A new look

A change of appearance is just round the corner for charity accounting, explains ***Nigel Davies.***

FURTHER INFORMATION

The new SORPs together with accompanying helpsheets are being published in July 2014 on the dedicated charities SORP micro-site at: www.charitysorp.org

TEN SECOND SUMMARY

1. **New year changes in generally accepted accounting practice for charity accounts.**
2. **The revised layout for the statement of financial accounts.**
3. **The policy disclosures to be made in the trustees' annual report.**

After a long period of relative stability in UK-Irish generally accepted accounting practice (GAAP), 1 January 2015 is a new dawn. From the viewpoint of charities, new GAAP is comprised of three standards.

- *Financial Reporting Standard 100. Application of Financial Reporting Requirements*. This sets out the general framework and establishes the status of statements of recommended practice (SORPs).
- *Financial Reporting Standard for Smaller Entities 2015*. FRSSE 2015 is a UK Companies Act-based standard retaining the terminology and many of the small company accounting treatments of existing GAAP.
- *Financial Reporting Standard 102: The Financial Reporting Standard applicable in the UK and Republic of Ireland*. FRS 102 is an amalgam of accounting treatments available under existing GAAP and the International Financial Reporting Standard for Small and Medium-sized Enterprises developed by the International Accounting Standards Board.

For accounting periods beginning on or after 1 January 2015, almost 99% of charities can choose between the FRSSE and FRS 102. We also have a SORP in support of each standard: the FRSSE SORP and FRS 102 SORP. To help a charity's trustees or charity client to make the choice, IFA and FTA members will need to be familiar with these options.

While any charity can follow the FRS 102 SORP, most charities may instead adopt the FRSSE SORP. In order to use the FRSSE, charities must meet two of the following criteria:

- an annual gross income of less than £6.5 million;
- total assets of less than £3.26 million; or
- fewer than 50 employees.

Due to changes in small company reporting that will result from the implementation of a new EU Accounting Directive, it is likely that FRSSE 2015 will be replaced in 2016 by a new framework or FRSSE. Any changes to the FRSSE will in turn require an updating of the FRSSE SORP. If opting for the FRSSE, charities need therefore to be aware that further changes to their accounts may well be required in a subsequent accounting period.

How has the SoFA changed?

The ***SoFA Comparisons*** table compares line headings from SORP 2005 with their respective location in the statement of financial activities (SoFA) under the new SORPs. Charities will notice some new descriptions and new headings. For clarity, only an extract of each SoFA is shown. An important change required by both FRSSE and FRS 102 is a requirement to give comparatives for each column in the SoFA either on the face of the SoFA or in the notes to the accounts.

The headings in the table are in the order of SORP 2005 and show the destination of items from there to the new SoFA. The most important difference in presentation is the treatment of investment gains/losses in the FRS 102 SORP SoFA which will now count against the "bottom line".

SORP differences

It is important to understand the differences between the FRSSE SORP and the FRS 102 SORP. The FRSSE sits within a framework of existing GAAP which is being withdrawn. To allow for this, FRSSE 2015 provides that, where an entity is facing an item or transaction of a kind for which it has no existing accounting policy (termed "accepted practice"), it should refer to FRS 102 to identify the "current practice" to follow.

If the FRSSE specifies a solution for specific items or transactions, the FRSSE SORP requires that FRSSE must be followed. If the FRSSE does not, "current practice" (ie new GAAP) must be adopted for items or transactions that are specific to charity or public benefit entities. The FRSSE SORP also identifies when charities can retain their existing accounting policy for non-charity specific items or transactions if this is consistent with "accepted practice" (existing GAAP).

The main differences between the FRSSE and FRS 102 SORPs are as follows.

SOFA COMPARISONS

2005 SORP (SoFA extract)	FRSSE SORP (SoFA extract)	FRS 102 SORP (SoFA extract)
Voluntary income	Donations and legacies	Donations and legacies
Activities for generating funds	Other trading activities	Other trading activities
Investment income	*Income from* Investments	*Income from* investments
Incoming resources from charitable activities	*Income from* charitable activities	*Income from* charitable activities
Other incoming resources	Other *income*	Other *income*
Total incoming resources	Total income and endowments	Total income and endowments
Costs of generating voluntary income	*Expenditure on* raising funds	*Expenditure on* raising funds
Fundraising trading: cost of goods sold and other costs		
Investment management costs		
Resources expended on charitable activities	*Expenditure on* charitable activities	*Expenditure on* charitable activities
Governance costs		
Other resources expended	Other *expenditure*	Other *expenditure*
		Net gains/(losses) on investments
Net incoming/outgoing resources before transfers	Net income/(expenditure)	Net income/(expenditure)
Gross transfers between funds	Transfers between funds	Transfers between funds
Gains on revaluation of fixed assets for charity's own use	Gains/(losses) on revaluation of fixed assets	Gains/(losses) on revaluation of fixed assets
Gains/losses on investment assets	Gains/(losses) on investment assets	
Actuarial gains/losses on defined benefit pension schemes	Actuarial gains/(losses) on defined benefit pension schemes	Actuarial gains/(losses) on defined benefit pension schemes
		Other gains/(losses)
Net movement in funds	Net movement in funds	Net movement in funds

- The opportunity to retain certain accounting policies for non-charity specific items or transactions.
- The statement of cashflows is voluntary.
- Investment gains/(losses) do not count towards the net income/(expenditure) figure.
- The recognition of a liability for annual leave and paid sick leave is not required.
- A different approach to calculating the present value of liabilities and written down value using government bonds rather than a credit risk-adjusted market rate (this is likely to result in higher present values).
- Fewer disclosure requirements for items in the accounts, especially to do with financial instruments, group accounts, and related party transactions.

The trustees' annual report

The form and content of the trustees' annual report is common to both SORPs.

The two changes that affect all charities are that:

- a charity must disclose its reserves policy or it must state it does not have a reserves policy and give reasons; and
- all trustees who served in the accounting period and/or are in position at the time the report is signed must be named.

There are also some changes that affect only larger charities, those that are subject to charity audit.

- A description of the principal risks and uncertainties facing the charity and its subsidiary undertakings, as identified by the organisation's trustees, together with a summary of their plans and strategies for managing those risks.
- The arrangements for setting the pay and remuneration of the charity's key management personnel and any benchmarks, parameters or criteria used in setting their pay.
- An explanation of social investment policies and how any programme-related investments contributed to the achievement of its aims and objectives.

Change is coming to charity accounting. Now is a critical time to think about the practical issues in changing to new GAAP, the information required for re-stating comparatives, the effect of changes in accounting policies and disclosures, how to explain to trustees what is happening, and which of the SORPs the charity or charity client should follow.

Nigel Davies is technical secretary to the Charities SORP Committee.
Nigel can be contacted by email at: Nigel.Davies@charitycommission.gsi.gov.uk.