



Initial Steps to Preparing Charity Accounts

Accounting for charities and the not-for-profit sector is a specialist area that requires an understanding of the industry. By law, charities must prepare a set of accounts and it falls to the responsibility of the Trustees to ensure the accounts are prepared correctly.

Before you start preparing your charity accounts the following points should be considered:

Determining what type of accounts should be prepared

Accounts can be prepared on a cash basis or an accruals basis depending on the level of gross income.

- Cash basis also known as 'receipts and payments basis' is when transactions are recognised when 'cash' or money exchanges. Where a charity has gross income of less than £250K, accounts can be prepared using this method.
- Accruals basis is where the transactions are recognised when they occur regardless if cash or money has been exchanged.

External Scrutiny of Charity Accounts

Charity accounts must be externally scrutinised independently, the level of scrutiny depends on levels of income, assets, the charitable governing documents and if your company is a company. There are two types of external scrutiny, an independent examination and an audit.

Consideration of Fund Accounting

Fund accounting is an important feature of charity accounting and separates two main classes of fund, unrestricted and restricted.

- Unrestricted funds: Funds which may be spent on any charitable purpose of the charity. Where Trustees set aside monies for a specific purpose, a designated fund would be formed.
- Restricted funds: Funds which have been received for a specific charitable purpose and can only be lawfully spent in line with the donors wishes. Restricted funds can also be sub divided into restricted income and endowment funds. Endowment funds are usually a large donation where the money is to be invested and the income generated can be used for charitable purposes.

It is important to retain documentation to support how income should be received. Where Trustees agree to designate a general fund this should be minuted.

If you would like any advice on preparing your charity accounts, please contact a member of our EQ Charities team or speak to your local office contact.

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