Year End Procedures

Pre December 31st

Remind all suppliers and expense claimants to get all outstanding invoices in for processing as a matter of urgency.

Pay all outstanding invoices as early as possible during December to reduce amounts uncleared at year end.

Make sure all money from collections and events, occurring on or before 31st December, is banked or notified to the treasurer for inclusion in that years accounts.

Request statements of income and expenses for the year and balances brought forward and carried forward from any church organisations which are included in the accounts or any areas which are separately managed e.g. hall or flower fund.

Ideally all bank reconciliations for all accounts should have been completed up to the end of November and any erroneous items investigated and corrected if necessary.

If possible try to analyse movements and agree receipts, payments and balances on funds other than general funds before year end, e.g. Church Repair Fund, Building Funds, etc. Again, any erroneous items should be investigated and corrected if necessary.

If your bank does not supply monthly statements, make arrangements with them to ensure that you receive a statement covering the 31st December date.

For those PCC's operating Accrual Accounting, all opening balances for the beginning of the year can now be entered onto the Trial Balance (TB) – see attached example.

If your PCC values any stock items on the balance sheet, make arrangements for any stock takes that are required.

If you have any property that needs to be re-valued in the accounts, arrange for any necessary valuations to be performed. You also need market valuations of any investments held.

Agree a timetable for the year end process with your Independent Examiner or Auditor, to ensure that the examined accounts are available to be on display for 7 days prior to the APCM. You also need to ensure that there is a PCC meeting scheduled at which the accounts can be reviewed and signed ready to be displayed.

Agree with the PCC who will be responsible for preparing the Annual Report and Review of the Year (probably the PCC Secretary or the parish priest).

January

Documents Required

Current account bank statements
Savings accounts statements
Church Repair Fund statements
Investments statements
    CCLA
    Endowment Funds
    Property Revaluations
Stock Counts for any stock valued in the Annual Accounts.
Diocesan Loan Account Statements

Cash Book

Ensure that all possible entries for the current year are included in your cash book. If invoices are received late, they can still be entered as long as the cheque is dated as 31st December. These items can then be treated as uncleared transactions without the need to accrue for them. For example, if you have employees, draw the cheque for HMRC in December to avoid having to accrue for the employers' National Insurance costs.

Bank Reconciliation

Reconcile the December bank statements to the cash book. Note all uncleared items for the independent examination but, for accrual accounts, take the cashbook totals through to your Trial Balance (TB).

How to do a bank reconciliation

The purpose of a bank reconciliation is to ensure that all items appearing in the cashbook also appear on the bank statement and visa versa.

You will need to 'tick off' all entries in the cash book and on the bank statement. Any items on the bank statement but not in the cash book should be entered into the cash book as soon as possible. An example of this would be any interest paid by the bank or charges levied by the bank.

Any items that you identify that are in the cashbook but not yet on the bank statement, should be listed as part of your bank reconciliation. These could be cheques that have been written but not yet cleared through the banking system, or receipts for late December have not yet been banked.

Any items on the bank statement but not in the cash book should be verified and entered – make sure that it does belong to you!

For example:

Bank Statement Balance		£12,650.00
Less cheques not yet cleared		
101	£125.00	
102	£210.50	
Plus receipts not banked	£220.00	
Adjusted bank balance	£12,534.50	
Balance per cash book	£12,534.50	

NB The figure quoted as the bank balance in the formal accounts (whether accruals or R&P) will be the cashbook balance.

If the figures for the cashbook balance and the bank statement balance do NOT agree, you will have to examine your records until you can get them to agree. You will not be able to complete your accounts until they do!

(NB it is good practice to carry out a reconciliation every time you receive a bank statement to ensure your records agree; if you do you can avoid spending days looking for a transaction that might have happened 10 months ago!).

The bank reconciliation analysis should be included with your working papers for the Independent Examiner or Auditor.

This is where the procedures will now differ for PCCs using Receipts and Payment Accounting and those using Accruals Accounting.

Receipt and Payments Accounts

Detailed instructions and examples for the layout of Receipts and Payments Accounts can be found in 'The Green Guide' – The Charities Act 1993 and the PCC, A guide to the (SORP 2005). If you require a copy, please obtain one from Church House Publishing www.chpublishing.co.uk.

The cash book totals should now be used to produce the Receipts and Payments Account.

This should:

- Summarise actual payments and receipts in the year for unrestricted, designated, restricted and endowment funds

- Include prior year figures for comparative purposes
- Show the bank and cash balances brought forward at the beginning of the year, any excess/deficit of receipts over payments and the resultant bank and cash balances carried forward at the end of the year.
- These balances should then be the same as those amounts shown as cash and bank balances in the statement of Assets and Liabilities.

Full details of all items to be included in a Receipts and Payment Account can be found in The Guide.

<u>The Statement of Assets and Liabilities</u>

This statement should provide sufficient detail to give a broad understanding of the types of assets controlled by the PCC and any liabilities that need to be met from the funds.

These assets should be analysed to show the fund to which the item belongs.

- Cash and bank balances and deposits. The cash and bank balances total should be the same as the balances carried forward as shown by the R&P Account.
- Other monetary assets i.e. all money owed the PCC. This includes Gift Aid tax recovery claims for any Gift Aid donations received for which a claim has not yet been received. An example of how to calculate this is given in the Adjustment section on the next page.
- Investment assets. These assets could be in the form of stocks and shares, investment fund holdings and/or investment land and buildings. It is not necessary to provide detailed valuations, although each asset should be adequately described.
- Fixed assets. Assets held be the PCC for its own use rather than as investments e.g. land and buildings, motor vehicles and office equipment. N.B. Consecrated property including the church building is excluded completely from all accountability under the Charities Act 1993.
- Liabilities. i.e. a debt or obligation owed by the PCC. For example creditors for goods and services, monies held on behave of third parties (charity collections) and any arrears of Parish Share or stipend.

<u>Notes to the financial statements</u>

Notes to the financial statements should be used to add further explanation or analysis where required. Accounting policies must be included.

Examples of notes that may be included are:

- Accounting policy used i.e. ‘The financial statement of the PCC have been prepared in accordance with the Church Accounting Regulations 2006 using the R&P basis’
- Information about any significant donated services

- Details of any remuneration or expenses paid to PCC members or related party
- Descriptions of any restricted funds

These matters may be included in the Trustees' Annual Report if separate notes to the accounts are not prepared.

NB. The above is a summary of the main reporting requirements for Receipts and Payments Accounts. 'The Guide' should be referred to for further details.

Accrual Accounting

The cash book income and expenditure totals can now be transferred onto the Trial Balance (TB) see attached example

NB. It is important that at this point you confirm that the TB is in balance. Any errors highlighted at this early stage are quicker to resolve.

Adjustments

One of the fundamental accounting principles is 'matching'. This is where any income and/or expense should be shown in the accounts for the year in which it was incurred.

Remember that any adjustment to the accounts has to be made as a double entry whereby an entry will be offset by an equivalent sum elsewhere (usually the balance sheet – a debtor for an item of income which is yet to be received or expenditure which has been paid in advance, or a creditor for an item of expense which is yet to be paid or income which has been received in advance).

The most common items to consider for PCCs are:-

- Gift Aid Tax Reclaimable

We need to 'match' the Gift Aid Tax Reclaimable due to the original giving. From the total giving made under GA, calculate the total tax relief due for the financial year and accrue for the element that has not been received yet.

The Gift Aid Administrator for your PCC should be able to provide you with the figure representing the amount of Gift Aid donations received up to 31st December for which a tax reclaim has not yet been received. N.B. for cash flow purposes it is advisable to make a claim to HMRC at least annually and more often for the larger PCCs.

The amount of tax reclaimable is equal to the basic rate of income tax. This has recently changed from 22% to 20%, but PCCs have been able to claim transitional relief up to the 22%. This relief is currently due to be removed from the end of the 2010/11 tax year.

How to calculate the Gift Aid Tax Reclaimable Debtor.

Assuming transitional relief still applies:

Gift Aid donations up to 31st December for which a claim has not yet been made equate to £10,000.

Debtor = £10,000 * 22/78 = £2,820

The amount shown in Incoming Resources for Gift Aid Reclaimable can now been increased by £2,820 and a debtor shown on the balance sheet. (See trial balance example.)

NB. You may also need the Gift Aid Administrator to provide you with the split of planned giving gift aided and not gift aided.

- Insurance

Match the premiums paid to the period that the expenditure relates to.

For example:

The church's annual insurance premium becomes due on 1st October (£4,000). The amount applicable to the current year is 3/12 (1/4) of the total. i.e. ¾ of the premium represents a prepayment for the following year.

An adjustment needs to be made on the TB, reducing the insurance for the current year (by £3,000) and creating a prepayment on the balance sheet of £3,000.

- Rent

Any rent due to be paid or received which relates to current year.

For example, the PCC owns a rental property and rent is due one month in advance.

A rent payment, of £800, is received in December that covers the period 15th of December to the 14th January.

£400 of this rent receipt actually relates to the following year. Therefore a TB adjustment needs to be made reducing the rental income by £400 and creating a deferred income entry on the balance sheet.

Another example is when a PCC has a Church Hall that is rented out for private functions. A payment may be received that is for a booking during the next year.

E.g. In November, Mrs Smith pays £200 for use of the Church Hall for a party in February.

An adjustment will need to be made on the TB by reducing the rent received income by £200 and creating a deferred income creditor on the balance sheet for the same amount.

- Other transactions

Any other income or expenditure that relates to current year.

An example for this is the credit/debit balances that can build up on utility bills when a monthly direct debit is in place for payments. If these balances are likely to be significant it may be useful to request a statement from the energy provider as near to the end of year as possible. Alternatively, you could read the meters to estimate the energy usage.

Another example would be any fees charged by the Independent Examiner. These may be paid in spring of the following year, but are a governance cost of the current year.

- Stock adjustments

Following any year end stock checks it may be necessary to adjust the closing balance.

For example, the PCC holds a stock of memorial kerbstones for use in the churchyard. These are valued at the historical cost value of £50 each and are ‘sold’ when required for memorials. When they are counted at the year end, it is discovered that one is broken and therefore it will not be able to be ‘sold’.

The stock value in the TB will need to be reduced by £50 and an adjustment made to churchyard upkeep. See TB example.

- Fixed Assets

If a revaluation has been made or depreciation applied, an adjustment will need to be made to the closing balance.

For example the church has a photocopier purchased in the year for £1,200. In accordance with the model policies, equipment is depreciated on a straight-line basis over 4 years (i.e. the asset is ‘written down’ in value over 4 years by an equal amount each year). This means that in the first year there will be a depreciation charge of £300 and the asset will be worth £900. An adjustment will be made to the relevant expenses heading (printing and stationery perhaps) and a similar adjustment is made against assets.

NB. When all adjustments have been made, check that the adjustment columns balance. i.e. that a double entry has been made for each adjustment.

Make sure that you check the cashbook for any spending in the year which needs to be capitalised in the balance sheet rather than shown as expenditure in the SOFA.

Also look through the payments and receipts before and after the year end, check that they relate to the period they are recorded in and if not, adjust for them.

NB. With all these accruals, you need to remember to reverse the previous year's!

Once all the adjustments have been made on the TB, the totals for all the income and expense categories can be used to produce the formal accounts.

Congratulations! Now time to start to put it all together!

Detailed instructions and examples, including disclosures required in the notes, can be found in 'The Green Guide' – The Charities Act 1993 and the PCC, A guide to the SORP 2005. If you require a copy, please obtain one from Church House Publishing www.chpublishing.co.uk.

NB. There is an excel version of an Accrual Accounts Proforma which is available from the diocesan Finance Department. Also the TB example can be obtained either as a download from the diocesan website or from the Finance Department.

Gerry Hughes
Accounts Adviser

Martyn Burt
Diocesan Treasurer
Diocese of Rochester
November 2009