FAIRTRADE
AFRICA

TRAINERS' MANUAL

On Financial Planning, Management & Financial Reporting

Version 31.03.2022_V1.0

Co-Funding Information

This publication was produced with the financial support of the European Union. Its contents are the sole responsibility of Faitrade Africa and do not necessarily reflect the views of the European Union.

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List of Acronyms

FP	Fairtrade Premium
FPC	Fairtrade Premium Committee
IAC	Internal Audit Committee
JB	Joint Body
POs	Producer Organizations
SDF	Set up-Delivery-Finish
FP	Fairtrade Premium
FPC	Fairtrade Premium Committee
IAC	Internal Audit Committee

1.0 Introduction

1.1 What is this manual about?

This manual has been put together as standardised training material for training of Fairtrade Producer Organizations in Africa. This manual has been designed for use by trainers providing support services in strengthening and building effective Producer Organizations (POs).

The trainers' reference material incorporates adult learning techniques that identify and build on experience in respect of knowledge, skills and attitudes. As in all adult training, the training would be practical, demonstrative and participatory. Mix training techniques such as presentations, structured discussions, group discussions and presentations, participatory exercises, case studies, assessment/course evaluations etc. have been incorporated into the training sessions to enable learning that is relevant, and applicable to the job situation and meet the standard requirement of Fairtrade certified Producer Organizations.

This trainer manual consists of all relevant content and information that the training wants to convey. This has been presented as a training kit providing guidelines on how to deliver the training. The content of this manual are;

- **Module 1**: Financial Planning –Budgeting and Cash flow statements
- **Module 2**: Financial Management
- **Module 3:** Financial Reporting

1.2 How does this trainers manual work?

The training manual consists of three (3) modules whiles each of the modules contains a number of subtopics. Every topic contains the following sections;

- **Key information:** this provides an overview of the content that needs to be transferred to participants. It will not be shared with participants, but rather will serve for the trainer as an overview of what is important.
- **Additional information:** this will provide extra information that might be useful for the trainer to get a better understanding of the topic.
- **Fairtrade Standards and Compliance Criteria** (if applicable): this provides an overview of the requirements and guidance of the Fairtrade Standard and FLOCERT compliance criteria. This will ensure that all applicable requirements will be covered during the session.
- **Guidelines for the trainer**: this provides a step-by-step description on how to facilitate the session, including training methods to use, short evaluation to test learning and next step to start application.

The training sessions recommended for the training have been set up according to the Set up-Delivery-Finish (SDF) model. This approach is user-friendly model with a variety of training techniques to keep participants actively engaged. Training methods proposed to be used by the trainers are structured discussions, participatory exercises, peer-learning techniques, role plays, brainstorming, case study, etc. The SDF model consists of the following detailed steps:

Set up

Attention: Get the attention of participants, for example by asking a question, showing something, telling a story related to the topic, etc. to gain their attention.

Title: The title of the topic.

Objectives: Explain what will be learned during this session.

Benefits: Explain the advantages when applying the knowledge and skills acquired (what is in it for them?).

Direction: Set the boundaries of session by explaining what will be discussed and what not

Delivery

Explanation: Provide details on the topic

Demonstration: Visualize the topic; use pictures, visuals, real materials but also examples and role plays. An activity to display or demonstrate knowledge or skill to be acquired by participants

Exercise: Get participants to do an exercise to learn through practice (doing). Learning by doing method

Guidance: Guide participants throughout the topic to ensure facilitator/trainer stay within the topic.

Finish

Summary: Summarize the key information. The trainer just mentions the key points to participants. This can also be activity based where participants are asked to share key lessons learnt during the training.

Questions: Allow the participants to ask any question or provide additional comments.

Evaluation: Test the understanding of participants by asking questions about the key information.

Next step: Mention how the learning can be put into practice

1.3 Welcome, Opening and Introductions

Objectives:

By the end of this session, participants will:

- ☑ Introduce themselves to each other
- ☑ Be able to explain the objectives and set-up of the training
- ☑ Set objectives with respect to their own participation in the training
- ☑ Clarify expectations with respect to what the training will offer and demand
- ☑ Establish ground rules for their interaction as a group.

Time: 30 Minutes

Method: Individual presentations

Training materials: Flip chart, markers

Procedure:

1. Welcome all present to the training. Ask one person to pray
2. Trainer should introduce him/herself to participants and the name to be used during the training. Your organization, what it does, what you have been doing
3. Ask participants to introduce themselves and describe their background (apart from getting to know the participants, this will also allow a quick assessment of the level of knowledge, skills and experience of participants in terms of knowledge translation).
4. Trainer invites participants to share their expectation during the training. List them on the flip chart
5. Lead participants to set ground rules for the training and list them on the flip chart
6. Review the training programme with participants based on their expectations
7. Ask for questions about the training
8. Agree on the time schedules

2.0 Module 1: Financial planning – Budgeting and Cash Flow Statement

Module framework

Topics	Learning objectives	Time
✦ Understanding budget and budgeting ✦ Types of budget ✦ Benefit of budgeting ✦ Component of a budget ✦ Steps to budgeting ✦ Budgetary Monitoring and Control ✦ Cash flow management	✦ Understand the concept of budgeting ✦ Describes steps to budgeting ✦ Prepare a simple budget for their producer organizations ✦ Identify how to effectively manage budget ✦ Prepare cash flow statement ✦ Manage cash flow	2 Hours 50 Minutes

Key information to trainer

Understanding budget and budgeting

A budget is a work plan expressed in monetary terms and shows what you expect to earn (income) and to spend (expenditure) over a period of (usually) 1 year or more. It is also the summary of a work plan expressed in monetary terms and is an integral component of the annual work plan.

The budget is a powerful management tool. It helps the Fairtrade premium committee (FPC) to implement its strategic decisions. It is perhaps the most efficient way of ensuring cost control and achievement of objectives.

The budget is used for the following:

- Numerical statement of the planning;
- Assessment of financial performance in agreement with plans;
- Controlling costs;
- Improving the use of resources; and
- Directing the total efforts into the most profitable channels.

Objectives of a budget

The objectives of the budget are:

- To know how much money is needed for planned actions and where to get the money from the projected expenses and income;
- To monitor the financial operations and to know at any time the performance of the financial plan.

The main reasons to prepare a budget are:

- It helps organizations plan what to buy and when to buy
- It helps organizations to understand where its income comes from

It enables organizations to know where it is most needed to control costs
Set goals for income/cost control to create a better outcome
To plan how to save money in months where income is high and how to spend in months where expenditure is higher

Types of budget

POs works with two main types of budget namely; the project budget and the annual budget.

Benefit of budgeting

The benefits of having a budget and budgeting system are as follows:

- It assists with plan implementation;
- It provides a means to control expenditure and ensure corrective measures are in place if over-expenditure has occurred or is happening;
- It assists in communicating financial information to members of the group
- It helps to measure the final performance of the group;
- It is also a motivational tool because it gives direction.

Component of a budget

A budget whether incremental or zero based budgeting is composed of the income and the expenditure sections.

Steps to budgeting

Preparing a budget involves a lot of activities. The following gives a step-by-step approach in preparing a budget;

- Define planned activities
- Estimate expenses per activity
- Estimate incomes or revenues
- Determine balance
- Review and adjust

Budgetary Monitoring and Control

Monitoring the budget is a tool that allows controlling budget performance and reacting in time if the budget targets are not met.

Budgetary control is comparing actual income or expenditure to planned income or expenditure to identify whether or not corrective action is required.

Budgetary control is very important in financial planning as it helps organizations to do a proper assessment of their projected incomes and expenditures. This helps to put in measures to avoid deficit positions and cash flow shortages. Comparing projected and actuals whether incomes or expenditures present the following scenarios/result;

- When actual income is more than what was budgeted for, the difference is favourable (positive). This is a good situation for the organization as it implies the organization put in more efforts to bring in more money.
- When actual income is less than what was budgeted for, the difference is unfavourable (negative) and it implies the organization has not been able to achieve its income target for the period.
- When actual expenditure on any item is more than what was budgeted for, then the difference is unfavourable. This calls for the organization to control its expenditure
- When actual expenditure is less, the difference is favourable. This implies the organization has been able to control it expenditure and made some savings on the budgeted item.

To be able to perform budgetary control effectively organizations need to;

- Identify and record actual revenue and costs on a timely basis
- Compare actual figures with budget and identify and explain any differences
- Ensure that forecasts are reviewed regularly to provide accurate management information
- Summarise and report to management on the analysis of budgets.

Cash flow management

The term cash flow refers to the amount of cash being received and spent during a defined period of time. The method for calculating the cash flow is by subtracting the cash disbursements from cash receipts. The cash flow forecast ensures that funds are available when they are needed. It gives an estimate of the monthly cash needs and availability.

Cash flows management may result in one of these scenarios;

- **Inflows >Outflows** – the organization is viable and liquid (enough money to meet third party obligations)
- **Inflows <Outflows-**the organization is not sustainable and there is the need to look for additional sources of income to meet third party obligations and keep the organization running.

The benefits of Cash flow projection as a tool

- A great tool for setting sales goals and for planning the expenses to support those sales.
- It also ensures overheads are met on time.
- In planning for a project or investment, a cash flow projection is the perfect decision-making tool.
- A cash flow projection is a good way to prepare and plan for your financing needs

Ways to ensure proper cash flow management

The following are ways in which POs can ensure proper cash flow management;

- Minimize daily overheads;
- Monitor cash movements at least weekly and reconcile with payments due for the following week;
- Plan in advance for month-end payments – use a payment schedule;
- Only issue cheques when there is money in the account;
- Have a daily cash forecast in place;
- Control the use of telephones, and utilities as these can be a huge drain on the organization's resources;
- Maintain the strongest balance sheet possible.

Fairtrade Standards and Compliance Criteria for Small Producers Organizations

Year of audit	Core requirement	Fairtrade standard	Standard Guidance	FLOCERT Compliance Criteria Number	FLOCERT Rank 3 (minimum needed)	FLOCERT Rank 5 (best practice)
0	1st grade, 2nd grade, 3rd grade	**Fairtrade standard 4.2.7** You present the annual report, budgets and accounts to the General Assembly for approval		4.2.0.16	All reports were formally Presented to the General Assembly and approval is documented but minor mistakes are found in reporting.	All reports were formally Presented to the General Assembly and approval is documented AND the organization took some measures to make reporting more understand able.

Fairtrade Standards and Compliance Criteria for Hire Labour Organizations

Year of audit	Core requirement	Fairtrade standard	Standard Guidance	FLOCERT Compliance Criteria Number	FLOCERT Rank 3 (minimum needed)	FLOCERT Rank 5 (best practice)
0	1st grade, 2nd grade, 3rd grade	**Fairtrade standard 2.1.15** The Fairtrade Premium plan **contains** a reasonable budget based on expected Fairtrade Premium income, which sets priorities for Fairtrade Premium use. In the course of the year the plan **is adjusted** if the Fairtrade Premium earnings are higher/lower than expected		2.1.0.37	Budgets are there for all the projects in the Plan and are reasonably close to expected Fairtrade Premium Income and priorities have been	

Guidelines for the Trainer

Materials needed:

Flip-sheets and markers

- ☑ LCD projector, Laptop, Projector screen
- ☑ Copies of Case study, Exercises and Templates
- ☑ Copies of assessments

Time needed: 2 Hours 50 Minutes

Preparations: Carefully read the key information, Fairtrade Standards and Compliance guidelines in this manual, the trainees manual

- ☑ Print enough copies of supporting training materials
- ☑ Review the trainees' manual and participants' materials
- ☑ Ensure that all materials required for the session are available
- ☑ Prepare required templates on budgeting and cash flow statement on a flip chart

Note for the trainer:

Control the time especially during open discussions and try to work within time. The use of local languages is also recommended where necessary to facilitate learning, skills and knowledge acquisition. Make the training lively by engaging participants through open discussions, experience sharing, group exercises and presentations etc. Explain to participants that in an adult class there is no wrong answer to encourage them to share their views openly without any hesitation.

Session in Short

- **Set up:**10 Minutes
- **Delivery:** 2 Hours 20 Minutes
    - ✦ Understanding budget and budgeting
    - ✦ Types of budget
    - ✦ Benefit of budgeting
    - ✦ Component of a budget
    - ✦ Steps to budgeting
    - ✦ Budgetary Monitoring and Control
    - ✦ Cash flow management
- **Finish:** 20 Minutes

Set up – 10 Minutes

Attention: Project a picture of a sample budget and a cash flow statement and ask participants to identify which among them is a budget and a cash flow. After several responses from participants ask them to identify the similarities and differences. At this point just follow and record responses on a flip chart.

Title: Tell the title of the session: ***Financial planning – Budgeting and cash flow***

Objectives: Explain to participants that, at the end of the training session, they will be able to;

- Understand the concept of budgeting

- Describes steps to budgeting
- Prepare a simple budget for their producer organizations
- Identify how to effectively manage budget
- Prepare cash flow statement
- Manage cash flow

Benefits: Budgeting and cash flow are important component of financial planning as it helps to forecast in advance as well as prepare organizations to make enough financial resources available at the right time to be able to carry out activities and projects.

Direction: Discussions will be limited to budgeting and cashflow relating to Fairtrade system and how they can comply with Fairtrade standards and compliance requirements.

Delivery - 2 Hours 20 Minutes

Explanation, **D**emonstration, **C**ase study, **E**xercise, **G**uidance and **A**pplication:

1. Write boldly on a flip chart –*Budget and budgeting*. Ask participants the following questions
   a. What comes to mind when you hear or see these terms?
   b. Ask them to explain the terms in their own words
   c. Do you know how to prepare a budget?
   d. Do you prepare budget in your respective organizations?
1. After several responses from participants, facilitate plenary discussions alongside PowerPoint presentation on understanding budget and budgeting (what is a budget, objectives and the reasons why organizations prepare a budget) Tell participants that a budget is the representation of the workplan in monetary terms and that budgeting in simple terms is the process of preparing a budget. Add that the **budget** is an important **management too** that can be used to control cost, ensure effective planning, assessment of financial performance and project performance in terms of its efficiency. Tell them that according to **requirement 1.2.4** for SPOs and **2.1.15** for HLOs they are expected to prepare a budget as part of their work plans. Ask a participant to read aloud the standards and compliance requirements and explain to participants what is required of them at each step. Ask to know if participants are clear on the requirements if not ask to know where there are doubts and explain again.

2. Continue by asking participants to mention the types of budget they know.
   Ask the following questions;
   a. What are the main types of a budget?
   b. What are the uses of the types?
   c. When are they prepared?

   Write responses on the flip chart and after several attempts facilitate a presentation on the types of budget. Tell participants that the annual budget is a consolidated budget of all programmes and activities planned to be carried out by an organization whiles a project budget is specific to projects. For example, if POs want to build a crèche it prepares a budget for its construction.

3. Continue with a discussion and a presentation on the benefits of budgeting.
4. Having looked at a budget, its objectives and reasons for preparing it, you will proceed to look at the components of a budget. Ask the following questions;
   a. Mention the components of a budget or the things that make up the budget
   b. Can you explain each of the components?
   c. Give examples of each of the components

   Write responses on the flip chart and after several attempts facilitate a presentation on the components of a budget.

5. Proceed with a discussion and presentation on steps to budgeting. Ask the following questions;
   a. Do you know the steps to follow to prepare a budget?
   b. Mention some of the steps to follow to prepare a budget
   c. How do you prepare budget in your organizations?

   Tell participants that in preparing a budget, they should pay much attention to the estimation of their incomes and expenses. This can be done by making reference to source documents such as receipts. Again tell participants to make it a practice to review and adjust their budget by comparing estimates with the actuals to determine whether they are on or off track with their spending and income levels. In connection with the balance, tell participants that income should cover expenditure or allow a surplus. A deficit situation is where expenditure exceeds income. It is always good to avoid a deficit situation as it sounds an alarm on how the financial resources are managed. Show participants a pictorial representation of the balance scenarios (Surplus or Deficit situations).

6. Share a format of a budget with participants and take them through it to make sure they have a clear picture of what a budget should look like.
7. Guide participants in a group session to prepare a budget with information extracted from the records of Asetenapa Cooperative (Annex 5.1.1) using the proposed template. The number of groups will depend on the number of participants' present using a well known approach of group formation. Go through the exercise with participants to make sure they understand what is required of them. Move round and guide participants through the process. Allow each group to present their results for discussion and clarification.
8. After discussing the results of the exercise on the budget, introduce the concept of budgetary monitoring and control. Again explain the concept of variance and how they can monitor and control their budget participants.
9. Ask the following questions to get their understanding on the budgetary control and monitoring process;
    a. How can your organization improve upon revenue mobilisation?
    b. What factors account for a deficit budget situation?
    c. What concrete steps or measures can your organization put in place to correct a deficit budget?
10. After brainstorming and discussions share best practises with participants
11. Review the session on budgeting with participants before the discussion and presentation on cash flow.
12. Facilitate a discussion and presentation on the cash flow statement. Tell participants that Cash flows management may result in one of these scenarios;

    a. **Inflows >Outflows** – the organization is viable and liquid (enough money to meet third party obligations)

    b. **Inflows <Outflows-**the organization is not sustainable and there is the need to look for additional sources of income to meet third party obligations and keep the organization running.

13. Share a format of cashflow statement with participants and take them through it to make sure they have a clear picture of what a cashflow statement should look like.
14. Guide participants in a group session to prepare a cashflow statement with information extracted from the records of Asetenapa Cooperative (Annex 5.1.2) using proposed template. Ref The number of groups will depend on the number of participants' present using a well known approach of group formation. Go through the exercise with participants to make sure they understand what is required of them. Move round and guide participants through the process. Allow each group to present their results for discussion and clarification.
15. End this session with a case study (Annex 5.1.3) to enable participants apply knowledge acquired during the training. Put participants to work in a group after which you allow each group to present their results for discussion and clarification. Go through the case study with participants to make sure they understand what is required of them.

Finish–20 Minutes

Summary: Summarise the session by sharing some key lessons from the training. You can equally ask each of the participants to share what they have learnt from the training.

Questions: Ask if anyone has a question or comment.

Evaluation: Share copies of the assessment on the module with participants allowing them to take the assessment.

Next step: Budgeting and cashflow statements are very crucial in financial planning and lessons acquired here should be applied to improve upon financial planning processes in your respective organizations especially in ensuring that enough revenues are made available to carry out planned programme and activities.

3.0 Module 2: Financial Management

Module framework

Session	Learning objectives	Time
✦ What is financial management? ✦ Principles of financial management ✦ Sources of funds ✦ Basic accounting and bookkeeping ✦ Cost management ✦ Financial procedures ✦ Procurement procedures ✦ Control and auditing ✦ Internal control systems	✦ Understand what financial management is ✦ Describe financial management principles ✦ State and explain sources of funds of producer organizations ✦ Understand and apply financial procedures ✦ Understand and follow auditing procedures ✦ Understand and follow established procurement procedures ✦ Understand and ensure that internal control systems are followed	3 Hours 30 Minutes

Key information to trainer

What is financial management?

Financial management is a managerial activity which is concerned with the planning, acquisition and utilization as well as controlling of an organization's financial resources. It is about the use of financial information, skills and methods to make the best use of an organization's resources. Financial management therefore focuses on what it entails to acquire adequate financial resources and how such financial resources will be managed to ensure good utilization.

Principles of financial management

To be able to adopt and practice good financial management, it is important for producer organizations to understand the following financial management principles. The financial management principles are:

- **Consistency**: The financial reporting systems should be consistent and in compliance with Fairtrade reporting requirement as required by Flo-cert standards. This promotes transparency and accountancy as required by Fairtrade principles.

- **Accountability**: POs must be accountable to members and other stakeholders supporting the POs with funds to implement their projects. This principle of accountability requires producer organizations to report and present accurate information to stakeholders.
- **Transparency**: Financial reports should be accurate and accessible to members and external stakeholders at any time. Producer organizations should share financial reports with members during annual general meeting.
- **Viability**: Producer organizations should be financially viable. This can be achieved by adopting and practicing good financial management principles that ensure sustainability of Producer Organizations in the long run.
- **Accounting Standards**: Producer Organizations should follow internationally recognized and accepted accounting standards and principles.
- **Integrity**: Appointed and elected officers should operate with high level of integrity. They shouldn't engage in deals that will bring the image of their organizations into disrepute. The integrity of financial records and reports is dependent on accuracy and completeness of financial records.
- **Stewardship**: Producer organization should make efficient use of its financial resources by using it for intended purposes. The Board of Directors should ensure they keep oversight responsibilities of the financial resources.

Sources of funds

- Membership contributions
- Premium funds
- Income generating activities
- Sale of produce

Basic accounting and bookkeeping

- Accounting is the process by which financial information is recorded, classified, summarized, interpreted, and communicated.
- Bookkeeping is more specific and refers only to the recording of financial transactions.
- A transaction is any exchange of economic value between business partners, such as selling and purchasing, providing services, lending money, etc.

The objectives of accounting are to enable:

- FPC members and eventually workers to know the amount of Fairtrade Premium earned and how it was spent;
- FPC to take financial decisions in full knowledge of the financial situation of the organization;
- Stakeholders to confirm that the funds are being utilized in accordance with the overall goal of Fairtrade;
- FPCs meet the legal and professional requirements

Basic accounting facts

- The accounting system commonly used is double-entry bookkeeping
- In double-entry accounting, every transaction is recorded by entries in two accounts; as DEBIT in one account and as CREDIT in the other account.
- The total of debit values must always equal the total of credit values
- DEBIT entries = increase in debit accounts or decrease in credit accounts
- CREDIT entries = decrease in debit accounts or increase in credit accounts.
- Debit accounts are assets and expenditure;
- Credit accounts are liabilities, capital and income
- Accounting period means the time after which the books are closed and the financial statement is prepared.

Accounting cycle:

The accounting process is a series of activities that begins with a transaction and ends with the closing of the books. This process is repeated each year or period. The accounting cycle includes the following steps:

- **Preparation or collection of the source documents of a transaction**. Examples include; payment orders, deposit slips, cheques, purchase orders, income and expenditure vouchers, receipt etc. The treasurer receives and files all source documents as and when they happen.
- **Journal Entry**. The journal is the entry point of transactions into the accounting system. It is a chronological record of transactions, showing an explanation of each transaction and the accounts affected.
- **Posting.** This involves entering the transactions in the appropriate T account in the general ledger.
- **Preparing the trial balance**. The term trial balance means that it is used to test whether DEBITS equal CREDITS.
- **Preparing adjustments**. Adjustments are made for transaction with future effect as well as transactions that are yet due but yet to be recorded. Adjustments are normally made for accruals (e.g. rent owed) and prepaid transactions (e.g. rent paid in advance).
- **Preparing the financial statement.** This is the closing of the cycle. The financial statement consists of two parts: ***income statement* and *balance sheet***. They are both derived from the general ledger.

Cost management

Cost can also be classified as fixed and variable. Fixed costs are incurred whether the POs work or not e.g. office rent, salary of appointed officers, membership fees with FTA product or country networks etc. Variable costs are costs that vary over time and with the level of activity. To manage cost effectively, the treasurer or accountant should track the annual project budget regularly to identify overrun cost. Again, POs should identify and understand cost they incur every month.

Ability to manage cost effectively will enable Producer Organizations to;

- Improve upon their financial positions
- Ensure positive cash flow at all times
- Plan and make better decisions

Financial procedures

These procedures should be followed by the FPC and especially the treasurer:

Preparing source documents (by treasurer)

To make sure that any transaction, either income or expenditure, is properly documented, the use of system of vouchers is recommended. These vouchers, numbered and filed in chronological order, facilitate the job of the accountant.

- Income voucher for each income (Premium income, repayments of debts, etc.)
- Expense voucher for each expenditure (purchases, disbursement of loans, etc.)

Payment procedure (by treasurer and all FPC members handling funds)

Payment procedures are defined guidelines that need to be followed by POs when any payment needs to be made. These procedures are in line with Fairtrade compliance criteria and standards. For any payment to be made, the payment procedure has to be strictly followed by POs to be Fairtrade compliant. This makes POs **ACCOUNTABLE** and **TRANSPARENT.**

For **small** everyday payments POs can use the petty cash. Petty cash is the small supply of cash POs keep out of the bank for small payments. POs should keep vouchers and receipt to support every transaction.

For **larger** payment (above a threshold set by the organization e.g. >$20) POs must pay by cheque and keep records. Before making ANY payment:

- All payments must be authorised by the leaders/ Premium Committee
- All cheques to be signed by 2 people.
- For HLOs it must be signed by a worker's representative and a management representative
- For POs, the treasurer must be one on the signatories

Bank account management (by treasurer)

POs must open a bank account for receiving and administering the Fairtrade premium. For a HLO, the signatories must have one workers' representative and one management representative. The Joint Body (JB) may follow this requirement or make it stricter (for instance, two workers plus one management representative).

For SPOs the rules are less strict, but it is best to have two people signing all cheques.

Current account

It is recommended that for the day-to-day operations a current account is used. This is a safe way to keep your money. In a current account, usually no interest is earned. The money is deposited and withdrawn easily at any time. The main advantage of the current account is the cheque book, which is issued to enable the account holder to make payments and withdraw money. Payments by cheques are safer than cash and can be easily traced. The current account should be the only account to be used for payments.

Cashbooks and record files

All financial transactions should be recorded using source documents. A file must be maintained containing all the documents in a way that people can trace them (e.g. date order, supplier order).

The treasurer should also keep an up to date record of all transactions (deposits, remittances, payments) on the current account. As soon as the transaction is carried out, it should be registered in the corresponding **cashbook.**

The treasurer can keep this **cashbook** where the transactions are registered manually or by computer if the treasurer has had computer training.

Bank reconciliation

Bank reconciliation involves **comparing the figures from the cashbooks against** those on the **bank statement**. The balance of the bank account record should be the same as the balance of the bank statement. If this is not the case, there could be an error from either side: from the PO or the bank(s).

How to reconcile the cashbook book and the bank statement balances

The following are steps that can be followed by POs to prepare their bank reconciliation statement;

- Compare the balance in the cashbook with the bank statement balance provided by the bank.
- If there is a difference, search for any item that does not appear in one of both records (your books and the bank statement).

Items missing in the bank statement:

- Add all outstanding cheques (cheques that have been drawn and recorded as payment but that were not cashed by the beneficiary)
- Deduct all deposits in transit (deposits made that have not yet been credited by the bank)

Items missing in the cash book

- Add all credit notes from the bank not registered in your books (e.g. interest)
- Deduct all debit notes from the bank not registered in your books (e.g. bank charges)

The result of these operations should be equal to the balance in the bank statement.

Where there is more than one bank account, the same produce should be followed to prepare the bank reconciliation statement.

Petty cash management

- The petty cash is used only for payments of small amounts (e.g. less than $ 20) where it is not practical to use a cheque.
- It is preferable that the petty cash is not administered by the treasurer or the chairperson. POs should appoint another member to administer the petty cash under the supervision of the treasurer. This person is referred to as petty cash custodian (cashier).
- The initial petty cash fund is created by issuing a cheque. This is called the imprest system/account.
- The POs decide on the imprest level. Usually $100 would be sufficient for most small business needs. The initial funding and all refunding transactions are recorded as debit in the petty cash account and as credit in the bank account.
- All petty cash expenditures must be recorded on a petty cash voucher; this is similar, but not identical to the expense voucher. The petty cash voucher is a source document used for registering the transaction in the books. Original receipts from the supplier must be attached to the voucher.
- Routine and random unannounced cash counts should be performed to ensure control over cash.

Fixed assets management

The objective of fixed assets management is to have full control over fixed assets, to ensure maintenance and prevent unauthorized disposal or theft, as well as proper depreciation. The following rules to safeguard fixed assets should be observed:

- All fixed assets belonging to the Producer Organization are the responsibility of the FPC. The FPC should appoint an FPC member to look after the care and administration of fixed assets.
- Immediately after acquisition, each item should be numbered and tagged with its ID-number.
- The FPC should maintain a fixed assets register, with the following information: Identification number, Description of item, Date of purchase, Purchase price, Annual depreciation and actual value

Procurement procedures

Procurement is the process of acquiring goods and services by an organization. The objectives of procurement are:

- Obtain the best in terms of quality, quantity, timeliness and cost of delivered products or services (value for money)
- Conduct business with integrity, transparency, professionalism and fairness

Depending on the complexity, the FPC can fix a threshold value (e.g. < 500 USD) under which a short procurement can be done.

Control and auditing

For producer organizations, we can distinguish three levels of controls;

- Internal control
- Internal audit
- External control

Internal control

Internal control refers to the mechanisms of assuring that the producer organization's resources are managed carefully and transparently. It comprises all measures adopted to safeguard its assets, check the accuracy and reliability of accounting data, promote operational efficiency and encourage adherence to management policies, decisions and procedures. Internal control mechanisms are preventive, i.e. built into daily operations to minimize risk before it occurs.

The objectives of internal control are:

- To ensure efficiency and effectiveness of operations
- To avoid transaction risks (risk of financial loss due to negligence, mismanagement, systems error or human error)
- To avoid fraud risks (risk of loss resulting from theft of funds and other assets, from creation of misleading financial data, misapplication of funds, reports and financial statements)
- To ensure that financial information is complete, timely and reliable
- To ensure compliance with law and internal regulations, policies and procedures

Internal auditing

Organizations are encouraged to establish internal control bodies constituted by persons not involved in the business operations. Such a body is the Internal Audit Committee (IAC) as referred to in the Fairtrade standard. Though not mandatory, the establishment of an IAC is highly recommended for mid-sized organizations, and it is best practice for organizations with a large number of members (100 and above) and/or a high premium turnover.

External financial audit

- External audit is an independent audit function that provides reasonable assurance that financial reports are free from material mis-statement and are in accordance with legislation and relevant accounting standards.
- It should particularly examine the effectiveness of internal controls, the accuracy and timeliness in recording transactions, and the accuracy and completeness of financial reports.
- It is normally conducted at the end of the business year, when the financial statements are finalized. But it can be ordered at any time in case of suspicions of mismanagement or fraud.
- Only qualified and registered auditors complying with the legal requirements can provide external audit services. The independence of the auditor is crucial to a correct and thorough appraisal.

Internal control systems

Financial controls are the means by which an organization's resources are directed, monitored, and measured. They are policies and procedures put in place to ensure the continued reliability of accounting systems.

Common internal control measures are:

- **Segregation of duties** involves the separation of responsibilities for two or more tasks that could result in error or encourage dishonest behaviour if handled by one person. For example, the assigning of the responsibility for procurements and cheque writing to two different people and not to one person.
- **Cross-checking and counter-signing of financial documents** by persons not involved in the elaboration of the documents:
  - Financial reports such as the bank reconciliation statement or the monthly cash flow report
  - Documents giving proof of financial transactions such as income and expense vouchers
  - Documents authorizing financial transactions such as purchase orders and payment orders.
- **Setting limits on expenditures (thresholds):** Producer organizations define categories of expenditure within amount ranges. For each category a slightly different procedure is used. The higher the amount, the stricter the control mechanisms are.

Range in US$	Payment procedure
0 – ≤20	Cash payment allowed
> 20 – 100	Cheque payment, normal payment order
> 100 – 500	Cheque payment, short procurement procedure
> 500^{+}	Cheque payment, full procurement procedure

- **Signature requirements** to protect the organization from unauthorized transactions. The signature requirement as set forth by the Fairtrade standards falls in this category of control mechanisms.

- **Physical controls** are measures taken to verify the existence of assets as reported. For example, counting the cash in the petty cash box and reconciling it with the amount recorded in the petty cash book on a regular basis. Or checking periodically fixed assets (e.g. office equipment) against the register, at least once a year.

Where POs use computerised systems, the following measures can be taken to avoid computerized risks:

- **Integrity risk controls**: Creating levels of access and computer access codes usually controls integrity risks. For example, the computer system can be designed so that each person only has access to the items in the computer that are directly related to his/her scope of work. Furthermore, each user has a secret password that allows access.

- **Management information system risk control**: Organizations mitigate the risk of losing key information from database by creating back-up files and storing them at one

- or more locations, such as in a safe deposit or at another office or external drive or in the cloud.

Internal Control Procedures

The following are some internal control procedures that can be used by the Producer Organizations;

Activity	Control Objectives	Control Procedure
Cash Payment	– Correct amount paid – Protect Cash – Avoid under or over payment – Enough cash on hand – Goes to correct payee	– Payment voucher prepared and signed by the right officer(s) – Reconcile payment vouchers and figures with invoices – Counter signing by the leaders (approvals) – Picks cash and signs in person (beneficiary)
Issue receipt	– Date – Purpose – Correct Amount received – Signature and stamp	– Carbon copies – Serial number – Details – Signature – Stamp – Correct amount
Cheque issued	– Correct amount on the cheque – Right payee/beneficiary – Enough money in the bank account – Date and signature	– Payment voucher prepared and signed by the right officer – Reconcile payment vouchers and figures with invoices – Counter signing by the leaders (approvals) – Signatures on the cheque for consistency – Details sent to bank – Pay in slip – Pick up and signing by the beneficiary – Payment document filed in the appropriate folder
Receive bank statement	– Accurate and complete – Cashbook records – Determine right bank balance	- Reconciliation with case book balance
Contracting service provider	– Contract sum within budget – Value for money – Expertise of the service provider	– Approved technical and financial proposal – Contract agreement with service provider – Due diligence report – Invoices reconciled with agreed budget/contract sum – Deliverables received and approved – Report of work done

Roles and responsibilities of Internal controllers

Internal controllers must ensure that their roles are in accordance to article 56 of the Cooperative Act, including:

- Ensuring that all the books of producer organizations are up to date at all times;
- Carrying out inspections of the money, stocks, books and other assets of the society;
- Ascertaining the authority and validity of all expenditures, payments, loans and advances, as the case may be; and
- Examining the accounts of producer organizations at regular intervals and ensuring that all transactions of the society are properly recorded in the respective books, accounts and other documents.

Fairtrade Standards and Compliance Criteria for Small Producer Organizations

Year of audit	Core requirement	Fairtrade standard	Standard Guidance	FLOCERT Compliance Criteria Number	FLOCERT Rank 3 (minimum needed)	FLOCERT Rank 5 (best practice)
1	1st grade, 2nd grade, 3rd grade	**Fairtrade standard 4.1.8** You have an accounting system that accurately tracks the Fairtrade Development Plan expenses, and in particular identifies the Fairtrade Premium transparently. You are able to prove that the Fairtrade Premium is used in line with applicable rules.		4.1.0.14	Any system that allows Tracking income and Expenditure and identify Premium but unintentional mistakes <1% found.	Up to date accounting system, possible to track Premium AND no mistakes.
	2nd grade, 3rd grade			4.1.0.15	Any system that allows Tracking income and Expenditure and identify Premium but unintentional mistakes <1% found AND this holds for all member organizations.	Up to date accounting system, possible to Track Premium AND no Mistakes AND this holds for all member organizations.
1	1st grade, 2nd grade, 3rd grade	**Fairtrade standard 4.1.6** If the Fairtrade Premium in the last year was above 150,000 EURO/USD (premium currency) you contract a financial audit company to audit your Fairtrade Premium accounts based on the use defined in the Fairtrade Development Plan.	The intention of this requirement is to increase oversight on the use of the Fairtrade Premium. Organizations receiving Premium below 150,000 EURO/USD (premium currency) can also contract a financial company to audit their Fairtrade Premium as best practice. This is however not mandatory	4.1.0.30	Yes	

Year of audit	Core requirement	Fairtrade standard	Standard Guidance	FLOCERT Compliance Criteria Number	FLOCERT Rank 3 (minimum needed)	FLOCERT Rank 5 (best practice)
0	1st grade	**Fairtrade standard 4.2.10** You have a bank account in the name of the organization with more than one signatory, unless it is not possible. If you are a 2nd or 3rd grade organization, you have an active bank account registered in your name. If the Fairtrade Premium is channelled to the member organization level, the individual member organizations need to have active bank accounts registered in their names.		4.2.0.19	There is no discrimination in practice even if there could be non-applied discriminatory rules.	There is a bank account Registered to organization's name with more than one signatory AND bank account provides interests and low costs for savings and transactions.
0	1st grade, 2nd grade, 3rd grade	**Fairtrade standard 4.2.8** You have an administration in place with at least one person or committee who is responsible for managing the administration and book keeping.		4.2.0.17	External accountant/ administrator without full availability BUT available during audits and General Assemblies	One person inside the organization hired for accounting and administration with sufficient knowledge for the task.
0	1st grade, 2nd grade, 3rd grade	**Fairtrade standard 4.2.9** You keep records and books that are accessible to all members		4.2.0.18	The organization has reasonable updated records and books. Mistakes may happen but Are corrected at year-end AND members have potential access.	The organization has fully Updated records and books (if computer-based there is a working back-up system) AND members have potential access AND organization proactively makes documents available (for example when calling for the General Assembly).

Fairtrade Standards and Compliance Criteria for Hire Labour Organizations

Year of audit	Core requirement	Fairtrade standard	Standard Guidance	FLOCERT Compliance Criteria Number	FLOCERT Rank 3 (minimum needed)	FLOCERT Rank 5 (best practice)
0	Multi estate, Single plantation	**Fairtrade standard 2.1.5** A separate Fairtrade Premium account **is established** and worker representatives from the Fairtrade Premium Committee, and a management representative, **are** joint signatories.	'Joint signatories' means that at least one representative for the workers and one management representative have to sign jointly. The FPC Terms of Reference can establish further requirements, e.g. 2 workers and 1 manager. It is recommended that the management representative who is a signatory is also an advisor to the FPC. In the cases of multi-estates there may be separate Fairtrade Premium accounts for each local (on-site) FPC or there may be a joint bank account.	2.1.0.13	Yes	
0	Multi estate, Single plantation	**Fairtrade standard 2.1.12** All relevant books of the Fairtrade Premium account **are available** to all FPC members and the certification body. Your company **can prove** that the Fairtrade Premium is used in line with applicable rules (see 2.1.19).	A designated internal auditing committee is a best practice for checking relevant books of the Fairtrade Premium account. More details are provided in the Explanatory Document to this Standard	2.1.0.29	The relevant books are Made available and are Understand able.	The relevant books are Made available and are Understand able AND there is an internal audit committee in place AND the internal audit committee are active in reporting back to the FPC and the workers
1	Multi estate, Single plantation	**FLOCERT** **Requirement** Only applicable if Fairtrade Premium receipts were above 30,000 EURO/USD (premium currency) in the last financial year) You contract a financial audit company to audit your FPC accounts based on the use decided in the General Assembly.		2.1.0.79	Yes	

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Guidelines for the Trainer

Materials needed: Flip-sheets and markers

- ☑ LCD projector, Laptop, Projector screen
- ☑ Sample source documents: receipts, invoices etc.
- ☑ Copies of Exercises
- ☑ Copies of participants' templates
- ☑ Copies of assessments

Time needed: 3 Hours 30 Minutes

Preparations: Carefully read the key information, Fairtrade Standards and Compliance guidelines in this manual

- ☑ Print enough copies of supporting training materials
- ☑ Review the trainees manual and participants' materials
- ☑ Ensure that all materials required for the session are available

Note for the trainer:

Control the time especially during open discussions and try to work within time. The use of local languages is also recommended where necessary to facilitate learning, skills and knowledge acquisition. Make the training lively by engaging participants through open discussions, experience sharing, group exercises and presentations etc. Explain to participants that in an adult class there is no wrong answer to encourage them to share their views openly without any hesitation.

Session in Short

- **Set up:** 10 min
- **Delivery:** 3 Hours
  - ✦ What is financial management?
  - ✦ Principles of financial management
  - ✦ Sources of funds
  - ✦ Basic accounting and bookkeeping
  - ✦ Cost management
  - ✦ Financial procedures
  - ✦ Procurement procedures
  - ✦ Control and auditing
  - ✦ Internal control systems
- **Finish:** 20 Minutes

Set up—10 Minutes

Attention: Engage participants with simple questions to test their understanding of financial management and whether they have participated in financial management trainings before. Allow participants to share for few Minutes

Title: Tell the title of the session: ***Financial Management***

Objectives: Explain to participants that, at the end of the training session, they will be able to

- Understand what financial management is
- Describe financial management principles
- State and explain sources of funds of producer organizations
- Understand and apply financial procedures
- Understand and adhere to auditing procedures
- Understand and follow established procurement procedures
- Understand and ensure that internal control systems are followed

Benefits: Proper financial management is key in assuring growth of every organization. When an organization fails to adopt and practice sound financial management principles, it may cause some serious problems for the organization.

Direction: Discussions will be limited to understanding the concept of financial management, basic accounting and book keeping, cost management, financial and procurement procedures, auditing and internal control to respond to the financial management needs of producer organizations rather a total exposition of each of the subject.

Delivery- 3 Hours

Explanation, **R**ole play, **D**emonstration, **E**xercise, **G**uidance and **A**pplication:

1. Ask participants to share what they understand by financial management. Write the responses on a flip chart and facilitate plenary discussions alongside PowerPoint presentation on what is financial management and it principles to enable participants understand the concept of financial management. Tell participants that the financial management principles are in agreement with Fairtrade principles and standard of **transparency** and **accountability**.
2. Continue to discuss the sources of funds of producer organizations. Ask the following questions:
   a. What are the main sources of funds for your organizations?
   b. Do you have any challenges or difficulties in sourcing for these funds?

After the discussions, present the content on the sources of funds

3. Facilitate discussions and presentation of accounting and bookkeeping. Here help participants to understand basic accounting facts (the debit and credit rules, the principle of double entry etc.) and the accounting cycle. Take your time and go through the accounting cycle step by step with the participants to facilitate deep understanding of the process. Tell participants that they can employ the services of an accounting professional to help them with their accounting and book keeping to be able to meet Fairtrade standards and compliance criteria.
4. Ask the following questions;
   a. How do understanding accounting and bookkeeping?
   b. What are the differences between accounting and bookkeeping?
   c. How do you do your bookkeeping and prepare your accounts in your organizations? Invite participants to share experiences
   d. Is there any dedicated individual who is in charge of book keeping and accounting within your organizations?
   e. Do you know and comply with Fairtrade standards and compliance criteria?
      - ☑ Discuss and explain for SPOs- **Fairtrade standard 4.1.8, 4.2.8**
      - ☑ Discuss and explain for HLOs- **Fairtrade standard 2.1.12**
   f. Do you have any challenges with the compliance of the standards? If yes
   g. How have you been able to resolve the challenges?
5. Continue with a discussion and presentation on cost management. Ask participants the following questions:
   a. What is cost?
   b. What are some examples of cost incurred by your organizations?
   c. How do you manage the various kinds of cost?

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d. Do you have any challenges in managing cost in your organization?
    a. If yes, how did you resolve it?

Tell participants that the cost structure of Producer Organizations is recurring and one off expenditures. Cost can also be classified as fixed and variable. To manage cost effectively, the treasurer or accountant should track the annual project budget regularly to identify overrun cost.

6. Continue the session with brainstorming and presentation on financial procedures. Take participants through the following financial procedures as has been recommended by Fairtrade standards;
    a. Preparing source documents
    b. Payment procedure
    c. Bank account management
    d. Petty cash management
    e. Fixed assets management

Take participants through each of the requirements step by step. Tell participants that these procedures should be followed by the Fairtrade Premium Committee.

7. Begin with procedures on sources documents by asking the following questions;
    a. What do you understand by source documents?
    b. Mention some of the source documents you know
    c. Mention some source document generated by your organization
    d. Mention some source document received from third parties
    e. What are the uses of source documents/ how are source documents important in your organization?
    f. How does your organization manage source documents?
    g. Who is responsible managing source documents in your organization?
8. Record all responses on a flip chart for review and clarification. Share copies of source documents with participants to study and have a feel of some of the source documents. Ask to know if they have any questions or comments on the source documents after looking at them. Tell them that there a lot of sources documents that can be **generated** by their organization or **received** from third parties.
9. Guide participants to do an exercise on source documents. Share the exercise (Annex 5.2.1) with participants and ask one of them to read aloud. Ask participants to know if they are clear on what is required of them or will need further clarification. Allow participants 5 Minutes to go through and exercise and discuss the results.
10. Continue with the session on payment procedures. Brainstorm and make a presentation on payment procedures that should be followed by producer organizations. Ask participants the following questions;
    a. Do you know of any established payment produces in your organization?
    b. What are these payment procedures?
    c. Does your organization follow these procedures?

    Tell participants that these payments procedures make POs **ACCOUNTABLE** and **TRANSPARENT**. Help participants to understand the payment procedures to be followed for **small** and **larger** transactions. Also tell them that the use of cash or cheque depends on the amount of the transaction.
11. Facilitate a discussion and presentation on procedures on bank account management. Ask the following questions:
    a. Does your organization operate a bank account?
    b. What type of account does your organization operate?
    c. What are the differences between accounting and bookkeeping?
    d. Are there any laid down procedures you follow? Invite participants to share experiences
    e. Do you know and comply with Fairtrade standards and compliance criteria?
        - ☑ Discuss and explain for SPOs- **Fairtrade standard 4.2.10**
        - ☑ Discuss and explain for HLOs- **Fairtrade standard 2.1.5**
    f. Do you have any challenges with the compliance of the standards?
        a. If yes how have you been able to resolve the challenges?
12. Continue with a discussion and presentation on cash book. Take participants through the sample format and guide them to do an exercise on the cash book with transactions extracted from the book of Sweet Honey Cooperative (Annex 5.2.2) to test their level of understanding on the subject matter. Allow participants some time to do the exercise.
13. Move round to guide and support participants who may need further assistance and clarification. Tell participants that;
    a. Receipts -Records all inflows (monies received either in cash or cheque).
    b. Payments - Records all outflows (monies paid out either in cash or by cheque).
14. Facilitate a discussion and presentation a bank reconciliation. Ask the following questions;
    a. What is your understanding of bank reconciliation?

b. What are the causes of differences in the cashbook and bank statement balance?
c. Do you prepare bank reconciliations in your organizations? If no, ask question (d)
d. If there any difficulty in preparing a bank reconciliation statement?

Take participants through the sample format and guide them to do an exercise on the bank reconciliation statement with information extracted from the cash book balance and the bank balance on the bank statement of COOPAAAKO (Annex 5.3.3). Allow participants some time to do the exercise. Move round to guide and support participants who may need further assistance and clarification.

15. Discuss and facilitate a presentation on petty cash management. Take participants through how to record transactions in a petty cash book using the sample format. Tell participants that, the petty cash book is used **only** for payments of small amounts (e.g. less than $ 20) where it is not practical to use a cheque.
16. End the discussion and presentation on financial procedures with a discussion and presentation on fixed assets management. Ask the following questions:
    a. Do you have a fixed asset register?
    b. Who keeps the fixed asset register?
    c. Do you have any challenges keeping the fixed asset register?
        a. If Yes, how has that been resolved?

Take participants to understand how to keep the fixed asset register by taking them through the sample format in the manual. Tell participants that all fixed assets belonging to the producer organization are the responsibility of the FPC. The FPC should appoint an FPC member to look after the care and administration of fixed assets.

17. Having looked at all aspect of financial procedures relevant to Producer Organizations, facilitate a discussion and a presentation on procurement procedures for small and large procurement. Ask the following questions;
    a. Do you have a procurement procedure or policy in your organization?
    b. Are you able to follow these procedures at all times?
    c. Are there any challenges following these procedures?
    d. How have the challenges been resolved?
18. Explain to participants that control and auditing are very important in financial management. Tell participants that, there are three (3) main controls that need to be considered by producer organizations;
    a. Internal control
    b. Internal audit
    c. External control
19. Ask participants the following questions;
    a. Do you follow any internal controls in your organization?
    b. Mention examples of each of the controls used by your organization
    c. Do you carry out internal audit?
    d. Do you have internal audit committee in your organization?
    e. Do you know and comply with Fairtrade standards and compliance criteria?
        - ☑ Discuss and explain for SPOs-**Fairtrade standard 4.16**
        - ☑ Discuss and explain for HLOs-**Flocert requirement**
    f. Do you have any challenges with the compliance of the standards? If yes
    g. How have you been able to resolve the challenges?
20. End the session with a discussion and presentation on internal controls. Tell participants that financial controls are the means by which an organization's resources are directed, monitored, and measured. They are policies and procedures put in place to ensure the continued reliability of accounting systems.

Finish – 20 Minutes

Summary: Summarise the session by sharing some key lessons from the training. You can equally ask each of the participants to share what they have learnt from the training.

Questions: Ask if anyone has a question or comment.

Evaluation: Share copies of the assessment on the module with participants allowing them to take the assessment.

Next step: After this training session on financial, participants are expected to apply knowledge acquired to improve upon their financial management practices and procedures to ensure efficient use of organizations' financial resources. Knowledge acquired should also be applied to enable producer organizations be in compliance with Fairtrade standards and compliance criteria.

4.0 Module 3: Financial Reporting

Module framework

Session	Learning objectives	Time
✦ Basic financial reporting ✦ Income and Expenditure ✦ Cash flow management ✦ Balance sheet ✦ Information to members ✦ Information to certification body-FLO Cert ✦ Information to joint body	✦ Understand financial reporting requirement of Producer Organizations ✦ Prepare Income and Expenditure accounts ✦ Prepare Balance sheet ✦ Understand the information shared to Members, certification body-FLO Cert and the joint body	2 Hours 30 Minutes

Key information to the trainer

Basic financial reporting

Fairtrade Producer Organizations are required to regularly in a consistent and accepted manner report on the financial performance of the Producer Organization. Regular financial reporting is a central requirement of the Fairtrade standards. The Producer Organizations are required to report on the premium amount received, its administration and use to internal and external stakeholders. Preparing the financial report is the last stage of the accounting cycle.

POs are required to prepare the following financial statement:

- Income and Expenditure account
- Balance sheet
- Cash flow statement

The generally accepted accounting principles underlying financial statements are:

- Completeness
- Clarity or transparency
- Prudence
- Consistency in presentation, disclosure and evaluation
- Prohibition of netting (i.e. expenditure and income are to be presented at gross amounts, it is not allowed to offset a positive value against a negative value).

Income and Expenditure

Income and Expenditure statement reports what the organization has earned (income), what it has spent (Expenditure) and the resulting Net income (called profit for business enterprises or surplus for non-profit organizations) during a period, for instance from January 1 to December 31.

Cash flow management

The term Cash flow refers to the amount of cash being received and spent during a defined period of time. The method for calculating the cash flow is subtracting the cash disbursements from cash receipts. The cash flow forecast ensures that the funds are available when they are needed. It gives an estimate of the monthly cash needs and availability. The cash flow is prepared at the beginning of the financial year.

Cash flows management may result in one of these scenarios;

- **Inflows >Outflows** – the organization is viable and liquid (enough money to meet third party obligations)

- **Inflows <Outflows**-the organization is not sustainable and there is the need to look for additional sources of income to meet third party obligations and keep the organization running.

Balance sheet

Balance sheet reports the assets, liabilities and capital. The balance sheet is a snapshot of the financial condition of an organization at a specific moment in time. It is prepared at the end of the financial year. The components of a balance sheet are:

- **Assets** are the economic resources in control of an organization, the values you possess and can work with.

- **Current assets** are assets that are in cash or can be easily converted into cash within one year.
- **Fixed assets** are assets that cannot be easily converted into cash. They include land, buildings, machinery, equipment, vehicles, etc. Also long term investments (over one year) are recorded under this category.
- **Liabilities** are the obligations (debts) owed to third parties (banks, suppliers, etc.).
- **Current liabilities** are debts that must be paid within one year
- **Long-term liabilities** are debts due more than one year from the current date. Capital, in business referred to as ownership equity, is the owner's interest in all assets after all liabilities are paid.
- In the case of non-profit organizations capital refers to the accumulated surpluses (premium funds not spent). The formula says: **Ownership capital = Assets – Liabilities**

Information to members

The following financial information may be shared with the producer members during general assembly.

- A financial report must be submitted to the General assembly of members (or delegates, for the case of 2nd grade SPOs) at the end of the business year.
- Financial performance of each project (budget and income and expenditure)
- Monthly summary of cash flow report

Information to the certification body-FLO Cert

Per FT standards and principles, the following financial information may be shared with FLO-Cert;

- The financial statements presented to the General Assembly
- Budget presented to the General Assembly
- Report of external audit if applicable
- Updated information on Premium income, expenditure and balance to inspector during inspection

Information to the Joint Body(JB)

The joint body is a legal organization of workers and management: the workers elect their representatives and the management appoints their representatives to work together to ensure proper use of the Fairtrade premium to the benefit of workers, their family and community.

All JB members must be regularly informed about the situation of the Fairtrade Premium (FP). Information on the FP flow and balance is a mandatory agenda point at JB meetings. Best practice is monthly reporting. High FP income must be reported immediately, even between meetings. The responsibility for informing the JB on the cash flow and balance of FP is on the treasurer.

In order to ensure that all FP receivable has been accounted for, the treasurer should perform the following tasks monthly:

- Ascertain from the company's Fairtrade sales reports (to be provided by management) the amount of FP due;
- Check when the corresponding deposit is made to the premium account and compare the amount credited with the sales reports;
- Check with the bank statement to ensure that the correct exchange rate has been used to convert the amount into local currency;
- Any variances with the sales report or the bank statement must be followed up immediately for rectification. Differences must be explained (for instance, less sales income due to quality claims).
- Prepare the income voucher for the FP amount deposited in the bank account

Year of audit	Core requirement	Fairtrade standard	Standard Guidance	FLOCERT Compliance Criteria Number	FLOCERT Rank 3 (minimum needed)	FLOCERT Rank 5 (best practice)
1	1st grade, 2nd grade, 3rd grade	**Fairtrade standard 4.1.10** You report at least once a year on Fairtrade Premium use. You send the report on the Premium use from the previous year, three months after the General Assembly. You send the information to Fairtrade International / your respective Producer Network	A template/email account will be made available close to the date of implementation.	4.1.0.33	Yes	
				4.1.0.34	Yes	
				4.1.0.35	Yes	
0	1st grade, 2nd grade, 3rd grade	**Fairtrade standard 4.2.7** You present the annual report, budgets and accounts to the General Assembly for approval.		4.2.0.16	All reports were formally Presented to the General Assembly and approval is documented but minor mistakes are found in reporting.	All reports were formally Presented to the General Assembly and approval is documented AND the organization took some measures to make reporting more understandable.

Fairtrade Standards and Compliance Criteria for Hire Labour Organizations

Year of audit	Core requirement	Fairtrade standard	Standard Guidance	FLOCERT Compliance Criteria Number	FLOCERT Rank 3 (minimum needed)	FLOCERT Rank 5 (best practice)
0	Multi estate, Single plantation	**Fairtrade standard 2.1.12** Reporting on Fairtrade Premium. Your company gives information on the current Fairtrade sales to cross check against the Fairtrade Premium received at Fairtrade Premium Committee meetings. This is reflected in the Minutes together with the current Fairtrade Premium balance. All relevant books of the Fairtrade Premium account are available to all FPC members and the certification body. Your company can prove that the Fairtrade Premium is used in line with applicable rules (see 2.1.19).	High volume receipts are reported to FPC members without delay in between meetings. FPC members are made aware of commissions or other charges for the use of any bank accounts or trusts. A designated internal auditing committee is a best practice for checking relevant books of the Fairtrade Premium account. More details are provided in the Explanatory Document to this Standard.	2.1.0.27	Information on the Fairtrade sales is provided to the FPC.	
				2.1.0.28	The Fairtrade sales Information together with the Fairtrade Premium received and the current Fairtrade Premium balance is reflected in the Minutes.	
				2.1.0.29	The relevant books are made available and are understand able.	The relevant books are made available and are understand able AND there is an internal audit committee in place AND the internal audit committee are active in reporting back to the FPC and the workers.

Year of audit	Core requirement	Fairtrade standard	Standard Guidance	FLOCERT Compliance Criteria Number	FLOCERT Rank 3 (minimum needed)	FLOCERT Rank 5 (best practice)
1	Multi estate, Single plantation	**Fairtrade standard 2.1.18** The Fairtrade Premium Committee monitors and reports annually on the activities carried out with Fairtrade Premium money and on the progress of existing projects to the general assembly of workers. The report is documented and includes at least the following information: Details on overall Fairtrade Premium income received, expenditures and balance; • A description of each project that is planned, on-going, concluded within the last reporting cycle; • Were the activities carried out, yes or no? If not, why? • When were they carried out? • At what cost? • Was the objective achieved or are any further actions needed?	The intention of this requirement is that the FPC is accountable to the workers on the Fairtrade Premium plan, and the success of the plan can be evaluated. The report should be compiled based on the regular monitoring and evaluation of the Fairtrade Premium projects.	2.1.0.46	The annual report includes all the required details.	The report is able to demonstrate that the FPC are monitoring the projects on a regular Basis AND the report goes beyond the required details and is comprehensive document with detailed information on projects and their implementation, including photos.

Guidelines for the Trainer

Materials needed: Flip-sheets and markers

- ☑ LCD projector, Laptop, Projector screen
- ☑ Copies of learning activities
- ☑ Copies of participants' templates
- ☑ Copies of assessments

Time needed: 2 Hours 30 Minutes

Preparations: Carefully read the key information, Fairtrade Standards and Compliance guidelines in this manual

- ☑ Print enough copies of supporting training materials
- ☑ Review the trainees manual and participants' materials
- ☑ Ensure that all materials required for the session are available

Note for the trainer:
Control the time especially during open discussions and try to work within time. The use of local languages is also recommended where necessary to facilitate learning, skills and knowledge acquisition. Make the training lively by engaging participants through open discussions, experience sharing, group exercises and presentations etc. Explain to participants that in an adult class there is no wrong answer to encourage them to share their views openly without any hesitation.

Session in Short

- **Set up:**10 Minutes
- **Delivery:**2 Hours
  - Basic financial reporting
  - Income and Expenditure
  - Cash flow management
  - Balance sheet
  - Information to the joint body
  - Information to workers
  - Information to the certification body-FLO Cert
- **Finish:**20 Minutes

Set up–10 Minutes

Attention: Ask participants to know who among them have ever prepared a financial report. Let participants raise their hands Tell them this activity involves a lot of expertise and needs to follow processes making references to well-known standards and principles to give a free and fair representation of the financial image of an organization.

Title: Tell the title of the session: ***Financial Reporting***

Objectives: Explain to participants that, at the end of the training session, they will be able to

- Understand financial reporting requirement of Producer Organizations
- Prepare Income and Expenditure accounts

- Prepare Balance sheet
- Understand the information shared to members, certification body-FLO Cert and the joint body

Benefits: Financial reports are important as they permit Fairtrade Producer Organizations to be in compliance with regulatory as well as Fairtrade standards and compliance criteria. Apart from meeting compliance criteria, financial reports crucial as it helps to make informed decision about how the resources are put to good use to generate adequate returns for the organization.

Direction: Discussions will be focused on basic financial report such as the income and expenditure statement, cash flow management and the balance sheetand how to be in compliance with Fairtrade standards and compliance criteria.

Delivery- 2 Hours

Explanation, **C**ase study, **E**xercise, **G**uidance and **A**pplication:

1. Write boldly on a flip chart sheet –Financial reports. Ask participants the following questions;
    a. What comes to mind when you hear financial reports?
    b. Mention types of financial reports you know and prepare in your organization.
    c. Do you have the capacity to prepare financial reports in your organization?
    d. Do you follow internationally accepted principles and standards in preparing your financial reports?
    e. Do you present the financial reports at the Annual General Meeting?
    f. Do you have any challenge(s) in preparing financial reports?
    g. How did you resolve the challenge (s)?

    Engage several participants to get a lot of divergent views before you present the content on the PowerPoint slides. Tell participants that in preparing each of the financial reports there are laid down rules to be followed and format that can be adopted. Also tell participants that where they do not have the capacity to prepare the financial statement themselves, they can employ the services of an accounting professional to support their organizations. Tell participants also that producer organizations are required to report on **regular basis** on the premium amount received, its administration and use to internal and external stakeholders. Tell participants that preparing financial statements is part of the accounting cycle and is the last stage of same.

2. Facilitate a discussion and presentation on income and expenditure account. Tell participants that income and expenditure account may result in one of these scenarios and should be prepared at the end of each accounting year;
    a. Surplus = Total Income >Total Expenditure
    b. Deficit = Total Income <Total Expenditure

Tell participants that there is a clear distinction between income and expenditure account and a profit and loss account. Share a format of income and expenditure account with participants and take them through it with them to make sure they have a clear picture of what an income and expenditure account should look like.

Guide participants in a group break out session to prepare income and expenditure account with information extracted from the books of Yapaga Cocoa Cooperative (Annex 5.3.2). using proposed template. The number of groups will depend on the number of participants' present using a well-known approach of group formation. Go through the exercise with participants to make sure they understand what is required of them. Move round and guide participants through the process. Allow each group to present their results for discussion and clarification. Tell participants that the income and expenditure account is prepared at the **end of** the financial year.

3. Facilitate a discussion and presentation on the cash flow statement. Tell participants that a Cash flow statement is prepared at the **beginning of** the financial year and may result in one of these scenarios;

    a. **Inflows >Outflows** – the organization is viable and liquid (enough money to meet third party obligations)

    b. **Inflows <Outflows**-the organization is not sustainable and there is the need to look for additional sources of income to meet third party obligations and keep the organization running.

Share a format of a cashflow statement with participants and take them through it with them to make sure they have a clear picture of it.

4. Continue the session, with a discussion and presentation on the balance sheet. Take participants through the components of a balance sheet by asking the following questions:
   a. What are asset and give examples of same
   b. What are current assets and give examples of same
   c. What are fixed assets and give examples of same
   d. What are liabilities and give examples of same

   Share a format of a balance sheet with participants and take them through it. Guide participants in a group break out session to prepare a balance sheet with information extracted from the books of COPADIM Cooperative (Annex 5.3.3) using the proposed template. The number of groups will depend on the number of participants' present using a well-known approach of group formation. Go through the exercise with participants to make sure they understand what is required of them. Move round and guide participants through the process. Allow each group to present their results for discussion and clarification. Tell participants that the balance sheet is a snapshot of the financial condition of an organization at a specific moment in time. It is prepared at the **end of** the financial year.

5. End the session with a discussion and presentation on information sharing with relevant stakeholders such as members, joint body and Flo-cert. Ask the following questions;
   a. Do you know the relevant stakeholders that your organizations need to share information with?
   b. Do you know what information your organization has to share with the stakeholders?
   c. When does your organization share this information with the stakeholders?
   d. Are you always able to share the required information with the stakeholders?

   Guide participants in a group break out session to work on a case study (Annex 5 3.1) with information on Yapaga Cocoa Cooperative (YCC). Ask a participant to read aloud the case study. Make sure participants understand the case study well before they break out in group session to work. Allow participants to work in groups for 15 Minutes, present and discuss results. Clarify doubts and misconceptions and give further additional information based on feedback from the questions and presentations.

Finish – 20 Minutes

Summary: Summarise the session by sharing some key lessons from the training. You can equally ask each of the participants to share what they have learnt from the training.

Questions: Ask if anyone has a question or comment.

Evaluation: Share copies of the assessment on the module with participants allowing them to take the assessment.

Next step: Encourage participants to apply lessons learnt to present accurate and complete financial reports to relevant stakeholders and be in compliance with Fairtrade standards and compliance criteria.

5.0 Annexes

5.1 Financial planning learning materials

5.1.1 Exercise on budget

Use the following information extracted from the records of Asetenapa Cooperative to prepare a budget for the beginning of 2022.

Closing Balance from 2021 $500

Expected Premium income $30,000

Membership contributions $ 2,800

Income from grocery shop $ 4,500

Sale of produce $ 100,000

Salary of manager $ 5,000

Administrative expenses $ 1,754

Training project $ 1,800

Cost of project $ 18,700

Renovation of office space $1,000

Exhibition and fairs $ 1,000

Based on the above financial information;

a) What is the total projected income for the period 2022?
b) What is the total projected expenditure for the period 2022?
c) Prepare the budget for the year 2022
d) Is the budget deficit or surplus?

Proposed solution

a) What is the total projected income for the period 2022?

Income	Amount USD
Balance from previous year	500
Expected premium income	30,000
Income generated by projects	4,500
Income from sales	100,000
Membership fees/contributions	2,800
Total Income	**137,800**

b) **What is the total projected expenditure for the period 2022?**

EXPENDITURE	Amount USD
Project cost	18,700
Training	1,800
Administrative cost	6,754
Other expenses	2,000
Total Expenditure	**29,254**

Administrative cost =Salary of manager ($ 5,000) + Administrative expenses ($ 1,754)

c) **Prepare the budget for the year 2022**

Budget	
Country	Ghana
Name of PO	Asetenapa Cooperative
Budget period	2022
Currency	$
INCOME	**Amount**
Balance from previous year	500
Expected premium income	30,000
Income generated by projects	4,500
Income from sales	100,000
Donation	
Other income (interest, etc.)	
Membership fees/contributions	2,800
Total Income	**137,800**
EXPENDITURE	
Project cost	18,700
Training	1,800
Administrative cost	6,754
Other expenses	2,000
Total Expenditure	**29,254**
Balance (Surplus/Deficit)	**108,546**

d) Is the budget deficit or surplus?

Budget surplus because total income exceeds total expenditure for the period

Budget surplus= Total income > Total expenditure

108,546= 137,800-29,254

5.1.2 Exercise on Cash flow statement

Use the following information extracted from the records of Asetenapa Cooperative to prepare a cash flow statement for the beginning of 2022

Closing cash balance $500

Premium income $20,000

Membership contributions $ 2,800

Income from operating a grocery shop $ 4,500

Sale of produce $ 100,000

Salary of manager $ 5,000

Administrative expenses $ 1,754

Training cost $ 1,500

Cost of project $ 18,700

Renovation of office space $1,000

Exhibition and fairs $ 1,000

Based on the above financial information;

a) Prepare a cash flow statement for the period 2022
b) What is the total of inflows and outflows?
c) Will there be enough cash to finance the programs and activities of Asetenapa Cooperative?

Proposed Solution

a) Prepare a cash flow statement for the period 2022

Name of PO: Asetenapa Cooperative			
PROJECTED CASH FLOW STATEMENT FOR 2022			
Revenue -	**JAN**	**FEB**	**MAR**
Inflows	**$**		
Premium Income	20,000.00		
Membership Contribution	2,500.00		
Income from operating Grocery	4,500.00		
Sale of produce	100,000.00		
Total Income	**127,000.00**		

Outflow	$		
Salary	5,000.00		
Administrative expenses	1,754.00		
Training Cost	1,500.00		
Cost of project	18,700.00		
Renovation of office space	1,000.00		
Exhibition and fairs	1,000.00		
Total Expenses	28,954.00	0.00	
Net Cash flow	98,046.00	0.00	
Opening cash flow	500.00	98,546.00	
Closing cash Balance	98,546.00	98,546.00	

b) What is the total of inflows and outflows?

Total Inflows:

Inflows	Amount $
Premium Income	20,000.00
Membership Contribution	2,500.00
Income from operating Grocery	4,500.00
Sale of produce	100,000.00
Total Income	**127,000.00**

Total Outflows:

Outflow	Amount $
Salary	5,000.00
Administrative expenses	1,754.00
Training Cost	1,500.00
Cost of project	18,700.00
Renovation of office space	1,000.00
Exhibition and fairs	1,000.00
Total Outflows	**28,954.00**

c) Will there be enough cash to finance the programs and activities of Asetenapa Cooperative?

Yes, there will be enough cash to finance the activities of Asetenapa Cooperative. The cash flow balance at the end of the year represents a surplus of $ 98,046 with a closing cash balance of $98,546.

5.1.3 Cash study- Yapaga Cocoa Cooperative

Yapaga Cocoa Cooperative (YCC) was established in February 2008. It is located in a remote area in Cote D'Ivoire. Through this cooperate 100 farmers are able to pull their produce together to sell together on the Fairtrade market. The cooperative got certified in 2017 after meeting all certification requirements under the Fairtrade scheme. Despite huge members and able to sell on the Fairtrade market, the cooperative still has some financial issues to deal with. YCC depends largely on Fairtrade premiums to finance capacity building activities. Members have refused to make any contribution due to lack of transparency and accountability on the part of the leaders. For about two consecutive years, the cash flow and budget present negative balances. This has made it difficult for the cooperative to finance it programs and activities such as organising trainings for members and meeting third party obligations. The leaders of the cooperative intends employing the services of a consultant to help correct the current deficit situation.

Questions

a) What could account for the current financial situation of Yapaga Cooperative?
b) How can the deficit situation be corrected?
c) Identify the specific Fairtrade standard related to this case study.

Proposed solution

a) What could account for the current financial situation of Yapaga Cooperative?

Lack of accountability and transparency on the part of the leaders has prevented members from making any financial commitment (payment of due, donations etc.) This has made it difficult to mobilise internal financial resources to support budget and cash flow expenditure.

b) How can the deficit situation be corrected?

The deficit can be corrected through the following means;

- Increase internal resource mobilization
- Increase export quantities to increase Fairtrade premiums
- Cutting down on unnecessary expenditure
- Encourage payment of dues by members through accountability and transparency

c) Identify the specific Fairtrade standard related to this case study.

- Fairtrade Standards and Compliance Criteria for Small Producers Organizations

Fairtrade standard 1.2.4- You present the annual report, budgets and accounts to the General Assembly for approval

- **Fairtrade Standards and Compliance Criteria for Hire Labour Organizations**

Fairtrade standard 2.1.15- The Fairtrade Premium plan contains a reasonable budget based on expected Fairtrade Premium income, which sets priorities for Fairtrade Premium use. In the course of the year the plan is adjusted if the Fairtrade Premium earnings are higher/lower than expected

5.1.4 Budget template

BUDGET			
Country			
Name of PO			
Budget period			
Currency			
INCOME	Year 1	Year2	Year 3
Balance from previous year			
Expected premium income			
Income generated by projects			
Donation			
Other income (interest, etc.)			
Membership fees/contributions			
Total Income			
EXPENDITURE			
Project cost			
Training			
Administrative cost			
Other expenses			
Total Expenditure			
Balance			

5.1.5 Cash flow statement template

CASH FLOW STATEMENT				
Name of PO				
Year				
INFLOWS	**Jan**	**Feb**	**March**	**April**
Total inflows (A)				
OUTFLOWS				
Total Outflows (B)				
Net cash flow C=(A-B)				
Opening cash balance (D)				
Closing cash balance (E)=(C+D)				

5.1.6 Proposed solution for Assessment on Financial planning

Choose the right answer to fill in the gaps.

1. ……………………………… is the process of drawing a budget.
    - **a) Budgeting √**
    - b) Reporting
    - c) Financial planning
2. A budget is the summary of a work plan expressed in ……………………………………
    - **a) Monetary terms √**
    - b) Accurate values
    - c) Estimated figures
3. A budget includes total inflows and …………………………………………………………………
    - a) Total inflows
    - **b) Total outflows√**
    - c) Total debts
4. Administrative cost, investment cost, rent and utilities are examples of ………………
    - a) Inflows
    - **b) Outflows√**
    - c) Surplus
5. The ……………………………. starts with definition of activities to be carried out.
    - **a) Budgeting√**
    - b) Cash flow statement
    - c) Financial accounts
6. In budgetary control, the actuals are compared with…………………………………………….
    - **a) Projected √**
    - b) Variance
    - c) Profit
7. The difference between……………………. and projected is termed variance.
    - a) Variance
    - **b) Actuals√**
    - c) Forecast
8. The cash flow plan protects organizations from …………………………………………….
    - a) Overspending
    - **b) Not having enough cash to finance its activities√**
    - c) Debts
9. Net cash flow is the ………………………………. between total inflow and total outflow.
    - a) Totals
    - **b) Difference √**
    - c) Multiplication
10. A ……………………… cash flow situation is when inflows exceeds outflows.
    - **a) Surplus /favourable √**
    - b) Deficit /unfavorable

5.2 Financial management learning materials

5.2.1 Exercise on source documents

Match the source documents in column A with their right uses in Column B

Source document (A)	Uses (B)
Receipt	• A document used to organize payment of an invoice. • Included is information necessary to process payment for an invoice including items such as purchase orders and invoices.
Payment Voucher	• A document received from a supplier showing the details of goods or services the cooperative has obtained, but has yet to pay for.
Purchases invoice	• A document issued by the person receiving money to the person paying the money as evidence that the transaction (payment) is complete
Sales Invoice	• A document issued by the seller to the buyer showing full details of the goods sold and their prices or services rendered but not yet paid for.
Bank deposit slip	• A document issued by the bank to its customers showing records of deposits and withdrawals with the bank
Bank statement	• A document issued by the bank to customers showing evidence of deposit
Produce reception register	• A register in which members name and details of the produce received are recorded immediately upon checking and measurement.
Cheque counterfoils	• Show evidence of withdrawals from bank account

Proposed solution

Source document (A)	Uses (B)
A)Receipt	**B)** A document used to organise payment of an invoice. Included is information necessary to process payment for an invoice including items such as purchase orders and invoices.
B)Payment Voucher	**C)** A document received from a supplier showing the details of goods or services the cooperative has obtained, but has yet to pay for.
C)Purchases invoice	**A)** A document issued by the person receiving money to the person paying the money as evidence that the transaction (payment) is complete
D)Sales Invoice	**D)** A document issued by the seller to the buyer showing full details of the goods sold and their prices or services rendered but not yet paid for.
E)Bank deposit slip	**F)** A document issued by the bank to its customers showing records of deposits and withdrawals with the bank
F)Bank statement	**E)** A document issued by the bank to customers showing evidence of deposit
G) Produce reception register	**G)** A register in which members name and details of the produce received are recorded immediately upon checking and measurement.
H)Cheque counterfoils	**H)** Show evidence of withdrawals from bank account

5.2.2 Exercise on cash book

Record the following transactions in the cash book of Sweet Honey Cooperative

2/2/2021 Received premium amount of $ 5,000

4/2/2021 Bought computer for office use $ 250

5/2/2021 Received membership contribution $ 400

10/2/2021 Paid Office rent $ 600

10/2/2021 Paid travelling expenses $100

15/2/2021 Bought office stationeries $ 150

NB: All expenses were paid with cheque

What is the cash at bank at the end of the second month?

Proposed Solution

All transactions must be reordered as and when they happen. All receipts/revenues must be reordered in the receipt side whiles payment/expenditure reordered at the payment section. The difference is between value of transactions at the receipts column is compared with that at the payment column to determine the cash at hand at the end of the reporting period.

CASHBOOK							
Receipts				**Payments**			
Date	Particulars	Cash In $	Bank In $	Date	Particulars	Cash Out $	Bank Out $
2/2/2021	Premium		5,000	4/2/2021	Office Computer		250
5/2/2021	Membership Contribution		400	10/2/2021	Rent		600
				10/2/2021	Travelling Expenses		700
				15/2/2021	Office stationeries		150
				28/2/2021	Bal c/d		3,700
	Totals		**5,400**		**Totals**		**5,400**
28/2/2021	Bal b/d		3,700				

The cash at bank at the end of the second month is $3,700. That is the difference between total receipts ($5,400) and total payment ($1,700).

5.2.3 Exercise on bank reconciliation

At the end of the month of July, there was a difference between the cash book balance and the bank balance on the bank statement of COOPAAAKO. The following transactions were revealed after an assessment of the situation.

Cashbook balance $ 650

A cheque of $150 issued is yet to presented for payment

Deposit in transit of $75

Interest of $10 is yet to be recorded in the cashbook

Banks charges of $5 yet to be recorded in the cashbook

Based on the above information, you are required to prepare the bank reconciliation statement for the month of July.

Proposed solution

BANK ACCOUNT RECONCILIATION		
	Description	**Amount $**
Balance in cashbook	**at end of July 2021**	650
Add	Cheques not cashed	150
	Interest received	10
Deduct	Cheque not cleared (deposit in transit)	75
	Bank charges paid	5
Balance on bank statement	**At the end of July 2021**	**730**

5.2.4 Proposed solution for Assessment on Financial Management

State whether the following statement is True or False. Tick where appropriate

	Statements	***True***	***False***
	Financial management is concerned with the planning, acquisition and utilization as well as controlling of an organization's financial resources	√	
	Financial reporting systems should be consistent and in compliance with Fairtrade reporting requirement as required by Flo-cert standards	√	
	Accounting means the process by which financial information is recorded, classified, summarized, interpreted, and communicated.	√	
	The petty cash is used only for payments of small amounts	√	
	Producer organizations can decide not to keep records of its financial transactions		√
	Bookkeeping refers only to the recording of financial transactions	√	
	In double-entry accounting, every transaction is recorded by entries in two accounts; as DEBIT in one account and as CREDIT in the other account.	√	
	Every transaction should be properly documented	√	
	Procurement is the process of acquiring goods and services by an organization	√	
	Internal controls ensure efficiency and effectiveness of operations	√	

5.3 Financial reporting learning materials

5.3.1 Case study- Yapaga Cocoa Cooperative

Yapaga Cocoa Cooperative (YCC) was established in February 2008. It is located in a remote area in Cote D'Ivoire. Through this cooperate 100 farmers are able to pull their produce together to sell together on the Fairtrade market. The cooperative got certified in 2020 after meeting all certification requirements under the Fairtrade system. The cooperative has not been able to put together their financial reports due to lack of capacity and this is causing some tension between members and leaders of the cooperative. Because of this development most of the members are reluctant to contribute as well as participate in the activities of the cooperative. The level of commitment from the members is very low. The leaders in good faith have decided to correct the situation by seeking help from COPADIM Cooperative one the well organised cooperatives in the country.

As a leader of COPADIM what will be your advice to the leaders of YAPAGA Cooperative on the following:

a) The kind of reports YAPAGA has to prepare at the end of the financial year
b) Reports YAPAGA has to present to Flo-cert at the end of the year and the procedure to follow

Proposed solution

a) The kind of reports YAPAGA has to prepare at the end of the financial year
   - A financial report must be submitted to the workers (General Assembly) at the end of the business year.
   - Financial performance of each project (budget and income and expenditure)
   - Work plan
   - Monthly summary of cash flow report

b) Reports YAPAGA has to present to Flo-cert at the end of the year and the procedure to follow.
   - The financial statements presented to the General Assembly
   - Budget presented to the General Assembly
   - Report of external audit if applicable
   - Updated information on Premium income, expenditure and balance

Reference is made to the following standards and compliance criteria;

Fairtrade standard 4.1.10- You report at least once a year on Fairtrade Premium use. You send the report on the Premium use from the previous year, three months after the General Assembly. You send the information to Fairtrade International / your respective Producer Network.

Fairtrade standard 4.2.7-You present the annual report, budgets and accounts to the General Assembly for approval.

5.3.2 Exercise on Income and Expenditure Account

Use the following information extracted from the books of COPADIM Cooperative for the year ending 2021.

Premium income $17,500

Contribution from members $1,542

Interest on investment $ 412

Income from Grocery shop $ 452

Bank charges $ 45

Administrative expenses $ 1200

Salary of manager $ 5,000

Training and capacity building $ 600

Consultancy fees $ 1200

Cost of building ICT Training centre $ 8,000

Use the above information

a) To determine the surplus or deficit position of COPADIM Cooperative for the year ending 2021.

b) In case of a deficit scenario, what can COPADIM do to improve upon it financial status?

Proposed solution

a) To determine the surplus or deficit position of COPADIM Cooperative for the year ending 2021.

COPADIM Cooperative		
Income and Expenditure Account for the year ending 2021		
	Expenditure $	**Income $**
INCOME		
Balance from previous year(Bal b/f)		
Premium Income		17,500.00
Membership contributions		1,542.00
Income generated by projects		452.00
Financial income (interest on savings & investments)		412.00
TOTAL INCOME (A)		**19,906.00**
EXPENDITURE		
Deficit form previous year(Bal b/f)		
Cost of building ICT Training centre	8,000.00	
Consultancy services	1,200.00	
Training and capacity building	600.00	
Salary of manager	5,000.00	
Bank Charges	45.00	
Administrative costs	1,200.00	
TOTAL EXPENDITURE (B)	**16,045.00**	
Surplus / Deficit		**3,861.00**

At the end of the year 2021, COPADIM Cooperative has a surplus of $ 3,861

b) In case of a deficit scenario, what can COPADIM do to improve upon it financial

In case of a deficit scenario, the following methods can be considered:

- Increase income from internal resource mobilisation e.g. membership contribution
- Cut down on expenditure
- Use competitive bidding to select cost effective service providers
- Increase premium through increase production and export

5.3.3 Exercise on balance sheet

Use the following information extracted from the books of COPADIM Cooperative for the year ending 2021 to prepare a balance sheet.

Cash and bank $1,100
Accumulated premium funds $3,613
Loan payable $500
Accounts receivable $150
Office equipment $675
Long term investments $4,000
Accounts payable $430
Accrued liabilities (professional services) $150
Surplus for the year $3,807
Inventories $225
Equipment project $2,350

Proposed Solution

COPADIM Cooperative		
Balance sheet as at 31/12/2021	**Assets $**	**Liabilities $**
ASSETS		
Current Asset		
Cash and bank	1,100	
Accounts receivable	150	
Inventories	225	
Fixed assets		
Office equipment	675	
Equipment project	2,350	
Long term investments	4,000	
LIABILITIES		
Current liabilities		
Accounts payable		430
Accrued liabilities (professional services)		150
Long-term liabilities		
Loan payable		500
Capital		
Accumulated premium funds		3,613
Surplus for the year		3,807
TOTAL	**8,500.00**	**8,500.00**

NB: TOTAL ASSET must always be **equa**l to **TOTAL Liabilities**. Check for errors if Total assets are not equal to total liabilities.

5.3.4 Proposed solution for Assessment on Financial Reporting

State whether the following statement is True or False

	Statements	*True*	*False*
	Assets are what Producer Organizations owe to third parties		√
	It is not mandatory for Producer Organizations to prepare financial statement at the end of the financial year		√
	Financial statement must be consistent, clear and transparent	√	
	Asset= Capital + Liabilities	√	
	Cash flow statement always have a surplus balance at the end of the financial year		√
	Financial statement must be presented and approved at the General Assembly	√	
	Producer Organizations may decide not to share any information on premium income and expenditures		√
	Source documents are the basis for the preparation of financial statement	√	
	Preparing financial statement is the last stage of the accounting cycle	√	
	The cash flow forecast ensures that the funds are available when they are needed	√	

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