

YOUTH INVESTMENT FUND

Overview of accounting and reporting for community capital projects

Neal Trup
Neal Howard Ltd

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Webinar Agenda

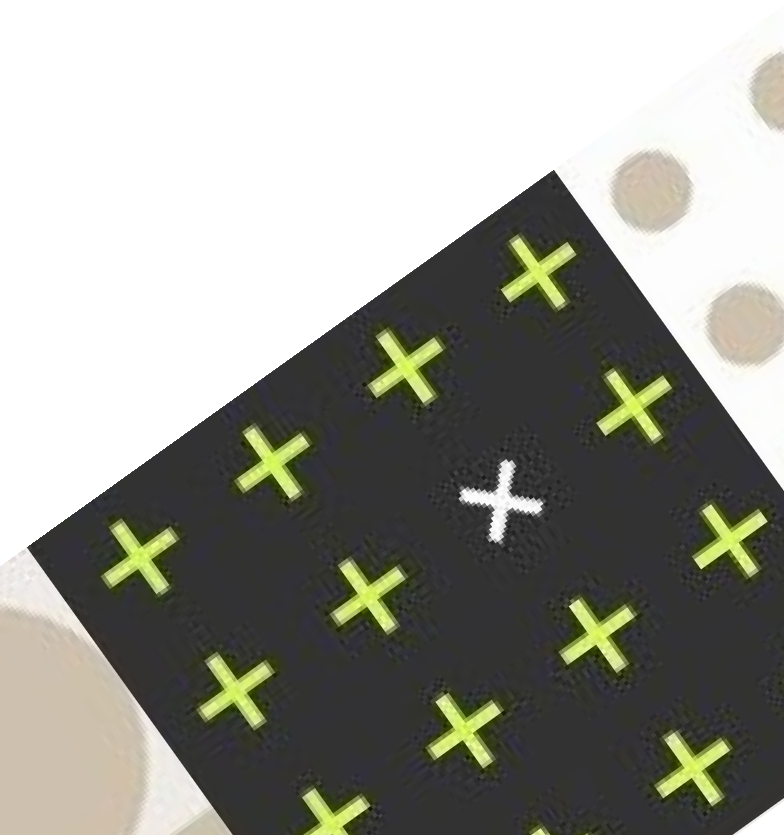
- Types of financial reporting
- Financial (year-end) accounts and external scrutiny
- Accounting systems and controls
- Management reports
- Funder reporting
- Topics for future webinars or small groups



Poll 1 - Legal Structure

(parent organisation where part of a group)

- Unincorporated Charity
- Charitable Incorporated Organisation (CIO)
- Charitable Company
- Community Interest Company (CIC)
- Private Limited Company (by shares or guarantee)
- Community Benefit Society
- Local authority or public sector
- Not known
- Other



Financial and Management Reporting

Financial Accounts

- Year-end accounts (usually a 12-month period)
- Aimed at stakeholders and external reporting needs
- Subject to strict regulation on formats, content and accounting treatments
- Includes Trustees' / Directors' reports
- Auditor / independent examiner / Accountant report
- Disclosures (especially for non-charities) may be limited

Management Accounts

- Internal accounts to help managers and the board to manage and monitor the business and for decision making.
- Format and structure based on internal needs
- Usually prepared monthly or quarterly
- May include charts, and detailed information by activity

Charity Commission

- Charity Commission returns and financial information

Funder Reporting

- Will depend upon the specific reporting requirements of each funder
- Relates to the grant spend and performance
- Can be taken from management reports
- Format and structure often based on funder templates
- Usually prepared in line with funder's reporting cycle



Financial Accounting Frameworks

Charities

SORP (FRS102)

- Company charities
- Charitable Incorporated Organisations (CIO)
- Unincorporated charities
- Charitable Community Benefit Societies

Receipts & Payments

- Income below **£250k** for:
- Charitable Incorporated Organisations (CIO)
 - Unincorporated charities

Companies (non-charity)

FRS102

- Limited company (by shares or guarantee)
- Community Interest Companies (CIC)
- Community Benefit Societies

Micro Entities (FRS105)

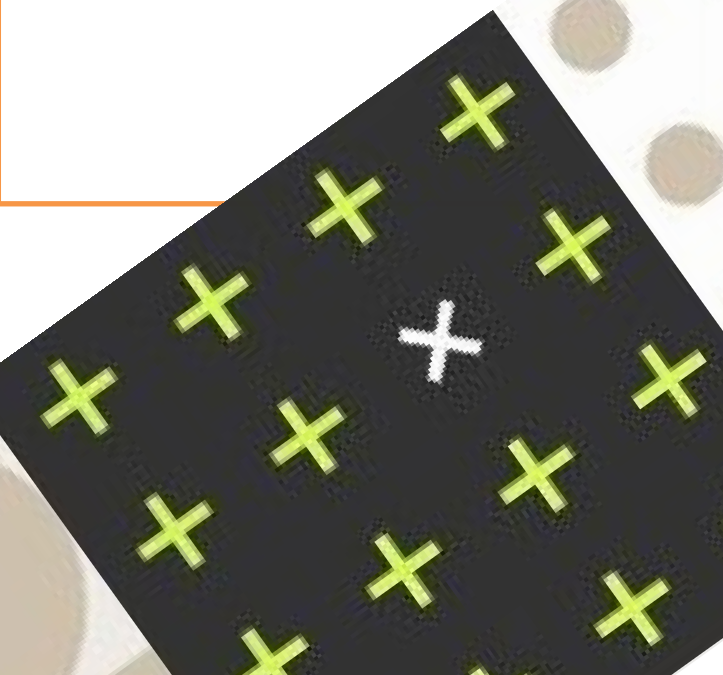
- Limited companies with income below £632k and net assets below £316k
- Not for charities

Local Authorities

Local Authorities Accounting Code

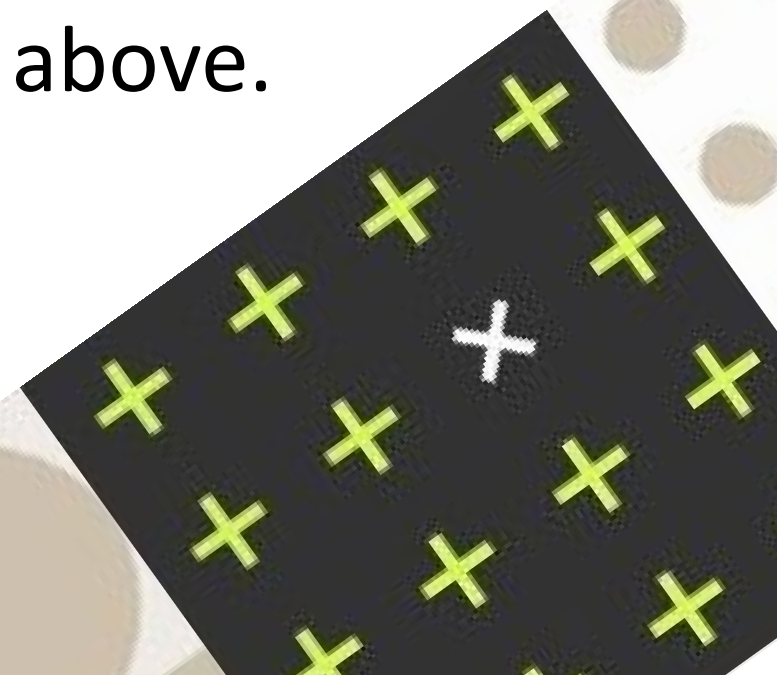
Based on International Financial Reporting Standards (IFRS)

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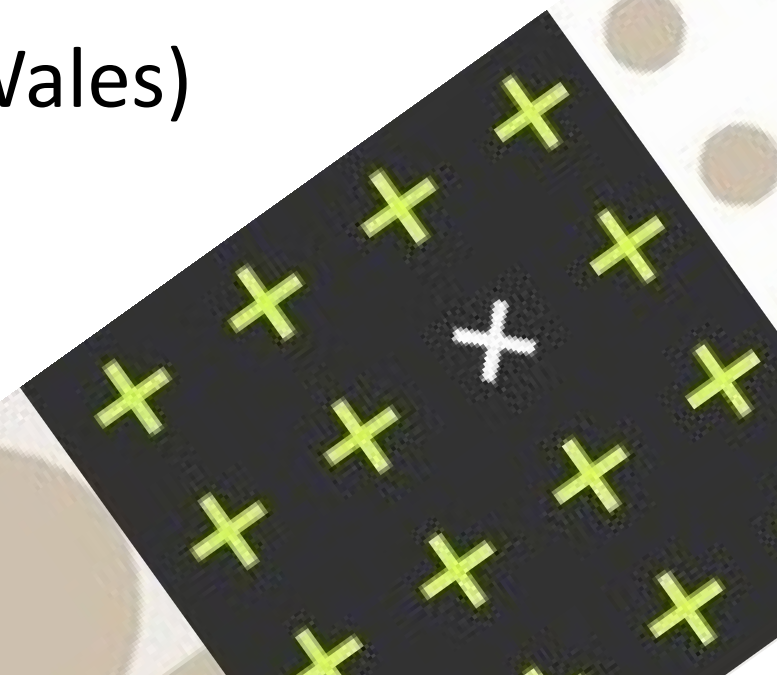
Receipts and Payments Accounts

- Available to non-company charities such as CIOs and unincorporated charities with **annual income up to £250k**.
- Based on receipts and payments in the period and a statement of assets and liabilities. *No specified format set out, although Charity Commission England and Wales (CCEW) do have a template and guidance.*
- Simplified Trustees annual report for an unincorporated charity, full report if CIO
- Simpler to prepare and often to understand, lower cost and underlying bookkeeping likely to be simpler.
- Can be difficult to understand asset values and liabilities. Capital projects are based on transactions through the bank so may not show the complete picture
- Independent Examination (external scrutiny) required if income is £25k or above.



Charity SORP Accounts

- Applies to charities applying accruals-based accounting (includes all company charities)
- The SORP works alongside the general accounting frameworks (FRS102) to provide a consistency and application of accounting treatment in the charity sector
- Has a key role in assisting charities in providing financial information about their activities and resources to give a “true and fair” view
- Sets out requirements for trustees’ reports including setting out how the charitable objects are being met, financial performance, governance, strategy, plans, risks.
- Reserves policy must be included
- Accounting treatments for grants based on entitlement alongside fund accounting requirements and disclosures
- Approach to valuation of fixed and heritage assets and donated goods and services
- Likely to need accounting expertise (internal or external) to prepare
- Independent Examination if income £25k to £1m. Audit above £1m (England & Wales)



Trustees Report

The SORP's requirements that all charities must follow are set out in the following headings:

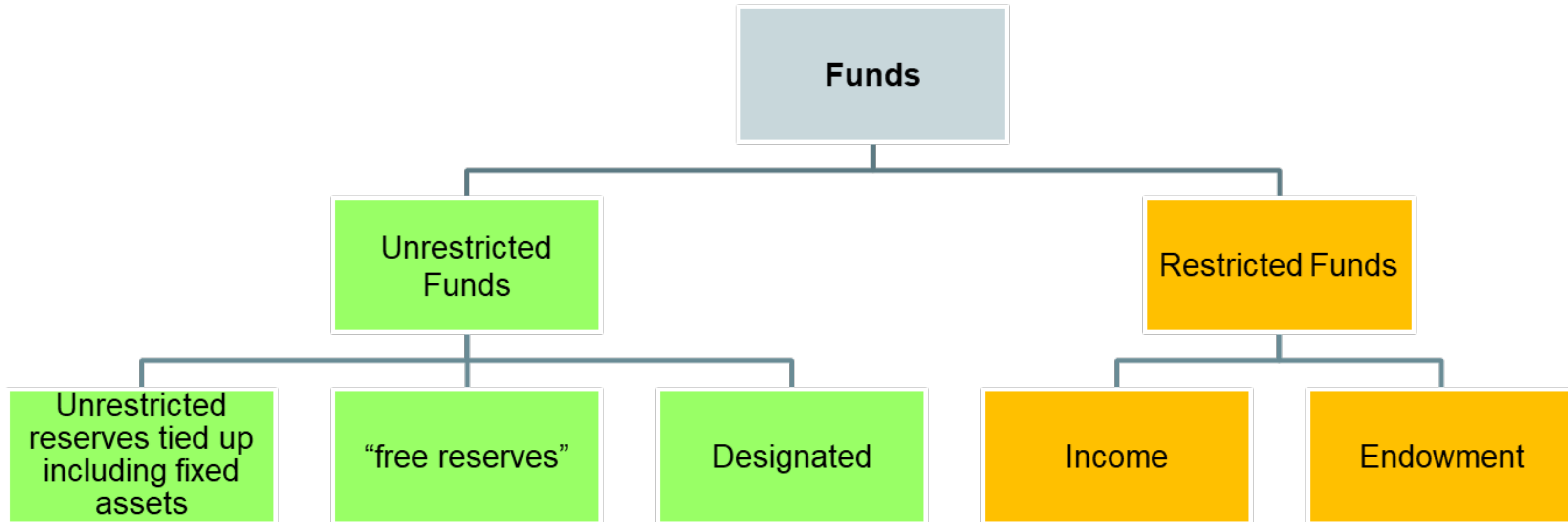
- objectives and activities;
- achievements and performance;
- financial review;
- plans for future periods (where income above £500k);
- structure, governance and management;
- reference and administrative details;
- exemptions from disclosure (where income below £500k); and
- funds held as custodian trustee on behalf of others.

The headings used in the report may be amended to fit the preferences of the charity provided the information required is clearly presented in the report. Charities must also report on public benefit.

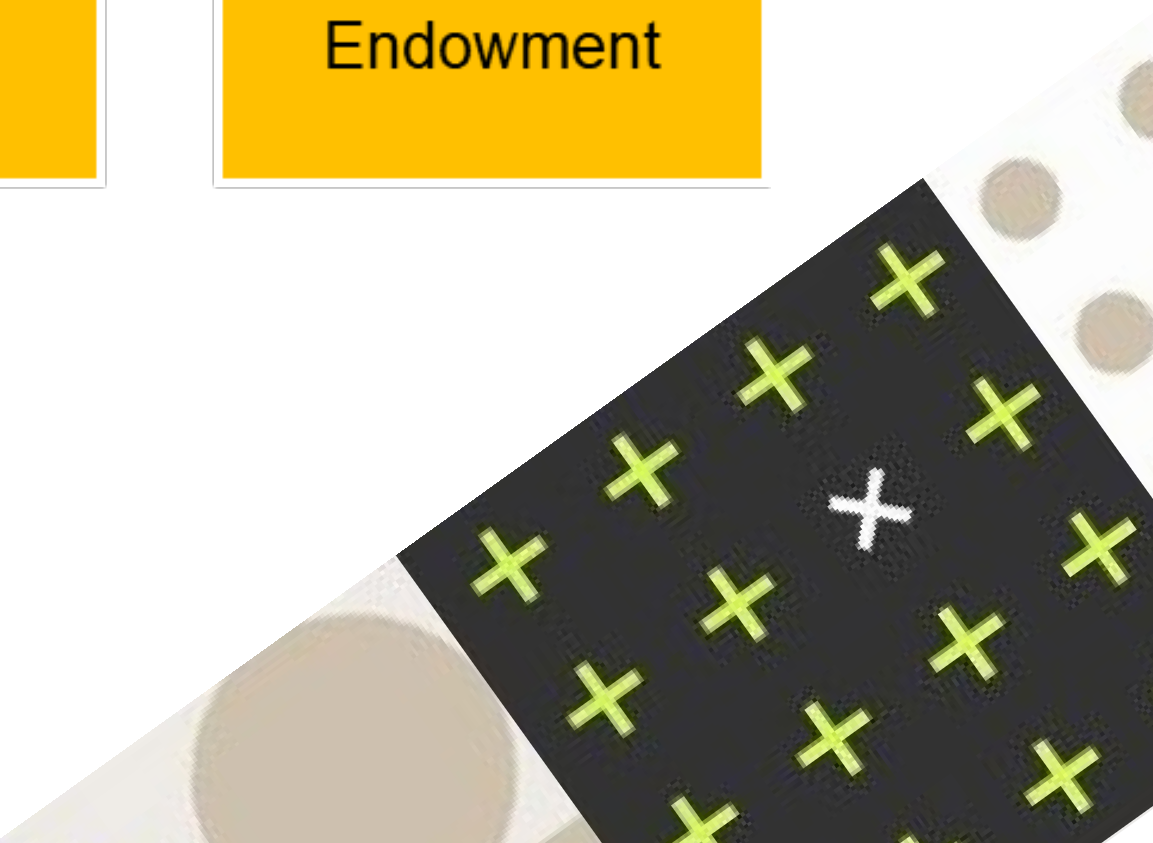
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Fund Accounting for Charites



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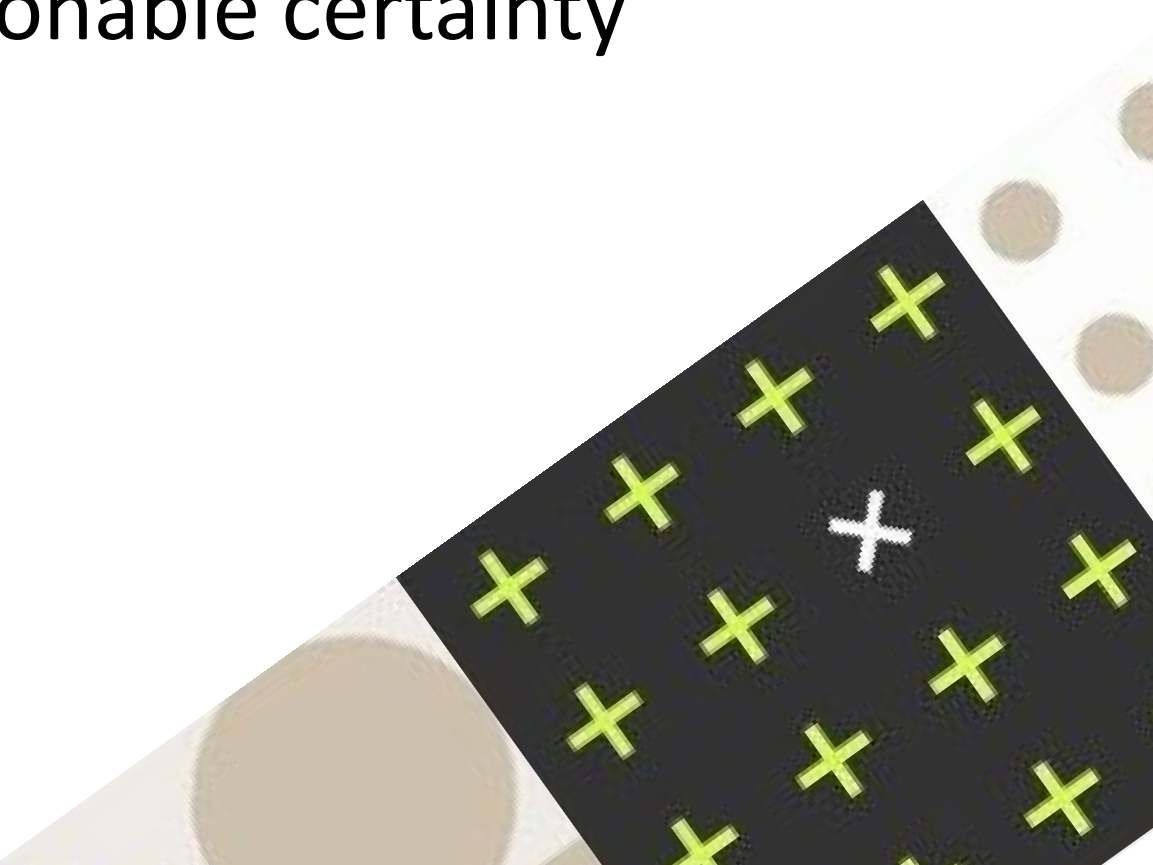


Income recognition

Specific rules under SORP for charities

Grant and voluntary income for charities should be recognised where all of the following three criteria are met:

- **Entitlement** – when there is control over the rights or other access to the resource enabling the charity to determine its future application
- **Probable** – when it is more likely than not that the economic benefits associated with the transaction or gift will flow to the charity
- **Measurement** – the item can be measured monetarily with reasonable certainty



Income recognition

Example of accounting for a capital grant

A £1m restricted grant is received for the building of a new centre. This was received in line with construction during the year to 31st March 2023 and the building was opened on 1st April 2023. The Financial year is to 31st March each year. *How this should be accounted for:*

For a charity: It has entitlement in the year to 31st March 2023, so the whole £1m is counted as incoming resources in the restricted funds column for that year and capitalised as a fixed asset in the balance sheet. If the project was still in progress at the year-end then it would be shown as an “asset under construction”

For a CIC or other non-charity company the most common approach (known as the “accruals method”) is that it is capitalised as an asset on the balance sheet, however the grant is treated as deferred income (a creditor) also in the balance sheet. No income is shown for the capital grant in the year to 31st March 2023, but in subsequent years an amount is released in line with the accounting policy for the economic life of the building (e.g. 25 years).



Accounting for Buildings

Can be shown at either historic cost (less depreciation) or as an existing use valuation

Net Book Value (depreciated cost)

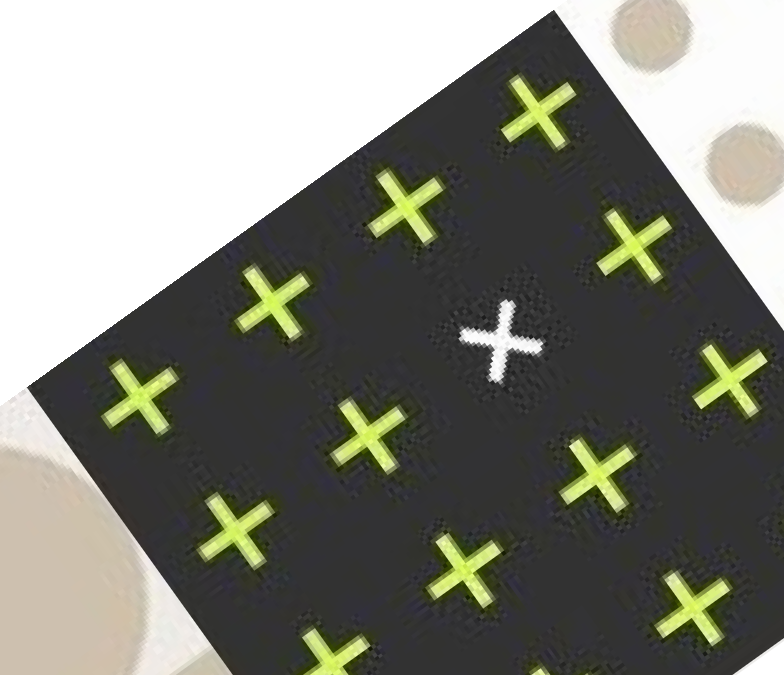
- Original cost less depreciation as per the accounting policy of the organisation. Land is not generally depreciated
- Improvements/refurbishments to the premises are capitalised and depreciated over the relevant life of the improvement. A short leasehold is generally depreciated over the life of the lease
- An asset under construction (AUC) should be shown as a separate class and valued as per construction certificates. The project may need to be split to several classes (component accounting). Any accrued liabilities should also be included on the balance sheet (in creditors)

Valuation

- Based on “fair value”. Essentially this is an “existing use” valuation.
- FRS 102 only requires valuations to be performed with ‘sufficient regularity’ in order to provide an accurate reflection of fair value
- Depreciation should still be provided unless revalued every year

Investment properties are always shown at open market value

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Accounts for non-charity companies and societies

- Applies to Community Interest Companies (CIC), Community Benefit Societies and other limited companies (limited by shares or guarantee)
- FRS102 sets out the requirement for preparing accounts including directors report, profit and loss account, balance sheet, notes and disclosures
- Some requirements such as recognition of grant income (including capital grants) differ from charities.
- Audit above £10.2m for companies (some different requirements for community benefit societies)



External Scrutiny

Charities

- Independent Examination is required where total incoming resources (**including capital grants**) is above £25k but up to £1m (England and Wales)
- Audit is required where total incoming resources (**including capital grants**) are above £1m or where it has income above £250k and its net assets are above £3.26m, or where required by the organisation's constitution

CICs/ companies limited by guarantee / Community Benefit Societies

- Turnover up to £10.2m, assets worth no more than £5.1m and 50 or fewer employees on average.

Charitable Community Benefit Societies

- Audit required where income is above £250k. Accountants report for income from £90k to £250k.

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Responsibilities of Trustees in managing charity finances

Protect the charity's money

- Ensure money is only spent on what is allowed by the charity's governing document and policies
- Have effective internal financial controls in place and manage risk
- Manage expenses and payments to trustees
- Deal with financial problems quickly

Know the charity's financial position

- Set a budget and follow it
- Prepare clear financial information such as management reports and accounts in order to support oversight of performance and to inform decisions
- To set an appropriate reserves policy and review it regularly
- Keep accurate financial records



Financial Management of Capital Projects

- Ensure there is a robust and up to date budget and business model and approved by the board
- Clear and effective contracts in place with construction companies and professions
- Organisational-led project board with clear terms of reference, financial governance, management of risk, change control and tolerances
- Prepare clear financial information such as management reports, cashflow forecasts and accounts in order to support oversight of performance and to inform decisions
- Have effective underlying bookkeeping/accounting systems in place, ideally using software rather than spreadsheets, and that they are set up to provide the analysis and detail on the capital project as well as the wider organisational needs.



Accounting Systems that are widely used by small to medium sized charities and social enterprises

Spreadsheets



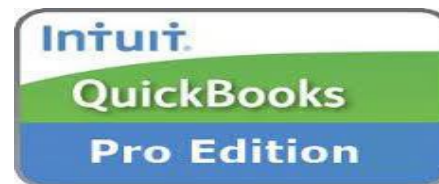
Google Sheets

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Desktop/Connected systems

sage50

sage 50cloud



TAS software
Making business easy



sage 200

True cloud systems

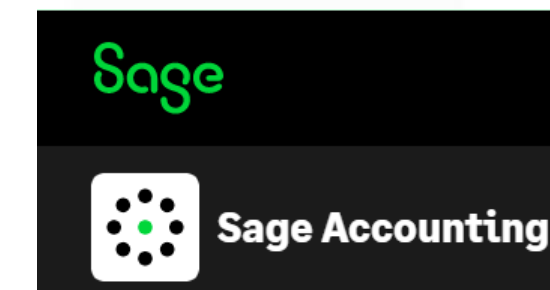
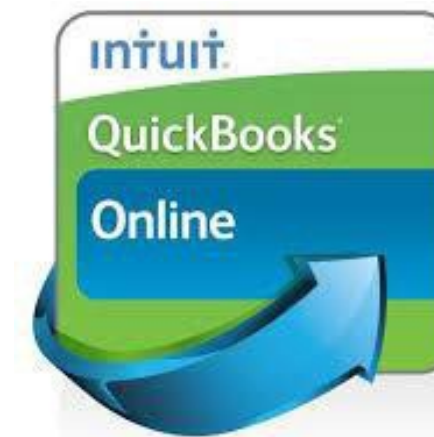


sage Intacct

 **KashFlow**
Accounting Software

freeagent

PAXTON
EST 1979
CHURCH & CHARITY
ACCOUNTING SOFTWARE



Poll 2 – Accounting/Bookkeeping Software Used

- Spreadsheets
- Xero
- QuickBooks Online
- Sage Accounting (online) or Sage Intacct
- Other cloud systems (e.g. Capium, Kashflow, Freeagent, Paxton, ClearBooks)
- Sage 50
- Other desktop software (e.g. VT accounts, Sage 200, TAS Books)
- Bespoke software
- Done by bookkeeper/accountant but software not known
- Not known

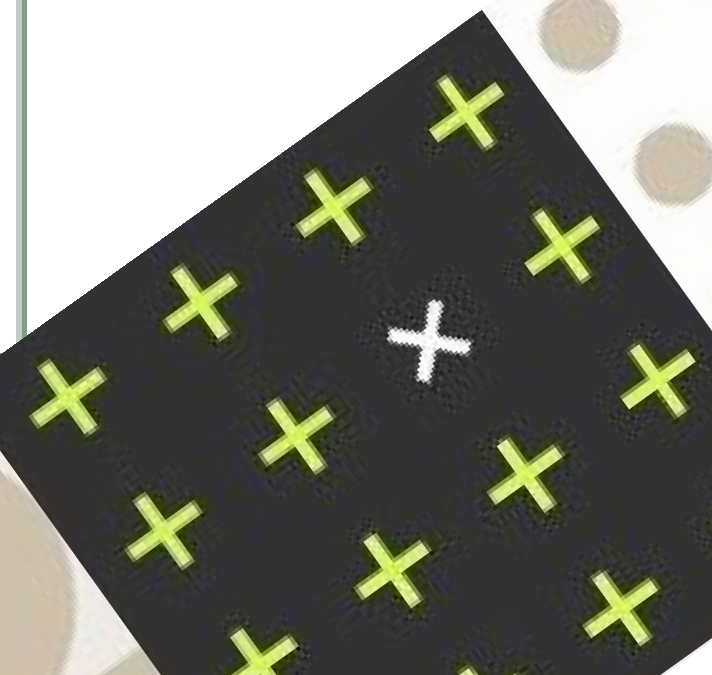


Getting the Coding Structure Right

- Cloud accounting systems are like **databases** so setting out the coding structure for the chart of accounts (general ledger) and analysis codes (such as for projects/activities and funding) is essential.
- Xero and QBO (Plus) have a three-dimensional ledger which can be tailored to meet the needs of a capital project and funding (eg restricted and unrestricted)
- Most systems will have a default chart of accounts which can then be tailored, and some can integrate with other systems and allow bank feeds to help keep the system “live”

Transaction							
Type e.g. bank, sales or purchase invoice, journal	When Date(s)	Who contact	What general ledger code	Where (1) Tracking or analysis code e.g. Activity	Where (2) tracking or analysis e.g. funding	Value £	VAT code

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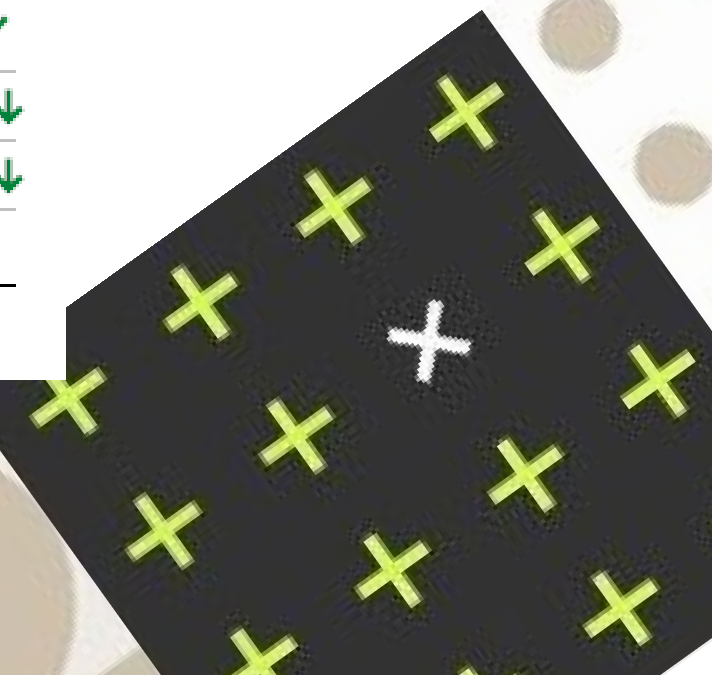
Budget Variance

Demo Company (UK)

For the year ended 31 March 2022

	2022	2022 OVERALL BUDGET	VARIANCE	VARIANCE %		2022	2022 OVERALL BUDGET	VARIANCE	VARIANCE %
Trading Income									
Restricted grants	63,000.00	75,000.00	(12,000.00) ↓	-16.00% ↓		63,000.00	75,000.00	(12,000.00) ↓	-16.00% ↓
Sales and contract income	9,615.00	7,500.00	2,115.00 ↑	28.20% ↑		9,615.00	7,500.00	2,115.00 ↑	28.20% ↑
Unrestricted grants and donations	3,500.00	4,200.00	(700.00) ↓	-16.67% ↓		3,500.00	4,200.00	(700.00) ↓	-16.67% ↓
Total Trading Income	76,115.00	86,700.00	(10,585.00)	-12.21%		76,115.00	86,700.00	(10,585.00)	-12.21%
Cost of Sales									
Counsellors - subcontractors	10,000.00	9,000.00	1,000.00 ↑	11.11% ↑		10,000.00	9,000.00	1,000.00 ↑	11.11% ↑
Project costs	3,000.00	3,000.00	- -	- -		3,000.00	3,000.00	- -	- -
Total Cost of Sales	13,000.00	12,000.00	1,000.00	8.33%		13,000.00	12,000.00	1,000.00	8.33%
Gross Profit	63,115.00	74,700.00	(11,585.00)	-15.51%		63,115.00	74,700.00	(11,585.00)	-15.51%
Operating Expenses									
Bank Charges	15.00	30.00	(15.00) ↓	-50.00% ↓		15.00	30.00	(15.00) ↓	-50.00% ↓
Consulting	1,800.00	1,200.00	600.00 ↑	50.00% ↑		1,800.00	1,200.00	600.00 ↑	50.00% ↑
Independent Examination and accountancy fees	946.96	1,000.00	(53.04) ↓	-5.30% ↓		946.96	1,000.00	(53.04) ↓	-5.30% ↓
Light, Power, Heating	992.68	840.00	152.68 ↑	18.18% ↑		992.68	840.00	152.68 ↑	18.18% ↑
Office Expenses	4,000.00	3,600.00	400.00 ↑	11.11% ↑		4,000.00	3,600.00	400.00 ↑	11.11% ↑
Printing & Stationery	328.91	300.00	28.91 ↑	9.64% ↑		328.91	300.00	28.91 ↑	9.64% ↑
Rent	1,181.25	1,200.00	(18.75) ↓	-1.56% ↓		1,181.25	1,200.00	(18.75) ↓	-1.56% ↓
Salaries	25,400.00	25,800.00	(400.00) ↓	-1.55% ↓		25,400.00	25,800.00	(400.00) ↓	-1.55% ↓
Telephone & Internet	44.92	60.00	(15.08) ↓	-25.13% ↓		44.92	60.00	(15.08) ↓	-25.13% ↓
Total Operating Expenses	34,709.72	34,030.00	679.72	2.00%		34,709.72	34,030.00	679.72	2.00%
Net Profit	28,405.28	40,670.00	(12,264.72)	-30.16%		28,405.28	40,670.00	(12,264.72)	-30.16%

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Example management report of Capital Grants

Cash Summary

Demo Company (UK)

For the month ended 31 May 2022

Funding is RF - Lottery Grant A.

	MAY 2022	APR 2022	MAR 2022	FEB 2022	JAN 2022	DEC 2021	NOV 2021	OCT 2021
Income								
Restricted grants	-	15,000	-	-	-	-	-	20,000
Total Income	-	15,000	-	-	-	-	-	20,000
Less Expenses								
Salaries	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Total Expenses	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Surplus (Deficit)	(1,000)	14,000	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	19,000
Plus Other Cash Movements								
Fixed Assets	-	-	-	-	-	-	(12,000)	-
Total Other Cash Movements	-	-	-	-	-	-	(12,000)	-
Net Cash Movement	(1,000)	14,000	(1,000)	(1,000)	(1,000)	(1,000)	(13,000)	19,000
Summary								
Opening Balance	16,000	2,000	3,000	4,000	5,000	6,000	19,000	-
Plus Net Cash Movement	(1,000)	14,000	(1,000)	(1,000)	(1,000)	(1,000)	(13,000)	19,000
Cash Balance	15,000	16,000	2,000	3,000	4,000	5,000	6,000	19,000

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Management Reports for the Board

- Management accounts should move the thinking of trustees / directors **towards the future**
- An effective management report should provide a snapshot of the **key messages** that the rest of the report (and appendices) will then expand upon, to help the board to focus on what matters.
- Capital projects should have a separate section or appendix, highlighting spend against budget, key risks, forecasts and **potential decisions** to be made
- Focus on who will need to see the report including understanding how much do they already know (and how interested they are) about the subject, what do they absolutely need to know and what decisions they may need to make
- Keep sentences short and covering only one point or issue in each
- Clarify the main messages and craft an engaging and compelling summary
- Don't let the figures speak for themselves and avoid talking in numbers
- Use charts and diagrams appropriately and make sure the messages they show are clear and simple to understand



Reports for Funders

- Each funder will have its own requirements, so ensure these are understood
- Depending upon the accounting system you have, you may be able to set up reports aligned with funder needs, making it easier to run and prepare reports when needed.
- Whilst the focus on reports to funders is about the use of their grants, many will also ask for copies of management and financial accounts that are already prepared.



Poll 3 – Topics you want to understand more

- Year-end accounts for charities (in greater depth)
- Year-end accounts for CICs and other social enterprises
- Management accounts and reporting (in greater depth)
- Deciding on a suitable accounting system
- Using cloud accounting systems better including set up for capital projects
- Budgeting and cashflow forecasting
- Financial modelling (using Excel)
- VAT and community building and projects
- Other (use the chat box)

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Questions

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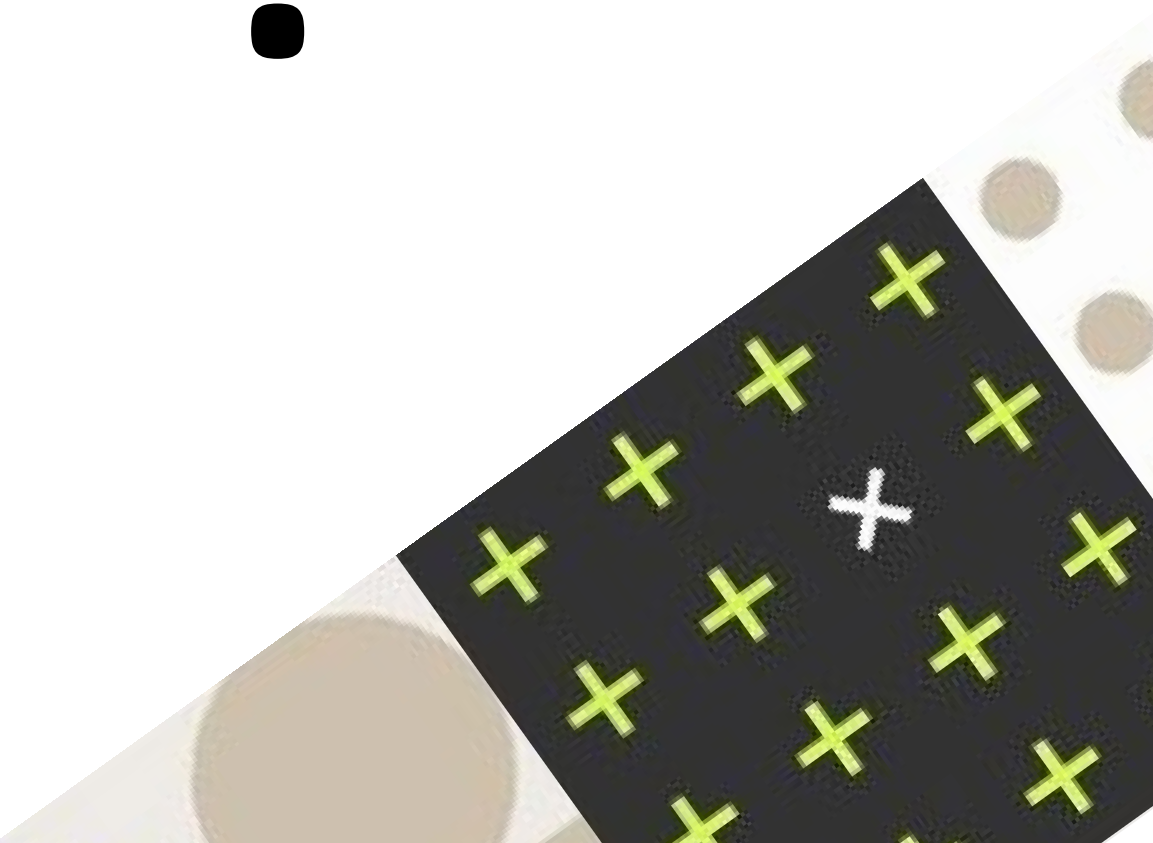
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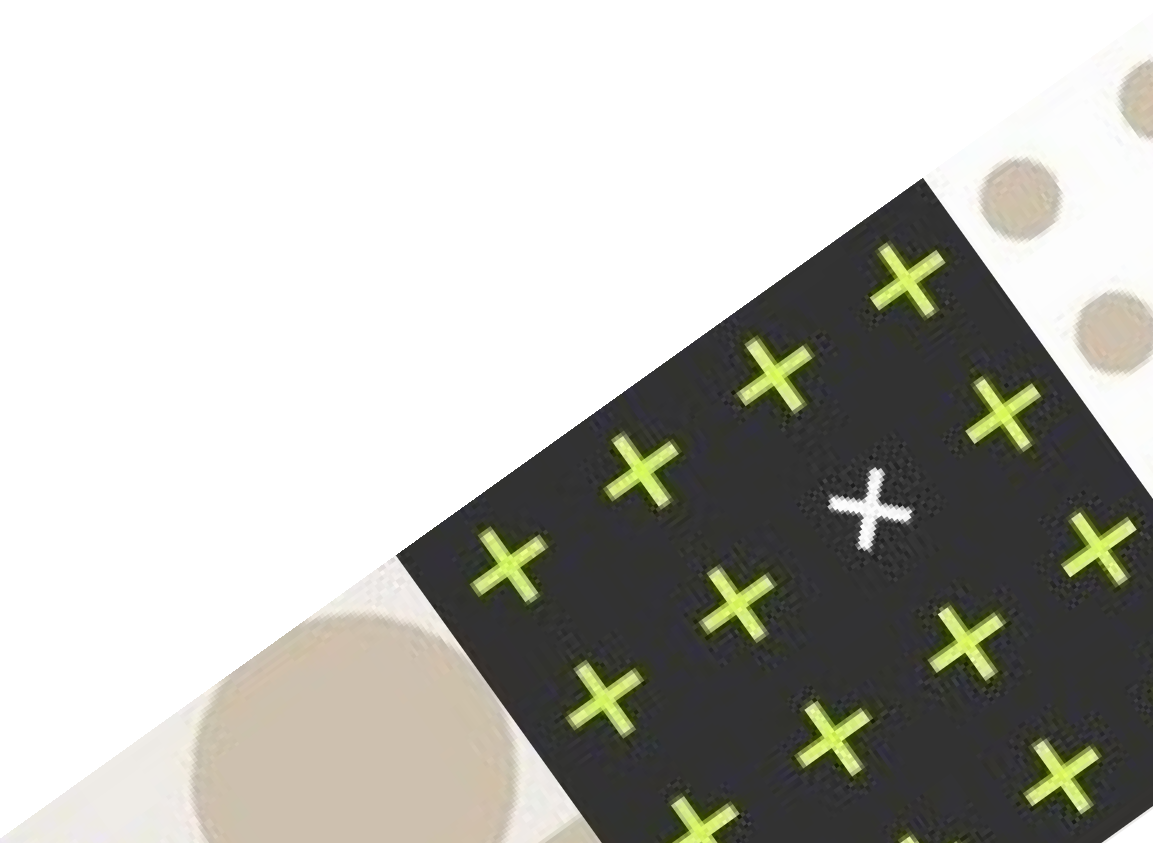


Next Webinar

Tuesday 5th Dec 1pm

An overview of VAT for charity and community capital projects

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To find out more about the funded services on offer and to request support with any part of your project, go to youthinvestmentfund.org.uk/support or speak to your Relationship Manager.

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