Powerful Cloud based Accounting Software for Charities…

An analysis of SORP and accounting software requirements

Introduction

The purpose of this document is to **compare the accounting requirements of Charities and Not for Profit entities** and demonstrate how the **accountsIQ (AIQ)** System can fulfil these expectations and demands.

Here we **introduce those key elements of functionality** within the AIQ System that apply specifically to the requirements of the sector.

While the **functionality** documented herein is extensive, it doesn't necessarily cover the entire range functionality within the AIQ suite of accounting software - the principal objective being to introduce and describe that functionality which solely relates to the Charity and NfP sector.

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ACCOUNTS IQ

Powerful Cloud Accounting

➤ Whether **SORP FRSSE or SORP FRS 102** accountsIQ offers a powerful Cloud Accounting solution for your charity.

➤ Data **hosting in the UK** helping you meet UK Data Protection requirements.

➤ Launched in 2008 after **80+ man-years development** & receiving ICAEW Accreditation

➤ Selected above enterprise desktop packages due to its **architecture, key functionality and commercial offering**

Advantages of the Cloud

✓ Access from anywhere 24-7 enabling flexible work practices

✓ Full maintenance & Support included

✓ Document Management and paperless offices

✓ Increased security

✓ Automatic upgrades of software

✓ Pay as you go

X   No Server requirements and no in-house management costs

X   No back-up requirements and no on-going maintenance costs

X   No disaster recovery requirements

X   No version/licence issues or costs

X   No multiple versions of software

X   No upfront capital costs (small OPEX rather than large CAPEX)
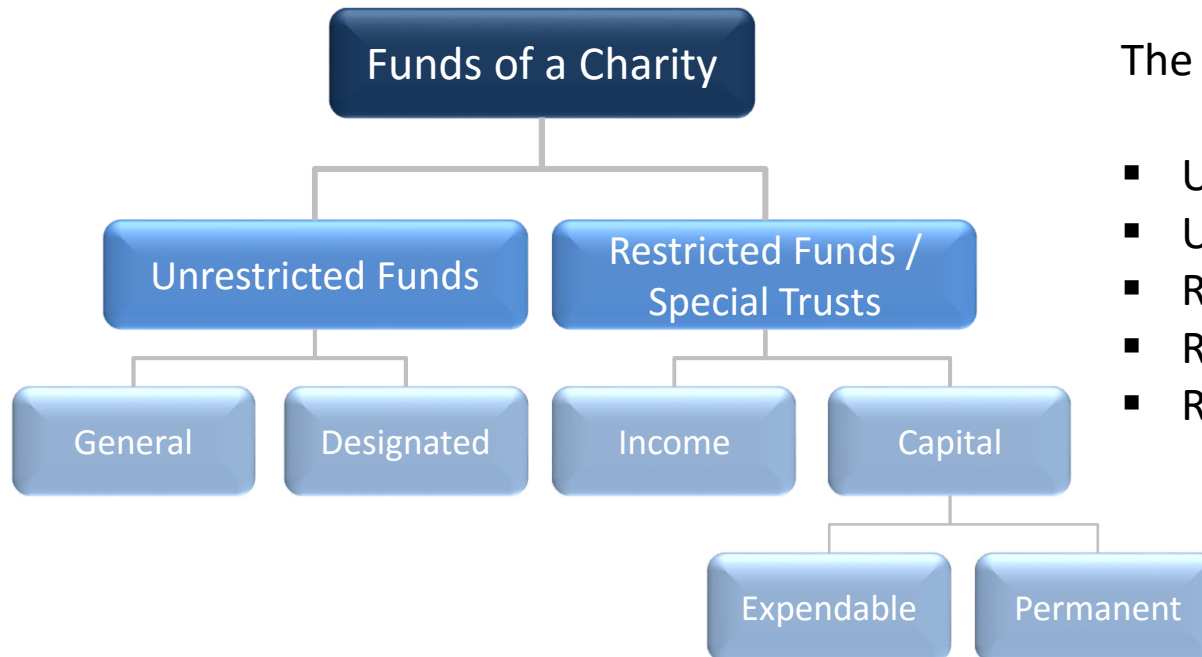
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Security

A **UK Managed Service** with extensive security (SSAE Type II accredited):

➢ Data is held on scalable servers within a **3 tier firewall system** that also hosts the Disaster Recovery site and the Backup servers, all located in a data centre that has 24/7 security monitoring and constant updates of security patches.

➢ Data is transferred using industry leading Secure Sockets Layer **(SSL) encryption technology (128 bit)** technology. Accessing the system requires a **3-Tier login process of; Company ID, Username and Password** (which must consist of one capital letter, one numeric value and one symbol character).

➢ **3 Data Centre sites globally located in the US, UK and Australia**. Allowing you to have a server location closer to your business. Each server location is backed up to the other server locations (and the Disaster Recovery site) once a day, and if any server location (and the Disaster Recovery Site) were to go down, AccountsIQ will have you up and running within a few hours. During the day, systems are constantly backed up and any **restore of your system can be done to within one hour of your last session**.

➢ Each company is given its **own database** when it is set up meaning there is no co-mingling of data with others.

Security

- The system facilitates complete **User Profiling** whereby each and every element of functionality, enquiry, dashboard or report can be switched on (or off) for an infinite number of different users and class of user profiles for each and every company within your organization. User profiles can be easily copied from one company to another, renamed or deleted.

SORP: Separation of Funds

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                    ┌─────────────────────┐
                    │  Funds of a Charity │
                    └─────────────────────┘
                              │
              ┌───────────────┴───────────────┐
    ┌──────────────────┐          ┌──────────────────────┐
    │ Unrestricted Funds│          │  Restricted Funds /  │
    │                   │          │    Special Trusts    │
    └──────────────────┘          └──────────────────────┘
         │                                   │
    ┌────┴────┐                     ┌────────┴────────┐
 ┌────────┐ ┌────────────┐     ┌────────┐      ┌────────┐
 │ General│ │ Designated │     │ Income │      │ Capital│
 └────────┘ └────────────┘     └────────┘      └────────┘
                                                    │
                                          ┌─────────┴─────────┐
                                     ┌────────────┐    ┌────────────┐
                                     │ Expendable │    │ Permanent  │
                                     └────────────┘    └────────────┘
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The 5 types of Funds:

- Unrestricted General
- Unrestricted Designated
- Restricted Income
- Restricted Capital (Expandable)
- Restricted Capital (Permanent)

We know that SORP defines the 5 types of funds which are essential in the presentation of a charities SoFA and Balance Sheet.

A charity must identify each restricted fund and allocate income and expenditure to that specific fund. Additionally, for unrestricted and restricted funds the income and investment gain (or loss) must be allocated to the fund holding the investment.

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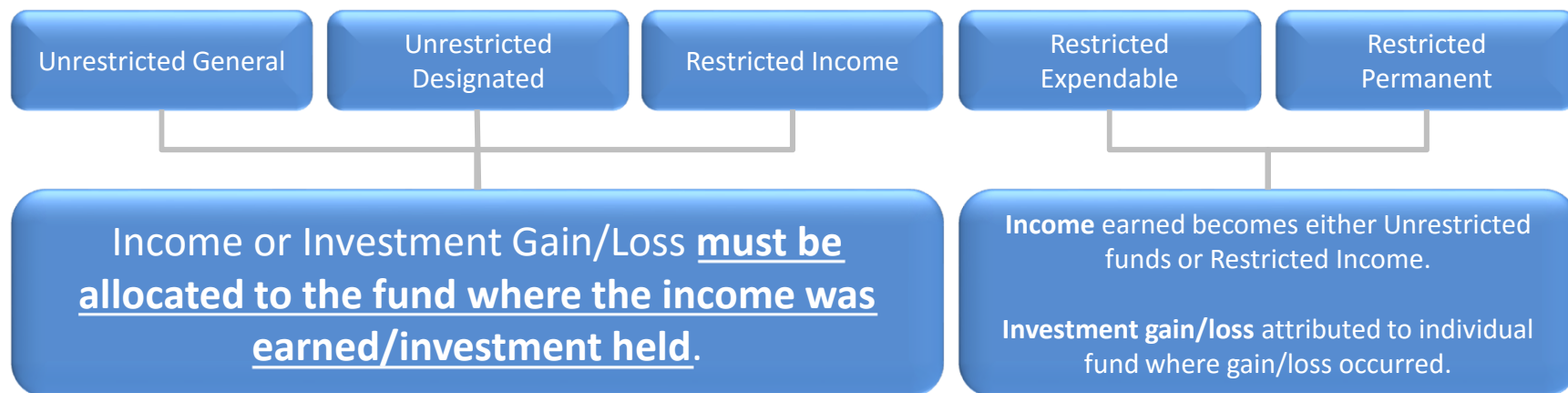
SORP: Separation of Funds

In summary, the 5 types of funds as defined by SORP, have the following definitions:

- **Unrestricted General**: funds donated to the charity that can be spent or applied at the discretion of the trustees to further the charities purposes.

- **Unrestricted Designated**: funds that have been gifted to the charity and classified 'Unrestricted General' but have now been set aside (at the discretion of the trustees) for a specific project or commitment (thereby making the funds designated but not restricted).

- **Restricted Income**: funds that have been allocated to a specific project and have been declared as such by the donor when making the gift (or as a result from the terms and conditions of an appeal) and which must be spent in a reasonable time period.

- **Restricted Capital (Expendable)**: a gift of a tangible fixed asset where there is power to convert all or part of the capital into income, but the timing of doing this (and spending the funds) is at the discretion of the trustees.

- **Restricted Capital (Permanent)**: a gift of a tangible fixed asset where there is no power to convert the capital into income and must be held indefinitely.

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SORP: Separation of Funds

Income earned and/or Investment gains (or loss) treatment within each fund:

| Unrestricted General | Unrestricted Designated | Restricted Income | | Restricted Expendable | Restricted Permanent |

Income or Investment Gain/Loss must be allocated to the fund where the income was earned/investment held.

Income earned becomes either Unrestricted funds or Restricted Income.

Investment gain/loss attributed to individual fund where gain/loss occurred.

When the trustees decide to sell an Expendable Asset, the asset will become Unrestricted General funds (unless there was conditionality placed on the gifting of the asset).

Therefore, at times there may be transfers between funds (such as when Income is earned from a Restricted Expendable or Permanent Fund and becomes Unrestricted General, Or part of Unrestricted General funds are allocated to a shortfall in a Restricted Income fund). However, at the end of each year, the Fund Transfer Total Value should be zero.

All costs must be attributed to individual funds.

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SORP: Separation of Funds

Handling the separation of funds and income transfer between funds can lead to some challenges in how the accounts system should be structured to handle this. Charities can and do have countless number of funds of varying Fund Type classifications. In addition they will have extensive numbers of revenue streams and locations.

AccountsIQ has **two ways in which charities can implement the coding structure** in the system in order to meet the diverse requirements of most charities. For example, a charity could be set up as a single company/entity and use Extended Business Analysis to manage the financial reporting requirements of the individual Funds. Or, each of the charity's funds could be set up as separate companies and use the systems multi-company consolidation for Group Reporting.

In either case AccountsIQ makes substantial use of **Extended Business Analysis.** This System, unique to AccountsIQ, exploits modern Relational Database architecture to the fullest possible extent, and separates the construction of the Business Analysis coding structure away from the General Ledger Income/Expense Category coding structure.   It only combines the two when Transaction Entry takes place. Thus, the GL Revenue & Expense Codes architecture can be constructed and maintained independently of the alternative Departmental Analysis Group Code structure which has its own architecture and maintenance capabilities. The following slides describe how these concepts can be applied to yield the desired reporting structure.

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Extended Business Analysis

The system facilitates Extended Business Analysis by having a separate structure which co-exists with the standard GL Database for the Charity. Here you can have up to **6 Analysis Groups** coded to assign keys to any variable you wish to report on. Within each group you can then have any number of Member Codes which define the individual elements of each Group.

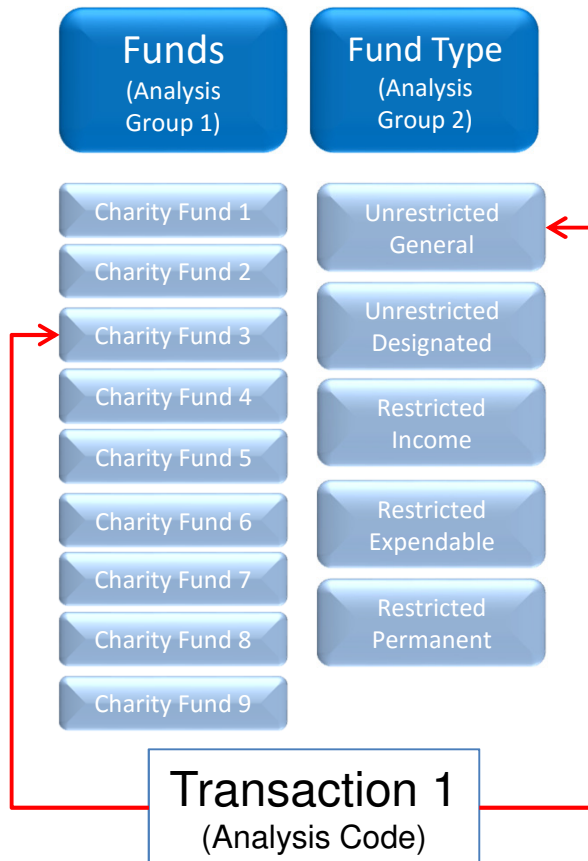| GL Category/Sub-Category/Expense Code |
|:---:|

Analysis Group 1	Analysis Group 2	Analysis Group 3	Analysis Group 4	Analysis Group 5	Analysis Group 6
Member 1	Member 1	Member 1	Member 1	Member 1	Member 1
Member 2	Member 2	Member 2	Member 2	Member 2	Member 2
Member 3	Member 3	Member 3	Member 3	Member 3	Member 3
Member n	Member n	Member n	Member n	Member n	Member n

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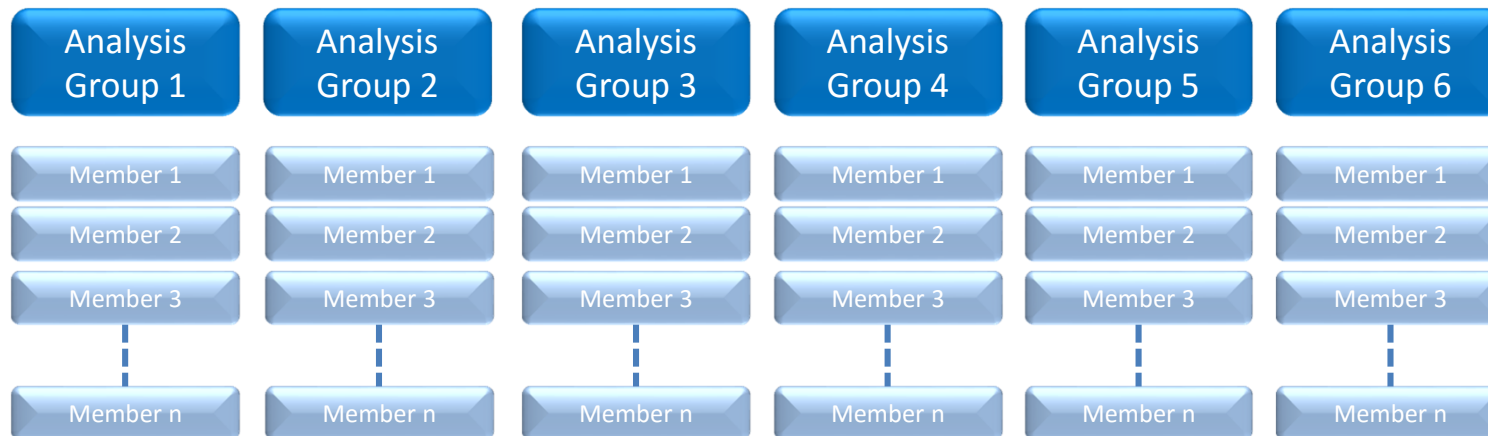
Extended Business Analysis

When you quote an Analysis Code during Transaction data entry, its relationships to the elements of each Analysis Group to which that Analysis Code has been attached are inherited from the Group structures and carried on into the resulting Transaction Database Posting.

Thus every transaction not only carries the GL Expense/Revenue Code and the Analysis Code, but also the six individual Analysis Group Member Codes - all of which are individual database access keys. For reporting purposes, any one or, any combination of these 8 separate access keys can be used to build the required reports or queries.
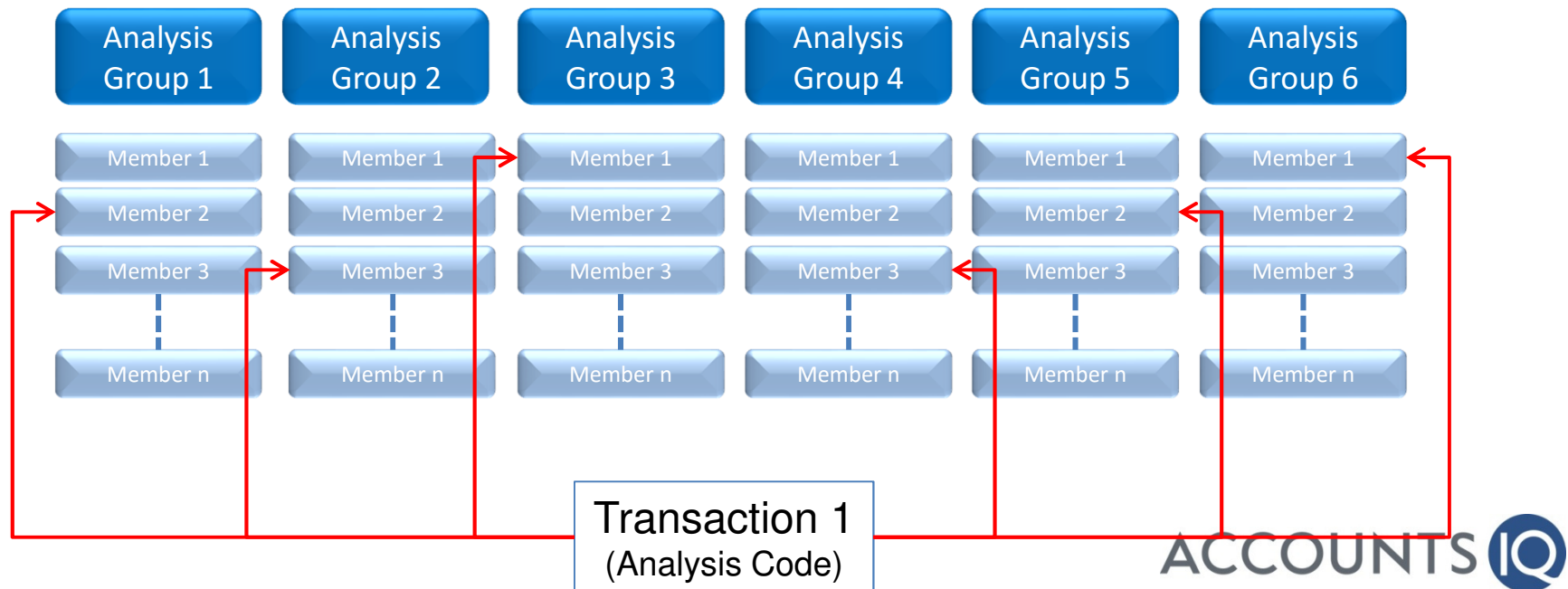
Extended Business Analysis

For SORP it is quite easy to structure the accounts system to allow for separation of funds. If you have a Charity that has 20 funds, then each fund is set-up as an individual member of an Analysis Group. Similarly the Fund Types are set up as Members of a second Analysis Group.

Funds
(Analysis Group 1)

Fund Type
(Analysis Group 2)

Charity Fund 1

Charity Fund 2

Charity Fund 3

Charity Fund 4

Charity Fund 5

Charity Fund 6

Charity Fund 7

Charity Fund 8

Charity Fund 9

Unrestricted General

Unrestricted Designated

Restricted Income

Restricted Expendable

Restricted Permanent

Transaction 1
(Analysis Code)

An analysis code is then attached to the relevant Fund and a relevant Type of Fund and it is this Analysis Code which is quoted at transaction entry stage.

For example, the Analysis Code in Transaction 1 might be allocated to Fund 4 as Unrestricted General.

Once all transactions are coded in this manner it is straightforward to produce the Financial Reports by nominating the Fund and/or Fund Type. In the Enquiry Section you first chose the Fund or Fund Type and then explore the GL Category/Sub-Category/Expense-Revenue Accounts using Drill Down techniques.

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SORP: Income Recognition

There are 2 categories of income and it is important to distinguish between the two:

1. Income from **exchange transactions** (called contract income) is received by the charity for goods and services supplied under contract. Where obligations under contract are supplied gradually over time, revenue should be recognised as the contract activity progresses to reflect performance. The income recognised should reflect the right to receive payment by reference to the value of work performed. Where income is received in advance, the charity may not have entitlement to the income until the goods or services have been provided. In this instance the income should be deferred until the charity becomes entitled to it.

2. Income from **non-exchange transactions** include items such as donations of money, goods or services (which include Grants). This income should be recognised when there is evidence of entitlement to the gift, receipt is probable and the amount can be measured reliably. For grants that have conditions attached to them, the charity must identify these donations and conditions and only recognise the income when the conditions are met (it should be held on the balance sheet as deferred income and only released as and when conditions are met). A donation or grant without conditions should not be deferred, even if the resources are received in advance of the expenditure.

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Extended Business Analysis

Taking Extended Business Analysis one step further, and to factor in Income Recognition, we can then use another Analysis Group for the different types of income…

Fund Name	Fund Type	Income Type
Charity Fund 1	Unrestricted General	Cash Donation
Charity Fund 2	Unrestricted Designated	Contract Terms Grant
Charity Fund 3	Restricted Income	Performance Related Grant
Charity Fund 4	Restricted Expendable	Goods Donation
Charity Fund 5	Restricted Permanent	Asset Donation
Charity Fund 6		
Charity Fund 7		
Charity Fund 8		
Charity Fund 9		

Transaction 1

At this point in time we have still only used 50% of the capability of Extended Business Analysis.

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Extended Business Analysis

Once the Analysis Groups and Codes have been set up we can then report on each and every single Analysis Group or any combination of Analysis Group Code, with drill down capabilities to individual transaction levels.

Whilst this example is a simplified version for illustrative purposes, the design of the system means it can handle some extremely complex reporting requirements. AccountsIQ will help design and implement a relevant structure for your Extended Business Analysis given its extent and range of experience over many hundreds of different requirements and structures.
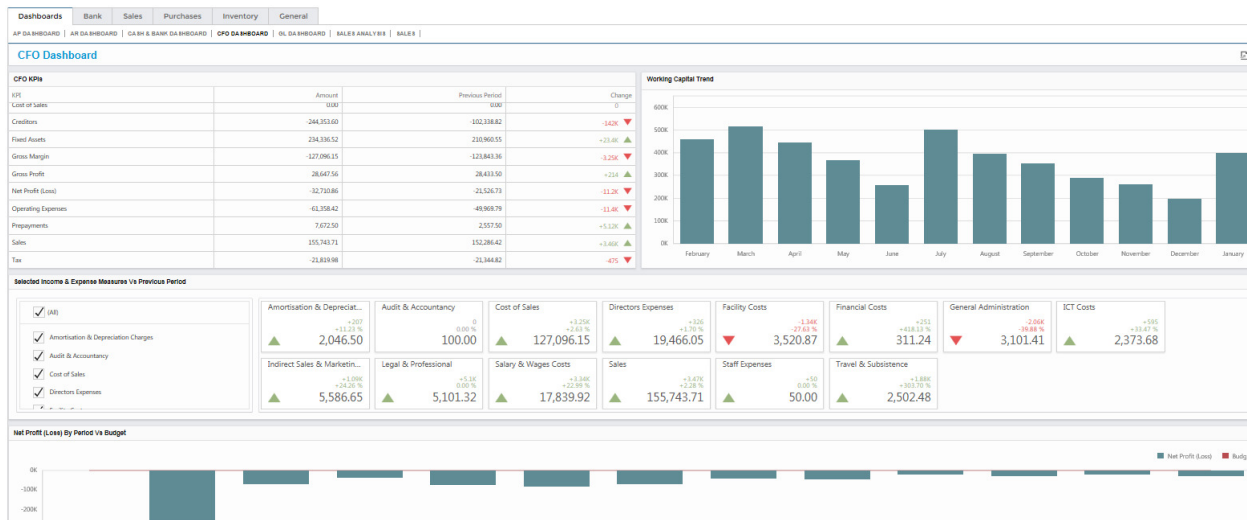
A sample dashboard. Dashboard can be created to report any statistic you require.

SORP: Income Recognition

There are several important functional components within accountsIQ with regards to Income Recognition:

➢ **Prepayments**: these will allow you to enter revenues that have been invoiced and paid in advance of the commitment.

➢ **Document Management System**: Allows you to scan and store important documentation relating to contracted services, performance commitments and more.

➢ **Partial Invoicing and Receipts**: This allows invoices to be partially paid off to recognise work in progress.

➢ **Audit Trail**: there is a full audit trail for every transaction within the system allowing you to view changes to transactions.

➢ **Job and Project Analysis**: allows you to monitor jobs or projects on a revenue, expense and P&L basis and to monitor work in progress.

➢ **Automatic Bank Reconciliation**: Bank accounts can easily and quickly be reconciled.

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SORP: Expenditure Recognition

Liabilities can result from **exchange transactions** that are contractual (e.g. purchase of goods and services or employment of staff) or **non-exchange transactions** (e.g. making grants).

A **legal obligation** arises when a charity enters into a binding contract and expenditure is recognised when the goods or services are received/completed. A **constructive obligation** arises when the charity indicates it accepts responsibilities and thereby creates a valid expectation it will meet them.

A liability must be measured at the best estimate of the amount required to settle the obligation at the balance sheet date. A **provision (a liability of uncertain timing or amount)** must be made for future payments to be made (whether over several reporting periods or not) and this must be discounted to the present value (if payments made beyond the current reporting periods). For grants that have conditions attached then provisions may not be required.

Unrestricted funds held at reporting date can be designated on the SoFA to meet future funding commitments. Activities that are to be wholly financed from future income must not form part of such a designation.

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SORP: Expenditure Recognition

There are several important functional components within accountsIQ with regards to Expenditure Recognition:

➢ **Accruals**: these will allow you to enter commitments that require a provision but have not yet been invoiced.

➢ **Document Management System**: Allows you to store important documentation relating to contracted services, performance commitments and more.

➢ **Workflow Approval**: increases security allowing purchase orders or payments to be approved by a designated person within the organisation before proceeding (see next slide).

➢ **Recurring Invoicing**: allows invoices to be set up as recurring which will help with regular payments such as monthly donations.

➢ **Job and Project Analysis**: allows you to monitor jobs or projects on a revenue, expense and P&L basis and to monitor work in progress.

➢ **Batch Payments**: Payments can be made through electronic payment files.

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Workflow Approval

Workflow approval can be implemented for Purchase Orders or Purchase Invoices, or both. A System User enters the Purchase Order and selects an Approver.

The Approver receives an email that asks them to approve the Purchase Order (or Invoice or Batch Payment). They do not need to login to accountsIQ to do this – they can simply Accept, Accept and add a note or Reject with a Reason. Attached to the email will be a copy of the PO or PI (if there is no PO then a Pro-Forma is automatically created and attached).

System User can then review which PO's and PI's are Pending, Accepted or Rejected.

SORP: Cost Allocation

➢ SORP requires larger charities to **report on an activity basis** which must be done on a full cost basis. Significant activities are those which due to their size or importance are key to the charity in meeting its aims and objectives. Charitable activities may be analysed according to services provided or programmes.

➢ Additionally, the SoFA must distinguish between **expenditure incurred on charitable activities** which contribute to furthering the charity's aims and purposes **and those undertaken to raise funds**.

➢ To ensure that the accounts present the costs of activities fairly the following must be applied:

   ▪ Direct costs to a single activity must be attributed to that activity.

   ▪ Shared costs which contribute directly to more than one activity must be apportioned between those activities.

   ▪ Support costs which are not attributable to a single activity must also be apportioned between activities being supported.

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SORP: Cost Allocation

By using another one of the **Extended Business Analysis** groups, accountsIQ facilitates the simultaneous reporting by activity or by activity within a charity fund, etcetera. You can set up individual activities and assign them to an Analysis Group called "Activity Type". Results can then be easily reported for the charity as a whole or by individual fund within a charity.

Fund Name	Fund Type	Income Type	Activity Type
Charity Fund 1	Unrestricted General	Cash Donation	Food Distribution
Charity Fund 2	Unrestricted Designated	Contract Terms Grant	Hostel Accommodation
Charity Fund 3	Restricted Income	Performance Related Grant	Activity 3...
Charity Fund 4	Restricted Expendable	Goods Donation	
Charity Fund 5	Restricted Permanent	Asset Donation	
Charity Fund 6			
Charity Fund 7			
Charity Fund 8			
Charity Fund 9			

Report 002

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SORP: Donated Goods & Services

Charities are required to **keep stock of Goods donated for re-sale**. Goods donated for resale under the **UK retail gift aid scheme** must have the income estimated based on historical data or some other estimation.

Donated goods for re-sale can be recognised as income when they are sold, although where practical the Charity should try and measure the value on receipt, which is the expected re-sale value less the expected cost of sale.

AccountsIQ has a **Stock Management System** to handle flows of stock: The system operates fully in conjunction with the Sales Order Processing system and the Purchase Order Processing system.

You can operate the **Inventory Management System for both Products (physical items) and Non-Products such as Services**. Or you can operate it just as a Product Price Catalogue without reference to the Inventory Management facilities. You can also operate the system with or without the warehouse location facilities. This Article describes the full functionality of the System.

There is also a **pricing catalogue** that allows you to enter different prices for every item or customer group. The pricing catalogue can also drive internet retail site pricing.

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Multi Company Operation

➤ Alternatively with accountsIQ instead of treating the charity as a single entity with multiple funds, it is possible or perhaps preferable to set up each fund as a separate entity in a type of multiple company environment. In this instance each fund is set up as a separate company with its own individual database and set of transactions, currencies, generals ledgers, stock systems etcetera. It will also have its own individual Extended Business Analysis functionality.

➤ In this instance each fund is accessed by logging into different companies in accountsIQ.

Multi Company Operation

Group accounts and reports in this instance, will be produced using the multi-company consolidation feature of accountsIQ:

➤ Easily consolidate accounts across the group with ability to handle any ownership structure including partial ownership percentages.

➤ Consolidate GL, AR & AP separately or consolidate Extended Business Analytics.

➤ Manage currencies and exchange rates centrally.

➤ View Group results in real-time with drill down capabilities into funds and subsidiaries.

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General Ledger Coding

Charities may have numerous income streams (coffee shops, clothes shops, collections etcetera).

Our unique SQL Database design uses a 3 tier GL Structure consisting of:

> ➤ GL Category
> ➤ GL Sub-Category
> ➤ GL Code

This allows us to have a mapping structure that enables the end users to have separate and individual Charts of Accounts (if required) for every single subsidiary in the Group, but still enabling consolidated accounts to be reported very easily.

GL Category

GL Sub-Category

Chart of Accounts for Subsidiary 1

Chart of Accounts for Subsidiary 2

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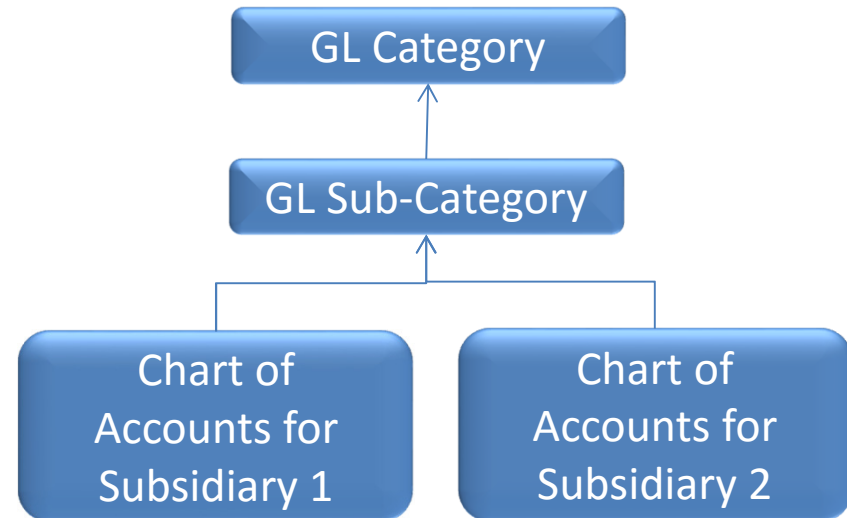
Extended Business Analysis

As an example of **Extended Business Analysis** and it's reporting capabilities let's imagine we designed the system as follows (please note this is only a suggested design – any design implemented would be specific to your needs and requirements):

Fund Name	Fund Type	Income Type	Business Line	Location	Activity Type
Charity Fund 1	Unrestricted General	Cash Donation	Arts Centre	UK National	Activity 001
Charity Fund 2	Unrestricted Designated	Contract Terms Grant	Community Centre	IRE National	Activity 002
Charity Fund 3	Restricted Income	Performance Related Grant	Gift Shop	UK London	Activity 003
Charity Fund 4	Restricted Expendable	Goods Donation	Charity Clothing Shop	UK Liverpool	
Charity Fund 5	Restricted Permanent	Asset Donation	Internet Donation Site	UK Newcastle	
Charity Fund 6			TV Marketing Campaign		
Charity Fund 7					
Charity Fund 8					
Charity Fund 9					

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Extended Business Analysis

Remember, we can still report on (consolidated) Categories, Sub-Categories or Individual Codes, with an ability to drill down to individual transactions. However, with Extended Business Analysis we can also report on any combination of the Analysis Group Codes:
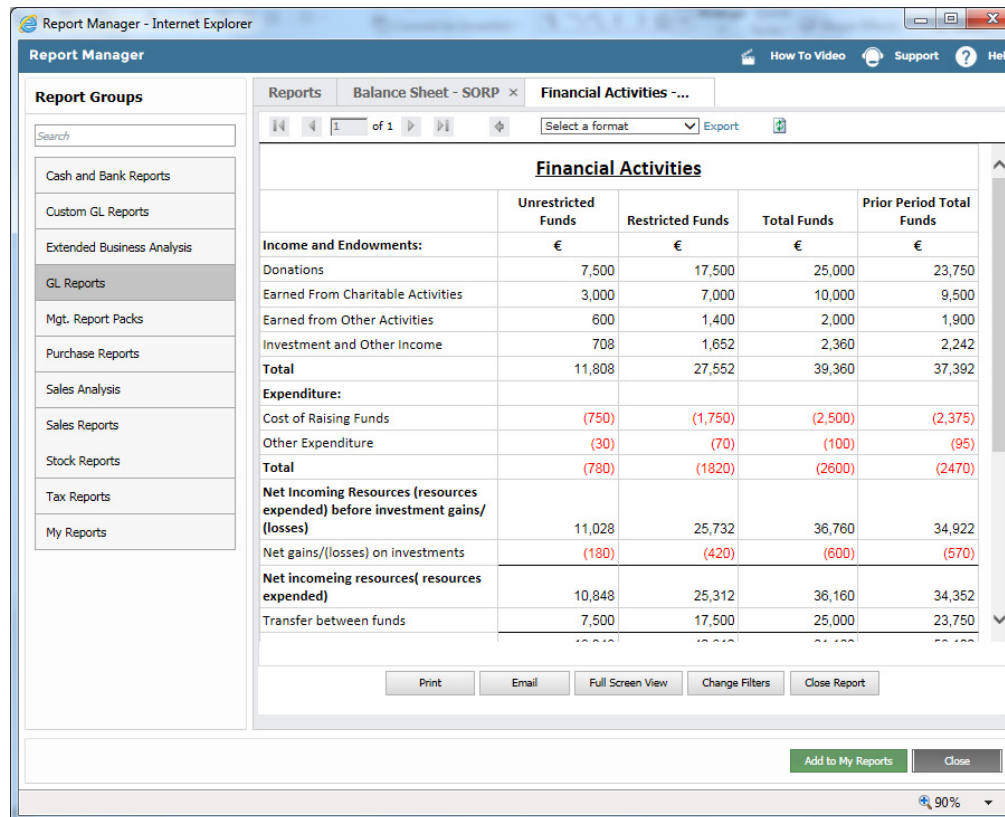

Fund Name	Fund Type	Income Type	Business Line	Location	Activity Type
Charity Fund 1	Unrestricted General	Cash Donation	Arts Centre	UK National	Activity 001
Charity Fund 2	Unrestricted Designated	Contract Terms Grant	Community Centre	IRE National	Activity 002
Charity Fund 3	Restricted Income	Performance Related Grant	Gift Shop	UK London	Activity 003
Charity Fund 4	Restricted Expendable	Goods Donation	Charity Clothing Shop	UK Liverpool	
Charity Fund 5	Restricted Permanent	Asset Donation	Internet Donation Site	UK Newcastle	
Charity Fund 6			TV Marketing Campaign		
Charity Fund 7					
Charity Fund 8					
Charity Fund 9					

Unrestricted Revenue from Charity Gift Shops in London

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Dashboards and Reporting

We can then set specific reports up (or all combination of such reports) as statistics and create dashboards and Key Performance Indicators on these statistics:
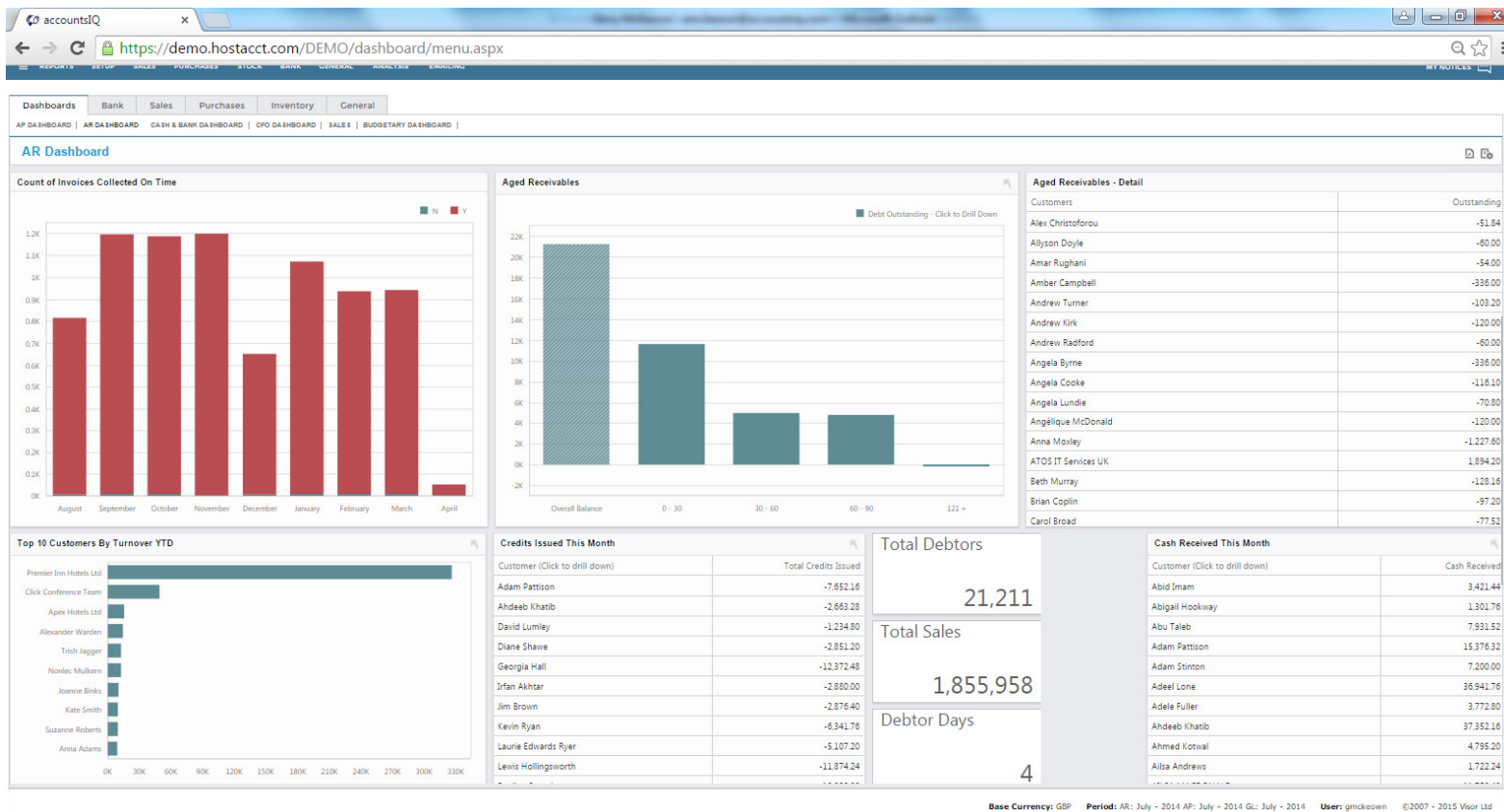
Dashboards and Reporting

In addition to Dashboards, we also have some pre-written reports for SORP reporting of the Balance Sheet and Financial Activities. Other reports can be designed and released as required.

Budget Accounting

Many Not for Profit organisations want to know how much of their budget for the period has been spent or allocated for future spend.

In accountsIQ, as well as reporting on actual versus budget expenditure for the period or year to date, we can also produce this information in a simple Dashboard view that will take into account the following:

Actual Budget for Period - Remaining Budget (including all paid invoices) - Outstanding Posted Purchased Invoices (not yet paid) - Outstanding Approved Purchase Orders (not yet invoiced for) - Outstanding Un-Approved Purchase Orders (not yet invoiced for) = Remaining Budget

This can be done per Department, GL Code or for any one of the Analysis Groups or Codes. In this manner an approver on the system can review this information before approving additional Purchase Orders or Invoices.
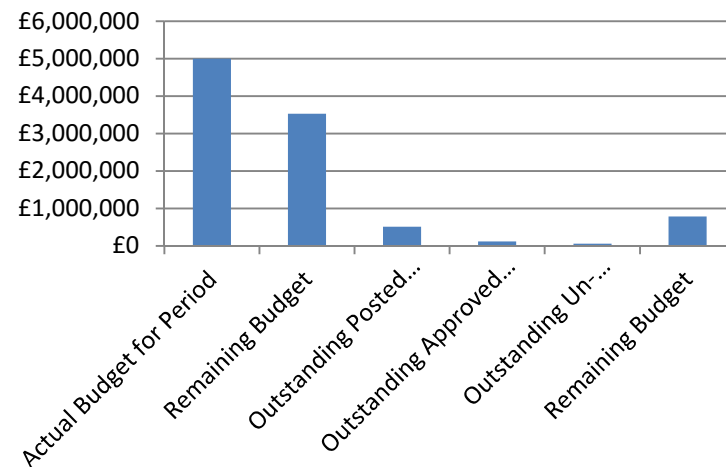
Gift Aid Reporting

To report for Gift Aid there are two reporting methods:

1. Where the number of **donations is less than 1,000** you can populate an Excel Spreadsheet to upload to HMRC Charities Online. AccountsIQ can produce a report that can be directly uploaded to HMRC in these circumstances.

2. For larger numbers of transactions you need to **report using a database**. In many circumstances this database comes from your CRM. AccountsIQ can either integrate into your CRM or produce the database for you.
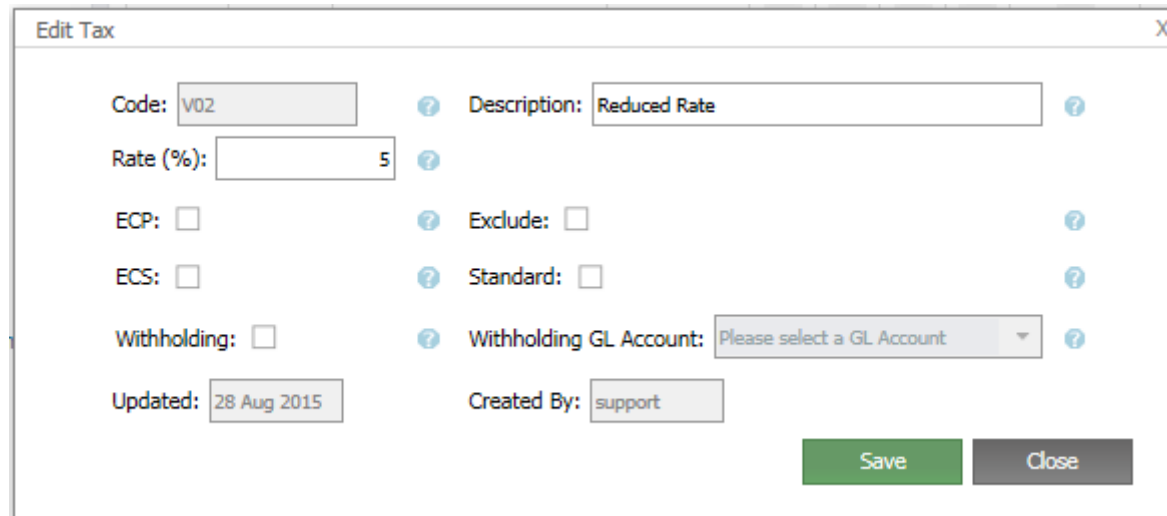
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VAT Reporting

VAT reporting for charities, whereby they need to show the amount of VAT on their transactions even though they do not actually pay any VAT, can be handled by a simple report within the reporting tools. This report will show all items recorded at the selected VAT rate (as chosen by the user).

In addition, when setting up tax rates within the system you can define whether a certain tax code is to be included in VAT returns or not. If it is excluded then this tax code will not be included in the VAT return, but a report on this tax code can be reported on for regulatory purposes.

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# SORP: Multi-Currency Accounting

Charities should normally prepare its accounts in the currency of the jurisdiction of its administration unless it operates predominantly by generating and spending its cash in a different currency.

Where a charity operates across borders, multi-currency capabilities are going to be imperative.

AccountsIQ can **handle any currency.**

Currently operates in **42 currencies** and **25 tax jurisdictions**.

Manage currencies and **exchange rates centrally** for the entire global group.
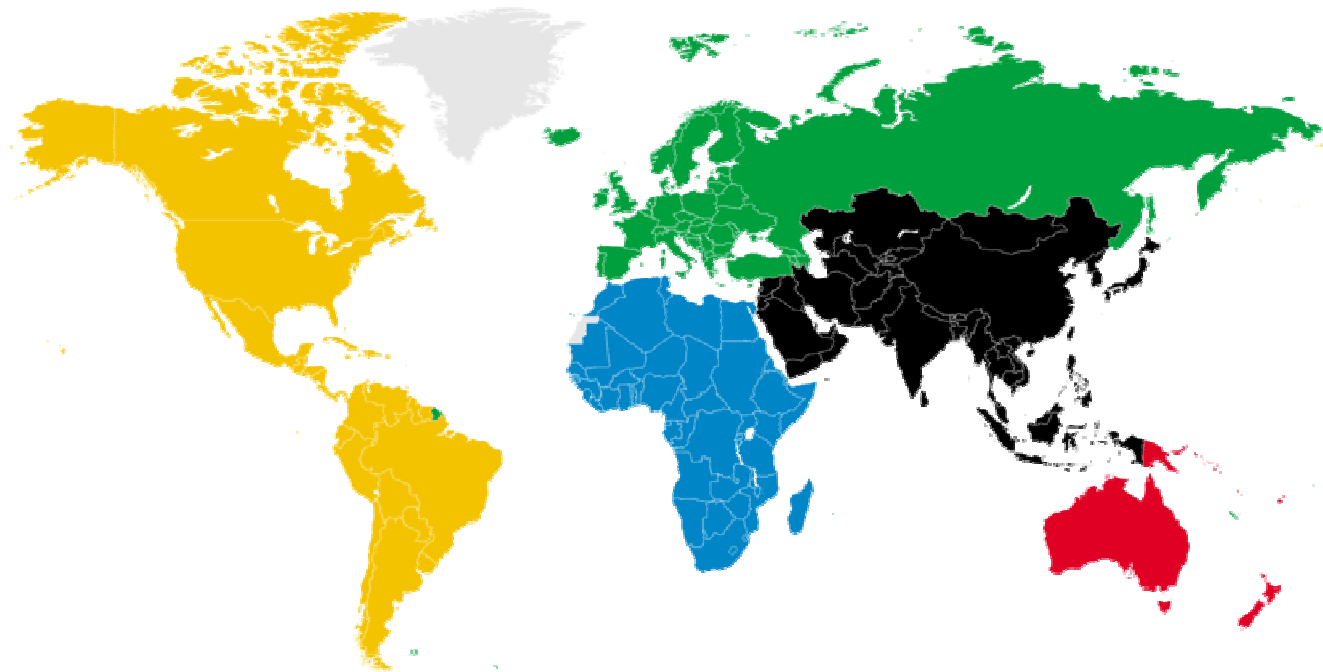
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Integration: Salesforce

AccountsIQ has a unique and **extensive integration** capabilities with Salesforce – the leading CRM system for Charities in the UK.

We have a **good relationship** and many proven integrations covering a wide range of sectors.

Our integrations are **stable and reliable**, ensuring that the overall and complete system is strong.

Once we determine **what level of integration you require** we will then design and build the integration around your needs.

Integration: Other

AccountsIQ has hundreds of pre-written API's for easy integration into other systems such as:

➢ **POS & ePOS systems**
  ➢ We have a proven track record of integrating into Point of Sale and electronic point of sale systems such as Bleep

➢ **Internet retail sites**
  ➢ The accountsIQ product pricing module can be integrated to update prices on your website

➢ **CRM Systems**
  ➢ The customer information can be fully integrated into your CRM system

➢ **Internet Banking**
  ➢ Import Bank statements and auto reconcile. Export electronic payments runs to your bank.

➢ **Microsoft Excel**
  ➢ Easily import and export data from Microsoft Excel (or use the 'Excel Add In' to connect to the database directly from Excel)

➢ **Other accounting systems**
  ➢ Easily import data through our step-by-step Data Importer.

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In Good Company - Charities