SORP 2015

made simple

SAYER | VINCENT

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Introduction

This guide is designed for people who may be new to the charity sector or otherwise need to understand charity accounts.

Charities have to prepare accounts in accordance with the Statement of Recommended Practice (SORP) also known as the charity SORP. The most recent version of this was issued in July 2014 and as it applies for financial periods commencing on or after 1 January 2015, it is known as SORP 2015. Note that charities registered in Scotland, Northern Ireland and the Republic of Ireland follow the SORP, but also have to follow local legislation. SORP does not apply to charities preparing receipts and payments accounts, a choice available to those with annual income below £250,000.

How are charity accounts different to commercial accounts?

The SORP tries to get away from the concept of profit as the measure of success or failure. The profit concept is not appropriate to charities, as charity law requires them to use all funds to further the charitable objects. The profit and loss account (income and expenditure account) is therefore replaced by a Statement of Financial Activities (SoFA). The SoFA brings together all the resources available to the charity and shows how these have been used to fulfil the charity's objectives. For example, incoming resources will include new endowments received by the charity, even though these are new capital to the charity. Donated assets and services are also brought into a SoFA, whereas commercial profit and loss accounts would not include them.

Which version of SORP?

There are two versions of SORP 2015 and you will need to choose which version of SORP your charity should follow:

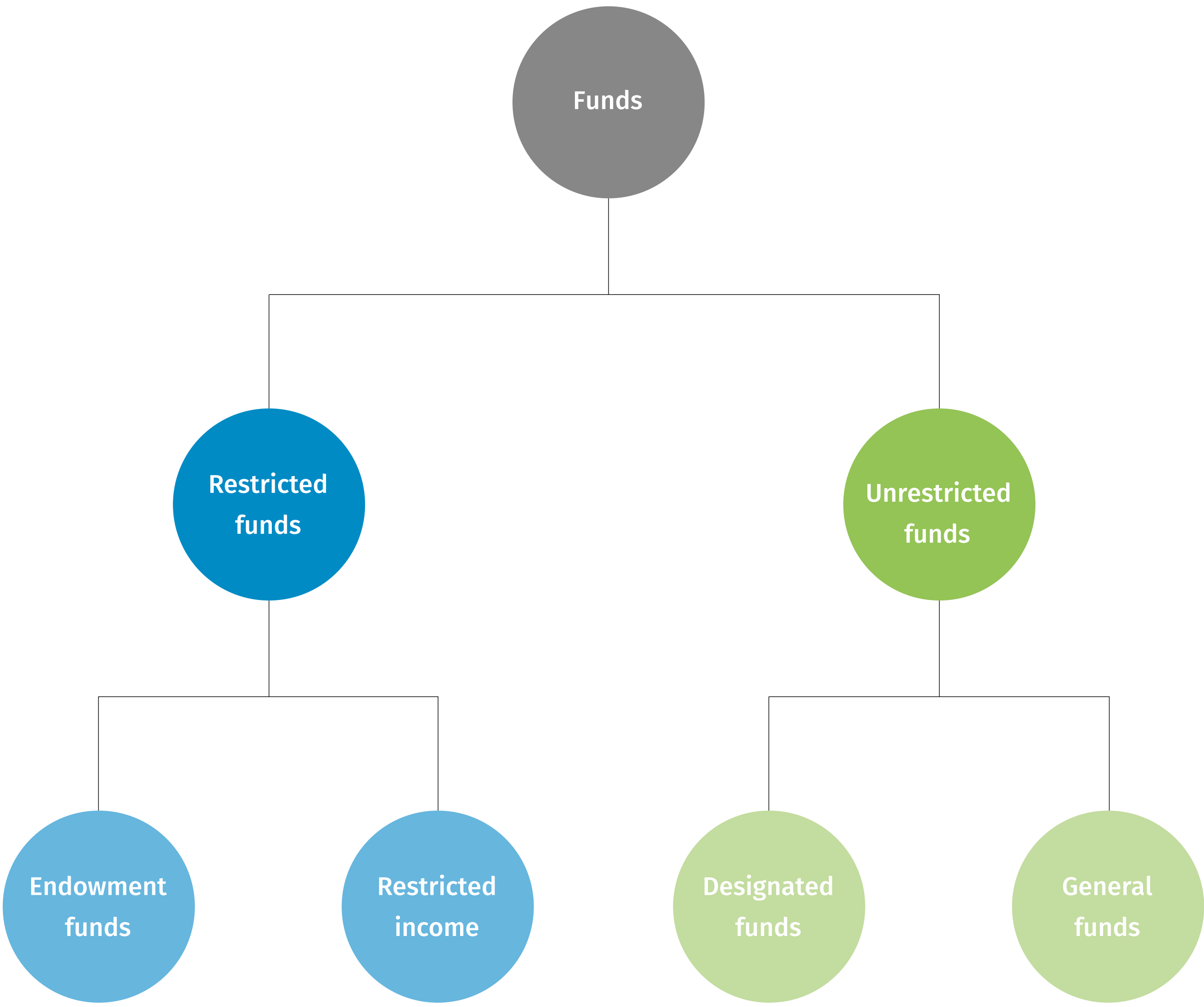
- The FRSSE SORP is based on the Financial Reporting Standard for Smaller Entities. This is an option for charities that are below the small company thresholds (see appendix A). However, the FRSSE will be withdrawn in 2016, so will only be available for one year.
- FRS 102 SORP is based on a new Financial Reporting Standard 102, which is a comprehensive standard that replaces all earlier financial reporting standards and statements of accounting practice. This SORP is compulsory for larger charities and optional for smaller charities.

Fund accounting

One of main differences to commercial accounts is the format of charity accounts requiring all incoming and outgoing resources, assets and liabilities to belong to a fund.

It is necessary to track income and expenditure on each fund through the accounts, so that one knows the amounts received, expended and the balances on each fund. The different types of funds are described below.

A charity may have many restricted funds and that these will be summarised in the SoFA, with details given in the notes to the accounts.



The different types of funds are:

- **Permanent endowment funds** are donations that have been given to a charity to be held as capital with no power to convert the funds to income. Funds may be cash or other assets but should be invested to maintain the value of the capital and to earn income.
- **Expendable endowment funds** are donations that have been given to a charity to be held as capital, where the trustees do have a discretionary power to use the funds as income.
- **Restricted funds** are funds subject to special trusts specified by the donor. This might be because it was a public appeal for a specific purpose, grants or donations. It may also include land, buildings or other assets donated to a charity. The trustees will be in breach of trust if they use restricted income other than for the specified purpose. Unless specified, interest or other investment income on a restricted fund will be added to the fund. Significant restricted funds have to be separately disclosed in the notes to the accounts.
- **Unrestricted funds** are funds available for the purposes of the charity, to be spent as the trustees see fit.
- **Designated funds** are unrestricted funds that have been earmarked for a particular purpose by the trustees. The notes to the accounts should explain the purpose of designated funds.
- **General funds** are unrestricted funds which have not been earmarked and may be used generally to further the charity's objects.

Reserves

The term *reserves* describes that part of a charity's funds that is freely available. The term therefore normally excludes endowments and restricted funds, and also any part of unrestricted funds not readily available for spending, e.g. fixed assets.

Reserves are held for the following purposes:

- To protect the continuity of the charity's work in the event of a shortfall in income.
- To protect the charity's funds from loss in value eg. market investments.
- To provide the capital needed to finance expansion of the charity.
- To provide the funds needed to replace assets.

In essence, charities should retain reserves to manage continuity and to minimise the risk that charitable programmes will be jeopardised because of a fall in income.

Trustees need to form a policy on the level of reserves they need to manage the identified risks. This is usually expressed as a number of months of regular running costs and may be stated as a range. Separate guides in this series explain how to develop a reserves policy and how to undertake a risk assessment for your charity.

The format and content of charity accounts

The table below illustrates what a set of charity accounts will consist of depending on which SORP is followed:

Content of accounts	Receipts and payments accounts	FRSSE SORP	FRS 102 SORP
Trustees' annual report	●	●	●
Independent examiner's or auditors' report	●	●	●
Receipts and payments account	●		
Statement of financial activities (SOFA)		●	●
Summary income and expenditure account (or this may be incorporated within SOFA)			●
Statement of assets and liabilities	●		
Balance sheet		●	●
Cash flow statement			●
Notes to the accounts		●	●

Helpful guidance on accounts for smaller charities is provided by the Charity Commission on their website.

Trustees' annual report

The requirements for the trustees' annual report under SORP 2015 are the same for the FRSSE and FRS 102.

In both SORPs, there are additional requirements for larger charities, by which the SORP means charities above the charity audit threshold (total income over £1 million or above £250,000 if the assets are worth more than £3.26 million). The SORP 2015 requirements are summarised below.

Reference and administrative details

This section must include:

- Registered name of the charity and any other name it uses, the charity number, company number if registered and address of the principal office.
- Trustees during the period of the report up to the date the report was approved. Under SORP 2015, all trustees must now be named even if the charity has over 50 trustees.
- The names of the directors of any corporate trustee on the date the report was approved.
- The names of any trustee who holds title to a property on behalf of the charity on the date the report was approved or who held this position during the reporting period.

Additional information that must be disclosed by charities above the audit threshold:

- Senior staff to whom day-to-day management of the charity is delegated.
- Names and addresses of advisors such as bankers, solicitors, auditors and investment managers.

Objectives and activities

The report must explain what the charity's objects are and what it does in order to achieve them. All charities have to state the objects of the charity as set out in its governing document. This section should link in to any activities, projects or services described later in the report and there should be a link to the financial results reported in the accounts.

Charities also have to explain the public benefits that arise from the charitable aims and the steps taken by the charity to ensure that the benefits from its activities continue to relate to the aims of the charity. Trustees also need to confirm that they have referred to the Charity Commission's guidance on public benefit when reviewing the charity's aims and objectives and planning future activities.

Charities above the audit threshold must additionally report:

- Additional information on the charity's aims, including issues to be tackled, how its activities will make a difference, how achieving these aims will contribute towards the charity's legal objects, strategies to achieve the aims and objectives and how success will be measured.
- Details of significant activities such as main programmes, projects, or services provided, how they contribute to the achievement of the objectives, providing an understanding of short term and longer term aims and objectives.
- Social investment policy when this significantly contributes to charitable or investment activities.

- Grant making policies where this is a significant activity.
- Information about the role and contribution of volunteers, such as the activities that volunteers help provide, quantify the contribution in terms of hours or staff equivalents, and an indicative value of this contribution.

Structure, governance and management

This section must explain how the charity is constituted, its organisational structure and how the charity's decision-making processes operate.

All charities must report:

- The constitution eg. trust, company limited by guarantee, unincorporated association etc.
- How trustees are recruited and appointed and whether they receive any benefits.

Charities above the audit threshold must additionally report:

- The organisational structure of the charity and how decisions are made. For example, which types of decisions are taken by the charity trustees and those which are delegated to staff.
- The policies and procedures adopted for the induction and training of trustees.
- A description of the charity's policy that has been adopted for benchmarking and setting the remuneration of the key management personnel of the organisation.
- Where the charity is part of a wider network (for example charities affiliated within an umbrella group) then the relationship involved should also be explained where this impacts on the operating policies adopted by the charity.
- The relationships between the charity and related parties, including its subsidiaries and with any other charities and organisations with which it co-operates.

Achievements and performance

All charities have to provide a summary of the main achievements of the charity during the year.

Trustees also have to describe how the benefits provided by the charity are for the benefit of the public or a section of the public. Explain access or restrictions to access as necessary.

Charities above the audit threshold should provide a balanced review of its performance against set objectives, giving both qualitative and quantitative information such as indicators, milestones and benchmarks against which the achievement is assessed by the charity. Charities are encouraged in this section to report the impact they have made against their aims and objectives.

In particular, the report should contain:

- A review of charitable activities undertaken to explain performance against the objectives set.
- Comment on fundraising performance and if significant, a review of the impact of fundraising expenditure on generating fundraising income for both current and future periods.
- Details of the performance of investment compared to the policy.

- A summary of how the charity measures and assesses performance including an explanation of any achievements that contribute towards numerical targets that have been set.
- Commentary on those factors affecting performance, including significant positive and negative factors, should be included.

Financial review

The report must contain a review of the financial position of the charity and the main financial management policies adopted in the year, including:

- Reserves policy stating the level of reserves held and why they are held. If the trustees consider it unnecessary to hold reserves, an explanation for their decision.
- Whether there are any concerns about the charity's ability to continue to operate in future periods and what these concerns are.
- If there are funds in deficit, then the reasons for the deficit and plans to eliminate the deficit.

Charities above the audit threshold must additionally report:

- An explanation of the financial effect of any significant events.
- The investment policy and objectives where significant financial investments are held.
- Principal risks and uncertainties facing the charity and how these will be managed. Note that larger charitable companies need to go further to comply with company legislation in this respect and provide more information on the major risks and uncertainties facing the charity.
- Future factors that may affect financial performance.
- Principal funding sources and how expenditure in the year under review has supported the key objectives of the charity.
- The financial impact of any significant pension liability.
- Whether the investment policy includes any social, environmental or ethical policies.
- Additional information about the charity's reserves, explaining any restricted or designated amounts, when reserves that have been committed may be spent, and the amount of reserves that relate to fixed assets and can only be spent when the asset is sold. The charity must also state the level of free reserves it holds at the balance sheet date and compare this to its reserves policy explaining how it will deal with any variances.

Plans for the future

Only charities above the audit threshold need to provide information under this section. They must describe the charity's plans for the future including the aims and key objectives it has set for future periods together with details of any activities planned to achieve them. The report should also set out how the trustees' see the future direction of the charity and how current experiences lead to better decisions on how to apply future resources.

Funds held as custodian trustee

If a charity holds funds as a custodian trustee, the charity must provide a description of the assets which they hold in this capacity and the name and objects of the charity (or charities) on whose behalf the assets are held. The charity should explain how this activity falls within their own objects and provide details of the arrangements for safe custody and segregation of such assets from the charity's own assets. This may be disclosed in the trustees' annual report or in the notes to the accounts.

Strategic report

Charitable companies that are not small as per the relevant definitions under the Companies Act 2006 (see Appendix A) will need to incorporate the additional requirements of the strategic report required by company legislation. The strategic report must be presented as a distinct section of the trustees' annual report. The strategic report should provide context for the related financial statements, analysis of past performance and insight into the main objectives and strategies, and the principal risks the charity faces and how these might affect future prospects. The Companies Act requirements will be satisfied by grouping the trustees' annual report sections on achievements and performance, financial review and plans for future periods into a section headed Strategic Report.

Statement of financial activities

The statement of financial activities (SoFA) should be prepared using a columnar format where the charity has more than one type of fund – incoming resources and resources expended should be separated between restricted and unrestricted funds, and endowment funds where the charity has them. A single column is permitted where only one class of fund is significant.

Under the FRS 102 SORP, comparative figures are required for all columns. This can be shown either on the face of the SoFA or in the notes to the accounts. Any discontinued operations must also now be shown in a separate column.

The SoFA shows the *net incoming resources* instead of surplus or profit – these are resources that are carried forward and have to be spent to further the charity's objects in future accounting periods. Where these net incoming resources relate to restricted funds, then the purpose for their application has been established by the donor.

The SoFA should be set out following the format laid out in the table below.

Income and endowments from	Should include
Donations and legacies	Donations, legacies, all gifts on a voluntary basis and grants given with no expectation of a service in return.
Charitable activities	Grants and fees received on the understanding or contractual terms that it will be used to undertake activities to further charity's objects. Can include charitable trading, performance related grants, and the letting of non-investment property where it is in furtherance of charitable objectives.
Subheadings for actual activity income	Use appropriate headings for charity's particular activities and ideally link back to activities described in the trustees' annual report.
Other trading activities	
Subheadings for actual activity income	Various fundraising activities such as events, charity shops, catalogues, sales of merchandise and sponsorship. Can include non-charitable trading including activities undertaken by trading subsidiaries.
Income from investments	Dividends. Bank interest eg. on deposit accounts. Rents earned from investment properties.
Other income	Use only where income falls outside the normal charity activities eg. profit on disposal of a fixed asset.

Expenditure on	Should include
Raising funds	
Subheadings for actual fundraising activities	Subheadings may include *fundraising costs*, *fundraising trading*, and *investment management costs*, if these costs are significant.
Charitable activities	
Subheadings for actual activity expenditure	These should correspond to the income headings under charitable activities
Other expenditure	Use only where expenditure falls outside the normal charity activities.
Net gains /(losses) on investments	Under FRS 102, any changes to the value of financial investments or investment properties must be taken through the SoFA, so this is shown above the net income/(expenditure) sub-heading. This includes both realised and unrealised gains and losses.
Transfers	Used when capital funds are released to an income fund from expendable endowment, or when unrestricted funds need to be used to fund shortfall of restricted funds, etc. All transfers between funds must net to nil. The conversion of endowment funds to income may be shown as a transfer or if preferred under other income.
Gains/(losses) on revaluation of fixed assets	Revaluation gains or losses on fixed assets. These remain below the net income/(expenditure) subheading.
Actuarial gains/(losses) on defined benefit pension schemes	Actuarial gains and losses also remain below the net income/(expenditure) subheading.
Other recognised gains and losses	Any other gains and losses not included above such as on a hedging instrument or foreign exchange losses on non-monetary assets.
Reconciliation of funds	The result for the year will be added onto the reserves brought forward from last year. The total will then agree to the balance sheet.

Note governance costs are no longer shown as a separate heading on the face of the SoFA. These costs now fall within charitable activities and should be shown as a separate component of support costs within the notes.

Example statement of financial activities under FRS 102 SORP

	Endowment £ '000	Restricted £ '000	Unrestricted £ '000	This year total £ '000	Last year total £ '000
Income and endowments					
Donations and legacies	253	27	15	295	57
Investment income	–	–	25	25	13
Income from charitable activities					
Childcare grants	–	257	50	307	295
Parenting classes	–	–	245	245	239
Total income and endowments	253	284	335	872	604
Expenditure					
Expenditure on raising funds					
Fundraising and publicity	–	–	21	21	29
Expenditure on charitable activities					
Childcare work	–	279	51	330	316
Parenting classes	–	–	226	226	209
Other expenditure	–	–	36	36	35
Total expenditure	-	279	334	613	589
Net income/(expenditure) before gains and losses on investments	253	5	1	259	15
Net gains/(losses) on investments	11	–	–	11	12
Net income/(expenditure) for the year	264	5	1	270	15
Net gains / (losses) on the revaluation of fixed assets	19	–	–	19	10
Net movement in funds	283	5	1	289	37
Reconciliation of funds					
Total funds brought forward	250	30	73	353	316
Total funds carried forward	533	35	74	642	353

The comparative figures for each fund are shown in the notes to the accounts.

Note A charity adopting the FRSSE SORP would show any gains or losses on investments under the net income/expenditure for the year heading along with other gains and losses on fixed assets. All other presentation would be the same.

Income

SORP 2015 changes when income should be recognised. Under SORP 2005, income was recognised when receipt was ***virtually certain*** whereas under SORP 2015 it should be recognised when receipt is ***probable*** or more likely than not to be received. This may mean that some income is recognised earlier than it would have been under the old rules.

In addition, there are specific items in charities which you will not often see in commercial entities and the treatment of which may differ from normal accounting practices.

Legacies

These are included as income in the SoFA when they fulfil the criteria of entitlement, measurement and their receipt is probable. Legacy administration can be slow and so even when probate has been granted, there may still be questions over the charity's entitlement. For example, it may not be clear which charity was intended as the recipient or there may be a dispute with the relatives.

Frequently, charities are entitled to a residual legacy, such as *the remainder of my estate*. This can make it difficult to measure the value the legacy until all assets have been sold and debts paid. It is not always certain that there will be anything left to pass to the charity and the timing is very uncertain until the administration is close to an end. Consequently, SORP 2015 recommends that legacies should be recognised as income when probate has been granted, when the executors have confirmed that the estate's assets are sufficient to pay the legacy and when any conditions have either been met or are under the control of the charity.

When a charity receives many small legacies, it may wish to adopt a portfolio approach. This is an estimation technique to calculate the income to be recognised based on past performance using a mathematical formula. Charities that receive legacies infrequently will need to consider each one on an individual basis.

A legacy should be included within a charity's income for the year if payment had been agreed with the executors prior to the balance sheet date and the payment is either received before the accounts are approved or is notified as receivable and receipt is considered probable.

Gifts in kind

Charities sometimes receive goods as donations, rather than cash. The value placed on gifts in kind included in the SoFA should be the estimated value to the charity of the gift received. Current value to the recipient charity will usually be the price that it estimates it would have to pay in the open market for an equivalent item. Where gifts in kind are recognised, an equivalent amount should be included as expenditure under the appropriate heading in the SoFA. Gifts in kind can take several forms:

- Buildings and major equipment donated for the charity's own use – these are tangible fixed assets and need to be shown as an addition to fixed assets and depreciated in the same way as assets bought by the charity. As well as recognising the asset, the charity would recognise the same amount as an incoming resource in the SoFA in the same accounting period. If the asset forms part of a restricted or designated fund of the charity, the depreciation would be charged against the fund.

- Equipment or supplies for the charity's own use – smaller items of equipment or supplies to be used in operational activities. For example, a company may donate food normally sold in its stores to a charity helping homeless people.
- Goods donated to charity shops or similar – the income should be recognised at fair value at the point of receipt, so at the sales price less any costs to be incurred to sell the item. If it is not practicable to value donated goods when they are received, you should wait and account for the cash received once the goods have been sold.
- Goods for distribution – such as overseas development charities receiving donated goods which they then distribute to beneficiaries overseas. Again, these should be recognised at fair value at the point of receipt unless not practicable to do so and should be recognised on the balance sheet as stock with the corresponding entry as a donation. When the goods are distributed, the stock is removed from the balance sheet and expensed in the SoFA.

Donated services

Donated services should be included in the SoFA as both income and expenditure, by including the value of the gift under donations and the relevant cost heading. Donated services should be included in the SoFA where the benefit to the charity is quantifiable and measurable and should be valued at the value to the charity. Volunteer time is not recognised in charity accounts, although it should be included in the trustees' annual report.

Expenditure

Expenditure on raising funds

These are the costs which are associated with generating incoming resources from all sources other than from undertaking charitable activities. The main components of costs within this category are:

- costs of generating donations and legacies
- costs of fundraising trading, including cost of goods sold and other associated costs
- costs of managing investments, both to generate income and to maintain the value of capital (including investment management fees)
- any other expenditure on raising funds.

Expenditure on raising funds should not include costs associated with delivering or supporting the provision of goods and services in the furtherance of the charity's objects; nor the costs of negotiating the terms of a contract or performance-related grant relating to the provision of such services.

Fundraising costs should not be netted off against income. Where a branch or a subsidiary company is used to undertake some of the charity's fundraising activities, the costs of those activities would have to be included under expenditure on raising funds in the consolidated SoFA.

Expenditure on charitable activities

This heading covers all expenditure directly relating to the objects of the charity. It should include grants payable and the direct costs of supporting charitable activities and projects (eg. salaries, office, communications and other costs identifiable as an integral part of the cost of carrying out those charitable activities or projects), as well as depreciation of fixed assets where used wholly or mainly for charitable activities.

The charity should describe the main charitable activities and attribute expenditure to them to give an indication of the way resources are expended. This should mirror the activities shown under the incoming resources categories as far as possible and should be consistent with the activities described in the trustees' annual report. A note to the accounts will give further analysis of the expenditure. Expenditure on activities should include an appropriate proportion of support costs.

Support costs

In undertaking any activity there may be support costs incurred that, while necessary to deliver an activity, do not themselves produce or constitute the output of the charitable activity. Similarly, costs will be incurred in supporting income generation activities such as fundraising, and in supporting the governance of the charity. Support costs include the central or regional office functions such as general management, payroll administration, budgeting and accounting, information technology, human resources, and financing.

Support costs do not, in themselves, constitute an activity, instead they enable output-creating activities to be undertaken. Support costs are therefore allocated to the relevant activity cost category they support. This enables the total cost of an activity to be disclosed in the SoFA. Support costs do not appear as a heading in the SoFA.

The notes to the accounts should provide details of the total support costs incurred and of material items or categories of expenditure included within support costs. Where support costs are material, an explanation should be provided in the notes of how these costs have been allocated to each of the activity cost categories disclosed in the SoFA or the supporting notes to the accounts. The explanation may include percentages or amounts allocated, details of the methods of apportionment used or a table showing the detailed allocations.

Governance costs

These are the costs associated with the governance arrangements of the charity which relate to the general running of the charity as opposed to those costs associated with fundraising or charitable activity. The costs will normally include internal and external audit, legal advice for trustees and costs associated with constitutional and statutory requirements e.g. the cost of trustee meetings and preparing statutory accounts. Included within this category are any costs associated with the strategic as opposed to day-to-day management of the charity's activities. It will also include an appropriate proportion of overhead costs.

Governance costs were previously reported in the SoFA but should now be included as a sub-category of support costs. Governance costs should be allocated to activities along with the other support costs.

Allocation of costs

A reliable approach to cost allocation should be adopted, but a charity should also consider the materiality of the amounts involved and the cost/benefit advantages of the approach, in that greater accuracy may on occasions only be achievable at a high incremental cost.

In attributing costs between activity categories, the following principles should be applied:

- Where appropriate, expenditure should be allocated directly to an activity cost category.
- Items of expenditure which contribute directly to the output of more than one activity cost category, for example, the cost of a staff member whose time is divided between a fundraising activity and working on a charitable project, should be apportioned on a reasonable, justifiable and consistent basis.
- Depreciation, amortisation, impairment or losses on disposal of fixed assets should be allocated in accordance with the same principles.
- Support costs may not be attributable to single activity, but rather provide the organisational infrastructure that enables output-producing activities to take place. Such costs should therefore also be apportioned on a reasonable, justifiable and consistent basis to the activity cost categories being supported.

There are a number of bases for apportionment that may be applied, such as proportion of direct costs, staff numbers, floor area or staff time. The bases for apportionment adopted by a charity should be appropriate to the cost concerned and to the charity's particular circumstances and applied consistently. The accounting policy notes should explain the policy adopted for the apportionment of costs between activities and any estimation technique(s) used to calculate their apportionment.

Charity balance sheets

Normal rules apply for most balance sheet items, eg. buildings used for the charity's work and equipment are tangible fixed assets on the balance sheet and depreciated. There are a few areas where the charity treatment of balance sheet items is different.

Heritage assets

Heritage assets are assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained for their contribution to knowledge and culture. Heritage assets advance the preservation, conservation and educational objectives of charities and through public access contribute to the nation's culture and education either at a national or local level. Such assets are central to the achievement of the purposes of such charities and include the land, buildings, structures, collections, exhibits or artefacts that are preserved or conserved and are central to the educational objectives of such charities.

Newly purchased heritage assets should be initially measured and recognised at cost. Donated heritage assets should be recognised at their fair value where practicable. Where heritage assets were acquired in the past, it may be difficult or costly to attribute a cost or value to them. In such cases these assets may be excluded from the balance sheet if reliable cost information is not available and conventional valuation approaches lack sufficient reliability. For example, it may be difficult to attribute a value to donated assets or unique assets.

Information on heritage assets should be given in the notes to the accounts. If further detail is given in the trustees' annual report then a cross reference to this should be given in the note. The notes should contain an analysis or narrative that enables the user to appreciate the age, scale and nature of the heritage assets held and the use made of them. The policy for managing heritage assets should also be disclosed along with details of the charity's records of such assets and the extent to which the assets can be accessed by the public.

If a charity does not recognise heritage assets on the balance sheet then the reasons must be explained. Where a charity does recognise heritage assets, any movements between the opening and closing amounts must be reconciled, such as details of any additions or disposals of heritage assets during the year. All charities recognising heritage assets must also provide a five year summary of heritage asset transactions.

Investments

Investment assets (including stocks, shares, investment properties and cash held for investment purposes) are a separate category within fixed assets. Investments should be shown at their fair value at the balance sheet date, with changes in value being shown in the *gains and losses on investment assets* section of the SoFA.

For investment property, the FRS 102 SORP does not require valuations to be carried out by an independent expert although the accounts must disclose if any valuation carried out is not an independent valuation.

Note investment property is not depreciated.

The FRS 102 SORP also requires investment property that is used for both investment purposes and operational use to be classified as *mixed use investment property* with the fair value of the property apportioned between the two activities. This is different to SORP 2005 which allowed the property to be classified based on the main type of use. If this apportionment is going to be impractical, the property should be treated as a tangible fixed asset.

Where a charity is part of a group and a property is let to or occupied by another entity within the group, this property should be treated as an investment property in the balance sheet of the owning charity. However, in the group balance sheet, the property will be a tangible fixed asset.

Grant commitments

Normal rules apply to recognising liabilities where a charity makes a legally binding commitment to fund the work of other organisations. However, grants are not often documented in formal legal agreements as they are freely given with the timing and amount at the discretion of the grant maker. Consequently, a constructive obligation may arise rather than a legal obligation. In these circumstances, the grant award should be recognised as a liability on the awarding charity's balance sheet.

A constructive obligation arises where there is a specific commitment to provide grant funding and this fact is communicated directly to the grant recipient. If, however, an irrevocable commitment has not been made, then the liability would not be shown on the balance sheet, but should be explained in a note to the accounts. For example, the grant-making charity may specify that certain conditions have to be met before further instalments of the grant will be made.

Pension scheme liability

For some charities, where they are part of a multi-employer defined benefit pension scheme, the FRS 102 SORP may require a pension liability to be recognised on the balance sheet. In the past, this has not been required where it has not been possible to identify an employer's share of the scheme's assets and liabilities. Under the FRS 102 SORP, if an employer has agreed a deficit contribution funding plan, a liability should be recognised on the balance sheet which will be the total of all future contributions due to be made under the funding plan. This may need to be discounted as described below.

Long-term assets and liabilities

Where assets and liabilities are due in more than one year, where the effect is material, it will be necessary under the FRS 102 SORP to discount these items back to a net present value in cash terms. This means recognising what the asset or liability is actually worth to the charity in today's money.

Statement of cash flows

All charities following the FRS 102 SORP will have to prepare a statement of cash flows. The statement of cash flows will provide information about the changes in cash and cash equivalents of a charity for a reporting period, showing separately changes from operating activities, investing activities and financing activities.

Operating activities – the principal revenue producing activities which have been recognised as income and expenditure in the SoFA, such as:

- Receipts from raising funds (excluding endowment funds) or income from charitable activities.
- Payments to suppliers, to and on behalf of employees.
- Grant payments.
- Payments or refunds of gift aid and income tax.
- Receipts and payments from investments, loans and other contracts where they were made in furtherance of the charity's objects.

Investing activities – the acquisition and disposal of long-term assets and other investments not included in cash equivalents, such as:

- Income received from investment assets such as interest, dividends or rental income from investment properties.
- Payments to acquire or receipts from the sale of property, plant and equipment, intangible assets and other long-term assets.
- Receipts from the repayment of loans by a non-charitable trading subsidiary.

Financing activities – the activities that relate to borrowing and movements on endowment funds which are considered to be capital, such as:

- Receipts of donations of endowment or cash received relating to an increase in expendable endowment.
- Proceeds from new borrowing, including loans and mortgages, or repayments of amounts borrowed.
- Payments by a lessee for the reduction of the outstanding liability relating to a finance lease.
- Cash equivalents are short term, highly liquid investments that are readily convertible to cash. This would include an investment with a short maturity of three months or less from the date of acquisition.

Bank overdrafts are normally considered financing activities similar to borrowings. They will form part of cash and cash equivalents if they are repayable on demand and form an integral part of an entity's cash management.

Module 14 of both SORPs includes a template for the statement of cash flows and related notes.

Notes to the accounts

In addition to the notes that provide additional analysis of the numbers presented in the SoFA and balance sheet, the SORP requires charities to provide additional narrative disclosure to help the readers of the accounts have a better understanding of the organisation. This includes details of transactions with related organisations and other stakeholders such as trustees and employees.

Trustee remuneration, benefits and expenses

All charities must disclose details of any remuneration or benefits received by trustees from the charity or a related entity or state if there were none. The note may choose to distinguish between remuneration and benefits received for services as a trustee as opposed to an employee. For each trustee this applies to, the charity must provide information about the nature of the payment or benefits, the name of the trustee and details of why the remuneration or other benefits were paid.

All charities must disclose whether one or more trustees have received expenses or state that no trustees have received expenses from the charity. Where expenses have been incurred, all charities must disclose the total amount reimbursed or paid, the nature of the expenses incurred and the number of trustees reimbursed or who had expenses paid on their behalf.

Related party transactions

A charity must identify who its related parties are and this will always include trustees, their close family members and any entities within a charitable group. Where there are transactions with related parties, it is important for the reader of the accounts to be able to understand why these transactions were in the best interests of the charity. If there have been no related party transactions, this fact must be stated. Otherwise, all charities must disclose:

- A description of the relationship between the parties and the transaction that occurred between them.
- The amounts involved including any balances at the reporting date and any amounts written off during the reporting period.
- Any terms and conditions between the parties to include security and guarantees.
- In addition, the FRS 102 SORP requires the names of the related parties to be disclosed.

Staff remuneration

All charities must disclose the number of employees receiving employer benefits (excluding pension contributions) above £60,000 in the reporting period, showing the number of employees within each band of £10,000 over this limit. If no employees received employer benefits exceeding £60,000 then this fact must be stated.

Key management personnel

All charities following the FRS 102 SORP must disclose the aggregate amount of employee benefits received by *key management personnel* for services to the charity. The term *key management personnel* refers to the people with authority and responsibility for planning, directing and controlling the activities of the charity. This group will include the trustees and senior management.

Further information

SORP (FRS 102) – Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounting in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102).

Effective 1 January 2015.

Published by CIPFA on behalf of the joint SORP making body: Charity Commission and OSCR.

www.charitysorp.org/media/619101/frs102_complete.pdf

SORP (FRSSE) – Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard for Smaller Entities (the FRSSE).

Effective 1 January 2015.

Published by CIPFA on behalf of the joint SORP making body: Charity Commission and OSCR.

www.charitysorp.org/media/619092/frsse_complete.pdf

FRS 102 – The financial reporting standard applicable in the UK and Republic of Ireland.

Published March 2013 by the Financial Reporting Council.

www.frc.org.uk/Our-Work/Publications/Accounting-and-Reporting-Policy/FRS-102-The-Financial-Reporting-Standard-applicabl.pdf

Financial Reporting Standard for Smaller Entities.

Effective January 2015.

Published by the Financial Reporting Council.

frc.org.uk/Our-Work/Publications/Accounting-and-Reporting-Policy/FRSSE-%28effective-January-2015%29.pdf

A Practical Guide to Financial Management for Charities.

Kate Sayer

Published by the Directory of Social Change.

See the Sayer Vincent website for more information and links to the Charity Commission illustrative examples of accounts under FRS 102 SORP and FRSSE SORP.

www.sayervincent.co.uk/render.aspx?siteID=1&navIDs=1,863#.VZuSNkVB0bA

Appendix A Thresholds to determine if charity is small

The thresholds defining *small* in the UK are set by the Companies Act 2006 and are relevant in determining if a charity is eligible to adopt the FRSSE, even if the charity is not incorporated under the Companies Act.

A charity that is also a company and exceeds the small company thresholds will have to prepare a Strategic report as part of the trustees' annual report.

A charity qualifies as small where any two of the following criteria are met in both the reporting and previous financial years:

Test	Threshold to 31 December 2015	Threshold from 1 January 2016
Gross income	£6.5 million	£10.2 million
Gross assets	£3.26 million	£5.1 million
Average number of employees	50	50

For financial periods that are not 12 months, the thresholds for income and assets should be adjusted in proportion to the length of the financial period.

Notes

Notes

Made simple guides

Made Simple guides are aimed at finance professionals and other managers working in charities. They cover technical areas such as tax and VAT treatments as well as information management areas and aim to provide practical guidance to busy managers and trustees in charities.

Made to measure

Sayer Vincent is a firm of chartered accountants working solely with charities and social enterprises. Through tailored audit and advice services, we provide trustees and managers with the assurance that their charity is managing its resources effectively.

As well as being commercial accountants, Sayer Vincent people have an in-depth knowledge of the governance and management of charities and social enterprises. We can advise on a range of business activities to achieve the best financial outcomes, keeping in mind the context of your organisation's objectives.

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The content of guides is correct at the time of going to print, but inevitably legal changes, case law and new financial reporting standards will change. You are therefore advised to check any particular actions you plan to take with the appropriate authority before committing yourself.
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