Welcome to the latest Not for Profit news bulletin from PKF Littlejohn. Our aim is to pull together current sector news, issues and opportunities in an easily digestible format for everyone involved in the financial, governance and strategic side of running a not for profit organisation.

FRS 102 triennial review – What is the impact on the Charities SORP?

Following the recent publication of the Financial Reporting Council's triennial review of Financial Reporting Standard 102 (FRS 102), the Charity Commission for England and Wales and the Office of the Scottish Charity Regulator have issued a consultation on the likely impact that these changes will have on the Charities Statement of Recommended Practice (SORP). So, what are these changes and what could they mean for your organisation?

Overview

The Financial Reporting Council's triennial review is intended to provide incremental improvements and clarifications to FRS 102, rather than a full re-write of the standard. Its findings were announced last December.

FRS 102 is the financial reporting standard applicable in the UK, with the Charities SORP providing guidance in applying it to charities. Any changes to the underlying FRS 102 must therefore be incorporated into the Charities SORP, and the consultation explains what these changes are, inviting feedback and comment by 4 April 2018. Overall there are 21 proposed amendments to the Charities SORP.

The updated Charities SORP will be applicable to accounting periods commencing on or after 1 January 2019. Earlier application will be permitted.

The changes are split into two categories.

Clarification points

The bulletin includes the following clarification points. These will be applied immediately once the updated SORP is released.

- Comparative information must be provided for *all* amounts presented in the accounts, including the notes. This means, for example, that the note relating to the split of net assets between funds note must present two years' worth of data;
- The 'undue cost or effort' exemption has been removed for depreciating assets comprised of two or more components which have substantially different economic lives – such assets must now be split into separate components and depreciated separately; and
- A legal (rather than constructive) obligation must exist at the balance sheet date, in order for an expected gift aid payment from a subsidiary to a charitable parent to be recognised as a liability at that date. A deed of covenant provides such a legal obligation. Note, there is no corporation tax impact of this change as the post year end gift aid payment (if probable) will be taken into account.

More significant changes

The bulletin includes a number of more significant proposed amendments, to be applied for accounting periods commencing on or after 1 January 2019. These include the following:

- Where charities rent investment property to another group entity, that property can now be measured at either cost (less depreciation and impairment) or fair value;

We hope you find this bulletin helpful.

Contact Alastair Duke or Nicky Whitehead if you would like to discuss anything mentioned in more detail.

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- Mixed use property will require the investment property element to be held at fair value, as the undue cost or effort exemption will be removed (unless of course that element is rented to another group entity where a choice can be made);
- A reconciliation of net debt is to be provided as a note to the cash flow statement;
- The transfer of activities to a subsidiary undertaking is included as an example of a reconstruction that may be accounted for as a merger (e.g. establishment of a subsidiary to undertake non-charitable trading activities previously undertaken by the parent charity); and
- The definition of a 'financial institution' will be widened, which could lead to more charities being classed as such, and therefore required to include disclosures in the accounts. Charities undertaking lending at market rate or to achieve an element of market return are likely to be affected.

There are a number of more minor proposed changes which are only expected to impact a minority of charities.

Charities with investment property, mixed use property or with a trading subsidiary making a gift aid donation to the parent charity may be affected by the proposed changes.

Conclusion

We recommend that charities review the proposed changes and consider responding to the consultation through answering the two questions posed:

1. Do you agree with how the amendments to FRS 102 have been reflected in the proposed amendments to the Charities SORP (FRS 102) in draft Update Bulletin 2? If not, which of the proposed changes do you not agree with, and why?

2. Are there any other amendments to the Charities SORP (FRS 102) that you consider to be necessary based on the recent amendments to FRS 102? If so, please state the amendment to FRS 102 and the relevant SORP paragraph(s).

The full detail is provided in the Charity Commission's **Charities SORP Update Bulletin.**

We hope you've found this issue useful. If members of your team or your trustees would like to receive future issues, please send their details to Julia Krol (jkrol@pkf-littlejohn.com).

Our specialist team is here to help. If you would like advice on any of the issues discussed in this newsletter, please contact Alastair Duke or Nicky Whitehead (details provided above).

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