

Charity Accounting Webinar

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AAT is a registered charity. No. 1050724

The logo for the Association of Accounting Technicians (AAT), featuring the lowercase letters 'aat' in a green, sans-serif font, with a horizontal line through the top of the 't'.

Charity SoRPs





Why has charity accounting changed?

UK Generally accepted accounting Practice (GAAP) has changed from 1/1/2015 (1/1/14?)

New GAAP required a new SORP

SORP consultation in 2013 with 26 events, 1600 participants and 179 responses

Two new SORPs to take effect for financial years beginning on or after 1 January 2015



Two regimes underpin the framework

Company Law for companies (strong link to FRS 102 via True and Fair requirement)

Non-companies governed by Parliamentary Regulations which will implement the charities SoRP

Harmonised by True and Fair over-ride



Why two SORPs?

A separate FRS 102 SORP and a separate FRSSE SORP
Trustees need to make the choice

Why two SORPs? Because:

- EU accounting Directive (mandatory from 2016) changes small company reporting and FRSSE
- A new “FRSSE” framework needed in 2015-16
- FRED59 published February 2015 small companies and other amendments
- Two SORPs avoids disruption to FRS 102 users
- Two SORPs simplifies the text of each and potentially addresses the needs of smaller charities

Overtaken by events!?

Potential Charity Accounting framework

Receipts and payments

- Available to non-company charities with an annual income of £250k or less

Micro entities

- Not available to charities or companies within a charity group

FRSSE

- Option for small charities
- To be withdrawn for accounting periods starting on or after 1 January 2016

New Section 1A to FRS 102

- New small entities section to FRS102
- Subject to 2015 SoRP consultation

Full FRS 102

- Option for all charities

The Financial Reporting Standard for Smaller Entities (FRSSE)

A revised FRSSE issued by FRC issued in 2013 and applied to reporting periods beginning on or after 1 January 2015 (“early adoption is permitted”)

A new FRSSE SORP was issued in 2014 and applies to reporting periods beginning on or after 1 January 2015

But both the FRSSE and FRSSE SORP are to be withdrawn for reporting periods beginning on or after 1 January 2016 (before the new regime is into its stride)



Why is the FRSSE being withdrawn?

EU Accounting Directive introduced into company law and is applicable for accounting periods commencing on or after 1 January 2016

Accounting standards needed to reflect these changes in company law

In July 2015 a new section 1A was added to the Financial Reporting Standard which replaces the FRSSE for accounting periods commencing on or after 1 January 2016

The difficult choice facing small charities in 2015

Adopt the FRSSE knowing it will be withdrawn within 12 months! More change will be needed

Go the whole way with FRS 102

Return to Receipts and Payments accounts (not available for companies). Adjusting back to accruals in future may be problematic

Charity Accounting Framework 2016?

Receipts and payments

- Available to non-company charities with an annual income of £250k or less

New Section 1A to FRS 102

- New small entities section to FRS102
- Subject to 2015 SoRP consultation

Full FRS 102

- Option for all charities?

Charities in England and Wales – November 2015

Income band	Number of charities	Total income £000	Long term assets £000
£0 to £10k	76,620	235,664	891,970
£10k to £100k	56,155	2,060,023	7,548,376
£100k to £500k	21,495	4,774,482	17,607,681
£500k to £5m	8,545	13,060,116	35,964,806
Over £5m	2,074	49,357,030	129,521,706
Total	164,889	69,487,315	191,534,539

Charity SoRPs

- recent developments



Changes in the Charity Framework since March 2015

- Definitions of large and small charity are changing
- New S1A of FRS102 to underpin the FRSSE?
- SORP consultation in summer 2015 on what will replace the FRSSE SoRP and the new thresholds for cash flow statements
- Charity Commission guidance on the application of the new SoRPs



Small has two meanings

Small companies

Small charities

Small entity thresholds for companies

Current

Gross Income (turnover)
not more than £6.5m

Balance Sheet (Statement
of Financial Position) not
more than £3.26m

Not more than 50
employees

From 1 January 2016

Gross Income (turnover)
not more than £10.2m

Balance Sheet not more
than £5.1m

Not more than 50
employees

What does SORP mean by a larger charity?

For FY ending after 31 March 2015 definition could be based on the charity audit requirements of:

- Gross income exceeds £1,000,000 (still £500,000 in Scotland) or
- Gross income exceeds £250,000 and total assets exceed £3.26m

Charities subject to audit are 'larger charities' and more is required of them by the charities SORP

Charities not subject to audit are 'smaller charities' which have had some concessions under the SORP



Section 1 A to FRS 102

True and Fair' view required

Provides formats for primary statements

No requirement to prepare a statement of cash flows

Sets out mandatory disclosures based on company law

Applies recognition & measurement bases of FRS 102

Additional disclosures may be required to meet 'true & fair' requirement (need to consider disclosure requirements of section 8 to 35 of FRS 102 when transaction/event is material)

What should replace the FRSSE SoRP?

SoRP
Committee
considered
three options

- A guide to applying S1A of FRS102
- A new charities SoRP (FRS102 small entities) based on FRS102 with S1A disclosures
- Applying S102 in full but with a new threshold applying for the preparation of cash flows



SoRP Committee preference

The preferred option of the SORP-making body and the Charities SORP Committee is to dis-apply Section 1A and require all charities, irrespective of size, to apply FRS 102 and FRS 102 SORP in full

The Committee felt there would be very few practical differences between the two SORPs other than some minor disclosure requirements

Charities SoRP consultation

– closed September 2015

Question 1

Given the underlying requirement for the accounts to give a true and fair view and the requirements of FRS 102 that result in all charities applying the same underlying recognition and measurement policies, do you agree with the SORP-making body dis-applying the small entities regime proposed in FRED 59? This would have the result that all charities will have to apply the Charities SORP (FRS 102) for reporting periods beginning on or after 1 January 2016?

Charities SoRP consultation

– to be published late November 2015

Question 2

Do you agree with the proposal to amend the Charities SORP (FRS 102) so that it requires only larger charities to prepare a Statement of Cash Flows? This would mean that all charities with a gross income exceeding £500,000 (€500,000 in the Republic of Ireland) would have to prepare a Statement of Cash Flows.

Advantages of extending scope of FRS102

Same 'recognition & measurement' bases apply to all

The accounting treatment of an item depends upon its character and not the size of the reporting charity

Expectation that charities will need to consider and provide any additional disclosures of FRS 102 where items are material in order to meet 'true and fair' requirement



SoRP Committee concluded....

Therefore, the disclosure needs are the same whether the charity meets the criteria of a small entity or not

BUT

This may be true in practice for accountants but compulsory adoption of FRS102 SoRP is likely to worsen the already significant disconnection between trustees and their “year-end” accounts in smaller charities. (“for accountants”)

A complete ‘U turn’ since 2013!!



Charity Commission Guidance

Charity reporting and accounting: the essentials (CC15C)
issued re the increase in audit threshold

On early adoption...‘the requirement to prepare accounts that are ‘true and fair’ takes precedence and therefore it is possible to apply either of the new SORPs in preference to the SORP specified in the 2008 Regulations provided this is clearly advised in the notes to the accounts.’



We are still waiting for

The results of the 2015 consultation (later this month)

- Adopt full FRS102 only?
- Introduce an opt out for smaller charities re cash flow statements?
- Will this introduce a new £500k income threshold for large charities per SoRP as opposed to audit?

Regulations laid before Parliament re the new SoRP (must be soon)

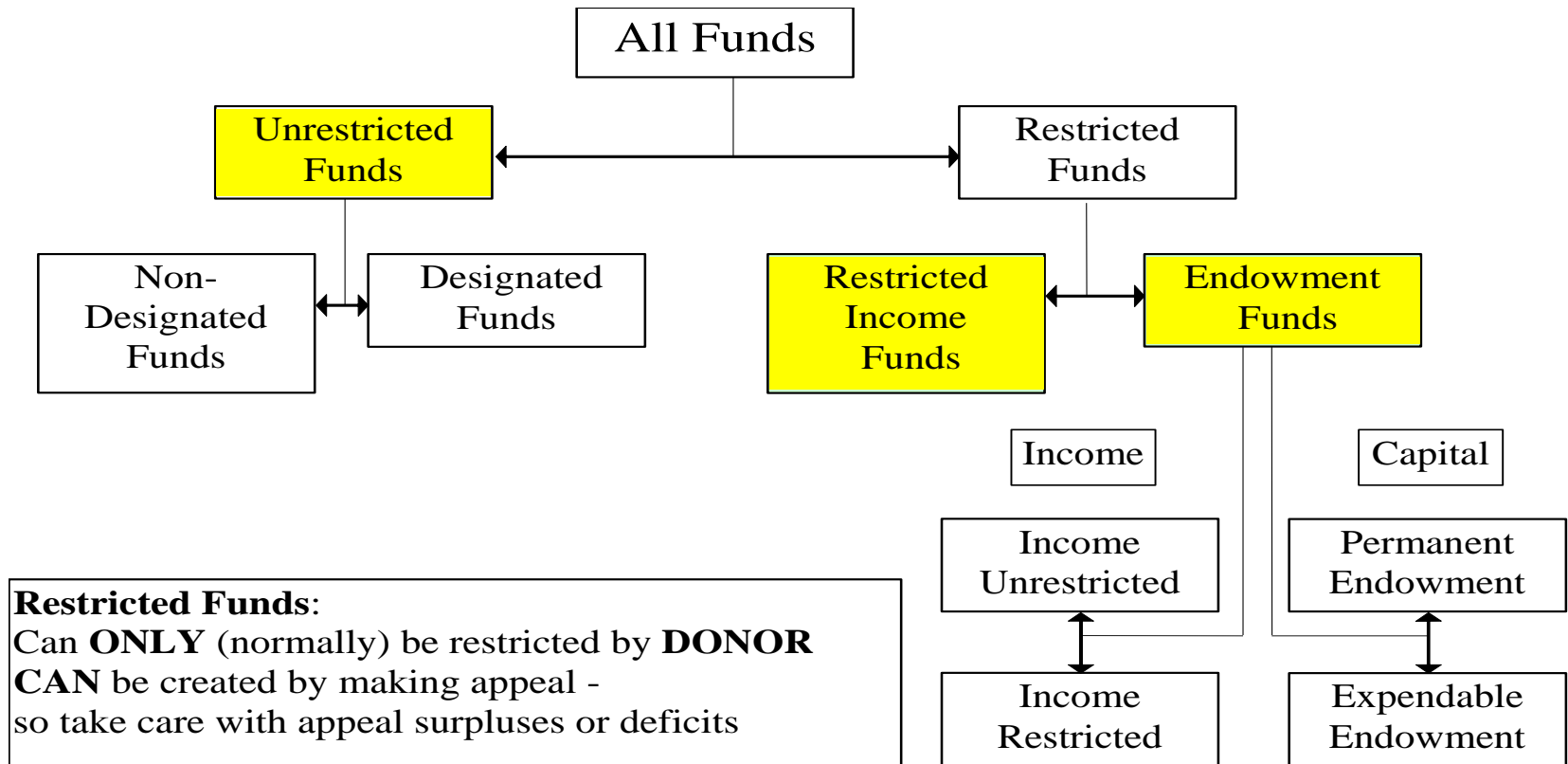
The first sets of FRS102 charity accounts to be published (Spring 2016?)

New Charity SoRPs

Some headline changes



The Fund Framework



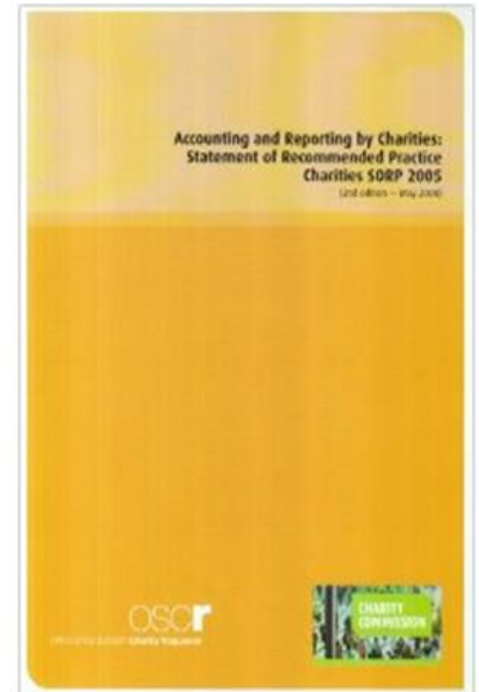
Structure of new Charities SORP

Consultation draft of SORP
addressed both FRS 102 and
FRSSE

Modular approach

Core modules

Specialist modules





SoRP Consultation - Modules

Modular approach - “Pick and mix” online of 29 Modules

- Fourteen - Core
- Three - Special transactions (including grant making)
- Two - Types of assets (Heritage and Acting as Custodian)
- Three - Investments (Total Return, Pooling, Social investment)
- Seven - Group Accounts

Charities SoRP 14 Core Modules

Statements	Underlying concepts	Accounting Treatments for Charities
1. Trustees' Annual Report	3. Accounting Standards, policies, concepts and principles...	8. Allocating costs by activity within SoFA
4. SoFA	5. Recognition of Income	6. Donated goods and services
10. Balance Sheet	7. Recognition of expenditure	9. Disclosure of trustee and staff remuneration
14. Statement of Cash Flows	11. Accounting for financial assets and liabilities	13. Events since the year end
2. Fund Accounting	12. Impairment of assets	

Charities SoRP -15 “Special” Modules

Charity Operations	Types of Asset and investments	Branches, groups and Combinations
15. Charities and company law	18. Heritage assets	23. Combinations overview
16. Presentation of grant making	19. Custodian trustee	24. Accounting for groups
17. Retirement and post- employment benefits	20. Total return on investments	25. Branches and joint arrangements
	21. Social investments	26. Subsidiaries
	22. Pooling investment funds	27. Mergers 28. Associates 29. Joint ventures

SoRP Consistent terminology

MUST

- Compliance necessary in order to show “a true and fair view”
- Non-adherence is a departure from the SoRP

SHOULD

- Good practice
- Not a departure from the SoRP

MAY

- Optional
- Indicates that there are alternative approaches available

Changes to the Trustees' Annual Report (all charities)

Common format – whether FRSSE or FRS 102 or cash accounting

Distinguishes requirements of all charities from those of 'larger' charities (those subject to statutory audit) as a separate section

Main changes to content requirements for all charities are:

- All trustees must be listed
- Must disclose if no reserves policy with reasons

Changes to the Trustees' Annual Report (larger charities)

Main changes to content requirements for larger charities are **explanations** of:

- Social investment policies
- Financial effect of significant events
- Principal risks and uncertainties and a summary of plans and strategies for managing them
- Reserves definition – (use SORP or explain your own)
- Arrangements for setting pay of key management personnel and any benchmarks, criteria or parameters used

Module 1 TAR Reserves

Paragraphs 1:22 and 1:48

MUST

- Explain any policy for holding reserves
- State the amount of reserves and why they are held
- If decided not to hold reserves, disclose fact and explain

SHOULD

- State total funds at the end of the period
- Identify restricted or fixed assets or programme related investments
- Identify and explain designated funds and timing of spend
- Calculate the amount of reserves at the end of the period
- Compare this with the reserves policy and provide explanations of how it will be brought into line in future

Trustees' Annual Report

Reserves are charity's freely available income funds

Definition normally excludes	Permanent endowment funds
	Expendable endowment funds
	Restricted funds
And unrestricted funds not readily available for spending	Funds only available by disposing of: <ul style="list-style-type: none">■ Fixed assets for charity use■ Programme related investments
But charities may have more or less reserves available e.g.	Expendable endowments
	Unrestricted funds earmarked or designated for essential spending



New Charities SoRPs – SoFA changes

Statement of financial activities (SOFA)

- The income and expenditure headings in the SOFA have been changed and simplified
- 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 counted as a component of net incoming resources / resources expended.

Structure of the SoFA

	Unrestricted funds	Restricted funds	Endowment funds	Total funds	Prior period total funds
Income and endowments from:					
Donations and legacies					
I from Charitable activities					
Other trading activities					
I from Investments					
Other					
Total Income and Endowments					
Expenditure on:					
Raising funds					
Charitable activities					
Other					
Total Expenditure					
Net gains/(losses) on investments					
Net income (expenditure)					

2005 SORP (SoFA extract)		FRSSE SORP (SoFA extract)		FRS 102 SORP (SoFA extract)
Voluntary income	→	Donations and legacies		Donations and legacies
Activities for generating funds	→	Other trading activities		Other trading activities
Investment income	→	<i>Income from</i> Investments		<i>Income from</i> Investments
Incoming resources from charitable activities	→	<i>Income from</i> Charitable activities		<i>Income from</i> Charitable activities
Other incoming resources	→	Other <i>income</i>		Other <i>income</i>
Total incoming resources	→	Total income and endowments		Total income and endowments
Costs of generating voluntary income	→	<i>Expenditure on</i> Raising funds		<i>Expenditure on</i> Raising funds
Fundraising trading: cost of goods sold and other costs	↗			
Investment management costs	↗			
<i>Resources expended on</i> Charitable activities	→	<i>Expenditure on</i> Charitable activities		<i>Expenditure on</i> Charitable activities
Governance costs	↗			
Other resources expended	→	Other <i>expenditure</i>		Other <i>expenditure</i>
				Net gains/(losses) on investments
Net incoming/outgoing resources before transfers	→	Net income/(expenditure)		Net income/ (expenditure)
Gross transfers between funds	→	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 revaluation of fixed assets
Gains/losses on investment assets	→	Gains/(losses) on investment assets		
Actuarial gains/losses on defined benefit pension schemes	→	Actuarial gains/(losses) on defined benefit pension schemes		Actuarial gains/(losses) on defined benefit pension schemes
				Other gains/(losses)
Net movement in funds	→	Net movement in funds		Net movement in funds



Income Recognition

Income is recognised in the Statement of Financial Activities (SoFA) when a transaction or other event results in an increase in the charity's assets or a reduction in its liabilities.



Income Recognition

Income must only be recognised in the accounts of a charity when all of the following criteria are met:

Entitlement – control over the rights or other access to the economic benefit has passed to the charity.

Probable – it is more likely than not that the economic benefits will flow to the charity.

Measurement – the monetary value or amount of the income or costs can be measured reliably.

Income Recognition Legacies

Entitlement

- Know of the existence of a valid Will AND
- Know about the death of the benefactor

To recognise income

- Must show entitlement plus
- “Probability of receipt” plus
- Ability to estimate with sufficient accuracy the amount receivable

Receipt probable when

- There has been Grant of Probate and
- Executors have established that there are sufficient assets in the Estate and
- Any conditions attached are within the control of the charity or have been met

Income Recognition : Legacies (cont).

Payment is received or notified after the reporting date and before accounts are authorised but payment was agreed by the executors prior to the end of the reporting period, then treat as **adjusting event** and accrue it as income. Always use **fair value**

If charity has entitlement but the **amount** is uncertain then disclose as a **contingent asset**

Large charities may use a **portfolio** approach

If to be received > 12 months from the reporting date then **discounting** can be used but unwind against legacy income.

If there is **impairment** then make the adjustment between income (not expenditure) and debtors.

Some differences between FRS102 and FRSSE

- FRS102 does not permit changes to Investment Property values to be taken to reserves.
- FRS102 has no 90% benchmark on finance leases
- FRS102 does not require names of Related parties but does require specific aggregate information
- FRS102 has a mandatory accrual on employee benefits
- 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.....

New Charity SoRPs Practical Outworking



No early adoption of FRS 102 for charities

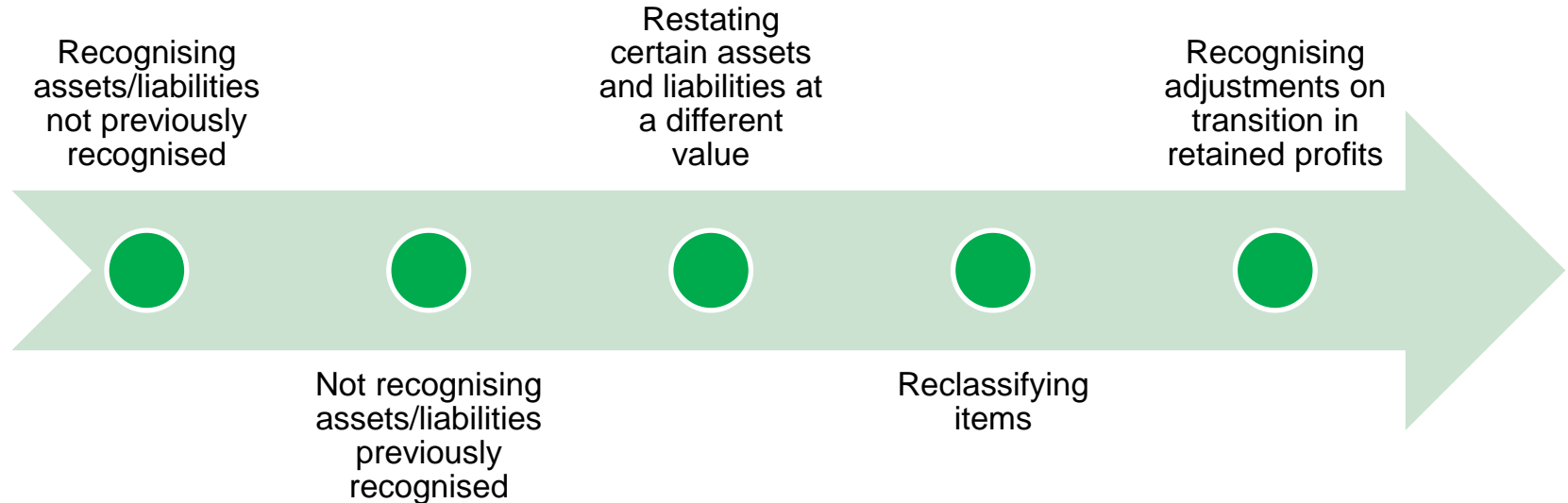
For non companies
charity regulations
require adoption of
'methods and
principles' of SORP
2005

- Therefore cannot apply FRS 102 until regulations amended

Some requirements
of SORP 2005
conflict with FRS
102

- Therefore SORP Committee advise against early adoption

Possible adjustments on transition to FRS102



Charities SoRP – Items most likely to be onerous for smaller charities....

- Income (almost) virtually certain
- Paid Annual Leave accrual
- FRS102 treatment of defined benefit pension scheme
- Goods for resale
- Concessionary Loans at Fair Value
- Other financial instruments
- Extended credit on contracts
- Cash flow data if required

.....require adjustment if FRS 102 adopted?!

Common items to consider when adopting FRS102

- Restating assets
- Fair value
- Derivatives
- Holiday pay
- Pension Funds
- Government Grants (new SoRP)
- Staff Costs
- Trustee benefits
- Reconciliations of Funds and Income



SORP micro-site

Dedicated site: www.charitysorp.org

Micro-site is the location for:

- Free SORPs and modules
- ‘Customise your SORP’
- Three help-sheets
- Order hard copy SORPs
- Future SORP Committee arrangements
- Two FRS 102 model examples added
- Background to the changes
- Mapping of the previous SoRP



UK GAAP

Commercial accounts

- Protect the creditors
- Profit and Dividend key concepts
- P&L dominant
- Company Law and Tax

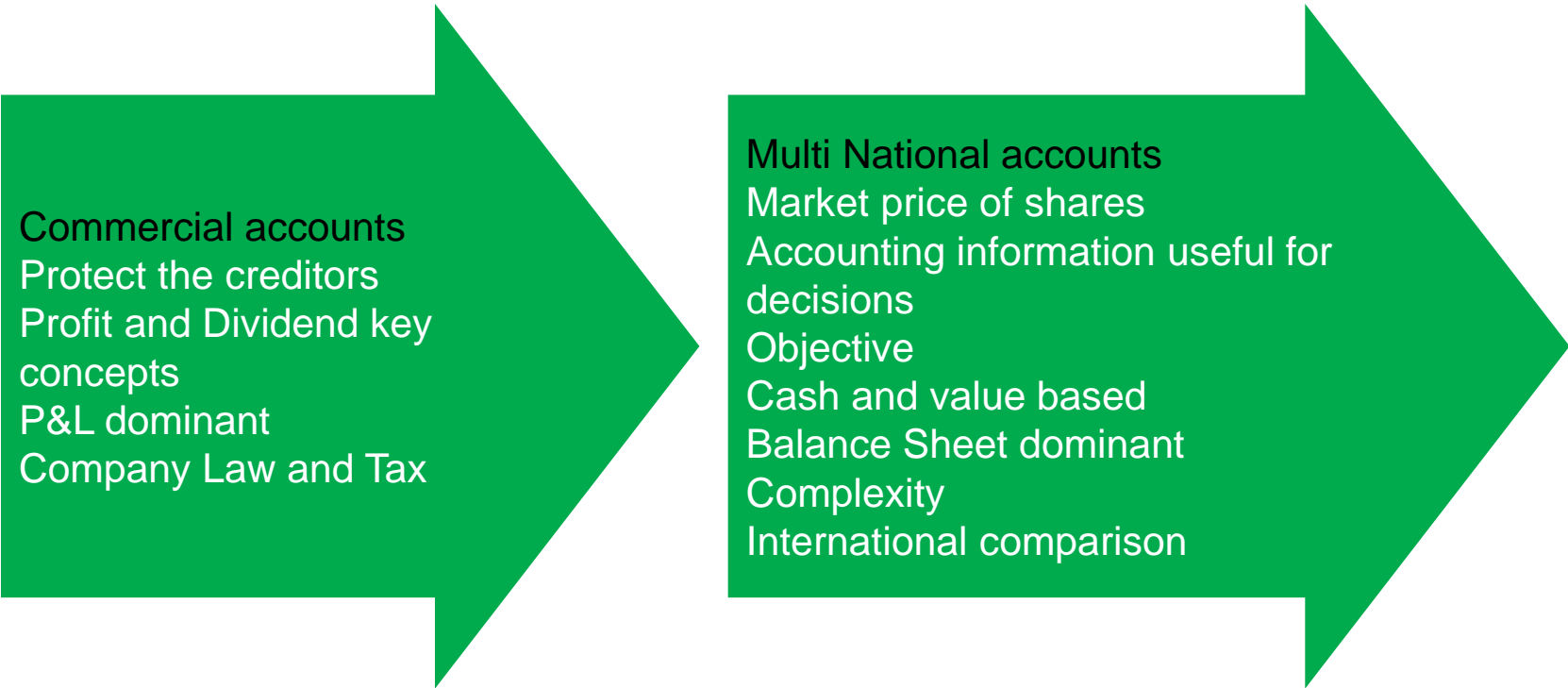
Receipts and payments

- Small charity
- Light touch
- No balance sheet
- No accruals
- No T&F View
- Bank Statement Summary

Charity accounts

- Prioritise the beneficiaries
- Resource accounts
- Fund accounting
- SoFA prominent
- SoRP one stop for best practice
- Company and non company linked
- Concessions for smaller charities

UK GAAP and IFRS



Commercial accounts
Protect the creditors
Profit and Dividend key
concepts
P&L dominant
Company Law and Tax

Multi National accounts
Market price of shares
Accounting information useful for
decisions
Objective
Cash and value based
Balance Sheet dominant
Complexity
International comparison

Proposed new structure – mismatch?

Multi National accounts

Market price of shares

Accounting information useful for decisions

Objective

Cash and value based

Balance Sheet dominant

Complexity

International comparison

Charity accounts

Prioritise the beneficiaries

Resource accounts

Fund accounting

Must be aware of FRS102

Almost no concessions

No official status

SoFA prominent

~~SoRP one stop for best practice~~

~~Company and non company linked~~

Receipts and payments

Small charity

Light touch

No balance sheet

No accruals

No T&F View

Bank Statement Summary

aat



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Useful Websites

<http://www.charity-commission.gov.uk/>

www.charitycorp.org

<https://www.frc.org.uk/>

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/468103/CC15c.pdf



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