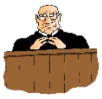
The Scope of These Guidance Leaflets

The Trustees of a charity have the ultimate collective responsibility for the proper governance of their charity in compliance with the Charity Act. Charity governance is the systems and processes concerned with ensuring the overall direction, effectiveness, supervision and accountability of a charity.
https://knowhow.ncvo.org.uk/governance/getting-started-in-governance/getting-started-in-governance-1

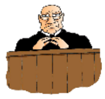
For more detailed information and downloadable document & diagnostic tool see the Charity Governance Code website which has sections tailored for smaller, as well as larger, charities:
https://www.charitygovernancecode.org/en

This leaflet is one of a series produced by Small Charity Support to give an overview of the things that will be helpful to consider when your Trustees are reviewing your charity's governance and the way it operates.

They are **NOT** a full and comprehensive guide to Charity Law and all the associated regulations. They are just an overview of the main points from the perspective of "*the person on the Clapham Omnibus*".



Please read the Disclaimer on the last page of this leaflet.



If you need qualified professional advice you should look elsewhere, *eg:* the "Other Resources" page of the Small Charity Support website: *www.smallcharitysupport.uk/index.php/other-resources*

Other leaflets in this series are downloadable from the Small Charity Support website:

Responsibilities & Roles of ALL Trustees
- Typical Responsibilities & Roles of the Chair
- Typical Responsibilities & Roles of the Treasurer
- Payments to Trustees

Accounts ALL Charities MUST Keep
- *More information on managing your charities finances can be found on the website page* ***HERE***

Minutes: Recording Events & Decisions

Policies & Procedures
- *Some example policies & procedures which you might be able to adapt for your charity's own use can be found on the website page "Example Policies"* ***HERE***

Programme Planning More information can be found on the website ***HERE***

Outputs & Outcomes
- *Demonstrating the charity's delivery of value-for-money charitable benefits*

The Bank Account(s)

Preparing the Trustees' Annual Report
- **Preparing the Annual Accounts (Financial Statements)** *{This Leaflet}*
- Reserves Policies
- Choosing an Independent Examiner or Financial Advisor

Your comments and suggestions *(to comments@smallcharitysupport.uk)* on how these leaflets could be improved to make them clearer and more useful would be much appreciated.

Last Updated: 04-Jul-22

Preparing the Charity's Annual Accounts

Preparing the Trustees' Annual Report is dealt with in a separate leaflet

Charities which are excepted or exempt, or have an annual income over £250,000 will, or might, have to comply with different or additional regulations which are not covered by this leaflet.

Links to other sources of information:
In this leaflet: where references to other reports or reviews are highlighted *blue-underlined*, clicking on those references will take you on-line to the document being referred to.

Contents

Preparing the Charity's Annual Accounts

Preparing the Trustees' Annual Report is dealt with in a separate leaflet

Introduction

This leaflet is based on the following Charity Commission on-line guidance *{Crown copyright © acknowledged}*:

Charity Reporting and Accounting: the Essentials – November 2016 (CC15d) *{updated 14 July 2021}*
Charity accounting template: receipts and payments accounts (CC16) *{Published 1 April 2013}*
Accruals accounts pack (CC17) - SORP FRS 102 *{Published 6 September 2016}*

The Resource Centre has a web-page describing the "headline" requirements for preparing a charity Trustees Annual Report which you might find useful.

In a "Nutshell"

☺ **ALL** charities, whether registered or not, are required by the Charities Act to keep records and produce annual reports of the money that they have received, and how they have spent it on their charitable purposes;

☺ **AND** all charities, whether or not they are required to submit their Annual Accounts to the Charity Commission every year, are required to make copies of their Annual Accounts available to the public on reasonable request.
But note: *where appropriate the charity can make a reasonable charge for providing a copy of its accounts.*

☺ **All** charities, whatever their size (*ie*: annual income) can prepare their Annual Accounts on an "Accruals" basis;

☺ **Some (but NOT all)** smaller charities (*ie*: with annual incomes less than £250,000) might be able to opt to prepare their Annual Accounts on a "Cash" (also called "Receipts & Payments") basis.

☹ Annual Accounts prepared on an Accruals basis can provide what is regarded as a "true and fair view" of the charity's financial activities and status at the time of the report, but can be hideously complicated.
But note: *there is no legal definition of what constitutes a "true and fair view" of an organisation's financial status. It is, essentially, just a matter of the current (albeit well-established) "opinions" of the legal and accountancy professions.*

☹ Annual Accounts prepared on a Receipt & Payments ("Cash") are widely disdained for their tendency to distort an organisation's financial activities, and therefore create misleading Annual Reports.
ie: "Cash"(R&P) reports are deemed to be incapable of guaranteeing that an organisation's Annual Accounts will give a "true and fair view" of the organisation's financial status.
But note: *the fact that "Cash"(R&P) annual accounts can't guarantee that those accounts present a "true and fair" DOESN'T mean that they, inevitably, present an "**un**true and **un**fair* view" of the organisation's financial status.

☹ Both types of accounts were designed primarily for the commercial sector, where the financial priorities (*eg:* to make profits for investors) are different from those of the charity sector.

☹ The common notions that reporting on an Accruals basis only requires records to be kept of when financial transactions were committed ("accrued") and reporting on a "Cash"(R&P) basis only requires records to be kept of when the payments were made **are disingenuous and untrue**.
Records of **BOTH** are required for the Efficient, Effective, Economic management of a charity – the 3E-s of being business-like and delivering "value for money" – to which Ethical and other E-s are sometimes also added.

☺ This leaflet illustrates ways in which the inherent problems of both Accruals and "Cash"(R&P) financial reporting can be minimised to make financial reporting for small charities both simpler & easier to understand.

Some Common Misunderstandings

To Report …… or Not to Report ?

The Charity Commission doesn't require unincorporated charities (*ie:* charities which are not Charitable Companies or CIOs) to send in a copy of their Trustees' Annual Report & Accounts each year for inclusion in the public Register of Charities if their annual income is less than £25,000. Consequently it is common for the trustees of such charities to think that they aren't required to prepare "formal" Annual Accounts each year, or even to prepare any at all.

That is NOT TRUE !

Section 3.2 of the Charity Commission guidance document, *Charity reporting and accounting: the essentials November 2016 (CC15d)*, clearly says:

*"**All** charities **MUST**:*

- ✓ *keep accounting records – these records for example cash books, invoices, receipts, Gift Aid records etc must be retained for at least 6 years (or at least 3 years in the case of charitable companies); where Gift Aid payments are* *received records will need to be maintained for 6 years with details of any substantial donors and to identify 'tainted charity donations' in accordance with HMRC guidance*

- ✓ *make the accounts available to the public on request; this is important for public accountability, and must be complied with in all cases – you can charge to cover your costs*

Those are legal requirements from the Charities Act and cover all charities regardless of their size or registration status. And the guidance document goes on to detail all the information which should (*ie:* "MUST") be included in the formal Trustees' Annual Report & Accounts.

Trustees' "Annual Report" ↔ Charity "Annual Accounts" – One Document or Two?

Referring to them, collectively, as the "Trustees Annual Report & Accounts" (TAR&A)creates the impression that a charity's TAR&A go "hand-in-hand "- *ie:* are one single document in two parts. And they are often published together, re-enforcing that impression. In addition, the Charity Commission provides three different templates for charity Trustees' Annual Reports and links them to three different templates to the charity's Annual Accounts:
(1) for a non-company charity – reached via the Accruals accounts pack CC17;
(2) for a charitable company – reached via the Accruals accounts pack for companies CC17;
(3) for a non-company charity – reached via the Receipts & Payments accounts pack CC16.
So itis not surprising that the trustees of small charities often think that the format and content of their Trustees Annual Report (TAR) is dictated by the type of annual accounts that their charity produces. *ie:* the TAR required to accompany charity accounts prepared on the Accruals basis differ significantly from (*ie*: be more "complicated" than) the TAR required had the charity opted to prepare its accounts on the Receipts & Payments basis.

WRONG !

Section 7 of the Charity Commission guidance explicitly states:

Small charities, whether preparing receipts and payments accounts or accruals accounts have identical annual reporting requirements under the 2008 Regulations.
Trustees may choose how they lay out their annual report, provided all the legal requirements are met.

To Accrue …… or not to Accrue ?

All charities, regardless of their size, can comply with their legal obligation to produce Annual Accounts by preparing them in accordance with the Financial Reporting Standard FRS-102 as supplemented by the Statement of Recommended Practice (SORP) for charities – the "Gold Standard" for the preparation of charity accounts.

But the typical non-accountant volunteer trustees running their charity in their spare time, tend (understandably) to find that getting to grips with the *ca.*400 pages of the FRS-102 plus the *ca.*200 pages of the SORP, and completing the Charity Commission's 30-worksheet MS-Excel template for Accruals Annual Accounts (CC17a), is rather more than they can cope with, even with the mere *ca.*20 pages of guidance in the Charity Commission's leaflet, *Completion notes for the accruals accounts template (CC17b) - SORP FRS102*.

However, there is an alternative: the Receipts & Payments (R&P – *ie:* "Cash"), standard for preparing their charity's Annual Accounts. But that option is only available to charities which: (i) have annual incomes of less than £250,000; (ii) are not charitable companies; (iii) are not required by their governing document to produce Accruals annual accounts; (iv) are not required by their members or donors/funders to produce Accruals annual accounts.

The Charity Commission's 8-page guidance leaflet, *CC16b Receipts and Payments Accounts Introductory Notes*, says:

"Receipts and payments accounts involve simple cash accounting and are different to accruals accounts".

That is DISINGENUOUSLY MISLEADING !

Because it encourages those non-accountant volunteer trustees of small charities to think that adopting the R&P standard for preparing their once-a-year annual report on a R&P("Cash") basis also makes the day-to-day recording, management and reporting of the money coming into and going out of their charity simpler.

But, in practice, it simply creates a *"between the devil and the deep blue sea"* conundrum – how to choose between a reporting system which in inappropriately complicated (Accruals) and one which is inappropriately inadequate (Receipts & Payments).

Why is R&P("Cash") Accounting Simpler?

Answer ? IT'S NOT

Most people – unless they are multi-millionaires ! – understand that it's not sufficient to know if you have enough money in your pocket or on your credit card to pay for the items in your shopping trolley when you get to the supermarket cash till today (*ie:* "Cash"/R&P accounting). You also have to know if you will have enough money to pay the electricity bill tomorrow and the rent/mortgage next week before your wages/salary comes in at the end of the month (Accruals accounting). It's all about timing. If all you have to report today is the money you have in the bank *{Cash/R&P reporting}* you might seem to be "quite well off". But if you take into account all the, as yet, unpaid items you've bought by credit card *{Accruals reporting}* you could be "broke" ! Or vice-versa !

Cash accounting was introduced for small unincorporated businesses in the commercial sector to deal with a very specific problem which is created when they are required to act as unpaid tax collectors on behalf of HM Revenue & Customs. Corporation tax and VAT become payable to HMRC as of the date that the income from sales and expenditure on purchases are "accounted" for (*ie:* recorded and reported). In practice that means that if a business records and reports its financial transactions in a 3-Es "business-like" way (*ie:* on an accruals basis) it becomes liable to pay the taxes due to HMRC at that time even if the customer has not yet actually paid for the goods or services. That can create significant cash-flow problems when it results in the business having to pay the tax to HMRC from its own pocket because it has not yet actually received the payment from the customer. Cash accounting was therefore introduced as a concession to some small business to help mitigate that particular cash-flow problem.

But most small charities are not subject to VAT on their charitable goods & services
and do not make profits (*ie:* are not liable for corporation tax) !
"Cash"(R&P) reporting is, therefore, a "solution" to a problem that most small charities DON'T have !

There will be little or no difference between an Accruals report and the equivalent R&P("Cash") report of a charity's day-to-day "real money" activities when there are no significant outstanding payment due to or by the charity (*ie:* debtors or creditors, in accountancy jargon).

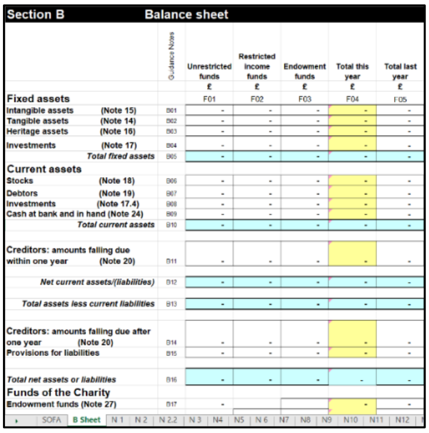
"Cash"(R&P) accounting is widely disdained – in both the commercial sector and the charity sector – for its tendency to distort financial reports when the date on which a transaction was actually paid (the "Cash" date) falls in a different financial reporting period from the one in which the transaction was originally committed (the "Accrual" date). Which is why "Cash"(R&P) reporting is regarded as being fundamentally incapable of producing financial reports which present a "true and fair view" of a charity's financial status.

AND it also means that a producing a report of a charity' every-day "real money" transactions on a "Cash"(R&P) basis can actually be MORE complicated than producing the equivalent report on an Accruals basis. That's because any distortions created by the R&P("Cash") reporting procedures then require additional information or explanations to be included in either (or both) the charity's Trustees' Annual Report and/or the notes to the charity's Annual Financial Report to prevent those distortions from misleading the readers.

It is therefore a "curious inconsistency" that the Charity Commission should promote the use of "Cash" reporting for the majority (85%) of "small charities, given the Commission's focus on the importance of promoting public trust in charities by ensuring *"That a high proportion of the money {the charity} raises goes to those it is trying to help"*.

Why is Producing Accruals Annual Accounts so Complicated?
Answer: Because of "Funny Money" !

"Funny money" is the notional money "values" (*ie:* numbers prefixed with a **£** symbol) assigned to the charity's non-monetary assets by those for whom the only measure of "value" in life is money and wealth. So all a charity's resources – anything and everything from financial assets (investments), through tangible assets (property, equipment, furniture, vehicles used to run the charity), heritage assets (works of art or historical interest), to intangible assets (copyright, goodwill) have to be given notional "funny money values" (the happy smile on this child's face? = £5.50?) so that they can be counted along with the charity's "real money in the bank" to show how "wealthy" the charity is.



Section B Balance sheet	Guidance Notes	Unrestricted funds £ F01	Restricted income funds £ F02	Endowment funds £ F03	Total this year £ F04	Total last year £ F05
Fixed assets						
Intangible assets (Note 15)	B01	-	-	-	-	-
Tangible assets (Note 14)	B02	-	-	-	-	-
Heritage assets (Note 16)	B03	-	-	-	-	-
Investments (Note 17)	B04	-	-	-	-	-
Total fixed assets	B05	-	-	-	-	-
Current assets						
Stocks (Note 18)	B06	-	-	-	-	-
Debtors (Note 19)	B07	-	-	-	-	-
Investments (Note 17.4)	B08	-	-	-	-	-
Cash at bank and in hand (Note 24)	B09	-	-	-	-	-
Total current assets	B10	-	-	-	-	-
Creditors: amounts falling due within one year (Note 20)	B11	-	-	-	-	-
Net current assets/(liabilities)	B12	-	-	-	-	-
Total assets less current liabilities	B13	-	-	-	-	-
Creditors: amounts falling due after one year (Note 20)	B14	-	-	-	-	-
Provisions for liabilities	B15	-	-	-	-	-
Total net assets or liabilities	B16	-	-	-	-	-
Funds of the Charity						
Endowment funds (Note 27)	B17	-			-	-

SOFA | B Sheet | N 1 | N 2 | N 2.2 | N 3 | N4 | N5 | N 6 | N7 | N8 | N9 | N10 | N11 | N12

The legal difference between "real money" (ie: Legal Tender) and "funny money" is nicely explained in the Bank of England's information pages, "What is Money?" and "Legal Tender".

That is illustrated by the layout of the Charity Commission's CC17b template for charity financial reports on the Accruals basis (left) which creates the implication that the "funny money" notional values of assets can be used in the same way as "real money" (*ie:* Legal Tender) to offset (*ie:* repay) its outstanding financial commitments.

It is NOT disputed that charities need to know what non-monetary resources they must have to deliver their charitable activities. *ie:* they have to keep records of what those resources cost to buy, and what they would cost to replace when necessary, so that those non-monetary resources can be used, alongside the charity's "real money" resources, to manage the charity in a 3-Es "business-like" manner. But, unlike the commercial sector, in the charity sector there is much more to "value" – and being Efficient, Effective, Economic (and Ethical) in the use of donor's money – than profits, wealth and the notional "funny money values" of it non-monetary resources.

A "high value" (*ie:* expensive) minibus might represent "good value for money" to a transport company aiming for the high-end of the market where wealthy clients were prepared to pay premium fares (*ie:* to create higher profits) to be transported in luxury from here to there. But the high costs of running such a luxury minibus (tax, insurance, maintenance, fuel) would represent low value for money for a charity wanting to provide transport in "adequate comfort" from here to there for its beneficiaries who couldn't afford to pay any fare.
(And that would be so even if the minibus had been donated to the charity – *ie:* its purchase cost was zero.)

But that doesn't stop current charity accruals reporting standards – *ie:* the ca.400 page Financial Reporting Standard FRS-102, as supplemented by the ca.180 page Statement of Recommended Practice (SORP) 2005 requiring charities to report the ups and downs of its notional "funny money" value of its non-monetary assets as if they, too, were Legal Tender "profits and losses" available to discharge the charity's financial commitments.

That is clearly inconsistent with the Bank of England's guidance on Legal Tender and "funny money". It makes the Charity Commission's CC17b Accounts template (with its 30 sheets of "Notes to the Accounts") the financial equivalent of comedian Eric Morecombe's hilarious rendition of Grieg's piano concerto with conductor Andre Previn.

"*All the right notes – but not necessarily in the right order !*"

But not quite so funny for the trustees of small charities trying to apply it "in real life" !

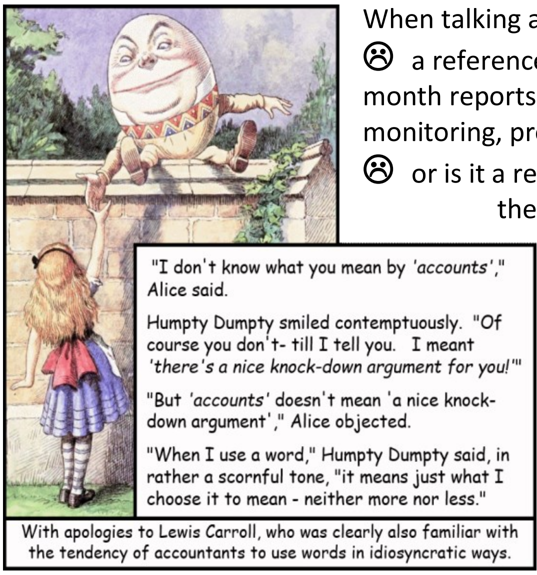
Click on the image for a short clip from the skit

A more detailed review of "funny money" and its relevance (ie: irrelevance) to small charities can be found in Appendix 2.

Additional Complications

Humpty Dumpty-ism.

Another key cause of the "complexity" of – and, therefore confusion about – preparing annual financial "Accounts" is the "professional obfuscation" (*ie:* "well-stirred muddy waters") of accountancy jargon which uses words like "Accounts", "Money", "Cash", "Assets" and "Value" (often represented as numbers prefixed by the **£** sign) in a charity's "Accounts" to mean different things in different contexts.



With apologies to Lewis Carroll, who was clearly also familiar with the tendency of accountants to use words in idiosyncratic ways.

When talking about a charity's "accounts" is the use of the word "accounts":

☹ a reference to the charity's management "accounts" – its day-to-day or month-to-month reports to trustees' and/or admin meetings on things like cash-flow, budget monitoring, programme planning **?**

☹ or is it a reference to the charity's financial "accounts" – it's once a year "state of the nation" statutory report to the Charity Commission **?**

☹ or is it a reference to the charity's financial "records" – the physical cash-books or software package, or spreadsheets in which it keeps the records of individual transactions **?**

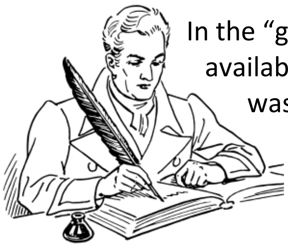
and are those in "accruals" or "cash" "accounting" format **?**

Professional accountants, using such words on a daily basis, might be able to recognise the different nuances in meaning appropriate to the context of what is being dealt with at the time. But that is not so easy for non-accountant charity trustees, volunteers and staff who are already finding wider accountancy jargon confusing (*eg:* nominal accounts, suspense accounts, journals, cash books, creditors, debtors).

So it is a common misunderstanding for the trustees of small charities to think that if they want to produce their annual financial "accounts" (*ie:* **reports**) on a R&P basis they **MUST** also keep their day-to-day management "accounts" (*ie:* **records** and **reports**) on a R&P basis (*ie:* keep financial records only of the date on which the payment was made). Similarly, charities which want to produce their annual financial "accounts" (*ie:* **reports**) on an Accruals basis think that they **MUST** also keep their day-to-day management "accounts" (*ie:* **records** and **reports**) on an accruals basis (*ie:* keep financial records only of the date on which the transaction was committed).

That is NOT TRUE !

Double-Entry Bookkeeping



In the "good old days", when ink on paper written by quill pen was the best information technology available for recording, summarising and reporting financial transactions, double-entry bookkeeping was a truly remarkable invention which revolutionised commercial financial management.

Similarly, in the "good old days", when burning coal was the best energy source available to boil water to produce steam, steam engines were a truly remarkable invention which revolutionised commercial manufacturing and transport.

Then electricity became available as an energy source, and is now widely regarded as much more Efficient, Effective and Economical way to boil a kettle to make a cup of tea. But any thought of using electricity instead of burning coal to boil water to produce the steam to power machinery to manufacture goods or engines to pull trains would be regarded as stupid. Consequently, the use of steam engines for commercial manufacturing and travel is now obsolete, though they remain popular in museums as "quaint historical artefacts", much loved by aficionados.

Similarly, using electricity to power computers is now widely regarded as a much more 3-Es way to record and analyse financial information to produce financial reports.
But for some "curious" reason, modern electronic relational database technology is used to replicate the accountancy double-entry methodology of the ink on paper by quill pen era. *ie:* most current commercial financial software still makes use of "quaint historical concepts" (also much loved by aficionados) like ledgers, journals, cash books, nominal accounts, double-entry bookkeeping. It's the accountancy equivalent of using electricity to boil water to replicate the steam engine methodology of the coal-fired era !

Some Pragmatic Solutions

A Pragmatic Long-Term Solution

Small Charity Support has long argued that both the current "Cash"(R&P) and, particularly the Accruals, financial reporting schemes are "**Not Fit for Purpose**" for the large majority (>85%) of small charities – typically run by non-accountant unpaid volunteer trustees in their spare time.

And it increasingly seems that Small Charity Support is not alone in being of that opinion.

> In November 2020 Small Charity Support's "Not Fit For Purpose" article was submitted to the "Smaller Charities and Independent Examiners" Engagement Strand of the recent SORP review which responded: "*the thrust of your concerns about the current provisions of the SORP very much chime with our own*".
>
> The Charity Commission seems to be of the same opinion. In a **letter** to the Financial Reporting Council (25 May 2021), the Commission said: "*The focus of accounting standards is very much on the interests of the providers of risk capital to for-profit businesses. Charities are established for the public benefit and not as owner managed for-profit businesses and, although welcome, the PBE paragraphs are proving insufficient in addressing the reporting needs of the users or charity accounts and avoiding for-profit orientated disclosures detracting from the quality and character of public benefit accounting and reporting.*"
>
> And Caron Bradshaw, chief executive of the Charity Finance Group, is **reported** as saying: *"The government's drive to increase trust and transparency is to be welcomed by all. However, we need to break this long but flawed habit of shoehorning charities into regulation and legislation designed for the for-profit world to avoid the unintended and harmful consequences such an approach brings about for the third sector."*

Small Charity Support believes that the key elements of a practical and effective long-term solution to the problems and inconsistencies of current financial reporting requirements for charities – particularly small charities (*ie:* income less than £1M) are:

- Dispense with the Receipts & Payments ("Cash") reporting option. All charities, regardless of size or registration status to prepare their annual financial reports on an Accruals basis – ie: financial transactions are reported on the date that the transaction was committed not when the "cash changed hands";

- For small charities (annual incomes less than £½M at least), dispense with the requirements to capitalise (*ie:* assign a notional "funny money value") to assets (tangible, heritage or intangible) and to include those "funny money values" in the charity's annual financial reports as if they were Legal Tender.
  And that also means not treating changes in the notional "funny money value" of such assets as if those changes were Legal Tender coming into or going out of the charity's bank accounts;
  However, charities would still be required to maintain a record of their significant assets, along with their original cost and estimated current value where relevant to the 3-Es management of the charity;
  Including an overview of those assets in the charity's Trustees' Annual Reports & Accounts would be optional where the trustees felt that it would be meaningful and useful to the majority of the readers of those reports.
- Charities which hold financial assets (*eg:* investments in shares, bonds, or similar financial instruments) to maintain a record of those investments and include a report of those investments (and any movements in their value) similar to current reporting requirements. Except that those values, and any changes, would be reported separately from the reports of the charity's holding in Legal Tender. Anyone with an interest in the value of such investments should be able to afford, and use, the simple calculator required to combine the various numbers to calculate the charity's "net wealth.
- A scheme of shortened notes to the reports to be introduced (*ie:* similar to abridged reports for small organisations in the commercial sector) to reduce the burden of irrelevant bureaucratic reporting for small charities – *eg:* those with annual incomes less than £500K, if not less than £1M;

Note: The above is just a general outline of the content proposed for a new financial reporting standard for charities – particularly small charities. So it is accepted that some of the details of the above proposals might need to be "adjusted" in order to arrive at a universally acceptable solution.

Some Pragmatic Interim Solutions

In the meantime, for those charities with incomes under £250,000 which:

- ✓ are currently already producing R&P("Cash") Annual Accounts but want to avoid the distortions in their reports created when the accrual and cash dates of transactions occur in different financial reporting periods;
  and/or
- ✓ want to be able to produce financial management reports which take account of their financial commitments (Accruals) as well as completed ("Cash") transactions – *eg:* budget reports, cash-flow reports, reports of outstanding commitments (*eg:* creditor & debtor reports) – both for ;
  or
- ✓ are currently producing their Annual Accounts in Accruals format but want to switch to producing them in the R&P("Cash") format to avoid the FRS-102 + SORP requirements to include:
  (a) irrelevant "funny money"; (b) copious "Notes to the Accounts";

here are some pragmatic suggestions which might enable the charity:

- to produce – **from one simple set of financial transactions records** –all the internal reports – both "Accruals" and "Cash" they need to be able to manage their day-to-day charitable activities in a 3-Es way;
- to produce more meaningful (*ie:* with less distortions) external financial reports for their supporters and funders;
- to continue taking advantage of the "reduced complexity" of preparing R&P reports to the standard currently required to "tick the box" and comply with their statutory obligations to report to the Charity Commission;

Charitable Companies – Convert to a Charitable Incorporated Organisation

Converting a charitable company to a CIO is now widely regarded as a "sensible, pragmatic move" as CIOs retain all the benefits of having a legal identity of their own (which unincorporated charities don't) without all the disadvantages of being registered with Companies House (of which the requirement to produce full Accruals financial reports is only one). These days most new charities which want the benefits of being legally incorporated register as CIOs rather than charitable companies.
{In fact, in Small Charity Support's experience, the main reason why new charities still register as charitable companies rather than CIOs is because they have sought "professional advice" from lawyers or accountants who know only company law or accountancy and so don't even realise that CIOs exists or, if they do, don't properly understand what they are}.

For most small and "uncomplicated" charitable companies, converting to a CIO is easy, free and (usually) quick. A formal (*ie:* minuted) decision at a properly constituted general meeting of company is made and then an application to re-register the company as a CIO is made to the Charity Commission though its "Registration" web-page.

The Charity Commission then "takes care of the rest of the process" (including notifying Companies House of the change of registration).
Further information can be found on the Small Charity Support website and the Charity Commission website.

The "good news" is that converting a charitable company is now a well-established process, so most of the initial concerns and "hiccups" that discouraged earlier conversions have now been overcome. *eg:* it is now usually possible for the charity to retain its bank account. And most of the charity's legal obligations (*eg:* contracts with suppliers, employees, *etc*) now transfer seamlessly from the charitable company to the CIO.
The main reasons why converting a charitable company to a CIO might require more professional legal advice is where the charitable company has some very "particular features" – *eg:* some complicated endowments, or ownership of land and/or property, which bring in other legal implications.

Change the Charity's Financial Reporting Period

It is so "blindingly obvious" that it is often not seen, that when all the Accrual dates and Cash dates for a charity's financial transactions fall within the same financial reporting period there are no distortions in the charity's financial reports when produced in either (or both) Accruals and R&P("Cash") formats.

The distortions in R&P("Cash") reports only occur when the Accruals dates and Cash dates for transactions fall in different financial years *eg:* where a charity with a financial year end 31 December has a big Christmas or New Year activity for its beneficiaries.

It is often thought that a charity's financial reporting year MUST correspond with either the calendar year (1-Jan to 31-Dec) or the financial/taxation year (1-Apr to 31-Mar). **But that is NOT SO**.
Charities can have whatever financial reporting year best suits their charitable activities (unless there is some specific requirement within the charity's governing document, which would therefore have to be amended first).

The "obvious" – and simple – solution **?**
Change the charity's financial reporting year to end in a "quiet period". *eg:*

☺ charities with big Christmas/New Year events could change their financial year to, perhaps, 1-Jun to 31-May or 1-Oct to 30-Sept.
☺ Charities which tend to operate to the "academic" year but are "quiet" during the summer holiday period could change their financial reporting period to 1-Aug to 31-July.
☺ This can also have the advantage of "matching" the charity's financial reporting year with its "activities/programme" reporting year.

Changing a charity's financial reporting period to the Charity Commission is very easy. Just log on to the charity's "account" on On-Line Services page of the Charity Commission website and select "Change the charity financial period". There are just a few simple restrictions. You can't change the reporting period:
☒ if you have previously changed it in the last 3 years;
☒ to end more than 6 months before or 6 months after the current end of the period;
☒ your current annual financial report is already overdue.

Include a Note Which Shows Both Cash & Accrued Transactions at the End of the Financial Period

But it is not always possible to avoid a major financial activity occurring close to the start or end of the charity's financial reporting period. And that is so even when the separation between the Accrual dates and "Cash" dates for transactions are quite small (perhaps only a week or two, or even days).

In such cases an acceptable solution might be to include a n explanatory "Note" within either the "Activities" or the "Financial Review" sections of the Trustees Annual Report or as a "Note to the Accounts" in the Financial Report section.
This approach is illustrated (right) by the "Christmas Event" case study referred to earlier.

Receipts & Payments for the Christmas Event 2021

	Christmas Event 2021 - Accruals			*Last Year*
	Paid in FYE Dec'21 £	Paid in FYE Dec'22 £	Total Accrued £	Total Accrued £
A1 - RECEIPTS				
Ticket Sales	925	175	1,100	*800*
Donations	100	50	150	*60*
Raffle	475	0	475	*350*
Other Receipts	45	0	45	*100*
TOTAL RECEIPTS	**1,545**	**225**	**1,770**	***1,310***
A3 - PAYMENTS				
Venue Hire	-100	-500	-600	*-550*
Publicity	-85	0	-85	*-90*
Catering	-472	-88	-560	*-500*
Entertainment	-100	0	-100	*-90*
Othe Payments	-153	-73	-226	*-100*
TOTAL PAYMENTS	**-910**	**-661**	**-1,571**	***-1,330***
NET OF SURPLUS(-DEFICIT)	**1,270**	**-872**	**398**	***-40***

A similar approach could be used to give a more comprehensive report to donors on the use of restricted funds. It would not be "legal" to include such a table as part of the charity's formal Annual Accounts in Receipts & Payments format. That is not least because charity reporting standards do not permit "Netting Off" of Payments/Expenditure against Receipts/Income. But there is no obstacle to including such a table – with appropriate explanation – as an illustration withing the text of the Trustees' Annual Report where that activity is discussed, or alternatively as a

Example: Better Living		Funds Report:	31-Dec-19		
Restricted Funds					
Safe at Home	Prev Yr Out-turn	This Yr Budget	Budget to 31-Dec-19	R&P 31-Dec-19	Accruals 31-Dec-19
Receipts					
SafeAtHome	8,000	11,250	11,250	11,832	11,832
Payments					
SaH-Staff Costs	-5,924	-11,250	-11,250	-10,441	-10,952
SaH-Project Costs	-1,041	-800	-800	-744	-744
Subtotal - Payments	-6,965	-12,050	-12,050	-11,185	-11,697
Net Receipts-Payments	1,035	-800	-800	647	136
Brought Forward	0	1,035	1,035	1,998	1,035
Net Funds	1,035	235	235	2,645	1,171

"Note to the R&P Accounts". But first check that the funder (and the Independent Examiner) would be happy to accept a report in such a format so that the charity could continue to produce its formal Annual Accounts (*ie:* as submitted to the Charity Commission) in "simple" Receipts & Payments format rather than having to incur all the additional time and effort (not to say "cost") of preparing the whole of its formal Annual Accounts in full FRS-102 & SORP Accruals format.

Change the Charity's Financial Recording & Reporting System

As previously pointed out, "in the good old days", when financial records and reports were physical records – real "physical" ink on real "physical" paper – the ability to retrieve and analyse records in order to produce meaningful reports depended on those records being kept in well-ordered specific locations. eg:

- records of purchasers from individual suppliers would be kept in Purchase Ledgers;
- records of sales to individual customers would be kept in Sales Ledgers;
- summaries of all the different categories of purchases and sales would be kept in Nominal Ledgers;
- records of the money held in bank or other cash accounts would be kept in Cash Books;
- and "Ledgers" might also instead be called "Journals" or "Books" – hence the term "Book-keeping"

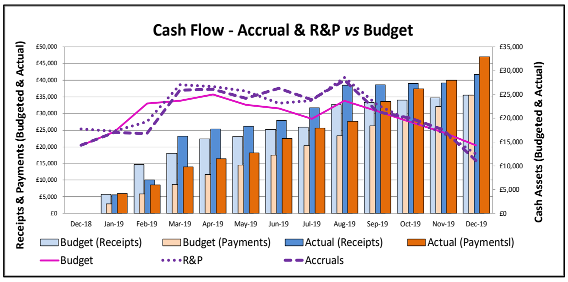
But in the modern computer age, financial records and reports are created "virtually" as electronic/digital data "in the ether" on computers. A charity's records of its financial transactions can now be kept in one simple table of the relevant information which includes BOTH the Accrual date AND the Cash date of the transaction.

A	B	C	D	E	F	G	H	I
Better Living {Example}					**Bank Transactions, FYE:**			**31-Dec-19**
Date	*Ref*	*Category*	*Fund*	*Payee/Payer*	*Comment*	*Amount*	*CD*	*Balance*
01-Oct-19		_P4-Internet Services		Positive Ideas Co	website	-9.00	10	6,198.93
01-Oct-19		_R1-Donations		The Law Society		300.00	10	6,498.93
08-Oct-19		_P3-BE-Project Costs	Better Eating	Just Sandwiches	Partners' meeting	-167.52	4	6,331.41
08-Oct-19		_P4-Meetings		J Pugh	Strategic Plan meeting + Board r	-5.60	10	6,325.81
08-Oct-19		_R9-Sale of Investments		HiRise InvestmntMgmnt	Sate of GetFit Bicycles	1,827.80	12	8,153.61
14-Oct-19	CdCd	_P4-Financial Services		HSBC	Annual fee	-32.00	10	8,121.61
14-Oct-19	CdCd	_P4-Meetings		Leon Kings Cross	Strategic planning	-20.00	10	8,101.61
15-Oct-19		_P4-Salaries		HMRC	PAYE/NICS	-326.56	10	7,775.05
17-Oct-19	CdCd	_P3-HM-Project Costs	Health Matters	Friends' House	Staff lunch	-6.70	10	7,768.35
20-Oct-19	Payroll-g	_P3-SaH-Staff Costs	Safe At Home	R Badgwick	Gross salary	-1,046.66	10	6,721.69
20-Oct-19	Payroll-n	_Agency-HMRC		R Badgwick	Employee PAYE&NIC deduction	94.00	10	6,815.69
20-Oct-19	Payroll-n	_Agency-NEST		R Badgwick	Employee pension contribution	17.67	10	6,833.36
22-Oct-19		_P3-HM-Project Costs	Health Matters	Friends' House	Room hire	-917.20	10	5,916.16
24-Oct-19	CdCd	_P4-Meetings		Safety in London	R Badgwick Conf.Attendance	-30.00	11	5,886.16
28-Oct-19		_P4-Office Costs		Post Office	Stamps & postage	-56.00	10	5,830.16
29-Oct-19		_P3-BE-Staff Costs	Better Eating	J Pugh	Contract fee	-978.54	11	4,851.62

Modern spreadsheet/database technology allows the elements of the records to be used as search-tags to select (and, where appropriate, aggregate) the relevant data for financial analysis and reporting. That means that a wide variety of traditional financial reports (*eg:* accounts receivable; accounts payable; payroll, general ledger, trial balance, budget reports, cash-flow, even the charity's end-of-year Annual Financial Statements) can be prepared directly from just that one table WITHOUT requiring any traditional double-entry "books/ledgers/cash-books".

Better Living {Example}	Budget Report:		31-Dec-19		
RECEIPTS	Prev Yr Out-turn	This Yr Budget	Budget to 31-Dec-19	R&P 31-Dec-19	Accruals 31-Dec-19
VOLUNTARY INCOME					
Membership	3,357	2,500	2,500	2,550	2,550
Gift Aid	1,873	800	900	845	975
	11,163	**6,300**	**6,400**	**6,459**	**6,589**
INCOME GENERATION					
Fundraising					
Fundraising	156	100	100	0	0
Charitable Trading					
Sale of Shop Items	0	0	0	0	4
Other					
	156	**100**	**100**	**52**	**55**
INVESTMENT INCOME					
	1,573	**5,000**	**5,000**	**1,986**	**1,986**
CHARITABLE INCOME					
GENERAL FUNDS					
ConfRegistrations	0	0	0	1,350	1,350
Miscellaneous	0	0	0	33	0
	0	**0**	**0**	**1,383**	**1,350**
RESTRICTED FUNDS					
SafeAtHome	8,000	11,250	11,250	11,832	11,832
BetterEating	15,000	8,500	8,500	8,500	8,500
HealthMatters	6,000	4,000	4,000	3,905	3,905
	29,000	**23,750**	**23,750**	**24,238**	**24,238**
Sub-total - Charitable Income	**29,000**	**23,750**	**23,750**	**25,621**	**25,588**
OTHER RECEIPTS					
Income In Advance		200	200	160	160
	0	**200**	**200**	**160**	**160**
SUB-TOTAL RECEIPTS	**41,892**	**35,350**	**35,450**	**34,278**	**34,378**
ASSETS & INVESTMENTS					
Sale of Investments	0	0	0	5,490	5,490
	0	**0**	**0**	**5,490**	**5,490**
TOTAL RECEIPTS	**41,892**	**35,350**	**35,450**	**39,767**	**39,868**

Accounts Receivable/Payable				Bank Transactions, FYE: 31-Dec-19			
Date	*Ref*	*Category*	*Fund*	*Payee/Payer*	*Comment*	*Amount*	*C*
23-Sep-19		_P4-Independent Examiner		AN Accountant	Independent Examination	-250.00	
13-Nov-19		_P3-HM-Project Costs	Health Matters	J Pugh	travel expenses	-2.80	
04-Dec-19		_R1-Gift Aid		HMRC		975.00	
12-Dec-19		_R2T-Sale of Shop Items		Barry Driver	Purchase of Home Safety Manual	12.50	
19-Dec-19		_P2-Networking		GoodFood Caterers	Catering - Christmas Event	-450.00	
19-Dec-19		_P2-Networking		Trinity Church	Room hire - Christmas Event	-300.00	
29-Dec-19		_P3-BE-Staff Costs	Better Eating	J Pugh	Contract fee	-984.92	
30-Dec-19	HMRC	_Agency-HMRC		Payment to HMRC	Employee's PAYE+NIC Payments	-282.00	
30-Dec-19	NEST	_Agency-NEST		Payment to NEST	Employee's Payments	-53.01	
30-Dec-19	NEST	_P3-SaH-Staff Costs	Safe At Home	Payment to NEST	Employer's contribution	-53.01	



Receipts & Payments for the Financial Year Ended 31-Dec-19				
	Current Financial Year, Jan'19-Dec'19			Last Year
	Unrestr'd Funds £	Restricted Funds £	Total £	Total £
A1 - RECEIPTS				
Voluntary Income	6,459		6,459	*11,163*
Income Generation	52		52	*156*
Investments Income	1,986		1,986	*1,573*
Charitable Income	1,383	24,238	25,621	*29,000*
Other Receipts	160		160	*0*
	10,040	24,238	34,278	*41,892*
A1 - ASSETS & INVESTMENTS				
Sale of Investments	5,490		5,490	*0*
Sale of Assets	0		0	*0*
	5,490	0	5,490	*0*
TOTAL RECEIPTS	**15,530**	**24,238**	**39,767**	***41,892***
A3 - PAYMENTS				
Generating Funds	-350		-350	*-325*
Charitable Activities	-1,715	-28,955	-30,670	*-37,413*
Support Costs	-7,565		-7,565	*-6,632*
Othe Payments	-100		-100	*0*
	-9,729	-28,955	-38,685	*-44,370*
A4 - ASSETS & INVESTMENTS				
Purchase of Investments	-4,208		-4,208	*0*
Purchase of Assets	-2,499		-2,499	*0*
	-6,707	0	-6,707	*0*
TOTAL PAYMENTS	**-16,436**	**-28,955**	**-45,391**	***-44,370***
NET OF RECEIPTS-PAYMENTS	**-906**	**-4,717**	**-5,624**	***-2,478***
A5 - Transfers Between Funds	-183	183	0	*0*
NET AFTER TRANSFERS	**-1,089**	**-4,534**	**-5,624**	***-2,478***

This is not "wishful thinking, pie in the sky". It is a working pragmatic solution as illustrated above, taken from Small Charity Support's "proof of concept" example accounts spreadsheet for the "Better Living " charity. The spreadsheet – developed over a period of nearly 10 years – has been successfully used "in real life" by numerous small charities both to manage their finances on a day-to-day basis throughout the year and to prepare their end-of-year Annual Accounts to both the Accruals standard and the Receipts & Payments standard.

Where a charity has multiple bank or other general income/expenditure accounts (*eg:* both a bank current account and a PayPal account or deposit account, or both) several replicas of the "Bank" table illustrated might be needed for each separate account. But even in that case, the individual tables are no more complicated than the one illustrated and modern database technology can search and aggregate data in multiple tables simultaneously.

So it is curious that, even though most modern financial management software uses modern relational database technology (*ie:* "tagging" in "non-techie" language), it merely uses "tagging" to replicate the double-entry bookkeeping methods of the "quill pen, ink on paper" era – *ie:* ledgers, journals, nominal accounts, balance sheets

It's the accountancy equivalent of using electricity to boil water to produce steam to power engines !

> ***Note**: The Better Living "proof of concept" example shows Small Charity Support's being used with real data from real charities (appropriately anonymised, of course) using the spreadsheet to record their financial transactions on a routine day-to-day basis. The simple 8-column transaction records require no training or expertise in "traditional" financial double-entry bookkeeping. The spreadsheet automatically updates in "real time" (ie: as financial transactions are added, without requiring any further action) the regular budget and cash-flow reports for their trustees and admin volunteers/staff, and the end-of-year Annual Accounts in a format compliant with Charity Commission requirements.*
>
> *For a fuller description of the differences between physical and virtual/electronic records and how "tagging" allows financial transactions to be recorded in both R&P("Cash") and Accruals formats without the need for traditional double-entry bookkeeping see Appendix 1: Recording and Reporting – Physical or Virtual*

In Summary

Current charity financial reporting standards present the typical non-accountant volunteer trustees of "small" charities (*ie:* those with annual incomes less than £250,000) with a *"between the devil and the deep blue sea"* conundrum – *ie:* how to choose between a reporting system which is inappropriately complicated (Accruals) and one which is inappropriately inadequate (Receipts & Payments).

Both are adaptations of financial reporting standards designed to meet the needs of the commercial sector and are therefore classic examples of "knocking a square peg into a round hole".

Both are full of inconsistencies (some rather blatantly obvious) with the day-to-day financial management needs of the 85% of small charities. And both are made even more confusing by the ambiguous use of accountancy jargon.

It is therefore hardly surprising that the typical non-accountant volunteer trustees trying to run their charity Efficiently, Effectively, Economically (and Ethically) in their spare time to find themselves baffled and confused when trying to meet their legal obligation to prepare their charity's annual accounts in compliance with those standards.

And it is therefore also hardly surprising that such trustees tend to think that it must be they who are "at fault" for "not being able to understand" the inconsistencies and ambiguities and so turn to professional accountants for help. Unfortunately the Charity Commission's own, previously annual[1], reviews of charity reporting standards (the last was published in 2019) found that many professional accountants also seem to be baffled and confused by the standards. Because more half (56%) of the annual accounts of small charities (many of which had been independently examined, if not also prepared, by professional accountants) failed to meet the Commission's reporting standards.

To Accrue …… or not to Accrue ?

It **IS** true that preparing a charity's Annual Accounts on an Accruals basis – *ie:* in compliance with "*the full monty*", "all the bells and whistles" of the FRS-102 & SORP standards – is more complicated than preparing Annual Accounts on a R&P("Cash") basis.

But those complications have little or nothing to do with managing and reporting (*ie:* "accounting for") the money coming into and going out of the charity on a day-to-day basis. Instead those complications are created by the FRS-102 & SORP standards requiring that charity Annual Accounts:

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1 **Note:** The Charity Commission published annual reviews of its monitoring of the quality of charity accounts from 2014 to 2019, but has not published any since. No explanation for that is found on the webpage.

- ☹ assign notional "funny money" values to non-monetary assets AND having to: (i) treat those funny money values as if they were "real money" (*ie:* legal tender) in the charity's bank account; (ii) treat changes in those notional "funny money" values of non-monetary assets as if they were "real money" (commercial "profits" or "losses") coming into or going out of the charity's bank accounts;
- ☹ provide copious (and often irrelevant or unnecessary) "Notes to the Accounts", particularly those which have to explain how the notional "funny money" values of assets had been "calculated";

It is self-evident that the inclusion of notional "funny money" values for a charity's non-monetary assets in its statutory annual financial reports **CANNOT BE CRUCIAL**, neither to a proper understanding of the charity's financial status or performance, nor to promoting public trust in charities. Because if it were, the regulators could not make reporting those values an option for the large majority (ca.85%) of charities with income less than £250,000.

> ***Note:*** *It is true that all charities which are registered at Companies House as charitable companies are legally obliged to produce Accruals annual accounts regardless of their income level. But charitable companies can opt out of that obligation by opting to convert to Charitable Incorporated Organisations – CIOs).*
>
> *ie: the requirement to produce Accruals accounts is NOT consequence of them being a charity (ie: under the Charities Act) and being required to demonstrate that they are using donors' money appropriately.*
> *It is a consequence of them being a commercial company (ie: under the Companies Act) required to demonstrate their wealth and profitability to investors.*

And those complications are significantly exacerbated by most financial reporting systems, including those which are now computerised, continuing to base their records and reports on "traditional" double-entry bookkeeping methods even though modern computerised relational database technology has, long since, made double-entry bookkeeping obsolete.

Small Charity Support has unequivocally demonstrated that the use of modern relational database technology – even in its simpler "spreadsheet" form – completely eliminates any differences in complexity/simplicity between the use of the "Accruals Date" or the "Cash Date" to record, analyse, manage and report financial transactions.

Which means that the kind of day-to-day financial records that a charity has to keep is **NOT** dictated by which format of Annual Accounts it wants to prepare (and submit to the Charity Commission where applicable) in order to meet its statutory obligations. One simple set of financial transactions records is sufficient to prepare financial reports simultaneously in either/both Accruals or/and R&P("Cash") format as circumstances require – *eg:* in Accruals format for internal financial management or reporting to supporter or external funders; or in R&P format to meet the charity's statutory obligation to report to the Charity Commission.

For the Future:

Small Charity Support believes that:

(i) the current Receipts & Payments ("Cash") reporting standard should be abolished on the grounds that:
(a) it is a "solution" to a taxation "problem" for small commercial organisations which small charities generally don't encounter;
(b) its well-recognised tendency to separate financial reports from the charitable activities to which they real create distorted, and therefore potentially misleading, reports;

(ii) the current unnecessarily (*ie:* inappropriately) over-complicated FRS-102 + SORP reporting standards should be replaced with an accruals-based standard which is designed "from the bottom up" to meet requirements of the vast majority of small charities *{incomes less than £½M – preferably less than £1M}.*

The standard should include an "Abridged" version which allows charities (particularly small charities) to omit having to report all the "funny money" notional values of their non-monetary assets – and, in particular, to omit the notional fluctuations in those notional values as if they were "real money" coming into or going out of the charity as if they were real income/expenditure or receipts/payments. That would allow charities instead to focus more on reporting the non-commercial "value for money" of their charitable activities for the social and public benefit, paid for by money donated philanthropically by the charity's supporters.

In the Meantime

Emphasis on the use of traditional double-entry bookkeeping methodology should be abandoned on the grounds that it is now obsolete. Charities – particularly small charities run by non-accountant volunteer trustees in their spare time should be encouraged to use software which takes full advantage of modern relational database information management technology.

This is NOT "wishful thinking", "pie in the sky"

As the Small Charity Support spreadsheet unequivocally demonstrates, that makes the recording of financial transactions ("bookkeeping") **MUCH** simpler and intuitive for people without them having to be trained in double-entry bookkeeping.
But, even more importantly, that one set of simple "tagged" financial records containing both the "Accrual" and the "Cash" dates of transactions makes it quick and easy to produce more understandable management reports throughout the year to support the Efficient, Effective & Economical management of the use of the charity's funds.

To Comply …… or not to Comply ?

The current Accruals reporting standard might be inappropriately complicated, and the Receipts & Payments reporting standard might be inappropriately inadequate, particularly for small charities.

But Small Charity Support is NOT recommending – or even suggesting – that small charities should not attempt to comply with those standards for preparing their statutory Annual Accounts.

Instead, the purpose of this leaflet is to demonstrate that, by using modern relational database technology, and by discarding obsolete double-entry bookkeeping methods, with one simple set of financial transactions records which include both the "Accrual" and the "Cash" date of the transaction it is entirely possible, practical and easy to:

- retain all the advantages of accruals recording & reporting for the Efficient, Effective & Economical (and Ethical, Ecological & Environmental) management of the use of the charity's funds on a day-to-day basis;
- retain all the advantages of being able to produce *ad hoc* "abridged" accruals reports (*ie:* excluding "funny money") where that is acceptable to donors and other stakeholder in the charity;
- retain all the advantages of Receipts & Payments accrual reporting for the submission of the charity's statutory accounts to the Charity Commission.

whilst retaining the capability to be fully compliant with both standards, simultaneously, from the one set of simple "tagged" transactions records.

Note:

The Small Charity Support example spreadsheet illustrated in this leaflet is NOT a commercial product. ie: it is not promoted, advertised and sold by Small Charity Support, neither for profit nor as legitimate charitable trading to generate income for the charity.

Instead it is "proof of concept" software – designed and published to demonstrate, using real-life examples, that the principles outlined in this leaflet are pragmatic and effective in practice.
It always has been, and always will be, made available to the charity and not-for-profit sector in the internet tradition of open-source free-ware for the public benefit.

It is made available without any guarantees or warranties. Charities may use it at their own discretion after satisfying themselves that it is appropriate to their needs and requirements.

The intellectual property in the spreadsheet has been protected to the maximum extent provided by international copyright and related legislation not for the benefit of Small Charity Support but to prevent its commercial exploitation by others for profit.

APPENDIX 1: Recording & Reporting – Physical or Virtual ?

“Physical” Recording & Reporting.

In the “good old days” of “ink on paper” financial record-keeping, each record of a financial transaction was a physical entity – some real ink on real paper located in a real book on a real shelf in a real office. Which was fine for keeping records, but not very efficient for reviewing them to produce management reports.

For example: when transactions have been recorded in date order it is easy to add up how much had been spent over a given period of time. But to find out how much had spent on a particular activity, or with a particular supplier, over that period of time, each transaction record would have to be examined individually to identify those which referred to that activity or that supplier.

The genius of classical double-entry bookkeeping methodology was that it developed practical ways of mitigating those problems. *eg:* the use of multiple columns in cash books effectively uses the physical location of the ink on the paper to identify the purpose of the transaction. This is illustrated below, adapted from the earlier example, from Small Charity Support’s spreadsheet for the transactions of its example charity, “Better Living”, in Oct’19.

Better Living Charity FYE-Dec'19				Receipts		Payments							
Date	*Ref*	*Payee/Payer*	*Comment*	Donations	Sale of Investments	Project Costs	Project Salaries	Meetings	Office Costs	General Salaries	Financial Services	Internet Services	*Balance*
30-Sep-19			***Brought Forward***										***6,207.93***
01-Oct-19		Positive Ideas Co	website									-9.00	6198.93
01-Oct-19		The Law Society		300.00									6498.93
08-Oct-19		Just Sandwiches	Partners' meeting			-167.52							6331.41
08-Oct-19		J Pugh	Strategic Plan meeting					-5.60					6325.81
08-Oct-19		HiRise InvestmntMgmn	Sate of GetFit Bicycles		1,827.80								8153.61
14-Oct-19	DebCd	HSBC	Annual fee								-32.00		8121.61
14-Oct-19	DebCd	Leon Kings Cross	Strategic planning mtg					-20.00					8101.61
15-Oct-19		HMRC	PAYE/NICS							-326.56			7775.05
17-Oct-19	DebCd	Friends' House	Staff lunch			-6.70							7768.35
20-Oct-19	Payroll	R Badgwick	Gross salary				-1,046.66						6721.69
20-Oct-19		J Pugh	Street collection	94.00									6815.69
20-Oct-19		R Badgwick	Street collection	17.67									6833.36
22-Oct-19		Friends' House	Room hire			-917.20							5916.16
24-Oct-19	DebCd	Safety in London	R Badgwick Conf.Attendance					-30.00					5886.16
28-Oct-19		Post Office	Stamps & postage						-56.00				5830.16
29-Oct-19		J Pugh	Contract fee				-978.54						4851.62
			Totals for October 2019	411.67	1827.8	-1,091.42	-2,025.20	-55.60	-56.00	-326.56	-32.00	-9.00	

Physically locating the transaction amounts in different columns makes counting up the totals for different categories of income & expenditure considerably easier when using “ink on paper” records. But as the number of income and expenditure categories increases so does the width of the sheet of paper required to hold all the necessary columns. In the course of its full financial year the Better Living charity recorded transactions under 59 categories, not just the 9 in October. That would have required a very wide sheet of paper to accommodate all the columns needed to record the relevant details for each transaction!

Better Living Charity FYE-Dec'19 — RECEIPTS

Date	*Ref*	*Payee/Payer*	*Comment*	VOLUNTARY INCOME: Membership	VOLUNTARY INCOME: Donations	VOLUNTARY INCOME: Gift Aid	VOLUNTARY INCOME: Other	INCOME GENERATION – *Fundraising*: Fundraising	INCOME GENERATION – *Fundraising*: Other	INCOME GENERATION – *Charitable Trading*: Sale of Shop Items	INCOME GENERATION – *Charitable Trading*: Receipts from Services	INCOME GENERATION – *Charitable Trading*: Other	INCOME GENERATION – *Other*: Interest on Accounts	INCOME GENERATION – *Other*: Other	INVESTMENT INCOME: Income from Investments	INVESTMENT INCOME: Other	CHARITABLE INCOME – *General Funds*: ConfRegistrations	CHARITABLE INCOME – *General Funds*: Miscellaneous	CHARITABLE INCOME – *General Funds*: Other	CHARITABLE INCOME – *Restricted Funds*: SafeAtHome	CHARITABLE INCOME – *Restricted Funds*: BetterEating	CHARITABLE INCOME – *Restricted Funds*: HealthMatters	CHARITABLE INCOME – *Restricted Funds*: Other	OTHER RECEIPTS: Income In Advance	OTHER RECEIPTS: Other	SALE OF ASSETS: Sale of Investments	SALE OF ASSETS: Sale of Fixed Assets
30-Sep-19			***Brought Forward***																								
01-Oct-19		Positive Ideas Co	website																								
01-Oct-19		The Law Society			300																						
08-Oct-19		Just Sandwiches	Partners' mtg																								

PAYMENTS

Date	GENERATING FUNDS – *Fundraising*: Fundraising	GENERATING FUNDS – *Fundraising*: Other	GENERATING FUNDS – *Fundraising*: Investments Management	GENERATING FUNDS – *Charitable Trading*: Purchase of Shop Items	GENERATING FUNDS – *Charitable Trading*: Costs of Services	GENERATING FUNDS – *Charitable Trading*: Other	GENERATING FUNDS – *Other*: Set as Required	GENERATING FUNDS – *Other*: Other	CHARITABLE ACTIVITIES {GENERAL FUND}: SafeAtHome	CHARITABLE ACTIVITIES {GENERAL FUND}: Training	CHARITABLE ACTIVITIES {GENERAL FUND}: Volunteer Costs	CHARITABLE ACTIVITIES {GENERAL FUND}: Networking	CHARITABLE ACTIVITIES {GENERAL FUND}: Other	ACTIVITIES {RESTRICTED FUNDS} – *Safe At Home*: SaH-Staff Costs	ACTIVITIES {RESTRICTED FUNDS} – *Safe At Home*: SaH-Project Costs	ACTIVITIES {RESTRICTED FUNDS} – *Better Eating*: BE-Staff Costs	ACTIVITIES {RESTRICTED FUNDS} – *Better Eating*: BE-Project Costs	ACTIVITIES {RESTRICTED FUNDS} – *Health Matters*: HM-Project Costs	ACTIVITIES {RESTRICTED FUNDS} – *Health Matters*: Other	SUPPORT COSTS: TrusteesExpenses	SUPPORT COSTS: Salaries	SUPPORT COSTS: Office Costs	SUPPORT COSTS: Meetings	SUPPORT COSTS: Consumables	SUPPORT COSTS: Internet Services	SUPPORT COSTS: Financial Services	SUPPORT COSTS: Insurance	SUPPORT COSTS: Independent Examiner	SUPPORT COSTS: Other	DESIGNATED FUNDS: IT-Replacements	DESIGNATED FUNDS: Transport	DESIGNATED FUNDS: Other	DESIGNATED FUNDS: P8-Expenditure In Advance	COSTS OF ASSETS: Purchase of Investments	COSTS OF ASSETS: Purchase of Assets	**BALANCE**
30-Sep-19																																			**6,208**
01-Oct-19																									-9										6,199
01-Oct-19																																			6,499
08-Oct-19																	-167																		6,331

“Virtual” Recording & Reporting

The introduction of electricity and the development of computers allowed information to be recorded, analysed and reported “virtually” – *ie:* as electronic signals within the computer’s memory. And that provided an opportunity for the recording of financial information to move away from the limitations of traditional “physical” (*ie:* ink on paper) systems for managing an organisation’s finances.

Modern relational database technology uses “tagging”, with which most people are now familiar with through its widespread use in social media. Records, posts, blogs, tweets, messages, *etc*. are “tagged” to indicate which category (or categories) if information they relate to. The computer software can then use those tags to search quickly for the items of information without the searcher having to know the location of those items.
The application of relational database (RDB) tagging to recording and reporting charity financial transactions is

illustrated (below) by an extract of just the transactions data for Oct'19 in Small Charity Support's example spreadsheet for the "Better Living" charity (*which is downloadable in full from the* [Small Charity Support website]()).

GONE are the 59 columns to identify the categories (Nominal Accounts) to which the transactions relate – replaced by a single column (Column-C) to hold the relevant category tag for each transaction.

ADDED are 2 columns for tags for information which is not collected in this way in traditional bookkeeping:

1. **Fund:** this allows the basic transaction information to be tagged with the fund to which the transaction relates – essential in charity "accounts" to enable income and expenditure to be attributed to specific restricted funds for subsequent reporting. It can also be used to tag expenditure from unrestricted designated funds.
Note: *in this example the absence of a tag in the Fund column identifies the transaction as being from the General Fund;*

2. **CD (Cash Date):** this allows the basic transaction information to be tagged with the date on which the payment was actually made (*ie:* the "Cash" date) **IN ADDITION** to the date on which the transaction was committed (*ie:* the "Accrual" date) in Column-A

A	B	C	D	E	F	G	H	I
Better Living {Example}					**Bank Transactions, FYE:**		**31-Dec-19**	
Date	***Ref***	***Category***	***Fund***	***Payee/Payer***	***Comment***	***Amount***	***CD***	***Balance***
01-Oct-19		_P4-Internet Services		Positive Ideas Co	website	-9.00	10	6,198.93
01-Oct-19		_R1-Donations		The Law Society		300.00	10	6,498.93
08-Oct-19		_P3-BE-Project Costs	Better Eating	Just Sandwiches	Partners' meeting	-167.52	4	6,331.41
08-Oct-19		_P4-Meetings		J Pugh	Strategic Plan meeting + Board r	-5.60	10	6,325.81
08-Oct-19		_R9-Sale of Investments		HiRise InvestmntMgmnt	Sate of GetFit Bicycles	1,827.80	12	8,153.61
14-Oct-19	CdCd	_P4-Financial Services		HSBC	Annual fee	-32.00	10	8,121.61
14-Oct-19	CdCd	_P4-Meetings		Leon Kings Cross	Strategic planning	-20.00	10	8,101.61
15-Oct-19		_P4-Salaries		HMRC	PAYE/NICS	-326.56	10	7,775.05
17-Oct-19	CdCd	_P3-HM-Project Costs	Health Matters	Friends' House	Staff lunch	-6.70	10	7,768.35
20-Oct-19	Payroll-g	_P3-SaH-Staff Costs	Safe At Home	R Badgwick	Gross salary	-1,046.66	10	6,721.69
20-Oct-19	Payroll-n	_Agency-HMRC		R Badgwick	Employee PAYE&NIC deduction	94.00	10	6,815.69
20-Oct-19	Payroll-n	_Agency-NEST		R Badgwick	Employee pension contribution	17.67	10	6,833.36
22-Oct-19		_P3-HM-Project Costs	Health Matters	Friends' House	Room hire	-917.20	10	5,916.16
24-Oct-19	CdCd	_P4-Meetings		Safety in London	R Badgwick Conf.Attendance	-30.00	11	5,886.16
28-Oct-19		_P4-Office Costs		Post Office	Stamps & postage	-56.00	10	5,830.16
29-Oct-19		_P3-BE-Staff Costs	Better Eating	J Pugh	Contract fee	-978.54	11	4,851.62

Using Virtual Tags to Analyse & Report Financial Activity by Filtering.

The "filter" facility in MS-Excel® allows transactions against a specific category (or categories) to be selected for review – in the example below, expenditure on "Meetings" has been selected from the October transactions.

	A	B	C	D	E	F	G	H	I
1	**Better Living {Example}**					**Bank Transactions, FYE:**		**31-Dec-19**	
2	***Date***	***Ref***	***Category***	***Fund***	***Payee/Payer***	***Comment***	***Amount***	***CD***	***Balance***
172	08-Oct-19		_P4-Meetings		J Pugh	Strategic Plan meeting + Board me	-5.60	10	6,325.81
175	14-Oct-19	CdCd	_P4-Meetings		Leon Kings Cross	Strategic planning	-20.00	10	8,101.61
182	24-Oct-19	CdCd	_P4-Meetings		Safety in London	R Badgwick Conf.Attendance	-30.00	11	5,886.16

The inclusion of the CD ("Cash" date) column is particularly useful.
In the example version of the spreadsheet for the "Better Living" charity the "Cash Date" tag is simply the month number (*ie:* 1-12) of the financial year in which the payment of the transaction actually appeared in the bank statement. It is therefore "Blank" for transactions which had not yet been paid at the date of the report. Filtering for those transactions where "CD" is "Blank" is therefore a quick and easy way to monitor for outstanding payments *(debtors & creditors in accountancy jargon)* at any point in time for effective monitoring and management of cash-flow.

	A	B	C	D	E	F	G	H	I
1	**Better Living {Example}**					**Bank Transactions, FYE:**		**31-Dec-19**	
2	***Date***	***Ref***	***Category***	***Fund***	***Payee/Payer***	***Comment***	***Amount***	***CD***	***Balance***
161	23-Sep-19		_P4-Independent Examiner		AN Accountant	Independent Examination	-250.[illegible]0		10,605.39
186	13-Nov-19		_P3-HM-Project Costs	Health Matters	J Pugh	travel expenses	-2.80		4,839.82
196	04-Dec-19		_R1-Gift Aid		HMRC		975.00		9,633.61
197	12-Dec-19		_R2T-Sale of Shop Items		Barry Driver	Purchase of Home Safety Manual	12.50		9,646.11
200	19-Dec-19		_P2-Networking		GoodFood Caterers	Catering - Christmas Event	-450.00		4,930.61
201	19-Dec-19		_P2-Networking		Trinity Church	Room hire - Christmas Event	-300.00		4,630.61
207	29-Dec-19		_P3-BE-Staff Costs	Better Eating	J Pugh	Contract fee	-984.92		3,270.70
208	30-Dec-19	HMRC	_Agency-HMRC		Payment to HMRC	Employee's PAYE+NIC Payments	-282.00		2,988.70
209	30-Dec-19	NEST	_Agency-NEST		Payment to NEST	Employee's Payments	-53.01		2,935.69
210	30-Dec-19	NEST	_P3-SaH-Staff Costs	Safe At Home	Payment to NEST	Employer's contribution	-53.01		2,882.68
211									

(eg: the fee for the Independent Examination, even though the cheque had been written and delivered in September, or the unpaid purchase from the shop).

Moreover, the filter facility is not restricted to just the "Categories" tag, or even to single tags. It can be applied to any combination of the entries in any of the columns throughout the entire financial reporting period. In the following illustration, all the payments related to Meetings made to to A.Lewis have been selected:

	A	B	C	D	E	F	G	H	I
1	Better Living {Example}					Bank Transactions, FYE:			31-Dec-19
2	Date	Ref	Category	Fund	Payee/Payer	Comment	Amount	CD	Balance
42	04-Feb-19		_P4-Meetings		A Lewis	Board meeting refreshments	-36.03	2	7,220.55
112	18-Jun-19		_P4-Meetings		A Lewis	Board meeting expenses	-64.55	7	2,889.08
120	23-Jun-19		_P4-Meetings		A Lewis	Refreshments for Board meeting	-55.11	7	5,346.59
141	14-Aug-19		_P4-Meetings		A Lewis	Trustees' fundraising meeting	-50.33	9	4,616.74

Note that all of the above illustrations of reviewing/analysing a charity's financial transactions clearly and unequivocally demonstrate how tagged virtual records in a relational database allow all the routine day-to-day monitoring and control of its cash flow and financial status can be carried using just a few "clicks of a button" within a single simple table. That not only makes the 3-Es monitoring and management of their charity's finances much simpler and more intuitive for the typical non-accountant trustees of small charities. It also makes the recording of financial transactions MUCH simpler (just 8 data items in one coherent table) for charity admin staff/volunteers, thereby avoiding any requirement for special training in financial bookkeeping of the traditional double-entry variety.

Using Virtual Tags to Analyse & Report Financial Activity by Formulae.

The use of Relational Database tagging is not confined just to on-screen filtering of data for *ad hoc* review and analysis. The tags can also be incorporated into spreadsheet formulae to allow frequently required analyses of the charity's financial activities to be calculate and presented as a report IN REAL TIME – *ie:* as new transactions are added (or existing transactions are updated).

This is also illustrated by the Small Charity Support spreadsheet.

	A	B	C	D	E	F	G	H	I
1	Better Living {Example}					Bank Transactions, FYE:			31-Dec-19
2	Date	Ref	Category	Fund	Payee/Payer	Comment	Amount	C	Balance
3	31-Dec-18						Brought Forward		5,70[illegible]2
4	05-Dec-18		_P9-Purchase of Assets		PC World	Computer & Printer	-1,299.00	1	4,403.32
5	12-Dec-18		_R1-Gift Aid		HMRC		845.00	2	5,248.32
6	18-Dec-18		_R4G-Miscellaneous		Barry Driver	Purchase of Good Eating Recipe I	33.20	1	5,281.52
7	19-Dec-18		_P2-Volunteer Costs		GoodFood Caterers	Christmas Event - Catering	-200.00	1	5,081.52
8	19-Dec-18		_P2-Volunteer Costs		Trinity Church	Christmas Event - Room hire	-100.00	1	4,981.52
9	22-Dec-18		_P4-Office Costs		OfficeSafe	Rent	-240.00	1	4,741.52
10	27-Dec-18		_P4-Salaries		A.Dunswick	Contract fee	-771.64	1	3,969.88
11	27-Dec-18		_P4-Salaries		P.Jameson	Contract fee	-725.50	1	3,244.38
12	28-Dec-18		_P3-SaH-Staff Costs	Safe At Home	J Pugh	Contract fee	-962.88	1	2,281.50
13	01-Jan-19	AdvExp	_P2-Networking		Friends' House	Deposit, Venue, Feb Conf	-400.00	1	1,881.50
14	01-Jan-19	AdvExp	_P8-Expenditure In Advance		Friends' House	Advance Deposit, Venue, Feb Cor	400.00	1	2,281.50
15	01-Jan-19	AdvRec	_R4G-ConfRegistrations		Various	Advance Registrations, Feb Conf	200.00	1	2,481.50
16	01-Jan-19	AdvRec	_R8-Income In Advance		Various	Registrations, Feb Conf	-200.00	1	2,281.50

J	K	L
Balance at 30-Dec-19	Reconciled Balance	Unreconciled Transactions
2,882.68	4,270.92	-1,388.24
Acc1	Receipts	41,655.92
	Payments	-46,987.32
	Debtors	987.50
	Creditors	-2,375.74
	Trfrs In	14,000.00
	Trfrs Out	-10,100.00
	Brought Forward	
	Debtors	878.20
	Creditors	-4,299.02

The cells in columns J, K & L at the top of the worksheet use formulae to aggregate and report a variety of common financial management/control parameters.

Row-2 shows:

(J) the accrued balance (after all commitments have been paid);
(K) the reconciled cash balance (the amount actually in the account at the date of the report); and
(L) the difference between the two (*ie:* the aggregate of debtors & creditors);

Then subsequent rows show:

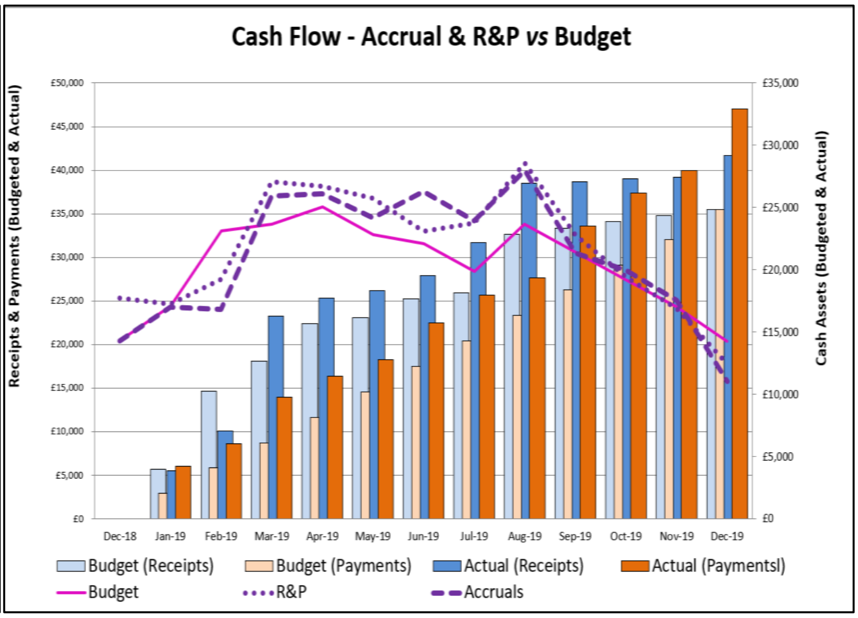
(3&4} the total actual (reconciled) receipts & payments to date;
(5&6) the outstanding (unreconciled) receipts & payments to date;
(7&8) internal transfers – *eg:* where the charity has separate deposit, petty cash, PayPal, etc. accounts;
(10&11) outstanding (accrued) transactions from the previous financial period where the payment had been received in the current financial period.

The summaries are automatically updated in "real time" as new transactions are added or existing transactions are updated. *ie:* they are, effectively, an automatic integral "Balance Sheet" within the records of transactions.

Nor is the use of tags in formulae limited to just the worksheet holding the original data records. The Small Charity Support example spreadsheet show how formulae can also be used to create instant "real time" Budget Reports and Cash Flow Reports to support the 3-Es monitoring and management of a charity's finances throughout the year.

The use of tags in formulae also allows the charity's Annual Financial Statements to be created **simultaneously** in **BOTH** Receipts & Payments and Accruals formats directly **from the same** 8-columns of transactions records, ready for the trustees to take the appropriate version to be copied and pasted directly into their charity's Annual Report.

Better Living {Example}	Budget Report:	31-Dec-19			
RECEIPTS	Prev Yr Out-turn	This Yr Budget	Budget to 31-Dec-19	R&P 31-Dec-19	Accruals 31-Dec-19
VOLUNTARY INCOME					
Membership	3,357	2,500	2,500	2,550	2,550
Donations	5,933	3,000	3,000	3,064	3,064
Gift Aid	1,873	800	900	845	975
Other	0	0	0	0	0
	11,163	**6,300**	**6,400**	**6,459**	**6,589**
INCOME GENERATION					
Fundraising					
Fundraising	156	100	100	0	0
Other	0	0	0	0	0
Charitable Trading					
Sale of Shop Items	0	0	0	0	4
Receipts from Services	0	0	0	0	0
Other	0	0	0	0	0
Other					
Interest on Accounts	0	0	0	52	52
Other	0	0	0	0	0
	156	**100**	**100**	**52**	**55**
INVESTMENT INCOME					
Income from Investments	1,573	5,000	5,000	1,986	1,986
Other	0	0	0	0	0
	1,573	**5,000**	**5,000**	**1,986**	**1,986**
CHARITABLE INCOME					
GENERAL FUNDS					
ConfRegistrations	0	0	0	1,350	1,350
Miscellaneous	0	0	0	33	0
Other	0	0	0	0	0
	0	**0**	**0**	**1,383**	**1,350**
RESTRICTED FUNDS					
SafeAtHome	8,000	11,250	11,250	11,832	11,832
BetterEating	15,000	8,500	8,500	8,500	8,500
HealthMatters	6,000	4,000	4,000	3,905	3,905
Other		0	0	0	0
	29,000	**23,750**	**23,750**	**24,238**	**24,238**
Sub-total - Charitable Income	**29,000**	**23,750**	**23,750**	**25,621**	**25,588**



The spreadsheet is able to create the charity's Annual Financial Reports in both R&P and Accruals formats in compliance with Charity Commission guidance is because the use of tags enables the spreadsheet formulae to identify which records and to be included and which are to be excluded from the calculation of the aggregate totals for each category of transactions.

Receipts & Payments for the Financial Year Ended 31-Dec-19				
	Current Financial Year, Jan'19-Dec'19			*Last Year*
	Unrestr'd Funds £	Restricted Funds £	Total £	Total £
A1 - RECEIPTS				
Voluntary Income	6,459		6,459	*11,163*
Income Generation	52		52	*156*
Investments Income	1,986		1,986	*1,573*
Charitable Income	1,383	24,238	25,621	*29,000*
Other Receipts	160		160	*0*
	10,040	24,238	34,278	*41,892*
A1 - ASSETS & INVESTMENTS				
Sale of Investments	5,490		5,490	*0*
Sale of Assets	0		0	*0*
	5,490	0	5,490	*0*
TOTAL RECEIPTS	**15,530**	**24,238**	**39,767**	***41,892***
A3 - PAYMENTS				
Generating Funds	-350		-350	*-325*
Charitable Activities	-1,715	-28,955	-30,670	*-37,413*
Support Costs	-7,565		-7,565	*-6,632*
Othe Payments	-100		-100	*0*
	-9,729	-28,955	-38,685	*-44,370*
A4 - ASSETS & INVESTMENTS				
Purchase of Investments	-4,208		-4,208	*0*
Purchase of Assets	-2,499		-2,499	*0*
	-6,707	0	-6,707	*0*
TOTAL PAYMENTS	**-16,436**	**-28,955**	**-45,391**	***-44,370***
NET OF RECEIPTS-PAYMENTS	**-906**	**-4,717**	**-5,624**	***-2,478***
A5 - Transfers Between Funds	-183	183	0	*0*
NET AFTER TRANSFERS	**-1,089**	**-4,534**	**-5,624**	***-2,478***

Statement of Financial Activity, Financial Year Ended 31-Dec-19				
	Current Financial Year,			*Last Year*
	Unrestr'd	*Restricted*	*Total*	*Total*
INCOMING RESOURCES	**£**	**£**	**£**	**£**
Donations & legacies	6,589		6,589	*11,163*
Charitable activities	1,350	24,238	25,588	*24,238*
Other trading activities	55		55	*55*
Investments	1,986		1,986	*1,573*
Separate material items of interest	0		0	
Other	160	0	160	*0*
TOTAL INCOME	**10,140**	**24,238**	**34,378**	***37,029***
RESOURCES EXPENDED				
Raising funds	90	0	90	*-325*
Charitable activities	-2,165	-29,033	-31,198	*-37,413*
Support costs	-6,178		-6,178	*-14,462*
Separate material items of interest	0		0	
Other	-7,542	0	-7,542	*0*
TOTAL EXPENDITURE	**-15,794**	**-29,033**	**-44,827**	***-52,200***
Net income-expenditure *before gains /losses on investments*	**-5,654**	**-4,795**	**-10,449**	***-15,171***
Net gains/losses on investments	-28	0	-28	*0*
NET INCOME-EXPEDITURE	**-5,681**	**-4,795**	**-10,477**	***-15,171***
Extraordinary Items	*Generally not applicable to small charities*			
Transfers Between Funds	-183	183	0	***0***
Other recognised gains/losses	*Generally not applicable to small charities*			
NET MOVEMENT IN FUNDS	**-5,864**	**-4,612**	**-10,477**	***-15,171***

Reconciliation of Net Funds, Financial Year To 31-Dec-19				
	Current Financial Year,			*Last Year*
	Unrestr'd	*Restricted*	*Total*	*Total*
Net Funds Brought Forward	68,181	6,688	74,869	***74,031***
Movement After Transfers	-5,864	-4,612	-10,477	***838***
Total Funds Carried Forward	**62,317**	**2,076**	**64,392**	***74,869***

The Accrual-date tags (in Column-A) of the first 9 transactions (highlighted in orange) In the above illustration on pg-16, identifies them as having accrued in the previous financial period, *ie:* are prior to 1-Jan-19, the start of the current financial period. Accordingly those transactions **<u>are not</u>** included in the Accruals Reports of the charity's financial activities for the current period (other than as outstanding debtors & creditors brought forward).
But the Cash-date tags (Column-G) identifies those transactions as having been paid in the current financial period and, accordingly they **<u>are</u>** reported as receipts or payments in the R&P Reports for the current period.

Similarly, the absence of Cash-date tags (in Column-G) of the 10 transactions highlighted in the earlier illustration on pg-15 identifies them as not having been paid in the current financial period. Accordingly they **<u>are not</u>** included in the R&P reports for the current period. But they **<u>are</u>** included in the Accruals reports because their Accrual date tags (Column-A) identifies those transactions as having been accrued in the current period.

That explains why the charity's Receipts & Payments annual "accounts" (*ie:* financial report) differs from its Accruals annual "accounts" even though they are produced from the same financial transactions records.

In essence: the Receipts & Payments "accounts" reported how much real money the charity **<u>actually</u>** held at the end of the financial period being reported, while the Accruals "accounts" reported how much real money the charity had

expected to hold at the end of the financial year. And in both cases, the reports of any outstanding payments (debtors & creditors in accruals reports – optional in R&P reports) explain why the amount that the charity **actually** held differed from the amount that it had **expected** to hold.

The above illustrations demonstrate unequivocally that recording and tagging financial transactions in a simple 8-column electronic relational database table is fully capable of producing both all the reports routinely required for the day-to-day management of a small charity's finances in a 3-Ls way and the reports required for the end-of-year Trustees Annual Report and Financial Statements in both Receipts & Payments and Accruals formats compliant with Charity Commission standards.

AND it does so in a way which is considerably simpler and more intuitive for the typical non-accountant volunteer trustees of small charities than traditional *(ie: coal & water)* double-entry bookkeeping methods.

APPENDIX 2: The Relevance of "Funny Money"

Throughout this appendix (indeed throughout this entire leaflet) the term "real money" is used to refer to Legal Tender (as defined by the Bank of England) – *eg:* the "real money" held in a charity's bank accounts (or petty cash tin) that is generally accepted throughout the UK for the settlement of the charity's financial commitments.

Financial Reporting

Accountancy "funny money" is the notional monetary values which are attached to an organisation's assets so that they can be reported along with the organisation's "real money" to demonstrate the organisation's "wealth"**.** Including "funny money" in financial reports is seen as important in the commercial sector where "money" – creating profits in order to create wealth for investors – is the prime (if not the only) measure of an organisation's "value".

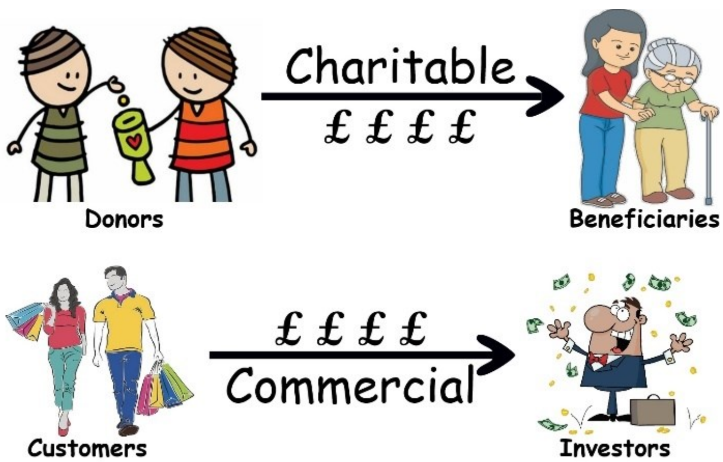
And where there are profits and wealth there is taxation !

The assets that commercial organisations create for sale to their customers have two monetary "values":
(1) a cost-value – *ie:* the amount of real money that the organisation had to spend in order to create them;
(2) a price-value – *ie:* the amount of real money that the organisation expects its customers to pay for them.

"Profit" is the difference between those two – *ie:* the premium that the organisation's customers are prepared to pay for what they perceive to be the non-money "benefits" to them of those assets.

But the "funny money" notional price-value of goods only becomes real money when customers are actually prepared (and able) to pay for those assets with real money. When they are not, the assets either:

- ☹ continue to sit un-sold as "funny money" in the organisation's warehouse and the "real money" price-value remains in someone else's bank account, *or*.
- ☹ the "price" gets paid using the "funny money" value of some other asset acceptable to the organisation. The organisation now has some different "funny money" assets sitting waiting to be sold in its warehouse and the "real money" price-value remains in someone else's bank account.
  {Something similar also occurs when organisations create and sell non-physical "assets"(ie: services") to their clients.
  eg: the bags of rice for the maintenance of a car – as in the Bank of England's example
  Presumably the car mechanic had plenty of spare space in the garage to store all the bags of rice until they could be exchanged for something else – eg: the spare parts to repair the next car – but probably not the next electricity bill ***?****}*



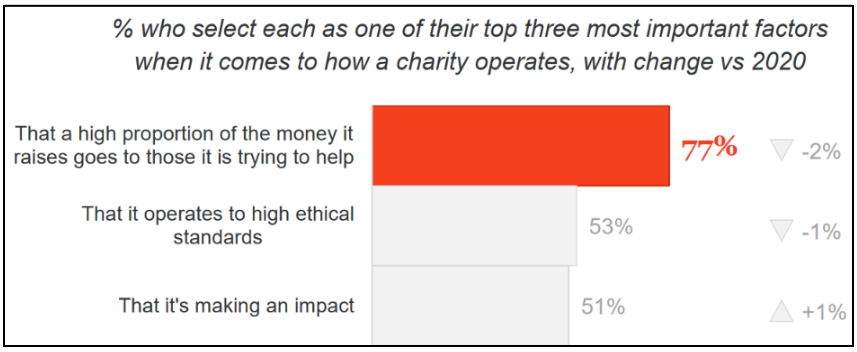
The charity sector works differently.

The sector's prime measures of "value" are the non-monetary social, environmental, health, happiness, well-being, safety and other "assets" the charity creates for its beneficiaries, and for the general public benefit, by using the assets – both "real money" and non-monetary – donated by supporter and funders.

As in the commercial sector, the assets (whether services or goods) that charities create and provide to their beneficiaries have a cost-value – *ie:* the amount of real money that the charity had to spend in order to create them.

But the notional money price-value that a charity's expects its beneficiaries/clients/customers to pay for its services or goods do not usually include a "profit premium" to create dividends or other returns to investors. On the contrary, the real-money price to beneficiaries/clients/customers will often be less than the real-money cost of creating the services and/or goods – and may even be nil. Any "negative profit" (*ie:* any real money shortfall between "cost" and "price") is covered by donors giving real money for nothing in return other than the "social premium" of the satisfaction of having contributed to the well-being of society as a whole and disadvantaged individuals in particular.

The Charity Commission's regular surveys of public opinion consistently report that "[value for money]" – a high proportion of the money raised by the charity goes to those it is trying to help – is one of the top factors which determine public trust and confidence in charities and, therefore, the public's willingness to donate to charities (both real money and other non-monetary assets, *eg:* equipment, time, expertise).



"Trust in Charities Post-Covid Review"   *Copyright © acknowledged*

Management Reporting

It is absolutely clear – and **NOT** disputed – that **ALL** organisations – commercial or charitable; large or small – have to have records/inventories of what non-money assets they hold (*eg:* land; buildings; machinery; furnishings; vehicles); what they cost to purchase (if known); and their likely working life (*ie:* when they will need to be replaced *– ideally also with an indication of the likely cost of replacing them*).

Without such records, and the management reports that can be produced from them, it is difficult to manage a charity's assets – both "real money" and non-monetary – in an Efficient, Effective & Economic way.
But even if it has such records of its assets, reporting them as "funny money" in its Annual Accounts doesn't automatically demonstrate that the organisation used them to deliver "value for money". For example: reporting the cost and depreciation of a minibus in the annual accounts DOESN'T tell the reader whether purchasing and maintaining the minibus is more Efficient, Economic and Effective (*ie:* is more financially cost-effective) than simply hiring a minibus on the occasions that one is required.

This has been nicely explained in the guidance by Planergy, *"Financial Reporting Vs Management Reporting: What's the Difference?"*, which opens by saying:

If you thought financial reporting and management reporting are one and the same, you're in for a surprise. Though both of them deal with numbers, that's about where the similarities end.

And goes on to explain:

{Financial} reports reflect the financial standing of your business at specific points in time. They provide an overall look at how your company is performing but lack insight into the specifics of operations. They look backward and don't provide much information on how your business may perform in the upcoming month or year.

Management reporting focuses on segments of the business. Using segmentation, you can easily see more details and analyse the things that are driving the business.   …..if you're not receiving management reports every month, you could be missing out on data that can help your company grow or prevent you from implementing business processes or costly programs that don't provide an appropriate return on investment.

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In the commercial sector, the financial management and reporting objective of businesses is to:
(1) optimise the creation and reporting of their wealth and profitability;   and
(2) optimise their liabilities for corporation tax;
for the private benefit of their owners and investors. Hence, the inclusion of "funny money" in commercial accruals financial accounting/reporting.

But the Charities Act requires charities to be "disposing" of the wealth which has been donated to them to deliver "value for money" goods & services to their beneficiaries in accordance with their charitable objects for the public benefit. Hence, the financial management and reporting objective of charities is to be able, via their Reserves Policies, to report that it has only retained sufficient "wealth" ("real money" and non-monetary assets) to ensure that it remains financial sustainable for the future.

Reporting Assets

Tangible Fixed Assets

> ***A2: Tangible fixed assets***
> *10.25. Tangible fixed assets, such as land and buildings, plant, vehicles and equipment, are held to provide an on-going economic benefit to a charity through their contribution, directly or indirectly, to the provision of goods or services by the charity.*
> *10.26. Tangible fixed assets must be measured initially on the balance sheet at their historical cost…….*
> *10.29. A tangible fixed asset, less its residual value (its scrap or realisable value at the end of its economic life), must be depreciated on a systematic basis over its useful economic life. The charity should choose a depreciation method which reflects the use of the asset and the expected timing or pattern of consumption of its economic benefits.*

Thought ?
The "value" of a second-hand 2-yr old Vauxhall Corsa car with 100,000 miles "on the clock", some "bumps and scratches" on the bodywork and some "rather tired" upholstery will not be the same as a 2-yr old similar model with 10,000 miles on the clock and with the bodywork & upholstery in pristine condition.
But the "value" of a crumpled and grubby £20 note is the same as the "value" of a pristine £20 note

OF COURSE ! ALL charities need to know what resources they have, and how they are being used, in order to ensure that those resources are delivering the charity's objects Efficiently, Effectively & Economically to generate the maximum public benefit.

"Matching" the cost ("value") of an asset to the income ("profits") that it can be used to create is a key principle In FRS-102 accruals reporting to calculate the monetary value of the wealth of a commercial company to its investors, both actual and potential.
As previously commented, a "high value" (*ie:* expensive) minibus might represent "good value for money" to a transport company aiming for the high-end of the market where wealthy clients were prepared to pay premium fares (*ie:* to create higher profits) to be transported in luxury from here to there.

But in the charity sector it often happens that a charity's activities for the "public" benefit are provide to/for beneficiaries who are unable to pay for the costs to the charity of providing them (either in full or in part). In such cases the high costs of running such a luxury minibus (tax, insurance, maintenance, fuel, *etc*) would represent low value for money for a charity wanting to provide transport in "adequate comfort" from here to there when its beneficiaries couldn't afford to pay any fare to "match" with the cost of the minibus.

In the absence of any income-generating activity against which the cost of the minibus should be offset – *ie:* "matched" – in order to measure the "profitability" of activity it could be argued that its capitalised (tangible asset) value should just be written off as a "sunk cost".
Alternatively, where the minibus (tangible asset) has been purchased from money received from a fundraising activity specifically for that purpose, it could be argued that the cost of the asset has already been fully "matched" "income" generated by the asset (the fundraising) and should therefore be written off.

Intangible Fixed Assets

> ***A1: Intangible fixed assets***
> *10.18. Intangible fixed assets are non-monetary fixed assets that do not have physical substance but are identifiable and are controlled by the charity through custody or legal rights.*
> *Intangible fixed assets include goodwill purchased on the acquisition of a business and/or purchased intangible assets such as concessions, patents, licences, trademarks and similar rights.*
> *Although such assets lack physical substance they provide an on-going economic benefit to the charity.*

In the commercial sector, intangible assets are calculated as the difference between the value of an organisation's tangible assets and the amount that investors would be prepared to buy the organisations.
eg: for financial "bean-counters" – those for whom the only meaningful measure of "value" is a number prefixed by a **£** sign – a "funny money value" of the intangible asset goodwill of the users of the minibus could be easily be calculated by multiplying the cost of buying and running the minibus by the percentage of passengers who had goodwill smiles while using the service – apportioned, of course, over the expected useful life of the minibus.

Heritage Assets

> ***A3: Heritage assets***
> *10.39. A heritage asset is a tangible asset or intangible asset with historic, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.*

You don't have to be an avid follower of programmes like Bargain Hunt or Antiques Road Show to know that the monetary "value" of heritage assets depends more on the whim – and wealth – of potential purchasers than on their value as *"a reliable medium of exchange between buyer and seller*". – *ie:* their "real money value" that could be used to settle the charity's financial commitments. eg:

☹ the report that a portrait of Salvator Mundi by Leonardo Da Vinci had been sold at auction for £450M having only 15 years earlier been bought for a mere $10,000;

☹ or the report of a dram of whisky being sold for £7600 to a purchaser who didn't realise it was a fake – *ie:* NOT an original 1878 single malt – until told some time afterwards.

A more relevant case study, adapted from a real life actual experience:

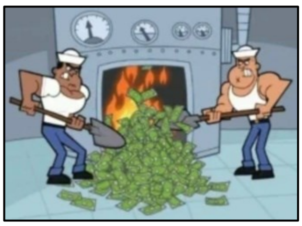
A portrait of a well-known artist had been offered for sale by auction; a museum (a small registered charity) wanted to buy it to add to its collection; the reserve price on the painting had been set a £6000; the charity thought it could raise up to £15,000 to buy the portrait; the National Portrait Gallery was also interested in the portrait but agree that it would not bid competitively against the local museum (*ie:* would only enter the bidding if the price went higher than the museum could afford); the museum was successful in purchasing the portrait at the "hammer price" of £8000 at the auction; the museum's insurers set its insured value at £7,500.

What heritage asset "funny money value" should be included in the charity's Annual Financial Report ?
£: the £6,000 reserve price? ***£:*** the £15,000 that the museum would have been prepared to pay for it? ***£:*** the "more than £15,000" the National Portrait Gallery might have been prepared to pay for it? ***£:*** the £8,000 "hammer price" at the auction? ***£:*** the £8,800 that the museum actually paid for it (the "hammer price" plus the auctioneer's 10% commission from the buyer)? ***£:*** the £6,400 that the seller actually received for it (the "hammer price" less the auctioneer's 20% commission from the seller)? ***£:*** the £7,500 valuation by the insurers? ***£:*** the "£-*who-knows-what*" the museum might have received if it subsequently decided to sell it.

Plough through the SORP to page 132 to find clause 18.13: *"Heritage assets initially recognised at cost may continue to be carried at historical cost subject to any depreciation or impairment, or charities may choose to adopt a policy of valuation."* *ie:* the museum could choose to "value" the portrait at either £8,800 (the cost to purchase it) or £7,500 (the insured value), ignoring the fact that if the museum were to sell the portrait at auction the museum would actually receive only £6,600, even if the "hammer price" was the same as when it bought the portrait.

In the event, the museum (a registered charitable company preparing its Annual Accounts on an accruals basis) declined to include valuations of any of its heritage assets on the basis of clause 18.14 of the SORP, namely that, in its view, *"... reliable information on cost or value is not available ... {and} ... the cost of obtaining a valuation is {not} justified by the usefulness of the information to the users of the accounts and to the charity for its own stewardship purposes."* and agreed to the Independent Examiner "qualifying" the charity's accounts.
The charity's Trustees' Annual Report and Accounts were duly submitted to the Charity Commission and published in the Commission's Register of Charities as "qualified". If the Charity Commission noticed the Independent Examiner's qualified report and the reasons for it, it did not follow the issue up with the museum. In subsequent years the charity's heritage assets continued to be excluded from its financial statements but the Independent Examiner no longer qualified his/her report.

Values of Stocks of Items Held for Sale.



The use (or "mis-use"?) of the assignment of notional "funny money values" to an organisation's stock assets was highlighted by a news article which reported that Burberry (the "up-market" fashion wear and beauty products business) had burned £28.6M of unsold goods in order to "protect" its profitability by making its products more exclusive and, therefore, of greater "funny money value" (*ie:* expensive) for its wealthy clients to buy.

That might be a justifiable application of the FRS-102 reporting standard in the commercial sector.

But it is hard to envisage how a charity – *eg:* a food-bank, or charity shop – might apply the same standard to justify burning useable stock in order to make them more "exclusive" – and, therefore, of greater "charitable value" – to its beneficiaries as a way of encouraging its supporters to increase their donations.

OF COURSE charities which hold stocks goods to their beneficiaries – either/both as part of their charitable activities, and/or for future resale for fundraising – need to keep records and provide management reports of the goods that they hold in stock; their cost; and their expected resale value (if sold).

Depreciation

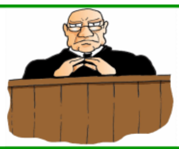
Similarly, everyone knows that the "depreciated" value of everyday "tangible assets" (*eg:* offices, furniture, computers, equipment, vehicles, used in manufacturing or delivering the organisations goods or services) as reported in an organisation's annual accounts, represents neither what they cost originally, nor what they could have been sold for at the end of the financial period being reported, nor what they would cost to replace in the future.

It might be justifiable for commercial organisations to include such calculations of the "funny money" depreciation of its tangible assets in order to compare them with the income from the organisation's commercial activities (the principle of "matching") as a way of calculating and demonstrating the organisation's profitability to investors.
But the relevance of charities calculating the depreciation of their assets as if the depreciation were "real money" (ie: Legal Tender) coming into or going out of the charity's bank account is less obvious.

The FRS-102 & SORP total obsession with "funny money" as the only legitimate measure of charitable "value" is clearly illustrated by the following hypothetical – but none the less plausible – "Case Study, based on clauses 6.6 – 6.18 in Section 6 of the Charity SORP:

- 😐 A professional mini-bus driver decides to retire and give up his mini-bus business
- 😐 No longer needing a mini-bus he donates it to a local charity
- 😐 The charity is required to capitalise the donated mini-bus – ie: assign a "funny money" value to it
- 😐 The "funny money" asset has to be treated as funny money income and its depreciation as f

That is particularly so where the "matching" principle applies only partially or not at all. *eg:* where the asset in question is not used for an income-generating (ie: profit/surplus generating) charitable activity – *eg:*
☺ the purchase of a mini-bus to provide free transport for the charity's beneficiaries;
☺ the purchase of a mini-bus with money from a fund-raising event.



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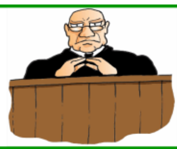

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