**Determining gross income**

The treasurer of any Methodist entity (District, Circuit, Church) must, each year, determine the entity’s gross income for scrutiny purposes. This should be done before preparing the accounts for the period. The gross income will determine whether an audit or independent examination (IE) is required, as well as whether the receipts and payments option is available for the annual accounts. These are the rules in England and Wales:

Gross income up to £25k: IE required under Methodist standing orders (SO 012(3))

Gross income £25k to £250k: IE required by Charity Commission (CC)

Gross income over £250k: IE by examiner with relevant qualification, required by CC

Gross income over £250k up to £1m *and*gross assets exceed £3.26m: audit required by CC

Gross income over £1m: audit required by CC

‘Gross recorded income’ is normally calculated using the Receipts and Payments (cash income) method. If the result of this calculation is that the gross recorded income is in excess of £250k, accruals accounting must be adopted for compliance with the Charities Act 2011.

**Here’s how to do it**

**Include**

a all donations and offertories received in the year

b all gift aid and GASDS received in the year

c all legacies received in the year except where these are deemed to be endowment

d all dividends on investments and interest on deposits (gross), received in the year

e all income received in the year from the rental of premises and/or equipment

f all gross income from activities controlled by the entity

g any transfer of endowments to income for spending on activities

h (for circuits) the market value of any chapel declared redundant in the year and transferred to the circuit (unless, rarely, the chapel belongs to an endowment)

i any income payment (*eg* rental income) received in advance at the end of the year

j (for circuits) assessments received from churches

k any grant received whether from circuit, district, connexion or other source (unless it is for endowment)

m gross income from fund-raising and trading activities

**Exclude**

n any income debtor at the end of the year

p proceeds of sale of any functional or investment fixed asset(s) sold in the year

q any sum received from insurers for the settlement of a claim unless the insurance policy is ‘new for old’ in which case advice should be sought (see below)

r collections in the year for other charities

s (for districts) that part of the assessment from circuits that is passed to the Methodist Church Fund

t any endowment capital (see above) received in the year

u any refunds for expenses not incurred *eg* payment for a place on an external course where the participant was unable to attend and the payment was made in the same accounting period as the refund was received, if immaterial

v repayments received on loans made by the entity

w unrealised gains on investments

x loans to the entity received in the year

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This is a fuller note on the receipt of insurance claim

The CC interprets "gross income" in R&P accounts as including any insurance claim monies actually received (unless they belong to endowment. If the insurer pays direct for the replacement or repair of damaged goods or other assets no money passes through the treasurer's hands and so the claim does not count as income. Our advice is that if your "non-endowment" insurance claims are settled direct by the insurer, they will not feature in the R&P account, whereas, if you accept a sum of money from the insurer and then use it to pay for repairs/replacements, you cannot properly omit the receipt.

The R&P rules are rudimentary and totally "factual", in that all money received as belonging to a charity must be recorded gross, just as all payments made by the charity out of its own monies must also be recorded gross. Where such receipts and payments are related to each other, they cannot be omitted as cancelling each other out. Instead, that relationship should be indicated in the R&P account. That cannot be done by deducting the related payment from the figure for total receipts, nor *vice versa.* -

It is different with accounts prepared under the SORP. There, the CC interprets "gross income" as the total of the first section of the SoFA's income column(s) (disregarding any disposal gains on functional assets - normally included on the "other income" line). Within the FRS102 rules for accruals-accounting, the only insurance claims that fall into the top section of the SoFA will be those which compensate for lost income (unlikely for a church) or else which represent a disposal gain on a functional fixed asset that has been written off as lost or scrapped (*ie*, damaged beyond repair). In SORP accounts, it makes no difference whether the insurer or the charity pays for repairs/replacements of assets belonging to an income fund, as long as the replacement does not involve "improvement" - as in the case of the well-known "new-for-old" insurance cover for buildings/furniture, etc.

In other words, any costs incurred by a charity for the mere repair or value-for-value replacement of an insured asset will normally come out of the insurance claim monies by "set-off", leaving nothing to be recorded as income in the SoFA - as distinct from a "new-for-old" insurance claim, where the improvement element of the claim will need to be accounted for as a disposal gain on the "other income" line of the SoFA's first section. Conversely, in the event of "under-insurance" sometimes called ‘average’, *ie*, where some repair costs have to be borne by the insured, those excess costs will be expensed in the SoFA, and similarly for the insurance shortfall where a written-off asset is replaced (without improvement, which for a functional fixed asset would potentially have to be capitalised) partly at the insured's own expense, since that excess will count as impairment.

This then properly reflects the 'substance' of the insurance contract, under which the insured is "indemnified" by the insurer for any costs arising from incidents within the risks covered by the insurance policy.

If you have a substantial insurance claim to account for and are nearing a regulatory threshold, contact MCH or ACAT for advice.