# Tips and advice on preparing parochial church council accounts

**The preparation of accounts that reflect the finances of a Parochial Church Council is unique in itself but throw into the mix 'who owns what', and complex rules on what can and cannot be capitalised, means accountants need to be careful. Helen Ford FCCA, accounts senior at Butler & Co explains**

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When it comes to preparing parochial church council accounts, capitalisation is one of the major risk areas to watch out for. Careful consideration is required when considering the financial reporting of any improvements or maintenance costs incurred to the fabric of the parish church building itself. Other buildings which are separate from the church itself, ie, church rooms or a centre are excluded from these considerations.

This dilemma will impact all church accounts produced by the Parochial Church Council (PCC) as the executive committee of a Church of England parish. The PCC consists of clergy and church wardens of the parish together with representatives of the laity.

Legally, the Council is responsible for the financial affairs of the church parish and the maintenance of its assets such as churches and church halls.

### What is in and out of accounts?

The first question is what is included in the accounts. When property has been consecrated it is set apart solely for sacred purposes for all time. This is put into effect when the local Bishop signed the sentence of consecration.

In the case of ancient parish churches, consecration is presumed. It is only when consecrated that a building becomes in the eyes of the law a church. The accountant and auditor must understand this distinction.

The Church itself is not owned by the PCC but a separate body and therefore will not appear on the balance sheet of the PCC accounts.

The guidance is laid out in the Charities Act 2011 and also the [PCC Accountability guide] which can be downloaded. The following explanation is taken from the guide to help with understanding:

*7.2.6 Land and Buildings*

> *Benefice property (eg, parsonage houses) will appear as assets of the Board of Finance and therefore will not be in the accounts of the PCC.*
>
> *Where a parish has other buildings, the legal title to these which are vested in a diocesan body on as custodian trustee (PCC are the managing trustees). As fixed assets of the PCC which are held for continuing use in its work, these should all be included in the Balance Sheet and shown under the appropriate fund heading to indicate which fund they belong to.*
>
> *Consecrated land/buildings and equipment are not included in the financial statements by virtue of Charities Act 2011. In law 'consecration' is not considered to be the same as 'dedication' as the latter is no more than an expression of pious intention that the building or land is given back to God. By act of consecration, property is effectively dedicated to God and set aside solely for sacred purposes.* ***Costs associated with the maintenance or improvement of such assets will be written off in the year they are incurred.***

## Treatment of capital costs

One of the key responsibilities of the PCC is to improve and maintain the parish church and the associated buildings. It comes as a difficult concept for many members of the PCC that they are raising money to improve their beloved parish church but cannot capitalise the work.

However, the PCC can capitalise improvement to the assets of un-consecrated buildings that they own.

The impact on the accounts of the PCC finances means that costs which have been incurred in the maintenance or improvement of the parish church cannot be included within fixed assets but should be written off to the Statement of Financial Activities (SoFA) in the same year end.

### A note of warning: it is possible that some work has been capitalised in the accounts in previous years and needs to be adjusted

Some of these costs can be quite considerable, but the urge to capitalise must be avoided. Any moveable items that are installed in the church, ie, chairs or a new sound system for the services can be capitalised as these belong to the PCC and by definition can be moved.

Consecration is intended to be permanent. However, Parliament is sovereign and may remove the legal effects of consecration by legislation. This may also be done under the authority of a Measure of the Church of England, which has the full force and effect of an Act of Parliament.

An example of the accounting policy note that could to be added to the financial statements is as follows:

> *Consecrated and beneficed property is excluded from the financial statements in accordance with the Ecclesiastical Jurisdiction Measures and the Charities Act 2011. No value is placed on moveable church furnishings held by the church wardens on special trust for the PCC and which require a faculty for disposal since the PCC considers this to be inalienable property and no reliable cost information is available. All expenditure incurred, whether maintenance or improvement, during the year on consecrated or benefice buildings is written off as expenditure in the Statement of Financial Activities and separately disclosed. Expenditure on moveable furniture and equipment is capitalised.*

A note of warning: it is possible that some work has been capitalised in the accounts in previous years and needs to be adjusted. It is important that the treatment is correct in financial accounts in the year that the costs are incurred as the effect would be to either have to produce a prior year adjustment, or to amend it in the subsequent year by way of transfers between fixed assets and the SoFA disclosure.

With regards to capital expenditure incurred on the separate rooms or church centres, these can be capitalised in the normal way.

## Independent oversight or audit

Most PCC accounts are subject to an Independent Examiners Report or even an audit. It is the responsibility of the PCC to identify consecrated buildings and buildings that are not consecrated and to record the improvements correctly in their records so all those independently checking the accounts have clear guidelines.

## About the authors

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