Small Charity Support

Charity Financial Reporting

Small Charity Support (CIO No: 1161963) - Supporting Small Charities & Voluntary Organisations

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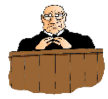


Charity Financial Reporting Standards Not Fit For Purpose ?!

This "Thought" is about how charities are currently required to report (and, by implication, manage) their finances and makes the case that current guidelines are not fit-for-purpose, particularly for the vast majority (>85%) of small charities with annual incomes less than £250,000.

A practical alternative, already in use by a number of small charities, is described.

Summary

The preparation of a charity's financial accounts, and (for charities with incomes over the relevant threshold) having those accounts verified by audit or independent examination, is seen as one of the fundamental corner-stones of assurance to donors and the public at large that monies donated to charities are being used Efficiently, Effectively and Economically for the charitable purposes for which they were given.

In 2016 a survey by Populus commissioned by the Charity Commission had found that, at 57%, public trust in small charities was considerably higher than the 34% public trust in large charities.

In 2018, Populus was again commissioned by the Commission to undertake an independent survey of public opinions of the charity sector. The survey found that being *"transparent about where money goes"* was the most important factor in promoting public trust in charities.

But the latest (August 2019) review by the Charity Commission of charity annual reports & accounts found that:

- ☹ less than half (44%) of the annual accounts of small charities (incomes in the range £25,000-£250,000) complied with its benchmark standards;
- ☹ Larger charities were more, but still not fully, compliant with the standards;
  Charities with incomes in the range £250,000-£1,000,000 were only 51% compliant;
  Charities with incomes over £1,000,000 were still only 75% compliant

In other words: the Charity Commission's own reviews show that the <u>more</u> compliant charities accounts are with complicated (obfuscational) accountancy standards the <u>less</u> likely they are to be regarded as "transparent and trustworthy" by the public.

A still more recent (March 2021) survey of trustees' views of the SORP accounting standards by the Chartered Governance Institute reported the following comments from trustees (many of whom were reported as having qualified accountancy expertise):

- ☹ *"I just think the amount of financial information that has to be provided is too extensive.*
  Note that the entire SORP runs to 203 pages and the index alone runs to 7 pages."
- ☹ *"It is too long and complicated for a non-financial trustee."*
- ☹ *"The current presentation of financial figures is more difficult for nonfinancial practitioners who have to work quite hard to get an overall picture."*

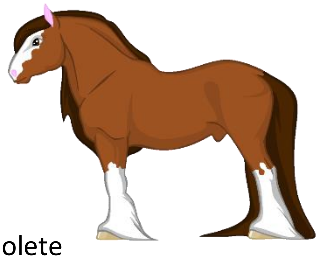
In other words:
It is self-evident from these diverse reviews that the current reporting standards for charities are not fit for purpose – particularly for the majority of "small" charities.

Albert Einstein
"We can't solve problems by using the same kind of thinking we used when we created them".

The problem of current charity accounting/reporting standards being "not fit for purpose" for small charities is not a new one, "suddenly popped up from nowhere". It has been around for at least a decade, probably for much longer.

So why is it still such a growing problem?
Because Einstein's advice is being ignored !
Thinking that the problems can be resolved by either "adjusting some of the detail" of the current FRS-102/SORP and R&P accounting/reporting procedures or, worse, by promoting them even more enthusiastically is only perpetuating the problem, not solving them.

Accruals reporting or R&P reporting are the current "Hobson's Choice" – "take it or leave it" – of charity financial management for small charities.



Accruals reporting standards are the "shire horse" of financial reporting in the commercial sector. Although undoubtedly huge and magnificent to the eyes of accountancy aficionados, as the March 2021 review reports, they are hopelessly "over-the-top", cumbersome and inappropriate for ordinary every-day use by the majority of small charities, particularly those which do not have the resources to employ accountancy professionals.

(a) they are unnecessarily dependent on complicated, stylised/jargonised and obsolete double-entry bookkeeping methodology, requiring a significant amount of professional financial training which is beyond the reasonable capabilities of the non-accountant, unpaid volunteers & trustees of small charities;
(b) they unnecessarily require assets be assigned hypothetical valuations ("funny money") which have to be included in a charity's accounts as if they were "real money". That, in turn, requires that any fluctuations in the "funny money" valuations of assets have to be included in a charity's accounts as if they were "real money" income and expenditure.
(c) as a consequence, accruals reporting is seen as confusing, misleading and irrelevant – *ie:* untrustworthy – by many who are not trained in financial "bean counting", particularly the typical non-accountant trustees and other volunteers, beneficiaries and other stakeholders of small charities.

In contrast: Receipts & Payments (Cash) reporting standards are the "Eeyore" of financial reporting. Although ostensibly "simple and likeable", in practice they are rather inept and error-prone. The are the "alternative" for the wimps who can't cope with "proper" accruals reporting.

(a) the separation of the transfers of funds from the activities to which they relate can (and often does!) create significant distortions in the charity's financial reports;
(b) the notion that keeping R&P-focused financial records is "simpler" than keeping accruals-focused financial records is wrong and misleading.

Both Accruals(FRS-102/SORP) and Receipts & Payments (Cash) reporting standards are primarily not fit for purpose, particularly for small charities, because neither were designed to meet the needs of most of those who will create, use and read them.

Which is why all too often when it comes to standards for financial reporting the non-accountant trustees of small charities tend to take a *"blow that for a bowl of cherries"* approach, disregard the formal accounting standards and instead produce something that they, and their supporters can actually understand.
Which is why significantly more than half of small charity accounts fail to meet the Charity Commission's financial reporting standards, while significantly more than half of the public find small charities more trustworthy than large charities whose financial reports are better at complying with the reporting standards.

What is needed is to abandon both the FRS-102/SORP (accruals) and the R&P (Cash) reporting standards – certainly for all charities with annual incomes less than £1M – and replace them with a single standard which:

1: is designed "from the bottom up" – based on the way that the "ordinary" non-accountant trustees and other volunteers and staff of the majority of small charities work naturally and intuitively to optimise their use of resources to meet the needs of their beneficiaries.

ie: charity reporting systems should NOT be just an adaptation of reporting systems designed for the commercial sector with quite different objectives, namely the optimisation of their resources for the financial benefit of their investors;

2: is designed to take full direct advantage of the features of modern relational database technology (*ie:* abandons obsolete double-entry bookkeeping concepts);

3: records both the date of the activity to which the transaction relates (*ie:* as in Accruals reporting) and the date on which the "money changes hands" (*ie:* as in R&P reporting). That will allow one simple set of data to produce both activity based reports (*eg:* for the end of year financial report to the Charity Commission and the public record) and cash-flow reports (*ie:* for the day-to-day financial management of the charity, and for reporting to donors);

4: does not separate financial records and reports into isolated siloes (*eg:* financial reporting, management reporting, budget reporting, creditors & debtors reporting, cash-flow reporting) but is simultaneously producing all such reports and updating them in "in real time" as transactions are entered or updated;

5: does not create unnecessary and irrelevant confusion by creating hypothetical ("funny money") values of a charity's assets (operational, investments and heritage) and then integrating those "funny money" numbers along with the charity's "real money" cash assets (including changes in those "funny money" values as if they there income or expenditure, even though no "real money" ever changes hands).

It is acknowledged that criticising the current standards is "the easy bit".

But the above proposals are not as hypothetical as the accountancy "funny money" of which they are so critical.

On the contrary: ALL the above features are demonstrated as being feasible, practical and robust by the open-source "Simple Accounts" spreadsheet created by Small Charity Support.

"The proof of the pudding is in the eating".
The Small Charity Support "Simple Accounts" spreadsheet has been in existence since 2014 and is used successfully by a number of small charities some of which produce Receipts & Payments financial reports and others which produce Accruals financial reports.

☺ Financial transaction data entry is simple and intuitive requiring no special "bookkeeping" skills;
☺ Routine financial management reports (Budget, Cash Flow, Debtors/Creditors) can be produced "in real time" (*ie:* by a "click of a button" as transactions data are entered);
☺ End-of-Year Annual Accounts and Financial Statements – compliant with current guidelines for small charities – can similarly be produced "in real time" at the click of a button for inclusion directly into the Trustees' Annual Report.

Editorial note:
This article is not a commercial promotion of the Small Charity Support financial recording & reporting spreadsheet.
Instead the spreadsheet was developed as a practical ***and working*** *demonstration of the application of the "Simple is Beautiful" concept to the financial management and reporting of small charities.*
The spreadsheet is, always has been (since 2014), and always will be, open-source software, free to download from the Small Charity Support website and use by charities and other not-for-profit organisations for non-commercial purposes.

Contents

In More Detail

Fit for Purpose ?   NO !

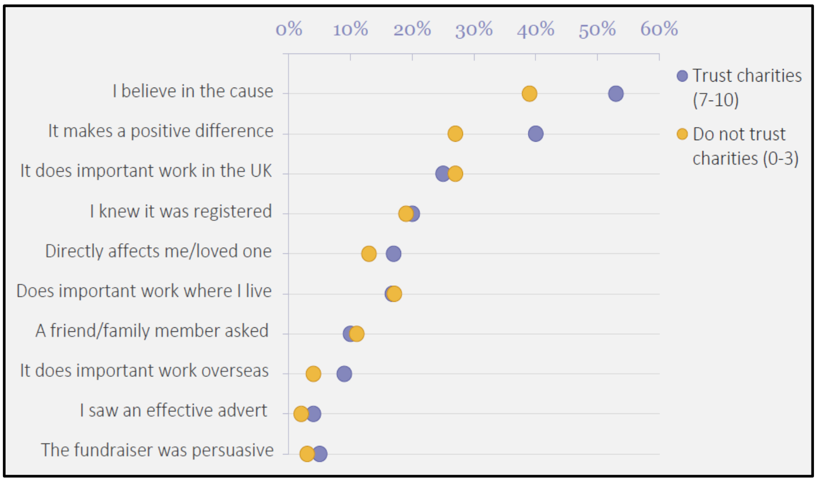
The question *"Do charity annual reports and accounts meet the reader's needs?"* is based on the presumption that the Charity Commission's benchmark standards accurately reflect *"reader's needs"*.

But that presumption is fundamentally flawed !

The Charity Commission's assessment of reader's needs is based on the findings of a survey group, Populus,
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/723566/Charity_Commission_-_Trust_in_Charities_2018_-_Report.pdf
which found, in 2018, that being *"transparent about where money goes"* was the most important factor in public "trust" in charities.

But nowhere in that survey is there any reference to assessing the respondents' views on the content and formant of charity accounts.   On the contrary:

The responses to the question:
"Thinking again about your latest donation to charity, why did you choose to give to the specific charity you did – rather than a different cause?"
are shown in the chart to the right.



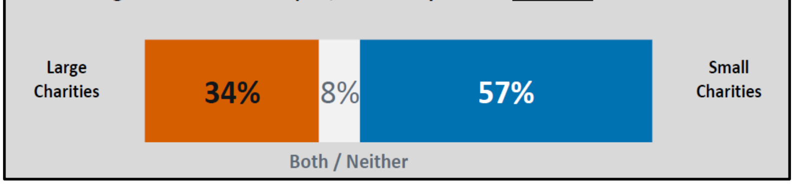
Nowhere in that list of top responses does *"reading the charity's report & accounts"* appear (unless it is assumed that the *"persuasiveness"* of the fundraiser was because he/she was enthusiastically waving the charity's annual report & accounts.)

Even more telling is that the survey chose to add the comment *"I have to give to an organisation that can actually do something about it, rather than faffing around with the money."* from a Focus group participant

An earlier survey, in 2016 also by Populus, "Public Trust & Confidence in Charities, 2016", found that significantly more people had more "trust" in "small charities" than in large charities.

That is in direct contradiction of the finding of the Charity Commission's analysis of compliance with its benchmark standards for the annual report and accounts of small charities.

Figure 4.7: From each pair, which do you trust the most of the two.



The data illustrated above, taken from the published, reports clearly demonstrate that smaller charities are significantly **MORE** likely to be trusted by the public than larger charities, even though the annual reports and accounts of smaller charities are **LESS** likely to be compliant with the Charity Commission's benchmark standard than those of larger charities.

Or to put that more bluntly: If the "purpose" of charity accounting rules and the Charity Commission's benchmark standards of compliance is to enhance public trust in charities by "meeting reader's needs", they are demonstrably **NOT FIT FOR PURPOSE**.

And the Charity Commission's analysis of *"Do charity annual reports and accounts meet the reader's needs?"* fails because:

(a) it fails to answer its own question.
Instead it only answers the question *"Do charity annual reports and accounts comply with its own benchmark"* without validating – or even attempting to validate – the presumption that its benchmark DOES accurately reflect "reader's needs";

(b) It doesn't address the more important question *"**WHY** do so many charity annual accounts fail to meet the Charity Commission's benchmark standards?"*

It is reasonable to assume that most charity trustees are honest individuals who are committed to meeting the needs of their charity's beneficiaries and so WANT to write their annual reports and accounts in a way that "meets their reader's needs" (*ie:* are NOT intending to mislead their readers).
If reports written by trustees in the expectation that they will meet their readers' needs fail to meet the Charity Commission's benchmark standards, is that because the writers of the reports have misunderstood their readers' needs or because the benchmark standards do not adequately reflect readers' needs, *ie:* are not fit for purpose?

(c) what the Charity Commission perceives as "reader's needs" are, evidentially, what it perceives to be its own "needs". As the sector's regulatory body it is not inappropriate for the Charity Commission to have its own perception (*ie:* benchmarks) for what it believes to be an appropriate and acceptable standard of reporting. But it is "less appropriate":
(i) to promote that as the universal standard for the needs of ALL users;
(ii) to seek to enforce that as the universal standard when the Commission routinely only occasionally reads and reviews 300 charity annual reports & accounts (<0.47% of the 64,000 charity accounts which are required to be submitted automatically to the Commission, and <0.2% of all charities).

(d) it does not – it cannot – answer the question *"What needs to be done to ensure that charity annual reports and accounts DO meet the reader's need"* beyond assuming that more needs to be done to ensure that annual accounts and reports are compliant with its benchmark standards (and, in the process, ignoring the wisdom of the adage *"You can't solve a problem by using the same thinking that created it"*);

Accounts – Recording or Reporting ?

A great deal of unnecessary confusion is created by the way that the word "accounts" is used interchangeably to mean either, and both, financial **records** and financial **reports**:

(1) **RECORDS** are the lists of the details of an organisation's individual financial transactions that the organisation needs in order to be able to manage its activities and financial affairs Efficiently, Effectively & Economically (the 3-Es of being "business-like", to which Ethically and Ecologically are now often added).

(2) **REPORTS** are the summaries of an organisation's financial transactions and activities over a specific period of time – *ie:* from one specific date to another (usually but not necessarily a year). Reports are constructed by retrieving, analysing, collating, aggregating the information in an organisation's financial **records** in order to present that information in a way that all the organisation's stakeholders (investors, owners/shareholders, management in the case of commercial businesses; trustees, donors, volunteers, staff, beneficiaries in the case of charities) can understand and use to ensure that the organisation is actually being managed and run Efficiently, Effectively, Economically, Ethically and Ecologically.
And in both sectors, regulatory and taxation authorities also have their own "interests" in the organisation's financial reports.

So when a charity talks about "submitting its **accounts**" to the Charity Commission it is talking about "submitting its financial **report**", usually along with a textual summary/report of its activities over (usually) the last year. But when a charity talks about "keeping its **accounts**" it is talking about its **records** of the "blow by blow detail" of its financial transaction on a day-to-day – often referred to as "bookkeeping".

In the commercial sector, "Accruals" is the most common standard used for **reporting** an organisation's "accounts" and "Double-Entry Bookkeeping" is the most common standard for **recording** an organisations' accounts. That creates a common misunderstanding that they are the same thing.
But they are NOT.
There is NO requirement or necessity for an organisation to use the Double-Entry Bookkeeping standards to keep its financial records if it wants to use the Accruals standards to produce its financial reports.

Financial **reports** are a review of a charity's financial **records** over specified period (usually the previous year) based on a "helicopter snap-shot" of the charity's financial records taken at one specific point-in-time, typically the last day of the period being reported on.

It is therefore inevitable that the contents of that financial "snap-shot" will be (and often are) significantly influenced by the precise point-in-time at which the "snap-shot" is taken, *ie:* which section of the organisation's **records** are being **reported** on.

In order to avoid the misunderstanding and confusions which can arise when using the term "accounts" with different possible interpretations, in this article we will avoid using the word "*accounts*" whenever possible and, instead, use only the words "Report" or "Records" relevant to the context.

Transaction Date, or "Money Changing Hands" Date ?

Financial transactions are characterised by two key dates:
1: The date on which the transaction is formally agreed between the person/organisation selling the goods and/or services involved and the person/organisation buying them;
2: The date on which the money changes hands – ie: the date on which the person buying the goods/services actually pays for them.

These two dates are often the same: *eg:* when a person walks into a shop, buys some goods, pays for them and walks out of the shop with them. But that is not always the case: *eg:*
- An organisation or individual orders and pays for some goods or services, but those goods/services are only delivered on a date some time after the date they were ordered (payments in advance); *or:*
- An organisations provides some good/services, but the purchaser only pays for those goods/services on a date some time after the date on which they had been delivered (payments in arrears).

Where a "snap-shot" report is taken on a date which is in-between the date that the payment was made and the date that the goods/services were delivered (or vice versa – *ie:* for both payments in advance and payments in arrears) the report will differ depending on which date for the transaction is chosen. If the date that the transaction was agreed is used the report will contain the amount of the transaction and if the date that the "money changed hands" is chosen the report will not include the amount.
And that, in turn, can (and does!) create distortions in, and misunderstandings of, the financial report.

The "Matching" Principle.

> *"The matching principle is one of the basic underlying guidelines in accounting.*
> *The matching principle directs a company to report an expense on its income statement in the period in which the related revenues are earned.*
> *Further, it results in a liability to appear on the balance sheet for the end of the accounting period.*
> *The matching principle is associated with the accrual basis of accounting and adjusting entries."*
>
> *Accounting Coach*

Accruals Reporting.

"Accruals accounting/reporting" includes provisions to keep financial transactions (the "money changing hands") "date-matched" with the activity (*ie:* the delivery of the goods/services) to which they relate. That helps to mitigate the financial distortions created when the two parts of the transaction become separated and occur in different financial reporting periods. That is why it is the usual method of choice, in both the commercial and charity sectors, whenever possible.

Unfortunately there are two significant "obstacles" for the non-accountant trustees, volunteers and staff of charities, particularly small charities, who want to adopt the accruals approach to avoid distortions and misunderstandings in their financial reports:

☹ Charities, whatever their size, which want to adopt accruals reporting have only the "one-size-fits-all" option of the full 404-page FRS-102 & 130-page SORP guidelines. At 404 & 130 pages long respectively, those guidelines are just full of obfuscational "intricacies and accountancy jargon", designed by, and for, professional accountants whose day-job, earning a living, is working their way through those "intricacies".

It is clearly totally unreasonable to expect the typical volunteer (*ie:* un-paid) non-accountant trustees of small charities managing their charity accounts on a voluntary basis in their spare time, to understand and implement for themselves such onerous standards.
So such trustees which wish, or are required, to produce Accruals financial reports are effectively compelled to put their legal responsibility for preparing their charity's accounts in the hands of professional accountants who (as the Charity Commission's own surveys point out) all-too-often appear not to understand the "intricacies and jargon" as applied to charities either.

☹ The "one-size-fits-all" FRS-102 & SORP guidelines require that all charities convert their assets into accountancy "funny money". That is not only an irrelevant waste of time for small charities AND unnecessarily complicates their financial reports, it also prioritises the profit-driven interests of investors in commercial companies over the philanthropic interests of unpaid (and, therefore, valueless in "funny-money" terms) volunteers and donors of charities (large as well as small)

In short: The current FRS-102 & SORP Accruals reporting standards are NOT FIT FOR PURPOSE for managing the financial reports of charities (particularly small charities) which want to include effective, BUT SIMPLE, monitoring and reporting of payments in arrears (particularly delayed income) and in advance.

Receipts & Payments (Cash Accounting) Reporting.

Offered as a so-called "simple" alternative to Accruals reporting standards, Receipts & Payment (ie: "Cash") reporting standards are even more of a "proverbial dog's dinner".

The Charity Commission guidance on what to include in Receipts & Payments financial reports states:

> ***Where should the cut-off point be at the year end?***
> *The closing cash balance to report in the accounts should be:*
> - ✓ *the cash balance on the last day of the financial year;*
> - ✓ *plus any money received before the end of the year but only banked in the following year;*
> - ✓ *less any cheques written or other payments made before the end of the year but not cleared through the bank until the following year.*

The above guidance creates a bewildering array of rather "inconsistent" variants on how ostensibly similar, if not identical, payment scenarios are to be reported in charity accounts. Those "variants" are described in detail in Appendix 2: R&P Reporting Distortions

The Appendix details not just how the Receipts & Payments standard for small charity financial reports can introduce inappropriate distortions into the report (by time-separating financial transactions from the activities to which they relate). The Appendix also shows how vulnerable R&P financial reports are to distortions created by factors outside of the control of the charity (*eg:* postal delays, ineptitude by either/both the suppliers of goods/services to the charity or the users of the charity's goods/services). In extreme cases such uncontrollable distortions can be wilfully imposed on a reluctant charity by external interests.

In short: The current R&P reporting standards for small charities are NOT FIT FOR PURPOSE.

Accruals Reporting or Receipts & Payments Reporting – Which is Simpler ?

The 85% majority with annual incomes less than £250,000 – are allowed to opt to use the Receipts & Payments reporting standard (*ie:* Cash reporting) instead of the Accruals standard, ostensibly on the basis that it is simpler than the Accruals reporting standard.

It is certainly true that the 8 pages of the Charity Commission guidance CC16 for creating R&P **Reports** (otherwise known as "R&P **Accounts**") are simpler than the 404 pages of the Financial Reporting Standard FRS-102 plus 130+ pages of the Charity Commission Statement of Recommended Practice (SORP) rules for creating Accruals **Reports** (otherwise known as "Accruals **Accounts**").

But it is disingenuous to claim or imply that opting for Receipts & Payments (R&P) financial **reporting** makes R&P financial **record-keeping** and day-to-day financial management and control "simpler" for small charities than the financial **record-keeping** required in order to opt for Accruals **financial reporting**.

The practical reality is that the **records** of transactions that a charity needs to manage its finances in a "business-like" (*ie:* 5-**E**s) way can be used to produce BOTH R&P "Accounts" (*ie:* R&P Financial Reports) AND Accruals "Accounts" (*ie:* Accruals Financial Reports).

The differences between "Accruals Accounts" (*ie:* Accruals Financial Reports) and "R&P Accounts" (*ie:* R&P Financial Reports), are NOT determined by differences in the financial records that a charity keeps as submitted to the Charity Commission and elsewhere. Instead, they are due to:

☹ differences in the ways that the financial records have to be analysed and laid out;
☹ the way that Accruals Financial Reporting require accountancy *"funny money"* to be included as if it was "real money". "Funny money" is the hypothetical money representing the notional income and/or expenditure arising from changes in the estimated monetary "value" of the charity's non-money assets,

eg: property, equipment, furniture, vehicles, investments, heritage assets.
"Funny money" is dealt with in more detail in a later section.

This is clearly demonstrated in the accompanying example spreadsheet in which the **same** **simple** financial transactions **records** are used to produce side-by-side **reports** of an example charity's ordinary day-to-day operational financial transactions in **both** R&P-format and Accruals-format simultaneously.

Instead, the practical reality is that, as an alternative to Accruals reporting for small charities, the R&P reporting standard is just a case of "out of the frying pan, into the fire"!
Like Accruals reporting, R&P reporting **ISN'T** designed "from the bottom up" to meet the financial reporting and management requirements of the small charities either. R&P reporting for small charities is just another "one-size-fits-all" adaptation of a commercial standard – the VAT cash reporting standard – for small businesses with annual turnovers up to £1.36M (that's more than 5 times the £250K threshold for the use of R&P reporting by charities).

BUT THERE'S A SNAG !
"Cash accounting" was introduced into the business sector to address the cash-flow problems created when small businesses have to use their own money to pay the VAT due on the goods/services they had sold to their customers because their customers had not yet paid for them.

- ☹ But most small charities aren't businesses and so don't collect VAT on behalf of HMRC.
- ☹ So they don't get the VAT cash-flow benefit for which cash accounting was introduced in the business sector.
- ☹ Instead they just get all the well-known disadvantages of cash accounting where reporting a transaction gets divorced from the activity to which it relates.
- ☹ Promoting Receipts & Payments reporting as a "concession" for small charities is a classic example of "throwing the baby out with the bathwater".

Receipts & Payments (*ie:* Cash Accounting) reporting is a "solution" foisted onto small charities for a problem which they don't have. Worse than that, it also foists onto small charities a system which is widely "looked down on" by the accountancy profession as being significantly inferior to Accruals accounting because brings with it a widely recognised tendency to distort financial reports.

In other words – suggesting that R-P reporting is the appropriate "simple" alternative to Accruals reporting for small charities is not just another example of "banging a commercial square peg into a charity round hole". Proposing such a Not Fit for Purpose "solution" shows just how out-of-touch professional financial "bean counters" are with the practical every-day need of the non-accountant trustees and volunteers, and staff of the 85% majority of small charities

Which Date to Use?

The claim that only having to **report** transactions on the date that "the money changed hands" makes R&P financial reporting "simpler" than Accruals financial reporting because it means that transactions only have to be **recorded** on the date that "the money changed hands, not when the transaction is agreed, is beguiling....

.....but NOT TRUE !

Most small charities would find financial reporting easier and more understandable if their reports were based on the date that the transaction was agreed– *ie:* more like Accruals reporting – rather than having to be based on the date that the "money changed hands".

It only takes a few moments of common sense thinking to recognise that:

- ☹ An organisation which keeps no record of what financial transactions it has agreed to has no way of knowing which of the financial transactions it has committed to remain unpaid (*ie:* the money has not yet changed hands").

☹ And an organisation which keeps no record of when the money for its financial transactions has actually changed hands has no way of knowing which of the financial transactions it has agreed to remain unpaid (*ie:* the money has not yet changed hands").

In practice, whichever reporting format they have opted for, R&P or Accruals, **all** organisations have to keep **records** of **BOTH** the dates that it agreed to transactions **AND** the dates that the money for those transactions changed hands.

One Size Fits All ?   NO IT DOESN'T !

The "gold standard" for charity financial reporting is based on the 404-page FRS-102 standard for the commercial sector plus a 130+-page SORP[1] for the charity sector. That MIGHT be "the right size" for professional accountants earning a living in their regular day job of "optimising" their commercial clients' financial reports and profits to meet the needs of their clients investors and the tax authorities.

But for the vast majority of non-accountant volunteer (*ie:* unpaid) trustees giving some of their spare time to meet the needs of the beneficiaries of their small charities (which don't make profits for investors or pay taxes) the FRS-102 +SORP financial reporting standard is a grotesque misfit to their need. And that is particularly so when they only have to implement those standards once a year when preparing their charity's Annual Report & Accounts..

That was dramatically illustrated by the collapse of the Kids Company Charity in 2015 shortly after receiving a major government grant The Parliamentary report into the collapse is not only a damming inditement of the failures of the Kids Company trustees to manage its affairs properly but also of the "fitness for purpose" of the "gold standard" for charity reporting that the charity, its auditors (Kingston Smith) and the government had, ostensibly relied on (as the following extracts from the Parliamentary report indicate).

> 71 *Between 2013 and 2015, the Cabinet Office used the work of auditors, accountants and consultants to inform its decision making in relation to Kids Company. However, none of these reviews delivered a meaningful assessment of the charity's effectiveness, quality of services, outcomes or value for money. They were therefore inadequate in providing a useful picture of the charity's operations or reassurance to potential donors.*
>
> 72 *Kingston Smith audited Kids Company 2011–2013, and signed off the charity's accounts as a going concern each year. Mr Nick Brooks, the partner responsible for the audit, stressed that "responsibility for signing the accounts is firstly with the Trustees"......*
>
> 83 *Kingston Smith did not consider it part of its remit to assure the public of whether Kids Company spent money in line with its charitable objectives. Ultimately, discretion over appropriate spending rests with the charity's Trustees, not the auditors or the Charity Commission. This inquiry provides a reminder to all who use charity accounts that a set of audited accounts do not provide assurance that charitable funds are being used wisely or that a charity is well run.*

It is particularly important to note that the size and complexity of the "gold standard" for charity accounts makes it inevitable that non-accountant trustees have to rely on professional accountant to prepare and audit (*ie:* verify as compliant with the "gold standard") their charity's financial reports. But – as the Kids Company fiasco demonstrates – professional accountants, auditors (and independent examiners) can be as quick to push back to the trustees responsibility for any shortcomings in their financial reports as they are quick to claim their professional fees.

This is an issue that Small Charity Support has seen more often than it would wish in the management and independent examination of local small charity financial reports. And it seems to be a significant feature of the Charity Commission's own analysis of *Do charity annual reports and accounts meet the reader's needs?*

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[1] Statement of Recommended Practice

Nor is size – as annual income – the only determinant of "fit for purpose"..

It is true that charities and commercial organisations of all sizes do share some things in common – in particular the Es of being "business-like" (**E**fficient, **E**ffective, **E**conomical, **E**thical and **E**cological) use of their resources. And most commercial organisations also have to deliver "public benefit" – for the obvious reason that, if they did not do so, the public would not pay for the organisation's goods/services and it would quickly go out of business.

But thereafter diversity of purpose is also an important consideration.

In 2018 is was reported that Burberry (the well-known manufacturer/distributor of "up-market" fashion wear and beauty products) had burned £28.6M of unsold goods in order to "protect" its brand image and the price at which it could sell its products in the luxury-goods market place.

£28.6 MILLION POUNDS !! ??? That's more than the combined average annual income of over 1000 small (<£500K) charities in the UK "gone up in smoke" for profit ?? !!!.

That might be **E**fficient, **E**ffective & **E**conomical – and **E**xpedient (but not **E**cological) – for a commercial organisation the purpose of which is to provide **E**xclusive products to **E**nhance the **E**gos of its **E**lite customers in order to **E**nsure continued profits to **E**nrich its **E**ntrepreneurs/investors.
{It's amazing how many E-words there are to describe "being business-like" !}

But while charities are also expected to be "business-like" – in the sense of being **E**fficient, **E**ffective & **E**conomical – in the way that they are managed, in other respects they are (ostensibly) the exact opposite of commercial businesses.

Businesses collect money from their customers/clients and use it to deliver the optimum profit for their owners/investors. The purpose of commercial businesses is to end up with **more** money than they started with – *ie:* the profits for their investors;

But charities collect money from their donors and use it to deliver the optimum services to their beneficiaries. The purpose of charities is to end up with **less** money than they started with – ie: having spent their money on providing goods and services that their beneficiaries ("customers") could not afford to pay for themselves.

The "unspoken" theme running through Accruals/SORP financial reporting standards is the internal conflict for commercial finance departments which, on the one hand want to "optimise" (*ie:* "maximise") their profits for the benefit of their investors but, on the other hand, also want to "optimise" (*ie:* "minimise") their profits to reduce their liability for corporation tax. One constantly hears reports of the shenanigans of the wealthy (both companies and individuals) using complex financial reporting rules to manipulate their financial reports to avoid (which is legal, but usually immoral) or evade (which is illegal, but still happens) their tax liabilities in order to increase their organisation's profits for investors.

It is no doubt good (and legal) commercial sense for a business to destroy sellable stock in order to create unfulfilled demand for (and, therefore, enhance the "value" and profitability of its unsold goods) in order to increase its profitability for investors. The notional "value" of the destroyed stock gets written into the financial report as a "funny money" expenditure while the enhanced value of the remaining stock gets written into the financial report as "funny money" income. So long as the "funny money" income is greater than the "funny money" expenditure the business is making a "profit".

But a charity (*eg:* a food bank) is unlikely to **E**nthuse its donors to give more donations to the charity by "burning" some of its resources (*eg:* stocks of donated food) in order to create an impression of unfulfilled demand for its charitable activities for those in need and, thereby, increasing ("optimising") the notional financial "value" of it charitable activities. Neither are charities liable for corporation tax, so they don't have to "optimise" their financial reports for HMRC.

As the Kids Company debacle clearly demonstrates, compliance with Accruals reporting rules, even when "approved" by a professional auditor as giving "a true and fair view" of the charity's financial position, doesn't protect a badly managed charity from collapsing in financial chaos, or protect donors (including the government) being misled into making further donations.

The FRS-102 financial reporting standards, clearly developed for the needs of the commercial sector, are not fit for purpose for charities. And the SORP (Statement of Recommended Practice) adaptations for charities is just a classic example of the consequences of trying to "bang a square peg into a round hole".
The fact that adopting Accruals reporting standards by charities doesn't fail more often can be said to be more due to the integrity of the charity trustees, volunteers and staff who implement them (or try to implement them as best they can) than to the appropriateness of the standards themselves (and the fact that the Charity Commission only validates about 0.5% of submitted financial reports).

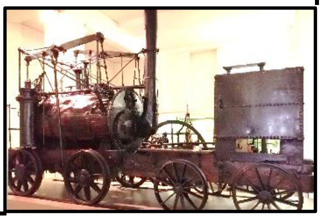
Double-entry Bookkeeping

Using "Accruals accounting" is often understood to mean using "Double-entry Bookkeeping"
But as explained earlier that is NOT the case.
"Accruals accounting" means "producing financial reports based on the Accruals financial **reporting** standards". Whereas "Double-Entry Bookkeeping" means "using the traditional methods of **recording** financial transactions based on the use of ink on paper in columns in books.

Nevertheless most of the requirements, and associated jargon, of current accruals **reporting** are based on the presumption that the financial **records** now collected on a computer will continue to be stored and analysed in ways which replicate the double-entry procedures which revolutionised accountancy practices in the past even though the "quill pen & ledgers technology" for which those procedures were designed is long-since obsolete.

Steam was a similarly well-tried and tested method of powering machinery by the burning of coal which revolutionised industrial practices in the days long before oil and electricity became available and made steam power obsolete.
But, unlike steam engineering, accountancy practices don't seem to have recognised that the technology for financial information processing and management has moved on.

Expecting that accountancy and financial reporting should continue to replicate obsolete double-entry bookkeeping on computers using software "powered" by modern electronic database technology is like steam "enthusiasts" expecting that machinery should continue replicate obsolete steam-powered engines, just using oil or electricity to generate the steam instead of coal.



Which is one of the reasons why accruals reporting seems to be so much more complicated than "simple" cash reporting. **But this apparent complexity is totally unnecessary.**

Modern relational database #-tagging technology (similar to that now widely familiar in social media, such as Facebook & Twitter) allows the multiple books/ledgers and columns of double-entry procedures to be replaced by one simple list containing all financial records in one place. #-tagging the records then allows them to be analysed quickly and simply in a wide variety of ways "at the click of a button" by people with minimal "accountancy skills". And, in practice, most modern accountancy software will be using #-tagging and modern relational database technology.

One can be forgiven for thinking that the insistence on continuing to use over-complicated double-entry bookkeeping methods and jargon for financial reporting is like steam engine aficionados insisting that steam technology continues to be used to drive machinery, but using oil/diesel as a more modern fuel instead of coal

(*eg:* reminiscent of the Luddite reactionaries in the early 19th century opposing the introduction of modern machinery into the textile industry)

This is not just untested "wishful thinking".
Although still relatively "primitive" and in need of further development, the Small Charity Support financial recording & reporting system for small charities is itself now a successful tried and tested practical working system which has been in operation use for a number years by a number of small charities preparing BOTH R&P and Accruals financial reports. This is illustrated by the accompanying example spreadsheet which uses real financial transactions data taken (and appropriately adapted and anonymised) from typical small charities which use the spreadsheet to record their financial data and produce their financial reports.

Accountancy "Funny Money" ?

While much of the 404+130 pages of the FRS-102 and SORP "guidance" on accruals financial reporting is about providing more detail about where an organisation gets its money from and how it spends it, a significant proportion is not about "real" money at all, it's about accountancy "funny money".

Accountancy "funny money" ISN'T "real money".
It is hypothetical money – magically created "out of thin air" when Accruals reporting procedures require all a charity's assets to be assigned a notional monetary value.
But, even more than that:

(a) such notional "funny money" values are also required to be counted in financial reports as if they were "real" money alongside the charity's cash assets in the bank (when they are not);
  and, even more hypothetically
(b) any changes in those notional "funny money" values (*eg:* the decline in the value of ageing assets like vehicles, furniture, computers; or stock-market fluctuations in share prices) have to be treated and counted in financial reports alongside "cash in the bank" as if they were "real money" expenditure or income for the charity (when they are not).

Accountancy "funny money" is created in 3 main situations:

1: The capitalisation and depreciation of tangible ("operational") assets;
2: Investment assets;
3: Heritage assets.

Capitalisation and Depreciation of Tangible ("Operational") Assets

Operational assets (called "tangible assets" in the accountancy jargon) are the things which the charity owns because they are necessary for the charity to carry out its charitable activities. They therefore have to be taken into consideration when looking at the charity's budgets and actual running costs in order to ensure that the charity is, and can remain, financially viable. That includes ensuring that the charity has enough "real money" financial resources to replace its operational assets when they come to the end of their useful life.

In the business sector, the capitalisation and depreciation of an organisation's operational assets comes from the principle of "Matching, *ie:* expenditure on resources has to be "matched" to the income generated by using those resources to produce goods/services to sell to customers. This is so that the organisation's financial reports can provide a realistic picture of the profitability of the organisation's activities for the benefit of potential investors and for national taxation purposes.

Charitable objects focus on meeting public needs which are not (or cannot) be met by commercial market-place economics. That's usually because the charity's beneficiaries are unable to pay for the goods/services that they need. And that, in turn, means that charities often use their operational assets in ways which do not generate income streams which can be "matched" against the "funny money value" of those operational assets.

But that is NOT to say that charities do not have to know what resources they have, what those resources cost, and how they are being used. On the contrary, it is in the wider public interest that charities should be able to demonstrate convincingly to their donors, volunteers and staff how those resources are being used **E**fficiently, **E**ffectively, **E**conomically, **E**thically & **E**cologically to optimise the delivery of their charitable activities to their beneficiaries in fulfilment of their charitable objects.

For charities, where the objective is to maximise the use of resources to provide the goods/services needed to help the charity's beneficiaries rather than to optimise the profits to commercial investors, there are other simpler and much more effective ways than capitalisation & depreciation for measuring and managing an organisation's resources. That is shown by the worksheet in the example spreadsheet accompanying this article. The worksheet contains all the information required for including analyses of the costs and usage of operational assets in financial management reports. It also shows the "funny money" depreciation of capitalised assets as used in Accruals reports but without distorting the "real money" elements by including the hypothetical decreases in the "funny money values" of capitalised assets as if they were "real" (*ie:* in the bank) money. AND it updates automatically to align with the charity's current reporting period. So managing the and reporting on the "value & depreciation" of the charity's operational assets does not require them to be incorporated into financial reports as "funny money". A worksheet consisting of one simple entry (name, date of purchase, expected useful life and cost) into the worksheet at the time that the asset is all that is acquired.

DEPRECIATION OF ASSETS, PERIOD 01-Jan-19 TO 31-Dec-19						
Asset	*Date Purchase*	*Useable Life (yrs)*	*Cost £*	*Value at 31-Dec-*	*Depr'n in Period*	*Value at 31-Dec-*
SUMMARY - Total for all assets			***51,000***	***19,884***	***7,492***	***17,392***
Notice Boards	01-Jul-19	5	5,000	---	504	4,496
Mini-bus	31-Dec-16	6	24,000	15,995	3,997	11,997
Computers & Printers	23-May-16	3	12,000	1,563	1,563	0
Office Furniture	18-Aug-13	7	10,000	2,326	1,428	899

Larger commercial organisations and charities usually have teams of Management Accountants who specialise in the "nitty gritty" of calculating the day-to-day costs of running the business or charity Effectively, Efficiently & Economically (including making sure that the organisation doesn't run out of "real" money).

> *The Chartered Institute of Management Accounts (CIMA – the professional body for Management Accountants) describes the differences between financial and management accountants as:*
> *As a financial accountant, you would:*
> - *prepare reports based on past performance.*
> - *produce required financial information to be used across other roles in a business.*
>
> *As a management accountant, you would:*
> - *gather information on revenue, cash flow and outstanding debts to spot trends, gather stats, and write reports that help your company make decisions — from day-to-day management to corporate strategy.*
> - *combine financial and non-financial data to paint a complete picture of the business. Then use that to drive the success of the business.*

"Tarting up" an organisation's financial figures so that they appear "fashionable and attractive" to investors and the taxation authorities is the role of the Financial Accountants.

And as most Annual Reports & Accounts are published months after the period to which they relate, their practical value in the day-to-day management of the organisation is "somewhat limited".

In other words: capitalising and depreciating operational assets – a financial accountancy process designed to demonstrate and organisation's profitability for the benefit of investors and taxation authorities – is unnecessary and irrelevant (*ie:* not fit-for-purpose) to the financial reporting needs of charities (and, particularly, small charities) which don't make profits, aren't for the benefit of investors, and (usually) aren't liable for corporation tax or Value Added Tax.

Investment Assets

Not many small charities will have investment assets, but where they do it is usually because they have been given significant funds not for direct expenditure on the charity's activities but to be invested in order to generate the income needed for the charity's activities.

As with operational(tangible) assets, it is important that a charity has a up-to-date and effective record of all its investment assets and their financial performance (*eg:* their stock-market or other financial value; the level of income they are generating)?

And, as with operational assets, the example spreadsheet shows a simpler and much more effective way of reporting the capricious stock-market valuations of investment assets in Accruals reports but without the distortions created by including the hypothetical increases and decreases in the "funny money values" of investments as if they were "real" (ie: in the bank) money income or expenditure when, in reality, not a penny actually changes hands anywhere.

	At 01-Apr-18			Additions in Year		Disposals in Year		At 31-Mar-19		
Investment	*Quantity Held*	*Open Unit Value £*	*Carrying Value £*	*Quantity Bought*	*Amount Paid*	*Quantity Sold*	*Amount Realised*	*Quantity Held*	*Close Unit Value £*	*Carrying Value £*
Listed *(At market value)*										
Sellmore Superstores	8,000	2.140	17,120	2,500	4,208	0	0	10,500	1.855	19,478
EcoRenew Energy	11,207	0.980	10,984	0	0	3,052	3,662	8,155	1.021	8,330
GetFit Bicycles	2,896	3.900	11,294	0	0	448	1,837	2,448	4.200	10,282
Totals:			***39,399***		***4,208***		***5,499***			***38,089***
Interest received	962									
Dividends received	1,024									
Realised from sales	5,499									
Cost of purchases	-4,208									
Net Increase(Decrease)	**3,277**									

Heritage Assets

Even fewer small charities will have heritage assets.
Those that do will mostly be museums, preservation societies/groups, etc.

Of course, as with operational and investment assets, it is important that a charity has a record of all its heritage assets? But as anyone who has been a trustee of, or has worked in, a museum (or even just watched Bargain Hunt on the BBC) knows the "value" of heritage assets is just pure speculation – depending on the whim (and wealth) of whoever happens to be in the gallery, antique shop or auction room at the time.

So what is the "real value" of a heritage asset:

- The speculation of pundits "before the hammer falls";
- what the seller hopes to get for it?
- what different potential buyers are prepared to pay for it?
- what the auctioneer think is its value?

And even after the hammer has fallen, what is the "value" of the item?

- The "hammer price"?
- what the seller actually got for it (the hammer price less the auctioneer's commission, typically around 20%)?
- What the buyer actually paid for it (the hammer price plus the auctioneer's commission, typically around 10%)?
- Or the valuation for insurance – given that for unique heritage assets, if the asset is or stolen or irreparably damaged the insurance value can't be used to buy another anyway!

For charities, the "value" of heritage assets lies in their aesthetic, cultural or artistic "value". Including them as "funny money" in a charity's accounts is for those who haven't yet recognised the wisdom of the saying: *"When......only then will you recognise that you can't eat money"*

"Funny Money" – The Conclusion

It is beyond the remit of this article to comment on the importance of monetising assets in the commercial sector where organisations themselves are commodities to be bought and sold for profit by investors.
But charities are not commodities to be bought and sold like commercial organisations.

It is not disputed that the Efficient, Effective and Economic (and Ethical and Ecological) management of a charity requires trustees, volunteers and staff to have a sound understanding of their charity's assets, how they are being used, and the costs of replacing them as and when necessary. But that doesn't mean that giving assets a hypothetical "funny money value" is the only – or even the best – way of recording and managing the financial implications of a charity's assets.

A more important, but overlooked consideration is the requirement that charity assets be monetised and included as "funny money" in charities' financial reports whilst excluding (and thereby effectively denigrating) the social and community values of charity resources which can't be monetised in any meaningful way.

A particular example being the "value" of volunteers .

The Charity Commission's guidance notes CC17 for Accruals reporting has copious detail on documenting the "funny money value" of assets but makes no mention whatsoever of the "value" of volunteers. And the guidance notes CC16 for R&P reporting just blandly states *"There is no requirement to value volunteers' time, though trustees may choose to refer to the contribution made by volunteers in their Annual Report or in a note to the accounts to explain such contributions"*.

The reality is that most charities, large and small, depend enormously on the contributions of their volunteers who are often a significant proportion of their total workforce (paid and unpaid).

Take the common example of a small community charity which buys a minibus for £24,000 to transport its beneficiaries who would otherwise be unable to afford public services. With an estimated useful life of 6 years the "funny money" annual "cost of depreciation" of the minibus to be included as "expenditure" in Accruals financial reports, is £4,000. But the minibus is driven by volunteer drivers for 5 hours per day, 4 days per week for 45 weeks per year. The average hourly wage of a UK bus driver is £10.58. If the charity had had to pay those drivers the expenditure would have been £9,522 (plus on-costs, like employer's NIC and pensions contributions). That's more than double the "funny money value" of the depreciation (cost of using) of the minibus being driven by those volunteers. But, under charity reporting standards, is relegated to a mere "optional note" in the accounts.
At the other end of the scale: in its FY2019 financial report, Oxfam (one of the UK's larger charities, £400M/yr) reported it had 25,000 volunteers who donated *"....a great amount of time, the value of which is not reflected in these accounts"*. If one assumes that each volunteer had, on average, donated a modest 2 hrs per week for 45 weeks, the financial "funny money value" (*ie:* "cost" had they been paid) of that volunteering at the UK median hourly wage of £14.8 would have been £33.3M. That's more than 11 times the £3M "funny money cost" of depreciation (using its fixed assets) which WAS meticulously reported in detail in the accounts.

The requirement that "funny money" be included in Accruals reporting of a charity's finances:

(a) is a meaningless distortion, rather than a "true and fair" representation, of the financial "status" of a charity;

(b) omits to take into account the important, often crucial, operational value of resources such as volunteers;

(b) is an ineffective waste of time within the context of a typical Annual Report & Financial Statements where the "broad-brush" aggregation of financial information provides insufficient detail to allow anything more than the most superficial, and retrospective, overview of a charity's financial performance;

(d) is NOT FIT FOR PURPOSE because it distorts and confuses the financial reports of the "value" a charity's goods and services to its beneficiaries, its community and the public – *ie:* by placing too much emphasis on "funny money value" (notional "profit" for the commercial sector) while ignoring non-money "social value" (the contributions of volunteers in particular) and the non-money "well-being value" to the charity's beneficiaries.

Payments in Arrears or in Advance

Payments in Arrears (Delayed Payments)

Payments in arrears can be either or both:

☹ Outgoing payments (expenditure) in arrears – *eg:* when a charity has organised a major event but is only invoiced for the hire of the venue some time after the event took place;

☹ Incoming payments (receipts) in arrears – *eg:* when the ticket sales for an event were handled by an outside agency which only hands over the ticket revenues some time after the event took place.

From a financial **management** perspective, payments in arrears (particularly incoming receipts in arrears) can create significant difficulties with the charity's cash-flow. When a charity is running on a tight budget, delays in receiving money due to it can create "embarrassments" if the charity finds itself not having enough cash in the bank to pay its bills when they become due, even though it would have had enough money had it received all the money owed to it by others. And that can be the case even when the delay in payment is quite short – weeks, or even just days.
Good cash-flow monitoring and day-to-day management reporting of the charity's financial transaction, **both completed and outstanding**, is therefore crucial for the Efficient, Effective & Economic management of charities of all sizes. It is why the notion that the financial **records** required for R&P "accounting" (*ie:* R&P **reporting**) are much simpler than the financial **records** required for Accruals "accounting" (*ie:* Accruals **reporting**) is such nonsense.

But from a financial **reporting** perspective, payments in arrears are only relevant – ie: only influence the figures in the charity's annual "accounts" (ie: reports) – when the delays mean that the money changing hands occurs in a financial reporting period after the period in which the activity occurred.

If a charity with a financial year Jan-Dec holds an event in early January, it makes no difference to its annual financial report if the ticket agent hands over the ticket revenues in January or December of that year, or anywhere in-between. The delayed receipt just gets included in the financial report regardless of when it was actually received during the period being reported. So the "bottom line" of the report shows the net surplus/deficit of the event, but not any financial difficulties experienced by the charity during the period covered by the report as a consequence of the payment being delayed.

But, if the same charity had held its event in December instead of January, just a few week's (or even days), delays in paying the venue invoice, or the ticket agent handing over the tickets revenue, could make significant differences to the charity's financial reports of income/expenditure and net surplus/deficit. And that is the case not just for the period in which the event took place but also for the subsequent financial period too. Illustrations of the ways in which such distortions can, and do, occur are given in more detail in the Appendix.

Payments in Advance

As with payments in arrears, payments in advance can be either or both:

- ☹ outgoing payments (expenditure) in advance – *eg:* where a charity is organising a major event and has to pay a deposit well in advance to secure an appropriate venue;
- ☹ incoming payments (receipts) in advance – *eg:* wants to sell tickets for the event well in advance

Payments in advance occur when financial transactions take place and are completed – *ie:* both the agreement is made and the "money changes hands" – significantly in advance of the activity to which they relate actually occurring. For example: a charity organising an event for which it has to pay an deposit in advance to secure the hire of a venue, and for which it will sell tickets in advance.

As with payments in arrears, good financial cash-flow **management** is necessary in order to ensure that the charity has sufficient cash flow at all times to cover all its obligations – *eg:* that it has sufficient reserves to pay the advance deposit to secure the hire of the venue, and that it can keep adequate track of income in advance from ticket sales to ensure that those funds are not cavalierly squandered on unrelated activities.

And similarly, from a financial **reporting** perspective: Payments in advance which occur within the same financial reporting period as the event itself it are of no consequence whether they occur a few days, or many months, ahead of the event itself. They will just be incorporated into the "bottom line" of net surplus/deficit for the event, regardless of any intervening cash-flow issues. As with payments in arrears, it is only when payments in advance occur within a different financial reporting period from the event or activity to which they relate that distortions of the financial report can, and do, occur.

Single payments relating to services covering more than one financial reporting period:

This is a more difficult situation to deal with and commonly occurs where a charity makes a one-off payment somewhere in the middle of one financial reporting period to cover specific costs (usually of services rather than goods) over a period of time which spans more than one financial reporting period.

A typical example occurs when a charity with a financial reporting period of 1st January-31st December pays its annual public liability insurance premium of (say) £900 on 1st September.   In principle that potentially creates a distortion in the current year's financial report because the premium is in two parts - 1/3rd (£300) for the cover in the remainder of current financial period (4 months Sep-Dec inclusive) and 2/3rds (£600) a payment in advance for the cover in the following financial reporting period (8 months Jan-Aug inclusive.

But in practice, where a similar insurance premium is paid each year, the in-year distortions cancel each other (except for minor variations, *eg:* increases in the premium due to inflation).   It is therefore usually possible to apply the legal principle of *de minimis non curat lex* (the law does not concern itself with trivia), or the equivalent accountancy principle of "immateriality", to ignore any small residual distortions in annual financial reports (*ie:* report the whole payment as a single "Cash" transaction within the current financial period).

On the rare occasions where there are major changes in such regular payments partly in advance (*eg:* in response to taking on a substantial new insurance risk), such one-off distorting effects can be mitigated in the same way as *ad hoc* payments in advance (to be described in more detail later).

The "Bottom Line"

The "bottom line" – in the sense of "the final outcome" – is that where a charity's financial transactions (agreements to purchase/provide goods/services and the associated money changing hands) are completed within the same financial period, the financial "bottom line" for the charity (what surplus/deficit it made within the financial period and its financial resources are the end of the financial period) are the same whether the charity produces its report on an Accruals basis (dates that transactions were agreed) or on a R&P (Cash) basis (dates that the money changed hands).

But that doesn't mean that the charity hadn't experienced cash-flow issues due to payments in advance and/or arrears within the reporting period which the financial report doesn't identify, *eg:*

☹ the charity which ended its financial period with £30,000 in the bank having struggled managing cash-flow issues with less than £10,000 in the bank as a consequence of having to outlay a lot of money on planning a major activity event which only generated funds toward the end of the financial period;   *or*

☹ the charity which ended its financial period with £30,000 in the bank having spent most of the year with more than £50,000 in the bank as a consequence of having received advance sponsorship for a significant event the costs of which were only incurred towards the end of the financial period.

The "bottom lines" of the financial reports of those two charities would have been rather different had the event income for the first charity and the significant costs of the second charity only been received/paid after the end of their financial period periods.

The Accruals reporting standard addresses that issue by requiring two "bottom lines" to be produced: the first shows the charity's EXPECTED financial position – *ie:* as if all the outstanding payments in advance/arrears had been completed.   The report then shows the amount of outstanding income and expenditure (debtors & creditors in financial jargon) to explain why the ACTUAL financial position (cash in the bank) is different. Except that the standard then goes on to require the inclusion of "funny money" to create a different distortion in the report.

The R&P (Cash) reporting standard avoids the distortions caused by "funny money" by not requiring its inclusion in the report.   Instead it creates distortion by requiring only the ACTUAL financial position (cash in the bank) to be reported, omitting any specific requirement that the outstanding payments be included to show the EXPECTED financial status of the charity.
It is, of course, true that charities using the R&P (Cash) reporting standard are "invited" to indicate in their financial reports any financial assets/liabilities in the form of outstanding payments due to, or from, the charity.   But such items are at the discretion of the trustees and there is no requirement that such assets or liabilities should be reported accurately or completely or at all.
And even if outstanding payments in advance/arrears at the end of the financial period were included more coherently in an R&P report, the report would still be distorted by having to include the outstanding payments in advance/arrears brought forward from the previous financial period.

"True & Fair View" ?

A particular advantage claimed for Accruals Reports over R&P Reports is that Accruals Reports are able to show "a true and fair view" of the organisation's financial status while R&P Reports are not.

But what is a "true and fair view"?
The Financial Reporting Council explains:

> *....in the UK for many decades {there} has been no statutory definition of 'true and fair'....*
>
> *The most authoritative statements as to the meaning of 'true and fair' have been legal opinions written by Lord Hoffmann and Dame Mary Arden in 1983 and 1984 and by Dame Mary Arden in 1993....*
>
> *....the FRC .... commissioned a further legal opinion to ascertain whether the approach to 'true and fair' taken in the Opinions requires to be revised.*
>
> *....{that} Opinion is now published on the FRC website*

It is, of course, a "nice interpretation of words" whether a financial report which is does not give (in the sense of "not being capable of giving") a *"true and fair view"* instead gives *"an **un**true and **un**fair view"* of the organisation's financial status.

What can be said is that where the use of R&P reporting rules results in significant distortions it **DOES** create a very "**un**fair view" of a charity's financial position (as indicated above), even when it is technically "true and fair" in the sense of being compliant with R&P reporting rules.

What can also be said is that not even a full Accruals financial report, signed off by professional auditors, is guaranteed to be a practical "true and fair view" of a charity's financial position. That was illustrated by the 2015 debacle of the collapse of the Kids Company charity and the subsequent damming report on the financial management of the charity by the House of Commons Public Administration and Constitutional Affairs Committee.

Given the Charity Commission's concern that *"Good reporting is important to public trust and confidence in both the reporting charity and the wider charity sector"* it is a "curious inconsistency" that it has waived the requirement for the financial reports of charities to meet the "true and fair view" criteria when they have opted for Independent Examination rather than full audit – *ie:* for the vast majority of charities producing R&P financial reports up to £250,000 and Accruals financial reports up to £1M.

The Tail Wagging the Dog

This review of charity financial reporting opened with the findings of a survey commissioned by the Charity Commission on public perceptions of the trustworthiness of charities and their implications for the extent to which the financial reports of charities complied with its benchmark standards for charity reports.

Those surveys reported two ostensibly contradictory findings:
1. Significantly more than half (57%) of the public had greater trust in smaller charities than in larger charities;
2. Significantly more than half (56%) of the financial reports of smaller charities were compliant with the Charity Commission's benchmark standards (a figure which rose only to 75% even in larger charities more able to employ professional financial staff).

In other words, the **more** likely it is that:
1. a charity's financial report will be compliant with the Commission's benchmark standards, and
2. will give a "true and fair view "of the charity's financial position (because the charity had opted for Independent Examination rather than full audit);

the **less** likely it is that the charity will be regarded as trustworthy by the public.

And therein lies the clue to the core underlying issue of the relevance of the current financial reporting standards for charities as a driver and benchmark of public trust in charities.

The current financial reporting standards combine:
- ☹ an explicit legal requirement that the trustees of all charities, large or small, including the volunteer trustees of the majority of charities in the UK have the ultimate responsibility for the production and approval of their charity's financial reports;
- ☹ a "gold standard" which is so hideously long and complicated (400+ pages of FRS-102, 130+pages of SORP, 26+ pages of legal opinion on what is a "true and fair view") that it is completely unreasonable to

expect the volunteer trustees who hold the final responsibility for its application to be able to implement it effectively;

☹ a "gold standard" which presupposes (though does not formally require) that charities use obsolete (and unnecessarily complicated) double-entry bookkeeping systems for recording their financial transactions;

☹ a "gold standard" which effectively compels the non-accountant volunteer trustees of small charities to spend their charitable funds on engaging professional accountants to produce their financial reports when, by the Charity Commission's own evidence, more than 25% of professional accountants are not capable of doing so to the required standard either;

☹ a "gold standard" which requires the inclusion of hypothetical "funny money valuations" of some of a charities resources (eg: tangible, investment & heritage assets) which is not only a time-wasting irrelevance for many charities but also distorts their financial reports while disrespectfully disregarding the usually very substantial non-money contributions to a charity's non-money resources, *eg:* donations of goods in kind; volunteers' time and professional expertise,;

☹ a waiving of the requirement to present a "true and fair view" for the accounts of the 55% of charities which opt for Independent Examination rather than Audit (including those producing Accruals financial reports) – despite the Charity Commission's enthusiasm for promoting public trust in charity accounts;

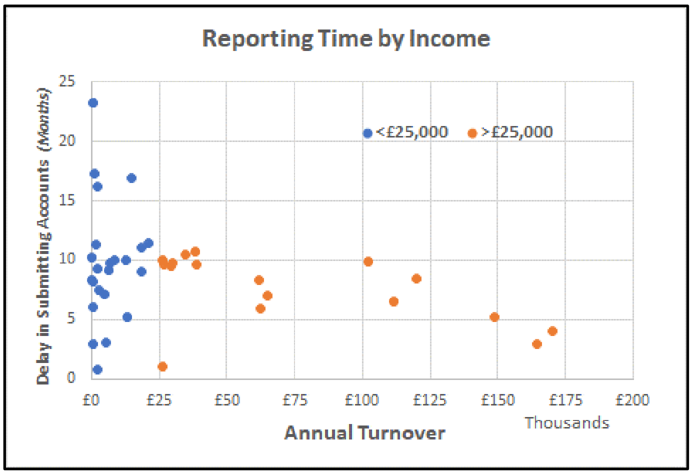
☹ a "simpleton's" alternative to the "gold standard" – *ie:* Receipts & Payments (Cash) reporting which is:
    ☹ not simple – except inasmuch as it leaves out the need to report irrelevant "funny money";
    ☹ was designed for a purpose which is not relevant for charities (*ie:* VAT cash accounting);
    ☹ viewed with disdain by the accountancy profession because of its tendency to produce distorted financial reports by not taking into account payments in advance or arrears which fall into a different financial reporting period;

☹ not all reports have to be submitted to the Charity Commission.
And even those which are, the deadline for submission is 10 months after the end of the financial period to which they relate (by which time will have long-since been forgotten, for most practical purposes).
And for charities which fail to meet the deadline, the worst that happens is they get a "red mark" in the Register of Charities and a risk of a follow-up if they miss the deadline for more than 2 consecutive years.

☹ a lack of effective monitoring and enforcing of the standards.
The Charity Commission, by its own evidence, only occasionally monitors less than 0.5% of all charities' financial reports. Of the 289 charities monitored in the 2019 review, 125 (43%) failed to meet the benchmark for their accounts. In most cases that was dealt with by the Commission *"providing guidance to help them improve the quality of future trustees' annual reports"* – though it did not clarify whether such guidance was additional to that already available to charities through the Commission's website. Only in 10 cases (8% of those found to have failed to meet the standard, 3.5% of all charities monitored) did the Commission *"require the trustees .... to address additional specific concerns..."*

As a consequence, the overall impression created is one of charity financial reporting being just a bureaucratic "box-ticking" – little more than a "yapping dog" exercise, occasionally providing a way by which the Charity Commission can demonstrate "it is keeping an eye on charities" without doing anything to address the underlying issues.

No wonder that, for most small charities, financial reporting using either of the charity reporting standards is seen as another administrative burden unrelated to the Effective, Efficient & Economic management of their charity on a day-to-day basis.



This is well-illustrated by a survey of the time delay between the end of a charity's financial period and the date on which it was submitted to the Charity Commission for 40 charities selected at random from the public Register of Charities.
Less than a quarter (21%) of charities had submitted their financial reports within 6 months of the end of their reporting period and 31% of charities (mostly with income <£25K) submitted their reports after the 10-month deadline.

The widespread "lack of urgency" in charities, particularly small charities, getting their formal financial reports published and submitted to the Charity Commission is clear evidence that most small charities see compliance with the Charity Commission's reporting standards benchmarks as being of no practical use to the charity itself.

This is the ultimate evidence that both the current charity financial reporting standards are Not Fit for Purpose !

A consequence of the Charity Commission's focus on financial reporting, and the issue of choosing between complex Accruals reporting and so-called "simple" R&P reporting is that it has created a charity sector meme in which financial recording ("bookkeeping") and reporting is dictated by the Commission's reporting standards. Those standards have, in turn, been dictated by what the accounting profession considered met the best interests of investors looking to make profits from commercial companies and the taxation authorities looking to take "a fair share of those profits" for the government.

Neither of those diktats are appropriate for charities which have neither investors looking for profits nor governments looking for taxation revenues (and are smaller by an order of magnitude than commercial companies).

It's a classic case of a "profit-focused financial tail wagging a philanthropy-focused-dog".

What is required is a new Fit for Purpose financial reporting standard for charities which is:

- ✓ designed "from the bottom up" to meet the needs of the charity sector, not cobbled together from something designed for another sector;
- ✓ versatile enough to be tailorable to charities of different sizes;
- ✓ simple enough to be used by the typical non-accountant volunteer trustees, other volunteers and office staff without significant additional training;
- ✓ where enhanced facilities are required to meet the more complex needs of the minority of larger charities it is those enhanced facilities which would be provided as adaptations or extensions to the core standard, NOT a core standard designed for the minority of large charities with exceptions/extensions for the majority of small charities
- ✓ the standard charities use for the day-to-day, week-by-week, month-by-month recording and reporting on their financial activities for its own internal management purposes to ensure that their charity is run in an **E**fficient, **E**ffective and **E**conomic (and **E**thical and **E**cological) manner. The financial report for the Charity Commission would simply be the final spin-off of the regular reporting to the Trustees & management of the charity throughout the year.

The standard would be designed to run "in real time" – *ie:* with both elements of the charity's financial transactions (transaction agreed and "money changing hands" capable of being entered on the day that they occurred – or as soon as practical afterwards). That would mean that all relevant management reports (eg: budget report, cash-flow report, end of period report) would also be available in real time "at the click of a button". That would also mean that the charity's Annual Report & Financial Statements could be available for Independent Examination or Audit within a week or two (or even a few day) after the end of the financial period.

Not Possible ? ! Yes It Is !

The attached example MS-Excel ® spreadsheet shows (using real data from typical small charity users, appropriately anonymised) how the financial activities of such small charities can be recorded and managed in real time throughout the year, producing the charity's financial statement for its Trustees' Annual Report & Accounts within seconds of the data being reconciled ("balanced", in accountancy jargon) against the end-of-year closing bank statements.

It will be interesting to see what impact introducing such a system as part of the bench-mark standard for charity financial recording & reporting (and reducing the Charity Commission reporting deadline from 10 months to 3 months) will have on the levels of failure to meet the standard, particularly amongst the majority of small charities.

A "Fit for Purpose" Alternative

It is acknowledged that criticising the current benchmark standards for charity financial reporting as "Not Fit for Purpose" is easy, particularly when the evidence for that criticism is so clear and obvious.

Providing an alternative is less easy, particularly when the reactionary counter-argument is "but we've been doing it this way for years (centuries, in fact) – so It MUST be OK" – *ie:* "if it ain't broke, don't fix it".

BUT IT IS BROKE ! AND IT DOES NEED FIXING !

The Principles to Underpin an Alternative Reporting Standard.

The purpose of this article is to present a **practical working** example of a system for both recording and reporting the financial activities and status of small charities which meets the following benchmarks:

- ✓ It must be simple and intuitive to use by the typical non-accountant trustees, volunteers and office staff of small charities – ie: NOT require any specialised training to implement and use;
- ✓ It must recognise that good financial reporting to the public domain is just one of the many spin-offs of good financial recording and internal reporting system to support the **E**fficient, **E**ffective, **E**conomic, **E**thical and **E**cological management of the charity's resources (of which money is just one).
  ie: the financial management systems used by the charity should be focused on the management needs of the charity (and, in particular the needs and abilities of those responsible for running the charity) rather than being determined by external priorities of others (particularly where such priorities are hypothetical and irrelevant to the needs of the charity).
- ✓ It should be based on the use of modern relational database technology using a simple system of #-tags to categorise (and, hence, analyse and report on) different types of income, expenditure, funds etc;
  ie: Not try to emulate obsolete double-entry bookkeeping methodologies (and jargon).
- ✓ It must be easy to adapt to the day-to-day management and financial control needs of the charities of all "shapes and sizes" – *ie:* no "one size fits all";
- ✓ It should, as far as is possible, work on a "matching" basis – *ie:* allow financial transactions to be reported in the financial period where the goods/services were delivered rather than in the financial period where "the money changed hands" (*ie:* is not R&P or "cash accounting");
- ✓ It should recognise that significant resources/assets – tangible, investment, heritage – are important and should be identified and, where appropriate, the estimated re-sale or cost-of-replacement value indicated.
  BUT – there should be **NO** requirement to include "funny money" values of assets as if they were "real money cash in the bank";
- ✓ It should be a requirement (or, at least, a "strong recommendation") that all charity Annual Financial Reports include the budget which had been set for the period being reported (*ie:* for comparison with the actual out-turn) AND the budget set for the following year.
  This is to "focus the minds" of the charity's trustees, and others involved in the financial management of the charity, on the importance of proper budgeting and subsequent monitoring of actual financial performance against budget;
- ✓ The deadline for the submission of Annual Reports & Financial Statement to the Charity Commission should be no later than 3 months after the end of the period covered by the report.
  ie: it should be possible to record and report the charity's financial activities and status in "real time" – all data and reports (including the budget, cash flow and end-of-period reports) being up-to-date and available for review by trustees and other interested persons within hours, if not minutes, of the financial transactions information being entered into the system.

What the Example Spreadsheet IS NOT !

It is NOT a commercial product or service.

Since its first release in 2014 it has never been sold commercially, nor will it be sold commercially in the foreseeable future. It has always been made available to download and use free of charge or royalties by registered charities and other *bona fide* not-for-profit social enterprises.

But it is copyright (©2014-2020 Small Charity Support) and may not be used free of charge by commercial (for profit) organisations, nor may the copyright elements be adapted or otherwise included in other software for commercial purposes.

It does NOT attempt to replicate traditional Double-Entry Bookkeeping methods.

Is avoids completely all the jargon and intricacies – ledgers, journals, creditors, debtors, suspense accounts, nominal accounts, balance sheets, etc – of traditional double-entry accountancy methodology.
Instead it uses modern relational database technology to provide all the same kind of analyses and reports – and many more besides – in a very intuitive, versatile and detailed (but nevertheless simple) way.

It is not a version of the spreadsheet to be made available for other charities to use.

The accompanying version of the spreadsheet has been specially adapted to illustrate the points made in this article. The data in the spreadsheet comes (suitably anonymised) from some of the "real" data in the version of the spreadsheet being used in practice by one of the charities being supported by Small Charity Support. And where necessary, some "real" (similarly anonymised) data from other charities have also been incorporated (*eg:* the data on investments).

It is not backed by a warranty/guarantee or any formal "Help Desk" support

As a small charity run exclusively by volunteers with minimal income (see Annual Reports & Financial Statements, downloadable from the Charity Commission Register of Charities) Small Charity Support has insufficient resources to be able to offer a "commercial" Help Desk & Support service.

However, Small Charity Support does what it can to help users overcome any queries or difficulties in adapting and using the spreadsheet within their own organisation. And the experience thus gained in ploughed back into the development of the spreadsheet to enable it better to meet the core requirement of being "fit for purpose" for the needs of non-accountant trustees and other volunteers and office staff involved in the financial management of small charities.

It is NOT claimed to be free of error or problems

Whilst every effort has been made to test the spreadsheet in a wide variety of scenarios, it is not possible to ensure that every conceivable variation in in the way people might use it (from the obvious to the downright crazy and unrealistic) have been tested and

What the Example Spreadsheet IS

It is a practical working example all the above Principles for an Alternative Reporting Standard

The software had been in existence for 6+ years and adapted to meet the specific needs of a number of small charities which have used it successfully to:

- ✓ record their day-to-day financial transaction;
- ✓ reconcile their financial records with their bank statements (the equivalent of a double-entry bookkeeping Balance Sheet)
- ✓ produce budget report and cash-flow reports "on demand, in real time" for trustees' and other management meetings, and to produce *ad hoc* reports when required;
- ✓ produce their financial statements data which can simply be cut & pasted from their spreadsheet straight into their end-of-year financial reports.

Some of the charities have used the spreadsheet to produce their end-of-year financial reports to the Receipts & Payments Reporting Standard and others to the Accruals Reporting Standard.
ie: the spreadsheet really is a practical working example of the principle that the same financial records are required and can be used for both Accruals reports and R&P reports.

This is illustrated in Appendix 1 by screen-shots from by the accompanying example spreadsheet which has been specially adapted to show the example data being reported in both Accruals and R&P formats side-by-side ready for incorporation into the charity's Annual Report & Financial Statements. The data have been taken (and, of course, been appropriately anonymised) from the real data in the spreadsheet in daily use by real charities.

Lessons have been learned, errors corrected and improvement made over that period.
So it is not some untried and tested "wishful thinking".

An illustration of how #-tagging & filtering simplifies the recording of financial data

The example show how using #-tags to identify financial information such as categories (nominal accounts in financial jargon) and designated or restricted funds not only simplifies the recording of financial data but also provides much greater versatility and detail in analysing and creating reports on the data.

The practical consequence of that is that it avoids most of the intricacies and jargon of traditional double-entry bookkeeping practices.

Open-source software

Written in MS-Excel®, and compatible with LibreOffice-Calc®, the way that the example spreadsheet is visible to all and so all of the formulae used can easily be adapted to suit particular needs of the users

As originally conceived, the spreadsheet was intended for people with a typical "basic" knowledge of spreadsheet formulae. But as the spreadsheet has evolved and more functionality added, the level of sophistication of the formulae has risen. As a consequence making significant alterations to the spreadsheet now requires a greater level of expertise – but still not to "professional programmer" level.

A simple "one stop shop" for all the financial management and reporting needs of a small charity

Data entry has to be simple.

The spreadsheet has just one worksheet for entry of all the financial transactions through its current bank account. For charities which run Petty Cash account and/or have a separate interest-bearing deposit account for their reserves, there are two additional (and identical) worksheets for those accounts. Those additional worksheets function in parallel with the main Bank worksheet so that all transactions in all worksheets are fully integrated and seamlessly aggregated into all the reports.

There is no requirement for separate ledgers for income & expenditure, restricted funds, creditors & debtors. They are ALL managed within the Bank worksheet (and Petty Cash and Deposit worksheets where applicable).

Once the transaction data have been entered they are fed automatically through to other reports, such as the Budget Report, the Cash Flow Report and the end-of-period Financial Report. No further action is required other than to select the date for the report (other than for the end-of-year report). The spreadsheet then automatically uses the date of the transaction and/or the date (month) of reconciliation with the bank statement to select which transactions to include in, or exclude from, the report.

Selected screenshots from the example spreadsheet illustrating how the above work in "real life" are shown in Appendix 1.

This facility meets the criterion that the primary focus of "Fit for Purpose" software for small charities should be on providing simple (*ie:* intuitive and requiring minimal specific training) financial recording & reporting procedures for non-account trustees, other volunteer and office staff for the entry and subsequent management and analysis of the charity's core financial data. The production of statutory reports being a simple and intuitive spin-off of the core management functions.

Which transaction date does the spreadsheet use?

As described earlier, the spreadsheet collects and uses both the date of the transaction and the date that the "money changed hands" (*ie:* in most cases, the date that the money appeared in the bank statement) because both are required for the **E**fficient and **E**ffective management and control of a charity's finances.

So when it comes to financial reporting, the spreadsheet demonstrates that it is possible to create reports to either/both the Accruals standard and/or the Receipts & Payments (standards) as required by the user from a the single, comprehensive set of financial records that all charities must keep..

In Summary

The current Accruals Reporting Standards for charity financial reports, based on the Financial Reporting Standards FRS-102 (a financial standard designed to meet the need of commercial organisations and their financial investors & shareholders) as supplemented by the charity Statement of Recommended Practice SORP, are not Fit for Purpose for the vast majority of charities with annual incomes of less than £1M because:

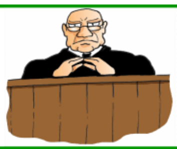
- ☹ They are based on now obsolete double-entry bookkeeping methods of recording financial data;
- ☹ They are too complicated, obfuscational and jargonised to be appropriate for the non-accountant trustees, other volunteers, and office staff who are responsible for the running of the vast majority of charities;
- ☹ Many of their requirements (in particular, the requirement to report “funny money”) are an irrelevant waste of time for the majority of charities;

The current Receipts & Payments Standards for charity financial reports, based on the VAT Cash Accounting Reporting Standards for small businesses (annual incomes less than£3.6M) is also Not Fit for Purpose because:

- ☹ VAT Cash Accounting was designed to help small businesses which were, or might, encounter cash-flow problems due to HM Revenue & Customs regulations on the collection and payment of VAT;
- ☹ Cash reporting is well-known for being prone to create distortions in financial reports when the date that “money changes hands” occurs in a financial period other than the period to which the transaction relates.

This article:

- ✓ **describes why a more “Fit for Purpose” financial recording and reporting standard is needed, particularly for the vast majority of charities with incomes less than £1M** *and*
- ✓ **illustrates what the main principles of a new and “Fit for Purpose” financial reporting standard could and should be by use of a practical working financial recording & reporting spreadsheet (compatible with both MS-Excel® and LibreCalc®) which has already been used by a number of charities for several years.**



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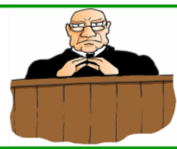

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Appendix 1: Screenshots of the Spreadsheet

Instructions Manual

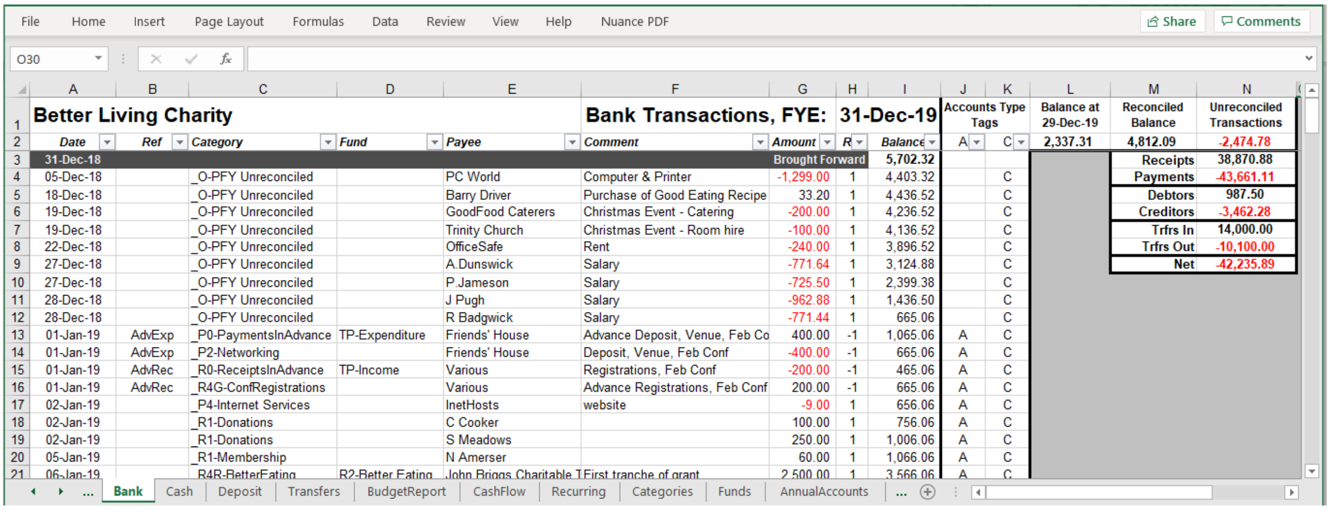
The spreadsheet is accompanied by a 48 page instructions manual which details how the spreadsheet works, how to enter data and how to produce reports.

The following screenshots are just a short overview of the way the spreadsheet works.

The Main Bank Account Data Entry Screen

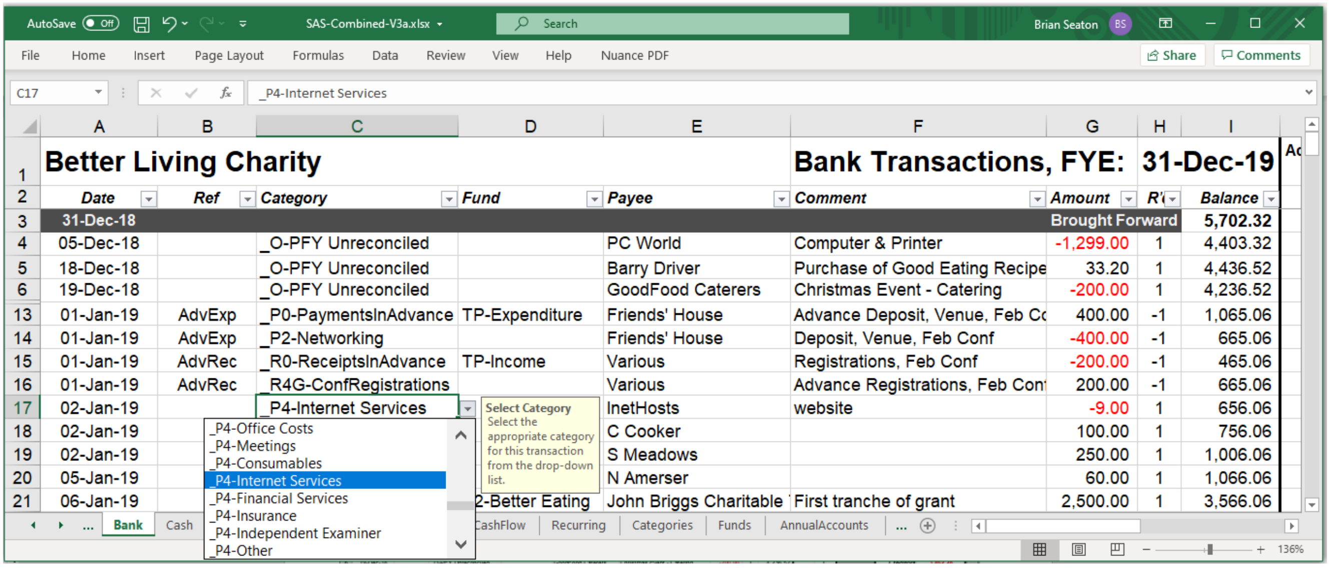
For the typical small charity with just one current bank account this is where ALL the financial transactions data are entered.   There are:

- ✓ no separate worksheets for income and expenditure.   For expenditure the amount of the transaction is simply entered as a minus number, ie: -123.45 which automatically gets coloured red.
- ✓ No separate columns for different categories (nominal accounts) of income and expenditure.   A click on the cell in the “Category” column (C) pops up a drop-down list from which the appropriate Category for the transaction can be selected.
  See the more detailed second screen below (rows 7-12 have been hidden for clarity)
- ✓ Similarly no separate worksheets for income or expenditure from different funds (designated or restricted).   Clicking on the cell in the Funds column (D) similarly pops up a drop-down list from which the appropriate Fund for the transaction can be selected.
- ✓ The running balance in the bank accounts gets updated automatically as each transaction is entered.



	Date	Ref	Category	Fund	Payee	Comment	Amount	R	Balance	A	C
1	Better Living Charity					Bank Transactions, FYE:	31-Dec-19				
3	31-Dec-18						Brought Forward		5,702.32		
4	05-Dec-18		_O-PFY Unreconciled		PC World	Computer & Printer	-1,299.00	1	4,403.32		C
5	18-Dec-18		_O-PFY Unreconciled		Barry Driver	Purchase of Good Eating Recipe	33.20	1	4,436.52		C
6	19-Dec-18		_O-PFY Unreconciled		GoodFood Caterers	Christmas Event - Catering	-200.00	1	4,236.52		C
7	19-Dec-18		_O-PFY Unreconciled		Trinity Church	Christmas Event - Room hire	-100.00	1	4,136.52		C
8	22-Dec-18		_O-PFY Unreconciled		OfficeSafe	Rent	-240.00	1	3,896.52		C
9	27-Dec-18		_O-PFY Unreconciled		A.Dunswick	Salary	-771.64	1	3,124.88		C
10	27-Dec-18		_O-PFY Unreconciled		P.Jameson	Salary	-725.50	1	2,399.38		C
11	28-Dec-18		_O-PFY Unreconciled		J Pugh	Salary	-962.88	1	1,436.50		C
12	28-Dec-18		_O-PFY Unreconciled		R Badgwick	Salary	-771.44	1	665.06		C
13	01-Jan-19	AdvExp	_P0-PaymentsInAdvance	TP-Expenditure	Friends' House	Advance Deposit, Venue, Feb Co	400.00	-1	1,065.06	A	C
14	01-Jan-19	AdvExp	_P2-Networking		Friends' House	Deposit, Venue, Feb Conf	-400.00	-1	665.06	A	C
15	01-Jan-19	AdvRec	_R0-ReceiptsInAdvance	TP-Income	Various	Registrations, Feb Conf	-200.00	-1	465.06	A	C
16	01-Jan-19	AdvRec	_R4G-ConfRegistrations		Various	Advance Registrations, Feb Conf	200.00	-1	665.06	A	C
17	02-Jan-19		_P4-Internet Services		InetHosts	website	-9.00	1	656.06	A	C
18	02-Jan-19		_R1-Donations		C Cooker		100.00	1	756.06	A	C
19	02-Jan-19		_R1-Donations		S Meadows		250.00	1	1,006.06	A	C
20	05-Jan-19		_R1-Membership		N Amerser		60.00	1	1,066.06	A	C
21	06-Jan-19		_R4R-BetterEating	R2-Better Eating	John Briggs Charitable T	First tranche of grant	2,500.00	1	3,566.06	A	C

Accounts Type Tags	Balance at 29-Dec-19	Reconciled Balance	Unreconciled Transactions
	2,337.31	4,812.09	-2,474.78
		Receipts	38,870.88
		Payments	-43,661.11
		Debtors	987.50
		Creditors	-3,462.28
		Trfrs In	14,000.00
		Trfrs Out	-10,100.00
		Net	-42,235.89



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14	01-Jan-19	AdvExp	_P2-Networking		Friends' House	Deposit, Venue, Feb Conf	-400.00	-1	665.06
15	01-Jan-19	AdvRec	_R0-ReceiptsInAdvance	TP-Income	Various	Registrations, Feb Conf	-200.00	-1	465.06
16	01-Jan-19	AdvRec	_R4G-ConfRegistrations		Various	Advance Registrations, Feb Con	200.00	-1	665.06
17	02-Jan-19		_P4-Internet Services		InetHosts	website	-9.00	1	656.06
18	02-Jan-19				C Cooker		100.00	1	756.06
19	02-Jan-19				S Meadows		250.00	1	1,006.06
20	05-Jan-19				N Amerser		60.00	1	1,066.06
21	06-Jan-19			2-Better Eating	John Briggs Charitable	First tranche of grant	2,500.00	1	3,566.06

L	M	N
Balance at 29-Dec-19	Reconciled Balance	Unreconciled Transactions
2,337.31	4,812.09	-2,474.78
	Receipts	38,870.88
	Payments	-43,661.11
	Debtors	987.50
	Creditors	-3,462.28
	Trfrs In	14,000.00
	Trfrs Out	-10,100.00

The Date column (A) shows the date that the transaction refers to and the R'd column (H) shows the date (as the month number) that the transaction appeared in the bank statement (ie: when carrying out the regular reconciliation check of the Bank worksheet against the Bank statement.

At the top of the worksheet, to the right of the data entry columns there is a little collection of cells summarising the transactions through the Bank worksheet. These are updated automatically as transactions data are entered and then reconciled against the Bank Statement. The number in cell M2 should always correspond with what is shown in the Bank Statement. This is, effectively, the equivalent of the Balance sheet in traditional Accruals financial reporting.

The outstanding money owed to the charity (*ie:* Income Payments in Arrears - Debtors) and money owed by the charity (*ie:* Expenditure Payments in Arrears – Creditors) are also summarised. These can be identified individually simply by using the spreadsheet "Filter" function to separate out only those transactions where the R'd cell is still blank (ie: the transactions have not yet appeared in the Bank Statement). This is, effectively, the equivalent of the Credit Control process in traditional Accruals financial reporting.

This illustrates the point made in the main article that ALL charities, regardless of whether they are using Accruals reporting or R&P reporting MUST keep a record of BOTH when the financial transactions were committed AND when "the money changed hands" in order to keep proper control over outstanding payments.

The Cash and Deposit Worksheets

These simply replicate the Bank worksheet for charities which maintain a Petty Cash accounts for small day-to-day expenses and/or an interest-bearing deposit account for reserve funds.

The Budget Worksheet

The Budget worksheet collates transactions data from the Bank, Cash & Deposit worksheets for comparison against the charity's previous year out-turn and its projected budget for the current year.

The budget estimates for each category of income and expenditure are entered at the beginning of each year. For categories where the income/expenditure is expected to be uniform across each month of the year the spreadsheet simply automatically calculates the monthly amount as the annual estimate divided by 12. But for categories where the monthly amount varies (eg: subscriptions which come in during the first few months of the year, or quarterly utility payments) the expected amount can be entered manually on a month-by-month basis.

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ReportDate 31/12/2019

	A	B	D	E	G	I
32	PAYMENTS	Prev Yr Out-turn	This Yr Budget	Budget to 31-Dec-19	Accruals 31-Dec-19	Cash 31-Dec-19
33	GENERATING FUNDS					
34	Fundraising					
35	Fundraising	0	0	0	0	0
36	Investments					
37	Investments Purchase	0	0	0	-4,208	-4,208
38	Investments Management	-325	-350	-350	-350	-350
39	Charitable Trading					
40	Income from Services	0	0	0	0	0
41	Other					
42	Miscellaneous	0	0	0	0	0
43		-325	-350	-350	-4,558	-4,558
44	CHARITABLE ACTIVITIES (GENERAL FUNDS)					
45	Training	0	-100	-100	0	0
46	Volunteer Costs	0	-100	-100	0	0
47	Networking	-1,343	-600	-600	-2,165	-1,415
48	Miscellaneous	0	-240	-240	0	0
49		-1,343	-1,040	-1,040	-2,165	-1,415
50	CHARITABLE ACTIVITIES (RESTRICTED FUNDS)					
51	SafeAtHome					
52	SaH-Staff Costs	-8,826	-11,250	-11,250	-10,952	-9,478
53	SaH-Project Costs	-10,386	-800	-800	-744	-744
54	BetterEating					

Bank Cash Deposit Transfers BudgetReport CashFlc ...

The Budget Report worksheet is updated automatically as individual transactions are entered and then reconciled against the bank statements as appropriate. So the only action required on this worksheet is to select the month for which the Budget Report is required from the pop-up list at the top of the worksheet.

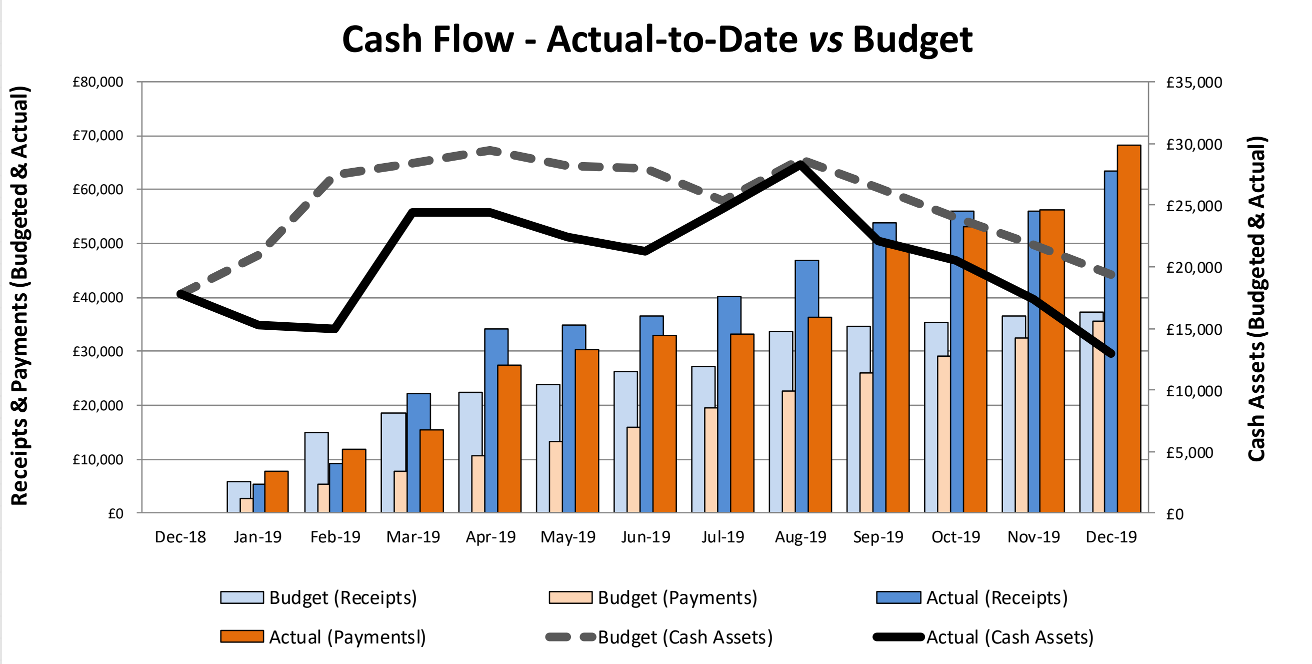
That means that, provided that the entry of transactions data is up-to-date, up-to-date budget reports can be produced on demand (ie: there is no reason why up-to-date budget reports cannot be presented as a matter of routine at EVERY trustees' meeting).

The Cash Flow Report

The Cash-Flow worksheet uses the data in the "R'd" columns to monitor the cash flowing into and out of the spreadsheet. As with other worksheets it does that "in real time" as transactions are entered and updated as required. So the report is always as up-to-date as the basic transactions record and can be printed off as required "at a click of a button" – ie: requires no special computing expertise on the part of the bookkeeper.

Better Living Charity: Cash Flow to 31-Dec-19

Opening Balance £17,740		Cash Flow - FYE: 31-Dec-19												
		Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19
Budget	Receipts		5,858	14,967	18,575	22,433	23,892	26,250	27,108	33,717	34,575	35,433	36,492	37,350
	Payments		2,629	5,258	7,888	10,767	13,396	16,025	19,454	22,708	25,963	29,217	32,471	35,725
	Net		3,229	9,708	10,688	11,667	10,496	10,225	7,654	11,008	8,612	6,217	4,021	1,625
Actual	Receipts		5,418	9,101	22,075	34,161	34,911	36,471	40,133	46,883	53,883	56,011	56,011	63,571
	Payments		7,872	11,858	15,447	27,454	30,252	32,934	33,147	36,366	49,500	53,199	56,346	68,370
	Net		-2,454	-2,758	6,627	6,708	4,659	3,538	6,986	10,518	4,383	2,812	-335	-4,799
	Budget Bal	17,740	20,969	27,448	28,428	29,407	28,236	27,965	25,394	28,748	26,353	23,957	21,761	19,365
	Actual Bal	17,740	15,286	14,982	24,367	24,448	22,399	21,278	24,726	28,258	22,123	20,552	17,405	12,941



The whole spreadsheet being "open source", charities with volunteers and/or staff with appropriate spreadsheet programming expertise can see the techniques used to produce the "default" cash-flow report and adapt or extend them to produce a variety of variants to suit their own particular reporting requirements.

Categories

The Categories worksheet is the "engine room" of the spreadsheet. As the "engine-room" it is designed to be "functional" rather than "aesthetic". It is here that the category #-tags are defined and where the data related to each #-tag is aggregated and made available to other worksheets to be formatted more appropriately for reporting purposes both internally (eg: management reporting, cash-flow reporting and controlling, end-of-year reporting).

Better Living Charity					Monthly Budget - FYE: 31-Dec-19												
RECEIPTS	Accruals To 31-Dec-19	Cash To 31-Dec-19	Full Year Budget	Budget to 31-Dec-19	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Sum Check: Year Total
R1-VOLUNTARY INCOME																	
_R1-Membership	2,550.00	2,550.00	2,500.00	2,500.00	1,500.00	750.00	250.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	OK
_R1-Donations	3,063.70	3,063.70	3,000.00	3,000.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00	OK
_R1-GiftAid	975.00	0.00	800.00	800.00	0.00	0.00	0.00	0.00	600.00	0.00	0.00	0.00	0.00	0.00	200.00	0.00	OK
R2-INCOME GENERATION																	
_R2-Fundraising	0.00	0.00	100.00	100.00	8.33	8.33	8.33	8.33	8.33	8.33	8.33	8.33	8.33	8.33	8.33	8.33	OK
R3-INVESTMENT INCOME																	
_R3-Interest-Bank Accounts	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	OK
_R3-Investments Sale	5,489.68	5,489.68	5,000.00	5,000.00	416.67	416.67	416.67	416.67	416.67	416.67	416.67	416.67	416.67	416.67	416.67	416.67	OK

This worksheet also holds the yearly budget information. Although the default assumes that the annual budget is distributed evenly throughout the year (ie: each month contributes 1/12th of the annual amount) more flexible budgets can also be set (eg: annual subscriptions received in the first 2 months of the period; annual utility bills paid quarterly). The monthly budget figures then get fed into the tabular budget report for performance and variance analysis, and cash-flow reports against budget reports for trustees' meeting and real-time financial management.

Annual Financial Statements

The Annual Accounts worksheet calculates the final aggregations of data for inclusion in the charity's annual financial report.

Statement of Financial Activity for the Financial Year Ended 31-Dec-19

	Current Financial Year, Unrestr'd Funds	Designated Funds	Restricted Funds	Total	Last Year Total
INCOMING RESOURCES	£	£	£	£	£
Donations & Legacies	6,589			6,589	5,134
Income Generation					
Fundraising	0			0	156
Investments	7,476			7,476	1,573
Charitable Activities					
General Activities	1,363			1,363	0
Specific Projects			24,238	24,238	35,029
Advance Receipts	160			160	0
Prev.Yr Outstanding				0	0
TOTAL INCOME	**15,587**		**24,238**	**39,825**	**41,892**
RESOURCES EXPENDED	£	£	£	£	£
Costs of Generating Funds					
Fundraising	0			0	0
Investments	-4,558			-4,558	0
Sub-total	**-4,558**	**0**	**0**	**-4,558**	**0**
Charitable Activities					
General Activities	-2,165	0		-2,165	-1,343
Specific Projects			-29,162	-29,162	-35,972
Sub-total	**-2,165**	**0**	**-29,162**	**-31,327**	**-37,315**
Support Costs					
Governance	-23	0	0	-23	0
Salaries	-1,059	0	0	-1,059	-655
Administration	-4,327	-668	0	-4,995	-6,173
Sub-total	**-5,410**	**-668**	**0**	**-6,078**	**-6,828**
Advance Payments	**-100**			**-100**	**0**
Prev.Yr Outstanding					
TOTAL EXPENDITURE	**-12,232**	**-668**	**-29,162**	**-42,062**	**-44,143**
INCOME-EXPEDITURE	**3,356**	**-668**	**-4,924**	**-2,237**	**-2,251**
Transfers Between Funds	-3,449	300	3,149	0	0
NET INCOME-EXPEDITURE	**-93**	**-368**	**-1,776**	**-2,237**	**-2,251**

Receipts & Payments Account for the Financial Year Ended 31-Dec-19

	Current Financial Year, Jan'19-Dec'19 Unrestr'd Funds	Designated Funds	Restricted Funds	Total	Last Year Total
RECEIPTS	£	£	£	£	£
Voluntary Income	5,614			5,614	5,134
Income Generation					
Fundraising	0			0	156
Investments	7,476			7,476	1,573
Charitable Income					
General Activities	1,350			1,350	0
Specific Projects			24,238	24,238	35,029
Advance Receipts	160			160	0
Prev.Yr Outstanding	33			33	0
TOTAL RECEIPTS	**14,633**		**24,238**	**38,871**	**41,892**
PAYMENTS	£	£	£	£	£
Costs of Generating Funds					
Fundraising	0			0	0
Investments	-4,558			-4,558	0
Sub-total	**-4,558**	**0**	**0**	**-4,558**	**0**
Charitable Activities					
General Activities	-1,415	0		-1,415	
Specific Projects			-26,700	-26,700	-1,343
Sub-total	**-1,415**	**0**	**-26,700**	**-28,114**	**-1,343**
Support Costs					
Governance	-23	0	0	-23	0
Salaries	-1,059	0	0	-1,059	-655
Administration	-4,077	-668	0	-4,745	-3,414
Sub-total	**-5,160**	**-668**	**0**	**-5,828**	**-4,069**
Advance Payments	**-100**			**-100**	**0**
Prev.Yr Outstanding	**-5,070**			**-5,070**	**0**
TOTAL PAYMENTS	**-16,302**	**-668**	**-26,700**	**-43,670**	**-5,412**
RECEIPTS-PAYMENTS	**-1,669**	**-668**	**-2,462**	**-4,799**	**36,480**
Transfers Between Funds	-3,449	300	3,149	0	0
NET RECEIPTS-PAYMENTS	**-5,118**	**-368**	**687**	**-4,799**	**36,480**

Balance Sheet as at 31-Dec-19

Cash Assets	Current Financial Year, General Funds £	Designated Funds £	Restricted Funds £	Total £	Last Year Total £
General Fund	7,244				7,397
Net Payments in Advance	-140				-200
Designated Funds					
Information Tech		132			500
Transport		200			200
Total Unrestricted Funds				**7,436**	**7,897**
Restricted Funds					
Safe At Home			2,208		2,072
Better Eating			-56		2,734
Health Matters			879		0
Total Restricted Funds				**3,030**	**4,806**
Total Funds				**10,466**	**12,703**
Money Owed to the Charity *{Other Monetary Assets}*					
Gift Aid claim	975		0		**0**
Other	13		0		**33**
				988	**33**
Money Owed by the Charity *{Liabilities}*					
Independent Examination Fee	-250				**0**
Other	-3,212				**-5,070**
				-3,462	**-5,070**
Current Cash Assets				**12,941**	**17,740**
Investment Assets					***Added as required if appropriate***
Assets Retained for the Charity's Own Use					***Added as required if appropriate***

Note: Assets retained for own use are shown at purchase price. Current (residual) value is unknown.

Statement of Asset & Liabilities as at 31-Dec-19

Cash Assets	Current Financial Year, General Funds £	Designated Funds £	Restricted Funds £	Total £	Last Year Total £
General Fund	7,257				12,435
Net Payments in Advance	-140				-200
Designated Funds					
Information Tech		132			500
Transport		200			200
Total Unrestricted Funds				**7,449**	**12,935**
Restricted Funds					
Safe At Home			3,682		2,072
Better Eating			929		2,734
Health Matters			881		0
Total Restricted Funds				**5,492**	**4,806**
Total Cash Funds				**12,941**	**17,740**
Money Owed to the Charity *{Other Monetary Assets}*					
Gift Aid claim	975		0		**0**
Other	13		0		**33**
				988	**33**
Money Owed by the Charity *{Liabilities}*					
Independent Examination Fee	-250				**0**
Other	-3,212				**-5,070**
				-3,462	**-5,070**
Net Cash Assets				**10,466**	**12,703**
Investment Assets					***Added as required if appropriate***
Assets Retained for the Charity's Own Use					***Added as required if appropriate***

Note: Assets retained for own use are shown at purchase price. Current (residual) value is unknown.

In this version of the spreadsheet the annual financial statements in both accruals format and R&P (Cash) format are set out side-by-side calculated from the same transaction data. The Accruals format uses the "Date" column of the Bank/Cash/Deposit worksheets to aggregate the data using the date that the transaction was agreed while the R&P format report instead uses the R'd column date that the transaction was reconciled against the bank statement (the date the "money changed hands".
Accordingly, the Accruals format report show the EXPECTED financial position at the end of the period

(£10,466) followed by the explanation (creditors & debtors) why that differs from the ACTUAL financial position (£12,941 – money "in the bank"). Instead, the R&P format report shows the ACTUAL financial position at the end of the period (£12,941) followed by the explanation of why that differs from the EXPECTED position.

Assets – Tangible & Investments

The Annual Accounts worksheet does not show any Accountancy "funny money" (capitalised tangible assets and their depreciation; gains and losses on financial investments). They are just an unnecessary hypothetical distortions of the "real money" position of the charity.

DEPRECIATION OF ASSETS, PERIOD 01-Jan-19 TO 31-Dec-19						
Asset	*Date Purchase*	*Useable Life (yrs)*	*Cost £*	*Value at 31-Dec-*	*Depr'n in Period*	*Value at 31-Dec-*
SUMMARY - Total for all assets			***51,000***	***19,884***	***7,492***	***17,392***
Notice Boards	01-Jul-19	5	5,000	---	504	4,496
Mini-bus	31-Dec-16	6	24,000	15,995	3,997	11,997
Computers & Printers	23-May-16	3	12,000	1,563	1,563	0
Office Furniture	18-Aug-13	7	10,000	2,326	1,428	899

The "Assets" and "Investments" worksheets show how a charity's holdings of tangible and investment assets can be simply recorded and recorded with sufficient information (ie: exactly the same information had they been recorded/reported as "funny money") to enable those with a specific interest in such assets to assess their contribution to the charity's resources.

INVESTMENT ASSETS, PERIOD 01-Jan-19 TO 31-Dec-19										
	At 01-Apr-18			***Additions in Year***		***Disposals in Year***		***At 31-Mar-19***		
Investment	*Quantity Held*	*Open Unit Value £*	*Carrying Value £*	*Quantity Bought*	*Amount Paid*	*Quantity Sold*	*Amount Realised*	*Quantity Held*	*Close Unit Value £*	*Carrying Value £*
Listed *(At market value)*										
Sellmore Superstores	8,000	2.140	17,120	2,500	4,208	0	0	10,500	1.855	19,478
EcoRenew Energy	11,207	0.980	10,984	0	0	3,052	3,662	8,155	1.021	8,330
GetFit Bicycles	2,896	3.900	11,294	0	0	448	1,837	2,448	4.200	10,282
Totals:			***39,399***		***4,208***		***5,499***			***38,089***

Summary

It is not claimed that the example spreadsheet is a perfect solution to the issues.

Although spreadsheet replicate some of the functionality of true relational database technology, they are less than exact and, consequently, less robust and often require rather convoluted formulae to achieve the desired effects. It is acknowledged that, although provided as "open source" software, the example spreadsheet uses formulae which are beyond the capabilities of many of the small charity trustees, other volunteers and office staff that it is intended for.

Nevertheless it DOES illustrate:

- ✓ That the purported differences between accruals and R&P (Cash) financial reporting and, particularly, financial recording are largely spurious and detrimental to the small charities that R&P reporting is said to be better for;
- ✓ If "funny money" is not treated as "real money" people with an interest in such assets can be given just as much information – and in a simpler and easier to understand way – as accruals reporting;
- ✓ It is no longer necessary to confuse non-account trustees, other volunteers and office staff with a load of now obsolete double-entry bookkeeping jargon when #-tagging does what it necessary much more simply and intuitively;
- ✓ Charity end-of-year Annual Reports & Account should simply be the last of the budget. cash-flow and financial management reports that Trustees and other management volunteers and staff have been seeing and reviewing on a regular basis throughout the year.

Appendix 2: R&P Reporting Distortions

Consider the R&P reporting requirements for the following scenarios for charity H (Hirer) which hired a venue from another charity, V (Venue), for a pre-Christmas charity event on 23-Dec-19.
The financial reporting periods for both charities was 1 Jan – 31 Dec):

- Charity V, invoiced charity H for the hire immediately when booked (ie: on 5-Dec-19); charity H immediately signed a cheque for the hire and delivered it to the charity V; charity V banked the cheque immediately; the payment appeared in both charities' bank statements on 12-Dec-19.
- ☺ Both the event and the payment therefore appear in the charity H's FYE-19 financial report. Both the event and the payment therefore appear in the charity V's FYE-19 financial report;

- Charity V, invoiced charity H for the hire immediately when booked (ie: on 5-Dec-19); charity H signed a cheque for the hire on 23-Dec and delivered it to the venue, charity V; charity B banked the cheque immediately; the payment appeared in both charities' bank statements on 29 Dec-19
- ☺ Both the event and the payment therefore appear in the charity H's FYE-19 financial report. Both the event and the payment therefore appear in the charity V's FYE-19 financial report;

- Charity V, invoiced charity H for the hire on 23-Dec-19; charity H signed a cheque for the hire on 23-Dec and delivered it to charity V. Charity B banked the cheque the following week; the payment appeared in both charities' bank statement on 3-Jan-20
- ☺ Both the event and the payment therefore appear in the charity H's FYE-19 financial report. Both the event and the payment therefore appear in the charity B's FYE-19 financial report; That is because the cheque had been BOTH signed by charity H AND received by charity V BEFORE the ends of their respective financial reporting periods even though it was banked by charity V after the end of the 2019 financial period.

- Charity V, invoiced charity H for the hire on 23-Dec-19; charity H signed a cheque for the hire on 29-Dec but did not deliver it to charity V, until the first week in Jan-20. Charity B banked the cheque immediately; the payment appeared in both charities bank statements on 12-Jan-20
- ☺ Both the event and the payment therefore appear in the charity H's FYE-19 financial report.
- ☹ But the payment had to appear in the charity V's FYE-20 financial report; That is because although the cheque had been signed by charity H before the end of its financial period, charity V did not receive it until after the end of its financial period and so had to include it in the following period.

- Charity V, invoiced charity H for the hire on 23-Dec-19; charity H signed a cheque for the hire on 23-Dec and posted it to charity V. Because of confusion in the delivery service, the cheque was misplaced and not found until the first week in Feb-20. Charity B banked the cheque immediately; the payment appeared in both charities bank statements on 8-Feb-20
- ☺ Both the event and the payment therefore appear in the charity H's FYE-19 financial report.
- ☹ But the payment had to appear in the charity V's FYE-20 financial report; That is because although the cheque had been signed and posted by charity H before the end of its financial period, charity V did not receive it until after the end of its FYE-19 and so had to include it in the following period.

✍ Charity V invoiced charity H for the hire on 23-Dec-19 and immediately posted it to charity H; but because of delays in the post charity H did not receive the invoice until 30-Dec-19. Because of the holiday season, charity H was unable to get a cheque written and signed for delivery to charity V until 3-Jan-20; charity V banked the cheque immediately; the payment appeared in both charities' bank statements on 10-Jan-20.

☹ The payment had to appear in charity H's FYE-20 financial report;
The payment also had to appear in charity V's FYE-20 financial report;
that's because the cheque had not been written by charity H or received by charity V before the end of FYE-19

✍ Charity V did not invoice charity H for the hire immediately. So charity H, wanting to clear its records before the end of its financial period, and knowing the agreed amount of the hire, signed a cheque for the appropriate amount on 23-Dec-19; the cheque was delivered immediately to charity V; charity V banked the cheque on 4-Jan-19 ; the payment appeared in both charities' bank statements on 11-Jan-20;

☺ Both the event and the payment had to appear in charity H's FYE-19 financial report;
Both the event and the payment had to appear in charity V's FYE-19 financial report;
That's because even though charity V had not invoiced charity H for the hire, or had banked the cheque, before the end of its FYE-19 it had still received the "payment made before the end of the financial year but not yet cleared...."

There are some interesting twists to the above scenarios.

In the last scenario – Charity V deliberately did not invoice charity H for the hire immediately.
That's because the Treasurer of charity V felt that the charity's income from letting was already good in FYE-19 so wanted to defer that income to boost the FYE-20 income. In the last scenario that intention was foiled by the prompt action of the Treasurer of charity H. Had he/she waited until the invoice from charity V had arrived the payment would also have had to appeared in charity H's FYE-20 financial report rather than its FYE-19 report

Or, similarly, charity H's treasurer could dallying on paying the invoice in order to defer reporting the expenditure from FYE-19 to FYE-20. In that case, charity V would have no alternative but to include the payment it its FYE-20 financial report.

In some cases there is another alternative **– CHEAT !**
Treat the payment as having been made before the end of FYE-19 (*eg:* dating a cheque as having been "written" on 30 December, even if actually written and signed in January) and claim that any delays in the payment actually appearing in the recipient's bank account "occurred elsewhere".
Of course, Small Charity Support is not suggesting or encouraging charities to do that – merely pointing out that some people might feel that such peccadillos are "excusable".

But it does illustrate how current R&P reporting procedures are very susceptible to distortion as a consequent of the vagaries – intentional or otherwise – of others. And it also illustrates how procedures which can so easily be disregarded undermine the trust and confidence of those who have to use and rely on them.

Some organisations are notorious for "managing" their cash-flow to their own advantage by delaying the payments of their bills. And they do so with little regard for the detrimental consequences of their "payments in arrears" on both the cash-flows and the financial reports of the recipients of those delayed payments.
That is why R&P (cash accounting) is generally only used in the commercial sector by small businesses which are subject to the "double cash-flow whammy" of having to pay VAT to HMRC which they have not yet received from their customers.

But small charities are not subject to VAT and, therefore, R&P cash accounting does not protect them from either of those double-whammy cash-flow problems.

Appendix 3: TeaPots

Payments (both receipts and expenditure) in Arrears – *ie:* where the "money changing hands" is delayed to a financial period after the one where the transaction itself was agreed and reported.   Under the proposed "Fit for Purpose" standard such transactions are simply carried forward as an "previous period unreconciled transaction" to the following financial period.   There it can continue to be monitored like any other "unreconciled transaction" and followed up as appropriate to ensure that the payments are made and "ticked off as reconciled" when the money does eventually change hands.

But the money changing hands during the reporting period as a consequence of delayed payments from the previous period is not otherwise included in the report of the charities activities for that financial period.   All that is included is a note that such delayed payments had occurred readers can see and understand their impact on the charity's financial activities and current status.   That can be seen in practice in rows 4-12 of the example spreadsheet.

It is standard practice in Accruals reporting where delayed receipts are reported as outstanding debtors and delayed payment of bills are reported as outstanding creditors

The situation in the current Receipts and Payments reporting standard is much more confused (as detailed in Appendix 2) and would be discarded in the "Fit for Purpose " standard being proposed in favour of the Accruals reporting standard.

Other than "payments already received and cheques already written but not yet banked" there is no requirement in the R&P standard to report outstanding asset or liabilities (though the Charity Commission's model template for R&P accounts provide an opportunity for charities to do so if they consider it appropriate). And both the Charity Commission's two model examples of R&P accounts do include some piecemeal examples of outstanding assets & liabilities:
St.Emillion Church:
    £2540 assets in outstanding grants & gift aid;   £6,200 liabilities in outstanding organ repair bills
Westbeach Youth Club:
    Unspecified assets in outstanding gift aid;   £529 liabilities in outstanding PC repair bills
Neither are outstanding examples of clear and consistent financial reporting.

A more coherent and consistent way of reporting outstanding receipts and payments is illustrated in the Bank worksheet of the example spreadsheet.   And the Annual Accounts worksheet of the example shows side-by-side the (rather trivial) differences between a Balance Sheet (*ie:* as calculated using the Accruals reporting standard) and a Statement of Assets & Liabilities (*ie:* as calculated using the current R&P reporting standard). Except that in the example all outstanding (*ie:* "previous year unreconciled") transactions have been included in the R&P Statement of Assets & Liabilities.

The Accruals report Balance Sheet shows the expected cash assets out-turn at the end of the financial period (£10,466) and explains why the actual cash in hand (£12,941) is higher because there is still £2,475 of outstanding payments (net receipts & expenditure) to be made.

The R&P report Statement of Assets & Liabilities shows the actual cash in hand at the end of the financial period(£12,941) and explains why the expected cash out-turn (£10,466) is lower because there is still £2,475 of outstanding payments (net receipts & expenditure) to be made.

Such is the difference between the current Accruals and R&P financial reporting standards.
Small charities are given the choice between having to report irrelevant "funny money" and endless detailed notes to the accounts (which don't result in a "true and fair view" anyway) or having to put up with the vagaries of the distortions introduced by "cash accounting".

Payments (both receipts and expenditure) in Advance are a bit more difficult.
Small Charity Support has seen numerous examples of small charities where the accounts have become rather confused because payments in advance transactions have become muddled by the potential ambiguities of traditional accountancy jargon (including where the financial reports were prepared by professional accountants).

The “Fit for Purpose” standard solves those difficulties and ambiguities by the use of “Teapot Funds.
The name came from the trustee who, when asked how he dealt with payments in advance replied *“Oh, it’s easy!   I just put the money in a teapot and then take it out again when I need it!”*.

The application of that principle is illustrated in rows 13-16 of the example spreadsheet.
In the previous financial period (FYE-2018) the charity had received £200 in income in advance for ticket sales for an event in FYE-2019.   So in FYE-2018 that money was simply recorded as being put into the TeaPot fund identified as “TP-Income” and appeared in the financial report for the period as “Advance Receipts”.   That enabled readers of the FYE-2018 financial report to understand that the income related to a subsequent year and, therefore, should not be seen as part of (*ie:* a distortion of) the normal FYE-2018 income.
Then in FYE-2019 that £200 is taken out of the “TeaPot” and put into the category to which it actually relates. As a transfer between different funding categories it did not change the charity’s overall cash assets, only the funds between which those assets were distributed.

For non-accountant charity trustees, other volunteers and staff who are not comfortable with the notion of “TeaPot” funds, but would prefer to hold such payments in advance funds in a biscuit tin, under the mattress or a creditor/debtor fund, all that is necessary is to change the prefix of the fund from TP to BT, UM or CD as appropriate.