

## **Getting ready for changes to charity accounting in 2015**

*Nigel Davies, charities SORP Secretariat, writes about the Exposure Draft SORP and how you can have your say*

### **Which charities are affected?**

The charity Statement of Recommended Practice (SORP) only affects those charities that do not opt for preparing their accounts on a receipts and payments basis. Smaller charities not structured as charitable companies (charitable companies are ones also registered with Companies House) which have an income of £250,000 or less can choose to prepare their accounts on a receipts and payments basis or prepare accruals accounts using the SORP. Larger charities and all charitable companies must prepare their accounts on an accruals basis.

The charity SORP provides a comprehensive framework for charity accounts prepared on an accruals basis (also known as SORP accounts). It enables charities to adopt a consistent interpretation of financial reporting standards and to account for those transactions that arise when undertaking charitable activities. The current SORP took effect in 2005 but a new one has now been developed and issued for comment.

### **Why is a new SORP necessary?**

Issuing a new SORP is a decision not taken lightly as there are always costs involved in change for practitioners and charities alike. The role of the SORP is to provide guidance to charities on how to apply UK financial reporting standards.

New standards were issued in 2012-13 and these become mandatory for financial years beginning on or after 1 January 2015. Changes in UK accounting standards prompted a review of the SORP and the SORP needs to change to apply them.

### **A new SORP designed for smaller charities**

A criticism levied at SORP 2005 is that: “think small charities first and then build up; at the moment you must trawl through the SORP if you are a small charity to find out”. This plea to think small first is central to the design of the new SORP but your views are needed on how successful this rewrite has been.

The Exposure Draft SORP is accessed via a dedicated micro-site: [www.charitySORP.org](http://www.charitySORP.org) and a self-select feature due to be added to the site by the end of July will enable a charity to identify those parts (known as modules) of the SORP that are relevant to its circumstances and download them or print them off as a single file.

### **Why get involved now?**

If your charity prepares SORP accounts, the coming changes will affect you. If your charity relies on an accountant to prepare the accounts for you, your accountant needs to know about the new SORP too. The advantage of familiarity with the Exposure Draft of the new SORP is that it enables you to

identify what changes will affect your charity and allows you time to prepare for the new SORP coming in.

### **Changes that affect all charities**

- 1) Changes to the trustees' annual report which affect all charities are:
  - charities that have no reserves policy must disclose this fact;
  - charities where there is doubt as to their being a going concern must explain these uncertainties; and
  - the names of all trustees must be disclosed.
- 2) The income and expenditure headings in the Statement of Financial Activities (SoFA) have been changed. A number of expenditure headings are now combined in a new heading 'cost of raising funds' and governance costs are not shown separately on the face of the SoFA but are treated as a component of support costs. Investment gains and losses now count as a component of net incoming resources/ resources expended.
- 3) There are also a number of changes to accounting policies and definitions. These are more fully explained in two help-sheets available by the end of July via the micro site [www.charitySORP.org](http://www.charitySORP.org) but there is an option to continue with your charity's existing accounting policies.
- 4) Disclosures in the notes to the accounts will differ based on the size of charity and whether the accounts are prepared in accordance with the Financial Reporting Standard for Smaller Entities (FRSSE) or with Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102). This choice of accounting standard is explained in the Exposure Draft SORP and those choosing the FRSSE at the time of changeover can keep their existing accounting policies.

### **Changes that affect larger charities and charities choosing FRS 102**

- a) Changes to the trustees' annual report: larger charities must explain their approach to risk management.
- b) The statement of cash flows must be provided by any charity preparing its accounts under FRS 102 and is in a new format.

### **Areas of debate**

Your views are sought on 25 questions covering: the SORP's structure, format and accessibility, the trustees' annual report, the Statement of Financial Activities, and charity specific accounting and reporting issues, accounting methods and principles, the removal of unnecessary requirements and example accounts and reports. You can answer as many questions as you wish and other comments on the Exposure Draft SORP and the micro-site are most welcome.

The consultation runs for four months from Monday 8 July to Monday 4 November and the draft SORP is accessed from the micro site [www.charitySORP.org](http://www.charitySORP.org) and the Exposure Draft SORP and Invitation to Comment is downloadable from the SORP micro-site: [www.charitySORP.org](http://www.charitySORP.org) and the option to respond is by web form, e-mail or letter. Developments to the SORP micro-site post launch will be posted via the twitter handle @chtycommission.

The objective is to have a SORP that works for the sector and getting your views is perhaps the most important step in making sure that happens.