Charity finances:

How to read your charity accounts

By law, charities over a certain size must publish their annual accounts and submit them each year, but the contents are not always understood.

While charities must report the same basic information as businesses, they have to provide much more on a broader range of issues.

The best way is to look at your accounts, ask questions and become familiar with their contents. Dependent on your position you can ask to spend some time with the person who prepares the accounts to gain understanding. It is likely if you don't understand them that others will be in a similar position.

You can also go online and look at other charities' accounts to help you practice and understand more.

What should charity accounts include?

- the Statement of Financial Activities (SOFA) which shows income and spending
- the balance sheet which shows assets and liabilities
- the cash flow statement which shows the areas of the cash surplus or deficit for the year
- notes to the accounts; and
- auditor's report or independent examiner's report.

All the extra information charities must include in their annual accounts is laid out in the Statement of Recommended Practice (SORP). Your auditor or independent examiner will make sure you have the correct and latest layout.

Statement of Financial Activities (including Income and Expenditure Account)

Is the charity financially sound?

In the current financial climate, many good charities are struggling to remain on a solid financial footing and it's important to understand the financial health of the organisation. Grant funders will look at the accounts to understand the risks of donating, grant, or social investment. It also helps to identify what management should focus on.

To determine a charity's financial soundness, it is worth considering:

1. Is income covering expenditure?
2. Where does the money come from: are income sources diverse? Are they at risk? Are they restricted or unrestricted?
3. Where does the money go?
4. Are reserves sufficient to cover any change in fortunes?

The charity's Statement of Financial Activities (SOFA) tells us whether the charity is in surplus or deficit at its most recent year end and in the previous year, which allows us to compare the two years and observe progress. If annual income covers annual expenditure the charity will produce a surplus.

For example, deficits running over a number of years leading to dwindling reserves might suggest poor cost control. Alternatively, it might reflect a conscious strategy to reduce reserves so that money accumulated in the past is not left idling in a bank account. It is important to understand what the reality is.

Is income covering expenditure?

Surplus funds are a sign of a healthy charity. However, a big surplus can raise questions; for example, whether the charity delivery can keep up with a successful fundraising.

Statement of financial activities (including summary income and expenditure account) for year ended 2025	Unrestricted funds	Restricted income funds	Total funds 2025	Total funds 2024
	£	£	£	£
Incoming resources				
Incoming resources from:				
Voluntary income: Donations and Grants	4,900	10,000	14,900	13,592
Income from other trading activities	34,030		34,030	34,484
Investment income	1,800	1,530	3,330	2,648
Incoming resources from charitable activities: Promotion of charitable purposes	191,070	300,000	491,070	414,608
Total Income	231,800	311,530	543,330	465,332
Expenditure				
Expenditure on:				
Promotion of charitable purposes	173,000	273,298	446,298	353,596
Other	44,030	-	44,030	40,980
Total	217,030	273,298	490,328	394,576
Net income/(expenditure)	14,770	38,232	53,002	70,756
Other recognised gains				
Gain on reevaluation of investments	1,524		1,524	404
Net movement in funds	**16,294**	**38,232**	**54,526**	**71,160**
Total funds brought forward 2024	40,498	2,632	43,130	- 28,030
Fund balances carried forward at 31 March 2025	56,792	40,864	97,656	43,130

The SOFA shows that income covers expenditure (circled in red) but in the current financial year costs for delivering its charitable activities have gone up. It may be worth asking if there is any particular reason why this expenditure has gone up by 25%?

There is a large, restricted grant of £300,000 (circled in purple) in the current year with £273, 298 in restricted fund expenditure. It may be worth asking: How long is the grant for? What is it for? Are staff employed to deliver the purposes of the grant? Additional staff may account for an increase in staff numbers later in the report.

Where does the money come from?

Charities receive money from a variety of sources which include public donations, grants, and government contracts. You can look at a charity's income from several perspectives:

1. How is the charity's income made up and how reliable are those income streams?
2. Is there a good mix of different types of income, or is the income dominated by one particular source?
3. How reliable is each different stream of income?
4. What are the trends in the income streams?
5. How important is statutory funding (found generally under 'income from charitable services')? How might policy changes affect this, e.g., government cuts?
6. How much of the organisation's funding is restricted versus unrestricted?
7. Does the charity have a profitable income stream? What does it do (e.g., runs a shop chain)? Could a profitable income stream be grown through social investment?

There is no ideal combination of income but the broader the mix the less reliant you are on any one source. Have a look at the spread of your income which will be broken down later in the report and accounts.

Income streams on the SOFA fall into three main parts:

- Incoming resources from generated funds
- Incoming resources from charitable activities
- Other income

Incoming resources from generated funds

This generally includes voluntary income, consisting of donations and grants, and investment income, although this is identified separately. It may also include grants from government and government bodies. You can see from our example (circled in orange) that the income from this is relatively similar over the two-year period.

Incoming resources from charitable activities

This generally includes an organisation's statutory income, essentially, income from government contracts to provide statutory services. It may include other types of earned income that relate to goods and services sold in pursuit of charitable objectives. Statutory income is income that government is contracted to pay. So, a grant from government might not show up in statutory income, as it won't be deemed 'statutory'. Instead, it will show up in voluntary income.

Other income - This covers sundry items that cannot be classified elsewhere and will comprise the minority of incoming resources, the categorisation of which may vary.

How much of the funding is restricted versus unrestricted?

The mix of restricted and unrestricted funding is key to a charity's ability to manage itself. Many funders restrict grants to a specific project, activity, or post — a restriction which is legally binding.

Unrestricted funding from funders and donors can be used for any purpose the charity chooses within its objects. Many charities use this to fund activities which donors might not find attractive. Others use it to fund pilot projects to provide evidence for funders. The charity might additionally designate such unrestricted funding to a particular activity, but the designation is not legally binding—and if necessary, the charity can use the funds for other purposes.

If much of its income is restricted, the charity has less flexibility in allocating resources between projects and overheads.

Does the charity have a profitable income stream?

In the example there is a sum of £34,030 (circled in yellow) which may prove to be a valuable source of unrestricted funding. Has your organisation got a shop or perhaps runs training programmes. It is worth asking where does this money go?

Where does the money go?

The costs of generating funds are the costs associated with generating income from all sources except undertaking charitable activities. The cost of charitable activities is the expenditure related to the objects of the charity.

A line may be included about Governance costs in your accounts which are related to running the charity, such as audit fees and trustee costs.

Balance Sheet

The balance sheet essentially shows where all the money is on a given day (usually the last day of the financial year). It is split between assets (money you have or are owed) and liabilities (money you owe to others). What's left over is the amount of money you have in your reserves (net assets).

Dorsetshire Drugs Advice Centre

Balance Sheet as at 31 March 2009

	Notes	2009 £	2009 £	2008 £
Fixed Assets				
Tangible assets	9		22,500	20,000
Investments	10		23,308	21,784
			45,808	**41,784**
Current Assets				
Stock		334		108
Debtors	11	15,336		11,148
Cash at bank and in hand		52,946		7,594
		68,616		18,850
Creditors: amounts falling due within one year	12	(16,768)		(17,504)
Net Current Assets			**51,848**	**1,346**
Net Assets	12		**97,656**	**43,130**
Unrestricted funds	14			
Designated funds		20,000		-
Revaluation funds		3,658		2,134
General funds		33,134		38,364
			56,792	40,498
Restricted funds	14		40,864	2,632
Total Funds			**97,656**	**43,130**

Assets

There are essentially two types of assets, fixed asset, and current assets.
Fixed assets are typically things that you own such as land or property and expensive items such as computers. Long term investments are also shown in this section.

Current assets are typically cash or things that can readily be turned into cash. These may also be termed liquid assets. Debtors (money owed to you) belongs here too.

The balance sheet will show this year's figures vs. last years and you should examine how these have grown or declined over the course of the year. In the above example you will see that the money is shown as restricted vs. unrestricted.

Using the example above the cash in bank and hand figure is substantially higher than the year before and therefore it may be necessary to understand why either by looking in the notes or asking.

Liabilities

Liabilities or creditors shown on the balance sheet are what the charity owes to others. There are both short-term liabilities, which include creditors due within one year, and long-term liabilities.

Short term liabilities are those settled in cash within one year. They tend to include loan repayments, tax and social security costs and advance income for services not yet delivered.

When present, the larger proportion of liabilities tends to be long-term. However, many charities do not have them at all, especially smaller charities.

Receipts and Payments Accounts

CHARITY COMMISSION FOR ENGLAND AND WALES | Charity Name | No (if any) | **CC16a**

Receipts and payments accounts

For the period from | Period start date | To | Period end date

Section A Receipts and payments	Unrestricted funds to the nearest £	Restricted funds to the nearest £	Endowment funds to the nearest £	Total funds to the nearest £	Last year to the nearest £
A1 Receipts					
	-	-	-	-	-
	-	-	-	-	-
	-	-	-	-	-
	-	-	-	-	-
	-	-	-	-	-
	-	-	-	-	-
	-	-	-	-	-
	-	-	-	-	-
Sub total *(Gross income for AR)*	-	-	-	-	-
A2 Asset and investment sales, (see table).					
	-	-	-	-	-
	-	-	-	-	-
Sub total	-	-	-	-	-
Total receipts	-	-	-	-	-
A3 Payments					

Receipts and payments accounts are created using a simple form of accounting that summarises all monies received and paid via the bank and in cash by the charity during its financial year, along with a statement of balances.

https://www.gov.uk/government/publications/charity-accounting-templates-receipts-and-payments-accounts provides you with usable templates.

The closing bank balance to report in the accounts should be:

- The balance at the bank on the last day of the financial year.

Plus

- Any money received before the end of the year but only banked in the following year.

Less

- Any cheques written before the end of the year but not cleared through the bank until the following year.

The main differences between receipts and payments and fully accrued accounts are that:

- in receipts and payments accounts no adjustments are made for the timing of the income or payments to bring them in line with the period to which they relate. So, for example, if a charity pays its rent in advance just before the end of the financial year, the payment will be recorded in the accounts of the year it was actually paid, rather than in the year to which the payment relates.

- the purchase or sale of assets for cash would be included in the receipts and payments accounts as a payment or a receipt in the reporting period. Assets owned by the charity should be shown separately on the statement of balances for information. Changes in the value of assets are not included in receipts and payments accounts.

When you are reading them, you should have sufficient detail to gain an appreciation of the transactions of the charity and of any surplus or deficit.

Can my charity prepare receipts and payments accounts?

Non-company charities with a gross income of less than £250,000 can prepare accounts on a receipts and payments basis unless:

- the governing document
- any law or
- a decision of the trustees
- any third-party requirements, for example a funder requires the charity to prepare fully accrued accounts.

Both the statement of balances and the trustees' annual report must be signed by one or more of the charity trustees on behalf of all the charity trustees and specify the date on which both were approved.

To allow comparisons to be made, all figures in the accounts must include the corresponding amount for the previous financial year.

The accounts must also distinguish between restricted, unrestricted, expendable, and permanent endowment funds held by the charity.