Different Forms of Charity Accounts

There are different forms of financial accounts that charities can prepare, the format is dependent on assets, gross income, legal status and governing documents. The Charity Commissioners take the view that gross income includes capital grants and receipts, but this does not appear to be a view that is supported by the legislation. This article will outline the various options open to charities.

Accounts prepared on a cash basis show what cash has been received and paid out over a given period of time, accruals accounting is the usual basis for accounts preparation and is meant to show a 'true and fair view'. Accruals accounting will show what the level of incoming and outgoing resources have been over a period of time, irrespective of whether any money has actually been received or paid out. Take for example, a charity, with a year ended 31st March 2011 that is awarded funding of £4,000 on 1st March 2011 but does not actually receive it until 15th May 2002. Under cash based accounting this would be recorded as a receipt for the year ended 31st March 2012, under accruals accounting this would be income for the year ended 31st March 2011.

Receipts and payments accounts

These are accounts that are prepared on a cash basis and it will only be permitted if the annual gross income of the charity is less than £250,000. A charity will have to prepare two financial statements, a receipts and payments account and a statement of assets and liabilities The option of preparing accounts on a receipts and payments basis is not available to charitable companies; these charities will prepare accounts on the normal accruals basis.

The Independent Examination

For financial years ending on or after 31 March 2015 charities with a gross income of £25,000 or less are not required to have an external scrutiny. For financial years ending on or after 31 March 2015, charities with a gross income of £1m or less may choose to have an independent examination in place of an audit unless both their gross assets exceed £3.26 million and their gross income exceeds £250,000. Charities that are not incorporated that have a gross income of less than £250,000 can adopt to have an independent examination rather than a more formal audit. This is only provided either the governing document or a grant aider of the charity does not require an audit. An unqualified accountant may carry out an independent examination, but if the gross income exceeds £100,000 then the Examiner has to be a member of a listed body, effectively a member of a recognised body, which includes accounting bodies.

There are very strict rules covering the appointment of an independent examiner and the duty of trustees to ensure the examiner is competent to carry out the work. An independent examination is not a procedure to be undertaken lightly and there are guidelines covering the nature and volume of tests to be carried out and the form that working papers should take.

The law permits an unqualified accountant to carry out this task and a great number of unqualified people perform this task very well. It is important to appoint someone who has the requisite knowledge and experience, and is also familiar with the strict requirements of the directions of the Charity Commissioners

Audit

Charities with a gross income exceeding £500,000 in the relevant financial year, or whose gross assets exceed £3.26m and gross income exceeds £250,000 must have accounts prepared on the accruals basis in accordance with the 2008 Regulations and the Charity SORP. A statutory audit is also required and the accounts must be audited by a registered auditor.

Charitable Companies

Charitable companies prepare accounts under company law, and the recommendations of the SORP apply to charitable companies

With effect for accounting years beginning on or after 1 April 2008, the specific audit requirements for charitable companies contained in the Companies Act have been removed. A charitable company will only require an audit under the Companies Act if it exceeds the Companies Act audit threshold.

For small charitable companies and small charitable company groups, which are not required to have an audit under the Companies Act, the Charities Act scrutiny arrangements now apply and charitable companies are required to have their accounts audited by a registered auditor if either of the following conditions are met for accounting periods ending on or after 1 April 2009:

- gross income exceeds £500,000
- gross assets exceed £3.26 million and gross income exceeds £250,000