

PREPARING THE YEAR END ACCOUNTS (revised 10/2/10)

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14 Methods of accounting

The format in which Charities - and thus the churches - produce their accounts is set out for us in the Charity Statement of Recommended Practice (SORP). Accounts are to be prepared on one of two bases:

Either

Receipts and Payments method comprising:

- **Receipts and Payments accounts**
- **a statement of assets and liabilities**

A Receipts and Payments account is a factual summary of money received and paid out during the financial year (i.e. between 1 September and 31 August) irrespective of the period to which those transactions relate.

The statement of assets and liabilities is a straightforward schedule of information the completion of which does not *require* the accountancy knowledge needed to prepare a balance sheet.

Most churches will use the Receipts and Payments method (*further guidance is given in sections 23, 25, and 28*).

A specimen set of Receipts and Payments accounts and a statement of assets and liabilities has been included in this manual, and should be read in conjunction with these notes (*section 19*).

If a Receipts and Payments account is prepared, gross income must not exceed £250,000.

Accruals method comprising:

- **a Statement of Financial Activities (SOFA)**
- **a balance sheet**
- **notes setting out further details of the transactions in the accounts**

The SOFA and balance sheet will be quite a detailed set of accounts which is often prepared professionally.

This method of accounting is for those churches whose income exceeds £250,000 or where the church council wish to prepare their accounts on the Accruals basis.

15 Receipts and Payments basis - pointers in preparing end of year accounts

Be consistent – present the same items in the same way in the accounts year by year. If any changes have to be made in presentation, ensure the reader's attention is drawn to them in the notes. Restate any comparative figures if necessary to restore comparability.

Detailed information about the figures should be given in subsequent notes leaving the front page uncluttered as regards detail. However, notes form an integral part of the accounts and are there to provide more detailed information. Current practice involves showing relatively few headings on the front page, with additional detail contained in the notes. Local requirements will decide the method to be adopted but the treasurer will wish to present to the church council meeting a clear and concise picture of the financial situation of the church; **it is a requirement** (as well as good practice) to **quote the previous year's figures** alongside the current year for comparison purposes.

The trustees of the church council are responsible for ensuring that **all funds** under its control are reported either in the annual accounts of the church or in separate accounts prepared by groups and organisations which report to the church council.

Accounts of other internal organisations e.g. the Junior church can be included in the main church accounts, or separately, according to the wishes of the local church. If they prepare their own accounts, the Standard Form of Accounts report form –available on the Methodist website should be completed by individual treasurers and returned to the church treasurer. (*see section 22*)

An annual financial and activity report must be given to the church council by all groups and organisations under its control.

The alternative method of showing receipts and payments side by side (rather than in the format shown) is still acceptable but the year's totals of income and expenditure should be calculated excluding the brought forward and carried forward balances. These should be added below the totals of the receipts and payments. A clear comparison can then be made of the current and previous year's figures and the balances in hand.

The heading to the accounts should reflect the fact that Receipts and Payments accounts are being presented.

A piece of early warning advice.....

Treasurers should bear in mind that any change from the Receipts and Payments method to Accruals accounting will affect the way the accounts are presented. The bookkeeping system will need to be enhanced to cope with a balance sheet and the previous year's figures will need to be re-stated to ensure consistency. Advice should be obtained well **before** the income limits are breached.

16 The statement of assets and liabilities

The statement of assets and liabilities is an integral part of the Receipts and Payments accounts but should be kept as simple as possible.

Its purpose is to show how money and non-monetary assets are split between the various types of funds

(i.e. unrestricted, restricted and endowment funds) and in which bank accounts those funds are held (i.e. current account, deposit account, Central Finance Board (CFB) account, Trustees for Methodist church Purposes, Manchester (TMCP) deposit).

For those churches who have investments lodged with the TMCP, a computer printout/statement **will be sent by email** in September each year giving details of each investment held and also the value of those investments as at 31 August. These valuations are to be quoted in the statement of assets and liabilities.

Any bills due for payment as at 31 August and still outstanding at that date need to be noted on the statement of assets and liabilities, as do any amounts owing **to** the church.

There is a separate section giving guidance on valuing the property (*section 57*).

Trustees should bear in mind the need to be open, honest and accurate in the presentation of the accounts.

17 Accruals accounting - guidance

Accruals accounting involves making a number of adjustments to the actual amounts received and paid during the year. These adjustments at the year end date will involve the following where appropriate:-

Expenditure which has been incurred but not paid - known as creditors if specifically known or accruals if the amount is estimated.

Amounts which are owed to the church etc - known as debtors.

Expenses which have been paid prior to the year end date, which refer in whole or in part to the period following the year end date - these are known as prepayments.

Assets and liabilities will be recorded on the balance sheet and some if not all assets may be required to be depreciated.

Accounting policies will need to be determined and recorded in the "Notes to the accounts" which will also include further information on items contained in the main body of the accounts in accordance with normal accountancy practice.

When accruals accounting is adopted, trustees are required to disclose a true and fair view of the assets of the church

This method of accounting does not preclude the appointment of treasurers who are competent to manage the basic information. It is recommended that the services of an accountant or someone with appropriate experience are used when further advice is required in the production of the annual accounts and The Standard Form of Accounts. The district treasurer may be able to give guidance on this matter. (*Accruals Accounts pack CC17 available from the Charity Commission – appendix 10*)

Notes to the accounts

Notes are important to any presentation of financial information, and form an integral part of the accounts.

18 The year end procedure and timing

Main tasks

- obtain any year end statements from the bank/TMCP/CFB
- prepare and complete accounts as soon after 31st August as possible
- complete a **Standard Form of Accounts**
- arrange for independent examination (or audit) of accounts
- present accounts and the **Standard form of Accounts** to church council
- send the **Standard Form of Accounts** to circuit officer

The accounts should be prepared as soon after 31 August each year as possible. Treasurers will need to request and wait for end of year statements of all bank and Central Finance Board accounts and where investments are held, for the statement from TMCP setting out the value of the investments as at the year end.

Following the completion of the accounts, the Standard Form of Accounts should then be completed and all the paperwork relating to the year's accounts forwarded to the independent examiner/auditor for the appropriate scrutiny. **The managing trustees are responsible for ensuring that the Standard Form of Accounts is complete and accurate and is forwarded to the circuit treasurer. Similarly at circuit level, the circuit meeting is responsible for the circuit accounts and ensuring it is forwarded to the district treasurer.**

If it is not possible for the independent examination/audit to be completed in time for the church council, the accounts should be qualified accordingly, the autumn church council advised and the minutes should state that a further report will be required at the next church council meeting to deal with any points raised by the independent examiner/auditor.

The circuit officer responsible for collecting in the Standard Form of Accounts from the circuit churches requires the forms by 31 March. **(It is the managing trustees' responsibility to ensure the forms are correct in all details)..**

Independent examiner's report

The independent examiner's report should normally confirm that the accounting records have been kept in such a way as to enable a proper understanding of the accounts to be reached, and will bring any matters for report to the attention of the church council.

In the event that such confirmation cannot be given, the church council must take immediate and appropriate action to rectify any shortcomings.

Distribution of information

It will be helpful to the members of the church council to have the accounts a week or so before the meeting is to be held. This will allow time to digest the information and perhaps save time in the meeting itself. It is unfair to expect anyone to absorb and understand fairly complicated information whilst at the same time listening to the treasurer giving the end of year summary!

Neatly prepared accounts are an advantage, although it is not essential for them to be computer produced or typed. By following the example in this booklet, and the preceding notes, the church council will fulfil their responsibilities.