

## 4. Statement of financial activities

### Introduction

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- 4.1. Whilst the FRSSE sets out the format of a profit and loss account prepared under company legislation, it does not deal with how this format is adapted for charities where current practice is to present a Statement of Financial Activities (SoFA) which combines the presentation of an income and expenditure accounts and a statement of other recognised gains and losses in single statement. Nor does the FRSSE address the presentation of charitable funds within the SoFA. The structure, format and headings of the SoFA (when prepared on an activity basis) set out in Table 2 applies to all charities adopting this SORP.
- 4.2. The FRSSE requires corresponding amounts for the previous reporting period must be shown for each item presented in the Statement of Financial Activities (SoFA). This SORP requires that corresponding amounts for the total funds of a charity must be presented on the face of the SoFA. The corresponding amounts presented for the separate classes of funds, if any, held by a charity may be presented either on the face of the SoFA or prominently in the notes to the accounts.
- 4.3. The column in Table 2 headed 'Further details' provides references to later sections of this module that set out those activities and transaction(s) falling within each of the SoFA's headings.
- 4.4. The statement of financial activities (SoFA) is a single accounting statement that includes all income, gains, expenditure and losses recognised for the reporting period. It provides the user with an analysis of the income and endowment funds received and the expenditure by the charity on its activities, and presents a reconciliation of the movements in a charity's funds for the reporting period.
- 4.5. The SoFA should be prepared with the needs of the charity's stakeholders in mind (see the SORP module '[Accounting and reporting by charities – the statement of recommended practice \(SORP\) scope and application](#)'). Charities reporting on an activity basis should ensure that those activities reviewed in the trustees' annual report are also reported on the face of the SoFA or in the notes to the accounts.
- 4.6. This SORP requires expenditure to be reported on an activity basis to show how the charity has used its resources to further its charitable aims for the public benefit. However, charities below the charity audit threshold may opt to report their charity's expenditure in a different way, for example by the nature of expenditure rather than on an activity basis.

**Table 2: Statement of financial activities**

	Unrestricted funds	Restricted funds	Endowment funds	Total funds	Prior period total funds	Further details
	£	£	£	£	£	£
<b>Income and endowments from:</b>						
Donations and legacies						A1
Charitable activities						A2
Other trading activities						A3
Investments						A4
Other						A5
<b>Total</b>						
<b>Expenditure on:</b>						
Raising funds						B1
Charitable activities						B2
Other						B3
<b>Total</b>						
<b>Net income/(expenditure)</b>						
<b>Transfers between funds</b>						C
<b>Other recognised gains/ (losses):</b>						
Gains/(losses) on revaluation of fixed assets						D1
Gains/(losses) on investment assets						D2
Actuarial gains/(losses) on defined benefit pension schemes						D3
<b>Net movement in funds</b>						
<b>Reconciliation of funds:</b>						E
Total funds brought forward						
<b>Total funds carried forward</b>						

4.7. The module is divided into two parts as follows:

- **Presentation of information:**
  - structure of the SoFA – all charities;
  - accounting for exceptional items;
  - structure of the SoFA – charities below the audit threshold; and
  - structure of the SoFA – all charities reporting on an activity basis.
- **Line headings used in the statement of financial activities:**
  - A1 Income from donations and legacies;
  - A2 Income from charitable activities;
  - A3 Income from other trading activities;
  - A4 Investment income;
  - A5 Other income;
  - Analysis of income in the notes to the accounts;
  - B1 Expenditure on raising funds;
  - B2 Expenditure on charitable activities;
  - B3 Other expenditure;
  - Analysis of expenditure in the notes to the accounts;
  - C Transfers between funds;
  - D1 Gains/(losses) on revaluation of fixed assets;
  - D2 Investment gains/(losses);
  - D3 Actuarial gains/(losses) on defined benefit pension schemes; and
  - E Reconciliation of funds.

## Presentation of information

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### Structure of the SoFA – all charities

- 4.8. This SORP requires that a charity's statement of financial activities (SoFA) must:
- adopt the same format in subsequent reporting periods unless there are special reasons for a change that is explained in the notes to the accounts;
  - provide corresponding amounts for the total funds presented on the face of the SoFA; and
  - omit any line of the SoFA where there is nothing to report in both the current and previous reporting period.
- 4.9. The columns of the SoFA must be used to distinguish restricted income funds, which may only be spent for a particular purpose of the charity, from unrestricted funds, which can be spent on any of its purposes, and endowment funds. Endowment funds are restricted funds which either cannot be spent (permanent endowment) or where there is no actual requirement to spend or apply the capital unless, or until, the trustees decide to spend it (expendable endowment).
- 4.10. All of the charity's income and expenditure, transfers and other recognised gains and losses must be analysed between the classes of funds, but a charity will not necessarily have funds of all three classes.
- 4.11. If a class of funds would not be considered material, it may be combined with another class of funds and shown as a single combined funds column. If a single combined total funds column is used, the heading must be changed to 'all unrestricted and restricted funds' or 'all unrestricted, restricted and endowed funds' as appropriate. Where a single column approach is followed the summary of fund movements must include an analysis for each class of fund for each row in the SoFA together with a total that corresponds to the total shown in the SoFA. For more information refer to the SORP module '[Fund accounting](#)'.
- 4.12. A charity may vary the order in which it presents headings within the income and expenditure sections of the SoFA to meet its own presentational needs. Some charities may also find it informative to their users to insert additional subtotals.
- 4.13. A charity may add additional columns to the SoFA to present material funds or activities on the face of the statement rather than in the notes. Any additional analysis of this type provided on the face of the SoFA must make clear the class of fund (unrestricted, restricted or endowment) in the column title. In providing additional information, a balance needs to be struck between the provision of additional information and the resulting complexity of the statement.

### Accounting for exceptional items

- 4.14. The FRSSE uses the term 'exceptional items' to describe amounts arising from events or transactions that are part of a charity's ordinary activities but are exceptional by virtue of their size or incidence.

- 4.15. The disclosure of exceptional items must be made either in the notes or by the insertion of an additional line within the relevant activity heading on the face of the SoFA when necessary for the presentation of a true and fair view of a charity's financial activities. For example, exceptional items that should be disclosed separately are a material fraud or the loss of a material tangible fixed asset. An adequate description of each exceptional item must be given to enable its nature to be understood.
- 4.16. The FRSSE also requires that costs of a fundamental reorganisation or restructuring that has a material effect on the nature and focus of a charity's activities should be separately disclosed on the face of the SoFA.

#### **Structure of the SoFA – smaller charities below the charity audit threshold**

- 4.17. The analysis of income and expenditure by activity is encouraged for all charities preparing accruals accounts. However, charities not subject to statutory audit are not required to report their income and expenditure on an activity basis and may adopt an alternative approach to their analysis.
- 4.18. This analysis may be based on the nature of the income and expenditure. For example, expenditure could be analysed by salary-related costs, premises-related costs, interest expenses, transport costs and grants made. Alternatively, the headings used by the charity to record expenditure in its own accounting records could be used.
- 4.19. Where an alternative approach to analysis is adopted, this SORP requires that charities must disclose in their SoFA:
- total income of the charity;
  - a relevant analysis of the components of income;
  - total expenditure of the charity;
  - a relevant analysis of the components of expenditure;
  - net income/expenditure;
  - gains/(losses) on investments (where applicable);
  - transfers between funds;
  - gains on the revaluation of fixed assets (where applicable);
  - actuarial gains/(losses) on any defined benefit pension scheme (where applicable);
  - net movement in funds;
  - total funds brought forward from the previous reporting period; and
  - total funds carried forward at the end of the reporting period.
- 4.20. If a material component of income or expenditure is not presented on the face of the SoFA, the nature and amount of the item must be disclosed in the notes to the accounts.

4.21. Charities preparing their accounts using a natural or alternative basis of analysis must also provide those disclosures required by other modules relevant to the charity. For example, a charity must disclose any remuneration, benefits or expenses paid to trustees and any related party transactions.

### **Structure of the SoFA – all charities reporting on an activity basis**

4.22. This SORP requires that larger charities above the charity audit threshold (see Appendix 3, '[Thresholds for the UK and the Republic of Ireland](#)') and those smaller charities opting to report on an activity basis must classify their income and expenditure by activity.

4.23. Income must be analysed according to the activity that produced the resources. Expenditure must be analysed by the nature of the activities undertaken.

4.24. Where relevant to the understanding of material activities, the expenditure analysis headings should enable the user of the accounts to understand the relationship with income derived from the activity. For example:

- a charity selling donated goods through a shop could use the description 'Shops' within row A3 ('Income from other trading activities') and row B1 ('Expenditure on raising funds');
- a charity running a care home could use the description 'Residential care fees' within row A2 ('Income from charitable activities') and 'Residential care costs' in row B2 ('Expenditure on charitable activities');
- an arts charity providing a mix of paid-for and free services could use the description 'Admission fees for galleries and exhibitions' within row A2 ('Income from charitable activities') and use the heading 'Operation of art gallery and touring exhibitions to schools and community' in row B2 ('Expenditure on charitable activities'); and
- an endowed grant-making charity mainly making grants to advance education could use the description 'Investment income' within row A4 ('Investment income') and 'Grants to education and research institutions, student bursaries and other grants' in row B2 ('Expenditure on charitable activities').

4.25. In most cases, it will be clear which activity generated the income or expenditure. Expenditure shared between two or more activities should be apportioned between them on a reasonable, justifiable and consistent basis (see the SORP module '[Allocating costs by activity in the statement of financial activities](#)').

## **Line headings used in the statement of financial activities**

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### **A: Income and receipt of endowment**

#### *A1: Income from donations and legacies*

4.26. Donations and legacies include all income received by the charity that is, in substance, a gift made to it on a voluntary basis. A donation or legacy may be for any purpose of the charity (unrestricted funds) or for a particular purpose of the charity (restricted income funds or endowment funds).

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4.27. Donations and legacies do not provide any significant benefit to the donor in return for their payment other than the knowledge that the charity must use the gift to further its purposes. Income from donations and legacies includes:

- donations and gifts made by individuals and corporations, including any related tax refund or Gift Aid claimed on gifts made by individuals but excluding goods donated for resale;
- legacies receivable by the charity;
- grants of a general nature provided by government and charitable foundations which are not conditional on delivering certain levels or volumes of a service or supply of charitable goods;
- membership subscriptions and sponsorships where these are, in substance, donations rather than payment for goods or services; and
- donated goods for the charity's own use or distribution and donated services and facilities.

### *A2: Income from charitable activities*

4.28. Income from charitable activities includes income earned both from the supply of goods or services under contractual arrangements and from performance-related grants which have conditions that specify the provision of particular goods or services to be provided by the charity. To fall within this analysis heading, the activities specified by the contractual terms or grant conditions must be undertaken for the charitable purposes of the charity.

4.29. Income from charitable activities includes:

- the sale of goods and services as part of the charitable activities of the charity (also known as primary purpose trading), whether the sale is intended to make a profit or is at or below cost;
- contractual payments from government or public authorities and other parties which fund the provision of particular goods or services, for example the provision of care;
- the sale of goods or services made or provided by the beneficiaries of the charity;
- performance-related grants where the income is conditional on delivering certain levels or volumes of a service or supply of goods;
- ancillary trades connected to primary purpose trading; and
- the letting of non-investment property in furtherance of charitable purposes.

### *A3: Income from other trading activities*

4.30. Income from other trading activities includes income earned from both trading activities to raise funds for the charity and income from fundraising events. To fall within this analysis heading, the income must be received in exchange for supplying goods and services in order to raise funds for the charity. While selling donated goods is legally considered to be the realisation of a donation in kind, in economic terms it is similar to a trading activity and should therefore be included in this analysis heading.

4.31. Income from other trading activities includes:

- income from non-charitable trading activities, including non-charitable trading activities of subsidiary entities consolidated into group accounts;
- membership subscriptions and sponsorships where the recipient is not a beneficiary and where these are, in substance, a payment for goods or services;
- income from fundraising events such as jumble sales, firework displays and concerts by the charity (or by volunteers working under the charity's management direction) or its agents;
- shop income from selling donated and bought-in goods;
- income from letting and licensing arrangements for property held primarily for functional use by the charity but temporarily surplus to operational requirements; and
- income from sponsorships and social lotteries which cannot be considered pure donations.

*A4: Investment income*

4.32. Investment income is earned from holding assets for investment purposes and includes dividends, interest, and rents from investment property. Where income from investments is material, it must be presented as a separate heading on the face of the SoFA.

4.33. While income must be presented gross in the SoFA before the deduction of any costs incurred, it is often not practicable for charities to identify the investment management costs incurred within collective investment schemes, such as unit trusts or common investment funds, prior to the distribution of income. Where it is not practicable to identify the investment management costs incurred within the scheme with reasonable accuracy, the investment income should be reported net.

*A5: Other income*

4.34. Other income represents income that cannot be reported under the other analysis headings provided within the SoFA. Other income may also include the conversion of endowment funds into income with the equivalent offsetting reduction to endowment funds shown as a deduction under other income in the 'Endowment funds' column. This approach may be helpful in those jurisdictions that include such items in the calculation of gross income for audit threshold purposes. Alternatively, a conversion of endowment funds into income may be included under the heading 'Transfers between funds'.

4.35. The conversion of endowment into income includes:

- capital funds released to an income fund from expendable endowment; and
- the release of funds to income from the 'unapplied total return fund' held within the permanent endowment fund where a charity has authority to adopt a total return approach to investment.

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4.36. This heading should also include all other sources of income unless the amount is sufficiently material as to require its presentation as a separate SoFA heading. Other income may include:

- a gain on the disposal of a tangible fixed asset held for the charity's own use;
- a gain on the disposal of a programme related investment;
- any royalties from the exploitation of intellectual property rights; and
- any other income not falling into the other income categories.

### *Analysis of income in the notes to the accounts*

4.37. Unless analysed on the face of the SoFA, this SORP requires that the notes to the accounts must provide an analysis of the material components of income included within each analysis heading of the SoFA. Amounts for similar activities should be aggregated so as to provide an analysis of:

- donations and legacies, distinguishing between the types of gift receivable, for example the amount of donations, grants of a general nature and legacies;
- income from charitable activities, identifying the nature of the activities undertaken and the income produced;
- income from other trading activities, identifying the nature of the trading or fundraising activity and income produced;
- investment income, analysed according to each class of investment shown on the balance sheet or in the investment note to the accounts; and
- the nature and amount of other income receivable.

4.38. Where applicable, this SORP requires that the notes to the accounts must give the amount and reason for the conversion of all or part of any endowment fund converted into income in the reporting period.

## **B: Expenditure**

### *B1: Expenditure on raising funds*

4.39. Expenditure on raising funds includes all expenditure incurred by a charity to raise funds for its charitable purposes. It includes the costs of all fundraising activities and events, non-charitable trading activities and the sale of donated goods. However, any costs incurred in providing goods or services as a charitable activity must not be included in this heading, even if a charge is made for their provision.

4.40. Expenditure on raising funds includes those costs incurred in:

- seeking donations, grants and legacies;
- operating membership schemes and social lotteries;
- staging events, including the performance fees, licence fees and other related costs;
- contracting with agents to raise funds on behalf of the charity;
- operating charity shops selling donated and/or bought-in goods;

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- operating a trading company undertaking non-charitable trading activities;
- advertising, marketing and direct mail materials, including publicity costs not associated with educational material designed wholly or mainly to further the charity's purposes; and
- investment management costs.

4.41. Investment management costs include the costs of:

- portfolio management;
- obtaining investment advice;
- administration of the investments;
- costs of licensing intellectual property; and
- rent collection, property repairs and maintenance charges.

4.42. Where investment management costs are material, they should be presented as a separate heading on the face of the SoFA.

4.43. Costs associated with acquiring and disposing of investments would normally form part of the acquisition cost of the investment or reduce the return on disposals. These costs are therefore not part of investment management costs. Where investment managers deduct management fees from investment income, the charity should report the gross investment income before fees and report the management fees charged in this cost category. However, charities are not expected to prorate investment management fees charged to a collective investment scheme to identify the notional cost attributable to its own holding in the scheme.

4.44. Investment management costs associated with endowment fund investments should generally be charged to the endowment fund in the SoFA. Further guidance on the charging of investment management costs to endowment funds is provided in the SORP module '[Fund accounting](#)'.

4.45. Fundraising costs may be incurred in starting up a new source of future income such as legacies, or in developing a supporter database. In most cases these start-up costs should not be carried forward as prepayments or deferred expenditure. Instead, such costs are charged to the SoFA as incurred. Charities that have an existing accounting policy of capitalising the data capture costs of internally developed databases may continue to use that policy. However, charities adopting current practice should note that data capture costs of an internally developed database must not be capitalised. The costs of a database that has been purchased or donated to the charity can be capitalised where it is sufficiently certain that it will generate economic benefits, for example in generating income, and the resulting database has a readily ascertainable cost or value.

4.46. Charities may choose to expand the analysis provided within this heading, for example by identifying separately 'Expenditure on raising donations and legacies' (A1), 'Expenditure on other trading activities' (A3) and 'Investment management costs' (A4) either in the SoFA or by way of an explanatory note.

*B2: Expenditure on charitable activities*

- 4.47. Expenditure on charitable activities includes all costs incurred by a charity in undertaking activities that further its charitable aims for the benefit of its beneficiaries, including those support costs and costs relating to the governance of the charity apportioned to charitable activities. Costs involved in negotiating contracts or grants that require the charity to provide specific charitable services should also be regarded as part of the cost of carrying out that activity.
- 4.48. Additional sub-headings should be added to the analysis of charitable activities to identify the significant charitable activities undertaken which have been reviewed in the trustees' annual report. The sub-headings used should reflect the nature of the activity undertaken.
- 4.49. On occasions, a subsidiary entity may undertake activities specifically to further the purposes of a parent charity rather than as a fundraising activity. Expenditure incurred by a subsidiary on activities that fall within the parent charity's purposes should be analysed as charitable activity when consolidated accounts are prepared.
- 4.50. Charities may carry out their activities through a combination of direct service provision and the grant funding of third parties to undertake work that contributes to the charity's aims or programme of work. The cost of charitable activities presented in the SoFA includes the costs of both direct service provision and the payment of grants. Charities making grants must refer to the SORP module '[Presentation and disclosure of grant-making activities](#)', which sets out the particular disclosures required for grant-making in the notes to the accounts.

*B3: Other expenditure*

- 4.51. Other expenditure includes all expenditure that is neither related to raising funds for the charity nor part of its expenditure on charitable activities. Where an amount is material or its presentation on the face of the SoFA is necessary for an understanding of a charity's financial performance, an additional sub-heading should be used.

*Analysis of expenditure in the notes to the accounts*

- 4.52. This SORP requires that the notes to the accounts must provide a relevant analysis of the activities included within each expenditure heading provided on the face of the SoFA. The analysis provided should aggregate the cost of similar activities and provide the user of the accounts with an understanding of the charity's main activities.
- 4.53. This SORP also requires that the analysis must give details of the support costs charged to an activity and the cost of grant funding to third parties that have been included within the cost of charitable activities. The total provided within the analysis must reconcile with the amounts presented within the relevant expenditure headings of the SoFA. This information may, for example, be presented in a tabular format (see Table 3).

**Table 3: Analysis of expenditure on charitable activities**

Activity or programme	Activities undertaken directly	Grant funding of activities	Support costs	Total
	£	£	£	£
Activity 1				
Activity 2				
Activity 3				
<b>Total</b>				

### **C: Transfers between funds**

- 4.54. All transfers between the different classes of funds must be shown in the transfer row of the SoFA. The transfer line must always net to nil. Refer to the SORP module 'Fund accounting' for more information.
- 4.55. The transfer row may also be used to record the conversion of endowment funds (including the release of any unapplied total return where a total return approach to investment is adopted) into income. Alternatively, charities may choose to present the conversion of endowment funds in row A5 ('Other income').

### **D: Other recognised gains/(losses)**

#### *D1: Gains/(losses) on the revaluation of fixed assets*

- 4.56. This heading includes gains or losses on the revaluation of property, plant and equipment used by a charity, and heritage assets and intangible assets. This heading should not be used when adjusting for a reversal in a previous charge for impairment.

#### *D2: Investment gains/(losses)*

- 4.57. This heading is used to record any gains and losses on investment assets (including investment properties). This SORP allows charities to present realised and unrealised gains and losses as a single row in their SoFA. In particular, this approach will be necessary where a charity adopts 'mark to market' or a continuous revaluation approach in relation to its investment portfolio.

#### *D3: Actuarial gains/(losses) on defined benefit pension schemes*

- 4.58. This heading is used to record actuarial gains or losses on defined benefit pension schemes.
- 4.59. Charities which operate defined benefit pension schemes must refer to the SORP module 'Retirement benefits', which provides recommendations on the recognition of pension costs, assets and liabilities and their disclosure in the accounts.

### **E: Reconciliation of funds**

- 4.60. This SORP requires that the opening and closing balances for each class of fund must be shown with the difference reconciled by the movement in funds in the reporting period. The closing fund balances presented in the SoFA must agree with the equivalent totals shown in the 'Funds of the charity' section on the balance sheet.