CA PLUS
COMMUNITY ACCOUNTING

A rough guide to the legislation on accounts

NB Legislation tends to change over time, and what follows is the situation today and applies to financial years ending on or after 1 April 2009.

The legislative basis for what follows comes from the Companies Act 2006 and the Charities Act (2006). These gave rise to the Charities (Accounts and Reports) Regulations 2008.

Please note this is only a rough guide…

The Issue	**The rules**	**In reality**
Organisations need to keep accounting records	Directors of a Company and Trustees of a Charity have a legal duty to keep records. Your records need to show the day to day activity and the financial position of your organisation at any particular date.	Keep your records up to date Use a system which gives you the information you need for funders, committee, members, staff, regulators, etc. Keep all your financial records for 7 years
Organisations need to prepare annual accounts	There are two basic forms of accounts – simple cash based accounts (Receipts and Payments) or more complicated accruals accounts (Income and Expenditure). **Receipts and payments.** This is the simpler of the two methods of preparation and may be adopted where a non-company charity has a gross income of £250,000 or less during the year. It consists of an account summarising all money received and paid out by the charity in the financial year, and a statement giving details of its assets and liabilities at the end of the year	Few organisations prepare their own accounts. Most pass their records to an accountant who will do this for them. Ask your accountant! If you want to prepare your own accounts, that's fine, and you can see examples on the charity commission website or download standard templates. Receipts and payments accounts are simple, but you need to be careful. If you haven't paid the

	Don't forget that you are supposed to have explicitly chosen this form of accounts and minuted that decision. <u>Charitable companies are not allowed to adopt this simpler method.</u> **Accruals.** Non-company charities with gross income of over £250,000 during the financial year, and all charitable companies must prepare their accounts on the accruals basis in accordance with the SORP (Statement of Recommended Practice). They contain a balance sheet, a statement of financial activities and explanatory notes. These accounts are required in accountancy terms to show a 'true and fair view'.	tax bill, it will not be shown in the payments, but simply listed as one of the liabilities. Accruals accounts can sometimes confuse people. For example, if you haven't paid the phone bill at year end, this would be shown as a creditor in the balance sheet and included as expenditure as the expense was incurred in the year in question even though you didn't pay it on time!
Most organisations need to have their accounts checked	There are two basic forms of scrutiny. an <u>independent examination</u> is needed if gross income is between £25K and £500K an <u>audit</u> is needed where the gross income exceeds £500K. An audit will also be needed if total assets (before liabilities) exceed £3.26m and the charity's gross income is more than £250K . Consolidated accounts must be prepared and audited if the gross income of the group (excluding transfers) exceeds £500K. An audit is carried out under standards issued by the Auditing Practices Board. A registered auditor is one registered with a recognised supervisory body in accordance with the Companies Act 2006. An Independent Examination is a	Even if you don't have to under regulations – eg because you are a charity with income less than £25,000 p.a. – many funders, members and even your own governing document might require some kind of scrutiny. Trustees will need to interpret the precise wording of their governing document. For instance, 'audit by a bank manager' would not normally mean a full statutory audit. On the other hand 'audit by a qualified accountant' suggests that a statutory audit by a registered auditor is required, even if the charity is small and not required to have an audit by legislation Audits are usually

	less onerous form of scrutiny than an audit. Examiners report whether specific matters which are identified in the 2008 Regulations have come to their attention. Where the charity is not required to have an audit but gross income exceeds £250,000, an independent examiner must qualify by being a member of an approved professional organisation	expensive! The independent examiner must be <u>independent</u> and <u>competent</u>. You should ask about their experience, and even ask for references
Most organisations have to send their report and accounts to somebody.	Any charity with income over £25,000 must send their report and accounts as well as the annual return to the charity commission Below this level, you may be asked to do so. Any company must submit the report and accounts as well as the annual return to companies house.	Don't forget the deadlines. Online filing is possible. For the charity commission send a pdf file as you don't want your signature to be publicly displayed on the cc website. At present, only companies house will fine you, the commission just name and shame and put you in red on their website.

More help and information

Obviously, the CA Plus website – you can sign up for free occasional email items like our employment advice notes: www.caplus.org.uk

Guidance for charities is also available on the charity commission website www.charity-commission.gov.uk

There is more guidance on Independent Examinations at: www.acie.org.uk

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