



# Accruals Accounts Completion Notes

## Section 1

## Introduction

### 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) 2005.

The pro forma accounts and notes to the accounts (CC17a) when fully completed will include all the information necessary for smaller charities preparing accruals accounts.

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

The pro forma accounts are designed specifically for use by charities 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.

Details of the audit thresholds under the Charities Act 1993 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;
- 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
- has permanent endowment and is using the total return approach to investing the endowment
- is preparing group accounts; 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.

Trustees of charities also registered in Scotland should check the website of the Office of the Scottish Charity Regulator to identify if any additional information is required to comply with charity law in Scotland and then amend this pro forma accordingly.

### Small non-company charities

Non-company charities for financial years ending on or after 1 April 2009 with income of £250,000 or less may be able to choose to prepare cash based receipts and payments accounts. For financial years ending prior to 1 April 2009, this gross income threshold for receipts and payments accounting is lower at £100,000. 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;
- 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 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. For accounting periods ending on or after 1 April 2009 charities with a gross income below £25,000 are not required by law to have either an independent examination or audit. For financial years ending prior to 1 April 2009, this gross income threshold is lower at £10,000. Some charities will also 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.

### Activity 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 (the headings used are pre printed in first column of the pro forma SoFA); or
- a 'Natural' classification, for example, salaries, rent, rates, stationery, etc. (the Table opposite illustrates *possible* content of a natural based classification – other headings are possible).

If the trustees **choose not** to use the activity categories provided then they may delete the headings provided on the pro forma SoFA and use the spaces provided for their own analysis categories. Under either approach further analysis may be provided in the notes to the accounts.

We recommend that charities consider using the activity categories provided as this gives useful information on how much charities are spending on charitable activities.

Where the activity categories are used, costs which relate to more than one activity can be apportioned between activities.

The option to use natural or activity based categories is only available for incoming resources and resources expended. Other rows in the SoFA should be completed in accordance with the pro forma SoFA.

### Example of natural categories for incoming resources and resources expended

#### Incoming resources

- Donations, legacies and grants
- Fundraising events eg concerts, raffles, jumble sales etc.
- Shop sales
- Interest and dividends
- Fees for charitable services
- Grants for services

#### Resources expended

- Wages, salaries, pensions and NI
- Cost of fundraising events
- Rent, rates and insurance
- Repairs and maintenance
- Light and heat
- Telephone, postage and stationery
- Grants and donations
- Legal and professional fees
- Bank charges and interest

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

### Rows – incoming resources

#### "Activity" and "Natural" categories

Rows S01 to S06 below explain what should be included in each category of incoming resources where charity trustees choose to follow the recommended "activity" categories of the Charities SORP. If the charity trustees choose to use "natural" categories, then the activity categories provided by the pro forma SoFA should be deleted and alternative headings inserted in the blank boxes for each of these rows. In either case, the notes provided within the pro forma accounts allow for further analysis of incoming resources.

Row	Analysis category	Explanation
<b>S01</b>	<b>Voluntary income</b>	<p>This will include:</p> <ul style="list-style-type: none"> <li>• Gifts and donations received including legacies.</li> <li>• Gifts in kind and donated services or facilities.</li> <li>• Any tax reclaimed on amounts received under gift aid.</li> <li>• Membership subscriptions and sponsorships that are, in substance, donations.</li> <li>• Grants of a general nature or for core funding.</li> </ul>

Row	Analysis category	Explanation
S02	<b>Activities for generating funds</b>	This will include resources generated by trading activities which are specifically to raise funds for the charity such as: <ul style="list-style-type: none"> <li>• Fundraising events, for example, jumble sales, firework displays and concerts.</li> <li>• Sponsorships and social lotteries that are not pure donations.</li> <li>• Shop income from selling donated and bought in goods.</li> <li>• Providing goods or services that are not for the charity's beneficiaries.</li> <li>• Letting and licensing of property held for functional use but temporarily surplus to requirements.</li> </ul>
S03	<b>Investment income</b>	This includes bank and building society interest, dividends, gross rentals from investment properties and any related tax reclaimable.
S04	<b>Incoming resources from charitable activities</b>	These are the resources arising from activities in furtherance of charitable objects. This includes: <ul style="list-style-type: none"> <li>• Sale of goods or services from the charity's activities (primary purpose trading including contractual payments from government or public authorities).</li> <li>• Sale of goods made, or services provided, by the charity's beneficiaries (eg sales of goods from sheltered workshops).</li> <li>• Letting of non-investment property in furtherance of the charity's objects.</li> <li>• Grants specifically for the provision of goods or services as part of charitable activities or services to beneficiaries (including performance related grants).</li> <li>• Ancillary trades connected with the above.</li> </ul>
S05	<b>Other incoming resources</b>	Other income which cannot be included in any of the rows above is included here (eg gains on disposal of tangible fixed assets for use by the charity).
S06	<b>Total incoming resources</b>	Total of rows S01 to S05 giving the total of all resources coming in to the charity.

### Rows – Resources expended

Rows S07 to S13 below explain what should be included in each category of resources expended where charity trustees choose to follow the recommended "activity" categories of the Charities SORP. If the charity trustees choose to use "natural" categories, then the activity categories provided by the pro form SoFA should be deleted and alternative headings inserted in the blank boxes for each of these rows. In either case, the notes provided within the pro forma accounts allow for further analysis of resources expended.

Row	Analysis category	Explanation
S07	<b>Costs of generating voluntary income</b>	This includes all costs incurred in raising voluntary income for the charity. It will include all the costs incurred in generating the income listed in row S01 above, for example, donations, legacies, core funding grants and gifts in kind.
S08	<b>Fundraising trading costs</b>	This will include all the costs of trading activities which are specifically to raise income for the charity. It will include all the costs incurred in generating the income listed in row S02 above, for example, fundraising trading, and includes cost of goods sold and other expenses.
S09	<b>Investment management costs</b>	This includes the cost of managing an investment portfolio, obtaining investment advice, administration of investments, rent collection, investment property repairs and maintenance charges.
S10	<b>Charitable expenditure</b>	This includes all resources applied by a charity in undertaking work to meet its charitable objectives. It will include costs of grantmaking and direct provision of charitable services. The total figure for charitable expenditure may be further analysed in the notes to the accounts. For example: <ul style="list-style-type: none"> <li>• Setting out details of the activities or projects undertaken (see note 4 of the pro forma accounts); and/or</li> <li>• Explaining which activities were undertaken directly by the charity and which were funded through grant giving.</li> </ul>
S11	<b>Governance costs</b>	This includes the costs of general running of the charity as opposed to generating funds, service delivery and programme or project work. This category will include legal advice and costs associated with constitutional and statutory requirements eg the cost of trustee meetings and preparing and (internal and external) audit or examination of statutory accounts.
S12	<b>Other resources expended</b>	This row will rarely be used as virtually all resources expended can generally be included in one of the above categories.
S13	<b>Total resources expended</b>	Total of rows S07 to S12.

**Rows – Transfers, gains and losses**

Rows S14 to S21 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
S14	<b>Net incoming/ outgoing resources before transfers</b>	This is the total in row S06 less the total in row S13.
S15	<b>Gross transfers to and from funds</b>	Any transfers between funds are analysed in these rows.
S16	<b>Net incoming/ (outgoing) resources before other recognised gains and losses</b>	Total of rows S14 and S15.
S17	<b>Gains and losses on the revaluation of functional fixed assets</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 policy of revaluation of functional assets.
S18	<b>Gains and losses on the disposal and revaluation of 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.
S19	<b>Net movement in Funds</b>	Total of rows S16 to S18.
S20	<b>Total funds brought forward</b>	The brought forward balances at the beginning of the year.
S21	<b>Total funds carried forward</b>	Total of rows S19 and S20.

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. The pro forma accounts provide this breakdown 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. A charity can alternatively provide this breakdown in a note to the accounts.

### Columns – fund accounting

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

<b>F01</b>	This column is for all assets and liabilities that belong to <b>unrestricted income</b> funds.
<b>F02</b>	This column is for all assets and liabilities that belong to <b>restricted income</b> funds.
<b>F03</b>	This column is for all assets and liabilities that belong to <b>endowment</b> funds.
<b>F04</b>	Total of columns F01, F02 and F03 giving total assets and liabilities for all funds.
<b>F05</b>	This column gives the total 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 15) at the end of the accounts pro forma.	Cost or valuation less depreciation.
<b>B03</b>	<b>Investment</b> assets 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 owing 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.

Row	What is to be included	How to value it
B13	<b>Creditors: amounts falling due after one year</b> are amounts owing by the charity to creditors which are due to be paid after more than one year from the balance sheet date.	Settlement value.
B14	Any amounts set aside as <b>provisions for future liabilities and charges</b> .	Settlement value.
B15	<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 S21 of the SoFA.

Row	What is to be included
B16	<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.
B17	<b>Designated funds</b> are part of unrestricted funds but may be shown separately using this row.
B18	<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.
B19	<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.
B20	<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>	<b>The basis of accounting</b> explains the standards and conventions used in preparing the accounts. The Charities SORP assumes 'accounting standards' will be applied. Charities may choose to adopt the FRSE, a standard for smaller entities, and in such cases this box should be ticked.
<b>Note 2</b>	<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. If a charity does not have a particular item in their accounts then the policy relating to that may be deleted. 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. 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.
<b>Note 3</b>	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 activities undertaken to raise voluntary income can be shown. This might include, for example, gifts and donations, gifts in kind and donated services, collections, and legacies etc. A similar approach can be taken in providing an analysis of the amounts included for funds generated through trading, investment income and charitable activities. The total entered for each of these categories of incoming resource should agree with the total entered in rows S01 to S04 of the SoFA.
<b>Note 4</b>	This note allows trustees to provide an analysis of any of the amounts shown under the main headings for <b>resources expended</b> in the SoFA. For example, the cost of different charitable activities undertaken can be shown. This might include, for example, an analysis of the cost of the main charitable projects undertaken or the costs of particular services provided. The analysis should also identify activities that were in part funded by grantmaking. A similar approach can be taken in providing an analysis of the amounts included for the costs of generating funds through trading, investment income and to provide information of costs included within governance. Where the alternative "natural" classification of expenditure is used, the heading provided in this note may be amended to provide further details of the costs included in the main categories of expenditure used in the SoFA. The total entered for each of these categories of resources expended should agree with the total entered in rows S07 to S12 of the SoFA.
<b>Note 5</b>	This note provides details about <b>support costs</b> . This note need only be completed where the charity adopts the "activity" categories of the SORP to analyse resources expended. Support costs include functions such as general management, budgeting and accounting, payroll administration, information technology, human resources and financing. The first column of this note lists material support costs by function. You may choose headings that are appropriate to how your charity is organised. The note should then show the amount of support costs that have been allocated or apportioned across the three main activities categories of the charity.
<b>Note 6</b>	This note provides specific information about <b>trustees' expenses</b> and fees paid for statutory <b>audit or examination</b> of the accounts. If any charity trustee has entered into transactions with the charity other than claiming expenses then the relevant part of note 14 will also need to be completed.
<b>Note 7</b>	The <b>paid employees</b> note provides specific information about staff costs and the areas of work in which they are deployed.

<b>Note 8</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. Information may only be omitted from note 8.3 if:</p> <ul style="list-style-type: none"> <li>• 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 15) giving the name of the publication and how it may be obtained.</li> <li>• The trustees have exercised their right (following the Charities Act 2006) not to disclose details of the grants made where the settlor, their spouse or civil partner are still alive. The settlor is the benefactor who established the trust by way of gift.</li> </ul> <p><b>or</b></p> <ul style="list-style-type: none"> <li>• 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. 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 15) confirming that particulars of the grants omitted from disclosure have been provided to the Charity Commission.</li> </ul>
<b>Note 9</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 amounts 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 9.4.</p>
<b>Note 10</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 11</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 12</b>	<p>The <b>creditors and accruals</b> note is used to provide further information about amounts owed by the charity. The total amount entered in this note needs to agree with the amount entered for creditors (falling due within 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 13</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.</p> <p>Any particular fund which is in deficit should be separately identified in the analysis of movements of funds provided in note 13.2 of the pro forma accounts.</p>
<b>Note 14</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 14.3, the following transactions may be excluded (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 15</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
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**Ancillary trading**

An ancillary trade is one that does not directly further a charity's primary purpose but is exercised in the course of the actual carrying out of a primary purpose. An example of an ancillary trade is the sale of food and drink in a restaurant or bar by a theatre charity to members of an audience. More detail can be found in Revenue and Customs Charities section of their website in the guidance: Trading and business Activities: The basics (<http://www.hmrc.gov.uk/charities/tax/trading/basics.htm>).

**Audit threshold**

The audit threshold refers to the size at which a charity is required by charity law to have an audit by a registered auditor. For financial years ending on or after 1 April 2009 an audit is required where either gross income exceeds £500,000 or gross income exceeds £250,000 and assets exceed £3.26m. For financial years ending before 1 April 2009 a statutory audit is required where either gross income exceeds £500,000 or gross income exceeds £100,000 and assets exceed £2.8 m. It is anticipated that all the financial thresholds will be considered again as part of an undertaking made to Parliament for a five year review of the Charities Act 2006. It is recommended that reference is made to the Charity Commission website for further information on future threshold changes and that the Charity Commission website is checked to confirm the thresholds that apply.

**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.

**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 every year. 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.

**Support costs**

These costs are incurred directly *in support* of expenditure on activities; they would include, for example, work done by headquarters staff for a specific charitable project or in support of fundraising or governance activity.

**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.