Appendices

Appendix 1: Glossary of terms

Accounts is a term used in the SORP to refer to the statement of financial activities (SoFA), income and expenditure account (where produced or required by company law), balance sheet and statement of cash flow (where required) and notes.

Accruals accounts record the income and expenditure of the charity and the increase or reduction in its assets and liabilities. Accruals accounts are compiled on a “true and fair” basis in accordance with accounting standards and the SORP.

Activity classification of costs is the method of identifying the total cost of an activity, including both direct and indirect costs. An activity is a project, programme of work or activity that furthers one or more of a charity’s legal purposes, or an activity undertaken to raise funds for the charity.

The SORP identifies three high-level activities for charities preparing accruals accounts: fundraising costs, charitable expenditure and other expenditure.

Aggregated accounts is the term used in the SORP for the combining of the funds of two or more charities in a set of accounts where each fund is kept distinct rather than consolidated. Any inter-fund transfers are shown gross rather than netted off. This form of accounting provides for the funds of each charity to be separately distinguishable in the accounts of the reporting charity.

Amortisation is an accounting term referring to the using up of the economic benefits of an asset related to the time the asset is held. An example would be a right to patent royalties for a set period of time; the value of this right declines in accordance with the fall in future benefits receivable.

Asset is a resource controlled by the charity as a result of past events and from which future economic benefits are expected to enable the charity to further its charitable aims.

Audit when referred to in the SORP is the statutory requirement under charity law for an audit of the charity or the group where the charity’s or group’s gross income and/or assets exceed the relevant threshold. The audit threshold is set by charity law on the basis of the income received in the reporting period and the total assets held at the end of the year.

Balance sheet (also known as a statement of financial position) is a statement of the assets, liabilities and funds of the charity (the funds of the charity may also be known as the residual interest) at the end of the financial year.

Branch Refer to the SORP module 'Branches, linked or connected charities and joint arrangements'.

Capital is the charity law term used by the SORP for resources received by the charity which the trustees are either legally required to invest or retain and use for the charity's purposes. Capital is the term applied to permanent endowment where the trustees have no power to convert it into income and apply or spend it; the term also applies to expendable endowment where the trustees do have this power.

Charity is any institution established for purposes which are exclusively charitable in the law applying in England and Wales, Scotland, Northern Ireland or the Republic of Ireland. A charity includes all those activities, administrative branches and funds falling within the scope of a single governing instrument or for which the trustees are otherwise legally liable to account. The reference to a single governing instrument includes a situation where instruments supplemental to the main instrument apply.

Charity trustees are the people who under the governing document are responsible for the general control and management and administration of the reporting charity. Charity trustees are those defined in section 177 of the Charities Act 2011, section 106 of the Charities and Trustee Investment (Scotland) Act 2005, section 180 of the Charities Act (Northern Ireland) 2008 or Part 1 of the Charities Act 2009 (Republic of Ireland). In the charity's governing document trustees may be called trustees, committee members, governors or directors, or they may be referred to by some other title. In the case of a company charity it is the directors who are the charity trustees.

Charitable companies (company charities) are those charities established under company law for exclusively charitable purposes. The reference to company law is the law as it applies in England and Wales, Scotland, Northern Ireland and the Republic of Ireland. A feature of charitable companies is that of dual registration with the regulator for companies and the charity regulator. Both company law and charity law apply to the annual reporting requirements of a charitable company. **Combined financial statements** are accounts prepared by the reporting charity which aggregate the assets and liabilities and income and expenses of one or more connected charities with the financial performance of the reporting entity itself. An alternative term to "aggregated accounts", the combined accounts provide a "true and fair" view of all of the charities controlled and administered by the trustees of the reporting charity.

Common deposit funds (CDFs) are collective investment schemes that are authorised to accept deposits and are for charity investors only. They are investment vehicles that pool deposits and provide diversification to reduce risk, and are tax efficient, cost effective and administratively simple. They are deemed by law to be charities themselves, and enjoy the same tax status as other charities.

Common investment funds (CIFs) are collective investment schemes that are similar to authorised unit trusts and are for charity investors only. They are investment vehicles that provide diversification to reduce risk, and are tax efficient, cost effective and administratively simple. They are deemed by law to be charities themselves, and enjoy the same tax status as other charities.

Consideration is the term for the resources used to settle a transaction or the making of a payment in cash or kind.

Consolidated accounts is an accounting term for the accounts (financial statements) of a parent and its subsidiaries presented as those of a single economic entity.

Constructive obligations is an accounting term for obligations that derive from actions where:

- through an established pattern of past practice, published policies or a sufficiently specific current statement, the reporting charity has indicated to other parties that it will accept certain responsibilities; and
- as a result, the charity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Contingent asset is an accounting term for a possible asset that arises from past events. Its existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the entity's control.

Contingent liability is an accounting term for either:

- a possible obligation that arises from past events where its existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the entity's control; or
- a present obligation that arises from past events but is not recognised in the accounts – either because it is not probable that a transfer of economic benefits will be required to settle the obligation, or because the amount of the obligation cannot be measured with sufficient reliability.

Contract income is income received by a charity for the purpose of providing the goods or services under the terms of a legal contract. It is important that, from the outset, trustees establish from the outset whether the receipt of income is subject to a legally binding contract for the supply of goods or services.

Indicators of a contract for the supply of services are:

- the payer, rather than the recipient charity, has taken the lead in identifying the services to be provided; and/or
- the arrangement provides for damages to be paid in the case of a breach of its terms, rather than, for example, for total or partial refund of the payment made.

If there is no contract, the rights and obligations of the parties will depend primarily on the law of trusts and conditional gifts, rather than on the law of contract; such arrangements are termed "performance-related grants" by the SORP. A contractual payment to the charity will normally be unrestricted income of the charity.

Control (of an entity) is the power to govern the financial and operating policies of an entity in order to obtain benefits from its activities. For example, a charity may exercise control over a subsidiary in order to raise funds for the charity though trading activities or as a vehicle to carry out certain of the charity's aims.

Custodian trustees have no power to make management decisions and can only act on the lawful instructions of the charity trustees regarding the property they hold on behalf of the charity. The term custodian trustee includes any non-executive trustee in whose name property belonging to the charity is held.

De facto trustee is a person who has not been validly appointed as a trustee but is acting as the trustee of the charity and is exercising the functions that could only be properly discharged by a trustee. This may have come about due to an error, omission or oversight in the appointment process of that trustee. A trustee who is a de facto trustee of a company charity may alternatively be known as a de facto director.

Deferred income consists of resources received by a charity that do not meet the criteria for recognition as incoming resources in the statement of financial activities (SoFA) because entitlement to the incoming resources does not exist at the balance sheet date. Deferred income is not recognised in the SoFA until the charity is entitled to the incoming resource. Instead, deferred income is disclosed as a liability in the balance sheet.

Defined benefit pension scheme (sometimes known as a final salary pension scheme) is a pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits paid are not directly related to the investments of the scheme.

Defined contribution pension scheme is a retirement benefit plan under which an entity pays fixed contributions into a separate entity (a fund), and has no legal or constructive obligations to pay further contributions if the fund does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Derivatives are securities, such as an option or futures contract, the value of which 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. Examples include "fixing" an interest rate on a loan for an agreed rate over a fixed time period, or agreeing a future value of foreign exchange for settlement at an agreed date at an agreed exchange rate.

Designated fund is a portion of the unrestricted funds of the reporting charity that has been set aside for a particular purpose by the trustees. For example, the value of functional fixed assets used to further the charity's aims may be identified as a separate designated fund. Designated funds continue to count as part of the unrestricted funds of the charity, but the trustees may choose to exclude designated funds from the calculation of the charity's reserves.

Donated services and facilities include gifts of facilities or services from volunteers. Donated services and facilities can also be referred to as intangible income.

Donations comprise gifts that will not provide any economic return to the donor other than the knowledge that someone will benefit from the donation. Income from donations includes gifts that must be spent on some particular area of work (i.e. restricted income funds) or given to be held as endowment funds. Donations will normally include gifts in kind and donated services.

Donations, for accounting presentation purposes, exclude any gifts such as performance-related grants where entitlement is dependent on the performance of a particular level of service or units of output being delivered.

Earned income includes activities that are carried out under contract, whether at the point of sale or otherwise, where goods and services are provided in return for consideration (payment) for those goods or services. Normally, trading activities are carried out on a regular basis and with a view to making profits, although it is possible that some one-off activities could be regarded as trading.

The SORP broadens this legal definition to include the provision of goods and services in return for a payment whether or not this payment is in fact under contract. This broader definition captures income from performance-related grants. Performance related grants have specific terms attached to them, which mean that a charity becomes entitled to the income on the provision of specified goods or services based on it achieving an agreed level of performance.

While performance-related grants are in a legal sense donations, the SORP regards them as income earned from charitable activities. This is because the charity has an obligation to provide the specific services or goods in the same way in which it would have to provide them under contract. If it fails to provide the goods or services set out in the performance-related grant this will be a breach of trust. Non performance by a charity in breach of the terms of a contract would be by way of breach of contract. The legal remedies of the funding body are different according to the circumstances.

Similarly, the sale of donated goods is in a legal sense regarded as the realisation of a donation. However, except for the legal distinction, in the context of this SORP it is regarded as trading, and recognised as income earned from other activities because it is so similar to the sale of bought-in goods as to be indistinguishable in the actual processes involved. For income, corporation and value added tax purposes, trading must be interpreted within the meaning of the legislation governing those taxes.

Economic benefits refers to the value derived from an asset in terms of cash flows generated, its cash flow generating capacity, or the service potential created, or costs saved or avoided by having control over the asset.

Employee benefits are all forms of consideration paid by a charity in exchange for the service rendered by employees, including trustees, and include all remuneration, salary, benefits, pension contributions and any termination payments made.

Endowment funds are resources received by the charity that represent capital. A feature of endowment funds is that charity law requires the trustees to invest them or to retain and use it for the charity's purposes. The term endowment applies to permanent endowment, where the trustees have no power to convert it into income and apply it, and to expendable endowment where the trustees do have this power.

Ex gratia payments are payments made at the discretion of trustees and not as a result of a contract or other legal obligation.

Ex gratia payments are of two distinct types:

- those which, in furtherance of the charity's charitable aims, are ex gratia payments by a charity in relation to its charitable activities (for example extra payments to retiring employees) and are not normally disclosed in the notes to the accounts; and
- those which are not in furtherance of the charity's charitable aims and are ex gratia payments that the trustees believe are expedient to make as a result of a compelling moral obligation (these are disclosed in the notes to the accounts where regulatory approval is required).

Fair value is an accounting term for the amount for which an asset could be exchanged, a liability settled, or an equity instrument granted between knowledgeable, willing parties in an arm's length transaction. For traded securities in which there is an established market, the fair value is the value of the security quoted in the London Stock Exchange's *Daily Official List* or equivalent. For other assets where there is no market price on a traded market, it is the trustees' or valuer's best estimate of fair value. In these circumstances, fair value measurement aims to estimate an exchange price for the asset or liability being measured in the absence of an actual transaction for that asset or liability.

Financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial statement is a term used in FRS 102 to describe the accounts.

Fundraising costs consist of three categories:

- costs of generating donations;
- fundraising trading costs, which are the costs of trading to raise funds and include the cost of goods sold and any other costs associated with a trading operation; and
- investment management costs.

Funds is a legal term for the money and other assets held on trust. A fund may be unrestricted and available to apply or spend on any of the purposes of the charity or it may be restricted to a specified purpose or purposes.

Restricted funds may be either endowment or restricted income funds, depending on the nature of the restriction. Where the fund is not endowment and is held on trust for spending on specific purposes, it is known as a restricted income fund. Each fund is a pool of resources that is held and maintained separately from other pools because of the circumstances in which the resources were originally received, or the restrictions on that fund which determine the way those resources are subsequently to be treated. Refer to the SORP module 'Fund accounting' for the legal position as regards the various funds of a charity.

Governance costs are the costs associated with the governance arrangements of the charity. These costs will normally include internal and external audit, legal advice for trustees and costs associated with constitutional and statutory requirements, for example the cost of trustee meetings and preparing statutory accounts.

Included within governance costs are any costs associated with the strategic as opposed to day-to-day management of the charity's activities. These costs will include any emoluments for trusteeship, the cost of charity employees involved in meetings with trustees and the cost of any administrative support provided to the trustees.

Governing document is a legal term and means any document that sets out the charity's purposes for the public benefit and how it is to operate. It may be a trust deed, constitution, memorandum and articles of association, Scheme of the Commission, Royal Charter, conveyance or will.

Grant income is any voluntary income received by the charity (or other transfer of property) from a person or institution. The income or transfer may be for the general purposes of the charity, or for a specific purpose. It may be unconditional or be subject to conditions which, if not satisfied by the recipient charity, may lead to the grant property acquired with the aid of the grant or part of it being reclaimed by the grant giver.

Entitlement to grant income may be subject to performance conditions, in which case it is classified as a performance-related grant and is recognised as the performance conditions are met.

Grant payments are any voluntary payments (or other transfer of property) in favour of a person or institution made by a charity in furtherance of its charitable aims. The payment or transfer may be for the general purposes of the recipient, or for some specific purpose such as the supply of a particular service. It may be unconditional, or be subject to conditions which, if not satisfied by the recipient, may lead to the grant, or property acquired with the aid of the grant or part of it being reclaimed by the charity.

A charity may make a performance-related grant, in which case it recognises its liability, as the goods or services specified in the grant terms are provided by the recipient.

Gross income is a term defined in charity law and is used to determine the thresholds governing the requirements for accounts' scrutiny, the preparation of accruals accounts by non-company charities, submission of reports and accounts and any annual return to the charity regulator.

The definition of gross income may vary by jurisdiction. In relation to consolidated accounts, gross income is the gross income of the group after any adjustments arising from consolidation (e.g. intra-group sales).

Heritage assets are tangible and intangible assets with historic, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture.

Inalienable asset is an asset held by a charity which it must retain indefinitely. Inalienable assets have all of the following characteristics:

- The asset is retained indefinitely for a charity's own use and benefit to further its charitable aims.
- The charity is effectively prohibited from disposing of the asset without external consent.
- The asset, by its nature, will belong to a charity's restricted funds and, depending on the trusts attached to the asset, may be part of the permanent endowment.

Disposal without external consent could be prohibited by the charity's governing document, the donor's imposed conditions or in some other way. Normally, the asset will belong to the charity's "permanent endowment", where it is held on trusts that contemplate its retention and continuing use but not its disposal.

However, in the case of a gift in kind of a "wasting asset", such as a building, a long lease or a non-durable artefact, the terms of trust may not have provided for its maintenance in perpetuity or its replacement. In that case, the endowment will be expended to the extent of the aggregate amount of its depreciation or amortisation, properly provided for in the annual accounts (i.e. based on its currently anticipated useful life).

Intangible asset is an accounting term for an identifiable non-monetary asset without physical substance. Such an asset is recognised when:

- it is separable, i.e. is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or
- it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

International Financial Reporting Standards (IFRS) are the standards and interpretations adopted by the International Accounting Standards Board (IASB). They comprise:

- the International Financial Reporting Standards;
- the International Accounting Standards; and
- interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).

Investment management costs include the costs of:

- portfolio management;
- obtaining investment advice;
- administration of the investments; and
- rent collection, property repairs and maintenance charges relating to investment properties.

Investment property is an accounting term for property (land, a building and/or part of a building) that is held to earn rental income or for capital appreciation, or both, rather than for:

- use by the charity as functional property to further the charity's charitable aims;
- use in the production or supply of goods or services or for administrative purposes; or
- sale in the ordinary course of business.

The investment property is either held by the owner or is leased by the lessee under a finance lease. Excluded from the definition is any property let to, and occupied by, another group company, and such property is not an investment property for the purposes of its own accounts or the group accounts. Also excluded are any properties let as programme related investments.

Larger charities is a term used in the SORP to identify those charities subject to audit under charity law in their jurisdiction(s) of formation, registration or operation which the SORP requires to make additional reporting disclosures. In those jurisdictions where there is no charity law audit requirement, the reference to larger charities is construed as applying to those charities with a gross income exceeding £500,000 (UK) or 500,000 euros (Republic of Ireland) in the reporting period.

Liability is an accounting term for a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow of economic resources from the entity.

It includes an obligation of an entity to transfer economic benefits that results from a duty or responsibility obligating the entity either legally or practically (a constructive obligation), because it would be financially or otherwise operationally damaging to the entity not to discharge the duty or responsibility.

A moral obligation does not create a liability unless it meets the definition of a liability or the definition of a constructive obligation.

Key management personnel is a term used by FRS 102 for those persons having authority and responsibility for planning, directing and controlling the activities of the charity, directly or indirectly, including any director (whether executive or otherwise) of the charity. This definition includes trustees and those members of staff who are the senior management personnel to whom the trustees have delegated significant authority or responsibility in the day-to-day running of the charity.

Material or **materiality** is an accounting test of what elements of information should be given in a particular set of accounts (financial statements). Omissions or misstatements of items are material if they could individually or collectively influence the economic decisions of users taken on the basis of the accounts.

Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor in identifying whether it is material.

Immaterial information will need to be excluded to avoid clutter that impairs the ability to understand other information provided. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects.

Materiality is identified from a combination of factors, rather than any one in particular. The principal factors normally taken into account are:

- the item's size judged in the context of the accounts as a whole and the other information available to users that would affect their evaluation of the accounts (this includes, for example, considering how the item affects the evaluation of trends and similar considerations; and
- the item's nature in relation to:
  - the transactions or other events giving rise to it;
  - the legality, sensitivity, normality and potential consequences of the event or transaction;
  - the identity of the parties involved; and
  - the particular headings and disclosures that are affected.

If there are two or more similar items, the materiality of the items in aggregate as well as of the items individually needs to be considered.

The person preparing the accounts is responsible for deciding whether an item is material. This process may result in different materiality considerations being applied, depending on which aspect of the accounts is being considered. For example, there is a requirement for a high degree of accuracy in the case of certain statutory disclosures, for example trustees' remuneration and expenses, which will override normal materiality considerations.

Measurement is the process of determining the monetary amounts at which the elements in the accounts are to be recognised and carried.

Non-company charity is any charity that has not been established as a company charity under company law. Non-company charities include unincorporated trusts or associations, charitable incorporated organisations and charities established by Royal Charter.

Onerous contract is a contact in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected under the contract.

Operating and financial review (OFR) is a form of reporting currently adopted by many quoted companies that is designed to provide a balanced and comprehensive analysis of:

- the development and performance of the business of the entity during the financial year;
- the position of the entity at the end of the year;
- the main trends and factors underlying the development, performance and position of the business of the entity during the financial year; and
- the main trends and factors that are likely to affect the entity's future development, performance and position, prepared in order to help investors to assess the strategies adopted by the entity and the potential for those strategies to succeed.

There is currently no requirement for charities to prepare an OFR, although a number of this SORP's reporting recommendations for the content of the trustees' annual report are consistent with OFR reporting.

Performance-related grant is the term used to describe a grant that has the characteristics similar to those of a contract, in that:

- the terms of the grant require the performance of a specified service that furthers the objectives of the grant maker; and
- the payment of the grant receivable is conditional on a specified output being provided by the grant recipient.

Pooling scheme is a class of Common Investment Fund that provides for the pooling of investments belonging to two or more charities (which may be special trusts) that are administered by the same trustee body as the body managing the pooling scheme. Such schemes are referred to as “pool charities”, and may be established with or without a formal scheme of the Charity Commission (England and Wales) or the courts.

Programme related investments are a type of social investment and are made directly in pursuit of the charity’s charitable purposes. The primary motivation for making a programme related investment is not for financial gain but to further the objects of the funding charity. Programme related investments can generate some financial return, and the funding may or may not be provided on commercial terms. Such investments could include loans to individual beneficiaries (such as for housing deposits) or to other charities (for example, in relation to regeneration projects).

Provision is an accounting term for a liability of uncertain timing or amount. A provision is recognised when:

- a charity has a present obligation (a legal or constructive obligation that exists at the balance sheet date) as a result of a past event;
- it is probable that a transfer of economic benefits will be required to settle the obligation; and
- the amount can be reliably estimated.

Public benefit entity is defined by FRS 102 as: “an entity whose primary objective is to provide goods or services for the general public, community or social benefit and where any equity is provided with a view to supporting the entity’s primary objectives rather than with a view to providing a financial return to equity providers, shareholders or members.” Charities are one type of public benefit entity.

Recognition is the process of incorporating in the accounts (financial statements) an item that meets the definition of an “element” and which satisfies the following criteria:

- It is probable that any future economic benefit associated with the item will flow to or from the entity.
- The item has a cost or value that can be measured with reliability.

Related parties is a term used by the SORP that combines the requirements of charity law, company law and the Financial Reporting Standard applicable in the UK and the Republic of Ireland. The term is used to identify those persons or entities that are closely connected to the reporting charity or its trustees.

The following “natural persons” are classed as related parties:

A. any charity trustee and custodian trustee of the charity;

B. a person who is the donor of any land to the charity (whether the gift was made on or after the establishment of the charity); and

C. any person who is:

1. a child, parent, grandchild, grandparent, brother or sister of any such trustee (A) or donor (B) of land;
2. an officer, agent or employee of the charity;
3. the spouse or civil partner of any of the above persons (A, B, C1 and C2);
4. carrying on business in partnership with any of the above persons (A, B, C1, C2 and C3);
5. a person, or a close member of that person's family, who has control or joint control over the reporting charity;
6. a person, or a close member of that person's family, who has significant influence over the reporting charity; or
7. a person who is a member of the key management personnel of the reporting charity or a close member of that person's family.

A "close member of a person's family" refers to:

a. that person's children, spouse or domestic partner;
b. the children, stepchildren or illegitimate children of that person's spouse or domestic partner;
c. dependents of that person; and
d. that person's domestic partner who lives with them as husband or wife or in an equivalent same-sex relationship.

A charity is not necessarily related to another charity simply because a particular person happens to be a trustee of both. It will only be "related" if the relationship means that one charity, in furthering its charitable aims, is under the direction or control of the trustees of another charity.

The following entities, which are not "natural persons", are classed as related parties:

- any institution that is controlled by a person, or two or more persons, who fall into one or more of the following categories:
    - i) any trustee or custodian trustee of the charity;
    - ii) any donor of any land to the charity (whether the gift was made on or after the establishment of the charity);
    - iii) a child, parent, grandchild, grandparent, brother or sister of any such trustee or donor of land;
    - iv) an officer, agent or employee of the charity; or
    - v) the spouse or civil partner of any of the above persons (i to iv above);

- any body corporate or entity in which a person falling in the categories set out above has a substantial interest, or two or more such persons as listed above who, taken together, have a substantial interest;
- any body corporate or entity in which a person falling in the categories set out above is controlled, or jointly controlled, by two or more such persons as listed above (i to v), taken together;
- any body corporate or entity in which a person falling in the categories i to v set out above has significant influence, or two or more such persons as listed above who, taken together, have a significant influence; and
- any entity in which a person as set out above (i to v) is a member of the key management personnel of the entity.

Control is demonstrated by a natural person or entity:

- with the power to appoint or remove a majority of the charity trustees of a charity;
- with significant influence over the trustee body through the power to appoint or remove a significant proportion of the charity trustees of a charity;
- whose consent is required to exercise any discretions of the trustees;
- with the entitlement to give directions to those trustees in the exercise of trustee discretion; or
- with the ability to ensure that the affairs of a charity or entity are conducted in accordance with the controlling party's wishes.

A substantial interest in a body corporate exists where the person or institution referred to above is interested in shares comprised in the equity-share capital of that body of a nominal value of more than one-fifth of that share capital, or is entitled to exercise, or control the exercise of, more than one-fifth of the voting power at any general meeting of that body.

The following entities, which are not natural persons, are also classed as related parties:

- The entity and the reporting charity are members of the same group.
- One entity is an associate or joint venture of the reporting charity (or an associate or joint venture of a member of the group in which the reporting charity is the parent or a member).
- Both entities are joint ventures of the same charity.
- Either entity is a joint venture of a third entity, and the other entity is an associate of the third entity.
- The entity is a post-employment benefit plan for the benefit of employees of either the reporting charity or an entity related to the reporting charity.

Related party transactions are the transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

Reporting charity is the charity preparing and filing the statutory annual report and accounts (financial statements) for itself and one or more connected (Scotland) or linked

(England and Wales) charities or subsidiaries that it controls. The accounts of the reporting charity will combine any special trusts or connected or linked charities administered by the reporting charity. The accounts of the reporting charity will be consolidated where they include one or more wholly owned or controlled trading subsidiaries.

Reporting date is the last date of the charity's reporting period (its financial year).

Reporting period is the accounting period (financial year) for the reporting charity. The reporting period, which is normally 12 months' long, is the period of time over which the transactions of the charity are measured and reported in the accounts (financial statements).

Reserves are defined by the SORP as that part of a charity's income funds that is freely available to apply or spend.

This definition of reserves therefore excludes:

- permanent endowment funds;
- expendable endowment funds;
- restricted funds; and
- any part of unrestricted funds not readily available for spending, specifically income funds that could only be realised by disposing of fixed assets held for charity use and the carrying amount of programme related investments.

Resources expended means all expenses incurred in the course of spending or applying the charity's funds. This includes: all claims against the charity that are recognised as liabilities by the trustees; all accruals and payments made by the trustees of a charity; all losses on the disposal of fixed assets (including investments); and all provisions for any impairment of tangible fixed assets or programme related investments.

Restricted funds may be either endowment or restricted income funds, depending on the nature of the restriction. Where the fund is not an endowment fund and is held on trust for spending on specific purposes, it is known as a restricted income fund.

The resources (the assets and liabilities) of each restricted fund are held and maintained separately from other funds. This is in recognition of the circumstances in which the resources were originally received, and/or the restrictions on that fund that determine the way those resources are subsequently to be treated.

Significant activities are the activities that the trustees consider to be the main or the most important activities undertaken to further the charity's aims and objectives in the reporting period.

Social investment is a class of assets that comprises investments undertaken for both a financial return and to (in whole or part) further the investing charity's charitable aims and objectives.

Social lotteries are lotteries that are permitted by the law of the jurisdiction(s) in which the charity is fundraising and are not operated for private or commercial gain for a non-charitable purpose. The regulations applying to social lotteries normally have limitations on the amount of money that can be raised through the sale of tickets, and/or have specific requirements for registration or licensing. They may also set limits on the size of the prize or prize fund.

Special purpose entity is a term referring to a corporation, trust, partnership or unincorporated entity established by the charity (the sponsor) or on its behalf to achieve a narrow, well-defined objective. A feature of a special purpose entity is that its managing board has only limited decision-making powers: the entity is, in substance, controlled by the sponsor.

Special trust as defined in section 287 of the Charities Act 2011 (charities registered in England and Wales only) is property that "is held and administered by or on behalf of a charity for any special purposes of the charity, and is so held or administered on separate trusts relating only to that property". Whether registered or not, a distinguishing feature of special trusts is that they do not file a separate trustees' annual report and accounts. Instead, a reporting charity combines within its annual report and accounts the results of the special trusts it holds or administers as a component of the restricted funds it reports.

Statement of financial activities (SoFA), analogous to a statement of comprehensive income, shows the incoming resources, the resources expended and transfers between funds during the reporting period (the financial year). The statement reconciles total funds brought forward and total funds carried forward at the end of the financial year.

Stock (also known as inventories) is assets which are:

- held for sale in the ordinary course of business;
- in the process of production for sale; or
- in the form of materials or supplies to be consumed in the production process or in the rendering or providing of services.

Support costs are costs incurred to facilitate an activity. Unlike direct costs, which result directly from undertaking the activity, support costs do not change directly as a result of the activity undertaken. Support costs include the central or regional office functions, such as governance, general management, payroll administration, budgeting and accounting, information technology, human resources and finance.

Total return is an approach to investment management that allows trustees to manage investments without the need to take account of whether the return is income (dividends, interest, etc.) or capital gains (and losses). Refer to the SORP module 'Total return (investments)' for more information.

Trading is an activity which has the "badges of trade" that have been established by the courts. These are: profit-seeking motive; existing trade connections (linked or connected trading activity); repetition; method of finance (borrowing); interval between purchase and sale; selling organisation; method of acquisition (purchased for sale); operations pending sale (making it fit for sale); and the nature of the asset.

Trustees has the same meaning as charity trustees.

Unrestricted fund is a legal term for the unexpended resources held by a charity on trust, comprising money and other assets that can be used for any of the charitable aims of the charity. The use of unrestricted funds is not restricted to any particular charitable purpose of the charity.