Chiene+Tait
CHARTERED ACCOUNTANTS

Comment on...

The Charity SORP

What is the charity "SORP"?

The charity Statement of Recommended Practice ("SORP") provides guidance for charities on how to apply financial reporting standards when preparing accounts. The current 2015 version of the SORP was updated as a result of the introduction of Financial Reporting Standard 102 ("FRS102") which is mandatory for accounting periods commencing on or after 1 January 2015.

Charities that fell below certain thresholds were able to report under the Financial Reporting Standard for Smaller Entities ("FRSSE") using a FRSSE version of the SORP, but this is no longer available for accounting periods commencing on or after 1 January 2016.

The SORP must be applied by all charitable companies, all charities with income greater than £250,000 and those who prepare annual accounts on the accruals basis by choice or as required by their constitution.

The Statement is detailed and extensive and provides specific guidance on how to account for and measure assets, liabilities, and reserves of charities. It also sets out how Charity accounts should be presented and what additional information should be reported, much of which is different and in more detail than would apply to similar sized organisations in the private sector.

The main areas of change from the previous 2005 version of the SORP are set out below:

Trustees' Report disclosures

- Reserves
- Going concern
- Financial effect of significant events
- Principal risks and uncertainties
- Remuneration arrangements for key staff

Statement of Financial Activities ("SOFA") and Balance Sheet

- New terms and categorisation
- "Governance costs" will move to the notes
- Additional disclosure of comparative figures will now be required
- No significant changes to the balance sheet

Notes to the financial statements

- Total remuneration received by key management staff to be disclosed
- Redundancy and termination payments disclosure required
- Grants to institutions details to be in the notes or Trustees' Report, unless on the charity's website

Accounting treatments and policies

- Income to be recognised when receipt is probable rather than virtually certain
- Investment properties let to group entities must be accounted for at market value in the charity balance sheet, but differently in the group balance sheet
- Properties used for letting out and the charity's operations have to be apportioned with a different accounting treatment for each part
- Income from donated goods sold has to be accounted for at "fair value" when received rather than when actually sold
- Debtors and creditors due after more than one year have to be discounted to "present value"
- Holiday and sick pay has to be accrued where material
- Deficit reduction plan payments for multi-employer defined benefit pension schemes need to be accrued in full
- Statement of cash flows required if gross income more than £500,000

It is important to note that the Charity SORP (FRS102) should be read and applied in conjunction with the related "Update Bulletin 1" (February 2016) as well as "Information sheet 1" (April 2017) both published by the body that drafts the SORP.

Applying the SORP appropriately is not straightforward and expert advice should be taken from experienced advisers as and when required.

For further information, please contact:

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- Information correct at 13 December 2017

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