WRIGHT VIGAR
CHARTERED ACCOUNTANTS

Review of Changes in SORP Legislation

Contents

Background and Transition

Due to the upcoming changes to Financial Reporting Standards, the Charities Statement of Recommended Practice (SORP) has had to be updated to reflect these. In May 2014, the Financial Reporting Council approved the new Charities SORP (FRS102) for publication replacing the existing SORP 2005.

The new SORP will apply to periods commencing on or after 1 January 2015 which may also require comparative periods to be restated in line with the new legislation.

The date of transition will be the first day of the comparative period. For example, a 31 December year end would have a first period end of 31 December 2015 and so the transition date would be 1 January 2014. Although an opening balance sheet is not required charities will need to prepare reconciliations in funds at 1 January 2014, 31 December 2014 and of the surplus or deficit for the period ending 31 December 2014.

There are significant changes between SORP 2005 and the Charities SORP (FRS 102). These affect:

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

Changes to the Trustees' Annual Report

There are a number of changes on the Trustees' Annual Report between the SORP 2005 and the Charities SORP (FRS 102). Some changes are not relevant to smaller charities but these are shown separately below.

Large charities are those that are subject to audit under charity law.

The significant changes that affect all charities are:

- Charities must explain any policy it has for holding reserves, stating the amounts held and why they are held. If the trustees have decided holding reserves is unnecessary, it must disclose this fact and provide reasons behind the decision

- All trustees serving in the period must be disclosed in the Trustees' Annual Report removing the SORP 2005 concession to limit the amount of trustees disclosed to 50.

The significant changes that affect larger charities are:

- An explanation of social investment policies must be made explaining how any programme related investments contribute to the achievements of the charity's aims and objectives

- Where there has been a significant event in the period, larger charities must explain the financial effect of these in addition to just explaining the significant charitable activities in the period

- The risk statement is replaced by the charity providing descriptions of principal risks and uncertainties that they (and their subsidiaries) face. The should also detail their plans and strategies for mitigating and managing these risks

- The process for setting remuneration for key management personnel must be disclosed along with any benchmarks, parameters or criteria used in determining their pay.

Comparison of the Statement of Financial Activities

A comparison between the layout and terminology of the Statement of Financial Activities (SoFA) under the SORP 2005 legislation and the Charities SORP (FRS 102) legislation is shown in the table below:

SORP 2005 SoFA		SORP (FRS 102) SoFA
Voluntary Income		Donations and legacies
Activities for generating funds		Other trading activities
Investment Income		***Income from*** Investments
Incoming Resources from Charitable Activities		***Income from*** Charitable activities
Other incoming resources		Other ***income***
Total Incoming Resources		**Total Income and endowments**
Costs of generating voluntary income		***Expenditure on Raising funds***
Fundraising trading: costs of goods sold and other costs		
Investment Management Costs		
Resources Expended on Charitable activities		***Expenditure on Charitable Activities***
Governance Costs		
Other resources expended		Other ***expenditure***
		Net gains/(losses) on investments
Net Incoming/outgoing reserves 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 on defined benefit pension schemes
Actuarial gains on defined benefit pension schemes		Other gains/(losses)
Net Movement in funds		**Net Movement in funds**

Changes to Headings on the SoFA

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'

Expenditure:

- The main heading 'resources expended' is renamed 'expenditure on'
- 'Costs of generating voluntary income', 'fundraising trading: costs of goods sold and other costs' and 'investment management costs' are all combined in a new heading 'expenditure on raising funds'.
- 'Resources expended on Charitable activities' is renamed 'Expenditure on Charitable activities'
- 'The heading 'governance costs' is removed with the attributable costs now being included within 'Expenditure on 'charitable activities'. For charities reporting on an activity basis, governance costs are a separate component of support costs.
- 'Other resources expended' is renamed 'other' expenditure

Recognition Changes

SOFA CATEGORY	SORP 2005	SORP (FRS 102)
Income	Income is recognised when its receipt is ***'virtually certain'***	Income is recognised when its receipt is ***'probable'***
Donated Goods for sale	Income is recognised when the goods are physically sold	Income is recognised at the point the goods are received. They should be recognised at fair value unless this is not practical or the cost of valuation out-weigh the benefit to the users of the account or the charity
Expenditure	Recognised at cost	If settlement is delayed to over 12 months then the liability or provision should be discounted for the time value of money.
Holiday and Sick Leave	No requirement to recognise	A liability must be accrued for remaining annual leave and sick leave where material

Disclosure of Related Party Transactions & Remuneration Changes

There are a number of significant changes in Charities SORP (FRS 102). These are:

- Persons acting as de-facto trustees will now be required to disclose their transactions with the charity
- Amounts donated by trustees must be disclosed
- The total amount of expenses waived by trustees must be disclosed unless immaterial
- Clarification that trustees expenses include reimbursed costs and costs paid direct to third parties
- Charity contributions to a pension fund for the benefit of employees must be disclosed
- Redundancy and termination payments for all staff must be disclosed
- The total amount paid to Key Management Personnel must be disclosed

Balance Sheet Changes

There are no substantive changes to the format of the balance sheet but there are a number of additional requirements for balance sheet items. The following areas are affected:

BALANCE SHEET CATEGORY	SORP 2005	SORP (FRS 102)
Investment Properties	Investment Properties measure initially at cost and subsequently at Fair Value. SORP 2005 allows 'any reasonable approach to market valuation'	Investment Properties measure initially at cost and subsequently at Fair Value. SORP FRS102 requires revaluations to be made by an independent expert or disclosed if not
	SORP 2005 allows for investment properties where there is mixed use (Investment v Operational) to be classified to the main use in full	SORP FRS102 requires mixed use investment properties to be apportioned between investment and operational use where practical. If not practical, treat as a tangible asset
	No requirement to disclose property let to a related party as investment property	SORP FRS102 requires property let to another group company to be classified as investment property
Investments	No specific requirement for social investments	SORP FRS102 requires social investments to be shown in a different class
Debtors- over 12 months	No requirement to discount	SORP FRS102 requires debtors over 12 months to be discounted where the effect is material

Statement of Cash Flows Changes

The statement of cash flows is being aligned with International Accounting Standards. The Charities SORP (FRS 102) continues to allow the choice between the ‘direct’ and ‘indirect’ method. Module 14 of the SORP provides a template of the ‘indirect’ method.

The SORP prescribes that the following three headings are mandatory:

- Operating activities;
- Investing activities; and
- Financing activities

It also provides an example of the cash flows which fall under each heading

Other Changes

There are a number of other changes from the implementation of the Charities SORP (FRS 102) which are as follows:

- Fund Accounting- the reference of loans from one fund to another fund of the same charity is removed as such amounts, if not temporary, are in substance transfers between funds and can only be made where the purposes of the funds are sufficiently similar to permit such payments

- Presentation and Disclosure of Grant Making Activities - Details of institutional grants via a separate publication rather than a note to the accounts are not permitted under SORP (FRS 102). It does however permit it to be disclosed within the trustees' annual report or the charity's own website.

- Pension Contributions - Where a charity contributes to a multi-employer defined benefit scheme and its share of the actuarial deficit cannot be identified, these are treated as defined contribution schemes. However, where there is an agreement in place to make additional contributions based on current or past service of employees, a liability must be recognised for the present value of outstanding additional contributions.

- Heritage Assets - The SORP (FRS 102) adopt the definition of heritage assets from FRS 102. This removes the link between the objects of the charity and whether the asset qualifies as a heritage asset. The SORP sets out 3 criteria which have to be met for the asset to qualify.

The SORP states that a charity should only recognise an asset as a heritage asset if:

- It has historic, artistic, scientific, technological, geophysical or environmental qualities
- It contributes knowledge and culture through its retention and use; and
- Is accessible to the public for viewing and/or research

The SORP requires recognition of assets at historical cost or valuation with the initial recognition of donated assets at fair value where practicable.

- Charities Established Under Company Law - No requirement for a strategic report

- Accounting for Groups and Consolidation - The Charities SORP (FRS 102) provides new guidance clarifying the treatment for charity consolidations. Acquisitions should be treated as a gain or loss in the period or if the entity qualifies, then merger accounting can be used. It is no longer permissible to use a one sided transfer on the SoFA.

Goodwill has an assumed life of 5 years and, where negative, is recognised in the year of acquisition as a gain.

Contact us

If there are any questions on how the SORP FRS102 could affect your charity please contact our Charity Team Manager Paul Colcomb or our Charities Team.

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