

**Accounting And Reporting By Charities:
Statement Of Recommended Practice
(revised 2005)**

Statement by the Accounting Standards Board on the SORP 'Accounting and Reporting by Charities: Statement of Recommended Practice'

The aims of the Accounting Standards Board (the ASB) are to establish and improve standards of financial accounting and reporting, for the benefit of users, preparers, and auditors of financial information. To this end, the ASB issues accounting standards that are primarily applicable to general purpose company financial statements. In particular industries or sectors, further guidance may be required in order to implement accounting standards effectively. This guidance is issued, in the form of Statements of Recommended Practice (SORPs), by bodies recognised for the purpose by the ASB.

The Charity Commission has confirmed that it shares the ASB's aim of advancing and maintaining standards of financial reporting in the public interest and has been recognised by the ASB for the purpose of issuing SORPs. As a condition of recognition, the Commission has agreed to follow the ASB's code of practice for bodies recognised for issuing SORPs.

The code of practice sets out procedures to be followed in the development of SORPs. These procedures do not include a comprehensive review of the proposed SORP by the ASB, but a review of limited scope is performed.

On the basis of its review, the ASB has concluded that the SORP has been developed in accordance with the ASB's code of practice and does not appear to contain any fundamental points of principle that are unacceptable in the context of accounting practice or to conflict with an accounting standard or the ASB's plans for future standards.

Dated 28 February 2005

Statement by the Charity Commission for England and Wales

The Charity Commission is pleased to publish this revised edition of the Charities SORP.

The accounting recommendations of this SORP are based on Financial Reporting Standards currently in issue and have been developed in conjunction with the Charities SORP committee, an advisory committee made up of charity finance directors, charity auditors, academics, charity advisers and charity regulators. The committee is also structured to reflect the different charity jurisdictions of the UK.

Sector involvement has been a central part of producing this SORP. The research, input and feedback provided by the sector and the SORP Committee has informed each stage of its development. The resulting document provides a platform for transparent and consistent reporting by charities. The Commission would like to thank the SORP Committee, and all those who responded to the consultation on the exposure draft as well as all those who prepared research papers and publications that have informed this SORP's development.

This revision creates a new focus for charity reporting, building on existing SORP principles and recommendations. It provides a framework that enables charities to explain what they aim to do, how they go about it and what they achieve. It does so in a way that pulls together narrative and financial reporting into a coherent package focused on activities undertaken.

We, in the UK, are fortunate in benefiting from a dynamic and energetic charity sector that encompasses a huge diversity in terms of size of charity and the activities they undertake. Retaining and enhancing the high reputation of the sector is a responsibility that we share with the sector. This SORP has a key role to play in this respect by assisting charities in providing financial information about their activities and resources that is of interest to many people and to meet legal requirements that such accounts give a "true and fair" view.

Dated 4 March 2005

The Charities Statement of Recommended Practice: Small Charities and SORP 2005

Introduction

This guidance is intended to provide a brief introduction to what the Charities Statement of Recommended Practice (the SORP) is, the options available to small charities in preparing their accounts and annual report and signposts further sources of help and advice.

The Charities Statement of Recommended Practice: Small Charities and SORP 2005

This section is designed to help trustees and executive staff in charities who are responsible for preparing their charity's annual report and accounts, who are not fully familiar with the rules governing charity accounts. The types of accounts that can be prepared and sources of help are summarised below to help you.

The Statement of Recommended Practice (commonly referred to as the SORP) is issued by the Charity Commission and the Office of the Scottish Charity Regulator (OSCR) and basically gives instructions as to how charities are expected to report their activities, income and expenditure and financial position in their annual report and accounts.

Your charity's annual report and accounts not only help you manage your charity well by recapping on the achievements of the past year but can help you attract money from organisations or people who are interested in what you do. The annual report and accounts together form a package that provides accountability to stakeholders in the widest sense.

The whole purpose of your charity's annual report and accounts is to demonstrate to your funders, donors, beneficiaries and suppliers in an open and transparent way, how you have spent the money you have received, how what you have spent supports your work and the resources available to you at the end of your financial year.

Every registered charity is expected to produce an annual report and accounts that explains where your money came from and what you did with it. However, the SORP only applies if your charity reports its income and expenditure on the basis of when the activity happens, rather than when you receive and spend the cash. The income and expenditure basis is called accruals based accounting.

Not all charities are required to report their financial information in exactly the same way. What you have to do depends on the size of your charity's income in your accounting year and the assets held at the end of the year. If your charity is not required by law to have an audit then you can prepare a simple annual report and a simpler presentation can be used for your accounts. If your charity is larger in size and is required by law to have an audit then you should follow the recommendations set out in the SORP.

In England and Wales the audit threshold has been increased for accounts starting on or after 27 February 2007 and you will not usually need an audit until your income in a year is more than £500,000 or your total assets are £2.8m or more. In Scotland these same thresholds apply for non-company charities and the changes to bring charitable companies in line with these thresholds took effect from 1 April 2008.

Charities that are required by the law to be audited by a qualified accountant must follow the SORP in full for both the annual report and accounts. If you are unsure if you require an audit, look at Appendix 4 of the SORP which sets out the various thresholds in full or view the advice on the Commission and OSCR websites, detailed at the end of this section. Your charity's governing document may also require your charity's accounts to have an audit.

If your charity is not set up under company law and its income is £100,000 or less, then you do not have to prepare accruals accounts. You then have the option of preparing your accounts simply on the basis of the cash you receive and spend, and you do not have to comply with the SORP. This is called receipts and payments accounting and is explained later.

If you are unclear as to whether you do, or do not, need to prepare accruals based accounts, or comply with the SORP, look at the advice on the Commission and OSCR websites, detailed at the end of this section.

Receipts and payments accounts

As noted above if your charity's income is £100,000 or less then provided your charity is not a company you can prepare receipts and payments accounts. If you prepare receipts and payments accounts then the accounting recommendations of the SORP do not apply to your accounts at all.

Receipts and payments accounts are basically a statement of the cash you received and what you spent it on. You do not have to summarise the income and expenditure according to the activities that you undertook during the year, you may summarise your receipts and payments in any way you feel is helpful to those using the information. However, you do need to say what assets (things that you own or sums of money owed to your charity) and liabilities (money that you owe to others) you have and these should be listed in what is called a Statement of Assets and Liabilities (Statement of Balances in Scotland). If you have land, property or other assets used by the charity in its work, you do not have to value them if that is difficult provided you describe them in your statement of assets and liabilities unless the charity is registered with OSCR in which case values for assets and liabilities must be provided within the Statement of Balances.

If your charity is registered in Scotland, your receipts and payments accounts must be set out in a particular way. For more information on the layout please refer to the OSCR website detailed at the end of this section.

For small charities preparing receipts and payments accounts, both the Commission and OSCR provide guidance on the form and content of the trustees' annual report via their websites which are detailed at the end of this section. As explained above, the annual report for a small charity need not be as detailed as those of larger charities who are expected to follow the recommendations of the SORP in full.

Accruals accounts and small charities

If you are preparing accruals accounts, whatever type of charity you are (a trust, an association, or a company), you are required to prepare, in accordance with the SORP, what are called 'primary' financial statements.

These are:

1. A Statement of Financial Activities (SOFA) which describes all of your sources of income and expenditure.
2. A balance sheet which tells readers what cash you have in the bank and what other assets and liabilities you have.

In addition, notes to the accounts should be given which explain in more detail how your income and expenditure is made up, and gives extra information about particular assets and liabilities or particular payments, for example on payments to trustees.

The SORP allows small charities considerable freedom in how they set out their SOFA and Appendix 5 of this SORP sets out the simpler requirements applying to small charities.

The Trustees' Annual Report and small charities

In addition to the financial information provided by accounts, the SORP also requires you to produce a written explanation of what activities and plans your charity had for the year in question and how you did against what you planned to do. This information is to help those people who read your annual report and accounts (who may be donors, funders, beneficiaries or suppliers) to understand your work and to be reassured that you are managing your charity well. Your written explanation should expand on some of the detail contained in your accounts. This narrative information is contained in a report which accompanies the accounts and is known as the trustees' annual report.

If you are a small charity, which for the trustees' annual report purposes means your charity is below the audit threshold, the information you provide in the written section will not need to be detailed. You are allowed to keep it simple and easy to understand. All you need to do is provide a summary of the activities you undertook during the year and how they help to support your charity's objectives (particularly your charitable objects which you will have defined in your governing document).

To help people understand the financial aspects of your charity when they are reading your report and accounts, you need to explain what your reserves policy is (ie what money you have set aside for a 'rainy day' and why); whether there is any aspect of your finances where you are in deficit, why that deficit arose and what, if anything, you are doing to deal with the deficit.

However the annual report is designed to help people understand what you do and how you do it. So it makes sense for small charities to follow as many of the recommendations contained in the SORP as is reasonable depending upon the size of your charity. If you wish to provide more information because you believe it will help the readers of your annual report and accounts, then you are free so to do, but you do not have to provide extra information.

A checklist for the simplified annual report for small charities is set out in table 11 of Appendix 5 of this SORP.

If your charity is also registered as a company with Companies House then you also need to ensure that your annual report and accounts comply with company law. For more information about these requirements see the Companies House website: <http://www.companieshouse.gov.uk>

Further sources of advice

Whether preparing accruals accounts or receipts and payments accounts, the Charity Commission provides model packs with model accounts formats, trustees' annual report and independent examiner's report templates and additional advice. The Office of the Scottish Charity Regulator provides a model pack for receipts and payments accounts including trustees' annual report and independent examiner's report templates as well as accounts formats and example accounts.

Access to resources is via the home pages on the internet for:

The Charity Commission
<http://www.charitycommission.gov.uk>

The Office of the Scottish Charity Regulator
<http://www.oscr.org.uk>

The Charity Commission Direct facility also offers help line support for charities in England and Wales to do with the SORP, accessible via the home page or by telephone 0845 3000 218 or for hearing impaired callers 0845 3000 219.

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Introduction

Effective Date of Commencement

- 1 This Charities Statement of Recommended Practice (SORP) is applicable to all accounting periods beginning on or after 1 April 2005. Early adoption is encouraged.

The Objectives

- 2 The objectives of publishing these recommendations include:
 - (a) improving the quality of financial reporting by charities;
 - (b) enhancing the relevance, comparability and understandability of information presented in accounts;
 - (c) providing clarification, explanation and interpretation of accounting standards and of their application in the charities sector and to sector specific transactions; and thereby
 - (d) assisting those who are responsible for the preparation of the Trustees' Annual Report and Accounts

Scope

- 3 The accounting recommendations of this SORP apply to all charities in the United Kingdom that prepare accounts on the accruals basis to give a true and fair view of a charity's financial activities and financial position regardless of their size, constitution or complexity.
- 4 Each accounting recommendation should be considered in the context of what is material (Glossary GL 42) to the particular charity.
- 5 Where a separate SORP exists for a particular class of charities (eg SORPs applicable to Registered Social Landlords and to Further and Higher Education institutions), the charity trustees of charities in that class should adhere to that SORP and any reporting requirements placed on such charities by charity law.
- 6 The accounting recommendations of this SORP do not apply to charities preparing cash-based receipts and payments accounts, though such charities are encouraged to adopt the activity approach provided in this SORP (see paragraph 93) to the analysis of their receipts and payments (see Appendix 5). In Scotland the form and content of receipts and payments accounts is governed by Regulations.

- 7 The SORP recognises that particular accounting disclosures and the activity basis for the analysis of income and cost within the SoFA may not be relevant information for the users of accruals accounts prepared by smaller charities. The concessions for smaller charities are summarised in Appendix 5.

- 8 Whilst charities in the Republic of Ireland do not fall within the scope of this SORP they may choose to comply with its recommendations. If charities based in the Republic of Ireland choose to adopt this SORP's recommendations they are encouraged to disclose that fact.

- 9 Charity accounts are accompanied and complemented by information that does not form part of the financial statements. Within the United Kingdom such accompanying information is primarily provided by charities through a Trustees' Annual Report. As is explained in paragraph 24, the legal requirements for an annual report and its contents differ according to the charity reporting frameworks that apply within the separate legal jurisdictions of the UK. The SORP recognises that such accompanying information is of high importance for users of charity accounts in understanding the activities and achievements of a charity as a whole and therefore provides best practice recommendations for the content of such reports. In England and Wales and Scotland these best practice recommendations are underpinned by law, in Northern Ireland whilst the recommendations are considered to be consistent with the law they should be regarded as voluntary best practice recommendations supplementing legal requirements.

Purpose of Trustees' Annual Report and Accounts

- 10 The purpose of preparing a Trustees' Annual Report and Accounts is to discharge the charity trustees' duty of public accountability and stewardship. This SORP sets out recommended accounting practice for this purpose but charity trustees should consider providing such additional information as is needed to give donors, beneficiaries and the general public a greater insight into the charity's activities and achievements. Accounts prepared on the basis of this SORP are not a substitute for management accounts required to run the charity on a daily basis, though both will draw on the same primary financial records.

- 11 Charities are highly disparate in character, so any comparison of the financial information they produce should be undertaken with care, even if the charities involved seem to be similar. Essentially the accounts should include all the money and other assets entrusted to the charity for whatever purpose, and show how they have been expended during the year and how the balance of each fund is deployed at the end of the accounting period.
- 12 The balance sheet is not necessarily a measure of the wealth of the charity but does show the resources available, what form those resources take and how they are held in the different funds, and provides information about the liquidity of assets and general solvency.
- 13 The Statement of Financial Activities provides information as to how a charity receives and applies its resources to meet its objectives. It is not intended to demonstrate a charity's efficiency.
- 14 Accounts focus on financial performance and in isolation do not give the reader a perspective of what has been achieved from the activities undertaken and the resources expended in their delivery. The SORP recognises these limitations and places significant weight on the Trustees' Annual Report to provide a necessary link between objectives, strategies, activities and the achievements that flow from them. Without this information the value of the accounts to the reader may be significantly diminished.
- 15 The Trustees' Annual Report and Accounts should therefore:
 - (a) provide timely and regular information on the charity and its funds;
 - (b) enable the reader to understand the charity's objectives, structure, activities and achievements; and
 - (c) enable the reader to gain a full and proper appreciation of the charity's financial transactions during the year and of the position of its funds at the end of the year.

How to Use the SORP

- 16 This SORP recommends particular accounting treatments and provides guidance on the application of accounting standards (compliance with which is considered necessary, in all save exceptional circumstances, to meet the legal requirement to give a true and fair view) in a manner which takes account of the particular circumstances of charities. In all but exceptional circumstances, charities preparing accruals accounts should follow this SORP's accounting recommendations to assist in ensuring that their accounts give a true and fair view.
- 17 There will be few, if any, charities preparing accruals accounts to which all parts of this SORP apply since it caters for a wide variety of charity activities and transactions. Charities do not have to follow those sections which do not apply to them. For example, advice on how to account for gifts in kind and the proceeds of trading activities will not apply to all charities. Readers whose charity does not have receipts from those sources may safely pass over the sections dealing with them and any other sections which do not apply to their charity's own activities. However, there are several sections which will apply to all or nearly all charities.
- 18 The main text of the SORP deals with the normal accounting practice for those charities producing accruals accounts. Small charities that are not subject to a statutory audit requirement may choose to apply a number of concessions available under the SORP in relation to both reporting disclosures and presentation. These concessions are summarised in Appendix 5.
- 19 Certain charities will have to meet additional requirements due to the transactions undertaken or the legal or operating structures adopted. The following sections set out additional recommendations applicable for:
 - (a) Consolidation of Subsidiary Undertakings – paragraphs 381 – 406.
 - (b) Accounting for Associates, Joint Ventures and Joint Arrangements – paragraphs 407 – 418.
 - (c) Charitable Companies – paragraphs 419 – 429.
 - (d) Accounting for Retirement Benefits – paragraphs 430 – 448
 - (e) Common Investment Funds and Investment Pooling Schemes – paragraphs 449 – 451

- 20 The accounting disclosure requirements have been separately identified throughout the SORP. Generally charities are only excused from a particular disclosure requirement where the item in question is not relevant to a charity or where disclosure would be immaterial for the user of the accounts. For example, investment disclosures are not required if a charity has no investments. Certain other disclosures, for example, remuneration of trustees, provide information of significance to the reader and require a “nil” disclosure in the event of no remuneration being paid. Where such a “nil” disclosure is required, this is specifically stated in the relevant disclosure recommendation.
- 21 The main obligation of charity trustees in preparing accruals accounts is to give a true and fair view of the charity’s incoming resources and application of resources during the year and of its state of affairs at the end of the year. To achieve this, the charity trustees’ judgement may dictate the disclosure of more information than specifically recommended in this SORP. Similarly charity trustees may occasionally find that following a recommendation is incompatible with the obligation to give a true and fair view. They should then use the alternative accounting treatment which gives a true and fair view and provide particulars within the accounting policy notes (in accordance with paragraph 359) of any material departure from the recommendations in this SORP. A departure from the SORP is not justified simply because it gives the reader a more appealing picture of the financial position or results of the charity.

The SORP and the Law

- 22 The SORP is compatible with the requirements of the law. The SORP clarifies how charity accounting is affected by legal requirements, including aspects of trust law. It provides the charity sector with an interpretation of accounting standards and principles and clarifies the accounting treatment for sector specific transactions. In so doing, applying the SORP enables the preparers of charity accounts to meet their legal or other reporting duties for their accounts to give a true and fair view.
- 23 Charity trustees should include any additional information which they are required by law to report and in order for the accounts to comply with current statutory requirements or the requirements of the charity’s governing document to the extent that these exceed statutory requirements.
- 24 The legal requirements for a Trustees’ Annual Report and its contents differ according to the charity reporting frameworks that apply within the separate legal jurisdictions of the UK. The SORP provides best practice recommendations that in England, Wales and Scotland are underpinned by law. In Northern Ireland, whilst the recommendations are considered to be consistent with the law they should be regarded as voluntary best practice recommendations supplementing legal requirements.
- 25 The charity trustees (see glossary GL 7) are jointly responsible for the preparation of the Annual Report and Accounts which should be approved by the charity trustees as a body in accordance with their usual procedures and both documents should be signed on behalf of the charity trustees by one of their number authorised so to do or as otherwise required by law. The date of approval should be stated.
- 26 Any audit, independent examination or other statutory report on the accounts should be attached to the accounts when they are distributed or made available to users of financial information.
- 27 The primary legislative sources as at 1 April 2008 that contain requirements relating to the form and content of charity accounts and reports prepared under this SORP include:
- (a) The Charities Act 1993 (as amended by the Charities Act 2006) and Regulations made thereunder;
 - (b) The Companies Act 1985 and 1989 and 2006;
 - (c) The Industrial and Provident Societies Acts 1965 to 2002;
 - (d) The Charities and Trustee Investment (Scotland) Act 2005 and Regulations made thereunder.
- 28 Charitable companies governed by the requirements of the Companies Act 2006 should refer to paragraphs 419 and 429 that provide recommendations as to how the particular requirements of company law should be addressed within charity accounts.
- 29 Table 1 below summarises the legislative framework applying to the accounts of charities within the UK not reporting under company law.

Table 1. Legislative Framework for Charity Accounts in the United Kingdom

Country	Charity authority	Act(s) Governing Charities	Registration and Filing of Accounts	Preparation of Accounts
England and Wales	Charity Commission for England and Wales	Part VI Charities Act 1993 (as amended by the Charities Act 2006), and applicable Regulations	The Charity Commission is responsible for the supervision and regulation of charities that are not exempt and maintains a public register of charities that are not exempt or excepted. Trustees' Annual Report and accounts must be filed by all registered charities with gross income of over £10,000.	All charities required to prepare accounts. Registered and excepted charities follow Regulations. Exempt charities follow relevant legislation or governing documents or prepare income and expenditure account and balance sheet.
Scotland	Office of the Scottish Charity Regulator	Charities and Trustee Investment (Scotland) Act 2005 and applicable Regulations	The Office of the Scottish Charity Regulator is responsible for the supervision and regulation of all charities in Scotland. Trustees' Annual Report and accounts must be filed by all charities entered on the Scottish Charity Register.	All charities required to prepare accounts. Registered charities follow Regulations.
Northern Ireland	Department for Social Development	Charities Act (Northern Ireland) 1964 and the Charities (Northern Ireland) Order 1987	There is no register of charities for Northern Ireland, and no requirement for accounts to be filed with the Department except where this is specifically directed by the High Court of Justice in Northern Ireland or the Department acting under specific statutory powers.	Section 27 of the Charities Act (Northern Ireland) 1964 requires the trustees of a charity to keep proper accounts and preserve them for at least 7 years.

Accounts Structure

- 30 Charity accruals accounts should comprise:
- (a) a Statement of Financial Activities for the year that shows all incoming resources and all resources expended by it and reconciles all changes in its funds. The statement should consist of a single set of accounting statements and be presented in columnar form if the charity operates more than one class of fund;
 - (b) an income and expenditure account where this is a legal requirement. In certain circumstances the Statement of Financial Activities will also meet the legal requirements for an Income and Expenditure Account. Where the two statements are combined this should be identified in the heading of the statement. Paragraphs 423 to 426 fully describe the circumstances in which a summary income and expenditure account is necessary for companies in addition to the Statement of Financial Activities;
 - (c) a balance sheet that shows the recognised assets, the liabilities and the different categories of fund of the charity;
 - (d) a cash flow statement, where required, in accordance with accounting standards; and
 - (e) notes explaining the accounting policies adopted (as set out in paragraphs 356 to 370) and other notes which explain or expand upon the information contained in the accounting statements referred to above or which provide further useful information. This will include notes analysing the figures in the accounts and explaining the relationships between them.
- 31 The corresponding figures for the previous accounting period should be provided in the accounts in accordance with generally accepted accounting practice. The duration of the current and previous accounting periods should also be shown.

- 32 The Statement of Financial Activities, the income and expenditure account (or summary), the balance sheet and the cash flow statement (where required), are all considered to be “primary statements”, and should therefore be given equal prominence in the accounts and should not be relegated to the notes to the accounts.
- 33 Where any charity is, or its trustees are, acting as custodian trustees, they should not include the funds they hold as custodian in their own balance sheet but should disclose them by way of a note to their accounts and provide the details, set out in paragraph 59 below, in their Trustees’ Annual Report.

Summary Financial Information

- 34 Where summary financial information of any kind is prepared (including financial information contained in publicity or fundraising material and annual reviews), charity trustees are reminded that these accounts should always be fair and accurate. This is dealt with in paragraphs 371 to 379.

Trustees’ Annual Report

- 35 Charity accounts alone do not meet all the information needs of users who will usually have to supplement the information they obtain from the accounts with information from other sources. Accounts also have inherent limitations in terms of their ability to reflect the full impact of transactions or activities undertaken and do not provide information on matters such as structures, governance and management arrangements adopted by a charity. The accounts of a charity cannot alone easily portray what the charity has done (its outputs) or achieved (its outcomes) or what difference it has made (its impact). This is mainly because many of these areas cannot be measured in monetary terms: indeed some areas are difficult to measure with any numbers at all. The Trustees’ Annual Report provides the opportunity for charity trustees to explain the areas that the accounts do not explain.

- 36 Charity accounts should therefore be accompanied and complemented by information contained within the Trustees' Annual Report. The Trustees' Annual Report should be a coherent document that meets the requirements of law and regulation and provides a fair review of the charity's structure, aims, objectives, activities and performance. Good reporting will explain what the charity is trying to do and how it is going about it. It will assist the user of accounts in addressing the progress made by the charity against its objectives for the year and in understanding its plans for the future. Good reporting will also explain the charity's governance and management structure and enable the reader to understand how the numerical part of the accounts relates to the organisational structure and activities of the charity (see paragraphs 44 to 59)
- As part of the report, or attached to it, a statement containing the reference and administrative details of the charity as described in paragraphs 41 to 43 will inform the reader who are the charity's trustees and its advisers and will provide other relevant legal or administrative information.
- 37 Responsibility for preparing the Trustees' Annual Report rests with the charity trustees. It provides important accompanying information to the accounts and should therefore be attached to the accounts whenever a full set of accounts is distributed or otherwise made available.
- 38 Legal requirements and this SORP do not limit the inclusion of other information within the Trustees' Annual Report or as additional information accompanying the accounts. Charity trustees may incorporate other material into their annual reporting, for example a chairman's report, environment report, impact assessment or an operating and financial review (see Glossary GL 43).
- 39 Charities may additionally use other means of providing information, outside of the accounting and reporting framework, about who they are and what they do. Such information is often tailored for the needs of particular audiences and presented through annual reviews, newsletters and websites. Whilst charity trustees might usefully refer to these other sources of information within their Trustees' Annual Report, such additional information should not be seen as a substitute for good statutory annual reporting.
- 40 Charitable companies must also prepare a Directors' Report (see paragraph 420) in order to meet the requirement of Section 415 of the Companies Act 2006 and applicable Regulations. A separate Trustees' Annual Report is not required provided that any statutory Directors' Report prepared also contains all the information required to be provided in the Trustees' Annual Report.

Content of the Trustees' Annual Report

Reference and Administrative Details of the Charity, its Trustees and Advisers

- 41 The report should provide the following reference and administrative information about the charity, its trustees and advisers:
- (a) The name of the charity, which in the case of a registered charity means the name by which it is registered. Any other name by which a charity makes itself known should also be provided;
 - (b) The charity registration number (in Scotland the Scottish Charity Number) and, if applicable, the company registration number;
 - (c) The address of the principal office of the charity and in the case of a charitable company the address of its registered office;
 - (d) The names of all of those who were the charity's trustees (Glossary GL 7) or a trustee for the charity (Glossary GL 59) on the date the report was approved. Where there are more than 50 charity trustees, the names of at least 50 of those trustees (including all the officers of the charity, eg chair, treasurer etc) should be provided. Where any charity trustee disclosed is a body corporate, the names of the directors of the body corporate on that date.
 - (e) The name of any other person who served as a charity trustee (Glossary GL 7) or as a trustee for the charity (Glossary GL 59) in the financial year in question.
 - (f) The name of any Chief Executive Officer or other senior staff member(s) to whom day to day management of the charity is delegated by the charity trustees.
 - (g) The names and addresses of any other relevant organisations or persons. This should include the names and addresses of those acting as bankers, solicitors, auditor (or independent examiner or reporting accountant) and investment or other principal advisers.
- 42 Where the disclosure of the names of any charity trustee, trustee for the charity, senior staff member, or person with the power of appointment, or of the charity's principal address could lead to that person being placed in personal danger (eg in the case of a women's refuge), the charity trustees may dispense with

the disclosure provided that (for charities in England and Wales), the Charity Commission has given the trustees the authority so to do. For charities in Scotland there is also provision (under charity law) for such information to be excluded. It is recommended that the reasons for non-disclosure should be given in the report. The directors of charitable companies should note that, with the exception of the details of the charitable company's auditor, there is no corresponding dispensation in relation to the disclosure requirements for the statutory directors' report.

- 43 Charities that are not subject to a statutory audit requirement may omit the disclosures in 41(f) and 41(g) above. However the disclosure of these items is encouraged as a matter of good practice.

Structure, Governance and Management

- 44 The report should provide the reader with an understanding of how the charity is constituted, its organisational structure and how its trustees are appointed and trained and assist the reader to understand better how the charity's decision-making processes operate. The level of detail provided in the report is likely to be dependent on the size and complexity of the charity and be proportionate to the needs of the users of the report. In particular, the report should explain:
- (a) The nature of the governing document (eg trust deed; memorandum and articles of association; Charity Commission Scheme; Royal Charter; etc) and how the charity is (or its trustees are) constituted (eg limited company; unincorporated association; trustees incorporated as a body; etc).
 - (b) The methods adopted for the recruitment and appointment of new trustees, including details of any constitutional provisions relating to appointments, for example, election to post. Where any other person or body external to the charity is entitled to appoint one or more of the charity trustees this should be explained together with the name of that person or body (subject to paragraph 42 above – where disclosure of a person's name could lead to personal danger).
 - (c) The policies and procedures adopted for the induction and training of trustees.

- (d) The organisational structure of the charity and how decisions are made. For example, which types of decisions are taken by the charity trustees and which are delegated to staff.
 - (e) Where the charity is part of a wider network (for example charities affiliated within an umbrella group) then the relationship involved should also be explained where this impacts on the operating policies adopted by the charity.
 - (f) The relationships between the charity and related parties, including its subsidiaries (see paragraphs 221 to 229 and Glossary GL 50) and with any other charities and organisations with which it co-operates in the pursuit of its charitable objectives.
- 45 A statement should be provided confirming that the major risks to which the charity is exposed, as identified by the trustees, have been reviewed and systems or procedures have been established to manage those risks.
- 46 Charities that are not subject to a statutory audit requirement may limit their disclosures within this section to those set out in paragraph 44 (a) and (b) above. The additional disclosures of this section are encouraged as a matter of good practice.

Objectives and Activities

- 47 The report should help the reader understand the aims and objectives set by the charity, and the strategies and activities undertaken to achieve them. The report may also, where relevant, explain how the objectives set for the year relate to longer term strategies and objectives set by the charity. Where significant activities are undertaken through subsidiary undertakings, these should be explained in the report. In particular the report should provide:
- (a) A summary of the objects of the charity as set out in its governing document.
 - (b) An explanation of the charity's aims including the changes or differences it seeks to make through its activities.
 - (c) An explanation of the charity's main objectives for the year.
 - (d) An explanation of the charity's strategies for achieving its stated objectives.
- (e) Details of significant activities (including its main programmes, projects, or services provided) that contribute to the achievement of the stated objectives.
 - (f) In England and Wales, the Charities (Accounts and Reports) Regulations 2008 specifically requires the report to address those activities undertaken to further a charity's purposes for the public benefit and a statement that the trustees have had regard to Charity Commission guidance on public benefit.
- 48 The details of significant activities provided should focus on those activities that the charity trustees consider to be significant in the circumstances of the charity as a whole. The details of activities should, as a minimum, explain the objectives, activities, projects or services identified within the analysis note accompanying charitable activities in the Statement of Financial Activities (see paragraphs 191 to 194).
- 49 Where the charity conducts a material part of its activities through grantmaking, a statement should be provided setting out its grantmaking policies.
- 50 Where social or programme related investment (Glossary GL 47) activities are material in the context of charitable activities undertaken, the policies adopted in making such investments should be explained.
- 51 Where a charity makes significant use of volunteers in the course of undertaking its charitable or income generating activities this should be explained. Whilst measurement issues, including attributing an economic value to such unpaid voluntary contributions, prevents the inclusion of such contributions within the Statement of Financial Activities (see paragraph 133), it is nevertheless important for readers to be provided with sufficient information to understand the role and contribution of volunteers. Such information may, for example, explain the activities that volunteers help provide, quantify the contribution in terms of hours or staff equivalents, and may present an indicative value of this contribution.
- 52 Charities that are not subject to a statutory audit requirement may limit their disclosures within this section to that set out in paragraph 47(a) above, together with providing a summary of the main activities undertaken in relation to those objects. The additional disclosures of this section are encouraged as a matter of good practice.

Achievements and Performance

53 The report should contain information that enables the reader to understand and assess the achievements of the charity and its subsidiary undertakings in the year. It should provide a review of its performance against objectives that have been set. The report is likely to provide both qualitative and quantitative information that helps explain achievement and performance. It will often be helpful to identify any indicators, milestones and benchmarks against which the achievement of objectives is assessed by the charity. In particular, the report should contain:

- (a) A review of charitable activities undertaken that explains the performance achieved against objectives set. Where qualitative or quantitative information is used to assess the outcome of activities, a summary of the measures or indicators used to assess achievement should be included.
- (b) Where material fundraising activities are undertaken, details of the performance achieved against fundraising objectives set, commenting on any material expenditure for future income generation and explaining the effect on the current period's fundraising return and anticipated income generation in future periods.
- (c) Where material investments are held, details of the investment performance achieved against the investment objectives set.
- (d) Comment on those factors within and outside the charity's control which are relevant to the achievement of its objectives; these might include relationship with employees, users, beneficiaries, funders and the charity's position in the wider community.

54 Charities that are not subject to a statutory audit requirement may limit their disclosures within this section to providing a summary of the main achievements of the charity during the year. The additional disclosures of this section are encouraged as a matter of good practice.

Financial Review

55 The report should contain a review of the financial position of the charity and its subsidiaries and a statement of the principal financial management policies adopted in the year. In particular, the report should explain the charity's:

(a) Policy on reserves (Glossary GL 51) stating the level of reserves held and why they are held.

Where material funds have been designated, the reserves policy statement should quantify and explain the purpose of the designations and, where set aside for future expenditure, the likely timing of that expenditure.

- (b) Where any fund is materially in deficit, the circumstances giving rise to the deficit and details of the steps being taken to eliminate the deficit.
- (c) Principal funding sources and how expenditure in the year under review has supported the key objectives of the charity.
- (d) Where material investments are held, the investment policy and objectives, including the extent (if any) to which social, environmental or ethical considerations are taken into account.

56 Charities that are not subject to a statutory audit requirement may limit their disclosures within this section to those set out in paragraph 55(a) and 55(b) above.

Plans for Future Periods

57 The report should explain the charity's plans for the future including the aims and key objectives it has set for future periods together with details of any activities planned to achieve them.

58 Charities that are not subject to a statutory audit requirement may omit this disclosure although disclosure of this matter is encouraged as a matter of good practice.

Funds Held as Custodian Trustee on Behalf of Others

59 Where a charity is, or its trustees are, acting as custodian trustees, the following matters should be disclosed in the report:

- (a) A description of the assets which they hold in this capacity.
- (b) The name and objects of the charity (or charities) on whose behalf the assets are held and how this activity falls within their own objects.
- (c) Details of the arrangements for safe custody and segregation of such assets from the charity's own assets.

General Accounting Principles

Fundamental Accounting Concepts

- 60 Accounts intending to show a true and fair view must be prepared on the going concern assumption and the accruals concept and provide information that is relevant, reliable, comparable and understandable (see Appendix 2: FRS 18).

Accounting Standards

- 61 In meeting the obligation to prepare accounts showing a true and fair view (see paragraph 21) accruals accounts should follow the standards and principles issued or adopted by the Accounting Standards Board, or its predecessors or successors as set out in:

(a) Statements of Standard Accounting Practice (SSAPs);

(b) Financial Reporting Standards (FRSs);

(c) Urgent Issues Task Force abstracts (UITFs);

And in addition take note of:

(d) The Interpretation for Public Benefit Entities of the Statement of Principles for Financial Reporting (June 2007).

This SORP provides guidance and recommendations that supplement accounting standards in the light of the special factors prevailing or transactions undertaken with the charity sector and, as with the law, does not seek to repeat all of their requirements. Appendix 2 provides a summary of these accounting standards and of their general applicability to charities.

- 62 Appendix 5 explains how the Financial Reporting Standard for Smaller Entities (FRSSE) can be applied by charities (whether or not they are companies) which are under the thresholds for small companies as described in the Companies Acts (see Appendix 4).
- 63 UK accounting standards provide the financial reporting framework under which this SORP has been developed. In the UK, compliance with companies' legislation presently requires compliance with UK accounting standards as does charity legislation in England, Wales and Scotland through its adoption of the methods and principles of this SORP. Section 395 (2) of the Companies Act 2006 requires that a charity must prepare Companies Act individual accounts

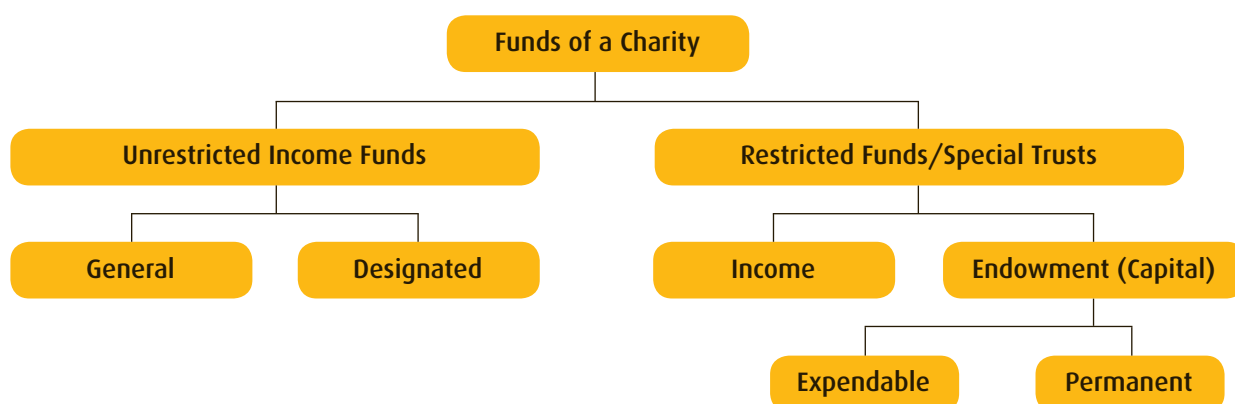
and section 403 (3) requires that where charities prepare group accounts they prepare Companies Act group accounts. Therefore charities cannot prepare their statutory accounts in accordance with international accounting standards.

- 64 Currently the Accounting Standards Board is undertaking a phased approach to convergence of UK accounting standards with IFRS. This includes new standards effective in 2005 and 2006 and thereafter a series of 'step changes' replacing one or more existing UK accounting standards with standards based on IFRS as their development is completed. This SORP will continue to be reviewed in line with the Accounting Standards Board's Policy and Code of Practice to reflect changes in UK standards, including those arising from the convergence process.

Accounting for Separate Funds

- 65 The main purpose of the accounts is to give an overall view of the total incoming resources during the year and how they have been expended, with a balance sheet to show the overall financial position at the year end. There are additional requirements for charities that have to account for more than one fund (Glossary GL 27) under their control. The accounts should provide a summary of the main funds, differentiating in particular between the unrestricted income funds, restricted income funds and endowment funds (see figure 1). The columnar format of the Statement of Financial Activities (and of the balance sheet, where the option is taken to use a columnar presentation of funds) is designed to achieve this. Depending on the materiality (Glossary GL 42) of each, the notes to the accounts should group the restricted funds under one or more heads.
- 66 Charities need to account for the proper administration of the individual funds in accordance with their respective terms of trust and accounting records must be kept in a way which will adequately separate transactions between different funds. Some charities may hold one or more restricted funds, some of which may be permanent or expendable endowment funds. Appendix 3 explains in detail the legal position as regards transactions involving these various funds. The position is summarised in the following paragraphs 67 to 76.

Figure 1 - The types of funds of charities



**Unrestricted Income Funds
(Including Designated Funds) (see also Appendix 3)**

- 67 Nearly all charities have a fund which is available to the trustees to apply for the general purposes of the charity as set out in its governing document. This is the charity's "unrestricted" fund (sometimes called a "general" fund) because the trustees are free to use it for any of the charity's purposes. Income generated from assets held in an unrestricted fund will be unrestricted income.
- 68 The trustees may earmark part of the charity's unrestricted funds to be used for particular purposes in the future. Such sums are described as "designated funds" and should be accounted for as part of the charity's unrestricted funds. The trustees have the power to re-designate such funds within unrestricted funds. When a designation has been made at the balance sheet date, the amount of the designation may be adjusted subsequent to the year end if more accurate information becomes available (see Appendix 2 FRS 21).

Restricted Funds (see also Appendix 3)

- 69 Many charities hold funds that can only be applied for particular purposes within their objects. These are restricted funds and have to be separately accounted for. The restriction may apply to the use of income or capital or both. Income generated from assets held in a restricted fund (eg interest) will be legally subject to the same restriction as the original fund unless either:
 - (a) the terms of the original restriction specifically say otherwise (for example, the expressed wishes of a donor or the terms of an appeal), or
 - (b) the restricted fund is an endowment fund, the income of which is expendable at the discretion of the trustees.

Endowment Funds (see also Appendix 3)

- 70 One form of restricted fund is an "endowment", which is held on trust to be retained for the benefit of the charity as a capital fund. Where the trustees must permanently maintain the whole of the fund it is known as permanent endowment. Such a fund may consist of investment assets and/or assets that are used for the purposes of the charity. Such a fund cannot normally be spent as if it were income.
- 71 In some instances the trustees may have a power of discretion to convert endowed capital into income in which case the fund is known as expendable endowment.
- 72 The initial gift and subsequent increases and decreases in the amount of any endowment funds should be shown in the Statement of Financial Activities as part of those funds.

Gains and Losses

- 73 Realised and unrealised gains and losses on assets held in a particular fund form part of that fund.

Similarly, provisions for depreciation, or for a permanent fall in value of assets form part of the fund in which the asset is held.

Reconciliation of Funds

- 74 The Statement of Financial Activities should reflect the principal movements between the opening and closing balances on all the funds of the charity. It should be analysed between unrestricted income funds, restricted income funds and endowment funds (permanent and expendable combined).

Particulars of Individual Funds and Notes to the Accounts

- 75 The notes to the accounts should provide information on the structure of the charity's funds so as to disclose the fund balances and the reasons for them, differentiating between unrestricted income funds (both general and designated), restricted income funds, permanent endowment and expendable endowment as well as identifying any material individual funds among them. In particular:
- (a) The assets and liabilities representing each type of fund of the charity should be clearly summarised and analysed (eg investments, fixed assets, net current assets) between those funds unless this information is presented in a columnar balance sheet (see paragraph 248).
 - (b) Disclosure of how each of the funds has arisen (including designated funds), the restrictions imposed and the purpose of each fund should be provided. An indication should also be given as to whether or not sufficient resources are held in an appropriate form to enable each fund to be applied in accordance with any restrictions. For example, if a charity has a fund which is to be spent in the near future, it should be made clear in the notes whether or not the assets held (or expected to be received) in the fund are liquid assets.
 - (c) Any funds in deficit should always be separately disclosed. An explanation should be given in the Trustees' Annual Report (see paragraph 55(b)). Designated funds should never be in deficit.
 - (d) Material transfers between different funds and allocations to designated funds should be separately disclosed, without netting off, and should be accompanied by an explanation of the nature of the transfers or allocations and the reasons for them.
 - (e) Where, in relation to permanent endowment, a total return approach to investments has been adopted, the notes to the accounts should give particulars of the movements in the value of the unapplied total return for the financial year. The note should reconcile the balance held as unapplied total return at the beginning with that at the end of the financial year. (See Appendix 3 paragraphs 3(g) to 3(k))
- 76 Separate sets of statements may be produced for each major fund and linked to a total summary. The trustees should decide on the most suitable form of presentation, bearing in mind:
- (a) the complexity of the fund structure,
 - (b) the need for the total provided in the summary to agree to the primary statements (Statement of Financial Activities and Balance Sheet), and
 - (c) the need to avoid confusion between the movements on the various funds.
- An example of a suitable summary is given in Table 2:

Table 2. Outline Summary of Fund Movements

Fund Name	Fund Balances brought forward £	Incoming Resources £	Outgoing Resources £	Transfers £	Gains and Losses £	Fund Balances carried forward £
Major Fund 1						
Major Fund 2						
Major Fund 3						
Other Funds						
Total Funds						

Branches

- 77 Before preparing accounts, trustees must be quite clear as to the legal structure of the charity. A charity may operate through “branches” to raise funds and/or carry out its charitable purposes. Branches as defined in the Glossary (GL 4) will be accounted for as part of the whole charity. But if both reporting charity and the “branch(es)” are companies, company law requires each entity to prepare its own accounts. In such a case, one Trustees’ Annual Report should normally be prepared to cover both the reporting charity and its branch(es) and consolidated accounts should be prepared in accordance with paragraphs 381 to 406.
- 78 Separate legal entities which may be known as branches but do not fall within the definition of a branch in the Glossary should prepare their own Annual Report and Accounts and, if they are connected charities, the relationship should be explained in the Trustees’ Annual Report (see paragraph 44(f)).
- 79 All branch transactions should be accounted for gross in the reporting charity’s own accounts excluding those transactions which net off eg. branch to branch transactions or those between the branches and the head office. Similarly all assets and liabilities of the branch including, for example, funds raised but not remitted to the reporting charity at the year end, should be incorporated into the reporting charity’s own balance sheet. This provision need not apply where the transactions and balances of the branches in aggregate are not material to the charity’s accounts.
- 80 Funds raised by a branch for the general charitable purposes of the reporting charity will be accounted for as unrestricted funds in the accounts of the reporting charity. Funds raised by a branch for specific purposes of the reporting charity will need to be accounted for as restricted funds in the accounts of the reporting charity. Funds held for the general purposes of a branch which is a separate charity should usually be accounted for as restricted funds in the accounts of the reporting charity.
- 81 Where a branch is not a separate legal entity, its accounts must form part of the accounts of the reporting charity, but it may be in the interests of local supporters and beneficiaries for additional accounts to be prepared covering only the branch.

Statement of Financial Activities

Introduction

82 The Statement of Financial Activities is a single accounting statement with the objective of showing all incoming resources and resources expended by the charity in the year on all its funds.

It is designed to show how the charity has used its resources in furtherance of its objects for the provision of benefit to its beneficiaries. It shows whether there has been a net inflow or outflow of resources, including capital gains and losses on assets, and provides a reconciliation of all movements in the charity's funds.

Presentation of Information

Structure of the Statement

83 In the Statement of Financial Activities the charity's incoming resources and resources expended should be analysed so that the reader can see where its resources came from and what it spent its resources on during the year. As a minimum it must also distinguish between unrestricted income funds, restricted income funds and the endowment funds of the charity. All of the charity's incoming resources and resources expended can be categorised between these funds (see Figure 1), but a charity will not necessarily have funds of all three types.

84 If it has more than one type of fund, the statement should show, in columns, the movements in the different types of funds as well as the total movements of all the funds. Comparative figures for the previous financial year, given on the face of the statement will normally only be given for the row totals (eg voluntary income, investment income etc) rather than for the analysis of each row across the various categories of funds.

Adaptation of Formats

85 The structure, format and activity categories of the Statement of Financial Activities are shown in Table 3 below.

86 The Statement of Financial Activities may be adapted to give a true and fair view, but disclosure requirements should always be met and the underlying structure should not be changed. Trustees should balance the provision of information with clarity.

87 The three columns in the Statement of Financial Activities providing an aggregate total for unrestricted, restricted and endowment funds of a charity will often contain several individual funds which will be explained in greater detail in the notes to the accounts (see paragraph 76). If any one of these funds (or a group of these funds) is of particular materiality and the charity trustees wish to draw the attention of readers to it, they may add additional columns to the Statement of Financial Activities to display such funds on the face of the SOFA rather than in notes. For example a school may have two unrestricted fund columns, one containing the resource movement connected with teaching, another welfare and other costs. Similarly a charity engaged in collecting funds to acquire fixed assets may have two restricted fund columns, one including all funds related to fixed assets acquisition and another for other restricted funds. Any additional analysis of this type provided on the face of the Statement of Financial Activities should make clear the type of fund (unrestricted, restricted or endowment) in the title and not mix up different types of fund.

88 Some charities may also find it informative to their readers to insert additional subtotals. For example, after row B1c (investment management costs), an additional subtotal "net incoming resources available for charitable application" may be added.

89 Charities should expand the structure, where necessary using notes, in order to present a true and fair view and convey a proper understanding of the nature of all their activities. Charities should, where possible, have a clear link between the incoming and outgoing resources and in particular activity analysis. Two examples of this are:

(a) a charity running a care home could use the sub-heading "Residential Care Fees" within row A2 (incoming resources from charitable activities) and "Residential Care Costs" in row B2 (resources expended on charitable activities);

(b) a charity fundraising through a shop could use the sub-heading "shops" within row A1b (activities for generating funds) and row B1b (fundraising trading costs).

Thus incoming resources and resources expended can be linked together by using similar or identical headings in different parts of the Statement of Financial Activities.

Table 3. Statement of Financial Activities

	Unrestricted Funds £	Restricted Funds £	Endowment Funds £	Total Funds £	Prior Year Total Funds £	Further Details £
A Incoming resources						
A1 Incoming resources from generated funds						
A1a Voluntary income						121-136
A1b Activities for generating funds						137-139
A1c Investment income						140-142
A2 Incoming resources from charitable activities						143-146
A3 Other incoming resources						147
Total incoming resources						
B Resources expended						
B1 Costs of generating funds						178-179
B1a Costs of generating voluntary income						180-184
B1b Fundraising trading; cost of goods sold and other costs						185-186
B1c Investment management costs						187
B2 Charitable activities						188-209
B3 Governance costs						210-212
B4 Other resources expended						213
Total resources expended						
Net incoming/outgoing resources before transfers						
Transfers						
C Gross transfers between funds						214-216
Net incoming resources before other recognised gains and losses						
D Other recognised gains/losses						
D1 Gains on revaluation of fixed assets for charity's own use						217-218
D2 Gains/losses on investment assets						219
D3 Actuarial gains/losses on defined benefit pension schemes						220
Net movement in funds						
E Reconciliation of Funds						
Total funds brought forward						
Total funds carried forward						

- 90 In order to comply with FRS 3, where a charity has discontinued any of its operations or acquired new ones, the accounts should distinguish between continuing, discontinued and acquired operations. This will normally apply to the whole of a distinctive type of activity of a charity but not to the development or cessation of new projects within that activity.
- 91 Category headings should be omitted where there is nothing to report in both the current and preceding periods. A charity may also vary the order in which it presents activity categories within the incoming resources and resources expended sections of the Statement of Financial Activities to meet its own presentational needs.
- 92 Where, as a result of adopting the activity approach, the categories shown in the Statement of Financial Activities change from those used in the prior year, comparatives will also need to be restated in accordance with FRS 18 (Appendix 2).
- 93 The classification of incoming resources and resources expended by activity is encouraged for all charities preparing accruals accounts. Smaller charities may be excused from adopting this approach by legislation recognising that such information is likely to be less relevant to the users of small charity accounts. Where a small charity adopts an alternative approach to analysis within the Statement of Financial Activities certain note disclosures may no longer be necessary, for example, where these disclosures relate to the constituent costs of an activity category or where relevant information is provided on the face of the Statement of Financial Activity. These concessions for smaller charities are summarised in Appendix 5.
- (b) certainty – when it is virtually certain that the incoming resource will be received;
- (c) measurement – when the monetary value of the incoming resource can be measured with sufficient reliability.
- 95 All incoming resources should be reported gross when raised by the charity (or by volunteers working at the charity’s direction) or its agents. However where funds are raised or collected for the charity by individuals not employed or contracted by the charity, the gross incoming resources of the charity are the proceeds remitted to the charity by the organisers of the event, after deducting their expenses.
- 96 Within the charity sector entitlement to incoming resources may arise from a wide variety of transactions varying from contractual (ie in exchange for goods or services of approximately equal value between a seller and a purchaser) to the receipt of unrestricted grants or donations (resources given to use on any of the charity’s purposes).
- 97 This SORP seeks to provide guidance on how such differing transactions can be distinguished. However, judgement will still be required in deciding how any individual transaction fits into this framework and in identifying those factors that are likely to lead to different accounting treatments for their recognition. The recommendations provided below set out how accounting standards and principles should be applied in the context of transactions that are commonly undertaken within the charity sector. In order to understand how accounting standards apply to different funding arrangements, charity trustees need to determine for each source of funds:

- What legal arrangements (eg contract or trust law) govern the terms of the arrangement and how any disputes arising are to be settled.
- Whether entitlement to the funding requires a specific performance to be achieved (a contract or performance related grant).
- Whether funds can be used for any of the purposes of the charity, or whether they can only be used for a specific purpose.

Incoming Resources

Recognition of Incoming Resources

General Rules

- 94 Incoming resources – both for income and endowment funds – should be recognised in the Statement of Financial Activities when the effect of a transaction or other event results in an increase in the charity’s assets. This will be dependent on the following three factors being met:
- (a) entitlement – normally arises when there is control over the rights or other access to the resource, enabling the charity to determine its future application;

Contractual Arrangements

- 98 Some charities earn income by providing goods and/or services in return for a fee as part of their charitable activities. Such contractual income is recognised as incoming resources in the Statement of Financial Activities to the extent that the charity has provided the goods and/or services. Where such incoming resources are received in advance then a charity may not have entitlement to these resources until the goods or services have been provided. In this situation incoming resources received in advance should be deferred (Glossary: GL 15) until the charity becomes entitled to the resources.
- 99 Certain grant funding arrangements may contain conditions that closely specify the service to be performed by the charity. The terms of such funding may be set out in a service level agreement where the conditions for payment are linked to the performance of a particular level of service or units of output delivered, for example, number of meals provided or the opening hours of a facility used by beneficiaries. Entitlement to the incoming resources derived from such performance-related grants (Glossary GL 45) may be conditional upon the delivery of the specified level of service and in such circumstances should be recognised as incoming resources to the extent that the charity has provided the services or goods.
- 100 Simply because a grant is restricted to a particular purpose of the recipient charity does not mean it should necessarily be recognised as a performance related grant. For a performance related grant entitlement to the incoming resource only arises with the performance of a specific output identified as a condition for the grant. Entitlement to the grant in such cases only arises as the performance conditions are met. This can be contrasted with a restriction that whilst limiting how a charity may expend funds to particular purposes does not require a specific and measurable output to be delivered by the recipient charity as a condition of a charity's entitlement to the funds. Such restricted grants are recognised on the basis set out in paragraphs 104 to 111.
- 101 Where charities receive membership subscriptions, these may be in the nature of a gift, or they may effectively buy services or access to certain privileges. Where the substance of the subscription is that of a gift, the incoming resource should be recognised on the same basis as a donation. If the subscription purchases the right to services or benefits, the incoming resource should be recognised as the service or benefit is provided. If the subscriber receives rights to such benefits evenly over the period of membership then recognising such membership income on a pro-rata basis for the period of time covered by the subscription may be an appropriate estimation technique for income recognition.
- 102 Charities may also, on occasions, undertake activities under a long-term contract. Owing to the length of time taken to complete such contracts, it is appropriate to take credit for ascertainable incoming resources and the cost of any resources expended while contracts are in progress in accordance with the guidance given in SSAP 9.
- 103 Application Note G to FRS 5 provides specific guidance on revenue recognition under long-term contractual arrangements. A charity should recognise incoming resources in respect of its performance under a long-term contract when, and to the extent that, it obtains entitlement to consideration. This should be derived from an assessment of the fair value of the goods or services provided to its reporting date as a proportion of the total fair value of the contract. There will be contracts where costs incurred to date reflect the work performed and in such circumstances it would be appropriate to calculate incoming resources recognised at the balance sheet date based on the proportion of costs incurred to date in comparison with total expenditure. In the case of services, it may be appropriate to use the time spent as a proportion of the total time to be spent to fulfil the contract where this provides a reasonable estimate of a charity's performance and therefore entitlement. The incurrence of costs by the charity, does not, in itself, justify the recognition of revenue.

Grants and Donations Receivable

- 104 A pre-requisite of recognition of a promised grant or donation is evidence of entitlement. Evidence will normally exist when the grant is formally expressed in writing. Where entitlement is demonstrable, and no conditions are attached, such promises should be recognised as incoming resources once the criteria of certainty and measurability are met.

- 105** Charities often receive grants or donations with conditions attached that must be fulfilled before the entity has unconditional entitlement (control) of the resources. Meeting such conditions may be either within the recipient charity's control or reliant on external factors outside its control. Where meeting such conditions is within the charity's control and there is sufficient evidence that the conditions will be met, then the incoming resource should be recognised. Where uncertainty exists as to whether the recipient charity can meet conditions within its control, the incoming resource should not be recognised but deferred as a liability until certainty exists that the conditions imposed can be met.
- 106** For example, a grant may be conditional on a charity obtaining matched funding, or subject to a successful planning consent. Meeting the conditions attaching to such grants would not be either certain or wholly within the control of the recipient charity. The charity would not therefore have unconditional entitlement (control) of the incoming resource until these conditions were met. The incoming resource and corresponding asset should not be recognised until the conditions set have been met.
- 107** Conditions such as the submission of accounts or certification of expenditure can be seen as simply an administrative requirement as opposed to a condition that might prevent the recognition of incoming resources.
- 108** Incoming resources may also be subject to donor imposed conditions that specify the time period in which the expenditure of resources can take place. Such a pre-condition for use limits the charity's ability to expend the resource until the time condition is met. For example, the receipt in advance of a grant for expenditure that must take place in a future accounting period should be accounted for as deferred income and recognised as a liability until the accounting period in which the recipient charity is allowed by the condition to expend the resource.
- 109** Where the existence of a condition prevents the recognition of an incoming resource, a contingent asset should be disclosed where it is probable (but not virtually certain) that the condition will be met in the future (see paragraphs 340 to 348)
- 110** Charities are normally entitled to incoming resources when they are receivable. Recognition of a grant or donation without pre-conditions should not be deferred (Glossary GL 15) even if the resources are received in advance of the expenditure on the activity funded by the grant or donation. In such cases the charity has entitlement to the resource with the timing of the expenditure being within the discretion of the charity. Such incoming resources cannot be deferred simply because the related expenditure has not been incurred. Similarly, a condition that allows for the recovery by the donor of any unexpended part of a grant does not prevent recognition. A liability for any repayment is recognised when repayment becomes probable.
- 111** Where either incoming resources are given specifically to provide a fixed asset or a fixed asset is donated (a gift in kind), the charity will normally have entitlement to the incoming resources when they are receivable. At this point, all of the incoming resources should be recognised in the Statement of Financial Activities and not deferred over the life of the asset. As explained in paragraph 110 the possibility of having to repay the incoming resources does not affect their recognition in the first instance. Once acquired, the use of the asset will either be restricted or unrestricted (see paragraph 117). If its use is unrestricted the trustees may consider creating a designated fund reflecting the book value of the asset. The relevant fund will then be reduced over the useful economic life of the asset in line with its depreciation. This treatment accords with the requirements under accounting standards for the recognition of assets and liabilities and provides the most appropriate interpretation of SSAP 4 for charities (see Appendix 2: SSAP4).

Funds Received as Agent

- 112** Some incoming resources do not belong to the charity, for instance where it receives the resources in circumstances where the trustees, acting as agents (and not as custodian trustees), are legally bound to pay them over to a third party and have no responsibility for their ultimate application. In these circumstances the transaction is legally a transfer of resources from the original payer (who remains the principal) to the specified third party. If the original payer retains the legal responsibility for ensuring the charitable application of the funds, the intermediary charity should not recognise the resources in the Statement of Financial Activities or the balance sheet (see paragraph 319).

113 However, in some cases an intermediary charity may control the use of resources prior to their transfer to a third party and its trustees will act as principal and have responsibility for their charitable application. For instance, where the trustees of the intermediary charity may have applied for the grant of the resources or are able to direct how the grant should be used by the third party or both. Other forms of funding arrangements involving intermediary charities may need their trustees to accept the legal responsibility for the transfer of the grant to the third party (and for its charitable application, where the third party is not a charity). In all of these circumstances the resources should then be included in the intermediary charity's Statement of Financial Activities and balance sheet (see paragraph 320).

Disclosure

- 114** Where any incoming resources have been deferred, the notes to the accounts should explain the reasons for the deferrals and analyse the movement on the deferred account between incoming resources deferred in the current year and amounts released from previous years. Incoming resources of a similar nature can be grouped together in the notes as appropriate.
- 115** Where a charity has held resources for a third party which have not been included in the Statement of Financial Activities, the notes to the accounts should analyse the movement of these resources during the year relating to each party or type of party where material. Where resources have been held for related parties the required disclosure of paragraphs 227 to 228 should be given.

Incoming Resources Subject to Restrictions

116 The fact that a grant or donation is for a restricted purpose does not affect the basis of its recognition within the Statement of Financial Activities. There is an important difference for accounting purposes between restrictions placed on the purposes for which a particular resource may be used and conditions which must be fulfilled prior to entitlement or use by the charity. The existence of a restriction does not prevent the recognition of the incoming resource as the charity has entitlement to (control of) the resource and is simply limited by the restriction as to the purposes to which the resource can be applied.

117 Funds received for the restricted purpose of providing fixed assets should be accounted for immediately as restricted funds. The treatment of the fixed assets provided with those funds will depend on the basis on which they are held. The terms on which the funds were received may either require the fixed asset acquired to be held in a restricted fund or the fixed assets' acquisition may discharge the restriction and the asset will be held in the unrestricted funds (see also paragraph 111). There is no general rule and the treatment will depend upon the circumstance of each individual case (see Appendix 3). Where assets are re-allocated from one fund to another, this should be reflected as a transfer between the relevant funds.

A: Incoming Resources

- 118** Incoming resources should be analysed according to the activity that produced the resources. The analysis adopted should follow that given in Table 3, in particular grouping separately those resources generated by charitable activity from those activities aimed primarily at generating funds.
- 119** In most cases it will be clear which activity generated a particular resource. When the resources are generated from several activities then it is permissible to apportion the resources between the activities on a reasonable, justifiable and consistent basis.

Disclosure

120 Where any apportionment has taken place the method of apportionment should be disclosed in the accounting policy notes to the accounts

A1: Incoming Resources from Generated Funds

A1a: Voluntary Income

- 121** Voluntary income (Glossary GL 61) includes incoming resources generated from the following sources:
- (a) gifts, donations and any related gift aid claimed, including legacies (see paragraph 123), given by the founders, patrons, supporters, the general public and businesses;
 - (b) grants which provide core funding or are of a general nature provided by government and charitable foundations but will not include those grants which are specifically for the performance of a service or production of charitable goods, for instance a service agreement with a local authority;

- (c) membership subscriptions and sponsorships where these are, in substance, donations rather than payment for goods or services;
- (d) gifts in kind (see paragraph 129) and donated services and facilities (see paragraph 133).

Disclosure

122 Where material, details of the types of activities undertaken to generate voluntary income should be provided either on the face of the Statement of Financial Activities or in the notes to the accounts. As far as possible the analysis categories provided here should match the detailed analysis provided for the costs of generating voluntary income.

Legacies

- 123** It is good practice to monitor a legacy from the time when notification is received to its final receipt. A charity should not, however, regard a legacy as receivable simply because it has been told about it. It should only do so when the legacy has been received or if, before receipt, there is sufficient evidence to provide the necessary certainty that the legacy will be received and the value of the incoming resources can be measured with sufficient reliability (see paragraph 94).
- 124** There will normally be sufficient certainty of receipt, for example, as soon as a charity receives a letter from the personal representatives of the estate advising that payment of the legacy will be made or that the property bequeathed will be transferred. It is likely that the value of the resource will also be measurable from this time. However, legacies which are not immediately payable should not be treated as receivable until the conditions associated with payment have been fulfilled (eg the death of a life tenant).
- 125** It is unlikely in practice that the entitlement, certainty of receipt and measurability conditions will be satisfied before the receipt of a letter from the personal representatives advising of an intended payment or transfer. The amount which is available in the estate for distribution to the beneficiaries may not have been finalised and, even if it has, there may still be outstanding matters relating to the precise division of the amount. In these circumstances entitlement may be in doubt or it may not be possible to provide a reasonable estimate of the legacy receivable, in which case it should not be included in the Statement of Financial Activities.

126 Where a charity receives a payment on account of its interest in an estate or a letter advising that such a payment will be made, the payment, or intended payment, on account should be treated as receivable.

127 Similarly, where a payment is received or notified as receivable (by the personal representatives) after the accounting year end, but it is clear that it had been agreed by the personal representatives prior to the year end (hence providing evidence of a condition that existed at the balance sheet date), then it should be accrued in the Statement of Financial Activities and the balance sheet.

Disclosure

128 Where the charity has been notified of material legacies which have not been included in the Statement of Financial Activities (because the conditions for recognition have not been met), this fact and an estimate of the amounts receivable should be disclosed in the notes to the accounts. Similarly, an indication should be provided of the nature of any material assets bequeathed to the charity but subject to a life tenancy interest held by a third party. Where material, the accounting policy notes should distinguish between the accounting treatments adopted for pecuniary and residuary legacies and legacies subject to a life interest held by another party.

Gifts in Kind

- 129** Incoming resources in the form of gifts in kind should be included in the Statement of Financial Activities in the following ways:
- (a) Assets given and held as stock for distribution by the charity should be recognised as incoming resources for the year within "voluntary income" only when distributed with an equivalent amount being included as resources expended under the appropriate category of the Statement of Financial Activities to reflect its distribution.
 - (b) Assets given for use by the charity (eg property for its own occupation) should be recognised as incoming resources and within the relevant fixed asset category of the balance sheet when receivable (see paragraph 111).

(c) Where a gift has been made in kind but on trust for conversion into cash and subsequent application by the charity, the incoming resource should normally be recognised in the accounting period when receivable and where material, an adjustment should be made to the original valuation upon subsequent realisation of the gift. However in certain cases this will not be practicable and the incoming resources should be included in the accounting period in which the gift is sold. The most common example is that of second-hand goods donated for resale, which, whilst regarded as a donation in legal terms, is in economic terms similar to trading and should be included within "activities for generating funds".

130 In all cases the amount at which gifts in kind are included in the Statement of Financial Activities should be either a reasonable estimate of their gross value to the charity or the amount actually realised as in the case of second-hand goods donated for resale. Where gifts in kind are included in the Statement of Financial Activities at their estimated gross value, the current value will usually be the price that it estimates it would have to pay in the open market for an equivalent item.

Disclosure

131 The basis of any valuation should be disclosed in the accounting policies.

132 Referring to 129(a) above, where there are undistributed assets at the year end, a general description of the items involved and an estimate of their value should be given by way of a note to the accounts provided such value is material.

Donated Services and Facilities

133 A charity may receive assistance in the form of donated facilities, beneficial loan arrangements or donated services. Such incoming resources should be included in the Statement of Financial Activities where the benefit to the charity is reasonably quantifiable and measurable. The value placed on these resources should be the estimated value to the charity of the service or facility received: this will be the price the charity estimates it would pay in the open market for a service or facility of equivalent utility to the charity.

134 Donated services and facilities recognised in financial statements would include those usually provided by an individual or entity as part of their trade or profession for a fee. In contrast, the contribution of volunteers should be excluded from the Statement of Financial Activities as the value of their contribution to the charity cannot be reasonably quantified in financial terms. Commercial discounts should not be recognised as incoming resource except where they clearly represent a donation.

135 Where donated services or facilities are recognised, an equivalent amount should be included as expenditure under the appropriate heading in the Statement of Financial Activities.

Disclosure

136 The notes to the accounts should give an analysis of donated services or facilities included in the Statement of Financial Activities distinguishing appropriately between the different major items eg seconded staff, loaned assets etc. The accounting policy notes should also indicate the basis of valuation used. Where donated services are received but not included in the Statement of Financial Activities (eg volunteers) this should be disclosed in the Trustees' Annual Report if this information is necessary for the reader to gain a better understanding of the charity's activities.

A1b: Activities for Generating Funds

137 Activities for generating funds are the trading and other fundraising activities carried out by a charity primarily to generate incoming resources which will be used to undertake its charitable activities. The activities included within this category involve an element of exchange, with the charity receiving income in return for providing goods, services or an entry to an event. This category will include:

- (a) fundraising events such as jumble sales, firework displays and concerts (which are legally considered to be trading activities);
- (b) those sponsorships and social lotteries which cannot be considered as pure donations;
- (c) shop income from selling donated goods and bought in goods;
- (d) providing goods and services other than for the benefit of the charity's beneficiaries;
- (e) letting and licensing arrangements of property held primarily for functional use by the charity but temporarily surplus to operational requirements.

138 Whilst selling donated goods is legally considered to be the realisation of a donation in kind (see paragraph 129(c)), in economic terms it is similar to a trading activity and should be included in this section.

139 It may be possible to identify the incoming resources and resources expended for each different component of an activity (this may have to be done for tax purposes) but often these will be viewed as contributing to a single economic activity. Charity trustees should consider the balance of the activities being undertaken to determine the most appropriate place to include the incoming resources from such enterprises but having done this the components of incoming resources need not be analysed further. For example, a shop may mainly sell donated and bought in goods but it may also sell a small amount of goods made by its beneficiaries and incidentally provide information about the charity. It would be acceptable to classify all the incoming resources from the shop as “shop income” under activities for generating funds.

A1c: Investment Income

140 Investment income includes incoming resources from investment assets, including dividends, interest and rents but excluding realised and unrealised investment gains and losses.

141 Where a charity has subsidiary undertakings:

- (a) all payments to the charity by its subsidiary undertakings and all dividend entitlements from them, other than amounts receivable by the charity for the provision of goods and services to subsidiaries, should be separately recognised as incoming resources and appropriately described under investment income in the parent charity’s accounts.
- (b) The exact amount of a gift aid payment from a subsidiary undertaking relating to a financial year can often only be precisely determined subsequent to the year end, for example with the calculation of taxable profits. Provided that a liability for the gift aid payment existed at the year end, the amount of the liability should be adjusted where calculations subsequent to the year end provide greater accuracy (see Appendix 2: FRS 21).

(c) Gift aid payments from subsidiary undertakings should be separately disclosed in the charity’s Statement of Financial Activities within investment income, or, if not material, in the notes to the accounts. The subsidiary undertakings themselves will only be accounted for by the charity in its consolidated Statement of Financial Activities of the group (see paragraphs 381 to 406).

Disclosure

142 The notes to the accounts should show the gross investment income arising from each class of investment shown in paragraph 303.

A2: Incoming Resources from Charitable Activities

143 This category includes any incoming resources received which are a payment for goods and services provided for the benefit of the charity’s beneficiaries. It will include trading activities undertaken in furtherance of the charity’s objects and those grants (although legally donations) which have conditions which make them similar in economic terms to trading income, such as service level agreements with local authorities.

144 This category will not include grants which are for core funding or do not have particular service requirements or are in response to an appeal. Such grants should be included in the section for voluntary income (see paragraph 121(b))

145 Incoming resources from charitable activities should include:

- (a) the sale of goods or services as part of the direct charitable activities of the charity (known as primary purpose trading);
- (b) the sale of goods or services made or provided by the beneficiaries of the charity;
- (c) the letting of non-investment property in furtherance of the charity’s objects;
- (d) contractual payments from government or public authorities where these are received in the normal course of trading under (a) to (c), eg fees for respite care;
- (e) grants specifically for the provision of goods and services to be provided as part of charitable activities or services to beneficiaries;
- (f) ancillary trades connected to a primary purpose in (a) to (e).

Disclosure

- 146** An analysis of incoming resources from charitable activities should be given in the notes to the accounts to supplement the analysis on the face of the Statement of Financial Activities. It should be sufficiently detailed so that the reader of the accounts understands the main activities carried out by the charity and the main components of the gross incoming resources receivable from each material charitable activity. As far as possible, incoming resources should be analysed using the same analysis categories as used for resources expended on charitable activities.

A3: Other Incoming Resources

- 147** Other incoming resources will include the receipt of any resources which the charity has not been able to analyse within the main incoming resource categories. This will be a minority of incoming resources and most charities will not need to use this category. Examples of items that fall within this category include a gain on the disposal of a tangible fixed asset held for the charity's own use (paragraph 218) and a gain on the disposal of a programme related investment (paragraph 310).

Expenditure and Costs

Recognition of Resources Expended

General Rules

- 148** Expenditure should be recognised when and to the extent that a liability is incurred or increased without a commensurate increase in recognised assets or a reduction in liabilities. In accounts prepared on the accruals basis, liabilities are recognised as resources expended as soon as there is a legal or constructive obligation committing the charity to the expenditure as described in Financial Reporting Standards 5 and 12. A liability will arise when a charity is under an obligation to make a transfer of value to a third party as a result of past transactions or events.
- 149** Just as charities may receive funds under a variety of arrangements (see paragraphs 96 – 97) so may charities expend their funds in a variety of ways ranging from meeting contractual liabilities to the payments of grants or donations. This SORP seeks to provide guidance on how such differing transactions can be distinguished. However, judgement will still be required in deciding how any individual transaction fits into this framework. The recommendations below set out how accounting standards and principles should be applied in the context of transactions that are commonly undertaken within the charity sector.

Contractual Arrangements

- 150** Where a charity enters into a contract for the supply of goods or services, expenditure is recognised once the supplier of the goods or services has performed their part of the contract, for example, the delivery of goods or the provision of a service.
- 151** Certain grants made may contain specific conditions that closely specify a particular service to be performed by the recipient of the grant. The terms of such grants may be set out in a service level agreement where the conditions for payment are linked to the performance of a particular level of service or units of output delivered, for example, number of meals provided or the opening hours of a facility used by beneficiaries. Often, in such cases, the grant maker will have negotiated the services to be provided to it or its beneficiaries. Expenditure on such performance-related grants (Glossary GL 45) should be recognised as resources expended to the extent that the recipient of the grant has provided the specified service or goods.
- 152** A grant that is merely restricted to a particular purpose of the recipient does not create a performance-related grant unless the grant also includes specific performance terms that meet the criteria set out above. Similarly, certain restricted grants may fund a programme of work to be undertaken over a number of years by the recipient. Again, this does not mean it should necessarily be recognised as a performance-related grant simply because of the period of the funding commitment or because the grantor is involved in monitoring or influencing the focus of the work as part of its grantmaking procedures.
- 153** For example, a grantmaking charity may fund a three year research programme enabling the recipient to undertake a programme of work identified by the recipient as necessary to meet its own objectives or that adds to the stock of knowledge on a topic. In order to provide funding, the work undertaken will need to be consistent with the legal objects of the grantmaker which may also, as part of its own grant approval processes, be involved in monitoring or influencing the focus of the work. Such an arrangement would not create a performance-related grant (see Glossary GL 45) if the funding is not directed at providing a specified service to the grantmaker or its beneficiaries as a condition of payment. Grants without such performance conditions that are directed at enabling the recipient to follow its own programme of work or increasing the pool of knowledge in an area of work should be recognised as a liability where a constructive obligation arises to make the grant payment (see Paragraph 155).

Grants Payable and Constructive Obligations

- 154** In the case of grants (other than performance-related grants) and certain other expenditure relating directly to charitable activities, an exchange for consideration does not arise. Such expenditure is incurred to further the charity's objects but without creating a contractual or quasi-contractual relationship with the recipient of the grant or the charity's beneficiaries. Nevertheless, the charity may still have a liability (Glossary GL 40) which needs to be recognised.
- 155** Liabilities may arise from a constructive or a legal obligation (Glossary GL 10). A constructive obligation arises under FRS 12 where events have created a valid expectation in other parties that the charity will discharge its obligations. Evidence that a valid expectation has been created might be provided by the charity's current and past practice in discharging such obligations and the specific communication of a commitment to the recipient. A constructive obligation always involves a commitment to another party that has been communicated to those affected in a sufficiently specific manner to raise a valid expectation on the part of the recipient that the charity will discharge its obligations. Because an obligation always involves a commitment to another party, it follows that a funding decision by a charity's trustees does not give rise to a constructive obligation at the balance sheet date unless the decision has been communicated before the balance sheet date to those affected in a sufficiently specific manner to raise a valid expectation in them that the charity will discharge its responsibilities.
- 156** Charities may on occasions make general or policy statements of their future intentions, for example, of an intention or aim of relieving famine in a particular location or to improve the quality of care provided to a particular group of people. Such statements can be communicated in a variety of ways including mission statements, setting out future plans in a Trustees' Annual Report or simply by making a general policy statement. Statements such as these do not create a constructive obligation as discretion is retained by the charity as to their implementation. A term in a grant agreement or offer that relieved a donor charity from a future obligation in the event of lack of funds at a future settlement date would not normally prevent the recognition of a liability by the donor charity. The liability would however be de-recognised when an event requires the funding offer to be rescinded.

- 157** A constructive obligation is likely to arise where:

- (a) a specific commitment, or promise to provide goods, services or grant funding is given, and
- (b) this is communicated directly to a beneficiary or grant recipient.

In such circumstances, the charity is unlikely to have a realistic alternative but to meet the obligation. However, the recognition of any resulting liability will be dependent on any conditions attaching to such commitments.

- 158** A charity may enter into commitments which are dependent upon explicit conditions being met either by itself or by the recipient before payment is made or upon future reviews. A liability, and hence expenditure, should be recognised once such conditions fall outside the control of the giving charity. If the conditions set remain within the control of giving charity, then the charity retains the discretion to avoid the expenditure and therefore a liability should not be recognised.

- 159** By way of illustration, where a charity makes a specific commitment to grant fund a project over a three year period, the following situations may arise:

- (a) If the multi-year grant obligation:
 - (i) is conditional on an annual review of progress that determines whether future funding is provided; and
 - (ii) discretion is retained by the giving charity to terminate the grant;

then provided evidence exists (eg from past review practice) that the discretion retained by the charity has substance, this amounts to a condition and an immediate liability arises only for the first year of the funding commitment.

If the annual review process, although set out in the conditions of the grant, is not in practice used to determine whether funding is provided in the subsequent years of the commitment, then the review stipulation should not be interpreted as a condition and a liability for the full three years of the grant should be recognised.

- (b) If there is no condition attaching to the grant that enables the charity to realistically avoid the commitment, the liability for the full three years of the funding should be recognised.

160 Commitments may contain conditions that are outside the control of the giving charity. For example, a charity may promise a grant payment on the condition that the recipient finds matching funding. As the condition falls outside the control of the giving charity, a liability arises and expenditure should be recognised.

General Issues

161 Where a liability is not accrued, because conditions have not been met, such a commitment should normally be treated as a contingent liability. The balance sheet treatment for both outstanding commitments and contingent liabilities is given in paragraphs 340 to 348.

162 The trustees may wish to designate some of the charity's income funds to represent contingent liabilities and other planned expenditure which may not have created a liability.

163 Where later events make the recognition of a liability no longer appropriate, the liability should be cancelled by credit against the relevant expenditure heading in the Statement of Financial Activities. The credit should mirror the treatment originally used to recognise the expenditure for the liability and should be disclosed separately.

Support Costs

164 In undertaking any activity there may be support costs (Glossary GL 54) incurred that, whilst necessary to deliver an activity, do not themselves produce or constitute the output of the charitable activity. Similarly, costs will be incurred in supporting income generation activities such as fundraising, and in supporting the governance of the charity. Support costs

include the central or regional office functions such as general management, payroll administration, budgeting and accounting, information technology, human resources, and financing.

165 Support costs do not, in themselves, constitute an activity, instead they enable output-creating activities to be undertaken. Support costs are therefore allocated to the relevant activity cost category they support on the bases set out in paragraphs 168 to 174. This enables the total cost of an activity category to be disclosed in the Statement of Financial Activities and for the cost of the constituent sub-activities to be presented at a service, programme or project level within the notes to the accounts. There is nevertheless legitimate user interest in both the level of support costs incurred and the policies adopted for their allocation to the relevant activity cost categories that should be addressed through relevant note disclosures.

Disclosure

166 The notes to the accounts should provide details of the total support costs incurred and of material items or categories of expenditure included within support costs.

167 Where support costs are material, an explanation should be provided in the notes of how these costs have been allocated to each of the activity cost categories disclosed in the Statement of Financial Activities or the supporting notes to the accounts. The explanation may include percentages or amounts allocated, details of the methods of apportionment used or a table showing the detailed allocations such as that shown below in Table 4.

Table 4. Example of Support Cost Breakdown by Activity

Support Cost (Examples)	Fundraising	Activity 1	Activity 2	Activity 3	Activity 4	Activity 5	Basis of allocation
Management	£x	£x	£x	£x	£x	£x	Text describing method
Finance	£x	£x	£x	£x	£x	£x	Text describing method
Information Technology	£x	£x	£x	£x	£x	£x	Text describing method
Human Resources	£x	£x	£x	£x	£x	£x	Text describing method
Total	£x	£x	£x	£x	£x	£x	

Allocation of Costs

- 168** A reliable approach to cost allocation should be adopted but a charity should also consider the materiality of the amounts involved and the cost benefit advantages of the approach in that greater accuracy may on occasions only be achievable at a high incremental cost.
- 169** In attributing costs between activity categories, the following principles should be applied:
- (a) Where appropriate, expenditure should be allocated directly to an activity cost category.
 - (b) Items of expenditure which contribute directly to the output of more than one activity cost category, for example, the cost of a staff member whose time is divided between a fundraising activity and working on a charitable project, should be apportioned on a reasonable, justifiable and consistent basis.
 - (c) Depreciation, amortisation, impairment or losses on disposal of fixed assets should be attributed in accordance with the same principles.
 - (d) Support costs may not be attributable to single activity but rather provide the organisational infrastructure that enables output producing activities to take place. Such costs should therefore also be apportioned on a reasonable, justifiable and consistent basis to the activity cost categories being supported.
- 170** There are a number of bases for apportionment that may be applied. Examples include:
- (a) usage – eg on the same basis as expenditure incurred directly in undertaking an activity;
 - (b) per capita – ie on the number of people employed within an activity;
 - (c) on the basis of floor area occupied by an activity.
 - (d) on the basis of time (eg where staff duties are multi-activity).
- 171** The bases for apportionment adopted by a charity should be appropriate to the cost concerned and to the charity's particular circumstances and selected to enable its accounts to give a true and fair view. The bases adopted for apportionment will normally be consistent between accounting periods.
- 172** Particular issues arise where a charity provides information about its activities in the context of a fundraising activity. Information about the aims, objectives and projects of a charity is frequently provided in the context of mail shots, websites, collections and telephone fundraising. In determining whether a multi-purpose activity arises, and therefore a need to apportion costs, a distinction should be drawn between:
- (a) publicity or information costs involved in raising the profile of a charity which is associated with fundraising (costs of generating funds); and
 - (b) publicity or information that is provided in an educational manner in furtherance of the charity's objectives (charitable expenditure).
- 173** In the context of a fundraising activity, for publicity or information to be regarded as charitable expenditure, it must be supplied in an educational manner. To achieve an educational purpose, information supplied would be:
- (a) targeted at beneficiaries or others who can use the information to further the charity's objectives; and
 - (b) information or advice on which the recipient can act upon in an informed manner to further the charity's objectives; and
 - (c) related to other educational activities or objectives undertaken by the charity.
- Where information provided in conjunction with a fundraising activity does not meet these criteria, it should be regarded as targeted at potential donors and therefore relating wholly to the fundraising activity.
- 174** For example, a health education charity that targeted high-risk beneficiary groups or the medical profession supplying information as to health risks or symptom recognition and advising on steps that should be taken. Such information would fall within charitable expenditure in that it is targeted at beneficiaries, advises on steps that can be taken and is likely to link to the charity's activities or objectives in health education. Therefore when such information is provided in the context of a fundraising activity, a joint cost would arise with costs apportioned between the fundraising and charitable activities.

Disclosure

- 175** The accounting policy notes should explain the policy adopted for the apportionment of costs between activities and any estimation technique(s) used to calculate their apportionment.
- 176** Where any fundraising activity is identified as meeting the criteria of a multi-purpose activity (see paragraphs 172 to 174) and part of the costs of the multi-purpose activity are allocated to charitable activities then the policy for the identification of such multi-purpose costs should be explained in the accounting policy notes together with the basis on which any allocation to charitable activities is made.

B: Resources Expended

- 177** The Statement of Financial Activities provides an analysis of the resources expended by a charity based on the nature of the activities undertaken. Resources expended are split into three main activity categories, being:

- (a) the costs of generating funds (paragraph 178 – 187)
- (b) the costs of charitable activities (paragraph 188 – 209) and
- (c) the governance costs (paragraph 210 to 212).

The Statement of Financial Activities or the notes to the accounts should include an analysis of the sub-activities, services, programmes, projects or other initiatives that contribute to a particular activity category.

B1: Costs of Generating Funds

- 178** These are the costs which are associated with generating incoming resources from all sources other than from undertaking charitable activities. The main components of costs within this category are:
- (a) costs of generating voluntary income (Glossary GL 13 and see paragraphs 180 to 184);
 - (b) costs of fundraising trading, including cost of goods sold and other associated costs (see paragraphs 185 to 186); and
 - (c) costs of managing investments for both income generation and capital maintenance (see paragraph 187).

- 179** Costs of generating funds should not include:

- (a) costs associated with delivering or supporting the provision of goods and services in the furtherance of the charity's objects; nor
- (b) the costs of any subsequent negotiation, monitoring or reporting relating to the provision of goods or services under the terms of a grant, contract or performance-related grant.

B1a: Costs of Generating Voluntary Income

- 180** Costs of generating voluntary income are defined in the Glossary (GL 13). All such fundraising costs, including agents' costs where fundraising agents are used, should be included within this category. In the case of consolidated accounts any such costs incurred by any subsidiary companies or other entities should be consolidated on a line-by-line basis.

- 181** Some fundraising costs may be incurred in starting up a new source of future income such as legacies, or in developing a supporter database.

- (a) Start-up costs of a new fundraising activity should be treated in the same manner as similar costs incurred as part of a charity's ongoing activities. In most cases, it will be inappropriate to carry forward start-up costs as prepayments or deferred expenditure as the future economic benefits that may be derived are usually not sufficiently certain (see Appendix 2: UITF Abstract 24 – Accounting for Start-up Costs).
- (b) Data capture costs of internally developed databases may only be capitalised where future benefit can be demonstrated and the resulting database has a readily ascertainable value.

- 182** The start-up costs of a new fundraising activity may be material in the context of the overall fundraising activity and may, because of their exceptional size or incidence, require separate disclosure to explain performance.

Disclosure

- 183** Where the costs of generating voluntary income are material, details of the types of activity on which the costs were expended should be shown in the notes to the accounts. Types of activity could include collections (eg street and house-to-house collections), sponsorship, legacy development and direct mail. As far as possible the analysis provided here should match the detailed analysis of voluntary incoming resources (see paragraphs 121 to 122).

184 Exceptional costs that arise in the context of generating voluntary income should not be presented as a separate category of costs on the face of the Statement of Financial Activities but, rather, should be included as an exceptional item within the relevant activity cost category. The amount of each exceptional item, either individually or as an aggregate of items of a similar type, should be disclosed in the notes to the accounts or on the face of the Statement of Financial Activities (within the activity category to which the cost relates) if that degree of prominence is necessary to give a true and fair view. An adequate description should be given to enable its nature to be understood.

B1b: Fundraising Trading: Cost of goods sold and other costs

185 This category should include all those costs that are incurred by trading for a fundraising purpose in either donated or bought-in goods or in providing non-charitable services to generate income. This includes:

- (a) the cost of goods sold or services provided;
- (b) other costs related to the trade, including staff costs, premises costs and other costs incurred in the activity including allocated support costs; and
- (c) costs related to the licensing of a charity logo.

In consolidated accounts this category will include the costs incurred by both the charity and any subsidiaries or other entities consolidated on a line-by-line basis.

Disclosure

186 Where the costs associated with fundraising trading are material, details should be given in the notes to the accounts to distinguish the cost of separate trading activities in a way that matches the analysis of income.

B1c: Investment Management Costs

187 Investment management costs are defined in the Glossary (GL 38). Where investment management fees are deducted from investment income by investment managers, the charity should show as investment income the gross investment income before fees and report the fees within this cost category (see paragraph 140). As explained in Appendix 3, paragraph 3(c), investment management costs associated with endowment fund investments should generally be charged to the endowment fund in the Statement of Financial Activities.

B2: Charitable Activities

188 Resources expended on charitable activities comprise all the resources applied by the charity in undertaking its work to meet its charitable objectives as opposed to the cost of raising the funds to finance these activities and governance costs. Charitable activities are all the resources expended by the charity in the delivery of goods and services, including its programme and project work that is directed at the achievement of its charitable aims and objectives. Such costs include the direct costs of the charitable activities together with those support costs incurred that enable these activities to be undertaken.

189 Charities may carry out their activities through a combination of direct service provision and grant funding of third parties to undertake work that contributes to the charity's objectives or programme of work. In such cases, the total cost of the activity involves both costs incurred directly by the charity and funding provided to third parties through grantmaking activities.

190 Where incoming resources are received either under contract or by a restricted grant to provide a specified service, further analysis of charitable activities expenditure may be provided in the notes to the accounts to demonstrate the link between the incoming resource and the charitable activity that it funds.

Disclosure

191 Resources expended on charitable activities should be analysed on the face of the Statement of Financial Activities or in a prominent note to the accounts. This analysis should provide an understanding of the nature of the activities undertaken and the resources expended on their provision. This analysis may, for example, set out the activity cost of the main services provided by the charity, or set out the resources expended on material programmes or projects undertaken by the charity.

192 The note to the accounts should identify the amount of support costs allocated to charitable activities.

193 Where activities are carried out through a combination of direct service or programme activity and grant funding of third parties, the notes to the accounts should identify the amount of grantmaking expenditure using the note to explain the activity funded.

194 The disclosures required may, for example, be presented in a table such as Table 5 (with totals reconciling with the Statement of Financial Activities and other notes as appropriate).

Table 5. Breakdown of Costs of Charitable Activity

Activity or Programme	Activities undertaken directly £	Grant funding of activities £	Support costs £	Total £
Activity 1				
Activity 2				
Activity 3				
Total				

Grantmaking

195 Costs associated with grantmaking activity include the grants actually made and the support costs associated with the activity. The term grant is defined in the Glossary (GL 29) and associated support costs are explained further at paragraph 164 above.

196 Support costs related to grantmaking will include:

- (a) costs incurred before grants are made (pre-grant costs) as part of the decision making process;
- (b) post-grant costs eg monitoring of grants; and
- (c) costs of any central or regional office functions such as general management, payroll administration, budgeting and accounting, information technology, human resources, and financing.

197 Grantmaking charities may undertake their entire programme of work through grantmaking activities, whilst other charities may undertake their activities through a combination of direct service provision and grant funding of third parties. In either case, further analysis of grantmaking, where material, should be provided.

198 The further information provided in relation to grantmaking should provide the reader with a reasonable understanding of the nature of the activities or projects that are being funded and whether the financial support is provided directly to individuals or to assist an institution undertake its activities or projects. In the case of institutional grants, information as to the recipient(s) of the funding should be provided so that the reader can appreciate the type and range of institutions supported.

199 An individual grant is one that is made for the direct benefit of the individual who receives it, for example, to relieve financial hardship or for an educational bursary. All other grants should be regarded as institutional. For example, a grant which is made to an individual to carry out a research project should be regarded as a grant to the institution with which the individual is connected rather than as a grant to the individual.

200 Information provided in relation to grantmaking may be limited or excluded when:

- (a) grants are made to individuals – in which case details of the recipient are not required;
- (b) grantmaking activities in total are not material in the context of a charity’s overall charitable activities – in which case no disclosures are required ;
- (c) total grants to a particular institution are not material in the context of institutional grants – in which case the name of the recipient institution need not be disclosed;
- (d) disclosure of a particular institutional grant would seriously prejudice either the grant maker or the recipient;
- (e) where disclosure of grants made by a charity registered only in England and Wales would occur in the lifetime of the settlor, or any spouse, or civil partner of the settlor.

Disclosure

201 The analysis and explanation should help the reader of the accounts understand how the grants made relate to the objects of the charity and the policy adopted by the trustees in pursuing these objects.

202 The notes to the accounts should identify the amount of support costs associated with grantmaking activities.

203 The analysis and explanation in the notes should provide details, with amounts that reconcile with the total of grants payable of:

- (a) the total amount of grants analysed between grants to individuals and grants to institutions,
- (b) an analysis of the total amount of grants paid by nature or type of activity or project being supported.

This statement may, for example, be structured as shown in Table 6.

204 The analysis of grants should provide the reader with an understanding of the nature of the activities or projects being funded by the grantmaker. This analysis of grants should relate to the charity's objectives, for example, categories may be social welfare, medical research, the performing arts, welfare of people in financial need, help to people seeking to further their education, depending on the nature of the charity. Some charities may decide that it is appropriate to provide further or alternative levels of analysis perhaps for example, showing a geographical analysis of the value of grants made.

205 The trustees may give further analysis and explanation of the purposes for which grants were made as part of the Trustees' Annual Report or by means of a separate publication. Such further analysis does not excuse the trustees from providing sufficient detail in the notes to the accounts as is needed to provide a true and fair view.

206 If a charity has made grants to particular institutions that are material in the context of grantmaking, the charity should disclose details, as specified in paragraph 207, of a sufficient number of institutional grants to provide a reasonable understanding of the range of institutions it has supported. This information may be provided either in the notes to the accounts, or as part of the Trustees' Annual Report or by means of a separate publication. Where the analysis is contained in a separate publication, it should be made available by the charity to the public on request. The notes to the accounts should identify the publication and state how copies of it can be obtained.

207 The disclosure of institutional grants should give the name of the institution and total value of grants made to that institution in the accounting year. Where grants have been made to a particular institution to undertake different activities or projects, the total value of the grants made for each activity or purpose should be disclosed. For example, a charity may have made grants to different officers or departments of a particular university for different projects. Such grants should be treated as having been made to the same institution

Table 6. Analysis of grants

Analysis	Grants to Institutions Total amount £	Grants to Individuals Total amount £
Activity or Project 1		
Activity or Project 2		
Activity or Project 3		
Total		

- 208 Very exceptionally, even though the grants to a particular institution are material, it is possible that the disclosure of the details of one or more of those grants could seriously prejudice the furtherance of the purposes either of the recipient institution or of the charity itself. Situations where serious prejudice is clearly indicated include those where disclosure could result in serious personal injury.
- 209 Where the circumstances amount to serious prejudice, a charity may withhold details of the recipient of any institutional grant concerned but should in such circumstances:
- (a) disclose in the notes to the accounts the total number, value and general purpose of those grants the details of which have not been disclosed;
 - (b) give in writing to the charity's regulatory body:
 - (i) the full details of any grants not disclosed, and
 - (ii) a full explanation of the reasons why those details have not been disclosed in the accounts;
 - (c) state in the notes to the accounts whether or not those details have been given to the charity's regulatory body.

It is unlikely in practice that all the material institutional grants of a charity would fall within this exception.

B3: Governance Costs

- 210 Governance costs (defined in Glossary GL 28) include the costs of governance arrangements which relate to the general running of the charity as opposed to the direct management functions inherent in generating funds, service delivery and programme or project work. These activities provide the governance infrastructure which allows the charity to operate and to generate the information required for public accountability. They include the strategic planning processes that contribute to future development of the charity.

- 211 Expenditure on the governance of the charity will normally include both direct and related support costs. Direct costs will include such items as internal and external audit, legal advice for trustees and costs associated with constitutional and statutory requirements eg the cost of trustee meetings and preparing statutory accounts. Where material, there should also be an apportionment of shared and indirect costs involved in supporting the governance activities (as distinct from supporting its charitable or income generation activities).

Disclosure

- 212 The accounting policy notes should explain the nature of costs allocated to the governance category, and an analysis may be provided within the notes to the accounts of the main items of expenditure included within this category where it is considered to provide useful information to the users of the accounts.

B4: Other Resources Expended

- 213 Other resources expended will include the payment of any resources which the charity has not been able to analyse within the main resources expended categories. This category should not be used for support costs which can be allocated to other activity costs.

C: Transfers

- 214 All transfers between the different categories of funds should be shown on the transfer row of the Statement of Financial Activities. The transfer row will be used for several purposes including:
- (a) when capital funds are released to an income fund from expendable endowment
 - (b) where a charity has authority to adopt a total return approach to investment (see Appendix 3 paragraph 3(g)) to record the release of funds to income from the unapplied total return fund held within the permanent endowment fund;
 - (c) where restricted assets have been released and reallocated to unrestricted income funds
 - (d) to transfer assets from unrestricted income funds to finance a deficit on a restricted fund; and
 - (e) to transfer of the value of fixed assets from restricted to unrestricted funds when the asset has been purchased from a restricted fund donation but the asset is held for a general and not a restricted purpose.

215 Material transfers should not be netted off but should be shown gross on the face of the Statement of Financial Activities.

Disclosure

216 The notes to the accounts should provide an explanation of the nature of each material transfer between funds.

D: Other Recognised Gains and Losses

D1: Gains and Losses on Fixed Assets

217 Gains and losses arising on disposal, revaluation or impairment of fixed assets – whether held for the charity’s own use or for investment purposes – will form part of the particular fund in which the investment or other asset concerned is or was held at the time of disposal, revaluation or impairment.

218 Such gains and losses should be recognised as follows:

- (a) impairment losses of assets held for the charity’s own use (ie not investments) should be regarded as additional depreciation of the impaired asset and included appropriately in the resources expended section of the Statement of Financial Activities;
- (b) gains on the disposal of fixed assets for the charity’s own use should be included under the heading “other incoming resources”. Losses on disposal should be treated as additional depreciation and included appropriately in the resources expended section of the Statement of Financial Activities; and
- (c) revaluation gains or losses (which are not considered to be impairment losses (see paragraphs 267 - 272)) on assets held for the charity’s own use should be included in the section on gains and losses on revaluations of fixed assets for the charity’s own use.

D2: Gains and Losses on Investment Assets

219 Any gains and losses on investment assets (including property investments) should be included under the gains and losses on the revaluation and disposal of investment assets. Realised and unrealised gains and losses may be included in a single row on the Statement of Financial Activities. In particular this approach will be necessary where a charity adopts a “marking to market” or continuous revaluation approach in relation to its investment portfolio.

D3: Actuarial Gains or Losses on Defined Benefit Pension Schemes

220 Actuarial gains or losses on defined benefit pension schemes should be separately disclosed in the gains and losses section of the Statement of Financial Activities (See paragraphs 430 to 448 – Accounting for Retirement Benefits)

Other Matters to be Covered in Notes to the Accounts

Related Party Transactions

221 Subject to paragraph 229 below, disclosure in a note to the accounts is required of any transactions which the reporting charity or any institution connected with it has entered into with a related party. Such transactions might inhibit the charity from pursuing its own separate interests.

222 Related parties are defined in the Glossary (GL 50).

223 Any decision by a charity to enter into a transaction ought to be influenced only by the consideration of the charity’s own interests. This requirement is reinforced by legal rules which, in certain circumstances, can invalidate transactions where the charity trustees have a conflict of interest. This does not necessarily mean that all transactions with related persons are influenced by the consideration of interests other than the charity’s nor that they are liable to invalidation.

224 Transparency is particularly important where the relationship between the charity and the other party or parties to a transaction suggests that the transaction could possibly have been influenced by interests other than the charity’s. It is possible that the reported financial position and results may have been affected by such transactions and information about these transactions is therefore necessary for the users of the charity’s accounts.

225 Related party transactions potentially include (exceptions in paragraph 229):

- (a) purchases, sales, leases and donations (including donations which are made in furtherance of the charity’s objects) of goods, property, money and other assets such as intellectual property rights to or from the related party;
- (b) the supply of services by the related party to the charity, and the supply of services by the charity to the related party. Supplying services includes providing the use of goods, property and other assets and finance arrangements such as making loans and giving guarantees and indemnities; and

- (c) any other payments and other benefits which are made to trustees under express provisions of the governing document of a charity or in fulfilment of its charitable objectives.

Required Disclosure

226 Trustee remuneration or other benefits should always be regarded as material (subject to paragraph 229(f)). Material transactions with related parties should be disclosed irrespective of whether or not they are undertaken on an arm's length basis.

227 The required disclosure is as follows (also see paragraph 303(c) re investments):

- (a) the name(s) of the transacting related party or parties;
- (b) a description of the relationship between the parties (including the interest of the related party or parties in the transaction);
- (c) a description of the transaction;
- (d) the amounts involved;
- (e) outstanding balances with related parties at the balance sheet date and any provisions for doubtful debts from such persons;
- (f) any amounts written off from such balances during the accounting year; and
- (g) any other elements of the transactions which are necessary for the understanding of the accounts.

228 The disclosure can be given in aggregate for similar transactions and type of related party, unless disclosure of an individual transaction or connected transactions:

- (a) is necessary for an understanding of the impact of the transactions on the accounts of the charity; or
- (b) is a legal requirement, for example, in relation to trustee remuneration (see paragraph 230(b)).

Disclosures not Required

229 Some related party transactions are such that they are unlikely to influence the pursuance of the separate independent interests of the charity. These need not be disclosed unless there is evidence to the contrary. Examples are:

- (a) donations received by the reporting charity from a related party, so long as the donor has not attached conditions which would, or might, require the charity to alter significantly the nature of its existing activities if it were to accept the donation (but any material grant by the reporting charity to a charity which is a related party should be disclosed);

- (b) minor or routine unremunerated services provided to a charity by people related to it;

- (c) contracts of employment between a charity and its employees (except where the employees are the charity trustees or people connected with them);

- (d) contributions by a charity to a pension fund for the benefit of employees; (also see paragraph 235);

- (e) the purchase from a charity by a related party of minor articles which are offered for sale to the general public on the same terms as are offered to the general public;

- (f) the provision of services to a related party (including a charity trustee or person connected with a charity trustee), where the related party receives the services as part of a wider beneficiary class, and on the same terms as other members of the class (for example, the use of a village hall by members of its committee of management, as inhabitants of the area of benefit); and

- (g) the payment or reimbursement of out-of-pocket expenses to a related party (including a charity trustee or person connected with a charity trustee – but see paragraphs 231 to 233).

Trustee Remuneration and Benefits

230 Unlike in the case of the directors of commercial companies, it is not the normal practice for charity trustees, or people connected with them, to receive remuneration, or other benefits, from the charities for which they are responsible, or from institutions connected with those charities. Detailed disclosures of remuneration and benefits are therefore required where the related party is a charity trustee, or a person connected with a charity trustee. The following points should be borne in mind when reporting on transactions, where the related party is a charity trustee or a person connected with a trustee.

- (a) Unless one of the exceptions in paragraph 229 applies, the transaction should always be regarded as material, and should therefore be disclosed regardless of its size.

- (b) Each type of related party transaction must be separately disclosed. This means, for example, that particulars of remuneration paid to each charity trustee or person connected with a charity trustee, should be given individually in the notes. Where the charity has made any pension arrangements for charity trustees or persons connected with them, the amount of contributions paid and

the benefits accruing must be disclosed in the notes for each related party.

- (c) Where remuneration has been paid to a charity trustee or a person connected with a charity trustee, the legal authority under which the payment was made (eg provision in the governing document of the charity, order of the Court or Charity Commission) should also be given, as should the reason for such remuneration.
- (d) Where neither the trustees nor any persons connected with them have received any such remuneration, this fact should be stated.

Trustees' Expenses

- 231** Where a charity has met individual expenses incurred by trustees for services provided to the charity, either by reimbursement of the trustee or by providing the trustee with an allowance or by direct payment to a third party, the aggregate amount of those expenses should be disclosed in a note to the accounts. The note should also indicate the nature of the expenses (eg travel, subsistence, entertainment etc) and the number of trustees involved.
- 232** Sometimes trustees act as agents for the charity and make purchases on its behalf and are reimbursed for this expenditure, eg payment for stationery or office equipment. Such expenditure is not related to the services provided by a trustee and there is no need to disclose it. Likewise there is no need to disclose routine expenditure which is attributable collectively to the services provided to the trustees, such as the hire of a room for meetings or providing reasonable refreshment at the meeting.
- 233** Where the trustees have received no such expenses, this fact should be stated.

Staff Costs and Emoluments

- 234** It is important that the accounts disclose the costs of employing staff who work for the charity whether or not the charity itself has incurred those costs. This includes seconded and agency staff and staff employed by connected or independent companies. For instance, staff working for a charity may have contracts with and be paid by a connected company. Payments may also be made to independent third parties for the provision of staff. Where such arrangements are in place and the costs involved are material (in relation to the charity's own expenditure) there should be disclosure by way of note which outlines the arrangement in place, the reasons for them and the amounts involved.

- 235** The total staff costs should be shown in the notes to the accounts giving the split between gross wages and salaries, employer's national insurance costs and pension costs (those pension costs included within resources expended excluding pension finance costs) for the year. The average number of staff during the year should be provided and where material to the disclosure, eg due to the number of part-time staff, an estimate of the average number of full time equivalent employees for the year may be provided in the notes to the accounts providing sub-categories according to the manner in which the charity's activities are organised.

- 236** Where a charity is subject to a statutory audit then the notes should also show the number of employees whose emoluments for the year (including taxable benefits in kind but not employer pension costs) fell within each band of £10,000 from £60,000 upwards. Bands in which no employee's emoluments fell should not be listed.

- 237** In addition the following pension details should be disclosed in total for higher paid staff as defined in paragraph 236:

- (a) contributions in the year for the provision of defined contribution scheme (normally money purchase schemes); and
- (b) the number of staff to whom retirement benefits are accruing under defined contribution schemes and defined benefit schemes respectively. (Further information on accounting for Retirement Benefit Schemes is given in paragraphs 430 to 448).

- 238** If there are no employees with emoluments above £60,000 this fact should be stated.

Cost of Audit, Independent Examination or Reporting Accountant Services and other Financial Services

- 239** The notes to the accounts should disclose separately the amounts payable to the auditor, independent examiner or reporting accountant in respect of:
 - (a) the costs of their respective external scrutiny; and
 - (b) other financial services such as taxation advice, consultancy, financial advice and accountancy.

Ex-Gratia Payments

240 The total amount or value of any:

- (a) payment; or
- (b) non-monetary benefit; or
- (c) other expenditure of any kind; or
- (d) waiver of rights to property to which a charity is entitled,

which is made not as an application of funds or property for charitable purposes but in fulfilment of a compelling moral obligation should be disclosed in the notes to the accounts. Where trustees require and obtain the authority of the Court, the Attorney General or the Charity Commission, the nature and date of the authority for each such payment should also be disclosed. (The Charity Commission has provided further guidance on such payments, that is applicable to charities in England and Wales, in its publication (CC7) – Ex Gratia Payments by Charities).

241 Payments which the trustees reasonably consider to be in the interests of the charity (more than a moral obligation) should not be treated as ex-gratia, even though there is no legal obligation to make them. For example, the trustees may think that it will motivate retained staff and hence benefit the charity if they make redundancy payments over and above the minimum legally required.

Analysis of the Net Movement in Funds

242 The net movement of funds represents the increase or decrease in resources available to a charity to deploy in undertaking future activities. Unlike profit or loss in a commercial entity, it should not necessarily be regarded as an indicator of a charity's performance. Charities also further their objectives by investing in tangible fixed assets to provide services or by making investments of a programme or social related nature. Such applications are charitable but do not decrease the funds of a charity. Charities may also receive gifts of an endowed nature, which are identified separately in the primary accounting statements. Whilst endowments provide a source of income or service generation in future periods they are not available to finance expenditure.

243 Information on such charitable applications and sources can be ascertained from a charity's cash flow statement (when prepared). A note summarising these effects, when material, can provide valuable information to readers of accounts in interpreting net movements in funds and help the reader understand the impact of such transactions on the liquid funds of the charity. Where relevant a charity may choose to provide in the notes to the accounts the following information:

- (a) total net movement in funds for the year;
- (b) net endowment receipts for the year (value of endowment receipts less any release of expendable endowment to income funds);
- (c) net expenditure on additions to functional fixed assets (cost of additions less proceeds of any disposals) for the year; and
- (d) net investment in programme related investments (cost of additions less proceeds of any disposals) for the year.

Balance Sheet

Introduction

- 244** The balance sheet provides a snapshot of the charity's assets and liabilities at the end of its accounting year and how assets are split between the different types of funds. The balance sheet will not always include all of the assets and liabilities of a charity, nor attach an up-to-date valuation for all assets. Some heritage assets (see paragraphs 279 to 294), or contingent liabilities (see paragraphs 340 to 348) may be omitted. Where such assets or contingent liabilities exist and are not included in the balance sheet, details should be provided in the notes to the accounts.
- 245** The objective of the balance sheet is to show the resources available to the charity and whether these are freely available or have to be used for specific purposes because of legal restrictions on their use. It may also show which of the resources the trustees have designated for specific future use. It will normally be necessary to read the reserves policy and plans for the future in the Trustees' Annual Report (see paragraphs 55(a) and 57) to gain a fuller understanding of the availability and planned use of the charity's funds.

Structure of the Balance Sheet

- 246** Table 7 sets out the format and the asset, liability and fund categories of the balance sheet.
- 247** The assets and liabilities are analysed within the balance sheet according to the category of the asset or liability as set out in Table 7. The balance sheet should also distinguish, as a minimum, between, the total funds held as unrestricted income funds, restricted income funds and as endowment funds. Distinctions between funds held as permanent and expendable endowment and held as designated funds may also be shown on the face of the balance sheet. The order in which the categories of funds are presented within the balance sheet (Section E of Table 7) may be varied to accommodate an individual charity's presentational preference.
- 248** Charities may choose to adopt a columnar presentation of its assets, liabilities and funds in the balance sheet. Such a presentation shows the asset and liability categories analysed in columns between each fund group in a similar way to the Statement of Financial Activities showing incoming resources and resources expended by type of fund. This presentation is not mandatory, but using it ensures charities present the required analysis of assets and liabilities by category of fund. Where a charity does not have funds of a particular category, the column related to that category of fund is omitted. If this columnar presentation is not adopted then the assets and liabilities (eg investments, fixed assets, net current assets) representing each category of fund should be summarised and analysed between those funds in the notes to the accounts (see paragraph 75(a)).
- 249** Further details of the assets and liabilities should be given in the balance sheet or the notes to the accounts. This analysis should enable the reader to gain a proper appreciation of their spread and character. For example, long-term debtors should, where the total is material, be separately stated in the balance sheet – otherwise the total amount of the category (see paragraph 314) should be analysed in the notes to the accounts.
- 250** If for any category of assets (row in Table 7 – the balance sheet) there are no amounts for the current and prior year then no entries need to be made on the balance sheet and the headings can be omitted.
- 251** As explained in paragraph 4(b) of Appendix 3, expenditure may be incurred in anticipation of the receipt of restricted income, possibly leading to a negative balance on a specific fund. Where such balances are material they should be shown separately as negative balances and not simply be netted off against positive balances on the fund category in the balance sheet. Therefore the balance sheet may show both positive and negative balances on restricted funds.

Table 7. Balance Sheet

		Total Funds £	Prior Year Funds £	Reference
A	Fixed assets:			
A1	Intangible assets			252
A2	Tangible assets			253 to 278
A3	Heritage assets;			279 to 294
A4	Investments:			
A4a	Investments			295 to 307
A4b	Programme related investments			308 to 312
	Total fixed assets			
B	Current assets:			313 to 316
B1	Stocks and work-in-progress			
B2	Debtors			314
B3	Investments			316
B4	Cash at bank and in hand			
	Total current assets			
C	Liabilities:			
C1	Creditors: Amounts falling due within one year			317 to 320
	Net current assets or liabilities			
	Total assets less current liabilities			
C2	Creditors: Amounts falling due after more than one year			317 to 320
C3	Provisions for liabilities and charges.			321 to 329
	Net asset or liabilities excluding pension asset or liability			
D	Defined benefit pension scheme asset or liability			330 - 332
	Net assets or liabilities including pension asset or liability			
E	The funds of the charity:			
E1	Endowment funds			
E2	Restricted income funds			
E3	Unrestricted income funds			
E3a	Share capital			333
E3b	Unrestricted income funds			
E3c	Revaluation reserve			334
	Unrestricted income funds excluding pension asset/liability			
E3d	Pension reserve			335
	Total unrestricted funds			
	Total charity funds			

Content of the Balance Sheet

A1: Intangible Fixed Assets

252 Intangible fixed assets should be included in the balance sheet in accordance with FRS 10 "Goodwill and Intangible Assets" (see Appendix 2 FRS 10).

A2: Tangible Fixed Assets (other than Investments)

253 FRS 15 "Tangible Fixed Assets" requires that:

- (a) all tangible fixed assets should be capitalised on initial acquisition and included in the balance sheet at cost or valuation;
- (b) tangible fixed assets may be periodically revalued;
- (c) subsequent expenditure which enhances (rather than maintains) the performance of tangible fixed assets should be capitalised.

254 Within charities, tangible fixed assets (other than investments) fall into two categories, those held for charity use (including those used for the running and administration of the charity) and those classed as heritage assets (Glossary GL 32). Paragraphs 255 to 278 describe the general rules for inclusion of tangible fixed assets in the balance sheet. In principle heritage assets meet the definition of an asset and should be recognised and included within a charity's balance sheet. However, particular considerations arise where the cost or valuation of heritage assets can only be obtained at significant cost or where such information lacks sufficient reliability. Specific recommendations for the accounting treatment of heritage assets are set out in paragraphs 279 to 294.

General Rules for Tangible Fixed Assets

255 Tangible fixed assets should initially be included in the balance sheet using the following bases.

- (a) The cost of acquisition including costs that are directly attributable to bringing the assets into working condition for their intended use. This can include costs of interest on loans to finance the construction of such assets but only where the charity has adopted this as a policy for all tangible fixed assets and capitalisation of interest should cease when the asset is ready for use. This applies whether assets are bought outright or through hire purchase or finance leasing.
- (b) If a functional fixed asset is acquired in full or in part from the proceeds of a grant it should be included at its full acquisition cost (or in the case of a joint arrangement at the gross value of the charity's share in the asset (see paragraph 416)) without netting off the grant proceeds.

(c) Where functional fixed assets have been donated, they should be included in the balance sheet at their current value at the date of the gift and also included in the Statement of Financial Activities (see paragraph 111) as an incoming resource.

(d) Where functional fixed assets are capitalised some time after being acquired, for example, as a result of a change in accounting policy, they should be included at original cost or at the value at which the gift was included in the Statement of Financial Activities less an amount for depreciation. However, if neither of these amounts is ascertainable, a reasonable estimate of the asset's cost or current value to the charity should be used. Such a valuation will be regarded as the asset's initial carrying amount and will not be regarded as a revaluation (see paragraphs 262 to 266).

256 Where the net book value of a fixed asset is higher than its recoverable amount, it will be impaired and should be written down to its recoverable amount. This is covered in more detail in paragraphs 267 to 272.

Rules for Mixed use of Fixed Assets (Functional and Investment)

257 Where land and buildings are held for mixed purposes, ie. partly as functional property and partly as investment, the balance sheet category in which they should be included depends upon the primary purpose for holding the asset and the extent to which they are separable. The following criteria for balance sheet analysis should be adopted:

- (a) Land and buildings held primarily for charity use of which a part is leased at a commercial rent should be regarded as functional fixed assets and included within tangible fixed assets provided the asset is wholly or mainly used for charitable purposes.
- (b) Land and buildings held primarily for investment purposes (Glossary GL 39) where the asset is wholly or mainly used for investment purposes should be included within the fixed asset investment category of the balance sheet.
- (c) Land and buildings which contain clearly distinguishable parts which are held for different purposes ie. partly functional and partly investment and do not fall under (a) or (b) above, should be apportioned and analysed in the balance sheet between functional and investment assets.

Depreciation of Tangible Fixed Assets (other than Investments)

- 258** Most tangible fixed assets depreciate; that is they wear out, are consumed or otherwise suffer a reduction in their useful life through use, the passing of time or obsolescence. Their value is thus gradually expended over their useful economic life. This expenditure should be recognised by means of an annual depreciation charge in the Statement of Financial Activities and shown in the balance sheet as accumulated depreciation deducted from the value of the relevant fixed assets.
- 259** Tangible fixed assets held for use by the charity which are included in the balance sheet should be depreciated at rates appropriate to their useful economic life. The only exceptions to charging depreciation arise where any of the following conditions apply:
- (a) the asset is freehold land which is considered to have an indefinitely long useful life; or
 - (b) both the depreciation charge and the accumulated depreciation are not material because:
 - (i) the asset has a very long useful life; or
 - (ii) the estimated residual value (based on prices at the time of acquisition or subsequent revaluation) of the asset is not materially different from the carrying amount of the asset;
 - (c) the assets are heritage assets and have not been included in the balance sheet (see paragraphs 279 to 294).
- If depreciation is not charged because of immateriality, FRS 15 requires that the asset is subject to an annual impairment review (except for charities under the threshold for following the FRSSSE); or
- 260** The useful economic lives and residual values of fixed assets should be reviewed at the end of the accounting period and, where there is a material change, the value of the asset should be depreciated over its remaining useful life.
- 261** Where a fixed asset for charity use comprises two or more major components with substantially different useful lives, each component should be accounted for as a separate asset and depreciated over its individual useful life.

Revaluation of Tangible Fixed Assets (other than Investments)

- 262** In accordance with FRS 15, tangible fixed assets (other than investment assets) do not need to be revalued unless the charity adopts a policy of revaluation. Where such a policy is adopted, whilst it need not be applied to all fixed assets it must be applied to entire classes of fixed assets. Therefore if an individual fixed asset is revalued, all other assets in that class must also be revalued. Classes of assets can be narrowly defined, within reason, according to the operations of the charity (see paragraph 273).
- 263** When an asset is donated or when it is capitalised as a result of the change in an accounting policy, its initial valuation will not be regarded as a revaluation and hence will not require the entire class of such assets to be revalued.
- 264** Similarly, where a charity was holding assets at a revalued amount at the date FRS 15 requirements first applied, (for accounting periods ending on or after 23rd March 2000) this will not be regarded as a revaluation and no requirement exists for such assets to be revalued periodically unless the trustees so choose.
- 265** Where there is a policy to revalue fixed assets, their value must be updated on a regular basis. The trustees may use any reasonable approach to valuation at least every five years, subject only to obtaining advice as to the possibility of any material movements between individual valuations. Where a charity has a number of such assets, it will be acceptable for valuations to be carried out on a rolling basis over a five-year period. Independent formal professional valuations are not mandatory in the case of a charity, which instead may obtain a valuation from a suitably qualified person who could be a trustee or employee (see Appendix 2 FRS 15).
- 266** In the case of assets other than properties, such as motor vehicles, there may be an active second-hand market for the asset, or appropriate indices may exist allowing a valuation to be made with reasonable certainty by an appropriate person (but not necessarily a qualified valuer) either internal or external to the charity. Where this method of valuation is used the assets' values must be updated annually. As an alternative to market value such assets can be recorded at depreciated replacement cost (see Glossary GL 18).

Impairment of Fixed Assets for Use by the Charity

- 267** On rare occasions a functional fixed asset may become impaired. This occurs if its carrying value (net book value, at cost or valuation) is higher than its recoverable amount. In such a case FRS 11 would require it to be written down to its recoverable amount. The recoverable amount is the higher of the net realisable value and the value in use.
- 268** Value in use is normally the present value of the future cash flows obtainable as a result of an asset's continued use. However many charities have fixed assets that are not held for the main purpose of generating cash flows either by themselves or in conjunction with other assets. In these cases it is not appropriate to measure the value in use of the asset at an amount based on expected future cash flows. Instead an alternative measure of its service potential will be more relevant, such as the intrinsic worth of the service delivery or the replacement cost of the asset. Each charity can determine its own measure of service delivery but this must be reasonable, justifiable and consistently operated.
- 269** Impairment reviews should only be carried out where there is some indication that the recoverable amount of a functional fixed asset is below its net book value. Such a review should, as far as possible, be carried out on individual assets or where this is not possible then categories of assets can be grouped (see FRS 11 paragraphs 24 to 28). Events or changes which may indicate an impairment include:
- (a) physical deterioration, change or obsolescence of the fixed asset;
 - (b) social, demographic or environmental changes resulting in a reduction of beneficiaries for a charity;
 - (c) changes in the law, other regulations or standards which adversely affect the activities of a charity;
 - (d) management commitments to undertake a significant reorganisation;
 - (e) a major loss of key employees associated with particular activities of a charity;
 - (f) operating losses on activities using fixed assets primarily to generate incoming resources.
- 270** Where an impairment review is required, the charity should first determine the net realisable value of the asset. If this is lower than the net book value, the value in use will need to be considered. If the value in use is considered to be above the net book value, the asset should be valued at the net book value. If a decision is made to sell the asset, it should be valued at its expected net realisable value.
- 271** Value in use calculations should not be used to manipulate the write down of fixed assets. For instance when a new specialised asset is purchased, although it may have a low net realisable value, it is unlikely that it will suffer an impairment in service delivery within the first years after acquisition.
- 272** Where there is an impairment loss that needs to be recognised, charities should determine this in accordance with the requirements of FRS 11 (whilst being able to use alternative valuation methods for some assets). The loss should be treated as additional depreciation and included in the Statement of Financial Activities in accordance with paragraph 218. The revised carrying amount of the asset should be depreciated over its remaining useful economic life.

Disclosure

- 273** Tangible fixed assets for use by the charity should be analysed in the notes to the accounts within the following categories:
- (a) freehold interest in land and buildings;
 - (b) leasehold and other interests in land and buildings;
 - (c) plant and machinery including motor vehicles;
 - (d) fixtures, fittings and equipment; and
 - (e) payments on account and assets in the course of construction.
- These are broad categories and any charity may, within reason, split the headings or adopt other narrower classes that meet the definition of a class of tangible fixed assets and are appropriate to its operations.
- 274** The notes should summarise all material changes in the values of each class of tangible fixed assets and reconcile the opening and closing balances. This may be achieved by using a table such as Table 8 below omitting any rows and columns that are not needed for a charity's particular circumstances:

Table 8. Analysis of Movement of Fixed Assets

	Freehold land & Buildings £	Leasehold land & Buildings £	Plant and Machinery £	Fixtures, Fittings and Equipment £	Payments on account & assets under construction £	Total £
Asset cost, valuation or revalued amount						
Balance brought forward						
Additions						
Disposals						
Revaluations						
Transfers						
Balance carried forward						
Accumulated depreciation and impairment provisions						
Balance brought forward						
Disposals						
Revaluations						
Impairment charges						
Transfers						
Charge for year						
Balance carried forward						
Net Book Value						
Brought forward						
Carried forward						

275 The methods of depreciation used and useful economic lives or depreciation rates should be disclosed in the accounting policy notes (see paragraph 364).

276 There is often a considerable difference between the carrying value and market value of interests in land and buildings not held as investments. Where the trustees consider this to be so material that it needs to be drawn to the attention of the users of the accounts then the difference should be included, with such precision as is practicable, in the notes to the accounts. If it is not practicable to quantify the difference, a written explanation will suffice.

277 Where any class of tangible fixed assets of a charity has been revalued, the notes to the accounts should give:

(a) the name and qualification (if any) of the valuer and whether they are a member of staff or a trustee or external to the charity;

(b) the basis or bases of valuation;

(c) where records are available, the historical cost less depreciation;

(d) date of the previous full valuation;

(e) if the value has not been updated in the reporting period, a statement by the trustees that they are not aware of any material changes since the last valuation.

278 The methods used in the impairment review to determine net realisable value and value in use should be disclosed in the notes to the accounts. This should include details required in paragraph 277.

A3: Heritage Assets

- 279** FRS 15 requires that all tangible fixed assets should be capitalised in the balance sheet (see paragraph 253). In principle this includes tangible fixed assets which are of historical, artistic or scientific importance that are held to advance preservation and conservation objectives of a charity.
- 280** However, charities will not necessarily need to capitalise such heritage assets (Glossary GL 32) that were acquired in past accounting periods and omitted from previous balance sheets when the circumstances in paragraph 283 below apply.
- 281** To fall within the definition of heritage assets, the charity must hold the relevant assets in pursuit of preservation or conservation objectives. The objective of the charity may be specifically of a preservation or conservation nature, or the heritage assets may be integral to a broader objective such as educating the public in history, the arts or science as in the case of museums and galleries.
- 282** Newly purchased heritage assets should be initially measured and recognised at their cost.
- 283** When heritage assets were acquired in past accounting periods and not capitalised, it may be difficult or costly to attribute a cost or value to them. In such cases these assets may only be excluded from the balance sheet if:
- (a) reliable cost information is not available and conventional valuation approaches lack sufficient reliability; or
 - (b) significant costs are involved in the reconstruction or analysis of past accounting records or in valuation which are onerous compared with the additional benefit derived by users of the accounts in assessing the trustees' stewardship of the assets.
- 284** The assessment of the costs involved in establishing a cost or valuation for heritage assets and the benefits derived by users of accounts from this information will involve the separate consideration of any material sub-classes of assets held within the heritage asset category. Whilst the cost/benefit test may not be practical to apply on an individual asset by asset basis, it should be considered in the context of particular parts or sub-classes of an overall collection. For example, in the context of a general museum valuing a fossil collection may be onerous but valuing its collection of vintage cars may not.
- 285** FRS 15 provides details of appropriate valuation bases. However, certain heritage buildings, structures or sites may present particular valuation issues. Whilst most specialised buildings can be valued using depreciated replacement cost (see Glossary GL 18), particular issues can arise in attempting to estimate the replacement cost of achieving the same service potential of certain historic buildings. The uniqueness of certain structures that are associated with particular locations, events, individuals or periods in history may be irreplaceable in terms of recreating the same service potential. The same service potential in terms of its heritage value or educational benefit to the public may only be achieved through the original structure or site.
- 286** Examples of heritage assets for which a cost or valuation may be difficult to attribute include:
- (a) museum and gallery collections and other collections including the national archives;
 - (b) medieval castles, archaeological sites, burial mounds, ruins, monuments and statues.
- 287** It may also be difficult or costly to attribute a cost or valuation to heritage assets which are donated where such assets are rarely sold on the open market. Where assets are purchased by a party who then shortly afterwards donates the asset to the charity, the purchase price should be considered as reliable cost information and could be used as a reference point for the fair value of donations of similar assets. Where an asset is partly purchased by the charity and partly donated, a reasonable estimate of the cost or value to the charity should be able to be made. Gifts on death or lifetime transfers of significant value may also carry valuations for inheritance tax purposes that may provide sufficient reliability.
- 288** Heritage assets should be included in a separate row in the balance sheet and can be further analysed, in the notes to the accounts, into classes appropriate to each charity eg collections, artefacts, and historic houses. An appropriate depreciation policy should be applied in accordance with paragraphs 258 to 261. As explained in paragraph 259 certain heritage assets may have an indefinite useful life and a high residual value resulting in any depreciation charge being immaterial.

- 289** Where assets of historical, scientific or artistic importance are held by a charity but not for preservation or conservation purposes, they cannot be regarded as heritage assets. Examples of assets that do not fall within the heritage assets category include situations where a charity:
- (a) holds and occupies an historic building as its administrative offices or as part of a property investment portfolio unrelated to any preservation or educational purpose;
 - (b) has in its possession works of art, or a collection of historic importance, or antique furnishings within its boardroom, as a store of wealth, the retention of which is unrelated to any objectives of preservation or education;
 - (c) occupies a functional property that is used to house or display a collection of heritage assets (unless the property itself is held for preservation or conservation purposes).
- 290** Charities may be required by trust law to retain an asset indefinitely for its own use/benefit and are effectively prohibited from its disposal without external consent. Such assets are termed inalienable. Inalienability, of itself, does not preclude capitalisation of an asset.
- 291** Inalienable assets that do not fall within the definition of heritage assets, should be capitalised and disclosed in the relevant categories of balance sheet and in related notes. For example:
- (a) An investment property will be included as an investment within fixed assets, valued at open market value and disclosed as part of investment properties within the investment notes.
 - (b) Functional properties used by a charity in undertaking its activities are included within tangible fixed assets and are included at cost or valued on an existing use basis unless of a specialised nature when a depreciated replacement cost (see Glossary GL 18) valuation is adopted.
 - (c) Tangible fixed assets other than properties are included at cost or valued at open market value.
- 292** Inalienable assets, by their nature, will belong to a charity's restricted funds, often being permanent endowment.
- 293** Abbeys, Monasteries, Cathedrals, historic Churches and ancient centres of learning may not meet the heritage asset definition as the preservation of the buildings they occupy is unlikely to be the primary objective of the charity. Such assets might nevertheless be considered integral to the activities of the charity and this may give rise to difficulties in ascertaining an estimate of the current cost of construction of an asset that has the same service potential as the existing one. For example, a new structure could recreate the floor area and seating capacity of a medieval Cathedral but such a structure would not recreate the uniqueness of the original in terms of the religious and historical significance. In such cases a valuation of previously non-capitalised assets may be impractical and the notes should contain a statement to that effect explaining why conventional valuation techniques cannot be applied. Similar issues may arise in the context of artefacts contained within and associated with such structures eg religious artefacts contained within a cathedral or historic church.
- Disclosure**
- 294** Information on heritage assets (whether or not they have been capitalised) should be given in the notes to the accounts. The notes should contain:
- (a) an analysis or narrative that enables the user to appreciate the age, scale and nature of the heritage assets held and the use made of them;
 - (b) either:
 - (i) details of the cost (or value) of additions and disposals of heritage assets during the year; or
 - (ii) where details of cost or value are not available (non-capitalisation in previous periods), a brief description of the nature of the assets acquired or disposed of, together with the sales proceeds of any disposals;
 - (c) accounting policy notes explaining the charity's capitalisation policy in relation to heritage assets and the measurement bases adopted for their inclusion in the accounts.

A4: Investment Assets

295 Investment assets (including investments and investment properties (Glossary GL 39) and cash held for investment purposes) should be classified as a separate category within fixed assets except where the intention is to realise the asset without reinvestment of the sale proceeds. In such a case, it should be reclassified as a current asset. The reason for this is that investment assets are generally held with the overall intention of retaining them long-term (ie as fixed assets) for the continuing benefit of the charity in the form of income and capital appreciation.

Valuation of Investment Assets

296 All investment assets other than programme related investments (see paragraph 308), should be shown in the balance sheet at market value or at the trustees' best estimate of market value as described below. Market value best represents a true and fair view of the value of these assets to the charity, given the duty of the trustees to administer the portfolio of investment assets so as to obtain the best investment performance without undue risk. Investment assets should not be depreciated. All changes in value in the year, whether or not realised, should be reported in the "gains and losses on investment assets" section of the Statement of Financial Activities (see paragraph 219).

297 Most freely tradable investments will have a readily available market price eg shares on a recognised stock exchange. For investment assets for which there is no readily identifiable market price the trustees should adopt a reasonable approach. For example:

- (a) Shares in unlisted companies may be valued by reference to their underlying net assets or earnings or the dividend record, as appropriate.
- (b) Where the cost of obtaining a valuation by one of the methods in (a) above outweighs the benefit to the users of the accounts, or lacks reliability, the investment may be included at cost.

298 For investment assets other than shares or securities (eg property), the trustees may use any reasonable approach to market valuations which must be done at least every five years, subject only to obtaining advice as to the possibility of any material movements between individual valuations. If there is a material movement the assets must be revalued. Where a charity has a number of such assets it will be acceptable for valuations to be carried out on a rolling basis over a five-year period.

Disclosure

299 The investment asset note to the accounts should disclose separately:

- (a) investments held primarily to provide an investment return for the charity; and
- (b) programme related investments (Glossary GL 47) that the charity makes primarily as part of its charitable activities.

300 Where values are determined other than by reference to readily available market prices (Glossary GL 41), the notes to the accounts should disclose who has made the valuation, giving:

- (a) the name and qualification (if any) of the valuer and whether they are a member of staff or a trustee or external to the charity; and
- (b) the basis or bases of valuation.

301 In the rare case where the size or nature of a holding of securities is such that the market is thought by the trustees not to be capable of absorbing the sale of the shareholding without a material effect on the quoted price, the trustees should summarise the position in the notes to the accounts. If they are able to do so, the trustees should give an opinion in the notes to the accounts on how much the market price should be adjusted to take this fact into consideration.

302 The notes to the accounts should show all changes in values of investment assets and reconcile the opening and closing book values. This information may be provided in a table format as set out in Table 9.

Table 9. Analysis of Movement of Investments

	£
Carrying value (market value) at beginning of year	
Add: Additions to investments at cost	
Less: Disposals at carrying value	
Add/deduct Net gain/(loss) on revaluation	
Carrying value (market value) at end of year	

303 The notes should also show the total value of investment assets at the end of the financial year divided between distinct classes of investment. This would normally include:

- (a) investment properties;
- (b) investments listed on a recognised stock exchange or ones valued by reference to such investments, such as common investment funds, open ended investment companies, and unit trusts;
- (c) investments in subsidiary or associated undertakings or in companies which are connected persons (Glossary GL 50);
- (d) other unlisted securities;
- (e) cash and settlements pending, held as part of the investment portfolio;
- (f) any other investments.

304 Items in categories (a) to (f) of paragraph 303 above should be further analysed between:

- (i) investment assets in the UK (see paragraph 305 below);
- (ii) investment assets outside the UK.

305 The total value of shares or investment schemes (including common investment funds, open ended investment companies and unit trusts) relating to companies listed on a UK stock exchange or incorporated in the UK are treated as investment assets in the UK and no further analysis is required of whether such entities invest their funds in the UK or outside the UK.

306 Further details should be given in the notes to the accounts of any particular investment that is considered material in the context of the investment portfolio.

307 The notes to the accounts should indicate the value of investments held in each category of fund. This may be included in the overall analysis of assets held in the different category of funds (see paragraph 75(a)).

A4b: Programme Related Investments

308 Programme related investments are defined in the Glossary (GL 47) and should be disclosed separately within the investment asset category from those investments intended primarily to generate a financial return for the charity.

309 Programme related investments should generally be included in the balance sheet at the amount invested less any impairments (in the case of equity or loans) and any amounts repaid (in the case of loans). Impairments should be charged to resources expended on charitable activities. Similarly a loan subsequently converted to a grant would be charged to charitable activities.

310 Where a gain is made on the disposal of a programme related investment, then the gain should either be set off against any prior impairment loss or included as a gain on disposal of fixed assets for the charity's own use and recorded under "other incoming resources" (see paragraph 147).

Disclosure

311 Where the use of programme related investments forms a material part of the work of the charity, or the amounts form a material part of the investment assets of the charity, the notes to the accounts should show all changes in carrying values of programme related investments, including any impairment losses, and reconcile the opening and closing carrying values of such investments.

312 The notes should also analyse programme related investments held between equity, loan and other investments and indicate the charitable objectives, programmes or projects the investment supports.

B: Current Assets

313 Current assets other than current asset investments (see paragraph 296) should normally be recognised at the lower of their cost and net realisable value.

Disclosure

314 Where there are debtors which do not fit into any of the following categories, the headings may be added to or adapted as appropriate to the type of debtor or creditor and nature of the charity. Debtors should be analysed in the notes to the accounts between short term and long term (after more than one year) giving amounts for the following:

- (a) trade debtors;
- (b) amounts due from subsidiary and associated undertakings;
- (c) other debtors;
- (d) prepayments and accrued income.

315 Where long term debtors are material in the context of the total net current assets, they should be separately shown in the balance sheet (see paragraph 249)

316 Where investments are held as current assets the same disclosure is required as for fixed asset investments (see paragraphs 299 to 307).

C: Current Liabilities and Long-term Creditors

317 Liabilities should normally be recognised at their settlement value. In the case of provisions, this will be the amount that an entity would rationally pay to settle the obligation at the balance sheet date or to transfer it to a third party at that time and may therefore involve discounting (see paragraph 323).

Disclosure

318 Where there are creditors which do not fit into any of the following categories, the headings may be added to or adapted as appropriate to the type of creditor and nature of the charity. The totals for both short-term and long-term creditors should each be separately analysed in the notes giving amounts for the following:

- (a) loans and overdrafts;
- (b) trade creditors;
- (c) amounts due to subsidiary and associated undertakings;
- (d) other creditors;
- (e) accruals and deferred income.

319 Where a charity is acting as an intermediary agent (as opposed to a custodian trustee) for another organisation, as described in paragraph 112, then any assets held and the associated liabilities should be separately identified in the notes to the accounts but not included in the balance sheet. The notes to the accounts should provide sufficient detail so that the reader of the accounts understands the relationship and nature of the transactions between the charity, the funding organisation and the recipient of the funds.

320 The details in paragraph 319 should also be provided when the charity is acting as an intermediary but is the principal as described in paragraph 113. However, in this case the assets and liabilities will be included in the balance sheet.

C3: Provisions for Liabilities and Charges

321 Expenditure resulting from provisions that arise due to a legal or constructive obligation (as per FRS 12) should be accounted for in the Statement of Financial Activities in accordance with paragraphs 148 to 163. Such provisions should be appropriately analysed in the balance sheet between liabilities due within one year and those falling due after one year.

322 The amount recognised as a liability should be the best estimate of the expenditure required to settle the present obligation at the balance sheet date or to transfer it to a third party at that time. When calculating this amount consideration should be given to:

- (a) the timing of the cash flows;
- (b) future events and uncertainties which may affect the amount required to settle the obligation.

323 Where provisions are accrued in the current financial year but are to be paid over several years then future payments may have a reduced value in today's terms (current value). Where the effect is material, the outflow of resources required to settle the obligation at the balance sheet date should be discounted to their present value. The discount rate used should reflect the current assessments of the time value of money and the risks specific to the provision. The interest rate either for the cost of borrowing or investment could be an appropriate discount rate.

324 The best estimate of the liability should be reviewed at the balance sheet date and adjusted appropriately. If a transfer of resources is no longer needed to settle the obligation then the amount of the liability no longer representing an obligation should be deducted from the resources expended category to which it was originally charged in the Statement of Financial Activities.

325 Where a charity has earmarked part of its unrestricted funds for a particular future purpose, this intention to expend funds in the future is not recognised as a provision for a liability in the accounts. Such earmarked amounts may be recorded by setting up a designated fund (see paragraph 68).

Disclosure

- 326** Particulars of all material provisions for liabilities and charges accrued in the balance sheet as liabilities should be disclosed in the notes. Similarly, particulars of all material commitments in respect of specific charitable projects should be disclosed if they have not been charged in the accounts.
- 327** These particulars should include the amounts involved, when the commitments are likely to be met and the movements on commitments previously reported. Particulars of all other material binding commitments should also be disclosed (eg operating leases).
- 328** The notes should distinguish between those commitments included in the balance sheet as liabilities and those that are intentions to spend and are not included, but in both cases should detail:
- (a) the reason for the commitments, giving separate disclosure for material projects;
 - (b) the total amount of the commitments, including amounts already charged in the accounts;
 - (c) the amount of commitments outstanding at the start of the year;
 - (d) any amounts charged in the Statement of Financial Activities for the year;
 - (e) any amounts released during the year due to a change in the value in the commitments;
 - (f) the amount of commitments outstanding at the end of the year and an indication as to how much is payable within one year and over one year.
- 329** Any designated funds relating to intentions to spend not included as liabilities should be separately disclosed as part of the unrestricted funds of the charity and appropriately described in the notes. The purpose of the disclosure is to identify that portion of the unrestricted funds that has been set aside to meet the commitments. Activities that are to be wholly financed from future income would not form part of such designation.

D: Defined Benefit Pension Scheme Asset/Liability

- 330** Any asset or liability derived from a surplus or deficit in a defined benefit pension scheme (calculated in accordance with FRS 17: Retirement Benefits) should be included within this category and disclosed on the face of the balance sheet.

- 331** A surplus or deficit in a defined benefit scheme will normally give rise to an asset or liability within the unrestricted funds of the reporting charity. The circumstances in which the pension asset or liability may accrue to a restricted fund are set out in paragraphs 433 to 442.

- 332** Recommendations on the application of FRS 17 to charities and the required accounting methods and disclosures are set out in a separate section on accounting for retirement benefits in paragraphs 430 to 448.

E3a: Share Capital

- 333** A number of charities, eg Industrial and Provident Societies, are constituted with a share capital. A small number of charities incorporated as companies under the Companies Act may also have share capital. Usually this is a nominal amount (such as £10) and although this is legally "owners equity", the prohibition on owners benefiting from this share ownership effectively means that money contributed for share capital forms part of the unrestricted funds of the charity. Nevertheless, company law requires share capital to be shown separately in the balance sheet.

E3c: Revaluation Reserve

- 334** Charities that are companies are required to report, in respect of their unrestricted funds, the difference between the historic cost of fixed assets (including investment assets) and their revalued amount as a revaluation reserve.

E3d: Pension Reserve

- 335** When there is a surplus or a deficit on a defined benefit pension scheme that results in an asset or a liability being recognised by the charity, the recognition of the pension asset or liability will result in the creation of a pension reserve. This reserve will be negative in the case of a liability. If the pension asset or liability relates only to unrestricted funds then this reserve will be part of unrestricted funds. If, however, the criteria set out in paragraphs 438 to 442, are met and the pension asset/liability is allocated to a restricted fund, then the pension reserve will be part of that restricted fund.

Other Balance Sheet Matters to be Covered in the Notes to the Accounts

Guarantees

336 All material guarantees given by the charity, and the conditions under which liabilities might arise as a result of such guarantees, should be disclosed in a note to the accounts.

Financial Derivative Disclosure

337 There are occasions where charities make use of financial derivative products to ameliorate the risk associated with normal operations (eg currency forward contracts), holding investments or borrowing (eg interest rate hedging). Such derivatives as are used will be in response to a charity's risk management and an explanation of the reasons for their use should be provided as part of the discussion of risk in the Trustees' Annual Report.

338 It is not normally appropriate for charities to hold derivatives for any other reason than to ameliorate risk as this would involve establishing a non-charitable trade. As a result, it would not normally be necessary to value the derivative products separately from the underlying investment or debt.

Disclosure

339 The notes to the accounts should indicate what derivative products are in use by the charity and indicate their impact on the risks of the underlying asset or liability to which they relate. The description of the products held should be in sufficient detail so that the reader of the accounts can understand what the charity's position would have been with, and without the derivatives, and should give an indication of the costs and benefits of the derivative products.

Contingent Assets and Liabilities

340 A charity may have contingent assets and liabilities as defined in FRS 12 (Glossary GL 11 and GL 12 and Appendix 2: FRS 12).

341 A charity should not recognise incoming or outgoing resources or gains and losses arising respectively from contingent assets or contingent liabilities in the Statement of Financial Activities or the balance sheet.

342 Contingent assets are not recognised because it could result in the recognition of incoming resources that may never be realised. However, when the realisation of the incoming resources is virtually certain, then the asset is not a contingent asset and the resource/gain arising should be included in the Statement of Financial Activities as an incoming resource and in the balance sheet as a debtor.

343 Where it becomes probable that there will be a future outflow of resources to settle an item previously regarded as a contingent liability, it should cease to be contingent and should be accrued in the accounts. The amount of the liability should (except in extremely rare circumstances where no reliable estimate can be made) be capable of being estimated with reasonable accuracy at the date on which the accounts are approved.

344 The probability of a contingent asset or liability resulting in a future transfer of resources (to or from the charity) should be continually assessed and the recognition of the asset or liability should be reviewed as appropriate.

Disclosure

345 Material contingent assets and liabilities should be disclosed in the notes to the accounts unless the probability of a future transfer of resources (to or from the charity) is extremely remote - in which case no disclosure is necessary.

346 The accounts should disclose the nature of each contingency, the uncertainties that are expected to affect the outcome, and a prudent estimate of the financial effect where an amount has not been accrued. If such an estimate cannot be made, the accounts should explain why it is not practicable to make such an estimate.

347 Where there is more than one contingent asset or liability, they may be sufficiently similar in nature for them to be grouped together as one class and be disclosed in a single statement.

348 Where a liability has been accrued but there is still a contingent liability arising from the same set of circumstances then the notes to the accounts should link the provision and the contingent liability.

Loan Liabilities

- 349** If any specific assets (whether land or other property) of the charity are subject to a mortgage or charge given as security for a loan or other liability, a note to the accounts should disclose:
- (a) particulars of the assets which are subject to the mortgage or charge;
 - (b) the amount of the loan or liability and its proportion to the value of the assets mortgaged or charged.
- 350** The amounts and interest and repayment terms of all inter-fund loans (including any loans from permanent endowment and summarised, if necessary) should be disclosed in the notes to the accounts. Loans made to trading subsidiaries, the security provided, the interest payable and the repayment terms should be disclosed as a separate item in the notes to the accounts.

Cash Flow Statement

Application

- 351** The preparation of a cash flow statement is a requirement of FRS 1 for all charities above the small companies thresholds (see Appendix 2: FRS 1) in England, Wales and Scotland. The object of the cash flow statement is to show the cash received and used by the charity in the accounting period
- 352** Wherever a cash flow statement is prepared it should comply with the requirements of FRS 1 subject to the following paragraphs.
- 353** The analysis of the cash movements should accord with the charity's operations as reported in its Statement of Financial Activities, and be given in appropriate detail. The starting point will normally be "net incoming/outgoing resources before other recognised gains and losses" in Table 3.
- 354** Movements in endowments should not be included in cash flows from "operating activities" but should be treated as increases or decreases in the financing section. This is achieved as follows:
- (a) cash donations to endowment should be treated as additions to endowment in the "financing" section;
 - (b) the receipts and payments from the acquisition and disposal of investments should be shown gross in the "capital expenditure and financial investment" section of the cash flow statement. A single row should then be included in this section showing the net movement in cash flows attributable to endowment investments. A corresponding row should be included in the "financing" section for the same amount. The row in the "financing" section should reflect the cash into/(cash out of) the endowment fund whereas it will be the opposite direction in the "capital expenditure and financial investment" section;
 - (c) on the rare occasion when payments are made out of permanent endowment this should be shown as a decrease in the "financing" section;
 - (d) transactions which do not result in cash flows should not be reported in the cash flow statement (eg depreciation, revaluations, accruals,) but may need to be disclosed (see paragraph 355).

Disclosure

355 The disclosure requirements of FRS 1 will depend upon the exact basis of preparation and content of the cash flow statement for each charity but the following are some of the more common disclosures:

- (a) major transactions not resulting in cash movements should be disclosed in the notes if necessary for an understanding of the underlying transactions. For instance the release of expendable endowment;
- (b) cash (and any financing) movements should be reconciled to the appropriate opening and closing balance sheet amounts; and
- (c) a reconciliation of cash flows from "operating activities" within the cash flow statement to the net incoming resources/expenditure row of the Statement of Financial Activities.

Disclosure of Accounting Policies

The Basis of the Preparation of Accounts

- 356** Charity accounts should include notes on the accounting policies chosen. These should be the most appropriate in the particular circumstances of each charity for the purpose of giving a true and fair view. The policies should be consistent with this SORP, Accounting Standards and relevant legislation. FRS 18: Accounting Policies explains how accounting policies should be determined.
- 357** Accounting policies are the principles, bases, conventions and rules by which transactions are recognised, measured and presented in the accounts. They are supplemented by estimation techniques where judgement is required in recording the value of incoming and outgoing resources and of assets and liabilities. It is essential that the accounts are accompanied by an explanation of the basis and estimation techniques on which they have been prepared. Accounts are normally prepared on the basis that the charity is a going concern and must include relevant, reliable, comparable and understandable information.
- 358** The notes regarding the basis of preparation of the accounts should state that the accounts have been prepared in accordance with:
- (a) this SORP and accounting standards or with this SORP and the FRSE (see Appendix 5 paragraphs 5.2.1 to 5.2.2);
 - (b) the Charities Act or the Companies Act or other legislative requirement; and
 - (c) the historic cost basis of accounting except for investments (and if applicable, fixed assets) which have been included at revalued amounts.
- 359** If the accounts depart from accounting standards in any material respect, this should be stated in the accounting policies giving the reason and justification for the departure and the financial impact. Similarly the following details should be given for any material departure from this SORP:
- (a) a brief description of how the treatment adopted departs from this SORP;
 - (b) the reasons why the trustees judge that the treatment adopted is more appropriate to the charity's particular circumstances; and
 - (c) an estimate of the financial effect on the accounts where this is needed for the accounts to give a true and fair view.

- 360** If any branches (Glossary GL 4) have been omitted from the accounts, the reason for omission should be given although the individual branches do not need to be named. Reference should also be made to any related organisations (such as supporters associations or subsidiaries not consolidated) explaining the accounting treatment adopted.

Specific Policies

- 361** Trustees should explain in the notes to the accounts the accounting policies they have adopted to deal with material items. Explanations need only be brief but they should be clear, fair and accurate. Changes to any of the policies that result in a material adjustment to prior periods should be disclosed in detail. The following are some examples of matters for which the accounting policies should be explained where the amounts involved are material. Trustees should only include those notes which are relevant to their charity.

Incoming Resources Policy Notes

- 362** The policy for including each type of material incoming resource should be given. This will normally be on a receivable basis but may need further details in some cases, for instance:
- (a) a description of when a legacy is regarded as receivable;
 - (b) the basis of recognition of gifts in kind and donated services and facilities, specifically covering when such items are not included in the Statement of Financial Activities and the methods of valuation;
 - (c) the basis of recognition of all grants receivable, including those for fixed assets, and how the grants are analysed between the different types of incoming resources;
 - (d) whether any incoming resources are deferred and the basis for any deferrals;
 - (e) the basis for including subscriptions for life membership;
 - (f) whether the incoming resources from endowment funds are unrestricted or restricted;
 - (g) whether any incoming resources have been included in the Statement of Financial Activities net of expenditure and the reason for this.

Resources Expended Policy Notes

363 These policy notes may include:

- (a) The policy for the recognition of liabilities including constructive obligations should be given. Where the liabilities are included as provisions, the point at which the provision is considered to become binding and the basis of any discount factors used in current value calculations for long term commitments should be given. This is particularly applicable to grants, the policy for which should be separately identified.
- (b) The policy for including items within the relevant activity categories of resources expended should be given. In particular the policy for including items within:
 - (i) costs of generating funds;
 - (ii) charitable activities;
 - (iii) governance costs.
- (c) The methods and principles for the allocation and apportionment of all costs between the different activity categories of resources expended in (b). This disclosure should include the underlying principle ie whether based on staff time, staff salaries, space occupied or other. Where the costs apportioned are material, then further clarification on the method of apportionment used is necessary, including the proportions used to undertake the calculations.

Assets Policy Notes

364 The policy for capitalisation of fixed assets for charity use should be stated including:

- (a) whether each class of asset is included at cost, valuation or revaluation and the method of valuation where applicable;
- (b) the value below which fixed assets are not capitalised;
- (c) whether or not heritage assets are capitalised and if not, the reason why (eg lack of reliable information, cost/benefit reason etc: see paragraph 283 to 287), specifying the acquisition and disposal policies for such assets;
- (d) the rates of depreciation applying to each class of fixed asset; and
- (e) the policy with respect to impairment reviews of fixed assets.

365 The policy for including investments in the accounts should be given. This should be at market value but may need to be modified for the valuation of:

- (a) investments not listed on a recognised stock exchange;
- (b) investment properties; and
- (c) investments in subsidiary undertakings.

366 The basis of inclusion in the Statement of Financial Activities of unrealised and realised gains and losses on investments should be stated.

367 The basis for inclusion of stocks and work in progress (where relevant the amount of unsold or unused goods and materials should be given).

Funds Structure Policy Notes

368 A brief description should be given of the different types of fund held by the charity, including the policy for any transfers between funds and allocations to or from designated funds. Transfers may arise, for example, where there is a release of restricted or endowed funds to unrestricted funds or charges are made from the unrestricted to other funds.

369 The policy for determining each designated fund should be stated.

Other Policy Notes

370 These could include policies for the recognition of the following:

- (a) pension costs and any pension asset or liability;
- (b) foreign exchange gains and losses;
- (c) treatment of exceptional items;
- (d) treatment of finance and operating leases;
- (e) treatment of irrecoverable VAT.

Summary Financial Information and Statements

General Principles

- 371** Some charities publish financial information or summaries in a format different from the statutory accounts. Such information or summaries are often included in a non-statutory annual review or in fundraising literature. There are two basic types of such summaries:
- (a) Summarised financial statements which should be based on the full financial statements and communicate key financial information without providing the greater detail required in the full accounts (for example, as contained in the notes to the accounts).
 - (b) Summary financial information which presents information on a particular aspect of a charity's finances for example, an analysis of incoming resources or expenditure on particular activities of a charity. Such information does not purport to summarise the full statutory accounts.
- 372** The distinction between summarised financial statements and summary information is set out in Table 10 below:
- 373** As charitable companies are not listed companies, the provisions of section 428 of the Companies Act 2006 concerning statutory summarised financial statements do not apply. However the provisions of section 427 of the Companies Act 2006 relating to the publication of non-statutory financial statements do apply. The recommendations set out below in relation to summarised financial statements are consistent with these statutory provisions applying to companies. There are no legal provisions for other charities.
- 374** As the form in which such information or summaries will be produced will vary considerably, depending on the purpose for which they have been prepared, it is not practicable to give detailed recommendations on the content of summary financial information or summarised financial statements. The general principles which should be followed are set out below.
- 375** Regardless of the intended circulation of any summary financial information or summarised financial statements, the full Annual Report and accounts must always be produced. Any summarised financial statements:
- (a) should contain information on both the Statement of Financial Activities and the balance sheet;

Table 10. Contrasting Characteristics of Summarised Financial Statements and Information

Characteristics of: Summarised financial statements	Summary financial information
Includes a summary of the Statement of Financial Activities and/or Balance Sheet.	Draws information from only parts of the accounts.
The summary is derived from statutory accounts.	May be based on interim accounts or other financial information as well as statutory accounts.
A financial statement that purports to be a Statement of Activities or Balance Sheet or summary thereof.	Makes no reference to either of these primary statements.
Represents the entire finances of a charity or a charity group.	Represents analysis eg. of a particular activity or region.

- (b) should be consistent with the statutory accounts; and
- (c) should not be misleading by either omission or inappropriate amalgamation of information.

376 Summary financial information will not necessarily contain information on both the Statement of Financial Activities and balance sheet but should nevertheless present information consistent with the statutory accounts and not be misleading by either omission or inappropriate amalgamation of information.

Summarised Financial Statements

377 Summarised financial statements should be accompanied by a statement, signed on behalf of the trustees, indicating:

- (a) that they are not the statutory accounts but a summary of information relating to both the Statement of Financial Activities and the balance sheet;
- (b) whether or not the full accounts from which the summarised financial statements are derived have as yet been externally scrutinised (whether audit or independent examination, or (for years prior to 1 April 2008) reporting accountant's report); and
- (c) where they have been externally scrutinised, whether the report contained any concerns such as a qualified opinion, limitation of scope, etc;
- (d) where the report contains any concerns, eg is qualified, contains an explanatory paragraph or emphasis of matter, sufficient details should be provided in the summarised financial statements to enable the reader to appreciate the significance of the report;
- (e) where accounts are produced only for a branch of the charity (see paragraph 77), it must be clearly stated that the summarised financial statements are for the branch only and have been extracted from the full accounts of the reporting charity (giving its name);
- (f) details of how the full annual accounts, the external scrutiny report (as applicable) and the Trustees' Annual Report can be obtained;

- (g) the date on which the annual accounts were approved;
- (h) for charities registered in England and Wales, say whether or not the Trustees' Annual Report and accounts have been submitted to the Charity Commission, and for charities registered in Scotland, say whether or not the Trustees' Annual Report and accounts have been submitted to the Office of the Scottish Charity Regulator ; and
- (i) where the charity is a company incorporated under the Companies Acts:
 - (i) whether the summary financial statement contains additional information from the directors' report and, if so, that it does not contain the full text of that report; and
 - (ii) whether the auditor's statement under section 496 of the Companies Act 2006 was qualified or unqualified, and if qualified disclose the qualification statement and additional relevant information; and
 - (iii) whether the audit report was qualified in respect of the Companies Act 2006 sections 498(2)(a) or (b) and section 498(3), and if so disclose the auditor's statement in full.

378 If the full accounts have been externally scrutinised, a statement from the external scrutineer, giving an opinion as to whether or not the summarised financial statements are consistent with the full annual accounts, should be attached.

Summary Financial Information

379 Any other summary financial information, in whatever form, should be accompanied by a statement on behalf of the trustees as to:

- (a) the purpose of the information;
- (b) whether or not it is from the full annual accounts;
- (c) whether or not these accounts have been audited, independently examined or subject to a reporting accountant's report;
- (d) details of how the full annual accounts, trustees' report and external scrutiny report (as appropriate) can be obtained.

Special Sections

- 380** The main text of the SORP deals with the recommended accounting practice for those charities producing full accruals accounts. Some charities will have to meet additional requirements and the following sections have therefore been provided to explain the additional recommendations applicable to particular arrangements or structures that charities may adopt.
- (a) Consolidation of Subsidiary Undertakings – paragraphs 381 to 406
 - (b) Accounting for Associates, Joint Ventures and Joint Arrangements – paragraphs 407 to 418.
 - (c) Charitable Companies – paragraphs 419 to 429.
 - (d) Accounting for Retirement Benefits – paragraphs 430 to 448
 - (e) Accounting for Common Investment Funds and Investment Pooling Schemes – paragraphs 449 to 451.
- (b) The gross income, after consolidation adjustments, (Glossary GL 31) of the group in the accounting period is below the group accounts preparation threshold (see Appendix 4); or
- (c) There is no statutory requirement to prepare group accounts and the results of the subsidiary undertaking(s) are not material to the group; or
- (d) The subsidiary is not a company and, by virtue of being a special trust or a charity subject to a uniting direction under s96 (5) or (6) of the Charities Act 1993, has had its accounts aggregated with that of the reporting charity.

384 FRS 2 allows subsidiaries to be excluded from consolidation in certain limited circumstances (severe long-term restrictions which substantially hinder the exercise of the parent undertaking's rights over the subsidiary undertaking's assets or management or subsidiary held only for sale). It is unlikely that these exclusions will generally apply to a charitable group.

Consolidation of Subsidiary Undertakings

Purpose and Scope

- 381** The purpose of consolidated accounts is to present a true and fair view of the state of financial affairs of all the group interests of the reporting charity including its subsidiary undertakings. The principles and methods of consolidation are covered by FRS 2. These principles should be applied irrespective of whether the parent charity and its subsidiaries are companies or otherwise constituted.
- 382** Consolidated accounts are a set of accounts prepared in addition to those prepared for the parent itself and to those prepared for each of the subsidiary undertakings in its own right.
- 383** A parent charity (Glossary GL 44) must prepare consolidated accounts including all its subsidiary undertakings (Glossary GL 44) where their preparation is either a requirement of company law or where the gross income of the group, the parent charity and its subsidiary undertakings together (Glossary GL 44), exceeds the threshold set by the Regulations made under the Charities Act 1993 or the Charities and Trustee Investment (Scotland) Act 2005 (see appendix 4), except where:

- (a) FRS2 provides for exclusion of certain subsidiary undertakings from consolidation (see paragraph 384); or

385 Charities utilise subsidiary undertakings for a variety of purposes including undertaking non-charitable trading, for investment purposes and carrying out charitable activities. The difference between profit and not-for-profit undertakings is not sufficient of itself to justify non-consolidation. However, where a subsidiary undertaking is a registered company which is insolvent and is being wound up then the subsidiary undertaking can be excluded from consolidation.

Charitable Subsidiaries

386 Most non-company charitable subsidiaries will be included in the aggregated accounts of the controlling charity, as they will either be restricted funds or endowment funds of the charity (see Paragraph 383(d)). However, on occasions, a charity may control another charitable entity that does not meet the definition of a special trust, for example, because the objects of the subsidiary are wider than those of the parent charity. Where the tests for control (the parent's ability to direct and benefit) are met, the charitable subsidiary should be consolidated. Benefit to a parent charity may arise where the services and benefits provided by the charitable subsidiary to its own beneficiaries also contribute to the objectives of the parent charity or in terms of cash flow to the parent charity. Where (unusually) a subsidiary

charity's objects are substantially different from the parent charity, the benefit test of control will not be met and so no consolidation should take place.

- 387** A subsidiary that is a charity with objects narrower than its parent will need to be accounted for by the use of one or more restricted fund columns in the consolidated accounts.

Determining whether a Subsidiary undertaking meets the Control test

- 388** Subsidiary undertakings can be identified by the measure of control (Glossary GL44) exercised by the parent charity. FRS2 outlines how such control can be determined in the context of:

- (a) voting rights (mainly stemming from share ownership); and/ or
- (b) dominant influence over the Board or activities of the subsidiary.

This embodies the requirements of the Companies Act 2006 which should be followed by those undertakings registered under this Act.

- 389** A similar relationship to that of a parent and subsidiary undertaking may arise where the parent charity transacts with another undertaking in such a way that all the risks and rewards of the transactions remain with the parent undertaking. An example is when the ownership of the assets is transferred to another entity whilst retaining exclusive use of those assets and meeting the costs of maintaining them. Such undertakings are regarded as quasi-subsidiaries and should be accounted for in accordance with FRS 5.

- 390** A charity, however constituted, should be regarded as a subsidiary undertaking where the parent charity has the power to exercise, or actually exercises, dominant influence or control over the subsidiary or the parent and subsidiary are managed on a unified basis. Control can arise in any of the following situations:

- (a) the charity trustees and/or members and or employees of the parent charity are, or have the right to appoint or remove, a majority of the charity trustees of the subsidiary charity; or
- (b) the governing document of the subsidiary charity reserves to the parent charity's trustees and/or members the right to direct, or to give consent to, the exercise of significant discretion by the trustees of the subsidiary charity.

- 391** The basis for treating a non-company charity as a subsidiary is that the connection between it and some other charity is such that the operating and financial policies of the former are likely to be set in accordance with the wishes of the latter. This is likely to be the case where one of the relationships described in the previous paragraph exists, but trustees may, in a particular case, be able to produce evidence to the contrary.

- 392** Where the objects of a charity are substantially or exclusively confined to the benefit of another charity, the issue of control requires particular consideration. For example, friends' groups, on occasions, form separate charities to give support to an established charity whilst retaining legal discretion as to the nature and timing of its support. In such cases the formal powers identified in paragraph 390 may not exist but dominant influence may arise less formally. For example, the benefiting charity may set out in outline the nature or timing of the support it wants to achieve. Alternatively the parent charity may intervene on a critical matter. Where evidence exists of such dominant influence being exercised the criteria for consolidation should be regarded as being met.

Method of Consolidation

- 393** The normal rules will apply regarding the method of consolidation, which should be carried out on a line-by-line basis as set out in FRS 2 .

- 394** All items of incoming resources and resources expended should be shown gross after the removal of intra-group transactions. Clearly it is desirable that similar items are treated in the same way. For instance, incoming resources from activities to generate funds in the charity should be combined with similar activities in the subsidiary, and charitable activities within the charity should be combined with similar activities in the subsidiary. Similarly, costs of generating funds and/or governance costs in the subsidiary should be aggregated with those of the charity.

- 395** Each charity should choose appropriate category headings within the permissible format of the Statement of Financial Activities and suitable amalgamations of activities. The headings used should reflect the underlying activities of the group. If it is not possible to exactly match items between the subsidiary undertaking and the parent charity, segmental information should be provided so that the results of the parent charity and each subsidiary undertaking are transparent (see paragraph 405).

Filing of Accounts

396 For financial years beginning on or after 1 April 2008 where consolidated accounts are required to be prepared under the Charities Act 1993 these must be prepared in accordance with the Charities (Accounts and Reports) Regulations 2008 and filed with the Charity Commission and should include the individual accounts of the parent charity. In Scotland consolidated and individual accounts must be prepared and filed in accordance with the Regulations. Charitable companies prepare group accounts in accordance with section 399 of the Companies Act 2006 where the preparation of group accounts is required by company not charity law. To ensure information is available about the parent charity alone where the group and parent charity's accounts are included in the same set of consolidated accounts, as well as two balance sheets there should be two Statements of Financial Activities (one for the group and one for the parent).

397 However, consolidated accounts are often filed with the Commission omitting the Statement of Financial Activities for the parent charity. The Commission is prepared to accept these accounts as long as gross income/turnover and results of the parent charity are clearly disclosed in the notes. The group accounts must still contain the entity balance sheet of the parent charity. The Commission retains the power to require the production and filing of any individual charity Statement of Financial Activities and similarly members of the public have a legal right to request this statement.

Disclosure

398 There should be a separate comment in the Trustees' Annual Report concerning the activities and performance of each of the charity's material subsidiary undertakings (see paragraph 53).

399 Where consolidated accounts are prepared, the policy notes should state the method of consolidation and which subsidiaries or associated entities are included and excluded from the consolidation.

400 The notes to the consolidated accounts should give the position of the group as well as the parent undertaking.

401 The notes to the accounts should state the aggregate amount of the total investment of the charity in its subsidiary undertakings and, unless the subsidiary is not material, in relation to each one:

(a) its name;

(b) particulars of the parent charity's shareholding or other means of control;

(c) how its activities relate to those of the charity;

(d) the aggregate amount of its assets, liabilities and funds;

(e) a summary of its turnover and expenditure and its profit or loss for the year (or equivalent categories for charitable subsidiary undertakings).

402 If there are any minority interests external to the group, similar details to those in the above paragraph should be provided relating to the minority interest held in the subsidiary undertakings including any restrictions that may be placed on the group's activities.

403 If a charity has a large number of subsidiary undertakings such that the disclosure in paragraph 401 would result in information of excessive length being given, the information need only be given in respect of those undertakings whose results or financial position materially affected the figures shown in the charity's annual accounts. The full disclosure should be made available (in the same way as the accounts) to any member of the public upon request.

404 In addition, if, following paragraphs 383 to 384, subsidiary undertakings are excluded or consolidated accounts are not prepared then the trustees should explain the reasons in a note to the charity's accounts with reference to each excluded subsidiary undertaking.

405 As stated in paragraph 395 segmental information may need to be provided where the aggregation and adjustments required to consolidate financial information may obscure information about the different undertakings and the activities included in the consolidated accounts. It is important that the presentation adopted and disclosure in the notes is sufficiently detailed to distinguish the key results of the charity from those of its subsidiary undertakings. Examples of those items that should be separately disclosed include the costs of generating funds, the costs of charitable activities and governance costs.

406 In consolidated accounts, funds or reserves retained by subsidiary undertakings other than funds available to be used in carrying out the charity's objects should be included under an appropriate separate fund heading in the balance sheet (eg funds retained within a non-charitable subsidiary).

Associates, Joint Ventures and Joint Arrangements

Introduction

407 This section explains the additional accounting requirements in consolidated accounts where a charity has associates, joint ventures or joint arrangements.

Identification

408 FRS 9 covers the accounting for associates, joint ventures and joint arrangements and provides detailed guidance on how to determine the relationship between the entities involved. Where these exist, consolidated accounts should be prepared subject to the exemptions in paragraph 383.

409 Where a charity has a long term participating interest in another undertaking and exercises significant influence over its operating and financial policy then this is likely to be an associate undertaking. Where a charity beneficially holds 20% or more of the voting rights in any undertaking, it will be presumed to have a participating interest and significant influence over its operating and financial policy, unless the contrary is shown.

410 Charities providing grants or making programme related investments may on occasions combine funding with the provision of advice or expertise and on occasions may be invited by the recipient charity to provide or nominate a charity trustee with particular skills or expertise. Where the recipient charity operates with a small trustee body, this might be construed as creating an associate. An associate will be created if the nomination or appointment is used in conjunction with a formal or informal agreement to exercise significant influence through direct involvement in setting the recipient charity's operating and financial policies. Where the charity trustee appointment is simply used to provide advice or expertise to the recipient charity whilst allowing the charity to adopt its own policies and strategies then an associate relationship is unlikely to be created.

411 In a joint venture situation, a separate entity is jointly controlled by two or more undertakings, all of which have a say in the operations of the joint venture, so that no single investing undertaking controls the joint venture but all together can do so. It is possible for a charity to beneficially hold 20% or more of the voting rights in an undertaking but for the management arrangements to be such that control is clearly shared with the other partners and hence the undertaking is a joint venture as opposed to an associate.

412 Often charities also undertake joint arrangements where they may carry out activities in partnership with other bodies but without establishing a separate legal entity.

Methods of Accounting for Associates, Joint Ventures and Joint Arrangements

413 Associates should be included in the accounts based on the net equity method. The consolidated Statement of Financial Activities should show the net interest in the results for the year in the associates as a separate row after the "net incoming resources/(resources expended) before transfers" row. In the balance sheet, the net interest in associates should be shown as a separate row within fixed asset investments. Where the charity's rights to the associate's assets are severely limited (eg because the majority prohibit any dividend distribution) then this should be reflected in the valuation.

414 Joint ventures should be accounted for on a gross equity method. This method requires the reporting entity to present its share of the gross incoming resources of joint ventures on the face of the consolidated profit and loss account (Statement of Financial Activities in charities). However, this does not form part of the group incoming resources and must be clearly distinguished. For charities this can be achieved by including gross incoming resources from joint ventures in the Statement of Financial Activities on a line-by-line basis with an additional row showing the total share of gross incoming resources from joint ventures as a reduction in total incoming resources. In addition a row showing the net interest in the results for the year in the joint ventures as a separate row after the "net incoming resources/(resources expended)" row must be included (this may be combined with that of the associates). In the balance sheet the share of the gross assets and the gross liabilities should be shown in a linked presentation within fixed assets investments.

415 Where there are gains and losses on investments and unrealised gains on other fixed assets, the net share relating to associates should be shown on a separate row, with the gross share relating to joint ventures being shown either on a separate row or combined with the appropriate lines on the Statement of Financial Activities.

416 Where there is a joint arrangement, the charity's gross share of the incoming resources and resources expended and the assets and liabilities should be included in the accounts in the same way as for a branch per paragraphs 77 to 81. If under the arrangement the charity is jointly and severally liable for an obligation, it should accrue the part of the obligation for which it is responsible and treat the part of the obligation which is expected to be met by the other parties as a contingent liability.

Disclosure

417 The following disclosure should be given in respect of each associate and joint venture and this will normally be compliant with FRS 9:

- (a) its name;
- (b) the charity's shareholding and other interests in it;
- (c) the nature of the activities of the associate or joint venture;
- (d) the charity's interest in the results showing separately its share in:
 - (i) gross incoming resources by type;
 - (ii) costs of generating funds;
 - (iii) expenditure on charitable activities;
 - (iv) expenditure on governance;(these first four items may need to be adapted in the case of associates or joint ventures that are not charities)

- (v) the net results (where tax is payable, the share of the results pre and post tax and the share in the tax should be shown);
- (vi) gains or losses on investments and the share in unrealised gains on other fixed assets;
- (vii) fixed assets;
- (viii) current assets;
- (ix) liabilities under one year;
- (x) liabilities over one year;
- (xi) the different funds of the charity;
- (xii) contingent liabilities and other commitments;

(e) particulars of any qualifications contained in any audit or other statutory report on its accounts, and any note or reservation in those accounts to call attention to a matter which, apart from the note or reservation, would properly have been referred to in such a qualification.

418 For joint arrangements, the notes to the accounts should provide appropriate details of the charity's commitments in the arrangement.

The SORP in relation to Charitable Companies in the UK

Introduction

419 This section explains the position of this SORP with respect to charitable companies. In following this SORP, charitable companies will normally meet most of the reporting requirements under the Companies Act. However, the SORP does not reproduce these requirements in full and a charity should have regard to its own circumstances when considering the application of the Companies Act. In addition to following the main section of this SORP and the other special sections as applicable, there are certain further requirements which must be met by charitable companies. Ways of meeting the most common of these requirements are suggested below, but these too should be considered in the light of the company's individual circumstances.

Accounts and Reports

420 Charitable companies must comply with the Companies Act 2006 with respect to the form and content of their accounts. This Act also stipulates the contents of the annual (directors') report. In England and Wales, strictly, the directors of charitable companies have to prepare both that report, and the Trustees' Annual Report under Part VI of the Charities Act 1993, but the Charity Commission is prepared to accept the directors' report for filing under Part VI if it also contains the information required under Part VI. In Scotland charitable companies should comply with both the Companies Act 2006 and the trustee reporting requirements of SORP. Charitable companies (unlike non company charities) do not have an exemption to leave out the names of the directors from the Annual Report.

421 The Companies Act 2006 requires a company to prepare annual financial statements which give a true and fair view of its state of affairs at the end of the year and of its profit and loss for that year. In addition, Paragraph 3(3) of Part 1, section A of Schedule 4 to the Companies Act 1985, which remains in force until superseded by Regulations made under the Companies Act 2006, requires the directors to adapt the headings and subheadings of the balance sheet and profit and loss account in any case where the special nature of the company's business requires such adaptation.

422 The requirement to show a true and fair view and to adapt the accounts for the special nature of charity means that there is a strong presumption that charitable companies will, in all but exceptional circumstances, have to comply with this SORP in order to meet the requirements of company law. Particulars of any material departures from this SORP are required to be disclosed in accordance with paragraph 359.

The Statement of Financial Activities and the Summary Income and Expenditure Account

423 All charitable companies registered under the Companies Acts must include an income and expenditure account in their financial statements. The Statement of Financial Activities is designed to include all the gains and losses of a charity which would be found in both the income and expenditure account and the statement of total recognised gains and losses as required by FRS 3. A separate income and expenditure account is therefore not necessarily required. Circumstances where it will probably be required may arise where the income and expenditure account cannot be separately identified within the Statement of Financial Activities and there are items which may be open to challenge if they are included in an income and expenditure account, such as:

- (a) movement on endowment (capital) funds during the year; and
- (b) unrealised gains and losses arising during the year.

Whilst unrealised gains and losses are not allowed in the income and expenditure account, most of these are included in the Statement of Financial Activities below the point at which a conventional income and expenditure account would end as explained in paragraph 424. Furthermore – where charities adopt a policy of continuous revaluation of investments (as explained in paragraph 219) there may be no realised gains to report and all the revaluation movements will be classified as unrealised gains.

424 Where the Statement of Financial Activities of a charitable company does not include any of the items in paragraph 423, it may not need to produce a separate summary income and expenditure account but the headings in the Statement of Financial Activities should be changed so that:

- (a) the title clearly indicates that it includes an income and expenditure account and statement of total recognised gains and losses (if required); and

- (b) there is a prominent sub total entitled “net income/(expenditure) for the year” which replaces or is in addition to the heading of “net incoming/(outgoing) resources for the year”.

Care should also be taken to ensure that all realised gains and losses are included in the Statement of Financial Activities in such a way that they fall within the bounds of the headings for (a) and (b) within the income and expenditure account. Particular attention may need to be given to impairment losses and reversals which, in accordance with the guidance in FRS 11, are realised in some circumstances and unrealised in others.

- 425** Where a summary income and expenditure account is required, it should be derived from and cross-referenced to the corresponding figures in the Statement of Financial Activities. It need not distinguish between unrestricted and restricted income funds but the accounting basis on which items are included must be the same as in the Statement of Financial Activities. It should show separately in respect of continuing operations, acquisitions and discontinued operations:
- (a) gross income from all sources;
 - (b) net gains/losses from disposals of all fixed assets belonging to the charity’s income funds;
 - (c) transfers from endowment funds of amounts previously received as capital resources and now converted into income funds for expending;
 - (d) total income (this will be the total of all incoming resources – other than revaluation gains – of all the income funds but not for any endowment funds);
 - (e) total expenditure out of the charity’s income funds;
 - (f) net income or expenditure for the year. In practice, the format may need to be modified to comply with specific statutory requirements or those of the charity’s own governing document.
- 426** Charitable companies which require a summary income and expenditure account and which prepare consolidated accounts should prepare a summary income and expenditure account for the group.

Revaluation Reserve

- 427** Where fixed assets are revalued upwards, a revaluation reserve will arise being the difference between the original depreciated cost or valuation of the asset and the revalued amount. Separate reporting of the reserve is not significant for charities as they do not distribute profits, but a revaluation reserve will, nevertheless, arise. This will form part of the funds in which the revalued assets are held. In certain circumstances (as described in FRSs 11 and 15), impairment losses or other downward revaluations can be offset against the revaluation reserve.
- 428** To comply with the Companies Act 2006, charitable companies must separately disclose the revaluation reserve in respect of their unrestricted funds within the relevant funds section on the face of the balance sheet but may change the heading as appropriate. This may be best effected by use of a prominent inset.

Summary Financial Information

- 429** Charitable companies should follow the recommendations in paragraphs 371 to 379 but their summary financial information should also include a statement indicating whether or not the statutory accounts for the relevant year(s) have been delivered to the Registrar of Companies and contain such additional information as required by section 427 of the Companies Act 2006 and Regulations made thereunder.

Accounting for Retirement Benefits

Introduction

- 430** There are two main types of retirement benefit schemes: defined contribution schemes and defined benefit schemes. Definitions for both appear in the glossary (GL 16 & GL 17). Details of how to account for each are included in this section.
- 431** A charity participating in a multi-employer defined benefit scheme, where the contributions are set in relation to the current service period only, or where the charity is unable to identify its share of the underlying assets and liabilities on a consistent or reasonable basis, should account for its contributions to the scheme as if it were a defined contribution scheme. Where a charity is unable to identify its share of the underlying assets and liabilities of the scheme, the disclosures set out in paragraph 446 should be provided.

432 The cost of a defined contribution scheme recognised in the accounts is equal to the contributions payable to the scheme in the accounting period. These pension costs should be allocated across the relevant resources expended categories of the Statement of Financial Activities set out in paragraph 177. The note disclosures in relation to such schemes are set out in paragraph 445.

Defined Benefit Schemes

433 FRS 17: Retirement Benefits substantially affects charities that operate defined benefit schemes (see Appendix 2: FRS 17). The surplus/deficit in a defined benefit scheme is the excess/shortfall of the value of the assets in the scheme over/below the present value of the scheme liabilities. In accordance with FRS 17 principles:

- (a) An asset should be recognised to the extent that the employer charity is able to recover a surplus either through reduced contributions in the future or through refunds from the scheme.
- (b) A liability should be recognised to the extent that it reflects its legal or constructive obligation of the employer charity.

Similar principles should also be adopted in relation to the provision of death-in-service and incapacity benefits, that are not wholly insured, and provided through a defined benefit pension scheme.

434 Full actuarial valuations of a defined benefit scheme should be undertaken by an independent, qualified actuary at intervals not exceeding three years and updated annually at the charity's balance sheet date to reflect current conditions.

435 A surplus or deficit in a defined benefit scheme normally gives rise to an asset or liability within unrestricted funds of the reporting charity. The reporting charity will normally be the employer and have control as to the future use of a surplus recovered either in the form of reduced contributions or a refund from the scheme. Similarly, where a liability arises through a legal or constructive obligation to make good a deficit, this liability will normally rest with the main charity's unrestricted funds.

Allocation of Retirement Benefit Costs and Gains

436 The change in the defined benefit asset or liability (other than that arising from contributions payable to the scheme which affect the surplus or deficit in the scheme) should be analysed into the components identified in FRS 17. However these will only be recognised through the Statement of Financial Activities on full implementation of FRS 17. (See Appendix 2 for FRS 17 implementation date and transitional arrangements).

437 Pension costs may be allocated between the resources expended categories of the Statement of Financial Activities on the basis of the charity's own computations. The basis of the allocation should be reasonable and consistent. Allocations of pension costs based on the staff costs of employees within the scheme is one approach, although other approaches (eg allocation based on pension contributions payable) may also produce an equitable allocation. Allocation of the components should be based on the following:

- (a) The changes relating to current or past service costs and gains, and losses on settlements and curtailments should be allocated to the appropriate resources expended categories set out in paragraph 432.
- (b) Pension finance costs arising from changes in the net of the interest costs and expected return on assets should be allocated to the appropriate resources expended categories set out in paragraph 432. Income arising from these changes should be recognised as an incoming resource and separately disclosed where material.
- (c) Where past service costs, or gains or losses on settlements or curtailment, are material in the context of the particular expenditure (or income) category in which they are recognised, the amounts should be disclosed as exceptional in accordance with FRS 3 – Reporting Financial Performance (see Appendix 2).
- (d) Actuarial gains and losses arising should be recognised within the "gains and losses" categories of the Statement of Financial Activities under the heading "actuarial gains and losses on defined benefit pension scheme".

Restricted Funds

- 438** A pension asset should be recognised as accruing to a restricted fund only where it can be demonstrated that the economic benefit of the asset will accrue to a particular fund through reduced contributions or refunds. Similarly, a pension liability should be allocated to a particular fund only where it is demonstrable that a constructive liability arises to fund the deficit and could properly be met from the particular fund. Such a situation may arise where staff are specifically engaged on a long-term project funded from restricted income. This allocation may be undertaken on the basis of the charity's own computations. Liaison with the provider of a particular restricted fund may be necessary in order to establish the basis on which any pension asset or liability is allocated to that fund and therefore the pension costs that may be properly charged through it.
- 439** Any allocation of a pension asset or liability to a restricted fund should be reviewed on an annual basis. Where staff changes or cessation of a particular project indicate that the economic benefits or obligations will no longer accrue to that particular fund then the asset or liability should be allocated to the unrestricted funds by means of a transfer of funds through the Statement of Financial Activities.
- 440** Where the criteria for the recognition of a pension asset or liability within restricted funds are met, the related pension costs should be recognised within the restricted funds column of the Statement of Financial Activities. The components of the pension cost should be recognised within the same Statement of Financial Activities categories and on the same basis as set out in the preceding paragraphs.
- 441** A restricted fund may, however, incur staff costs without the criteria for the recognition of a pension asset or liability within the restricted fund's balance sheet being met. For example, a restricted fund may be of a short-term nature or staff may be frequently transferred between activities creating uncertainty as to the fund which will ultimately recover any surplus or meet future contributions resulting from any deficit. In such circumstances, the restricted funds column of the Statement of Financial Activities may still be recharged with an appropriate portion of the current service cost component of the pension cost relating to the staff engaged in activities within restricted funds. Such a recharge within the Statement of Financial Activities would, as with any recharge, also necessitate a balance sheet adjustment between fund balances. The balance sheet of the unrestricted funds should, however, continue to recognise the overall pension asset or liability.
- 442** When past service costs and gains and losses on curtailments and settlements arise, such costs may be recharged to restricted funds only when a charity can demonstrate the costs relate to present staff engaged in the activities of the restricted funds.

Disclosures

- 443** The disclosure requirements for pension scheme contributions are given in FRS 17. This section summarises the key points.
- 444** Where a defined contribution scheme is operated by a charity, the notes to the accounts should disclose:
- (a) the nature of the scheme;
 - (b) the costs for the accounting period; and
 - (c) the amount of any outstanding or prepaid contributions at the year end.
- 445** FRS 17 disclosure requirements for defined benefit pension schemes are detailed and charities should refer to the text of the standard in completing their disclosure notes. The notes to the accounts should include the following information:
- (a) the nature of the scheme;
 - (b) the date of the most recent full actuarial valuation;
 - (c) the contributions made in the accounting period and any agreed contribution rates for future years;

- (d) the main financial assumptions used at the beginning of the period and at the balance sheet date;
 - (e) the fair value of scheme assets analysed between equities, bonds and other assets and their expected rates of returns;
 - (f) the present value of the scheme liabilities and the resulting surplus or deficit compared with the fair value of the scheme assets;
 - (g) an analysis of the amounts for each of the component parts of the defined benefit costs charged or credited through the Statement of Financial Activities;
- 446** Where a charity operating a defined benefit scheme has established that the employer's share of underlying assets and liabilities cannot be identified on a consistent and reasonable basis (eg by confirmation from the scheme administrators or actuaries) this fact should be disclosed. Any available information about the existence of the surplus or deficit in the scheme and the implications of that surplus or deficit for the employing charity should be disclosed together with a brief explanation of the general circumstances giving rise to this position.
- 447** When a charity operating a defined benefit scheme discloses a material pension liability, the notes to the accounts (or Trustees' Annual Report in the explanation of the policy on reserves) should explain the impact, if any, on resources available for general application. If a pension liability exceeds the balance on unrestricted funds, the note should also explain any limitations placed on any restricted fund of the charity to contribute to any resource requirements arising from the disclosed liability.
- 448** If a material pension asset is disclosed, the notes to the accounts (or Trustees' Annual Report) should explain the nature of the economic benefit derived from the asset and give an indication of the period over which any benefit in terms of reduced contributions will accrue to the charity.

Common Investment Funds and Investment Pooling Schemes

- 449** The trustees of Common Investment Funds (CIFs) in England and Wales, other than pooling scheme funds (see paragraph 450), should prepare their accounts and Trustees' Annual Report in accordance with the relevant accounts and reports regulations for CIFs made under part VI of the Charities Act 1993 (regulations made in 2008 ensured these requirements are consistent with the SORP for Authorised Funds issued by the Investment Management Association in December 2005) and any subsequent regulations which may be made. The trustees of Common Deposit Funds (CDFs) should also meet the relevant requirements that regulations place on such funds.
- 450** Some charities may operate a pooling scheme (Glossary GL 46) for the investments under the control of a single body of trustees common to the investing charities. Sometimes such arrangements are governed by a formal Charity Commission scheme but the pooling of investments may also be an informal arrangement under the Trustee Act 2000. This SORP does not provide details on how to operate or manage pooling schemes where underlying investments funds are apportioned between the investing charities or their funds on a similar basis to that adopted by unit trusts.
- 451** Where a pooling scheme holds investments for the separate funds of a single reporting charity, the scheme will form a restricted fund of the reporting charity. The assets of the pooled fund are the investments held and its liabilities are the share of these investments due to the funds of the reporting charity which have invested through the pooling arrangements. Its income and costs will accrue to the funds investing in the pool. Therefore, when accounts are prepared for the reporting charity, the assets, investment income and related costs of the pooling scheme fund will appear in the funds investing in the pool. The notes to the accounts simply disclose the pooling of investments with the underlying investments, income and costs being disclosed as part of the investment disclosures of the reporting charity. Thus to the reader of the accounts the pool will not be visible as a separate fund.

Appendix 1 Glossary

GL 1 Activity Classification of costs

- 1.1 An “activity classification of costs” is the aggregation of costs incurred in pursuit of a defined activity (eg provision of services to elderly people or counselling), and is achieved by adding together all the costs (salaries, rents, depreciation etc) relating to that specific activity.
- 1.2 The three main ‘high level’ activities that charities preparing accruals accounts will report on are generating funds, charitable activity and governance costs of the charity.

GL 2 Actuarial Gains and Losses

- 2.1 Changes in the actuarial deficits or surpluses that arise because the actuarial assumptions, in relation to pension or other retirement benefit schemes, have changed or events have not coincided with the actuarial assumptions made for the last valuation.

GL 3 Audit Threshold

- 3.1 This is the threshold (which may include income, expenditure and asset limits) above which a charity will be required to have a statutory audit.

GL 4 Branches

- 4.1 “Branches” (which may also be known as supporters’ groups, friends’ groups, members’ groups, communities or parishes which are part of a common trust etc.) are entities or administrative bodies set up, for example, to conduct a particular aspect of the activities of the reporting charity, or to conduct the activities of the reporting charity in a particular geographical area. They may or may not be legal entities which are separate from the reporting charity.
- 4.2 For the purpose of this SORP a “branch” is either:
- (a) simply part of the administrative machinery of the reporting charity; or
 - (b) a fund shown in the accounts as a restricted or endowment fund. Two types of entity are covered by this category, each of which should be treated as linked to the reporting charity for accounting purposes:
 - (i) a separate legal entity which is administered by, or on behalf of, the reporting charity and whose funds are held for specific purposes which are

within the general purposes of the reporting charity. “Legal entity” means a trust or unincorporated association or other body formed for a charitable purpose. The words “on behalf of” should be taken to mean that, under the constitution of the separate entity, a substantial degree of influence can be exerted by the reporting charity over the administration of its affairs; or,

- (ii) in England and Wales, a separate legal entity not falling within (i) which the Charity Commission has united by a direction under section 96(5) or 96(6) of the Charities Act 1993 should be treated as linked to the reporting charity for accounting purposes.

- 4.3 This definition has been adopted to reflect the provisions of the Charities Act 1993 allocating responsibility for accounting in the case of multicellular charities. FRS 2 expressly disappplies its requirements where they are not consistent with a particular statutory accounting framework. Consequently, charitable bodies which are controlled by other charitable bodies will not normally be subject to the requirements of that standard where they are treated as “special trusts” under the Charities Act 1993 or are the subject of a direction as mentioned above in paragraph 4.2(b)(ii). Also see the definition of “parent undertaking and subsidiary undertaking” (see GL 44 below).
- 4.4 Some of the characteristics of a branch are:
- (a) it uses the name of the reporting charity within its title;
 - (b) it exclusively raises funds for the reporting charity and/or for its own local activities;
 - (c) it uses the reporting charity’s registration number to receive tax relief on its activities;
 - (d) it is perceived by the public to be the reporting charity’s local representative or its representative for a particular purpose;
 - (e) it receives support from the reporting charity through advice, publicity materials, etc.
- 4.5 If the branch exists to carry out the primary objects of the charity, typically it will receive funds from the reporting charity for its work and may be staffed by employees of the reporting charity.

- 4.6 If the branch is not a separate legal entity, all funds held by a branch will be the legal property of the reporting charity, whether or not the branch has a separate bank account.

Organisations which are not Branches

- 4.7 Some charities may be known as “branches” within a particular organisational or network structure, but if their level of administrative autonomy from the reporting charity – as determined by their constitutions – is such that legislation requires them to be treated as separate accounting entities, then they should not be regarded as “branches” for accounting purposes but should prepare separate accounts for submission to the appropriate regulatory authority. Such “branches” may also be subsidiaries.
- 4.8 Other examples of organisations which are not “branches” for the purpose of these recommendations include:
- (a) groups of people who occasionally gather together to raise funds for one or a number of different charities; and
 - (b) special interest groups who are affiliated to a particular charity, but do not themselves undertake charitable activities (including fundraising for the charity).

GL 5 Capital

- 5.1 In the context of charity law “capital” means resources which become available to a charity and which the trustees are legally required to invest or retain and use for its purposes. “Capital” may be permanent endowment, where the trustees have no power to convert it into income and apply it as such, or expendable endowment, where they do have this power (see Appendix 3).
- 5.2 Capital is also used in its various accounting meanings, such as the capital elements of fixed assets, working capital or share capital.

GL 6 Charity

- 6.1 A “charity” is any institution established for purposes which are exclusively charitable. Where the institution is involved in more than one activity, operates more than one fund, or is not centralised into one unit of operation, the term is used in this statement to include all those activities, units and funds which fall within the scope of either a single governing instrument (or instruments supplemental to the main instrument) or for which the trustees are otherwise legally liable to account (eg branches, as defined in paragraph GL 4 above).

GL 7 Charity Trustees

- 7.1 “Charity trustees” has the same meaning as in s97(1) of the Charities Act 1993 and section 106 of the Charities and Trustee Investment (Scotland) Act 2005, that is the persons having the general control and management of the administration of a charity regardless of what they are called. Custodian trustees and nominees are not within this definition (see GL59).
- 7.2 For instance, in the case of an unincorporated association the executive or management committee are its charity trustees, and in the case of a charitable company it is the directors who are the charity trustees.
- 7.3 Those concerned in any way with the administration of charities should note that the status of a charity trustee is defined in terms of the function to be performed, and not by reference to the title given to any office, or membership of any committee or committees.

GL 8 Common Investment Funds

- 8.1 Common Investment Funds (CIFs) are collective investment schemes that are similar to authorised unit trusts and are for charity investors only. They are investment vehicles providing diversification of investment to reduce risk, and are tax efficient, administratively simple and cost efficient. They are deemed by law to be charities themselves and enjoy the same tax status as other charities.
- 8.2 CIFs set up by schemes made by the Charity Commission under section 22 of the Charities Act 1960 or section 24 of the Charities Act 1993 are open to charities in England and Wales, Scotland and Northern Ireland.

GL 9 Connected Charities

- 9.1 “Connected charities” are those which have common, parallel or related objects and activities; and either:
- (a) common control; or
 - (b) unity of administration (eg shared management).
- 9.2 Within this category may be charities which come together under one umbrella organisation or are part of a federal structure. Also see related parties (GL 50).

GL 10 Constructive Obligation

- 10.1** An obligation that derives from an entity's actions where:
- (a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and
 - (b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

GL 11 Contingent Asset

- 11.1** A possible asset that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the entity's control.

GL 12 Contingent Liability

- 12.1** This is either:
- (a) A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the entity's control; or
 - (b) a present obligation that arises from past events but is not recognised in the primary statements because:
 - (i) it is not probable that a transfer of economic benefits will be required to settle the obligation; or
 - (ii) the amount of the obligation cannot be measured with sufficient reliability.

GL 13 Costs of Generating Voluntary Income

- 13.1** Costs of generating voluntary income comprise the costs actually incurred by a charity, or by an agent, in inducing others to make gifts to it that are voluntary income (see GL 61).
- (a) Such costs will include the costs of producing fundraising advertising, marketing and direct mail materials, as well as any remuneration payable to an agent. It will normally include publicity costs but not those used in an educational manner in furtherance of the charity's objects.
 - (b) Such costs will exclude fundraising trading costs (see GL 26).

GL 14 Custodian Trustee

- 14.1** "Custodian Trustee" includes for present purposes any other non-executive trustee in whose name property belonging to the charity is held. (See also "trustee for a charity" GL 59).

GL 15 Deferred Income

- 15.1** Deferred income consists of resources (normally cash) received by a charity that do not meet the criteria for recognition as incoming resources in the Statement of Financial Activities as entitlement to the incoming resource does not exist at the balance sheet date. This will arise for example, in the case of resources received but not yet earned (in the case of a contract) which is deferred to match with performance under the contract or where the conditions attaching to a grant prevents its immediate recognition.
- 15.2** Deferred income is not recognised in the Statement of Financial Activities until the charity is entitled to the incoming resource and instead is disclosed as a liability in the balance sheet (see paragraph 318).

GL 16 Defined Benefit Pension Scheme

- 16.1** A pension or other retirement benefit scheme other than a defined contribution scheme (see GL 17). Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme.

GL 17 Defined Contribution Pension Scheme

- 17.1** A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligations to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. An individual member's benefits are determined by reference to contributions paid into the scheme in respect of that member, usually increased by an amount based on the investment return on those contributions.

GL 18 Depreciated Replacement Cost

- 18.1** Depreciated Replacement Cost is defined in FRS 15.
- 18.2** The objective of depreciated replacement cost is to make a realistic estimate of the current cost of constructing an asset that has the same service potential as the existing asset.

GL 19 Designated Fund

- 19.1** See Appendix 3 (App 3.1).

GL 20 Donated Services and Facilities

- 20.1** Donated services and facilities could include gifts of facilities, beneficial loan arrangements, or services from volunteers. Used to be known as intangible income (see GL 37)

GL 21 Endowment Fund

21.1 See Appendix 3 (App 3.3).

GL 22 Ex gratia Payment

22.1 Ex gratia payments are payments made at the discretion of trustees and not as a result of a contract or other legal obligation.

22.2 Ex gratia payments are of two distinct types:

- (a) Those made by a charity in relation to its charitable activities (eg extra payments to retiring employees). These will not normally need to be disclosed.
- (b) Those where a charity believes it is expedient to make in relation to an obligation which is not within its charitable objects and powers. This may be, for example, to settle a claim in respect of a legacy that would otherwise consume charitable resources in legal expenses. (see paragraph 240)

GL 23 Fair Value

23.1 Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.

23.2 The object of fair value measurement is to estimate an exchange price for the asset or liability being measured in the absence of an actual transaction for that asset or liability.

GL 24 Financial Derivative

24.1 A financial derivative is a security, such as an option or futures contract, whose value depends on the performance of an underlying security. In their simplest form derivatives can be used to reduce the cost and/or risk associated with holding or acquiring assets.

GL 25 Functional Fixed Assets

25.1 "Functional fixed assets" are those assets which are used for charitable purposes (ie to undertake the activities that are within the charity's objectives).

GL 26 Fundraising Costs

26.1 Fundraising costs consist of two categories:

- (a) Costs of generating voluntary income – see GL 13 above and
- (b) Fundraising trading costs which comprise the costs of trading to raise funds including the cost of goods sold and any other costs associated with a trading operation.

GL 27 Funds

27.1 A "fund" is a pool of resources, held and maintained separately from other pools because of the circumstances in which the resources were originally received or the way in which they have subsequently been treated. At the broadest level a fund will be one of two kinds: a restricted fund or an unrestricted fund (see Appendix 3 for the legal position as regards the various funds of a charity.)

GL 28 Governance Costs

28.1 These are the costs associated with the governance arrangements of the charity which relate to the general running of the charity as opposed to those costs associated with fundraising or charitable activity. The costs will normally include internal and external audit, legal advice for trustees and costs associated with constitutional and statutory requirements eg the cost of trustee meetings and preparing statutory accounts. Included within this category are any costs associated with the strategic as opposed to day to day management of the charity's activities.

GL 29 Grant

29.1 A grant is any voluntary payment (or other transfer of property) in favour of a person or institution. Grant payments, when made by a charity, are any such voluntary payments made in furtherance of its objects. The payment or transfer may be for the general purposes of the recipient, or for some specific purpose such as the supply of a particular service. It may be unconditional, or be subject to conditions which, if not satisfied by the recipient, may lead to the grant, or property acquired with the aid of the grant, or part of it, being reclaimed.

GL 30 Grants and/or Contract Income

30.1 A payment made to a charity for the purpose of providing goods or services may be by way of grant or contract. The main distinction is that grant payments are voluntary whereas contracts are normally legally binding between the payer and the charity: the payment is not then voluntary and is not a grant. The distinction is important because:

- (a) a contractual payment will normally be unrestricted income of the charity, but a grant for the supply of specific services will normally be restricted income;
- (b) the nature of the payment may be relevant to its VAT treatment.

- 30.2** It is not always easy in practice to decide whether a particular arrangement is or is not intended by the parties to be a legally binding contract for the supply of services. If, under the arrangement, the payer, rather than the recipient charity, has taken the lead in identifying the services to be provided, or if the arrangement provides for damages to be paid in the case of a breach of its terms, rather than, say, for total or partial refund of the payment, it is more probable that there is a contract for the supply of services. If there is no such contract, the rights and obligations of the parties will depend primarily on the law of trusts and conditional gifts, rather than on the law of contract.
- 30.3** Certain grant arrangements may not be contractual in law but nevertheless have the characteristics of a contract, in that the conditions attaching to the grant only give entitlement to the recipient of the funding (and a liability to the grant provider) as the goods or services specified in the grant terms are provided. Such arrangements are termed performance related grants (see GL 45 Performance-related Grants).

GL 31 Gross Income

- 31.1** Gross income is a term used within the Charities Act 1993 to determine the thresholds made by the Regulations under that Act (and the Companies Act in relation to charitable companies). The thresholds govern the requirements (in England and Wales) for account's scrutiny, the preparation of accruals accounts by non-company charities, submission of reports, accounts and an annual return to the Charity Commission. Gross income does not include the gains from investments, nor asset revaluation gains nor any resources received in endowment funds. It will however include funds released from endowments.
- 31.2** Gross income is separately defined for the statutory thresholds that apply in Scotland. The same principles apply in Scotland and the detailed definition of gross income is contained in the Charities Accounts (Scotland) Regulations 2006 (SSI 2006: No 218).
- 31.3** In relation to consolidated accounts, gross income will relate to aggregate gross income of the group after any adjustments arising from consolidation (eg inter-group sales).

GL 32 Heritage Assets

- 32.1** Heritage assets are assets of historical, artistic or scientific importance that are held to advance preservation, conservation and educational objectives of charities and through public access contribute to the nation's culture and education either at a national or local level. Such assets are central to the achievement of the purposes of such charities and include the land, buildings, structures, collections, exhibits or artefacts that are preserved or conserved and are central to the educational objectives of such charities.
- 32.2** Examples of these assets are:
- (a) Charities with preservation objectives may hold specified or historic buildings or a complex of historic or architectural importance or a site where a building has been or where its remains can be seen.
 - (b) Conservation charities may hold land relating to the habitat needs of species, or the environment generally, including areas of natural beauty or scientific interest.
 - (c) Museums and art galleries hold collections and artefacts to educate the public and to promote the arts and sciences.

GL 33 Historic Asset

- 33.1** See GL 32 above: Heritage Assets.

GL 34 Inalienable Asset

- 34.1** An asset which a charity is required by law to retain indefinitely for its own use/benefit and therefore cannot dispose of without external consent, whether prohibited by its governing document, the donor's wishes or in some other way. Normally the asset will belong to the charity's "permanent endowment", where it is held on trusts which contemplate its retention and continuing use but not its disposal. However, in the case of a gift-in-kind of a "wasting asset", such as a building, a long lease or a nondurable artefact, the terms of trust may not have provided for its maintenance in perpetuity or its replacement. In that case the endowment will be expended to the extent of the aggregate amount of its depreciation or amortisation properly provided for in the annual accounts (ie based on its currently anticipated useful life).

GL 35 Income

- 35.1** In the context of charity law, income refers to resources received that must be expended within a reasonable time of their being received. This contrasts with capital funds (see definition GL 5 above).
- 35.2** The term income is also used in its more general accounting sense.

GL 36 Incoming Resources

- 36.1** Incoming resources means all resources which become available to a charity including contributions to endowment (capital) funds but excluding gains and losses on investment assets. Gross incoming resources includes all trading and investment income, legacies, donations, grants and gains from disposals of fixed assets for use by the charity. Incoming resources should be recognised in the Statement of Financial Activities when the effect of a transaction or other event results in an increase in the charity's assets.
- 36.2** This term is to be distinguished from the statutory term gross income (see GL31).

GL 37 Intangible Income

- 37.1** Intangible income is the term used by previous Charity SORPs to refer to what is now known as Donated Services and Facilities (see GL 20).

GL 38 Investment Management Costs

- 38.1** Investment management costs include the costs of:
- (a) portfolio management;
 - (b) obtaining investment advice;
 - (c) administration of the investments;
 - (d) rent collection, property repairs and maintenance charges.
- 38.2** Valuation fees incurred for accounting purposes would normally be charged to the governance cost category of the relevant funds that hold the properties being valued.
- 38.3** 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.

GL 39 Investment Property

- 39.1** Subject to the exceptions in paragraph 39.2 below, an investment property is an interest in land and/or buildings:
- (a) in respect of which construction work and development have been completed; and
 - (b) which is held for its investment potential, any rental income being negotiated at arm's length.
- 39.2** The following are exceptions from the definition:
- (a) A property which is owned and occupied by a company for its own purposes is not an investment property.
 - (b) A property let to and occupied by another group company is not an investment property for the purposes of its own accounts or the group accounts.

GL 40 Liability

- 40.1** A liability is an obligation of an entity to transfer economic benefits which:
- (a) is expected to be settled by the entity parting with assets or in some way losing an economic benefit; and
 - (b) results from past transactions or events; and
 - (c) embodies a present duty or responsibility to one or more other entities that entails settlement at a specified or determinable future date, on the occurrence of a specified event, or on demand; and
 - (d) results from a duty or responsibility which obligates the entity either legally, or practically (a constructive obligation), because it would be financially or otherwise operationally damaging to the entity not to discharge the duty or responsibility.

A moral obligation – such as results from the making of a non-contractual promise – does not create a liability unless it meets the definition above.

GL 41 Market Value

- 41.1** "Market Value" is the price at which an asset could be, or could be expected to be, sold or acquired in a public market between a willing buyer and willing seller. For traded securities in which there is an established market, the market value basis that is to be used in the valuation for the balance sheet is defined as the midpoint of the quotation in the Stock Exchange Daily Official List or at a similar recognised market value. For other assets it is the trustees' or valuers' best estimate of such a value.

GL 42 Material

- 42.1** Materiality is the final test of what information should be given in a particular set of accounts. An item of information is material to the accounts if its misstatement or omission might reasonably be expected to influence the economic decisions of users of those accounts, including their assessments of stewardship. Immaterial information will need to be excluded to avoid clutter which impairs the understandability of other information provided.
- 42.2** Whether information is material will depend on the size and nature of the item in question judged in the particular circumstances of the case. Materiality is not capable of general mathematical definition as it has both qualitative and quantitative aspects. The principal factors to be taken into account are set out below. It will usually be a combination of these factors, rather than any one in particular, that will determine materiality.
- (a) The item's size is judged in the context both of the accounts as a whole and of the other information available to users that would affect their evaluation of the accounts. This includes, for example, considering how the item affects the evaluation of trends and similar considerations.
 - (b) Consideration is given to the item's nature in relation to:
 - (i) the transactions or other events giving rise to it;
 - (ii) the legality, sensitivity, normality and potential consequences of the event or transaction;
 - (iii) the identity of the parties involved; and
 - (iv) the particular headings and disclosures that are affected.
- 42.3** If there are two or more similar items, the materiality of the items in aggregate as well as of the items individually needs to be considered.
- 42.4** Trustees are responsible for deciding whether an item is or is not material. In cases of doubt an item should be treated as material.
- 42.5** This process may result in different materiality considerations being applied depending on the aspect of the accounts being considered. For example, the expected degree of accuracy expected in the case of certain statutory disclosures eg trustees' remuneration, may make normal materiality considerations irrelevant.

GL 43 Operating and Financial Review

- 43.1** An operating and financial review (OFR) is a form of reporting currently adopted by many quoted companies and is designed to provide a balanced and comprehensive analysis of:
- (a) the development and performance of the business of the entity during the financial year;
 - (b) the position of the entity at the end of the year;
 - (c) the main trends and factors underlying the development, performance and position of the business of the entity during the financial year; and
 - (d) the main trends and factors which are likely to affect their future development, performance and position, prepared so as to assist investors to assess the strategies adopted by the entity and the potential for those strategies to succeed.
- 43.2** The Accounting Standards Board withdrew Reporting Standard 1: Operating and Financial Review and reissued the contents as a statement of best practice Reporting Statement: Operating and Financial Review (OFR). There is currently no requirement for charities to prepare an operating and financial review although a number of this SORP's reporting recommendations for the content of the Trustees' Annual Report are consistent with OFR reporting.

GL 44 Parent Undertaking and Subsidiary Undertaking

- 44.1** In relation to a charity, an undertaking is the parent undertaking of another undertaking, called a subsidiary undertaking, where the charity controls the subsidiary. Control requires that the parent can both direct and derive benefit from the subsidiary.
- (a) Direction is achieved if the charity or its trustees:
 - (i) hold or control the majority of the voting rights, or
 - (ii) have the right to appoint or remove a majority of the board of directors or trustees of the subsidiary undertaking, or
 - (iii) have the power to exercise, or actually exercise, a dominant influence over the subsidiary undertaking or
 - (iv) manage the charity and the subsidiary on a unified basis.

For a fuller definition, reference should be made to sections 1161 and 1162 Companies Act 2006.

- (b) Benefit derived can either be economic benefit that results in a net cash inflow to the charity or can arise through the provision of goods or services to the benefit of the charity or its beneficiaries.

44.2 Paragraphs 381 to 406 explain how to account for subsidiary undertakings within the consolidated accounts of a parent undertaking. This includes the exemptions from consolidation and the particular circumstances in which a charity can be considered to be a subsidiary undertaking of another charity.

GL 45 Performance Related Grant

45.1 The term performance-related grant is used to describe a grant that has the characteristics of a contract in that:

- (a) the terms of the grant require the performance of a specified service that furthers the objectives of the grant maker; and
- (b) where payment of the grant receivable is conditional on a specified output being provided by the grant recipient.

GL 46 Pooling Scheme (see also GL 8)

46.1 A Pooling Scheme is a class of Common Investment Fund that provides for the pooling of investments belonging to two or more charities (which may be special trusts) which are administered by the same trustee body as the body managing the Pooling Scheme. Such schemes are referred to as Pool Charities and may be established with or without a formal scheme of the Charity Commission or the Courts.

GL 47 Programme Related Investments

47.1 Programme related investments (also known as social investments) are made directly in pursuit of the organisation's charitable purposes. Although they can generate some financial return (funding may or may not be provided on commercial terms), the primary motivation for making them is not financial but to further the objects of the funding charity. Such investments could include loans to individual beneficiaries (eg for housing deposits) or to other charities (for example, in relation to regeneration projects).

GL 48 Provision

48.1 A provision (as defined in FRS 12) is a liability of uncertain timing or amount. It is recognised when a charity has a present obligation (a legal or constructive obligation exists at the balance sheet date) as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation and the amount can be reliably estimated.

GL 49 Public Benefit Entity

49.1 The Accounting Standards Board's Interpretation for Public Benefit Entities of the Statement of Principles for Financial Reporting defines such entities as follows:

'Public benefit entities are reporting entities whose primary objective is to provide goods or services for the general public or social benefit and where any equity has been provided with a view to supporting that primary objective rather than with a view to providing a financial return to shareholders.'

GL 50 Related Parties

50.1 Related parties include all of the following:

- (a) Any charity trustee and custodian trustee of the charity;
- (b) Any person or body with:
 - (i) either the power to appoint or remove a significant proportion of the charity trustees of the charity. All or a majority of the trustees should always be treated as a "significant proportion". Fewer than 50% of the trustees may be a "significant proportion" if they collectively have a dominant influence on the operation of the charity, as, for example, is likely to be the case if one body has the power to appoint/remove 7 of a body of 15 trustees, and 8 other different bodies had the right to appoint/remove 1 each.
 - (ii) or whose consent is required to the exercise of any of the discretions of those trustees,
 - (iii) or who is entitled to give directions to those trustees as to the exercise of any of those discretions.

- (c) Any institution connected with the charity, and any director of such an institution. An institution is connected with a charity if either:
- (i) it is controlled by (in Scotland managed or controlled by) the charity. "Controlled" means that the charity is able to secure that the affairs of the institution are conducted in accordance with its wishes. A charity will control another if it is trustee of that charity or has power to appoint or remove a significant proportion of its trustees; or
 - (ii) a participating interest in it is beneficially owned by the charity. "Participating interest" means that the charity:
 - (a) is interested in shares comprised in the equity share capital of the body of a nominal value of more than one fifth of that share capital; or
 - (b) is entitled to exercise or control the exercise of more than one-fifth of the voting power at any general meeting of that body.
- (d) Any other charity with which it is commonly controlled. Common control exists if:
- (i) the same person, or persons have the right to appoint a majority of the charity trustees of both or all the charities; or
 - (ii) the same person, or persons, hold a majority of the voting rights in the administration of both or all of the charities.
- Persons who are related with each other through family or business relationships should be treated as the same person for the present purposes.
- A charity is not necessarily related to another charity simply because a particular person happens to be a trustee of both. It will only be related if one charity subordinates its interests to the other charity in any transaction because of this relationship.
- (e) Any pension fund for the benefit of:
- (i) the employees of the charity; and/or
 - (ii) of any other person who is a related party of the charity.
- (f) Any officer, agent or employee of the charity having authority or responsibility for directing or controlling the major activities or resources of the charity; and
- (g) Any person connected to a person who is related to the charity including:
- (i) members of the same family or household of the charity trustee or related person who may be expected to influence, or be influenced by, that person in their dealings with the charity;
 - (ii) the trustees of any trust, not being a charity, the beneficiaries or potential beneficiaries of which include a charity trustee or related person or a person referred to in (i) as being connected with a charity trustee or to a related person, as the case may be;
 - (iii) any business partner of a charity trustee or related person, or of any person referred to in (i) or (ii) as being connected with a charity trustee or to a related person, as the case may be;
 - (iv) any body corporate, not being a company which is controlled entirely by one or more charitable institutions, in which:
 - (a) the charity trustee has, or the charity trustee and any other charity trustee or trustees or person or persons referred to in (i), (ii) or (iii) above as being connected with a charity trustee, taken together, have a participating interest; or
 - (b) the related person has, or the related person and any other related parties of the charity, taken together, have a participating interest.
 - (v) Any person or body who makes available to the charity the services of any person or body as a charity trustee is connected with a charity trustee.

GL 51 Reserves

- 51.1** The term “reserves” has a variety of technical and ordinary meanings, depending on the context in which it is used. In this SORP the term “reserves” (unless otherwise indicated) describes that part of a charity’s income funds that is freely available.
- 51.2** This definition of reserves therefore normally excludes:
- (a) permanent endowment funds;
 - (b) expendable endowment funds;
 - (c) restricted funds;
- and any part of unrestricted funds not readily available for spending, specifically:
- (d) income funds which could only be realised by disposing of fixed assets held for charity use and performance related investments.
- 51.3** Individual charities may have more or less reserves available to them than this simple calculation suggests for example:
- (a) expendable endowments may be readily available for spending; or
 - (b) unrestricted funds may be earmarked or designated for essential future spending and reduce the amount readily available.
- 51.4** For further information, see the Charity Commission’s publication CC19 on Charities’ Reserves.

GL 52 Resources Expended

- 52.1** Resources expended means all costs incurred in the course of expending or utilising the charity’s funds.
- This includes all claims against the charity upon being recognised as liabilities by the trustees, as well as all accruals and payments made by the trustees of a charity, and all losses on the disposal of fixed assets (other than investments), together with all provisions for impairment of tangible fixed assets or programme related investments.
- 52.2** This is to be distinguished from total expenditure (see GL 55 below).

GL 53 Restricted Fund

- 53.1** See Appendix 3 (App 3.2).

GL 54 Support Costs

- 54.1** Support costs are those costs that, whilst necessary to deliver an activity, do not themselves produce or constitute the output of the charitable activity. Similarly, costs will be incurred in supporting income generation activities such as fundraising, and in supporting the governance of the charity. Support costs include the central or regional office functions such as general management, payroll administration, budgeting and accounting, information technology, human resources, and financing.

GL 55 Total Expenditure

- 55.1** Total expenditure was a term used within the Charities Act 1993 to determine the thresholds that govern the requirements (in England and Wales) for accounts scrutiny, submission of reports, accounts and an annual return to the Charity Commission. For accounting periods beginning on or after 27 February 2007, the criterion of total expenditure is no longer used.

GL 56 Total Return Approach to Investment

- 56.1** The total return approach to investment management allows trustees to manage investments without the need to take account of whether the return is income (dividends, interest, etc.) or capital gains and losses. Normally a total return approach cannot be adopted in relation to permanent endowment funds, though the Charity Commission can enable this for charities in England and Wales. Further details are given in Appendix 3 (paragraph 3(g)).

GL 57 Trading

- 57.1** In a strict legal sense, trading activities are those carried out under contract, whether at the point of sale or otherwise, where goods and services are provided in return for consideration for those goods or services. Normally, trading activities are carried out on a regular basis with a view to making profits, though it is possible that some one-off activities could be regarded as trading.

- 57.2** However, in an economic sense, trading can be regarded as the provision of goods and services in return for a payment whether or not this payment is in fact under contract. Therefore, certain incoming grants which are, in a legal sense, donations, but which have specific terms attached to them such that a charity becomes entitled to the payment on the provision of specified goods or services, are in the context of this SORP recognised on the same basis as trading income (see Performance Related Grant: GL 45). This is because the charity has an obligation to provide the specific services or goods in the same way that it would have to provide them under contract. If it fails to provide the goods or services then, if the funds are by way of grant, this will be a breach of trust, but if they are by way of contract, this will be by way of breach of contract. The legal remedies of the funding body are different depending upon the circumstances.
- 57.3** Similarly, the sale of donated goods is in a legal sense regarded as the realisation of a donation. However, in the context of this SORP it is regarded as trading, and recognised as an activity for generating funds (See paragraph 137), because it is so similar to the sale of bought in goods as to be indistinguishable in the actual processes involved except for the legal distinction.
- 57.4** For income, corporation and value added tax purposes trading must be interpreted within the meaning of the legislation governing those taxes.

GL 58 Trustees

- 58.1** Has the same meaning as charity trustees.

GL 59 Trustee for a Charity

- 59.1** "Trustee for a charity" means any person (other than the charity itself, or a charity trustee of the charity) who holds the title to property belonging to the charity, and so includes a custodian trustee and a nominee.

GL 60 Unrestricted Fund

- 60.1** See Appendix 3 (App 3.1).

GL 61 Voluntary Income

- 61.1** Voluntary income comprises gifts that will not normally provide any return to the donor other than the knowledge that someone will benefit from the donation. They will thus exclude any gifts that are quasi-contractual (in that a certain service to a certain level must be provided) but they would include gifts that must be spent on some particular area of work (ie restricted funds) or given to be held as endowment. Voluntary income will normally include gifts in kind and donated services, for example gifts in kind as part of an international aid programme.

Glossary of terms relating to Pension Scheme Accounting under FRS 17

The following definitions are specifically needed to understand pension scheme accounting. Where definitions are more generally applicable they are included in the main glossary above.

GL 62 (Pensions) Actuarial gains and losses

62.1 See definition GL 2 in the main glossary.

GL 63 (Pensions) Current service costs

63.1 The increase in the present value of scheme liabilities expected to arise from employee service in the current period.

GL 64 (Pensions) Curtailment

64.1 An event reducing the expected years of future service of present employees or reducing for a number of employees the accrual of defined benefits for future years service, eg early termination of employees' services or termination or amendment of scheme terms affecting benefits accrued by future service.

GL 65 (Pensions) Defined benefit pension scheme

65.1 See definition GL 16 in the main glossary.

GL 66 (Pensions) Defined contribution pension scheme

66.1 See definition GL 17 in the main glossary.

GL 67 (Pensions) Expected rate of return on assets

67.1 Average rate of return, including income and changes in fair value but net of expenses, expected over the remaining life of the related obligation on the assets held by the scheme.

GL 68 (Pensions) Interest cost

68.1 The expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

GL 69 (Pensions) Multi-employer pension scheme

69.1 This is a defined contribution pension scheme or a defined benefit pension scheme where more than one employer participates.

GL 70 (Pensions) Past service cost

70.1 The increase in the present value of scheme liabilities relating to employee service in prior periods arising in the current period as a result of the introduction of, or improvements to, retirement benefits.

GL 71 (Pensions) Projected unit method

71.1 An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

- (a) the benefits for pensioners and deferred pensioners (ie individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases; and
- (b) the accrued benefits for members in service on the valuation date.

The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not.

GL 72 (Pensions) Retirement benefit

72.1 All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment.

GL 73 (Pensions) Scheme liabilities

73.1 The liabilities of a defined benefit scheme for outgoings due after the valuation date.

GL 74 (Pensions) Settlement

74.1 An irrevocable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. For example, the payment of a lump sum in exchange for surrender of rights, the purchase of an annuity to cover benefits, or the transfer of scheme assets and liabilities relating to employees leaving the scheme.

Appendix 2 Application of Accounting Standards

- App 2.1** Accounting standards are developed in the UK by the Accounting Standards Board and are referred to as Financial Reporting Standards (FRSs). Accounting standards developed by its predecessor body the Accounting Standards Committee and adopted by the ASB continue to be known as Statements of Standard Accounting Practice or SSAPs. Accounting standards are authoritative statements of how particular types of transaction and other events should be reflected in accounts and accordingly compliance with accounting standards will normally be necessary for accounts to give a true and fair view. Accounting standards need not be applied to immaterial items. In applying accounting standards it is important to be guided by the spirit and reasoning behind them.
- App 2.2** The main role of the Urgent Issues Task Force (UITF) is to assist the ASB with important or significant accounting issues where unsatisfactory or conflicting interpretations of standards have developed. UITF Abstracts apply where accounts are intended to give a true and fair view. They should be regarded as part of the body of practices forming the basis for determining what constitutes a true and fair view and should be read in conjunction with accounting standards. UITF Abstracts need not be applied to immaterial items. As with accounting standards it is important when applying UITF Abstracts to be guided by the spirit and reasoning behind them.
- App 2.3** Subsequent to the consultation on this SORP, in December 2004 the Accounting Standards Board issued five new accounting standards (FRS 22 to FRS 26) as part of its strategy for convergence with International Financial Reporting Standards. In addition FRS 2: Accounting for Subsidiary Undertakings has been amended to reflect changes to the Companies Act 1985 (now section 1162 of the Companies Act 2006) and a new standard, FRS 27: Life Assurance, applying to life insurance businesses, was issued.
- App 2.4** The following table includes a brief summary of these new standards. Four of these standards will become fully mandatory for charities who adopt fair value measurement rules (unless the FRSSE is applied) for accounting periods beginning on or after 1 January 2006. Where allowed by the relevant standard, charities may adopt them early, and where charities so do, reference should be made directly to the relevant standard. The presentational requirements of FRS 25 Financial Instruments: Disclosure and Presentation apply to charities for accounting periods beginning on or after 1 January 2005. Although charities are unlikely to issue equity, this standard will also be relevant in determining the classification of liabilities based on the substance of the arrangement.
- App 2.5** The following table provides a summary of the accounting standards and Urgent Issues Task Force abstracts extant at the date of issue of this SORP and their applicability to charities. The standards should only be applied in so far as they are relevant to activities being carried out by an individual charity. Where this is the case the summaries below should not be relied upon as a substitute for reading the full text of the standard.

Statements of Standard Accounting Practice (SSAPs)

SSAP 4 Accounting Treatment of Government Grants

SSAP 4 deals with the accounting treatment and disclosure of government grants and other forms of government assistance, including grants, equity finance, subsidised loans and advisory assistance. It is also indicative of best practice for accounting for grants and assistance from other sources.

A gift of a tangible fixed asset (or grant to purchase) is recognised in full with the recipient charity's entitlement to the asset. Any restriction on the asset's future use is recognised by allocating the asset to a restricted fund rather than deferring the recognition of the asset. Any residual liability to the donor arising from, for example, the asset's future sale, is disclosed as a contingent liability unless the event that would trigger repayment of the grant becomes probable in which case a liability for repayment is recognised.

This SORP provides the most appropriate interpretation of SSAP 4 for charities. In particular, grants for fixed assets should not be deferred though normally they will have to be accounted for in a separate fund (see paragraph 111).

SSAP 5 Accounting For Value Added Tax (VAT)

SSAP 5 follows the general principle that the treatment of VAT in the accounts should reflect an entity's role as a collector of the tax and VAT should not be included in income or in expenditure whether of a capital or revenue nature. However, where the VAT is irrecoverable, it should be included in the cost of the items reported in the financial statements.

Many if not all charities will suffer irrecoverable VAT either because they are not registered or have a mixture of activities which are zero and standard rated, exempt and outside the scope of VAT. The irrecoverable tax should be included in the relevant cost headings on the face of the Statement of Financial Activities and not shown as a separate item though separate disclosure of the amount may be made in the notes to the accounts.

SSAP 9 Stocks and Long-term Contracts

SSAP 9 gives guidance on the values to be included in the balance sheet of stocks and long-term contracts and the criteria for recognition of income and expenditure on such items within the profit and loss account (Statement of Financial Activities for charities).

Equally applicable to charities as to other entities.

SSAP 13 Accounting for Research and Development

SSAP 13 provides guidance on three broad categories of activity, namely pure research, applied research and development. The standard defines these categories and specifies the accounting policies that may be followed for each.

Equally applicable to charities as to other entities.

SSAP 17 Accounting for Post Balance Sheet Events	SSAP 17 defines the period for post balance sheet events and describes the accounting treatment for adjusting and non-adjusting events. Adjusting events are those which provide additional evidence of conditions existing at the balance sheet date. Non-adjusting events are those which concern conditions that did not exist at the balance sheet date.	Equally applicable to charities as to other entities.
	SSAP 17 has been replaced by FRS 21 for accounting periods beginning on or after 1 January 2005	
SSAP 19 Accounting for Investment Properties	SSAP 19 requires investment properties to be included in the balance sheet at their open market value, but without charging depreciation.	Equally applicable to charities as to other entities.
SSAP 20 Foreign Currency Translation	SSAP 20 generally requires, in individual financial statements, that each transaction should be translated into the entity's local currency using the exchange rate in operation at the date of the transaction. In consolidated accounts the standard allows two alternative methods of translation of a foreign entity's financial statements, depending on whether the enterprise is a separate quasi-independent entity, or a direct extension of the trade of the investing entity.	Generally applicable to charities entering directly into transactions overseas or with branches or subsidiaries overseas. Gains should be recorded as other income in the Statement of Financial Activities and losses as a support cost of the relevant activity category. Where the standard permits gains and losses to be taken to reserves, these should be shown as a separate row in the Statement of Financial Activities after "net incoming/outgoing resources."
	See also FRS 23 and FRS 24.	
SSAP 21 Accounting for Leases and Hire Purchase Contracts	SSAP 21 describes how to identify and account for finance leases, operating leases and hire purchase contracts both for the lessee and the lessor.	Equally applicable to charities as to other entities.
SSAP 25 Segmental Reporting	SSAP 25 requires the disclosure by class of business and by geographical segment of turnover, segment result and segment net assets. The turnover disclosure is required by all companies otherwise the disclosure is mandatory only for PLCs, banking and insurance companies and those over ten times the threshold for medium sized companies.	This will only be applicable to the largest charities. The disclosure requirements in the SORP for details of activities by function meets the spirit of SSAP 25 for turnover by class of activity. The disclosure by geographical region and segment net assets would be additional.

Financial Reporting Standards (FRSs)

FRS 1 Cash Flow Statements (Revised 1996)	FRS 1 (Revised 1996) requires reporting entities within its scope (from 6 April 2008 where two of £6.5m gross turnover; £3.26m gross assets; 50 employees) to prepare a cash flow statement in the manner set out in the FRS.	Paragraphs 351 to 355 explain the applicability of FRS 1 to charities.
FRS 2 Accounting for Subsidiary Undertakings	FRS 2 sets out the conditions under which an entity qualifies as a parent undertaking which should prepare consolidated financial statements for its group, the parent and its subsidiaries. It also sets out the manner in which consolidated financial statements are to be prepared.	Paragraphs 381 to 397 explain consolidation and the applicability of FRS 2 to charities.
FRS 3 Reporting Financial Performance	FRS 3 requires a layered format for the profit and loss (income and expenditure) account split between continuing, newly acquired and discontinued operations. It has effectively outlawed extraordinary items. The standard also requires a statement of total recognised gains and losses to be shown as a primary statement. A note of historical profits, which is a memorandum item, is also required as is the disclosure of earnings per share.	The Statement of Financial Activities combines both the income and expenditure account and the statement of total recognised gains and losses and meets charity law. Exceptional items should be disclosed on a separate row within the activity to which they relate. The additional requirements for charitable companies are explained in paragraphs 423 to 426. Earnings per share is not relevant to charities.
FRS 4 Capital Instruments	FRS 4 requires capital instruments to be presented in financial statements in a way that reflects the obligations of the issuer and the impact on shareholders equity. Most parts of this standard are superseded by FRS 25	Not generally applicable to charities following this SORP
FRS 5 Reporting the Substance of Transactions	FRS 5 requires that the substance of an entity's transactions is reported in its financial statements. This requires that the commercial effect of a transaction and any resulting assets, liabilities, gains and losses are shown and that the accounts do not merely report the legal form of a transaction.	Equally applicable to charities as to other entities.

FRS 6 Accounting For Acquisitions and Mergers	FRS 6 sets out the circumstances in which the two methods of accounting for a business combination (acquisition accounting and merger accounting) are to be used. The FRS sets out five criteria that must be met for merger accounting to be used. If they are not met then acquisition accounting should be used.	The principles of merger accounting are applicable to charities where two or more charities merge. However where funds are merely transferred from one charity to another this may constitute a gift or in the case of a restricted fund simply the administrative transfer of the restricted fund from one set of trustees to another. Two of the five criteria apply to shareholders funds and so will not be applicable to charities. Charities cannot merge with non-charitable companies and so acquisition accounting will have to be used where such companies are acquired.
FRS 7 Fair Values in Acquisition Accounting	FRS 7 sets out the principles of accounting for a business combination under the acquisition method of accounting. It explains what “identifiable assets and liabilities” means and how to determine their fair values. The difference between the sum of these fair values and the cost of acquisition is recognised as goodwill or negative goodwill.	Equally applicable to charities as to other entities where acquisition accounting is used.
FRS 8 Related Party Disclosures	FRS 8 determines who and what are “related parties” and the disclosures necessary to draw attention to the possibility that the reported financial position and results may have been affected by the existence of related parties and by material transactions with them.	Paragraphs 221 to 233 explain the application of FRS 8 with respect to charities.
FRS 9 Associates and Joint Ventures	FRS 9 sets out the definitions and accounting treatments for associates and joint ventures, two types of interests that a reporting entity may have in other entities. The FRS also deals with joint arrangements that are not entities.	Paragraphs 407 to 418 explain the applicability of FRS 9 to charities.
FRS 10 Goodwill and Intangible Assets.	FRS 10 requires purchased goodwill and intangible fixed assets (where marketable) to be capitalised on the balance sheet and amortised over their life, normally regarded as 20 years, subject to impairment reviews.	FRS 10 covers common occurrences of goodwill and intangible assets. Where a charity has an intangible asset which does not meet the criteria under the standard it should not be included in the primary statements but details of the asset and its financial effect should be disclosed in the notes to the accounts.

FRS 11 Impairment of Fixed Assets and Goodwill

FRS 11 sets out the principles and methodology for accounting for impairments of fixed assets and goodwill. The carrying amount of an asset is compared with its recoverable amount and, if the carrying amount is higher, the asset is written down. Recoverable amount is defined as the higher of the amount that could be obtained by selling the asset (net realisable value) and the amount that could be obtained through using the asset (value in use). Impairment tests are only required when there has been some indication that an impairment has occurred.

Paragraphs 267 to 272 explain the applicability of FRS 11 to charities.

FRS 12 Provisions, Contingent Liabilities and Contingent Assets.

FRS 12 describes the circumstances in which a provision (a liability that is of uncertain timing or amount) may arise and how it should be measured and recognised in the financial statements. It also describes how to account for contingent assets and liabilities.

FRS 12 is generally applicable to charities. Paragraphs 148 to 163 and 321 to 329 describe some particular application points to charities.

FRS 13 Derivatives and other Financial Instruments

The Financial Reporting Standard on derivatives (FRS 13) must be followed by a reporting entity that has any of its capital instruments listed or publicly traded on a stock exchange or market. A capital instrument is an instrument issued by a reporting entity as a means of raising finance and includes shares, debentures, loans and debt instruments. The FRS is therefore neither applicable to nor designed for charities.

Although FRS 13 is not applicable to charities, much of what would need to be disclosed is required in the SORP. In particular:

- Amongst the requirements of the FRS are those to disclose details of financial assets and liabilities, which can include most current assets and current liabilities, investments and derivatives. Disclosure of all these items is required by the SORP.
 - FRS 13 requires disclosure of the financial risk profile of the entity. Disclosure of risks, including financial risk, is required in the Trustees' Annual Report as part of the general disclosure on risk.
 - The FRS also requires an explanation of derivatives in particular and this is also required in the SORP.
 - The SORP also indicates that the notes to the accounts should disclose what derivative products are in use by the charity and the role that financial instruments play in creating or changing the risks that the entity faces in its activities.(see paragraphs 337 to 339).
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FRS 14 Earnings Per Share	This is superseded by FRS 21 for accounting periods beginning on or after 1/1/2005	Not applicable to charities.
FRS 15 Tangible Fixed Assets	FRS 15 sets out the principles of accounting for tangible fixed assets, with the exception of investment properties. In principle all fixed assets should be capitalised at cost or at revalued amount. However, where an enterprise chooses to adopt a policy of revaluing some assets, all assets of the same class must be revalued and the valuations kept up to date.	The principles of FRS 15 are generally applicable to charities and are embodied in the balance sheet section of this SORP. However, there are relaxed criteria for the valuations of charity assets and certain heritage assets need not be capitalised in certain circumstances as explained in paragraphs 279 to 294. As noted in paragraph 265 and 266 where a charity adopts a policy of revaluation of tangible fixed assets, the SORP allows in the case of land and buildings such valuations to be undertaken by a suitably qualified trustee or employee.
FRS 16 Current Tax		FRS 16 is generally not applicable to charities. However, the government have paid compensation payments to charities for 5 years from April 1999 for the removal of ACT credits on the payment of UK dividends. These payments should be included as part of a charity's investment income.

FRS 17 Retirement Benefits

FRS 17 sets out the accounting treatment for retirement benefits such as pensions and medical care during retirement. On the full implementation of the standard the main requirements are:

- (a) pension assets are measured using fair values,
- (b) pension scheme liabilities are measured using the projected unit method and discounted using the current rate of return on a high quality corporate bond of equivalent term and currency to the liabilities,
- (c) the pension scheme surplus (to the extent it can be recovered) or deficit is recognised on the balance sheet,
- (d) the movement in the scheme surplus/deficit is analysed into:
 - the current service cost and any past service cost, recognised in operating profit,
 - the interest cost and expected return on assets, recognised as other finance costs, and
 - actuarial gains and losses recognised in the statement of total recognised gains and losses.

FRS 17 (As amended in November 2002) includes the following transitional arrangements:

- (a) For accounting periods ending on or after 22 June 2001, closing balance sheet information (no comparatives required) is to be given in the notes only.
 - (b) For accounting periods ending on or after 22 June 2002, opening and closing balance sheet information and performance statement information for the period (no comparatives required) is to be given in the notes only.
 - (c) For accounting periods beginning on or after 1 January 2005, the standard is fully effective.
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Equally applicable to charities. Specific guidance on the application of the standard is given in the special section beginning at paragraph 430

FRS 18 Accounting Policies

FRS 18 sets out the principles to be followed in selecting accounting policies and the disclosures needed to help users to understand the accounting policies adopted and how they have been applied. Its objective is to ensure that:

- an entity adopts the accounting policies most appropriate to its particular circumstances for the purposes of giving a true and fair view;
- the accounting policies adopted are reviewed regularly to ensure that they remain appropriate, and are changed when a new policy becomes more appropriate to the entity's particular circumstances; and
- sufficient information is disclosed in the financial statements to enable users to understand the accounting policies adopted and how they have been implemented.

It requires disclosure of the extent to which financial statements comply with any relevant SORP. Where an entity's financial statements fall within the scope of a SORP, the entity should state the title of the SORP and whether its financial statements have been prepared in accordance with the SORP's provisions currently in effect. In the event of a departure, the entity should give a brief description of the departure from recommended practice, the reasons why the treatment adopted is judged more appropriate, details of any disclosures recommended by the SORP that have not been provided and the reasons why they have not been provided.

The appropriateness of accounting policies adopted are judged against the objectives of:

- (a) relevance,
- (b) reliability,
- (c) comparability, and
- (d) understandability.

Equally applicable to charities as other entities. The disclosure of compliance with any relevant SORP has particular relevance in the context of the charity sector where adherence to this SORP is expected.

The implementation of this SORP may involve the analysis and presentation of incoming resources and resources expended across different SoFA categories and the allocation of support costs to activity categories within the SoFA. The SoFA for the preceding period should be restated to ensure consistent presentation.

Although this SORP does not change the basis of asset and liability recognition, it does provide more detailed guidance on the recognition of performance related grants which may result in some charities amending their accounting policies and where the effect of such a policy change is material, a restatement of comparative amounts will be necessary.

FRS 19 Deferred Tax	<p>FRS 19 requires full provision to be made for deferred tax assets and liabilities arising from timing differences between the recognition of gains and losses in the financial statements and their recognition in a tax computation.</p> <p>The general principle underlying the requirements is that deferred tax should be recognised as a liability or asset if the transactions or events that give the entity an obligation to pay more tax in the future or the right to pay less tax in the future have occurred at the balance sheet date.</p>	<p>Not generally applicable to charities due to tax exemptions available. However the standard will be of relevance in consolidated accounts that include non-charitable subsidiaries particularly those that adopt a policy of full or partial profits retention rather than full distribution of taxable profits through gift aid provisions.</p> <p>Where it is a subsidiary's practice to make a gift aid payment of all of its taxable profits to its parent charity, subsequent to its reporting year end, which qualifies for tax relief in that earlier period a provision for deferred tax is unlikely to be necessary.</p>
FRS 20 Share-based Payments		Not applicable to charities
FRS 21 (IAS 10) Post Balance sheet event's	<p>FRS 21 sets out the recognition and measurement requirements for two types of event after the balance sheet date:</p> <ul style="list-style-type: none"> • Those that provide evidence of conditions that existed at the balance sheet date for which the entity shall adjust the amounts recognised in its financial statements or recognise items that were not previously recognised (adjusting events). For example, the settlement of a court case that confirms the entity had a present obligation at the balance sheet date. • Those that are indicative of conditions that arose after the balance sheet date for which the entity does not adjust the amounts recognised in its financial statements (non-adjusting events). For example, a decline in market value of investments between the balance sheet date and the date when the financial statements are authorised for issue. <p>FRS 21 applies for accounting periods beginning on or after 1 January 2005</p>	<p>Equally applicable to charities as other entities.</p> <p>The determination after the balance sheet date of the amount of a gift aid payment to a parent charity by a subsidiary undertaking is an adjusting event, if the subsidiary had a present legal (eg. a deed) or a constructive obligation at the balance sheet date. Where a present obligation is demonstrable at the year end, an adjustment is made where post balance sheet calculations provide greater accuracy in the measurement of the existing liability e.g. to equate the gift aid liability more closely to taxable profits.</p> <p>Designations reflect intentions as to the future application of funds held at a particular balance sheet date and do not reflect an external transaction or present obligation to a third party. As such they fall outside the scope of FRS 21. However, the spirit and reasoning behind the standard would suggest that charities would designate for future projects or plans envisaged at the balance sheet date and adjust such estimates to accord with any more accurate information that became available after the year end.</p>

**FRS 22 (IAS 33)
Earnings per share**

This standard only applies to entities whose ordinary shares are traded or in the process of issuing such shares.

Not Applicable to Charities

This standard supersedes FRS 14 for accounting periods beginning on or after 1 January 2005.

**FRS 23 (IAS 21) The
Effects of Changes
of Foreign Exchange
Rates**

An entity may carry on foreign activities in two ways. It may have transactions in foreign currencies or it may have foreign operations. In addition, an entity may present its financial statements in a foreign currency. This standard prescribes how entities should include foreign currency transactions and foreign operations in their financial statements and how they should translate financial statements into a presentation currency.

Applicable to charities that are applying FRS 26.

The standard applies to entities applying FRS 26, In effect this means listed entities are required to apply the standard for accounting periods beginning on or after 1 January 2005 and unlisted entities preparing their accounts in accordance with the fair value accounting rules set out in the Companies Act 1985 will be required to adopt it for accounting periods beginning on or after 1 January 2006.

This standard replaces the requirements set out in SSAP 20 from when the new standard is applied.

**FRS 24 (IAS 29)
Financial Reporting
in Hyperinflationary
economies**

FRS 24 prescribes how an entity whose functional currency is the currency of a hyperinflationary economy should report its operating results and financial position. It also provides guidance on determining whether an economy is a hyperinflationary economy.

The standard applies to entities applying FRS 26. In effect, this means listed entities are required to apply the standard for accounting periods beginning on or after 1 January 2005 and unlisted entities preparing their accounts in accordance with the fair value accounting rules set out in the Companies Act 1985 will be required to adopt it for accounting periods beginning on or after 1 January 2006.

Where this standard is applied it replaces UITF 9.

Will not apply to charities unless the functional currency in which they report is subject to hyperinflation and FRS 26 has been adopted.

**FRS 25 (IAS
32) Financial
Instruments:
Disclosure and
Presentation**

The objective of FRS 25 is to enhance the understanding of users of accounts of the significance of financial instruments to an entity's financial position, performance and cash flow.

The presentation requirements of this standard deal with the classification of capital instruments issued between debt and equity and the implications of that classification for dividends and interest expense. The presentational disclosures required by the standard apply to accounting periods beginning on or after 1 January 2005 with earlier adoption not being permitted.

The disclosure requirements apply to entities applying FRS 26 only. In effect this means listed entities are required to apply the standard for accounting periods beginning on or after 1 January 2005 and unlisted entities preparing their accounts in accordance with the fair value accounting rules set out in the Companies Act 1985 will be required to adopt it for accounting periods beginning on or after 1 January 2006.

Presentational requirements apply to charities for accounting periods beginning on or after 1 January 2005.

Disclosure requirements apply to charities that are applying FRS 26.

FRS 26 (IAS 39) Financial Instruments: Measurement

This standard introduces for the first time requirements for the measurement of financial instruments. It implements in full the measurement and hedge accounting provisions of IAS 39 as published by the International Accounting Standards Board.

This standard applies to listed entities for accounting periods beginning on or after 1 January 2005.

Unlisted entities preparing accounts in accordance with fair value accounting rules set out in the Companies Act 1985 are required to apply the standard for accounting periods beginning on or after 1 January 2006 and may voluntarily apply it for accounting periods beginning on or after 1 January 2005.

Applicable to charities that are companies and adopt an accounting policy that measures financial instruments at fair value for accounting periods beginning on or after 1 January 2006.

FRS 27 Life Assurance

FRS 27 applies to all entities with a life assurance business (including a life reinsurance business), and is effective for accounting periods ending on or after 23 December 2005, except that some smaller friendly societies are exempt until 2006 or 2007.

Will only apply to charities in the even of them undertaking life insurance business.

FRSSE Financial Reporting Standard for Smaller Entities

The FRSSE brings together the relevant accounting requirements and disclosures from the other accounting standards and UITF abstracts, simplified and modified as appropriate for smaller entities. The FRSSE is an optional standard but entities adopting it are exempt from applying all the other accounting standards and UITF abstracts. Financial reporting is continually evolving and therefore the FRSSE needs to be updated, roughly on an annual basis, to reflect new or revised accounting standards and UITF abstracts.

Paragraphs 5.2.1 to 5.2.2 in Appendix 5 explain the applicability of the FRSSE to smaller charities. Whilst it can be followed there are certain principles and notes within this SORP which apply to all charities and should be included in the accounts.

Urgent Issues Task Force (UITF) Abstracts

UITF Abstract 4
Presentation of long-term debtors in current assets

Such items should be separately disclosed on the face of the balance sheet or in the notes to the accounts.

Equally applicable to charities as to other entities.

UITF Abstract 5
Transfers from current assets to fixed assets

Applicable in principle to charities but unlikely to arise in practice.

UITF Abstract 9
Accounting for operations in hyper-inflationary economies

See also FRS 24.

Only applicable to charities which operate in countries where such conditions exist.

UITF Abstract 11
Capital instruments: issue call options

See also FRS 25 and FRS 26

Not generally applicable to charities.

UITF Abstract 15
Disclosure of substantial acquisitions

Not applicable to charities.

UITF Abstract 17
Employee share schemes

Not applicable to charities.

UITF Abstract 18
Pensions costs following the 1997 tax changes in respect of dividend income (to be replaced by FRED 20)

The probable reduction in actuarial value as a result of pension schemes no longer being able to claim tax credits on dividends should be spread over the remaining service lives of current employees in line with SSAP 24.

Equally applicable to charities as to other entities.

UITF Abstract 19
Tax on gains and losses on foreign currency borrowings that hedge an investment in a foreign enterprise

Not generally applicable to charities.

UITF Abstract 21 Accounting issues arising from the proposed introduction of the Euro	Generally applicable to charities though it will have limited impact unless the UK adopts the Euro.
UITF Abstract 22 The acquisition of a Lloyd's business	Not applicable to charities.
UITF Abstract 23 Application of the transitional rules in FRS 15	Provides transitional rules on the use of prior period adjustments where tangible fixed assets which were previously treated as a single asset are identified as having two or more major components with substantially different useful economic lives. Equally applicable to charities as to other entities.
UITF Abstract 24 Accounting for Start-up Costs	Addresses whether start-up costs that cannot be included within the cost of a fixed asset may nevertheless be carried forward. Start-up costs that do not meet the recognition criteria under relevant accounting standards should not be carried forward, but recognised as an expense when incurred. Equally applicable to charities as to other entities.
UITF Abstract 25 National Insurance contributions on share option gains	Not applicable to charities.
UITF Abstract 26 Barter transaction for advertising	An entity involved in publishing or broadcasting may agree to provide advertising in exchange for advertising services provided by its customers, rather than for cash consideration. Income from advertising undertaken on such a barter basis is only recognised where persuasive evidence exists that the advertising opportunity could have been sold for an equivalent sum of cash. Equally applicable to charities as to other entities.
UITF Abstract 27 Revisions to estimates of useful economic lives of goodwill and intangible assets	This abstract states that a change from non-amortisation of goodwill or intangible assets, on the grounds that the life of the asset is indefinite, to amortisation over a period of 20 years or less, should not be reported as a change in accounting policy. In such a circumstance, the carrying amount of the goodwill or intangible asset should be amortised over the revised remaining useful life. Goodwill rarely arises in the context of charity accounts; the treatment of intangible assets applies equally to charities as to other entities.

UITF Abstract 28 Operating lease incentives	A lessor may provide an incentive for the lessee to enter into a new or renewed operating lease. It requires that the relevant income or expense be recognised over the life of the asset, or until a market rent will be payable, on a straight-line basis unless another systematic basis is more representative of benefit flows.	Equally applicable to charities as other entities.
UITF Abstract 29 Website development costs	Websites are used for a variety of activities, including promotion of services and goods, taking orders and provision of information. Many entities incur significant costs in developing such websites. Certain website development costs may be capitalised only where they lead to the creation of an enduring asset delivering benefits at least as great as the amount capitalised.	Generally applicable to charities. Charities' websites may however also provide economic benefit without being related to cash flow, for example, the provision of educational information to beneficiaries of the charity. To the extent that the relationship to such benefits is sufficiently certain such costs may be capitalised.
UITF Abstract 30 Date of award to employees of shares or rights to shares		Not applicable to charities.
UITF Abstract 31 Exchanges of businesses or other non-monetary assets for an interest in a subsidiary, joint venture or associate.	Entities may transfer businesses or other non-monetary assets in exchange for equity in a subsidiary, joint venture or associate. This abstract deals with accounting for such transactions in consolidated accounts, in particular issues surrounding reporting the transaction at fair values or book values.	Equally applicable to charities as other entities.
UITF Abstract 32 Employee benefit trusts and other intermediate payment arrangements	This abstract applies when an entity sets up and transfers funds to an employee benefit trust (or other intermediary) and the trust's accumulated assets are used to remunerate the entity's employees (or other service providers). The abstract clarifies how the principles for FRS 5 – Reporting the Substance of Transactions should be applied.	Not generally applicable to charities.

UITF Abstract 33 Obligations in capital instruments	This abstract deals with the classification of capital instruments. A capital instrument, other than a share, which involves an obligation to transfer economic benefits will be treated as a liability in the single entity financial statements of the issuer unless that obligation would not be considered in accordance with the going concern concept. See also FRS 25 and FRS 26	Equally applicable to charities as other entities.
UITF Abstract 34 Pre-contract costs	This abstract is intended to bring consistency to the treatment of costs incurred in bidding for and securing contracts to supply products or services. It requires costs incurred before it is virtually certain that a contract will be obtained to be charged immediately as expenses. Directly attributable costs incurred after that point should be recognised as an asset and charged as expenses during the period of the contract.	Equally applicable to charities as other entities.
UITF Abstract 35 Death-in-service and incapacity benefits	This Abstract clarifies the accounting required by FRS 17 'Retirement Benefits' for the cost of death-in-service and incapacity benefits, where such benefits are provided through a defined benefit pension scheme. The Abstract requires that, where the benefits are not wholly insured, the uninsured scheme liability and the cost for the accounting period should be measured, in line with other retirement benefits, using the projected unit method. The effect is that the valuation of uninsured benefits reflects the current period's portion of the full benefits ultimately payable in respect of current members of the scheme; the cost of insured benefits is determined by the relevant insurance premiums.	Equally applicable to charities as other entities

UITF Abstract 36 Contracts for sales of capacity	Entities in some industries (such as telecommunications and electricity) sell rights to use capacity on their networks, sometimes entering into exchange or reciprocal transactions ('capacity swaps'). This Abstract sets out the limited circumstances under which transactions in capacity should be reported as sales, and the proceeds reported as turnover.	Not generally applicable to charities
UITF Abstract 37 Purchase and sale of own shares	See also FRS 25 and FRS 26	Not applicable to charities
UITF Abstract 38 Accounting for ESOP Trusts		Not applicable to charities

Appendix 3 The Funds of a Charity

The purpose of this appendix is to explain the legal position as regards the various funds of a charity and the implications this has for the way in which the funds are accounted for.

App 3.1 Unrestricted Funds (including designated funds)

- 1(a) Unrestricted funds are expendable at the discretion of the trustees in furtherance of the charity's objects. If part of an unrestricted fund is earmarked for a particular project it may be designated as a separate fund, but the designation has an administrative purpose only, and does not legally restrict the trustees' discretion to apply the fund. Some trustees have power to declare specific trusts over unrestricted funds. If such a power is available and is exercised, the assets affected will form a restricted fund, and the trustees' discretion to apply the fund will be legally restricted.
- 1(b) Whether or not trustees have the power to create restricted funds by declaring a trust, unrestricted funds can be spent on the same purposes as restricted funds, for example by spending more on a project for which a restricted grant has provided funding. In practice therefore unrestricted funds may be transferred to meet any overspending on a restricted fund.
- 1(c) A power of accumulation will allow trustees to create or augment endowment funds (restricted capital funds) from income funds (restricted or unrestricted). Without this power trustees may not create endowment from income funds. Trustees need to be aware that if they use income funds to erect, extend or improve a building on land which is an endowment asset, then those income funds will normally become permanent endowment.

App 3.2 Restricted Funds

- 2(a) Restricted funds are funds subject to specific trusts, which may be declared by the donor(s) or with their authority (eg in a public appeal) or created through legal process, but still within the wider objects of the charity. Restricted funds may be restricted income funds, which are expendable at the discretion of the trustees in furtherance of some particular aspect(s) of the objects of the charity. Or they may be capital (ie. endowment) funds, where the assets are required to be invested, or retained for actual use, rather than expended.
- 2(b) Where incoming resources are for goods or services and, upon full performance of the service, any surplus funds can be retained and used for general purposes, the incoming resources and related expenditure will most likely be unrestricted. However, if upon full performance any surplus is retrievable by the donor then the resources are most likely to be restricted.
- 2(c) Where funds are provided for fixed assets, the treatment of the fixed assets acquired with those funds will depend on the basis on which they are held. The terms on which the funds were received may require that the fixed asset which is provided should be held by the charity on trust for a specific purpose. Alternatively, if the charity's governing instrument allows them to do so, the trustees may choose to settle the fixed asset on trust for a specific purpose implied by the appeal (this will be legally binding as opposed to an administrative decision taken by the trustees to include assets in a designated fund). In either case the asset will form part of restricted funds, as will a fixed asset which has itself been given to the charity on trust for a specific purpose. There is, however, no general rule and the treatment will depend upon the circumstances of each individual case.

App 3.3 Endowment funds

Introduction

- 3(a) An endowment fund where there is no power to convert the capital into income is known as a permanent endowment fund, which must generally be held indefinitely. This concept of "permanence" does not however necessarily mean that the assets held in the endowment fund cannot be exchanged (though in some cases the trusts will require the retention of a specific asset for actual use eg a historic building), nor does it mean that they are incapable of depreciation or loss. What it does mean is that the permanent endowment fund cannot be used as if it were income (ie to make payments or grants to others), however certain payments must be made out of the endowment, such as the payment of investment management fees where these relate to investments held within the endowment. Where assets held in a permanent endowment fund are exchanged, their place in the fund must be taken by the assets received in exchange. "Exchange" here may simply mean a change of investment, but it may also mean, for example, the application of the proceeds of sale of freehold land and buildings in the purchase or improvement of freehold property.

3(b) Trustees may have the power to convert endowment funds into expendable income; such funds are known as expendable endowments. Expendable endowment is distinguishable from “income” in that there is no actual requirement to spend the capital unless, or until, the charity trustees decide to. The fund must be invested to produce income which should be spent for the purposes of the charity within a reasonable time of receipt. If such a power to expend the capital of the expendable endowment is exercised, the relevant funds become restricted or unrestricted income, depending upon whether the trusts permit expenditure for any of the purposes of the charity, or only for specific purposes.

Expenses Related to Endowment Investments

3(c) Any expenses incurred in the administration, or protection of endowment investments should be charged to capital. For example, the fees of someone who manages endowment investments, or the cost of improvements to land held as an endowment investment. Only where the trusts of the charity provide to the contrary, or there are insufficient funds in the endowment to meet such costs, can they be charged against the other funds held by the charity.

3(d) However where charities have land held as endowment investments, then rent collection, property repairs and maintenance charges would normally be charged against the relevant income fund as would the cost of rent reviews. Valuation fees and other expenses incurred in connection with the sale of such land would normally be charged to capital, ie. against the gain (or added to the loss) realised on the disposal.

3(e) Valuation fees incurred for accounting purposes would normally, in the case of endowment investments, be charged to capital and recorded in governance category of resources expended.

3(f) All incoming resources derived from assets held as endowment investments should be included in the Statement of Financial Activities. Normally the income forms part of the unrestricted funds but if the application of the income is restricted to a particular purpose the income and corresponding expenditure should be appropriately identified in the restricted funds. Any income not spent at the year end should be carried forward in the appropriate unrestricted or restricted fund.

Total Return on Investment for Permanent Endowment

3(g) In England and Wales, the Charity Commission may give the power to adopt a total return approach to investment (for definition see Glossary: GL 56) to charities with permanent endowment. This power may be taken by new charities and will normally be given to existing charities by Order under section 26 of the Charities Act 1993 which specifies required accounting and reporting disclosures. New charities with such a power are expected by the Charity Commission to mirror these disclosures. The key elements of this approach are:

- (i) The charity concerned must hold a permanently endowed fund, the assets of which are required to be invested to produce an investment return.
- (ii) Because the return received from investment will not be “labelled” as either income or capital (as it would be under the standard rules), trustees can allocate the return between the present and future beneficiaries in the way they consider best gives effect to their duty to be fair to all beneficiaries.
- (iii) In any one year, total return is the whole of the investment return received by a charity, regardless of how it has arisen.
- (iv) The accumulated total return, less any part of the return which the trustees have previously applied for the purposes of the charity, or have previously allocated to income funds, is referred to as the unapplied total return.
- (v) The accounting treatment, where the total return approach to investment is adopted, is specified in the order granting the power and is summarised below.

Accounting Treatment for Total Return

3(h) Where a charity with the necessary authority adopts a total return approach to investment (See Glossary GL 56), the entire investment return initially accrues to an unapplied total return fund. Any income earned on the endowment investments and any capital gains or losses will be shown in the relevant row of the Statement of Financial Activities in the endowment column.

- 3(i) The total return, less any part of the return which has previously been applied for the purposes of the charity, or has previously been allocated to income funds remains in the unapplied total return fund. This fund remains part of the permanent endowment until such time as a transfer is made to income funds.
- 3(j) Any transfer from the unapplied total return fund to either unrestricted or restricted income funds will be shown on the transfer row of the Statement of Financial Activities as appropriate.
- 3(k) Paragraph 75(e) of the SORP sets out necessary note disclosures in relation to transfers between funds and movements in the unapplied total return.

App 3.4 General Points

Asset Gains and Losses

- 4(a) If a gain is made on the disposal of an asset, the gain will form part of the fund in which the asset was held. An unrealised gain on an asset will also form part of the fund in which the asset is held. Similarly, unrealised losses and provisions for depreciation and impairment of an asset will reduce the fund in which the asset is (or, in the case of a realised loss, was) held. In order to ensure that gains, losses and provisions are added to or deducted from the correct fund, it is therefore essential to know which assets and liabilities are held in which fund.

Restricted Income and Expenditure

- 4(b) The trustees of a charity will be in breach of trust if they expend restricted income otherwise than in furtherance of that aspect or those aspects of the objects of the charity to which expenditure is restricted. It is therefore essential that due care is taken to spend out of a particular restricted income fund only where the trusts so permit. Expenditure may be charged to a restricted fund which is not at the time in credit, or not in sufficient credit, where there is a genuine anticipation of receipts which can properly be credited to the fund in order to meet the expenditure (eg where a decision has been taken to invite donations for that fund). The fund which is actually drawn upon to finance the expenditure should be held upon trusts which are wide enough to permit the expenditure (in case the expected receipts do not materialise). But if expenditure has been charged to an unrestricted fund, it should not subsequently be recharged to restricted fund receipts simply in order to increase the fund of unrestricted income.

App 3.5 Fund Assets and Liabilities

- 5(a) It is also important for the trustees to ensure that the assets and liabilities held in a fund are consistent with the fund type; if a fund which, because of donor restrictions, must be applied in the short term is represented by assets which cannot reasonably be expected to be realised in the short term, there is a real possibility that the charity will not be able to apply the funds as directed.

App 3.6 Income Application

- 6(a) Where restricted income has been invested prior to application for a suitable charitable purpose, any income/gains derived from the investment will be added to, and form part of, the restricted income fund in question. Income derived from the investment of capital (endowment) funds may be applied for the general purposes of the charity (unrestricted income), unless a specific purpose has been declared by the donor for the application of the income from the capital fund in question. Such income will be applicable for that purpose and will be restricted income. Gains from the realisation of investments in a capital (endowment) fund form part of the fund itself.

Appendix 4: Thresholds

App 4.1 Thresholds for Small Companies

1.1 The current thresholds in the Companies Act 2006 section 382(3) for qualification as a small company. The thresholds effective from 6 April 2008, are as follows:

Any 2 of the following 3 conditions:

- (i) Annual turnover (gross income for charities) not exceeding – £6,500,000
- (ii) Balance sheet total not exceeding – £3,260,000
- (iii) Average number of employees not exceeding – 50

For accounting periods which are shorter or longer than 12 months the thresholds should be adjusted in proportion to the accounting period.

The size parameters are subject to periodic amendment. The latest change was made in April 2008 under The Companies Act 2006 (Amendment) (Accounts and Reports) Regulations 2008 and applies to accounting periods beginning on or after 6 April 2008.

App 4.2 Thresholds for FRSE

2.1 Any charity which comes under the above thresholds, whether or not it is a company, may be able to apply the Financial Reporting Standard For Smaller Entities (FRSE) as described in Appendix 5 paragraphs 5.2.1 to 5.2.2.

App 4.3 Charities Act 1993 (England and Wales) Threshold for the preparation of accruals accounts

3.1 As at 28 February 2005: Gross income above £100,000 (set by SI 1995: No 2696 The Charities Act 1993 (Substitution of Sums) Order 1995) (unless and until this is revised).

App 4.4 Charities Act 1993 (England and Wales) Threshold for audit

4.1 For accounting periods beginning on or after 27 February 2007: Gross income above £500,000 or gross assets exceeding £2.8m and gross income exceeding £100,000 (set by the Charities Act 1993 as amended by the Charities Act 2006, first commencement Order) (unless and until this is revised).

App 4.5 Charities and Trustee Investment (Scotland) Act 2005 Threshold for the preparation of accruals accounts

5.1 Charities with a gross income of £100,000 or more (set by SSI 2006: No. 218, The Charities Accounts (Scotland) Regulations 2006).

App 4.6 Charities and Trustee Investment (Scotland) Act 2005 Threshold for audit

6.1 Gross income of £500,000 or more, or gross assets exceeding £2.8m (set by SSI 2006: No. 218. The Charities Accounts (Scotland) Regulations 2006).

App 4.7 Charities Act 1993 (England and Wales) Threshold for the preparation of group accounts

7.1 Following the Charities Act 2006 (Charitable Companies Audit and Group Accounts Provisions) Order 2008, and the Charities (Accounts and Reports) Regulations 2008, for financial years beginning from 1 April 2008 any parent charity where the aggregate gross income of the group, the parent charity and its subsidiaries, exceeds £500,000 after consolidation adjustments, must prepare group accounts. The form and content of group accounts is set out in the Charities (Accounts and Reports) Regulations 2008. However where a charitable company is required by section 399 of the Companies Act 2006 to prepare group accounts, its group accounts are prepared under the Companies Act 2006.

App 4.8 Charities and Trustee Investment (Scotland) Act 2005 Threshold for the preparation of group accounts

8.1 Any parent charity where the gross income of the group, the parent charity and its subsidiaries, is £500,000 or more after consolidation adjustments, must prepare group accounts under the Charities and Trustee Investment (Scotland Act 2005 and associated Charities Accounts (Scotland)) Regulations 2006. However where a charitable company is required by section 399 of the Companies Act 2006 to prepare group accounts, those group accounts are prepared under the Companies Act 2006, as well as the above Act and Regulations.

Appendix 5: Accounting for Smaller Charities

Particular accounting disclosures and the activity basis for the analysis of income and costs within the Statement of Financial Activities may not be relevant information for the users of accounts prepared by smaller charities. Similarly, the level of detail provided in the Trustees' Annual Report is likely to be dependent on the structure, size and complexity of the charity and be proportionate to the needs of the users of the report. This appendix lists the concessions at the date of publication of this SORP.

App 5.1 Cash-Based Receipts and Payments Accounts

- 5.1.1 There are many relatively small charities with very simple structures and no control of other organisations. The vast majority of them will have cash and deposit accounts but few other assets. Apart from charitable companies (see 5.1.4) these charities will often find that cash-based receipts and payments accounts meet both their needs and those of others who read their accounts. This form of accounts contains a summary of money received and money spent during the year and a list of assets at the end of the year.
- 5.1.2 In England and Wales, charities whose accounts 'form and content' are governed by the Charities Act 1993, may choose between preparing accruals accounts and receipts and payments accounts provided their gross income is not over £100,000.
- 5.1.3 Scottish charities for which accounts are prepared under the Charities and Trustee Investment (Scotland) Act 2005 and associated Regulations, are eligible to prepare receipts and payments accounts provided their gross income is under £100,000.
- 5.1.4 Small charitable companies must always prepare accruals accounts and are not covered by these concessions.
- 5.1.5 As this SORP is applicable to accruals accounts, no specific recommendations on cash based receipts and payments accounts are provided within this SORP although as explained in paragraph 6 such charities are encouraged to analyse their receipts and payments based on the activities undertaken. Charities registered in Scotland and preparing receipts and payments accounts must ensure

they meet the requirements of the Charities Accounts (Scotland) Regulations 2006. Both the Charity Commission and OSCR produce detailed guidance on the preparation of receipts and payments based accounts.

App 5.2 The Financial Reporting Standard for Smaller Entities (FRSSE)

- 5.2.1 Any charity (whether or not it is a company) which is under the thresholds for small companies, as described in the Companies Acts (see Appendix 4), can follow the Financial Reporting Standard for Smaller Entities (FRSSE) in preparing its financial accounts except where it conflicts with this Charities SORP, in which case this SORP should be followed. Charities which follow another SORP or have to prepare additional accounts in a format required by other bodies, such as HM Treasury, may find that they cannot follow the FRSSE for these purposes. The FRSSE is not relevant to charities preparing cash-based (receipts and payments) accounts.
- 5.2.2 In following the FRSSE, the accounts will meet most of the requirements of the SORP for smaller entities. However:
 - (a) The accounts should include a Statement of Financial Activities in place of a profit and loss account and statement of total recognised gains and losses.
 - (b) The principles of fund accounting should be adopted throughout the accounts. This will include appropriate descriptions of the funds and notes showing the composition of the funds and the differentiation of funds on the balance sheet.
 - (c) All investments, including investment properties, must be shown at market value.
 - (d) Those foreign exchange gains and losses which may be allowed to be taken to reserves (as prescribed in the FRSSE) must be shown in the gains and losses section of the Statement of Financial Activities.
 - (e) Those exceptional items which are required to be shown after operating profit must be shown in an appropriate place on the Statement of Financial Activities.

- (f) If a charity applying the FRSSE prepares consolidated accounts, it should apply the relevant accounting practices and disclosures required by accounting standards and the SORP in relation to consolidated accounts.

App 5.3 Accounting statements of Smaller Charities

5.3.1 The SORP provides a number of concessions for smaller charities that are not subject to a statutory audit (see Appendix 4 Audit thresholds). The concessions cover the Statement of Financial Activities and notes to the accounts:

- (a) In relation to the Statement of Financial Activities, smaller charities do not need to analyse either resources expended or incoming resources by activity categories within the Statement of Financial Activities. They may instead choose resource classifications to suit their circumstances.
- (b) Where a small charity adopts an alternative approach to analysis within the Statement of Financial Activities certain note disclosures may no longer be necessary, for example, where these disclosures relate to the constituent costs of an activity category or where relevant information is provided on the face of the Statement of Financial Activities. The disclosure paragraphs affected by this are set out below:

- (c) Smaller charities are not required to give details of staff emoluments in bands (paragraph 236).

5.3.2 These concessions are intended to reduce the detail of reporting requirements placed on smaller charities, though any such charity wishing to follow the full recommendations of the SORP is encouraged to do so.

App 5.4 Trustees' Annual Reports of Smaller Charities in England and Wales

5.4.1 In England and Wales, all registered charities are required to produce a Trustees' Annual Report.

Regulations made under the Charities Act 1993 provide for charities that are not subject to a statutory audit (see Appendix 4 Audit thresholds) to produce an abbreviated Trustees' Annual Report. This concession applies to all charities required to produce the report, and includes charitable companies.

5.4.2 The minimum content of the abbreviated Trustees' Annual Report is summarised in Table 11.

Details	Paragraph References
Analysis of activities that have generated funds	122
Analysis of incoming resources from charitable activities	146
Support Costs analysis	166 – 167
Apportionment of Costs	175 – 176
Breakdown of costs of generating voluntary income	183 – 184
Analysis of fundraising trading costs	186
Analysis of charitable activity costs	191 – 194
Analysis of grantmaking or associated support costs by activity	202, 203(b)
Analysis of governance costs	212

**Table 11. Contents of the Trustees' Annual Report for a smaller charity
(England and Wales – not subject to a statutory audit)**

		SORP Paragraph
Reference and administrative information	The name of the charity	41(a)
	Any other name by which a charity makes itself known	41(a)
	The charity registration number (or Scottish Charity Number) (if any)	41(b)
	The company registration number (if applicable)	41(b)
	The address of the principal office of the charity;	41(c)
	The names of the charity's trustees or trustee(s) for the charity on the date the report was approved. (where any charity trustee is a body corporate, the names of the directors of that body corporate should also be provided)	41(d) 41(e)
	The names of any other person who served as a charity trustee in the financial year	
Structure Governance and Management	The nature of the governing document and how the charity is (or its trustees are) constituted	44(a) 44(b)
	The methods adopted for the recruitment and appointment of new trustees,	
Objectives and Activities	A summary of the objects of the charity as set out in its governing document.	47(a)
	Summary of the main activities undertaken in relation to those objects.	47(e)
Achievements and Performance	A summary of the main achievements of the charity during the year	(54)
Financial Review	Policy on reserves	55(a)
	Details of any fund materially in deficit and the circumstances giving rise to the deficit and steps being taken to eliminate the deficit.	55(b)
Funds held as Custodian Trustee	A description of the assets which they hold in this capacity.	59
	The name and objects of the charity (or charities) on whose behalf the assets are held and how this activity falls within their own objects.	
	Details of the arrangements for safe custody and segregation of such assets from the charity's own assets.	

Appendix 6: The Charity Accounting Review Committee (2003/5)

Membership

Chairman

David Taylor

Members

Denis Cathcart

Andrew Dobson

James Dutton

Pesh Framjee

Keith Hickey

Richard Hellewell

Gareth Jones

Raymond Jones

Roger Morris

Paul Palmer

Adrian Randall

Kate Sayer

Ian Smith

Committee Secretary

John Kerry

Technical Secretary

Ken Ashford

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Locators refer to paragraph numbers (with sub-paragraph where relevant) and to Appendix numbers (and sub paragraphs)

Disclosure required by the SORP may be in a number of places:

- in notes to the accounts: 'disclosure (notes)'
- in policy notes: 'disclosure (policy)'
- in the trustees' annual report: 'disclosure (TAR)'

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Interpretation for Public Benefit Entities of the Statement of Principles for Financial Reporting 61(d)

see also Financial Reporting Standards; Financial Reporting Standard for Smaller Entities; Statements of Standard Accounting Practice; Urgent Issues Task Force

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