



COMMUNITY ACCOUNTANT
NATIONAL NETWORK

WYCAS

Delivering quality accounting services and training to the voluntary sector

**Good Practice Guide
No 16**

Restricted Fund Accounting

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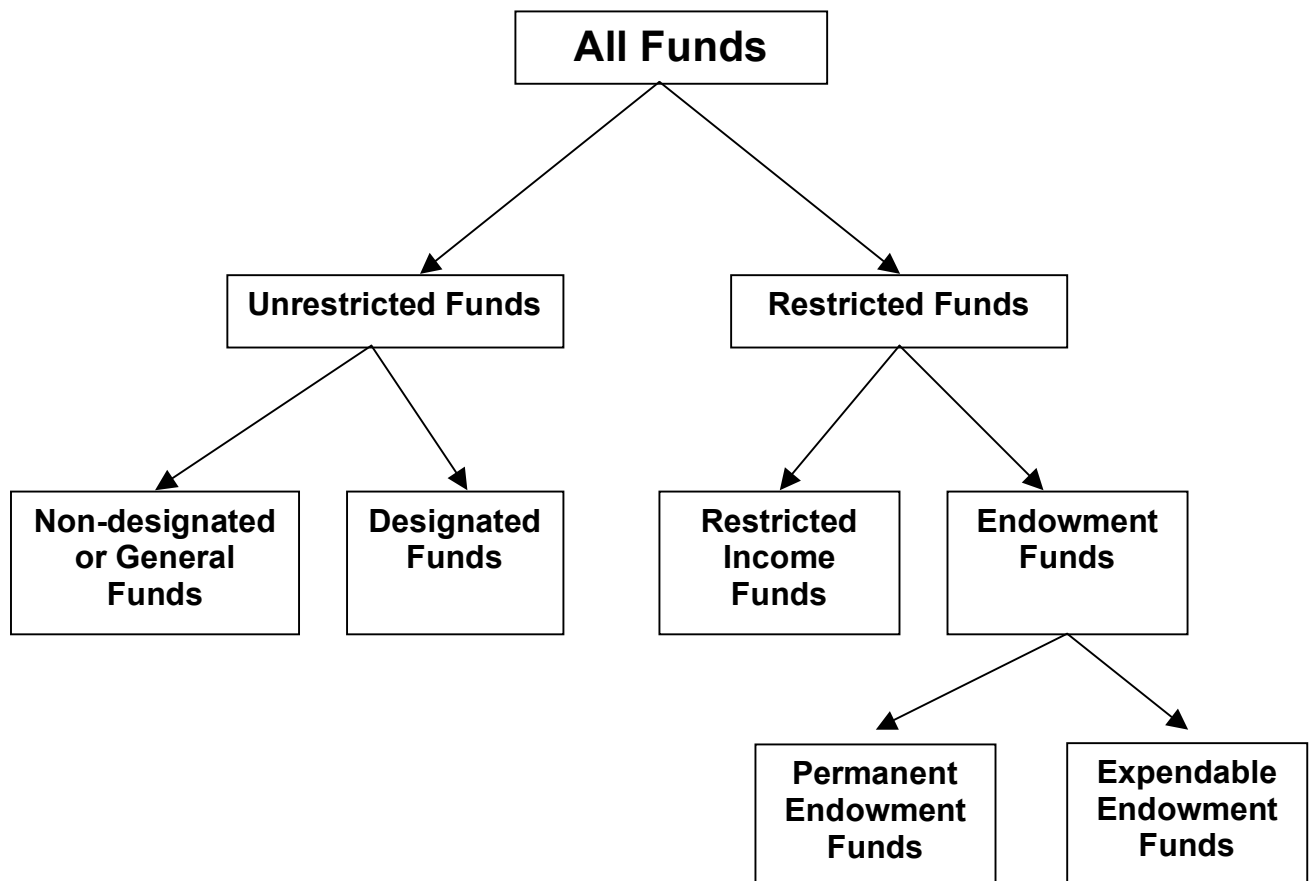
Restricted Fund Accounting

Introduction

The key point about fund accounting is that funds given for a specific purpose **must** be used only for that purpose, so the accounting records and the annual accounts must distinguish between the different types of funds **according to the terms under which they were given** (note that the term funds is used throughout to refer not only to money but to property and assets of any sort given to an organisation).

Restricted and Unrestricted Funds

The main distinction between funds is restricted and unrestricted funds, with further divisions as follows:



Description of Funds

1. Unrestricted Funds

a) Non-designated or general funds

These are funds available for the purposes of the organisation to be spent as the management committee sees fit within the stated objectives of the charity (as per the governing document). The management committee are

free to set priorities and decide how and when to spend the funds, and they are not earmarked in any way

Example: A fundraising event where no particular purpose has been specified or fees charged.

b) Designated Funds

These are unrestricted funds available for the general purposes of the organisation, but which the management committee have chosen to earmark for a particular purpose. A decision to designate funds in this way should be made at management committee meetings and minuted. A particularly important point about designated funds is that they can be “undesigned” by the management committee. However again this should always be done at a management committee meeting and minuted.

Example: Unrestricted funds, which the management committee decide to put aside for new computer equipment.

2. Restricted Funds

a) Restricted Income Funds

These are funds, which are subject to special trusts specified by the donor (for example by a letter from the donor at the time of the donation or by the terms of a public appeal). They can only be used for the purposes for which they are given, and if they are used for any other purpose it may be viewed as fraud or deception.

Example: A grant given by a trust e.g. Big Lottery so that the organisation can produce a newsletter.

b) Permanent Endowment Funds

These are funds that have been given to an organisation to be held as capital and the donor has given no power to the management committee to convert them to income. Although the capital must be retained for the benefit of the organisation, any investment income from it (e.g. dividends from shares) may be available for general purposes unless otherwise specified by the terms of the trust.

Example: A house given to an organisation to be used as a holiday house by users.

c) Expendable Endowment Funds

These are funds that have been given to the organisation as capital; where unlike the permanent endowment the management committee do have the discretionary power to convert it into spendable income. They remain capital in nature until they are converted.

Example: Investments that in 2 years time the management committee can sell and use the proceeds for spending on the organisation’s objectives.

How to Account for Separate Funds

Organisations are required to account for incoming resources and how those resources are used by fund, so the annual accounts have to show separate columns for restricted and unrestricted funds. It follows that the accounting records need to reflect the different funds, and it is also wise to report regularly to the committee on the separate funds at its disposal. Frequently funders will also need reports on how their particular grant or donation has been spent.

Day to Day Record Keeping for Multiple Funds

Recording transactions for an organisation with multiple funds can be done using either manual or computerised records. However if an organisation has more than one restricted fund and especially if they are large or complicated funds with numerous transactions, it is highly recommended that the organisation considers computerising its accounts. It has to be said that accounting for restricted funds manually is a laborious business. There are various accounting packages on the market that can be tailored to the needs of organisations with restricted funds and they not only make the recording much easier, but also it is much more straightforward to produce reports. WYCAS can offer training and support on these packages if required.

However it is possible to record transactions on restricted funds manually, and even if the accounts are computerised it helps with understanding the principles involved if you know how to record them manually. The following is an example of how to set out the books when you have a restricted fund:

Example

The ABC Community Group has received a restricted grant from the Smith Charitable Trust, specifically to produce a monthly newsletter. The grant covers the artwork, the printing and the postage for the newsletter every month. In this situation the main cash book should be set up with all the appropriate analysis columns (if you are unclear about this ask for our Basic Book-keeping Good Practice Guide), PLUS a column for all the expenses on the restricted fund (see figure 1 below). Secondly, on a separate page at the back of the main cash book the transactions from the restricted fund column need to be re-analysed into relevant analysis columns; in the example above this would be artwork, printing and postage (see figure 2 below). By doing this it will be possible to give the funder and the management committee a detailed breakdown of how the grant has been spent at the end of the year.

Figure 1

Main cashbook - Expenditure Headings

Date	Detail	Chq No	Total	Wages & NI	Art Work	Rent	Equip-ment	Print-ing	Tele-phone	General	Smith C Trust

Figure 2
Smith Charitable Trust (for Newsletter)
Expenditure

Date	Detail	Chq no	Total	Artwork	Printing	Postage

See Appendix 1 for a fully worked example.

Apportionment

So far so good!

However often it is much more complicated than the above example. Take the following scenario:

The ABC Community Group receives an unrestricted grant for the furtherance of its charitable objectives. It also receives a restricted grant from the Big Lottery Fund in order to set up a variety of pre-school facilities and they employ a half-time worker (salary costs = £8,400 per annum) to do this. The question is how to apportion the shared costs (e.g. stationery, telephone) between the restricted and unrestricted funds. Frequently used bases include staff salaries, space occupied by each project or a mixture of the two. What is most appropriate will vary between organisations.

If the ABC Community Group also employed a coordinator at a salary cost of £18,000 per annum for its general charitable work, and apportionment on the basis of salary costs appeared most appropriate, then figure 3 below shows how to work this out.

Figure 3

	Staff salaries	% Staff
	£	
Unrestricted fund	18000	68%
Restricted Fund	8400	32%
Total	26400	100%

The percentages are reached as follows:

$$\frac{18000}{26400} \times 100 = 68\%$$

$$\frac{8400}{26400} \times 100 = 32\%$$

These percentage rates can now be applied to any shared costs, so if for example the centre receives a telephone bill from BT for £100 (and assuming both workers use the telephone) it can be split as follows

$$68\% \text{ of } £100 = £68$$

$$32\% \text{ of } £100 = £32$$

The entries in the cashbook would look like this (see figure 4):

**Figure 4
Cashbook
Expenditure**

Date	Detail	Chq No	Total	Wages & NI	Art Work	Rent	Equip-ment	Print-ing	Tele- phone	General	Big Lottery
5/06	BT	310	100						100	68	32

See Appendix 2 for a fully worked example.

Reporting on Funds

If the accounting records have been kept as in figure 2, then it should be straight forward to make a report on any particular fund.

For management committee reporting and general control purposes you should set out a sheet with a column for each fund (including unrestricted funds) and a column for the total. The headings from the cashbook should be listed down the left hand side and then each of the columns filled in with the appropriate totals from the cashbook. A report of this kind should be done for the management committee either monthly or at a minimum quarterly.

See Appendix 3 for a fully worked example.

A report showing the fund's comparison to budget, highlighting variances is also useful for controlling and monitoring purposes.

See Appendix 4 for a fully worked example.

Restricted Funds in the Annual Accounts

All charities are not only accountable to their funders but also to the Charity Commission. It is required by law that all charities show their unrestricted and restricted funds separately from each other in their annual accounts, and it is good practice for other organisations who receive restricted funds to do the same. In the Statement of Financial Activities in the annual accounts the unrestricted funds should be shown in a separate column from the restricted funds. If the organisation has more than one restricted fund, they can be grouped together on the face of the accounts, but the notes to the accounts should give a breakdown of the opening and closing balances on each of the funds. Similarly the assets and liabilities should be shown according to fund, with a note disclosing how the assets and liabilities are spread across the funds if there is more than one restricted fund

See Appendix 5 for a fully worked example.

How to Account for Income Gained from Funds

The general principle is that any income gained from funds (e.g. bank interest) belongs to that fund. However these points should be noted:

- income arising from the investment of assets in an endowment fund may be used for the organisation's general purposes unless the terms of the trusts specifically state otherwise.
- the terms of a restricted fund may allow income arising to be used for general purposes, but this should be checked.

Generally, if you have a mixture of restricted and unrestricted funds in one deposit account and if the interest is material, it will be necessary to apportion deposit account interest between funds.

Transfers Between Funds

Sometimes it will be necessary to make transfers between funds as follows:

- **Transfers between general and designated funds** – This can be agreed by the management committee at a committee meeting and should be disclosed in the annual accounts.
- **Transfers from unrestricted to restricted funds** – this is perfectly possible. For example if a donor has made a donation specifically for a new photo-copier but the model you require is £2000 more expensive than the donation, the management committee can transfer the extra £2000 from unrestricted funds to restricted funds to make up the shortfall. This is preferable to splitting the value of the photo copier between unrestricted and restricted funds on the balance sheet
- **Transfers from restricted to unrestricted funds** – this should not be done except in the following types of situation and even then should only be done with great care. It is possible that an organisation may end up with a balance on a restricted fund that it cannot “use up”. For example it may be that the purpose has already been met, or that more money was received than was needed for that specific purpose. For example taking the previous example: if you manage to obtain the photocopier for £2000 less than the donation you have been given for it, you will have a balance remaining of £2000 on that particular restricted fund. In this situation, because the funds are held on special trust the organisation will have to pay the funds back to the donor, or the donor can be asked if they will allow the extra £2000 to be used for the general purposes of the organisation. If neither of these solutions is possible then the organisation needs to ask the Charity Commission to ‘make a scheme’ (i.e. an amendment of the special trust), which will allow them to use the funds for general purposes. The moral of this story is, wherever it is legal and justifiable, make every effort to use up your restricted funds so that you do not finish up with a surplus balance on them. But if you do end up with a surplus that you cannot spend, make absolutely sure that you obtain the appropriate authority to spend it on an alternative use.

Appendix 3

Organisation Name

ABC Community Group

Report

For the period 1 May to 31 May

Income

	Unrestricted	SCT	Total
Grants	2000	6000	8000
Fees	1375	0	1375
Total Income	3375	6000	9375

A

Expenditure

Wages & NI	1500	0	1500
Artwork	0	100	100
Rent	500	0	500
Equipment	248	0	248
Printing	25	275	300
Insurance	124	0	124
Materials	98	0	98
Telephone	0	0	0
Postage	28	100	128
Total Expenditure	2523	475	2998

B

**Surplus/Deficit (A-B)
for the period**

C

	852	5525	6377
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Balance b/f

D

	1250	0	1250
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Closing Balance (C+D)

E

	2102	5525	7627
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Appendix 4

Organisation Name

ABC Community Group

Report on NEG Fund against Budget

For the period 1 May to 31 May
(First month of SCT Fund)

Income

	Actual (May)	Budget (May)	Variance	Notes
Grants	6000	500	-5500	Grant paid in full for the 12 months
			0	
			0	
Total Income A	6000	500	-5500	

Expenditure

Wages & NI	0	0	0	minimum copies printed
Artwork	100	100	0	
Rent	0	0	0	
Equipment	0	0	0	
Printing	275	300	25	
Insurance	0	0	0	
Materials	0	0	0	
Telephone	0	0	0	
Postage	100	100	0	
Total Expenditure B	475	500	25	
Surplus/Deficit (A-B) for the period C	5525	0	5525	
Balance b/f D	0	0	0	
Closing Balance (C+D) E	5525	0	5525	

Appendix 5

Annual Accounts for the ABC Community Group

Receipts and payments account for the period 1 April 2003 - 31 March 2004

	Unrestricted funds £	Restricted funds £	Total funds £
Receipts			
Grants and donations	24,000	18,000	42,000
Fees	8,454	0	8,454
Donations	230	0	230
Bank interest	524	447	971
Other income	24	0	24
Total receipts	33,232	18,447	51,679
Payments			
Wages & NI	18,000	7,000	25,000
Rent	4,400	1,600	6,000
Equipment	744	384	1,128
Printing	48	3,275	3,323
Insurance	124	0	124
Materials	646	530	1,176
Telephone	686	342	1,028
Postage	460	1,100	1,560
Artwork	0	1,100	1,100
Activities	3,684	2,486	6,170
Total payments	28,792	17,817	46,609
Net receipts/(payments)	4,440	630	5,070
Fund balances brought forward	6,984	2,486	9,470
Fund balances carried forward	11,424	3,116	14,540