

A woman with dark hair in a bun, wearing glasses and a grey blazer, is focused on her work at a desk. She is holding a piece of paper and has her hand near a calculator. The background is a bright office with large windows. In the top left corner, there is a decorative graphic of orange and grey squares. In the bottom right corner, there is a logo for 'pem.' on an orange background.

TRUSTEES' SHORT GUIDE SERIES

Fund accounting.

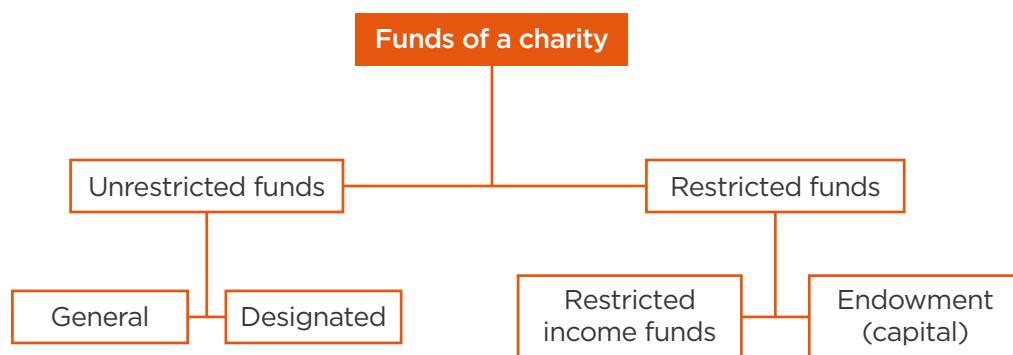
Basic charity governance
and accounting

October 2026

pem.



‘Funds’ is the term for the money and other assets held on trust or as corporate property by a charity. Receipts and payments accounts *may* be set out by fund, accruals accounts *must* be presented by fund. The Charities Statement of Recommended Practice (SORP) which must be complied with by preparers of accruals accounts sets out the classes of charitable funds.



Definitions

Unrestricted funds: These are the funds of the organisation that can be used by the Trustees to support the running costs of the charity or any project at the discretion of the Trustees.

Designated funds: These are funds that have been set aside by Trustees for a specific purpose. This may be to fund a future project or commitment. Designations should not be made for activities which are to be funded from future fundraising income. Designation does not create a legal restriction and Trustees can remove the restriction at a later date. Designated funds may include the value of functional fixed assets, or may be created when a donor expresses a non-binding preference over the use of the funds that Trustees wish to respect. The nature and amount of designated funds must be explained as part of the charity’s reserves policy. Trustees can remove designated funds from their calculations of a charity’s available reserves.



General unrestricted funds: These are the funds left after any designations have been made by Trustees.

Restricted funds: These are funds that are held on trust by the charity to be used for specific purposes, they can be income or capital funds.

Restricted income funds: Restricted income funds are funds to be used immediately or over a defined period by the charity for a specific purpose. These are funds that the charity expects to be fully expended during the course of the activity.

Endowment funds (Restricted capital funds): Charity law requires Trustees to invest or retain and use these funds depending on the wishes of the donor/funder. Typically these are held for the longer term and may be permanent or expendable.

Permanent endowment: A permanent endowment will generally be indefinite but may be held until a specified date depending on the terms of the gift. Investment permanent endowment is where the capital is invested to generate a return which can be either restricted or unrestricted. The assets used to generate the income can be sold and reinvested as long as the capital remains in the endowment. Functional permanent endowment is where the endowment is land or other property, such as an art collection, is to be used to carry out the purposes of the charity.

Expendable endowment: This is where the Trustees have the power to convert the capital funds held in the trust to income. Depending on the nature of the trust these funds can be used for restricted or unrestricted purposes. The difference between expendable endowment and income funds is that Trustees can choose whether to exercise the power to keep the funds as capital or whether to spend them.



Transfers and uses of funds

Funds and the movements of those funds must be separately disclosed in the notes to the accounts. Trustees must ensure that they use the different types of funds appropriately.

For example, permanent endowment funds can only be used for certain expenses, and only if permitted by the terms of the trust or gift. Expenses that can be charged include those incurred in managing the investment, costs of improvements, costs of or fees incurred in the sale of investments and depreciation or impairment of endowed property.

Restricted funds should be used in accordance with the terms of the grant or gift. These expenses include both direct expenses and support costs associated with the activities undertaken to further the specific charitable purposes of the restricted fund(s).

In addition to a reasonable allocation of support costs, any other costs associated with raising, investing and managing the restricted funds should normally be charged to the fund to which the cost relates.

Trustees should ensure that any allocations of support costs remain in accordance with the terms of the fund. The allocation of support costs to restricted funds may be directly through expenditure, or may be reflected through a transfer between restricted and unrestricted funds.

Charities may have restricted funds in deficit at the end of the year. Where there is future income expected to cover the deficit this should be explained in the Trustees report and accounts, however it may be appropriate that a transfer is made from unrestricted funds to cover the shortfall.



Transfers between funds may also be used to transfer the value of a fixed asset which has been purchased using restricted funds for the general use of the charity.

Examples

The charity fundraises for a new roof for a building. The restriction is discharged when the money is spent on the roof. A transfer is made to move the value of the roof from restricted funds to unrestricted funds when it is completed. Depreciation expense will be charged to the unrestricted fund.

A charity received a grant which includes funding to purchase a truck. The truck will be initially used in delivery of the project, and then will be made available for general use. The depreciation expense will be charged to the restricted fund while the truck is used by the project. A transfer of the net book value of the asset will be made from restricted to unrestricted funds when the truck becomes available for general use and the remaining depreciation will be charged to the unrestricted fund.

A charity receives a grant for a piece of equipment which can only be used for a specific project and is expected to have no value at the end of the project. The asset will remain as part of the restricted fund and the depreciation expense will be allocated to the fund over the life of the project.



Next steps

Restricted funds will arise from different sources, for example a fundraising ask or a grant application; Trustees need to ensure that they understand each and all of their restricted funds and the expenses that they can charge against the funds.

Restricted funds frequently come with reporting requirements beyond the annual financial statements; management and Trustees will need to ensure that they have plans to meet any specific requirements.

We recommend that management and Trustees review their ledger structures and coding authorisations to ensure that transactions are appropriately tracked and recorded for ease of reporting.

Trustees should consider the implications for accounting and reporting with their advisers or please contact any member of our Charities & Not-for-Profit team.

Further reading

[Download a full SORP - SORP](#) (select SORP 2026 for periods starting on or after 1 January 2026)

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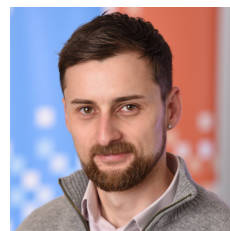
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