



# **East Riding Voluntary Action Services (ERVAS) Limited**

## **Community Accountancy Service**

Delivering quality accounting services and training to the voluntary sector

### **Good Practice Guide:**

## **5 – Different Types of Funds**



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## 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).

## Types of Funds

### Restricted Funds

These are funds which the donor has restricted the use of, i.e. the person giving the funds has specified that it is to be used for a particular project or purpose.

A donor can be an individual, a company, the public etc.

**Example:** A community centre receives a grant from the local authority to run a playscheme. This money is restricted as it cannot be used for the general operations and maintenance of the centre. It must be used solely for playscheme activities.

**Example:** A group fundraises for famine relief in Africa. This money is restricted. It cannot be used for famine relief elsewhere or for other disaster relief.

### Unrestricted Funds

These are funds which can be used for the general running of the charity. The money is unrestricted as the donors have not responded to a particular appeal and have not specified how it is to be used. The money must be used within the objects of the charity.

### Designated Funds

These are sums from within unrestricted funds that the trustees can  *earmark* for a particular use. The designated amount, because it is from within unrestricted funds, can be reallocated and earmarked for other uses in future if required.

### Endowments (Capital Funds)

These are funds given to be held as capital, generally without the right to convert into income. A permanent endowment cannot be spent. For example, if a portfolio of shares is given under a permanent endowment, then the proceeds of any shares traded must be reinvested. Endowments can decrease in value for example, to reflect the depreciation of an asset or to charge fund managers fees against it.

An **expendable** endowment can be applied as income at the discretion of the trustees. Any income from assets held in an endowment fund is generally treated as unrestricted income unless the donor has directed otherwise.

## Non-charitable trading funds

These are funds retained by a trading subsidiary. This can happen where not all of the profits are covenanted to the main charity. An example of the type of activity that can form a trading subsidiary is a charity shop.

## Effect of different funds on your accounts

As your accounts are required to show details of what is included in the various funds, you must make sure that adequate records are kept. You may already be accounting for different projects individually.

## Approach to fund accounting

1. List your main sources of income.
2. Establish if the person giving the money/ asset imposed any restrictions on its use, i.e. it is not just for the general running and operations of the charity.
3. Identify any monies you have fundraised for a particular purpose or project.
4. Do you have any assets or investments which you are not allowed to sell?
5. Are there any amounts you want to earmark for particular projects?
6. If you have a trading subsidiary, were all the profits covenanted to the main charity by the year end?
7. Are the individual funds represented by particular assets and liabilities, e.g. a bank account or a PAYE bill due to the HM Revenue and Customs?
8. Track the expenditure that relates to individual funds/projects. You may find that a manual cash book is not big enough if you have a lot of different funds. You may wish to use a spreadsheet (see GPG9 – Spreadsheets) or a computer programme such as Sage (see GPG11 – Sage) or Quickbooks (see GPG10 – Quickbooks).



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