

KEY GUIDES



The Charity Treasurer's Handbook

5th edition

Gareth G. Morgan

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This is an introductory book. It seeks to explain the framework of charity accounting but it does not provide a full statement of the law. Where legal issues are covered, they are based on the position as at 1 January 2017, but there could be subsequent changes. Many accounting concepts are presented at an overview level only – particularly in areas such as accruals accounting, charity taxation and production of final accounts under the Charities Statements of Recommended Practice (the SORPs). It should be understood that this publication is intended for guidance only and is not a substitute for professional or legal advice. No responsibility for loss occasioned as a result of any person acting or refraining from acting on the basis of this publication can be accepted by the authors or publisher.

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Contents

About the series	iv
Foreword by David Robb	v
Preface	vi
About the author	viii
Acknowledgements	ix
About the Directory of Social Change	x
List of abbreviations	xi
1 Finance in charities and voluntary organisations	1
2 Accounts at different levels: the legal requirements	19
3 Charitable funds	33
4 Financial management and sources of income	41
5 Bookkeeping principles	55
6 Checks and controls	79
7 Final accounts	93
8 Audit and independent examination	119
9 Management accounts and budgets	131
10 Accruals accounting	143
11 Social enterprise, trading income and taxes	157
12 Linking fundraising and accounting	175
Appendix: Differences for accounting years before 2016	193
Glossary	199
Notes	221
Further reading	223
Useful addresses	231
Index	235

About the series

This series of key guides is designed for people involved with not-for-profit organisations of any size, no matter how you define your organisation: voluntary, community, non-governmental or social enterprise. All the titles offer practical, comprehensive, yet accessible advice to enable readers to get the most out of their roles and responsibilities.

Also available in this series:

Charitable Incorporated Organisations, Gareth G. Morgan

The Charity Trustee's Handbook, Jacqueline Williams and Mike Eastwood

Effective Fundraising, Ben Wittenberg

Minute Taking, Paul Ticher and Lee Comer

For further information, please contact the Directory of Social Change (see page x for details).

Foreword

I was delighted to be asked to contribute a foreword for the fifth edition of this rightly popular publication. Charity treasurers need all the help they can get – and I mean that in the nicest possible way!

Across the UK, our diverse and vibrant charity sector is united by some common features: a sense of mission and a commitment to a cause; a reliance on voluntary inputs at all levels; and a requirement to display high standards of governance and stewardship in an increasingly complex operating environment.

The lion's share of the latter challenge sits with charity trustees: in particular with treasurers. Whilst charity finances sometimes come to the attention of regulators, or a wider audience, for all the wrong reasons, I am keen to remind commentators that for the great majority of the time, the great majority of charities run extremely soundly, displaying high standards of financial probity and operating to standards of transparency that can be very exacting. It is right that this is so – charities could not survive without the trust and confidence of their supporters and the wider public.

So, helping dedicated and sometimes long-suffering charity treasurers, and those who advise and support them, is extremely important work and this handbook is an invaluable resource in this respect. The book is written with the smaller charity and the volunteer in mind – it does not assume great levels of specialist knowledge on charity accounting or reporting. The language is accessible and the structure and indexing are clear. The handbook, however, also deals with issues in enough depth to be of value to more experienced readers, and in a world where the charities SORP changes on a regular basis, it is important that charities keep up to date with developments.

The book also recognises the realities of devolution of charity law and accounting practice to Scotland and to Northern Ireland, with areas of divergence appropriately flagged up and referenced.

I am sure that wherever you sit in the charity landscape, you will find the handbook a rewarding read and a frequent source of reference. I know it will make a valuable contribution to the sound management of charity finances in the UK – and perhaps beyond – and I congratulate the author on this latest excellent edition.

David Robb
CEO Scottish Charity Regulator (OSCR)

Preface

The aim of *The Charity Treasurer's Handbook* is to bring together many aspects of effective accounting and financial management in UK charitable organisations in a book which is short enough to be read in a few hours.

The role of a treasurer, finance worker or finance manager in a voluntary organisation can be a rewarding one if it enables the organisation to achieve its aims. It need not be daunting, but it does require an appreciation of those issues that make the finances of charitable organisations different from businesses.

The handbook will also be useful to those with financial experience in other sectors, who need a rapid overview of the accounting issues in a charity. The book is also intended for students on courses in charity and voluntary sector management who need an appreciation of the requirements of financial management in the sector.

This book outlines some of the key issues of charity law that affect the work of treasurers and finance officers in smaller charities. It explains a range of terminology, such as restricted funds, and the implications of the Charities Statements of Recommended Practice (the SORPs). It offers guidelines for day-to-day accounting procedures, as well as for year end accounts. It provides advice on topics such as appointing an auditor or independent examiner, and gives an overview of some of the specific tax issues affecting charities.

This handbook does not seek to cover the full detail of every issue, but simply to give enough information so that the reader will understand the main requirements. It is hoped that this will enable those responsible for charity finances to make sensible decisions and to enter into meaningful discussions with others when further guidance is needed. Where more detail is needed, the further reading list at the end may be helpful.

The book's main focus is on charitable voluntary organisations in the UK with total incomes in the range of £5,000 to £1 million – but larger and smaller groups will also find the book useful. Much of the content will also be relevant to voluntary organisations without charitable status. But, as explained in chapter 1, the impact of the various Charities Acts means many voluntary organisations that do not think of themselves as charities are in fact charitable in law. So the principles of this book apply to nearly all voluntary organisations, other than political organisations and private clubs.

One of the difficulties of charity law arises from the different legal systems in the countries of the UK. The book seeks to cover, at least in terms of key issues:

- the requirements in England and Wales under the Charities Act 2011 (including the latest changes from 2016);
- the rules for Scottish charities under the Charities and Trustee Investment (Scotland) Act 2005 (including amended regulations from 2016); and
- the rules for Northern Irish charities under the Charities Act (Northern Ireland) 2008 (including the regulations which began from 2016).

Legal and similar issues are stated as far as possible in terms of the requirements for financial years starting from 1 January 2016, covering accounts which will generally be filed with charity regulators from 2017 onwards (for earlier years, see the appendix on page 193). But a book of this kind can only give an overview of legal issues – there are often more detailed requirements, exceptions and special cases which cannot be covered here. When a charity is in any doubt, it is often wise to take professional advice.

For the second, third, fourth and fifth editions, I have also taken the opportunity to update many sections to clarify issues that have become particularly important to the sector over the last few years. These include the accounting issues when voluntary organisations get involved in providing public services, the differences between grants and contracts and the whole area of full cost recovery. I have also added some material on partnership arrangements in the sector. This fifth edition addresses many new issues which have arisen in the last three years. These include experience with the new Charities SORPs from 2015 and the further SORP changes in 2016; the increased audit threshold in England and Wales (widening the range of charities which can have independent examinations); and the start of the new charity accounting regulations in Northern Ireland. Other changes include updates to the Gift Aid regime, and advice on the practical issues of accounting for charitable incorporated organisations (for more on CIOs, see my other book in this series). This edition also includes an extensive glossary of terminology used in the field of charity accounting (see page 199).

The central message of the book is that being a charity treasurer or finance officer is an important and worthwhile role. It involves much more than keeping the books: the treasurer or finance officer is a key person in all kinds of strategic decisions and in ensuring the organisation meets the requirements of charity law. Contrary to popular belief, the role does not require massive accounting knowledge, or a brilliant head for figures: simply a commitment to the importance of financial resources, and a willingness to see them used effectively for the purposes of the charity.

About the author

Gareth G. Morgan has been involved in advice, research and teaching on charity accounting and regulation for 25 years.

Most of his time is now spent as the senior partner of the Kuberneis Partnership LLP, a small firm of charity consultants based in Yorkshire, England and East Lothian, Scotland. Through this work he helps to support charitable organisations across the UK and other professionals advising charities in the areas of accounting, formation of new charities, charity tax issues, and other aspects of charity regulation.

He is Emeritus Professor of Charity Studies at Sheffield Hallam University where he was formerly course leader of the MSc in Charity Resource Management and led the inter-faculty Centre for Voluntary Sector Research. He continues to support students researching the charity sector and is collaborating with international colleagues in charity-related research and policy work. Over the years he has worked on a range of research projects concerned with charity regulation and accounting including studies for the Charity Commission and major accounting bodies. He gave evidence in Parliament to the Joint Committee of both Houses of Parliament examining the draft Bill which became the Charities (Protection and Social Investment) Act 2016. He is the author or co-author of many research papers and articles in these areas.

Gareth is a Fellow of the Association of Charity Independent Examiners, a Full Member with Diploma of the Institute of Fundraising and an Academic Fellow of the Association of International Accountants.

He is also a member of the Charity Law Association where he has contributed to several of its working parties, particularly on regulations related to charity structures and accounting. He served for six years on the Charity Technical Committee of the Institute of Chartered Accountants in England and Wales (ICAEW) and is now on the Charity Expert Panel of the Institute of Chartered Accountants of Scotland (ICAS).

Over the years he has been a trustee of a wide range of charities, including serving as treasurer in both local and national organisations.

Acknowledgements

Over the years I have been enormously privileged to work with several hundred charitable organisations in terms of their accounting and financial arrangements, in many cases helping them to implement procedures to reflect the new charity accounting rules and in several cases acting as their independent examiner. Others have attended courses I presented, and raised significant questions which have caused me to reflect. Many of the ideas in this book derive from the insights of the people in those organisations, and I would like to dedicate the book to them.

I am also very appreciative of many individuals who have offered advice, listened to my questions and been willing to debate different approaches to charity accounting. This includes key figures in the Charity Commission for England and Wales, OSCR, the Charity Commission for Northern Ireland, academic colleagues, members of the ICAEW and ICAS charity committees, and leading figures in the Association of Charity Independent Examiners (ACIE).

I would also say a special word of thanks to my students over the years – all experienced charity practitioners – on the MSc in Charity Resource Management at Sheffield Hallam University. Their questions and challenges have been immensely valuable, both on technical aspects of the regulations, and on the practical issues of applying these principles in real charities run by real people who are not always keen to follow the official line!

I am also most grateful to the Directory of Social Change for inviting me (back in 2002) to produce a book on this topic and to update it at intervals thereafter including this new fifth edition. My wife, Sharon, who is also my partner in the Kubernesis Partnership LLP, has given a great deal of encouragement to this project and read many drafts.

Nevertheless, I must stress that all opinions expressed are my own (unless another source is mentioned) and any errors remain my responsibility.

Gareth G. Morgan
Dunbar, Scotland
December 2016

About the Directory of Social Change

The Directory of Social Change (DSC) has a vision of an independent voluntary sector at the heart of social change. The activities of independent charities, voluntary organisations and community groups are fundamental to achieve social change. We exist to help these organisations and the people who support them to achieve their goals.

We do this by:

- providing practical tools that organisations and activists need, including online and printed publications, training courses, and conferences on a huge range of topics;
- acting as a 'concerned citizen' in public policy debates, often on behalf of smaller charities, voluntary organisations and community groups;
- leading campaigns and stimulating debate on key policy issues that affect those groups;
- carrying out research and providing information to influence policymakers.

DSC is the leading provider of information and training for the voluntary sector and publishes an extensive range of guides and handbooks covering subjects such as fundraising, management, communication, finance and law. We have a range of subscription-based websites containing a wealth of information on funding from grant-making charities, companies and government sources. We run more than 300 training courses each year, including bespoke in-house training provided at the client's location. DSC conferences and fairs, many of which run on an annual basis, include the Management and Leadership Fair, the Charity Accountants' Conference and the Charity Law Conference. DSC's major annual event is Charityfair, which provides low-cost training on a wide variety of subjects.

For details of all our activities, and to order publications and book courses, go to www.dsc.org.uk, call 08450 777707 or email publications@dsc.org.uk.

List of abbreviations

BACS	Bankers' Automated Clearing System
Charity Commission	Charity Commission for England and Wales
CCNI	Charity Commission for Northern Ireland
Charities Act	unless otherwise stated this means the Charities Act 2011 (applicable to England and Wales)
CASC	community amateur sports club
CAF	Charities Aid Foundation
CBS*	community benefit society
CIC	community interest company
CIO*	charitable incorporated organisation (unless otherwise stated this abbreviation includes CIOs in any part of the UK, including SCIOs)
CSG	cost sharing group
CLG	company limited by guarantee
EEA	European Economic Area
EU	European Union
FPS	Fundraising Preference Service
FR	Fundraising Regulator
FRC	Financial Reporting Council
FRS102*	Financial Reporting Standard number 102
FRSSE	Financial Reporting Standard for Smaller Entities
GASDS	Gift Aid Small Donations Scheme
HMRC*	Her Majesty's Revenue and Customs
IFRS	International Financial Reporting Standards
NFP	not-for-profit organisation
NI	National Insurance
OSCR	Office of Scottish Charity Regulator
PAYE	Pay As You Earn
R&P	receipts and payments (when referring to R&P accounts/accounting)
RTI	real time information (for PAYE)
SAP	statutory adoption pay
sch.	schedule (to an act of parliament or regulations)
SCIO*	Scottish charitable incorporated organisation
SMP	statutory maternity pay
SOAL*	statement of assets and liabilities
SOFA*	statement of financial activities

SORP*	Statement of Recommended Practice (unless otherwise stated this will always be a reference to the 'Charities SORP' – see chapters 2 and 7 for explanation)
SPP	statutory paternity pay
SSP	statutory sick pay
VCOs	voluntary and community organisations (some VCOs are charities but not all)
VCS	voluntary and community sector

*These terms are explained in more detail in the glossary starting on page 199.

Glossary terms

Terms which appear in **bold** in chapters 1–12 (when first used) are explained further in the glossary, starting on page 199.

References to endnotes

Superscript numbers within the text denote references to the legislation or further details – the corresponding notes appear on pages 221–222.

1 Finance in charities and voluntary organisations

Before taking on the role of being a **treasurer** or finance officer in a charity, you need to understand what is meant by a **charity**. Charitable status makes a huge difference to the need for accounting and financial management. But many more organisations are charities than people often realise and, as we will see, the term ‘charity’ actually includes a very large part of the voluntary sector.

Many people think that ‘charity’ applies only to certain types of organisations with a particular legal form, and which are registered with the Charity Commission: this is quite wrong. There are many possible legal structures for a charity, and there are many organisations which in law are charities, even though historically they were not generally required to be registered: churches are probably the largest such category. Also, the Charity Commission only covers England and Wales; in Scotland the Office of the Scottish Charity Regulator (OSCR) registers charities and in Northern Ireland charities are now registered by the Charity Commission for Northern Ireland (CCNI) – see page 13 for more on the different kinds of charitable status. Moreover, many larger organisations have been formed as charitable companies, which means they are subject to both charity and company law (although the emergence of **charitable incorporated organisations** – **CIOs** – has made the company structure much rarer for new charities).

The principles of being a charity treasurer, and most of the law on charity accounting, apply to almost all charitable organisations.

The third sector, voluntary sector, charity sector and social enterprise

To understand charities, we need to begin with the widest possible view of the sector.

People often refer to voluntary or **not-for-profit** (NFP) organisations as the ‘third sector’. The government’s definition of the third sector is organisations which are neither: (a) established primarily for distribution of profit; nor (b) part of the statutory sector. The third sector is usually seen in contrast to the other two sectors – the commercial sector (business

organisations) where profit is the central aim, and the public sector (for example, government, local authorities and the health service), which, although NFP, is part of the work of the state. It is best to use the term 'not-for-profit' since many businesses going through hard times are non-profit-making in certain years. Not all third sector organisations are NFPs; for example, many cooperatives generate profits which are shared between the members. But while most people would class cooperatives as being part of the third sector, a profit-distributing cooperative could not be a charity.

The third sector is often (wrongly) divided into two main categories: voluntary organisations and social enterprises. However, this is highly misleading because many voluntary organisations, including many charities, undertake social enterprise activities (see below for more on this).

Voluntary organisations are established voluntarily to advance aims that are non-statutory and NFP. The term is normally used to describe groups and organisations with some definite constitutional form that are working towards a socially beneficial aim. Some are large national organisations (these almost always have charitable status); others may be small community groups with no paid staff. Voluntary organisations will always have volunteers in governance of the organisation (who may be called trustees or management committee members) and may have volunteers in other roles. Some people prefer to talk of voluntary and community organisations (VCOs), and hence the voluntary and community sector (VCS), but in this book the term 'voluntary organisation' is used to include small community groups, faith-based organisations and, indeed, any organisation which meets these criteria.

Many voluntary organisations are charities (see page 6 for the definition) but there are some organisations which, although voluntarily governed and with socially beneficial aims, do not meet the precise requirements of charitable status. An example would be a group set up to raise funds purely to support one person or family, or a group which operates purely as a club for the benefit of its own members.

Social enterprises, if separately constituted, are trading organisations where profit may be an explicit aim, even though the purpose of the trade is for the benefit of the community. They do not have to be voluntarily governed – they can have paid board members if resources allow. Since 2005, many social enterprises have been established using the structure of a community interest company (CIC). Others are structured as cooperatives. CICs are subject to an **asset lock** – this allows outside investors to receive a modest return if required but most of the profits must be retained for the social aims of the organisation. However,

Index

- accountable body 171, 199
- accounting see *also* annual report and accounts; management accounts; VAT
 - bank accounts 38–9, 63–5
 - changes from Jan 2016 193–8
 - fundraising 175–8
 - group accounts 12–13, 90–1, 118, 209
 - inter-funds transfers 39–40, 208, 210
 - legal framework 21–4
 - legal requirements 24–30
 - levels of detail 19–21
 - multi-fund 37–9, 70, 208
 - partnership arrangements 170–3
 - petty cash 63–5
 - posting interest, direct debits, direct receipts and similar items 71
 - systems 67–70
- accounting periods 139–40, 199
- accounting records 19–20, 24–5, 67–70, 199
- accounting standards 152–3, 199–200
 - see *also* FRS102 accounting standard; FRS102 SORP; FRSSE accounting standard; FRSSE SORP; Statement of Recommended Practice (SORP)
- accruals accounts
 - accounting for multi-year grants 154–5
 - accruals 150, 200
 - capitalisation limits 151
 - changes from Jan 2016 194–6
 - Charity Commission guidance 117
 - comparison with receipts and payments accounts 30–2, 96–7, 108
 - concepts 145–7
 - creditors 66, 77, 148–9, 204
 - debtors 31, 66, 148, 205
 - deferred income 149, 205
 - depreciation 32, 150–2, 205
 - fixed assets 150–2, 207
 - impact of accounting standards 152–3
 - materiality 146, 212
 - notes to accounts 115–17, 213
 - accruals accounts—*continued*
 - overview 143–4, 200
 - prepayments 149–50, 213
 - qualitative characteristics 146–7
 - statement of financial activities (SOFA) 110–14
 - transactions 147–52, 218
 - true and fair concept 96, 145, 219
- aggregate gross income 118, 200
- annual report and accounts
 - accruals accounts 108–17
 - additional reports for accruals accounts 117
 - approval of accounts by trustees only 120–3
 - approval of report 101
 - audit requirements 119–23, 127–8
 - balance sheet 114, 201
 - documents 94–5
 - factual section 98
 - group accounts 118, 209
 - independent examination 124–7
 - intended audience 93–4
 - issuing the accounts 128–9
 - legal requirements 19, 20–1, 25–6, 200
 - narrative section 99–100
 - notes to accruals accounts 115–17, 213
 - notes to receipts and payments accounts 107–8, 213
 - preparation of accounts 101–3
 - public benefit requirement 99–100, 192, 213–14
 - receipts and payments accounts 103–8
 - receipts and payments or accruals basis 96–7
 - reserves policy 54
 - role of auditor/examiner 101–3
 - statement of assets and liabilities (SOAL) 106, 216
 - statement of balances 30, 95, 103, 106, 107
 - statement of financial activities (SOFA) 31–2, 40, 110–14, 118, 146, 188–9, 217

- annual report and accounts—*continued*
 - Statement of Recommended Practice (SORP) 22–4, 108–10, 153–4, 193–8
 - trustees' report 20, 97–101, 219–20
- articles of association 7, 200
- asset lock 2–3, 201
- assets 25, 31, 106, 200–1, 204 *see also*
 - balance sheet; statement of assets and liabilities (SOAL)
 - accruals accounts 114
 - charities with assets over £3.26 million 26–8, 99, 120, 122
 - in CIO accounts 107
 - fair value 153
 - in fund balances 37
 - receipts and payments accounts 31, 96
 - revaluations 35
 - transferred to another charity 12, 16
- Association of Charity Independent Examiners (ACIE) 126–7
- audit
 - auditor or independent examiner 101–3
 - auditors 127–8, 201
 - full audit 127–8
 - report 127
 - requirements for accounts scrutiny 119–23
 - threshold 27–9, 99, 118
- audit trail 68, 69, 201
- auto enrolment 74, 201

- BACS payments 71
- balance sheet 114, 201
- bank accounts 38–9, 63–5
- bank reconciliation 87–9
- bencoms *see* community benefit societies (CBSs)
- bookkeeping *see also* financial management
 - analysed cashbook (multiple funds) 60–3
 - analysed cashbook (single fund) 58–60
 - balancing off the books 57–8, 201–2
 - bank accounts 63–5
 - closing off the books 57–8, 201–2
 - double entry 65–7, 206
 - bookkeeping—*continued*
 - format 56–63
 - journals 67, 211
 - manual vs computerised 67–70
 - non-bank transactions 77–8
 - PAYE calculations and systems 73–4
 - pensions – auto enrolment 74
 - petty cash 63–5
 - posting interest, direct debits, direct receipts and similar items 71
 - responsibilities 41–2, 55–6
 - simple cashbook 56–8
 - trial balance 66–7, 218–19
 - wages and salaries 72–7
- books *see* accounting records
- breach of trust 5, 33, 37, 45
- budgets
 - vs expenditure limits 132–3
 - preparation of statement 133–4
 - use in management accounts 135–7
 - variance from actuals 135, 202
 - zero-based 140, 220

- capital funds *see* endowment funds
- capitalisation limits 151, 202
- cashbooks
 - analysed (multiple funds) 60–3
 - analysed (single fund) 58–60
 - simple 56–8
- cash flow 140–2
 - forecast 53–4, 202
 - statement of *see* statement of cash flows
- CCNI *see* Charity Commission for Northern Ireland (CCNI)
- charitable associations 9, 202, 220
- charitable companies
 - accounting standards 23, 26, 29–30, 117
 - audit requirements 119, 122
 - filing of accounts 21, 93–4, 100
 - legal form 1, 9–11, 202
 - registration 14
- charitable funds *see* funds
- charitable incorporated organisations (CIOs)
 - accounting requirements 26, 27, 195
 - approval of accounts 120
 - filing of accounts 21
 - legal form 1, 8–11, 14, 203

- charitable incorporated organisations (CIOs)—*continued*
- notes to accounts 95, 107–8
- charitable status 6–8, 13–14, 15
- charitable trusts 8, 9, 11, 203, 220
- charities *see also* Northern Irish charities; Scottish charities
- definition 6–8, 203
 - dual registration 15, 26
 - established by Act of Parliament 9
 - established by Royal Charter 9
 - excepted charities in England and Wales 13, 206
 - exempt charities in England and Wales 13, 206
 - incorporation 11–12, 210
 - legal forms 8–11
 - subsidiary groups 12–13
 - UK-wide differences 15–16
- Charities (Accounts and Reports) Regulations 2008 22, 99, 109, 116, 123, 193, 195
- Charities (Accounts and Reports) Regulations (Northern Ireland) 2015 22, 99
- Charities Accounts (Scotland) Regulations 2006 22, 99, 108, 123, 193
- Charities Act 2011
- accounts scrutiny requirements 123, 126
 - charitable objects 6
 - exempt and excepted charities 13
 - paying a trustee 5
 - receipts and payments accounts requirements 103
 - registration of charities 14
 - total return approach to investment income 50
- Charities Aid Foundation (CAF) 177
- Charities (Protection and Social Investment) Act 2016 16, 188, 190
- Charities Statement of Recommended Practice (SORP) *see* Statement of Recommended Practice (SORP)
- Charity Commission for England and Wales
- accounts scrutiny requirements 123, 125
 - approval of charitable status 7
 - filing of accounts 20, 193
- Charity Commission for England and Wales—*continued*
- guidance on accounts
 - compliance 22–4, 27
 - guidance on accruals accounts 117
 - guidance on receipts and payments accounts 103
 - guidance on subsidiary groups 170
 - jurisdiction 1, 13, 16–17, 35, 44, 211
 - public benefit requirement 100, 213–14
 - registration 14
- Charity Commission for Northern Ireland (CCNI) *see also* Northern Irish charities
- approval of charitable status 7
 - filing of accounts 21, 194
 - guidance on accounts compliance 23, 29–30
 - guidance on independent examiners 123
 - jurisdiction 1, 16–17, 35, 44, 211
 - public benefit requirement 100, 213–14
 - section 167 register 16, 216
- charity law *see* legal framework/requirements of charity accounting
- charity regulator 203 *see also* Charity Commission for England and Wales; Charity Commission for Northern Ireland (CCNI); Office of the Scottish Charity Regulator (OSCR)
- charity trustees *see* trustees
- checks and controls
- expenditure 79–84
 - honesty 86
 - income 84–5
 - subsidiary groups 90–1
 - verifying the books 86–90
- cheques
- bookkeeping 71, 87
 - controls on expenditure 79, 80–2, 86
 - controls on incoming money 85
- CIOs *see* charitable incorporated organisations (CIOs)
- Code of Fundraising Practice* 189
- community benefit societies (CBSs) 9, 11, 203–4
- community interest companies (CICs) 2, 11, 157, 169

- Companies Act 2006 23, 24, 110, 122
 see also charitable companies
- company limited by guarantee (CLG) 9–11, 14 *see also* charitable companies
- computerised bookkeeping 67–70
- consolidated accounts *see* group accounts
- consolidation 90, 204
- constitution 7, 9, 204
- cooperatives 2–3
- core costs *see* full cost recovery
- corporation tax
 exemptions 167–8
 trading subsidiary companies 169–71
- cost sharing groups (CSGs) 173–4
- creditors 66, 77, 148–9, 204
- current liability 204
- custodian trustees *see* holding trustees

- debtors 31, 66, 148, 205
- deemed list 13, 14, 205
- deferred income 149, 205
- deficit 3, 205
- deposit accounts 63–4
- depreciation 32, 150–2, 205
- designated funds 34–5, 36, 205
- direct debits 71, 82, 177
- direct payments 205
- donated income 45, 48–9, 205
- donations
 accounting for 37, 47, 162, 164
 Gift Aid 178–87, 209
 trust relationship 4–5, 84–5
 types 4–5, 158, 205–6
- donors 206 *see also* donations
- double entry bookkeeping 65–7, 206
- dual registration of charities 15, 26
- dual regulation 15, 206

- Employment Allowance 74
- endowment funds 35–6, 50, 206
- ethics
 fundraising 176, 188–9
 honesty 86
 investments 190
 trust relationship 4–5
- excepted charities (England and Wales) 13, 206
- exempt charities (England and Wales) 13, 206
- expendable endowment *see* endowment funds
- expenditure
 approval 79–84
 full cost recovery 50–3
 overheads 50–3

- fair value 109, 114, 153–4, 207
- filing of accounts, time limits 21
- final accounts *see* annual report and accounts
- financial accounts 207 *see also* annual report and accounts
- financial management *see also* bookkeeping; budgets; management accounts
 apportioning overheads and full cost recovery 50–3, 190, 208
 approval of expenditure 79–84
 bank reconciliation 87–9
 cash flow and reserves 53–4, 140–2, 202
 income control 84–5
 income sources 43–50
 investments 189–90
 petty cash 63–5
 responsibilities 41–4
 subsidiary groups 90–1, 178
 verifying the books 86–90
- financial statements *see* annual report and accounts
- fixed asset register 151, 207–8
- fixed assets 150–2, 207
- FRS102 accounting standard 23–4, 108–10, 199–200
- FRS102 SORP 23–4, 108–10, 115, 153–4, 190, 195–6
- FRSSE accounting standard 23–4, 108–10
- FRSSE SORP 23–4, 108–10, 153, 195
- full cost recovery 50–3, 190, 208
- funding agreements 45, 160, 216
- fundraising
 bids 191
 communication with accounts 175–8
 database 177

- management accounts
 - accounting periods 139–40
 - budget preparation 133–4
 - budgets vs expenditure limits 132–3
 - budget use 135–7
 - budget variances 135, 202
 - cash flow 140–2
 - frequency of reports 139–40
 - funds 137–9
 - legal requirements 25
 - overview 19–20, 212
 - presenting information
 - internally 131–2, 142
- materiality 146, 212
 - depreciation 151
 - multi-year grants 154
 - prepayments and accruals 150
- multi-fund accounting 37–9, 70, 208
- multi-year grants 154–5

- National Employment Savings Trust (NEST) 74, 75
- National Insurance (NI) 74, 75
- Northern Irish charities *see also* Charity Commission for Northern Ireland (CCNI)
 - accounting requirements 26, 29, 30, 32, 99, 103, 194
 - accounts scrutiny
 - requirements 120–3, 124–7
 - approval requirements 7
 - filing of accounts 21
 - legal framework 22–3
 - registration 13–14
 - section 167 register 16, 216
 - UK-wide issues 15–16
- not-for-profit (NFP) organisations 1–3, 5, 212

- Office of the Scottish Charity Regulator (OSCR) *see also* Scottish charities
 - accounts compliance 28, 30
 - approval of charitable status 7
 - dual registration 15–16
 - filing of accounts 21, 129, 193
 - guidance on independent examiners 123
 - jurisdiction 1, 16–17, 35, 44, 211
 - partnership arrangements 170–3
 - PAYE calculations 72–4, 75–6
 - pensions, auto enrolment 74, 201
 - petty cash 63–5
 - primary purpose trading 46, 49, 160–1, 167, 213
 - primary statements 213
 - public benefit requirement 49, 99–100, 192, 213–14
- qualified accounts 124, 214

- receipts and payments accounts
 - accounting for multi-year grants 154
 - annual accounts 103–8, 214–15
 - changes from Jan 2016 193–4
 - Charity Commission guidance 103
 - comparison with accruals
 - accounts 30–2, 96–7, 108
 - notes to accounts 107–8, 213
 - reserves policy 54
 - statement of assets and liabilities (SOAL) 106
 - statement of balances 106
- recognition of income or expenses 215
- registered charities (England and Wales) 13, 21, 215
- registered charities (Northern Ireland) 14, 21, 215
- registered charities (Scotland) 13, 21, 215
- reserves 53–4, 215
- restricted funds 33, 34–5, 36, 37–8, 39, 215–16

- salaries *see* wages and salaries
- Scottish charitable incorporated organisations (SCIOs) 10, 14, 26, 216
 - see also* charitable incorporated organisations (CIOs)
- Scottish charities *see also* Office of the Scottish Charity Regulator (OSCR)
 - accounts compliance 28, 30, 95, 99, 103, 193
 - accounts scrutiny
 - requirements 120–3, 124–7
 - approval requirements 7
 - filing of accounts 21
 - group accounts 118

VAT—*continued*

- goods and services sold by the charity 162–4
 - grants vs contracts 158–9
 - irrecoverable 163, 171–2, 212
 - key terms 166
 - lower rate 164
 - partial exemption 162–3
 - partnership arrangements 170–3
 - purchases by the charity 161–2
 - registration 164–6
 - shared services 173–4
 - standard rate 164
 - trading income 161–4
 - voluntary registration 162–3
 - zero-rated 161–2, 164, 168
 - voluntary and community organisations (VCOs) 2
 - voluntary and community sector (VCS) 2
 - voluntary organisations 2–4
 - voluntary sector 1–2, 4, 5, 86, 170
- wages and salaries 72–7, 83
- zero-based budgets 140, 220

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