THE CHURCH OF ENGLAND

Financial Statements (Accruals Accounting)

7.1 Statement of Financial Activities (SOFA)

This section lists the various incoming and outgoing resources for which PCCs may be responsible, and collates them under the activity headings that are mandatory for PCCs that are over the audit threshold. The recommended categories are in accordance with the Receipts and Payments categories. In accruals accounts, gifts in kind must be recognised at a monetary value. In addition, the depreciation of fixed assets in use by the PCC must be recognised. Also, expenditure on activities is to be presented by reference to their purpose rather than the nature of the expense.

7.1.1 Format

The SOFA should summarise for the year all incoming resources of the PCC, both capital (endowment) and income, and all resources expended by it, analysed in accordance with their nature or by activity and across the different categories of funds. It should also reconcile all movements in the funds since the previous 31 December.

An example SOFA is shown below. The SOFA should be supported by notes. A full example, including notes summarising the movements in significant individual funds, is shown in Chapter 8.

SORP (FRS 102) requires 'larger' PCCs to analyse their incoming resources (income and endowments) and resources expended (expenditure) by activity according to the purpose of that activity. The SORP also provides that smaller charities may use any analysis of incoming and outgoing resources that may be best suited to their circumstances. SORP (FRS 102) has slightly changed some of the terminology, e.g. 'incoming resources' is now 'income and endowments', 'resources expended' is now 'expenditure'. Also, 'governance costs' are no longer a separate line in the SOFA but are subsumed within 'support costs' and separately stated only in the accounts notes, and so on.

This chapter sets out how PCCs can group their incoming resources and resources expended into the SORP's purpose-based categories, and it is recommended that PCCs should, as far as possible, follow this approved layout, as this has been designed to cover most of the PCC's activities and sources of funding. This layout will also provide the information needed to complete the annual Return of Parish Finance.

Within the two separate sections of 'income and endowments' and 'resources expended', the individual sub-headings may be changed in order to present a true and fair view of the PCC's activities.

7.1.2 Income and endowments

All incoming resources becoming available to the PCC during the year must be summarised in the SOFA, distinguishing between those belonging to its unrestricted funds, its restricted income funds and its endowment capital funds. These should be classified in accordance with the activity headings set out in this chapter, namely:

Voluntary income

Activities for generating funds investment income Church activities Other incoming resources.

These comprise the total incoming resources, but do not necessarily equate to the 'gross income' (see Chapter 1, sections 1.3 and 1.4).

In the notes to the financial statements, endowment fund incoming resources should be analysed between permanent endowment and expendable endowment.

The SOFA should enable the reader of the financial statements to gain an accurate appreciation of the principal elements of the incoming resources of the charity, but should not be excessively detailed. Supporting analyses should be provided in notes to the financial statements.

7.1.3 Expenditure

All resources expended should be included in the SOFA in the year in which they are incurred.

The resources expended section of the SOFA should distinguish between various types of expenditure in a way that is appropriate to the PCC's activities, and between fund types (with supplementary analysis of any individual major funds by way of note). For all PCCs reporting their expenditure on the activity basis, the minimum expected classifications to be adopted are namely: Church activities Costs of generating funds Other resources expended.

7.1.4 Transfers between funds

Each column in the SOFA should be totalled to show the net incoming/outgoing resources before transfers. If the PCC has restricted income funds or endowment funds, or if designated funds are shown separately in the SOFA, any transfers between funds should be shown as a separate line. Material transfers between the different classes of funds should not be netted off, but should be shown gross, with supporting explanations in the notes. Transfers should, of course, net off to zero in the total column.

7.1.5 Reporting investment gains and losses

Each column should again be totalled to give 'Net income and incoming endowments before investment gains and losses'. All gains and losses on investment assets are shown on the following line. It is not necessary to split the investment gain between realised and unrealised categories.

7.1.6 Net income and incoming endowments for the year

Other recognised gains and losses relate to the revaluations of functional fixed assets. These gains or losses should be recorded as part of the fund in which the relevant asset is or was held. Each column of the statement will then be totalled to show the net movement in funds of the PCC for the year as shown in the example (Chapter 8). Please note that no reference has been made to pensions, currency gains or losses or extraordinary items, and should PCCs have these items, they should be shown separately within this section.

7.1.7 Reconciliation of funds

To the net movement in funds for the year for each column should be added the total funds brought forward from the previous balance sheet, to show the amounts of the total funds carried forward as shown in the balance sheet at the year end.

7.1.8 Comparative figures

In the SOFA, corresponding amounts for the previous year are required (in either the SOFA or the Notes to the Accounts) for each item in the fund accounting - columns on each line. Compliance can most easily be achieved by including a copy of last year's SOFA (without its comparative figures column) as a prominent accounts note after making any adjustments needed to show them on the same basis as this year's SOFA figures.

Accounting for income and endowments

7.1.9 Recognition in the Statement of Financial Activities (SOFA)

Members of the PCC have a legal duty to take reasonable care that everything they are entrusted with is properly applied, which in the first place means safeguarding everything to which the PCC becomes entitled as soon as this entitlement becomes legally enforceable. This includes not only actual receipts of the year but also any money or other property - whatever its source or purpose - that could have been received if the PCC had exercised its legal right to take possession of it. It should be accounted for within income and endowments of the PCC for the year.

The value of all resources - both for income and endowment funds - accruing to the PCC should be recorded in the SOFA as soon as it is practicable to do so. In all cases incoming resources should be recognised as and when the following three accounting requirements are met:

- entitlement - normally arises when a particular resource is receivable or the PCC's right to it becomes legally enforceable (unless its utilisation by the PCC has been deferred by the donor);

- probability - when it is more likely than not that the PCC will benefit from the incoming resource;

- measurement - when the monetary value of the incoming resource can be measured with sufficient reliability.

7.1.10 Gifts in kind

Where material, these should be included within 'All other giving/donations' in the SOFA as follows:

- Assets given for use by the PCC, e.g. photocopier for use in the church office, should be recognised as incoming resources at their fair value at the date of gift (i.e. market value).

- Where a gift has been made in kind but on trust for conversion into cash and subsequent application by the PCC, the incoming resource should normally be recognised in the accounting period at its fair value at the date of gift (i.e. market value); but in certain cases this will not be practicable. In these cases the income should be included in the accounting period in which the gift is sold.

- In respect of donated services and facilities, the amount that should be recognised is the price that the PCC would have to pay for an alternative resource of equivalent service or facility.

The basis of any valuation should be disclosed, in any case, unless the item is immaterial. Where material, an adjustment should be made to the original valuation upon subsequent realisation of the gift.

7.1.11 Donated services and facilities

A PCC may receive assistance in the form of donated facilities, beneficial loan arrangements, donated services (such as the provision of office accommodation where the rental is paid by a third party or the free use of telephone facilities) or services from volunteers. Such incoming resources should only be included in the SOFA where the benefit to the PCC is reasonably quantifiable and measurable. Donated services and facilities include those normally provided by an individual or entity as part of their trade or profession for a fee, but will exclude the value of contribution from volunteers as their contribution cannot be reasonably quantified in financial terms. The cost in the SOFA should be the estimated value to the PCC of the service or facility received. This will be the price the PCC estimates it would pay in the open market for a service or facility of equivalent utility to the PCC. An equivalent amount should be included in the SOFA as expenditure under the appropriate heading. As a result, both the value of this incoming resource and its contribution to the application of resources is recognised.

Most PCCs receive substantial amounts of voluntary help. Such help should not be accounted for in the SOFA, but should be gratefully acknowledged in the Annual Report, where it can also be quantified.

7.1.12 Donor-imposed restrictions

Where money is given to the PCC specifically to provide a fixed asset or where a fixed asset is donated (a gift in kind), the PCC will normally have entitlement to ownership and use of the gift at the point when it is receivable. At this point, the gift should be recognised in the SOFA and not deferred over the life of the asset. The possibility of having to repay the gift does not affect its recognition in the first place. Once acquired, the use of the asset will be either restricted or unrestricted. If the use is restricted the asset will be held in a restricted fund (as an endowment, to reflect the donor's intention of 'continuing' use). If its retention and use are unrestricted (i.e. the PCC is free to sell the asset and spend the proceeds for general purposes), the trustees may consider creating a designated fund to 'ring-fence' its carrying value from the PCC's 'free' reserves. The relevant fund (endowment or designated) should then be reduced over the useful economic life of the asset in line with its depreciation.

When a PCC receives a gift, bequest or grant it will account for it, in either an unrestricted or restricted fund, once it is entitled to it and there are no preconditions preventing its use. A condition that prevents entitlement and use must be one that is outside the PCC's control (such as obtaining offers of matched funding from a third party or that the funds may only be expended in a later accounting period). When such a condition applies, the receipt should not be included in the SOFA until the precondition has been met (i.e. until the money can lawfully be spent). The amount of such 'deferred income' will instead be shown in the balance sheet as a 'liability'. The financial statements notes should explain all movements in 'deferred income', to enable the reader to understand the implications.

7.1.13 Accounting for tax recoverable under the Gift Aid scheme

By the end of the year the PCC is likely to have received voluntary income on which tax can be reclaimed under the Gift Aid scheme. The tax claim for the year must be recognised in the financial statements in full within the fund to which the donation belongs, namely:

- any amounts that have been claimed and received from HMRC that relate to donations made to the PCC during the year;
- any amounts that have been claimed from HMRC but not yet received;
- any amounts that have yet to be claimed at the year end ('claimable').

Tax repayable to the PCC should be included in the SOFA in the same year as the income to which it relates, and even if disclosed separately as shown in the example, must be credited to the fund it belongs to - as stated above. Any such tax claim not received at the end of the year should be accounted for as a debtor until the PCC receives payment from HMRC.

7.1.14 Legacies

Legacies should be included in the SOFA in accordance with the general principles for the recognition of incoming resources.

Where the PCC is aware of an entitlement to a material legacy that for the above reason has not been included in the financial statements, this fact and an estimate of the amount receivable should be disclosed in the notes to the financial statements.

7.1.15 Grants receivable

Receipts by way of grant should be treated in a similar manner to other incoming resources. They should be dealt with in the SOFA in accordance with the terms of the grant. This means, for example, that grants intended for specific purposes should be accounted for as restricted funds - endowed or non-endowed as the case may be. Grants received as for ordinary activities of the PCC but which are then designated by the PCC to specific purposes should be included as receipts in unrestricted funds, and then shown in the SOFA as a transfer from unrestricted to designated funds.

Grants should not be recognised until the preconditions (if any) for their entitlement and use have been met. Once these preconditions are met, the grant should be recognised in the SOFA even if (as is normally the case) the resources are received in advance of related expenditure or if there is a condition that all or part of the donation may be repaid to the donor in specified circumstances. If repayment is possible then, depending on the probability, it should be noted as a contingent liability or recognised as an actual liability.

7.1.16 Trading activities

Some churches carry on trading activities such as letting church premises, selling books, producing magazines and running community cafés. Some of these activities may be outside the PCC's objects and care should be taken with major trading activities in case it is appropriate to form a separate trading company for liability and tax reasons. All proceeds of trading should be recognised as income of the year in which the 'sale' took place, and any associated costs should be included in expenditure at the same time. The accounting principles for the recognition of assets and of liabilities require all trading income to be recognised in the SOFA at the point where an asset of the PCC is created or liability settled (i.e. when the PCC makes the sale) and likewise all trading costs to be recognised in the SOFA at the point where the external liability arises or a reduction in PCC assets occurs (normally when goods are sold from stock or services purchased for fulfilment of a sale). Where goods are purchased in one year but not sold until a later year, they should be shown in the balance sheet as stocks, in current assets, and charged to expenditure when the sale takes place.

Trading that is part of the PCC's charitable objects to further the work of the church (such as income from hall letting for church purposes and the sale of religious books) should be separated from fundraising trading (such as selling postcards and souvenirs to tourists).

Some 'trading' involves merely the disposal of gifts in kind donated to the church (such as cakes for a cake stall or clothing for a rummage sale). In economic terms these are similar to trading and the proceeds should be accounted for as activities for generating funds.

Even if the cost of the trading activity is immaterial it is not acceptable simply to show the net trading result (profit or loss) in the SOFA.

If more than one trading activity is undertaken, then each significant activity should be separately disclosed, but this can be done in the notes.

All forms of trading should be recognised in this manner if significant.

7.1.17 Disposal of fixed assets used for the functioning of the PCC

Any net gain arising on disposal of fixed assets (the sale proceeds less the book value) previously used by the PCC for its functional purposes (such as the curate's house or the office photocopier) should be included in the SOFA as an incoming resource of the fund concerned. If a net loss arises for the year, it should be included as an additional depreciation charge to the fund concerned under the appropriate heading of charitable or other expenditure. If material, the gains and losses should be disclosed separately, with a supporting note by way of explanation.

7.1.18 Netting off

All incoming resources should, as far as practicable, be reported gross and not netted off against expenditure. This means, for example, that expenditure on putting on a fundraising event such as a fete should not be netted off against the funds raised. On occasions it may not be practicable to report the resources gross, i.e. if the event is not under the control of the PCC and it is merely a passive beneficiary of the net proceeds raised. In such a case the reason for netting off should be given in the notes and an estimate of the gross funds raised and the deducted expenditure given in the SOFA.

7.1.19 Cost of generating funds

Voluntary income raised by the PCC should be brought into account gross, and associated costs should be accounted for as fundraising expenditure.

7.1.20 Analysis

Chapter 2 provides an aid, and all the account descriptions that are used in keeping the accounts need not be separately included in the financial statements. The principle of materiality will decide which to show separately. An item is material and should be disclosed separately in the accounts if its misstatement or omission might reasonably be expected to influence the users of those accounts. Conversely, if too much detail is included, the understandability of the information given in the accounts can be impaired. It is therefore a judgement call by the trustees.

While smaller PCCs do not have to follow these activity headings, it is strongly recommended that they do so. This will make it easier for those who wish to compare PCC accounts and for the completion of annual Returns of Parish Finance (RPF) to the diocese or Archbishops' Council. The relevant RPF note number has been included alongside each account description.

The headings in the category column correspond to the SORP's requirements and should be disclosed on the face of the SOFA as needed. Only where the amount is material should an individual account heading be disclosed on either the face of the SOFA or in the notes. Account headings should not be disclosed even in the notes to the financial statements, unless they are considered material enough to do so.

7.2 The balance sheet

This section describes how assets and liabilities should be accounted for by PCCs. For accruals accounts the rules set out in the Charities SORP must be adopted as the PCC's general accounting policy.

7.2.1 Format

The Balance Sheet should be supported by notes. A full example, including notes summarising the movements in significant individual funds, is shown in Chapter 8.

The funds of a PCC should be grouped by kind, distinguishing between endowments, other restricted funds, designated and other unrestricted funds. The notes should distinguish any material individual funds among them and explain their nature and purpose.

In the notes to the balance sheet, the assets and liabilities representing the funds of the PCC should be clearly analysed fund by fund. The notes should indicate whether or not sufficient resources are held in an appropriate form to enable each fund to be applied in accordance with the restrictions (if any) imposed on it. For example, if a PCC has a fund that is to be spent in the near future, it should be made clear in the notes whether or not the assets held in the fund are short-term assets.

In addition, the assets and liabilities should be analysed in a way that enables the reader to gain a proper appreciation of their spread and character. PCCs should not feel restricted by the formats provided in this chapter and are expected to provide more detail or analysis of the items concerned where this will lead to a better understanding of the financial statements. For example, long-term debtors (i.e. due only after more than one year) should, where the total is material, be separately stated in the balance sheet - otherwise their total amounts by category should be disclosed in the notes to the financial statements.

7.2.2 Assets and their valuation

All assets of material value held for use on a continuing basis (i.e. two years or more) in the PCC's activities should be classified as fixed assets for PCC use and included in (or excluded from) the balance sheet. Most of these fixed assets are likely to be tangible assets, such as property or equipment, which are used in the course of the PCC's activities. Land and buildings held primarily for investment purposes should be classified as 'investment properties' and included with investments.

In order to account correctly for assets, PCCs need to understand what funds they hold in trust, what funds are held on their behalf for which they are responsible, and how they should value the assets of all these funds according to their use. In general terms, assets for which PCCs are responsible fall into the following groups for accounting purposes:

- intangible assets
- tangible fixed assets used for the work of the PCC:

- land and buildings

- motor vehicles

- fixtures, fittings and equipment

- investment assets other than social (project-related) investments
- social (project-related) investment assets
- current assets.

7.2.3 Intangible assets

An example of these is copyright royalties. These are very rare in practice and so no detail is included here.

7.2.4 Tangible fixed assets used for the work of the PCC

Tangible fixed assets include land and buildings, both freehold and leasehold, other than those held primarily for investment purposes, and motor vehicles and fixtures, fittings and equipment.

The basic rule is found in the SORP's module 10: 'Tangible fixed assets must be measured initially on the balance sheet at their historical cost. All costs incurred to bring a tangible fixed asset into its intended working condition should be included in the measurement of cost. Charities may adopt an accounting policy of capitalising borrowing costs, including interest, that are directly attributable to the construction of tangible fixed assets, or may write off such borrowing costs as an expense in the SOFA as they are incurred.' FRS 102 says: 'A tangible fixed asset shall initially be measured at its cost, then written down to its recoverable amount if necessary.' The initial carrying amount of a tangible fixed asset received as a gift or donation by a charity shall be its fair value on the open market (or the trustees' best estimate thereof) as at the date of gift, which for a functional asset is its deemed historical cost under FRS 102. On first-time adoption of FRS 102, the PCC can choose to freeze the existing carrying value of any such asset as at the start of the prior financial year or else its fair value as at that date. Where there is no record of the purchase price or production cost of an asset, or any such record cannot be obtained without unreasonable expense or delay, the value ascribed must be the earliest available record of its value. Particulars must be given of any case where the purchase price or production cost of any asset is for the first time determined in this way.

Tangible fixed assets not carried at actual or deemed historical cost under FRS 102 must be carried at fair value, annually updated, and all assets of the same class treated in the same way. The accounts notes must disclose in respect of them:

- the effective date of the revaluation;
- whether an independent valuer was involved;
- the methods and significant assumptions applied in estimating the items' fair value;
- for each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the historical cost model.

Valuations may be obtained from a suitably qualified person, who could be a trustee or employee, for any class of fixed assets for which the PCC adopts a policy of accounting at 'fair value' instead of at historical cost as above. There are no other alternatives to these two bases (see 7.2.12 below).

A number of PCCs have assets, e.g. historic buildings that are used by the church, for example for worship, but valuing them when they have not been previously included in accounts for lack of reliable historical cost information might have been considered impractical prior to FRS 102. This would have been because reliable historical cost/value information is not available and alternative valuation approaches (such as using the current cost of construction) lack sufficient reliability (e.g. in ignoring land values) as a measure of 'fair value'. The FRS 102 'first-time transitioning' option solved that problem by offering a 'window of opportunity' to carry any individual functional fixed asset in the accounts at its 'deemed historical cost' equal to its estimated 'fair value' as at the start of the prior year. That fair value must distinguish the freehold land component (normally non-depreciating), from the buildings component, whose 'depreciable amount' (i.e. less their anticipated disposal value at current prices as if the buildings had now reached the end of their useful economic life) is to be expensed (unless it is immaterial) annually over the buildings' estimated remaining 'useful economic life' - which for a PCC will normally be based on their 'service potential'.

If, in such a case, that option has not been taken, and the asset is still not valued in the accounts, the notes should contain a statement to that effect, explaining the reasons why. The notes should also contain information that enables the reader to appreciate the age, scale and nature of the excluded assets and the use made of them and their present condition.

7.2.5 Depreciation of fixed assets held for the PCC's own use

Most tangible fixed assets depreciate; that is, wear out with the passing of time or become obsolete. Their value is thus expended over their useful economic life. This expenditure is recognised as depreciation in the SOFA and deducted from the asset's carrying value in the balance sheet.

Fixed assets held for functional (church) use that are included in the balance sheet and are considered to have a finite useful life should be depreciated at annual rates to spread their cost to the PCC evenly over their useful life in each case. An example of such assets is a computer used in the church office. In addition, if recently acquired movable church furnishings are included (because they have either been valued or recently acquired), they should also be depreciated. PCCs should set a threshold below which fixed assets are considered too small to include in the balance sheet ('capitalise'). Many PCCs set a threshold (of perhaps £500 or £1,000) below which fixed assets are included in expenditure rather than in the balance sheet.

This annual depreciation charge should be included in the appropriate cost category in the SOFA, and the accumulated depreciation will appear in the balance sheet as a deduction from the value of the relevant fixed assets.

To achieve the correct categorisation of depreciation if the activity-based presentation of expenditure is used in the SOFA, functional fixed assets should be divided between those used primarily in direct furtherance of the PCC's objects (for example, church halls and PCC-owne~~d house~~s) and those used primarily used for raising funds (other than investment income, (where a house is made available for rental on the open market rather than for rental by PCC staff).

If a house is retained primarily to generate a market level of rent rather than for the church's own use, then it will be an investment property and will not be depreciated.

Where a fixed asset used for the functioning of the PCC and included at a carrying value in the balance sheet has suffered a permanent diminution by reference to the higher of its disposal value or its 'value in use' or 'service potential' (this is unlikely to be a frequent occurrence for PCCs), the loss should be recognised by means of an impairment charge in the SOFA, by way of additional depreciation.

In determining whether the balance sheet value of any individual asset has become 'impaired', changes in the value of other assets should not be taken into account.

The Church of England has complex rules about ownership of assets. PCCs may be trustees of income and expenditure relating to assets of which they are not the legal owner* and in relation to which they are not accountable under Part 8 of the Charities Act 2011. (*FRS 102 requires a 'substance over form' approach by defining 'assets' for inclusion in the accounts as 'resources controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity'. This clearly goes beyond legal ownership unless exclusion is statutory.) Most PCCs will be in the following position with regard to their tangible fixed assets:

7.2.6 Land and Buildings

Benefice property (e.g. parsonage houses) will appear as assets of the Board of Finance and therefore will not be in the accounts of the PCC.

Where a parish has other buildings, the legal title to these are vested in a diocesan body as custodian trustee (PCC are the managing trustees). As fixed assets of the PCC that are held for continuing use in its work, these should all be included in the balance sheet and shown under the appropriate fund heading to indicate which fund they belong to.

Consecrated land/buildings and equipment are not included in the financial statements by virtue of Charities Act 2011. In law 'consecration' is not considered to be the same as 'dedication' as the latter is no more than an expression of pious intention that the building or land is given back to God. By act of consecration, property is effectively dedicated to God and set aside solely for sacred purposes. Costs associated with the maintenance or improvement of such assets will be written off in the year they are incurred.

Land and buildings can be left at an existing valuation or revalued to 'fair value' as at 1 January, 2015 which will then be the deemed historical cost. Apart from that, if a revaluation policy is subsequently adopted it must be for all assets within that asset-class, with the carrying values updated on a regular basis, and the trustees may use any reasonable approach to valuation at least every five years, with reviews in between to consider if there have been any material changes.

Great care should therefore be taken not to miss this opportunity if the PCC has hitherto been using the insured value for balance sheet valuation purposes, unless the insurance is for only the fair value of the asset taking into account its existing condition (i.e. 'total loss' replacement cost less a deduction for wear and tear to date) and the current land value (for existing use) is added in. The value in a 'replacement as new' policy would need to be modified to bring it to a fair value.

Building and leasehold properties will need to be depreciated over their estimated useful lives in accordance with a disclosed policy. A policy of non-depreciation can only be adopted if both the annual depreciation charge and the accumulated depreciation are immaterial to the financial statements, due to the asset having a very long remaining useful life (i.e. 50 years or more), and/ or the currently estimated residual value is high. The assessment of residual value has changed significantly under SORP (FRS 102). As the glossary to FRS 102 says, the 'residual value' is: 'The estimated amount that an entity would currently obtain from disposal of an asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.' This means pretending that the building in question is not fit for purpose as far as the PCC is concerned but has been maintained in good order up to the year end, and then estimating the price an informed purchaser would pay for that building as it stands, plus its land. After stripping out that land value (as non-depreciable), the building's residual value for depreciation purposes will normally be considerably higher than when it had to be assessed by reference to prices ruling at the time of its acquisition or last revaluation. This could in turn significantly reduce annual depreciation charges, going forward.

If no depreciation is charged, on the basis of immateriality, then an impairment review must be undertaken annually. This need not be onerous as it seeks to establish some indication that the amount an asset is carried at on the balance sheet is less than both of the sale value, or the value of the use the asset provides to the parish.

Freehold land must not be depreciated.

7.2.7 Motor vehicles and fixtures, fittings and equipment

The various items of movable church furnishings are vested in the churchwardens for the use and benefit of the parishioners and cannot be disposed of without a faculty. These assets are regarded as 'inalienable' property held on special trust on behalf of the PCC, and (unless forming part of the consecrated property excluded from accounts by the Charities Act) should be capitalised and disclosed in the fixtures, fittings and equipment asset category under the appropriate fund.

In addition to fixtures, fittings and equipment described above, the parish will have 'functional equipment' that is used on a continuing basis for the work of the PCC. Examples include: office equipment (computers etc.), ground and building maintenance equipment and vehicles. These are fixed assets and (apart from any immaterial items that have been treated as an expense) should be included in the balance sheet - this will normally be at cost less depreciation.

The notes to the financial statements should also summarise all changes in the amounts of each category of fixed assets as shown in the balance sheet and reconcile the opening and closing balances on each one. This means separate reconciliations of the cost to date (or the valuation, where the 'current value' option under the accounting standards has been chosen since 2000) and of the depreciation or amortisation provided. Similarly, the notes should show the movements in investment fixed assets.

7.2.8 Investment fixed assets

Investment fixed assets include properties held wholly or primarily for investment purposes, as well as investment securities and long-term cash deposits. Investment fixed assets must be valued at their open market value (where practicable) unless made in furtherance of a charitable purpose, in which case as 'social investments' they should be carried at historical cost less any amounts now deemed irrecoverable. This would include 'soft loans' made for church purposes.

7.2.9 Current assets

Current assets include stocks (gifted stock cost equals fair value) (of paper, cards etc.), debtors, investment assets currently held for disposal without reinvestment and cash at bank and in hand. They should be recognised at the lower of their cost and their net realisable value - other than investment assets (see paragraph 7.2.8 above). Current assets should be subdivided by category, where applicable, to show:

- stock (for example heating oil, bookstall publications);
- debtors, which should be further analysed in the notes between:

- debtors for goods and services (for example rents receivable on premises letting);

- amounts owed by an institution or body corporate that is a related party to the PCC;

- other debtors (for example amounts owed by HMRC);

- prepayments and accrued income;

- investment assets (only applicable where the PCC intends to spend the proceeds of sale on activities instead of reinvesting them);

- cash at bank and in hand (including deposits with the CCLA Church of England Funds or a Diocesan Board of Finance).

The notes applicable to showing the movement in investment assets held as fixed assets also apply to investment assets held as current assets - which the SORP also requires to be shown at their current market value, even if this exceeds their historical cost.

7.2.10 Current liabilities and long-term liabilities

Current liabilities include loans and overdrafts, trade creditors, amounts owed to subsidiary undertakings, other creditors and accrued expenses and deferred income. They should be recognised on the balance sheet at their settlement value. Amounts due after more than one year should be separately disclosed at their present value unless the difference is immaterial.

Liabilities should be analysed between those payable within a year (short-term) and others (long-term), with the total (if material) of any provisions for liabilities shown separately.

The totals for both short-term and long-terms liabilities should be sub-analysed in the notes between:

- loans and overdrafts;
- creditors for goods and services;
- amounts owed to any institution or body corporate that is a related party to the PCC;
- accrued expenses and deferred income (e.g. an estimate of fuel unbilled up to the year end);
- If a PCC has not fully paid its parish share but has indicated to the DBF that it intends to make further payment towards the outstanding amount, that payment should be included as a creditor in the balance sheet. If for whatever reason a PCC's full parish share is not to be met, this fact should be mentioned in the Annual Report to enable a full understanding of the PCC's financial affairs.

7.2.11 Heritage assets

Heritage assets are assets of historical or artistic importance that are held primarily to advance preservation, conservation and educational objectives of charities and in order through public access to contribute in themselves to the nation's culture and education either at national or local level. Such assets are central to the achievement of the purposes of such charities and include the land, buildings, structures, collections, exhibits or artefacts that are preserved or conserved and are central to the educational objectives of such charities. The primary objective of any PCC is not the preservation of the buildings they occupy or the furnishings and other artefacts for which they are responsible, and n~~one of~~ a

PCC's assets will therefore be heritage assets, even though some may be of considerable historical or artistic importance.

7.2.12 Accounting bases

The methods and principles on which assets are to be included in the balance sheet are illustrated in the model set of accounting policies.

7.2.12 Accounting bases

CATEGORY	CLASS	RE
Intangible assets		Incl
Tangible fixed assets	Consecrated property	Not acc exis
	Freehold land and buildings (e.g. PCC-owned house, church hall)	Incl
	Leasehold land and buildings Motor vehicles Fixtures, fittings and equipment – including movable church furnishings (unless forming part of ‘consecrated property’)	Incl
Investment fixed assets	Investment properties Financial investments securities Long-term cash deposits	Incl
	Securities; ‘soft’ loans	Incl

7.3 Cash flow statement

Introduction

If the PCCs income for the year exceeds £500,000, the PCC is deemed to be a 'larger charity'. There are extra disclosure requirements for the Annual Report and the accounts and a cash flow statement is mandatory under FRS 102.

The statement of cash flows provides information about how the PCC has used cash generated by its activities or financed its cash needs. It thus provides information that is helpful in assessing the liquidity but not necessarily the solvency of the funds of the PCC, for which the balance sheet and its supporting accounts notes are needed. Liquidity means the ability to meet immediate and short-term obligations and solvency means also all longer-term obligations (i.e. to remain solvent, the anticipated realisable value of all assets must exceed all liabilities).

The statement identifies the PCC's cash flows in three basic categories and the net increase or decrease in cash or cash equivalents for those categories in the reporting period. Cash equivalents are defined as short-term, highly liquid investments that are readily convertible into known amounts of cash and that are subject to an insignificant risk of change in value. Highly liquid investments normally have a maturity of three months or less from the date of acquisition.

Bank overdrafts repayable on demand form an integral part of day-to-day cash management and are thus a component of cash and cash equivalents. Other forms of cash advance that are less flexible than overdraft, such as term loans, always count as part of borrowings and are categorised as financing activities.

Structure of the statement of cash flows

The format of the statement of cash flows must follow the requirements of section 7 of FRS 102. The statement must analyse cash flows using three standard headings: operating activities; investing activities; financing activities. The statement includes the movement in cash balances of unrestricted funds and also of restricted funds, meaning trust funds, including all endowment capital as well as all donor-restricted (i.e. special-purpose) income funds. An example statement of cash flows is provided at the end of this chapter. A PCC must prepare a statement of cash flows on a consolidated basis where applicable.

What cash flows are included as operating activities?

Operating activities are the day-to-day mission-related and income-producing activities of the PCC that are recognised as income and expenditure in the SOFA. Thus they do not include any internal or external inflow or outflow of endowment cash, which instead must be included in the investing and financing sections (see below). The net cash flow of operating activities indicates the extent to which operating activities have generated or consumed cash. Examples of cash flows of operating activities would therefore include:

- Parish contributions, Archbishops' Council grants and other donations/grants;
- Statutory fees, chaplaincy income and other income earned from charitable activities;
- Receipt of rents from parsonage houses;
- Cash payments of grants made;
- Cash payments to suppliers of goods and services;
- Cash payments to and on behalf of staff (for example, diocesan staff salaries, clergy stipends and pension contributions);

What cash flows are included as investing activities?

Investing activities include payments for the acquisition of investments and receipts from their disposal (either for reinvestment or as divestment) as well as the cash generated as income from holding investment assets, but the latter excludes those highly liquid investments which are classed as cash equivalents. This section also includes payments for the acquisition of, or receipts from the disposal of, tangible fixed assets including property, plant or equipment.

It is worth noting here that the special treatment needed for endowment cash flows, as distinct from those of 'operating activities', was explained in paragraph 354 of SORP 2005, which (with terminology updated) said:

'Movements in endowments should not be included in cash flows from 'operating activities' but should be treated as increases or decreases in the financing section. This is achieved as follows: ...

(b) the receipts and payments from the acquisition and disposal of investments should be shown gross in the 'investing' section of the cash flow statement. A single row should then be included in this section showing the net movement in cash flows attributable to endowment investments. A corresponding row should be included in the 'financing' section for the same amount. The row in the 'financing' section should reflect the cash into/(cash out of) the endowment fund whereas it will be the opposite direction in the 'investing' section; ...'.

Examples of cash flows arising from a DBF's investing activities thus include;

- Cash receipts from interest and dividends received;

- Cash receipts from rent on investment properties including revenues from Glebe land;
- Cash receipts from the repayment of loans by a non-charitable trading subsidiary;
- Cash receipts from the sale of plant, property and equipment and other long-term assets;
- Cash receipts from the sale of investment properties and other long-term investments (including the sale of endowment investments);
- As an internal cash inflow from the financing section (see below) any endowment capital either borrowed or converted into income, less any internal cash outflow to that section in respect of all investment income from a permanent endowment to which a duly authorised 'total return' investing policy applies;
- Cash payments to acquire investments (including conversion of endowment to another form of investment - e.g. investment property instead of functional property, etc.); and
- Cash payments to acquire tangible fixed assets, including property and equipment and other long-term assets (including conversion of endowment to another form of fixed asset - e.g. functional property instead of investment property).

What cash flows are included as financing activities?

'Financing' activities comprise borrowings and their repayment, but also any gifts to the DBF of permanent endowments or expendable endowments. Endowment funds are considered to be 'capital' in charity law, as they must be retained and (unless comprising functional fixed assets) invested for a financial return.

Examples of cash flows arising from financing activities thus include:

- Cash receipts representing donations of endowment capital;
- As internal cash inflows from the investing section (see above), the accumulation as capital of (i) cash from operational activities under a power to create expendable endowment and/or (ii) cash received as investment income from a permanent endowment under a duly authorised total return investing policy, less the duly authorised conversion of any endowment capital into income for operating activities or any internal borrowing from permanent capital (less related recoupments to capital);
- Cash receipts from new external borrowings by way of loan or mortgage and other long-or short-term borrowings;
- Cash receipts from the use of a bank overdraft facility (if not treated as a component of cash equivalents);

- Cash repayments of external borrowing including mortgages, loans and other borrowing;

- Cash payments by a lessee which reduce the outstanding liability relating to a finance lease.

The methods of compiling the statement of cash flows

FRS 102 permits charities to use either the direct or indirect method when presenting the cash flow from operating activities. The indirect method is most commonly used and is the method illustrated in the example at the end of this chapter.

A PCC can choose to present the statement of cash flows using either:

- The indirect method, which involves deriving from the SOFA the figure of net cash flows of operating activities. The net movement in funds shown in the SOFA is adjusted for:

- Non-cash movements in the SOFA;

- Any accounting deferrals or accruals related to cash receipts or payments:

- Items of income or expenditure related to 'investing or financing cash flows'; or:

- The direct method, whereby the gross cash receipts and gross cash payments are disclosed for each of the main categories shown in the SOFA. This method has the merit of making the DBF's operational receipts and payments clear to the general reader unversed in the niceties of accruals-based financial reporting, and the demerit that cash flows do not necessarily reflect the true financial position and performance.

Example statement of cash flows

The example statement of cash flows shown at the end of this chapter uses the indirect method. When using this method, a reconciliation must be provided to show how the net income/(expenditure) presented in the SOFA has been adjusted to arrive the cash flows from operating activities. An example of this reconciliation is shown, together with a reconciliation of cash and cash equivalents.

The example must be adapted as necessary for any additional items that apply. An example would be cash flows arising from the payment of taxes. Similarly, headings that do not apply must be omitted.

When significant cash or cash equivalents are held which are not available for use to further charitable activities, for example those held in endowment funds, the charity must disclose;

- The amount unavailable; and
- Explain why it is unavailable for use

Examples of financing transactions include the conversion of expendable endowment into income funds in advance of the relevant investments being sold, or the removal of the legal restriction on the expenditure of permanent endowment enabling it to be spent in the future.

If the components of cash and cash equivalents presented in the statement of cash flows are different to the equivalent items in the charity's balance sheet, a reconciliation must be provided.

STATEMENT OF CAS

For the year ending 31 Dec

Cash flows from operating activities:

Net cash provided by (used in) operating activities

Cash flows from investing activities:

Dividends, interest and rents from investments

Proceeds from the sale of property, plant and equipment

Purchase of property, plant and equipment

Proceeds from sales of investments

Purchase of investments

Net cash in/(out)flow internally in respect of endowment capital

Net cash provided by (used in) investing activities

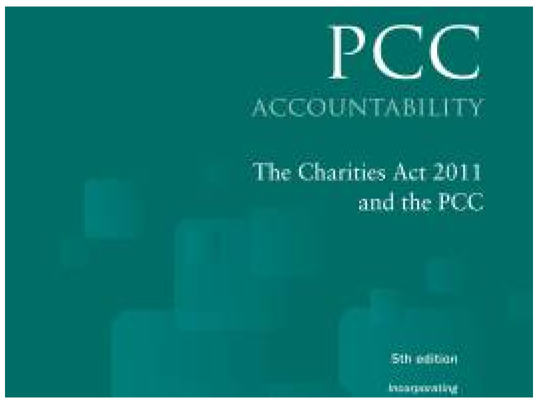
Cash flows from financing activities:

Repayments of borrowing

Cash inflows from new borrowing

Receipt of endowment

Net cash in/(out)flow internally in respect of endowment capital



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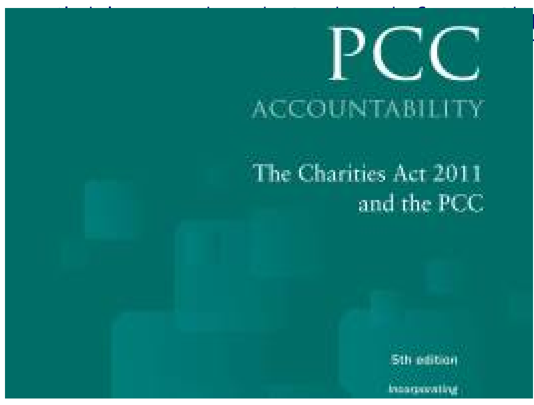

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