## Charity Accounts – Questions and Answers

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## **Charity Accounts**

- Reporting Framework and SoRP Development
- Your questions and answers
- Some principles of charity accounting
- Published online information



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## Charities SoRP Development

- Move from UK GAAP to IFRS
- There was "No room" for Charities SoRP?!
- ASB Concession
- Reporting Framework
  - FRED 43,44,45 (then re-exposed)
  - FRED 46,47,48 (became)
  - FRS 100,101 and 102



## ASB's proposed "True and fair" Now a Two tier framework

- FRS 102
   The Financial Reporting Standard applicable in the UK and Republic of Ireland
   OR
- FRSSE
   The Financial Reporting Standard for Smaller Entities
  - Charities must choose either FRSSE or FRS102
  - Periods commencing on or after 1 January 2015
  - Early adoption is possible
- PLUS Charities SoRP



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# Small Companies can use the FRSSE

The qualifying conditions are met by a company in a year in which it does not exceed two or more of the following criteria:

- (a) Turnover of £6,500,000
- (b) Balance sheet total of £3,260,000
- (c) Average number of employees is 50

SS 382 & 383 Companies Act 2006.



## ASB's proposed "True and fair" Two tier framework

- Nearly all charities are eligible to apply FRSSE
  - Only 38% actually cite FRSSE in their accounts (recent CC survey)
- Public benefit entities (PBEs), only, shall have regard to the requirements in FRS 102 that are specific to PBEs not as mandatory requirements, but as a means of establishing current practice. (FRSSE)



# Some differences between FRS102 and FRSSE

- FRS102 does not permit changes to Investment Property values to be taken to reserves.
- FRS102 has a widespread use of "Fair value" could be onerous on financial instruments
- FRS102 assumes a maximum 5 year life on intangible assets
- FRS102 has mandatory cash flow statements
- FRS102 covers more areas.....



Example: Cash flow statement (indirect method)

Entities are encouraged, but not required, to report some cash flow information using the indirect method.

	(5.050)	£	£
Cash generated from operations Operating profit/(loss) Reconciliation to cash generated from operations:	(5,050)		
Depreciation		245	
Increase in stocks		(194)	
Decrease in trade debtors Decrease in trade creditors		67,440 (4,678)	
Increase in other creditors		3,127	
Cook from other courses			60,890
Cash from other sources Interest received		150	
Issues of shares for cash		5,500	
New long-term bank borrowings	50	4,500	
Proceeds from sale of tangible fixed assets	<u>50</u>		10,200
Application of cash			10,200
Interest paid		(3,000)	
Tax paid Dividends paid		(29,220) (10,000)	
Purchase of fixed assets		(10,500)	
Repayment of amounts borrowed		` <u>(3,000</u> )	<b>/</b>
Net increase in cash			( <u>55,720</u> ) 15,370
Net increase in cash			15,570
Cash at bank and in hand less overdrafts at beginning of year			( <u>4,321</u> )
Cash at bank and in hand less overdrafts at end of year			11,049
Consisting of: Cash at bank and in hand		11,549	
Overdrafts included in bank loans and overdrafts falling due within one	year	<u>(500</u> ) 11,0	049



#### SoRP Consultation - Modules

- Modular approach
- "Pick and mix" online
- 29 Modules
  - 14 Core
  - 3 Special transactions (including grant making)
  - 2 Types of assets (Heritage and Acting as Custodian)
  - 3 Investments
     (Total Return, Pooling, Social investment)
  - 7 Group Accounts



## The Next SoRP – Progress to date

- Exposure draft was issued for comment from July to November 2013
- There is a dedicated website to review progress
- There were 179 responses to the ED
- The responses together with feedback from 26 events nationwide were considered at a SoRP Committee meeting in mid January 2014
- The non-confidential responses were published on the website in late February 2014



## The Next SoRP – Likely Timetable

- Changes are currently being made to the draft SoRP
- The settled SoRP text will be resubmitted to the Financial Reporting Council (FRC) in March 2014
- Includes reviews by the FRC's advisory Accounting for Public-benefit sub-committee and the FRC's Accounting Council.
- The FRC Board are expected to approve the Charities SoRP at the end of May 2014 – Online version published soon after.



## The Next SoRP – Likely Timetable

- Hardcopy version might be available around September or October 2014.
- It will apply to Charity accounting periods commencing on or after 1 January 2015 (March year ends in 2016)
- Many of the underlying principles will remain unchanged
- In practice, preparation starts now because of comparative periods



## SoRP Consultation Example

 What does the SoRP Consultation say...about grants and Contracts

- MODULE 5
- Recognition of income, including legacies, grants and contract income



## SoRP Modular Approach— Module 5

- MODULE 5
- understanding the nature of income;
- general rules for income recognition;
- general principles for recognising income from donations and grants;
- identification of terms and conditions;
- performance-related conditions;
- other terms and conditions that limit the recognition of income;
- deferring income where conditions that limit recognition are not met;
- terms and conditions that do not prevent recognition;
- recognising income from legacies;
- income from donated goods, facilities and services;
- income from contracts for the supply of goods and services;
- income from membership subscriptions;
- income from interest, royalties or dividends;
- settlement of insurance claims; and
- disclosures and notes to the accounts.



#### SoRP 2005 vs Consultation

#### • 1) Trustees' annual report

- charities that have no reserves policy must disclose this fact;
- larger charities must explain their approach to risk management;
- charities where there is doubt about going concern must explain these uncertainties; and
- the names of all trustees must be disclosed.



#### SoRP 2005 vs Consultation

#### • 2) Statement of financial activities (SOFA)

- The income and expenditure headings in the SOFA may be changed.
- New heading "cost of raising funds" and
- governance costs are not shown separately on the face of the SOFA but are treated as a component of support costs.
- Investment gains and losses now count as a component of net incoming resources / resources expended.

#### 3) The statement of cash flows

 The statement of cash flows must be provided by any charity preparing its accounts under FRS 102.



#### SoRP 2005 vs Consultation

#### 4) Changes to definitions and accounting policies

- The basis of going concern must be considered.
- Income is first recognised when its receipt is "probable" (this point has been clarified).
- There is a more extensive requirement for discounting for the time value of money with respect to both income and expenditure where settlement is delayed by more than 12 months and the effect is material.
- A provision must be recognised for those defined benefit pension schemes accounted for as a defined contribution scheme where there is an agreement in place to make additional contributions to reduce a fund deficit.
- Charities independently governed by a separate body of trustees cannot be treated as branches.
- The use of merger accounting for charity mergers and reconstructions is explained.



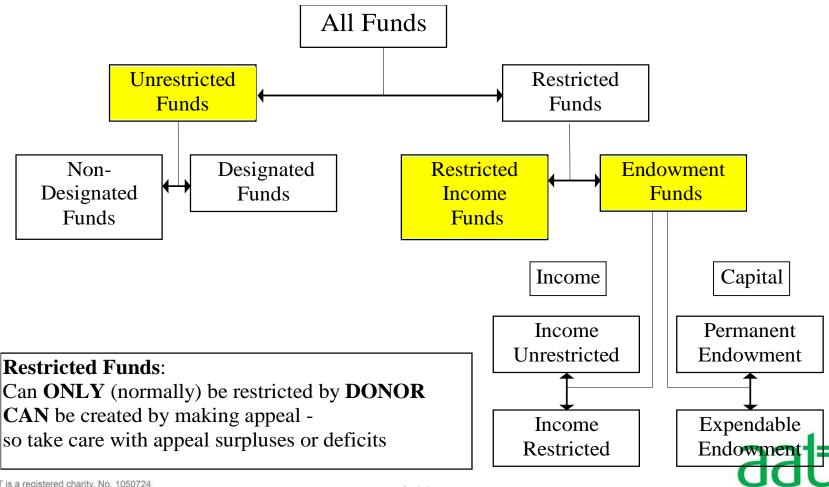
## Questions and Answers



## Charity Accounting principles



#### The Fund Framework



## Proposed Accounts requirements England and Wales

(From March 2009)

Income	≤ £10k	£10k- £25k	£25k-£250l	£250k- £500k	£500k
Accounts	Cash basis (non-company) Accruals			ls basis	
Accounts	Accruals basis (company) Simpler?			Full	
Trustees' annual report	Simple			Full	
	None		Independent Examination*		Independ-
Scrutiny			Independent Person	Qualified Accountant	ent Audit
Report to regulator	Update form	Simple return, report and accounts			Return, report & accounts

<sup>\*</sup> if Income >£250k and assets >£3.26m audit required. Company charities May have



### Statement of Financial Activities

#### **Incoming resources**

**Incoming resources from generated funds** 

- A1a Voluntary income
- A1b Activities for generating funds
- A1c Investment income

A2 Incoming resources from charitable activities

Other incoming resources

Total incoming resources

#### Resources expended

**Costs of generating funds** 

- B1a Costs of generating voluntary income
- B1b Fundraising trading: cost of goods sold and other costs
- B1c Investment management costs
  Other costs of generating funds
  - **B2** Charitable activities
  - **B3** Governance costs

Total resources expended

## Accountability

- On what?
- By whom?
- To achieve what?
- Why?
- How well?
- To what effect?

## None of which is normally revealed in a set of accounts



# Trustees' annual report A document to suit the charity

Who are we?	e we? Reference and Administration	
How do we work?	Structure, Governance and Management	
What are we doing?	Objectives and Activities – Public benefit	
What did we do and how well did we do it?	Achievements and Performance	
How did we afford it?	Financial Review	
What are we planning?	Plans for Future Periods	
What else do we look after	Custodianship	

## Ways to Improve Accountability

#### Trustee issues

- TAR tell a story (Collective responsibility)
- Seek transparency an open attitude and a full follow through!
- Explain, explain, explain!
- Avoid "Elephant in the sitting room!"
- Consider Public benefit



### Progress on Charities SoRP

- Websites
  - www.charitysorp.org



#### Access to Published accounts

- Websites
  - <a href="http://www.charity-commission.gov.uk/">http://www.charity-commission.gov.uk/</a>



#### Market research tool?

- Websites
  - www.charitytrends.org (CAF website)



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