



# Preparing Charitable Accounts

***Charities, like businesses, need to produce clear and accurate sets of annual accounts. These are a formal necessity and, as such, require precise information about the transactions in and out of the charity's accounts as well as a snapshot of the total financial position of the charity at the end of each financial year.***

## **Financial Records**

All organisations, whether they are commercial, or charitable, require procedures for monitoring their financial situation. In their most basic form, they may consist of manual records of the credits and debits in and out of the bank account(s). For a charity, the need is especially important since it is handling money that has been donated by others for the purposes of furthering the aims of that organisation.

It is usual for the members of a charitable organisation to elect a treasurer whose job it is to take care of the day to day transactions of the charity, and who will also be responsible for the preparation of the end of year accounts.

The organisation needs to agree on an acceptable method for keeping the records. This may entail manual bookkeeping or, as is becoming increasingly common, maintaining records on computer, using either a standard spreadsheet program, or one of the many popular finance packages available for either personal or small business use.

Whichever method is used, it is important to record details on each and every transaction, including the date, payee, and amount. In addition, it is often helpful to categorise each transaction so that a summary may be more easily produced at a later date.

These days, as transparency becomes more important, the treasurer should keep a file of evidence for receipts and payments. Being able to substantiate the transactions will assist an independent inspection of the accounts at the end of the financial year. This would include invoices, receipts, letters of acknowledgement, etc.

## **End of Year Accounts**

The charity's governing document (i.e. constitution, trust deed, etc.) will stipulate the financial year for the organisation, and will indicate the necessary procedures for independent inspection of the accounts records, and presentation of accounts (e.g. to members).

At the end of the financial year, the treasurer will need to prepare a set of accounts to show:

- a) a summary (by category) of all of the transactions in and out of the organisations accounts.
- b) the overall financial state of the organisation. This must include a total of all bank accounts, as well as other assets.

**Income and Expenditure Account**

An Income and Expenditure Account is a standard accounting document that is produced to show a summary of all the money paid in and out of the organisations accounts during the financial year. It is split in to two sections; the first showing income, and the next showing expenditure. Each entry is a total of the money received or spent in a specific category (e.g. the total money received for membership subscriptions, or donations, or the total spent on postage, etc.). The income and expenditure sections are totalled and then the total expenditure is subtracted from the total income to show a "net total". This could be a positive or negative figure.

If these were company accounts, this would indicate a profit or loss; however as these are charitable accounts (and therefore cannot show a "profit") the term used is "Excess of Income over Expenditure".

This is an example of an Income and Expenditure Account:

<b>XYZ Charitable Association</b>		
<b>Income and Expenditure Account</b>		
<b><i>1 January 2005 – 31 December 2005</i></b>		
<b>Income</b>		
Bank Interest	26.09	
Membership Subscriptions	60.00	
Donations	122.78	
Flag Day - net income (see note 1)	835.00	
Grant from Channel Island Lottery	465.00	
<b>TOTAL INCOME</b>		<b>1,508.87</b>
<b>Expenditure</b>		
Meeting Expenses	25.00	
Postage	43.31	
Stationery	35.40	
Printing	184.50	
Provision of patient care	873.00	
Purchase of safety equipment	367.00	
<b>TOTAL EXPENDITURE</b>		<b>1,528.21</b>
<b>Excess of Income over Expenditure</b>		<b>(£19.34)</b>

In this example, an account for the "Flag Day" would be given on a separate sheet. This would show the money raised less any expenses associated with this specific event. You may also wish to include a note to give details of the "safety equipment".

**The Balance Sheet**

A Balance Sheet is a standard accounting document that is produced to show the overall financial state of an organisation. It is produced for the end of the financial year (e.g. 31 December) and records (as at that date) the total money in each bank account as well as any other fixed or cash assets. It would also include any liabilities, for example all cheques issued would be included in the accounts, however if a cheque had been issued but not yet cashed then it would be shown as a current liability.

The Balance Sheet provides a useful check on the figures, since it indicates an opening balance (which would obviously be the closing balance from the previous financial year) and then adds (or deducts) the "Excess of Income over Expenditure" (as shown on the Income and Expenditure Account), which gives a closing balance for the year. This closing balance must be equal to the figure shown as net assets.

This is an example Balance Sheet:

<b>XYZ Charitable Association</b>	
<b>Balance Sheet</b>	
<b>31 December 2005</b>	
<b>Current Assets</b>	
Bank and Cash Accounts	
ABC Bank	
- Current Account	45.03
- Savings Account	1,968.37
<b>TOTAL CURRENT ASSETS</b>	<b>2,013.40</b>
<b>Current Liabilities</b>	
<b>TOTAL CURRENT LIABILITIES</b>	<b>0.00</b>
<b><u>NET ASSETS</u></b>	<b><u>2,013.40</u></b>
<i>Represented by:</i>	
<b>Accumulated Fund</b>	
Balance at 1 January 2005	2,032.74
Excess of Income over Expenditure	(£19.34)
<u>Balance at 31 December 2005</u>	<u>2,013.40</u>

The Income and Expenditure Account and Balance Sheet together make up a satisfactory summary of the accounts that will enable anyone to gain a full and accurate picture to the state of the organisations finances.

**Independent Inspection**

Charities could be viewed as the “guardians” of public money, which has been donated for a particular cause, consequently financial matters must be treated with prudence and vigilance. The treasurer, in particular, must ensure that not only is the charity’s money handled correctly, but also it is seen to be managed appropriately. There is great onus upon the treasurer to act with meticulous care and be seen to be trustworthy and reliable.

In addition, organisations are increasingly required to have their books independently inspected in order that, so far as is possible, the accounts can be verified. Although this is sometimes referred to as an audit, this term is not accurate as, in most cases, it is not possible to carry out the level of detail that would normally be associated with the inspection of business accounts (especially considering the likelihood of numerous donations through the year).

Charities should, therefore, seek the services of an independent accountant (i.e. who is not involved with the organisation) to inspect their records of transactions (and match these against bank statements) and check that they equate to the details presented on the Income and Expenditure Account and Balance Sheet. If they are satisfied that they present an accurate record, they will provide a statement to show that they have inspected the records and accounts.

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*This information is offered to assist charitable organisations. It should not be regarded as comprehensive and charities should take appropriate advice to ensure they comply with their obligations. The Association of Guernsey Charities accepts no responsibility for any person or organisation using these guidelines.*

*Further information is available on our website [www.charity.org.gg](http://www.charity.org.gg)*