

BUC GUIDELINES

F6 Accounting Guidelines on Charity Accounts with Income Under £250,000 (09/2009)

The Baptist Union of Great Britain has prepared this explanatory document to provide guidance to Baptist church treasurers about the requirements of the Accounting Regulations made under the Charities Act 1993 as they relate to churches.

The document concentrates on the requirements for churches with a gross income of less than £250,000 per annum. Churches with income in excess of £250,000 will need to prepare more sophisticated accounts, which are set out in our leaflet F7. These churches may need to obtain professional advice on their particular circumstances.

Further assistance on particular matters of concern which arise from these regulations can be obtained from the Finance Office of the Baptist Union of Great Britain.

1 Do we have to prepare an annual report or file an annual return?

A Baptist church is 'excepted' from registration under the Charities Act if its custodian trustee is a recognised Baptist trust corporation or it is in membership with the Baptist Union of Great Britain and its income does not exceed £100,000. It does not therefore have to prepare an annual report or file an annual return, though the Charity Commissioners have power to request an annual report in exceptional circumstances. From 2008, churches with an income in excess of £100,000 are required to register with the Charity Commission, and need to file Annual Returns and prepare Annual Reports in the legal format from that time. Churches with income of less than £100,000 will still not be required to register, although the Government's intention is to lower the £100,000 threshold in due course, probably in 2013. Information will be published in Transform at the appropriate time.

2 Must we prepare accounts?

Every charity, whether registered or not, must maintain adequate accounting records (which must be retained for at least six years) and prepare annual accounts. The form of these accounts will depend upon the level of a church's gross income (see 5 below) from all sources.

Provided such income does not exceed £250,000 pa a church may prepare a simple receipts and payments account for the year together with a statement of assets and liabilities at the year end (simplified accounts). If such income exceeds £250,000 pa or where (regardless of the level of income) a church chooses to prepare other than simplified accounts, it must prepare accounts (accruals basis accounts) which conform with the new accounting regulations, including the Statement of Recommended Practice (SORP) which has been devised for charities. The SORP is regularly updated, and the latest is dated 2005. Where the income is under £250,000, a church must either prepare a Receipts and Payments account with a Statement of Assets and Liabilities, or full accounts in accordance with the SORP. It cannot for example just include a Balance Sheet without doing all the disclosures required in the notes.

3 When do the new accounting requirements come into effect?

The new accounting regulations have been effective since 1 March 1996. The SORP 2005 came into effect for financial periods commencing after 31 March 2005.

4 Must the accounts be audited or independently examined?

Where gross income does not exceed £25,000 pa it is not normally necessary, under the regulations, for accounts to be audited or independently examined.

If *gross income* exceeds £25,000 but does not exceed £500,000 then the accounts must be subjected to independent scrutiny and this will normally mean examination by an '*independent examiner*' (see 9 below). Where the income exceeds £250,000, the Independent Examiner will need appropriate professional qualifications.

If gross income exceeds £500,000 pa or exceeds £250,000 and the church has balance sheet assets in excess of £3.26million, a full professional audit is required by a 'registered auditor' (ie one who is authorised to audit the accounts of limited companies).

If a church's own rules specify particular audit requirements then these must be observed. However, a requirement that the accounts are to be 'duly audited' by one (or two) persons appointed by the Deacons and/or Church meeting will be satisfied by the appointment of one (or two) independent examiners acting in accordance with the provisions set out in these notes. If in doubt please consult the Finance Office at the Baptist Union who will be pleased to assist.

Where a church has become a limited company it must follow the requirements of the Companies Act in relation to audits.

5 What is meant by 'gross income' and 'total expenditure'?

Gross income means income from all sources (and on all accounts which come under the supervision of the trustees (deacons)) arising in the ordinary course of a church's activities including, for example, offerings, donations, legacies, rents, investment income, income tax refunds, fund-raising activities etc. If a church carries on a regular trade (as opposed to occasional fund-raising events) the gross takings from that trade will also form part of the total gross income.

Gains arising from the disposal of assets of any description do not count as income for the purpose of determining whether a church's gross income is above or below the relevant threshold. Likewise, money and other assets received on trusts which require the capital to be retained, either in the form of assets for use by the church or in the form of investments producing an income, will not be treated as income for this purpose. Loans to the church are also disregarded. Funds raised for a new church building or a manse, including donations and proceeds from special efforts as well as funds raised subsequently to repay any loans, will therefore be treated as capital receipts. On the other hand, repair appeals will rank as income.

6 Must the accounts be filed with the Charity Commissioners?

Accounts have to be filed only if a church is registered with the Charity Commissioners or if the Commissioners, in any particular case, so direct. The new Charities Act provides that all charities will need to register in due course, but currently churches with over £100,000 gross income are required to register. The Union has issued further guidance about the registration procedures.

Whether the accounts are filed with the Charity Commission or not, they remain 'public documents', and are required by law to be made available to any person requesting them, for no greater cost than the cost of photocopying and posting. This is the same requirement as for any UK charity.

The remainder of these notes deal only with the requirements relating to the preparation of simplified accounts. In situations which involve the preparation of accruals basis accounts, see leaflet F7. Churches over £250,000 may need professional advice since the requirements relating to such accounts, and their audit or examination, are more complex and onerous.

7 What information has to be shown in the 'simplified' accounts?

There are no statutory requirements as to what must be included in the simplified accounts. Whilst the Charity Commission has prepared a standard form of simplified accounts no charity is obliged to use this form, though its use or adaptation is recommended by the Commission. The standard form is not altogether appropriate for use by churches and an alternative format has been devised which is set out below. A receipts and payments account is meant to be a factual record of money received and paid during the financial year whilst a statement of assets and liabilities is a list of significant possessions and outstanding financial obligations as at the end of that year. Because these simplified accounts differ from more detailed accounts (eg by not including 'accruals' and 'prepayments' and not recording depreciation or the revaluation of assets) it is important to make it clear that the accounts have been prepared on a 'receipts and payments basis'. The accounts should be prepared on a consistent basis from year to year and material items should be shown separately or by way of note.

8 Might it be necessary to have more than one receipts and payments account?

All churches will have a general fund which is available for the general purposes of the church and this fund is known as an 'unrestricted' fund. Some churches may have funds which cannot be used for general purposes, either because of a restriction imposed by a trust deed or by those who gave the funds. A fund set up for the building of a new church (or extension) or a manse would be an example of a 'restricted' fund of a capital nature. A church may also decide to set up separate funds for particular purposes, eg a fabric fund or an outreach fund. Such funds are known as 'designated' funds but, unless they are subject to specific restrictions as to their use, they will retain the character of unrestricted funds since a church would be at liberty to apply them for its general purposes if it so determined. Separate receipts and payments accounts should be prepared for each restricted or designated fund.

Income from assets held as part of a restricted fund will generally be subject to the same restriction and must be accounted for as part of that fund, except where the donor has expressly provided for some other use for the income or where the asset is part of a capital fund held for the general purposes of the church, in which case the income can be used for general purposes. Income from the proceeds of sale of a church's property would normally be available for general purposes.

9 Who may act as an 'independent examiner'?

An independent examiner of accounts where the income does not exceed £250,000 does not have to be professionally qualified but he or she must be independent of the trustees (ie the deacons) and, in the opinion of the deacons, have the requisite ability and practical experience to carry out a competent examination of the accounts. An independent examiner of accounts where the income is between £250,000 and £500,000 must be professionally qualified and authorised to audit the accounts of limited companies, or a Fellow of the Association of Charity Independent Examiners. The independent examiner will be appointed by the church meeting.

For an examiner to be 'independent' the individual should have no connection with the deacons which might be thought to inhibit the impartial conduct of the examination. A person is treated as 'connected' if he or she is a deacon, or is a close relative or a business partner or employee of a deacon, or makes very large donations to the church. However, subject to these provisos, there is no reason why a church member should not serve as an independent examiner provided he or she has the requisite ability and practical experience and has not served as a deacon during, or since, the accounting period under review. It is also permissible to appoint more than one examiner if a church so chooses.

10 What are the rights and duties of an independent examiner?

An independent examiner has a right of access to any books, documents and other records which relate to the church and also to require such information and explanations from past or present officers, deacons or employees as he or she considers necessary for the purposes of the examination.

- The Charity Commissioners' 'General Directions to Independent Examiners' sets out what an independent examiner must do and, in relation to simplified accounts, the requirements are summarised as follows:
- Obtain a proper understanding of the constitution, organisation, accounting procedures, activities, assets and liabilities and income and expenditure of the church, in order to plan the examination.
- Determine whether an independent examination is appropriate or whether, because of the level of income or expenditure, a professional audit is required.
- Record the examination procedures carried out and any matters important to support the conclusions reached or statements provided in the examiner's report.
- Compare the accounts with the accounting records in sufficient detail to provide a reasonable basis on which to decide whether the accounts accord with the records.
- Review the accounting records to provide a reasonable basis for identifying any material failure to maintain such records. Carry out procedures to identify unusual items or disclosures in the accounts, obtaining explanations and following up with further verification procedures as considered necessary.
- Consider whether there are any matters which give the examiner cause to believe that in any material respect proper records have not been kept or the accounts do not accord with them.
- Consider whether any matter has come to the notice of the examiner to which attention ought to be drawn in order to facilitate a proper understanding of the accounts.
- If it appears that there has been any material expenditure or action which is considered not to be in accordance with the trusts relating to a particular fund, or if any information or explanation to which he or she is entitled is not provided, specific reference must be made to such matters in the examiner's report.
- Inform the Charity Commissioners in writing if, whilst acting as an examiner, information or evidence is obtained which gives the examiner reasonable cause to believe that one or more of the deacons has been responsible for any deliberate or reckless misconduct in the administration of the church.

The examiner is required to make a report to the deacons upon the examination of the accounts and a specimen form of report is set out at the conclusion of the specimen form of accounts which follow. If the examiner is unable to report in these unequivocal terms then the report must detail the matters to which attention should be drawn.

The examiner should carry out such checks (eg reconciling bank balances, obtaining confirmation from banks etc of the balances on all of a church's accounts, examining corroborative evidence for material items of income and expenditure etc) as are deemed appropriate in order to reach a conclusion that the accounts do accord with the records.

A draft letter of appointment of an independent examiner can be found on page 9 of this leaflet.

**ANYTOWN BAPTIST CHURCH
FINANCIAL STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2009**

GENERAL RECEIPTS & PAYMENT ACCOUNT

	<i>Note</i>	2009	2008
Receipts			
Weekly offerings			
Donations and other income	2		
Income tax recovered on gifts			
Investment income	3		
Rents and contributions for use of premises			
Raised for other causes	4	_____	_____
Home Mission grant		_____	_____
Payments			
Ministry	5		
Mission	6		
Upkeep of church premises	7		
Administration	8	_____	_____
Surplus (deficit) for the year		_____	_____
Balance brought forward		_____	_____
Balance carried forward		_____	_____

FABRIC FUND RECEIPTS & PAYMENT ACCOUNT

Receipts			
Donations and other gifts (detail or show			
Other receipts by way of note)			
Income tax recovered on gifts		_____	_____
Bank Interest		_____	_____
Payments			
Repairs etc (detail or show by way of note)		_____	_____
Surplus (deficit) for the year			
Transfer from (to) upkeep of church premises	7	_____	_____
Balance brought forward		_____	_____
Balance carried forward		_____	_____

NEW CHURCH BUILDING FUND RECEIPTS & PAYMENTS ACCOUNT

Receipts	Note	2009	2008
Donations and other gifts (detail or show by way of note)			
Loans received			
Bank interest			
Income tax recovered on gifts			
Payments: (detailed)			
Surplus (deficit) for the year			
Balance brought forward			
Balance carried forward			

STATEMENT OF ASSETS AND LIABILITES AT 31 DECEMBER 2009

ASSETS:

Bank and other cash balances:

REPRESENTING BALANCE ON THE FOLLOWING ACCOUNTS:

General account

Fabric fund

New church building fund

Other monetary assets:

9

Non-monetary assets: Held for investment purposes

10a

Held for Church's own use

10b

LIABILITIES

Current

11a

Long-term loans

11b

NOTES TO THE ACCOUNTS

1 Basis of accounts: These accounts have been prepared on a 'receipts and payments' basis and accord with S.42(3) Charities Act 1993

2009

2008

2 Donations and other income:

Donations

Legacies

Memorial gifts

Coffee morning proceeds

Other items (detail if material)

3 Investment income:

2009

2008

- Bank interest
- Trust income (if any)
- Other items (specify if material)

4 Other causes

2009

2008

Raised	Given	Raised	Given
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- Home Mission
- BMS
- (Others – specify)

5 Ministry:

2009

2008

- Minister’s stipend
- Pension contribution
- National insurance
- Minister’s travel
- Pulpit supplies
- Manse upkeep (council tax, water, insurance, light & heat and repairs)

6 Mission:

- Given to other causes (per note 4)
- Sunday school
- Youth Work
- Mums’ & Toddlers’ group
- Others (detailed)

7 Upkeep of church premises:

- Lighting and heating
- Cleaning (inc. wages if any)
- Insurances
- Repairs and maintenance

8 Administration:

- Printing and stationery
- Telephone and postage
- Advertising
- Subscriptions
- Organ/piano (details if material)

9 Other monetary assets: (if applicable)

2009

2008

Debtors

Term Deposits

Stocks and shares

[Note: Any such assets should be detailed as necessary, be stated at appropriate values (ie cost, or at market value in case of stocks and shares) and an indication given as to the fund to which they refer.]

10 Non-monetary assets: (if applicable)

(a) Held for investment purposes:

[Note: Any such assets should be detailed as necessary, be stated at approximate values (cost, market or insured) and an indication given as to the fund to which they refer]

(b) Held for the Church's own use:

The church is the beneficial owner (subject to the relevant trusts) of the following assets, the legal title to which is held by the church's custodian trustee [the Baptist Union Corporation Ltd]: [show at insured or market value] Church premises [at address] Church manse [at address] The church also owns fixtures, furniture and equipment with an insured value of

11 Liabilities: (if applicable)

(a) Current:

[Sundry creditors, detailed if material, together with an indication of the fund to which they relate]

(b) Long-term loans:

[Detailed as appropriate, together with an indication of the date(s) when due (or the period over which repayable and, if applicable, the property upon which the loans are charged]

The accounts and statement of assets and liabilities set out on pages [1 & 2] relating to the year ending 31 December 2009 are as approved by the deacons.

Signed: (Treasurer or other Deacon authorised to sign on behalf of all the deacons)

[Date]

EXPLANATORY NOTES RELATING TO THE SPECIMEN FORM OF ACCOUNTS:

- a** It is emphasised that the format is simply a suggestion (based on best charity accounting practice) and it may be adapted to meet the particular circumstances. If some of the accounts, headings or notes are inapplicable they should be deleted and the numbers of notes amended accordingly.
- b** It should also be understood that the Statement of Assets and Liabilities is not meant to balance. It is merely meant to be a summary of the church's material assets and liabilities.
- c** Amounts may be shown in pounds and pence or in 'rounded' pounds.
- d** The amounts shown in note 5 in respect of the minister's stipend etc may, if desired, be aggregated under the sub-headings 'Minister's stipend and expenses' and 'Manse upkeep'.
- e** The 'Fabric Fund' is an example of a 'designated' account and is used by many churches as a means of equalising repairs and maintenance costs over the years. Mission or Outreach accounts are further examples of 'designated' accounts.
- f** The 'New Church Building Fund' is an example of a 'capital' (restricted) fund which is available only for a defined capital purpose.
- g** It is good practice to indicate the value of the various assets held by the church. In the absence of recent valuations any property assets could be shown at their insured value. If the insured value is significantly different to the likely market value, (either above it because of planning restrictions reducing the value, or below it because of development opportunities increasing the value) some indication of this should be given. The value of church fittings, furniture and equipment could also be included (en bloc) at their insured value. Stocks and shares should be shown at market value, whilst a church-owned motor car might be included at cost or its estimated market value. Values, however, are not essential.
- h** If any amounts are due to the church at the year end (eg loans made by the church or any tax recovery claim made but not yet received) these should be included under the heading of 'Debtors' (see note 9).

Payments made in advance (eg telephone rental, council tax, water charges etc) should not be apportioned.
- i** In order to ensure that all expenditure relating to a particular year is included in the accounts for that year some church treasurers treat certain payments (eg PAYE and national insurance etc) made early in the next financial period as though the cheques had been drawn on the last day of the old financial period.

This would avoid having to treat them as outstanding creditors, but if this practice is not followed any such creditors will need to be disclosed under the heading of 'Current Liabilities' (note 11(a)). Liabilities which are accruing but have not yet been invoiced (eg gas, electricity telephone, etc.) should not be included.

Where a church has any outstanding loan obligations these will need to be disclosed under the heading 'Long-term loans' (Note 11(b)). The loans should be detailed in the note together with an indication of the date (s) when due (or the period over which repayable) and, if applicable, the property upon which they are charged.
- j** It will be seen that the specimen independent examiner's report indicates that a comprehensive audit has not been carried out. This statement would of course be omitted if such an audit is performed.

TERMS OF ENGAGEMENT OF INDEPENDENT EXAMINER
[relating to accounts prepared on a 'Receipts and Payments' basis]

Name of Church _____ ('the Church')

Name of Independent Examiner _____ ('the Examiner')

- 1 The Deacons (acting as managing trustees of the Church) are responsible for the preparation of the accounts which will be prepared on a 'Receipts and Payments' basis under S.42(3) Charities Act 1993. Such accounts will comprise one or more receipts and payments accounts and a statement of assets and liabilities.
- 2 The Examiner, being satisfied that the accounts may be prepared on a 'Receipts and Payments' basis, is responsible for carrying out an examination of the accounts in accordance with the Directions of the Charity Commissioners set out in S.43 Charities Act 1993 and which are set out in section 10 of the Union leaflet F6.
- 3 The Deacons will facilitate the proper examination of the accounts by ensuring that there are made available to the Examiner the books of accounts and all the related and supporting records and documents together with any other records or documents (including minute books and documents relating to constitution and trusts etc) which, in the opinion of the Examiner, are necessary for the proper examination and understanding of the accounts. They will also provide the Examiner with any other information or explanations required in connection with the examination.
- 4 The date or dates the examination shall be carried out shall be agreed between the Deacons (normally acting through the Treasurer) and the Examiner, as also will the date upon which the Examiner's report will be presented to the Deacons.
- 5 Whilst the scope of the examination will be less demanding than a comprehensive audit it is agreed that the Examiner will carry out such checks as are deemed appropriate in order to reach a conclusion that the accounts accord with the accounting records and such examination will include, inter alia, the reconciling of bank balances, examining corroborative evidence in respect of material items of income and expenditure, and confirming the existence of the stated assets and liabilities.
- 6 Following the examination, the Examiner will make a report to the Deacons stating whether or not any matter has come to attention in connection with the examination which gives cause to believe that proper accounting records have not been kept; or that the accounts do not accord with such records; or any matter has been identified to which attention should be drawn to enable a proper understanding of the accounts to be reached. The report will also include details, where they are apparent, of material expenditure or action which appears not to be in accordance with the trusts of the Church; or of any failure to provide information and explanations to which the Examiner is entitled.
- 7 If the Examiner is able to report in 'unqualified' terms it will be sufficient if the report accords with the specimen report from the Charity Commission which is reproduced overleaf. If, however, there are qualifications or reservations these must be clearly set out in the Examiner's report.
- 8 Recognising that the Examiner is carrying out the examination in an honorary capacity, and provided that such examination is carried out in accordance with these Terms of Engagement, it is agreed by the Church that the Examiner has no personal liability to the Church or any other person or body arising from such examination or the Examiner's Report.

Signed _____ on behalf of the Church

_____ the Examiner

Date _____



Independent examiner's report on the accounts

Section A Independent Examiner's Report

Report to the trustees/ members of

Charity Name

On accounts for the year ended

Charity no (if any)

Set out on pages

(remember to include the page numbers of additional sheets)

Respective responsibilities of trustees and examiner

The charity's trustees are responsible for the preparation of the accounts. The charity's trustees consider that an audit is not required for this year under section 43(2) of the Charities Act 1993 (the 1993 Act) and that an independent examination is needed.

It is my responsibility to:

- examine the accounts under section 43 of the 1993 Act,
- to follow the procedures laid down in the general Directions given by the Charity Commission (under section 43(7)(b) of the 1993 Act, and
- to state whether particular matters have come to my attention.

Basis of independent examiner's statement

My examination was carried out in accordance with general Directions given by the Charity Commission. An examination includes a review of the accounting records kept by the charity and a comparison of the accounts presented with those records. It also includes consideration of any unusual items or disclosures in the accounts, and seeking explanations from the trustees concerning any such matters. The procedures undertaken do not provide all the evidence that would be required in an audit, and consequently no opinion is given as to whether the accounts present a 'true and fair' view and the report is limited to those matters set out in the statement below.

Independent examiner's statement

In connection with my examination, no matter has come to my attention (other than that disclosed below *)

1. which gives me reasonable cause to believe that in, any material respect, the requirements:
 - to keep accounting records in accordance with section 41 of the 1993 Act; and
 - to prepare accounts which accord with the accounting records and comply with the accounting requirements of the 1993 Act have not been met ; or
2. to which, in my opinion, attention should be drawn in order to enable a proper understanding of the accounts to be reached.

* Please delete the words in the brackets if they do not apply.

Signed:

Date:

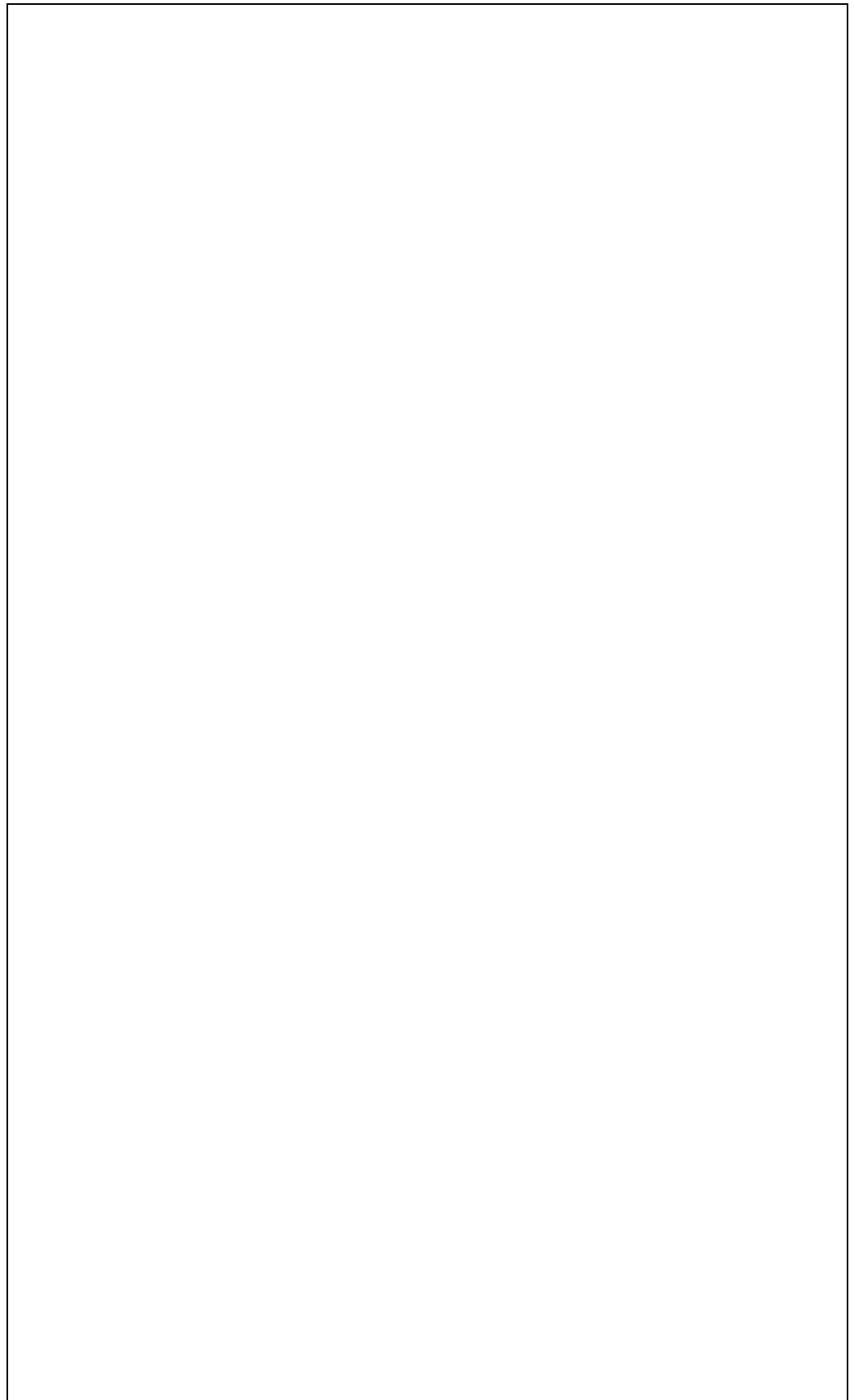
Name:

Relevant professional qualification(s) or body (if any):

Address:

Only complete if the examiner needs to highlight material problems.

Give here brief details of any items that the examiner wishes to disclose.



This is one of a series of *Guidelines* that are offered as a resource for Baptist ministers and churches. They have been prepared by the Baptist Union of Great Britain and are, of necessity, intended only to give very general advice in relation to the topics covered. These guidelines should not be relied upon as a substitute for obtaining specific and more detailed advice in relation to a particular matter.

The staff at the Baptist Union of Great Britain at Baptist House will be very pleased to answer your queries and help in any way possible. It helps us to respond as efficiently as possible to the many churches in trust with us if you write to us and set out your enquiry as simply as possible.

Contact Address:

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