18.3: Accounting

All money that is received and spent for the trial must be accounted for in a way that is both truthful and transparent, so it can be checked by an outsider (an ‘auditor’).

Accounts can either be maintained on an accruals or a cash basis. In the accruals method, income and expenditure are attributed to the month they are ‘incurred’. For example, an item of equipment may be acquired during February, and so the expenditure for that equipment has been incurred in February, even if the invoice is not received and/or the payment made until April. Under the accruals accounting method, the cost would be accounted for in February, whereas, under the cash accounting method, it would be accounted for in April, i.e. when the invoice is paid. Some funders require one or the other method, while many leave it up to the grant holder. Clearly, a mixture of both methods should never be used within a single set of accounts.

Accounting records should include four main types of documents: supporting documents, books of account, reconciliations, and a list of cost codes. These will each be discussed briefly in this section, but a fuller description can be found Lewis (2013).

3.1 Supporting documents

These are the original documents that show how the money has been received and spent. They should all have a brief written explanation (a voucher), which has a unique sequential reference number that corresponds to an entry in one of the books of account (see Section 3.2).

They include:

- receipts and receipt vouchers for all money received. Every receipt should be given its own receipt voucher, which should be assigned its own unique sequential reference number, along with the date of the receipt, the name of the
person or organization that gave the money, a description of what the payment was for, the amount received, and the accounts or cost code (see Section 3.4)

- receipts and payment vouchers for all money paid out. These are the equivalent of the receipts and receipt vouchers for all money received and should have similar information on them
- invoices provided by other organizations or individuals requesting payment. These should be certified and stamped as paid
- pay-in vouchers for all money paid into the bank
- bank statements
- journal vouchers. These are vouchers that record adjustments, for example, if a payment or receipt has been entered incorrectly or allocated to the wrong cost code. They therefore relate to transactions where no actual cash changes hands, but they explain a change that has been made after an original entry into the accounts was made.

With the above documents on file, it will always be possible to (re)construct a full set of accounts, and they form the basis for the audit trail.

Other useful supporting documents include:

- local purchase orders. These are vouchers requesting that something be purchased
- supplier’s waybill. This is a list of goods sent by a carrier (see Glossary, Section 7)
- delivery notes (or goods received notes, goods receipt advice). These are vouchers that record any item received by the project such as a piece of equipment or a box of pencils
- stores requisition vouchers, bin cards (tally cards), and stores issue notes. These are documents that record all the incomings, outgoings, and the balance of all items kept in the stores
- approvals. These are specific notes or vouchers approving payments
- petty cash vouchers. In order not to have to go to the bank every time a relatively small expenditure is made, it is useful to have petty cash in the office. The initial amount (petty cash float) for this comes from the bank account, and, under the commonly used ‘fixed float method’, the petty cash is topped up to the same amount when it falls below a preordained threshold. For example, if the petty cash float is $100, then it may be reasonable to top it back up to $100 whenever the balance falls below $50. A maximum limit for a single petty cash payment should be fixed, with any payments that are larger than this needing to come directly from the bank (for example, be made by cheque). Each payment from the petty cash should be backed up by a receipt and a petty cash voucher which records similar information to that on a payment voucher. Money that is paid into the project should not be paid into the petty cash, but directly into the bank. This is to ensure that it does not just ‘disappear’ but passes through an externally recorded system.

3.2 Books of account

Various books of accounts should be maintained, covering different aspects of income and expenditure, as follows:

- cash book (sometimes called the bank book). Rather confusingly, the cash book records all transactions that pass through a bank account, but, although ‘bank book’ would be the more logical name, ‘cash book’ is much more commonly used. Some of the transactions may relate to actual cash, while others will be based on cheques, for example. Every entry in the cash book should have a unique transaction number which corresponds to a specific receipt or payment voucher, and the entry itself should also appear on the bank statement, thus allowing cross-checking
- petty cash book. The petty cash book records all transactions related to the petty cash and is the petty cash

- **advances ledger.** This records all payments that have been made to anyone in advance. This may be a down payment on a large item of equipment, for example. However, the commonest recipients are members of staff receiving an advance on their salary, for example, as a loan or to allow them to pay their rent in advance. Usually, the staff member must pay these advances off in monthly instalments by deductions from their pay. The simplest way to keep a record of these advances and their repayment is to allocate a page in the advances ledger for each person or organization who receives an advance, and then the accountant enters each repayment until the advance has been fully paid off.

- **assets register (also often known as the fixed assets register).** The assets of the trial are all the buildings or items of equipment that have been purchased by, or been donated to, the trial. The assets register should list all of these, along with identifying details such as their make, model, and serial number. Each asset should be physically tagged with a unique reference number for identification purposes. The asset register should also, at a minimum, include the date and purchase price of each item. It is useful to split the list into major and minor assets. Major assets are items that are worth more than a specific amount when new (often between $500 and $1000) such as buildings, vehicles, and major items of laboratory equipment. Many funding agencies will want to decide on the disposal of items at the end of the trial that cost the grant more than a certain amount, so, if there are such restrictions, it is sensible to fix the threshold for ‘major assets’ to that amount.

- **taxes withheld ledger.** This is a record of any taxes that the project has withheld, in order to pay them to the tax authorities. Examples include staff income tax and other national insurance payments.

### 3.3 Reconciliations

Reconciliations are undertaken to ensure that the books of account and supporting documentation are consistent. All too frequently, reconciliations either are not conducted or are not carried out frequently enough. Yet this can mean that errors, either due to mistakes or fraud, go unnoticed until a major problem has accrued. Reconciliations should be reviewed by a different staff member from the one who did them, in order to provide a check on their validity. This can be a challenge when the number of staff who are either qualified or senior enough to do this are few and over-stretched, but it is asking for trouble not to follow the rule of separation of duties in this regard.

#### 3.3.1 Bank reconciliation

The cash/bank book is checked against the bank statement. This should be done at least once a month. In practice, there will almost always be a difference because of delays such as:

- money banked by the project has not yet been shown in the bank’s records
- cheques issued by the project have not yet been presented to the bank
- bank charges and interest may have been applied
- errors may have been made by the bank or in recording entries in the cash/bank book.

The reasons for any discrepancies should be listed in the bank reconciliation report prepared by the project accountant.

#### 3.3.2 Petty cash reconciliation

Petty cash should be counted and reconciled at least weekly (and also on an unscheduled basis from time to time) by someone who is not responsible for handling the petty cash.
3.3.3 Trial balance

Every month, or at least once a quarter, two lists of balances should be drawn up, one of the debit balances and the other of the credit balances, on all the accounts that relate to the trial. The totals of each list should match. If they do not, then checks need to be made to explain the differences, which should be resolved.

3.4 Cost codes

Cost codes (sometimes called analysis codes) identify specific budget lines for each transaction. They allow the accountant to summarize income and expenditure, according to these budget lines such as personnel costs, travel, or laboratory consumables. It is important to give careful thought to the cost codes before the accounts are set up and, if in doubt, to subdivide the cost codes using a tree system, as any later changes to the cost codes will require the accountant to go back and recode the relevant vouchers and entries in the books of account. For example, if there is only one cost code for all travel, but later information is required on how much has been spent for international travel, as opposed to travel within the country, this will not be possible without going back to re-code all the travel expenditures.