



# Accruals Accounts Completion Notes

## Natural Categories

### Section 1

### Introduction

These guidance notes reflect the requirements for accounting periods ending on or after 1 April 2009. Please refer to our [reporting thresholds table](#) for information about requirements for earlier accounting periods.

#### Purpose of pro forma accounts

These pro forma accounts are designed to help smaller charities prepare and present accruals accounts. They provide a format for such accounts and set out the key disclosures contained in Accounting and Reporting by Charities: Statement of Recommended Practice (the Charities SORP) issued in March 2005.

The pro forma accounts and notes to the accounts (CC39a) when fully completed will include all the information necessary for smaller charities preparing accruals accounts using the 'natural categories' approach when analysing their income and expenditure.

#### Charities that may find the pro forma accounts useful

The pro forma accounts are designed specifically for use by charities choosing to analyse their financial reporting using natural categories that are required to follow the Charities SORP but are not required to have a statutory audit. The Charities SORP provides a number of concessions for smaller charities which the pro forma accounts incorporate.

This version of the pack is for a Statement of Financial Activities (SoFA) using natural categories.

Details of the audit thresholds under the Charities Act are set out in the Glossary at the end of these notes.

#### Charities that should not use the pro forma accounts

The pro forma accounts **should not** be used if the charity is:

- required by law to have its accounts audited;
- wish to analyse their activity using the SORP's activity based classification approach (see CC17);
- required to follow another SORP or an alternative regulatory framework (for example, registered social landlords); or
- an investment fund charity, which includes common deposit funds and common investment funds (other than pooling scheme funds).

#### Charities for which the pro forma accounts may be unsuitable

The pro forma accounts do not contain all the disclosures required:

- by a company; or
- where the charity:
  - has a material subsidiary undertaking, joint venture or associated trading undertakings; or
  - operates a defined benefit pension scheme.

Trustees of charities where these pro forma accounts are unsuitable due to the above mentioned limitations should either:

- refer to appropriate publications such as the Charities SORP or the Companies Act for more detailed guidance; or
- consider using an accountant familiar with the Charities SORP to help prepare the accounts.

#### Small non-company charities

Non-company charities with income of £250,000 or less may be able to choose to prepare cash based receipts and payments accounts. Such accounts are simpler to prepare and require less detailed accounting disclosures and notes. We have also prepared pro forma accounts on the receipts and payments basis (CC16a) for smaller charities that wish to prepare accounts on this basis.

#### Further information

Our website [www.charitycommission.gov.uk](http://www.charitycommission.gov.uk) contains much useful information and is referred to in several places in these notes.

This section includes guidance on:

- how the pro forma accounts can be used;
- how precise the accounts need to be;
- rounding;
- netting off;
- what activities and resources the accounts must include; and
- what statements the accounts must include.

### How can the pro formas be used?

These pro forma accounts are based on the general methods and principles of the latest version of the Charities SORP issued in March 2005.

The pro forma accounts have been designed to cover most circumstances that are likely to apply to smaller charities. However, charity trustees must take care that they provide any additional information necessary to give a true and fair view of their charity's activities and financial position. If there are other matters that are material and necessary to include for a proper understanding of the accounts but are not specifically provided for in the pro forma accounts, then further details should be given by additional notes.

Where a charity needs to account for a complex transaction or one that is unusual for smaller charities then reference will need to be made to the Charities SORP or advice may be necessary from a professional accountant.

The pro forma accounts, when properly completed with information and amounts from the charity's accounting records, will meet the charity's legal requirements for preparing annual accounts.

Smaller charities who wish to design their own layout for the annual accounts can use the pro forma accounts as a workbook or a guide to the items that must be included.

The charity trustees must approve the accounts and at least one (but we recommend two) of them should sign the balance sheet as evidence of approval.

### How precise do the charity's accounts need to be?

The word **material** is used often in the Charities SORP and in these notes. An item is material if its inclusion or exclusion from the accounts would be likely to change a reader's view about the accounts. Normally the larger the item the more material it is likely to be.

Reporting details of small value items is often not necessary, as they do not affect a reader's overall understanding of the accounts. For example, amounts under £1 are never important and can be ignored. Some items may or may not require reporting depending on the size of the charity (measured by gross income or balance sheet totals). For example, it may be material to include in the balance sheet a tangible fixed asset costing £500 if the charity has £10,000 gross income but would be much less material if a charity has £250,000 gross income.

Some items are always material to charities, for example, amounts paid to trustees for expenses or remuneration and amounts paid to related parties.

All information requested in the pro forma accounts should be given unless:

- it does not apply to the charity; or
- it is identified in the pro forma accounts as information that the trustees **may** choose to give.

### Rounding

It is usual to prepare accounts in whole £s. Amounts are rounded to the nearest £ (eg £4.60 becomes £5).

### No netting off

All the incoming resources for the year are included in the statement of financial activities gross. For example, the gross takings from a fund raising event should be shown as incoming resources and expenses associated with the event shown as resources expended.

### What statements should the accounts include?

Accruals accounts of charities must include:

- A Statement of Financial Activities (SoFA)
- A balance sheet; and
- Notes to the accounts.

Registered charities preparing accruals accounts must also prepare a trustees' annual report which provides background information about the charity and a written explanation of what the charity is trying to do and how it goes about it. A pro forma trustees' annual report is also available from the Charity Commission.

The accounts will normally be accompanied by a report from either:

- an independent examiner (provided the charity is below the audit threshold); or
- a registered auditor (if the charity is over the audit threshold or chooses to have a full audit of its accounts).

Most charities for which these pro forma accounts were designed are only required by the law to have an independent examination. Charities with a gross income below £25,000 are not required by law to have either an independent examination or audit though some will have a requirement in their governing document, or imposed by a donor, to have an independent examination or audit by a registered auditor.

A pro forma independent examiner's report is available from the Charity Commission.

Some charities may need to include extra statements in their accounts. The main two statements that may be needed are:

- Company charities may, in some limited circumstances (eg when income and expenditure cannot be identified in the SoFA and they have movement on endowments or have unrealised gains and losses), require a summary income and expenditure account.
- Larger charities (with any two of: income over £6.5m, balance sheet total over £3.26m or average number of employees over 50) will need to produce a cash flow statement.

Full details of these statements and the circumstances in which they are needed are given in the Charities SORP.

### What activities and resources must the accounts include?

The accounts should include all sections, branches and funds that the charity trustees manage and control. This is to ensure that someone reading the accounts gets a full understanding of the assets, liabilities and resource movement of the charity.

The SoFA records all of the incoming resources and resources expended by the charity in the financial year.

The pro forma SoFA is divided into columns and rows which are numbered. A summary is provided below of what should be entered into each column and row.

### Income and expenditure categories

Charities that are under the audit threshold may choose to analyse their incoming resources and resources expended by using either:

- the "Activity" categories recommended by the Charities SORP (These categories are included in the accruals accounts pack (Activity version) CC17A);
- a 'Natural' classification, natural categories are those descriptions which the charity would use to analyse their expenditure in their cash book, such as set out in Table A:

<b>Table A Example of natural categories for incoming resources and resources expended</b>	
<b>Incoming resources</b>	
Donations, legacies and grants	
Fundraising events eg concerts, raffles, jumble sales etc	
Shop sales	
Interest and dividends	
Fees for charitable services	
Grants received for services	
Other income	
<b>Resources Expended</b>	
Wages, salaries, pensions contributions and national insurance	
Cost of fundraising events	
Depreciation or impairment charges	
Rent, rates, water and sewerage charges and insurance	
Repairs and maintenance	
Light and heat	
Telephone, postage and stationary	
Grants and donations made	
Legal and professional fees	
Bank charges and interest	
Other expenditure	

This proforma is designed to be used by those charities wishing to show their Incoming resources and resources expended as natural categories.

### Columns - fund accounting

**F01 to F05 describe what should be entered into each column**

<b>F01</b>	This column is for all amounts relating to <b>unrestricted funds</b> .
<b>F02</b>	This column is for all amounts related to <b>restricted income funds</b> .
<b>F03</b>	This column is only for movements on <b>endowment funds</b> .
<b>F04</b>	This column is the <b>total</b> of columns <b>F01, F02 and F03</b> .
<b>F05</b>	This column is the <b>total</b> of columns <b>F01, F02 and F03</b> entered in the accounts for the previous year.

**S01 Rows - incoming resources**

There is no prescription as to what headings should be used in accounts using this format. Trustees are free to select those headings they see as best describing the income received but the headings should be consistent from year to year. The headings chosen should follow the analysis in the accounting records. This should have been chosen so as to record actual income in such a way as to make it straightforward to compare receipts to the budget and to enable the charity to keep detailed control over the most significant areas of income

You may want to give more detail of your incoming resources or it may be a condition of your funding that you record the names of your funders in your accounts. You can use note 3 to give a more detailed breakdown of your headline categories of incoming resources.

[The electronic version of this proforma includes a drop down list of suggested income categories. You will be able to edit this list to include different natural categories if you go to the 'List' worksheet.]

**S02 Rows - Resources expended**

Again there is no prescription as to what expenditure headings should be used in accounts using this format. Trustees are free to select those headings they see as best describing how the charity has spent its money but the headings should be consistent from year to year. The headings should follow the expenditure analysis in the accounting records. This should have been chosen so as to record actual expenditure in such a way as to make it straightforward to compare costs to the budget and to enable the charity to keep detailed control over the most significant areas of expenditure.

You can give a more detailed breakdown of the headline categories of expenditure in note 4.

The electronic version of this proforma will include a drop down list of suggested expenditure categories. You will be able to edit this list to include different natural categories if you go to the 'List' worksheet.

**Rows – Transfers, gains and losses**

Rows S04 to S10 below explain the remaining analysis categories of the SoFA. These sections of the SoFA are used to record transfers between funds and other gains and losses to provide a net movement in funds and reconciliation of the total funds held at the year end.

Row	Analysis category	Explanation
S03	<b>Net incoming/ (outgoing) resources before transfers</b>	This is the total in row S01 less the total in row S02.
S04	<b>Gross transfers to and from funds</b>	Any transfers between funds should be analysed in this row. You will need to give more detail of the transfers between funds in note 12.3 later.
S05	<b>Net incoming/ (outgoing) resources before other recognised gains and (losses)</b>	Total of rows S03 and S04.
S06	<b>Gains and losses on the revaluation of fixed assets for the charity's own use</b>	This includes the change in the value of any functional fixed assets owned by the charity as a result of revaluation other than depreciation and impairment losses (both of which will be charged to resources expended). This row will normally only be used if a charity has a <i>policy of revaluation</i> of functional assets.
S07	<b>Gains and losses on investment assets</b>	This is the total of any gains and losses resulting from the revaluation of investment assets to market value at the end of an accounting period and any gains and losses resulting from the disposal of investment assets during the year.
S08	<b>Net movement in Funds</b>	Total of rows S05 to S07.
S09	<b>Total funds brought forward</b>	The brought forward balances at the beginning of the year.
S10	<b>Total funds carried forward</b>	Total of rows S08 and S09.

The balance sheet provides a “snapshot” of the charity’s assets and liabilities at the end of the financial year.

The Charities SORP requires a breakdown of the assets and liabilities of the charity between unrestricted and restricted income funds and endowment funds. These pro forma accounts provide this breakdown in note 12.4 to the accounts. It can also be done by the use of a columnar the balance sheet with the assets and liabilities of each fund category being entered in the separate columns provided; version CC17A uses a columnar balance sheet.

### Columns financial years

**F01 to F02 describe what should be entered into each column:**

<b>F01</b>	This column is for all assets and liabilities of all funds for the current year.
<b>F02</b>	This column is for all assets and liabilities of all funds for the previous year.

### Rows – assets and liabilities

**B01 to B20 describe what should be entered into each row of the balance sheet.**

Row	What is to be included	How to value it
<b>B01</b>	<b>Tangible assets</b> are used by the charity to undertake its activities. This might include land and buildings, office equipment, vehicles etc.	Cost or valuation on acquisition less depreciation.
<b>B02</b>	This row is completed only if the charity has other types of fixed assets that do not fall within tangible fixed assets (above) and investments (below), for example, intangible assets, heritage assets and programme related investments.  Where this row is used, further information should be provided in the additional notes section (note 14) at the end of the accounts pro forma.	Cost or valuation less depreciation.
<b>B03</b>	<b>Investment assets</b> are held in order to generate income or gains to fund future activities. This might include stocks and shares, investment property and cash held in the investment portfolio.	Market value.
<b>B04</b>	<b>Total fixed assets</b>	Total of B01 to B03.
<b>B05</b>	<b>Stock and work in progress</b> is the total amount of stocks/ inventories (and work in progress) held at the year end. For example, goods held for resale.	Lower of cost or net realisable value.
<b>B06</b>	<b>Debtors and prepayments</b> are amounts owing to the charity, for example, for services provided by the charity and material amounts paid in advance (eg insurance premiums).	Settlement value less any provision for bad debts.
<b>B07</b>	<b>Short term investments</b> and deposits are those investment assets that you plan to realise and not reinvest within the next year.	Market value.
<b>B08</b>	<b>Cash at bank and in hand</b> is the total of bank balances and cash held.	Actual amount of the balance.
<b>B09</b>	<b>Total current assets</b>	Total of B05 to B08.
<b>B10</b>	<b>Creditors and accruals: amounts falling due within one year</b> are amounts owed by the charity to creditors which are due to be paid within one year from the balance sheet date.	Settlement value.
<b>B11</b>	<b>Net current assets or liabilities</b>	Total of B09 less B10.
<b>B12</b>	<b>Total assets less current liabilities</b>	Total of B04 and B11.
<b>B13</b>	<b>Creditors: amounts falling due after one year</b> are amounts owed by the charity to creditors which are due to be paid after more than one year from the balance sheet date.	Settlement value.
<b>B14</b>	Any amounts set aside as <b>provisions for future liabilities and charges</b> .	Settlement value.
<b>B15</b>	<b>Net assets</b>	Total of B12 less sum of B13 and B14.

**Rows – funds of the charity**

The total funds entered below must agree with the net assets at row B15 of the balance sheet and the total funds entered at row S10 of the SoFA.

Row	What is to be included
<b>B16</b>	<b>Unrestricted funds</b> are those funds that can be spent at the discretion of the charity trustees for any purpose of the charity. The fund balance represents the unexpended resources held within the fund, that is, its assets less liabilities.  If some of these funds have been <b>designated</b> or earmarked to meet planned future expenditure, these amounts may be shown at row B17.
<b>B17</b>	<b>Designated funds</b> are part of unrestricted funds but may be shown separately using this row.
<b>B18</b>	<b>Total unrestricted funds</b> Total of B16 and B17.
<b>B19</b>	<b>Restricted funds</b> are those funds which must be spent as income on the particular purposes specified by the donor or specifically identified in appeal literature.
<b>B20</b>	<b>Endowment funds</b> are those funds which the charity must hold and retain and not spend as income. The income arising is used for charitable purposes and capital gains are retained within the fund. Include here both permanent and expendable endowment.
<b>B20</b>	<b>Total of B16 to B19 giving total funds.</b>

Every set of accruals accounts requires notes which explain:

- The **basis** on which the accounts have been prepared (Note 1).
- The **accounting policies** that have been adopted which explain when assets and liabilities, incoming resources and resources expended are included in the accounts and at what value (Note 2).
- **Other information** required to provide more details of what the accounting statements contain and to ensure that the accounts provide a 'true and fair' view.

Most small charities will not need all of the notes provided for in the Charities SORP. The pro forma accounts provide the notes that most small charities are likely to need and guidance is given where additional notes may be necessary.

These completion notes should help trustees using the pro forma accounts to decide which accounting notes should be included for their charity. The table below explains what should be included in each of the notes provided. Any notes that do not apply do not need to be completed. Additional notes may be needed as the next section explains.

### Information to be provided in the notes to the accounts

<b>Note 1</b>	<p>The <b>basis of preparation</b> explains the standards and conventions used in preparing the accounts. The Charities SORP assumes 'accounting standards' will be applied.</p> <p>Charities may choose to adopt the FRSE, a standard for smaller entities, and in such cases this box should be ticked.</p>
<b>Note 2</b>	<p><b>Accounting policies</b> explain how items are measured, recognised and disclosed in accounts. The list provided in this note shows the policies for recording items in accruals accounts that apply to most smaller charities.</p> <p>If a charity does not have a particular item in their accounts then the policy relating to that may be deleted.</p> <p>If a charity does not follow a particular policy given then the item must be deleted and the policy actually followed disclosed in the box at the end of the note.</p> <p>If a charity has a material item in the accounts that is not covered by one of these notes then a note should be added.</p>
<b>Note 3</b>	<p>This note allows trustees to provide an analysis of any of the amounts shown under the main headings for <b>incoming resources</b> in the SoFA. For example, the different fundraising activities, or major grant funders can be shown.</p> <p>The total entered for each of these categories of incoming resource should agree with the total entered in the corresponding rows of the SoFA.</p>
<b>Note 4</b>	<p>This note allows trustees to provide a further analysis of costs shown under the main headings for <b>resources expended</b> in the SoFA.</p> <p>The total entered for each of these categories of resources expended should agree with the total entered in the corresponding rows of the SoFA.</p>
<b>Note 5</b>	<p>This note provides specific information about <b>trustees' expenses</b> and fees paid for statutory <b>audit or examination</b> of the accounts.</p> <p>If any charity trustee has entered into transactions with the charity other than claiming expenses then the relevant part of note 13 will also need to be completed.</p>
<b>Note 6</b>	<p>The <b>paid employees</b> note provides specific information about staff costs and the areas of work in which they are deployed.</p>
<b>Note 7</b>	<p>The <b>grantmaking</b> note provides further information about the purposes for which grants were made and institutions supported. This note is only required if grantmaking is a material part of the charity's activities.</p> <p>The Charities SORP requires that where a charity has made grants to institutions that the charity should provide details of a sufficient number of institutional grants to give a reasonable understanding of the range of institutions that it has supported.</p> <p>Information may only be omitted from note 7.2 if:</p> <p>Details of institutional grants are given in a separate publication or in the trustees' annual report. A note should be added within the additional disclosures (note 14) giving the name of the publication and how it may be obtained.</p> <p><b>or</b></p> <p>Where the disclosure of the name of a particular institution could be <b>seriously prejudicial</b> to the purposes of either the charity or recipient institution then the name of the institution may be omitted. Information as to the purpose and amount of such grants should still be provided.</p> <p><b>or</b></p> <p>The grants are made in the lifetime of the settlor of the charitable trust or their spouse or civil partner.</p> <p>Where details of grants to an institution are omitted on the basis of the disclosure being "seriously prejudicial" then a note should be added within the additional disclosures (note 14) confirming that particulars of the grants omitted from disclosure have been provided to the Charity Commission.</p>

<b>Note 8</b>	<p>The <b>tangible fixed assets</b> note provides information about the assets used by the charity to undertake its activities. The column headings provide a standard analysis of fixed assets and this may be amended if different types of assets are held. The total amount entered in this note needs to agree with the amount entered for tangible fixed assets in the balance sheet.</p> <p>If any tangible fixed assets are included at a valuation, this should be explained by amending the accounting policies provided in note 2 and by adding details of who undertook the valuation in note 8.4.</p>
<b>Note 9</b>	<p>The <b>investment asset</b> note is used to provide further information about investments held. The total amount entered here needs to agree with the amount entered for fixed asset investments in the balance sheet. Any gain or loss on revaluation will agree with the amount entered for investment gains or losses in the SoFA.</p>
<b>Note 10</b>	<p>The <b>debtors and prepayments</b> note is used to provide further information about amounts owed to the charity. The total amount entered in this note needs to agree with the amount entered for debtors in the balance sheet.</p> <p>Trade debtors will include amounts owed to the charity: money for services provided by the charity and grants and donations receivable at the year end.</p>
<b>Note 11</b>	<p>The <b>creditors and accruals</b> note is used to provide further information about amounts owed by the charity. The total amounts entered in the left-hand columns of this note need to agree with the amount entered for creditors (falling due within one year) in the balance sheet. The total amounts entered in the right hand columns of this note need to agree with the amount entered for creditors (falling due in more than one year) in the balance sheet.</p> <p>Trade creditors will include amounts due for goods and services supplied to the charity and any liabilities for grants and donations payable.</p>
<b>Note 12</b>	<p>The <b>endowment and restricted funds</b> note is used to provide further information about any restrictions that might apply to the use of particular funds.</p> <p>Charities with a number of restricted funds and/or a number of endowment funds may feel it necessary to provide details of the movements for each of its major funds. Where this analysis is provided, you may group together smaller funds and detail only those funds which are material. Charities with both restricted and endowment funds should show separate sub-totals for each.</p> <p>Any particular fund which is in deficit should be separately identified in the analysis of movements of funds provided in note 12.2 of the pro forma accounts.</p> <p>Use 12.4 to provide a breakdown of the charity's assets and liabilities between funds.</p>
<b>Note 13</b>	<p>The <b>related parties</b> note provides information about any transaction entered into by the charity with its trustees or others connected with the charity. A brief definition of related parties is provided in the glossary to these notes. Where charity trustees are uncertain whether a particular person or institution is related to the charity reference should be made to the full definition provided in the Charities SORP (glossary GL50).</p> <p>In completing note 13.3, the following transactions <b>may be excluded</b> (full details in SORP paragraph 229):</p> <ul style="list-style-type: none"> <li>• Personal donations to a charity from a person related to the charity unless they have conditions that require the charity to materially change the nature of its activities.</li> <li>• 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.</li> <li>• The provision of services to a related party where the related party receives the services as part of a wider beneficiary class of which he/she is a member.</li> </ul>
<b>Note 14</b>	<p>This note, or further page(s) of notes, may be used to disclose any important matters that are not included in the pro forma accounts.</p>



A charity may need to provide notes on matters in addition to those included in the pro forma accounts.

The table below provides a list of matters that may, on occasions, apply to a charity but that are not included the pro forma accounts. If any of these matters apply to the charity, additional disclosures may be needed. Trustees should therefore review this list to see if any of these matters should be added to the accounts they are preparing. In looking at the list bear in mind:

- Only material matters (see glossary) need to be referred to in accounts and notes;
- Most of the matters covered in the table below will not apply to smaller charities. If any matter is obviously **not** applicable to your charity then just ignore it.

Where the need for an additional note disclosure is identified, trustees should refer to the Charities SORP for further guidance or discuss with their auditor or independent examiner how the item might be included in the accounts. Whilst auditors and independent examiners might also find this list helpful, it should not be used as a substitute for their own audit or examination procedures.

Issue	SORP Paragraph
Permanent endowments operated on a total return basis.	75e
Any operations (whole of a distinctive type of activity) which were discontinued or acquired during the year.	90
Resources held for a third party.	115
Any material legacies that have not been included in the accounts.	128
Gifts in kind which have not yet been distributed.	132
Ex gratia payments made during the year (see glossary).	240
Land used by the charity whose value in the accounts is substantially different from market. (This does not include land and buildings held for investment.)	276
How impairment reviews (if any – see glossary) were carried out.	277
Investment assets outside the UK. (Typically investments not made through a UK based institution.)	304
Details of any investments held as part of current assets.	316
Assets held as intermediary agent (including conduit funding and collections on behalf of others).	319
Details of provisions for liabilities and charges.	326-8
Material commitments not charged in the accounts.	326-9
Guarantees given by the charity to third parties.	336
Financial derivatives (normally linked to investments or borrowing – see glossary).	339
Any contingent liabilities (see glossary) or contingent assets.	345-6, 348
Inter-fund loans outstanding at the balance sheet date.	350
Defined benefit pension schemes.	444-8

**Audit threshold**

The audit threshold refers to the size at which a charity is required by law to have an audit by a registered auditor. At the date of publication this is either gross income over £500,000 in the current financial year or total assets (before liabilities) of over £3.26m provided gross income is over £250,000.

**Contingent liability**

This is either:

- 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 charity's control; or
- A present obligation that arises from past events but is not recognised in the accounts because it is unlikely any resources will need to be used to settle it or the amount needed cannot be measured with sufficient reliability.

**Deferred income**

This represents resources that charity has received but not brought into the accounts because they have some sort of condition attached which is outside the control of the charity. Typically this includes incoming resources that cannot be spent until a future accounting period, or which cannot be used until the charity finds matched funding.

**Ex gratia payments**

An ex gratia payment is one that is made at the discretion of the trustees and not as a result of a contract or other legal obligation. A charity must disclose any ex gratia payment that relates to an obligation that is not within its objects. An example is a payment to settle a claim in respect of a legacy that would otherwise consume charitable resources in legal expenses.

**Financial derivative**

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.

**Functional use**

This means use in connection with the charity's stated charitable activity or for fundraising or governance activities necessarily carried out by the charity. This should be contrasted with investment use which means in connection with managing investment assets.

**Funds - Endowment funds**

Those funds where trustees are legally required to invest or retain the **capital**. Income generated from the capital can be spent. Normally these funds will represent investments but may also represent property held as endowment for use by the charity. There are two forms of endowment: permanent and expendable (see below).

**Funds - Expendable endowment**

An endowment fund where the trustees have the option to spend the capital, under certain circumstances, in the same way as spending income funds.

**Funds - Permanent endowment**

An endowment fund where the trustees do not have power to spend the capital.

**Funds - Restricted income funds**

Those funds that the trustees may only spend on particular purposes of the charity.

**Funds - Unrestricted funds**

Those funds that the trustees are able to spend for any of the charity's purposes.

**Funds - Designated funds**

Part of unrestricted funds that trustees have earmarked for a particular purpose. Such funds are legally part of unrestricted funds, though they may be separately reported in the balance sheet or notes.

**Gross income**

Gross income is the total incoming resources shown in the SoFA excluding endowment (line S01).

**Impairment**

Occasionally a fixed asset used by the charity becomes 'impaired' in that its value to the organisation falls (significantly) below the value at which is shown in the accounts. If this happens trustees should consider reducing the value of the asset in the balance sheet by an impairment charge.

**Materiality**

An item is material if its inclusion or exclusion from the accounts would be likely to change a user's view about the accounts. Normally the larger the item the more material it is likely to be.

**Policy of revaluation of functional assets**

This is when a charity revalues the assets it uses for functional purposes periodically (at least every five years). Few charities adopt this approach, as it can be expensive and is seldom necessary.

**Related parties**

A full definition of related parties is included in the charities SORP glossary. Generally, related parties are those parties with whom the charity has a relationship which might inhibit it from pursuing its own separate interests. This will include charity trustees, those connected with a charity trustee by, for example, a close family relationship, and any other party that can exert significant influence over the operations of the charity.

**Tangible fixed assets used by the charity**

These are assets which have a life of more than one year, are material and used by the charity for any of its activities. This may include land and buildings, computer and office equipment, vehicles etc. but exclude investment assets.

