Guidance for grant making charities on SORPs 2015

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CHARTERED ACCOUNTANTS

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1. Scope

The purpose of this Guidance is to highlight changes in the new charities SORPs that are likely to be of interest to grant making foundations. It neither covers all of the changes from Accounting and Reporting by Charities – Statement of Recommended Practice Charities SORP 2005 ("SORP 2005") to the new SORPs nor does it aim to be a comprehensive guide to all aspects of the new SORPs.

2. Why two new SORPs?

UK Accounting Standards (for all types of entity) change for all accounting periods beginning on or after 1 January 2015. This is when the new accounting standard, Financial Reporting Standard 102 ("FRS 102"), comes into effect. The aim of FRS 102 is to bring UK GAAP ("Generally Accepted Accounting Practice") more into line with International GAAP. FRS 102 applies to entities that are medium sized or large. Entities that are small can apply the FRSSE ("Financial Reporting Standard for Smaller Entities"), at least for the time being. To be small, an entity currently needs to fulfil two of the following criteria:

Gross income: less than £6.5m (£10.2m from 1 January 2016)
Balance sheet total: less than £3.26m (£5.1m from 1 January 2016)
Average number of employees: less than 50 (50 from 1 January 2016)

As well as the changes to the size criteria there are various other complications on the horizon. It is expected that the FRSSE will be withdrawn with effect from 1 January 2016 because the European Union is transforming small company reporting. The Financial Reporting Council (FRC) has published an exposure draft of amendments to FRS 102 in connection with small entities, with a consultation period which closes on 30 April 2015. It is proposed that all entities will use FRS 102 and have the same measurement and recognition criteria, but there will be reduced disclosures for small entities.

The new SORPs, which apply for accounting periods starting on or after 1 January 2015, aim to bring UK charity accounting into line with FRS 102 and the current FRSSE. There are therefore, for the first time, two SORPs: one for those charities that are medium sized or large, 'CHARITIES SORP (FRS 102)', and one for smaller charities, 'CHARITIES SORP (FRSSE)'. The latter of these SORPs will now have only a one year shelf life as it is linked to the FRSSE. The SORP Committee will need to consult on their proposed replacement for the FRSSE SORP during 2015 so that the replacement can be approved by the FRC by the end of the year and in place for years beginning on or after 1 January 2016. The SORP Committee has already recommended that the replacement should be based on the FRS 102 Charities SORP, if the FRC proceeds as expected.

This Guidance covers the FRS 102 version of the SORP ("FRS 102 SORP"), but highlights areas where the FRSSE SORP is different, which are remarkably few. There are further exemptions for charities which are below the audit threshold, which are not covered by this Guidance. In March 2015 the Charity Commission issued "CC15c Charity reporting and accounting: the essentials March 2015" which is a summary of the reporting and accounting framework for charities and includes details of the various size cut-off points.

Throughout this guidance we have included references to the FRS 102 SORP first, and then to the FRSSE SORP ("FRSSE") unless stated otherwise.

3. Trustees' Report

The headings used are the same as for SORP 2005 and as before charities are free to structure their Trustees' Reports how they wish, provided they meet the requirements of the relevant SORP.

3.1 Objectives and activities

Charities are required to provide details of:

- *"the purposes of the charity as set out in its governing document; and*
- *the main activities undertaken in relation to those purposes."* (Para 1.17, FRSSE para 1.18)

Charities in England and Wales must also:

- *"explain the main activities undertaken to further the charity's purposes for the public benefit; and*
- *include in their report a statement confirming whether the trustees have had regard to the Charity Commission's guidance on public benefit."* (Para 1.18, FRSSE para 1.19)

"The report should explain the activities, projects or services identified in the accompanying accounts. As far as practicable, numerical information provided in the report about the resources spent on particular activities should be consistent with the analysis provided in the accounts." (Para 1.19, FRSSE para 1.20)

A charity is also required to provide an explanation of:

- *"its aims, including details of the issues it seeks to tackle and the changes or differences it seeks to make through its activities;*
- *how the achievement of its aims will further its legal purposes;*
- *its strategies for achieving its stated aims and objectives;*
- *the criteria or measures it uses to assess success in the reporting period; and*
- *the significant activities undertaken (including its main programmes, projects or services provided), explaining how they contribute to the achievement of its stated aims and objectives."* (Para 1.36, FRSSE para 1.37)

They should also provide "*a more detailed understanding of their short-term and longer-term aims and objectives… When explaining activities… it may be helpful to provide details of the amount spent on, or the number of staff engaged in, undertaking a particular activity."* (Para 1.37, FRSSE para 1.38)

Where significant, charities should explain their social investment policies and *"explain how any programme related investments contributed to the achievement of its aims and objectives."* (Para 1.38, FRSSE para 1.39). *"The report must also explain the investment's performance in relation to the objectives set by the trustees."* (Para 21.39, FRSSE para 21.37)

As before, charities should explain their grant-making policies and (which is new) explain how grant-making activities contribute to the achievement of their aims and objectives (Para 1.38, FRSSE para 1.39).

3.2 Achievements and performance

Charities are required to provide *"a summary of the main achievements of the charity. The report should identify the difference the charity's work has made to the circumstances of its beneficiaries and, if practicable, explain any wider benefits to society as a whole."* (Para 1.20, FRSSE para 1.21)

For a grant-maker this raises the question of who its beneficiaries are. Are they the charities or other bodies to which grants are made, or are they the ultimate beneficiaries of the grants (who will often be at one remove or more from the grant-maker)? The thrust of the SORPs would seem to suggest the latter, although it can be difficult for a grant-maker to obtain enough data from the grant recipient to make a proper assessment of the difference it has made on those ultimate beneficiaries.

The Trustees' Report must review:

- *"the significant charitable activities undertaken;*
- *the achievements against objectives set;*
- *the performance of material fundraising activities against the fundraising objectives set;*
- *investment performance against the investment objectives set where material financial investments are held; and*
- *if material expenditure was incurred to raise income in the future, the report must explain the effect this expenditure has had, and is intended to have, on the net return from fundraising activities for both the reporting period and future periods."* (Para 1.41, FRSSE para 1.42)

"In reviewing achievements and performance, charities may consider the difference they have made by reference to terms such as inputs, activities, outputs, outcomes and impacts, with impact viewed in terms of the long-term effect of a charity's activities on both individual beneficiaries and at a societal level. Charities are encouraged to develop and use impact reporting (impact, arguably, being the ultimate expression of the performance of a charity), although it is acknowledged that there may be major measurement problems associated with this in many situations." (Para 1.43, FRSSE para 1.44)

"In reviewing its achievements and performance, the charity should include a summary of the measures or indicators used to assess performance when it provides evidence of the achievements in the reporting period." (Para. 1.44, FRSSE para 1.45)

There is also a requirement to comment on factors within and outside the charity's control which have affected the achievement of objectives, be that positive or negative.

3.3 Financial review

Charities are required to report on the financial position at the end of the reporting period and the significant events that have affected the financial performance.

They must explain:

- *"the financial effect of significant events;*
- *where the charity holds material financial investments, the investment policy and objectives set;*
- *a description of the principal risks and uncertainties facing the charity and its subsidiary undertakings, as identified by the charity trustees, together with a summary of their plans and strategies for managing those risks; and*
- *any factors that are likely to affect the financial performance or position going forward."* (Para 1.46, FRSSE para 1.47)

The requirement to describe the principal risks and uncertainties and their plans for managing them will be new to many charities. Some of the risks and uncertainties for grant-makers may include: making ineffective or inappropriate grants; failing to maximise the opportunities afforded an independently endowed grant-maker; the effects of inflation on their endowment and purchasing power; and investment returns and volatility. The risks will be specific to each charity and should have been considered by the trustees as part of their regular assessment of the risks the charity faces.

The financial review should also explain:

- *" the principal funding sources of the charity in the reporting period and how these resources support the key objectives of the charity;*
- *the impact, if any, of a material pension liability arising from obligations to a defined benefit pension scheme or pension asset on the financial position of the charity; and*
- *where the charity holds material financial investments, the extent (if any) to which it takes social, environmental or ethical considerations into account in its investment policy."* (Para 1.47, FRSSE para 1.48)

3.4 Reserves

Charities should also explain their reserves policies, stating the amount of reserves held and the reasons for holding (or not holding) reserves.

The review of reserves should identify and quantify:

- restricted funds
- designated funds (and the likely timing of expenditure)
- commitments (not provided for as a liability in the accounts). For grant-makers this could include grant commitments not provided for in the accounts as conditions had not yet been met, and the likely timing of expenditure
- the carrying amount of functional assets *"which the charity considers to represent a commitment of the reserves they hold."* (Para 1.48, FRSSE para 1.49)

They must also *"identify the amount of any fund that can only be realised by disposing of tangible fixed assets or programme related investments."* (Para 1.48, FRSSE para 1.49)

This ignores expendable endowment funds as these are of course restricted funds. However, for many grant-makers, it can be meaningless to discuss reserves without referring to their expendable endowment as such funds can be spent at trustees' discretion, except where the expenditure is restricted as to purpose. Although technically not part of the reserves calculation as defined above, they are often in reality a significant source of reserves in the wider meaning of the term, although not normally capable of being replenished from income.

Charities are also required to:

- *"compare the amount of reserves with the charity's reserves policy and explain, where relevant, what steps it is taking to bring the amount of reserves it holds into line with the level of reserves identified by the trustees as appropriate given their plans for the future activities of the charity."* (Para 1.48, FRSSE para 1.49)

3.5 Plans for future periods

"The report must provide a summary of the charity's plans for the future, including its aims and objectives and details of any activities planned to achieve them." (Para 1.49, FRSSE para 1.50)

"The report should explain the trustees' perspective of the future direction of the charity. It should explain, where relevant, how experience gained or lessons learned from past or current activities have influenced future plans and decisions about allocating resources to their best effect." (Para 1.50, FRSSE para 1.51)

Para 1.49 (FRSSE para 1.50) is little different to the requirement at SORP 2005, but the requirement in Para 1.50 (FRSSE para 1.51) to explain how experience gained or lessons learned have influenced future plans and decisions about allocating resources is new.

3.6 Structure, governance and management

Charities must give details of:

- the charity's governing document
- how the charity is constituted
- methods of recruiting and appointing trustees and details of external bodies with appointment rights

The Trustees' Report must also explain:

- *"the charity's organisational structure and, where relevant, those of its subsidiary undertakings;*
- *how the charity makes decisions, for example which types of decisions are taken by the charity's trustees and which are delegated to staff;*
- *the policies and procedures for the induction and training of trustees;*
- *the arrangements for setting the pay and remuneration of the charity's key management personnel and any benchmarks, parameters or criteria used in setting their pay;*
- *if the charity is part of a wider network (for example if it is affiliated with an umbrella group), how, if at all, this impacts on the operating policies adopted by the charity; and*
- *relationships between the charity and related parties, including its subsidiary undertakings, and with any other charities and organisations with which it cooperates in the pursuit of its charitable objectives."* (Para 1.51, FRSSE para 1.52)

'Key management personnel' are defined as *"those persons having authority and responsibility for planning, directing and controlling the activities of the charity, directly or indirectly, including any director (whether executive or otherwise) of the charity. This definition includes trustees and those members of staff who are the senior management personnel to whom the trustees have delegated significant authority or responsibility in the day-to-day running of the charity."* (Glossary)

3.7 Reference and administrative details

The following must be provided:

- the charity name and registration number (if registered) and company number (if incorporated) and where registered and incorporated as appropriate
- any other name it uses
- address of the principal office and (for companies) the registered office
- names of trustees at the date of approval of the report or who served during the period
- names of directors of any corporate trustees on the date the report was approved
- names of any trustee who holds the title to property belonging to the charity either at the date the report was approved or during the period.

In addition, charities must provide:

- *"the name of any chief executive officer or other senior management personnel to whom the charity trustees delegate day-to-day management of the charity on the date the report was approved or who served in such a position in the reporting period in question; and*
- *the names and addresses of any other relevant organisations or persons providing banking services or professional advice to the charity, including its solicitors, auditor and investment advisers."* (Para 1.52, FRSSE para 1.53)

Certain of the above details may be withheld where the exemption criteria (concerning personal danger to individuals) are met. Paragraphs 1.29 to 1.31 of the SORP give details (FRSSE paragraphs 1.30 to 1.32).

3.8 Charities applying a total return approach to permanent endowment

There are additional disclosures required in the Trustees' Report. These are set out in section 10 of this Guidance 'Total return (investments)'.

3.9 Strategic report

This is a reporting requirement for all medium and large companies under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. There is no requirement for small charities that are companies to include a Strategic Report. Medium and large charities that fulfil the requirements of the SORP will have also met the requirements of the Strategic Report. However, there is a need for a separate section within the Trustees' Report to be identified as the Strategic Report. This will include the content within 'Achievements and performance' and 'Financial review'. When approving the Trustees' Report, *"trustees should also specifically state that they approved the strategic report."* (Para 15.9)

From 1 January 2016, the medium-size company thresholds which apply for charities in determining whether a Strategic Report is required are two of the following:

Gross income: £36m (previously £25.9m)
Balance sheet total: £18m (previously £12.9m)
Average number of employees: 250 (previously 250)

4. Fund accounting

There is little change from SORP 2005 to the essentials of fund accounting, but there are a few apparently small changes worth noting:

There is now a recognition that where a donor expresses *"a form of non-binding preference as to the use of the funds"* (Para 2.9, FRSSE para 2.10) this may fall short of imposing a restriction in trust law. This may encourage charities to look again at some of their restricted funds to see if they are truly restricted in a legal sense. Where a non-binding preference has been expressed trustees "*may decide to designate those funds to reflect the purposes which the donor had in mind."* (Para. 2.9, FRSSE para 2.10)

The new SORPs set out the disclosure requirements for funds, most of which are unchanged from before. However, there is now an explicit requirement, where endowment has been converted to income, to provide *"details of the amount converted and the legal power for its conversion."* (Para 2.29, FRSSE para 2.30)

The conversion of endowment funds into income may be included in 'other income' on the SOFA, with the equivalent reduction to endowment funds shown as a deduction under 'other income' in the 'Endowment Funds' column. *"This approach may be helpful in those jurisdictions that include such items in the calculation of gross income for audit threshold purposes."* (Para 4.39, FRSSE para 4.34)

The other option is to include such conversions of endowment funds into income as 'Transfers between funds' further down the SOFA.

There is also a reminder that where income funds are used to erect or improve a building on land held in permanent endowment, the default position is that funds so spent *"will form part of the endowment in the absence of evidence to the contrary."* (Para 2.20, FRSSE para 2.21)

5. Accounting standards, policies, concepts and principles

This is a new section in the SORPs, although there is little in this section that is genuinely new or different to previous requirements. There are a few points worth highlighting:

5.1 Length of the reporting period

Where accounts are prepared for a period that is not 12 months, the reason must be given and the accounts should *"state the legal authority it has for the change to its reporting period."* (Para. 3.12, FRSSE para 3.12). In most cases this will presumably be the trust deed or, for companies, the Companies Act. There is also a requirement to state that the comparative figures *"are not entirely comparable."* This is one of a number of areas where previous SORPs said little and where the new SORPs are slightly more prescriptive.

5.2 Presentation currency

The new SORPs require that *"where a charity operates predominantly in a different currency, it should prepare its accounts in that currency."* (Para 3.13, FRSSE para 3.13)

5.3 Correction of prior period errors and changes in accounting policy

The requirements here follow from FRS 102. Any material prior period error should be corrected either by amending the comparatives or by means of a prior period adjustment. Previously only fundamental errors required a prior period adjustment.

As before *"A change in an accounting policy must be applied retrospectively to comparative information for all prior periods to the earliest date for which it is practicable, except where an accounting standard requires or permits an alternative treatment on its first adoption."* (Para 3.34). Under the FRSSE SORP, *"Following a change in accounting policy, the amounts for the current and corresponding periods must be restated on the basis of the new policies."* (FRSSE para 3.33)

The adoption of the new SORPs provides an opportunity (and in some cases a requirement) to review accounting policies. It should be noted that under the FRSSE SORP, *"Where a charity undertakes a new transaction for which it has no policy and where it is not dealt with in the FRSSE or this SORP, the FRSSE requires a charity to have regard to FRS 102 in establishing current practice."* (FRSSE para 3.29)

5.4 Other disclosures

Continuing the theme noted above of becoming more prescriptive in areas where previous SORPs were more or less silent, the FRS 102 SORP requires charities to state:

- *"that the charity is a public benefit entity;*
- *the judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the accounts;*
- *the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period; and*
- *in respect of those assets and liabilities where there is a significant risk of material adjustment within the next reporting period, the notes must include details of their nature and their carrying amount as at the end of the reporting period."* (Para 3.40)

The importance of explaining estimation bases and techniques is emphasised in Para 3.8 which states: *"it is essential that the accounts are accompanied by an explanation of the bases and estimation techniques used in their preparation"*. There is no equivalent requirement in FRSSE SORP to provide this explanation in the accounts, although it would be best practice.

The main judgement area for grant-makers may be around whether certain conditional grants should be recognised as liabilities at the balance sheet date. Some types of investment may also involve estimation uncertainty. There is further guidance on changes to accounting estimates in Para 3.35 of the FRS 102 SORP.

Both the FRSSE and the FRSSE SORP require that explanations are provided where there has been a material departure from the requirements of the FRSSE or the FRSSE SORP (FRSSE para 3.41 to 3.44).

5.5 Going Concern

This is not usually a significant issue for grant-makers. There are additional disclosures required where there is significant uncertainty or doubt about the charity's ability to continue as a going concern.

"Where there are no material uncertainties about the charity's ability to continue as a going concern, this should be stated." (Para 3.39)

Under the FRSSE SORP, the emphasis is the other way round: *"Any material uncertainties, of which the trustees are aware in making their assessment [about the charity's ability to continue as a going concern], must be disclosed."* (FRSSE para 3.14 and 3.40)

6. Statement of financial activities

There is a cleaner layout than before. The new layout which is taken from Table 2 of the FRS 102 SORP is set out below:

	Unrestricted funds	Restricted funds	Endowment funds	Total funds	Prior period Total funds
	£	£	£	£	£
Income and endowments from:					
Donations and legacies					
Charitable activities					
Other trading activities					
Investments					
Other					
Total					
Expenditure on:					
Raising funds					
Charitable activities					
Other					
Total					
Net gains/(losses) on investments					
Net income/(expenditure)					
Transfers between funds					
Other recognised gains/(losses):					
Gains/(losses) on revaluation of fixed assets					
Actuarial gains/(losses) on defined benefit pension schemes					
Other gains/(losses)					
Net movement in funds					
Reconciliation of funds:					
Total funds brought forward					
Total funds carried forward					

Both SORPs require comparatives for each column in the SoFA which can be disclosed in the notes to the accounts or by way of additional columns on the face of the SoFA.

The FRSSE SORP layout is the same, except that 'Net gains/(losses) on investments' appear below 'Net income' rather than above it. This follows on from the main differences between FRS 102 and the FRSSE. FRS 102 requires investment gains and losses (realised and unrealised) to appear above the profit/loss line in the income statement. For grant-makers with investment portfolios (the majority) this will be quite a significant change to the appearance of the SoFA for those that adopt the FRS 102 SORP.

The new SORPs allow a single combined total funds column to be used where a class of funds is not considered material. Where this approach is adopted, *"the summary of fund movements must include an analysis for each class of fund for each row in the SoFA together with a total that corresponds to the total shown in the SoFA."* (Para 4.11, FRSSE para 4.11). This could be particularly relevant to grant making foundations with large expendable endowments and comparatively small unrestricted funds.

The activity basis remains and grant-making remains a recognisable charitable activity in its own right. Grant-making charities therefore retain flexibility as to how they describe and categorise their activities.

6.1 Income recognition

The criteria for income recognition are the same as before, except that 'certainty' has been replaced by 'probable'. The three criteria for recognition of income are now:

- *"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 associated with the transaction or gift will flow to the charity.*
- *Measurement – the monetary value or amount of the income can be measured reliably and the costs incurred for the transaction and the costs to complete the transaction can be measured reliably."* (Para 5.8; FRSSE para 5.9 has slightly different wording for the second criteria but the sentiment is the same)

For grant-making charities, this will mean little or no change except possibly in the area of legacies.

6.2 Legacies

There is a considerable amount on legacy recognition in the new SORPs, but the following two paragraphs capture the key points:

"Receipt of a legacy must be recognised when it is probable that it will be received.

Receipt is normally probable when:

- *there has been grant of probate;*
- *the executors have established that there are sufficient assets in the estate, after settling any liabilities, to pay the legacy; and*

- *any conditions attached to the legacy are either within the control of the charity or have been met."* (Para 5.31, FRSSE para 5.32)

"Where a payment is received from an estate or is notified as receivable by the executors after the reporting date and before the accounts are authorised for issue but it is clear that the payment had been agreed by the executors prior to the end of the reporting period, then it should be treated as an adjusting event and accrued as income if receipt is probable." (Para 5.33, FRSSE para 5.34)

6.3 Grant and donation income

The replacement of 'certain' with 'probable' should not change recognition of grant income in most cases. The entitlement and measurement criteria remain unchanged. For donations, *"entitlement usually arises immediately on its receipt."* (Para. 5.12, FRSSE para 5.13)

6.4 Income from interest, royalties and dividends

The criteria for recognition are:

"Income from interest, royalties and dividends must be recognised when its receipt is probable and the amount receivable can be measured reliably." (Para 5.49)

"Interest is recognised using the effective interest method (see section 11 of FRS 102 for more information). However, interest on concessionary loans and interest receivable on bank deposit accounts and from government gilts will not require adjustment, as the rate receivable normally reflects the effective interest rate applicable to the asset." (Para 5.50)

"Royalties and income from the exploitation of intellectual property rights are accrued in accordance with the substance of the relevant agreement." (Para 5.51)

"Dividends are accrued when the shareholder's right to receive payment is established. Measurement is at the fair value receivable, which will normally be the transaction value." (Para 5.52)

The FRSSE SORP is simpler and requires:

- *"income from interest, royalties and dividends to be recognised when receivable;*
- *royalties and income from the exploitation of intellectual property rights to be recognised when receivable in accordance with the substance of the relevant agreement; and*
- *dividends to be recognised when the shareholder's rights to receive payment is established."* (FRSSE para 5.47)

6.5 Donated facilities and services

The value of donated facilities and services for its own use should be quantified and recognised, *"provided the value of the gift can be measured reliably."* (Para. 6.13, FRSSE para 6.14). Donated facilities and services should be measured and accounted for *"on the basis of the value of the gift to the charity"* (Para. 6.14, FRSSE para 6.15) which may be lower than the price the charity would pay in the open market for the facilities or services provided. For example donated accommodation in a modern city centre office may have a higher value in the market than its value as accommodation to the charity.

6.6 Expenditure

A liability and related expenditure must be recognised where all of the following criteria are met:

- *"Obligation – a present legal or constructive obligation exists at the reporting date as a result of a past event.*
- *Probable – it is more likely than not that a transfer of economic benefits, often cash, will be required in settlement.*
- *Measurement – the amount of the obligation can be measured or estimated reliably."* (Para 7.5, FRSSE para 7.6)

6.7 Recognition of grant commitments

This is little changed from SORP 2005. Grants are recognised *"when the criteria for a constructive obligation are met, payment is probable, it can be measured reliably, and there are no conditions attaching to its payment that limit its recognition."* (Para 7.18, FRSSE para 7.18)

A *"constructive obligation exists where:*

- *the commitment made by the charity is specific, for example a promise is made to provide particular goods, services or grant funding;*
- *this commitment is communicated directly to particular beneficiaries or grant recipients; and*
- *there is an established pattern of practice that indicates to the recipients of services or funding that the charity will meet its commitment."* (Para 7.14, FRSSE para 7.14)

In the case of multi-year grants, provision is made when the above criteria are met, except where conditions that are under the control of the grant-maker have not been met at the balance sheet date. If the conditions are outside the control of the grant-maker *"a liability arises and expenditure must be recognised if the payment of the grant is probable."* (Para 7.23, FRSSE para 7.23). This is a slight change from SORP 2005 which did not include a probability test at this point, although such a test is clearly important, particularly where the condition looks unlikely to be fulfilled.

Where a grant commitment is not provided for as it does not meet the criteria set out above (for example, where there is uncertainty as to whether the recipient charity will be able to proceed with the proposal) this should be disclosed as a contingent liability.

For unrecognised commitments, the following has to be disclosed:

- *"details of the commitment made;*
- *the time frame of that commitment;*
- *any performance-related conditions attached to that commitment; and*
- *details of how the commitment will be funded."* (Para 7.44, FRSSE para 7.41)

Funds may be designated if they are intended to be used to meet unrecognised commitments, but this cannot be done where a grant commitment is to be funded wholly from future income.

6.8 Disclosure of grants and grant commitments

This is similar to before. However, the option for a charity to refer the reader of the accounts to the charity for certain disclosures not made in the accounts or trustees' report is now restricted to the provision of grant disclosures on the charity's webpage. The information that can be disclosed in this way is the details of institutions that receive grant funding, sufficient for the reader to *"appreciate the type and range of institutions supported."* (Para 16.8, FRSSE para 16.8)

The new SORPs give more information on what support costs related to grant-making activities should include:

- *"costs incurred as part of the grant application and decision-making processes prior to the award of a grant;*
- *monitoring costs incurred following the award of a grant; and*
- *support costs incurred relating to grant-making activities (refer to the SORP module 'Allocating costs by activity in the statement of financial activities' for guidance on the allocation of support costs to activities)."* (Para 16.9, FRSSE para 16.9)

Support costs now feature in the example tabular disclosure (table 12 of FRS 102 SORP, FRSSE table 11):

Analysis of grants

Analysis	Grants to institutions	Grants to individuals	Support cost	Total
	£	£	£	£
Activity or Project 1				
Activity or Project 2				
Activity or Project 3				
Total				

There is flexibility as to how grants are analysed. This may be by project or activity (e g medical research, performing arts etc.) or by geography.

As before there is no requirement to name individuals who receive grants.

Also, total grants to a particular institution need not be given where the total is not material in the context of institutional grants. There is also an exemption from disclosure where *"disclosure could result in serious prejudice to the grant-maker and/or the recipient institution or individual working for the institution."* (Para 16.21, FRSSE para 16.21). Where this exemption is used, the grant-maker must state, *"as part of its disclosure of material grants made to institutions:*

- *the total number, value and general purpose of those grants where these details have not been disclosed; and*
- *that an exemption applies to disclosure on the grounds of serious prejudice."* (Para 16.23, FRSSE para 16.23)

6.9 Exemption for grants made by charitable trusts during the lifetime of the settlor

"Charity law provides an exemption to charitable trusts registered in England and Wales from providing the names of grant recipients and the amounts of such grants during the lifetime of the settlor who donated the funds from which the grants are paid or during the lifetime of any spouse or civil partner of the settlor. A charitable trust that opts to use this disclosure exemption is required by this SORP to state that this exemption has been taken in the notes to the accounts. This disclosure exemption does not apply to charities registered in Scotland, Northern Ireland or the Republic of Ireland." (Para 16.25, FRSSE para 16.25)

6.10 Holiday pay

Charities applying the FRS 102 SORP only are required to provide for staff holiday pay at the balance sheet date, where this is material. The FRSSE SORP does not require this. Para 7.41 of the FRS 102 SORP gives further details.

6.11 Governance costs

These should be shown as a separate line within the analysis of support costs. Governance costs no longer appear as a separate line on the SoFA.

7. Trustee and staff remuneration and related party transactions

7.1 Trustee remuneration

It is still fairly unusual for charities to remunerate their trustees. The new SORPs set out the disclosures required where trustees are remunerated (names, amounts, why the remuneration was paid, the authority for paying remuneration and amounts of any other benefits).

7.2 Trustees' expenses

The disclosure requirements are essentially the same as before (total amounts, nature of expenses and number of trustees). Trustee expenses include payments made to third parties as well as direct reimbursement to the trustee and expense allowances.

7.3 Related party transactions

The new SORPs have a more detailed definition of related parties. There is also an explicit requirement to consider *"the substance of the relationship and not merely its legal form. For example, if a person has significant influence over a charity's decision-making or if a charity acts on their instructions, then that person must be treated as related to the charity."* (Para 9.16, FRSSE para 9.17)

The exemption from reporting donations to the charity from related parties (including trustees), except where conditions are attached which would or might require the charity to alter significantly the nature of its activities, remains. However, *"charities must provide an aggregate disclosure of the total amount of donations received without conditions."* (Para 9.18). Interestingly this clause is not included in the equivalent paragraph 9.20 of FRSSE SORP.

7.4 Redundancy, termination and ex gratia payments

For any staff redundancy or termination payments, the following must be stated:

- *"the total amount for the reporting period;*
- *the nature of the payment;*
- *its accounting policy; and*
- *the extent of funding at the reporting (balance sheet) date."* (Para 9.27; only the amount of any redundancy or termination payments relating to the reporting period is required under FRSSE para 9.28)

In addition, the exemption from disclosing ex-gratia payments where the trustees consider them to be in the interests of the charity (for example redundancy payments in excess of the legal minimum) is removed.

7.5 Staff remuneration

The disclosure requirements remain the same (wages and salaries, social security costs, employer contributions to defined contribution pension schemes, operating costs of defined benefit schemes and other forms of employment benefits). The information disclosed must also include expenditure on staff working for the charity whose contracts are with and are paid by a related party.

In addition the new SORPs require charities to provide the average head count during the period. Average number of full-time equivalents and part-time staff may be disclosed as well, if desired.

The number of employees in bands of £10,000 starting at £60,000 must be disclosed. There is no requirement to disclose the remuneration of the Chief Executive or equivalent but it may be helpful to make disclosures. However, there is a requirement to disclose *"the total amount of any employee benefits received by trustees and key management personnel for their services to the charity."* (Para 9.32). In the FRSSE SORP, this is a suggestion not a requirement (FRSSE para 9.32).

8. Balance sheet

The layout is unchanged from before.

8.1 Revaluation Reserves

For companies there is a requirement that revaluation reserves are shown on the face of the balance sheet.

"These reserves will form part of the funds in which those assets carried at revaluation or at fair value are held. This can be done by showing these reserves as a separate component of the relevant class of fund." (Para 15.24, FRSSE para 15.18 but with no reference to fair value as it's generally not relevant under FRSSE)

For grant-making charities the main areas of interest are around the accounting for social and mixed motive investments.

8.2 Social investments

These cover programme related investments and mixed motive investments.

A programme related investment is defined as:

"A programme related investment is an asset held by a charity that provides investment funding to individuals or organisations in order to directly further the charitable purposes of the investing charity; any financial return obtained is not a primary reason for making the investment." (Para 21.9; FRSSE para 21.9)

A mixed motive investment is defined as:

"A mixed motive (or mixed purpose) investment is an asset held by a charity that provides funding to individuals or organisations in order to generate a financial return for the investing charity and it also contributes to the investing charity's purposes through the activities or related tangible fixed assets funded by the investment." (Para 21.11, FRSSE para 21.11)

"The investment is deemed to be 'mixed motive' as neither the investment return nor the contribution to the investing charity's purposes is sufficient on its own to justify the investment decision." (Para 21.12, FRSSE para 21.12)

Property may be a programme related investment *"only when it is held specifically to enable a third party to undertake particular activities using the property that contribute to the investing charity's charitable purposes."* (Para 21.14, FRSSE para 21.14). Property may also be held as a mixed motive investment where it meets the criteria for mixed motive investments.

"A mixed use property used in part by the charity to provide goods or services and for its own administrative purposes and in part to generate rental income must be apportioned between tangible fixed assets and investment property. However, if such an apportionment is impractical, the whole property must be classed as a tangible fixed asset." (Para 21.17, FRSSE para 21.17)

"A charity that decides to occupy a property partly to carry out its own activities, and partly lets it to a charity or third party which undertakes activities that further the landlord charity's purposes, should apportion it between tangible fixed assets and mixed motive investment. However, if such an apportionment is impractical, the whole property must be classed as a tangible fixed asset." (Para 21.18, FRSSE para 21.18)

Concessionary loans may also be programme related or mixed motive investments. These are loans which are interest free or at below market rates.

Guarantees may also be programme related or mixed motive investments. These should be accounted for as a provision or a contingent liability, depending on the circumstances at the reporting date.

8.3 Presentation

Programme related and mixed motive investments should be presented either as separate lines on the face of the balance sheet or identified as a separate class of investments in the notes to the accounts, depending on the materiality of the holdings.

Programme and mixed motive investments should be reclassified as financial investments or investment property if they cease to be held primarily to further the charitable objects. This issue may arise where the contribution to the investor's charitable purposes is reduced significantly, for example due to a change in the activities financed by the investment. A financial investment cannot be subsequently reclassified as a social investment.

8.4 Measurement

"Charities making (or receiving) concessionary loans repayable on demand or within one year should not adjust the carrying amount of the loan to reflect the below prevailing market rates of interest being charged. However, for loans repayable in more than one year, a charity making (or receiving) concessionary loans must opt to either:

- *initially recognise and measure the loans at the amount received or paid, with the carrying amount adjusted in subsequent years to reflect repayments and any accrued interest and adjusted if necessary for any impairment; or*
- *measure such loans initially at their fair value and subsequently at their amortised cost using the effective interest method (this would effectively treat the concessionary element of the loan as a financing cost or interest income, as applicable). For more information on the use of the effective interest method, refer to section 11 of FRS 102."* (Para 21.26)

The former is the same as current practice and is clearly easier to implement.

Under the FRSSE SORP, the measurement options are:

- *"measure the loans at the amount received or paid, with the carrying amount adjusted for any repayments and any accrued interest (and adjusted if necessary to the recoverable or settlement amount if the loan or part of the loan is irrecoverable or waived); or*
- *adopt current accounting practice and carry the investment at its amortised cost using the effective interest method (for more information on the use of the effective interest method, users of the FRSSE may find it helpful to refer to section 11 of FRS 102)."* (FRSSE para 21.27)

Under the FRSSE SORP, shares (ordinary and preference) held as programme related or mixed motive investments should be measured at cost less any provision for diminution in value or at market value if it can be measured reliably (see FRSSE para 21.26).

Under the FRS 102 SORP, shares (ordinary and preference) held as programme related or mixed motive investments should be valued at fair value or (if this cannot be measured reliably), at cost less impairment.

"The bid price must be used to measure fair value for accounting purposes of shares that are traded in an active market. When quoted prices are unavailable, the price of recent transactions of identical investments may provide evidence of their fair value, provided that there has not been a significant change in economic circumstances since those transactions. Prices may need to be adjusted if the last transaction price is not a good estimate of fair value, for example if the transaction was as a result of a forced sale." (Para 21.29)

"If neither the market price nor recent transaction prices provide a reliable estimate of fair value, then cost less impairment should be used." (Para 21.30)

8.5 Impairment

If there is evidence of impairment (for example default on loan repayments or deterioration in the financial position of the investee entity) the loss must be recognised on the SoFA. Impairment should be measured on the same basis as for other investments or financial assets.

"An impairment loss arising on a programme related investment should be recognised as a cost within 'expenditure on charitable activities' in the SoFA." (Para 21.34, FRSSE para 21.32)

"In the case of a mixed motive investment, the loss should be recognised as an investment impairment in the 'gains/(losses) on investments' line in the SoFA." (Para 21.35, FRSSE para 21.33)

"Any reversal of a previous impairment must be credited to the heading in the SoFA that was initially charged with the impairment. The reversal of an impairment charge must not result in an asset's carrying amount exceeding its carrying amount prior to its initial impairment." (Para 21.36, FRSSE para 21.34)

8.6 Gains on disposal

"Any gain on the disposal of a programme related investment is recognised as 'other income' in the SoFA after offsetting any prior impairment loss." (Para 21.37, FRSSE para 21.35)

"Any gain on the disposal of a mixed purpose investment is recognised in the 'gains/ (losses) on investments' line in the SoFA after offsetting any prior impairment loss." (Para 21.38, FRSSE para 21.36)

8.7 Disclosures in the notes to the accounts

"This SORP requires that the accounting policy note must disclose:

- *the measurement bases used for programme related investments and mixed motive investments; and*
- *any other accounting policies that are relevant to understanding these transactions in the accounts."* (Para 21.40, FRSSE para 21.38)

"This SORP also requires that the notes to the accounts must present programme related investment and mixed motive investment as separate classes of investment in the relevant note, if not separately disclosed on the balance sheet, and disclose:

- *those details required by the SORP module 'Balance sheet' for the relevant classes of fixed asset into which the investment falls;*
- *details and amount of any guarantee made to or on behalf of a third party;*
- *the name of the entity or entities benefiting from those guarantees; and*
- *an explanation as to how the guarantee furthers the charity's aims."* (Para 21.41, FRSSE para 21.39)

"The applicable disclosures set out in the SORP module 'Accounting for financial assets and financial liabilities' must also be made." (Para 21.42, FRSSE para 21.40)

"Section 34 of FRS 102 sets out the accounting treatment and disclosures relating to concessionary loans. Charities must disclose:

- *the carrying amount of concessionary loans made or received (multiple loans made or received may be disclosed in aggregate, provided that such aggregation does not obscure significant information);*
- *the terms and conditions of concessionary loan arrangements, for example the interest rate, any security provided and the terms of repayment;*
- *the value of any concessionary loans which have been committed but not taken up at the reporting date; and*
- *separately amounts payable or receivable within one year and amounts payable or receivable after more than one year."* (Para 21.43)

The same disclosures are required under the FRSSE SORP but these are a requirement of that SORP rather than of section 34 of FRS 102 as the latter is not being applied if the FRSSE SORP is adopted (FRSSE para 21.41).

Interestingly, the new SORPs are silent on the treatment of social investment in a subsidiary entity of the grant-maker. Such investments would normally cancel out in the consolidated accounts of the grant-maker. The accounting will ultimately depend on how the subsidiary uses the funds invested in it. The subsidiary may itself make social investments or it may use the funds in a social enterprise managed by the subsidiary. Particularly where the subsidiary is not subject to the accounting requirements of the SORP there may need to be adjustments on consolidation to ensure that in the parent charity's consolidated accounts the accounting for the use of the funds by the subsidiary complies with the requirements of the SORPs.

In the grant-maker's own (unconsolidated) balance sheet, any social investments in the subsidiary should be accounted for in accordance with the SORPs whilst also identifying these as investments in subsidiary entities.

8.8 Financial investments

There is little change to the accounting for these. Fixed asset investments are said to exclude those investments held for sale or *"which the charity expects to realise within 12 months of the reporting date."* (Para 10.42, FRSSE para 10.43). It is assumed that, as before, this only applies where there is not an intention to reinvest the sale proceeds.

8.9 Financial instruments

These are either financial assets or financial liabilities. In the majority of cases these will be accounted for in the same way as before. However, for long-term loans there is a requirement to deduct any material arrangement fees and these are accounted for over the period of the loan as part of the financing cost. Charities reporting under the FRSSE SORP should have regard to their existing accounting policies for more complex financial instruments. Such charities should have regard to sections 11 and 12 of FRS 102 for new accounting policies where they have no existing policy.

Where credit is offered or received on non-commercial terms over a period of more than twelve months, *"the financing element must be separately identified and included under the relevant headings of the SoFA."* (Para 11.11, no equivalent guidance in the FRSSE SORP)

"The financing element is the difference between the settlement amount and the present value of that amount. The calculation of the present value of the settlement amount requires the identification of the timing and amount of future payment(s) due and then discounting these amounts at a market rate of interest for a similar debt instrument. A similar debt instrument may be an unsecured loan of an amount equivalent to the settlement value over a comparable time period. The unwinding of the discount is shown as a financing transaction (interest receivable or interest payable as appropriate)." (Para 11.12, no equivalent guidance in the FRSSE SORP)

The above does not apply to social investments.

8.10 Foreign exchange contracts and options

Grant-makers may enter into foreign exchange contracts or options to cover the risk of currency fluctuation on overseas grants payments or in respect of investments denominated in foreign currencies (or for other purposes).

"Where the contract is to manage an exchange risk associated with a liability such as a known purchase or a grant payment, the charity may opt to treat it as a hedging transaction. If it is intended to treat the contract as a hedging transaction, then charities must refer to section 12 of FRS 102 for the criteria for a hedging transaction." (Para 11.29, no equivalent guidance in the FRSSE SORP)

"If the contract is not classed as a hedging transaction at its inception, the gain or loss on the contract at the reporting date is taken to the relevant expenditure heading(s) in the SoFA. At the end of each subsequent reporting period or when the contract is fulfilled, whichever is the earlier, any gain or loss not previously recognised is also taken to the SoFA." (Para 11.30, no equivalent guidance in the FRSSE SORP)

8.11 Foreign currency options

The fee or premium on purchase is capitalised. Where hedge accounting does not apply any unrealised loss or gain at the reporting date is taken to the relevant expenditure heading on the SoFA. The minimum carrying value of an option is nil. In *"subsequent reporting periods or when the option is exercised or expires, the gain or loss on exercising the option or the writing off of any residual carrying amount is charged to the SoFA."* (Para 11.33, no equivalent guidance in the FRSSE SORP)

8.12 Disclosures in the notes to the accounts

There are detailed disclosure requirements in connection with financial instruments which are set out in Para 11.35:

"Charities with basic financial instruments must disclose:

- *the measurement bases and the accounting policies used for financial instruments;*
- *the carrying amount of financial assets measured at fair value through income and expenditure (termed profit or loss in FRS 102);*
- *the carrying amount of financial assets measured at amortised cost;*

- *the carrying amount of financial liabilities measured at fair value through income and expenditure (termed profit or loss in FRS 102);*
- *the carrying amount of financial liabilities measured at amortised cost;*
- *the carrying amount of financial liabilities measured at cost less impairment;*
- *information about the significance of financial instruments to the charity's financial position or performance, for example the terms and conditions of loans or the use of hedging to manage financial risk;*
- *for all financial assets and financial liabilities measured at fair value, the basis for determining fair value, including any assumptions applied when using a valuation technique;*
- *if the charity or its subsidiary has provided financial assets as a form of security, the carrying amount of the financial assets pledged as security and the terms and conditions relating to its pledge;*
- *the income, expense, net gains and losses, including changes in fair value, for financial assets and financial liabilities measured at fair value, and financial assets and financial liabilities measured at amortised cost;*
- *the total interest income and expense for financial assets and financial liabilities that are not measured at fair value; and*
- *the amount of any impairment loss for each class of financial asset."* (Para 11.35)

The FRSSE SORP contains much less guidance on accounting for foreign currency transactions. Where a charity has such arrangements and is using the FRSSE SORP it should *"have regard to their own existing accounting policies for these transactions."* (FRSSE para 11.7). Failing that, such charities should *"have regard to sections 11 and 12 of FRS 102."* (FRSSE para 11.7).

The disclosure requirements are consequently also much more limited:

"This SORP requires that charities must disclose the accounting policy adopted for each material class of financial instruments, including financial assets and liabilities." (FRSSE para 11.14)

8.13 Creditors

The new SORPs include a requirement to show *"accruals for grants payable"* (Para 10.82, FRSSE para 10.81) within the analysis of creditors falling due within one year.

9. Cash flow statements

These are mandatory for charities that apply the FRS 102 version of the new SORP; accounts prepared under the FRSSE SORP do not need a cash flow statement but are encouraged to include one. The direct or indirect method may be used, although the indirect method is described as *"the method most commonly used."* (Para 14.14, FRSSE para 14.7). This is illustrated in the tables below extracted from the FRS 102 SORP (Tables 8, 9 and 10):

Table 8: Statement of cash flows

	Total funds	**Prior year funds**	**Note**
	£	**£**	
Cash flows from operating activities:			
Net cash provided by (used in) operating activities	X	(X)	Table 9
Cash flows from investing activities:			
Dividends, interest and rents from investments	X	X	
Proceeds from the sale of property, plant and equipment	X	X	
Purchase of property, plant and equipment	(X)	(X)	
Proceeds from sale of investments	X	-	
Purchase of investments	-	(X)	
Net cash provided by (used in) investing activities	X	X	
Cash flows from financing activities:			
Repayments of borrowing	(X)	(X)	
Cash inflows from new borrowing	X	-	
Receipt of endowment	X	X	
Net cash provided by (used in) financing activities	X	X	
Change in cash and cash equivalents in the reporting period	X	X	
Cash and cash equivalents at the beginning of the reporting period	X	X	Table 10
Change in cash and cash equivalents due to exchange rate movements	X	(X)	
Cash and cash equivalents at the end of the reporting period	X	X	Table 10

Table 9: Reconciliation of net income/(expenditure) to net cash flow from operating activities

	Current Year	Prior Year
	£	**£**
Net income/(expenditure) for the reporting period (as per the statement of financial activities)	**X**	**(X)**
Adjustments for:		
Depreciation changes	X	X
(Gains)/losses on investments	X	X
Dividends, interest and rents from investments	(X)	(X)
Loss/(profit) on sale of fixed assets	X	(X)
(Increase)/decrease in stocks	(X)	X
(Increase)/decrease in debtors	(X)	X
Increase/(decrease) in creditors	X	(X)
Net cash provided by (used in) operating activities	**X**	**(X)**

Table 10: Analysis of cash and cash equivalents

	Current Year	Prior Year
	£	**£**
Cash in hand	X	X
Notice deposits (less than 3 months)	X	X
Overdraft facility repayable on demand	(X)	(X)
Total cash and cash equivalents	**X**	**X**

The equivalent tables in FRSSE SORP are tables 7, 8 and 9 which have slightly less disclosure, reflecting the fact that transactions are generally less complex. The format is based on old GAAP.

10. Total return (investments)

This applies to charities in England and Wales that have a power to apply a total return approach to their permanent endowment, either by order of the Charity Commission or through exercise of trustees powers contained in the Charities Act 2011, as amended by the Trust (Capital and Income) Act 2013.

10.1 Accounting treatment

Income from endowment investments should appear in the endowment column of the SoFA.

Investment gains and losses also appear in the endowment column of the SoFA.

Any allocation of unapplied total return to income should either be shown within the 'transfer' line or within 'other income' in the SoFA.

The amount of any unapplied total return should be included as part of a relevant endowment together with the value of the trust for investment on the balance sheet.

"Exceptionally, where investment losses exceed the amount of unapplied total return, the loss must be treated as a reduction in the value of the trust for investment component of the permanent endowment until such time as these losses are reversed." (Para 20.9, FRSSE para 20.9)

The disclosure requirements are best summarised by the table below taken from the SORPs:

Table 16: Example of the disclosure of a total return approach to investment of permanent endowment

	Trust for investment	**Unapplied Total Return**	**Total Endowment**
	£	**£**	**£**
At beginning of the reporting period:			
Gift component of the permanent endowment	X	-	X
Unapplied total return	-	X	X
Total	**X**	**X**	**X**
Movements in the reporting period:			
Gift of endowment funds	X	-	X
Recoupment of trust for investment	X	(X)	-
Allocation from trust for investment	(X)	X	-
Investment return: dividends and interest	-	X	X
Investment return: realised and unrealised gains and (losses)	-	X	X
Less: investment management costs	-	(X)	(X)
Total	**X**	**X**	**X**
Unapplied total return allocated to income in the reporting period	-	(X)	(X)
Net movements in reporting period	**X**	**X**	**X**
At end of the reporting period:			
Gift component of the permanent endowment	X	-	X
Unapplied total return	-	X	X
Total	**X**	**X**	**X**

(Table 16, FRSSE table 15)

There is also a requirement to disclose *"details of the power of investment or the order that permits the charity to adopt a total return approach to investment."* (Para 20.10, FRSSE para 20.10)

In addition the following has to be disclosed in the Trustees' Report:

- *"the date that the initial value of the trust for investment and the initial value of the unapplied total return was established;*
- *the policy used to identify the initial amounts of the trust for investment and any unapplied total return and the date this analysis was performed;*
- *an explanation of the policies used by the charity's trustees and the factors considered in determining the amount of the unapplied total return allocated to income (termed the*

trust for application) and any amounts allocated to the trust for investment in the reporting period;

- *an explanation of the policies used by the charity trustees and the factors considered in determining the amount, if any, of the trust for investment (permanent endowment) allocated to the unapplied total return or any recoupment made from the unapplied total return into the trust for investment in the reporting period; and*
- *the name and professional qualifications of any person who has provided advice to the charity's trustees as to the amount that can be allocated to income and/ or the trust for investment from the unapplied total return in the reporting period."* (Para 20.12, FRSSE para 20.12)

11. Charities established under company law

11.1 Preparation of a combined statement of financial activities and income and expenditure account

Very often the SoFA can be adapted to include the income and expenditure account required by the Companies Act 2006.

"To ensure that the SoFA meets the requirements of company law for an income and expenditure account, a combined statement must:

- *identify, within the statement's heading, that an income and expenditure account is included;*
- *include a line identifying the amount of any tax on activities; and*
- *identify, as a prominent sub-total in the statement, the charity's net income/ expenditure for the reporting period."* (Para 15.12, FRSSE para 15.9)

"If a combined statement is not presented, then the charitable company must produce a separate summary income and expenditure account as part of its accounts." (Para 15.13, FRSSE para 15.10)

11.2 Summary income and expenditure account

The amounts must derive from the corresponding figures in the SoFA, but exclude any endowment funds. There is no need to distinguish between unrestricted and restricted income funds. *"Charities must refer to the applicable regulations in their jurisdiction of company registration for the form and content requirements for company accounts."* (Para 15.14; no reference to this in FRSSE SORP as this is generally more applicable to those companies classed as medium or large)

"In the UK a company must adapt the headings and sub-headings used in the income and expenditure account to reflect the special nature of its activities." (Para 15.15, FRSSE para 15.12)

The minimum requirements for a summary income and expenditure account are set out below (Table 11 of the FRS102 SORP; FRSSE table 10 for the equivalent disclosure requirements):

Summary income and expenditure account for (named) company year ending (day/month/year)

	Note	All income funds (current year)	All income funds (previous year)
		£	£
Income*		X	X
Gains/(losses) on investments		X	X
Interest and investment income**†		X	X
Gross income in the reporting period		**X**	**X**
Expenditure*		X	X
Interest payable**†		X	X
Depreciation and charges for impairment of fixed assets**†		X	X
Total expenditure in the reporting period		**(X)**	**(X)**
Net income (expenditure) before tax for the reporting period		X	X
Tax payable		(X)	(X)
Net income (expenditure) for the financial year		**X**	**X**

*Income and expenditure may be analysed in further detail using the analysis headings of the SoFA.

**Items marked in the case of the UK only may either be shown as separate line items or included within other line items and disclosed separately in a note to the accounts.

† Items marked in the case of the Republic of Ireland must be shown as separate line items.

(Table 11, FRSSE table 10)

12. Main differences between the FRS 102 SORP and the FRSSE SORP

The new SORPs are both lengthy documents and despite much publicity about there being two SORPs there is little difference between the two. The main differences are:

Positioning of investment gains and losses on the SoFA
Treatment of restructuring costs (not covered in this guidance)
Cash flow requirement and presentation
Financial instruments
Possibility of excluding pension fund deficits in certain circumstances (not covered in this Guidance)
Some disclosure and terminology

13. Areas not included in this Guidance

The main areas not covered by this Guidance are:

Heritage assets
Funds received as agent or custodian trustee
Pooling schemes
Charity combinations
Group accounts
Branches
Charities as subsidiaries
Charity mergers
Associates and joint ventures
Pension liabilities

In the areas covered within this Guidance emphasis has been placed on those areas likely to be of particular relevance to grant-making charities.

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