

## SECTION 8 - INCOME

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### **Please note**

Guidance on income procedures is also provided within Section 11 – Internal Controls of this handbook, with specific reference to:

- ◆ Monies collected in classroom
- ◆ Transfers of cash between staff
- ◆ Security of cash
- ◆ Management review of income controls e.g. debt collection

## 1 INTRODUCTION

These procedures relate to the banking of and accounting for income received. Schools are responsible for the collection of income relating to their budget and there are specific Financial Regulations relating to the procedures to be followed. These are contained in Appendix 1.

Schools must ensure that they comply with current VAT regulations relating to income received and invoices raised. Guidance on this is provided in the Section 5 of this handbook.

## 2 TYPES OF INCOME

Income will fall into several categories:

- 1 Debtors income - for which an invoice is raised on the school's computerised local accounting system e.g. the SIMS Finance Module or an invoice is raised manually
- 2 Periodic income - where the administration is performed centrally by the LA/payroll and the school receives the income automatically e.g. rent income, caretakers rent
- 3 Non-invoice income - where an invoice is not raised e.g. telephone income, contributions from PTA, photocopying income, school trip income

## 3 RECEIPTS OF MONIES

### 3.1 Recording and Banking

Income must be recorded in some form at the point of receipt i.e. official receipt, daybook or directly onto the school's local accounting system e.g. the SIMS Finance Module. All income must be recorded in the school's local accounting system if not done so at the point of receipt.

All school official income must be banked in full without undue delay into the school's official Local Bank Account . It should not be paid into a private fund maintained at the school.

(There are exceptional circumstances where this is permitted e.g. if a school banks with NatWest but there is no NatWest bank in the vicinity, a school may bank cash into its school fund account which is held locally and then at the same time write a cheque from the school fund account and pay this into the NatWest Account.)

### **3.2 Collections in Class**

Where money is collected in the class room from pupils this should be marked on a class list i.e. how much against each pupils name. Alternatively a receipt book could be used. Cheques and cash payments must be clearly identified.

### **3.3 Collection of Cash from Payphones**

Where cash is collected from payphones a log sheet should be completed to provide basic data such as the date, amount, the person who collected the money etc. An example form is provided as Appendix 3.

### **3.4 Transfer of Cash Between Staff**

Where cash is passed between members of staff this should be signed for or receipted e.g. by the bursar issuing a receipt to the teacher or signing a class list.

## **4 BAD DEBTS**

Schools will be responsible for the recovery of all bad debts. Legal advice can be sought through the NCC Legal Services or if they do not use NCC Legal Services from whoever the school purchases Legal Services.

If a debt cannot be recovered either by the school or by their legal representatives it will have to be written off to the school's budget. All debts to be written off must be approved by the Governing Body and minuted accordingly.

Where debts that are written off include an element of output tax, schools should contact the County Council's VAT Officer over the implications of this.

## **5 GUIDANCE ON THE APPROPRIATE ERP ORACLE DETAIL CODES TO BE USED FOR INCOME TRANSACTIONS**

All income collected by schools will be banked into the local bank account against an appropriate local income code.

### **5.1 Income Codes for Income Paid into the Local Bank Account**

All income paid into the local bank account must be recorded against an income code on the school's local accounting system e.g. the SIMS Finance Module.

For guidance on the appropriate income code to use please refer to the Consistent Financial Reporting section of this handbook.

## 6 CONTRIBUTIONS FROM EXTERNAL SOURCES

There are many instances in which schools receive money from external sources. This may be in the form of contributions for a specific purchase, in relation to particular expenditure, contributions, donations, or sponsorship.

Please note that specific rules apply to VAT in relation to donations and sponsorship etc. Please refer to Section 5 of this handbook.

### 6.1 Contributions for a Specific Purchase

Occasionally schools receive contributions e.g. from their PTA to assist in purchasing equipment for the school. There is an agreed scheme for the avoidance of VAT for such instances and you should refer to the Section 5 of the Financial Management Handbook and/or contact the VAT helpdesk for advice. The income must be banked into the Authority's accounts i.e. the school's local bank account and this must be done at the same time as the invoice is authorised and paid.

### 6.2 Donations and Sponsorship

Advice must be sought from the County Council's VAT Officer when donations or sponsorship money is received. Depending on the circumstances of the donation or sponsorship, VAT output tax may have to be paid on the amount received.

## 7 ACCOUNTING FOR VAT ON INCOME

Some types of income received are subject to VAT Output tax that must be declared and paid to Her Majesty's Customs and Excise - see Section 5 of this handbook.

When recording the income on the school's local accounting system the amount of VAT must be recorded. This should then appear on the VAT reports submitted to NCC Finance. Schools will be reimbursed the amount of VAT equal to the Input tax (paid on expenditure) less the Output tax (due to be paid on income).

Invoices for goods/services must be raised on a timely basis i.e. in the month in which the goods/services are provided.

Twice per year schools are required to return a **Schools Finance** LB10 form "Six Monthly Output Tax Return" together with reports from the school's local accounting system to NCC. This information is required in order to complete the central output tax return to Customs and Excise.

It is essential that schools close their accounting periods on the SIMS Finance Module each month so that VAT output tax is always recorded in the correct accounting period and is not backdated.

## **8 PAYING MONEY INTO THE BANK ACCOUNT**

All income should be banked promptly and recorded in the schools accounts at the same time. Cash must also be banked "intact" i.e. schools should not utilise cash balances to cash personal cheques for members of staff/the public or to make purchases.

When paying in income schools should complete the paying in slips issued by their bank. Any cheques paid in must be clearly identified on the paying in slip or a separate log maintained.

## FINANCIAL REGULATIONS FOR ACCOUNTS RECEIVABLE

### 1 INCOME POLICY

- 1.1 The Governing Body should formally approve an income policy which will include setting charges, defining payment terms, establishing credit control procedures and debt cancellation and write off procedures.

This policy should be reviewed regularly and at least on an annual basis.

NCC issues guidance on the rates to be charged for the letting of premises, however schools may opt to charge their own rates.

An example policy for completion is provided in Appendix 2.

### 2 INVOICE PREPARATION

- 2.1 Invoices should be sequentially numbered. (This is achieved automatically when invoices are recorded on the SIMS Finance Module)

- 2.2 Invoices must include the following details:-

- (a) Name and address of school.
- (b) The payment details must be in the title of NCC and the name of the school.
- (c) The date of supply of the goods/services.
- (d) A clear description of the goods/services provided.
- (e) The VAT rate applicable to the goods/services provided.
- (f) The NCC VAT registration no - 121 4804 09
- (g) Terms of payment (it is suggested this should be immediate).
- (h) Instructions on how to pay

- 2.3 Only income ledger codes should be used for invoices raised i.e. any income received must be a credit to an income code, and not to an expenditure code.

### 3 TIMELINESS OF INVOICES

There should be a management check of invoices generated to ensure they are being raised for all credit income due to the school, are accurate, and promptly raised.

To comply with Customs and Excise requirements invoices must be raised on a prompt basis, this should be in the month the goods or services are provided.

#### **4 PAYMENTS IN ADVANCE**

If payment or deposit is taken prior to the delivery of the goods/services, it should be recorded against the debtor on the school's local accounting system e.g. the SIMS Finance Module.

(When an invoice is raised on SIMS, in respect of the service to which the payment in advance relates to, the full cost should be shown. This will, owing to the limitations of SIMS, need to be manually adjusted to reflect the payment in advance.)

#### **5 RECORDS**

Hard copies (including spoilt and cancelled copies) of all invoices and credit notes must be retained for 6 years.

#### **6 CREDIT CONTROL**

It has been illustrated that prompt pursuit of outstanding debt is the key to effective credit control.

6.1 It is therefore suggested that, as a minimum, the procedures detailed below are adopted. A school may, however wish to operate more stringent procedures as determined by its own income policy.

- (a) A reminder letter should be issued to the debtor no later than 21 days from the date of the invoice (a suggested format is presented as example A).
- (b) If the debt remains unpaid after a further 14 days a second reminder letter should be issued (a suggested format is presented as example B). Additionally, if possible, personal contact should be established with the debtor.
- (c) For regular hirers the Governing Body should decide whether to allow continued use of school facilities whilst a debt is outstanding.
- (d) If the debt still remains unpaid after a further 14 days, the debt should be referred to Legal Services or the schools legal representatives.

6.2 Another key element of credit control is a management check of outstanding debt. School management should be provided, on a monthly basis, with details of outstanding debts and these should be reported to the Finance Committee on a regular basis. Schools should provide Aged Debtor reports for this purpose. These can be printed automatically from most computerised accounting systems e.g. the SIMS Finance Module.

## **7 DEBT CANCELLATION AND WRITE OFF**

### **7.1 Cancellations**

It is recommended that all cancellations be authorised by a member of school management (who is not already involved in the debt collection process).

### **7.2 Debt Write Off**

Where debt is to be written off, the Governing Body should determine a policy. It would be expected that School Management would submit any debts requiring write off to the Governing Body for approval.

## **8 VAT OUTPUT TAX RETURN**

8.1 The County Council is required to notify HM Customs and Excise of all output tax (VAT on income) generated. Schools collecting income locally will therefore be required to periodically submit a return detailing the amount of output tax for the period to NCC Finance.

## **9 INTERNAL CONTROL**

9.1 There are 3 key stages to the debt collection process:-

- (1) Invoice preparation
- (2) Receipt of income
- (3) Credit control i.e. chasing outstanding debt.

In order to achieve an adequate level of internal control it is important that step (2) is separated from steps (1) and (3). In an ideal situation all 3 steps would be separated.

However it is recognized that staffing resources in some schools may not allow this.

9.2 It is also important that invoice cancellation/write off is separated from steps (2) and (3).

**SUGGESTED FORMAT FOR FIRST DEBT REMINDER LETTER**

Dear .....

**OUTSTANDING INVOICE**

School records show that the invoice as detailed below has not been paid :-

Invoice number .....

Date .....

Amount .....

Immediate payment is now requested. Please make crossed cheques payable to:-

NCC..... School.

If you have any queries relating to the invoice please contact ..... at the School immediately.

If payment has been made in the last seven days please ignore this reminder.

Yours Faithfully/Sincerely

**(It is envisaged that this letter will be printed on school stationery)**

**SUGGESTED FORMAT FOR SECOND DEBT REMINDER LETTER**

Dear .....

**OUTSTANDING INVOICE**

School records show that the invoice as detailed below has not been paid despite a reminder having been issued.

Invoice number .....

Date .....

Amount .....

**Immediate payment is requested. If this is not forthcoming the debt will be referred to the County Council's Legal Services for legal action to be taken. (Where the school does not purchase legal services from the County Council you may wish to insert the name of your solicitor.)**

If you have any queries relating to the invoice please contact ..... at the School immediately.

Please make crossed cheques payable to NCC ..... School.

If payment has been made in the last seven days please ignore this reminder.

Yours Faithfully/Sincerely

**(It is envisaged that this letter will be printed on school stationery)**

**EXAMPLE INCOME POLICY**

Name of school \_\_\_\_\_

**1 ANNUAL REVIEW OF CHARGES**

1.1 All charges levied, in accordance with the charging policy, including deposits, will be subject to annual review by the Governing Body in the month of \_\_\_\_\_.

**2 ADMINISTRATION OF INCOME****2.1 Invoicing Procedures**

2.1.1 Invoices will be administered in accordance with the Financial Regulations relating to Accounts Receivable.

2.1.2 Invoices will be prepared by \_\_\_\_\_.

2.1.3 Invoices will be raised on a \_\_\_\_\_ basis.

**2.1.4 Block Bookings**

Invoices will be raised in full for a minimum of 10 sessions.

Payment will be required :

\* at \_\_\_\_\_ intervals .

\* in full at the commencement of the block booking.

\* in full at the completion of the block booking.

\* delete as appropriate

**2.1.5 Payments in Advance**

The policy is :

**2.2 Income Processing procedures**

2.2.1 All income received will be passed to \_\_\_\_\_ who will keep a record of income received.

2.2.2 A receipt will be raised for all income received.

- 2.2.3 The receipt of income in respect of debtors invoices and non–invoice income, will be recorded promptly on the school’s local accounting system.
- 2.2.4. VAT will be accounted for in accordance with the guidance given in the Section 5 of the Financial Management Handbook.
- 2.2.5 Income will be held in a locked safe/cabinet pending banking. Keys to the safe/cabinet will be held by \_\_\_\_\_.
- 2.1.6 Income will be banked promptly and intact.
- 2.1.7 A monthly reconciliation will be performed by \_\_\_\_\_ to ensure that all income banked appears on the bank statement.

### 3 CREDIT CONTROL

- 3.1 The credit terms for debtors invoices are \_\_\_\_\_.
- 3.2 A reminder letter will be sent to debtors who have not paid their invoices on the due date by \_\_\_\_\_.
- 3.3 If the debt remains unpaid a further reminder letter will be sent \_\_\_\_\_ days from the date of the first reminder letter by \_\_\_\_\_. In addition where possible, the debtor will be contacted by telephone.
- 3.4 At this stage \_\_\_\_\_ will refuse the debtor any further access to the school facilities until the debt is paid. At the point at which a long standing debt is paid \_\_\_\_\_ will decide if the debtor is to be permitted to make further use of the school facilities.
- 3.5 If the debt remains unpaid for a further \_\_\_ days a third letter will be sent informing the debtor that the debt will be referred to the school’s legal representative.
- 3.6 If the debt remains unpaid and is for an amount greater than \_\_\_ it will be referred to the school’s legal representatives. (in the case of schools using NCC Legal Services, debts in excess of £50 may be referred).
- If the debt remains unpaid and is for less than above, it will be referred to \_\_\_\_\_ by \_\_\_\_\_.
- 3.7 On a monthly basis a report will be presented to \_\_\_\_\_ detailing outstanding debts by age and value.

### 4 WRITE OFF OF DEBT

- 4.1 Write off of debt will only be considered when the credit control procedures have been exhausted.

- 4.2 Before closure of the financial year a list of debts proposed for write off will be prepared by \_\_\_\_\_ and will be submitted to the Governing Body for consideration. The submitted list will be supported by details of the debt.
- 4.3 The decision of the Governing Body will be clearly documented in the minutes of the relevant meeting.
- 4.4 After the Governing Body has approved a debt write off, this will be recorded on the school's accounting system by \_\_\_\_\_. Such write-offs will be cross referenced to the relevant Governing Body minutes.

## **5 CANCELLATION OF DEBT**

- 5.1 In instances where invoices have been incorrectly raised, the invoices will be presented to \_\_\_\_\_ with an explanation of why the invoice is required to be cancelled. The responsible member of staff will mark "cancelled" across the invoice, and sign the invoice and all supporting documents which will be retained for audit purposes.



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**ACCOUNTING INSTRUCTION FOR THE COLLECTION OF INCOME AND  
CERTIFICATION OF INVOICES IN RESPECT OF COIN BOX PHONES**

**1 Income**

- 1.1 The coin box must only be opened in the presence of two people.
- 1.2 The date of the invoice and call charges should be entered in column 5,6,7 and periodically the total collection should be checked and entered in column 2, using the cumulative total column 3 to record the cumulative total for the quarter commencing from the collection next after the date to which telephone calls have been charged on the last quarter's invoice.
- 1.3 Each entry must be accompanied by the signature of both persons emptying the phone box.
- 1.4 Collections must be made at least once per quarter to coincide as near as possible with the period of the account
- 1.5 All money taken from boxes should be promptly banked. This may be banked along with other moneys to be paid in to the credit of the County Council i.e. the school's local bank account. If this is done, the sum collected must be shown on the reverse of the paying-in slip as "Telephone box income".

**2 Expenditure**

- 2.1 Periodically the income from each phone should be compared to the expenditure to ensure that the relevant costs are being covered.

**3 General**

- 3.1 The key to the phone box should be kept in a secure place at all times.
- 3.2 These forms must be retained and produced for Audit when required.