

## **8. Allocating costs by activity in the statement of financial activities**

### **Introduction**

---

- 8.1. This module applies to all charities that prepare their statement of financial activities (SoFA) on an activity basis. This SORP requires larger charities above the statutory audit threshold for charities in their jurisdiction(s) of registration to report on an activity basis. FRS 102 does not address how to present a SoFA on an activity basis or the allocation of costs to activities in that statement.
- 8.2. The SoFA must distinguish between expenditure incurred on charitable activities which contribute to furthering the charity's aims and purposes, and those undertaken to raise funds. Further analysis of significant activities included within these broad categories must be provided either on the face of the SoFA or in the notes to the accounts.
- 8.3. The activity analysis must be on a full cost basis. Full cost is made up of the total of the direct costs and shared costs, including support costs, involved in undertaking each reported activity. This module sets out:
  - **general principles for reporting activities;**
  - **identification of support costs;**
  - **methods of allocating costs to activities;**
  - **accounting for costs shared between fundraising and charitable activities; and**
  - **disclosures required in the notes to the accounts.**

### **General principles for reporting activities**

---

- 8.4. A charity's SoFA or related notes should provide an analysis of a charity's significant activities in a way that is relevant to both the charity and the users of its accounts.
- 8.5. Significant activities are those which, due to their scale or importance, are key to the charity in meeting its aims and objectives. The analysis of activities should provide an understanding of how a charity raises its funds and uses them to further its purposes. For example, charitable activities may be analysed according to services provided, projects or programmes undertaken, or by the particular aims or objectives taken forward.
- 8.6. The activities reported should also be consistent with the significant activities noted in the trustees' annual report. The narrative provided by the trustees' annual report should help the user of the accounts to understand the nature of those significant activities and what has been achieved as a result of the expenditure incurred on them.

## Identification of support costs

---

- 8.7. While some costs relate directly to a single activity, the cost of certain central or regional support functions may be shared across more than one activity undertaken by the charity. For example, governance costs, payroll administration, purchasing, budgeting and accounting, information technology, personnel (human resources), building management services and finance are functions that are likely to support more than one area of activity. These costs must be apportioned across the activities that the function supports in order to arrive at the full cost for each reported activity including relevant restricted funds unless prohibited by the terms of a gift.

## Methods of allocating costs to activities

---

- 8.8. To ensure that the accounts present the costs of activities fairly, charities should ensure that the method(s) of cost allocation adopted are reasonable and consistently applied. In attributing costs to activities, the following principles must be applied:
- Direct costs attributable to a single activity must be allocated directly to that activity (for example the salary cost of someone solely employed on a particular activity or the cost of running a vehicle used wholly for a particular activity).
  - Shared costs which contribute directly to more than one activity must be apportioned between those activities (for example the cost of a staff member whose time is divided between a fundraising activity and working on a charitable project).
  - Support costs which are not attributable to a single activity must also be apportioned between the activities being supported.
- 8.9. The method(s) of apportionment adopted by a charity should be reasonable and be consistent between reporting periods unless circumstances change. Charities should also balance the benefits of greater accuracy with the costs involved when selecting methods of apportioning costs. Examples of bases for apportionment that may be applied include:
- usage of a resource or activity in terms of time taken, capacity used, requests made or other measure;
  - per capita, based on the number of people employed within an activity;
  - floor area occupied by an activity; or
  - time, where staff duties span more than one activity.

## Accounting for costs shared between fundraising and charitable activities

- 8.10. Information about the aims, objectives and projects of a charity is frequently provided in the context of mail shots, websites, public fundraising collections and telephone fundraising. In determining whether costs are shared, a distinction should be drawn between:
- publicity or information costs involved in raising the profile of the charity which is associated with fundraising; and
  - educational publicity or information to further the charity's aims and objectives.
- 8.11. For publicity or information to be regarded as charitable expenditure, it must be provided for an educational purpose. In the context of a fundraising activity, in order to achieve an educational purpose the information supplied must fulfill the following educational criteria:
- be targeted at beneficiaries or others who can use the information to further the charity's purposes;
  - be information on which the recipient can act in an informed manner to further the charity's purposes; and
  - be related to other educational activities or objectives undertaken by the charity.
- 8.12. For example, a health education charity might target high-risk beneficiary groups or medical professionals when distributing its fundraising material and, as part of the same mailing, also supply information on health risks and symptom recognition. The health information supplied would be charitable expenditure because it is targeted at beneficiaries or others who could act on the information and has been distributed by the charity as part of its health education activity. The shared cost of producing and distributing the information should therefore be fairly apportioned between the fundraising and charitable activities. If the educational criteria had not been met then all relevant costs would be attributed to fundraising activities.

## Disclosures required in the notes to the accounts

- 8.13. This SORP requires that charities reporting on an activity basis must disclose:
- details of the accounting policy adopted for the apportionment of costs between activities and any estimation technique(s) used to calculate their apportionment;
  - the total amount of support costs incurred in the reporting period;
  - an analysis of material items or categories of expenditure included within support costs, with the total amount of governance costs incurred separately identified (refer to Appendix 1, '[Glossary of terms](#)', for the definition of governance costs); and
  - the amount of support costs apportioned to each of the charity's significant activities as disclosed in the SoFA or in the notes to the accounts.
- 8.14. The information required for support costs and their apportionment may be provided in a tabular format (see Table 4).

**Table 4: Analysis of support costs**

Support cost (examples)	Raising funds	Activity 1	Activity 2	Activity 3	Grand Total	Basis of allocation
	£	£	£	£		
Governance	x	x	x	x	x	Text describing method
Finance	x	x	x	x	x	Text describing method
Information Technology	x	x	x	x	x	Text describing method
Human Resources	x	x	x	x	x	Text describing method
<b>Function/ Activity Total</b>	x	x	x	x	x	