

Needham Accountancy Limited

Bookkeeping for Charities

You will require some or all of the following:

1. An understanding of how charities/community groups are set up and governed
The best place for information on the above is the [Charities Commission website](#) for England and Wales, the [Office of the Scottish Charity Regulator](#) for Scotland and the [Charity Commission for Northern Ireland](#).
2. Understanding of Fund Accounting
Non profit organizations and government agencies have special requirements to show, in financial statements and reports, how money is spent, rather than how much profit was earned. Unlike profit oriented businesses, which use a single set of self-balancing accounts (or general ledger), nonprofits can have more than one general ledger (or fund), depending on their financial reporting requirements. An accountant for such an entity must be able to produce reports detailing the expenditures and revenues for each of the organization's individual funds, and reports that summarize the organization's financial activities across all of its funds.

A school system, for example, receives a grant from the state to support a new special education initiative, another grant from the federal government for a school lunch program, and an annuity to award teachers working on research projects. At periodic intervals, the school system issues a report to the state about the special education program, a report to a federal agency about the school lunch program, and report to another authority about the research program. Each of these programs has its own unique reporting requirements, so the school system needs a method to separately identify the related revenues and expenditures. This is done by establishing separate funds, each with its own chart of accounts.
3. Understanding of the Charities Accounting – SORP and SOFA
SORP (Statement of Recommended Practice) and SOFA (Statement of Financial Activities) are explained very well [here](#).
4. Understanding of the different ways groups generate income e.g. Funding, Service Level Agreements, Contracts, Donations, trading etc
This is very well explained on the [Know How Non Profit website](#).
5. Gift Aid
The Gift Aid scheme is for gifts of money by individuals who pay UK tax. Gift Aid donations are regarded as having basic rate tax deducted by the donor. Charities or CASCs (Community Amateur Sports Clubs) take the donation - which is money that tax has already been paid on - and reclaim the basic rate tax from HM Revenue & Customs (HMRC) on its 'gross' equivalent - the amount before basic rate tax was deducted.

Basic rate tax is 20 per cent, so this means that if a charity receives £10 using Gift Aid, it's worth £12.50. For donations between 6 April 2008 and 5 April 2011 the

charity or CASC will also get a separate government supplement of three pence on every pound they receive.

6. Charities VAT and Taxation

There is a lot of advice on tax guidance for charities on the [HMRC website](#).

7. Useful to know Excel, Sage, Quick Books, MYOB, TAS, Sun Accounts (these are the ones most of the groups I have come across use)

8. Understanding of full cost recovery of costs and the difference between cost allocations and cost apportionment

Full cost recovery means recovering or funding the full costs of a project or service. In addition to the costs directly associated with the project, such as staff and equipment, projects will also draw on the rest of the organisation. For example, adequate finance, human resources, management, and IT systems, are also integral components of any project or service.

The full cost of any project therefore includes an element of each type of overhead cost, which should be allocated on a comprehensive, robust, and defensible basis.

The allocation of overheads or cost allocation is to directly and specifically charge the overheads to the cost centre.

Two basic conditions exist before we can consider it as allocation:

- The cost centre must have caused the overhead to be incurred and
- The exact amount of overhead must be known

Hence briefly, allocation is more precise in that direct charging of specific overhead costs to cost centres or departments can be made with a degree of certainty. Effectively the overhead cost is a specific charge to the cost centre.

Apportionment of overheads occurs where the overheads cannot be specifically identifiable to the specific cost unit centre. Hence the need to find a suitable basis to charge the various cost unit with a fair share of the overheads.

Illustration:

Types of Overheads	Basis of apportionment
Rent, rates, water and utilities	By Area
Office salaries, canteen, supervision	By Number of employees
Depreciation of fixed assets	Cost/book value

Briefly, cost apportionment is ARBITRARY wherein the cost is spread to departments on what is hopefully a fair and reasonable basis e.g rent and rates on the basis of area occupied, supervision costs based on the number of employees in each department.

9. Understanding the difference between independent examination and audit

Minimum permitted scrutiny of accounts	England and Wales: Income / expenditure level	Scotland: Income / expenditure level
Approval of accounts by trustees only	£0-£10,000	Not applicable
Independent examination	£10,000-£250,000	£0-£100,000
Full audit	£250,000 or over	£100,000 or over

Although independent examination represents a lesser form of scrutiny than a full audit, it is still much more demanding than the "informal audit" which many small charities had in the past.

The two main differences between independent examination and audit relate to (a) who can act and (b) the nature of the report. However, in both cases the framework is laid down by law, and there are many issues that must be considered in a charity audit or independent examination which would not be required in a commercial audit: for example, checking for proper use of restricted funds. As well as following the regulations, in England and Wales, an independent examiner must comply with the Directions of the Charity Commission. It follows that both auditors and independent examiners must have specific charity knowledge.

If an audit is required, the charity's trustees must appoint a registered auditor (it is not sufficient just to use a qualified accountant). However, an independent examiner is defined as an independent person who is reasonably believed by the charity trustees to have the requisite knowledge and practical experience to carry out a competent examination of the accounts. No specific qualification is required, but clearly the person must have a good understanding of accounts and charity accounts in particular. The issue of independence is also very important: some "informal audits" in the past have been carried out by funders, landlords, or close relatives of trustees, where there is clearly insufficient independence.