stewardship®

transforming generosity

# Accounting packages for churches and small charities

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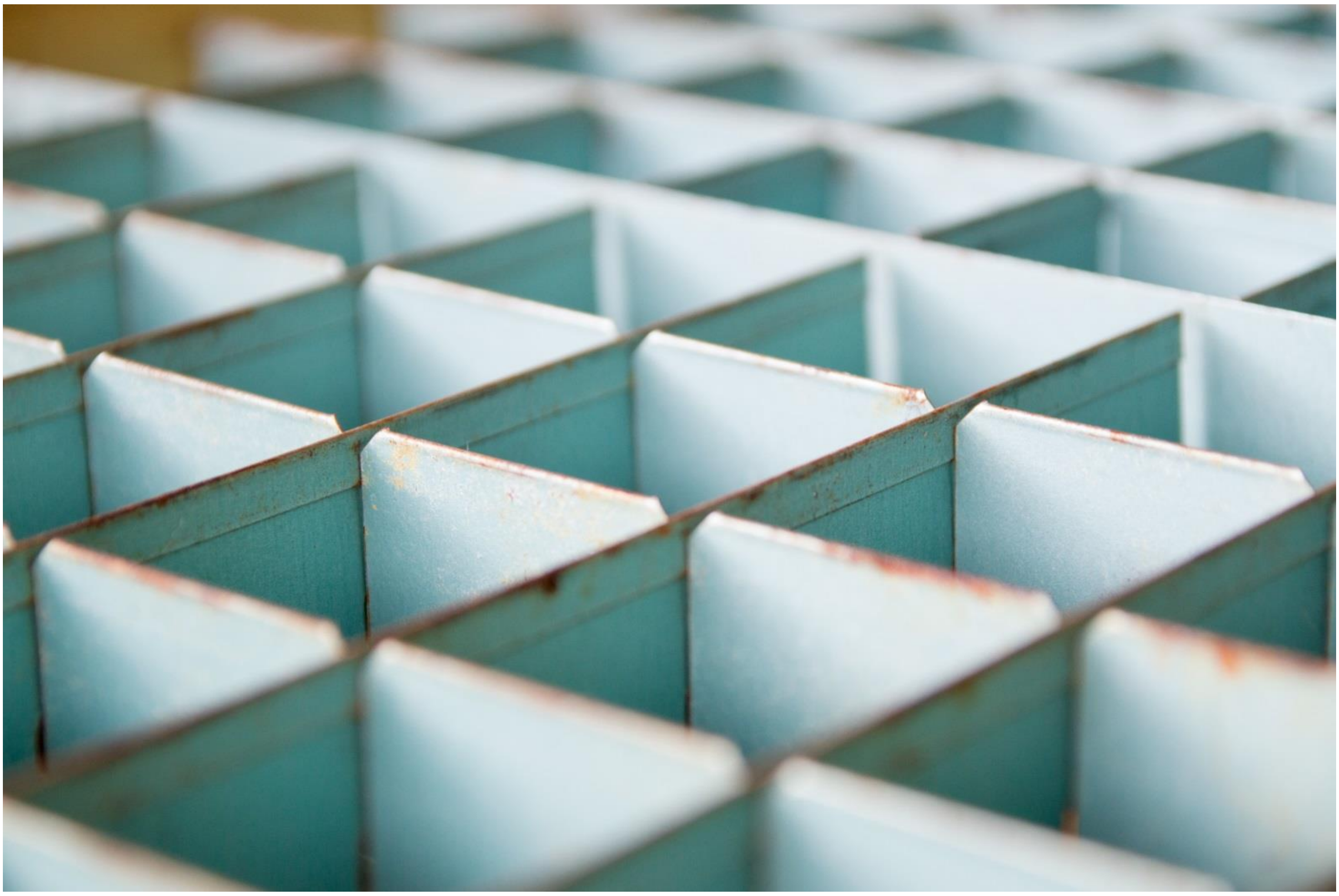

## Stewardship Briefing Paper

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This Briefing Paper and others like it are provided free of charge and help a great many churches and charities. Their development involves many hours of dedicated professional expertise both from within and outside of Stewardship. They are provided at our own cost as part of our mission to equip you.

If you find the material in this Briefing Paper to be of value, we would invite you to respond in the following ways:

- Subscribe to receive our email bulletins at our website, www.stewardship.org.uk; and
- Tell others in your church or charity about our resources.

If you regard the material to have been of particular help and significance to you in your work (for example using it to inform a church or charity group/network) perhaps you would consider making a financial gift to Stewardship in appreciation (though please feel under no obligation).

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## table of contents

# About Stewardship

**Our vision**

Our vision is for the world to encounter Jesus through the generosity of His church. We do this by:

- Making giving easy
- Inspiring greater generosity
- Strengthening Christian causes

Since 1906, Stewardship has been helping the Christian community in the UK to give and receive. We love making giving easy and help over 25,000 individuals to give around £60 million each year, to our database of over 19,000 charitable causes.

We are committed to strengthening Christian causes, by offering practical, tailored support to help Churches and Christian charities to transform the world.

And we inspire greater generosity from this community too, through our wealth of resources, courses and campaigns for individuals and churches alike, including the multiple award winning 40acts campaign and website.

# 1 Introduction

We are often requested to provide advice on accounting software packages for churches and smaller charities. Generally our first comment is that there is no single solution that best fits every situation and that each church or charity needs to think about its own requirements and what it is looking to achieve before making a choice.

It is also important to note that there is no solution which will negate the need for some dedicated time in training, setting up and understanding your chosen system. As independent examiners, we would prefer to receive records from a client using a relatively 'simple' system effectively, by correctly understanding it and using it confidently, than from a client who has purchased the latest 'high spec' software, but doesn't know how to use it!

Some of the factors which come into play when selecting the way forward include:

- The accounting experience of those who will use the system;
- The number of different users and their geographic locations;
- The extent to which users have access to computers and the internet;
- The size of the charity/church and the complexity of its finances;
- The type of information needed by the leaders/trustees to manage the finances;
- The cost and what is already available.

By and large, churches and charities tend to hold their financial records either on spreadsheets or on an accounting package.  Manual records are perfectly acceptable but have severe limitations and as we now see them so rarely we will not cover them in this paper.

**Training and set-up**

We cannot stress enough the importance of adequate training and correct set-up, regardless of what option you choose. For a system to work effectively for your charity, it is essential that the initial set up is done properly and that those people inputting and using the data are confident in what they are doing. This is just as true for spreadsheets, as it is accounting packages, where the phrase 'good working knowledge of Excel' can mean very different things to different people.

We believe a 'team' approach to finance is essential to ensure good, consistent financial management, so you will need to make sure all those operating the system are adequately trained and equipped. Remember, choosing a solution is only part of the process – selecting a package that can handle fund accounting, without knowledge of how to set up the various funds and use throughout the year, will not result in clear or helpful financial data. Rubbish in, undoubtedly leads to rubbish out!

## 2 Spreadsheets

We still see many smaller, less 'complex' churches and charities making very good use of spreadsheets as the basis for keeping accounting records, with over a third of our clients opting for this solution. Spreadsheets have a number of advantages including:

- They are cheap and readily available to most people;
- They are intuitive to use, and should therefore require little training;
- They are flexible and can generally be easily adapted to fit the particular circumstances of the church or charity;
- They are powerful where set up by an experienced user, although this can cause problems for less experienced users later;
- They can normally be easily shared amongst a number of people via e-mail or through other means.

However, spreadsheets also carry some disadvantages including:

- They are not really suited to churches and charities which operate a number of bank accounts, restricted and designated funds, or which run a number of projects.
- They do not easily handle "accruals" accounting and are therefore generally more suited to receipts and payments accounts. Having said that, a reasonably experienced user will be able to make the adjustments necessary to accommodate accruals accounting with little difficulty;
- Each user tends to "build" spreadsheets in their own style and therefore it is not always easy to pick up and use a spreadsheet designed by somebody else. This applies equally when using a template obtained from another business or similar charity.
- As they are reliant on formulas, unless the formula cells are well protected, spreadsheets tend to be more error prone than accounting packages.

On balance, we believe that the flexibility offered by spreadsheets can make them a good solution especially so if your church or charity operates with a limited number of funds or bank accounts and has people which understand how to use them.

# 3 Accounting packages

For larger, more complex organisations, it may be appropriate to move away from spreadsheets and make use of an accounting package. The main advantage of accounting packages is that they are specifically designed for the job in hand, so normally a single entry will deal with all aspects of a financial transaction. This tends to mean that packages provide a more comprehensive way of handling the accounting process, particularly when it comes to multiple funds and multiple bank accounts. However, we continue to caution that the software is only effective if used correctly and set up properly to ensure the 'single entry' is allocated to the correct place.

Most packages also have the ability to "drill down" into individual transactions and to produce various tailored reports as required, even up to providing a pro forma profit and loss account and balance sheet and often some form of cash flow statement

These fundamental aspects often make accounting packages the "solution of choice" for larger or more complex churches and charities and with more packages becoming available, there is likely to be a package that offers a good solution for you. However, for smaller churches and charities, the additional complexities generally associated with accounting packages and which we outline below, make the benefits to switching from a good, well constructed and understood spreadsheet more marginal.

Despite these advantages, accounting packages are not a panacea and also have disadvantages of their own including:

- To be set-up effectively, they tend to need a little more accounting knowledge than for a spreadsheet including an understanding of fund accounting and a chart of accounts;
- They can sometimes appear "scary" to inexperienced users who will often require a more in depth level of training to overcome that fear, which can result in it being a block to people volunteering to serve in this area;
- Depending upon whether you make use of a "cloud" based package, it may be that you need multiple copies, or a multiple licence for more than one user;

These complexities mean that smaller churches and charities should think twice before switching from a spreadsheet to an accounting package. The benefits of accounting packages will only become evident if they are set-up properly and used effectively. The cost of training should be seen as an integral part of the total cost of the package and not something that can be ignored or worked around.

Before moving on to look at some of the accounting packages that we more commonly see, there are two general distinctions which are worth considering:

**Charity package vs. commercial package**

Some packages have been designed and written specifically for the charity market whilst others started life more commercially oriented and have been adapted or modified to fit the charity sector. Generally speaking, specific charity packages have more charity functionality built in than commercially oriented packages and as such are normally better able to handle fund accounting and Gift Aid.

However many of the packages designed for small businesses can be effectively used with various 'workarounds' and should not therefore be dismissed particularly as given their scale of operations, the commercial packages tend to have considerably more time and money invested in them which can lead to a slightly 'slicker' feel.

**Cloud based vs. server or desktop based**

In recent years, we have seen a significant growth in cloud based packages with new entrants coming onto the market and established suppliers offering cloud based solutions as an alternative to the more traditional desktop or server based packages. Cloud based simply means that the programme, and therefore your data, is stored externally and accessed from the internet, rather than from your computer's hard drive.

A cloud based solution has two main advantages:

- They can normally be accessed by multiple users (including your accountant or independent examiner if desired) from any computer with internet access;
- They will be professionally backed-up, removing that task from the church or charity. Having said that, securing and safeguarding accounting records remain the responsibility of the trustees and as such trustees will have a responsibility to carry out sufficient due diligence to satisfy themselves that this is being done.

However, many desktop packages allow multiple users on different computers, so data inputting and access does not have to be limited to one person. More recent developments have also seen desktop programmes utilising the cloud for backup purposes too. It is also worth bearing in mind that as cloud computing is still relatively new, it can feel like uncertain territory for many, and therefore convincing an entire church finance team to 'go online' may not be easy. There is no point having a slick online package if you don't have a team fully committed to using it!

## 4 Commonly used packages

As part of our role as independent examiners, we get to see accounts maintained on a number of different systems and in this paper we have reviewed five of the accounting packages which we see most often. Each has different features and functionality and we are not setting out to recommend a particular package but rather to give you a flavour as you start your own research. We intentionally do not go into extensive detail, as products are constantly changing and most packages have various versions which contain different functions.

We would always recommend contacting the various providers directly to find out what features are available in any given version. The information presented is our understanding at the time of writing and likely to be changing regularly as time passes.

Here is a list of commonly used packages (in no particular order):

**Finance Co-ordinator**

Finance Co-ordinator (FC) remains one of the most commonly available products specifically designed for churches and charities. It is produced by Data Developments, who have been providing software for churches and charities since 1985, and at the time of writing it has over 5,000 users.

It is currently a purely desktop-based package, however regular back-ups can be stored on 'the cloud' for security, and it is unusual in allowing one licence to be used on as many computers as needed, so long as it is for the same organisation. As with all software packages FC include some 'free' support and there is the option for further training sessions in various UK locations to help with the start-up or running.

Being specifically designed for charities, FC exhibits those general functionality advantages mentioned earlier. It is designed to handle 'special funds' (i.e. restricted, designated and endowment funds) and has a selection of pre-designed account structures for various different denominations and organisations. It can produce budgets for the current and following years and allows you to create memorised and template transactions, making the day-to-day use of the program easier and quicker. It can also be used in conjunction with Donations Co-ordinator to help manage your Gift Aid reporting requirements, including claiming under GASDS (Gift Aid Small Donations Scheme).

According to FC's own website, it allows you to automatically produce a paginated Trustees' Annual Report as a word document and claims to produce all the required reports for compliance purposes, in a range of formats. However, this does not account for the additional disclosures required under SORP FRS102 (e.g. donations received from trustees and connected parties) and at the time of writing it also does not seem to produce the required detailed SOFA comparative. So a full set of SORP compliant accounts cannot simply be produced at a click of the button!

It does have a slightly 'old school' feel to it and some may find it less user-friendly compared with some of the latest online accounting packages, however users may find the facilities as described above outweigh these minor issues.

**Paxton**

Paxton is another accounting system designed specifically for the charity sector and one that we see being used by a small number of our clients. The company has been in existence since 1979 and is based in Bedford. Its website claims it to be the UK's only 'end-to-end' accounting software for churches, but from what we can see it offers similar functionality to Finance Co-ordinator (see above). However, unlike Finance Co-ordinator, a multiple user licence is required for multi access, although the system is available as both a desktop and online version.

Paxton offers a donor ledger or register enabling you (if you want) to maintain a database of your donors recording their address and Gift Aid status. Paxton is able to use this information to construct the necessary Gift Aid documentation required by HMRC. From experience, making use of this register does require spending some time 'up-front' and with Gift Aid templates offered on-line by HMRC, the benefit to having an accounting package produce Gift Aid returns is perhaps marginal.

As a charity package, it is again able to handle multiple funds providing a fund code for income and expenditure in addition to the normal expense and department codes. Reports can be run by fund and can include budgets where these have been entered. Paxton is also able to provide reports that are compliant with the reporting layout requirements of Charity SORP 2015 FRS102, but as with Finance Coordinator, and other packages, this does not mean full SORP compliant accounts can be produced automatically.

The package offers a relatively easy to set up and use solution for those churches and charities which are seeking to upgrade from a spreadsheet approach. There are on screen help guides which explain and demonstrate the various functions and a support phone line which is available as part of the subscription.

There are currently two versions of Paxton; Standard and PRO. The most significant differences to note is that PRO is not suitable for receipts and payments accounts, but does offer additional features such as sales ledgers and invoicing with the option to do 'project accounting' which may prove useful if you run a number of projects.

**Quickbooks**

QuickBooks, the 'larger brother' of Quicken, is produced by Intuit (founded in 1983), and at the time of writing claims to have 700,000 users world-wide. In recent years there has been a significant shift in focus to their cloud-based software, both in terms of development and support, with a clear push to transfer customers away from the desktop versions. The price increases and lack of development for the desktop version means it is unlikely to be a cost-effective choice for new clients although some of our clients are existing users.

QuickBooks is primarily aimed at the small business market, but can be used effectively in the small charity sector with the ability to report income and expenditure 'by class' allowing you to manage various funds.  Within QuickBooks Online, this feature is currently only available in the more expensive version 'Plus' and not the simpler, 'Essentials', although you may find many of the additional 'Plus' features superfluous to the needs of your average church.

It is a comprehensive accounting software package that is being continuously developed to include more and more time-saving features such as the option to set up recurring transactions, customise reports and download bank statements automatically. The updates and new features are included in the monthly subscriptions along with free phone and web support , and, for the 'Plus' version, access for up to 5 users.

It is clear and user-friendly and easily navigated by those who aren't necessarily accountants, although some understanding of ledger and double entry systems is definitely an advantage. As you would expect, it includes the option to create budgets and compare to actual figures and can produce a variety of different reports.

**Xero**

Xero is a relatively new entrant into this field (at least as far as Stewardship clients are concerned). The company was founded in 2006 in New Zealand and offers cloud-based accounting software designed primarily for small businesses. Xero's website states that it supports more than 850,000 clients (still growing strongly) and claims to lead the UK's cloud accounting market.

Xero uses language that is more straightforward and less jargon-based than some other accounting systems e.g. "bills that you need to pay" rather than "creditors" etc. and allows for the uploading of bank statements for quicker and semi-automated bank reconciliations. These are both plus points for many small churches and charities that may well rely on volunteer bookkeepers and treasurers to maintain their accounts and "Xero TV" offers some on-line training to get you up and running.

As with other commercially oriented systems the big downside for charities is that there is no specific funds analysis available, which may be a problem if you are a charity which makes use of a number of designated or restricted funds. However, like other commercial providers, there are 'workarounds' available, in this case by either 'tracking categories' or setting up specifically numbered codes for funds. It is likely that this may become more complicated should you operate several different funds, but should not pose too much of an issue for one or two. Because charities are not the target market, Xero is unable to produce Gift Aid returns, although taking the data and manipulating it via spreadsheets means that this is not a significant issue.

**Sage**

Sage is perhaps the most well-known and most widely used commercial accounting system available for small and medium sized companies in the UK. It has more of an accountancy "feel" about it (for some this is reassuring, for others quite daunting), and until relatively recently it suffered from the problem that all commercially oriented accounting software systems have in that it could not handle funds particularly well.

There is a charity specific version available on a disk for a one-off fee, but it is limited to one user and our understanding is this is not going to be supported for much longer. However, the current 'Sage 50c Standard' version (not 'Essentials') offers charity functionality that allows for recording and reporting transactions by fund and for the production of financial reports that are designed to help produce SORP compliant accounts. In the same way as Paxton, it includes a donations database in the form of a donor record card.

Once completed, the data included in these record cards can be accessed to compile the supporting documentation required for a Gift Aid claim. Whilst the versions are currently desktop based, there is cloud accessibility and storage. As with all the sage software products, data can easily be imported or exported to or from Excel so as to make use of spreadsheet functionality if that is what is required.  The underlying structure and operation of the software is essentially the same as for any other Sage product and so anyone with Sage experience will find the package "familiar".

The additional charity functionality provided by the charity version makes Sage a realistic contender particularly for churches and charities which have access to someone with Sage experience.

We would however suggest that to make the most of the product, you attend one of Sage's training events preferably before you get started to ensure that you set your charity up in the best way possible.

# 5 Pricing

We have deliberately not included specific pricing for the products above, but at the time of writing there are significant differences between the various products. However, it is worth remembering that the cheapest solution may not necessarily be the most appropriate. Below are a number of questions to consider when looking at pricings:

- **Have I got the right version of the product?**
  The cheaper 'simpler' versions do not always have the full charity functionality, but some of the more expensive products may have functionality surplus to the needs of a small charity.
- **How many users do I need to have access to the data?**
  Some products require additional licences to be purchased, whilst other have a certain number included in the fixed cost.
- **Does your budget allow for a one-off payment or would a subscription - be it monthly or quarterly – better suit you?**
  Cloud-based products are predominantly subscription only, with many desktop versions also moving that way.
- **Does the price include comprehensive support and upgrades?**
  Most subscriptions do, but check what is included in the price.
- **Do they know you are a charity?**
  It is always worth phoning the developer directly to see if they offer a discount for charities
- **Do they offer other discounts?**
  Some providers may offer a discount for paying for a year in advance.

## 6 Conclusion

Whilst we have provided a flavour of those packages that we see most often among our own clients, this is by no means an exhaustive list of what is available in the market place and before you take the plunge we strongly suggest that you do some research of your own and see what solution is best for you.

Whichever route you go, be it spreadsheet or accounting package, our last and perhaps most important word of advice is to reiterate the value of spending enough time up front in planning, training and set-up to ensure that the financial data you end up with is clear, relevant and useful to you.

## 7 Contact us

For further help or information, please contact us on 020 8502 8570 or email accountexamination@stewardship.org.uk. You can also visit our website at stewardship.org.uk.