

## **Appendix 6: Glossary of terms**

### **Accrued accounts**

Fully accrued accounts allocate the costs or income of a particular activity according to when the liability is incurred or when there is entitlement or certainty about income. This is not necessarily the date on which money is received or paid out.

### **Accounting and Reporting by Charities: Statement of Recommended Practice (SORP)**

The Statement of Recommended Practice is issued by OSCR and the Charity Commission to aid preparers and reviewers of charity accounts in interpreting UK GAAP for charities. In 2015 two new SORPs were issued, the FRS102 and the FRSSE SORPs. These can be downloaded at [www.charitiessorp.org](http://www.charitiessorp.org).

### **Assets**

Assets are property, goods, money, investments, rights to receive money in the future and logos, names, data and other intellectual property belonging to the charity.

### **Audit**

An audit is an examination of an organisation's accounts carried out by someone eligible to act as an auditor in terms of section 1212 of the Companies Act 2006. Where the audit is being carried out on accrued accounts it will be carried out following the International Standards on Auditing. The opinion on accrued accounts will state whether the accounts give a true and fair view of the financial affairs of the organisation. A true and fair view cannot be given on receipts and payments accounts and the auditors' opinion will state whether the statement of accounts properly presents the receipts and payments and its statement of balances.

### **Close relative**

Close relatives are children, parents, grandchildren, grandparents, brothers or sisters, and any spouse of these. See also 'connected person'.

### **Constitutional form**

Every charity is constituted in some way – companies are constituted by a Memorandum and Articles of Association for example and Trusts by a Trust Deed.

### **Constitutional requirement**

A provision within the constitution or governing document of the charity that, for example, requires an audit to be carried out in relation to the annual accounts or makes a reference to the appointment of an 'auditor'.

### **Contingent liabilities**

Contingent liabilities are liabilities that may arise from past events but whether they will, or how much they may be, is not yet certain.

### **Connected person**

A connected person is a person connected to a charity trustee by virtue of being:

- a close relative
- a spouse, civil partner or person with whom the charity trustee is living in an equivalent relationship
- any institution, corporate body or Scottish partnership where the charity trustee, or person connected to the trustee, has a controlling or substantial interest.

### **Designated fund**

A designated fund is that part of the charity's unrestricted funds that the charity trustees have decided to earmark, or designate, for a particular purpose.

### **Donated facilities and services**

Donated facilities and services are gifts to the charity of facilities, services of volunteers or beneficial loan arrangements.

### **Enactment**

An enactment includes Acts of both the Scottish and Westminster Parliaments and any subordinate legislation. Examples would be the Companies Act 2006, or the Charities and Trustee Investment (Scotland) Act 2005.

### **Endowment funds**

An endowment is a capital fund which is held for the benefit of the charity. The objective is to provide the charity with an income from the capital fund. There are two forms of endowment:

- a permanent endowment is one where the charity trustees must permanently maintain the whole of the fund. The charity trustees will not have the power to spend the capital as income
- an expendable endowment is one where the charity trustees have the option, under certain circumstances, to spend the capital.

Normally the governing document of the charity or the directions of the donor of the endowment will specify how the income from the endowment can be used and therefore whether the income should be included in the accounts as restricted or unrestricted.

### **Fully accrued accounts**

See 'Accrued accounts'

## **Gross income**

A charity's gross income is the total income of the charity for that particular year excluding any monies that are placed into an endowment fund (i.e. the initial set up of such a fund or any subsequent injection of new capital). Transactions that change the composition of the assets of an endowment fund are not included within gross income. Any income that has been collected specifically for and passed onto a third party (e.g. that part of a membership fee that is passed onto a parent body, or a collection held for another charity) should be excluded. However, the transferred amount should be recorded by way of a note to the accounts.

## **Independence**

Where a person is not involved in, and has no control over, the management and administration of a charity. Any 'connected person' cannot be independent.

## **Independent examination**

Independent examination is a less onerous form of external scrutiny than an audit and is usually available, under the 2006 Regulations, for charities with a gross income under £500,000. An independent examiner reviews the accounting records kept by the charity and compares them with the accounts prepared from those records. The examiner then writes a report which provides the information required by the Regulations and provides an assurance of whether or not anything has been found that needs to be brought to the attention of readers of the accounts.

## **Independent examiner**

An independent person whom the charity trustees reasonably believe to have the requisite ability and practical experience to carry out a competent examination of the accounts or, where accruals accounts are prepared, a professionally qualified person recognised by charity law.

## **Liability/Liabilities**

A liability is an obligation to transfer to another body some economic benefit usually, but not always, a sum of money.

## **Materiality**

There is no formal definition of what is 'material' but the concept may be more meaningfully explained by way of an example.

Consider the sum of £100.

- If the total income of the charity is £500, then £100 is material. However, if total income is £100,000 then £100 is probably not material.
- If the £100 in question indicates criminal activity, then it is probably always material. If it is included or omitted from the accounts due to a genuine mistake, it is not so likely to be material.
- Where it is more difficult to assess materiality from income, say £2,000 income where the £100 represents 5% of the income, the examiner should consider the nature of the mistake and the nature and context of the charity itself. For example, a loss of £100 in a charity working with young people on low incomes which offers advice on personal budgeting would probably be material. This is because the reputation of the charity could be damaged if the loss were made public. However, if the charity was a small arts charity putting on a couple of performances or exhibitions a year, the potential damage to its reputation may make the £100 error not material.
- Examiners need to be mindful of the cumulative impact of errors. One error of £100 may not be material, but three or four similar errors may indicate issues that require to be resolved.

## **Receipts and payments accounts**

Receipts and payments accounts are a simple form of accounting that consist of a summary of all monies received and paid via the bank and in cash by the charity during its financial year, along with a statement of balances.

## **Registered auditor**

A registered auditor is someone eligible to act as an auditor in terms of section 1212 of the Companies Act 2006.

## **Reserves**

General reserves are unrestricted funds held by a charity and are freely available to spend on any of the charity's purposes. This would exclude endowment and restricted funds.

## **Restricted fund**

Restricted funds are funds that can only be used for the particular purposes specified by the donor. For example, if a local authority provides a grant to a local charity to refurbish the community hall, the grant is a restricted fund that can only be used for the purpose it was given, in this case refurbishing the hall. Another example would be if a charity carries out an appeal for a particular purpose. The money raised by the appeal would be a restricted fund and should only be used for the purpose of the appeal. Income from assets held in a restricted fund (e.g. interest) will be subject to the same restriction as the original fund unless the terms of the original restriction say otherwise.

## **SORP**

See 'Accounting and Reporting by Charities'

## **True and fair**

Accounts that are prepared on a fully accrued basis in accordance with UK Generally Accepted Accounting Practice are considered to provide a 'true and fair' view as they include all assets and liabilities of the organisation at the period end date.

## **Unrestricted fund**

Unrestricted funds are funds that the charity trustees are able to use for any of the charity's purposes. Donations that are not given for a specific purpose would be an unrestricted fund (e.g. membership fees). Income from these funds is also unrestricted and can be used for any of the charity's purposes at the discretion of the charity trustees. Charity trustees may decide to earmark part of a charity's unrestricted funds for a particular purpose, e.g. major repair works. These sums are designated for that purpose and should be accounted for as part of the charity's unrestricted funds.