

The Royal Engineers Association



A Treasurers Guide to Completing the Annual Financial Summary

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The Annual Financial Summary Form in detail

Box 'A'

Branch/Group Worth as at 31 Dec XX	£	A
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The figure to be shown in **Box 'A'** is the same figure that was included in **Box 'I'** of the previous year's Summary. For example, if **Box 'I'** of the Branch Summary at the end of the 2007 Financial Year (FY) showed a figure of £1234, then this is the figure that must be shown in **Box 'A'** of the next year's Annual Summary.

Income for *year*

Subscriptions	£	
Grants & Donations	£	
Esprit de Corps (Social Events, Raffles etc)	£	
Other Income	£	
Total Income	£	B

The total of all income received by the Branch or Group during the reporting year for each of the headings must be shown here. Income can be cash, cheques, postal orders, bank transfers or other means including bank interest, dividends from stocks or shares and any increase in the annual valuation of any silverware held. The **Income** section comprises of five headings. These are:

Subscriptions

Grants & Donations

Esprit de Corps (Social Events, Raffles etc)

Other Income

Total Income

Subscriptions – Within this heading are included both branch membership subscriptions and REA annual membership subscription.

Grants and Donations – The title is self explanatory. However, as an example, if the branch had only just formed up and wanted to purchase its own Standard, HQ REA will provide a grant of half the cost of a new Standard; the grant must be shown as income under this heading.

If you receive any monies as a result of participation in a government or Lottery funded initiative, this must also be shown here.

Please note, as part of a charitable organisation, if you are holding stock such as badges, ties etc you are not allowed to trade (sell) these items. As with the Royal British Legion, when you provide an item of stock to someone you should ask for a specific amount to be donated; this normally covers the cost of obtaining the item plus an amount to be contributed to branch funds.

Esprit de Corps – This is rather a wide ranging heading and will normally cover income generated by social events or money making activities such as raffles.

Other Income - This is a catchall heading to embrace all the other income received. Remember, if income does not fit under any of the other headings this is where the income should be included. Examples of such income may include bank or building society interest and any revenue earned from branch business ventures.

Total Income – The total of all income received must be shown in **Box ‘B’**.

Do not add any other income headings to this section. All of your income can be embraced by the existing headings.

Expenditure for *year*

Grants & Donations	£	
Esprit de Corps (Social Events, Raffles etc)	£	
Governance (Management & Admin costs)	£	
Other Expenditure	£	
Total Expenditure	£	C

Expenditure – Expenditure is revenue spent or consumed by the branch. The term ‘consumed’ allows for the depreciation of any capitalized assets held by the branch or group; this will be covered in more detail under the **Fixed Assets** heading. The **Expenditure** section comprises of five headings. These are:

- Grants & Donations**
- Esprit de Corps (Social Events, Raffles etc)**
- Governance (Management & Admin costs)**
- Other Expenditure**
- Total Expenditure**

Grants and Donations – This title is self explanatory. However, as an example, if you received any grant during the year (shown as income) and were required to pay back a part of it, that amount must be included here. If the branch or group made a donation to an organisation, whether it be a charitable organisation or not, the amount must be included under this heading.

Esprit de Corps – This is rather a wide ranging heading and will normally cover expenditure to support branch or group social events or money making activities such as raffles.

Governance – Any expenditure made which is directly attributable to the running or administration of the branch or group. For example, postage charges generated by the branch in managing branch membership or administration would come under this heading. Another example is where the branch or group pay hire or rental charges for venues to hold monthly branch meetings. Hire charges for venues which form part of a social event should not be included here; they should be included under Esprit de Corps.

Other Expenditure - This is a catchall heading to embrace all the other ways expenditure may have occurred. Remember, if expenditure does not fit under any of the other headings this is where the expenditure should be included. Examples of such expenditure may include income tax on bank interest earned and depreciation of any branch assets.

Total Expenditure – The total of the four headings above is entered in **Box ‘C’**

Do not add any other expenditure headings to this section. All of your expenditure can be embraced by the existing headings.

Surplus or Deficit

Surplus or Deficit (B - C) = D	£	D
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Surplus or Deficit – The figure entered in **Box ‘D’** indicates the amount of income over expenditure or expenditure over income. If the figure at **Box ‘C’** is larger than the figure at **Box ‘B’** then the branch has a Deficit of Income (expenditure over income). If the figure at **Box ‘B’** is larger than the figure at **Box ‘C’** then the branch has a Surplus of Income (income over expenditure). After entering the amount in **Box ‘D’**, draw a circle around the appropriate description (Surplus or Deficit) or put a line through the description which is not appropriate.

Fixed Assets

Branch Standard (*Delete sum if not held)	£ 650.00	
Branch Assets (Capital Purchases held by Branch)	£	
Investments/ Savings	£	
Total Fixed Assets	£	E

Fixed Assets –Branch or group assets costing more than **£250** pounds to purchase are capitalised; these items are called Fixed Assets. With the exception of the branch Standard and branch silver, Fixed Assets depreciate over their estimated life. Branch Standards are capitalised and maintained at their expected replacement value, currently £650. Branch silver is to be re-valued annually; it is not subject to depreciation calculations. Any increase in silver value above the previous year’s value is to be included under ‘Income – Other Income’. The **Fixed Asset** section comprises of four headings. These are:

- **Branch Standard** – If a branch Standard is held, the amount of £650 already included on the Form should be left as it is. If the branch does not own a Standard the amount (£650) should be deleted and not included in the Fixed Asset total.
- **Branch Assets** – These are Branch or group assets costing more than £250 when purchased; they are capitalised and valued at historic cost. Where an asset costing

more than £250 is silverware, this asset must be revalued each year by a competent person; this is normally a jeweller or silversmith. Generally, silverware appreciates (goes up) each year. Other items, such as Fixtures and Fittings and Computers, depreciate. Depreciation is charged on such assets using a straight line basis over their estimated life at the following rates:

- Fixtures and Fittings: 10% pa (this equates to an estimated life of 10 years)
- Computers: 20% pa (this equates to an estimated life of 5 years)

Fixture and Fittings example

A branch purchases a display cabinet for £280. The estimated life of Fixtures and Fittings is 10 years. For each year of its life, the display cabinet will reduce in value by £28 ($£280 \div 10$). So, after the first year the cabinet is valued at £252 ($£280 - £28$). After the second year the cabinet is valued at £224 ($£252 - £28$). This reduction is carried out each year until the item value reaches £0, at which point the item is then held as an expense item. The amount by which an item depreciates must be included in the branch accounts as **expenditure**. It should also be included in the 'Other Expenditure' section of the Annual Financial Summary.

Computer Example

A branch purchases a computer system, which includes a monitor and a printer, for £750. The estimated life of computers (which includes peripherals) is 5 years. For each year of its life the computer system will reduce in value by £150 ($£750 \div 5$). So, after the first year the computer system is valued at £600 ($£750 - £150$). After the second year the computer system is valued at £450 ($£600 - £150$). This reduction is carried out each year until the item value reaches £0, at which point the item is then held as an expense item. The amount by which an item depreciates must be shown in the branch accounts as **expenditure**. It should also be included in the 'Other Expenditure' section of the Annual Financial Summary.

Silverware Example

A branch purchases a silver centrepiece to commemorate its 50th Anniversary; the cost of the piece is £390. After the first year, the piece is taken to the local jewellers for revaluation; it is revalued at £410. The difference between the old and new value must be shown in the branch accounts as **income**. It should be included in the 'Other Income' section. The new value of the piece is included in the Branch Assets

- **Investments / Savings**- Some branches have Investment and/or Savings Accounts and view these as long term or fixed assets. These accounts are generally not drawn

on or only the annual interest is transferred to the branch current account. Because of their long term nature, such Investment or Savings are considered as Fixed Assets. Any branch unsure about the status of its Investments or Savings accounts should seek advice from HQ REA.

Current Assets

Cash at Bank	£	
Cash in Hand	£	
Debtors	£	
Total Current Assets	£	F

- **Current Assets** – Current Assets are assets in the form of cash (or easily convertible into cash).
 - There are three sub-heading under this heading:
 - **Cash at Bank** – That money which is held in a bank or building society. The figure here should be the total of such monies held in the various institutions on 31st December of the current Financial Year. See **Bank Statements** below for more information.
 - **Cash in Hand** – Cash in hand is petty cash, or cash held outside of a bank or building society which is used for minor business expenses. In addition to the foregoing definition, there is an additional item to be considered under Cash in Hand; the value of any stock held. Many branches hold stocks of items which are available to its members at a cost; items such as Ties and Badges. Each year the remaining amount of stock held should be valued at cost price and included in the amount shown as Cash in Hand. There is no requirement to indicate the split between cash and stock.
 - **Debtors** – Debtors are individuals or organisations who **owe you** money.

Total Assets

Total Assets (E+F) = G	£	G
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- **Total Assets** - Total Assets is simply the total of both Fixed and Current Assets (**Boxes 'E' and 'F'**). Enter the total in **Box 'G'**.

Liabilities

Creditors	£	H
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- **Liabilities** – Liabilities are branch or group outstanding debts or 'what you owe to others'.

- There is only one sub-heading under this heading:
 - **Creditors** - A creditor is someone to whom **you owe** money. For example, if at the end of the Financial Year the branch or group has written a cheque that has not been presented, the amount of that cheque must be included under creditors. See **Bank Statements** below for more information.

Branch/Group Worth

Branch/Group Worth as at 31 December 2007 (G - H) = I	£	I
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- **Branch/Group Worth** – The amount shown in **Box 'I'** should be considered as the financial worth or value of the branch on the last day of the REA Financial Year (FY) to which the Annual Financial Summary relates. The amount shown takes into consideration all the branch/group assets and its liabilities. The figure in **Box 'I'** is the one which will be carried forward into **Box 'A'** of the Annual Financial Summary for the next FY.

This concludes the section dealing with the detail of the Annual Financial Summary.

A word to the wise

It is always sensible to ensure that the completed Annual Financial Summary balances. This is quite easily done by carrying out a simple calculation:

Subtract Box 'A' from Box 'I'; it should equal Box 'D'

Please note that if the Annual Financial Summary does not balance, you must find the error before submitting it to HQ REA. If there is an error, a good starting point is to check the amount of the error and determine if the amount relates to a transaction that has not been included in the branch/group accounts. It is important to remember that **-£10** is not the same as **£10**; **the difference between the two figures is £20.**

A further word to the wise

Do this check to determine whether or not there is an error in your accounts ledger.

Take your bank balance and petty cash as at 31 December of the previous Financial Year(FY), and add to it all the income received by the branch in the current FY. From this figure, subtract all the money expended by the branch in the current FY. The figure remaining should be the same as the amount you have in the bank and petty cash at the end of the current FY. Don't forget that bank interest must be shown as income. Do not include notional expenditure such as stock writes off or property devaluations in this check.

Hint 1

Bank Statements. Please note that it is not necessary to wait for a bank statement before submitting the Annual Financial Summary. All you need is confirmation of your balance as at 31 December. The bank balance may be slightly different to the balance that your account books show. This is likely to be due to unrepresented cheques either as income or expenditure. If you really do need a statement to check your figures, the bank will provide you with a mini print-out over the counter at no cost.

Hint 2

It's a Summary! Don't forget, the Annual Financial Summary is exactly what it says it is. It is a summary of the branch account, not an audited report on the branch accounts. It is only necessary to have the Annual Financial Summary scrutinised by two authorised members of the branch.

If there is an unresolved account problem which may impact upon the timely return of the Annual Financial Summary, HQ REA should be advised ASAP. An Annual Financial Summary must still be submitted on time, but a brief note, outlining the problem, should be included with the Annual Financial Summary.

It may be that the Auditors will wish to check on branch accounts that have serious balancing problems; this should be viewed as a learning opportunity rather than a penalty.

A bit of background to Accrual Accounting.

- **Accrual Accounting** – Accrual accounting is considered to be the standard accounting practice for most organisations, it is the accounting method used within the REA.

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- **Brief overview (This is just background info for the anoraks amongst you)**

Accrual Accounting is an accounting method that measures the performance of an organisation by recognizing economic events *regardless of when cash transactions occur*. The general idea is that economic events are recognized by matching revenues to expenses at the time the transaction occurs rather than when payment is made or received. This method allows the current cash inflows/outflows to be combined with future expected cash inflows/outflows to give a more accurate picture of the organisations current financial condition.

Accrual Accounting provides a more accurate picture of the organisations current condition; it is the opposite of cash accounting, which recognizes transactions only when there is an exchange of cash.

For example, when a company sells a TV to a customer who uses a credit card, cash and accrual methods will view the event differently. The revenue generated by the sale of the TV will only be recognized by the cash method when the money is received by the company. If the TV is purchased on credit, this revenue might not be recognized until next month or next year.

Accrual accounting, however, says that the cash method isn't accurate because it is likely, if not certain, that the company will receive the cash at some point in the future because the sale has been made. Therefore, the accrual accounting method instead recognizes the TV sale at the point at which the customer takes ownership of the TV. Even though cash isn't yet in the bank, the sale is booked to the account as "debtors" increasing the seller's revenue.

Help is at hand

There will be some questions that Treasurers will want to ask about the completion of the Annual Financial Summary; this is not a problem, help is just a phone call away. No matter how trivial the problem, if it is giving you trouble just contact the Deputy Controller REA, Lt Col Neil Jordan. His contact details are:

Telephone: 01634 82 24 07
Email: deputycontroller@rhqre.co.uk