

CEQ charity accounting

Financial accounting principles

Introduction

Charity accounts comprise a Statement of Financial Activities (SOFA) – similar to what businesses call a Profit and Loss Account – and a Balance Sheet. The SOFA records income and expenditure for the year, and the overall movement in funds. The Balance Sheet records the assets of the charity, and a key accounting requirement is that the movement in funds should match the change in assets. For CEQ the format of the SOFA and Balance Sheet is prescribed in a special “template” known as a pro-forma, and Treasurers are required to complete a pro-forma for their Meeting or Branch at the end of each year, (ensuring that the “bottom line” of the SOFA agrees with the “bottom line” of the Balance Sheet!). In order to facilitate the consolidation of individual LM & Branch accounts into a single set of CEQ Charity Accounts it is essential that the approved proforma is used by all constituent Meetings and Branches, and not amended in any way.

The notes that follow are intended to give guidance to new or inexperienced Treasurers on some of the basic accounting principles.

Some helpful hints

Receipts and payments are the transactions which pass through your bank account, as recorded in your cash book.

Bank reconciliation takes into account money which has been received but has not been credited to the bank account within the given period (uncleared deposits) and cheques which have been issued but not debited to the bank account (unpresented cheques).

Cash book balances should show all cash transactions including uncleared deposits and unpresented cheques.

Income and Expenditure (in the context of the SOFA) differ from receipts and payments in various respects:-

Income means money that is due to you, as a result of what you have sold or done during the year, whether or not you have received it. *A good example of this principle is that if DFS sells you a sofa with nothing to pay for 12 months, they have made a sale, and can show the full amount as income, even though they haven't received any cash.* For your Meeting real examples of income might be Gift Aid rebates which are due to you but which you have not yet claimed, and a donation or grant which has been promised but either has not yet been paid or is being paid in instalments. You should treat the full value of the gift as income. An example of expenditure not matching payments is a building project which you have committed to (and which may be completed or in progress) but for which you have not yet received or paid an invoice. Or indeed any other financial commitment which you have made but not yet paid. Making provision for such commitments is called an “accrual” or “provision”, and forms part of your expenditure for the year.

Loans (and the repayment of loans) fall into this category. A loan received by you does not belong to you, even though you receive money which you pay into your bank, so you cannot treat it as income. A repayment of a loan is not expenditure, as you are simply giving back money which isn't yours anyway!

Accounting is like a see-saw – if you put something on one side you have to put a similar thing on the other to balance, and this is done by means of “debtors and creditors”. People who owe you money are called “debtors”, and money which is promised or due to you but which you haven't yet received should be entered as debtors in your balance sheet. Similarly “creditors” are people to whom you owe money, and the money which you have committed to spend but have not yet paid should be entered as creditors in your balance sheet. A loan (eg from the CEQ Building Fund) should be recorded not as income but as a creditor, and the figure shown in the accounts will reduce as you repay the loan.

Technically any gifts or grants for a given year which you receive after 31 December should be recorded in the year-end accounts as income (and listed as a debtor), even though the cash goes through the bank account in the following year. Likewise if you receive, after the year end, an invoice for work undertaken in the previous year it should be treated as expenditure for the previous year (and listed as a creditor).

The Gift Aid which you record as income for a given year should be the **tax rebate arising from the donations received in that year** (called the “matching principle”). This figure may not be the same as the money you have actually received from HMRC – especially if you submit annual claims in April rather than December. Unclaimed tax at the year-end becomes a debtor.

Obviously items of income and expenditure which you treat as provisions or accruals in a given year cannot be considered as income and expenditure in the following year (when the money is received or paid) and must be excluded from the following year's income and expenditure (to avoid “double-counting”).

At the end of each year you will have a list of debtors and creditors, and one (rather crude) way of looking at income and expenditure is as follows:-

Income = receipts during the year - debtors at the start of the year + debtors at the end of the year

Expenditure = payments during the year - creditors at the start of the year + creditors at the end of the year.

Keeping this in mind will help you balance the accounts at the year-end.

One word of advice – keep accruals and provisions (and thus debtors and creditors) to a minimum, to give yourself an easy life. Only record things which are significant (the principle of “materiality”). Some treasurers meticulously split utility bills into “this year/next year” amounts – this is a waste of time and effort, and my advice, at all times, is “keep it simple”!

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