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The Accountant's Angle

Risk brings reward if you measure income and plan properly, says Richard Hill

Trustees are required to identify and manage the risks that a charity faces. Although these will depend much on the size, nature and complexity of activities it undertakes, near the top of the list should be: how much income does the charity need annually to function effectively? And what are the threats to this income not materialising each year?

At GSM we spend a good deal of time bringing order to avoid chaos, identifying opportunities for improving financial planning, cash flow management and accountability, bringing transparency and importantly giving a wake-up call for charities to make the most of their income and so mitigate risk.

By managing income astutely and presenting appropriately, charities can evaluate if they are receiving adequate reward from fundraising efforts and project future income streams confidently. It is recognising income judiciously in accounts; that is, what it is, where it is and when to recognise it in the Statement of Financial Activities (SOFA) that should be the backbone of a charity's accounting strategy.

What it is?

Often of contention is consideration of trading income and whether it is earned in carrying out the primary purpose of the charity. If it's outside of this scope, the issue is whether it's of sufficient magnitude both independently and in the context of the charity's income as a whole to require a trading subsidiary to be established. On the plus side, how do you value services given as donations in kind? The Statement of Recommended Practice (SORP) says that intangible income should be included in the SOFA only if the charity would otherwise have to purchase the donated facilities or services and the benefit is quantifiable and material. In the Big Society, is the charity doing itself a disservice by not placing a value on these donated services?

Where it is?

One of our church clients is being compensated for loss of light and has also received money to fund potential future repairs arising as a result of new buildings erected around its historic premises. To advise on how these strands of income should be recognised and disclosed in the accounts, we had to investigate the criteria attached to the payments and advise in each instance if there were restrictions placed on what the money could be used for and when it should be recognised.

When to take it?

There is a temptation to act as if cash is king. But recognising non-cash assets, such as donations in kind as income when given, could prove the difference between a healthy looking balance sheet or not: a valuable stamp collection was gifted to one of our charity clients, the intention to recognise the income when it was sold. We advised the income should be recognised at the time of the gift and at gross value, based on catalogue value and dealing costs combined, therefore demonstrating to stakeholders that the charity was well supported in difficult times.

So it's clear, for trustees to make meaningful decisions for the ongoing well-being of a charity, they need to manage, measure and apportion its income accurately.

Richard Hill is a partner at Griffin Stone Moscrop & Co: www.gsmaccountants.co.uk

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