**ST MARY’S UNIVERSITY**

**TWICKENHAM, LONDON**

MA/MSc Degree Examination students registered for

**Masters** Level

Title: **Charity Finance and Investment**

Code**: CMT7024**

Date: **May 15th 2019**

Time: **9:30 – 12:30**

TIME ALLOWED: **THREE** HOURS

Answer **ALL** questions.

**REGNUM No: …………………………………………………..**

This exam contributes 50% to the overall mark for the module. Calculators are permitted.

**SECTION A**

Multiple Choice Questions (35 marks)

In the case of each question, circle the appropriate option (a, b, c, d) on the examination paper. Attach the examination paper to your handwritten exam script at the end of the examination using the treasury tag provided.

***Questions 1-20 are worth 1 mark each***

1. Budgeting, where the charity starts with a ‘clean sheet’ where all expenses must be justified and approved for each new period is known as:-
2. Incremental budgeting
3. Priority based budgeting
4. Activity based budgeting
5. Zero based budgeting
6. What is this describing? “Getting funding for all your costs, including the direct costs of projects and all your overheads” :-
7. Activity based costing
8. Funding strategy
9. Full cost recovery
10. Cost benefit analysis
11. Taking action as a result of actual expenditure being greater than budget for a department within a budget is known as :-
12. Budget variances
13. Budget monitoring
14. Budgetary risks
15. Budgetary control
16. A depreciation method charging a constant percentage of the net book value of the asset less residual value, is known as :-
17. Reducing balance method
18. Sum of the digits method
19. Straight line method
20. Standard method
21. If a vehicle is donated by a corporate to a charity for use in its charitable work the accounting treatment will be :-
22. To show the value of the vehicle as a donation [income] and also as charitable expenditure.
23. To show the value of the vehicle as a donation [income] and also as a fixed asset in the balance sheet.
24. To show just the annual running cost of the vehicle as a donation [income] and also as charitable expenditure.
25. To ignore the gift in the accounts as no money has changed hands.
26. What are these describing “the big game-changing risks that influence the achievement of a charity’s aims” :-
27. Strategic risks
28. Operational risks
29. Financial risks
30. Reputational risks
31. Which one of the following sentences is correct:-
32. Unincorporated charities can become insolvent. This means that any liability of the charity is separated from its trustees or members and they cannot be held personally liable.
33. Unincorporated charities can become insolvent. This means that any liability of the charity is equally the liability of its trustees or members.
34. Unincorporated charities cannot become insolvent. This means that any liability of the charity is the liability of its trustees or members.
35. Unincorporated charities cannot become insolvent. This means that any liability of the charity that cannot be met by the charity is ignored and not payable.
36. Which word is missing from the following sentence :- “The \*\*\*\* ratio measures the charity's ability to repay the short term liabilities out of its cash and cash equivalents”
37. Current
38. Liquidity
39. Money
40. Solvency
41. What does FSCS stand for?
42. Financial Services Compensation Scheme
43. Financial Services Charities Scheme
44. Financial Securities Compensation Scheme
45. Financial Securities and Collectables Service
46. What is this describing? “An open – ended collective investment constituted under a trust deed. The fund manager runs it to make a profit. The trustees check that the manager is running the investments in accordance with the objectives.”
    1. Investment Trust
    2. Charity Authorised Investment Fund
    3. Common Investment Fund
    4. Unit Trust
47. What is this an example of? “A charity that works to help and advise the unemployed usually makes grants to charities and other organisations that help unemployed people back into work. However, it has decided in certain cases to make loans instead of grants. It expects that loans will be repaid, potentially with some interest, enabling the charity to spread the work it does among more beneficiaries.”
    * + 1. Mixed motive investment
        2. Socially responsible investment
        3. Programme related investment
        4. Ethical investment
48. What is this describing “Property which may be invested to produce income. Depending on the conditions attached to it and the nature of the endowment, the trustees will have the power to convert all or part of it into an income fund which can then be spent.”
    1. Restricted endowment
    2. Expendable endowment
    3. Unrestricted endowment
    4. Permanent endowment
49. An inheritance tax reduction has applied since 2012, when what percentage of net estate is given to charity?
    * + - 1. 5%
          2. 10%
          3. 15%
          4. 20%

1. For valuing Gift Aid benefits, name the date for the replacement of the mix of monetary and percentage thresholds by two percentage thresholds.
2. October 2018
3. December 2018
4. April 2019
5. December 2019

1. For Gift Aid, a right of admission to view charity property is not regarded as a benefit if is granted in return for a donation of at least how much more than the admission charge for an equivalent right of admission?
2. 40%
3. 30%
4. 20%
5. 10%
6. A charity must keep a record of Gift Aid declarations for how long after the most recent donation it claimed Gift Aid on :-
7. 6 years
8. 4 years
9. 2 years
10. 1 year
11. A Payroll Giving Agency must pay donations to charities within how many days of receipt if, on the day on which the donation is received, the Agency:

* knows the identity of the employee making the donation
* knows the identity of the charity to which the donation is made
* has paid the nominated charity at any time in the last 12 months

1. 25
2. 35
3. 50
4. 60
5. What does CEST stand for?
6. Charities earnings and salaries tool
7. Charities enterprise systems and trades
8. Combined earnings and sales tax
9. Check employment status for tax
10. The small trading threshold [non primary purpose trading] rose to a maximum of what figure from April 2019?
11. £50,000
12. £80,000
13. £100,000
14. £120,000
15. What is this describing :- “A systematic way of incorporating social, environmental, economic and other values into decision-making processes”
16. Theory of Change
17. Social Accounting
18. Social Return on Investment
19. Social Auditing

***Questions 21 to 25 are worth 3 marks each***

1. The bank statement as at 31 March 2019 is showing a credit balance of £4,100. There are two entries on the statement that have not been entered in the cash book:- Income [credit] direct to bank of £550 from Phil Anthropous; and bank charges of £52. A cheque was written on 29 March for £320 to F Reelance for consultancy work. What is the balance showing in the cash book just before the bank statement arrives?
2. £3,282
3. £3,818
4. £3,922
5. £4,272
6. Michaela wants the cost of her donation to charity to be £100 after any tax relief due to her. She is a higher rate [40%] taxpayer. How much money should she pass to the charity, assuming she is using Gift Aid? :-
7. £75
8. £80
9. £100
10. £133.33
11. Michaela has now changed her mind and decided she wants the charity to receive at least £400 in total from her and HMRC together. She decides to do this by initially giving £250 and then separately donating her tax relief as many times as necessary to get there. How many gifts does she make in total?
12. 1
13. 2
14. 3
15. 4
16. If a charity is not VAT registered, how much does it have to budget in total for the following items? The amounts are shown net of [ie not including] any VAT chargeable. Assume that all suppliers are VAT registered and correctly charge VAT where appropriate.

|  |  |  |
| --- | --- | --- |
| Notepaper and envelopes | | £200 |
| Insurance |  | £500 |
| Train fares |  | £400 |
| Advertising in newspaper | | £1,000 |
| Reference books |  | £200 |
| Building repairs |  | £2,000 |

1. £4,700
2. £4,740
3. £4,840
4. £5,020
5. A charity has purchased a vehicle for £11,000. Assume it charges a full year's depreciation in the first year and that there is no residual value. Which of the following will result in the highest charge in year 1?
6. straight line basis over 4 years
7. sum of the digits method over 4 years
8. reducing balance method charging 30%
9. all methods give the same answer

**SECTION B**

Essay questions (40 Marks)

1. **Ethical Investment**
2. When could donated investments pose a problem for charities? Is there any risk if these are accepted and subsequently disposed? (10 marks)
3. Explain what is meant by forceful stewardship. Explain why collaboration might be a good idea in this area, and give an example. (10 marks)

**(Total 20 marks)**

1. **Financial Controls**
   1. Briefly explain the purpose and features of Financial Procedures in a charity and give a few examples of what you would expect to find in them.

(10 marks)

* 1. Briefly explain what is meant by ‘segregation of duties,’ giving an example. Set out why it can be helpful in terms of financial controls.

(10 marks)

**(Total 20 marks)**

**SECTION C**

Case study question (25 marks)

HipHopAid is a registered incorporated charity that provides funds to the youth and community groups in Nigeria. It is VAT registered.

In raising the funds, it appeals primarily to the 18 – 30 age group in the UK and arranges HipHop evenings, collections and entertainment in pubs and clubs. It has built up a database of supporters through acquisition of lists, and through its website, with links to it from the 18 – 30 holiday clubs, music and video websites, and video clips on You Tube.

The charity is now famous for having its supporters run in marathons and half marathons dressed as punk rockers. It insists that each entrant raises at least £1,500 before they can take part.

It runs five charity shops where it sells CDs, DVDs, video games, hats jewellery and other accessories. Some are second hand, donated at concerts and events, some are new/out of season given by stores and manufacturers and some are purchased for resale. Four of the shops sell 80% donated and 20% bought in goods and one shop is the reverse of this and sells 80% bought in goods and 20% donated goods.

HipHopAid is also entering the challenge events market both in the UK and the countries in which it carries out its charitable activities. It is considering both putting on these events itself and acting as agent for a Tour Operator.

Extracts from the books of account show the following

*Income*

*Donation Income (excluding events) £125,000*

*Marathon / Half Marathon income £150,000*

*Other income in excess of £100,000*

*Expenditure Extracts (vat exclusive)*

*Rates for shops £35,000*

*Gold Bond Payments £70,000 (vat exclusive – for 200 participants)*

You also discover the following:

* The charity has not applied for or obtained rates relief on any of the shops
* HipHopAid does not operate gift aid
* All the shop income is put through the books of the charity
* HipHopAid has not considered the VAT implications of the income from the marathons/ half marathons

REQUIRED:

1. Set out what gift aid opportunities are open to the charity (5 marks)
2. Calculate the mandatory rates relief due per annum in respect of the charity shops assuming that each shop currently pays the same amount of rates. What else might the charity do in the circumstances in respect of rates? (5 marks)
3. What is the VAT position in respect of the goods given by stores and manufacturers? What are the direct tax implications in respect of the shops? (5 marks)
4. Are there any VAT considerations in respect of the marathon? If so, what will the charity need to do in respect of the past and how might it restructure arrangements in the future? (5 marks)
5. What are the potential tax implications relating to the challenge events? (5 marks)

**(Total 25 marks)**

**END OF EXAMINATION**