



Chartered Certified Accountants
Registered Auditors

Green Fish Resource Centre
46-50 Oldham Street

Manchester

M4 1LE

Tel: 0161 234 2990

Fax: 0161 234 2906

Email: office@sladecooper.co.uk

Website: www.sladecooper.co.uk

The New Charities Statement of Recommended Practice (SORP) 2015

Thank you to all of you who came to our recent seminar on The Charities SORP 2015, it was great to see so many of you there. It was also a good chance to discuss some of the issues that you may face when making your decision as to which SORP you will follow and also how you will implement it.

For anyone who couldn't make it but wished they had, here are some of the key points.

Background

The SORP was originally devised to provide guidance to trustees on how to apply current accounting standards and to help them to report transparently to help maintain and increase public confidence. The charity regulators; OSCR and the Charity Commission are authorised as the SORP making body and they in turn act on the recommendations of a SORP committee.

The SORP committee, who make the recommendations, includes representatives from the regulators, charities, funders, academia, accountants and sector commentators who have a wealth of knowledge of the charity sector and an interest in seeing it succeed.

Why the change?

UK Generally Accepted Accounting Practice (GAAP) is the foundation that the SORP builds on and interprets for charities in order that they can provide accounts that tell their story in a consistent and meaningful way.

UK GAAP has changed.

This was old UK GAAP:

Option A For use by UK small, medium and large entities that are not publicly traded

- 30 Financial Reporting Standards (FRS)
- 11 Statements of Standard Accounting Practice (SSAP)
- 2 Improvement to Financial Reporting Standards

Directors: Sue Cooper BA FCCA DChA James Gore-Langton BSc FCCA DChA Katie Hall BA FCCA DChA
Consultant: Janet Slade BSc FCA DChA

Slade & Cooper is a trading name of Slade & Cooper Ltd. Registered in England no. 5385401.
Registered as auditors in the United Kingdom by the Association of Chartered Certified Accountants.

- Option B A condensed version of the above could be opted for by those entities deemed small (Income < £6.5m, assets < £3.26m, <50 employees)
- The Financial Reporting Standard for Smaller Entities 2008 (FRSSE)

As the world has developed so these accounting standards have been revised to account for issues that had not been dreamt of at their inception e.g. the internet and complex investments. As a result Option A had become over 2,500 pages of rules which were a bit clunky and inconsistent. It was decided to give it a spring clean and to introduce a standard far more closely aligned to international financial reporting standards.

New UK GAAP (mandatory for financial periods beginning on or after 1st January 2015)

- Option A For use by UK small, medium and large entities that are not publicly traded
- FRS 102 reduced disclosure for those previously following FRSs & SSAPs

- Option B An update of the previous FRSSE for those entities deemed small (Income < £6.5m, assets < £3.26m, <50 employees)
- The Financial Reporting Standard for Smaller Entities 2015 (FRSSE)

This is being withdrawn as of 1st January 2016

Because Old UK GAAP (the foundation of SORP 2005) has been replaced a new SORP has to be introduced to interpret New UK GAAP. It has also been updated for current issues and developments and in response to feedback from the sector.

Why two SORPs?

Whereas the old FRSSE was a slimline model of the old FRSs & SSAPs, the new FRSSE has some fundamental differences with FRS102 and we therefore need a FRSSE SORP and a FRS102 SORP.

Where to find them

There is a SORP microsite set up by the Charity Commission that gives you access to both SORPs. You can download a free copy here:

<http://www.charitiessorp.org/>

The new SORPs put small charities first; stating the requirements for all charities and then going into further detail for larger charities (those that are subject to statutory audit).

Both SORPs are in a modular format which means you don't need to wade through unnecessary information. You can customise your SORP so that it only contains information on the areas relevant to your organisation. There are also example

accounts available as well as 3 help sheets that describe the differences between the old and new SORP versions.

When does it start?

Mandatory for periods beginning 1st January 2015, even if it is a short accounting period.

Early adoption is not possible

SORP language

Clearer language and guidance in the new SORPs :

Must – something you have to do without which you would be departing from the SORP

Should – something that is considered best practice

May – an option you could consider

This SORP requires – like MUST (but a requirement of the SORP and not of accounting standards).

Trustees' Annual Report

Requirements are identical for FRS102 SORP and FRSSE SORP. Both require more information from large charities (those subject to statutory audit)

The principle remains the same as before. It aims to contain information relevant for all stakeholders which aims to tell your charity's story in a balanced manner:

- What you've done – outputs
- What you've achieved – outcomes
- The difference you have made - impact

More disclosure and greater detail for all charities on:

Reserves policy – you must explain what you have, why you have it and when you plan to spend it

Going concern – must explain if there are material uncertainties **and** if there are no material uncertainties.

There will be greater detail and disclosures required from larger charities (> £1m income). We can go through these with you in detail when we come for your audit this year but in summary there will be greater disclosure required in the following areas:

Social investment policies

Explanation of the financial effect of significant events

Explanation of principal risks and uncertainties and a summary of plans and strategies for managing them

Arrangements for setting pay of key management personnel and any benchmarks, criteria or parameters used

Reserves : state - why they're held and if not why not

- total funds and how they are made up; unrestricted/restricted/designated
- timing of intended use
- how much is tied up in fixed assets or PRI
- what's left?
- how does it compare to level identified by trustees as appropriate?
- if wide of mark what steps will be taken?

Which version should you choose?

In summary:-

FRSSE SORP	<p>less change in one go.</p> <p>No requirement to implement full transitional procedures although a prior year adjustment may be needed if there are material differences from changes in accounting policy.</p> <p>Fewer disclosures</p> <p>Cashflow statement remains optional</p> <p>No change to accounting for multi-employer pension schemes or accrued employee benefits.</p> <p>No change to the way in which investment gains are shown on the SOFA</p>
FRS102 SORP	<p>UK accounting standards that apply when FRSSE is silent are to be withdrawn, therefore, will have to refer to FRS102 in those cases.</p> <p>FRSSE does not address public benefit accounting issues e.g. non-exchange transactions i.e. donations and grants.</p> <p>Less likely to change soon.</p> <p>If you're in a consolidated group you will need to be consistent.</p> <p>Probably will be seen as representing best practice due to greater disclosure.</p>

When does it start?

Periods beginning 1st January 2015 – mandatory

Not just for December 2015 year ends but for short accounting periods too

Early adoption is not possible

Key elements of change in the SORPs

There will be far less change for those adopting the FRSSE SORP, although as previously stated this will only be in its current form for a year.

For those adopting FRS102 SORP the key changes are:

Gains & losses on investment assets count towards net income and expenditure rather than below the line.

No governance costs on face of SOFA but now in a note as support cost component

No activities on face of SOFA

New category of Other gains and losses

discontinued activities have their own column

All figures to have a comparative, although this can be done in a note to avoid the need of having up to an eight column SOFA.

New class of mixed use investment property. Apportion between investment and operational use unless impractical

Property let to group undertaking now classed as investment property

Social investments shown separately – split between programme related investments (PRI) and mixed motive (MM)

Impairment of PRI recognised as charitable expenditure.

MM and Financial investment impairments recognised as loss on investment

Debtors > 1 year now discounted if material

Recognition of income criteria has changed from when it is virtually certain to when it is deemed probable. This could significantly change when contract, grant and legacy income is recognised in the accounts.

Multi-employer benefit pension repayment plans will need to be provided for in full.

All material items to be disclosed and not just the exceptional ones.

Disclosure of the total amount of employee benefits received by key personnel.

Accruing material outstanding employee benefits such as holiday pay or sickness benefit at the year end.

Transition to FRS102 SORP

For those of you that choose to follow FRS102 SORP there is a transition process.

- FRS102 rules are retrospective and are applied at transition date
- Prepare an opening balance sheet at the date of transition
- **The date of transition is the start date of the earliest period reported in the financial statements.**

For example: what is the transition date for year end 31 December 2015?

- Earliest period reported Year end 31 December 2014
- **Start of that earliest period reported is 1 January 2014**

Using the FRS102 SORP rules you then:

Recognise assets and liabilities that may appear for the first time e.g. income now considered probable or holiday pay accruals that are material.

Reclassify assets and liabilities that are now differently treated e.g. freehold property that is now considered to be investment property

Remeasure any assets where applicable at fair value or deemed cost.

Where you think you may have items that are subject to change, gather this information as soon as possible.

And finally...

If you have any queries please ask us when you ring up to arrange your accounts or audit visit for this year.