



What's changed?

Help-sheet 2: What are the major changes between SORP 2005 and the Charities SORP (FRS 102) for charities preparing their accounts in accordance with the Financial Reporting Standard (FRS 102) applicable in the UK and Republic of Ireland?

Introduction

This help-sheet considers the significant differences between the Accounting and Reporting by Charities Statement of Recommended Practice (SORP 2005) and the Charities SORP (FRS 102) regarding:

- the contents of the trustees annual report;
- differences in accounting policies including recognition and measurement criteria;
- differences in the format of the accounts; and
- the definition and disclosure of transactions with related parties and employee benefits.

This help-sheet does not consider differences in disclosures except for those of related parties and employee benefits. Disclosures are particular to a charity's circumstances and reference must be made to the applicable Charities SORP (FRS 102) modules to identify those disclosures that must be made.

This help-sheet is intended to provide practitioners with further information about the FRS 102 SORP when preparing charity accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (known as the FRS 102). Help-sheets are not part of the SORP and preparers of charity accounts are under no obligation to use or refer to them.

Format

This help-sheet sets out the more significant changes from SORP 2005 to the Charities SORP (FRS 102). It considers first the trustees' annual report and the accounting statements and then reviews other topics in the order of the modules listed in the Charities SORP (FRS 102). The Charities SORP (FRS 102) prefaces accounting treatments, formatting requirements or disclosures not found in FRS 102 with the statement 'this SORP requires'. Also, where FRS 102 identifies alternative accounting treatments, the FRS 102 SORP specifies if a particular treatment that must be followed. Hereafter the Charities SORP (FRS 102) is referred to as the FRS 102 SORP.

The use of 'must', 'should' and 'may'

For the first time the FRS 102 SORP uses specific terms to identify those requirements that must be followed in order to comply with the FRS 102 SORP from those recommendations that should be followed as best practice and the options or illustrations that may be adopted by a charity when preparing its accounts.

This help-sheet only considers those requirements that must be followed to comply with the FRS 102 SORP. Preparers are strongly recommended to consider those recommendations that should be followed as best practice.

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Trustees' Annual Report

Module 1

The FRS 102 SORP retains the current focus of the annual report on providing information relevant to a charity's stakeholders and the charity telling its own story in a balanced manner. All charities reporting under the FRS 102 SORP must provide a baseline level of information but more is required of larger charities.

SORP 2005 made reference to reporting fulfilling the trustees' duty of stewardship and FRS 102 SORP takes this further with a statement that the responsibility for preparing the report rests with a charity's trustees who must approve it.

The FRS 102 SORP, in common with the 2005 SORP, defines larger charities as those charities which are required to have an audit under charity law. In those jurisdictions where there is no charity law audit requirement, larger charities are defined by reference to their gross income. The FRS 102 SORP sets out any additional information or disclosures that must be provided by larger charities.

The significant changes from SORP 2005 that affect all charities are:

- The charity must explain any policy it has for holding reserves and state the amounts of those reserves and why they are held. If the trustees have decided that holding reserves is unnecessary, the report must disclose this fact and provide the reasons behind this decision.
- The concession allowing the disclosure of the names of trustees to be limited to a maximum of 50 has been dropped and instead all trustees who acted in the year or who are in position at the date the report is signed must be listed. This change was to ensure that details of all trustees are reported.

The significant changes from SORP 2005 that affect larger charities are:

- Larger charities must provide an explanation of their social investment policies and explain how any programme related investments contributed to the achievement of its aims and objectives.
- Larger charities must explain the financial effect of significant events. This is in addition to reporting the significant charitable activities undertaken (which is carried over from SORP 2005).
- The statement concerning risk management made by larger charities is dropped and instead larger charities are required to provide a description of the principal risks and uncertainties facing the charity and its subsidiary undertakings, as identified by the charity trustees, together with a summary of their plans and strategies for managing those risks.
- Larger charities must disclose their 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.

All charities investing endowment on a total return basis must refer to module 21 for the additional information to be disclosed in their report.

Statement of Financial Activities (SoFA)

Module 4

The basic structure of the SoFA, with its columnar presentation distinguishing the classes of fund held: unrestricted income, restricted income and endowment, is retained.

However, the number of headings within the SoFA has been reduced and a 'plain English' style adopted to describe the nature of the income or expenditure included within each heading of the SoFA. In accordance with FRS 102, a new requirement is made that comparatives are provided for all columns in the SoFA either by way of adding additional columns or by providing this information in the notes to the accounts. Some of the line headings in the SoFA have been changed.

A single column SoFA for all funds is permitted where only one class of funds is material, otherwise unrestricted and restricted funds and endowment must be shown separately.

The treatment of gains and losses on investment assets has changed. SORP 2005 presented both realised and unrealised investment gains and losses as an item within 'other gains and losses' after striking a total for 'net incoming/outgoing resources'. FRS 102 requires that changes in the value of financial instruments (which includes investments) measured at fair value are taken through profit and loss (FRS 102, paragraph 12.8). In order to comply with this requirement, gains and losses on investments are now shown in the SoFA before striking a total for 'net income/ expenditure'.

An extract from the SORP 2005 is compared with the FRS 102 SORP in the table below:

2005 SORP (SoFA extract)		FRS 102 SORP (SoFA extract)
Voluntary income	● →	Donations and legacies
Activities for generating funds	● →	Other trading activities
Investment income	● →	<i>Income from Investments</i>
Incoming resources from charitable activities	● →	<i>Income from Charitable activities</i>
Other incoming resources	● →	Other <i>income</i>
Total incoming resources	● →	Total income and endowments
Costs of generating voluntary income	● →	Expenditure on Raising funds
Fundraising trading: cost of goods sold and other costs	● →	
Investment management costs	● →	
<i>Resources expended on Charitable activities</i>	● →	Expenditure on Charitable activities
Governance costs	● →	Other <i>expenditure</i>
Other resources expended	● →	
		Net gains/(losses) on investments
Net incoming/outgoing resources before transfers	● →	Net income/(expenditure)
Gross 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 investment assets	● →	
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

Income:

- The main heading 'incoming resources' is renamed 'income and endowments from'.
- 'Voluntary income' is renamed income from 'donations and legacies'.
- 'Incoming resources from charitable activities' is renamed income from 'charitable activities'.
- 'Activities for generating funds' is renamed income from 'other trading activities'.
- 'Investment' income and 'other' income line headings remain unchanged from SORP 2005.

Expenditure:

- The main heading 'resources expended' is renamed 'expenditure on'.
- 'Costs of generating voluntary income', 'fundraising trading: cost of goods sold and other costs' and 'investment management costs' are all combined in a new heading expenditure on 'raising funds'.
- 'Charitable activities' is retained is retained as expenditure on 'charitable activities'.
- The heading of 'governance costs' is dropped altogether with these costs being included in expenditure on 'charitable activities'. For those charities reporting on an activity basis, governance costs are a separate component of support costs.
- 'Other resources expended' is renamed 'other' expenditure.

- 'Discontinued operations must now be shown by way of a separate column to reflect the requirements of FRS 102. Similarly extraordinary items must be shown separately. The 'other gains and losses' heading is for those gains and losses under FRS 102 that fall outside of any other heading.

The FRS 102 SORP clarifies that:

- The conversion of endowment to income may be shown either under other income or by way of the transfer line.
- The transfers between funds line must always net to nil.
- Internally generated databases cannot be capitalised.

Balance sheet (also known as the statement of financial position)

Module 10

The format of the balance sheet in SORP 2005 was based on the format specified in the Companies Acts modified for fund accounting. There are no substantive changes to the format of the balance sheet in the FRS 102 SORP.

The FRS 102 SORP requires that:

- Investment properties are measured initially at cost and subsequently at fair value at the reporting date. SORP 2005 permitted 'any reasonable approach to market valuations' but FRS 102 requires valuations to be made by an independent expert or disclosure that this has not been done.
- The class of mixed use investment property is introduced with the property apportioned between its investment use and operational use unless this is impractical in which case it is treated as a tangible fixed asset. SORP 2005 had required such mixed used properties to be classified based on main use of the property (SORP 2005, paragraph 257).
- Property which is let or occupied by another group undertaking must now be treated as investment property.
- Social investments are shown as a separate class of investment.
- Debtors recoverable more than 12 months after the year-end must be discounted to present value, if the effect is material.

Statement of cash flows

Module 14

The statement of cash flows required by FRS 102 is based upon the statement developed by the International Accounting Standards Board and is different to the current format. The FRS 102 SORP continues to allow the choice of either the 'direct' or 'indirect' method.

SORP 2005 did not include a template and aside from giving advice on the treatment of cash flows related to endowments, it simply signposted to the relevant accounting standard - FRS 1. Module 14 includes templates illustrating the indirect method.

The SORP describes each of three mandatory headings: operating activities, investing activities and financing activities. It also gives examples of cash flows that fall within each heading and provides advice on the treatment of cash flows arising from endowments.

Eligible parent charities may opt to report using the disclosure exemptions permitted by section 1 of FRS 102 provided the disclosures required for related parties (see module 9) are made and so a parent does not need to prepare a statement of cash-flows for the parent charity itself.

Fund accounting

Module 2

The classification of the funds of a charity is unchanged. However the FRS 102 SORP requires that the transfer line in the SoFA nets to nil and so one sided funds transfers are prohibited. This approach rules out one sided transfers as a mechanism for dealing with the acquisition of, or transfer of, trusts to or from another charity. The accounting treatment for such 'transfers' is to recognise a gain (or loss) equal to the value of the net assets (or net liabilities) acquired (acquisition accounting) or to adopt merger accounting where the relevant criteria are met.

The reference to loans from one fund to another fund of the same charity is dropped (SORP 2005, paragraph 350) as such amounts, if not temporary, are in substance transfers between funds and can only be made where the purposes of the trusts are sufficiently similar to allow such payments.

Accounting policies, policies, concepts and principles

Module 3

The FRS 102 SORP sets out accounting policies which are consistent with FRS 102. The time-frame for considering going concern under FRS 102 is at least 12 months from the date the accounts are approved.

SORP 2005 attempted to list the most common accounting policies and discussed a number of them in detail. This list was set out in the SORP 2005 paragraphs 356 to 370 but the FRS 102 SORP does not take this approach. Instead, module 3 considers the selection of accounting policies and what constitutes compliance with the SORP at a principles level. The FRS 102 SORP then considers accounting policies in the context of the particular issues addressed within each module.

Neither FRS 102 nor the FRS 102 SORP will result in a wholesale change to the accounting policies as set out in SORP 2005. However, there are a number of significant changes that may affect particular charities. These changes are explained here in the order that the modules appear in the FRS 102 SORP.

Recognition of income

Module 5

As a consequence of FRS 102, the FRS 102 SORP changes one of the three criteria for income recognition. It requires that income should be recognised when its receipt is 'probable' whereas the equivalent criterion under SORP 2005 was 'virtually certain'. Otherwise the two other recognition criteria of entitlement and measurement remain unchanged from SORP 2005.

The FRS 102 SORP also:

- Provides that in certain circumstances income from contracts can be classified as restricted income rather than unrestricted income.
- Prohibits the adoption of the 'accrual model' for the recognition of income from government grants (this option is not available under SORP 2005 in any case).
- Provides more guidance than SORP 2005 on how time related conditions may prevent income recognition.
- Provides more guidance on recognising income from legacies including the use of a portfolio approach for immaterial legacies and provides a three point test as to when receipt of a legacy is 'normally probable'.
- Requires extended credit terms be reflected in the calculation of the present value of income receivable (in line with FRS 102) for exchange transactions.
- Incorporates specific guidance on income from insurance claims reflecting the FRS 102 requirement that receipt must be virtually certain.

Donated goods, facilities and services including volunteers

Module 6

Whilst SORP 2005 required that the income from the receipt of donated goods for sale was recognised once sold, and goods for distribution, on distribution, FRS 102 requires recognition at the point of receipt at fair value. This requirement is only relaxed if either it is not practical and/or the costs of recognition on receipt outweigh the benefit to users of the accounts and the charity of this information.

If it is impractical to measure the fair value of goods donated for resale or distribution, the donated goods must then be recognised as income when they are sold or distributed. Other gifts of donated services and facilities are recognised at the value to the charity but whereas SORP 2005 refers to 'utility', the FRS 102 SORP refers to the 'benefit' to the charity, though the result is likely to be comparable.

The FRS 102 SORP provides guidance on how to apply an estimation technique for donated items for sale under the UK retail gift aid scheme.

Recognition of expenditure

Module 7

The FRS 102 SORP requires the discounting of liabilities and provisions for the time value of money where settlement is delayed for more than 12 months and the effect is material. This treatment was referred to in SORP 2005 in connection with grant commitments (paragraph 323) but is now more extensively applied to be consistent with FRS 102.

The FRS 102 SORP provides guidance on accounting for onerous contracts and employee benefits. In line with FRS 102, the FRS 102 SORP requires the accrual of a liability for paid annual leave and sick leave, if material.

Allocating costs by activity in the SoFA

Module 8

The approach to allocating support costs is unchanged from SORP 2005 but support costs now include governance costs as a separate component.

Disclosure of trustee and staff remuneration, related party and other transactions

Module 9

The significant changes in the FRS 102 SORP are:

- The disclosures required for trustees equally apply to de-facto trustees.
- Clarification that trustee expenses include costs reimbursed and costs paid direct to third parties.
- Whilst the details of individual donations without conditions made by trustees need not be disclosed, the total amount donated must be disclosed (required by FRS 102).
- Unless immaterial, the total amount of expenses waived by trustees must be disclosed (required by FRS 102).
- Contributions by a charity to a pension fund for the benefit of employees must now be disclosed (required by FRS 102).
- Details of redundancy and termination payments for staff must be disclosed (required by FRS 102).
- All charities must disclose if the number of staff is paid £60,000 or more in bands of £10,000 from £60,000 upwards.
- The total paid to key management personnel must be disclosed (required by FRS 102).
- The glossary definition of a related party is now more closely aligned with the definition provided in section 33 of FRS 102 and charity law, particularly section 118 of the Charities Act 2011 (England and Wales) and section 68 of the Charities and Trustee Investment (Scotland) Act 2005.

Accounting for financial assets and financial liabilities

Module 11

In accordance with FRS 102, the FRS 102 SORP distinguishes between accounting for 'basic' financial assets and financial liabilities and 'other' financial assets and financial liabilities. It identifies which financial instruments are classified as 'basic'.

If a charity holds other, more complex, financial instruments then reference must be made to the relevant sections of FRS 102. SORP 2005 made only limited reference to financial instruments (paragraph 338).

Accounting for impairment

Module 12

The requirements are unchanged from SORP 2005.

Events after the end of the reporting period

Module 13

The requirements are unchanged from SORP 2005.

Charities established under company law

Module 15

Reference is made to the requirement for a strategic report as component of the directors' report but this is only required of UK charitable companies that qualify as medium or large companies. Guidance is added for charitable companies incorporated in the Republic of Ireland.

Presentation and disclosure of grant-making activities

Module 16

The FRS 102 SORP does not permit details of institutional grants to be made by way of a separate publication rather than in the notes to the accounts but it does permit this information to be provided on a charity's webpage provided certain conditions are met or in the trustees' annual report.

Retirement and post-employment benefits

Module 17

The requirements for defined contribution plans are unchanged. For defined benefit plans reference is made to FRS 102. In the case of a charity contributing to a multi-employer defined benefit pension plan where its share of an actuarial deficit cannot be identified these are treated as defined contribution schemes. However where an agreement is in place to make additional contributions based on current and past service of employees a liability must be recognised for the present value of outstanding additional contributions (as required by FRS 102).

Accounting for heritage assets

Module 18

The FRS 102 SORP adopts the definition of heritage assets in FRS 102 and drops the explicit link between the objects of the charity and whether or not an asset qualifies as a heritage asset. Instead the FRS 102 SORP sets out three criteria which have to be met if a charity which does not have preservation or conservation objects wishes to account for tangible fixed assets as heritage assets.

The approach to recognition and measurement in SORP 2005 was at cost or valuation. The FRS 102 SORP requires recognition at historical cost or valuation with initial recognition of donated heritage assets at their fair value where practicable.

Accounting for funds received as agent or custodian trustee

Module 19

The FRS 102 SORP has new guidance at a principles level which distinguishes the accounting treatments for consortium arrangements.

Total return (investments)

Module 20

The FRS 102 SORP sets out the accounting treatment to be followed by charities that invest permanently endowed funds on a total return basis. SORP 2005 had addressed this issue in less detail (see appendix 3).

Accounting for social investments

Module 21

The FRS 102 SORP introduces a new class of investment termed 'social investment'. Social investment covers 'programme related investments' which is used in the same way as SORP 2005 (paragraph 308) to describe investments made primarily to further the charitable aims of the investing charity. Social investment also includes a new sub-class of investment termed 'mixed motive investments' which is an investment made both to generate an investment return and to further the investing charity's purposes.

The FRS 102 SORP provides that charities may use the cost model for concessionary loans. The cost model can also be used for other social investments when a reliable estimate of 'fair value' is not practical. Otherwise social investments are recognised at their fair value. The FRS 102 SORP sets out on what basis social investments are reclassified and the treatment of impairment.

Accounting for charities pooling investments

Module 22

The FRS 102 SORP provides new guidance on how charities should report pooling of investments and sets out how charities established as investment funds must account for those funds.

Accounting for branches, charity groups and combinations

Module 23

The FRS 102 SORP provides a flow chart to assist prepares to identify which modules apply to particular combinations.

Accounting for groups and the preparation of consolidated accounts

Module 24

The FRS 102 SORP provides new guidance which clarifies the treatment for charity combinations. An interest acquired in a charity is treated as a gain or a loss or, if the applicable criteria are met, as a merger. Treating acquisitions as one sided transfers is not permitted. The SORP requires that negative goodwill on acquiring an interest in a charity is recognised as a gain in the SoFA in the year of acquisition.

Regarding non-charitable acquisitions, FRS 102 presumes that goodwill has a maximum 5 year life.

Branches, linked or connected charities and joint arrangements

Module 25

The FRS 102 SORP clarifies the definition by specifically excluding incorporated charities from being treated as branches. Incorporated charities, whether or not linked or connected, are accounted for as subsidiaries within the group accounts and not within the charity's own individual accounts as a branch.

Charities as subsidiaries

Module 26

The FRS 102 SORP adds new guidance for those charities which are subsidiaries of another entity.

Charity mergers

Module 27

The FRS 102 SORP sets out the criteria for treating a combination as a merger and the basis upon which charity reconstructions can also be treated as mergers. For example when a charity changes its constitutional form from unincorporated and incorporates this can be regarded as a reconstruction allowing the adoption of merger accounting.

Accounting for associates

Module 28

The FRS 102 SORP provides that where a charity has an associate interest in another charity the rebuttable presumption, in the absence of information to the contrary, is that the charity's interest is calculated by reference to voting rights.

Accounting for joint ventures

Module 29

FRS 102 requires the use of the 'equity' method of accounting for joint venture charities and joint venture entities in consolidated (group) accounts. The effect of the equity method of accounting is to show a charity's share of the net income or net expenditure of the joint venture entity as single line in the SoFA with the charity's share of net assets recognised in the balance sheet. This is a change from SORP 2005 that required the gross equity method to be used in the preparation of the consolidated (group) accounts.