



# A Guide to Charity Accounts: Receipts & Payments Accounts

# Part 2: Receipts and Payments Accounts

## Section 1: Introduction

Part 2: Receipts and Payments Accounts sets out the legal requirements for charities preparing Receipts and Payments Accounts and having those accounts externally scrutinised.

It should be read in conjunction with [Part 1: The Overview](#).

## Section 2: What are receipts and payments accounts?

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

The closing bank balance to report in the accounts should be:

- The balance at the bank on the last day of the financial year.

### Plus

- Any money received before the end of the year but only banked in the following year.

### Less

- Any cheques written before the end of the year but not cleared through the bank until the following year.

The main differences between receipts and payments and fully accrued accounts are that:

- in receipts and payments accounts no adjustments are made for the timing of the income or payments to bring them in line with the period to which they relate. So, for example, if a charity pays its rent in advance just before the end of the financial year, the payment will be recorded in the accounts of the year it was actually paid, rather than in the year to which the payment relates.
- the purchase or sale of assets for cash would be included in the receipts and payments accounts as a payment or a receipt in the reporting period. Assets owned by the charity should be shown separately on the statement of balances for information.

- changes in the value of assets are not included in receipts and payments accounts.

Formal accounting standards are primarily concerned with ensuring that accounts show a true and fair view of a charity's financial affairs do not apply to receipts and payments accounts.

However, the receipts and payments accounts must give sufficient detail to enable a reader to gain an appreciation of the transactions of the charity and of any surplus or deficit.

## Can my charity prepare receipts and payments accounts?

Non-company charities with a gross income of less than £250,000 can prepare accounts on a receipts and payments basis unless:

- the **governing document**
- any law or
- a decision of the trustees
- any third party requirements, for example a funder requires the charity to prepare fully accrued accounts.

Charitable companies, registered social landlords, community benefit societies (CBS or Bencom) and further and higher education institutions **cannot** prepare accounts on a receipts and payments basis.

## Section 3 Content of receipts and payments accounts

Under the 2006 Regulations, receipts and payments accounts must consist of:

- a Trustees' Annual Report
- a report from an external scrutineer
- a statement of the receipts and payments
- a statement of the balances as at the last day of the financial year
- notes to the accounts.

Both the statement of balances and the **trustees' annual report** must be signed by one or more of the charity trustees on behalf of all the **charity trustees** and specify the date on which both were approved.

To allow comparisons to be made, all figures in the accounts must include the corresponding amount for the previous financial year. The accounts must also distinguish between **restricted, unrestricted, expendable and permanent endowment funds** held by the charity.

OSCR has produced a **receipts and payments work pack** on our website that can be used to assist with the preparation of receipts and payments accounts. The work pack includes detailed guidance and templates that can be completed.

### 3.1 Trustees' Annual Report

A charity's financial statements alone do not provide all the information a reader would need to gain a full picture of the charity. The financial statements cannot easily explain:

- what the charity has done – its outputs
- what the charity has achieved – its outcomes
- what difference the charity has made – its impact.

The financial statements also do not provide information on the structure, governance or management arrangements of a charity. All

of these should be addressed in the trustees' annual report which is an important element of a charity's annual reporting. **Charity trustees** should be actively involved in preparing it. The report should enable a reader to understand how the numerical information presented in the financial statements relates to the organisational structure and activities of the charity.

The trustees' annual report must include the following information:

- the name of the charity as it appears on the Scottish Charity Register and any other name by which the charity is known
- the charity's **Scottish Charity Number**. This will begin SC followed by six digits the first being 0 (zero)
- the address of the **principal office** of the charity.

Where the charity does not have an office the annual report must give the name and address of one of the charity trustees, unless the charity is entitled to exclude the address from its entry in the Register because OSCR is satisfied that to include this information would jeopardise the safety or security of people or premises.

- the names of all the charity trustees during the financial year and on the date the annual report was approved by the charity trustees unless:
  - there are more than 50 charity trustees, in which case the names of 50 charity trustees is sufficient. Office bearers should be included – for example, Chair, Treasurer
  - the charity is entitled to exclude the names of the charity trustees because OSCR is satisfied that to include this information would jeopardise the safety or security of people or premises.
- the particulars of the governing document of the charity that contains its purposes and regulates the administration of the charity. This would include:
  - how the charity is constituted (for example, unincorporated association, SCIO or trust)
  - the organisational structure of the charity (for example,

- a membership which elects a management committee or self-appointing trustees)
  - the relationship of the charity to any other body (for example, affiliation with an umbrella group)
- the purposes of the charity as set out in the **governing document** of the charity
- a description of how charity trustees are recruited and appointed, including the name of any external body entitled to appoint charity trustees
- a summary of the main activities of the charity and achievements in the financial year
- a description of the policy the charity trustees have adopted to determine the level of reserves to be held by the charity. This should include:
  - the level of **reserves** held
  - why they are held
  - the amount and purpose of any designated fund, and the likely timing of any expenditure that has been set aside for the future
  - if the charity has a deficit, an explanation of how it came about and what steps are being taken to rectify it
  - an analysis of donated facilities and services, if any, that the charity received during the financial year.

See our **Charity Reserves factsheet** on our website for more information on reserves and reserve policies.

The Trustees' Annual Report must be signed by one or more charity trustees on behalf of all the charity trustees and specify the date on which the statement of account, of which the trustees' annual report forms part, was approved.

We have specific guidance on **Trustee Annual Reports** on our website which sets out the legal requirements and good practice.

## 3.2 Statement of receipts and payments

The statement of receipts and payments provides an analysis of the incoming and outgoing cash and bank transactions for the year. The analysis must show the following categories separately:

### Receipts

- donations
- legacies
- grants
- receipts from fundraising activities – for example, sponsorships
- gross receipts from trading – for example, charity shop income
- receipts from investments other than land and buildings
- rent from land and buildings
- gross receipts from other charitable activities.

In addition:

- the proceeds from sale of fixed assets
- the proceeds from sale of investments

should be shown separately from the above receipts.

### Payments

- expenses for fundraising activities
- gross trading payments
- investment management costs
- payments relating directly to charitable activities, detailing material items
- grants and donations relating directly to charitable activities
- governance costs relating to:
  - independent examination or audit
  - preparation of annual accounts
  - legal costs associated with constitutional matters or trustee advice.

In addition:

- purchase of fixed assets



- purchase of investments
- should be shown separately from the above payments.

The statement of receipts and payments must distinguish between unrestricted and restricted funds, as well as any expendable and permanent endowment funds. This is usually achieved by giving each fund a separate column in the accounts. Where a charity has more than one fund in any of these categories it should present the total funds held in each. The notes to the accounts must then explain in sufficient detail the content of the unrestricted, restricted and endowment funds so that the reader gains a full understanding of the accounts.

Any transfers from a **restricted, unrestricted, expendable endowment or permanent endowment fund** into another fund must be shown separately from the receipts and payments.

### 3.3 Statement of balances

As well as a statement of receipts and payments, the accounts must contain a statement of balances. The statement must reconcile the cash and bank balances at the beginning and end of the financial year with the surplus or deficit shown in the statement of receipts and payments.

As with the statement of receipts and payments, the statement of balances must distinguish between **restricted and unrestricted funds**, as well as any expendable or permanent **endowment funds** held by the charity.

In addition the statement of balances must also:

- summarise the investments held by the charity at their market valuation
- summarise the other assets held by the charity, including gifted assets, either at their current value if available or at cost. Where the charity trustees consider the valuation to be lower than the cost, the valuation should be used
- include a total estimate of the liabilities of the charity at the financial year end
- contingent liabilities must be shown separately.

The statement of balances must be signed by a **charity trustee** on behalf of all the charity trustees and specify the date on which the statement of account was approved by the charity trustees.

### 3.4 Notes to the accounts

Notes are an important part of the accounts. They expand on or explain the information contained in the statements of receipts and payments and balances, and will help a reader understand the accounts.

The notes to the accounts must contain the following information, unless this information has been provided in the **Trustees' Annual Report**:

- the nature and purpose of each fund held by the charity, including any restrictions on their use
- the number and amount of any grants paid out by the charity, the type of activity or project supported by those grants, and whether they were paid out to an individual or an organisation
- the amount of remuneration paid to a charity trustee or person connected to a charity trustee (a connected person). Any remuneration must be in accordance with the **2005 Act** and the note must specify the authority under which the remuneration was paid. If no remuneration was paid to a charity trustee or anyone connected to a charity trustee this must be stated
- the total amount of expenses, if any, paid to charity trustees and the number of charity trustees receiving expenses. If no expenses were paid to charity trustees this must be stated
- the nature of any transactions between the charity and any charity trustee or person connected to a charity trustee. This may include, for example, a charity trustee purchasing an asset from the charity or a charity paying a firm for services such as professional advice where a charity trustee has a substantial interest in the firm. This note must include:
  - the nature of the relationship

- the nature and amount of the transaction
  - any outstanding balance at the financial year end
- any further information required to reasonably assist the reader to understand the statement of accounts.

### 3.5 Example accounts

To assist charities OSCR has published example sets of accounts which illustrate receipts and payments accounts that comply with the 2006 Regulations. These example accounts can be found at [Section 6](#).

It should not be assumed that the examples show the only way of presenting an item or that they include all the disclosures for a particular type of charity. Indeed many charities may choose to provide more detailed notes than those required by the 2006 Regulations. Any examples provided by OSCR are not designed to be used as a substitute for reference to sections 3.1 to 3.4 in this Part of the Guide and the 2006 Regulations.

## Section 4: External scrutiny

External scrutiny is where a person, independent of the charity must review the accounts and produce a report, attached to the accounts, that highlights any issues to the reader.

### 4.1 What type of external scrutiny should be carried out?

Non-company charities may prepare receipts and payments accounts where their gross income in a financial year is less than £250,000.

Charities that have prepared accounts on a receipts and payments basis can subject their accounts to an independent examination unless:

- the **governing document** of the charity requires the accounts to be audited
- the **charity trustees** have decided to have the accounts audited
- any enactment requires the accounts to have been subject to an audit.

If any of these requirements apply the charity must subject the accounts to an audit by a registered auditor. Refer to Section 3 of **Part 3: Fully Accrued Accounts**.

### 4.2 Independent examination

Independent examination is a less onerous form of **external scrutiny** than an audit and is available, under the 2006 Regulations, for charities with a gross income under £500,000. This threshold has been set at a level where the more detailed audit scrutiny is not deemed essential as an independent examination is deemed rigorous enough for this size of charity.

An independent examiner reviews the accounting records kept by the charity and compares them with the accounts prepared from

those records. The examiner then prepares a report which provides the information required by the 2006 Regulations and provides an assurance as to whether or not anything has been found that needs to be brought to the attention of readers of the accounts.

The independent examination of receipts and payments accounts must be carried out by someone independent of the management and administration of the charity and who the trustees believe has the required skills and experience to carry out a competent examination of the accounts.

See section 4.1 in **Part 1: The Overview** for an explanation of who would be considered independent of the management and administration of the charity.

In deciding who might have the required skills charity trustees should take into consideration the degree of complexity of the charity's accounts. The more complex the accounts the more experience the independent examiner will require. The types of people who charity trustees could consider as having the required skills and experience might include for example:

- full or associate members of the Association of Charity Independent Examiners
- qualified accountants currently in employment
- retired accountants
- other people familiar with financial matters who can demonstrate familiarity with the current reporting requirements for Scottish charities.

### **4.3 Content of the independent examination report**

After completing the independent examination of a charity's accounts the examiner must make a report to the charity trustees which:

- states the name and address of the independent examiner and the name of the charity concerned
- is signed and dated by the independent examiner and states any relevant professional qualifications they may have or of

which professional body they are a member. The independent examiner must sign and date their report at the same time or shortly after, but not before, the charity trustees approve the accounts

- specifies the financial year of the accounts to which the report relates
- specifies that the report is an examination carried out under section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005
- states whether or not anything has come to the attention of the independent examiner which gives them reasonable cause to believe that:
  - proper accounting records have not been kept
  - the accounts do not agree with the records
  - the receipts and payments accounts do not comply with Regulation 9
- states whether or not the independent examiner believes there is anything that should be drawn to the attention of readers to help them understand the accounts
- states if any of the following matters have become apparent to the independent examiner:
  - there has been any material expenditure or action not in accordance with the purposes of the charity
  - that information to which the examiner is entitled has been withheld
  - that there is a material inconsistency between the accounts and the annual report prepared by the charity trustees.

An example independent examiner's report is shown as part of the example accounts within **Section 6** of this Guide.

## 4.4 Audit

Where a charity has prepared accounts on the receipts and payments

basis and an audit is required, the audit must be carried out by a registered auditor. An audit report of receipts and payments accounts will not comment on whether the accounts provide a true and fair view of the financial affairs of the charity. However, the audit report will say whether or not the statement of account properly presents the receipts and payments of the charity.

The auditor must prepare a report on the accounts for the charity trustees that:

- states the name and address of the auditor and the name of the charity
- is signed by the auditor or someone authorised to sign on behalf of a company or partnership
- states that the auditor is a person who is eligible to act as an auditor in terms of **section 1212 of the Companies Act 2006**
- states the date of the report and specifies the financial year of the accounts to which the report relates
- specifies that it is a report carried out under **section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005**
- states whether, in the opinion of the auditor:
  - the statement of account complies with Regulations 9(1), (2) and (3) dealing with receipts and payments accounts, and
  - properly presents the receipts and payments of the charity for the financial year, and the statement of balances at the year end
- contains a statement where the auditor has formed the opinion with regard to the following, that:
  - proper accounting records have not been kept
  - the accounts do not agree with the records
  - there is a material inconsistency between the accounts and the annual report prepared by the charity trustees
  - that information to which the auditor is entitled has been withheld.

The statement must contain the grounds for forming any of the above opinions.

In preparing the audit report the auditor must carry out such investigations as he or she feels necessary to enable them to form an opinion regarding the matters above.

Where an auditor appointed by **charity trustees** ceases to act as the auditor he or she must send to the charity trustees:

- a statement of any circumstances connected with the auditor ceasing to hold that office that he or she feels should be brought to the attention of the charity trustees, or
- if the auditor considers there are no circumstances that need to be reported to the charity trustees, a statement that there are none.

The auditor must also send to OSCR a copy of any statement he or she has sent to the charity trustees containing circumstances connected with the auditor ceasing to hold that office that he or she feels should be brought to the attention of the charity trustees.

## 4.5 Duty to report matters to OSCR

See section 4.3 of **Part 1: The Overview** for guidance on the independent examiners and auditors' duty to report matters to OSCR under the **2005 Act**.

More detail relating to this can be found within our guidance **Matters of Material Significance reportable to UK charity regulators** on our website.

In addition to the reportable matters set out above, auditors and independent examiners are may also to report any other matter which may be of significance to us in exercising our functions. Further information is available in guidance available on our website – **Reporting of relevant matters of interest to UK charity regulators**.



## Section 5: Reporting to OSCR

The statement of account and report from the independent examiner or auditor must be submitted to OSCR each year. The accounts should be submitted at the same time as the charity's **online annual return**.

See our **Annual Monitoring** website page for more information and section 7 of **Part 1: The Overview** for detailed guidance on the requirements for reporting to OSCR.

## Section 6 Example accounts

The example accounts we've published here are intended to show you how to prepare compliant accounts according to various circumstances. We've included examples that meet the requirements of the two charity Statements of Recommended Practice (SORPs).

You can find further information on the charity SORPs on the SORP micro site - <http://www.charitySORP.org/about-the-sorp/example-trustees-annual-reports>

<b>Receipts and Payments accounts</b>	<b>Fully Accrued accounts</b>
<p>SCIO Accounts</p> <p><a href="https://www.oscr.org.uk/media/1800/2015-01-27-example-accounts-scio.pdf">https://www.oscr.org.uk/media/1800/2015-01-27-example-accounts-scio.pdf</a></p>	<p>Scottish limited company group accounts prepared under SORP FRS102</p> <p><a href="https://www.oscr.org.uk/media/1929/2015-08-04-1-arts-theatre-trust-scottish-version-group-example.pdf">https://www.oscr.org.uk/media/1929/2015-08-04-1-arts-theatre-trust-scottish-version-group-example.pdf</a></p>
<p>Unincorporated Association Accounts</p> <p><a href="https://www.oscr.org.uk/media/3442/glendale-after-school-club-scottish-charity-no-sc074551.pdf">https://www.oscr.org.uk/media/3442/glendale-after-school-club-scottish-charity-no-sc074551.pdf</a></p>	<p>Scottish limited company group accounts prepared under SORP FRSSSE</p> <p><a href="https://www.oscr.org.uk/media/1930/2015-08-04-2-frsse-example-of-accounts-arts-theatre.pdf">https://www.oscr.org.uk/media/1930/2015-08-04-2-frsse-example-of-accounts-arts-theatre.pdf</a></p>
<p>Receipts and Payments Workpack</p> <p><a href="https://www.oscr.org.uk/managing-a-charity/charity-accounting/receipts-and-payments-accounts-work-pack/">https://www.oscr.org.uk/managing-a-charity/charity-accounting/receipts-and-payments-accounts-work-pack/</a></p>	<p>Scottish unincorporated accounts prepared under SORP FRS102</p> <p><a href="https://www.oscr.org.uk/media/2091/2015-12-01-the-almond-grant-trust-frs-102-example.pdf">https://www.oscr.org.uk/media/2091/2015-12-01-the-almond-grant-trust-frs-102-example.pdf</a></p>

	<p>Scottish unincorporated accounts prepared under SORP FRSSE</p> <p><a href="https://www.oscr.org.uk/media/2370/2015-07-15-the-almond-grant-trust-frsse-example-accounts.pdf">https://www.oscr.org.uk/media/2370/2015-07-15-the-almond-grant-trust-frsse-example-accounts.pdf</a></p>
	<p>Example accounts for an independent school</p> <p><a href="https://www.oscr.org.uk/media/2257/2016-06-02-sample-tar-for-independent-schools.pdf">https://www.oscr.org.uk/media/2257/2016-06-02-sample-tar-for-independent-schools.pdf</a></p>

# Accounting Glossary

## 2005 Act

The **Charities and Trustee Investment (Scotland) Act 2005**: the primary piece of charity law in Scotland.

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

The SORP sets the framework for charity financial reporting in the UK for charitable companies, charities with income of £250,000 and more and all other charities preparing accruals accounts.

Accounting and Reporting by Charities: Statement of Recommended Practice 2015. Copies can be downloaded at: [www.charitiessorp.org](http://www.charitiessorp.org).

## Assets

This means everything a charity owns; property, money, equipment, including heritable property (such as land and buildings and rights attached to it).

## 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 fully 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.

## Charity Test

This is the test set out under the Charities and Trustee Investment

(Scotland) Act 2005, which determines whether an organisation can be a charity.

The charity test has two main elements:

- an organisation has to show that it has only charitable purposes and
- that it provides public benefit in achieving those purposes.

This is set out in sections 7 and 8 of the 2005 Act.

### **Charity Trustee**

'Charity trustees' are defined in section 106 of the 2005 Act as people having the general control and management of the administration of a charity. Charity trustees can also sometimes be known as committee members, directors or board members.

### **Close relative**

Close relatives are children, parents, grandchildren, grandparents, brothers or sisters, and any spouse of these.

### **Consolidation adjustments**

Consolidation adjustments are adjustments to remove inter-group transactions and balances between the parent charity and its subsidiaries so that the consolidated accounts accurately reflect the results and financial position of the whole group.

### **Connected organisation**

An organisation is connected to a charity if it is controlled by the charity (either directly or through nominees) or it is a corporate body in which the charity has a substantial interest.

### **Connected person**

The term connected person includes:

- spouses, civil partners and cohabitants of a charity trustee
- child, stepchild, parent, grandchild, grandparent, brother or sister of a charity trustee (and a spouse of any such person)
- an institution controlled by a charity trustee or a person connected with them or two or more trustees/connected persons when taken together
- a body corporate or company in which the charity trustee or a person connected with them has a substantial interest, or
- a Scottish partnership (business) in which the charity trustee or, a person connected with them is a partner.

### **Constitutional requirement**

A provision within the 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, cannot be established until a future event occurs.

### **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 fund consisting of property, including cash which is held for the benefit of the charity. The objective is to provide the charity with an income from the fund.

There are two forms of endowment fund:

- a permanent endowment fund is one that consists of property (which may be heritable or moveable) that has been gifted to the charity with specific conditions attached and where the capital cannot be spent in any circumstances.
- an expendable endowment fund is one that consists of property (which may be heritable or moveable) that has been gifted to the charity with specific conditions attached and which cannot be spent except in those circumstances specified in the terms of the endowment document.

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.

## External scrutiny report

Your charity's accounts must be externally scrutinised. That is, someone who is independent of your charity must review the accounts and produce a report, attached to the accounts, that highlights any issues to the reader.

## Financial year

An accounting period of a charity that can be no more than 18 months. The first financial year of a charity cannot be less than six months.

## Financial year end date

The financial year end date is the date that your charity's financial year ends and to which accounts are prepared.

## Fully 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.

## Governing document

A governing document (or constitution) is the document (or set of documents) that sets up an organisation and says what its purposes are. It will usually deal with other matters, including who will manage and control the organisation, what its powers are, what it can do with the organisation's money and other assets, and membership of the organisation. For more information, see the [FAQs](#) on our website. This is defined in section 106 of the 2005 Act.

## Gross income

A charity's gross income is the total incoming resources of the charity in all restricted and unrestricted funds but excluding the receipt of any donated asset in a permanent or expendable endowment fund. 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 available, under the Regulations, for charities with a gross income under £500,000, where the gross assets are less than £3,260,000. It is not available where the constitution of the charity or another enactment requires the accounts to be audited. 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.

### **Legal Form**

Charities can take a number of legal forms. The legal form is the structure or entity, which then becomes a charity.

For example:

- Unincorporated associations
- Companies
- Scottish Charitable Incorporated Organisations (SCIO)
- Trusts
- Community Benefit Society
- Statutory corporation established by an Act of Parliament or Royal Charter
- Educational endowment

The **Legal Forms Factsheet** on our website has more information on the most common legal forms for Scottish charities.

### **Liability/Liabilities**

A liability is an obligation to transfer to another body at some future time, some economic benefit, which is 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.

## Material investments

When we talk about a charity having material investments this means that the value of these investments is so significant that the overall picture of the charity's finances or activities would be distorted if they were not taken into account. It is the responsibility of the person preparing the charity's accounts to decide whether an item is material or not.

## Online Annual Return

The online form charities complete each year to provide us with

information about the charity (in particular for the Scottish Charity Register, and including information about the charity's finances).

This can be completed in OSCR online.

## **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 funds held by a charity that are freely available to spend on any of the charity's purposes. This would exclude endowment and restricted funds and tangible fixed assets.

## **Restricted funds**

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 for which it was given, in this case refurbishing the hall. Another example would be if a charity carries out an appeal for a particular purpose (for example to purchase a minibus). 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 (for example interest) will be subject to the same restriction as the original fund unless the terms of the original restriction say otherwise.

## **SCIO**

The Scottish Charitable Incorporated Organisation is a legal form unique to Scottish charities and is able to enter into contracts, employ

staff, incur debts, own property, sue and be sued.

For more information see the **SCIO guidance** on our website.

## **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.

## **Trustees Annual Report**

The Trustees Annual Report is a part of the annual Accounts and contains information about the charity and its activities and achievements in that year.

For more information, see **Trustees' Annual Reports: Good practice and guidance** on our website.

## **Unrestricted funds**

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 (for example 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, for example major repair works. These sums are designated for that purpose and should be accounted for as part of the charity's unrestricted funds.









The Scottish Charity Regulator (OSCR)  
2nd Floor  
Quadrant House  
9 Riverside Drive  
Dundee  
DD14NY

T 01382 220446  
E [info@oscr.org.uk](mailto:info@oscr.org.uk)  
 [@ScotCharityReg](https://twitter.com/ScotCharityReg)  
 [ScottishCharityRegulator](https://www.facebook.com/ScottishCharityRegulator)  
[www.oscr.org.uk](http://www.oscr.org.uk)

This booklet was published in April 2019