

Guidance on Charity Financial Statements

Recommended practice

The authority for production of Charity Financial Statements is Financial Reporting Standard (FRS) 102 and the related Charities SORP (Statement of Recommended Practice), the latest version updated in October 2019 (adopted by all the UK Charity Commissions).

This document contains guidance on presentation of financial statements as well as the appropriate accounting policies for recognition of income and expenditure based on the SORP.

LBG charities should note that The Companies (Guernsey) Law 2008 (in particular Section 243) specifies the form and some of the content of their financial statements, but provided the principles of FRS102, as set out below, are followed the financial statements will be compliant with company law.

Smaller Charities

The SORP provides for smaller charities, that is charities with Gross Income of less than £250,000, to produce accounts on a receipts and payments basis. This is optional but must be stated in the Financial Statements if this approach is taken.

Charities above this threshold must prepare accounts on a full accruals basis.

The SORP also provides for charities with Gross Income below £500,000 to provide less information in their financial statements.

Format of Charity Financial Statements

A specimen format of financial statements is set out in Appendix 1 (Trustees Report), Appendix 2 (Income and Expenditure account), Appendix 3 (Balance Sheet). We encourage charities to use this pro-forma so that there is consistency between their financial statements when the requirement to make them available to the public comes in.

The Appendix includes *notes (italicised)* taken from the SORP that are likely to be relevant for all charities, but larger charities (with Gross Income above £500,000) should refer directly to the SORP.

All charities should report, in the Notes to the Accounts any material event occurring after the end of the accounting period, that the reader should be aware of. More detail is given in Section 13 of the SORP, including guidance as to whether an event should be adjusted for in the financial statements, or simply noted.

Larger charities should provide a Statement of Cash Flows as set out in Section 14 of the SORP. They may also need to have details in the Notes to the Accounts to explain movements in figures on the Balance Sheet or the Income and Expenditure Statement.

Other

This paper caters for disclosure matters that are likely to affect most charities in Guernsey, but does not contain the requirements for some of the more unusual aspects of income and expenditure and related disclosure requirements explained in the SORP, such as

Appropriate accounting policies

Smaller charities

Smaller charities may recognise income and expenditure on a receipts and payments basis, as described above.

Larger charities

This section of the Guidance is only relevant to charities with income exceeding £250,000 and specimen accounting policies for charities accounting on an accruals basis are set out in Appendix 4 (Notes to the Accounts – Accounting Policies) and can be summarised as follows:

Income

1 Income should be recognised on entitlement, when it is probable, and it can be measured reliably. If a donation or grant is conditional, the condition must have been met. Performance related grants should be reported only to the extent that the performance conditions have been met. It must be recorded gross, with and third-party fees treated as a fundraising expense.

2 Donated goods and services should be recognised as income at fair value. There is a module within the SORP which sets out the requirements for recognition, measurement and disclosures from this income source.

- The value of services of volunteers cannot be measured reliably so should be excluded from the accounts.
- The value of donated goods is often impractical because of the sheer volume of low-value items and the absence of stock control system, so the value to the charity should be recognised as income only when sold

3 Where Government grants are received, the charity should disclose the nature and amounts, and any unfulfilled conditions and contingencies attached to them.

4 Where income is deferred because of unmet conditions etc the Notes to the Accounts should explain the reasons for the deferral.

Expenditure

1 A liability to expenditure should be recognised when there is an obligation, the liability is probable (rather than possible), and it can be measured reliably (normally using historic cost).

2 Grants payable should only be recognised if the obligation is unavoidable (i.e. the beneficiary has been notified, or is established by charity policy). Where a grant is payable over more than one year, the full liability should be recognised unless there is a performance obligation required of the beneficiary that enables the grant to be withdrawn, or there is a discretion to avoid the future expenditure.

3 Costs should be allocated to activities reasonable and consistently. Direct costs should be allocated directly, shared costs and support costs should be apportioned on a reasonable basis.

Other

1 Related party transactions should have the disclosures set out in para 9.20 of the SORP.

Appendix 1

Trustees' Annual Report 202X

XYZ Charity

Trustees' report for the Year Ended 31st December 202X

Objectives and activities

The purpose of the charity is ...

The main activity of the charity in relation to its purpose is ...

Achievements and performance

The main achievements of the charity to beneficiaries, and to the wider community were ...

Financial review

The Statement of Income and Expenditure, and the Balance Sheet are set out on pages .. to ..

The charity's policy is (not to hold reserves)/ to hold reserves for the following purposes ...

Structure, governance, and management

The charity is constituted as a trust/limited company/foundation/unincorporated association under a Governing Document, most recently amended on ...

Trustees/committee members are elected (details of how they are elected) and serve for .. years before they are required to stand down and offer themselves for re-election. They may be re-elected a maximum of XX times.

(If appropriate) Day to day activities of the charity are vested in a remunerated management board whose composition and performance is determined by the Trustees.

Reference and administrative details

The full name of the charity and the Charity Registration number is ..

The address of the principal office of the charity is .../The charity has no physical premises and the principal office of the charity is the address of the Chairman of the Trustees, as follows ...

The names of all Trustees/committee members as at the date of this report, and who served during the year are as follows ...

Exemption from Disclosure (if applicable)

The names of trustees/committee members or their contact detail are not disclosed where that disclosure could lead to a person being placed in personal danger for the following reasons ...

Funds held as custodian trustee on behalf of others (if applicable)

The charity acts as custodian trustee on behalf of others in the following context ...

For charities with Gross Income in excess of £500,000, additional disclosures are required, as set out in the SORP.

Dated 28th February 202X

Chairman

Treasurer

Trustees' Annual Report 202X

XYZ Charity

Income and Expenditure for the Year Ended 31st December 202X

	Restricted or ring-fenced funds	Unrestricted funds	202x Total	202y	Notes
			£	£	
Income					
Donations and legacies			x	x	1
Grants and sponsorship			x	x	2
Fundraising and sales			x	x	3
Other charitable income			x	x	
Investment and rental income			x	x	
Other income			x	x	
Total Income			xx	xx	
Expenditure					
Raising funds			x	x	4
Charitable activities			x	x	5
Administrative expenditure			x	x	6
Other expenditure			x	x	
Total Expenditure			xx	xx	
Net income/(expenditure)			xx	xx	
Reserves brought forward			x	x	
Reserves carried forward			xx	xx	

Notes

- 1 Includes all donations (and any tax rebates), and membership subscriptions. Excludes donated goods and services intended for resale (but includes goods and services donated for charity's own use)
- 2 Income from services and goods which are part of the mission of the charity, income from performance related grants (e.g. for the provision of care), income from sales of goods/services made by the beneficiaries of the charity
- 3 Income from fundraising events and trading activities to raise funds for the charity, sponsorships
- 4 Costs of seeking donations, grants, legacies, staging events, operating charity shops
- 5 All costs of activities that further the charitable aims, including costs of arranging grants
- 6 Costs that are not directly attributable to fundraising or furthering the charitable mission

Sub-headings should be used to identify material items within any of the above headings

Note that the balance sheet of a smaller charity need not include items that are accruals or prepayments, if that is the accounting policy

Trustees' Annual Report 202X

XYZ Charity

Balance Sheet as at 31st December 202X

	202X	202Y	Notes
Fixed Assets:			1
Intangible assets	xx	xx	2
Tangible assets	xx	xx	3
Heritage assets	xx	xx	
Investments	xx	xx	4
Total fixed assets	xx	xx	
Current assets:			
Stock	xx	xx	5
Debtors	xx	xx	5
Investments	xx	xx	4
Cash at bank and in hand	xx	xx	
Total current assets	xx	xx	
Liabilities:			5
Creditors: amounts falling due within one year	xx	xx	
Net current assets or liabilities	xx	xx	
Total assets less current liabilities	xx	xx	
Creditors: amounts falling due after more than one year	xx	xx	
Provisions for liabilities	xx	xx	
Total Net Assets or liabilities	xx	xx	
Represented by the funds of the charity			
Unrestricted funds	xx	xx	
Revaluation reserve	xx	xx	
etc	xx	xx	
Total unrestricted funds	xx	xx	
Total charity funds	xx	xx	

Notes (mainly for larger charities who cannot account on a receipts and payments basis)

1 For each category of Fixed assets there should be an analysis of cost, acquisitions, revaluation and disposals. For Fixed Assets that are depreciated, amortised or impaired, the SORP (para 10.16) lists various amounts that are to be shown

2 It would be unusual for most charities to carry intangible assets on the balance sheet; the SORP (paras 10.18 to 10.24) contains rules about the carrying value

3 Tangible assets that provide an ongoing economic benefit should be carried at historical cost, including any costs of bringing the asset into a workable condition. This may

include borrowing costs. Assets other than land should be depreciated over their useful economic life, but land should be tested for impairment. In the case of land and buildings (only) they may be revalued. A note to the accounts should contain a table analysing opening and closing carrying amounts, split between cost or valuation, and depreciation and impairments (SORP Table 6)

4 The accounting treatment of investments, and the required disclosures are complex; reference should be made to the SORP paragraphs 10.41 to 10.56

5 The Notes to the Accounts should specify the accounting policy for measuring the value of stocks, the basis on which debtors are measured (including any non-recoverable amounts), and the basis on which creditors and provisions for liabilities are recognised and measured.

Trustees' Annual Report 202X

XYZ Charity

Notes to the Accounts

1 Accounting policies

Basis of accounts	<p>These financial statements are prepared in accordance with United Kingdom Generally Accepted Accounting Principles, including FRS 102 the Financial Reporting Standard applicable to charities in the United Kingdom and Republic of Ireland, as set out in the Statement of Recommended Practice (SORP) agreed between all United Kingdom Charity Commissions and the Chartered Institute of Public Finance and Accounting.</p> <p><i>(Delete if appropriate) The SORP provides that for charities with Gross income less than £250,000, accounts are prepared on a receipts and payments basis, and that is the basis on which these accounts are prepared</i></p> <p>The financial statements comply with applicable laws and give a true and fair view.</p>
<i>If the charity prepares accounts on a receipts and payments basis, the following accounting policies will probably be inappropriate</i>	
Recognition of income	
General	Income is recognised on entitlement, when it is probable, and it can be measured reliably.
Grants	In the case of performance related grants, income must only be recognised to the extent that the charity has provided the specified goods or services as entitlement to the grant only occurs when the performance related conditions are met
Legacies	Legacies are included when receipt is probable, that is, when there has been grant of probate, the executors have established that there are sufficient assets in the estate and any conditions attached to the legacy are either within the control of the charity or have been met.
Donated goods	<p>Donated goods are measured at fair value (the amount for which the asset could be exchanged) unless impractical to do so.</p> <p>The cost of any stock of goods donated for distribution to beneficiaries is deemed to be the fair value of those gifts at the time of their receipt and they are recognised on receipt. In the reporting period in which the stocks are distributed, they are recognised as an expense at the carrying amount of the stocks at distribution.</p>

<p>Donated services and facilities</p> <p>Volunteer help</p> <p>Membership subscriptions</p> <p>Investment Gains and Losses</p>	<p>Donated goods for resale are measured at fair value on initial recognition, which is the expected proceeds from sale less the expected costs of sale, and recognised in 'Income from other trading activities' with the corresponding stock recognised in the balance sheet. On its sale the value of stock is charged against 'Income from other trading activities' and the proceeds from sale are also recognised as 'Income from other trading activities'.</p> <p>Goods donated for on-going use by the charity are recognised as tangible fixed assets and included as incoming resources when receivable.</p> <p>Gifts in kind for use by the charity are included as income from donations when receivable.</p> <p>Donated services and facilities are included when received at the value of the gift to the charity provided the value of the gift can be measured reliably.</p> <p>Donated services and facilities that are consumed immediately are recognised as income with an equivalent amount recognised as an expense under the appropriate heading.</p> <p>The value of any voluntary help received is not included in the accounts but is described in the trustees' annual report</p> <p>Membership subscriptions received in the nature of a gift are recognised in Donations and Legacies. Membership subscriptions which gives a member the right to buy services or other benefits are recognised as income earned from the provision of goods and services as income from charitable activities.</p> <p>This includes any realised or unrealised gains or losses on the sale of investments and any gain or loss resulting from revaluing investments to market value at the end of the year.</p>
<p>Recognition of liabilities and expenditure</p>	
<p>General</p> <p>Governance and support costs</p> <p>Grants payable</p>	<p>Liabilities are recognised where it is probable that there is a legal or constructive obligation committing the charity to pay out resources and the amount of the obligation can be measured reliably</p> <p>Support costs have been allocated between governance costs and other support. Governance costs comprise all costs involving public accountability of the charity and its compliance with regulation and good practice</p> <p>Support costs include central functions and have been allocated to activity cost categories on a basis consistent with the use of resources, eg allocating property costs by floor areas, or per capita, staff costs by the time spent and other costs by their usage.</p>

	<p>Where a grant is given with conditions for its payment being a specific level of service or output to be provided, such grants are only recognised once the recipient of the grant has provided the specified service or output</p> <p>Where there are no conditions attaching to the grant that enables the charity to avoid the commitment, the funding liability is recognised in full.</p>
Assets	
Fixed Assets	<p>Tangible fixed assets are capitalised at cost if they can be used for more than one year, and cost at least £x,000</p> <p>Intangible fixed assets, that is, non-monetary assets that do not have physical substance but are identifiable and are controlled through custody or legal rights, are capitalised at cost.</p> <p>Heritage assets, that is, non-monetary assets with historic, artistic, scientific, technological, geophysical, or environmental qualities that are held and maintained principally for their contribution to knowledge and culture, are capitalised at cost</p> <p>The depreciation and amortisation rates are set out in Note XX</p>
Investments	<p>Fixed asset investments in quoted shares, traded bonds and similar investments are valued at initially at cost and subsequently at fair value (their market value) at the year end. The same treatment is applied to unlisted investments unless fair value cannot be measured reliably in which case it is measured at cost less impairment.</p> <p>Investments held for resale or pending their sale and cash and cash equivalents with a maturity date of less than 1 year are treated as current asset investments</p>
Stocks and work in progress	<p>Stocks held for sale as part of non-charitable trade are measured at the lower of cost or net realisable value</p> <p>Goods or services provided as part of a charitable activity are measured at net realisable value based on the service potential provided by items of stock</p> <p>Work in progress is valued at cost less any foreseeable loss that is likely to occur on the contract</p>
Debtors	<p>Debtors (including trade debtors and loans receivable) are measured on initial recognition at settlement amount after any trade discounts or amount advanced by the charity. Subsequently, they are measured at the cash or other consideration expected to be received.</p>