Annex A

New Statement of Recommended Practice for Accounting and Reporting by Charities, which is effective for accounting periods commencing on or after 1 January 2015.

Accounting and reporting by charities

B: Expenditure

B1: Expenditure on raising funds

4.44. Expenditure on raising funds includes all expenditure incurred by a charity to raise funds for its charitable purposes. It includes the costs of all fundraising activities, events, non-charitable trading activities, and the sale of donated goods. However, any costs incurred in providing goods or services as a charitable activity must not be included in this heading, even if a charge is made for their provision.

4.45. Expenditure on raising funds includes those costs incurred in:

- seeking donations, grants and legacies;
- operating membership schemes and social lotteries;
- staging events, including the performance fees, licence fees and other related costs;
- contracting with agents to raise funds on behalf of the charity;
- operating charity shops selling donated and/or bought-in goods;
- operating a trading company undertaking non-charitable trading activities;
- advertising, marketing and direct mail materials, including publicity costs not associated with educational material designed wholly or mainly to further the charity's purposes; and
- investment management costs.

4.46. Investment management costs include the costs of:

- portfolio management;
- obtaining investment advice;
- administration of the investments;
- costs of licensing intellectual property; and
- rent collection, property repairs and maintenance charges.

4.47. Where investment management costs are material, these costs should be presented as a separate heading on the face of the SoFA or in the notes to the accounts.

4.48. Costs associated with acquiring and disposing of investments would normally form part of the acquisition cost of the investment or reduce the return on disposals. These costs are therefore not part of investment management costs. Where investment managers deduct management fees from investment income, the charity should report the gross investment income before fees and report the management fees charged in this cost category. However, charities are not expected to prorate investment management fees charged to a collective investment scheme to identify the notional cost attributable to its own holding in the scheme.

4.49. Investment management costs associated with endowment fund investments should generally be charged to the endowment fund in the SoFA. Further guidance on the charging of investment management costs to endowment funds is provided in the SORP module 'Fund accounting'.

4.50. Fundraising costs may be incurred in starting up a new source of future income such as legacies, or in developing a supporter database. In most cases these start-up costs should not be carried forward as prepayments or deferred expenditure. Instead, such costs are charged to the SoFA as incurred. Data capture costs of an internally developed database must not be capitalised. The costs of a database that has been purchased or donated to the charity can be capitalised where it is probable that it will generate economic benefits, for example in generating income, and the resulting database has a readily ascertainable cost or value.

4.51. Charities may choose to expand the analysis provided within this heading for example by identifying separately 'Expenditure on raising donations and legacies' (A1), 'Expenditure on other trading activities' (A3) and 'Investment management costs' (A4) either in the SoFA or by way of an explanatory note.