

CONTENTS

1. The Context	2
1.1. How Small is "Small"	2
1.2. Why Record & Report Charity Funds ?	2
2. Three Myths	3
2.1. Myth 1: Recording & Reporting Money are One-and-the Same Thing.....	4
2.2. Myth 2: "Cash"(R&P) Annual Reports are Simpler than Accruals Annual Reports	4
2.3. Myth 3: Accruals Reporting Requires Double-Entry Bookkeeping.....	5
3. To Accrue.... or NOT to Accrue ?	5
3.1. Accruals reporting is a lousy choice for small charities.	5
3.2. Receipts & Payments accounting is a lousy choice for charities.....	6
3.3. The Dilemma	6
3.4. A simple "no-brainer" way of avoiding the dilemma.....	6
3.5. Some Pragmatic Ways to Minimise R&P("Cash") Reporting Distortions.....	7
4. Choosing a System to Record Financial Transactions.....	8
4.1. It's just plain common sense really.	8
4.2. What your financial management system MUST be able to do.	8
4.3. Accountants & BookKeepers.....	12
4.4. Independent Examination of your charity's accounts.	12
4.5. Charity Commission Guidance Publications.....	13



This leaflet is just one of many produced by Small Charity Support. A full list of the leaflets currently available can be found on the Small Charity Support website, <https://www.smallcharitysupport.uk/index.php/downloadable-leaflets> or downloaded [HERE](#).

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



Recording & Reporting Your Charity's Funds

1. The Context

1.1. How Small is "Small"

Ask around the charity sector "what are 'small' charities?" and a common answer is "those with annual incomes of less than £1M"

However, look in the Charity Commission's Register of Charities and you will find that **95% of all charities** have annual incomes of less than £1M!

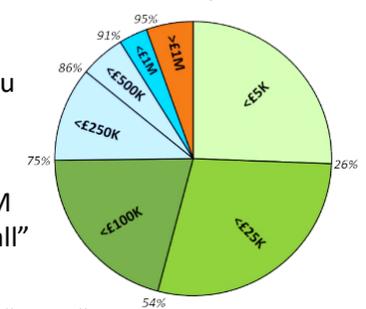
And the median annual income of all charities is a mere ca.£20,100.



So calling charities with annual incomes less than £1M "small" is more silly than calling most people in the UK "small" because their height is less than 7'(1.8m).

It's not only silly. The implication that the majority of "small" charities are rather inconsequential compared to the minority of "large" (ie: "wealthy") charities can also be seen as rather patronising.

Distribution of Charities by Annual Income (2023)



So instead of referring to annual income, Small Charity Support uses the term "small charities" more pragmatically to refer to those charities which are primarily run "hands-on" by their trustees and other volunteers, usually with minimal or no paid professional administrative and/or financial support staff. Such "small" charities typically have annual incomes less than £100,000 and are therefore able to opt to use the concession in the Charities Act which allows "lower income" charities (ie: the 85% with annual incomes less than £250,000) to produce their Annual Financial Report on a Receipts & Payments basis instead (unless they are charitable companies).

Comment: For a more detailed justification of Small Charity Support's definition of "small charities", and its wider implications for the trustees of such charities, please see our blog "[How small is 'small'](#)".

1.2. Why Record & Report Charity Funds ?

Because:

- without good financial records & reports the trustees cannot manage their charity's financial resources **E**fficiently, **E**ffectively & **E**conomically (the **3E**s of running their charity in ways that deliver "[value for money](#)") – to which many charities add 3 more "Es" – **E**quitably, **E**thically & **E**cologically.
- without good financial records and reports the trustees cannot demonstrate to their members, donors, grant givers and other funders to that they have used the charity's resources **3E**s to justify requests for further funds;
- the Charities Act says that all charities must, each year, account for the financial resources they have received, and how they have been used, and make those "Annual Accounts" publicly available on reasonable demand.

For many charities that means submitting them to the Charity Commission each year;

Clearly there is some overlap between the types of reports (and, therefore, financial records) needed to manage a charity's financial resources on a month-by-month (if not day-to-day) basis throughout the year and those needed to produce the charity's Annual Financial Report (ie: the charity's "Annual Accounts") at the end of each year.

But the two are NOT the same. That is why there are two distinct branches of the accountancy profession – each with their own professional bodies:

- Management accountants {eg: [CIMA](#)};
- Financial accountants {eg: [ICAEW](#), [ACCA](#), [ICAS](#)}.

Management accountants could be seen as the charity's "financial fitness trainers" – keeping its finances "in good shape" throughout the year; while

Financial accountants could be seen as the charity's "financial beauticians" – "dressing up" its financial activities to "look their best" at those special formal occasions that occur from time to time.

It is obvious that good management – including the recording and reporting – of a charity’s financial activities throughout the year is an essential prerequisite of being able to produce appropriately informative Annual Financial Report (Annual Accounts) at the end of the year.

And it is equally obvious that it would be dishonest to try to disguise poor financial recording and reporting throughout the year by “clever manipulation” to produce an Annual Financial Report at the end of the year which appeared to comply with statutory requirements.



It therefore follows that, when deciding how they are going to record, report and manage their charity’s financial activities throughout the year, Trustees should focus choosing a system that will be simple, pragmatic, understandable and appropriate to managing their day-to-day day needs and issues **efficiently, effectively & economically**. Choosing a financial management system by focusing on how the Trustees are going to prepare their statutory Annual Financial Report is “*putting the cart before the horse*”.

Charity Commission guidance is clear – the ultimate responsibility for the proper management and reporting of charity funds rests with the Trustees, even when the day-to-day “practicalities” have been delegated to others. How can that ultimate responsibility be properly met if Trustees’ approach to preparing their charity’s statutory Annual Final Report is:

“Oh! – we don’t understand all that financial stuff!
We leave that to the accountant!” **! ?**

2. Three Myths

Myth (*noun*) **False Idea**

a commonly believed but false idea

Myth (*noun*) **Ancient Story**

an ancient story or set of stories, especially explaining the early history of a group of people or about natural events and facts:

<https://dictionary.cambridge.org/dictionary/english/myth>



There are three widely held myths about how charities have to record and report their financial assets:

1: the myth that recording and reporting a charity’s financial assets are one-and-the-same-thing. *ie:* the way that a charity **reports** its financial activities determines the way that it has to keep **records** of them – or, conversely, the way that a charity **records** its financial activities determines the way that it has to **report** them.

FALSE ! One appropriately constructed set of financial records can be used to provide a wide variety of reports in different formats all of which are compliant with the diverse reporting requirements of the Charities Act.

2: the myth that adopting the “Cash” (Receipts & Payments – R&P) reporting scheme makes producing the annual report of the money coming into and going out of the charity simpler than adopting the “Accruals” reporting scheme.

FALSE ! There are no significant difference between the annual reporting of the charity’s “real money in’s and out’s” on the “Cash”(R&P) scheme or reporting on the “Accruals” scheme when the “Cash dates” (the dates on which the actual transfers of money occurred) and “Accrual dates” (the dates on which the transactions were committed) both occurred in the same reporting period.

Differences between “Cash” and “Accruals” reports on real money transactions only occur when the “Cash” and “Accruals” dates fall in different financial reporting periods. And, in that case, “Cash”(R&P) reporting can actually be more confusing (and, therefore, more complicated) than “Accruals” reporting !

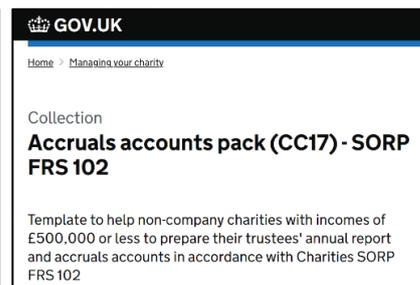
3: the myth that “proper” (*ie:* “professional”) financial accounts (records and reports) require that traditional double-entry bookkeeping methods be used.

ANCIENT STORY ! Double-entry bookkeeping is an ancient relic from the days when the best technologies for keeping financial records were wet ink, written by quill pen on paper ledgers (by candle-light when necessary).

2.1. Myth 1: Recording & Reporting Money are One-and-the Same Thing

This myth is commonly seen in the ubiquitous (*ie*: ambiguous) use of the word “accounts” to refer to either, or both, a charity’s financial/money **records** and/or its financial/money **reports** as its “accounts”.

This is well-illustrated by the Charity Commission’s [CC16](#) and [CC17](#) guidance packs for charities producing their statutory once-a-year financial **reports** on the Receipts & Payments scheme or the Accruals scheme.



Both packs use the term “accounts” in their titles. But neither makes any explicit reference to what kind of financial **RECORDS** the charity is required to keep in order to produce either type of end-of-year Annual Financial **REPORT**.

In short: the notion that the type of end-of-year annual financial **report** that a charity has to produce dictates what kind of day-to-day financial **records** it has to keep is a **MYTH !**

The practical reality is that the well-kept financial records needed to manage a charity’s finances on a day-to-day basis can be used equally well to produce the charity’s end-of-year report of its money transactions on either (or both) the Receipts & Payments scheme or Accruals scheme.

2.2. Myth 2: “Cash”(R&P) Annual Reports are Simpler than Accruals Annual Reports

It is **TRUE** that producing charity annual financial **reports** on the “Accruals” scheme is more “complicated” (*ie*: tedious financial bean-counting bureaucracy) than producing annual financial reports on the “Cash(R&P)” scheme. But that has little to do with recording and managing the “real money” coming into and going out of a charity’s bank accounts on a day-to-day throughout the financial year.

What makes producing a charity’s end-of-year Annual Financial **REPORT** on the “Accruals” (*ie*: FRS-102 & SORP) basis reports more “complicated” are the requirements:

- 1: to report a much more detailed breakdown of where its money came from and how it was spent;
- 2: to report
 - a: the hypothetical “monetary value” of its non-money assets (*eg*: buildings, vehicles, equipment, investments) as if those notional amounts were the same as the “real money” in the bank;
 - b: any changes in those hypothetical “monetary values” (*ie*: the depreciation of material assets, or the stock-market values of investments) as if they were real money coming into and going out of the charity’s the bank accounts during the financial period.
- 3: to include copious notes on all the complicated financial rules used to calculate, manage and report those hypothetical “monetary values” of non-money-assets.

Comment: *The Bank of England has an excellent explanation of what is (and isn’t) “money”.*

<https://www.bankofengland.co.uk/knowledgebank/what-is-money>

It’s short, quick and easy to read, and it has some useful links to other related pages & videos.

The differences are clearly illustrated by the Charity Commission’s example spreadsheet template [CC16](#) for Receipts & Payments annual financial reports which consists of just one worksheet in two sections:

- A – Receipts & Payments;
- B – Statement of Assets & Liabilities.

While the example spreadsheet template [CC17](#) for Accruals annual financial reports consists of two worksheets

- (i) Statement of Financial Activities;
- (ii) Balance Sheet;

PLUS no less than 32 additional worksheets for notes needed to provide the required extra details of the charity’s income & expenditure and to explain how all the hypothetical “monetary values” of non-monetary assets were calculated.

2.3. Myth 3: Accruals Reporting Requires Double-Entry Bookkeeping

Not True – the implication that it does is just financial Ludditism !.

It is not disputed that, in its day, Double-Entry Bookkeeping was a truly remarkable invention which revolutionised commercial financial management in ways not dissimilar to the ways in which the invention of burning of coal to produce steam revolutionised commercial manufacturing.



But electricity, modern computers and relational database technologies have made double-entry bookkeeping (and lighting by candles) obsolete. Insisting that computer technology is used to replicate double-entry bookkeeping is like railway enthusiasts insisting that electricity should be used to produce the steam to replicate steam engines.

3. To Accrue... or NOT to Accrue ?

When it comes to the once-a-year task of preparing their charity’s statutory Annual Financial Report for submission to the Charity Commission, the Charities Act gives the trustees of charities with annual incomes less than £250,000 *(ie: most “small” charities under Small Charity Support’s definition)* have a choice between preparing their Report on either the Accruals standard or the Receipts & Payments (R&P) standard, unless:

- (i) they are charitable companies, in which case they are legally required to use the Accruals standard regardless of their annual income, *or*
- (ii) their governing document requires the Accruals standard to be used.

3.1. Accruals reporting is a lousy choice for small charities.

Charities, regardless of their size (*ie: annual income*), which adopt accruals reporting have to comply with the **ca.400pages** of [Financial Reporting Standard FRS-102](#). The Overview to the FRS-102 states:

“The FRC’s overriding objective in setting accounting standards is to enable users of accounts to receive high-quality understandable financial reporting proportionate to the size and complexity of the entity and users’ information needs”.

Which rather disingenuously overlooks the fact that it needs **another ca.200 pages** of the [Charity SORP](#) to explain how to apply FRS-102 to charities ! Because although charities do, inevitably, share some financial issues in common, they are fundamentally different from commercial businesses.



Commercial organisations are in the business of using their resources to create as much money (wealth) as possible for the private benefit of their owners and investors.



While charities are “in the business” of spending their donors’ money, time and other resources to create as many charitable outcomes as possible for their beneficiaries – and the public in general.

Which makes the 600+ pages of bureaucratic financial jargon of the FRS-102 & SORP rather “over the top” and beyond the capabilities of the vast majority of “small” charities run primarily by volunteer non-accountant trustees and/or supporters in their spare time. For example:

In 2018 the international fashion company, Burberry, was reported as having burned £28M of unsold stock “to protect its brand”.

That was, apparently, an example of the use of FRS-102 to report “[a true and fair view](#)”, “proportionate to the size and complexity of the entity”, of how wealthy the company was in order to attract new investors (and customers).



It is difficult to envisage how typical small charities (eg: a food bank) could similarly use FRS-102 reporting standards to justify the burning of undistributed resources to create unfulfilled demand for their charitable activities as a way to attract new donors and volunteers (and beneficiaries).

3.2. Receipts & Payments accounting is a lousy choice for charities.

R&P accounting for the charity sector is just a re-badged *{to make it seem different -?}* version of "Cash" accounting for small unincorporated business in the commercial sector.

"Cash" reporting is a HMRC concession to small businesses to help them manage the cash-flow problems they can encounter when, under Accruals accounting, corporation tax and VAT become due from the date that invoices are issued – the "Accrual-date". So if customers are slow in paying their bills, small businesses have to pay the taxes out of their own pockets before receiving payment.

"Cash" reporting avoids that problem by allowing the business to report transactions – and, therefore, become liable to pay the relevant tax – on the date that the payment was made – the "Cash-date" – instead of on the "Accrual-date".

But most small charities aren't liable for corporation tax and VAT.

So R&P reporting is a solution to problems that they don't have !

And to make matters worse, R&P reporting is notorious for its tendency to distort reports when the "Cash Date" for a transaction falls in a different reporting period from the "Accrual" date of the activity to which it refers (eg: bills arriving late, payments made in advance). As a consequence opting to produce their charity's Annual Financial Reports on the Receipts & Payments basis might make it simpler for the non-accountant volunteer trustees of "small" charities to meet their statutory reporting obligations. But it significantly undermines their ability to produce ".... understandable financial reporting proportionate to the users' information needs" – ie: undermines trustees' ability to produce Annual Financial Reports which will reassure donors, volunteers, supporters & staff that their charity's fund have been used to deliver "value for money" charitable outputs & outcome to their beneficiaries.

And, unfortunately, the situation is exacerbated by inconsistent – to the point of self-contradictory – guidance on how to report financial transactions when they occur at the end of the financial period.

For a more detailed justification of this criticism, with supporting evidence from Charity Commission records, see Small Charity Support's companion leaflet ["Not Fit for Purpose"](#).

3.3. The Dilemma

The dilemma of having to choose between Accruals reporting and R&P ("Cash") reporting is not just the idiosyncratic opinion of Small Charity Support.

In November 2020 Small Charity Support submitted its article on ["Not Fit for Purpose"](#) to the "Smaller Charities and Independent Examiners" Engagement Strand of the then SORP review which responded:

"the thrust of your concerns about the current provisions of the SORP very much chime with our own".

In May 2021 the Charity Commission [wrote](#) to the Financial Reporting Council saying:

"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."

In July 2021 Caron Bradshaw, CEO of the Charity Finance Group, was [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."



3.4. A simple "no-brainer" way of avoiding the dilemma.

There are some things that can be done to take advantage of the simpler standard for Receipts & Payments reporting by minimising the distortions that it can create.

It's not widely recognised that the "real money" (*ie*: "cash in the bank") parts of a charity's annual financial reports are the same whether prepared on the Accruals or the Receipts & Payments scheme, when both the Accrual-date and Cash-date of transactions fall within the same financial reporting year.

ie: The problem of distortions in Receipts & Payments annual accounts is only created when the Accrual-date and the Cash-date of any transaction(s) fall in different financial reporting years.

More easily recognised is that the bureaucracy of "capitalising" assets (*ie*: reporting them as if they were real money coming into, and going out, of the charity's bank account) is not the only, or even the best, way of reassuring the public that their money donations to the charity are being used in **EE&E+EE&E** ways to deliver "value for money" goods, services & activities to the charity's beneficiaries.

So you don't have to be a "clever" bean-counting financial bureaucrat to recognise that you can BOTH:

- ✓ avoid the complexities of preparing your charity's Annual Accounts on the Accruals scheme;
..... by
- ✓ minimising, or completely eliminating, the occasions when the Cash-dates of transactions fall in a different financial year from their Accrual-dates;
..... in order to
- ✓ minimise, or completely eliminate the distortions inherent in preparing your charity's Annual Accounts on the Receipts & Payments scheme;

That then leaves the charity able to meet its legal obligation to produce Annual Accounts by opting to prepare its financial reports on the Receipts & Payments ("Cash") scheme while still being able to prepare *ad hoc* reports on specific areas of its income & expenditure (*eg*: restricted funds) on the Accruals scheme when necessary.

3.5. Some Pragmatic Ways to Minimise R&P("Cash") Reporting Distortions

- ✓ **Encourage** Trustees, Volunteers, Staff and others to submit their claims for reimbursement of expenses early (*ie*: well in advance of the end of the financial period) – *eg*: by explaining clearly the reporting implications of not doing so.
- ✓ **Change the Charity's Financial Reporting Period**
It is often thought – mistakenly – that a charity's financial reporting period must be either the calendar year (January-December) or the financial year (April-March).
NOT TRUE !
The financial year can be anything that the trustees feel is appropriate to, and in the best interest of, their charity and its activities. *eg*:
 - ☺ charities which have big activities around Christmas and New Year, or operate to the "School Year" (*ie*: are "quiet" during the summer) could change their financial period to run from 1st Aug – 31st July;
 - ☺ charities which are busy during the summer, but want to avoid the "distractions" of Christmas & New Year, could change their financial year to 1st June – 31st May, or 1st Nov – 31st Oct.
- ✓ **Include Explanatory Notes on an Accruals Basis for Specific Events**
Sometimes it is impractical to contain all the financial transactions for a specific event within the financial period when the event occurred. However, the Charity Commission [guidance for R&P\("Cash"\) reporting](#) is explicit:

"There is no statutory format for receipts and payments accounts in England and Wales."

In other words, provided that all the requirements in the guidance for financial reporting have been met in a TAFR prepared on the R&P("Cash") scheme, there is no reason why it cannot also include some additional financial notes prepared on the Accruals scheme to explain/clarify any distortions created because some of the "Accrual" and "Cash" dates of transactions fell in different periods: *ie*: additional *ad hoc* notes in which ALL the receipts and payments relating to specific events are reported together as if they had occurred in the SAME financial period.

4. Choosing a System to Record Financial Transactions

4.1. It's just plain common sense really.

Good financial management is **NOT** about **COLLECTING** financial data to produce the once-a-year Annual Financial Report to get the statutory “tick in the box” on the Charity Commission’s Register of Charities.

It is about **USING** financial data – the ability to retrieve, analyse and then use the data which have been recorded to enable the Trustees to make sensible decisions about the best way to raise and spend their charity’s funds **EE&E+EE&E**. Collecting data to put in a report to sit on a shelf and never used is a waste of charitable funds, time and other resources!

4.2. What your financial management system **MUST** be able to do.

Regardless of whether your system for recording and managing your charity’s financial transactions is simple ink on paper, a “home-grown” spreadsheet, or a commercial accounts package, for the efficient and effective day-to-day management of your charity that system will need to be able to:

- ✓ maintain an up-to-date record of the status all its day-to-day financial transaction.
That record **MUST** include BOTH:
 - ✓ the date on which the transaction was committed (*ie*: the “Accrual” date);
 - ✓ the date on which the payment for the transaction was paid or received (*ie*: the “Cash” date);because:
 - ! If the charity’s records include only when transactions were “Accrued” (*ie*: its transactions’ “Accrual” dates), it knows only what financial commitments it has made but not those which remain outstanding (*ie*: the corresponding payment still to be received or made);
 - ! If the charity’s records include only when transactions were paid for (*ie*: its transactions’ “Cash” dates), it knows only what financial commitments have been completed, but not those which remain outstanding (*ie*: the corresponding payments still to be received or made).
- ✓ quickly find any particular transaction, or group of transactions (and, if necessary, link it/them to any relevant paper documents or electronic files), to check & verify them and to assess them in the context of other related transactions;
- ✓ aggregate (*ie*: add together) related transactions for analysis purposes. Often it will be necessary to be able to aggregate the same transactions data in different ways for different purposes;
- ✓ produce interim financial reports of income & expenditure throughout the year for presentation to the Trustees so that they can monitor and ensure that the charity’s finances resources are being used **E**fficiently, **E**ffectively & **E**conomically – and, for many charities, **E**quitably, **E**thically & **E**cologically also;
- ✓ compare actual income & expenditure at any point in the year with the expected (*ie*: budgeted) income & expenditure at that point in the year (*typically at the end of each month or quarter*);
- ✓ produce – with just “a click of a button” – the statutory end-of-year Annual Financial Report for reporting to the Charity Commission as required. Typically, the Annual Financial Report will then be similar in content to the routine monitoring and management reports presented to trustees throughout the year, thereby avoiding unwanted end-of-year “financial surprises”.

And – most important of all for the 85% majority of “small” charities – their financial recording, managing and reporting system **MUST** be able to do all of the above in a way which is intuitive, pragmatic and simple to use for the typical non-accountant volunteer trustees of such “small” charities and their supporters (and paid staff if they have them).

In short: Effective financial management is not just about having financial records which are complete, accurate and relevant. It is about those records being held and structured in a way that allows them to be easily searched, aggregated, analysed and reported in a meaningful way throughout the year.

4.2a What Should Financial Records & Reports Contain?

The statutory requirements for Annual Financial Reports in Receipts & Payments or Accruals formats are set out in Charity Commission Guidance documents [CC16](#) and [CC17](#) respectively.

4.2b The Small Charity Support Spreadsheet

Computerised relational data-base (RDB) and quasi-RDB (*eg*: spreadsheets) technology means that the typical non-accountant volunteer small charity trustees no longer have to struggle with traditional double-entry bookkeeping methods. Because RDB technology does not rely on the location of ink symbols on paper (*ie*: in which ledger/cashbook/row/column those symbols have been placed) to identify the relevance of a transaction record. Instead, it uses “tagging” (as now widely used in social media).

The spreadsheet demonstrates how “tagging” reduces financial record-keeping to a simple intuitive system which requires minimal training to use and understand.

The following illustrations are screen-grabs from the “Example” version of the spreadsheet being used for a notional small charity, “Better Living”. The transactions data have been taken (and appropriately anonymised) from those of real small charities actually using the spreadsheet in practice.

The Transactions Data Entry Worksheet

Better Living {Example}						Bank Transactions, FYE: 31-Dec-22			J	K	L
Date	Ref	Category	Fund	Payee/Payer	Comment	Amount	C	Balance	Balance at 30-Dec-22	Reconciled Balance	Unreconciled Transactions
31-Dec-21						Brought Forward		5,702.32	2,882.68	4,270.92	-1,388.24
05-Dec-21		P9-Purchase of Fixed Assets		PC World	Computer & Printer	-1,299.00	1	4,403.32	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		
12-Dec-21		R1-Gift Aid		HMRC		845.00	2	5,248.32			
18-Dec-21		R4G-Miscellaneous		Barry Driver	Purchase of Good Eating Recipe	33.20	1	5,281.52			
19-Dec-21		P2-Volunteer Costs		GoodFood Caterers	Christmas Event - Catering	-200.00	1	5,081.52			
19-Dec-21		P2-Volunteer Costs		Trinity Church	Christmas Event - Room hire	-100.00	1	4,981.52			
22-Dec-21		P4-Office Costs		OfficeSafe	Rent	-240.00	1	4,741.52			
27-Dec-21		P4-Salaries		A. Dunswick	Contract fee	-771.64	1	3,969.88			
27-Dec-21		P4-Salaries		P. Jameson	Contract fee	-725.50	1	3,244.38			
28-Dec-21		P3-SaH-Staff Costs	Safe At Home	J Pugh	Contract fee	-962.88	1	2,281.50			
01-Jan-22	AdvExp	P2-Networking		Friends' House	Deposit, Venue, Feb Conf	-400.00	1	1,881.50			
01-Jan-22	AdvExp	P8-Payments In Advance		Friends' House	Advance Deposit, Venue, Feb Cr	400.00	1	2,281.50			
01-Jan-22	AdvRec	R4G-ConfRegistrations		Various	Advance Registrations, Feb Conf	200.00	1	2,481.50			
01-Jan-22	AdvRec	R8-Receipts in Advance		Various	Registrations, Feb Conf	-200.00	1	2,281.50			
02-Jan-22		P4-Internet Services		InetHosts	website	-9.00	1	2,172.50			
02-Jan-22		R1-Donations		C Cooker		100.00	1	2,302.50			
02-Jan-22		R1-Donations		S Meadows		250.00	1	2,622.50			
05-Jan-22		R1-Membership		N Amerser		60.00	1	2,682.50			

the entry of the transaction amount in column-G is tagged with a minus-sign (-) to identify outgoing payments, making separate ledgers for receipts and for payments unnecessary;

- ✓ column-C of the spreadsheet contains a tag to identify the Category of the transaction amount.

Better Living {Example}						Bank Transactions, FYE: 31-Dec-22		
Date	Ref	Category	Fund	Payee/Payer	Comment	Amount	C	Balance
18	02-Jan-22	R1-Donations		C Cooker		100.00	1	2,372.50
19	02-Jan-22	R1-Donations		S Meadows		250.00	1	2,622.50
22	07-Jan-22	R1-Donations		P. Badgwick		100.00	1	5,282.50
23	07-Jan-22	R1-Donations		A Lewis		105.00	1	5,387.50
32	28-Jan-22	R1-Donations		Anonymous		1,500.00	1	5,399.07
37	02-Feb-22	R1-Donations		W Ellwisher		500.00	2	5,479.12
61	03-Mar-22	100610 R1-Donations		V. Olunt	Travel expenses returned as don	8.70	3	3,990.16
170	01-Oct-22	R1-Donations		The Law Society		300.00	10	6,498.93
202	19-Dec-22	R1-Donations		On the door	Donations - Christmas Event	200.00	12	4,830.61

To view and total individual Categories you just “Filter” the tag in column-C. Multiple category columns are not necessary.

- ✓ additional tags can be introduced to indicate, for example: the fund to which the transaction relates (column-D); who the transaction was with (column-E). Multiple tags can be used to identify transactions in greater depth and detail.
- ✓ Of particular significance is the Small Charity Support spreadsheet includes a tag for the date on which the cash payment was made (the “Cash-date”, column-H) in addition to the tag in Column-A to identify the date on which the transaction was commitment was made (the “Accrual date”).

That allows column-H to be filtered for blank cells to identify outstanding debtors and/or creditors

Better Living {Example}						Bank Transactions, FYE: 31-Dec-22		
Date	Ref	Category	Fund	Payee/Payer	Comment	Amount	C	Balance
161	23-Sep-22	P4-Independent Examiner		AN Accountant	Independent Examination	-250.00		10,605.39
186	13-Nov-22	P3-HM-Project Costs	Health Matters	J Pugh	travel expenses	-2.80		4,839.82
196	04-Dec-22	R1-Gift Aid		HMRC		975.00		9,633.61
197	12-Dec-22	R8-Sale of Shop Stock		Barry Driver	Purchase of Home Safety Manuz	12.50		9,646.11
200	19-Dec-22	P2-Networking		GoodFood Caterers	Catering - Christmas Event	-450.00		4,930.61
201	19-Dec-22	P2-Networking		Trinity Church	Room hire - Christmas Event	-300.00		4,630.61
207	29-Dec-22	P3-BE-Staff Costs	Better Eating	J Pugh	Contract fee	-984.92		3,270.70
208	30-Dec-22	HMRC Agency-HMRC		Payment to HMRC	Employee's PAYE+NIC Paymen	-282.00		2,988.70
209	30-Dec-22	NEST Agency-NEST		Payment to NEST	Employee's Payments	-53.01		2,935.69
210	30-Dec-22	NEST P3-SaH-Staff Costs	Safe At Home	Payment to NEST	Employer's contribution	-53.01		2,882.68
211								

simply and quickly from within the transactions data entry work-sheet without the need for separate ledgers or cash books for debtors & creditors.

{Comment: The “Cash Date” tag in the Small Charity Support spreadsheet identifies just the month of the payment – which is adequate for charities which only require monthly financial reports. But, for charities which require more frequent reports the same principal can be applied to tag the Cash Date with the week number, or even the actual “Cash Date.”}

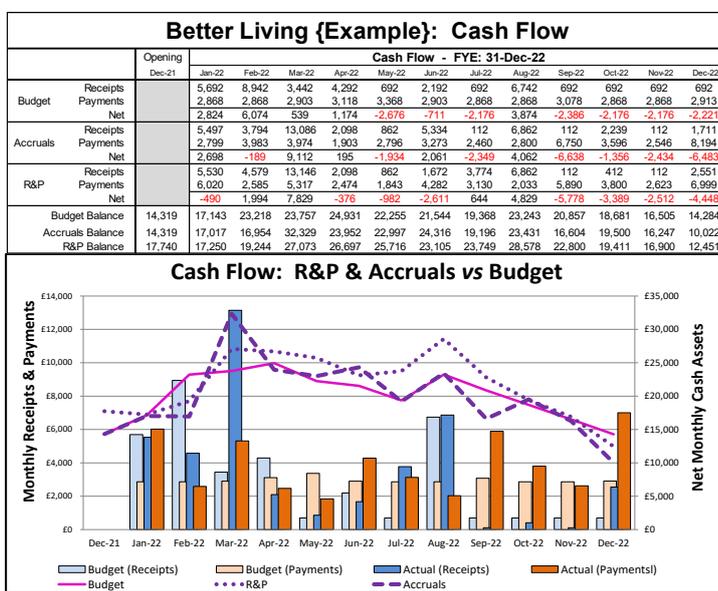
In relational data-base technology, tags can be used not only for filtering data with specific characteristics, they can also be used in formulae to analyse and aggregate the data in more depth and detail. This is illustrated by the cells in columns J-L and rows 2-8 of the above screen-grab.

Better Living {Example}						Bank Transactions, FYE: 31-Dec-22			Balance at 30-Dec-22	Reconciled Balance	Unreconciled Transactions
Date	Ref	Category	Fund	Payee/Payer	Comment	Amount	C	Balance	2,882.68	4,270.92	-1,388.24
31-Dec-21						Brought Forward		5,702.32			
05-Dec-21		P9-Purchase of Fixed Assets		PC World	Computer & Printer	-1,299.00	1	4,403.32			
12-Dec-21		R1-Gift Aid		HMRC		845.00	2	5,248.32			
18-Dec-21		R4G-Miscellaneous		Barry Driver	Purchase of Good Eating Recipe	33.20	1	5,281.52			
19-Dec-21		P2-Volunteer Costs		GoodFood Caterers	Christmas Event - Catering	-200.00	1	5,081.52			
19-Dec-21		P2-Volunteer Costs		Trinity Church	Christmas Event - Room hire	-100.00	1	4,981.52			
22-Dec-21		P4-Office Costs		OfficeSafe	Rent	-240.00	1	4,741.52			
27-Dec-21		P4-Salaries		A Dunswick	Contract fee	-771.64	1	3,969.88			
27-Dec-21		P4-Salaries		P. Jameson	Contract fee	-725.50	1	3,244.38			

Using the Accrual-date tag (column-A), the receipt/payment tag (column-G) and the Cash-date tag (column H), the spreadsheet identifies, analyses and summarises/reports the financial status of the charity at any point of time: eg: the actual aggregated receipts and payments to date; the outstanding creditors & debtors at date; the accrued balance at date; the actual (reconciled) balance at date; and the aggregated transfers accounts at date. Those cells are, in practice, a self-contained balance sheet within the transactions worksheet and updated automatically in "real time" - ie: as transactions data are added or amended at any point during the year without any additional action by the person entering the data.

Throughout the year, just the one set of transactions records can simultaneously produce other reports (eg: monthly Budget & Cash-Flow reports) to manage the charity's finances in "real time" {ie: automatically, as transactions are added/updated} on either an "accrual" or a "cash" basis as required.

Better Living {Example} Budget Report: 31-Dec-22					
RECEIPTS	Prev Yr Out-Turn	This Yr Budget	Budget to 31-Dec-22	R&P 31-Dec-22	Accruals 31-Dec-22
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	900	900	845	975
Miscellaneous	0	0	0	0	0
	11,163	6,400	6,400	6,459	6,589
INCOME GENERATION					
Fundraising	156	100	100	0	0
Receipts from Services	0	0	0	0	0
	156	100	100	52	52
INVESTMENT INCOME					
Income from Investments	1,573	5,000	5,000	1,986	1,986
Miscellaneous	0	0	0	0	0
	1,573	5,000	5,000	1,986	1,986
CHARITABLE INCOME					
GENERAL FUNDS					
Conf/Registrations	0	0	0	1,350	1,350
	0	0	0	1,350	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
OTHER RECEIPTS					
Receipts in Advance	0	200	200	160	160
	0	400	400	160	160
SUB-TOTAL RECEIPTS	41,892	35,450	35,450	34,278	34,375
ASSETS & INVESTMENTS					
Sale of Investments	0	0	0	5,490	5,490
Sale of Shop Stock	0	0	0	0	13
Sale of Fixed Assets	0	0	0	0	0
	0	0	0	5,490	5,502
TOTAL RECEIPTS	41,892	35,450	35,450	39,767	39,877



And at the end of the financial year the one set of transaction records - tagged with BOTH the Accrual-date AND the Cash-date - can also be used to produce the charity's Annual Financial Report in either/BOTH the "R&P" or "Accruals" formats as required.

Receipts & Payments for the Financial Year Ended 31-Dec-22				
	Current Financial Year, Jan'22-Dec'22			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
Other 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-22				
	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	29,000
Other trading activities	52		52	52
Investments	1,986		1,986	1,573
Separate material items of interest	0		0	0
Other	160	0	160	0
TOTAL INCOME	10,137	24,238	34,375	41,788
RESOURCES EXPENDED				
Raising funds	-350	0	-350	-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	0
Other	-7,531	0	-7,531	0
TOTAL EXPENDITURE	-16,223	-29,033	-45,256	-52,200
Net income-expenditure	-6,086	-4,795	-10,882	-10,412
before gains/losses on investments				
Net gains/losses on investments	-28	0	-28	0
NET INCOME-EXPEDITURE	-6,114	-4,795	-10,909	-10,412
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	-6,297	-4,612	-10,909	-10,412

Statement of Asset & Liabilities as at 31-Dec-22			
	Current Financial Year,		Last Year
	General Funds £	Restricted Funds £	Total £
B1 - Cash Assets			
General Fund	9,043		9,589
Net Payments in Advance	-140		-200
Designated Funds			
IT Replacements	232		500
Transport	200		200
Total Unrestricted Funds			9,335
			10,089
Restricted Funds			
Safe At Home		982	1,998
Better Eating		985	5,385
Health Matters		1,149	268
Total Restricted Funds			3,116
Current Total Cash Assets			12,451
			17,440
Money Held as Agent (eg: HMRC, NEST)			335
Current Charitable Cash Assets			12,116
			17,740
B2 - Money Owed to the Charity (Other Monetary Assets)			
Gift Aid claim			0
Other			988
			988
			878
B5 - Money Owed by the Charity (Liabilities)			
Independent Examination Fee			-250
Other			-1,791
			-2,041
			-4,299
Charitable Cash Assets (Net of Liabilities)			11,063
			14,319
B3 - Investment assets			
	38,089		38,089
			39,399
B4 - Assets retained for charity's own use.			
Fixed Assets	14,798		14,798
Stocks of Goods for Sale	431		431
			21,129
			0
Total Current Funds			65,435
			78,268
Total Funds (net of liabilities)			64,381
			74,847

{Comment: the differences between the two reports are due to the distortions inherent in R&P reporting}

Balance Sheet as at 31-Dec-22				
	Current Financial Year,			Last Year
	Unrestr'd	Restricted	Total £	Total £
Fixed Assets				
Intangible assets	0	0	0	0
Tangible assets	14,798	0	14,798	21,129
Heritage assets	0	0	0	0
Investments	38,089	0	38,089	39,399
Total fixed assets	52,887	0	52,887	60,528
Current Assets				
Cash at bank and in hand	9,335	3,116	12,451	17,740
Debtors	988	0	988	878
Stocks	431		431	0
Investments	0		0	0
Total current assets	10,754	3,116	13,870	18,618
Cash held as agent	335		335	0
Current Charitable Cash Assets	10,419	3,116	13,535	18,618
Creditors				
Due within one yr:	-1,335	-1,041	-2,376	-4,299
Net current cash assets / -liabilities	9,419	2,076	11,494	-4,299
Total assets less current liabilities	62,306	2,076	64,381	56,229
Due after one yr:	0	0	0	0
Provision for liabilities	0	0	0	0
Total net assets or -liabilities	62,306	2,076	64,381	56,229

Allocation of the Funds of the Charity				
	Current Financial Year,			Last Year
	Unrestr'd	Restricted	Total	Total
CASH ASSETS				
General Fund	8,695			7,131
Net Payments in Advance	-140			-200
Designated Funds				
IT Replacements	232			500
Transport	200			200
Total Unrestricted Funds			8,987	7,631
Restricted Funds				
Safe At Home		929		1,035
Better Eating		0		5,385
Health Matters		1,147		268
Total Restricted Funds			2,076	6,688
Total Cash Funds			11,063	14,319
NON-CASH ASSETS				
Stocks	431			0
Fixed Assets	14,798			21,129
Investments	38,089			39,399
Total Non-Cash Funds			53,318	60,528
Total Funds			64,381	74,847

For more detailed information on using the Small Charity Support "proof of concept" spreadsheet (including a downloadable working version of the above illustrations) go to the website:

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

{Comment: Please note that the Small Charity Support spreadsheet is NOT a commercial product and is not designed to vie with other products in the competitive marketplace. Instead it is "proof of concept" software, in the internet tradition of "open source" software. Its primary purpose is to demonstrate clearly and credibly, using data from real charities (appropriately anonymised), that the principals on which it is based are pragmatic and effective "in the real world". It is therefore free to download, adapt and use for exclusively charitable and similar not-for-profit purposes. It does not have commercial help-line support. But there are extensive guidance leaflets for users.}

4.2c Other Commercial Software

There are two providers of accounting software said to be designed specifically for the charity sector:

1. Data Developments – Software for Churches & Charities
<https://www.datadevelopments.co.uk/>
2. Paxton – Church & Charity Accounting Software: <https://paxtoncharities.co.uk/>

and a third said to be designed for both the charity and the small business sectors

3. Liberty – Core tools for Small Businesses & Charities
<https://www.libertyaccounts.com/features.jsp>

In addition, there are a number of providers of accounting software for the commercial sector which is claimed to be also appropriate for (and, indeed, is widely used by) the charity sector, eg:

Sage <https://www.sage.com/en-gb/sage-business-cloud/accounting/industry/non-profit/>;

Freshbooks <https://www.freshbooks.com/en-gb/>;

Quickbooks <https://quickbooks.intuit.com/industry/non-profits/>

Most of the above accountancy software can record and report financial transactions data on both an "Accruals" and a "Cash" (ie: Receipts & Payments) basis.

{Comment: the above list of software is NOT a recommendation or endorsement of those products. Nor does absence from the list imply that other software should be avoided. It is suggested that charities to take advantage of any offers of free trial periods which are available and to seek testimonials from other users before choosing the most appropriate software for their own particular needs.}

Unfortunately, most commercial accountancy & bookkeeping software seems to be stuck with using relational data-base technology to replicate traditional double-entry bookkeeping methods – the accountancy equivalent of engineers insisting on using electricity, instead of coal, to boil water to produce

the steam in order to stick with steam powered engines. Consequently, charities which have trustees, supporters or paid staff with professional accountancy or bookkeeping experience may well find that it is more convenient to use commercial software based on traditional double-entry procedures rather than simpler and more intuitive relational database procedures.

4.3. Accountants & BookKeepers

Daunted and bewildered by all the jargon – and apparent irrelevance – of traditional accountancy/bookkeeping double-entry, nominal accounts, control accounts, ledgers, trial balances, creditors, debtors, accruals, depreciation, *etc., etc., etc.* it is not surprising that many “ordinary” charity Trustees who do not have accountancy or financial management experience feel that they have no choice but to turn to professional accountants or bookkeepers for help with managing their charity’s finances.

Unfortunately in all too many cases this exacerbates rather than solves the problem. For further information on this issue see the Small Charity Support leaflet on “*Choosing an Independent Examiner or Financial Advisor*” on the [“Trustees’ Responsibilities”](#) page of its website.

4.4. Independent Examination of your charity’s accounts.

If your charity’s annual income is over £25,000 you are legally required to have your annual accounts independently examined and to submit the examined accounts to the Charity Commission which will put them into the public domain on its website.

An independent examiner is ‘*an independent person who is reasonably believed by the charity trustees to have the requisite ability and practical experience to carry out a competent examination of the accounts*’. So, provided that they are able to follow the Charity Commission guidelines:

<https://www.gov.uk/government/publications/independent-examination-of-charity-accounts-examiners-cc32>

they do NOT have to be a professional accountant or qualified independent examiner (*eg*: a member of the Association of Charity Independent Examiners – www.acie.org.uk).

A common misunderstanding amongst charity trustees is that the Independent Examination is only required to check that there is documentary evidence for transactions and that “the numbers add up”

The Independent Examiner has to comply with the Charity Commission Directions on how an Independent Examination must be conducted in order that he/she can responsibly make the required formal statement about the examination. And their statutory formal report has to confirm that they have done so.

There are 13 Directions for Independent Examinations, but Direction 7 and parts of Directions 8 & 9 only apply to accounts prepared on the Accruals scheme. The Directions themselves are, inevitably, written in “legalese”, so the following is a précis of the Direction in more “ordinary” language, and as they relate to charities which prepare their Financial Report on the Receipts & Payments (R&P) scheme:

- 1 Check whether the charity is eligible to have an independent examination
- 2 Check for any conflict of interest that would (or might) interfere with examiner’s independence
- 3 Keep a record of their independent examination
- 4 Plan the independent examination
- 5 Check that charity’s accounting records are kept to the required standard
- 6 Check that the financial reports are consistent with the accounting records
- 7 If the accounts are prepared on the accruals scheme and one or more related party transactions took place the examiner must check if these were properly disclosed in the notes to the accounts.
- 8 Check the reasonableness of the significant estimates and judgments and accounting policies used in accounting for the types of fund held and in the preparation of the accounts
- 9 The examiner must check whether the trustees have considered the financial circumstances of the charity at the end of the reporting period and, if the accounts are prepared on the accruals scheme, check whether the trustees have made an assessment of the charity’s position as a going concern when approving the accounts
- 10 Check the form and content of the accounts
- 11 Identify items from the analytical review of the accounts that need to be followed up for further explanation or evidence
- 12 Compare the trustees’ annual report with the accounts
- 13 Write and sign the independent examination report

4.4a Statutory Duty to Report to the Charity Commission

Examiners are not required to examine forensically for fraud. But they have a legal duty to report to the Charity Commission anything which they believe to be “irregular” or improper in the charity’s accounts. {**Comment:** if any such “irregularity” is reported the accounts are said to be “qualified”. Saying that the accounts are “qualified” **DOES NOT** mean that they had been examined by a “qualified” – ie: “professional” – accountant.}

4.5. Charity Commission Guidance Publications

A fuller and more detailed description of the Directions for the Independent Examination of charity accounts is set out in the Charity Commission guidance publication for charity Independent Examiners, CC32 , “*Independent Examination of Charity Accounts: Examiners*”

<https://www.gov.uk/government/publications/independent-examination-of-charity-accounts-examiners-cc32>

Your Independent Examiner should have a copy. And certainly if your Independent Examiner is intending to charge a professional fee for Examining your charity’s Annual Financial Report it would be wise to ask in advance for formal confirmation (ie: in writing) that he/she will be carrying out his/her examination in compliance with the Charity Commission’s Directions.

There is also a companion guidance publication for charity Trustees, CC31, “*Independent Examination of Charity Accounts: Trustees*”

<https://www.gov.uk/government/publications/independent-examination-of-charity-accounts-trustees-cc31>

All Trustees, not just the Treasurer, share collective responsibility for ensuring that their charity’s financial records and reports – and particularly the formal Annual “Accounts” – comply with the legislation and are consistent with Charity Commission guidance.

“Oh! – we don’t understand all that financial stuff!

We leave that to the accountant!” **! ?**

..... is NEVER an acceptable excuse **!**

So ALL trustees should certainly know of the existence of the Charity Commission’s guidance on managing their charity’s money and be able to access it should it be necessary. However, much of the guidance is for the preparation of accounts on the more complex Accruals scheme, so the Trustees of small charities using simple R&P accounts would NOT be expected to be familiar with “every word, cover to cover”.



Please Note:



Small Charity Support {CIO No: 1161963}

Supporting Small Charities & Voluntary Organisations

While it is Small Charity Support's intention to provide you with the best possible support and information as we are able, it is important that you read and give due consideration to the following notices.

The information contained in this leaflet is provided in summary form and is made available for general information purposes only. It has not been prepared with your specific needs in mind and is not advice of any kind (whether legal, financial, or otherwise).

Please take the time to check the information in this leaflet is suited to your specific circumstances and if you are making any important decisions, such as on financial, legal or tax matters, you should consult a qualified professional adviser who can provide specific advice based on your position.

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