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Glossary

Accruals accounting

Under Charity Commission rules, charities having a gross income in excess of £250,000 in accounts years ending on or after 1 April 2009 must prepare their accounts on an accruals basis. All charitable companies must prepare accruals accounts under the Companies Act. Accruals accounting provides an accurate view of the financial status of the charity reflecting ongoing commitments and the depreciation or appreciation of assets. Revenues and costs are accounted for when they occur irrespective of when payment is made or received. The principal status reports associated with accruals accounting are the Income and Expenditure Report, the Balance Sheet and the Statement of Financial Activities (SOFA).

Assets

Assets are the money, goods and property owned by the charity including any legal rights it may have to receive goods, services, money or property from others. Assets are generally split into two categories, 'Fixed assets' and ‘Current assets’.
Fixed assets are longer term assets that continue to be held by the charity year after year and are liable to depreciate as time moves on. Examples of fixed assets are land, buildings, furnishings, fixtures and fittings, etc.
Current assets are assets that are subject to variation or disposal in the short term. Examples of current assets are money accounts including bank accounts, prepayments, goods for resale, etc.

Audit thresholds

All charities must prepare accounts for public scrutiny. Under the Charity Commission rules, charities having a gross income or total expenditure in excess of £500,000 must have their annual accounts audited by a professional auditor. Below this threshold, charities must have an independent examination of their annual accounts unless their gross income does not exceed £25,000. If the gross income is between £250,000 and £500,000 then a qualified accountant must perform the independent examination.

Balance sheet

Accounts generated on an accruals accounting basis would prepare a statement of assets and liabilities in the form of a balance sheet which shows net worth.

Charitable Company

A company formed and registered under the Companies Act 2006 that is established for exclusively charitable purposes.

Designated fund

Used to account for unrestricted funds that are allocated for a particular purpose by the charity. Such funds can be re-designated and spent for some other purpose.

Endowment fund

An endowment fund (or capital) is a class of restricted fund that must be retained for the benefit of the charity. There are two types of endowment fund; a permanent endowment and an expendable endowment and both are classes of restricted funds. A permanent endowment must be retained ad infinitum and the capital cannot be converted into an income although income generated can be expended in accordance with the directions of the donor. An expendable endowment can be converted into income at the discretion of the trustees.

General fund

An unrestricted fund used for any of its purposes by the charity.

Gross income

The total income of the charity for all unrestricted and restricted funds but excluding amounts received as capital (endowment funds). The gross income must not include any cost deductions.

Income and expenditure accounts

When accounting on an accruals basis, the annual analysis of revenues and costs are held in income and expenditure accounts.

Independent examination

Charities below the £250,000 threshold can have an independent examination of the annual accounts unless the governing document stipulates an audit. This is a less onerous form of scrutiny than a full audit. Between £250,000 and £500,000 an independent examination is still permitted but a qualified accountant must carry it out.

Liabilities

The amounts owed by the charity as shown on the Balance Sheet (accruals accounting) or the Assets & Liabilities report (receipts and payments).

Receipts & payments

Under Charity Commission rules, non-company charities having a gross income of £250,000 or less in accounts year ending on or after 1 April 2009 may prepare their accounts on a receipts and payments basis. This provides a ‘cash book’ record keeping system where only money received or paid out is entered to the accounts and is generally regarded as a simpler method of preparation. The principal reports are the Receipts & Payments Report and the Assets & Liabilities reports. Charitable companies are not allowed by company law to adopt this method.

Reserves

Generally construed as the amount freely available for the charity to spend that has not already been committed. Hence, reserves do not include any amounts from endowment or restricted funds or any amount from unrestricted funds that could only be realised by the disposal of an asset.

Restricted fund

Restricted funds can only be used for a specific purpose. This is usually defined through a written instruction by the donor in the form of a trust or set out through the terms of an appeal. They cannot generally be used for other purposes without permission from the Charity Commission.

SOFA

The Statement of Financial Activities required to be submitted annually to the Charity Commission in their defined format. Applies to charities preparing accounts on an accruals basis.

SORP

The 'Statement of Recommended Practice – Accounting and Reporting by Charities', issued by the Charity Commission. It provides guidance for charities on preparing the Trustees' Annual Report and for preparing accounts on the accruals basis.

Total expenditure

The gross expenditure of the charity from all funds but excluding the granting or repayment of loans and the purchase of investments to be held for the furtherance of the purposes of the charity.

Unrestricted fund

Funds held for the general purposes of the charity but allocated for a particular purpose. Also referred to as designated funds they can subsequently be re-designated.