Briefing Papers

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GIFTS IN KIND

A: I start with an extract from Sayer Vincent's Guide to Charity SORP *(with a couple of minor changes)* ***setting out the legal requirements:***

Charities sometimes receive goods as donations, rather than cash. The value placed on gifts in kind included in the SoFA should be the estimated value to the charity of the gift received. Current value will usually be the price that it would have to pay in the open market for an equivalent item.

Where gifts in kind are recognised, an equivalent amount should be included as expenditure under the appropriate heading in the SoFA. Gifts in kind can take several forms:

1. Buildings and major equipment donated for the charity's own use – these are tangible fixed assets and need to be shown as an addition to fixed assets and depreciated in the same way as assets bought by the charity. As well as recognising the asset, the charity would recognise the same amount as an incoming resource in the SoFA in the same accounting period. If the asset forms part of a restricted or designated fund of the charity, the depreciation would be charged against the fund.

2. Equipment or supplies for the charity's own use – smaller items of equipment or supplies to be used in operational activities. For example, a company or individuals may donate food to a charity helping people in need.

3. Goods donated to charity shops or similar – the income should be recognised at fair value at the point of receipt, so at the sales price less any costs to be incurred to sell the item. **If it is not practicable to value donated goods when they are received, you should wait and account for the cash received once the goods have been sold or disposed of.**

4. Goods for distribution – such as overseas development charities receiving donated goods which they then distribute to beneficiaries overseas. **Again, these should be recognised at fair value at the point of receipt unless not practicable to do so and should be recognised on the balance sheet as stock with the corresponding entry as a donation. When the goods are distributed,** the stock is removed from the balance sheet and expensed in the SoFA. Donated services should be included in the SoFA as both income and expenditure, by including the value of the gift under donations and the relevant cost heading. Donated services should be

included in the SoFA where the benefit to the charity is quantifiable and measurable and should be valued at the value to the charity. *Volunteer time is not recognised in charity accounts, although it should be included in the trustees' annual report.*

B: My thoughts on the issue of showing Gifts in Kind in the accounts

An AFVS member asked me a question on this issue recently. I gave a quick reply which wasn't considered. After further discussion I thought I'd better look into it a little more.

I checked with an independent examiner that I trust; his view on it all was very relaxed and he pretty much left it to the client to decide on how to show gifts in kind, or even whether to.

SORP however is very clear that gifts should be shown. A client I spoke to informed me that there was no way they could do this without a considerable increase in administration which they couldn't possibly afford, time wise or cost wise. I sympathised; but rules are rules. So I did some research. I selected 10 charities which had significant gifts in kind in their operation, and reviewed their latest accounts on the Charity Commission website, looking particularly at their treatment of gifts in kind.

This is what I found: only 1 out of the ten had filed a set of accounts that wasn't flawed. Lots of errors, some serious, some less so. As far as gifts in kind were concerned some ignored them entirely, some included them into receipts and payments accounts which should only show cash. I found just 3 charities that had dealt with gifts in kind by the book. (One of those was an audit job where you would expect things to be done properly.
So there we are; my small survey showed every likelihood that a majority charities that had gifts in kind had no idea how to play it.; neither apparently did their independent examiners. (Oh and I found 2 charities that didn't have proper examination certificates!)

WHERE DOES THAT LEAVE US

The sentences that I emboldened in Sayer Vincents notes contain the answer. If it isn't practicable to value the goods when received, value them at the point of disposal. Most charities will have good measuring systems of what they give out, so they can paint the picture to their funders, donors and other supporters in their annual report. It really is simply a case of working out a simple way to put a money value on the units given out.

A good example is The Trussell Trust which encourages their food banks to weigh what is brought in and given out. They have calculated an average price for a typical kg of food goods. So at the end of the week they know how much weight of food they have distributed and a simple sum gives the cash value. A year end adjustment to the accounts and the job is done. (I'm speaking here to small to medium charities, below the audit threshold)

This may not work out so easily for a charity that gives out clothing. We have to find a simple measuring system that will work without lots of administration. There may be new goods and second hand goods (which may not have a value anyway). Record keeping must be simple and understandable or it will quickly break down.

This briefing isn't going to be able to give any simple answers; different charities will require different solutions. I'm very happy to work through your specific situation and help you come to a solution that works. It will of course have to be agreed with your independent examiner who may have his own thoughts.

If yours is a small charity you can maintain simple receipts and payments accounts which will ignore non cash items. However you still need to show your closing stock as an asset at the year end (something ignored by most of the charities I reviewed. I think a stock reconciliation would be a sensible idea; it would show you if you have any slippage.

CONCLUSION

If you haven't been showing gifts in kind in your accounts I shouldn't worry too much, you're in good company. That said, it's sensible, now you know about it, to set up a simple system that will put a monetary value on the gifts you receive. It will strengthen your accounts and that's always a good thing. Systems will vary from one charity to another depending on specific situations. If you need help on agreeing a monetary value for your gifts in kind, send me an e-mail; I'd be glad to help.

When you've agreed how you will handle all this, the procedures should be written into your financial procedures manual, and minuted by the trustees to be reviewed annually, or whenever there's a material change.

Daryl Martin – April 2019
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