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New Charity SORPS

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INTRODUCTION

Non-company charities with annual gross income of £250,000 or more and all charitable companies must prepare an annual report and accounts in accordance with the Statement of Recommended Practice (SORP). For accounting periods commencing on or after 1 January 2015, the old SORP issued in 2005 is replaced by two new SORPs: the SORP (FRSSE) for small charities and the SORP (FRS102) for larger charities. A charity currently qualifies as small if it meets two out of three of the following conditions: Gross income is not more than £6.5 million, Gross assets are not more than £3.26 million and the number of employees is fewer than 50.The gross income and gross assets limits are set to increase for accounting periods commencing on or after 1 January 2016 to £10.2 million and £5.1 million respectively. The charity must meet these conditions in both the current and preceding year.

The SORP (FRSSE) is set to be withdrawn in 2016 and replaced by a new version based on FRS102 with reduced disclosure requirements.

WHAT'S NEW

The two new SORPs are both presented as a set of modules with core modules applying to all charities and additional modules that apply in specific situations. The SORPs use the terms 'must', 'should' and 'may' to identify

requirements that 'must' be followed to ensure compliance with the SORP rather than those that 'should' be followed as best practice and those requirements that 'may' be followed.

KEY CHANGES UNDER BOTH SORPS

- The number of line headings in the Statement of Financial Activities (SoFA) has been reduced and some have been renamed.
- Comparative information must be given for all columns in the SoFA, not just the total column. This extra information may be given in the notes.
- The recognition of income under the new SORPs continues to be driven by the concepts of entitlement, probability and measurement. However, under the new SORPs, the probability requirement is satisfied when receipt is 'probable' rather than 'virtually certain' as it was under the old SORP.
- The new SORPs clarify the recognition criteria for legacies including a three point test to assess whether receipt is probable. The conditions that must be satisfied are grant of probate, whether there are sufficient assets in the estate and any conditions for receipt are within the control of the charity.
- Income from the receipt of donated goods must be recognised at the point of receipt at fair value unless it is not practical or the cost outweighs the benefit to the users of the accounts.
- Disclosures in respect of transactions with trustees apply equally to de-facto trustees.
- All charities must disclose the number of staff paid £60,000 or more per annum in bands of £10,000.

KEY CHANGES UNDER THE SORP (FRS102) ONLY

- Where transition from the old SORP to SORP (FRS102) gives rise to a change in accounting policies, comparative information must be restated and a reconciliation of reserves under the old SORP to SORP (FRS102) must be given.
- Gains and losses on investment assets must appear before 'net incoming/outgoing resources' in the SoFA.
- Investment properties must be valued by an independent expert or the accounts must disclose that this has not been done.
- Property let or occupied by a group company must be accounted for as investment property.
- Mixed use property must be apportioned between investment use and operational use unless this is impractical in which case it is treated as a tangible fixed asset.
- Accruals must be recognised in respect of employee paid annual leave and sick leave if material.
- Where the fair value of a social investment in shares can be measured reliably, it should be carried at fair value. A social investment is one that is undertaken for both a financial return and to (in whole or in part) further the investing charity's charitable aims and objectives.
- Financial assets and liabilities must be accounted for in accordance with FRS102. The accounting treatment will depend on the nature of the asset or liability. For non-basic financial assets and liabilities, the accounting treatment

requires a more complex accounting approach which is set out in FRS102.

- A charity that is party to an agreement to make additional contributions to an employee defined benefit pension scheme to fund an actuarial deficit must recognise a liability for the present value of outstanding contributions, even if the scheme is a multi-employer scheme.
- On acquisition of a charity subsidiary by a parent charity, any excess of consideration over fair value of assets acquired is treated as a loss and any excess of fair value over consideration is treated as a gain, rather than goodwill.
- A cashflow statement must be presented.
- The total amount of donations made to the charity by the trustees must be disclosed.
- The total remuneration paid to key management personnel must be disclosed.

TRUSTEES' ANNUAL REPORT

There are also changes to the trustees' annual report that affect all charities that are subject to audit. These include:

- The trustees report must provide an explanation of the charity's social investment policies and explain how any programme related investments contributed to the achievement of their aims and objectives.
- An explanation of the financial effect of significant events must be given.
- The statement regarding risk management is replaced by a description of the principal risks and uncertainties facing the charity together with a summary of the plans and strategies for managing those risks.
- The report must disclose the arrangements for setting the remuneration of the charity's key management personnel.

There are other, less significant changes under the new SORPs which are not dealt with in this update.

The SORPs are available online at www.charitiessorp.org together with examples of trustees' reports and financial statements.

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