DIXON WILSON
CHARTERED ACCOUNTANTS

Charities SORP Update Bulletin 2

2 November 2018

The Charity Commission published their second Update Bulletin on 5 October. The amendments apply to all charities for reporting periods beginning on or after 1 January 2019, except for the clarifying amendments which are applicable from the publication date. Early adoption is permitted, but all changes will need to be adopted at once.

Note that the published SORP FRS 102 document has not been altered, and so when using the SORP a user will need to be aware of the amendments of Update Bulletin 1 and Update Bulletin 2, which will need to be used in conjunction with the SORP.

CLARIFYING AMENDMENTS (EFFECTIVE FROM 5 OCTOBER 2018)

- It has been clarified that comparative information must be provided for all amounts presented in the current period's financial statements, which includes the notes, unless otherwise stated in FRS 102. Comparative information should be included for all disclosures additionally required by the SORP.
- Payments by subsidiaries to their charity parent that qualify for gift aid should be accounted for consistently with dividends. In particular, amounts should only be recognised once the subsidiary has a legal obligation to distribute its profits to its owners at the reporting date. This would include, for example, a deed of covenant, or for a donation to have been formalised ahead of the year-end.
- The SORP paragraph detailing post-balance sheet events requiring adjustment has been modified to remove the recognition of a "constructive obligation" by a subsidiary to make a gift aid payment to its parent, in line with the above.
- Where an asset comprises two or more major components which have substantially different useful economic lives, each component must be depreciated separately over its useful economic life. The undue cost or effort exemption has been removed to bring this in line with FRS 102.

SIGNIFICANT AMENDMENTS (EFFECTIVE FOR PERIODS BEGINNING ON OR AFTER 1 JANUARY 2019)

- A charity which rents investment properties to other group entities may measure those properties either at cost (less depreciation and impairment) or at fair value. The undue cost or effort exemption for measuring the investment property component of a mixed use property at fair value has been removed.
- The requirement to disclose the amount of stock recognised as an expense in the notes to the accounts has been removed.
- A reconciliation of net debt to be prepared as a note to the statement of cash flows.
- The definition of a group reconstruction has been expanded to incorporate the transfer of a business in certain circumstances, and can be accounted for using merger accounting, providing the method is not prohibited by company law or other relevant legislation. This will include the transfer of activities to a wholly owned subsidiary undertaking.
- The definition of "service potential" has been included as "the capacity to provide services that contribute to achieving a charity's objectives. Service potential enables a charity to achieve its objectives without necessarily generating net cash inflows". This will affect the valuation of assets held by a charity that are not expected to generate economic inflow via cash flows, but will instead be primarily held for their service potential to beneficiaries.

OTHER AMENDMENTS (EFFECTIVE FOR PERIODS BEGINNING ON OR AFTER 1 JANUARY 2019)

These changes are less significant than the above or are editorial in nature, and are expected to affect a smaller number of charities:

- The definition of a charity which is a financial institution has been expanded by removing the references to "generating wealth" and "manage risks". The definition is now similar to that given in FRS 102.
- The reference to investments in nonconvertible preference shares and non-puttable ordinary shares has been amended and replaced with references to non-derivative instruments

that are equity of the issuer, reflecting drafting changes to FRS 102.

- The SORP is amended to encourage charities to make additional disclosures where they hold financial instruments and the risks arising from these are particularly significant.
- The SORP is amended to remove the requirement to disclose the carrying amounts of financial assets and liabilities measured at amortised cost and at cost less impairment. Entities are only required to disclose separately the carrying amounts of financial assets and liabilities measured at fair value through profit and loss.
- A subsidiary may be excluded from consolidation when its inclusion is not material for the purpose of giving a true and fair view (but two or more subsidiaries must only be excluded if they are not material when taken together).
- Paragraphs have been added to clarify the treatment of intangible assets acquired in business combinations.
- The SORP is amended to include the requirement for unconsolidated interests in special purpose entities to be disclosed where consolidated accounts are prepared.
- The SORP is amended to introduce the requirement for the disclosure of intangible assets which are acquired in a business combination and not separately recognised.
- The SORP is amended to align the glossary definition of an intangible asset with that in FRS 102.

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