PRICE BAILEY | CHARITY NEWS SORP SPECIAL JULY 2014

GROWING AND GIVING

The new SORPS are here – but which will you use?

Price Bailey
CHARTERED ACCOUNTANTS

Welcome to this special edition newsletter for charities and NFPs

New Charity SORPS

The updated Statements of Recommended Practice for charities have now been issued, and there are two of them!

The majority of charities will be able to choose the SORP they use based on their size. As a reminder these new SORPs apply to accounting periods beginning on or after 1 January 2015 and charities need to understand which SORP they can use and the advantages and disadvantages of these:

1. FRSSE SORP

Charities that would qualify as a small company or small group can use the FRSSE.

Basic company thresholds are two of three of:

- **Income under £6.5M**
- **Balance sheet under £3.26M**
- **Less than 50 staff**

or for groups, gross figures are £7.8M income and £3.9M balance sheet and 50 staff.

Advantages

The advantages are that accounting policies adopted must follow the FRSSE (based on UK GAAP), and the FRSSE SORP identifies these as well as specific additional SORP-only requirements. However for new transactions or items not covered by the FRSSE then 'current practice' or new UK GAAP needs to be considered (e.g. Income recognition criteria of 'certain' has been replaced by 'probable').

Therefore some accounting polices will remain as they currently are, the cash flow statement is voluntary, no need to consider holiday and sick pay accruals for staff, investment gains and losses remain unchanged and are recognised after net income/expenditure and generally there are fewer disclosures.

Disadvantages

The disadvantages are that the FRSSE is due to be replaced imminently. Therefore charities that follow the FRSSE SORP are likely to see two lots of changes in two years - changes in preparing their first accounts using the FRSSE SORP, followed by another change for their next set of accounts if the FRSSE is withdrawn, a point which is currently being mooted.

A round up of the New Charity SORPS

These articles were written by Helena Wilkinson.

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2. FRS 102 SORP

Any charity can choose to follow the FRS 102 SORP and those that are not 'small' (see definition on previous page) *must* follow it. Certain charities are also prevented from applying the FRSSE even if small, so these would also be caught. This is where the most changes in policies and disclosures are likely to occur.

A flavour of some of the key changes are that:

- Income recognition criteria of 'certain' has been replaced by 'probable' and there is new guidance recognising legacies including a three point test for income identification as normally being probable, the portfolio approach to legacy income recognition and on identification of onerous contracts.
- More disclosure is required in respect of government grants and in certain circumstances contracts can be recognised as restricted income.
- More guidance on how time related conditions could prevent income recognition.
- Discontinued operations must be shown as a separate column.
- Gains and losses on investment assets are before striking net income/expenditure for the year.
- Cash flow statement is required in a slightly new format .
- Donated goods received for resale or distribution are recognised on receipt – unless impractical or cost outweighs the benefit. New guidance on how to use an estimation technique for donated items for sale under the UK retail Gift Aid Scheme.
- Recognition of sick and holiday pay as an accrual, if material.
- Property let to a group member now needs to be shown as investment property.
- Social investments and mixed motive investments are now separate classes.
- New guidance on the total return basis approach to investments (for E & W).
- Key management personnel and their benefits needs disclosure in total.
- Incorporated entities cannot be treated as branches - only as subsidiaries.
- Additional disclosure on concessionary loans, heritage assets, charities that are subsidiaries, associates, joint ventures and mergers. Joint ventures must be consolidated on equity method.
- Multi-employer pension scheme deficit funding needs to be recognised as a liability on the balance sheet.
- Extensive disclosure on financial instruments.

Key changes

3. Changes affecting all charities

- The columnar nature of the Statement of Financial Activities has been retained but there is a new requirement for the comparatives to be disclosed in columnar format also, not just in total, although this additional disclosure can be done in the notes.
- Governance costs are now part of support costs.
- Revised definition and disclosure in respect of related party transactions.
- Trustees expenses include costs reimbursed AND costs paid to third parties, and where costs are waived the amount needs to be disclosed (if material).
- There is a requirement for the salary bandings to be disclosed for all charities with pay over £60,000.
- Charities have to disclose their reserves policy, the amounts and why they are held or otherwise disclose that there is no policy and why not.
- All trustees, regardless of number, will also now need to be disclosed in the Trustees Report.
- Discounting of long term debtors and liabilities, where material, required although discount rates to be used are different under FRSSE and FRS 102 .

Larger charities (normally just where income is over £500k) have further additional disclosures. These relate to:

- Removal of the risk management statement which is replaced with a requirement to describe the principal risks and uncertainties of the charity and of its subsidiaries together with a summary of the plans and actions in mitigating or managing these risks.
- Social investment policies to be explained and how programme related investments have helped the charity in achieving its aims and objectives.
- Arrangements in place for setting and remunerating the charity's key management personnel and particularly any benchmarks, parameters or criteria used.

Contact us

If you are concerned about these changes and how they could affect your organisation, please contact Helena Wilkinson for further information:

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Find out more at our forthcoming seminars: "Understanding the Charity SORP"

See http://www.pricebailey.co.uk/events for details.