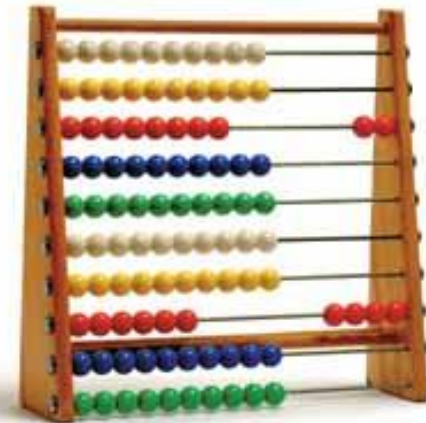


Practical advice on implementing cloud accounting systems in small charities

4th October 2021
ICAEW Webinar

Neal Trup

NEAL HOWARD
Growing Social Enterprises



Benefits of moving to cloud accounting

Conversion from manual/spreadsheet systems

Overall

- Efficiency and (part) automation
- Helps to strengthen governance and improve financial control
- More likely to be up to date and prepare reports as may be needed for management, governance and grant application purposes
- Can attach documents such as invoices, contracts and grant agreements to transactions
Less likely to be reliant on one person as multiple users can be set up and with different access rights
- Grant funders often assess the level of financial control in a charity and having a modern accounting system set up effectively can help to reassure them

Depending on the software choice:

- Allows fund accounting (depending on the software)
- Can be used to support the preparation of both “accruals” (e.g. in line with the Charities SORP), and Receipts & Payments accounts
- Costs are typically from £24 per month (including VAT and charity discount where applicable)

When it might be appropriate

- Will vary, but rule of thumb is where income is over £25k and/or the number of transactions are more than about 15 per month
- Complex model or where there are three or more restricted funds

Planning

Conversion from manual/spreadsheet systems

Governance and people

- Be clear as to who is going to take the lead on the implementation, who will doing the bookkeeping and who will be using the system (e.g. for reports)
- Consult with staff and volunteers who will be impacted. *This is often one of the key challenges with implementing a new system*
- Assess how the new system may impact existing processes and controls (e.g. approvals and other software)
- Some funders provide grants and/or support to charities to help them in the set up of cloud accounting software.

Software choice and scope

- Review of software options and which best meets the needs of the charity
- Will you need additional functionality such as payroll and linking in with payment systems
- Discuss with your accountant / independent examiner where relevant

Timescales

- Generally best to have a conversion date aligned with a new financial year although actual implementation can be done several weeks/months into the new year and then back dated (relatively easily – e.g. by uploading bank transactions).
- If VAT registered, then should be aligned with a tax period if it cannot be with the year end.

Preparation

Coding structures

Decide on the initial coding structure

- Cloud accounting systems are like databases so setting out the coding structure for the chart of accounts (general ledger) and analysis codes (such as for projects/activities and funding) is essential.
- Most systems will have a default chart of accounts or options to choose the type of organisation (e.g. non-for profit). This can help as a basis which can then be tailored.
- In most systems you can decide on your own numbering or coding for the chart of accounts (e.g. “205 Donations” or “4001 Wages”)

Transaction							
Type e.g. bank, sales or purchase invoice, journal	When Date(s)	Who contact	What general ledger code	Where (1) Tracking or analysis code e.g. Activity	Where (2) tracking or analysis e.g. funding	Value £	VAT code

Preparation

Conversion from manual/spreadsheet systems

Agree a date for implementation conversion

- Decide on the accounting conversion date (e.g. beginning of financial year) and the date(s) for actual set up
- Some funders provide grants and/or support to charities to help them in the set up of cloud accounting software.

Data and information

- Opening trial balance (*this should agree to the year end accounts, but can be draft if year end not completed and amended later*)
- Opening balances for all bank accounts and downloaded copies of statements
- Brought forward fund balances
- Unpaid debtors and creditors at the conversion date
- Details of other balances such as loans
- VAT details (where registered)

Implementation

Overview of conversion from manual/spreadsheet systems

Initial settings

- Subscribe to the software (some offer charity discounts)
- Most software will have an easy to follow set up process that you can click through
- Set up the charity details (name, type of organisation company/charity number etc)
- Enter financial settings (e.g. year end, conversion date)

Set up the chart of accounts and coding structure

- Use the default settings as a basis (including a charity one if available) and then amend to your own structure (this could be based on existing coding)
- Set up analysis categories (such as for activities and funding)

Enter the opening balances *(at the conversion date)*

- Use a trial balance or the year end accounts.
- Enter unpaid purchase and sales invoices where using accrual accounts
- Enter opening balances on restricted, designated and unrestricted funds

Import bank transactions *(for the period since the transition date)*

- For most smaller charities this will be the bulk of transactions. If you have internet banking then you can set up a bank feed (most banks) or download a file (ideally OFX or QIF, but could be CSV). Then import into the system
- Reconcile and post the bank transactions

Finally check that the opening balances and bank account figures agree with the actual

Operation

After conversion

Governance and People

- Change can often be challenging for those affected, so it is important to recognise this and provide training and support. There is a lot of free training online from the software providers and on Youtube
- Clarity on roles and responsibilities and the set up of user and access rights, eg read only, posting invoices, bank reconciliation, reporting etc and clarity on roles and responsibilities

Budgets and reports

- Upload budgets. Depending on the software can be for individual grants and projects as well as the organisation as a whole
- There are often a large number of standard reports that can be used /tailored as well as in some software, powerful report writers

Additional functionality – start with the basic, then make use of some of the included features (depending on software), e.g:

- Email purchase invoices into the system
- Purchase orders and invoice authorisation/approval
- Fixed asset register
- Contacts database
- Links with other apps and systems

Example Grant Report

from Xero

Grant Report

Demo Company (UK)

For the year ended 31 March 2021

Funding is RF - Example Trust.

	ACTUAL	GRANT BUDGET	VARIANCE
Income			
Restricted Grants	20,000	20,000	-
Total Income	20,000	20,000	-
Total Income	20,000	20,000	-
Project Costs			
Printing & Stationery	850	900	50
Rent	1,500	1,500	-
Salaries	15,632	16,400	768
Overhead recovery	1,000	1,200	200
Total Project Costs	18,982	20,000	1,018
Unspent Grant	1,018	-	(1,018)
Carried Foward	1,018	-	(1,018)

Example Grant Report

from Xero

Demo Company (UK)
All Fundings
1 April 2020 to 31 March 2021

	RF - Example Trust	UF - Unrestricted	Unassigned	Total
Income				
Other Revenue	-	-	3,500	3,500
Restricted Grants	20,000	-	-	20,000
Sales	-	-	11,621	11,621
Total Income	20,000	-	15,121	35,121
Gross Profit	20,000	-	15,121	35,121
Less Operating Expenses				
Audit & Accountancy fees	-	-	47	47
Bank Fees	-	-	15	15
Consulting	-	-	1,800	1,800
Entertainment-100% business	-	-	13	13
General Expenses	-	-	4,308	4,308
Light, Power, Heating	-	-	1,075	1,075
Motor Vehicle Expenses	-	-	124	124
Overhead recovery	1,000	(1,000)	-	-
Printing & Stationery	850	-	274	1,124
Rent	1,500	-	1,969	3,469
Salaries	15,632	-	-	15,632
Subscriptions	-	-	1,220	1,220
Telephone & Internet	-	-	37	37
Travel - National	-	-	29	29
Total Operating Expenses	18,982	(1,000)	10,911	28,893
Net Profit	1,018	1,000	4,210	6,228

Example Grant Report (Capex)

from Xero (cash summary)

Demo Company (UK)
RF - NH Grant
For the month ended 31 March 2021
Including VAT

	Mar 2021	Feb 2021
Income		
Restricted Grants	-	15,000
Total Income	-	15,000
Less Operating Expenses		
Consulting	1,800	-
IT Software and Consumables	916	-
Total Operating Expenses	2,716	-
Operating Surplus (Deficit)	(2,716)	15,000
Plus Non Operating Movements		
Leasehold Improvements	(12,000)	-
Total Non Operating Movements	(12,000)	-
Net Cash Movement	(14,716)	15,000
Summary		
Opening Balance	15,000	-
Plus Net Cash Movement	(14,716)	15,000
Closing Balance	284	15,000

Example Activities Report

from Xero

Demo Company (UK)
All Activities
1 April 2020 to 31 March 2021

	Advice services	Core	Counselling	Support Project	Unassigned	Total
Income						
Other Revenue	3,500	-	-	-	-	3,500
Restricted Grants	-	-	20,000	-	-	20,000
Sales	1,284	3,951	451	934	5,000	11,621
Total Income	4,784	3,951	20,451	934	5,000	35,121
Gross Profit	4,784	3,951	20,451	934	5,000	35,121
Less Operating Expenses						
Audit & Accountancy fees	-	-	-	-	47	47
Bank Fees	-	-	-	-	15	15
Consulting	-	-	-	-	1,800	1,800
Entertainment-100% business	-	-	-	-	13	13
General Expenses	-	-	-	-	4,308	4,308
Light, Power, Heating	-	-	-	-	1,075	1,075
Motor Vehicle Expenses	-	-	124	-	-	124
Overhead recovery	-	-	1,000	-	(1,000)	-
Printing & Stationery	-	-	850	-	274	1,124
Rent	-	-	1,500	-	1,969	3,469
Salaries	-	-	15,632	-	-	15,632
Subscriptions	-	-	-	-	1,220	1,220
Telephone & Internet	-	-	-	-	37	37
Travel - National	-	-	-	-	29	29
Total Operating Expenses	-	-	19,106	-	9,787	28,893
Net Profit	4,784	3,951	1,345	934	(4,787)	6,228

Research

Enhancing Digital & Financial Capabilities in Community Businesses (May 2021)

In research carried out for Power to Change, this report outlines eight key opportunities to enable community businesses to improve their ability to manage their financial situation or progress with digital.

[Our-Potential-Becoming_-Enhancing-Digital-Financial-Capabilities-in-Community-Businesses.-Nissa-Ramsay-for-Power-to-Change-2021.pdf \(powertochange.org.uk\)](#)

Creating Resilience (CAF – Sept 2021)

This report sets out how funders can help strengthen small charities including supporting improvements in financial management and move to effective accounting systems.

[Creating Resilience](#)

Smaller Charities and SORP (Diarmuid McDonnell – Sept 2021)

This research analysed the accounts of more than 12,000 smaller charities and direct surveys of 425 as well as 125 accountants and independent examiners. The reports provides evidence of practice and views from the sector on charity accounting and to provide views and evidence for potential changes to the SORP and feeds directly into the formal engagement process for the review and revision of the SORP.

[Smaller charities, SORP and issues of financial accounting and reporting | Institute for Community Studies \(icstudies.org.uk\)](#)