



Finance and Accounting for Literary Societies – A Quick Guide

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Let's suppose you have formed a literary society – let's call it Litsoc. If you have used our *Forming a Literary Society – A Quick Guide*, you will be aware that there will be some work for your treasurer to do in managing the money involved in running Litsoc. You may think that at an early stage in the existence of Litsoc there is a trivial amount of work to be done as you have very little money, but it is a good idea to get into the habit of good practice in financial matters. If you don't, you may fall foul of the necessary controls which have been set up to protect people from fraud and theft. It is quite wrong to think that being the treasurer of a literary society will be an onerous task, but it is not a task to be undertaken lightly or without a clear understanding of what is required.

We'll start with some very basic issues but will also try to take a look at the financial needs of larger and longer established societies so that you can see how things can develop.

FINANCE

Do we need a bank account?

Once you have started to meet as a group it is likely that you will have to make payments, for the accommodation you use or for any assets you need such as books, stationery, or any goods you hold in common. You may want to do trips to the theatre or to places associated with your author/s. At first you may be happy to organise these informally, and if you meet in each others' houses there may be very little need for collecting money in the form of subscriptions. However, if your trips start getting more ambitious, so that you need to hire a coach, or if you start to hire a room for meetings, or want to invest in some customised stationery or in a website, you are going to need a bit more regular income and money management.

Your treasurer may, in the early days, be happy just to use their own bank account and keep a note of any money taken in and spent on behalf of Litsoc, and if you, the members, are all happy with that there is nothing wrong with such an informal arrangement. However, once the sums involved start to increase in size and the frequency of transactions to rise, it will be

better to open a bank account in the name of Litsoc. As a rule of thumb, once the capital of Litsoc rises above £100 it is time to set up an account. Several High Street banks operate 'community accounts', 'treasurer accounts', or 'club or society accounts' (they all have their preferred title) which will be cheap and easy for you to operate. There is an advantage in choosing a bank which is convenient for the treasurer to use, but it would be better if it were not the same as the treasurer's own bank, so that there is no confusion over which account is which. Some banks insist on a minimum deposit and a maximum number of transactions, but you should be able to find an account which will work for you. You may want to hold a deposit account (to accrue interest on your reserves) as well as a current account, once your society has built up its funds, but at first you will be looking more for convenience and security. Only you as a group will know when you need to set up a bank account, but remember that you will need to have a constitution; you may need to provide banking references; you will need a minimum of three officers to complete the mandate forms and provide personal information to the bank to show that this is a genuine society and you are trustworthy people. It often seems like a long-drawn-out process when you are trying to set up or change a banking mandate giving your treasurer power to control your account, but it is necessary to protect your money and to protect the treasurer too. It is a good idea to hold an AGM or EGM at which you pass a resolution to open a bank account, so that the minutes of the meeting can be used as evidence to the bank that you are a well-run society, and the bank may also require a copy of this as part of the preliminary documentation.

It is bad practice to operate with a single signatory on payments and so you will need to set up a dual signatory account (both for cheque and online payments), preferably with three authorised persons so that you usually have two people available to sign. If the authorised persons are geographically spread, then you might have to get the second signatory to countersign two or three cheques in advance so you have them to hand, but this is not to be recommended and really negates the security of the two-person signatures. More and more societies are moving over to online banking where possible, but more on that later.

Although you are a not-for-profit organisation (make sure the bank knows this) you will need to think about how Litsoc will develop in future. Setting up your bank account is a first step to building a sound financial basis for your group and you will be treated as a business for banking purposes. You must not overdraw your account without prior permission or you will be charged; all the usual rules of banking apply even though you are not charged for operating your account. Most community accounts are free to operate, so if the bank offers you an account that it charges for you need to shop around.

When your capital has built up to more than £1,000 (say) you may want to see if you can use your capital to earn some interest which can then be used for the benefit of the society or simply to give you more sense of security. You may find that this is not particularly easy when interest rates are low, but it is worth considering – and when interest rates are high it is a good idea, although only you as a society can tell how much liquidity you need to retain in your current account. The easiest way to do this would be to ask your bank about opening a second (deposit, interest-bearing) account. If you then use online banking, you will find it easy to move monies from your community to your deposit account (and back again) where necessary.

Online banking

It is a good idea to set up the account as both a cheque and an online banking account. You then have the best of both worlds. Payments to organisations (e.g. room hire, printing, goods purchase) can usually be done online by bank transfer (BACS), although committee members may prefer to receive their expense claim payments by cheque.

As with cheques, the online payment operation can be set up with two out of three authorisers. So, your treasurer goes online to make a payment and then contacts one of the other two authorisers to ask them to authorise the payment online. This really helps if you are geographically spread and co-signing cheques is a problem. Online payments also save on cheque postage!

Having authorisers accessing the accounts to authorise payments is also an extra security for LitSoc, as it means that they can keep an extra eye on the flow of money.

Should we register as a charity?

Some literary societies are registered as charities but most are not. Whether you do register is a matter for you to decide only when you are dealing with substantial amounts of money. To register with the Charity Commission you need to be based in England or Wales and have income in excess of £5,000 per year. The Charity Commission website has many really useful guides on all aspects of the process.

If you are in possession of substantial assets, such as land or buildings or a valuable collection of books or documents, registration may be a little more complex. It is quite a long process but can be invaluable once set up.

If you are a registered charity, you can claim back gift aid on subscriptions or any donations received (if the form has been completed by a taxpayer). This could be a substantial amount and you can do this annually.

In Scotland charities are governed by OSCR (Office of the Scottish Charity Regulator). The rules are broadly similar to those in England and Wales, and their website gives appropriate guidance.

For more guidance on Registering as a Charity please see the Resources section of the Society website HERE [\[insert highlighted link\]](#).

Must we register for VAT?

You will only be obliged to register for VAT if your taxable turnover in the current financial year is likely to exceed £85,000 (2018 threshold). It is highly unlikely that this will apply to very many literary societies! However, if you are involved in any commercial activities you may be asked about VAT registration as a matter of course. Most of the activities of Litsoc will, in any case, be exempt from VAT because they are definable as educational in their nature; even if you are charging for entry to an event or to a property with heritage connections, these charges will be VAT exempt. Charitable status is not essential to VAT exemption. Don't be in any doubt – you need to be very commercial and entrepreneurial as a society if you are going to come anywhere near requiring VAT registration and would no longer qualify for free banking!

Corporation tax

HMRC takes the view that organisations whose activities are for the benefit of their members only and do not trade on a commercial basis are 'unincorporated associations' and, as such, do not have to register for corporation tax purposes. This should be borne in mind when considering the advice in the following paragraphs on fundraising and sponsorship. If you have any doubts about new ventures/activities and whether they constitute 'trading', you can consult HMRC's website (www.hmrc.gov.uk) or obtain professional advice from an accountant. If your organisation has been set up as a limited company, you will have to register with HMRC.

Where can we get more money from?

We are often asked about raising money for specific projects that Litsoc has in mind, and in the current financial climate this is not easy to answer. The ALS has a scheme for providing a small (£50) grant to a newly developing society; so, if this is the kind of money you are

looking for to get Litsoc off the ground, please apply. If you need a larger amount, there are generally two ways you can approach the problem: fundraising and sponsorship.

Sometimes the two together are most effective, where the sponsor offers to match whatever funds the society can raise by itself, but we'll consider them separately first.

FUNDRAISING

Once Litsoc has been running for a while you may find that your fundraising settles into a regular pattern of events and activities which will generate sufficient funds for you to do whatever you want to achieve as a group. Literary societies in general have a number of ways of building up funds which emerge naturally out of the group's purpose and interest. For instance, setting up a regular book exchange or 'bring and buy' for books and/or related items can either generate a steady income, if you do it in a small way at every meeting, or be used for a 'burst' of income when things are otherwise slack.

Other fundraising activities include raffles (of items donated specially for the raffle), sales of work, jumble or rummage sales, and charity auctions of donated goods. These can be in conjunction with events such as annual (or more frequent) celebration dinners or other entertainments. If you have performers (musicians, singers, readers) among your number you can set up evening entertainments where you charge for entry more than it costs for you to hire your performers and the accommodation, so that the surplus can be added to your funds.

If you want to raise some extra money for a special event (e.g. a small literary festival), you might consider setting up a 'Friends of ...' scheme. Invite people to join the scheme (a) to help the society, and (b) to receive priority booking on tickets, or a free programme. Friends schemes are also usually eligible for gift aiding.

If you are a publishing society, you can use any profits from your publications to support your other activities. It is very unwise to allow publications to operate at a loss, as they are the most substantial part of the activities of many societies, their most public face, and the most commercial aspect of many societies.

If you are raising money for a specific project and you have someone on committee who is a whiz with social media, you might want to have a go at crowd funding.

Each society must decide how much fundraising it needs to do and to what the funds will be applied once they have been raised. It is important to remember that even though Litsoc is 'not for profit', if there is no income being generated there is no possibility of development in the short term and, in the long term, the society will be unsustainable.

SPONSORSHIP

Most societies do not use sponsorship as a way of raising funds, but this is often because they are not sure how to go about it. Some are already using it without realising! The idea of sponsorship is simply getting a commercial organisation to give money to Litsoc in return for some kind of benefit such as the use of the sponsor's name on Litsoc's stationery and advertising. A regular advertiser in Litsoc's journal, paying for the advertising at a commercial rate, is not a sponsor but could be if invited to sponsor the drinks at Litsoc's annual dinner, for example. A school providing Litsoc with a meeting place on Saturday mornings would be entitled to be mentioned in any Litsoc literature as a sponsor if the cost of room hire was generously discounted. A council providing support to literary societies in its area could be regarded as a sponsor if the support amounted to providing advice, advertising, event organising or any other valuable service, and might ask Litsoc to use its logo as evidence that it was providing this support.

However, you really ought to ensure that the type of sponsors you are attracting are appropriate to your work as a literary society.

If Litsoc wants to use sponsorship to raise more substantial funds, to purchase assets such as a building or memorabilia, the following issues must be considered:

- How much money will Litsoc want to raise in total?
- How will Litsoc make the case to a potential sponsor?
- What is the package of costs and benefits to be offered to each sponsor?

In the case of the purchase of manuscripts or rare books, you might team up with whichever library, museum or records office holds a collection by your author, to put together a funding proposal to the Friends of the National Libraries, or contact the National Manuscripts Collection for advice.

Potential sponsors want to know exactly what their money will buy them. They want to know what they will need to spend in order to obtain a specified benefit. For instance, if Litsoc is raising funds to buy a first edition copy of a treasured book, or an object associated with its named author, the benefit could be that names of major donors would be inscribed on a plaque in its meeting room or that the name of a single donor would be always associated with the item ('the DonorCo. Copy' or 'the Fred and Jim Smith Artefact' for instance). Buildings or extensions can also be 'sold' by means of the purchase of 'bricks', so that donors giving a specified sum have their names listed on plaques on the completed

development; this can be elaborated to 'copper', 'silver' and 'gold' bricks depending on the size of the donation. If the sponsorship is associated with an event it can become 'the DonorCo. Litsoc Conference' or the 'F. & J. Smith Litsoc Dinner' or 'the Panjandrum Litsoc Lecture' in order to put the name of the sponsor into associated literature circulated to the members of Litsoc and also the general public. Sponsors are not always greedy for publicity but do like to be acknowledged for their contribution to Litsoc and thence to the cultural environment.

The most important part of the planning for sponsorship is deciding what you need and putting the package together. Finding sponsors is then a matter of contacting potential organisations or even individuals and asking if they will consider the package as part (or all) of their forthcoming year's spending. This sometimes seems rather daunting to societies or management committees, particularly if they are not quite clear about what they need the money for! We all think it would be better if we had more money, but it is hard to attract sponsors without having some clearly defined purpose in mind for the money you want to raise. If you are not sure about what you need the extra funds for, it is quite unwise to try to attract sponsorship because the sponsor could be put off by the uncertainty. However, if you have reason to believe that there is a good match between what you are offering and the potential sponsor there is no harm in contacting them at an early stage and asking if they are interested in discussing their needs with you. Booksellers and publishers with a special relationship with your author, or businesses local to your author's birthplace, or producers of a product associated with your author, may already have some ideas about how they could use a connection with you. Try to be imaginative about this – note that Specsavers sponsor the Crime Writers' Association annual awards!

As mentioned above, it is possible to combine fundraising and sponsorship in many different ways. You can ask your sponsor for 'matched funding' for example, so that you announce in your local paper (or even a national paper, or social media) that if you can raise £5,000 by a certain date this will be matched by an equivalent donation from DonorCo. so that you will be able to buy the gold watch and chain your author wore for his presentation at Court. You can ask your sponsor to buy a table for 10 people at your annual dinner and provide the wine for the event, which you will then call 'The Panjandrum Litsoc Dinner', but also run an auction after the dinner at which the people from Panjandrum will be expected to join in. The possible permutations are almost limitless, but the success of the sponsorship may also depend on the publicity available from the event. In order to show the sponsor that you can attract publicity you may need to have evidence (such as clippings from the local paper, a diary of mentions on local radio, the number of 'likes' on Facebook!) that Litsoc is a well-known society and has the attention of local journalists.

ACCOUNTING

The sums of money we have been talking about need to be 'accounted for'. Accounting – also known as keeping the books – is simply recording all the financial transactions involving Litsoc. There are several ways to do this.

If you are computer literate and comfortable with spreadsheets you will probably be happiest using Excel, or perhaps investing in an accounting package. However, if you are just a small society with less than £1,000 turnover a year you will probably be just as happy with an account book such as those you can buy in any stationer's. It is a good idea to get into the habit of using double-entry bookkeeping methods right from the start so that you can see at a glance where money is coming from, where it's going and when.

You may (if you take in and spend enough money) want to prepare a budget forecast; keeping a careful account of the flow of money into and out of your bank accounts will help you to do this. You may want to build up a sum of money for specific purposes, or you may have a charity into which any surplus will be directed, but either way you need to have 'cost centres' so that you can keep track of the income and spending of your society.

Below, you will find an example of double-entry bookkeeping for Litsoc. You will see that Litsoc has three 'cost centres': the society itself, the journal and one called 'commercial' which covers the other commercial operations of the Society such as producing and selling T-shirts. This could also have included the conference Litsoc is apparently running, but Litsoc has chosen to lump the conference expenditure in with the main activities of the society, presumably because it is not expected to raise money in the same way as the T-shirt operation. However, it will be a good opportunity for selling T-shirts without the cost of postage! Your society may have more or fewer cost centres and obviously more or fewer transactions, but these are examples of what may arise in the course of running a small society.

This example uses the method called 'double-entry' bookkeeping because every sum of money appears twice – once in the first column and once under the appropriate heading. This is so that you can check your addition – the grand total (the first entry in the TOTAL row) should come to the same whether you have added down the column or across the row. It makes very clear that in the month of March 2017 Litsoc was losing money – the amount of subscriptions received for the journal is nowhere near paying for the printing costs, but that may be because subscriptions were received in a previous month or because they are not yet due and a few have been paid in advance. It is also worth noting that there are three separate entries for postage in the expenditure, each of them attributable to different cost

centres. Postage has become a big burden for literary societies but one that can only be avoided by making more communications electronic. Older members are sometimes very resistant to this, but also less likely to understand the expense of posting out programmes, membership cards, newsletters and other items. Whether to increase the subscription to cover these costs is a difficult decision for many societies but small increases introduced regularly, rather than a single large increase, seem to be less unpopular with members. Rather than warning members that times are hard and putting several pounds onto the subscription in one go, making an annual increase of £1 or less until you are sure that you can cover all your costs is a less painful way to go!

With regard to postage, there are online companies from whom you can bulk buy postage stamps at a reduced rate. Also, if you are mailing out printed newsletters/journals to members, some printers will actually do the mailing for you (giving you up to a 30% discount on the postage costs).

Completing the entries for each month in the way illustrated above will help the treasurer to complete the annual accounts. For this they will need to prepare an Income and Expenditure Account (also known as the Profit and Loss Account) and also a Balance Sheet. The Income and Expenditure Account is drawn up for each year, and every year's account should include the results for the previous year so that it is clear how things have changed year-on-year. The Balance Sheet is a snap-shot of the society's financial position on the last day of its accounting year, showing its assets and liabilities. You may need to provide some explanatory notes so that your members can understand exactly what each entry in both documents represents. It is important to make the accounts clear, but not to the extent of giving too much confusing detail. When the accounts are presented at the AGM there will be an opportunity for members to ask questions and you will need to be prepared for this! For examples of the kind of accounts you will need to prepare, you can look at the ALS accounts from the last AGM or request copies from the treasurer.

EXTRACT FROM THE LITSOC ACCOUNT BOOK

MARCH 2018

INCOME

	£	Society	Journal	Commercial
Subscriptions to society	25	25		
Subscriptions to Journal	40		40	
Donations	262	262		
Sale of T-shirts	85			85
Deposits for conference	360	360		
Legacy	1,976	1,976		
Investment interest	25	25		
TOTAL	2,773	2,648	40	85

EXPENDITURE

		Society	Journal	Commercial
Printing Journal	1,263		1,263	
Postage	220	220		
Deposits for conference	1,500	1,500		
Postage for T-shirts	18			18
Chairman's expenses	65	65		
Journal postage	92		92	
TOTAL	3,158	1,785	1,355	18

Auditing

Before we go on there is one question that societies ask most frequently at this point in their deliberations. What do we do about auditing? Most people assume that the accounts of Litsoc will need to be audited in the traditional way, that is, that an independent auditor must be appointed and paid to prepare the annual accounts of Litsoc. However, this is not necessarily the case, even among larger and wealthier societies. So, we will try to put the situation as clearly and simply as possible.

You only need an audit in line with professional accountancy rules if any of the following apply:

- Your turnover exceeds £6.5 million p.a.
- You have balance sheet assets valued at more than £3.26 million.
- You have more than 50 employees for whom you are liable to remit tax and national insurance.
- You have shareholders or members who require you to provide them with audited accounts.

Having said that, you will still need to provide annual accounts, however large or small you are. If you happen to know, or are related to, an accountant, you should be able to get them to look over your accounts for a small fee (or a bottle of wine) so that you are comfortable with their accuracy. This is known as an independent examination and is highly recommended. An examiner's signature on the bottom of the accounts to be presented at the AGM not only reassures your membership but also safeguards the treasurer.

Bear in mind that you may not always make a surplus on your operations but you **MUST NOT** continue to operate if you are actually insolvent, that is, without sufficient assets to pay your bills as a society. This consideration may prevent you from entering into risky activities such as merchandising or publishing, but as long as you are sure that you will be able to balance your books there is no reason to avoid a reasonable level of commercial activity. The ALS website has downloadable information on *Publishing for Literary Societies* and *Organising Events and Festivals for Literary Societies* which you may find helpful in deciding what you can and can't afford to do. When setting up your constitution, you should always have a clause which contains a minimum amount that you would need in your bank accounts

in order to meet all your debts. If your balances fall below that amount, then you will need to closely monitor (or even curtail non-essential) spending.

As mentioned above, you may have members who expect to see the accounts, even if you are only a small society and have a small number of transactions to report. Do not allow this to become a burden; money means a lot to most people and everybody needs to be reassured that money they give to Litsoc is being treated with respect.

FOR MORE HELP WITH TAX AND OTHER ISSUES, GO TO www.hmrc.gov.uk. This is the one-stop shop for information about managing your organisation's fiscal liabilities legally.

The benefit of an umbrella organisation like the ALS is the expertise of its members. If you have corrections to this Quick Guide, or additional information which you feel should be included, please contact us via the website.