THE CHURCH OF ENGLAND

Moving between Receipts and Payments and Accruals Accounting

9.1 Introduction

The income threshold at which accruals-based accounting becomes compulsory was raised from £100,000 to £250,000 in 2009 and confirmed in the Charities Act 2011. Although this is far above the gross income level for the vast majority of PCCs, there are some good reasons why a PCC might consider making the move, and this appendix sets out to demystify the accruals basis of annual accounting and explain, in simple terms, what is necessary to make the change.

If moving back from the accruals basis to the simpler and easier Receipts and Payments basis, as a matter of voluntary best practice this chapter explains what could usefully be included in the year of change as helpful extra information for accounts users.

9.2 Background

Over the past few decades a whole raft of accounting legislation has been issued with the objective of removing ambiguities and providing confidence in financial statements. Most recently this has taken on an international aspect as the global nature of organisations and businesses has increased. FRS 102 requires, among other things, the production of a balance sheet and profit and loss account for each financial year. The balance sheet must reflect a 'true and fair view' of the value of the entity at a particular date, and the profit and loss account shows the income and expenditure of the financial year, together with the net resultant net (profit/loss) for the financial year. The accounting requirements for charities that have to follow SORP (FRS 102) for 2016 onwards are no less rigorous. Only where the PCC's annual gross income does not exceed £250,000 is there a statutory opt-out: annual financial reporting is allowed on a simple Receipts and Payments basis as an unregulated 'easy option' in the public interest.

To be sure of a 'true and fair view' there are strict rules in FRS 102 relating to the recognition of assets and liabilities, income and expenditure, which are defined in those rules as rights or obligations to the actual or 'probable' transfer of 'economic benefit'. In practical terms this means that if, for example, the right to some income arises within the financial period and it looks more likely than not that the PCC will benefit in due course and the amount can be reliably quantified, then it must be included as a debtor in the assets section of the balance sheet in so far as the cash has not yet been received by the year end. This is all subtly different from the old 'matching principle' that some readers may be familiar with, whereby revenues were to be matched to the costs that related to them or were incurred in generating them. A further guiding principle is that the accounts are normally prepared on the assumption that the PCC is a 'going concern' for the foreseeable future, and this is then reflected in the basis of valuation of assets (no forced disposals at 'knock-down' prices) and the assessment of likely liabilities (no contract- severance costs to be accrued).

As many PCCs face a challenging financial position, the need for their annual accounts to reflect the diligent and effective management of resources becomes increasingly important and accruals-based annual accounting enables the reader to see this more clearly. The inclusion of the change in the value of any investment assets is significant, as frequently PCCs are having to cash in some of these in order to pay their bills.

9.3 Application of the rules for assets and liabilities

In recognising assets as incoming resources and liabilities as resources expended, accounts-preparation adjustments need to be made to cash-accounting records. These adjustments are in respect of any amounts received or paid that relate to an event occurring in a different year. The two main areas in which this occurs are:

• Any expenses that have been incurred but which have not yet been paid need to be shown as a liability (creditor/accrual) in the balance sheet, the other side of the entry being the expense for the period, thus indicating the true cost for the period. Examples of this might be a utility bill for December or the cost of tuning the organ just before Christmas, which is paid in January; £6,200 for organ tuning in this example.

• Conversely, where an expense such as insurance has been paid in advance, the cost for the year is reduced by the amount relating to the next year, and is balanced with a 'prepayment' asset in the balance sheet.

• Similarly, the right to a Gift Aid tax repayment may exist at the year end and will need to be shown as an asset (debtor) in the balance sheet and included in the income of the current year, although it is not actually received until the next year; £2,240 in this example.

• A further adjustment should be made if significant amounts of wedding fee deposits have been received for next year's weddings; such amounts should be deducted from the fee income for the year and the amount of income received in advance shown as a liability.

• When a significant asset such as a photocopier, which will bring benefits to the parish over several years, is purchased, it should be recognised as an asset and then its cost expensed in the accounts over its anticipated useful life by an accounting process termed depreciation. The accounting policies in the notes to the accounts must state on what basis large items are capitalised and depreciated.

9.4 Reports and terminology

Under Receipts and Payments (R&P) accounting each fund is effectively a summarised cashbook showing the 'ins and outs' of the fund, the excess of receipts over payments (or vice versa!), any transfers between differently restricted funds and the opening and closing cash/bank balances on each of those funds in each case. A PCC with several types of fund can either include them all in a columnar R&P account for the whole PCC or else prepare a separate R&P account for each fund.

The PCC's Statement of Assets and Liabilities then lists all those closing cash/bank balances of all the funds (identifying each fund separately). Money shown as cash at bank must be agreed with the relevant bank statement for each fund by preparing a 'bank reconciliation' document (this does not h ave to be published) showing how the year-end cash book figure has to be adjusted for timing differences arising from items such as cheques written at the end of the month and not yet appearing on the bank statement.

Any money owing to the PCC as at the year end, such as a Gift Aid claim, must also be listed in the statement. This can be done in summary for different kinds if the items are numerous, but separately for each fund. Similarly, any money owed by the PCC as at the year end (liabilities), such as an outstanding bill for the cost of the pre-Christmas organ tuning, must be listed for each fund.

Also listed (descriptively, in order to identify them and also the fund to which they belong) must be any other assets such as investments and property. As 'non-monetary' assets, although listed, these do not have to be included at monetary value.

Even if a cost or value is ascribed to them the amount is not to be added in with the cash, bank and debtors figures for the fund they belong to, though that fund must be identified in each case. This is because the Statement of Assets and Liabilities is not intended as a 'balance sheet', but is just a simple listing, fund by fund, of all monies held by the PCC, all monies owed to it and all monies owed by it, and identifies any significant assets other than those monies.

In a set of accruals-based accounts, however, a balance sheet must be produced that adds in the monetary values of all the non-cash assets and liabilities to enable the resultant fund balances to give a more complete reflection of the true financial position of the PCC. You will see in the following comparison that there are two possible formats that can be used; the more detail that is included in the balance sheet, the less needs to be shown in the notes to the accounts.

A comparison of the two reporting structures and associated termi

Receipts and Payments Accounts	=	
Receipts into each fund		
Payments made out of each fund		
N/A		
Transfers between different funds of the PCC		
N/A		
N/A		
Opening cash at bank and in hand		
Closing cash at bank and in hand		
Statement of Assets and Liabilities fund by fund	=	
Non-monetary assets retained for ongoing use by the PCC (identifying particulars only)		
Investment assets (term deposits: amount and term;		

9.5 Making the change

A good starting point is to look thoroughly through the simple example of the Receipts and Payments accounts for St Emillion's Church in section 9.9 below and then at the accounts presented in the accrual format. See how the balance sheet matches both assets and liabilities to the total fund balances and see also how further details are included in the notes to accruals-based accounts.

9.6 The opening balance sheet

To produce the opening balance sheet on the accruals basis y
of Assets and Liabilities and add the amounts* of other asset

In this example:	£
Property with a cost value of	£59,000
+ Investments with value of	£19,500
+ Cash funds of	£21,000
= Total fund balances	£99,500 at t

(*This will be cost-based except for any investment securities
(estimated if need be) is required under the Regulations.)

On moving back from accruals accounting to the Receipts and Payments basis, the £21,000 will be listed as a monetary asset at the year end, and will also appear in the Receipts and Payments account as the closing balance. And the only identifying particulars for the property and the investment securities will need to appear in the list of assets instead of the above balance sheet values of £59,000 and £19,500.

Note that either the balance sheet or the accounts notes must show how the comparative year values are split across the different categories of funds. It is still necessary to determine this allocation in order to calculate the opening balance on each fund in any case.

In the example, note 4 of the R&P accounts indicates that of the £22,350 of short-term bank deposits, £17,050 belongs to the restricted church fabric fund, while the designated organ fund forms part of the unrestricted funds.

9.7 The Statement of Financial Activities (SOFA)

When changing the method of accounting, both the current and comparative year's figures must be calculated on the same basis. For this reason it is necessary to examine the Statement of Assets and Liabilities for the current and two preceding years and, where necessary, adjust the R&P figures to create the SOFA and its comparatives.

In the reverse direction, changing from accruals to R&P accounting, comparative figures are only optional in the R&P account(s) and Statement of Assets and Liabilities. Nevertheless, as a matter of voluntary best practice, it can be helpful for accounts users to be able to see a note of last year's accrual-figure (i.e. debtor or creditor), if any, that is now included within each of the receipts and payments figures for this year. This can quite easily be shown as a bracketed inset note against each item within the Receipts and Payments Account - e.g. '(includes £2,240 Gift Aid owing from last year)' against 'Gift Aid claims', or '(includes £6,200 owing from last year)' against 'Organ Inspection Cost', for example by reference to the figures in the illustration below.'

In this example there are no 'other monetary assets' or 'liabilities' for the comparative or preceding year but if this were not the case then you would have to look back to those previous years' accounts in order to adjust the prior year figures.

The adjustments to be made in each case for the current year are:

To convert receipts to incoming resources

Take the R&P receipt amount LESS opening debtor PLUS closing debtor

E.g. Gift aid recoverable of £8,700 - zero + £2,240 = £10,940;

To convert expenses to resources expended

Take the R&P expense amount LESS opening liabilities PLUS closing liabilities E.g. Organ inspection costs of zero - zero + £6,200 = £6,200 which forms part of Church activity expenses where £64,050 - zero + £6,200 = £70,250.

The example also shows where the change in the market value of the investment assets needs to be included in the calculation of the final fund balance and detailed in note 5.

9.8 Accounting Policies

The policies adopted must be noted in the case of accruals-based accounts. Refer to the examples for both St Emillion (see below) and St Ledger's (see Chapter 8) for guidance on what should be included.

Note that it is important that the change in accounting basis is highlighted, both in the accounting policies section and in the financial review within the Annual Report.

9.9 Examples to assist in moving betwee accounts and Accrual accounts

RECEIPTS AND PAYMENTS ACCOUNTS

PAROCHIAL CHURCH COUNCIL OF ST EMILLION'S CH

FINANCIAL STATEMENTS For the year ended 31 Dec

Receipts and Payments Accounts

	Note	Unrestricted funds	Re
		£	
RECEIPTS			
Voluntary receipts:			
Planned giving		29,400	
Collections at services		9,900	
All other giving/voluntary receipts	5a	2,700	
Gift Aid recovered		8,700	
		50,700	
Activities for generating funds	5b	3,500	
Investment income	5c	4,600	
Church activities	5d	5,400	
Total receipts		64,200	

PAYMENTS

Church activities:

Cash at bank and in hand at 1 Jan	7,600
Cash at bank and in hand at 31 Dec	10,350

Statement of Assets and Liabilities

	Note	Unrestricted funds
		£
Cash Funds		
Bank current account		~~300~~
Deposit Funds		10,050
		~~10,350~~
Other monetary assets		
Gift Aid recoverable		2,240
Investment assets		
Investment fund shares at market value	3	–
Assets retained for church use	2	~~59,000~~
Liabilities		
Organ cleaning/tune		6,200

Notes

The transfer to the Organ fund was from ordinary unrestricted funds to meet the balance of the cleaning/tuning costs.

The Fabric fund represents accumulated donations and appeals for fabric maintenance, which can only be spent for that purpose.

The Southern Africa Famine appeal represents funds raised by the Mission and Evangelism Committee to relieve poverty and hardship in the recent famine in Southern Africa.

The Flower fund represents a donation from a parishioner to be spent on Easter lilies in memory of her recently deceased mother.

The cost of the flowers is included in costs of services. A further £100 was designated from the general fund to meet the full cost of lilies.

10. Further Analysis of Receipts and F

		Note	Unrestricted funds
			£
Receipts			
a)	**All other giving/voluntary receipts**		
	Donations		1,700
	Legacy		1,000
			2,700
b)	**Activities for generating funds:**		
	Parish magazine – advertising		1,100
	Summer fete and Christmas bazaar		2,400
	Rummage sales		–
			3,500
c)	**Investment income:**		
	Dividends on CCLA Investment Funds		500
	Bank and CCLA Deposit Fund interest		400
	Rent – temporary let on curate's house		3,700
			4,600
d)	**Church activities:**		
	Fees for weddings and funerals		400
	Parish magazine income – sales		1,100
	Church Centre lettings – local community use		3,900

Accrual accounts

PAROCHIAL CHURCH COUNCIL OF ST EMILLION'S CHURC

Financial Statements for the Year E

Statement of Financial Activities

	Note	Unrestricted funds £
Incoming resources		
Voluntary income	2(a)	52,940
Activities for generating funds	2(b)	3,500
Investment income	2(c)	4,600
Church activities	2(d)	5,400
Total incoming resources		66,440
Resources expended		
Church activities	3(a)	**67,050**

Balance Sheet at 31 December 2016

	Note	Unrestricted funds £
Fixed assets		
Tangible	6	~~59,000~~
Investments	4	–
		59,000
Current assets		
Debtors	7	2,240
Short-term deposits		~~10,050~~
Cash at bank and in hand		300
		12,590
Current liabilities		
Creditors	8	6,200
Net current assets		~~6,390~~
Total net assets	9	**65,390**

Represented by parish funds

Unrestricted

Restricted

Endowment

Notes

1. Accounting policies

Basis of financial statements

The financial statements have been prepared under the Church Accounting Regulations 2006 in accordance with applicable accounting standards and the current Statement of Recommended Practice, Accounting and Reporting by Charities and applicable accounting standard FRS 102.

The financial statements have been prepared under the historical cost convention except for investment assets, which are shown at market value. The financial statements include all transactions, assets and liabilities for which the PCC is responsible in law. They do not include the accounts of church groups that owe their main affiliation to another body, nor those that are informal gatherings of church members.

This is the first year that the accounts have been prepared using the accruals accounting method and this has resulted in the significant year-on-year variation in the Gift Aid recovered income and organ inspection costs.

Fund accounting

Endowment funds are funds, the capital of which must be retained either permanently or at the PCC's discretion; the income derived from the endowment is to be used either as restricted or unrestricted income funds depending upon the purpose for which the endowment was established in the first place.

Restricted funds comprise (a) income from endowments that is to be expended only on the restricted purposes intended by the donor, and (b) revenue donations or grants for a specific PCC activity intended by the donor. Where these funds have unspent balances, interest on their pooled investment is apportioned to the individual funds on an average balance basis.

Unrestricted funds are income funds that are to be spent on the PCC's general purposes.

Designated funds are general funds set aside by the PCC for use in the future. Project funds are designated for particular projects for administration purposes only. Funds designated as invested in fixed assets for the PCC's own use are abated in line with those assets' annual depreciation charges in the SOFA. Designated funds remain unrestricted and the PCC will move any surplus to other general funds.

Incoming resources

Planned giving, collections and similar donations are recognised when received. Tax refunds are recognised when the incoming resource towhich they relate is received. Grants and legacies are accounted for when the PCC is entitled to the use of the resources, their ultimate receipt is considered reasonably certain and the amounts due are readily quantifiable. Dividends are accounted for when declared receivable, interest as and when accrued by the payer. All incoming resources are accounted for gross.

Resources expended

Grants and donations are accounted for when paid over, or when awarded, if that award creates a binding or constructive obligation on the PCC. The diocesan parish share expected to be paid over is accounted for when due. All other expenditure is generally recognised when it is incurred and is accounted for gross.

Fixed assets

Consecrated and benefice property is not included in the accounts in accordance with s.10(2)(a) and (c) of the Charities Act 2011.

Movable church furnishings held by the vicar and churchwardens on special trust for the PCC and which require a faculty for disposal are inalienable property, listed in the church's inventory, which can be inspected (at any reasonable time). For anything acquired prior to 2000 there is insufficient cost information available and therefore such assets are not valued in the financial statements. Subsequently no individual item has cost more than £1,000 so all such expenditure has been written off when incurred.

No cost information is available for the curate's house so it is included at a deemed cost being its 1994 valuation of

£65,000 (including £15,000 estimated freehold land value). The building is being depreciated at £1,000 per annum with effect from 2003 on the basis of its expected useful life of 50 years.

Equipment used within the church premises is depreciated on a straight-line basis over four years. Individual items of equipment with a purchase price of £500 or less are written off when the asset is acquired.

Investments are valued at market value at 31 December.

2. Incoming resources

	Unrestricted funds £	Restricted funds £
a) Voluntary income		
Planned giving	29,400	–
Collections at services	9,900	–
Sunday donations	1,700	5,800
Legacy	1,000	–
Gift Aid recovered	10,940	
	52,940	5,800
b) Activities for generating funds:		
Parish magazine – advertising	1,100	–
Summer fete and Christmas	2,400	–
Rummage sales	–	–
	3,500	–
c) Investment income:		
Dividends on CCLA Funds	500	–
Bank and CCLA Interest	400	950
Rent on curate's house	3,700	–
	4,600	950
d) Church activities:		
Fees for weddings and funerals	400	–
Parish magazine income – sales	1,100	–
Church Centre lettings	3,900	–
	5,400	–
Total Income	66,440	6,750

4. Investments

Market value

Market value

CCLA Investment:

01/01/2016 Purchases Disposals Revaluation

31/12/2016

245.9 shares in a/c 1234S

19,500

500 20,000

5. Transfers between funds

The transfer to the designated organ fund was from ordinary unrestricted funds to meet the balance of the clean/tune costs.

The transfer to the restricted flower fund was from ordinary unrestricted funds to meet the balance of the cost of the Easter lilies.

6. Tangible assets

This comprises the freehold house at 36 Church Street, purchased 5 November 1984, and shown at cost. It is retained for church use.

7. Debtors

Gift Aid recoverable

2,240

-

8. Creditors

Organ cleaning/tune

6,200

-

9. Funds

The movements in designated and restricted funds during the

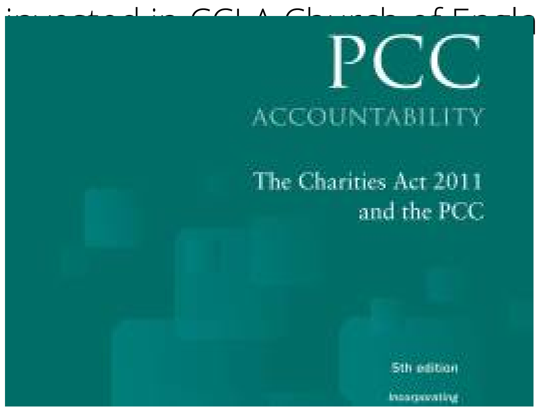
	Bal b/fwd	Income	Ex
	£	£	
Unrestricted funds			
General	63,300	66,440	
Designated funds			
Organ fund	3,300	–	
Restricted funds			
Church fabric (inc. tower)	13,400	5,050	
S Africa famine appeal	–	1,350	
Flower fund	–	350	
Endowment funds			
R. H. Smith fund	19,500	–	
	99,500	73,190	

The fabric fund represents accumulated donations and appeals for fabric maintenance, which can only be spent for that purpose.

The Southern Africa Famine appeal represents funds raised by the mission and evangelism committee to relieve poverty and hardship in the recent famine in Southern Africa.

The flower fund represents a donation from a parishioner to be spent on Easter lilies in memory of her recently deceased mother. The cost of the flowers is included in costs of services.

The endowment fund, a donation in 1999 by R. H. Smith, has to be retained as a capital fund, but the income is for ordinary church purposes. It is invested in CCLA Church of England Investment Fund shares.



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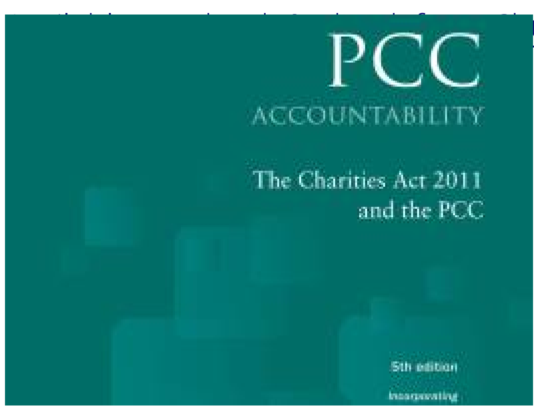

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