



TRUSTEES' SHORT GUIDE SERIES

Management accounts.

October 2026



pem.



Effective financial management is essential for a charity to successfully achieve its objectives. Among the various aspects of robust financial oversight is the regular preparation and review of management accounts. These internal financial reports play a pivotal role in supporting strong governance and informed decision-making.

The Charity Commission provides [detailed guidance](#) on managing charity finances, and on [actively managing](#) your charity's finances.

This document brings together key elements of that guidance, focusing specifically on how management accounts can contribute to effective governance.

What are management accounts?

Management accounts are internal financial reports that provide a detailed overview of a charity's financial performance. They help trustees and management teams make informed decisions, monitor progress, and plan for the future. Unlike statutory accounts, which are prepared for compliance and external reporting, management accounts are tailored for internal use and strategic oversight.

The importance of management accounts

The role of management accounting is crucial for understanding the charity's finances, and for strategic level decision making. Accurate management accounts allow trustees to scrutinise the financial position creating a dialogue with and challenge to management, aiding good governance.

Management accounts should contain sufficient detail so that:

- Actual results can be compared to budgets to establish over / under spends (variances), driving effective forecasting
- Management and budget holders can be held accountable to explain variances and whether action is required.
- Fixed and variable costs can be understood and assessed in relation to the certainty of income.
- Long term strategic plans can be expressed in terms of financial requirements – surplus, deficits and reserves.
- Outputs and outcomes can be expressed in financial terms allowing effective (re)deployment of resources.



Format of management accounts

The final structure of the report will ultimately depend on what information is important to trustees and management, and may include both financial and non-financial information. Many finance packages have an inbuilt feature for preparing monthly management accounts, setting up reports may take time initially but ultimately can support an automated process which is less open to manipulation and error.

Management accounts would typically include:

- An income and expenditure account (actual and budget/prior year)
- Balance sheet
- Cash flow
- Commentary explaining significant variances of actual against budget or prior year.

It is important to note there is no prescribed format of management accounts, data should be presented in a way that works for the entity and users of the management accounts, can be accurately generated and is timely. Accounts may contain financial and non-financial data and reflect the key priorities, objects and targets of the organisation's activities. Information should be presented in such a way that it enables effective oversight, the level of detail needs to be sufficient to encourage challenge, for example one total income figure covering a number of different projects or types of income is unlikely to be sufficient to allow trustees to challenge or understand the income stream.

Income and expenditure account should include:

- Budget for the month just ended against actual results for the month, and variance (value and percentage)
- Budget for the year to date against actual results to date, and variance (value and percentage)
- Budget for the full year against latest forecast outturn for full year, and variance (value and percentage)
- A supporting narrative which adequately explains the reasons for any significant variances from the budget



Balance sheet - areas to consider:

- **Debtors** – this figure should represent monies due to the charity but not yet received. Ensure that a separate “aged debtor” analysis of this figure is provided and that appropriate action is being taken to pursue significant overdue amounts
- **Debtors** – prepayments and accrued income – these are adjustments to the income and expenditure for items that have been paid in advance of the good or service being received (prepayments); or where the work have been done but the invoice has not yet been raised. Depending on the size, needs and relevance of such adjustments to the charity and its oversight and decision making, they may be made monthly, quarterly or simply annually for statutory reporting purposes. It is important that trustees and management are aware of how often these adjustments are reviewed and the potential impact these adjustments may have on results when making decisions.
- **Cash at bank** - check that the actual cash at bank physical balance is not overdrawn. If it is overdrawn, ensure it is within agreed overdraft limits.
- **Creditors and accruals** – these should include invoices received and payable plus commitments made where the invoice has not yet been received.
- **Deferred income** adjustments reflect where cash has been received in advance of goods or services being delivered; as with prepayments and accrued income these adjustments may not be made monthly but can have a significant impact on results therefore management and trustees need to consider the impact of these adjustments to the activity of their charity.
- **Net current assets (current assets minus current liabilities)** – check that these are positive. A negative balance is indicative of potential cash flow problems
- **Pension scheme liabilities** - payments (one off or part of the regular contributions) should be included in the relevant staff budgets. However, liabilities relating to a defined benefit pension scheme may only be assessed annually as part of the year end accounting by the pension scheme actuary and therefore would not be expected to be adjusted and change month on month. As a result some entities may decide to exclude liabilities from the management accounts. However, trustees and management need to be aware of significant deficits that may ultimately have demands on reserves when considering future risks and opportunities.



- **Leases and fixed assets** - from 1 January 2026, leases that are not considered low value or short will be included on the balance sheet. This will mean that costs that were accounted for as operational expenses will now be recognised as interest and depreciation. This will impact budget lines and presentation in the income and expenditure and balance sheet but the cash payments will still need to be tracked as before in the cashflow statement.

Cashflow Statement:

Whilst presentation of a cash flow in the financial statements is now only required for charitable companies that are medium or large and charities with income of over £15m, this is different from a monthly cashflow forecast which is at the heart of organisation management.

The cash flow statement, often seen as the most challenging aspect of producing management accounts, is vital for understanding income and expenditure patterns and identifying periods of potential low cash balances.

Management and trustees must understand their business activities: Is the charity paid in advance or in arrears for its work? What is the income profile – regular or lumpy? Are expenses paid up front? How long are supplier credit terms? What are the fixed levels of cost monthly costs? A cashflow forecast helps clarify whether the entity may run out of cash during the year, understand the liquidity needed in reserves, highlights months where close monitoring is required or where facilities should be negotiated for overdrafts or loans, and where covenant obligations could be breached.

Pitfalls and challenges

Which figures do you compare?

The variances you identify need to be meaningful for your organisation and setting. If you produce an annual budget but don't phase it properly; monthly variances, explained as due to the timing and lack of phasing, may hide more significant problems of activities being delayed or overspent. However, if activity is similar year on year a more helpful comparison may be current month against that month in the prior year. New activity however may mean that these are not directly comparable, so the budget or project plan is important. It may be the cumulative year to date that is key or the month by month. Reforecasting may be half yearly, quarterly or monthly, often depending on how close the organisation is to breakeven or concerns about the impact on reserves. For a project based entity it may be more useful to assess the income and expenditure on a project by project basis; however there may be a risk that the funding for central costs is overlooked.

So the first challenge is to understand your charity and what information is useful in decision making. This will depend on whether activity or demand is cyclical, whether activities are the same year on year, how much activity is funded through restricted projects, whether services are contract based. Management accounts need to support the key decisions.

What is a significant variance?

The variance is the difference between two figures which is highlighted in your reporting. There are always likely to be differences between budget and actual results, movements in forecasts, comparisons with the prior year. The key to management reporting is to be able to identify which variances matter and where action needs to be taken to address an issue in the income, cost or activity highlighted by the variance.



Variances might be significant by their size, either absolute or percentage, by the type of cost, fixed or variable, by their relationship to a project or activity and therefore performance of an output or outcome. An increase in costs for a fully funded activity may be significant, unplanned but not a cause for concern; conversely a surplus on a project may indicate that the activity has not been fully delivered and that intervention is needed.

Trustees and management need to agree what is significant in their context: these are the differences about which trustees will want explanation and which may require management action.

Preparing your management accounts

Having identified the key balances and relationships, the systems to be used, the format of the accounts, and the responsibilities for reporting and explaining the resulting variances; the entity will need a routine to collate and reconcile information in preparation for producing their reports for trustees. Using a [checklist](#) when preparing management accounts can ensure thoroughness and consistency. This checklist should focus not only on the basics such as bank reconciliations and reconciliations of other control accounts such as payroll, VAT, debtors and creditors, but also on the key information required for your charity management which may include judgments around the completion of contracts, grant reporting, staff absence, fixed assets, service delivery etc.



Key Performance Indicators (KPI's)

Including Key Performance Indicators (KPIs) within management accounts provides critical context, linking financial data to the charity's overall performance. KPIs should be tailored to each charity, reflecting its unique mission and activities. Common KPIs include:

Financial Health Metrics

Operating Surplus/Deficit – Difference between income and expenditure.

Liquidity Ratio – Current assets divided by current liabilities.

Reserves Coverage – Number of months of operating costs covered by unrestricted reserves

Revenue Diversity - Measures the variety of income sources, helping to assess the charity's resilience against funding fluctuations.

Cash Flow Forecast Accuracy – Variance between forecast and actual cash flow.

Fundraising Metrics

Total Donations – Aggregate amount raised from all sources.

Return on Fundraising Investment – Net income generated per £1 spent on fundraising.

Fundraising Cost Ratio – Fundraising expenses as a percentage of funds raised.

Growth in Regular Giving – Year-on-year increase in recurring donations.

Number of Fundraising Complaints – Indicator of compliance and reputation.

Program Delivery Metrics

Beneficiaries Served – Total number of individuals supported.

Cost per Beneficiary – Program expenditure divided by number of beneficiaries.

Program Completion Rate – Percentage of projects delivered on time and within budget.

Impact Score – Outcomes achieved versus targets (e.g., improvement in wellbeing).

Restricted Funds Utilisation – Percentage of restricted funds applied to intended purposes.

Donor Engagement Metrics

New Donors Acquired - The number of new donors gained within a specific timeframe, reflecting the charity's outreach effectiveness.

Donor Retention Rate – Percentage of donors who give again year-on-year.

Average Gift Size – Mean donation amount per donor.

Donor Lifetime Value – Estimated total contribution per donor over time.

Conversion Rate – Percentage of prospects converted to active donors.

Distribution of management accounts

The frequency and circulation of management accounts should be tailored to the charity's financial position and activities. For charities in a stable financial position, quarterly circulation or alignment with trustee meetings could be sufficient. If the charity is undertaking significant projects, managing multiple restricted funds, or facing cash flow challenges, monthly management accounts are recommended.

Responsibility for explanations, reporting and action should be clearly defined with department heads and information prepared for trustees and key decision-makers included in trustee board meeting papers for discussion.



Next steps

- Review your charity's most recent management accounts and identify any areas requiring further explanation or action.
- Schedule regular discussions at trustee meetings to review management accounts and monitor financial performance.
- Compare your charity's management accounts format and content with good practice checklists, such as those provided by PEM or the Charity Commission, and update your processes as needed.
- Consider whether current KPIs provide sufficient insight or whether others would be useful.
- Ensure all trustees have access to relevant financial training or resources to confidently interpret management accounts.
- Discuss with your finance team or advisors whether your current accounting software or processes could be improved for greater efficiency.
- Stay informed by regularly reviewing updates from the Charity Commission and other sector bodies on financial management and governance.
- Review the [Charity Commissions guidance](#) on 15 questions trustees should ask.

Further reading

- [PEM guide on management accounts](#)
- [PEM guide to reserves](#)
- [PEM guide to identifying exchange and non-exchange transactions; accounting for exchange transactions; accounting for non-exchange transactions](#)
- [PEM guide to lease accounting](#)

Charity Commission guidance

- [The essential trustee: what you need to know, what you need to do - GOV.UK](#)
- [Managing charity finances - GOV.UK](#)
- [Charity governance, finance and resilience: 15 questions trustees should ask - GOV.UK](#)
- [Improving your charity's finances - what to do if your charity is in financial difficulty - GOV.UK](#)
- [Charity reserves: building resilience - GOV.UK](#)
- [Investing charity money: guidance for trustees \(CC14\) - GOV.UK](#)

Statutory accounting guidance

- [Charity SORP 2026](#)

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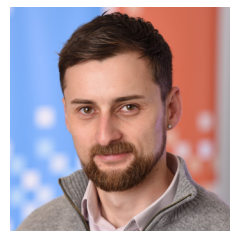
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