

How to prepare and read accounts

Community & Voluntary Services
Cheshire East

31 March 2021



Agenda

- External financial reporting
- Receipts and payments accounts
- Accruals accounts
- The Balance Sheet
- Charity Commission templates
- Annual Return
- SORP accounts
- Charity funds
- Common accounting issues
- Reserves policy



Champion's Charity Team

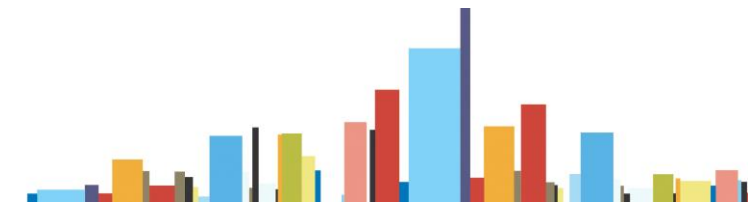
Sue Harris – Audit Partner



- Head of Charity team at Champion
- 20 years' experience of working with charities
- Treasurer of Chester Civic Trust

Services to the charity sector

- Accounts preparation
- Independent Examination
- Audit
- Assistance with charity set-up and registration
- Accounting software selection and set up
- Assistance with grant applications



External financial reporting

Type of charity	Accounts and reports	Filing requirements
Charitable company <ul style="list-style-type: none"> Registered with Companies House under the Companies Act 2006 Registered with the Charity Commission 	<ul style="list-style-type: none"> Accruals accounts complying with SORP and Companies Act Directors' report/Trustees' Annual Report Charity Commission Annual Return Annual Confirmation Statement 	<ul style="list-style-type: none"> File Annual Report and Accounts (including Directors' Report) at Companies House within 9 months of year end File Annual Report and Accounts with CC within 10 months of year end (income >£25,000) File CC Annual Return with CC within 10 months of year end (if income >£10,000) File Annual Confirmation Statement at Companies House



External financial reporting

Type of charity	Accounts and Reports		Filing requirements
Charitable Incorporated Organisation (CIO) <ul style="list-style-type: none"> Registered as a body corporate under the Charities Act 2011 	<ul style="list-style-type: none"> Income <£250k Income >£250k All CIOs All CIOs 	<ul style="list-style-type: none"> Receipts and payments accounts (optional) Accruals accounts (SORP) Trustees' Annual Report Charity Commission Annual Return 	<ul style="list-style-type: none"> File Annual Report and Accounts with CC within 10 months of year end File CC Annual Return with CC within 10 months of year end



External financial reporting

Type of charity	Accounts and Reports		Filing requirements
Unincorporated charity (Charitable Trust) <ul style="list-style-type: none"> Registered with Charity Commission 	<ul style="list-style-type: none"> Income <£250k Income >£250k All All 	<ul style="list-style-type: none"> Receipts and payments accounts (optional) Accruals accounts (SORP) Trustees' Annual Report Charity Commission Annual Return 	<ul style="list-style-type: none"> File Annual Report and Accounts with CC within 10 months of year end (if income >£25,000) File CC Annual Return with CC within 10 months of year end (if income >£10,000)



Audit requirements

Income level	External scrutiny requirements
<£25,000	<ul style="list-style-type: none">• None
>£25,000	<ul style="list-style-type: none">• Independent examination
>£1,000,000	<ul style="list-style-type: none">• Audit
>£250,000 and assets >£3.26m	<ul style="list-style-type: none">• Audit
Group income >£1,000,000	<ul style="list-style-type: none">• Audit



Receipts and payment accounts

- Unincorporated and CIOs only
- Income up to £250,000
- Subject to requirements of Governing Document
 - **Note** that a requirement for accounts that “give a true and fair view” implies accruals accounts
- Optional



Writing up the cash book

Date	Detail	Reference	Receipts (money in)			Payments (money out)			Balance
			Total in	Donation	Grant	Total out	Rent	Supplies	
1 Mar	M Smith		100	100				100	
5 Mar	CEC		5,000		5,000			5,100	
20 Mar	FBL	DD				1,200	1,200	3,900	
31 Mar	WHS	WHS70				80	80	3,820	
TOTALS			5,100	100	5,000	1,280	1,200	80	3,820



Bank reconciliation

	£	£
Balance shown on bank statement:		3,875
Cash receipts not banked	100	
Payments not cleared	<u>(80)</u>	
		<u>20</u>
		<u>3,895</u>
Balance shown on cash book:		3,820
Receipts paid direct to bank	60	
Bank charges	(10)	
Bank interest received	<u>25</u>	
		<u>75</u>
		<u>3,895</u>



Correcting the bank balance

		£	£
Cash book balance:			3,820
Reconciling item:	Record as:		
Receipts paid direct to bank:	Cash receipt/income	60	
	Increase in cash balance		
Bank charges:	Bank charges expense	(10)	
	Decrease in cash balance		
Interest received:	Cash receipt/income	25	
	Increase in cash balance		
			<u>75</u>
Closing cash balance:			<u>3,895</u>



Adjusting the cash book

Date	Detail	Ref	Receipts (money in)				Payments (money out)				Balance
			Total in	Donation	Grant	Interest	Total out	Rent	Supplies	Bank charges	
1 Mar	M Smith		100	100							100
5 Mar	CEC		5,000		5,000						5,100
20 Mar	FBL	DD					1,200	1,200			3,900
31 Mar	WHS	WHS70					80		80		3,820
Totals			5,100	100	5,000		1,280	1,200	80		3,820
Bank rec items			85	60		25	10			10	75
TOTALS			5,185	160	5,000	25	1,290	1,200	80	10	3,895



Converting cash book to I&E

Date	Detail	Ref	Receipts (money in)				Payments (money out)				Balance
			Total in	Donation	Grant	Interest	Total out	Rent	Supplies	Bank charges	
1 Mar	M Smith		100	100							100
5 Mar	CEC		5,000		5,000						5,100
20 Mar	FBL	DD					1,200	1,200			3,900
31 Mar	WHS	WHS70					80		80		3,820
Totals			5,100	100	5,000		1,280	1,200	80		3,820
Bank rec items			85	60		25	10			10	75
TOTALS			5,185	160	5,000	25	1,290	1,200	80	10	3,895

I&E account

Donations

Charitable activities or donation

Investment income

Apportion

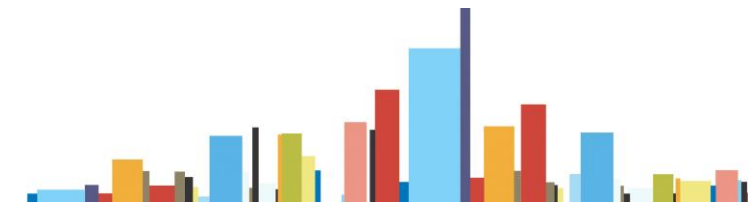
Charitable activities

Support



Difference between R&P and Accruals

Things in R&P not in accruals accounts	Things in accruals accounts not in R&P
Exchange of cash for assets: <ul style="list-style-type: none">• Purchase of fixed assets• Purchase of investments	Changes in value of assets: <ul style="list-style-type: none">• Revaluation of investment portfolio• Depreciation of fixed assets• Bad debts
Exchange of assets for cash: <ul style="list-style-type: none">• Sale of fixed assets• Sale of investments	Gifts in kind: <ul style="list-style-type: none">• Services donated to the charity
	ACCRUALS AND PREPAYMENTS



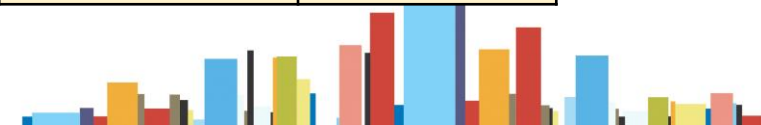
Accruals and Prepayments

Accruals	<ul style="list-style-type: none">• Expenditure relating to the period that has not yet been paid for	<ul style="list-style-type: none">• Increases costs/decreases surplus
Deferred income	<ul style="list-style-type: none">• Income that has been received which relates to the following period	<ul style="list-style-type: none">• decreases income/ decreases surplus
Prepayments	<ul style="list-style-type: none">• Expenditure that has been paid for that relates to the following period	<ul style="list-style-type: none">• Decreases costs/ increases surplus
Accrued income	<ul style="list-style-type: none">• Income that is due but not yet received	<ul style="list-style-type: none">• Increases income/ increases surplus



Converting R&P to Accruals

Notes	Cash book (R&P)	Accruals and deferred income		Prepayments and accrued income		I&E Account (Accruals)
	£	(1) £	(2) £	(3) £	(4) £	£
Income:						
Donations	160					160
Grants	5,000		(2,500)			2,500
Interest	25					25
Dividends					300	300
Expenditure:						
Rent	1,200			(600)		600
Supplies	80	125				205
Bank charges	10					10
SURPLUS	£3,895					£2,170



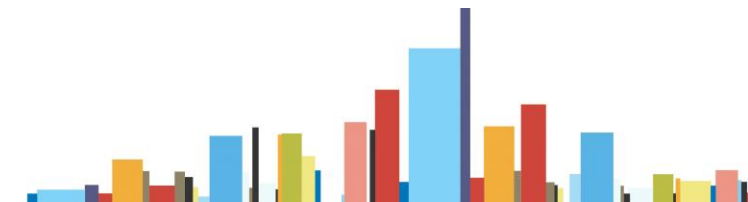
Converting R&P to Accruals

- Note (1): accrual for supplies received but not paid for
- Note (2): deferred income for grant received relating to following period
- Note (3): prepayment for rent paid relating to following period
- Note (4): accrued income – dividends income due but not received



Assets and Liabilities – R&P Accounts

- List of assets:
 - Cash balances
 - Being used by the charity (fixtures and fittings, computers, cars etc)
 - Investments
 - Amounts owed to the charity
- List of liabilities:
 - Amounts owed by the charity
- Reconcile cash balances to R&P accounts
- Value investments if you can
- Include material gifted assets



The Balance Sheet – Accruals accounts

	Cash book		Accruals/ prepayments		I&E account		Balance sheet	
	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr
Cash	5,185	1,290					3,895	
Debtors			900				900	
Creditors				2,625				2,625
Reserves								2,170
Income		5,185	2,500	300		2,985		
Expenditure	1,290		125	600	815			
Surplus					2,170			
	6,475	6,475	3,525	3,525	2,985	2,985	4,795	4,795



Charity Commission templates

- Receipts and payments accounts
- Small charity accruals accounts (income <£500k):
 - Unincorporated charities and CIOs
 - Charitable companies
- Trustees' Annual Report:
 - Small unincorporated charities and CIOs (income <£500k)
 - Charitable companies and larger non-company charities (income >£500k)



Annual Return

- Due within 10 months of year end
- Log in to Charity Commission website
- Answer questions about your charity
- Income <£25k – questions only
- Income >£25k – questions and upload:
 - Trustees' Annual Report
 - Accounts
 - Independent Examiners' Report or Audit Report
- CIO – must upload Trustees' Annual Report and Accounts each year, regardless of income level



CHAMPION

THE CHARITY SORP



Structure of SORP Charity Accounts

Trustees' Report

Audit Report

Statement of
Financial
Activities ('SOFA')

Balance Sheet

Cashflow
Statement

Notes



The SOFA

Income

- Donations and legacies
- Charitable activities
- Trading activities
- Investments
- Other

Expenditure

- Raising funds
- Charitable activities
- Other

Gains and losses on investments

Net income/expenditure

Other recognised gains/losses

Net movement in funds

- Voluntary income, general grants
- Income derived from charitable purposes
- Sale of donated goods, lottery income
- Dividend income
- Profit on disposal of assets

- Fundraising costs, costs of non-charitable trading
- Costs of service provision, support costs
- Everything else

- Market value gains/losses and profit /loss on sale

- Gains/losses on revaluation of property

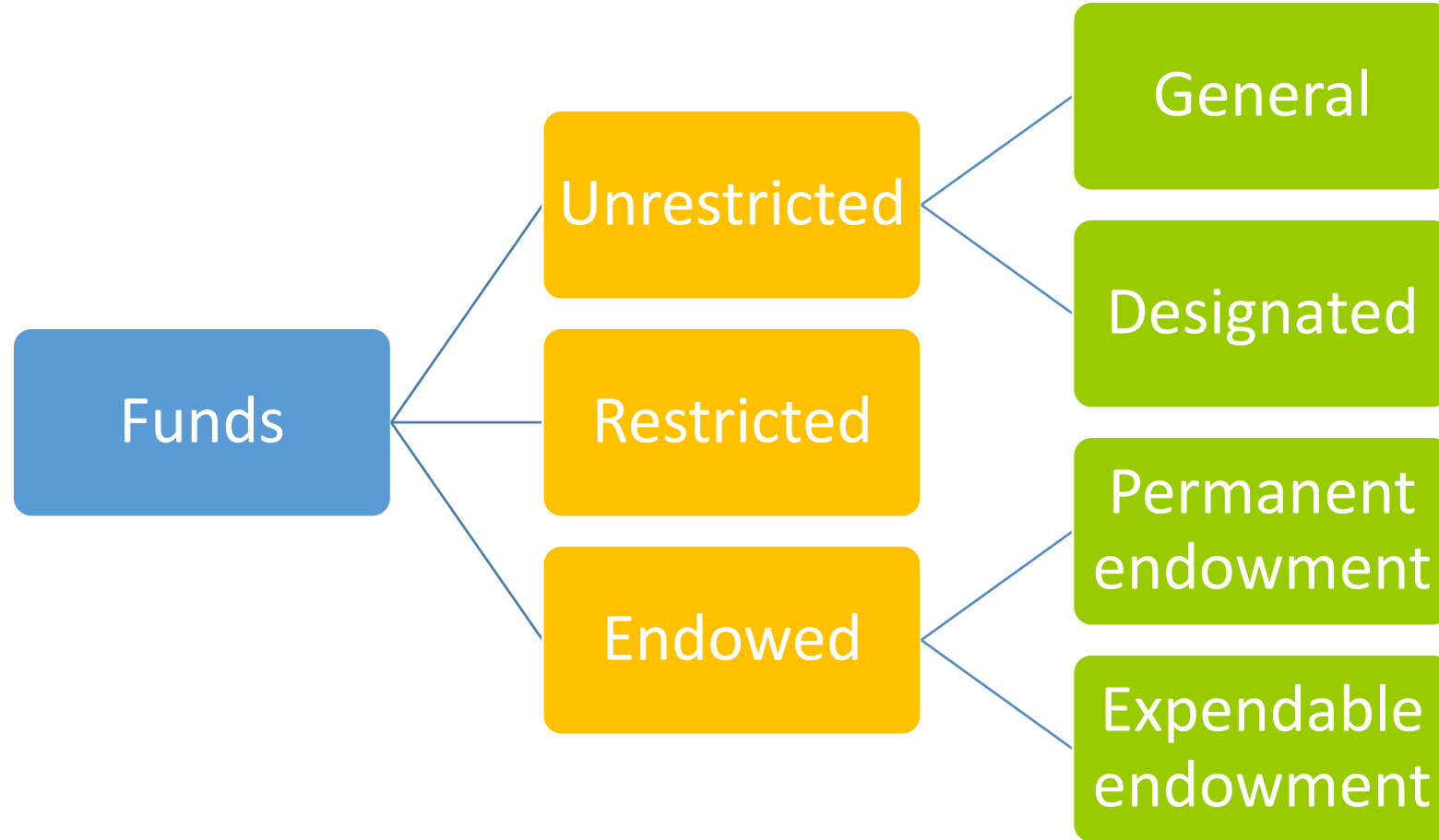


Balance Sheet: Charitable Funds

- Total funds (reserves) of the charity:
 - Endowment
 - Restricted
 - Designated
 - Unrestricted
 - Revaluation Reserve



Charity Funds



Fund accounting

- Reserves are the accumulation of surpluses/losses
- Designated funds are NOT restricted: trustee discretion
- Keep a **separate record** of every pot of restricted funding received
- Note to the accounts shows movement on each individual pot
- Unrestricted income can be recorded in one pot
- Keep a separate record of support costs



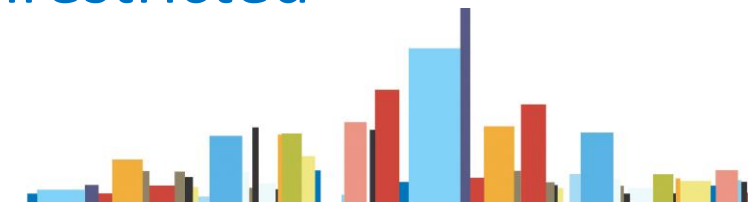
Common accounting issues

- Restricted/unrestricted funds
- Recognition of grant income
- Recognition of legacy income
- Donated services and facilities
- Reserves policy



Restricted/unrestricted

- Donations or grants are restricted if :
 - They are given for a use which is narrower than the charity's general purposes
 - They are given with terms that limit the charity's discretion on how the funds should be used
- Income is restricted if there are conditions attached to how you **SPEND** it not on what you receive it for
- If surpluses are potentially repayable, the income is usually restricted
- Amounts invoiced under contract are normally unrestricted



Recognition of grant income

- Recognise IN FULL when there is **entitlement**, receipt is **probable** and the **amount** is known
- Restrictions on USE or PURPOSE do not prevent recognition but they may make them restricted funds eg purchase of fixed asset
- **Defer** only if there are unmet performance conditions which are outside the charity's control eg specified units of output, future time periods
- Performance related grants received in advance should be deferred until performance conditions have been met
- Recognise income immediately if there is sufficient evidence that performance conditions will be met, ie **conditions are within the charity's control**
- Condition to recover unspent funds: recognise liability only when repayment is probable



Recognition of legacy income

- Recognise IN FULL when there is **entitlement**, receipt is **probable** and the **amount** is known
- Entitlement is taken as the **earlier** of the date on which:
 - Probate has been granted, the estate finalised and the amount known; or
 - A distribution is received
- Where the charity has been notified of a distribution but the amount is not know, treat as a contingent asset



Donated services and facilities

- Recognise when **conditions** associated with receipt are met, receipt of benefit is **probable** and the value of the benefit can be **measured** reliably
- Value of the benefit is the amount the charity would be willing to pay on the open market
- Corresponding amount is recognised in expenditure
- Value of volunteer time does not have to be recognised
- Disclose in note to the accounts



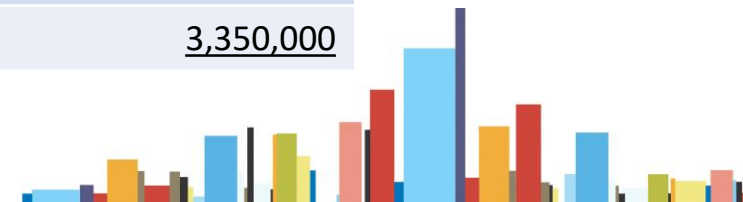
Reserves policy

	£	£
Fixed assets		3,000,000
Debtors	300,000	
Cash	<u>250,000</u>	
	550,000	
Creditors	<u>(200,000)</u>	
		<u>350,000</u>
TOTAL		<u>3,350,000</u>
Unrestricted funds		3,200,000
Restricted funds		<u>150,000</u>
TOTAL		<u>3,350,000</u>



Reserves policy: designated funds

	£	£
Fixed assets		3,000,000
Debtors	300,000	
Cash	<u>250,000</u>	
	550,000	
Creditors	<u>(200,000)</u>	
		<u>350,000</u>
TOTAL		<u>3,350,000</u>
Unrestricted funds:		
Designated		3,000,000
General		200,000
Restricted funds		<u>150,000</u>
TOTAL		<u>3,350,000</u>



Choice of accounting package

- Various options:
 - Xero
 - Quickbooks
 - Sage
- Sage offer free software for charities:
<https://www.sage.com/en-gb/company/sage-foundation/products/>



QUESTIONS

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