

CHARITIES SORP (FRS 102)

Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland

INFORMATION SHEET 1: Implementation Issues

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CHARITY COMMISSION
FOR ENGLAND AND WALES



The Chartered Institute of
Public Finance & Accountancy

OSCr
Office of the Scottish **Charity** Regulator

Background

The Charity Commission for England and Wales and the Office of the Scottish Charity Regulator are the joint SORP-making body for charities and as such is required by the Financial Reporting Council (FRC) (Policy on Developing Statements of Recommended Practice (SORPs)) to keep the Statement of Recommended Practice (SORP) under review.

As part of this work, the joint SORP-making body may issue information sheets which seek to clarify the application of the SORP or particular recommendations contained within the SORP. Information sheets do not amend the SORP and are advisory in nature and are released to assist preparers, auditors and examiners of accounts in applying the SORP's recommendations.

It should be noted that information sheets do not form part of the SORP, nor are they reviewed by the FRC and therefore they do not carry the authority of the SORP.

It is important for preparers of accounts to make reference to both the relevant SORP module and FRS 102 when preparing accounts and in making the required disclosures. References to legislation and reporting standards are correct at the time of going to press. Where an update to FRS 102 or a change in relevant legislation is made after the publication of this information sheet, any of the provisions of the SORP and clarifications offered in this information sheet which conflict with the updated FRS 102 or relevant legislation will cease to have effect.

The information sheet topics are ordered in line with the modules of the SORP on which they provide clarification.

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Accounting and reporting by charities: the statement of recommended practice (SORP) – scope and application

Topic: Exemption from preparing a cash flow statement in the individual accounts of a qualifying entity

FRS 102 allows entities which meet the definition of a ‘qualifying entity’ to take advantage of the exemption to prepare a cash flow statement.

A ‘qualifying entity’ is defined in the glossary of FRS 102 as:

A member of a group where the parent of that group prepares publicly available consolidated financial statements which are intended to give a true and fair view (of the assets, liabilities, financial position and profit or loss) and that member is included in the consolidation

This definition includes both subsidiaries and parent entities with reference to their individual financial statements.

In line with paragraph 24 of the SORP, under the headings ‘Choice of accounts preparation methods’, a charity can only take advantage of this disclosure exemption if eligible to do so and where the disclosures required by Module 9 of the SORP (Disclosure of trustee and staff remuneration and related party and other transactions) are made.

A parent charity that prepares publicly available consolidated financial statements in accordance with FRS 102 meets the definition of a qualifying entity. Therefore, subject to making the disclosures above, the parent charity is exempt from preparing a cash flow statement in its individual financial statements that are presented alongside its consolidated financial statements. Similarly, a subsidiary charity is exempt from preparing a cash flow statement in its individual financial statements, where this statement is included in the consolidated financial statements of the parent.¹

Parent and subsidiary charities that wish to take advantage of the disclosure exemption must also ensure the relevant provisions² in paragraph 1.11 of section 1 of FRS 102 are met. A ‘qualifying entity’ that wishes to take advantage of the disclosure exemptions must ensure:

- (b) *It otherwise applies the **recognition, measurement and disclosure requirements** of the FRS.*
- (c) *It discloses in the **notes** to its financial statements:*
 - (i) *a brief narrative summary of the disclosure exemptions adopted; and*
 - (ii) *the name of the parent of the **group** in whose consolidated financial statement its financial statement are consolidated and from where those financial statements may be obtained. (Only applicable to subsidiary entities)*

¹ The exemption for the preparation of a cash flow statement allowed under FRS 102 is permitted by the relevant legal requirements applicable in England & Wales, Northern Ireland and the Republic of Ireland. For charities registered in Scotland (including cross-border charities registered with OSCR), a strict reading of The Charities Accounts (Scotland) Regulations 2006 (as amended) also permits this exemption. However, it is understood the drafting intention of this regulation was for a statement of account to be available in full for both the parent and subsidiary charities, as well as the charitable group as a whole, in the interests of transparency. Therefore it is recommended that statement of account is made available in full for the parent and subsidiary charities as well as the group as a whole.

² These provisions are adapted from paragraph 1.11 of FRS 102 (incorporating the ‘Amendment to FRS 101 *Reduced Disclosure Framework* and FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland – Notification of shareholders*’, December 2016).

Trustees' annual report – module 1

Topic: Fundraising disclosures brought in by the Charities (Protection and Social Investment) Act 2016 - England & Wales only

Charities must include extra information on their fundraising practices in the trustees' annual report ('the report') under provisions of section 13 of the Charities (Protection and Social Investment) Act 2016 ('the Act').

The provision applies to charities registered in England and Wales which must have their accounts audited by law. It applies for reporting periods beginning on or after 1 November 2016. Early application is permitted.

Details of the contents of the statement can be found by referring to subsection (4) of section 13 of the Act. Further guidance about the particular disclosures required can be found in [Charity fundraising: a guide to trustee duties \(CC20\)](#) and [Charity reporting and accounting the essentials November 2016 \(CC15d\)](#) as issued by the Charity Commission for England and Wales.

Fund accounting – module 2

Topic: Comparative figures for fund disclosures

Under new GAAP, FRS 102 comparatives are required unless otherwise stated in the standard. Paragraph 3.14 of FRS 102 provides that: *'except when this FRS permits or requires otherwise, an entity shall present comparative information in respect of the preceding period for all amounts presented in the current period's financial statements'*.

Therefore comparative figures should be provided when making the disclosures required by paragraph 2.29 of the SORP for the summary of assets and liabilities of each category of fund of the charity and for the detail in the movements in material individual funds.

The analysis of charitable funds will include fund movements from the beginning of the prior reporting period to the end of the prior period; and from the beginning of the current reporting period to the end of the current period. Where the current and prior periods have been 12 months long, the charity will provide an analysis over a period of 24 months.

Statement of financial activities (SoFA) – module 4

Topic: *Inclusion of governance costs within expenditure on raising funds*

For charities reporting on an activity basis, expenditure on raising funds, paragraph 4.44, should include any apportioned support costs. This includes those costs relating to the governance of the charity.

Module 8 requires support costs to be analysed across all relevant activities and is illustrated in Table 4. Paragraph 8.8 sets out the principles which must be applied when attributing costs to activities. Governance costs can therefore be allocated to all relevant activities, including expenditure on raising funds.

Recognition of income, including legacies, grants and contract income – module 5

Topic: Treatment of funding ‘clawed back’ by funders

Funders may request a charity returns funding received or promised in previous years. This may be ‘clawed back’ as a result of the funding being unspent or ineligibly spent by the charity.

In those instances where the charity has not created a provision in respect of this repayment and has fully recognised the funding as income in previous years, the charity will need to consider whether a provision or a liability for the amount repayable is created.

Accounting approach

Charities must first determine whether the income was correctly or incorrectly recognised in the original period. Where the income was recognised incorrectly, this would give rise to a prior period error. In such cases where the income has been incorrectly recognised, charities should refer to Section 10 of FRS 102.

In line with paragraph 10.19 of FRS 102, where the amount repayable relates to funding which has been ineligibly spent, whether this gives rise to a prior period error will depend on the information which was available and could reasonably be expected to have been obtained and taken into account by the charity in those periods when the income was recognised.

Where the income was correctly recognised, there is no prior period error and the accounting approach will depend on the timing of the request from the funder.

If the request from the funder occurs after the end of the reporting period, but before the accounts are authorised for issue, the charity will need to consider whether the post balance sheet event is an adjusting or non-adjusting event. A post balance sheet event should only be adjusted where it provides evidence of conditions that existed at the balance sheet date. There is further guidance on this within Section 32 of FRS 102.

Where the request occurs after the accounts are authorised for issue, the charity should account for the ‘claw back’ in the subsequent accounting period.

When the provision or liability for the ‘claw back’ is recognised, the debit side entry will be a downward adjustment to total income in order to reduce the level of income over-recognised in previous years. The amount should be debited to the fund where the income was initially recognised, where possible.

Disclosure

A charity should separately disclose material amounts ‘clawed back’ by funders which relate to funding received or promised in previous years.

Disclosure of trustee and staff remuneration and related party and other transactions – module 9

Topic: Exemptions from disclosure of the names of related parties

Where the trustees, chief executive officer or senior staff members have elected to withhold their names due to personal danger, and have made the disclosures required by paragraph 1.29 of the SORP, then the disclosure of related party transactions involving that individual or those individuals may be modified to disclose their role, e.g. chair, treasurer, or an alternative identifier in place of their full name as required by paragraphs 9.7 and 9.20 of the SORP.

The disclosure of the name(s) of the transacting related party, as required by paragraph 9.20, may also be withheld where doing so could lead to the trustees or the party themselves being placed in personal danger. The reason for the omissions of the name of the party should be disclosed, in line with the paragraph 1.29.

Topic: Aggregate disclosure of the total amount of donations received without conditions

Paragraph 9.18 of the SORP requires all charities to '*provide an aggregate disclosure of the total amount of donations received without conditions*'. This should be interpreted in the context of those transactions with trustees or other related parties only. Disclosure is only necessary if the total amount of donations received without conditions is judged to be material in the context of the total income from donations and legacies.

Donations which have attached conditions should be disclosed as noted in paragraph 9.20.

Topic: Inclusion of Employers National Insurance Contributions (NIC) as part of employee benefits

When calculating employee benefits for the disclosure of remuneration and benefits received by key management personnel, per paragraph 9.32 of the SORP, the definition of employee benefits should be in accordance with paragraph 28.1 of FRS 102. As a result, Employers National Insurance Contributions (NIC) should be included, in accordance with paragraph 28.4(a) of FRS 102.

However, when identifying numbers of employees to disclose who received employee benefits of more than £60,000 (or 70,000 euros if in the Republic of Ireland), per paragraph 9.30, Employers NIC should be excluded.

Accounting for impairment – module 12

Topic: *Treatment of loss on disposal of a tangible fixed asset*

Losses on disposal of a tangible fixed asset should be treated as additional depreciation. Therefore, any realised loss on disposal of a tangible fixed asset is treated as expenditure in the Statement of Financial Activities. Losses should be allocated between cost categories in accordance with the same principles as depreciation, amortisation and impairments, and against the activity or activities that made use of that tangible fixed asset in the current and previous reporting periods leading up to its disposal.

Charities established under company law – module 15

Topic: Reporting requirements for charitable companies reporting in the Republic of Ireland under the Companies Act 2014 – Republic of Ireland only

The SORP is developed within the context of law and accounting standards. In the Republic of Ireland, the new Companies Act 2014 ('the act') has replaced the Companies Acts 1963-2013. Requirements within the Charities SORP (FRS 102) which have been replaced or updated by the act are noted below.

Those charities registered as companies under company law (charitable companies) should refer the Act to ensure that they meet the accounting requirements and disclosures applicable to them.

Preparation of the directors' report

Charitable companies in the Republic of Ireland must provide a 'business review' that meets the requirements of company law. Charities should refer to sections 327 of the Companies Act 2014 when preparing their business review.

This requirement applies for company charities in the Republic of Ireland for reports and accounts approved on or after 1 June 2015.

Summary income and expenditure account

The reporting requirements previously found within paragraphs 15.15 and 15.16, specified in Schedule 6 to the Companies Act 1963, still apply and are replaced by Schedule 3 of the Act.

Topic: Requirement for a fair value reserve

As noted in paragraph 15.23 of the SORP, UK charitable companies must set up a fair value reserve for certain types of financial instruments as detailed in Companies Act regulation.

The Small Companies and Groups (Accounts and Directors' Report) Regulations 2008 and The Large and Medium-sized Companies and Groups (Accounts and Directors' Report) Regulations 2008 ('the regulation') require a fair value reserve to be maintained for financial instruments that are used in hedge accounting in the following situations:

Where:

- (a) *the financial instrument accounted for is a hedging instrument under a hedge accounting system that allows some or all of the change in value not to be shown in the profit and loss account, or*
- (b) *the change in value relates to an exchange difference arising on a monetary items that forms part of the company's net investment in a foreign entity,*
the amount of the change in value must be credited to or (as the case may be) debited from a separate reserve ("the fair value reserve").

The Small Companies and Groups (Accounts and Directors' Report) Regulations 2008, Sch 1. Pt 2, s D (40)(3)

Paragraph 40(4) of the regulation also gives companies the option to set up a fair value reserve for available for sale financial assets which are not derivatives.

The requirement and option to set up a fair value reserve as detailed in the regulation is only applicable to UK charitable companies.

However it is recommended that UK charitable companies do not account for movements in the fair value of financial instruments and assets in a separate reserve, except for in relation to those financial instruments required by the regulation as noted above. UK charitable companies should recognise all other fair value movements in financial instruments and assets through the SoFA, in line with the treatment detailed in the SORP.

Appendix 1: Glossary of terms

Topic: Disclosure of government grants

The glossary definition of government contained in the SORP refers to 'government, government agencies and similar bodies whether local, national or international'.

On a national level, the definition of government includes government departments, local authorities and Non-Departmental Public Bodies (NDPBs). NDPBs are classified by the Office for National Statistics (ONS) as part of central government and include bodies like the National museums and galleries, Arts Councils, lottery funds, research councils, funding councils and many others. For the UK, these bodies are included in the whole of government accounts (WGA).

Preparers may wish to refer to the following websites when identifying which grants are paid by 'government' and fall to be disclosed under paragraph 5.58 of the SORP:

- The definition of government published on the .gov website:
<https://www.gov.uk/government/organisations>
- The list of entities included in the WGA:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/539960/2015-16_WGA_CPID_List.xlsx
- The list of Welsh Government Sponsored Bodies (WGSBs):
<http://wales.gov.uk/docs/caecd/publications/140312sponsoredbodiesen.doc?lang=en>
- The National Public Bodies Directory for Scotland:
<http://www.gov.scot/Topics/Government/public-bodies/about/Bodies>
- The list of Public Service bodies in the Republic of Ireland:
<https://www.lobbying.ie/help-resources/information-for-public-bodies/list-of-public-service-bodies/>

Topic: Definition of a larger charity

Update Bulletin 1 amended the glossary definition of a larger charity used by the SORP to identify those charities with a gross income exceeding £500,000 (UK) or 500,000 euros (Republic of Ireland) in the reporting period. At issue the income criterion for audit in July 2014 for Scotland and England and Wales was £500,000 and the drafting intention has always been to have a common definition within the SORP regarding disclosure whether in the trustees' annual report or the accounts. Consequently the preparer, when applying Update Bulletin 1, should substitute the new definition of 'larger charity' in place of a reference to statutory audit throughout the SORP.

Appendix 3: Thresholds for the UK and the Republic of Ireland

Topic: Thresholds for charities reporting in the Northern Ireland under the Charities (Accounts and Reports) Regulations (Northern Ireland) 2015 and the Charities Act 2008 (Substitution of Sums) Order (Northern Ireland) 2015 – Northern Ireland only

Charities registered in Northern Ireland must prepare accounts and be subject to external scrutiny under the Charities Act (NI) 2008, the Charities Act 2008 (Substitution of Sums) Order (NI) 2015 and the Charities (Accounts and Reports) Regulations (NI) 2015.

The following thresholds and requirements apply for registered charities for reporting periods beginning on or after 1 January 2016, or the date of registration with the Charity Commission for Northern Ireland if later.

[Update Bulletin 1](#) amended the glossary definition of a large charity used by the SORP for reporting purposes and periods beginning on or after 1 January 2016. Therefore, the following thresholds are irrelevant to the definition of a large charity which is based on the charity's gross income levels alone.

Threshold for the preparation of accrual accounts

The threshold at which accruals accounts must be produced by non-company charities is a gross income of more than £250,000. Company charities must prepare accruals accounts giving a true and fair view.

Threshold for statutory audit

An audit is required when the charity's gross income exceeds £500,000.

Threshold for the preparation of consolidated (group) accounts

Any parent charity where the aggregate gross income of the group, the parent charity and its subsidiaries, is more than £500,000 after consolidation adjustments must prepare consolidated accounts. These consolidated accounts are prepared in accordance with the Charities Act (NI) 2008 and applicable regulations. However, where a company charity is required by section 399 of the Companies Act 2006 to prepare consolidated (group) accounts, its group accounts are prepared under the Companies Act 2006.