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| Charity accounts and reports: Accounting, reporting & audit requirements for non-company small charities with income =/<£250k |
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# Casework Guidance

# B2 Accounting, reporting and audit requirements for small charities with incomes of £250,000 or less and which are not companies

**14 March 2012**

## 1. What is a receipts and payments account?

For smaller non-company charities, receipts and payments accounts provide an accounting option that is simple to maintain and prepare. As receipts and payments accounts are not required to provide a “true and fair view” there is no requirement to apply accounting standards, the SORP or particular rules as to how assets or liabilities are recognised.

Receipts and payments accounts set out cash received and paid out (including receipts and payments to and from all the charity’s bank accounts) with these cash movements reconciling the cash and bank balances at the start of the year with the balances held at the end of the accounting period. The receipts and payments are generally summarised into categories of receipts and payments as appropriate for the charity but again the analysis provided is not subject to any legal requirements.

There is no legal requirement for any notes to the accounts although we encourage charities to disclose related party transactions including payments to trustees.

In addition to a receipts and payment account charities should also prepare a Statement of Assets and Liabilities. This statement lists the assets and liabilities of the charity at the end of the accounting period. There are no legal requirements as to the form this statement must take. We however expect it to shows cash and bank balances and other assets and liabilities due to be settled in cash. For tangible assets, such as property, a narrative description of the asset is sufficient as there are no requirements for a valuation.

Charities eligible to prepare receipts and payments accounts are small and so only have to prepare a simple annual report (refer to [CC15b section H](http://www.charitycommission.gov.uk/Publications/cc15b.aspx#h) for details).

## 2. Which charities can prepare receipts and payments accounts?

**IMPORTANT NOTE:** Section 133 of the Charities Act allows a choice, within financial thresholds, for non-company charities to produce accounts on either the receipts and payments basis, or the accruals basis, unless prevented from choosing receipts and payments accounts by their governing document. The thresholds under which this applies are:

* charities with a financial year ending on or before 31 March 2009 having a gross income of £100,000 or less; or
* charities with financial year ending on or after 1 April 2009 having a gross income of £250,000 or less.

**IMPORTANT NOTE:** Company charities set up under company law cannot adopt receipts and payments accounts because company law (Companies Act 2006 section 393 (1)) requires their accounts to be prepared to show a true and fair view and requires an income and expenditure account and balance sheet to be presented.

See section 5 for guidance about how the income threshold is defined for the purposes of deciding whether receipts and payments accounts may be prepared. Some charities that may legally prepare receipts and payments accounts may be required by donors or by their trusts to produce accruals accounts.

## 3. Format of receipts and payment accounts

**IMPORTANT NOTE:** Section 133 of the Charities Act sets out the legal requirements as to what receipts and payments accounts must comprise and these are:

* A receipts and payments account
* A statement of assets and liabilities.

The Act provides no power to make regulations concerning their content and so the Charities (Accounts and Reports) Regulations 2008 do not provide a legal framework for the format or the content of Receipts and Payments accounts. Instead trustees are free to devise headings which they consider reflect appropriately the activities and nature of the charity.

Our [Receipts and Payments Accounts pack, CC16](http://www.charitycommission.gov.uk/Publications/cc16.aspx), includes a standard form that provides a recommended layout for a receipts and payments account, and an accompanying pro-forma for a simple Trustees’ Annual Report with guidance on how to complete them. We recommend that the pro forma format provided in CC16a section A is used as a general guide to how receipts and payments accounts should be drawn up.

It is particularly important that unrestricted funds, restricted funds and endowment funds, where present, are separately identifiable. Sales and purchases of assets or investments and loans and their repayment (which would not be included in accruals accounts) should also be clearly identifiable.

Where the charity operates more than one bank account these should be combined for analysis purposes so that the accounts reconcile the total of all cash and bank accounts operated by the charity.

There is no legal requirement to use our Receipts and Payments Accounts pack (CC16) but we do encourage its use.

**IMPORTANT NOTE:** Charities which are dual registered with the Office of the Scottish Charity Regulator (OSCR) must file receipts and payments accounts which are in compliance with Scottish charity law. Scottish charity law does set out the mandatory content in the Charities Accounts (Scotland) Regulations 2006. In Scotland the receipts and payments account must follow a specified format and a statement of balances requires certain valuations and accompanying notes to the accounts including related party transactions. We will accept Scottish format receipts and payments accounts without modification.

## 4. Statement of assets and liabilities

In common with the receipts and payments account, there is no statutory framework for the Statement of Assets and Liabilities. The content can vary form a simple descriptive list of items with no values provided, except for cash and bank balances, to a sophisticated analysis very like a balance sheet with supporting notes setting out how the assets and liabilities are valued.

Section B of CC16a sets out our recommended format for completing the statement of assets and liabilities and CC16b give detailed guidance as to what should be included in each section of the statement.

It is not possible to “mix and match” receipts and payments and accruals accounts. Anything called an “income and expenditure account” or “balance sheet” implies accruals accounts and so refer to OG 15 B1.

## 5. Matters to consider when reviewing receipts and payments accounts

The following sets out some issues that caseworkers are likely to come across when providing advice, dealing with a high profile case or when financial issues form part of their considerations in making a direction, order or in providing a consent. Such cases may create a need to review accounts prepared by a charity.

### 5.1 Terminology

Receipts and payments account is a technical description of accounts which simply set out the cash flows into and out of the charity and reconcile the cash and bank balances held at the start of an accounting period to the balances held at the end of an accounting period.

Larger charities are required to prepare accruals accounts which include income receivable and expenses due in the period. Accruals accounts should be prepared in accordance with the Statement of Recommended Practice (SORP). They are described fully in OG15 B1.

Accruals account should include a statement of financial activities, a balance sheet and notes to the accounts, whereas receipts and payments accounts simply provide a receipts and payments account and a statement of assets and liabilities. The charity’s accounts should be accompanied by their annual report.

Charities do not always use the correct terminology in describing the accounts they have prepared, and consequently we receive accounts headed ‘Income and Expenditure account’ or ‘Profit and Loss Account’. Where financial considerations are relevant to a case decision then it is important that the accounting basis on which the accounts have been prepared is understood.

**IMPORTANT NOTE:** Where the terminology is not standard, unless you are certain that the format of the accounts is correct and it is just the words which are wrong, you should refer to a Commission accountant for advice.

### 5.2 Definition of gross income for accounts preparation purposes

Receipts and payments account records all money coming into and out of the charity and this must be analysed if the cash in hand and at bank is to be reconciled.

The Charities Act s.353(1) defines gross income as “gross recorded income from all sources including special trusts”. In practice this broad definition is generally interpreted as referring to the income recorded in the accounts of a charity using the accounting basis that apply to their preparation. To assist charities we have provided a more detailed administrative definition that is used for completing the Annual Return required by s.169 of the Act.

The administrative definition we have adopted for the 2008 Annual Return and following years is now based on the income disclosed by charities in their annual accounts excluding the receipt of endowment which is not available for expenditure.

Where accounts are prepared on the accrual basis "gross income" should be calculated as the total incoming resources as shown in the Statement of Financial Activities (prepared in accordance with the SORP) for all funds but excluding the receipt of any endowment. Gross income should include any amount transferred to income funds during the year from endowment funds in order to be available for expenditure.

Where accounts are prepared on the receipts and payments basis "gross income" is simply the total receipts recorded in the statement from all sources excluding the receipt of any endowment, loans repaid and proceeds from sale of investments or fixed assets."

Accounts prepared for accounting periods ending in calendar years before 2008 relied on a more complex definition of gross income which scheduled in detail those items what would be construed as income and those would be excluded. In such cases reference should be made to the definition of gross income for the relevant Annual Return period.

### 5.3 Gifts in kind

Gifts in kind and other non-monetary benefits given or received, for example the services of volunteers, should not be included in the receipts and payments account as they do not result in a cash movement. If these gifts or donated services are significant they should be described in the Trustees Annual Report and any assets donated to the charity listed and described in the Statement of Assets and Liabilities.

## 6. Scrutiny of receipts and payments accounts

### 6.1 Requirement for audit

There are not normally any circumstances under which a receipts and payments account would need a statutory audit but the trustees can have an audit if they so wish. Where the Governing Document of the charity requires an audit, the trustees may wish to use their powers under s.280(2) of the Charities Act to amend that provision to allow for the form of external scrutiny required by the Charities Act.

An auditor undertaking an audit of a receipts and payments account should refer to Practice Note 11 - The Audit of Charities in the UK - issued by the ASB for further guidance on such assignments.

### 6.2 No scrutiny required

**IMPORTANT NOTE:** There is normally no statutory requirement for any form of external scrutiny of the accounts of an unincorporated charity where:

* charities with a financial year ending on or before 31 March 2009 have a gross income of £10,000 or less; or
* charities with a financial year end on or after 1 April 2009 have a gross income of £25,000 or less.

### 6.3 Independent examination

Charities with a financial year ending on or before 31 March 2009 that have prepared receipts and payment accounts must have those accounts independently examined, where they are not audited, if the gross income exceeds £10,000.

For financial years ending on or after 1 April 2009, the threshold is increased and an independent examination is only required where the accounts are not audited and the gross income for the financial year exceeds £ 25,000.

Guidance on the selection of an Independent Examiner and the work required in the carrying out of an Independent Examination are set out in detail in [CC32](http://www.charitycommission.gov.uk/Publications/cc32.aspx).

**7. Trustees’ annual reports**

**7.1 Who must prepare annual reports?**

All registered charities (including charitable companies) must prepare annual reports, as follows:

* those with a financial year ending on or before 31 March 2009 and exceeding the £10,000 threshold must submit them to us within 10 months of the end of their financial year.
* those with a financial year ending on or after 1 April 2009 and exceeding the £25,000 threshold must submit them to us within 10 months of the end of their financial year.

In relation to excepted charities:

* Very small unregistered charities (those not exceeding the £5,000 threshold) do not have to prepare an annual report.
* Other excepted charities which are not registered are also not required to prepare an annual report but we can use our powers under s.168(3) of the Charities Act to require charity trustees to prepare an annual report and submit it together with the annual accounts for that year. We would exercise this power where appropriate when using our statutory inquiry powers and the provision of an annual report would assist in the resolution of our statutory inquiry.

### 7.2 Format and content

Charities eligible to prepare receipts and payments accounts are small non company charities. The minimum content of annual reports is set out in Regulations 38-41 of the Charities (Accounts and Reports) Regulations 2008. Refer to [section H of CC15b](http://www.charitycommission.gov.uk/Publications/cc15b.aspx#h) for full details as to what has to be provided in a simple trustees’ annual report. Small charities can provide additional information if they wish.

Our [Receipts and Payments Pack CC16](https://www.gov.uk/government/collections/receipts-and-payments-accounts-pack-cc16) provides a pro forma for a simple  trustees’ annual report which charities are encouraged to use.  Examples accounts and reports, available on our website, include a trustees’ annual report for a charity preparing receipts and payments accounts together with links to award winning charity accounts (the ICAEW/ CAF Online Charity Accounts Awards).

The filing of annual reports is governed by the following sections of the Act.

* 163, 164 and 166 (registered charities)
* 168 (excepted charities)
* 167 (exempt charities)