

Using FRSSE 2015

The Financial Reporting Standard for Smaller Entities (FRSSE) has been around for many years but is being updated and there will be a version of the Statement of Recommended Practice (SORP) for charities that wish to adopt the FRSSE.

Which charities can use the FRSSE?

You have to qualify as small in Companies Act terms, even if your charity is not a company. You are considered small if you do not exceed two of the following criteria:

- Turnover no more than £6.5m
- Aggregate balance sheet total not more than £3.26m
- Average number of employees no more than 50

These limits are regularly reviewed and are likely to be increased in 2015.

We don't currently apply the FRSSE so can we choose to now?

As charity SORP 2005 did not explicitly accommodate the FRSSE 2008, many small charities did not follow the FRSSE. However, there will be a new SORP for the FRSSE alone, which will mean you can choose to adopt if you wish.

You also need to consider the long-term future of the FRSSE which is unknown at the moment. The Financial Reporting Council (FRC) have indicated that they have started a project to review the FRSSE and how this is aligned with the new UK GAAP (Generally Accepted Accounting Practice) framework. This suggests that there will be another change in the near future. If this is the case, and you have chosen to adopt the FRSSE, it is likely that you will have to change your accounting treatment again. Every indication suggests the FRSSE will be brought more into line with FRS 102.

What is changing from FRSSE 2008 to FRSSE 2015?

There is little difference between the current FRSSE 2008 and the FRSSE 2015. The main differences being:

- Annual impairment of assets is required
- Maximum life of intangibles, including goodwill, is deemed to be five years unless it can be accurately valued. Under the FRSSE 2008 the maximum life was 20 years.
- The definitions in connection with related party transactions and key management personnel have been aligned with FRS 102
- The exemption for disclosure of intra-group related party transactions where any subsidiary to the transactions is 100% owned by the group has been added

What should I choose – FRSSE or FRS 102?

Only small charities can choose the FRSSE, but you could follow FRS 102 instead. There is a separate SORP for FRS 102. There are a number of differences in the accounting treatment of certain areas between FRS 102 and the FRSSE 2015. The main differences are:

	FRS 102	FRSSE
Statement of cash flows	Must be prepared	No obligation to prepare, but can be prepared if you wish
Revenue recognition	To be recognised when 'received or receivable'	To be recognised when, and to the extent that, the organisation obtains the 'right to consideration'
Leases	A lease is considered a finance lease if 'substantially all' of the fair value of the leased asset is transferred to the lessee (there is no reference to the 90% benchmark).	A lease is considered a finance lease if 'substantially all' (normally 90% or more) of the fair value of the leased asset is transferred to the lessee
Short term-employee benefits	An accrual is required for short-term employee benefits	No specific requirement for such accruals
Grants	A grant which imposes specific performance conditions is recognised in income when the performance conditions are met. Where there are no performance conditions, income is recognised when the proceeds are received or receivable	Grants will be recognised to match the expenditure to which they are intended to contribute

Once a decision has been made you must follow the accounting standard in full, you cannot pick and choose parts of FRS 102 and parts of the FRSSE. However, there are areas which are not covered by the FRSSE. These areas are:

- Non-exchange items (donations, grants, legacies etc.)
- Donated goods and services
- Basic financial instruments
- Heritage assets
- Mergers
- Accounting for associates and joint ventures

For these areas you would have to look to FRS 102 on how to treat these items.

What can I do now to prepare for the changes and how would I adopt the FRSSE 2015?

As things stand, many of the accounting policies will be the same. Where the FRSSE does not have specific guidance on certain areas, as mentioned above, FRS 102 treatments would have to be adopted and comparatives would need to be restated.