

ACCOUNTING BY CHARITY

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CHAPTER I

INTRODUCTION..

1 - Background of study

Para 11 Part 2 of ED 38 Accounting by Charities :

A charity is any institution established for charitable purposes only where the institution is involved in more than one activity , operates in more than one fund or is not centralised into one unit of operation , the term is intended , for the purpose of this statement , to incorporate all those activities and funds which fall within the scope of a single governing instrument and ...

In the case of Income Tax Commissioners vs Pemsel , Lord Macnagthen¹ has classified the charitable trust under four headings :

- a) the relief of poverty .
- b) the advancement of education .
- c) the advancement of religion .
- d) other purposes beneficial to the community .

Nowadays there are many organisations that are established with their own purposes and objectives in order to help those in need in the community . According to Roger Gray (1989)² :

... there are 165,000 charities on the Charity Commission Register . And between them they have an annual turnover in excess of £13b . New registrations are being submitted at a rate of 4,000 a year or ...''

An increasing trend shown in the growth of the charitable organisations create some problems to the IASC , trustees and charity commission . The absence of the standards was a main problem to the charities in preparing their accounts .

There are no coherent guidance and recommended format regarding the Accounting by Charities . It has been accepted that the income and expenditure account is more appropriate for organisation not having a profit aim . But some writers proposed that charities should prepare the operating and fund statement . The operating segment is equivalent to profit and loss account and the fund statement shows how funds have been raised and how they have been utilised .

Even after the introduction of SORP 2 Accounting by Charities , there are still problems because it is not mandatory for the charity to use the recommendations . Charities are only encouraged to follow the recommendations and also encouraged to disclose