

Report

To: Charities SORP Committee

From: Alison Bonathan, CIPFA Secretariat

Date: 5 October 2022

Subject: Expenses in the Charities SORP: Activity Reporting, Support Costs and Expenditure Classification

Purpose

The purpose of this report is to outline proposed amendments to the SORP modules 4 (Statement of financial activities), 7 (Recognition of expenditure) and 8 (Allocating cost by activity in the statement of financial activities) and the rationale for the suggested amendments in response to the comments and feedback from the Charities SORP Committee meeting on 26 July 2022.

Report

1. Introduction

- 1.1 At the meeting of the Charities SORP Committee on 26 July 2022, the Committee discussed draft modules for the new Charities SORP on the topic of Expenses. The Secretariat has reflected on the comments made at this meeting as well as comments received from Committee Members and the FRC by email, and has redrafted extracts from:
- module 8 (Allocating cost by activity in the statement of financial activities) in full; and
 - the parts of modules 4 (Statement of financial activities) and 7 (Recognition of expenditure) that relate to expenses and expense classification.
- 1.2 The parts of modules 4 and 7 that are not related to expenses but are related to other topics under consideration (for example, income) have not been reviewed but will be subject to review as a part of the consideration of the relevant topics on the SORP development programme later in the drafting process.
- 1.3 Some Committee Members have provided feedback on the parts of modules 4 and 7 not yet under consideration (e.g. on income or on funds). This feedback has been retained by the Secretariat and will be considered during the drafting of SORP content ahead of future meetings.
- 1.4 Annex 1 to this report provides a detailed analysis of the proposed amendments to the Charities SORP (i.e. those amendments made since the meeting of the Charities SORP Committee on 26 July 2022) including the rationale for the proposals.

- 1.5 Appendices 1 and 2 include the draft modules in full. Appendix 1 includes a 'clean' version of the draft modules with the proposed changes. Appendix 2 presents the same modules in track changes (All Markup) so that the SORP Committee can identify new or revised content. A version of the Appendix with track changes (Simple Markup) is available on request.
- The Committee is being presented with extracts from module 10 and a proposed new module on Provisions, Contingent Liabilities and Contingent Assets for the first time. As this content has not yet been discussed by the Committee, Committee Members are likely to wish to read these extracts in full.
 - All amendments made to draft paragraph 10 (within the Scope and Application chapter of the SORP) and to modules 4, 7 and 8 since the meeting of the Charities SORP Committee on 26 July have been highlighted in yellow within Appendices 1 and 2. This is to allow Committee Members to direct their attention to the updated elements of the draft modules.
- 1.6 To aid detailed discussion of the draft modules, questions for discussion have been included within this report and in Annex 1.

2. Drafting Suggestions relating to the Structure or format of the SORP

- 2.1 At the meeting of the Charities SORP Committee on 26 July 2022, the Committee discussed the proposal to remove some content from module 7 to avoid duplication in the SORP. It was suggested that:
- a separate module on provisions and liabilities is developed, to which modules 7 and 10 (Balance Sheet) cross-refer
 - text on retirement benefits could be removed from module 7 and replaced with a cross reference to module 17 (Retirement and post-employment benefits) or module 9 (Disclosure of trustee and staff remuneration, related party and other transactions)
 - text on grant-making could be removed from module 7 and replaced with a cross-reference to module 16 (Presentation and disclosure of grant-making activities)
- 2.2 At the meeting on 26 July 2022, members of the Charities SORP Committee discussed the relative merits of these proposals. Comments against the proposals noted that the readability and usability of the SORP is reduced if users are required to refer to more than one module when establishing the correct treatment for a transaction or event. Comments in support of the proposal noted that duplication of requirements across the SORP risks confusion and inaccuracy where the requirements are worded differently in different modules. This can be avoided by including requirements once in the SORP, with cross references included as required.
- 2.3 When reflecting on these discussions, the Secretariat:
- did not remove content on retirement benefits from module 7. One paragraph in module 7 refers to retirement benefits and this already provides a cross reference to module 17.
 - did not remove content on grant-making from module 7. Module 16 focuses on disclosure rather than on measurement of expenses, therefore the potential for duplication of requirements between modules 7 and 16 is limited. A cross reference to module 16 is already provided.
 - removed content on provisions, contingent liabilities and contingent assets from modules 7 and 10 and used this content to draft a proposed new module on Provisions, Contingent Liabilities and Contingent Assets as the balance of the discussion appeared to support this. There was significant duplication, leading to some inconsistencies, between modules 7 and

10. As a result, the Secretariat is of the view that consistency will be improved by the creation of a new module with cross references provided in modules 7 and 10 as relevant.

- 1. Is the Charities SORP Committee content to retain content on expenses associated with retirement benefits and grant-making in module 7?**
- 2. Does the Charities SORP Committee support the inclusion of a stand-alone module on provisions, contingent liabilities and contingent assets in the SORP?**
- 3. What are the views of the Charities SORP Committee on the proposed Provisions, Contingent Liabilities and Contingent Assets module as included in the Appendices to this report?**

Members are invited to make comments or recommendations with respect to the new draft module.

- 2.4 At the meeting of the Charities SORP Committee on 26 July 2022, the Committee discussed the proposal to re-order the SORP to ensure that key concepts and principles (e.g. the elements of the financial statements) are introduced before specific accounting treatments for individual transactions, balances or events are set out.
- 2.5 The Committee did not reach a tentative conclusion on this proposal. As any re-ordering of the SORP will require time for review and reflection by the SORP Committee, the Secretariat recommends the matter of re-ordering the SORP is re-considered to allow tentative conclusions to be reached.

- 4. What are the views of the Committee on re-ordering the SORP such that key concepts and principles are introduced before specific accounting treatments are covered? Does the Committee support re-drafting the SORP in line with this proposal?**

3. Other Drafting Proposals

- 3.1 Annex 1 itemises all the other proposed drafting proposals for modules 4, 7, 8 and 10 as they relate to expenses. It is suggested that this Annex is reviewed module by module for the remaining drafting changes and the questions that are raised in the Annex.

The SORP Committee is invited to consider the list of amendments and in Annex 1 relating to the other drafting suggestions for the expenditure Modules within the SORP.

- 5. Are there any further changes the Charities SORP Committee believes are necessary to the modules/sub-sections of modules under consideration?**

4. Paragraph references

- 4.1 Unless otherwise indicated, paragraph references in the table in Annex 1 refer to the paragraph numbers in the draft SORP modules presented as appendices to this report.

Disclaimer

This Charities SORP Committee paper its Annex and Appendix has been developed to assist in the development and drafting of the Charities SORP. Readers should not treat the information contained in this paper as being definitive for the production of the Charities SORP FRS 102 (Third Edition) which will be subject to due process including a detailed consultation.

Rationale for the second set of proposed amendments to the Charities SORP

The table below is intended to be used alongside either Appendix 1 or Appendix 2, which contain relevant draft revised SORP extracts. Appendix 2 includes the draft revised SORP extracts with track changes (All Markup) on. Appendix 1 contains the draft revised text without track changes (for ease of reading).

A version of the Appendix with track changes (Simple Markup) is available on request.

Paragraph reference(s)	Amendment made	Reason for Proposed Amendment	Question for consideration
Throughout extracts of the SORP	References to “expenditure” changed to “expenses” or “amount” (depending on context). This includes amendments to the title of module 7.	When used in the context of elements of the financial statements, it is preferable to refer to “expenses” rather than “expenditure” to ensure consistency with FRS 102. In addition, expenditure may not be understood to include all relevant transactions including, for example non-exchange transactions thus increasing the risk of not properly meeting the definition of expenses. To avoid inconsistency and potential confusion, amendments have been made to avoid using “expense” and “expenditure” interchangeably, with occurrences of “expenditure” being replaced.	<i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>
Throughout extracts of the SORP	Terms and phrases that are included in the glossary, or that have been proposed to be included in the glossary as part of the drafting process, have been included in blue text .	Blue text indicates a link to the glossary and would be included in the Word/PDF version of the SORP. Blue text will denote to users of these versions or any hard copy of the SORP that the term or phrase is explained in the glossary. At the meeting of the Charities SORP Committee on 26 July 2022, Committee Members recommended that the SORP should clearly indicate any terms that are included in the glossary.	<i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>
Chapter 1 Scope and Application			
10. (within chapter 1, scope and application)	Paragraph 10 as presented to the meeting of the Charities SORP Committee on 26 July	Paragraph 10 has been redrafted to simplify presentation and clarify	6. Is the Committee content with the

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	<p>2022 has been reworded. Rather than including one version of the paragraph for charities in N. Ireland, England and Wales and one version of the paragraph for charities in Scotland, a single paragraph is now presented with the different thresholds clearly distinguished. Clarity around the</p> <p>Note that this paragraph does not include reference to how this might apply in Ireland as the relevant statutory provisions have not yet been issued. This will be kept under review.</p>	<p>requirements in response to feedback from the Committee at its meeting on 26 July 2022.</p>	<p>proposed Paragraph 10 as redrafted?</p>
Module 4 Statement of Financial Activities			
4.1	<p>Requirements for charities in tier 1 have been reworded to include “this SORP requires” with respect to presentation of the SoFA using either table 2a (if opting to use natural classifications) or table 2b (if opting to use the activity basis of reporting).</p>	<p>This amendment has been made in response to feedback from the FRC Observer that the requirement to use one of the two SoFA presentations is a SORP requirement and should be denoted as such.</p>	<p><i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i></p>
4.1	<p>The suggested wording of the explanation of Natural Classification expense analysis for the glossary (as included in a comment on Paragraph 4.1 in Appendix 2) amended.</p>	<p>This amendment has been made following a suggestion received by email from a member of the SORP-making Body to enhance the clarity of the definition.</p>	<p>7. Is the Charities SORP Committee content with the wording of the suggested explanation of Natural Classifications?</p>
4.3	<p>The proposed amendment to remove “must be” and replace with “is” reversed.</p>	<p>The recommendation of the Charities SORP Committee on 26 July 2022 was to retain the use of “must” to clarify that the requirement is from FRS 102.</p>	<p><i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i></p>
4.5, 4.6, 4.25, 4.29	<p>References to reporting income by activity/nature have been removed.</p>	<p>At its meeting on 26 July 2022, the Charities SORP Committee discussed the need to enable charities that adopt the activity basis for reporting to be able to</p>	<p>n/a – topic of income to be considered later in the drafting phase.</p>

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		<p>report income from charitable activities by activity.</p> <p>Following discussions between the Secretariat and the SORP-making Body to clarify how these recommendations can be incorporated into the text of the SORP, the Secretariat intends to propose amendments are made to Section A2 of Module 4 to clarify that charities adopting activity-based analysis can subdivide income from charitable activities into several activities in the SoFA. This amendment will be considered during the drafting of extracts related to Income later in the drafting process.</p>	
4.5	The first sentence has been rewritten so “natural classification” appears before “activity basis”.	This amendment is proposed to emphasise the option to adopt natural classifications for charities in Tier 1 (per previous discussions of the Charities SORP Committee).	<i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>
4.5, Table 2a	Clarified in the income section of the illustrative SoFA that the headings are <i>suggested</i> headings. “Suggested” included in paragraph 4.5, “e.g.” included against line items in the income section of table 2a.	<p>These amendments are proposed to emphasise the indicative, rather than prescriptive, nature of the headings for line items in a SoFA prepared using natural classifications.</p> <p>The amendment to include “e.g.” against line items in table 2a was proposed by a Committee Member who provided feedback by email following the meeting of the Charities SORP Committee on 26 July 2022.</p>	<p>The observer from the FRC noted in feedback received by email that minimum headings have not been included in the SORP (e.g. Table 2a, paragraph 4.46) for a SoFA prepared using natural classifications.</p> <p>8. Would the Charities SORP Committee recommend the inclusion in the Charities SORP of minimum headings for a SoFA prepared using natural classifications? If so, what should the minimum headings be? If not, is the</p>

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			<p>Charities SORP Committee content with the proposed amendments to clarify that line items per table 2a are suggested rather than mandated?</p> <p>For reference, the company micro-entities regime (which is not available for charities) includes as minimum expense headings:</p> <ul style="list-style-type: none"> - Cost of raw materials and consumables - Staff costs - Depreciation and other amounts written off assets - Other charges
Tables 2a and 2b	Clarification of the tiers to which each table applies added at the start of each table.	<p>This amendment was proposed by a Committee Member who provided feedback by email following the meeting of the Charities SORP Committee on 26 July 2022.</p> <p>This amendment has been made because, in the view of the Secretariat, it helps to add clarity to the SORP.</p>	<i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>
4.11	“(or vice versa)” included in the paragraph.	This amendment is proposed to ensure it is clear that changing either from use of the activity basis to use of natural classifications, or from use of natural classifications to use of the activity basis would constitute a change in accounting policy.	<i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>
4.18	Reference to “activity” deleted: “The disclosure of material items must be made either in the notes or by the insertion of an additional line within the	Paragraph 4.18 is for use by all charities, including those adopting the natural classification basis. Use of the word “activity” in this paragraph	<i>There is no specific question on this paragraph. Committee Members are invited to make comments or</i>

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	relevant activity heading on the face of the SoFA when necessary ...”	may confuse charities adopting natural classifications.	<i>recommendations with respect to the suggested amendments.</i>
4.22 – 4.24	No changes have been made to the section on discontinued operations as it is outside the scope of drafting for the topic of expenses. However, the Secretariat is of the view that this section of the SORP would benefit from review at a later stage of the drafting process.	n/a	9. Does the Charities SORP Committee agreed that it will be beneficial to review paragraphs 4.22 – 4.24 at a later stage in the drafting process?
4.30	This paragraph states “Income must be analysed according to the activity that produced the resources.” The Secretariat is of the view that this paragraph would benefit from review during consideration of Income later in the drafting phase. In particular, the Secretariat recommends that the Charities SORP Committee gives consideration to the wording of this requirement, as use of ‘this SORP requires’ may be appropriate.	n/a	10. Does the Charities SORP Committee agree that it will be beneficial to review content related to income in paragraph 4.30 at a later stage in the drafting process?
4.30	The second sentence in this paragraph has been amended from a ‘must’ to ‘this SORP requires’.	FRS 102 permits analysis of expenses by nature rather than by function irrespective of the size of the entity, therefore mandatory application of activity-based analysis of expenses is a SORP requirement rather than a requirement of FRS 102. Amending the requirement from ‘must’ to ‘this SORP requires’ reflects the source of the requirement.	<i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>
4.46	Rephrased	Additional text added to clarify that if charities producing accounts using natural classifications use headings for line items based on their own internal accounting records,	<i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with</i>

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		this must be understandable to the users of the accounts.	<i>respect to the suggested amendments.</i>
4.48	The word “may” has been added to the introductory sentence, such that the revised sentence reads: “Expenses incurred in raising funds may include those costs incurred in: ...”	This amendment was proposed by a Committee Member who provided feedback by email following the meeting of the Charities SORP Committee on 26 July 2022. The amendment was proposed because some of the examples included in the paragraph of expenses incurred in raising funds are not correctly classified for all charities e.g. membership schemes or staging events could be furthering charitable activities rather than raising funds.	<i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>
4.61	Clarification has been included in paragraph 4.61 that the tabular presentation of expense analysis as shown in Table 3 is illustrative rather than mandated.	This proposed amendment has been made following a request from the Chair at the meeting of the Charities SORP Committee on 26 July 2022 to consider the status of Table 3. The current SORP does not indicate that this format is a requirement and the SORP Committee has not advised that this should change. The Secretariat considered that clarification of the illustrative nature of Table 3 would reduce the potential for confusion.	<p>11. Does the SORP Committee agree to maintain the illustrative nature of this disclosure and does it agree with the wording of the clarification.?</p> <p>12. Is the Charities SORP Committee content with the wording of the proposed clarification of the status of Table 3 as illustrative rather than mandatory in paragraph 4.61?</p>
4.62	Additional text has been included in (new) paragraph 4.62 to better link the additional ‘Basis of Apportionment’ column in Table 3 (discussed at the meeting on 26 July 2022) to the disclosure requirements in Module 8.	Comments received by email from the FRC observer member noted that the link between Table 3 and the disclosure requirements of Module 8 was not clear in the text accompanying Table 3. Additional text is proposed to provide the necessary clarity.	13. Is the Charities SORP Committee content with the clarification to Module 8 paragraph 8.13 in paragraph 4.62?
Table 3 (below paragraph 4.62)	The rows and columns of the version of Table 3 previously	This proposed amendment has been made following	<i>There is no specific question on this</i>

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	presented to, and discussed by, the Charities SORP Committee at its meeting on 26 July 2022 have been transposed, at the suggestion of the Committee.	discussions of the Charities SORP Committee at its meeting on 26 July 2022. The amendment was proposed as a practical solution as the Committee anticipated that charities may have more types of expense than different activities.	<i>amendment. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>
Module 7 Recognition of Expenses and Liabilities			
Title of the module	Suggested amendment to rename the module "Recognition of expenses and liabilities" (current title is "recognition of expenditure")	Amendment from "expenditure" to "expenses" is proposed to ensure consistency with other proposed amendments and with the use of "expense" in the discussion of elements of the financial statements in FRS 102. The proposed amendment includes reference to liabilities in the title of the module to reflect the content in the module on recognition of liabilities.	<i>There is no specific question on this amendment. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>
7.2	Rephrased	This amendment is proposed in response to feedback received by email from the FRC observer member. The definition of an expense per paragraph 2.42 of FRS 102 emphasises that expenses are recognised as a result of a decrease in net assets. This proposed amendment is intended to reflect the causal relationship between net assets and expenses.	<i>There is no specific question on this amendment. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>
7.5	Items that are proposed to be removed from this module have been deleted from the list of module contents.	The proposed amendment ensures paragraph 4.5 accurately summarises the module.	<i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>
Paragraph 7.6 (as presented to the	An additional paragraph first included in the draft extracts	This amendment is proposed in response to feedback received	<i>There is no specific question on this</i>

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Charities SORP Committee on 26 July 2022)	presented to the Charities SORP Committee on 26 July 2022 has been removed. For reference, the paragraph read as: “It may be necessary to consider liabilities and expenses simultaneously. For example, a purchase of goods on credit gives rise to both a liability and an expense.”	by email from the observer from the FRC. Conceptually, expenses arise as a result of a reduction in net assets (rather than expenses and liabilities arising simultaneously). The paragraph as drafted was intended to improve the readability of the SORP and clarify why liabilities and expenses are covered in the same module. Following amendments to paragraph 7.2, this matter is covered more precisely elsewhere in the SORP. The result is that the proposed new paragraph is no longer required.	<i>paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>
7.6	Amendments to the recognition criteria for a liability.	The proposed amendments to this paragraph are intended to improve readability, as the amount of text in the paragraph has been reduced. The Secretariat has ensured that the proposed paragraph aligns with the definition of a liability in paragraph 2.39 of FRS 102.	<i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>
7.8	Cross-reference to the proposed module on provisions, contingent liabilities and contingent assets has been included.	This amendment has been proposed to ensure it is clear to the users of the SORP that module 7 contains general requirements for liabilities and expenses, but that specific requirements for provisions and funding commitments are in a separate module.	<i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>
7.9	Paragraph has been reworded.	This paragraph has been reworded to provide a more complete depiction of the exceptions to the recognition of liabilities at historical cost.	<i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>
7.10	Rephrased	Suggested rewording to the first sentence to draw out the difference between legal and	<i>There is no specific question on this paragraph. Committee Members are invited to</i>

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		<p>constructive obligations more clearly.</p> <p>Suggested rewording to the last two sentences to ensure clarity that legal obligations, as well as constructive obligations, are included in the discussion of recognition of liabilities.</p>	<p><i>make comments or recommendations with respect to the suggested amendments.</i></p>
7.10	<p>“or provision” removed from the end of the paragraph.</p>	<p>A suggested amendment to this module is the removal of content on provisions. It is suggested that reference to provisions is therefore removed from this paragraph as it could appear out of context in the absence of content on provisions. No change to the substance of the paragraph is intended to result from this suggested amendment as a provision is a type of liability; liabilities are still included in this module.</p>	<p><i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i></p>
7.11	<p>The paragraph has been rephrased.</p>	<p>This amendment has been suggested to improve understandability around when a charity’s statements might, and might not, lead to a constructive obligation.</p>	<p><i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i></p>
7.12	<p>The word “directly” has been deleted from the second bullet point.</p>	<p>This paragraph of the SORP draws on paragraph 2.20 of FRS 102. FRS 102 discusses the need for a valid expectation to have been created for a constructive obligation to exist, but, in general cases, does not require this to be via direct communication with other parties.</p>	<p><i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i></p>
7.12	<p>An “and” has been amended to read “or”.</p>	<p>This amendment is proposed to reflect part (a) of paragraph 2.20 in FRS 102, in which the requirement is an “or” requirement rather than an “and” requirement.</p>	<p><i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with</i></p>

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			<i>respect to the suggested amendments.</i>
7.12	An extra sentence has been drafted to refer to the need for a valid expectation to have been created before a constructive obligation to exist.	This amendment has been proposed to reflect the definition of a constructive obligation in paragraph 2.20 of FRS 102, in which the creation of a valid expectation is required for a constructive obligation to exist.	<i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>
7.19, 7.5	References to FRS 102 as originally included in paragraph 7.5 have been amended. The remaining references relate solely to employee benefits, so have been moved to paragraph 7.19 in the section of the module that covers employee benefits.	<p>The references to Section 21 of FRS 102 (<i>Provisions and Contingencies</i>) and Section 34 (<i>Specialised Activities</i>) have been removed as content on provisions and contingencies (including funding commitments) has been moved to a proposed new module (see section 2 of this report above).</p> <p>The title of section of FRS 102 referred to has been included in the paragraph. This proposed amendment is intended to improve the understandability of the paragraph.</p> <p>Specific paragraphs from FRS 102 considered to be useful have been cross-referenced. This proposed amendment is in response to a request from the Chair at the meeting of the Charities SORP Committee on 26 July 2022 for the Secretariat to consider how cross-references to FRS 102 could be more helpful.</p>	<p>14. Is the Charities SORP Committee content with the inclusion of references to specific paragraphs of FRS 102 in the SORP?</p> <p>15. If so, does the Charities SORP Committee agree with the specific paragraphs from FRS 102 that have been referred to in this draft paragraph of the SORP?</p>
7.20, 7.21	Content on recognition of a liability for employee benefits has been moved to the first substantive paragraph of the employee benefits section.	This amendment has been proposed to ensure SORP users are aware of the general recognition principles for employee benefits before specific types of employee benefits are referred to.	<i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>
7.21 – 7.26	The list of treatments for various types of employee benefit has	This amendment is proposed to enhance the readability, and	<i>There is no specific question on this</i>

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	been separated into separate paragraphs.	ease of referencing, to the SORP. It is proposed that each different type of employee benefit is now the subject of its own paragraph.	<i>paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>
7.22 – 7.24	Additional content is introduced to draw a distinction between accumulating and non-accumulating employee benefits.	The distinction between accumulating and non-accumulating benefits is important when determining whether to recognise a liability for the benefit. The proposed amendment includes this distinction in the SORP. It is intended to ensure users of the SORP understand the reasons for different treatments of employee benefits (e.g. why a holiday pay accrual might be included in a set of accounts but a sick pay accrual is unlikely), which should lead to improvements in reporting and understanding of the transactions.	<i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>
Module 8 Allocating cost by activity in the statement of financial activities			
8.1	The requirements for charities in tier 1 have been reworded to include “this SORP requires” with respect to the requirement for charities that have adopted the activity basis of reporting apply module 8.	This amendment has been made in response to feedback from the FRC observer member that the requirement to apply module 8 following a choice to apply the activity basis of reporting is a SORP requirement and should be denoted as such.	<i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>
8.7	The word “charitable”, which was added into the paragraph in the draft modules presented to the Charities SORP Committee on 26 July 2022 has been removed from this sentence: “For example, governance costs, payroll administration, purchasing, budgeting and accounting, information technology, personnel (human resources), building management services and	This amendment has been suggested following comments received from a Committee Member by email that not all a charity’s activities might be ‘charitable’, therefore inclusion of the word ‘charitable’ in this sentence of paragraph 8.7 might be inappropriate.	<i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>

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	finance are functions that are likely to enable/support more than one area of charitable activity.”		
8.14	Additional text is included at the end of the paragraph.	The additional text is suggested to clarify that table 3 in module 4 is illustrative rather than mandatory (see questions 11 and 12 against the proposed amendments to paragraph 4.62 above).	<i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>
10.76	<p>The text has been reworded to cross-refer to the requirements for the recognition and measurement of liabilities in module 7.</p> <p>The explanation of what constitutes a liability has been updated. An example of the application of this definition has been included.</p>	<p>The requirements as included in paragraph 10.76 differed slightly from those in module 7. It is suggested that the amendment includes cross-referencing rather than duplication of requirements to improve consistency and reduce the potential for confusion.</p> <p>It is possible that the explanation of ‘liability’ in the previous edition of the SORP has been written from a plain English perspective. The suggested amendment adds precision to the definition of ‘liability’. The lack of precision in the previous edition could cause confusion. To meet the desire for readers of the SORP to improve their understanding of the application of the definition of a liability an example in plain English has been included in the paragraph.</p>	<i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>
Old SORP paragraphs 7.10 – 7.12, 7.18 – 7.26, 7.34 – 7.35, 7.43 – 7.46 and 10.77 – 10.79	The paragraphs have been relocated to the new SORP module on provisions.	The balance of the argument appeared to support the creation of a separate SORP module on provisions at the meeting of the SORP Committee on 26 July 2022. The Secretariat has therefore prepared a draft SORP module on provisions to allow the Charities SORP Committee to	<i>Please see the questions in section 2 in the main body of this report.</i>

Paragraph reference(s)	Amendment made	Reason for Proposed Amendment	Question for consideration
		consider whether this would represent an improvement in the SORP.	
Old SORP paragraph 7.20 (now in the new provisions module in the section on funding commitments)	“performance-related” deleted from below the word “condition”.	This amendment is suggested as there is no need to restrict the type of condition under discussion in this section of the module. “Performance-related” grants are the subject of their own subsection of the module.	<i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>
Old SORP paragraph 7.21 (now in the new provisions module in the section on funding commitments)	“constructive” removed from the final sentence.	Use of “constructive” could confuse users of the SORP in this paragraph. The discussion in the original wording is of a constructive liability rather than a constructive obligation , which is the term used elsewhere in the SORP and explained in the glossary. The word “constructive” appears to be unnecessary in this paragraph.	<i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>
Old SORP paragraph 7.22 (now in the new provisions module in the section on funding commitments)	Clarified that liabilities for grant payments must be discounted to present value where the time value of money is material.	This amendment has been proposed to ensure that the SORP aligns with paragraph 34.61 of FRS 102.	<i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>
Old SORP paragraph 7.23 (now in the new provisions module in the section on funding commitments)	Additional wording (“the charity does not anticipate a lack of funds and that” following the word “assuming”) had been included in this paragraph in the papers presented to the Charities SORP Committee on 26 July 2022. This text has been deleted.	Based on advice received by email from the FRC observer member, additional text has been deleted as a charity with a lack of funds may be insolvent, therefore not following the SORP and preparing its accounts on the going concern basis. The paragraph therefore does not need to contain requirements for charities who anticipate a lack of funds, as charities in this situation are unlikely to be following the SORP.	<i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>

Paragraph reference(s)	Amendment made	Reason for Proposed Amendment	Question for consideration
<p>Old SORP paragraph 7.36 (now in the new provisions module in the section on Treatment of commitments not recognised as provisions or liabilities)</p>	<p>Additional content is included on re-evaluating the likelihood of payment of a funding commitment each reporting period.</p>	<p>This proposed amendment is intended to add clarity to the SORP.</p>	<p><i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i></p>