YOUTH INVESTMENT FUND

Youth Investment Fund webinar- March 2024
Handout

Accounting choices

Registered charities

Cash accounting (receipts and payments) - gross income £250,000 or less- option for all registered charities (including charitable incorporated organisations) except charitable companies
Commission Receipts & Payments Accounts pack:
https://www.gov.uk/government/publications/charity-accounting-templates-receipts-and-payments-accounts

Accruals (SORP) - required of all charitable companies and those charities ineligible for the cash accounting option (can also be chosen by any charity of any size)
SORP download: https://www.charitysorp.org/
Commission accounts pack non-company: https://www.gov.uk/government/publications/charity-accounting-templates-accruals-accounts-cc17-sorp-frs-102
Commission accounts pack- charitable company:
https://www.gov.uk/government/publications/charity-accounting-templates-accruals-accounts-cc17-sorp-frs-102-for-charitable-companies

SORP model examples: https://www.charitysorp.org/example-trustees-annual-reports

Community Benefit Organisations

The principles in the applicable Financial Reporting Standards published by the Financial Reporting Council (available at https://www.frc.org.uk/) generally apply to societies:
https://www.frc.org.uk/library/standards-codes-policy/accounting-and-reporting/uk-accounting-standards/frs-102/

Community Interest Companies

Accounts are prepared under GAAP on a 'true and fair' basis.
Option of micro-entity accounts is available if the criteria are met:
Micro-entities are very small companies. Your company will be a micro-entity if it has any 2 of the following:

- turnover of £632,000 or less
- £316,000 or less on its balance sheet
- 10 employees or less

Refer to Companies House guidance: https://www.gov.uk/annual-accounts/microentities-small-and-dormant-companies
GAAP accounting standard that applies FRS105: https://www.frc.org.uk/library/standards-codes-policy/accounting-and-reporting/uk-accounting-standards/frs-105/

Otherwise there are some simplifications for a small company in terms of the requirements and GAAP accounting standard FRS102 applies: https://www.frc.org.uk/library/standards-codes-policy/accounting-and-reporting/uk-accounting-standards/frs-102/

A company will be ‘small’ if it has any 2 of the following:

- turnover of £10.2 million or less
- £5.1 million or less on its balance sheet
- 50 employees or less

If your company is small, you can currently:

- use the exemption so your company’s accounts do not need to be audited
- choose whether or not to send a copy of the director’s report and profit and loss account to Companies House
- send abridged accounts to Companies House

Refer to Companies House guidance: https://www.gov.uk/annual-accounts/microentities-small-and-dormant-companies

Thresholds- registered charities (including charitable companies)
An independent examination is needed if gross income is between £25,000 and £1 million and an audit is needed where the gross income exceeds £1 million. An audit will also be needed if total assets (before liabilities) exceed £3.26 million, and the charity’s gross income is more than £250,000.

Charity Commission guidance on thresholds: https://www.gov.uk/government/publications/charity-reporting-and-accounting-the-essentials-november-2016-cc15d/charity-reporting-and-accounting-the-essentials-november-2016-cc15d--2

Charity Commission guidance on appointing an independent examiner:
https://www.gov.uk/government/publications/independent-examination-of-charity-accounts-trustees-cc31/independent-examination-of-charity-accounts-trustees

For charitable companies they must advise taking the audit exemption from audit under the Companies Act 2006 where either an independent examination is carried out or an audit is undertaken under the Charities Act 2011 only. Refer to Companies House guidance:
https://www.gov.uk/audit-exemptions-for-private-limited-companies

Thresholds- Community Benefit Organisations (including Industrial Provident Societies)

Extract from FCA guidance-

The thresholds for an audit are set by reference to the year prior:

Non-Charity		Charity	
(1)	value of aggregated assets at the end of the previous year of account was less than £2.8m; and	(1)	value of aggregated assets at the end of the previous year of account was less than £2.8m; and
(2)	turnover for the previous year was less than £5.6m	(2)	turnover for the previous year was less than £250,000.

A society with a turnover of more than £5.6m (£250,000 if charitable) or total assets of more than £2.8m in the preceding year of account must always have a full professional audit. Otherwise members can vote to dis-apply the audit requirement. If a society chooses not to have a full audit from a qualified auditor they must, if their turnover was over £90,000 in the preceding year of account, appoint a qualified auditor to prepare a report on the accounts and balance sheet. Regulated housing associations in England and Wales must appoint a qualified auditor to prepare a report on the account and balance sheet whatever their turnover.

FCA guidance on thresholds: https://www.fca.org.uk/firms/managing-your-society/auditing-requirements-co-operative-and-community-benefit-societies

Companies Act audit requirements

Audit is only required under company law where a company is either it is a small company and its directors have chosen to have an audit or it exceeds the criteria for a small company and is either medium or large and so required to have an audit.
See Companies House guidance: https://www.gov.uk/government/publications/life-of-a-company-annual-requirements/life-of-a-company-part-1-accounts

Applying for consent to an independent examination instead of an audit- registered charities
Approval is not guaranteed but in advance of arranging the external scrutiny of accounts a charity can apply for an order to allow it to have an independent examination instead. Having a large grant alone is not sufficient grounds but if post grant the charity reverts to having a much lower income and if trustees consider requesting the independent examiner review the adequacy of their charity's internal financial controls and explain this is their intention. Good financial governance offers reassurance and refer to the Commission's guidance on internal financial controls for expected practice:
https://www.gov.uk/government/publications/internal-financial-controls-for-charities-cc8

The Commission may give consent if there are 'exceptional circumstances' (see section 5.6 when downloading the guidance OG15-4).
For further information: https://khub.net/web/charity-commission-operational-guidance/resources/-/ddl_display/ddl/900885743/861774141/maximized

If trustees believe a decision to refuse has not fully understood their circumstances then they may request a decision review: https://www.gov.uk/government/publications/dissatisfied-with-one-of-the-charity-commissions-decisions-how-can-we-help-you/dissatisfied-with-one-of-the-charity-commissions-decisions-how-can-we-help-you

Charity Commission definitions of income for threshold purposes
The interpretation of income is important because once a threshold is passed this amount accruals accounts are prepared under the SORP and/ or an audit is required.
For cash accounting

Gross income for cash accounting is the:

- total receipts recorded in the statement of accounts
- minus any endowment received in the year, as this is unavailable for spending
- add any amount transferred from endowment funds into income funds during the year, as these are now available for spending.
- minus loans received during the year
- minus proceeds from sale of fixed assets

For accruals accounting
Gross income is:

- total income recorded in the statement of financial activities, prepared in accordance with the Charities SORP (FRS102)
- minus any endowment received in the year, as this is unavailable for spending.
- add any amount transferred to income funds during the year from endowment funds as these funds are now available for spending.

Guidance: https://www.gov.uk/government/publications/charity-annual-return-2023-question-guide/charity-annual-return-2023-question-guide

Advice for charities on identifying ‘turnover’ – SORP Information Sheet 3 (see paragraph 4.10): https://www.charitysorp.org/documents/496625/516892/information-sheet-3-the-companies-misc-reporting-regs-2018.pdf/7d14959c-d5dc-bbe9-61a6-b073d019a42c?t=1641929958579

SORP module listing

Core modules- all charities will need to consider
Introduction- how to read the SORP
1 Trustees’ Annual Report
2 Fund Accounting
3 Accounting Standards, Policies, Concepts and Principles
4 Statement of Financial Activities
5 Recognition of Income
6 Donated Goods, Facilities and Services
7 Recognition of Expenditure
8 Allocating Costs by Activity in the Statement of Financial Activities
9 Disclosure of Trustee and Staff Remuneration, Related Party and Other Transactions
10 Balance Sheet
11 Accounting for Financial Assets and Financial Liabilities
12 Impairment of Assets
13 Events after the end of the Reporting Period
14 Statement of Cash Flows (only required of ‘larger charities’- income exceeds £500,000)

Modules only chosen where applicable
15 Charities Established under Company Law
16 Presentation and disclosure of Grant-making Activities
17 Retirement and Post-Employment Benefits
18 Accounting for Heritage Assets
19 Accounting for funds received as Agent or as Custodian Trustee
20 Total Return (Investments)
21 Accounting for Social Investments
22 Accounting for Charities Pooling Funds for Investment
23 Overview of Charity Combinations
24 Accounting for Groups and the Preparation of Consolidated Accounts
25 Branches, Linked or Connected Charities and Joint Arrangements
26 Charities as Subsidiaries
27 Charity Mergers
28 Accounting for Associates
29 Accounting for Joint Ventures

SORP Practical issues- ‘capital’ accounting
For those CICs and CBOs that are not charitable the GAAP FRS102 references are given at the end of each of the four practical topics with a comment where the solution is significantly different to that of the SORP. The double entry is shown but those charities using accounting software will find the software handles this aspect. The four topics consider the accounting for ‘capital’ grants that fund new buildings, building refurbishment or building improvements.

Recognising income and fund accounting
The income from the Youth Investment Fund is recognised where three criteria are met: entitlement, probable economic benefit, and reliable measurement (module 5 paragraph 5.8) and it is not deferred (paragraph 5.27). This is the case even if funding a 'capital' project. If payable in tranches then all tranches receivable (whether paid across or not) for the reporting period are recorded as restricted income.

DR Debtors- YIF funding due
CR Restricted income

CR Debtors- upon cash receipt
DR Cash- increase in cash balances

In the Statement of Financial Activities (hereafter termed the SoFA) if more than one grant is received in the period then the trustees may wish to separately disclose the YIF grant as a material item (module 4 paragraphs 4.12, 4.14 and 4.15) to separately identify it from other grants that their charity received.

(GAAP FRS102 does permit the choice of deferral if income relating to government support for a capital project with the income recorded in a manner matching depreciation over the economic life of the fixed asset- FRS102 section 24 paragraph 24.5D. Income is recognised when the criteria of paragraph 24.3A. GAAP does not consider fund accounting and so the directors will need to consider whether the best way to respect separate disclosure in the accounts is treat the item as an extraordinary item- section 5 paragraph 5.10B or show it separately as a material item (paragraph 5.9).

Asset remains under construction
If a project is not completed within the reporting period then at the financial year-end it is still under construction. The costs of construction are capitalised and not treated as an expense in the SoFA (module 10 paragraph 10.26). Costs of construction will include architect's fees, materials, contractor costs, integral fixtures and fittings. The accumulated in-year cost counts as an addition to the charity's tangible fixed assets (table 6) and forms part of the charity's restricted funds (module 2 paragraph 2.29 and module 10 table 5 and paragraph 10.91). If the trustees consider it helpful within additions it may be shown as a separate line as assets under construction (paragraph 10.9).

DR Capitalised cost- addition in respect of an asset under construction
CR Creditors (if work carried out prior to invoicing) or CR Cash (if payment is made as work is done)

(GAAP FRS102 section 17 paragraph 17.10 considers the elements of cost and the treatment of the capitalised cost is given in paragraph 17.13 and its disclosure in paragraph 17.31)

Asset commissioned and built (work is now complete)
The accounting treatment depends upon whether the funded work resulted in a separate asset, for example a new annex or was an improvement to an existing building, for example refurbishing a room or installing an accessible toilet. It is assumed that the historical cost accounting treatment is chosen by trustees and that the revaluation has not previously been adopted for this class of asset and is not now chosen (refer to module 10 for more information on the revaluation option).

A new building represents a tangible fixed asset which has its own economic life. This is true whether the annex is free standing or as affixed to an existing building. If affixed to an existing building it is considered a distinct component to that building (module 10 paragraph 10.31) if it has extended its floor area and comprises new separate rooms. The initial historical cost comprises the costs of construction and commissioning (paragraph 10.26). If the asset was previously shown as an addition under construction this now changes since it now forms part of the reported tangible fixed assets (table 5).

In terms of fund accounting, unless otherwise restricted in use under the terms of the grant, the new asset is reclassified as part of unrestricted funds because upon construction the terms of the grant were fulfilled (module 2 paragraph 2.12) as the asset was constructed. This will be reflected in the movement in funds note (paragraph 2.29). If the purposes of the charity are wider than the purposes for which the grant is given then the use of the building is restricted and so it remains part of restricted funds (paragraph 2.12). However, if the purposes for which the grant was given are identical to the charity's purposes then the asset is unrestricted (paragraph 2.12) but it may be that to respect the wishes that the trustees chose to treat it as a designated part of unrestricted funds on the balance sheet and in the funds note (paragraphs 2.7 and 2.29). If the funder is insistent that it desires to see a restricted designation used then the trustees could choose to show the asset as restricted even when in charity law it is not but if this is the case then the trustees are recommended to make this decision and the reasons for it clear in the notes to the accounts (paragraphs 2.28 and 2.29 and module 3 paragraph 3.42) and discuss it with their auditor. (A discussion with the auditor is helpful as the auditor gives an opinion as to whether the accounts are 'true and fair' as part of the audit opinion whereas an independent examiner is not giving an opinion in the independent examiner's report.)

Building refurbishment or building improvements are a change to an existing building and do not comprise separate assets.

If a whole building approach has been taken to the building in the accounts of the charity then the works can only be capitalised if they do not represent maintenance costs. Maintenance simply keeps a building fit for purpose and does not enhance it. Maintenance is treated as revenue expenditure in-year as and when it is incurred. To be capitalised the project therefore needs to enhance the functionality of the building in a demonstrable way that can be identified and measured. Assuming the project enhances building functionality then it is an addition (paragraph 10.37 and table 6) for example it extends the floor area of an existing space allowing wholly new activities that could not previously be undertaken.

If the component approach has been taken to the existing building then the works replace one or more existing components of a building. In this case any residual value of a replaced component is written off as additional depreciation and the replacement new component is treated as an addition (paragraphs 10.31 and module 12 paragraphs 12.15 and 12.18). A component might be a system, for example heating system, or it might be structural component such as a new roof, or an enhancement that extends an existing space in a way that extends its floor area.

In terms of fund accounting since it is not a separate asset the addition is reported as a component of the existing asset and so, for example, if the existing building is endowment then the building refurbishment or building improvements now form part of the endowment (module 2 paragraph 2.20 and this will involve a transfer in the movement of funds note (paragraph 2.29).

(GAAP FRS102 section 17 sets out the initial recognition on historical cost in paragraphs 17.9 and 17.15 and components of an asset in paragraph 17.6).

On-going considerations- fund accounting, depreciation and impairment

In terms of fund accounting the asset continues to be reported as part of the class of funds to which it was attributed upon initial recognition. The only exception would be if trustees chose to describe the asset as part of the charity's restricted funds in order to respect the funder's wishes when in fact in trust law it was not actually restricted in use (module 2 paragraph 2.12) in which case the trustees may choose to reclassify the asset once any clawback period on the grant has elapsed. Were this done then the carrying value would be reclassified once the clawback period expired and this would then require an explanation in the movement of funds note (paragraph 2.29).

The on-going accounting treatment in respect of charges for depreciation and testing for impairment depends upon whether the funded work resulted in a separate asset, for example a new annex or was an improvement to an existing building.

In regard to a separate asset, the trustees must determine its economic useful life (module 10 paragraph 10.29), the method of depreciation (paragraph 10.29), whether it comprises components to be depreciated separately (paragraph 10.31) and whether, if the asset is completed part way through the reporting period, a full charge is made in the year of initial recognition (paragraph 10.32).

In regard to refurbishment or enhancement to an existing building then unless the component approach has been taken already for the building, the addition is depreciated over the remaining useful life of the asset and a depreciation charge is for the full year. If the component approach is taken (paragraph 10.31) then having written down the carrying value of the old component(s), the addition is depreciated based on its economic useful life (paragraph 10.29) as per the existing accountancy policy, and a full charge is made in the year of initial recognition (paragraph 10.32).

In respect of depreciation:
DR Expenditure- unrestricted or restricted funds depending on the classification of the asset
CR Fixed assets- reflecting reduction in carrying value

At the end of each reporting period every tangible fixed asset is tested for impairment (module 12 paragraphs 12.1 and 12.4) where circumstances have caused a temporary or permanent reduction in its capacity to fulfil the intended purpose (paragraph 12.12). An example might be a water leak that causes significant damage that takes all or part of the building out of use.

If there is impairment then an expense is charged (paragraph 12.18) in addition the existing charge for depreciation (paragraph 12.19).
DR expenditure- amount of impairment
CR Fixed assets

(GAAP FRS102 allows the accrual method for capital grants and so if this is adopted then the basis of matching is the life of the asset- section 24 paragraph 24.5F. Otherwise the accounting for depreciation- section 17 and impairment- section 27 is the same.)

EXAMPLE EXTRACTS

MIDMINSTER YOUTH CIO
STATEMENT OF FINANCIAL ACTIVITIES
(INCLUDING AN INCOME AND EXPENDITURE ACCOUNT)
FOR THE YEAR ENDED 31 MARCH 2024

	Note	Unrestricted funds 2024	Restricted funds 2024	Total funds 2024	Total funds 2023
		£	£	£	£
Income from:					
Grants and donations	2	24,385	615,000	639,385	186,000
Charitable activities	3	158,674	-	158,674	369,992
Investment	2	72	-	72	128
Total income		183,131	615,000	798,131	556,120
Expenditure on:					
Raising funds		18,971	-	18,971	15,678
Charitable activities	4	177,852	264,624	442,476	505,989
Other	5	14,098	-	14,098	7,183
Total expenditure		210,921	264,624	475,545	528,850
Net income / (expenditure)		(27,790)	350,376	322,586	27,270
Transfers between funds		(5,432)	5,432	-	-
Net movement in funds		(33,222)	355,808	322,586	27,270
Total funds brought forward		41,241	70,200	111,441	84,171
Total funds carried forward		8,019	426,008	434,027	111,441

This example shows a charity with the Youth Investment Fund capital grant. The project is not completed at the year end (31st March 2024) and the capital grant is shown in the restricted funds. This is set out in more detail in Note 2 (see extracts of notes on page 11 of this handout). Note that whilst the capital grant is shown as income in the SOFA, the expenditure is shown in the balance sheet. The underlying unrestricted performance of the charity was a deficit of £33,222 (first column) rather than the total column that includes the capital grant and other unspent restricted funds.

MIDMINSTER YOUTH CIO
BALANCE SHEET AS AT 31st MARCH 2024

	Note	2024	2023
		£	£
Fixed Assets			
Tangible fixed assets	9	**394,248**	15,560
		394,248	15,560
Current Assets			
Debtors	10	**27,500**	38,340
Cash at bank and in hand		**50,157**	89,600
		77,657	127,940
Creditors : amounts falling due within one year	11	**(22,878)**	(17,059)
Net Current assets / (liablities)		**54,779**	110,881
Creditors: amounts falling due after more than one year	12	**(15,000)**	(15,000)
Total assets less current liabilities		**434,027**	111,441
Unrestricted funds			
General	13	**(16,981)**	16,241
Designated		**25,000**	25,000
		8,019	41,241
Restricted Funds	13	**426,008**	70,200
Total Funds		**434,027**	111,441

The balance sheet shows a significant increase in tangible fixed assets. This is largely related to the capital expenditure on the YIF project and is detailed in note 9. The restricted funds are broken down in note 13.

MIDMINSTER YOUTH CIO
STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 31 MARCH 2024

	Note	2024	2023
		£	£
Cash flows from operating activities			
Net cash income		355,904	17,930
Adjustments to cashflows from non cash items	9	8,312	9,340
		364,216	27,270
Working capital adjustments			
Decrease/(increase) in debtors	10	10,840	(15,560)
(Decrease)/increase in creditors	11	5,819	12,340
Total expenditure		16,659	(3,220)
Net cashflows from operating activities		347,557	30,490
Cashflows from investing activities			
Purchase and construction of tangible fixed assets		(387,000)	(6,500)
Net increase in cash and cash equivalents		(39,443)	23,990
Cash and cash equivalents at 1 April		89,600	65,610
Cash and cash equivalents at 31 March		50,157	89,600

If the charity income is above £500,000, then it is a requirement to include a statement of cashflows in the annual accounts. This may be a new requirement for some organisations where the YIF grant has tipped them over the threshold.

Note 2 Grants and donations

	Unrestricted 2024	Restricted 2024	Unrestricted 2023	Restricted 2023
	£	£	£	£
Income from:				
Donations	24,385	-	18,500	2,500
Youth investment Fund	-	400,000	-	-
National Lottery	-	175,000	-	125,000
Midminster Trust	-	40,000	-	40,000
Total income	24,385	615,000	18,500	167,500

Note 9 Tangible Fixed Assets

	Fixtures & fittings	Computer equipment	Leasehold asset under construction	Total
	£	£	£	£
Cost				
At 1 April 2023	23,670	15,890	-	39,560
Additions	-	2,000	385,000	387,000
As at 31 March 2024	23,670	17,890	385,000	426,560
Depreciation and impairment				
At 1 April 2023	14,500	9,500	-	24,000
Depreciation charged in year	4,734	3,578	-	8,312
As at 31 March 2024	19,234	13,078	-	32,312
Carrying amount				
At 31 March 2024	4,436	4,812	385,000	394,248
At 31 March 2023	9,170	6,390	-	15,560

The leasehold asset under construction is the development of the new youth centre funded through the Youth Investment Fund. It is planned to be completed in December 2024. No depreciation is provided until the asset is completed. The peppercorn lease from Midminster Council is for 50 years from January 2023.

Note 13 Movement in Funds

	At 1 April 2023	Incoming Resources	Outgoing Resources	Transfers	at 31st March 2024
	£	£	£	£	£
Restricted Funds:					
Youth Investment Fund	-	400,000	(25,000)	-	375,000
National Lottery	45,000	175,000	(205,324)	-	14,676
Midminster Trust	25,200	40,000	(34,300)	5,432	36,332
	70,200	615,000	(264,624)	5,432	426,008
Unrestricted Funds:					
General funds	16,241	183,131	(210,921)	(5,432)	(16,981)
Designated funds	25,000	-	-	-	25,000
	41,241	183,131	(210,921)	(5,432)	8,019
Total Funds	**111,441**	**798,131**	**(475,545)**	**-**	**434,027**

Purposes and restrictions of funds

Restricted funds:	
Youth Investment Fund	This grant supports the construction of the new yourh centre at 25 Spring Road, Midminster.
National Lottery	National Lottery funding supports our youth counselling services.
Midminster Trust	Midminster Trust provides grants for the advocacy services.
Designated funds	These are held for major building repairs.

Note 17 Contingent liabilites

The Youth Investment Fund capital grant (£400k at 31st March 2024 but will total of £550k at completion) is subject to an "asset liability period" of 10 years from completion of the new community centre. Whilst the likelyhood of clawback of the funding is considered low, it is possible.

Below is an example of after the completion of the project and having satisfied the restricted funds conditions in the grant agreement. This shows the position **one year later** than the examples above and includes the transfer of the YIF grant to designated funds.

MIDMINSTER YOUTH CIO
STATEMENT OF FINANCIAL ACTIVITIES
(INCLUDING AN INCOME AND EXPENDITURE ACCOUNT)
FOR THE YEAR ENDED 31 MARCH 2025

	Note	Unrestricted funds 2025	Designated funds 2025	Restricted funds 2025	Total funds 2025	Total funds 2024
		£	£	£	£	£
Income from:						
Grants and donations	2	44,302	-	340,000	384,302	639,385
Charitable activities	3	198,522	-	-	198,522	158,674
Investment	2	1,704	-	-	1,704	72
Total income		244,528	-	340,000	584,528	798,131
Expenditure on:						
Raising funds		24,306	-	-	24,306	18,971
Charitable activities	4	177,852	-	184,331	362,183	442,476
Other	5	9,567	-	-	9,567	14,098
Total expenditure		211,725	-	184,331	396,056	475,545
Net income / (expenditure)		32,803	-	155,669	188,472	322,586
Transfers between funds		-	550,000	(550,000)	-	-
Net movement in funds		32,803	550,000	(394,331)	188,472	322,586
Total funds brought forward		(16,981)	25,000	426,008	434,027	111,441
Total funds carried forward		15,822	575,000	31,677	622,499	434,027