, procedures and activities of a CBO which leads to a report of affairs of a CBO.

External Audit

Examines the prepared accounts of an organization to assure users of their veracity.

INCOME & EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31.12.06

EXPENDITURE	SHS.	INCOME		SHS.
CBO Registration	200	Annual subscription		
Stationery and office supplies	2,400	100 @ Sh. 100		10,000
Telephone, fax, email	3,600	Entrance fee		
Wagesand salaries	42,000	20 new members @ 20		400
Committee meeting & allow.	12,000	Profit from Honey sales		9,200
Funeral expenses	80,000	Harambee donation		105,000
Honey taken in kind	7,000	members receipt	3,500	
Rates	3,200	Function Expenses	1,500	2,000
Wear, tear, chairs & tents	16,000	Raffles		1,200
Travel & Accommodation	6,000	Welfare contributions		24,000
Miscellaneous		Grants HIV awareness		166,667
Capacity building	20,000	Hire of chairs and tents		50,000
Field trips	10,000			
Surplus	164,667	Deficit		
	368,467			368,467

Two branches of accounting

(i) **Financial accounting**

Financial accounting is a system of recording, classifying and summarizing monetary information for purpuses of reporting.

While reporting there's – Income and Expenditure account plus profit and loss account.

Balance sheet

They are also reports showing how expenditure have been done.

(ii) **Management accounting**

This one made for the purposes of making the management to make decisions.

Looking at the Management from:

E1	Stationery	Budget	Actual
		1,200	1,100

$$\frac{1100}{1200} \times 100 = 91.67\%$$

This kind of trend makes the manager to make a decision of how to go about this syem.

Financial accounting makes us just have reports.

Management accounting makes us make a decision. It therefore takes the data gathered by financial accounting and compares with budget information to facilitate management decision making.

You cannot make a decision on profit and loss. It just shoes you how expenditure is.

Example: Management report.

Useful documents are:

(i) Budgets

(ii) Variance analysis (management report)

The Budget Process

- What are the objectives of the Project?
- What are the activities involved to achieve these objectives?
- What resources will be needed to perform these activities?
- What will these resources cost?
- Where will the funds come from?
- Is the result realistic?

Good practice in Budgeting

1. Clarity
2. Time table
3. Budget headings
4. Estimating costs