



Changing charities

Change is coming to charity accounting in 2015. *Nigel Davies* explains the new exposure draft SORP and recommends that advisers to these organisations should have their say.

TEN SECOND SUMMARY

- 1 The new reporting standards underpin the need for a new charities SORP.
- 2 Summaries of the changes for small and large charities.
- 3 Advisers' views on the new SORP are welcomed.

Over the past two years, the Financial Reporting Council has revised financial reporting standards in the UK and the Republic of Ireland. The changes fundamentally reformed financial reporting with three new reporting standards:

- FRS 100, application of financial reporting requirements;
- FRS 101, reduced disclosure framework; and
- FRS 102, the financial reporting standard applicable in the UK and Republic of Ireland.

The new UK-Irish generally accepted accounting practice (new GAAP) is now in place and two standards – FRS 102 and FRSE (the financial reporting standard for smaller entities) – are the foundations of the exposure draft statement of recommended practice (SORP) for charities.

Under the current accounting framework, smaller charities, not structured as charitable companies, with an income of £250,000 or less can choose the basis for the preparation of their annual accounts. They can opt for receipts and payments accounts or prepare accruals accounts following the charities SORP. Larger charities and all charitable companies must prepare their accounts on an accruals basis under the SORP.

The charities SORP provides a comprehensive framework for charity accounts prepared on an accruals basis (also known as SORP accounts). It enables charities to adopt a consistent interpretation of financial reporting standards (FRSs) and to account for transactions that arise when undertaking charitable activities. The current SORP issued in 2005 will be replaced by a new one, which has now been developed and has been issued for comment.

The need for a new SORP

Issuing a new SORP is a decision not taken lightly because there are always costs involved in change for practitioners and charities alike. The role of the SORP is to provide guidance to charities on how to apply GAAP. New GAAP is mandatory for financial

years beginning on or after 1 January 2015 and new standards require a new SORP to apply them.

A criticism levied at SORP 2005 was: "Think small charities first and then build up; at the moment you must trawl through the SORP if you are a small charity to find out." This plea to think small first is central to the design of the new SORP, but advisers' views are needed on how successful this rewrite has been. The exposure draft SORP and the "invitation to comment" can be accessed via a dedicated micro-site: www.charitySORP.org.

If SORP accounts are prepared for a charity, it will be affected by the coming changes. The advantage of familiarity with the exposure draft of the new SORP is that it enables the accountant to identify the changes that will affect the charity and allows time to prepare for the implementation of the new SORP.

The views of accountants on how well the exposure draft SORP meets the needs of their smaller charity clients and their own needs as practising practitioners is important and any suggested changes should ensure the new SORP is of benefit to all who must use it.

Changes to reports and policies

Changes to the trustees' annual report that affect all charities are:

- charities that have no reserves policy must disclose this fact;
- charities where there is doubt as to their being a going concern should explain these uncertainties; and
- the names of all trustees must be disclosed. This last point may be a particular issue for congregational churches and similar bodies where all voting members are also charity trustees.

The income and expenditure headings in the statement of financial activities (SoFA) have been changed. Several expenditure headings are now combined in a new heading "cost of raising funds". Governance costs are not shown separately on the face of the SoFA, but are treated as a component

FURTHER INFORMATION

The exposure draft SORP for charities and the invitation to comment can be accessed via a dedicated micro-site: www.charitySORP.org

IFA members with experience of preparing accounts for charities are encouraged to respond to the consultation document.

Responses can be made as follows:

By using the e-form available on the SORP micro-site at www.charitySORP.org

By email to: SORP.thefuture@charitycommission.gsi.gov.uk

By post to: Mr Nigel Davies, Secretary to the SORP Committee, Charity Commission for England and Wales, Woodfield House, Tangier, Taunton TA1 4BL

The consultation runs until Monday, 4 November 2013.



of support costs. Investment gains and losses now count as a component of net incoming resources/resources expended.

There are also changes to accounting policies and definitions. These are more fully explained in two help-sheets available via the micro-site www.charitycorp.org. The changes are as follows.

- Single-sided transfers are not permitted in the SoFA.
- The basis of going concern must be considered in a note.
- Clarification that income is first recognised when its receipt is "probable".
- The more extensive requirement for discounting for the time value of money with respect to both income and expenditure where settlement is delayed by more than 12 months and the effect is material.
- Where practicable, donated goods for sale are measured at fair value on receipt.
- Where practicable, donated goods for distribution are recognised at the time of receipt at fair value.
- Properties with a mix of investment and functional use are normally apportioned between tangible fixed assets and investment properties on the balance sheet.
- Internally generated databases cannot normally be capitalised.
- A provision must be recognised for those defined benefit pension schemes accounted for as a defined contribution scheme where there is an agreement in place to make additional contributions to reduce a fund deficit.
- A new category of "mixed motive" investments is introduced.
- Charities independently governed by a separate body of trustees cannot be treated as branches.
- The use of merger accounting for charity mergers and reconstructions is explained.
- Joint venture entities are normally accounted for on an equity rather than gross equity basis.
- The alignment of the definitions of related parties with the definition set out in FRS 102 and Charities Act 2011, s 118.

Disclosures

The disclosures required in the notes to the accounts now differ based on the size of the charity and whether the accounts are prepared in accordance with the FRSSSE or FRS 102. This choice of accounting standard is explained in the exposure draft SORP.

There are some changes that affect larger charities and charities choosing FRS 102.

- Changes to the trustees' annual report. Larger charities must explain their approach to risk management.
- The statement of cash flows must be provided by any charity preparing its accounts under FRS 102 and is in a new format.

How to get involved

Advisers' views are sought on 25 questions covering:

- the SORP's structure; format and accessibility;
- the trustees' annual report;
- the statement of financial activities and charity specific accounting and reporting issues;
- accounting methods and principles;
- the removal of unnecessary requirements; and
- example accounts and reports.

Respondents can answer as many questions as they wish and comments on the exposure draft SORP and the micro-site are most welcome.

The consultation runs until Monday, 4 November 2013 and responses can be made using the web form or by e-mail. Developments that are made to the SORP micro-site after its launch will be posted via the Twitter handle @chtycommission.

There are several consultation events listed on the micro-site where members of the SORP secretariat or SORP-making body are presenting and where they will be answering questions on the new arrangements.

The objective is to have a SORP that works for the charitable sector and receiving practitioners' views is perhaps the most important step in making sure that happens. Please get involved.



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