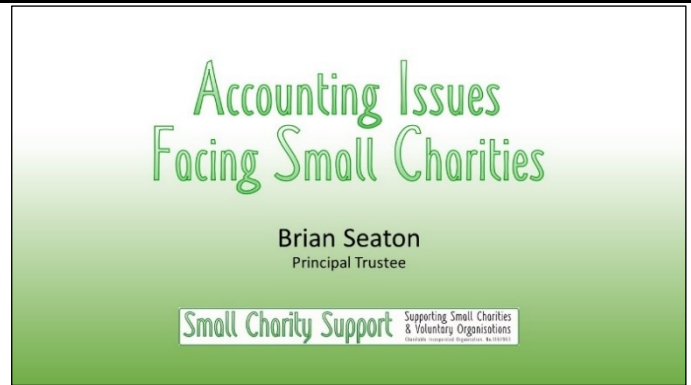


ACIE Webinar - Accounting Issues Facing Small Charities

- Thanks to the ACIE for inviting me to give this webinar. And thanks to you for participating.
- You will appreciate that my presentation represents my own views, not the official views and policies of the ACIE.
Please [READ](#) the disclaimer and copyright notices on the Small Charity Support website.
- Small Charity Support is a small registered CIO which, for the last 10 years or so has been providing *pro bono* support to other small charities (generally <£200K/yr) on a wide range of governance & management issues.
- In some cases the support requested is specifically on financial management. But in many cases financial management issues are found as ancillary problems.
- We occasionally undertake Independent Examinations of accounts as a supplement to providing wider support – but we do not offer IEs as a separate “on request” service.



- In this webinar I'm going to talk about the 3 most common accounting issues that we find.

Charity Accounting – The Issues

Receipts & Payments Accounting

Accruals Accounting

Financial Advisors

- But first....
- It was recently Christian Aid Week and I thought that this short clip from a promotional video by Christian Aid was very pertinent even though, with an annual turnover of around £100M it is not exactly a “small” charity.
- Click [HERE](#) to watch the clip

Charity Accounting Procedures – Why Bother ?

Donors
Want It

Core
Values

Use of
Resources

Why is **Value for Money**
important for Christian Aid?

- The speaker goes on to mention the “E’s” of good financial management and adds one of her own – Equitably – as also being relevant to the charity sector.
- I often add another 2 more.

Delivering Value for Money – the “E”s

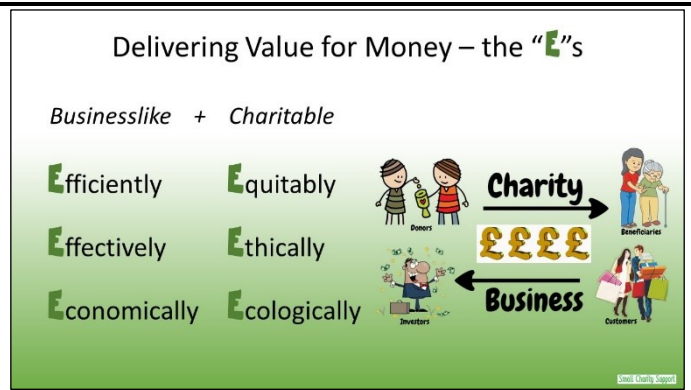
Businesslike + Charitable

Efficiently **E**quitably

Effectively **E**thically

Economically **E**cologically

- But even though the commercial and charity sectors share the main 3-Es of being “business-like” (and sometimes more);
- We must not lose sight of the fact that the business and charity sector have fundamentally different operational contexts.
- Charities take donors’ money and use it to provide benefits to its beneficiaries that they wouldn’t otherwise be able to afford.

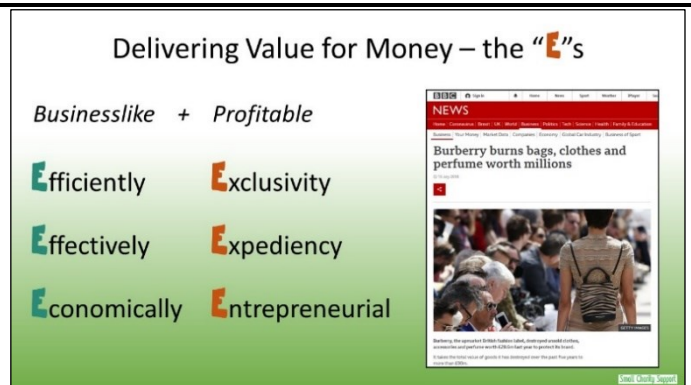


- Businesses take money from customers who can afford it to provide profits to investors.

In other words:

- For charities “value-for-money” means providing the most appropriate goods/services to beneficiaries at the lowest appropriate cost to generate the greatest benefits from donors’ money;
- For businesses “value-for-money” means selling good/services to customer at the highest price that they can afford to provide the greatest profits to investors.

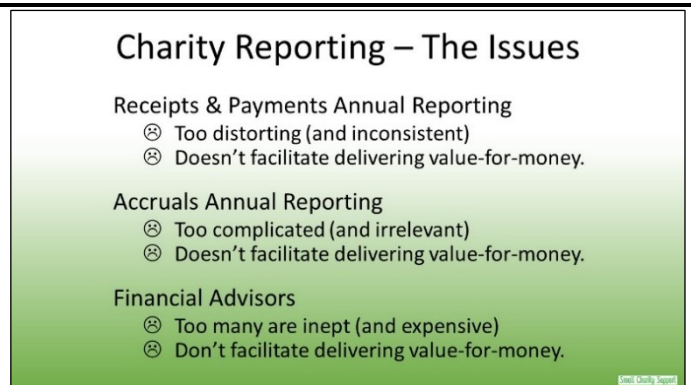
- This difference is well-illustrated by the incident reported a few years ago where Burberry – the big fashion brand – burned £28M of stock specifically to maintain the exclusivity – and, therefore, the high market prices – of its goods in order to maintain its profits to its investors.



- That adds some extra “Es” to the characteristics of being “business-like”.

- One cannot image a charity like a food-bank or high-street charity shop burning its stock to create an unfulfilled demand for its goods/services in order to encourage more donations from its benefactors.

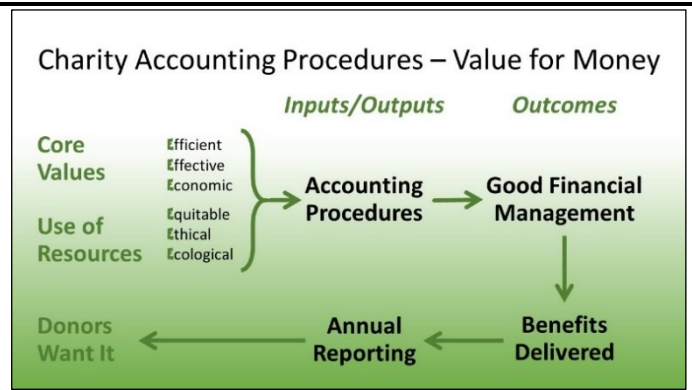
- A consistently recurring issue for the trustees of small charities which come to Small Charity support for help, is that the two accounting procedures available to small charities – Receipts & Payments and Accruals – both seem singularly inappropriate to help small charities manage their finances in ways that will enable them to deliver “value-for-money”.



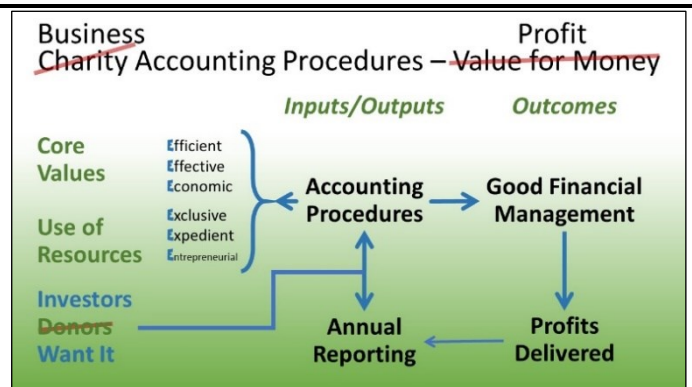
- So what I want to do in this webinar is first to take a “helicopter overview” of the issues to get a better understanding of what those issues are and why they have arisen.

- And then, most importantly, to go on to outline some approaches which, I and Small Charity Support believe, can minimise those issues, if not circumvent them altogether. (I was brought up to believe that one should only criticise something if one can offer, at the very least, a plausible and pragmatic solution to that problems).

- Delivering value-for-money depends on the typical non-accountant trustees of small charities being able to identify and then implement financial procedures and controls which reflect their charity's core values and resources.
- As the speaker in the Christian Aid video went on to clarify, "value-for-money" DOESN'T mean "cheap and cheerful".
- It means having robust financial management procedures and controls in to place to be able to ensure that the charity is paying the most appropriate price for resources to be able to deliver the most appropriate goods and/or services to its beneficiaries in ways which are consistent with the charity's core values.
- AND – most importantly – it means that those financial management procedures and controls MUST be also understandable and easy for typical non-accountant trustees, volunteers, staff of small charities to implement and, ultimately, report to the charity's donors and to the public in general.

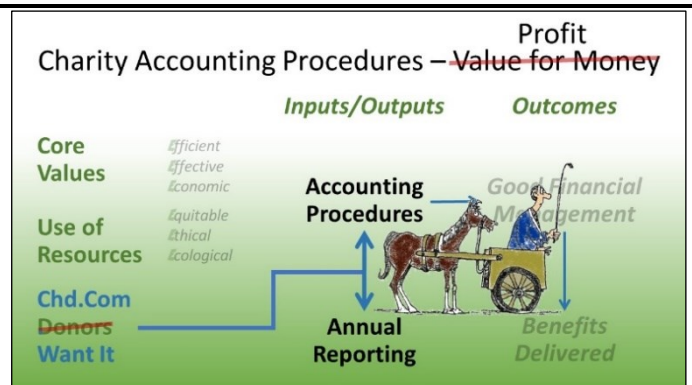


- Businesses similarly want to operate in a 3-Es way.
- But far from aiming to deliver the best "value" of their goods and/or services at the lowest cost to their customers at the lowest cost, most business aim to deliver an "acceptable" value of goods and/or services at the maximum acceptable cost to the customer in order to generate the maximum profit for its stakeholders.



- But the financial management and controls of a commercial business must also produce financial reports of its running costs and profits to a standard acceptable to the taxation authorities (HM Revenue & Customs) in order to meet its public taxation obligations in a way that does not unduly detract from the dividends and interest that it pays to its investors from its net profit after taxation.

- Imposing on small charities financial reporting standards adapted from those developed for commercial organisations with a focus on reporting profits to investors and taxation to HMRC is "putting the cart before the horse".
- ie: financial reporting system which are focused on reporting profits and losses to investors and taxation liabilities to HMRC can – and often do! – undermine trustees' focus on their charity's core values and use of resources to deliver value-for-money to beneficiaries and donors.



- I'm sure that you don't need me to tell you what the problems are with Receipts & Payments (R&P) reporting are.
- It remains a totally mystery to me why the Charities Act allows – *ie*: encourages – small charities to use a financial reporting system which is so widely disdained as being susceptible to distortions and misleading reporting of any organisation's financial status.
- The Charity Commission' statutory objects start with *"to increase public trust and confidence in charities"* and its Statement of Strategic Intent for 2018-2023 starts with *"To ensure charity can thrive and inspire trust...."*.
- Yet it's CC16b guidance on R&P reporting blithely explains that "Receipts and payments accounts are not expected to show a 'true and fair view' of the charity's financial activities and state of affairs".
- So what **ARE** Receipts & Payments accounts *"expected to show"*? Any old rubbish – as long as they keep donors happy, and the public trusting?
- The Charity Commission only occasionally looks at 0.05% of small charity accounts – the last review I can find (and I look regularly) was in 2018/19. And when it does it finds more than half of them failing to meet its benchmark standards (*ie*: CC16b for R&P accounts). I shall return to this later !

Receipts & Payments Reporting Issues

- ⊗ Recording only when the money changes hands ("Cash" date)
.... makes overdue debtors & creditors more difficult to manage;
- ⊗ "Cash" & "Accrual" dates falling in different reporting periods
.... creates unwanted distortions of the Financial Reports;
- ⊗ Inconsistencies in how transactions should be reported
.... creates confusion and lack of confidence in the reliability and usefulness of the financial reports produced.

- The Charity Commission's own example accounts is a "good example" of those issues in practice.
- In my view, far from being a "good example" of how to demonstrate the charity delivering "value-for-money" in a clear and understandable way it is more an example of confusion or obfuscation (or both) in the use of the charity's funds.
- A couple of years ago, Small Charity Support sent to the Charity Commission a "critique" of the numerous "curiosities" in the – then – version of the Westbeach Youth Club example.
- In response, the Commission significantly revised the text of the Trustees' Annual Report, but made no changes to the Financial Statements.
- Small Charity Support believes that the Financial Report still contains a number of "curiosities" (*eg*: in the reporting of Gift Aid, activities expenses, assets, outstanding liabilities). Had that Trustees' Annual Report & Financial Statements been submitted to Small Charity Support for Independent Examination it would NOT have been signed off without some "serious discussions" with the Trustees.

Ch.Com. – Westbeach YC "Model" Accounts

The image shows a screenshot of a financial statement template from the Charity Commission. It features a header with 'Charity Name' and 'Reporting Period'. Below this is a table with columns for '2018-19', '2017-18', and '2016-17'. The rows include various financial categories such as 'Income', 'Expenditure', and 'Reserves'. The table is filled with numerical data, and there are several footnotes and additional sections at the bottom of the page.

- See the appendix for a variety of scenarios showing how extraneous (and largely irrelevant) factors, both within and outside of the control of the two charities **A & B** can affect and distort their financial reports.
- It was originally intended to include them in the webinar itself, but they were so pedantically boring that it was decided to leave them out and rely on participants own experiences.

R&P Issues – Which Date to Record/Report

The Setting:

Charity **A** and charity **B** are two similar small charities (<£200K/yr) with the same financial reporting period (1-Jan to 31-Dec) and producing R&P Annual Financial Reports (*aka*: Annual "Accounts")

Charity B owns a small hall which it lets out to other charities as an income generator.

As with many small charities, the trustees of both charities think that they should only **record** transactions on the date that the "money changed hands" because in their R&P "Annual Accounts" they only **report** transactions on the date that the "money changed hands".

R&P Issues – Which Date to Record/Report Confused ? Head Spinning ? Bored ?

That's at least 4 different scenarios and outcomes for recording and reporting in R&P "accounts" what is essentially the same financial transaction ?? !!

But even though the differences between those scenarios are trivial – just a few days' difference between when the transaction occurred and when "the money changed hands" – the impact of those trivial differences on both charities' financial reports is disproportionately significant.



R&P Issues – Which Date to Record/Report Confused ? Head Spinning ? Bored ?

And those confusions and distortions are exacerbated by contradictions and inconsistencies and in the CC16 R&P guidance & rules for reporting transactions when Cash dates and Transaction dates fall in different financial reporting periods.

So it is not surprising that many non-accountant volunteer trustees of small charities see R&P Annual Accounts an irrelevant waste of their time.



R&P Issues – Which Date to Record/Report It's Obvious !

Even with R&P accounts, **ALL** the records of financial transactions **SHOULD contain BOTH: (1) Transaction dates; AND (2) Cash dates:**

1: The date on which the money changed hands;

If a charity only has records of when transactions were paid for
(*ie:* the Cash dates of its transactions)

but no records of what transactions it has committed to,
it has no way of knowing which other transactions remain unpaid.

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R&P Issues – Which Date to Record/Report It's Obvious !

Even with R&P accounts, **ALL** the records of financial transactions **SHOULD contain BOTH: (1) Transaction dates; AND (2) Cash dates:**

2: The date of the activity to which the transaction relates;

If a charity only keeps records of its transactions dates
but not of the dates when "the money changed hands"
it has no way of knowing which of those transactions remain unpaid.

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- What the scenarios illustrate – and what effectively most small charity trustees realise intuitively – is that any charity (small as well as large) which is going to meet its **3+3Es** core values need to have:
 - a) accounting procedures which can record **BOTH** the transaction date **AND** the cash date of every transaction, to ensure that undue delays in the completion of transactions can be identified quickly;
 - b) have good financial management procedures so that, where any such cash-flow issues are identified, they can be dealt with quickly to ensure that the delivery of "value-for-money" outcomes to their charity's beneficiaries is not compromised.

ie: the notion that small charities need to record and report only the date that "the money changes hand" (*or, for that matter, only the "accrual" date of a transaction*) is just "plain stupid".

At this point in the webinar the presentation switched to a live spreadsheet to demonstrate some key financial procedures in "live action".

A Basic Accounts Spreadsheet

A functional alternative to Double-Entry Bookkeeping for BOTH Accruals and R&P Reporting

Switching to a live spreadsheet.....

.....to demonstrate "Proof of Concept"

A 3D illustration of a white figure sitting on a large green checkmark. The figure is holding a laptop. The background is a light green gradient.

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What follows in this annotated transcript is, instead, a static commentary on the way that the spreadsheet operates ("proof of concept").

The full working example of the spreadsheet, based on real (but appropriately anonymised) data from a small charity which was using it, can be downloaded from the Small Charity Support website.

<https://www.smallcharitysupport.uk/index.php/simple-accounts>

Fundamentals of the Small Charity Support Accounts Spreadsheet

More detailed descriptions of the way that the “proof of concept” Spreadsheet works, and instructions for using it, can be found on the Small Charity Support website.

<https://www.smallcharitysupport.uk/index.php/simple-accounts>

Introduction

- The spreadsheet is available to download from the Small Charity Support website. But it is:
 - a) a demonstration of “proof of concept” NOT a commercial promotion;
 - b) entirely free of charge for use for non-commercial purposes by charities and other not-for-profit social enterprises – no payment is taken from those downloading and using the spreadsheet; and
 - c) entirely open-source – all the formulae, structure and content of the spreadsheet can be examined and added to, amended or deleted to suit the purposes of charities intending to use it to support their own financial procedures, management and controls;
- the spreadsheet is copyrighted to Small Charity Support only to prevent plagiarism and exploitation by others for commercial benefit (particularly if to the detriment of the charity sector).
- The spreadsheet has been under ongoing development for the last 10 years. It has been developed primarily in Microsoft-Excel®, but has also been used successfully in LibreOffice Calc®
- Small Charity Support has no way of knowing how many small charities are currently using the spreadsheet. But, over the years, there have been hundreds of requests to download and use it.
- It has been used by a variety of charities of diverse sizes and characteristic, including unincorporated associations (R&P accounting), CIOs (R&P accounting), charitable companies (Accruals accounting).
- Most users are quite small – just one or two bank/cash accounts; 50-70 reporting categories (“Nominal Accounts”) and 400-700 transactions per year. But it has also been successfully used by somewhat larger charities with more complex financial structures (eg: up to ca.150 Categories/NominalAc; and/or more than 1000 transactions per financial year).

Structure & Operating Principals

- The spreadsheet was originally designed for users with “elementary” skills in spreadsheet design.
- But growth in the use of the more modern relational database elements of spreadsheet formulae and functionality means that in-house modification of the spreadsheet by others requires a more advanced level of skill. Though expert/professional spreadsheet skills are not required.
- However, basic transaction data entry and management, and the production of reports and analyses is still within the capabilities of user with “elementary” spreadsheet and financial bookkeeping skills.
- In particular, the spreadsheet makes use of #-tagging techniques (as is now common in social media) which means that a wide variety of searches and queries can easily and quickly be performed using just the one set of records and with only elementary spreadsheet skills.

- During the webinar a substantially reduced version of the spreadsheet containing just what was demonstrated for simplicity, speed and convenience.
- The live demonstration data consisted of just 25 transactions covering an entire year.

Example: Better Living							Bank Transactions, FYE: 31-Dec-19	
Date	Ref	Category	Fund	Physic/Payer	Comment	Amount	G	Balanced
31-Dec-18								5,702.32
02-Jan-19	Inv:19001	P4-Internet Services		InetHosts	website	-9.00	1	5,693.32
09-Jan-19	Hall:19001	RMG-Miscellaneous		Dementia Care	Hire of Hall - New Year Event	500.00	4	6,193.32
15-Jan-19	Rec:19001	P4-Office Costs		Post Office	Stamps & postage	-56.00	1	6,137.32
04-Feb-19	Rec:19002	P4-Meetings		A Lewis	Board meeting refreshments	-56.03	2	6,101.29
18-Feb-19	Rec:19003	P3-BE-Project Costs	Better Ealing	R Scott	Travel for event	-166.67	2	5,934.62
03-Mar-19	Inv:19002	P3-SaH-Project Costs	Safe At Home	Happy Printers	SaH printing	-440.00	3	5,494.62
12-Mar-19	Rec:19004	P2-Networking		R Badgwick	Travel to Manchester event	-214.50	3	5,280.12
25-Mar-19	Ch:1713	P3-SaH-Staff Costs	Safe At Home	R Badgwick	Salary	-1,049.56	4	4,230.56
06-Apr-19	BACS	RMR-BetterEaling	Better Ealing	John Briggs Charitable	Grant	2,500.00	4	6,730.56
15-Apr-19	BACS	R2-Fundraising		Friendly Fairs Ltd	Receipts from Spring Fair Fundra	2,024.18	5	8,754.74
22-Apr-19	Rec:19007	P3-BE-Project Costs	Better Ealing	J Pugh	Travel to/from Progress meeting	-5.10	4	8,749.64
29-May-19	Inv:19005	P4-Office Costs		Office Unlimited	Rent Jan-Jun	-720.00	6	8,029.64
26-Jun-19	BACS	P4-Meetings		Tesco	Refreshments for AGM	-205.76	6	7,823.88
26-Jun-19	Ch:1714	P3-SaH-Staff Costs	Safe At Home	R Badgwick	Salary	-843.61	6	6,980.27
12-Aug-19	Rec:19008	P4-Office Costs		Post Office	Stamps & postage	-48.00	8	6,932.27
29-Sep-19	Ch:1715	P4-Independent Examiner		AN Accountant	Independent Examination	-250.00	11	6,682.27
25-Sep-19	Ch:1716	P3-SaH-Staff Costs	Safe At Home	R Badgwick	Salary	-1,045.00	10	5,637.27
14-Oct-19	Rec:19008	P4-Meetings		Leon Kings Cross	Strategic planning	-20.00	9	5,617.27
28-Oct-19	Rec:19009	P4-Office Costs		Post Office	Stamps & postage	-56.00	10	5,561.27
03-Nov-19	Inv:19003	P4-Internet Services		Positive Ideas Co	website	-9.00	10	5,552.27
29-Nov-19	Inv:19004	P4-Office Costs		Office Unlimited	Rent Apr-Dec	-750.00	11	4,802.27
04-Dec-19	BACS	R1-GiftAid		HMRC		250.00	12	5,052.27
10-Dec-19	Rec:19010	P4-Office Costs		Post Office	Stamps & postage	-58.00	12	4,994.27
14-Dec-19	Rec:19011	P4-Office Costs		Post Office	Stamps & postage	-58.00	12	4,936.27
29-Dec-19	Ch:1717	P3-SaH-Staff Costs	Safe At Home	R Badgwick	Salary	-1,474.56	13	3,461.71
End of Transactions								

Example: Better Living							Bank Transactions, FYE: 31-Dec-19			J	K	L															
Date	Ref	Category	Fund	Payee/Payer	Comment	Amount	Cl	Balance	Balance at 29-Dec-19	Reconciled Balance	Unreconciled Transactions																
31-Dec-18						Brought Forward		5,702.32	2,282.31	4,007.09	-1,724.78																
05-Dec-18		_P9-Purchase of Assets		PC World	Computer & Printer	-1,299.00	1	4,403.32	<table border="1"> <tr> <td>Acc1</td> <td>Receipts</td> <td>40,315.88</td> </tr> <tr> <td></td> <td>Payments</td> <td>-45,911.11</td> </tr> <tr> <td></td> <td>Debtors</td> <td>987.50</td> </tr> <tr> <td></td> <td>Creditors</td> <td>-2,712.28</td> </tr> <tr> <td></td> <td>Trfrs In</td> <td>14,000.00</td> </tr> <tr> <td></td> <td>Trfrs Out</td> <td>-10,100.00</td> </tr> </table>	Acc1	Receipts	40,315.88		Payments	-45,911.11		Debtors	987.50		Creditors	-2,712.28		Trfrs In	14,000.00		Trfrs Out	-10,100.00
Acc1	Receipts	40,315.88																									
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	Trfrs Out	-10,100.00																									
12-Dec-18		_R1-GiftAid		HMRC		845.00	2	5,248.32																			
18-Dec-18		_R4G-Miscellaneous		Barry Driver	Purchase of Good Eating Recipe	33.20	1	5,281.52																			
19-Dec-18		_P2-Volunteer Costs		GoodFood Caterers	Christmas Event - Catering	-200.00	1	5,081.52																			
19-Dec-18		_P2-Volunteer Costs		Trinity Church	Christmas Event - Room hire	-100.00	1	4,981.52																			
22-Dec-18		_P4-Office Costs		OfficeSafe	Rent	-240.00	1	4,741.52																			
16-Jan-19		_R1-Membership		E Taylor		30.00	1	4,786.06																			
28-Jan-19		_P3-BE-Staff Costs	Better Eating	R Badgwick	Salary	-1,049.56	2	3,736.50																			
28-Jan-19		_P3-SaH-Staff Costs	Safe At Home	J Pugh	Salary	-667.44	2	3,069.06																			
28-Jan-19		_P4-Office Costs		Post Office	Stamps & postage	-56.00	1	3,013.06																			
28-Jan-19		_R1-Donations		Anonymous		1,500.00	1	4,513.06																			
19-Dec-19		_P2-Networking		GoodFood Caterers	Catering - Christmas Event	-450.00	12	4,381.79																			
20-Dec-19	AdvExp	_R9-Income In Advance		Various	Bookings for Feb Conference	360.00	12	4,741.79																			
28-Dec-19		_P3-BE-Staff Costs	Better Eating	J Pugh	Salary	-884.92		3,756.87																			
28-Dec-19		_P3-SaH-Staff Costs	Safe At Home	R Badgwick	Salary	-1,474.56		2,282.31																			

- The full “proof of concept” spreadsheet is illustrated above and can be downloaded from the Small Charity Support website: <https://www.smallcharitysupport.uk/index.php/simple-accounts>. It will be used instead of the webinar live demonstration version for the rest of this transcript.
 - The full example spreadsheet contains 170 transactions in 55 Categories, mostly taken (and appropriately anonymised) from the accounts of a small charity using the spreadsheet in practice.
- A. Date:** the transaction date – *ie:* the date of the activity to which the transaction relates;
- B. Ref:** a reference to identify the documentation relating to the transaction (eg: cheque, invoice);
- C. Category:** the category (Nominal Account) for the transaction;
- D. Fund:** the name of the fund to which the transaction relates;
- E. Payee/Payer**
- F. Comments:** an additional description for the transaction if appropriate/necessary;
- G. Amount:** the amount of the transaction:
positive (*ie:* 123.45) for incoming receipts, negative (-123.45) for outgoing payments;
- H. CD (Cash Date):** the financial month number in which “the money changed hands” (usually the month when the payment appeared in the bank statement);
- I. Balance:** the accrued running balance in the account.

“Built-In Mini-Balance Sheet”

- In the above screenshot of the worksheet rows 10-26 and 32-169 have been hidden to show just the first and last few transactions of the year.
 - The cells to the right of the transactions data (columns J-L, rows 2-8) contain a summary of all the transactions. Formulae in those cells ensure that the data in them are updated automatically “in real time” as transactions data are entered into columns A-H.
- J2: Balance at..:** £2,282,31 is the accrued amount in the bank account to date. *ie:* the amount expected in the bank account when all outstanding transactions have been completed);
- K2: Reconciled Balance:** £4,007.09 is the amount actually in the bank as at the bank statement of 31-Dec-19. The amount differs from the accrued amount (in J2) because, for some transactions, “the money has not yet changed hands”. *ie:* have not yet appeared in the bank statement. Consequently, a cash date (as just the month number) has not yet been entered into column H (CD);
- L2: Unreconciled Transactions:** is the net amount of outstanding (*ie:* unreconciled) payments – *ie:* those where the Cash Date in column-H is blank. It is the difference between cells J2 & K2;
- L3: Receipts:** the total amount of actual incoming receipts to date (*ie:* column-H has a Cash Date);
- L4: Payments:** the total amount of actual outgoing payments to date (*ie:* column-H has a Cash Date);
- L5: Debtors:** the amount of overdue (*ie:* not yet received) incoming payments (*ie:* column-H blank);
- L6: Creditors:** the amount of overdue (*ie:* not yet sent) outgoing payments (*ie:* column-H blank);
- L7 & L8:** internal transfer between accounts – *eg:* where a charity has separate current, deposit or Petty Cash accounts and makes transfers between and so those transactions do not represent receipts/payment or income/expenditure.

These cells effectively act as a built-in mini-balance sheet for this account.

Example: Better Living							Bank Transactions, FYE: 31-Dec-19			J	K	L
Date	Ref	Category	Fund	Payee/Payer	Comment	Amount	Cl	Balance	Balance at 29-Dec-19	Reconciled Balance	Unreconciled Transactions	
31-Dec-18								Brought Forward	1,982.31	4,007.09	-2,024.78	
05-Dec-18		P9-Purchase of Assets		PC World	Computer & Printer	-1,299.00	1	4,403.32	Acc1	Receipts	40,315.88	
12-Dec-18		R1-GiftAid		HMRC		845.00	2	5,248.32		Payments	-45,911.11	
18-Dec-18		R4G-Miscellaneous		Barry Driver	Purchase of Good Eating Recipe	33.20	1	5,281.52		Debtors	987.50	
19-Dec-18		P2-Volunteer Costs		GoodFood Caterers	Christmas Event - Catering	-200.00	1	5,081.52		Creditors	-3,012.28	
19-Dec-18		P2-Volunteer Costs		Trinity Church	Christmas Event - Room hire	-100.00	1	4,981.52		Trfrs In	14,000.00	
22-Dec-18		P4-Office Costs		OfficeSafe	Rent	-240.00	1	4,741.52		Trfrs Out	-10,100.00	
16-Jan-19		R1-Membership		E Taylor		30.00	1	4,786.06				
28-Jan-19		P3-BE-Staff Costs	Better Eating	R Badgwick	Salary	-1,049.56	2	3,736.50				
28-Jan-19		P3-SaH-Staff Costs	Safe At Home	J Pugh	Salary	-667.44	2	3,069.06				
28-Jan-19		P4-Office Costs		Post Office	Stamps & postage	-56.00	1	3,013.06				
28-Jan-19		R1-Donations		Anonymous		1,500.00	1	4,513.06				
19-Dec-19		P2-Networking		GoodFood Caterers	Catering - Christmas Event	-450.00	12	4,381.79				
20-Dec-19	AdvExp	R9-Income In Advance		Various	Bookings for Feb Conference	360.00	12	4,741.79				
28-Dec-19		P3-BE-Staff Costs	Better Eating	J Pugh	Salary	-984.92		3,756.87				
28-Dec-19		P3-SaH-Staff Costs	Safe At Home	R Badgwick	Salary	-1,474.56		2,282.31				
29-Dec-19		P2-Networking		Trinity Church	Room hire - Christmas Event	-300.00		1,982.31				

- A bill of £300 for the hire of a hall for the charity's Christmas event was received on 29-Dec-19, but the payment cheque was not written and sent until 3-Jan-20.

In the following steps only those which required manual action by the charity's bookkeeper are shown in black. The steps which occurred automatically and immediately, without manual intervention, due to the formulae in the relevant worksheet cells, are shown in *italic orange*.

- The relevant transaction data were entered into cells A-G
The transaction date (the date on which the payment was due – accrual date) was entered into cell-A as 29-Dec-19. But no entry was made into cell H because, in accordance with Receipts & Payments guidance the cheque had not been sent and presented to the payee's bank before 31-Dec-19. (*ie*: there was no "Cash Date" for this transaction within the current financial period).
- *The accrued bank balance in J2 is automatically reduced by £300 from £2,282.31 to £1,982.31*
- *The reconciled "Cash" balance in K2 remains unaltered at £4,007.09 because the payment has not yet appeared in the bank statement;*
- *The total unreconciled amount in L2 is automatically adjusted from -£1,724.78 to -£2,074.78.*
- *And the outstanding creditors in L6 is similarly adjusted from -£2,712.28 to -£3,012.28.*

- The routine end-of-month Budget Report to the trustees (produced automatically in "real time" as transactions data are entered) shows the financial status of the charity on BOTH a "Cash" (R&P) and an "Accruals" basis simultaneously side-by-side from the same transaction data in the Bank worksheet.:

PAYMENTS	Prev Yr	This Yr	Budget to	R&P	Accruals
	Out-turn	Budget	31-Dec-19	31-Dec-19	31-Dec-19
CHARITABLE ACTIVITIES (GENERAL FUNDS)					
Training	0	-100	-100	0	0
Volunteer Costs	0	-100	-100	-300	0
Networking	-1,343	-600	-600	-1,865	-2,165
Miscellaneous	0	0	0	0	0
	-1,343	-800	-800	-2,165	-2,165

- The R&P column shows a "Cash" expenditure of -£1,865 for Category "Networking" (*ie*: the category to which the cost of hiring the hall was allocated) because although the transaction had been committed the "money had not yet changed hands" to complete the transaction.
- But the Accrual column shows an "Accrued" expenditure of -£2,165 for Category "Networking" because the charge for the hire of the hall had been included as an outstanding creditor.
- This is a clear and unequivocal "proof of concept" that, when BOTH the transaction date AND the cash date are included in a charity's transaction records, financial reporting a charity's "real money" transactions on a Receipts & Payments basis is no simpler than reporting them on an Accruals "accounts" (*ie*: financial report).

Example: Better Living										Bank Transactions, FYE: 31-Dec-19			
Date	Ref	Category	Fund	Payee/Payer	Comment	Amount	Cl	Balance		Balance at 29-Dec-19	Reconciled Balance	Unreconciled Transactions	
31-Dec-18								Brought Forward		1,982.31	3,707.09	-1,724.78	
05-Dec-18		_P9-Purchase of Assets		PC World	Computer & Printer	-1,299.00	1	4,403.32		Acc1	Receipts	40,315.88	
12-Dec-18		_R1-GiftAid		HMRC		845.00	2	5,248.32			Payments	-46,211.11	
18-Dec-18		_R4G-Miscellaneous		Barry Driver	Purchase of Good Eating Recipe	33.20	1	5,281.52			Debtors	987.50	
19-Dec-18		_P2-Volunteer Costs		GoodFood Caterers	Christmas Event - Catering	-200.00	1	5,081.52			Creditors	-2,712.28	
19-Dec-18		_P2-Volunteer Costs		Trinity Church	Christmas Event - Room hire	-100.00	1	4,981.52			Trfrs In	14,000.00	
22-Dec-18		_P4-Office Costs		OfficeSafe	Rent	-240.00	1	4,741.52			Trfrs Out	-10,100.00	
16-Jan-19		_R1-Membership		E Taylor		30.00	1	4,786.06					
28-Jan-19		_P3-BE-Staff Costs	Better Eating	R Badgwick	Salary	-1,049.56	2	3,736.50					
28-Jan-19		_P3-SaH-Staff Costs	Safe At Home	J Pugh	Salary	-667.44	2	3,069.06					
28-Jan-19		_P4-Office Costs		Post Office	Stamps & postage	-56.00	1	3,013.06					
28-Jan-19		_R1-Donations		Anonymous		1,500.00	1	4,513.06					
19-Dec-19		_P2-Networking		GoodFood Caterers	Catering - Christmas Event	-450.00	12	4,381.79					
20-Dec-19	AdvExp	_R9-Income In Advance		Various	Bookings for Feb Conference	360.00	12	4,741.79					
28-Dec-19		_P3-BE-Staff Costs	Better Eating	J Pugh	Salary	-984.92		3,756.87					
28-Dec-19		_P3-SaH-Staff Costs	Safe At Home	R Badgwick	Salary	-1,474.56		2,282.31					
29-Dec-19	BACS	_P2-Networking		Trinity Church	Room hire - Christmas Event	-300.00	12	1,982.31					

- But if the charity had made the payment for the Room hire on-line by BACS instead of by cheque, the payment would have gone out of the bank account immediately and be reported in the charity's December bank statement.
- "12" would then have been entered into column H to indicate that the payment had been reconciled with the bank statement for the 12th month of the charity's financial year.
- The accrued amount in the bank (cell J2) remains unaltered;
- The reconciled amount in K2 is adjusted automatically to -£3,707.09 and matches the December bank statement;
- The unreconciled amount in L2 is adjusted automatically from -£2,024.78 to -£1,724.78;
- The outstanding creditors in L6 is adjusted automatically from -£3,012.28 to -£2,712.28

- In the routine end-of-month Budget Report to the trustees, "real time" automatic updating as transactions data are entered and/or updated means that both the R&P and Accruals reports of expenditure allocated to Category "Networking" are the same (though still far in excess of the budget for the year, but for different reasons.)

PAYMENTS	Prev Yr Out-turn	This Yr Budget	Budget to 31-Dec-19	R&P 31-Dec-19	Accruals 31-Dec-19
CHARITABLE ACTIVITIES (GENERAL FUNDS)					
Training	0	-100	-100	0	0
Volunteer Costs	0	-100	-100	-300	0
Networking	-1,343	-600	-600	-2,165	-2,165
Miscellaneous	0	0	0	0	0
	-1,343	-800	-800	-2,465	-2,165


- This is further clear and unequivocal "proof of concept" that, when BOTH the transaction date AND the cash date are included in a charity's transaction records, financial reporting a charity's "real money" transactions on a Receipts & Payments basis is no simpler than reporting them on an Accruals "accounts" (ie: financial report).
- On the contrary, it is strong evidence that reporting cash transactions on an accruals basis can actually be EASIER than reporting on a R&P(Cash) basis, because Accruals reporting avoids the well-know problems of distortion for which R&P(Cash) reporting is widely disdained.

A Basic Accounts Spreadsheet

A functional alternative to Double-Entry Bookkeeping for BOTH Accruals and R&P Reporting

Switching to a live spreadsheet.....

.....to demonstrate "Proof of Concept"



Returned to the PowerPoint presentation

Is R&P Reporting Really Simpler than Accruals Reporting ?

- This “proof of concept” spreadsheet was originally set up to explore and demonstrate that the use of modern relational database technology (using what we now call #-tags in modern social media to identify and aggregate related data items) would avoid the necessity to use the more “location-orientated” approach of double-entry bookkeeping (*ie*: identifying and aggregating related data items by recording them in and transferring them between specific ledgers, journals, cashbooks etc.).
- But by putting R&P(Cash) reporting side-by-side with Accruals reporting from one set of financial records, the “proof of concept” spreadsheet also clearly and unequivocally demonstrates that, for most of a charity’s “real money” transactions, there is no difference between R&P and Accruals recording and reporting.
- It is only when the transaction dates and the cash dates fall in different financial periods that R&P and Accruals report differ.

Why is R&P Reporting Simpler than Accruals?

Answer: IT’S NOT SIMPLER !

“Cash” & “Accruals” reports are the same when transactions are completed in the same period

Cash “accounts” report how much money the charity **actually** had in the bank at the end of its financial period and then explains (*eg*: Debtors & Creditors) why the amount it **expected** to have (“Accrued”) was different.

$$\text{Cash} = \text{Transactions} - 0$$

Accruals “accounts” report how much money the charity **expected** to have in the bank at the end of its financial period and then explains (*eg*: Debtors & Creditors) why the **actual** (Cash) amount it had was different.

$$\text{Transactions} = \text{Cash} + 0$$

Small Charity Support

Why is R&P Reporting Simpler than Accruals?

Answer: IT’S NOT SIMPLER !

“Cash” & “Accruals” reports are just mirror images of each other

Cash “accounts” report how much money the charity **actually** had in the bank at the end of its financial period and then explains (*eg*: Debtors & Creditors) why the amount it **expected** to have (“Accrued”) was different.

$$\text{Cash} = \text{Transactions} - \text{Overdue}$$

Accruals “accounts” report how much money the charity **expected** to have in the bank at the end of its financial period and then explains (*eg*: Debtors & Creditors) why the **actual** (Cash) amount it had was different.

$$\text{Transactions} = \text{Cash} + \text{Overdue}$$

Small Charity Support

- In practice:

- ⊖ distortions in the reporting of a charity’s financial status when differences between the transaction and cash date of financial activities cause the financial element of a transaction to be reporting in a different financial period from the activity to which it relates;
- ⊖ confusions and inconsistencies in Charity Commission CC16b guidance on reporting delays in “the money changing hands”;

mean that R&P financial reporting of the “real money” elements of a charity’s financial activities can actually be MORE COMPLICATED than Accruals financial reporting of the same core data..

Why is R&P Reporting Simpler than Accruals?

But it IS potentially more misleading !

“Cash” & “Receipts & Payments” reports are similarBUT !

Cash “accounts” report how much money the charity **actually** had in the bank at the end of its financial period and then explains (*eg*: Debtors & Creditors) why the amount it **expected** to have (“Accrued”) was different.

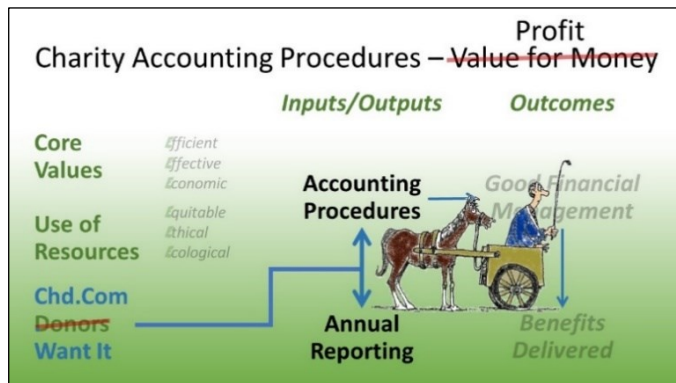
$$\text{Cash} = \text{Transactions} - \text{Overdue}$$

Receipts & Payments “accounts” report how much money the charity **could have** had in the bank at the end of its financial period but leave the reader to guess how much it **expected** to have.

$$\text{R\&P} = \text{Cash} + ???$$

Small Charity Support

- It is often overlooked that Cash reporting was introduced into the commercial sector to mitigate a specific problem with accruals reporting:
namely: when small businesses have to report profits (*ie*: liability for corporation tax) and Value Added Tax on the transaction dates of sales and purchases rather than their cash dates report they can find themselves having to pay corporation and VAT to HM Revenue & Customs “out of their own pocket” because they have not yet received payments for those goods/services from their customers.
- But most small charities don’t pay corporation tax or VAT to HM Revenue & Customs.
- Promoting R&P(Cash) reporting as a “simple” alternative to over-complicated Accruals reporting is foisting upon small charities a “solution” to a problem that they don’t have !
Cart before the horse !
- Which is why, in reality, many small charities find R&P accounting complicated and irrelevant, rather than simpler, as an alternative to Accruals accounting for recording and managing their everyday financial transactions.



The real issue is not
“What makes R&P reporting simpler than Accruals reporting?”

but

“What makes Accruals reporting so much more complicated than R&P reporting?”

Accruals Reports – Why So Complicated?

- ⊗ the implication/assumption that they require the use of double-entry bookkeeping for **recording** accruals transactions;
- ⊗ the requirement to include accountancy “magical money” in Accruals reports, *ie*: the notional “money value” of assets, both tangible and intangible, as if they were real money in the bank; AND include any changes in those notional “money values” as if they were real money income and expenditure;
- ⊗ Numerous “Notes to the Accounts” required.



Double-Entry Bookkeeping

- Describing double-entry bookkeeping as “obsolete” is not, in any way, denigrating the genius which invented and developed it, or understating its remarkable achievements in its day.
But “every dog has its day”
- As with steam engines when electricity emerged as an important source of power, double-entry bookkeeping has to make way for simpler and more powerful ways of achieving the same ends.
- Insisting on continuing to use double-entry bookkeeping methods for financial management when – as the “proof of concept” spreadsheet clearly and unequivocally demonstrates – relational database technology does the same thing MUCH more **E**fficiently, **E**ffectively and **E**conomically just doesn’t make sense.
- It’s like insisting the manufacturing machinery and transport continue to use steam technology but just use electricity instead of coal as the means of boiling the water to produce the steam.
- Expecting the typical non-accountant trustees, volunteers and staff of small charities to invest significant amounts of time and energy into learning how to use a complicated, and now out-of-date, financial management system when simpler and more effective alternative exist ISN’T consistent with encouraging charities to focus on their core values and the application of the **3+3Es** to deliver value-for-money charitable outcomes from their donors’ generosity.

Double-Entry Bookkeeping – An Obsolete Method

James Watt’s steam engine & Stephenson’s Rocket were, in their day, unquestionably remarkable inventions...

...which were developed into magnificent machines revolutionising manufacturing and transport.

But along came electricity.....
.....and steam engines became obsolete

Financial Accountancy and Management Accountancy

- Charities have a legal and moral obligation to ensure that ALL their resources are carefully managed and used to generate the maximum benefits for their beneficiaries and for the public.
- Like most charities, careful prudent use of resources is a key element of Small Charity Support's core values.
- But optimising the delivery of value-for-money (*ie*: donors' money) to beneficiaries and the reporting of charitable outcomes to the Charity Commission is NOT the same as optimising the generation of profits for the benefit of investors and the reporting of liabilities for taxation to HMRC.
- Small Charity Support takes the view that there are other – and better – ways of ensuring that charities, and particularly small charities, make the most **E**fficient, **E**ffective & **E**conomic (and **E**quitable, **E**thical & **E**cological) use of their resources in order to maximise the value-for-money of the services that it delivers to its beneficiaries on behalf of its donors.
- That's why there are "management" accountants as well as "financial" accountants – with their own separate professional bodies and training/qualifications schemes.
- In the commercial sector the 3-**E**s day-to-day financial management of a large organisation is likely to be in the hands of management accountants. Financial accountants ensure that the organisation's financial reports are "optimised" for delivering profit to investors and meeting taxation liabilities.
- Charities hoping to find a professional accountant to become their treasurer/trustee to help with managing the **3+3Es** management of their finances would be better looking for a management accountant (*eg*: a member of the Chartered Institute of Management Accountants, CIMA). But they are more difficult to find than the typical "high street" Financial Accountant more used to dealing with tax returns.

"Magical Money"
Unnecessary and largely irrelevant for small charities

"Magical money" is the notional monetary values of an organisation's assets that financial "magicians" spirit out of "thin air" (or a hat) to be included in the organisation's financial reports as if those assets were, instead, real (*ie*: "spendable") money in the charity's bank account.



Capitalisation and Depreciation of Physical Assets

- Managing a charity, whatever its size, in a "business-like" **3+3Es** way requires that the charity knows what physical resources it has, and what it cost to purchase them or what it might cost to replace them.
- It is not the role of Small Charity Support to justify, or criticise, the "value" of capitalising and depreciating assets as a way of calculating an organisation's generation of profits (and taxation liabilities) in the commercial sector.
- But the capitalisation and depreciation of assets as "magical money" to incorporate them into a charity's accounts as if they were "real money in the bank" is, from the perspective on a typical non-accountant charity trustee/volunteer/employee, an irrelevant and meaningless waste of time. And, particularly, the requirement in Accruals reporting, to include any changes in such notional "magical money" as if they were "real money" coming into or going out of the charity's bank account.
- The table above, from the "proof of concept" example spreadsheet, shows all the information on the charity's capital assets needed to meet the requirements of its Annual Accounts prepared on an Accruals basis. Once the data on an asset has been entered into the table (columns 1-5) when the asset is purchased (or acquired), the data in the remaining columns (6-9) are updated automatically in real time without any further intervention (except where the asset is disposed of prematurely).

"Magical Money"
Unnecessary and largely irrelevant for small charities

DEPRECIATION OF ASSETS, PERIOD 01-Jan-19 TO 31-Dec-19

Asset	Date Purchase	Fund	Useable Life (yrs)	Cost £	Value at 31-Dec-19	Depr'n in Period	Value at 31-Dec-19	Purchases in Period
SUMMARY - Total for all assets				49,461	21,151	7,542	14,809	1200
Office Furniture	18-Aug-13		7	10,000	2,326	1,428	899	
Computer & Scanner	07-Mar-14		3	962	0	0	0	
Computers & Printers	23-May-16		3	12,000	1,563	1,563	0	
Mini-bus	31-Dec-16		6	24,000	15,995	3,997	11,997	
Computer & Printer	05-Dec-18		3	1,299	1,267	433	634	
Notice Boards	01-Jul-19		5	1,200	---	121	1,079	

The above illustrates how a simple table can show ALL the information required to report the depreciating value of assets WITHOUT having to incorporate them as "magical money" along with the "real" money.

The purchase data are entered into columns A-E and the remaining columns update automatically in real time as the Budget Report date is updated.

Example: Managing & Reporting the “Magical Money Value” of a Minibus

The capitalised “value” and depreciation data for the minibus in the example spreadsheet show all that is required to be included in a charity’s Accruals financial reports. **BUT.....**

DEPRECIATION OF ASSETS, PERIOD 01-Jan-19 TO 31-Dec-19									
Asset	Date Purchase	Fund	Useable Life (yrs)	Cost £	Value at 31-Dec-19	Dep'n in Period	Value at 31-Dec-19	Purchases in Period	
SUMMARY - Total for all assets				49,461	21,151	7,542	14,809	1200	
Office Furniture	18-Aug-13		7	10,000	2,326	1,428	899		
Computer & Scanner	07-Mar-14		3	962	0	0	0		
Computers & Printers	23-May-16		3	12,000	1,563	1,563	0		
Mini-bus	31-Dec-16		6	24,000	15,995	3,997	11,997		
Computer & Printer	05-Dec-18		3	1,299	1,267	433	834		
Notice Boards	01-Jul-19		5	1,200	---	121	1,079		

- ⊖ The “Value at 31-Dec-19”, £15,995, is NOT the money the charity was guaranteed to get (or might even reasonably expect to get) to return to its bank account if it sold the minibus at that time;
- ⊖ The depreciation, £3,987, for that financial year cannot be “matched” with the income from “fares” from passengers in order to calculate the profit (or loss) generated by the use of the minibus in that year because the charity didn’t charge its beneficiaries any fares;
- ⊖ If the minibus had been bought with money from donors – either by fundraising or by a grant – back in 2016 shouldn’t the asset have been “matched” with that income and written off in that year?
- ⊖ The median hourly wage of a bus-driver is [£11.05](#).
The minibus, driven by volunteers, is used for 4hrs/day, 4days/week, 40weeks/yr.
But neither R&P nor Accruals financial reports are required to include the “magical money value” - **£7,072** – of one of the charity sectors greatest resources – the time donated by volunteer (though reference to it can be made as an “optional extra” if the trustees wish).
- ⊖ Nor are R&P and Accruals financial reports required to include any assessment of the “magical money value” of the public benefits which charities are required to deliver under the Charities Act.
- ⊖ In short: as a method of demonstrating a charity’s core value of delivering “value for money”, the capitalisation and depreciation of assets as “magical money” and including them in the charity’s financial reports as if they were real money is about as **INEfficient** and **INEffective** as it gets.
- ☺ A much more **3+3Es** way of recording and reporting the use of non-money assets would be (in the minibus example) to allocate £4000/yr to a designated fund for the purpose of purchasing a replacement minibus when the current one comes to the end of its useful life.
- ☺ And that would also be much more meaningful and understandable to the typical non-accountant trustees, supporters and donors of small charities.

Recording & Reporting Investment Assets

- The issues of including the “magical money values” of a charity’s investments assets as if they were real money in the charity’s financial reports are similar to those of the capitalisation and depreciation of physical assets.
- All charities have to keep records their investment assets and be able to demonstrate that they are using them in a **3+3Es** way.
- As with the capitalisation and depreciation of physical assets, the example spreadsheet illustrates (using data from a real charity) how the “magical money values” of charity’s investments assets can be record and reported on an Accruals basis whether or not the charity produces its Annual Financial Report on an Accruals basis.

“Magical Money”
Unnecessary and largely irrelevant for small charities

Investment	Fund	INVESTMENT ASSETS, PERIOD 01-Jan-19 TO 31-Aug-19										
		At 01-Jan-19			Additions in Year		Disposals in Year		At 31-Aug-19			
		Quantity Held	Open Unit Value £	Carrying Value £	Quantity Bought	Amount Paid	Quantity Sold	Amount Realised	Quantity Held	Close Unit Value £	Carrying Value £	Net Gain or-Loss £
Listed (At market value)												
Solihull Superstores		8,000	2,140	17,100	2,500	4,208	0	0	10,500	1,855	19,478	-1,850
EcoRenew Energy		11,207	0,990	10,984	0	0	3,052	3,662	8,155	1,021	8,330	1,007
Golf & Bicycles		2,696	3,900	11,294	0	0	448	1,828	2,448	4,200	10,282	815
			0	0	0	0	0	0	0	0	0	0
Totals:				99,399		4,208		5,490			38,089	-38

The above similarly illustrates how a simple table can show ALL the information required to report the “ups & downs” of a charity’s investment assets – their changing stock market valuation and in-year additions and disposals – that would be needed for full Accruals reporting but WITHOUT having to incorporate them as “magical money” along with the “real” money.

Interest received	962
Dividends received	1,024
Realised from sales	5,490
Cost of purchases	-4,398
Net Increase(Decrease)	3,268

Is R&P Reporting Simpler than Accruals?

Answer: YES ! ... BUT !

The notion that using “Cash” dates makes reporting transactions “simpler” than using their “Transaction” dates is a disingenuous distraction from the REAL reasons why R&P (Cash) reporting is simpler than Accruals reporting.



Both FRS-102+SORP & “Cash”(R&P) financial reporting for charities are based on procedures designed to optimise profits for investors in the commercial sector rather than to optimise financial management to deliver value-for-money for donors, beneficiaries and the public in the charity sector.

Small Charity Support

Financial Advisors – Accountants – Independent Examiners

- ⊖ There are, undoubtedly, many good, knowledgeable, competent, caring professionals – both accountancy professionals and others with relevant expertise – who are contributing effectively and generously to the financial management of the charity sector.
- ⊖ But, over the years, Small Charity Support, has encountered more “financial advisors” than it would wish ranging from the benignly inept, through the negligently incompetent to the criminally fraudulent.

- Nor, evidently, are those experiences unique or atypical.
- The Charity Commission’s own periodic reviews of charity accounts show that more than half of small charity accounts fail to meet its benchmark standards. Even when they have been prepared and/or Independently Examined by professionals.
- The Charity Commission’s concerns (quoted from its review) include:

From the Charity Commission’s Accounts Monitoring Review:
Auditors’ and independent examiners’ compliance with their responsibilities
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/601117/auditors-and-independent-examiners-compliance-with-their-responsibilities.pdf

Arranging for your charity’s accounts to be subject to external scrutiny, either an audit or independent examination, is an important part of providing assurance to the trustees and others with an interest in the charity’s activities about the content and accuracy of those accounts.

The Commission is concerned that so many accounts submissions did not meet our benchmark.

Percentage of accounts meeting the external scrutiny benchmark

Income Range	Trustees Annual Report	External Scrutiny Report	Accounts	All 3 Documents	% accounts examined	% accounts in E&W
£25,000-£250,000	90%	74%	44%	37%	34%	90%
£250,000-£1 million	100%	96%	51%	51%	34%	7%
£1 million and greater	100%	99%	76%	76%	32%	3%

Small Charity Support

- ⊖ “Whilst the trustees are responsible for their charity’s accounts, our findings also raise concerns about the work done by the auditors and examiners who scrutinised these accounts”;
- ⊖ “However, our review has highlighted that the trustees of a significant number of charities have appointed auditors or examiners whose work does not meet our external scrutiny benchmark”;
- The Charity Commission’s review concludes:
 - ⊖ “We have updated our guidance about independent examination to help trustees fulfil their legal duty to appoint ‘an independent person who is reasonably believed by the trustees to have the requisite ability and practical experience to carry out a competent examination of the accounts’”.
- The non-accountant trustees, administration staff and others involved in the financial management of their charity can be forgiven for thinking that they have been “thrown to the wolves” (ie: left with no alternative but to put their trust in the hands of external professionals whose credential are difficult if not impossible to verify themselves.)


- The high proportion of charity accounts at all levels, but particularly for small charities, which fail to meet Charity Commission benchmark standards is *prima facie* evidence that it is widely assumed (evidently INCORRECTLY !), both within and outside the financial accountancy profession, that “*ability and practical experience*” gained in the commercial sector applies equally to the charity sector.

A More Realistic and Effective Approach ?

- ✓ all professional accountancy bodies to make it explicitly clear to their members that they would be in breach of the body’s code of professional conduct (*ie*: misrepresenting themselves to clients) if they took on fee-paying engagements for preparing and/or examining charity accounts WITHOUT having taken AND PASSED an approved module in charity accounting practices;
- ✓ insurers should make it explicitly clear to professional accountants that their Professional Indemnity Insurance DOES NOT cover paid (*ie*: “professional”) engagements for preparing and/or examining charity accounts unless they have an approved qualification in charity accounting practices;
- ✓ the Charity Commission should do more to encourage charity trustees, particularly those of small charities, to engage members of the ACIE to prepare and/or independently examine their accounts.

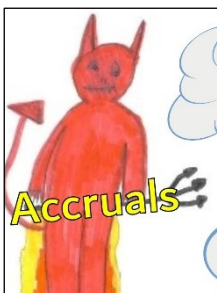
From the Charity Commission’s Accounts Monitoring Review:
Auditors’ and independent examiners’ compliance with their responsibilities
<https://www.gov.uk/government/publications/accounts-monitoring-review-auditors-and-independent-examiners-compliance-with-their-responsibilities>

We have updated our guidance about independent examination to help trustees fulfil their legal duty to appoint ‘an independent person who is reasonably believed by the trustees to have the requisite ability and practical experience to carry out a competent examination of the accounts’.
<https://www.gov.uk/government/publications/independent-examination-of-charity-accounts-trustees-cf11>



- ✓ all examiners, to confirm that they have read and understood the Commission’s Directions and guidance;
 - ☉ *IEs have to do that when they sign their statutory IE’s statement !;*
- ✓ professional examiners, to provide proof of membership of one of the professional bodies and that they meet that body’s requirements for acting as an independent examiner.
 - ☉ *How do non-accountant trustees find out what those requirements are ?*

Small Charity Support



Some Practical options for the trustees of small charities confronted by having to choose between Receipts & Payments reporting and Accruals reporting of their Annual Accounts.



- ✓ Minimise risk of distortions due to cash dates falling in financial periods after the transaction date by moving the charity’s end of financial year to a “quiet time” when there are fewer transactions.
- ✓ Choose accounting software which uses modern relational database technology to **REPLACE** rather than **REPLICATE** obsolete double-entry bookkeeping methodology.
- ✓ Improve monitoring and control of cash-flow by using “real time” dynamic transactions recording and reporting to ensure that overdue payments are picked up and dealt with quickly.
- ✓ Always give a full summary (individually where appropriate) of overdue receipts (Debtors) and payments (Creditors) as in standard Accruals reporting.
- ✓ In the R&P Statement of Assets & Liabilities, include a line detailing “expected” cash (*ie*: when all end-of-year outstanding transactions have been completed) to complete the mirror with the corresponding Accruals report.
- ✓ Where the financial status of specific activities are distorted as a result of overdue payments include a note to that effect after the main accounts (eg: appropriate lines from the Budget Report).
- ✓ Encourage small charities to use ACIE Examiners more often.

And – albeit more by way of “wishful thinking” than “currently do-able”

- ✓ Lobby to get current R&P reporting procedures replaced by “Abridged Accruals” reporting to allow small charities to report using transactions dates rather than cash dates – but without having to include “Magical Money”.

Charity Accounting – The Issues - Summary

Receipts & Payments Accounting {Transaction Date Reporting}

Introduced in the commercial sector to mitigate taxation problems (eg: corporation tax, VAT) for small businesses which don't exist for small charities

So amend current R&P reporting rules to allow reporting by Transaction Date either instead of, or as optional alternative to, reporting by Cash Date.

Accruals Accounting

Full FRS-102+SORP reporting is ridiculously over-complicated for the "small end" of the charity sector. Extend R&P Transaction Date reporting (as above) to the >85% majority of small charities (<£500K/yr if not <£1M/yr).

Financial Advisors

Accountants should only be able to call themselves "professionals" (and charge professional fees) to charity clients if they have an accredited qualification in charity accounting.

Small Charity Support

The Charity Commission's reporting standards for charity accounts are intended to "...provide assurance to the trustees and others about the content and accuracy of those accounts...".

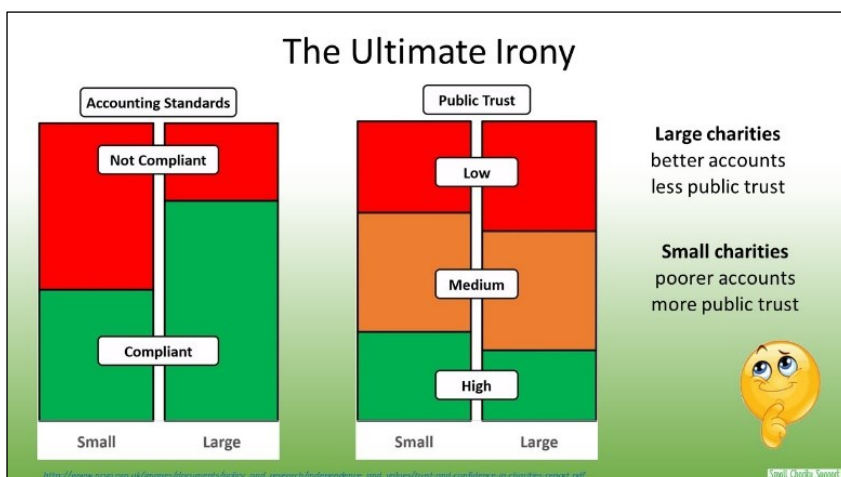
Unfortunately, the Commission's most recent review of charity compliance with its benchmark standards revealed that more than half (56%) of the accounts of the majority (85%) of small charities – and even 25% of the accounts of large charity accounts were not compliant.

The explanation that "...the trustees of a significant number of charities have appointed auditors or examiners whose work does not meet our external scrutiny benchmark" is either a damning accusation of widespread incompetence in the accountancy profession or a damning accusation of charity trustees, particularly the trustees of small charities, going out of their way to choose incompetent accountants/examiners.

Using the principle of [Occam's Razor](#), Small Charity Support prefers an alternative explanation – namely that the problem is due to the current charity accounting standards, particularly for small charities, being not fit for purpose,

To add to the conundrum: an earlier review of public trust in charities revealed that public trust in large charities with their greater compliance with current charity accounting standards was less than public trust in small charities with their low compliance with the standards.

You don't need to be an experienced information analyst to know that such apparent correlations DO NOT mean that there is a causal link between the two.



But, given the accounting issues experienced by small charities, the inconsistency between the greater public trust in small charities, despite the consequences of them having to choose between the more "complicated" Accruals reporting typically used by large charities and the "simpler" (but less accurate) R&P reporting, does bring a wry smile to one's face !

Appendix: Receipts & Payments Reporting Scenarios

R&P Issues – Which Date to Record/Report

The Setting:

Charity A and charity B are two similar small charities (<£200K/yr) with the same financial reporting period (1-Jan to 31-Dec) and producing R&P Annual Financial Reports (aka: Annual “Accounts”)

Charity B owns a small hall which it lets out to other charities as an income generator.

As with many small charities, the trustees of both charities think that they should only **record** transactions on the date that the “money changed hands” because in their R&P “Annual Accounts” they only **report** transactions on the date that the “money changed hands”.

Small Charity Support

The following are just some examples of the kinds of scenarios which can arise, and how they can affect what appears in a charity’s Receipts & Payments Annual Financial Report, when there are even quite trivial delays between the activity occurring and the payment which relates to that transaction actually “changes hands”.

Scenario 1a

- ☺ Charity A hired charity B’s hall for its New Year event for its beneficiaries on 9-Jan at an agreed charge of £500.
- ☺ Charity B issued an invoice for the £500 on **9-Jan** but did not record it in its “accounts” because it was using R&P reporting and the cash had not yet been received.
- ☺ Charity A received the invoice, issued and posted a cheque for £500 on 17-Jan and recorded it in its “accounts”.
- ☺ Charity B received the cheque on **19-Jan**, banked, and recorded it in its “accounts”.
- ☺ The payment duly appeared in the January bank statements of both charities and was included in both charity’s Annual R&P Financial Reports for that year.

Scenario 1b

- ☺ Charity A hired charity B’s hall for its New Year event for its beneficiaries on **9-Jan** at an agreed charge of £500.
- ☺ Charity B issued an invoice for the £500 on **9-Jan** but did not record it in its “accounts” because it was using R&P reporting and the cash had not yet been received.
- ☺ Charity A received the invoice but it got mis-filed so no cheque was issued and the amount was not recorded in its “accounts”.
- ☺ As neither charity had a record of the transaction in their “accounts” (R&P records) because “no money had changed hands”, the unpaid amount remained “unnoticed”.
- ☺ On **19-Dec** the invoice was discovered by charity A, which promptly sent a cheque for it to charity B. The payment duly appeared in the December bank statements of both charities and was included in both charity’s Annual R&P Financial Reports for that year.

Scenario 2a

- ☺ Charity A hired charity B's hall for its Christmas event for its beneficiaries on **19-Dec** at an agreed charge of £500.
- ☺ Charity B issued an invoice for £500 on **19-Dec** but did not record it in its "accounts" because it was using R&P reporting and the cash had not yet been received
- ☺ Charity A received the **invoice**, issued and posted a cheque for £500 on **20-Dec** and recorded it in its "accounts". The amount appeared in its December bank statement.
- ☺ Charity B received and banked the cheque on **22-Dec** and recorded it in its "accounts". The amount appeared in its December bank statement.
- ☺ The transaction was included in both charity's Annual R&P Financial Reports for that year.

Scenario 2b

- ☺ Charity A hired charity B's hall for its Christmas event for its beneficiaries on **19-Dec** at an agreed charge of £500.
- ☺ Charity B issued an invoice for £500 on **19-Dec** but did not record it in its "accounts" because it was using R&P reporting and the cash had not yet been received.
- ☺ Charity A received the invoice, issued and posted a cheque for £500 on **20-Dec** and recorded it in its "accounts". But the cheque was delayed in the post !
- ☺ Charity B received the cheque on **9-Jan**, banked it and recorded it in its accounts. So the amount appeared in the January bank statements of both charities.
- ☺ Charity A was still able to include the transaction in its R&P Annual Report for that year. But charity B had to report the transaction in its year's R&P Annual Report for the following year.

Scenario 2c

- ☺ Charity A hired charity B's hall for its Christmas event for its beneficiaries on **19-Dec** at an agreed charge of £500.
- ☺ Charity B issued an invoice for £500 on **19-Dec** but did not record it in its "accounts" because it was using R&P reporting and the cash had not yet been received.
- ☺ The invoice was delayed in the post. Charity A received the invoice on **5-Jan**. It issued and posted a cheque for £500 on **7-Jan** and recorded it in its "accounts". The amount appeared in its January bank statement.
- ☺ Charity B received the cheque on **9-Jan**, banked it and recorded it in its accounts. The amount appeared in its January bank statement.
- ☺ Both charity and charity B had to report the transaction in their Annual R&P Reports for the financial year following the hire of the hall.

Scenario 2d

- ☺ Charity A hired charity B's hall for its Christmas event for its beneficiaries on **19-Dec** at an agreed charge of £500.
- ☺ Charity B did not issue the invoice for £500 until **5-Jan**.
- ☺ Having not received an invoice for the hire, on **22-Dec** charity A issued and posted a cheque for £500, and recorded it in its "accounts". It received the invoice on **7-Jan**,
- ☺ Charity B received the cheque on **23-Dec** but the admin team did not open the letter, bank the cheque and record it in its "accounts" until **9-Jan** .
- ☺ The amount appeared in the January bank statements of both charities.
- ☺ Charity A included the payment for the hire in its R&P Annual Report for the year of the hire. Charity B include the receipt for the hire in its R&P Annual Report for the year following the hire.