

Church Accounts Webinar



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Church Finance:

Is there any difference with “secular” accounts?

Non-charity accounts

- Profit making
- Profit & Loss statement
- Trading
- Corporation Tax on profits
- Profits can be distributed as dividends to shareholders

Church Accounts

- Non-profit making: surplus/deficits
- Income & Expenditure (SoFA)
- Generally, not trading
- Generally exempt from Corporation Tax
- Surpluses cannot be distributed – must be applied to charitable objects
- Fund accounting

What is “Fund Accounting”?

SORP requires charities to report their funds under the following categories

- Unrestricted Fund (sometimes simply referred to as the “General” Fund)
- Designated Fund
- Restricted Fund
- Endowment Fund

Unrestricted Funds

Definition:

“Funds which are for general use in promoting the church’s charitable purposes for the public benefit, or in any way that supports this.”

Designated Funds

Definition:

“Where the church has decided to set aside sums in respect of specific projects or activity”.

As these funds are Designated (or “set-aside”) for the specific project or activity, they can always be redirected back to the unrestricted funds if the church so chooses

Unrestricted Funds & the Reserves Policy

Reserves

“part of a charity’s unrestricted funds that is freely available to spend on any of the charity’s purposes”

Charity Commissioners don’t want charities to hold onto unnecessary unrestricted reserves – charities are to be pro-active in the objects they have set: monies received and earned are to be used, not kept and stored away!

Unrestricted Funds & the Reserves Policy

A typical reserves policy might be:

The reserves policy of Anytown Baptist Church is to hold three months of all expenditure plus a further three months staff costs to allow the church to adapt to any changes in the income or expenditure of the church.

Restricted Funds

Definition:

“Funds held for donor-specified purposes”

- Appeals which the church has made specific objects
- Funds or grants given to the church by donors who have specified that they should only be used for specific objectives

Restricted Funds

As these funds are Restricted, under charity law they can only be spent on or applied for the purposes for which they were given. They cannot be added to or treated as unrestricted funds (unless either the charity has trust-variation powers bestowed by the Charities Act 2011, or the charity has received Charity Commission consent)

Endowment Funds

Definition:

Funds held “on trust for retention”,

- as “trust capital”, the income generated can be spent on either unrestricted or restricted purposes (depending upon the donor’s intentions at the time of gift)
- But the capital must be retained: it cannot be spent as if it were income

What accounts do you need to prepare? (Charity or CIO organisation)

Income/Assets	Type of Accounts	Audit or Independent Examination?
• < £25k	Receipts & Payments	None
• > £25 <£250k	R&P or Accrual Basis	Independent Examination ¹
• > £250k < £1m	Accrual Accounting	Independent Examination ² *
• > £1m	Accrual Accounting	Audit

¹ Independent Examination by a person the trustees consider to be competent

² Independent Examination by a professionally qualified examiner

* if assets over £3.26m with income greater than £250k then an **audit** is required

Receipts & Payments vs Accrual Accounting?

	Receipt & Payment Accounts	Accrual Accounts
Principle	Income & expenditure only recognised when cash transaction occurs	Expenditure recognised when liability incurred. Income recognised when receipt reasonably certain
Example	Gift aid income recognised in SoFA when payment received from HMRC	Gift aid income recognised in SoFA on receipt of donation eligible for gift aid
Complexity	Relatively simple to operate as based around bank statements and petty cash	More complex to operate and understand. Requires understanding of accounting concepts, such as prepayments & accruals.
Issues	Accounts can look quite different depending on timing of cash transactions (e.g. gift aid receipt on day before or after year end)	Should provide a “true and fair view”, but subject to more judgement in preparation.
Fixed assets	Purchase treated as an expenditure. Depreciation. Added to statement of assets and liabilities	Purchase added to balance sheet and depreciated

Who can be an “Independent Examiner”?

Church income between £25k and £250k

“An independent person who is reasonably believed by the charity trustees to have requisite ability and practical experience to carry out a competent examination of the accounts”

i.e. they also don't have to have a formal professional qualification

Who can be an “Independent Examiner”?

The examiner must not

- Be a trustee of the church, or
- Involved in the administration or leadership team of the church, or
- A major donor to the church, or
- A close relative/partner or employee of any of the above

... But can be a member of the church!

Who can be an “Independent Examiner”?

Church income over £250k

an independent person who has the requisite ability and practical experience to carry out a competent examination of the accounts,
AND

- be a member of one of the allowed accounting professional bodies
- Verify that s/he is not in breach of his/her professional body’s rules by acceptance of the role of being the independent examiner.

Who can be an “Independent Examiner”?

The same conditions apply: the examiner must not

- Be a trustee of the church, or
- Involved in the administration or leadership team of the church, or
- A major donor to the church, or
- A close relative/partner or employee of any of the above

... But can be a member of the church!

Legal Reporting Requirements

- Trustee annual report¹
- Report from Independent Examiner or Auditor
- Accounts
 - Accrual accounts must be prepared under SORP FRS102 (for year end from Dec 2015)
 - SoFA (“Statement of Financial Activities”)
 - Statement of Assets and Liabilities or Balance Sheet
 - Notes to the accounts

¹ Registered charities whose income is greater than £100,000

Trustee Report

- Reference & Administrative details
- Structure, Governance and management
- Objectives & Activities
- Achievements & Performance
- Financial Review
- Public Benefit Statement
- Plans for the Future
- Information on Fundraising practices

Statutory Accounting reports – R&P basis

Anytown Baptist Church
Financial Statement
for the Year ended 31st December 2018

RECEIPTS & PAYMENT ACCOUNT

	Note	Unrestricted £	Designated £	Restricted £	Total 2018	Total 2017
Receipts						
Weekly Offerings		75,275			75,275	66,953
Donations and other income	2	825		1,056	1,881	525
Income tax recovered on gifts		3,840			3,840	3,068
Investment Income	3	43			43	58
Rents and contributions for use of premises		2,565			2,565	7,200
Raised for other causes	4	510			510	250
Home Mission Grant					0	0
Total Receipts		83,058	0	1,056	84,114	78,054
Payments						
Ministry	5	20,330			20,330	61,339
Mission	6	750			750	3,068
Upkeep of church premises	7	48,266			48,266	3,500
Administration	8	5,817			5,817	5,614
Amounts passed on to other causes	9	10,200		750	10,950	10,400
Total Payments		85,363	0	750	86,113	83,921
Net Receipts / (Payments) for the year		-2,305	0	306	-1,999	-5,867
Transfers (to) from General Fund		-10,000	10,000		0	0
Cash balance at previous year end		44,508		50	44,558	50,425
Cash balance at current year end		32,203	10,000	356	42,559	44,558

Statutory Accounting reports – R&P basis

Anytown Baptist Church
Statement of Assets and Liabilities
for the Year ended 31st December 2018

	Note	Total 2018	Total 2017
ASSETS			
Bank and other Cash Balances			
Petty Cash		81	48
Bank Account - current		4,068	9,527
Bank Account - Deposit		5,026	4,983
BUC Deposit Account		30,000	30,000
		<u>39,175</u>	<u>44,558</u>
Other monetary Assets			
Debtors		0	0
Loans made		0	0
Assets Held for Church's own	10	82,172	61,060
Total Assets		<u>121,347</u>	<u>105,618</u>
LIABILITIES			
Current Liabilities	11	3,632	68
Long Term Loans	12	0	0
Pension Scheme Liability	13	81,686	84,138
Other Liabilities	14	0	0
Total Liabilities		<u>85,318</u>	<u>84,206</u>

Statutory Fund Accounting reports – accrual basis

SORP FRS102 Format

Anytown Baptist Church for the Year ended 31st December 2018

	Notes	Unrestricted £	Designated £	Restricted £	Endowment £	Total Funds £	Previous Year £
Income							
Donations and Legacies	2	79,115		1,056		80,171	70,021
Charitable Activities	3	825				825	525
Other Trading Activities	4	2,565				2,565	7,200
Investments	5	43				43	58
Other	6	510				510	250
Total Income		83,058	0	1,056	0	84,114	78,054
Expenditure							
Raising Funds		0				0	0
Charitable Activities	7	85,363		750		86,113	83,921
Total Expenditure		85,363	0	750	0	86,113	83,921
Net Operating Income before transfers		-2,305	0	306	0	0	-5,867
Transfer of Funds		-10,000	10,000			0	0
Net Gains/(losses) before other recognised losses		-12,305	10,000	306	0	-1,999	-5,867
Actuarial Gains/(losses)	10	-3,384				-3,384	-3,146
Net Movement in Funds		-15,689	10,000	306	0	-5,383	-9,013
RECONCILIATION OF FUNDS							
Total Funds Brought Forward	12	41,362	0	50	0	41,412	50,425
Total Funds Carried Forward		25,673	10,000	356	0	36,029	41,412

Statutory Fund Accounting reports – accrual basis

SORP FRS102 Format

Anytown Baptist Church for the Year ended 31st December 2018

Notes	Unrestricted £	Designated £	Restricted £	Endowment £	Total Funds £	Previous Year £
2 Donations and Legacies						
Freewill Offerings	75,275		1,056		76,331	66,953
Gift Aid	3,840				3,840	3,068
Legacies	0				0	0
	79,115	0	1,056	0	80,171	70,021
3 Charitable Activities						
Lunchclub	600				600	420
Children's Club	175				175	100
Other Activities	50				50	5
	825	0	0	0	825	525
4 Other Trading Activities						
Use of Premises	2,565				2,565	1,200
Letting of Manse	0				0	6,000
	2,565	0	0	0	2,565	7,200

Statutory Fund Accounting reports – accrual basis

SORP FRS102 Format

Notes	Charitable Activities	Grant Funding (Note 9)	Support Costs (Note 10)	Total Costs	Previous Year	
	£	£	£	£	£	
8 Charitable Activities						
Ministry	20330		3519	23849	66953	
Mission	750	10950	634	12334	3068	
Premises	48266		1664	49930	0	
	69346	10950	5817	86113	70021	
	Unrestricted	Designated	Restricted	Endowment	Total Funds	Previous Year
	£	£	£	£	£	£
9 Grants made to Other Charities						
BMS World Mission	4700				4700	4600
Baptist Home Mission	5500				5500	5300
Christian Aid			500		500	500
Christians Against Torture			250		250	0
	10200	0	750	0	10950	10400
10 Support Costs						
Administration	1946				1946	2043
Bank Charges	25				25	25
Subscriptions	400				400	387
Church Magazine	550				550	525
Accountancy	2500				2500	2250
Other Expenses	396				396	384
	5817	0	0	0	5817	5614

Statutory Fund Accounting reports – accrual basis

SORP FRS102 Format

Anytown Baptist Church Balance Sheet 31 December 2018

	Note	Total 2018		Total 2017	
		£	£	£	£
Fixed Assets					
Tangible Fixed Assets			82,172		81,060
Current Assets					
Debtors	10	0		0	
Bank and Cash		39,175		44,558	
		<u>39,175</u>		<u>44,558</u>	
Current Liabilities					
Creditors: amounts falling due within 1 year			<u>3,632</u>		<u>68</u>
Net Current Assets			35,543		44,490
Total Assets less current liabilities			<u>117,715</u>		<u>125,550</u>
Creditors: amounts falling due after more than one year					
			0		0
Net Assets excluding Pension Liability			<u>117,715</u>		<u>125,550</u>
Defined Benefit Pension Scheme	11		81,686		84,138
Total Net Assets or Liabilities			<u>36,029</u>		<u>41,412</u>
CHARITY FUNDS					
Unrestricted			25,673		41,362
Restricted	12		356		50
Designated	13		10,000		0
Total Charity Funds			<u>36,029</u>		<u>41,412</u>

Accounting for pensions

R&P basis

- Treat all outgoings as payments
- Future deficit contributions should be a liability in the statement of assets and liabilities.
 - The liability value is current monthly deficit contributions multiplied by number of months remaining in recovery plan (120 months at end 2018)
- Standard form notes are provided in leaflet F02.

Accounting for pensions

Accruals basis

- Treat all payments relating to current service (i.e. contributions to the DC scheme) as expenditure in SoFA
- Record a liability in balance sheet calculated as a discounted cashflow of future contributions, which is recalculated each year. Use the FRS102 calculator on www.baptistpensions.org.uk

Accounting for pensions

Accruals basis

- Deficit contributions charged against the balance sheet liability.
- Reconcile each year the change in liability value with payments made. Balancing value is recorded in SOFA as gain/loss on DB pension liability
- Standard form notes provided in leaflet F03.

Example Reconciliation:

Pension Liability	2018 £
Opening balance at 1 st Jan	63,000
Deficit Payments in year	(3,000)
Actuarial (gains)/losses	(5,000)
Closing balance at 31st Dec	55,000

Internal Reporting

Anytown Baptist Church for the Year ended 31st December 2018

	January - September			Year			Restricted Year to Date £
	Actual	Budget	Diff	Projected	Budget	Diff	
	£	£	£	£	£	£	
INCOME							
Sunday Collections	57336	54750	2586	75275	73000	2275	
Gift Aid tax Receipt	0		0	3840	3700	140	
Hire of Hall	2052	2250	-198	2565	3000	-435	
Bank Interest	29	34	-5	43	45	-2	
Other Income	647	750	-103	1335	1000	335	1056
TOTAL INCOME	60064	57784	2280	83058	80745	2313	1056
EXPENDITURE							
Salaries & Other Costs	15847	15250	-597	20330	20330	0	
Postage & Stationery	1259	1460	201	1946	1950	4	
Cleaning, utilities etc	6283	7300	1017	9711	9750	39	
Insurance	2778	2100	-678	2778	2800	22	
Property Maint/repairs	32875	18750	-14125	35777	25000	-10777	
Donation: Home Mission	4125	4125	0	5500	5500	0	
Donation: BMS	3525	3525	0	4700	4700	0	
Accountancy		1875	1875	2500	2500	0	
Other costs	1579	1687	108	2121	2250	129	750
TOTAL EXPENDITURE	68271	56072	-12199	85363	74780	-10583	750
Net Income	-8207	1712	-9919	-2305	5965	-8270	
Funds still to be sent							306

Keeping Records

You must keep all relevant records which will substantiate the financial transactions

- Bank statements
- Chequebook stubs and paying-in books
- Invoices
- Internal documents created, eg
 - weekly income schedule showing the different sources of income received
 - Bank and cash reconciliations
- Signed Gift Aid declarations, weekly offering envelopes (if used)
- Payroll records and calculations (even if you have this work done by a bureau)

Keeping Records

Most records will need to be retained for a maximum of 6 years (plus current year), except for insurance policy certificates (must be kept indefinitely!)

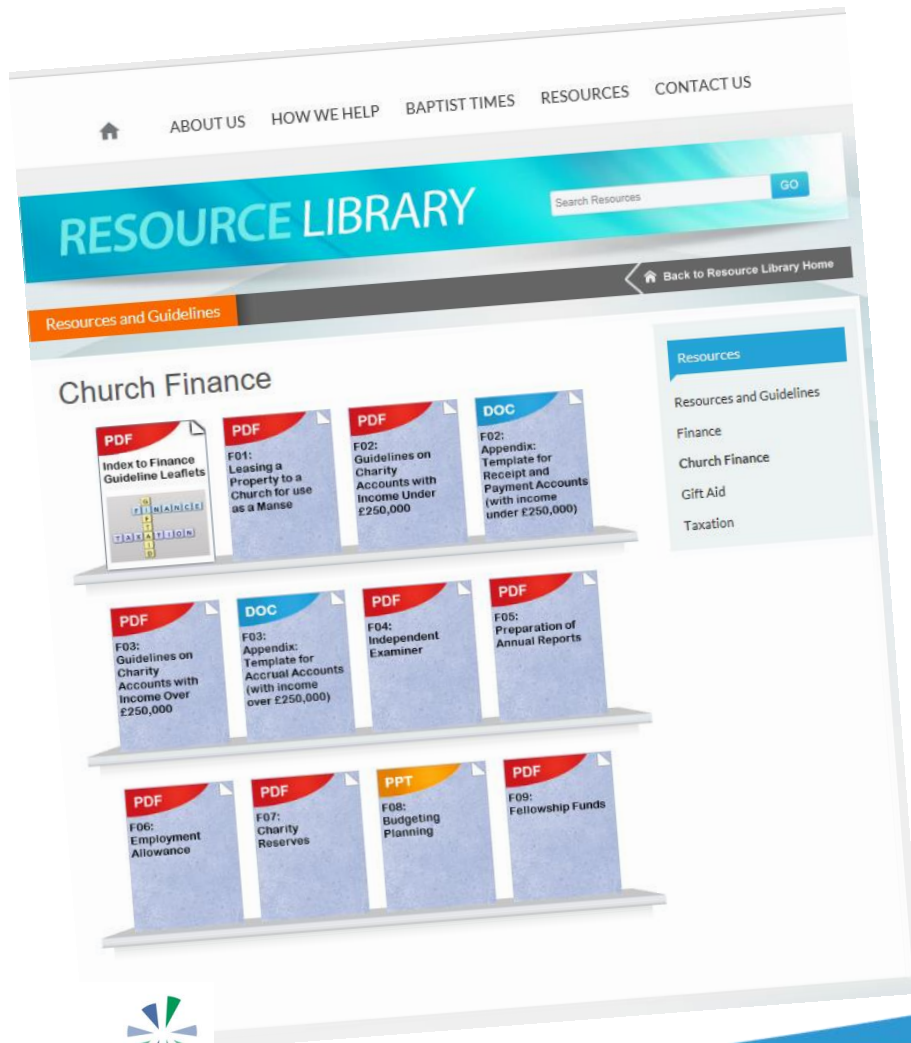
Do you need a computer?

No ... but it will certainly make your life easier!

What Accounting Software should you consider using?

- Ideally a package which is specifically written for charities
but you can supplement this with other IT eg excel
- “Off-the-shelf” accountancy packages

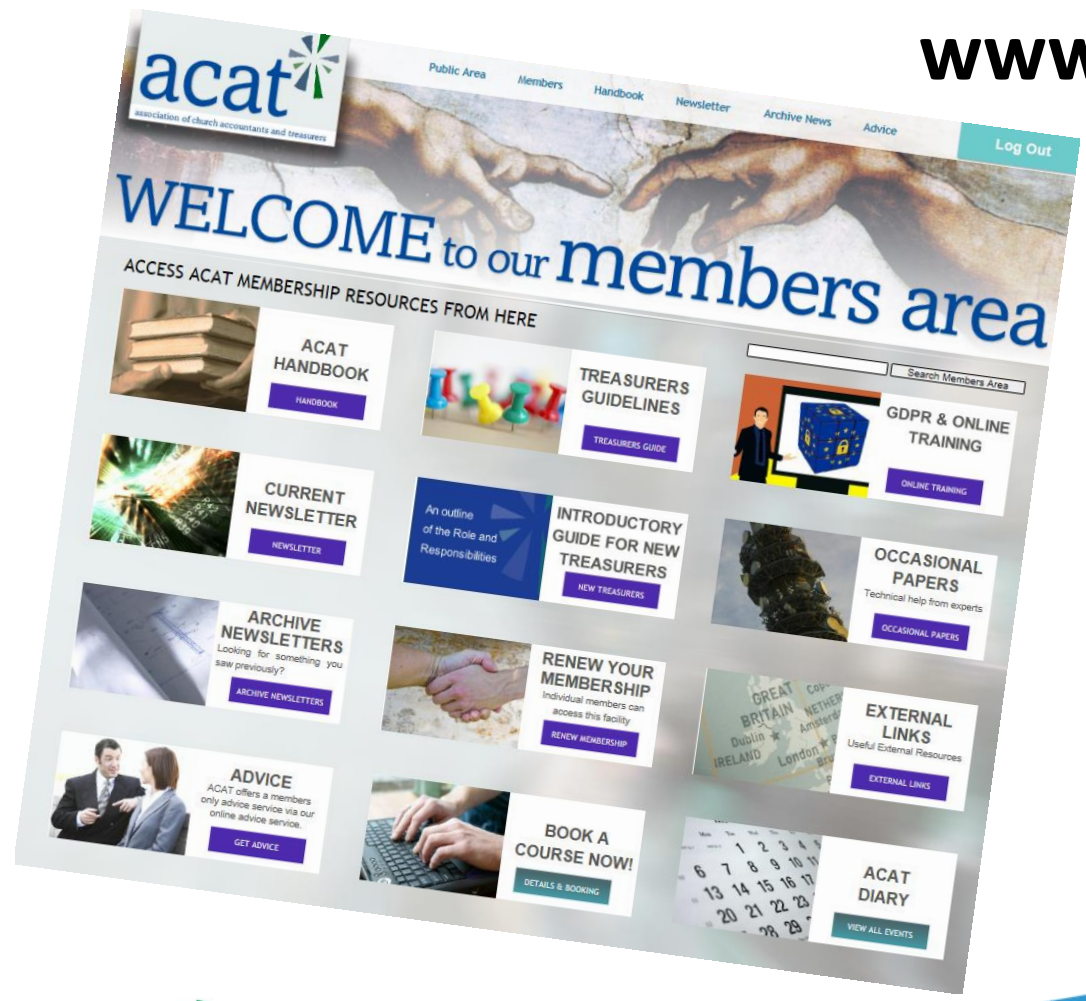
www.baptist.org.uk/resources



Specific BUGB leaflets you will find useful:

- **F02:** “Guidelines on charity accounts with income under £250,000”
- **F03:** ““Guidelines on charity accounts with income over £250,000””
- **F05:** “Preparation of Annual Reports”
- **F07:** “Charity Reserves”

ACAT website:
www.acat.uk.com



ACAT handbook