VODA

An Independent Charity No. 1075060

Information Sheet 5.3

Accounting for Charities

All charities (whether registered with the commission or not) must prepare accounts and make them available on request. The type of accounts and report which a charity has to prepare depends on:

- its legal structure
- its income
- the value of its assets.

Irrespective of your legal obligations, your charity's constitution or other governing document may also require you to send the annual accounts and a Trustees' Annual Report to members and approve them at an Annual General Meeting (AGM). It is certainly good practice to do so even if you are not required to by law.

Annual income of £5,000 to £25,000

All charities with an annual income above £5,000 are required by law to register with the Charity Commission. Every registered charity must produce a Trustees' Annual Report and make it available on request (see Information Sheet 3.3 Preparing Your Annual Report).

Those with an income below £10,000 are required to submit an Annual Update to the Charity Commission, which includes changes to the charity's details, changes to trustee details, plus income and expenditure for the year.

Those with annual income **above £10,000 (and all CIOs, regardless of income)** must submit an Annual Return to the Charity Commission within 10 months of the end of their financial year, which includes the Annual Accounts and Trustees' Annual Report.

Annual income between £25,000 and £250,000

Charities with a gross annual income between £25,000 and £250,000 must have their annual accounts independently examined or audited (see Information Sheet 5.4 Independent Examinations). These form part of the Annual Return, which must be submitted to the Charity Commission within 10 months of the end of the financial year with the simplified Trustees' Annual Report.

Annual income between £250,000 and £1m

Charities with an annual income between £250,000 and £1m (with assets worth less than £3.26m) have to keep accruals accounts, which must be either audited or independently examined by an individual who is a member of a body approved by the Charity Commission. These form part of the Annual Return, which must be submitted to the Charity Commission within 10 months of the end of the financial year with a simplified Trustees' Annual Report.

Annual income over £1m

Charities with an annual income over £1m (or an annual income over £250,000 and assets worth more than £3.26m) must keep accruals accounts, which must be audited. These form part of the Annual Return, which must be submitted to the Charity Commission within 10 months of the end of the financial year with a full Trustees' Annual Report.

Charitable companies

A charitable company has to comply with both company law and charity law. This means they have to submit information to the Charity Commission and Companies House. All charitable companies have to keep accruals accounts, irrespective of income or assets.

Charitable Incorporated Organisations (CIOs)

All CIOs have to register with the Charity Commission, irrespective of income, and they all have to submit an Annual Return. CIOs may opt to prepare their accounts on a receipts and payments basis (see below) if their gross income is less than £250,000. Otherwise the accounts are prepared on an accruals basis, in accordance with the 2008 Regulations and the applicable SORP. CIOs must have an audit if either of the following conditions are met in the financial year ending on or after 31 March 2015:

- gross income exceeds £1 million
- gross assets exceed £3.26 million and gross income exceeds £250,000

Forms of accounting

There are two main forms of accounting:

- Receipts and payments
- Accruals

The type of accounts required depends on whether the charity is a company and its income - see below for a summary.

Receipts and Payments Accounts

This is a simplified form of accounting which summarises the money received and paid out during the financial year. The final balance shows how much money your charity has at the end of the year.

Unincorporated charities and CIOs with gross annual income under £250,000 may choose to prepare their accounts in this way.

This type of accounting is much easier for a small charity whose financial dealings are fairly straightforward. However it does not always give a clear picture of the year's finances and can make it harder to compare one year with the next.

If you present receipts and payments accounts, you must also provide a statement listing assets and liabilities at the end of the year.

Charity Commission pack CC16 gives guidance on the preparation of Receipts and Payments accounts.

An Independent Charity No. 1075060

Information Sheet 5.3

Accounting for Charities

Accruals Accounts

When the financial structure of the charity becomes more complicated, it may be better to adopt accruals accounting.

All charitable companies must prepare accruals accounts. Unincorporated charities and CIOs must prepare accruals accounts if their annual income is over £250,000.

Accruals accounts present a clearer picture of the charity's finances during the year. They show income and expenditure as these relate to the year in question, rather than simply recording money received and paid out. The balance sheet gives a 'snapshot' of the charity's financial position at the end of the year.

Accruals accounts also show the value of assets (equipment, land and buildings) in a different way.

The Charity Commission have produced templates that you can download and use for your accruals accounts (CC17a) with associated guidance (CC17b).

A charity preparing accruals accounts must follow the Statement of Recommended Practice (Charities SORP). The report and accounts must consist of a balance sheet, a statement of financial activities (SOFA) showing incoming resources and how they were used, and explanatory notes. Use the Charity SORP website to help you find the right guidelines for your charity.

Scrutiny of accounts

There are two types of external scrutiny of accounts:

- Independent examination (see Information Sheet 5.4)
- Audit

The type of scrutiny required depends on whether the charity is a company, its income and the wording in its constitution. See below for summary.

All charities with an annual income above £25,000 are required to have either an independent examination or accounts or an audit.

All charities with an annual income above £1m (or with an income over £250,000 and assets above £3.26m) are required to have an audit.

Independent Examination

This is the process of scrutinising a charity's accounts below the level of a professional audit. The procedures are defined by law and by the Directions of the Charity Commission. The independent examiner will gain an understanding of the charity, look at the accounts and supporting documents and write an independent report to accompany the accounts and Trustees' report.

Audit

The audit process is defined by law and is carried out by a Registered Auditor (a chartered accountant). An audit is the highest level of scrutiny of accounts and the auditor looks for positive evidence to enable the accounts to be described as a "true and fair" view.

An Independent Charity No. 1075060

Information Sheet 5.3

Accounting for Charities

Annual Return

An Annual Return is an online form that must be completed each year by registered charities with annual income over £10,000 and all Charitable Incorporated Organisations. You must return your completed Annual Return to the Charity Commission by the deadline given on the Return, which will be 10 months after the end of your financial year.

Registered charities with a gross income below £10,000 (and which are not CIOs) have to complete an Annual Update, in order to keep their entry on the Charity Register up-to-date.

Charities required to complete an Annual Return will receive an email reminder. You'll be asked to update details including:

- name of trustees
- bank details
- charity classification and activities
- details of land and buildings owned by the charity
- number of volunteers
- details of overseas spending and activities

You will also need to declare whether the charity:

- is registered for Gift Aid
- pays its trustees
- raises funds from the public
- works with a commercial business that raises money for the charity
- has a trading subsidiary (a company whose profits go to the charity)
- has policies for risk management, investment, safeguarding vulnerable beneficiaries, managing conflicts of interest, managing volunteers, and handling complaints
- has a policy on paying its staff
- has reviewed its financial controls
- has received income from local or central government, either through contracts or as grants, and how much was received
- If your charity has an income of £25,000 or more, you must state if any serious incidents took place in the last year, such as fraud, or risk to beneficiaries.

For full and legal requirements of charity accounting, please contact visit the Charity Commission website: www.gov.uk/government/publications/charity-reporting-and-accounting-the-essentials-march-2015-cc15c/charity-reporting-and-accounting-the-essentials-march-2015

VODA's Finance Team can provide advice and assistance on accounting. Conatct us on 0191 643 2626 or email finance@voda.org.uk to discuss your requirements.

North Tyneside VODA
Queen Alexandra Campus
Hawkeys Lane
North Shields
NE29 9BZ
(Tel) 0191 643 2626
www.voda.org.uk
Charity number 1075060