

Accounting and reporting by charities: the statement of recommended practice (SORP) – scope and application

Introduction

1. The Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and the Republic of Ireland (the SORP) is issued by the Charity Commission and the Office of the Scottish Charity Regulator in their role as the joint SORP-making body, recognised by the Financial Reporting Council.
2. This SORP provides guidance for charities on how to apply the Financial Reporting Standard applicable in the UK and Republic of Ireland (referred to as FRS 102 in this SORP). It is important for preparers of accounts to make reference to this standard when preparing accounts and in making the required disclosures.
3. The introduction to each module identifies the section(s) in FRS 102 relevant to the issues addressed by that module. This SORP provides guidance on how to apply FRS 102 to charity accounts and it should be noted that in the hierarchy established in accounting standards, FRS 102 requirements and legal requirements take precedence over the SORP. Therefore should an update to FRS 102 or a change in relevant legislation be made after the publication of this SORP, any of the provisions of this SORP that conflict with the updated FRS 102 or relevant legislation cease to have effect.
4. Where FRS 102 allows an accounting policy choice, the SORP will identify whether a particular treatment is required or whether charities can exercise a choice. The preparer should refer to the relevant SORP module to determine whether a particular policy is specified by the SORP as being more appropriate in the circumstances of a charity. Preparers should refer to FRS 102 as the disclosures listed in this SORP are not exhaustive.
5. This SORP sets out how charities are expected to apply FRS 102 to their particular activities and transactions, and explains how charities should present and disclose their activities and funds within their accounts. The SORP also sets out the content of the trustees' annual report which accompanies the accounts (financial statements). The trustees' annual report provides the context for, and a narrative explanation of, the financial information contained in the accounts.
6. This SORP includes charity-specific requirements that are additional to those of FRS 102. In particular, requirements relating to the trustees' annual report, fund accounting, the format of the statement of financial activities and additional disclosures aimed at providing a high level of accountability and transparency to donors, funders, financial supporters and other stakeholders. The phrase 'this SORP requires' is used to distinguish the additional disclosures required by the SORP which are not specifically required by FRS 102.

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7. Before applying this SORP, the following sections should be read which explain the scope and application of this SORP:
- the intended user of the SORP;
 - objectives of the SORP;
 - the intended user of the trustees' annual report and accounts;
 - scope of the SORP;
 - the effective date of commencement;
 - transitional arrangements for charities reporting under FRS 102 for the first time;
 - choice of accounts preparation methods;
 - how to use the modular SORP;
 - use of the terms 'must', 'should' and 'may';
- and also provides:
- an index of the SORP modules; and
 - the Financial Reporting Council's statement on the charities SORP (FRS 102).

The intended user of the SORP

8. The SORP is developed primarily to assist those involved in the preparation of the accounts and trustees' annual report of a charity. The SORP is also relevant to charity auditors, independent examiners and accountancy practitioners who are involved in the scrutiny of charity accounts or in advising on the application of accounting standards in the context of charities.
9. It is anticipated that users of this SORP will be familiar with accounting concepts, principles and terminology and possess a reasonable knowledge of accounting practice.

Objectives of the SORP

10. The recommendations of the SORP are intended to achieve the following objectives:
- improve the quality of financial reporting by charities;
 - enhance the relevance, comparability and understandability of the information presented in charity accounts;
 - provide clarification, explanation and interpretation of accounting standards and their application to charities and to sector specific transactions; and
 - assist those who are responsible for the preparation of the trustees' annual report and accounts.

The intended user of the trustees' annual report and accounts

11. The objective of the trustees' annual report (the report) and accounts is to provide information about a charity's financial performance and financial position that will be useful to a wide range of stakeholders in assessing the trustees' stewardship and management of charitable funds, and to assist the user of the accounts to make economic decisions in relation to the charity.
12. Although past, current and potential funders, donors and financial supporters of a charity are the primary audience for the financial information contained in a charity's report and accounts, the preparer should also be aware that interest in this information may also extend to a charity's service users and other beneficiaries.
13. The report and accounts should not be viewed simply as a statutory requirement or a technical exercise. The report and accounts, when read together, should help users of the information to understand what the charity is set up to do, the resources available to it, how these resources have been used and what has been achieved as a result of its activities.

Scope of the SORP

14. Except where an alternative reporting framework sets out in legislation or regulation, or in another SORP applies, the accounting recommendations of this SORP apply to all charities in the UK that prepare accounts on the accruals basis to give a true and fair view of a charity's financial position and financial activities regardless of their size, constitution or complexity. In the Republic of Ireland this SORP sets out recommended best practice.
15. Where a separate SORP exists for a particular class of charities (for example SORPs applicable to Registered Social Housing Providers or to Further and Higher Education Institutions, or Common Investment Funds), those charities should adhere to that SORP.
16. Charities applying this SORP may also be subject to specific regulations or legal requirements based on how they are constituted or their jurisdiction(s) of formation, operation or registration. For example, charities constituted as companies will need to meet the reporting requirements of company law. Whilst this SORP has been prepared to be consistent with the requirements of company and other relevant law and regulation, charities will need to ensure that any particular accounting requirements and disclosures applicable to them are also met.
17. The accounting recommendations of this SORP do not apply to charities preparing cash-based receipts and payments accounts. Charities preparing cash-based receipts and payments accounts must refer to the regulatory requirements of their jurisdiction(s) of registration regarding the format and content requirements for receipts and payments accounts and the trustees' annual report.

The effective date of commencement

18. This SORP is applicable to the accounts of relevant charities for reporting periods beginning on or after 1 January 2015. In those jurisdictions where the applicable SORP is specified in regulations, this SORP cannot be adopted until the applicable regulations are made allowing its application.

Transitional arrangements for charities reporting under FRS 102 for the first time

19. Section 35 of FRS 102 sets out a number of simplifications for the preparation of the opening balance sheet and comparative figures when reporting under FRS 102 for the first time. Comparative information must be restated as far as practicable on a like-for-like basis.
20. Charitable incorporated friendly societies that fall within the definition of a financial institution, as set out in the glossary to FRS 102, must make the additional disclosures required by section 34 of FRS 102.

Choice of accounts preparation methods

21. Charities in the UK and the Republic of Ireland must apply FRS 102 when preparing their accounts on an accruals basis unless eligible for, and opting to, prepare their accounts using the Financial Reporting Standard for Smaller Entities (FRSSE).
22. An eligible charity opting to apply the FRSSE when preparing its accounts must refer to the recommendations of the separate SORP applicable to charities preparing their accounts in accordance with the FRSSE.
23. Charities not eligible to, or choosing not to, prepare their accounts under the FRSSE must prepare their accounts under FRS 102 in conjunction with the recommendations of this SORP.
24. Charities reporting under this SORP that are eligible for, and choose to, apply the disclosure exemptions permitted by FRS 102 must make the disclosures required by the SORP module '[Disclosure of trustee and staff remuneration, related party and other transactions](#)'.

How to use the modular SORP

25. For a charity to state that it has prepared its accounts in accordance with this SORP, it must adhere to the SORP's requirements for the preparation of both the accounts and report.
26. The accounts of a charity comprise the following:
 - A statement of financial activities (SoFA) which provides an analysis of a charity's income and expenditure and movement in funds in the reporting period.
 - A balance sheet which sets out a charity's assets and liabilities and retained funds at its reporting date.

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- A statement of cash flows.
 - For charities that are companies, an income and expenditure account included either within the SoFA, or as a separate summary income and expenditure account in addition to the SoFA where necessary to meet the reporting requirements of company law.
 - Notes to the accounts that explain the accounting policies, provide more detail of how the income and expenditure is made up, and provide extra information about particular assets and liabilities, or about particular funds or transactions.
27. The SORP has a number of core modules to which all charities must refer when preparing their accounts and report. Supplementing these core modules, there are additional modules that apply only when a charity:
- undertakes a specific type of transaction;
 - needs to recognise, measure or disclose a specific asset or liability in a particular way;
 - has particular forms of investment; or
 - adopts a particular legal form or group structure.
28. When preparing their accounts, charities must refer to the index of modules to ensure that they identify all of the SORP's recommendations that apply to their transactions, assets and liabilities. This should be done for each reporting period and whenever a charity undertakes a new type of transaction. In particular, charities must select those modules that apply to their specific transactions and circumstances.
29. This SORP provides guidance to charities on the application of FRS 102 and also provides recommendations on accounting and reporting of charity-specific transactions that are not addressed within FRS 102.
30. The SORP also offers advice on how a charity may disclose particular issues, or provides examples or suggested layouts of particular notes which a charity may choose to follow.
31. See the SORP module '[Accounting standards, policies, concepts and principles, including the adjustment of estimates and errors](#)' for details of the SORP compliance statement that a charity must provide within its accounting policy note and the additional disclosures that it must make in the event of a departure from the SORP's provisions.

Use of the terms 'must', 'should' and 'may'

32. This SORP uses different terms to distinguish those requirements that must be followed in order to comply with the SORP from other recommendations which charities can opt to follow when preparing the trustees' annual report and accounts.

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33. This SORP uses the term 'must' to indicate those elements that are important to the reader of the trustees' annual report that must be included within the report or to identify particular accounting treatments, disclosures or presentational requirements that are likely to affect the ability of the accounts to give a true and fair view if not applied to material transactions or items. Where this SORP states that a recommendation is one which must be followed, non-adherence to that recommendation is a departure from this SORP.
34. This SORP uses the term 'should' for an item in the trustees' annual report or the accounts for those recommendations aimed at advancing standards of financial reporting as a matter of good practice. While charities are encouraged to follow all the SORP's recommendations, a failure to follow a 'should' recommendation with respect to the report or the accounts is not regarded as a departure from this SORP.
35. This SORP uses the term 'may' for an item in the trustees' annual report or an approach to a particular disclosure that a charity may choose to adopt or identifies that an alternative accounting treatment or disclosure of a transaction or event is allowed by the SORP. Charities may choose whether such examples or alternative treatments are adopted at their discretion.

Index of selected modules

Module 1 - Trustees' annual report

Module 2 - Fund accounting

Module 3 - Accounting standards, policies, concepts and principles, including the adjustment of estimates and e

Module 4 - Statement of financial activities

Module 5 - Recognition of income, including legacies, grants and contract income

Module 6 - Donated goods, facilities and services, including volunteers

Module 7 - Recognition of expenditure

Module 8 - Allocating costs by activity in the statement of financial activities

Module 9 - Disclosure of trustee and staff remuneration, related party and other transactions

Module 10 - Balance sheet

Module 11 - Accounting for financial assets and financial liabilities

Module 12 - Impairment of assets

Module 13 - Events after the end of the reporting period

Module 14 - Statement of cash flows

Module 15 - Charities established under company law

Module 17 - Retirement and post-employment benefits

Module 28 - Accounting for associates

Module 29 - Accounting for joint ventures

1. Trustees' annual report

Overview and the purpose of the trustees' annual report

- 1.1. The primary purpose of the trustees' annual report (the report) is to ensure that the charity is publicly accountable to its stakeholders for the stewardship and management of the funds it holds on trust. The trustees should consider the information needs of the primary users of their report. These may vary from charity to charity but will normally include funders, donors, financial supporters, service users and other beneficiaries.
- 1.2. The report should be a coherent document that meets the requirements of law and regulation. It should provide a fair, balanced and understandable review of the charity's structure, legal purposes, objectives, activities, financial performance and financial position. Good reporting explains what the charity is set up to do, how it is going about it, and what is achieved as a result of its work. The report should assist the user to make economic decisions in relation to the charity and to assess the charity's progress against its objectives and to understand its plans in relation to its purposes.
- 1.3. For the report to be prepared in accordance with this SORP, charities are required to comply with all the applicable reporting requirements prefixed with a 'must'. This module distinguishes those requirements that all charities must comply with from those more detailed reporting requirements applicable to larger charities subject to audit.
- 1.4. Trustees of charitable companies must also prepare a directors' report as required by company law. A separate trustees' annual report is not required provided that any statutory directors' report prepared also contains all the information that this SORP requires to be provided in the trustees' annual report. UK charitable companies that qualify as medium or large companies must provide a 'strategic report' that meets the requirements of company law. For more information see the SORP module '[Charities established under company law](#)'.
- 1.5. Legal requirements and the requirements of this SORP do not limit the inclusion of other information within the report or the provision of additional information accompanying the accounts (financial statements). A charity may include other relevant material in the report, for example a Chairman's Report, an environmental report, or an impact assessment. FRS 102 does not specify any requirements for narrative reporting though the Financial Reporting Council (FRC) does issue guidance on the strategic report. This module specifies this SORP's requirements for a trustees' annual report and its content.
- 1.6. This module sets out:
 - [who is responsible for preparing the trustees' annual report](#);
 - [reporting by smaller charities](#);
 - [the context for reporting](#);
 - [the content of the trustees' annual report required of all charities](#);
 - [the provision of other information](#); and
 - [the additional content required of larger charities](#).

Who is responsible for preparing the trustees' annual report?

- 1.7. The responsibility for preparing the report rests with the charity's trustees. Although trustees may seek the assistance of the charity's staff or advisers in drafting the report, the trustees must approve the final text of the report.
- 1.8. The report provides important accompanying information to the accounts and therefore should be provided whenever a full set of accounts is distributed or otherwise made available. The report must identify the reporting period (financial year) of the charity to which it relates and the date of its approval. One or more of the charity's trustees must sign and date the report on behalf of the trustees upon their approval of the report.

Reporting by smaller charities

- 1.9. The reporting requirements take account of the size of the charity. Less information is required of smaller charities. Smaller charities are those not subject to statutory audit under charity law in their jurisdiction(s) of formation, operation or registration. This module uses the term 'all charities' to identify those elements of the report that both smaller and larger charities must provide.
- 1.10. Smaller charities are encouraged to include some or all of the additional information required of larger charities if the charity trustees consider such additional information relevant to their charity's stakeholders.

The context for reporting

- 1.11. The report provides an essential link between a charity's legal purposes and the charity's aims and objectives and the activities it undertakes to achieve them. It should focus on information relevant to the charity's stakeholders and tell the charity's story in a balanced manner, acknowledging both significant successes and failures. Trustees may present the contents of their report in any order and under any headings that they choose.
- 1.12. Good reporting provides a context within which to interpret the accounts and links the activities and achievements reported with the sources of income used to finance them and the expenditure incurred on those activities. A charity's accounts focus on its financial position and financial performance. In isolation this information does not give the user a rounded overview of what has been achieved from the charity's activities and the resources used in their delivery. The report and accounts taken together should provide a picture of what the charity has done (its outputs) or achieved (its outcomes), or what difference it has made (its impact).
- 1.13. Parent charities preparing consolidated accounts must expand their report to include relevant information about their subsidiary undertakings.

The content of the trustees' annual report required of all charities

- 1.14. The SORP's requirements that all charities must follow are set out in the following headings:
- objectives and activities;
 - achievements and performance;
 - financial review;
 - structure, governance and management;
 - reference and administrative details;
 - exemptions from disclosure; and
 - funds held as custodian trustee on behalf of others.
- 1.15. The headings used in the report may be amended to fit the preferences of the charity provided the information required by this module is clearly presented in the report.
- 1.16. Larger charities must also refer to the section 'The additional content required of larger charities' for their report to be compliant with the SORP.

Objectives and activities

- 1.17. The report provides information intended to help the user understand how the charity's aims fulfill its legal purposes, the activities it undertakes and what it has achieved. All charities must provide a summary of:
- the purposes of the charity as set out in its governing document; and
 - the main activities undertaken in relation to those purposes.
- 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.
- 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.

Achievements and performance

- 1.20. The report must contain 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.

Financial review

- 1.21. The report must contain a review of the charity's financial position at the end of the reporting period.
- 1.22. The charity must explain any policy it has for holding reserves and state the amounts of those reserves and why they are held. If the trustees have decided that holding reserves is unnecessary, the report must disclose this fact and provide the reasons behind this decision.
- 1.23. If, at the date of approving the report and accounts, there are uncertainties about the charity's ability to continue as a going concern, the nature of these uncertainties should be explained.
- 1.24. The report must also identify any fund or subsidiary undertaking that is materially in deficit, explaining the circumstances giving rise to the deficit and the steps being taken to eliminate the deficit.

Structure, governance and management

- 1.25. The report must provide details of:
 - the nature of the governing document (e.g. trust deed, memorandum and articles of association, Charity Commission scheme, Royal Charter, etc.);
 - how the charity is (or its trustees are) constituted (e.g. limited company, unincorporated association, trustees incorporated as a body, charitable incorporated organisation, community benefit society, industrial and provident or friendly society etc.); and
 - the methods used to recruit and appoint new charity trustees, including details of any constitutional provisions for appointment, for example election to post. Where any other person or external body is entitled to appoint one or more of the charity trustees, the report should explain this and give the name of that person or body.
- 1.26. Charities may withhold certain governance and management details where the criteria for exemption from disclosure are satisfied (see 'Exemptions from disclosure').

Reference and administrative details

- 1.27. The report must provide the following reference and administrative information about the charity and its trustees:
 - the name of the charity, which in the case of a registered charity means the name by which it is registered;
 - any other name which the charity uses;
 - the charity registration number(s) for the jurisdiction(s) in which it is registered as a charity and, if applicable, its company registration number;
 - the address of the principal office of the charity and, in the case of a charitable company, the address of its registered office;
 - the names of all those who were the charity's trustees on the date the report was approved or who served as a trustee in the reporting period;

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- where a charity has any corporate trustees, the names of the directors of the body corporate on the date the report was approved; and
- the names of any trustee for the charity holding the title to property belonging to the charity (for example custodian trustee or nominee) on the date the report was approved; or
- who served as a trustee for the charity in holding the title to property belonging to the charity in the reporting period.

1.28. Charities may withhold certain reference and administrative details where the criteria for exemption from disclosure are satisfied (see 'Exemptions from disclosure').

Exemptions from disclosure

1.29. On occasions, the disclosure of the names of trustees or of the charity's principal address or the disclosure of the name(s) of any chief executive officer or other senior staff member(s) could lead to that person (or others) being placed in personal danger (e.g. in the case of a women's refuge). In such circumstances, the applicable law and regulations may permit the withholding of these details. Where a report omits the name of a trustee, chief executive officer or senior staff member or the charity's principal address, it should give the reason for the omission.

1.30. Charities in England and Wales may omit the names of those persons and the charity's principal address from their report provided the Charity Commission has given the charity trustees the authority to do this. In Scotland there is also a provision under charity law for such information to be excluded.

1.31. The directors of charitable companies registered in the UK should note that, with the exception of the name of the auditor, or senior statutory auditor in the case of an audit firm (section 506 Companies Act 2006), there is no corresponding dispensation in relation to the disclosure of names.

Funds held as custodian trustee on behalf of others

1.32. If a charity is, or its trustees are, acting as custodian trustees, the charity must refer to the SORP module '[Accounting for funds received as agent or as custodian trustee](#)'.

The provision of other information

1.33. Charities often use other means of providing information, outside of the statutory reporting framework, to provide information about the charity and what the charity is doing. Such information is often tailored to the needs of particular audiences and presented through annual reviews, newsletters and websites. While charity trustees might usefully refer to these other sources of information within their report, such additional information is not a substitute for good statutory reporting.

The additional content required of larger charities

1.34. A greater degree of public accountability and stewardship reporting is expected of larger charities. Larger charities in compiling their report must meet the requirements placed on all charities as set out above and also provide the additional information detailed under the following headings:

- objectives and activities;
- achievements and performance;
- financial review;
- plans for future periods;
- structure, governance and management; and
- reference and administrative details.

Objectives and activities

1.35. Good reporting provides a coherent explanation of the charity's strategies for achieving its aims and objectives and explains how the activities it undertook contributed to their achievement.

1.36. In particular, the report of larger charities must 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.

1.37. Larger charities in their report should also provide the user with a more detailed understanding of their short-term and longer-term aims and objectives. A charity with longer-term aims and objectives should explain how the aims and objectives set for the reporting period relate to its longer-term aims and objectives. When explaining activities, it is important for the user to understand their scale and the resources used in their delivery; for example, it may be helpful to provide details of the amount spent on, or the number of staff engaged in, undertaking a particular activity.

1.38. The report must include an explanation of the use the charity makes of the following:

- Social investment, when this forms a material part of its charitable and investment activities. In particular, the report must provide an explanation of its social investment policies and explain how any programme related investments contributed to the achievement of its aims and objectives.

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- Grant-making, when this forms a material part of its charitable activities. In particular, the report must explain the charity's grant-making policy and explain how its grant-making activities contribute to the achievement of its aims and objectives.
- Volunteers, when their contribution is significant to a charity's ability to undertake a particular activity. The explanation should help the user to understand the scale and nature of the activities undertaken. However, measurement issues, including attributing an economic value to the contribution of general volunteers, prevent the inclusion of their contribution in the statement of financial activities (see the SORP module '*Donated goods, facilities and services, including volunteers*').

1.39. Charities reporting on the contribution of general volunteers may provide:

- an explanation of the activities that volunteers support or help to provide; and
- details of the contribution in terms of volunteer hours or staff equivalents.

Achievements and performance

1.40. Good reporting sets out how well the activities undertaken by the charity and any subsidiaries performed and the extent to which the achievements in the reporting period met the aims and objectives set by the charity for the reporting period. Good reporting provides a balanced view of successes and failures along with the supporting evidence, and demonstrates the extent of performance and achievement against the objectives set and the lessons learned.

1.41. In particular, the 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.

1.42. The report should provide a balanced picture of a charity's progress against its objectives. For example, it may explain progress by reference to the indicators, milestones and benchmarks the charity uses to assess the achievement of objectives.

1.43. 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.

- 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. Explaining the outputs achieved by particular activities can be helpful, particularly when numerical targets have been set. Examples of such targets include the number of beneficiaries to be reached by a particular programme, or the number of events or interventions planned as part of an activity. However, information on activities, outputs, and outcomes (or impacts) should always be put in the context of how they have contributed to the achievement of the charity's aims and objectives.
- 1.45. The report should comment on those significant positive and negative factors both within and outside the charity's control which have affected the achievement of its objectives and, where relevant, explain how this has affected future plans. These factors might include relationships with employees, service users, beneficiaries and funders and the charity's position in the wider community.

Financial review

- 1.46. The report must also comment on the significant events that have affected the financial performance and financial position of the charity during the reporting period. In particular the report 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.
- 1.47. 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.
- 1.48. The review of the charity's reserves should:
- state the amount of the total funds the charity holds at the end of the reporting period;
 - identify the amount of any funds which are restricted and not available for general purposes of the charity at the end of the reporting period;

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- identify and explain any material amounts which have been designated or otherwise committed as at the end of the reporting period;
- indicate the likely timing of the expenditure of any material amounts designated or otherwise committed at the end of the reporting period;
- identify the amount of any fund that can only be realised by disposing of tangible fixed assets or programme related investments;
- state the amount of reserves the charity holds at the end of the reporting period after making allowance for any restricted funds, and the amount of designations, commitments (not provided for as a liability in the accounts) or the carrying amount of functional assets which the charity considers to represent a commitment of the reserves they hold; and
- 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.

Plans for future periods

- 1.49. 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.
- 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.

Structure, governance and management

- 1.51. The report must provide the user with an understanding of how the charity is constituted, its governance and management structures, and how its trustees are trained. In particular, the report must 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 co-operates in the pursuit of its charitable objectives.

Reference and administrative details

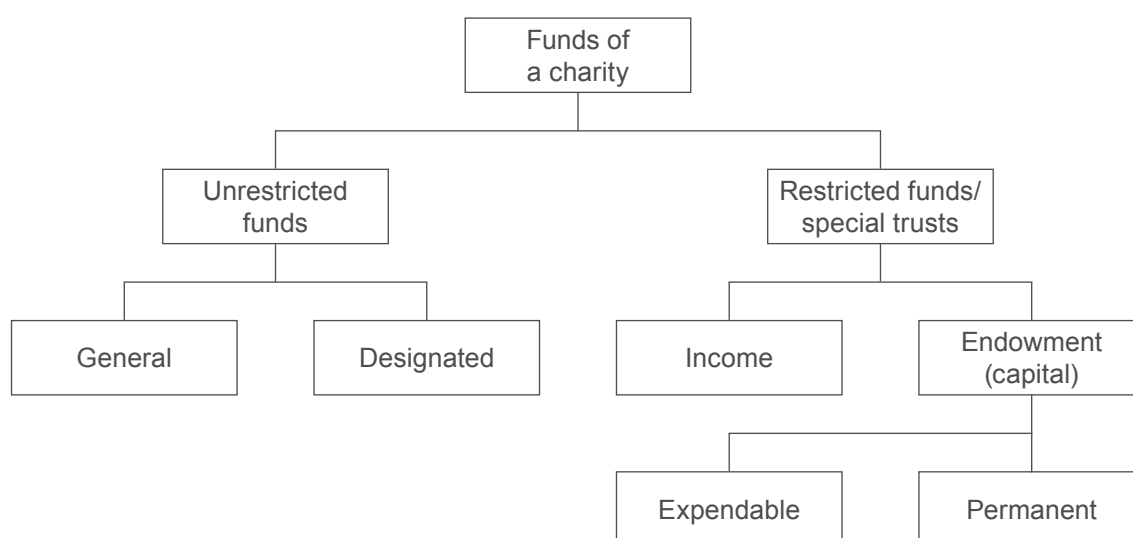
- 1.52. The report must state to whom the trustees' delegate day-to-day management of the charity and from whom trustees are taking advice. In particular, the report must provide:
- the name of any chief executive officer or other senior management personnel to whom the charity trustees delegate day-to-day 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.
- 1.53. Certain details may be withheld where the criteria for exemption from disclosure, as set out in the 'Exemptions from disclosure', are met.

2. Fund accounting

Introduction

- 2.1. Accounting for the particular charitable funds held by a charity is a key feature of charity accounting. Each class of fund has unique characteristics in trust law. Fund accounting distinguishes between two primary classes of fund: those that are unrestricted in their use, which can be spent for any charitable purposes of a charity, and those that are restricted in use, which can only be lawfully used for a specific charitable purpose.
- 2.2. The proper administration of individual charitable funds is essential if charity trustees are not to act in breach of trust.
- 2.3. Restricted funds (also known as special trusts in England and Wales) are further analysed between restricted income funds and endowment funds (also known as capital funds). Figure 1 sets out these classes of fund diagrammatically. This differentiation of funds is an essential feature in the presentation of a charity's statement of financial activities (SoFA) and balance sheet.

Figure 1: The classes of charitable funds



- 2.4. FRS 102 does not deal with fund accounting by charities and therefore this module reflects the requirements of charity law and current accounting practice which charities adopting this SORP must follow. This module sets out:
 - general principles of fund accounting;
 - transfers between funds; and
 - fund disclosures in the notes to the accounts.

General principles of fund accounting

- 2.5. A prerequisite of fund accounting is an understanding of the different classes of funds a charity may hold on trust. A charity may hold both unrestricted and restricted funds. Income generated by the investment of a particular fund's assets accrues to that fund unless the terms of the initial gift provide otherwise, for example in the case of permanent endowment. Similarly, any Gift Aid amount recovered on a donation forms part of that gift and is an addition to the same fund as the initial donation unless the donor or the terms of the appeal have specified otherwise.

Unrestricted funds

- 2.6. Unrestricted funds are spent or applied at the discretion of the trustees to further any of the charity's purposes. Unrestricted funds can be used to supplement expenditure made from restricted funds. For example, a restricted grant may have provided part of the funding needed for a specific project. In this case unrestricted funds may be used to meet any funding shortfall for that project.
- 2.7. Trustees may choose during the reporting period to set aside a part of the unrestricted funds to be used for a particular future project or commitment. By earmarking funds in this way, the trustees set up a designated fund that remains part of the unrestricted funds of the charity. This is because the designation has an administrative purpose only and does not legally restrict the trustees' discretion in how to apply the unrestricted funds that they have earmarked. Identifying designated funds may be helpful when explaining the charity's reserve policy and the level of reserves it holds.

Restricted funds

- 2.8. Funds held on specific trusts under charity law are classed as restricted funds. The specific trusts may be declared by the donor when making the gift or may result from the terms of an appeal for funds. The specific trusts establish the purpose for which a charity can lawfully use the restricted funds. It is possible that a charity may have several individual restricted funds, each for a particular purpose of the charity.
- 2.9. In certain circumstances the donor may express a form of non-binding preference as to the use of the funds, which falls short of imposing a restriction in trust law. In which case the charity will include the funds as part of its unrestricted funds. To respect these non-binding donor wishes, trustees may decide to designate those funds to reflect the purposes which the donor had in mind.
- 2.10. Some trustees have the power to declare special trusts over unrestricted funds. Where such a power is available to the trustees and they use it, the assets affected will form part of the restricted funds as a special trust. The trustees' discretion to apply that fund will then be legally restricted.

Accounting and reporting by charities

- 2.11. Restricted funds fall into one of two sub-classes: restricted income funds or endowment funds. Restricted income funds are to be spent or applied within a reasonable period from their receipt to further a specific purpose of the charity, which is to further one or more but not all of the charity's charitable purposes. Alternatively the restricted fund may be an endowment. Trust law requires a charity to invest the assets of an endowment, or retain them for the charity's use in furtherance of its charitable purposes, rather than apply or spend them as income (see 'Endowment funds' below).
- 2.12. When a tangible fixed asset is funded through an appeal or by way of a grant or donation, the accounting treatment of the asset acquired will depend on the circumstances of each case. In deciding whether the asset is categorised as restricted or unrestricted, trustees should consider whether the terms of the gift:
- require the charity to hold the tangible fixed asset acquired on an on-going basis for a specific purpose; or
 - are met once the specified asset is acquired, so allowing the charity to use the asset acquired on an unrestricted basis for any charitable purpose.
- 2.13. In some circumstances the trustees may be able to settle a tangible fixed asset on trust for a specific purpose implied by the appeal, provided this is consistent with the charity's governing instrument. Where this happens, the trustees' decision is legally binding and the asset is an addition to the restricted funds.
- 2.14. In maintaining the accounting records, charities must separately identify each restricted fund and the income received and expenditure made from each restricted fund.
- 2.15. Costs charged to a restricted fund relate to the activities undertaken to further the specific charitable purposes the fund was established to support. These costs include both direct and support costs associated with the activities undertaken by the restricted fund(s). In addition to a reasonable allocation of support costs, other costs associated with raising, investing and managing the restricted funds should normally be charged to the fund to which the cost relates. Expenditure attributable to a restricted fund may still be charged to it even if there is an insufficient balance on that fund at the time. However, expenditure should only be charged to a restricted fund in deficit when there is a realistic expectation that future income will be received to cover the shortfall, for example when a decision has been made to invite donations to that restricted fund.

Endowment funds

- 2.16. A gift of endowment, where there is no power to convert the capital into income, is known as a permanent endowment fund. A permanent endowment fund must normally be held indefinitely. Where trustees have the power to convert endowment funds into income, such funds are known as expendable endowments. A gift of expendable endowment provides the trustees with a power to convert all or part of it into income.

- 2.17. Expendable endowment is distinguishable from income funds in that there is no actual requirement to spend or apply the capital unless, or until, the trustees decide to spend it. If the trustees exercise the power to spend or apply the capital of the expendable endowment, the relevant funds become unrestricted funds or restricted income funds depending on whether the terms of the gift permit expenditure for any of the charity's purposes, or only for specific purposes.
- 2.18. The income generated from endowment funds held for investment must be spent on furthering its charitable purposes unless the charity exercises a power of accumulation or a charity in England and Wales has invested the endowment on a total return basis (see the SORP module '[Total return \(investments\)](#)') under the provisions of section 104A of the Charities Act 2011 as amended by the Trust (Capital and Income) Act 2013 or an Order of the Charity Commission made under section 105 of the Charities Act 2011. If there is no restriction as to the use of the income, the income is an addition to unrestricted funds. It is possible that a charity may have several endowment funds; the income from each endowment being restricted to a particular purpose.
- 2.19. The concept of permanence does not mean that a charity must keep holding the assets in the endowment funds in the form that they were initially given. The investments or property held within an endowment fund can be changed. For example, a charity could sell a particular equity investment and reinvest the proceeds in a different financial asset, or it might use the proceeds from the sale of endowed freehold land and buildings to purchase a new freehold property which will then form part of the endowment.
- 2.20. In some cases the permanent endowment's trusts will require the retention of a specific asset for the charity's own use, for example a building. It follows that an endowed asset may be capable of depreciation or impairment. Trustees that use income funds to build, erect, extend or improve a building on land which is an endowment asset should note that the default position is that the value of the enhancement to the asset will form part of the endowment in the absence of evidence to the contrary.

Accounting for expenses related to endowment

- 2.21. A charity cannot use permanent endowment as if it were income, for example to make payments or grants to third parties. Trust law only permits expenses to be charged to permanent endowment when incurred in the administration or protection of the investments or property of the endowment, for example:
- fees incurred in managing the investment of the endowment;
 - the costs of valuation fees and expenses incurred in connection with the sale of endowed land;
 - the cost of improvements to land held as an endowment investment; or
 - the loss of value due to depreciation or impairment of an endowed property.
- 2.22. If the endowment has insufficient funds to meet the expenses that can be charged to it, or the terms of the trust of the endowed gift prohibit the charging of expenses, then the expenses must be charged to income funds. Other expenses must normally be charged to income funds.

Accounting for the investment return on income and endowment funds

- 2.23. The return on investment is made up of the income derived from the investment (interest, dividends, royalties or rents) and any gain or loss in the market value of the investment. If a charity sells an investment, a gain or loss on the carrying amount of the asset is realised upon its disposal. Where a charity retains an investment, an unrealised gain or loss on the carrying amount of the investment may arise at the balance sheet date.
- 2.24. For unrestricted funds and restricted income funds, trust law requires both the income and any investment gain or loss to be allocated to the fund holding the investment. Where the charity has a number of individual restricted income funds, any investment income and gain or loss on investments must be allocated to the individual restricted funds holding the investment.
- 2.25. Trust law applies different rules to endowment funds. In the case of endowment, trustees cannot add the income from investments to the endowment capital except where they have a power to invest on a total return basis (see the SORP module 'Total return (investments)') or exercise a power of accumulation. Instead, the income from the investment is allocated to either unrestricted funds or a restricted income fund depending on the terms of the gift. However, any gain or loss on investment is attributed to the endowment capital. If a charity has several invested endowments, any gain or loss on investments must be allocated correctly to each individual endowment.

Transfers between funds

- 2.26. The transfer line in the SoFA is used to record transfers between funds. The total transfers recorded between classes of fund in the reporting period must always net to nil. A transfer may be made for several reasons, including:
- to transfer assets from unrestricted funds to finance a deficit on a restricted fund;
 - to transfer the value of tangible fixed assets from restricted to unrestricted funds when the asset has been purchased from a restricted fund donation but is held for a general and not a restricted purpose;
 - where restricted funds have been lawfully released and transferred to unrestricted funds;
 - where the trustees have exercised a power to declare a special trust over a gift initially recognised as unrestricted; or
 - where charity law permits the proceeds of restricted funds to be spent for an alternative purpose (such as the *cy-près* procedures in England and Wales), for example the alternative use of the proceeds of a failed appeal, or the alternative use of excess of funds raised from an appeal.

Fund disclosures in the notes to the accounts

- 2.27. For the proper administration of charitable funds, the accounting records of a charity must identify the transactions for each of the funds held. This SORP requires that items recorded in the SoFA must be analysed between unrestricted funds, restricted income funds and endowment funds. The information for endowment funds provided in the SoFA should combine the presentation of permanent and expendable endowment.
- 2.28. This SORP requires that the notes to the accounts must provide information on material individual fund balances, movements in the reporting period and the purposes for which the funds are held. The notes must differentiate unrestricted funds (both general and designated), restricted income funds, permanently endowed funds and expendable endowments. Table 1, 'Outline summary of fund movements' gives an example of how the movements in material funds may be shown.
- 2.29. In particular, this SORP requires that notes to the accounts must disclose:
- a summary of the assets and liabilities of each category of fund of the charity, if not provided by presenting this information in a columnar balance sheet;
 - details of the purposes and trust law restrictions imposed on each material individual fund;
 - details of the movements on material individual funds in the reporting period, reconciling the opening and closing fund balance (small funds with similar purposes may be aggregated);
 - details of the reasons for any material transfers between different classes of funds;
 - where endowment has been converted to income, details of the amount(s) converted and the legal power for its conversion;
 - where the trustees have a power to invest permanent endowment on a total return basis, the details of the movements in the value of unapplied total return for the reporting period (refer to the SORP module '[Total return \(investments\)](#)'); and
 - details of the planned use of any material designated funds, explaining the purpose of the designation.
- 2.30. In deciding on the most suitable form of presentation, the charity should consider:
- the complexity of the fund structure; and
 - the need for any separate fund statement(s) or note(s) to agree with the charity's SoFA and balance sheet.

Table 1: Outline summary of fund movements

Fund name	Fund balances brought forward	Income	Expenditure	Transfers	Gains and losses	Fund balances carried forward
	£	£	£	£	£	£
Fund 1						
Fund 2						
Fund 3						
Other funds						
Total funds						

3. Accounting standards, policies, concepts and principles, including the adjustment of estimates and errors

Introduction

- 3.1. This module explains how accounting standards, policies, concepts and principles are applied in charity accounting. Charities should refer to sections 2, 3 and 10 of FRS 102 for more information.
- 3.2. Accounting policies provide the basis on which the accounts are prepared and explain the accounting treatment of material transactions or items in the accounts. The concept of materiality is an important consideration when selecting accounting policies. Materiality relates to the financial information provided in the accounts and an item is material when its omission or misstatement could influence the economic decisions that users make on the basis of those accounts.
- 3.3. This module sets out:
- what are accounting standards, policies, concepts and principles;
 - length of the reporting period;
 - presentation currency;
 - going concern;
 - materiality;
 - offsetting;
 - source of reporting and accounting disclosure requirements;
 - alternative measurements to fair value;
 - selection of accounting policies;
 - compliance with the SORP;
 - changes in accounting policies;
 - changes in accounting estimates;
 - correction of a prior period error; and
 - disclosure of accounting policies, changes in estimation techniques and prior period errors.

What are accounting standards, policies, concepts and principles?

- 3.4. Accounting standards set out the basis for recognising and measuring assets, liabilities, income and expenses and for their disclosure in accounts. Charities preparing accounts in accordance with accounting standards will normally, in so doing, meet the relevant legal requirements for their accounts to give a true and fair view of their financial position and activities.

Accounting and reporting by charities

- 3.5. Accounting policies are the principles, bases, conventions, practices and rules by which transactions and items are recognised, measured and presented in the accounts. The accounting policies that a charity adopts must follow the requirements of FRS 102 unless the effect of not following a particular requirement would be immaterial, or in very rare circumstances, where to do so would conflict with the objectives of providing information useful for economic decision-making by users of the accounts and/ or the legal obligation for the accounts to give a 'true and fair' view.
- 3.6. The SORP supplements FRS 102 and has been developed in light of the special factors prevailing or transactions undertaken within the charity sector.
- 3.7. In certain jurisdictions, it is a legal requirement for charities preparing their accounts on an accruals basis to adhere to the methods and principles of this SORP. Charities should refer to the guidance issued by the charity regulator in their jurisdiction(s) of registration to find out whether they are subject to a legal requirement to follow this SORP.
- 3.8. Accounting policies are supplemented by estimation techniques where judgement is required in measuring the value of income and expenditure and of assets and liabilities. It is essential that the accounts are accompanied by an explanation of the bases and estimation techniques used in their preparation.
- 3.9. Charity accounts must be prepared on a timely basis and be presented in a way that makes financial information understandable to users who have a reasonable knowledge of charity financial management and/or accounting and a willingness to study the information with reasonable diligence.
- 3.10. The accounts must present financial information that is relevant, reliable, comparable and complete. Information should not be excluded simply because it is complicated; however, the preparer should also balance the cost of obtaining information with the benefit it provides both internally to management and externally to funders and other stakeholders.
- 3.11. Transactions and events must also be accounted for with prudence and presented in a way that represents their substance and not merely their legal form. This will require the exercise of judgement and may on occasion require the disclosure of more information than specifically recommended in this SORP.

Length of the reporting period

- 3.12. All charities must prepare a set of accounts annually and they should normally have a 12-month reporting period. If the accounts are prepared for a shorter or longer reporting period, the charity must disclose:
 - that the reporting period is for less than or more than 12 months;
 - the reason for the shorter or longer accounting period;
 - the fact that the comparative amounts presented in the accounts (including the related notes) are not entirely comparable; and
 - this SORP also requires a charity to state the legal authority it has for the change to its reporting period.

Presentation currency

- 3.13. The presentation currency is the currency in which the accounts are denominated. A charity should normally prepare its accounts in the currency of the jurisdiction of its administration unless it operates predominantly by generating and spending its cash in a different currency. Where a charity operates predominantly in a different currency, it should prepare its accounts in that currency.

Going concern

- 3.14. Charities normally prepare their accounts on the basis of being a going concern. The trustees must make their own assessment of their charity's ability to continue as a going concern to assure themselves of the validity of this assumption when preparing their accounts. In making this assessment, a charity's trustees should take into account all available information about the future for at least, but not limited to, 12 months from the date the accounts are approved.

Materiality

- 3.15. FRS 102 and this SORP set certain accounting treatments and disclosures in the context of their materiality. Charities, in preparing their accounts, should therefore give particular consideration to material items or transactions as their omission or misstatement could influence economic decision-making by the user of the accounts and any assessment of the stewardship of charitable funds. An omission or misstatement of a material item may result in the accounts failing to give a true and fair view.
- 3.16. Materiality needs to be considered in the context of the accounts and depends on:
- the size of the item or error;
 - the nature of the item or error;
 - the impact of its omission or misstatement on the reported gross income or total expenditure and net assets; and
 - the impact of its omission or misstatement on particular analysis headings within the statement of financial activities, balance sheet and, where applicable, statement of cash flows and on the disclosures made in the notes to the accounts
- 3.17. Charities should only disclose accounting policies that apply to material items or transactions. Charities should avoid providing unnecessary information for non-material items or transactions.
- 3.18. Although FRS 102 and this SORP need only be applied to material items or transactions, it is inappropriate to make, or leave uncorrected, immaterial departures from this SORP to achieve a particular presentation of an entity's financial position, financial performance or cash flows.
- 3.19. This SORP specifies when a charity must always consider a particular item or transaction material, for example the disclosure of related party transactions. Also, as a matter of emphasis, SORP modules may make particular reference to materiality.

Offsetting

3.20. A charity must not offset assets and liabilities, or income and expenses, unless required or permitted by this SORP or FRS 102. Offsetting does not include making provisions for the impairment of stock or for bad debts. Similarly, a charity reports any gains and losses on the disposal of its fixed assets by deducting the carrying amount of the asset and related selling expenses from the proceeds of the disposal.

Source of reporting and accounting disclosure requirements

3.21. This SORP distinguishes the accounting treatment(s) and the disclosures required in the notes to the accounts that:

- apply to all charities;
- apply only to those charities required to have a charity audit (termed 'larger charities' in this SORP);
- are required by FRS 102; or
- are required by this SORP due to charity law or in order to provide a higher standard of transparency and disclosure in the interests of funders, donors and users of charity accounts.

3.22. In preparing the charity's accounts, the charity must:

- apply the relevant requirements of FRS 102;
- apply the recommendations of this SORP; and
- select accounting policies that comply with FRS 102 and this SORP.

Alternative measurements to fair value

3.23. For certain items in the accounts FRS 102 permits a choice between measurement at historical cost or fair value. FRS 102 also requires donated services and facilities to be measured at the value of the gift to the charity. Where a balance sheet heading contains items measured at both historical cost and fair value, it is important to identify the accounting bases the charity has adopted in the relevant note.

Selection of accounting policies

3.24. Charities must refer to FRS 102 and the modules contained in this SORP when selecting their accounting policies for the treatment of particular items, transactions or events in the accounts.

3.25. If FRS 102 does not address the matter, then charities adopting FRS 102 should refer to the hierarchy of sources set out in section 10 of FRS 102.

3.26. In extremely rare circumstances a charity may conclude that compliance with a particular requirement of FRS 102 or this SORP would conflict with the objective of providing information useful for economic decision-making by users of the accounts and/or a legal obligation for the accounts to give a true and fair view.

3.27. Charities must not depart from either FRS 102 or the SORP simply because it gives the user a more appealing picture of the financial position or the results of the charity.

Compliance with the SORP

3.28. For a charity to state that its report and accounts are compliant with this SORP, both its trustees' annual report and its accounts must be prepared fully in accordance with the reporting and accounting recommendations of this SORP. To state that their accounts have been prepared in accordance with this SORP, a charity must:

- consider those SORP modules that apply to the activities, transactions and circumstances of the reporting charity;
- comply with applicable format requirements and accounting treatments specified by this SORP and provide those disclosures that this SORP specifies 'must' be provided;
- make any additional disclosures required by the FRS 102; and
- only depart from the requirements of this SORP or the FRS 102 if necessary for the accounts to give a true and fair view.

3.29. This SORP uses the term 'must' to indicate those recommendations that are likely to affect the ability of the accounts to give a true and fair view if not applied to material transactions or items. Where the SORP states that an item is always material or the recommendation is one which 'must' be followed, non-adherence to that recommendation is a departure from this SORP.

3.30. The SORP also identifies particular recommendations that 'should' be followed. These recommendations are aimed at advancing standards of financial reporting as a matter of good practice. While charities are encouraged to follow all the SORP's recommendations, a failure to follow a 'should' recommendation is not regarded as a departure from this SORP.

3.31. Where the SORP states that a particular accounting treatment or disclosure 'may' be adopted, this provides an illustration of an approach to a particular disclosure that a charity may choose to adopt or identifies that an alternative accounting treatment or disclosure of a transaction or event is allowed by the SORP. Charities may choose whether such examples or alternative treatments are adopted at their discretion.

Changes in accounting policies

3.32. FRS 102 requires accounting policies to be applied consistently for similar transactions, events and conditions and between reporting periods.

3.33. A change to an existing accounting policy is only justified if:

- it is required due to a change in FRS 102 that applies to the reporting period; or
- it results in the accounts providing reliable and more appropriate and relevant information about the effect of transactions, other events or conditions that affect the reported financial position, financial performance or cash flows of the charity or group.

- 3.34. 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.

Changes in accounting estimates

- 3.35. Changing an accounting estimate as a result of new information or developments is not the same as correcting an error. Similarly, a change in an estimation technique used or in a model used when a reliable measure of fair value is no longer available is not a change in accounting policy. Adjusting for changes in accounting estimates and estimation techniques results in a change to the transaction value or carrying amount of the asset or liability in the current reporting period; no adjustment is to be made in respect of prior reporting periods.

Correction of a prior period error

- 3.36. Charities must correct material errors resulting from an omission or misstatement in a prior period by either restating the comparative amounts for the prior period(s) in which the error occurred, or by restating the opening balance of the asset or liability for the item(s) for all prior periods for which comparative information is presented to the earliest date for which it is practicable.

Disclosure of accounting policies, changes in estimation techniques and prior period errors

- 3.37. In order to comply with the Application of Financial Reporting Requirements (FRS 100) and FRS 102 the notes to the accounts must:
- state whether the accounts were prepared in accordance with this SORP;
 - state whether the accounts were prepared in accordance with FRS 102;
 - set out the accounting policies used that are relevant to an understanding of the accounts and the measurement bases used in preparing them: and
 - this SORP requires a charity to state whether the accounts were prepared in accordance with applicable charity and/or company law in the jurisdiction(s) of registration.
- 3.38. All charities must explain if there are material uncertainties related to events or conditions that cast significant doubt on the charity's ability to continue as a going concern. In making their explanation, charities should provide:
- a brief explanation as to those factors that support the conclusion that the charity is a going concern; and
 - a balanced, proportionate and clear disclosure of any uncertainties that makes the going concern assumption doubtful; or
 - if the accounts are not prepared on a going concern basis, this fact must be disclosed, together with the basis on which the trustees prepared the accounts and the reason why the charity is not regarded as a going concern.

Accounting and reporting by charities

- 3.39. Where there are no material uncertainties about the charity's ability to continue, this should be stated.
- 3.40. Charities must also 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.
- 3.41. Where there has been a material departure from the requirements of FRS 102, the notes to the accounts must:
- state that the trustees have concluded that the accounts present a true and fair view;
 - confirm that it has complied with FRS 102 or applicable legislation, except that it has departed from a particular requirement of FRS 102 or applicable legislation to achieve a fair presentation; and
 - explain the nature of the departure, including the treatment required by FRS 102 and the reason why that treatment would be so misleading in the circumstances that it would conflict with the requirement to give a true and fair view, and the treatment adopted.
- 3.42. Where charities have made a material departure from a recommendation of this SORP that must be followed, FRS 100 requires that the notes to the accounts must:
- provide a brief description of how the accounts depart from the recommended practice set out in this SORP;
 - for any treatment that is not in accordance with the SORP, the reasons why the treatment adopted is judged more appropriate to the charity's particular circumstances;
 - give brief details of any disclosures required by this SORP that have not been provided, and the reasons why they have not been provided; and
 - this SORP requires that if the departure was necessary for the accounts to give a true and fair view, the effect of the departure must also be quantified.
- 3.43. Where a material departure from the requirements of FRS 102 is also a departure from requirements of this SORP, a combined note may be provided.

Accounting and reporting by charities

- 3.44. Where charities have changed an accounting policy, the notes to the accounts must disclose:
- the nature of the change in accounting policy;
 - the reasons why applying the new accounting policy provides reliable and more relevant information; and
 - to the extent practicable, the amount of the adjustment for each line item in the accounts affected for the current period, each prior period presented and the aggregate amount of the adjustment relating to periods before those presented.
- 3.45. If it is not practicable to disclose the amount of the adjustment, charities must give an explanation of the adjustment.
- 3.46. The notes must disclose the nature of any change(s) to accounting estimates and the effect of the change on assets, liabilities, income and expenses for the current period. If it is practicable for the charity to estimate the effect of the change in one or more future periods, the charity must disclose those estimates.
- 3.47. If a charity identifies material prior period errors, it must correct them and disclose in the notes to the accounts:
- the nature of the prior period error;
 - for each prior period presented in the accounts, to the extent practicable, the amount of the correction for each account line item affected; and
 - to the extent practicable, the amount of the correction at the beginning of the earliest prior period presented in the accounts.
- 3.48. If it is not practicable to disclose the amount of the correction relating to prior period errors then an explanation must be provided.

4. Statement of financial activities

Introduction

- 4.1. All charities preparing their accounts on an accruals basis to give a true and fair view of their financial activities and financial position must prepare a statement of financial activities (SoFA) for each reporting period; termed statement of comprehensive income in FRS 102. The structure, format and headings of the SoFA required by this SORP (when prepared on an activity basis) are set out in Table 2. FRS 102 does not address the presentation of charitable funds within the statement of comprehensive income provided by the SoFA.
- 4.2. FRS 102 requires that comparative information must be provided for all amounts presented in the SoFA. This SORP requires that the comparative information provided for the total funds of a charity must be presented on the face of the SoFA. Comparative information provided for the separate classes of funds, if any, held by a charity may be presented either on the face of the SoFA or prominently in the notes to the accounts.
- 4.3. The column in Table 2 headed 'Further details' provides references to later sections of this module that set out those activities and transaction(s) falling within each of the SoFA's headings.
- 4.4. The statement of financial activities (SoFA) is a single accounting statement that includes all income, gains, expenditure and losses recognised for the reporting period. It provides the user with an analysis of the income and endowment funds received and the expenditure by the charity on its activities, and presents a reconciliation of the movements in a charity's funds for the reporting period.
- 4.5. The SoFA should be prepared with the needs of the charity's stakeholders in mind (see the SORP module '[Accounting and reporting by charities – the statement of recommended practice \(SORP\) scope and application](#)'). Charities reporting on an activity basis should ensure that those activities reviewed in the trustees' annual report are also reported on the face of the SoFA or in the notes to the accounts.
- 4.6. This SORP requires expenditure to be reported on an activity basis to show how the charity has used its resources to further its charitable aims for the public benefit. However, charities below the charity audit threshold may opt to report their charity's expenditure in a different way, for example by the nature of expenditure rather than on an activity basis.

Table 2: Statement of financial activities

	Unrestricted funds	Restricted funds	Endowment funds	Total funds	Prior period Total funds	Further details
	£	£	£	£	£	£
Income and endowments from:						
Donations and legacies						A1
Charitable activities						A2
Other trading activities						A3
Investments						A4
Other						A5
Total						
Expenditure on:						
Raising funds						B1
Charitable activities						B2
Other						B3
Total						
Net gains/(losses) on investments						B4
Net income/(expenditure)						
Transfers between funds						C
Other recognised gains/ (losses):						
Gains/(losses) on revaluation of fixed assets						D1
Actuarial gains/(losses) on defined benefit pension schemes						D2
Other gains/(losses)						D3
Net movement in funds						
Reconciliation of funds:						E
Total funds brought forward						
Total funds carried forward						

4.7. The module is divided into two parts as follows:

- **Presentation of information:**
 - structure of the SoFA – all charities;
 - accounting for material items – all charities;
 - accounting for extraordinary items – all charities;
 - accounting for discontinued operations – all charities;
 - structure of the SoFA – smaller charities below the audit threshold; and
 - structure of the SoFA – all charities reporting on an activity basis.
- **Line headings used in the statement of financial activities:**
 - A1 Income from donations and legacies;
 - A2 Income from charitable activities;
 - A3 Income from other trading activities;
 - A4 Investment income
 - A5 Other income;
 - Analysis of income in the notes to the accounts;
 - B1 Expenditure on raising funds;
 - B2 Expenditure on charitable activities;
 - B3 Other expenditure;
 - Analysis of expenditure in the notes to the accounts;
 - B4 Gains/(losses) on investments;
 - C Transfers between funds;
 - D1 Gains/(losses) on revaluations of fixed assets;
 - D2 Actuarial gains/(losses) on defined benefit pension schemes;
 - D3 Other gains/(losses); and
 - E Reconciliation of funds.

Presentation of information

Structure of the SoFA – all charities

4.8. A charity's statement of financial activities (SoFA) must:

- adopt the same format in subsequent reporting periods unless there are special reasons for a change that is explained in the notes to the accounts;
- provide comparative amounts for the total funds presented on the face of the SoFA; and
- omit headings where there is nothing to report in both the current and preceding reporting period.

Accounting and reporting by charities

- 4.9. The columns of the SoFA must be used to distinguish restricted income funds, which may only be spent for a particular purpose of the charity, from unrestricted funds, which can be spent on any of its purposes, and endowment funds. Endowment funds are restricted funds which either cannot be spent (permanent endowment) or where there is no actual requirement to spend or apply the capital unless, or until, the trustees decide to spend it (expendable endowment).
- 4.10. All of the charity's income and expenditure, transfers and other recognised gains and losses must be analysed between the classes of funds, but a charity will not necessarily have funds of all three classes.
- 4.11. If a class of funds would not be considered material it may be combined with another class of funds and shown as a single combined funds column. If a single combined total funds column is used the heading must be changed to 'all unrestricted and restricted funds' or 'all unrestricted, restricted and endowed funds' as appropriate. Where a single column approach is followed 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. For more information refer to the SORP module '[Fund accounting](#)'.
- 4.12. A charity may vary the order in which it presents headings within the income and expenditure sections of the SoFA to meet its own presentational needs. Some charities may also find it informative to their users to insert additional subtotals.
- 4.13. A charity may add additional columns to the SoFA to present material funds or activities on the face of the statement rather than in the notes. Any additional analysis of this type provided on the face of the SoFA must make clear the class of fund (unrestricted, restricted or endowment) in the column title. In providing additional information, a balance needs to be struck between the provision of additional information and the resulting complexity of the statement.

Accounting for material items – all charities

- 4.14. All charities must disclose the nature and amount of any material item(s) of income or expenditure when this information is relevant to an understanding of the charity's financial performance.
- 4.15. The disclosure of material items must be made either in the notes or by the insertion of an additional line within the relevant activity heading on the face of the SoFA when necessary for the presentation of a true and fair view of a charity's financial activities. For example material items that should be disclosed separately are a material fraud or the loss of a material tangible fixed asset.

Accounting for extraordinary items – all charities

- 4.16. Events and transactions falling outside a charity's ordinary activities are by their nature extremely rare and are referred to as extraordinary items.

- 4.17. Extraordinary items are material events or transactions that:
- fall outside of the charity's ordinary activities;
 - are abnormal in their nature; and
 - are not expected to recur.
- 4.18. In the unlikely event of their occurrence, extraordinary items must be disclosed on the face of the SoFA immediately after the total of net income/(expenditure). The nature of each extraordinary item should be explained in the notes to the accounts.

Accounting for discontinued operations – all charities

- 4.19. Charities are established to pursue one or more charitable purposes for the public benefit. Decisions as to the use of resources and the relative priority given to the charity's aims may differ from year to year to reflect the demands placed on the charity by its beneficiaries and social and economic circumstances. Such changes in the way in which activities are provided, or goods or services are delivered, or the range or extent of the activities pursued, do not represent discontinued operations.
- 4.20. For example, a charity providing disaster relief and humanitarian assistance may operate on a global basis and carry out its activities in different countries in different years. Similarly, a charity providing services to the elderly may alter the way in which it delivers its services, for example by switching from residential care to supporting the elderly in their own homes. Neither charity is discontinuing its charitable purpose; they are fulfilling it in a different way.
- 4.21. Discontinued operations represent the complete discontinuation of, or disposal of, a separate line of business activity or charitable activity and not simply the spending out of a restricted fund. In the event of a charity having a discontinued operation, an analysis of continuing and discontinued operations must be provided in the SoFA by way of additional column(s).

Structure of the SoFA – smaller charities below the charity audit threshold

- 4.22. The analysis of income and expenditure by activity is encouraged for all charities preparing accruals accounts. However, charities not subject to statutory audit are not required to report their income and expenditure on an activity basis and may adopt an alternative approach to their analysis.
- 4.23. This analysis may be based on the nature of the income and expenditure. For example, expenditure could be analysed by salary-related costs, premises-related costs, interest expenses, transport costs and grants made. Alternatively, the headings used by the charity to record expenditure in its own accounting records could be used.
- 4.24. Where an alternative approach to analysis is adopted, this SORP requires that charities must disclose in their SoFA:
- total income of the charity;
 - a relevant analysis of the components of income;
 - total expenditure of the charity;
 - a relevant analysis of the components of expenditure;

Accounting and reporting by charities

- gains/(losses) on investments (where applicable);
- net income/(expenditure);
- transfers between funds;
- gains on the revaluation of fixed assets (where applicable);
- actuarial gains/(losses) on any defined benefit pension scheme (where applicable);
- net movement in funds;
- total funds brought forward from the previous reporting period; and
- total funds carried forward at the end of the reporting period.

4.25. If a material component of income or expenditure is not presented on the face of the SoFA, the nature and amount of the item must be disclosed in the notes to the accounts.

4.26. Charities preparing their accounts using a natural or alternative basis of analysis must also provide those disclosures required by other modules relevant to the charity. For example, a charity must disclose any remuneration, benefits or expenses paid to trustees and any related party transactions.

Structure of the SoFA – all charities reporting on an activity basis

4.27. This SORP requires that larger charities above the charity audit threshold (see Appendix 3, '[Thresholds for the UK and the Republic of Ireland](#)') and those smaller charities opting to report on an activity basis must classify their income and expenditure by activity.

4.28. Income must be analysed according to the activity that produced the resources. Expenditure must be analysed by the nature of the activities undertaken.

4.29. Where relevant to the understanding of material activities, the expenditure analysis headings should enable the user of the accounts to understand the relationship with income derived from the activity. For example:

- a charity selling donated goods through a shop could use the description 'Shops' within row A3 ('Income from other trading activities') and row B1 ('Expenditure on raising funds');
- a charity running a care home could use the description 'Residential care fees' within row A2 ('Income from charitable activities') and 'Residential care costs' in row B2 ('Expenditure on charitable activities');
- an arts charity providing a mix of paid-for and free services could use the description 'Admission fees for galleries and exhibitions' within row A2 ('Income from charitable activities') and use the heading 'Operation of art gallery and touring exhibitions to schools and community' in row B2 ('Expenditure on charitable activities'); and
- an endowed grant-making charity mainly making grants to advance education could use the description 'Investment income' within row A4 ('Investment income') and 'Grants to education and research institutions, student bursaries and other grants' in row B2 ('Expenditure on charitable activities').

- 4.30. In most cases, it will be clear which activity generated the income or expenditure. Expenditure shared between two or more activities should be apportioned between them on a reasonable, justifiable and consistent basis (see the SORP module '*Allocating costs by activity in the statement of financial activities*').

Line headings used in the statement of financial activities

A: Income and receipt of endowment

A1: Income from donations and legacies

- 4.31. Donations and legacies include all income received by the charity that is, in substance, a gift made to it on a voluntary basis. A donation or legacy may be for any purpose of the charity (unrestricted funds) or for a particular purpose of the charity (restricted income funds or endowment funds).
- 4.32. Donations and legacies do not provide any significant benefit to the donor in return for their payment other than the knowledge that the charity must use the gift to further its purposes. Income from donations and legacies includes:
- donations and gifts made by individuals and corporations, including any related tax refund or Gift Aid claimed on gifts made by individuals but excluding goods donated for resale;
 - legacies receivable by the charity;
 - grants of a general nature provided by government and charitable foundations which are not conditional on delivering certain levels or volumes of a service or supply of charitable goods;
 - membership subscriptions and sponsorships where these are, in substance, donations rather than payment for goods or services; and
 - donated goods for the charity's own use or distribution and donated services and facilities.

A2: Income from charitable activities

- 4.33. Income from charitable activities includes income earned both from the supply of goods or services under contractual arrangements and from performance-related grants which have conditions that specify the provision of particular goods or services to be provided by the charity. To fall within this analysis heading, the activities specified by the contractual terms or grant conditions must be undertaken for the charitable purposes of the charity.
- 4.34. Income from charitable activities includes:
- the sale of goods and services as part of the charitable activities of the charity (also known as primary purpose trading), whether the sale is intended to make a profit or is at or below cost;
 - contractual payments from government or public authorities and other parties which fund the provision of particular goods or services, for example the provision of care;

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- the sale of goods or services made or provided by the beneficiaries of the charity;
- performance-related grants where the income is conditional on delivering certain levels or volumes of a service or supply of goods;
- ancillary trades connected to primary purpose trading; and
- the letting of non-investment property in furtherance of charitable purposes.

A3: Income from other trading activities

4.35. Income from other trading activities includes income earned from both trading activities to raise funds for the charity and income from fundraising events. To fall within this analysis heading, the income must be received in exchange for supplying goods and services in order to raise funds for the charity. While selling donated goods is legally considered to be the realisation of a donation in kind, in economic terms it is similar to a trading activity and should therefore be included in this analysis heading.

4.36. Income from other trading activities includes:

- income from non-charitable trading activities, including non-charitable trading activities of subsidiary entities consolidated into group accounts;
- membership subscriptions and sponsorships where the recipient is not a beneficiary and where these are, in substance, a payment for goods or services;
- income from fundraising events such as jumble sales, firework displays and concerts by the charity (or by volunteers working under the charity's management direction) or its agents;
- shop income from selling donated and bought-in goods;
- income from letting and licensing arrangements for property held primarily for functional use by the charity but temporarily surplus to operational requirements; and
- income from sponsorships and social lotteries which cannot be considered pure donations.

A4: Investment income

4.37. Investment income is earned from holding assets for investment purposes and includes dividends, interest, and rents from investment property. Where income from investments is material, it must be presented as a separate heading on the face of the SoFA.

4.38. While income must be presented gross in the SoFA before the deduction of any costs incurred, it is often not practicable for charities to identify the investment management costs incurred within collective investment schemes, such as unit trusts or common investment funds, prior to the distribution of income. Where it is not practicable to identify the investment management costs incurred within the scheme with reasonable accuracy, the investment income should be reported net.

A5 Other income

4.39. Other income represents income that cannot be reported under the other analysis headings provided within the SoFA. Other income may also include the conversion of endowment funds into income with the equivalent offsetting 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. Alternatively, a conversion of endowment funds into income may be included under the heading 'Transfers between funds'.

4.40. The conversion of endowment into income includes:

- capital funds released to an income fund from expendable endowment; and
- the release of funds to income from the 'unapplied total return fund' held within the permanent endowment fund where a charity has authority to adopt a total return approach to investment.

4.41. This heading should also include all other sources of income unless the amount is sufficiently material as to require its presentation as a separate SoFA heading. Other income may include:

- a gain on the disposal of a tangible fixed asset held for the charity's own use;
- a gain on the disposal of a programme related investment;
- any royalties from the exploitation of intellectual property rights; and
- any other income not falling into the other income categories.

Analysis of income in the notes to the accounts

4.42. Unless analysed on the face of the SoFA, this SORP requires that the notes to the accounts must provide an analysis of the material components of income included within each analysis heading of the SoFA. Amounts for similar activities should be aggregated so as to provide an analysis of:

- donations and legacies, distinguishing between the types of gift receivable, for example the amount of donations, grants of a general nature and legacies;
- income from charitable activities, identifying the nature of the activities undertaken and the income produced;
- income from other trading activities, identifying the nature of the trading or fundraising activity and income produced;
- investment income analysed according to each class of investment shown on the balance sheet or in the investment note to the accounts; and
- the nature and amount of other income receivable.

4.43. Where applicable, this SORP requires that the notes to the accounts must give the amount and reason for the conversion of all or part of any endowment fund converted into income in the reporting period.

B: Expenditure

B1: Expenditure on raising funds

- 4.44. Expenditure on raising funds includes all expenditure incurred by a charity to raise funds for its charitable purposes. It includes the costs of all fundraising activities, events, non-charitable trading activities, and the sale of donated goods. However, any costs incurred in providing goods or services as a charitable activity must not be included in this heading, even if a charge is made for their provision.
- 4.45. Expenditure on raising funds includes those costs incurred in:
- seeking donations, grants and legacies;
 - operating membership schemes and social lotteries;
 - staging events, including the performance fees, licence fees and other related costs;
 - contracting with agents to raise funds on behalf of the charity;
 - operating charity shops selling donated and/or bought-in goods;
 - operating a trading company undertaking non-charitable trading activities;
 - advertising, marketing and direct mail materials, including publicity costs not associated with educational material designed wholly or mainly to further the charity's purposes; and
 - investment management costs.
- 4.46. Investment management costs include the costs of:
- portfolio management;
 - obtaining investment advice;
 - administration of the investments;
 - costs of licensing intellectual property; and
 - rent collection, property repairs and maintenance charges.
- 4.47. Where investment management costs are material, these costs should be presented as a separate heading on the face of the SoFA or in the notes to the accounts.
- 4.48. Costs associated with acquiring and disposing of investments would normally form part of the acquisition cost of the investment or reduce the return on disposals. These costs are therefore not part of investment management costs. Where investment managers deduct management fees from investment income, the charity should report the gross investment income before fees and report the management fees charged in this cost category. However, charities are not expected to prorate investment management fees charged to a collective investment scheme to identify the notional cost attributable to its own holding in the scheme.
- 4.49. Investment management costs associated with endowment fund investments should generally be charged to the endowment fund in the SoFA. Further guidance on the charging of investment management costs to endowment funds is provided in the SORP module '[Fund accounting](#)'.

Accounting and reporting by charities

- 4.50. Fundraising costs may be incurred in starting up a new source of future income such as legacies, or in developing a supporter database. In most cases these start-up costs should not be carried forward as prepayments or deferred expenditure. Instead, such costs are charged to the SoFA as incurred. Data capture costs of an internally developed database must not be capitalised. The costs of a database that has been purchased or donated to the charity can be capitalised where it is probable that it will generate economic benefits, for example in generating income, and the resulting database has a readily ascertainable cost or value.
- 4.51. Charities may choose to expand the analysis provided within this heading for example by identifying separately 'Expenditure on raising donations and legacies' (A1), 'Expenditure on other trading activities' (A3) and 'Investment management costs' (A4) either in the SoFA or by way of an explanatory note.

B2: Expenditure on charitable activities

- 4.52. Expenditure on charitable activities includes all costs incurred by a charity in undertaking activities that further its charitable aims for the benefit of its beneficiaries, including those support costs and costs relating to the governance of the charity apportioned to charitable activities. Costs involved in negotiating contracts or grants that require the charity to provide specific charitable services should also be regarded as part of the cost of carrying out that activity.
- 4.53. Additional sub-headings should be added to the analysis of charitable activities to identify the significant charitable activities undertaken which have been reviewed in the trustees' annual report. The sub-headings used should reflect the nature of the activity undertaken.
- 4.54. On occasions, a subsidiary entity may undertake activities specifically to further the purposes of a parent charity rather than as a fundraising activity. Expenditure incurred by a subsidiary on activities that fall within the parent charity's purposes should be analysed as charitable activity when consolidated accounts are prepared.
- 4.55. Charities may carry out their activities through a combination of direct service provision and the grant funding of third parties to undertake work that contributes to the charity's aims or programme of work. The cost of charitable activities presented in the SoFA includes the costs of both direct service provision and the payment of grants. Charities making grants must refer to the SORP module '[Presentation and disclosure of grant-making activities](#)', which sets out the particular disclosures required for grant-making in the notes to the accounts.

B3: Other expenditure

- 4.56. Other expenditure includes all expenditure that is neither related to raising funds for the charity nor part of its expenditure on charitable activities. Where an amount is material or its presentation on the face of the SoFA is necessary for an understanding of a charity's financial performance, an additional sub-heading should be used.

Analysis of expenditure in the notes to the accounts

- 4.57. This SORP requires that the notes to the accounts must provide a relevant analysis of the activities included within each expenditure heading provided on the face of the SoFA. The analysis provided should aggregate the cost of similar activities and provide the user of the accounts with an understanding of the charity's main activities.
- 4.58. This SORP also requires that the analysis must give details of the support costs charged to an activity and the cost of grant funding to third parties that have been included within the cost of charitable activities. The total provided within the analysis must reconcile with the amounts presented within the relevant expenditure headings of the SoFA. This information may, for example, be presented in a tabular format (see Table 3).

Table 3: Analysis of expenditure on charitable activities

Activity or programme	Activities undertaken directly	Grant funding of activities	Support costs	Total
	£	£	£	£
Activity 1				
Activity 2				
Activity 3				
Total				

B4: Gains/(losses) on investment assets

- 4.59. This heading is used to record any realised and unrealised gains or losses on investment assets and investment properties, including those gains or losses arising from their revaluation in the reporting period.

C: Transfers between funds

- 4.60. All transfers between the different classes of funds must be shown in the transfer row of the SoFA. The transfer line must always net to nil. Refer to the SORP module '[Fund accounting](#)' for more information.
- 4.61. The transfer row may also be used to record the conversion of endowment funds (including the release of any unapplied total return where a total return approach to investment is adopted) into income. Alternatively, charities may choose to present the conversion of endowment funds in row A5 ('Other income').

D: Other recognised gains/(losses)

D1: Gains/(losses) on the revaluation of fixed assets

- 4.62. This heading includes gains or losses on the revaluation of property, plant and equipment used by a charity, and heritage assets and intangible assets. This heading should not be used when adjusting for a reversal in a previous charge for impairment.

D2: Actuarial gains/(losses) on defined benefit pension schemes

- 4.63. This heading is used to record actuarial gains or losses on defined benefit pension schemes and post-employment benefit plans.

4.64. Charities which operate defined benefit pension schemes must refer to the SORP module 'Retirement and post-employment benefits', which provides recommendations on the recognition of pension costs, assets and liabilities and their disclosure in the accounts.

D3: Other recognised gains/(losses)

4.65. A charity must insert additional headings to report any other gains and losses required by accounting standards or which company law (when the charity is a company) requires to be recognised outside of a charity's income and expenditure account.

4.66. Items presented within this category include:

- where hedge accounting is adopted for that portion of the change in fair value of the hedging instrument that cannot be recognised as income or expenditure; and
- foreign exchange gains or losses arising on conversion of non-monetary assets at the end of the reporting period where the valuation, gains or losses on those assets are not accounted for in headings B4, D1 and D2.

E: Reconciliation of funds

4.67. This SORP requires that the opening and closing balances for each class of fund must be shown with the difference reconciled by the movement in funds in the reporting period. The closing fund balances presented in the SoFA must agree with the equivalent totals shown in the 'Funds of the charity' section on the balance sheet.

5. Recognition of income, including legacies, grants and contract income

Introduction

- 5.1. Income is the inflow of economic benefits to a charity from the activities that it undertakes. Income is an inflow of resources that results in an enhancement to the charity's assets or a decrease in its liabilities.
- 5.2. Charities should refer to sections 23, 24 and 34 of FRS 102 for more information. This module applies to all charities and sets out:
- understanding the nature of income;
 - general rules for income recognition;
 - general principles for recognising income from donations and grants;
 - identification of terms and conditions;
 - performance-related conditions;
 - other terms and conditions that limit the recognition of income;
 - deferring income where conditions that limit recognition are not met;
 - terms and conditions that do not prevent recognition;
 - recognising income from legacies;
 - income from donated goods, facilities and services;
 - income from contracts for the supply of goods and services;
 - income from membership subscriptions;
 - income from interest, royalties or dividends;
 - settlement of insurance claims; and
 - disclosures and notes to the accounts.

Understanding the nature of income

- 5.3. There are two broad categories of income: income from exchange transactions (contract income) and income from non-exchange transactions (gifts). It is important for charities to distinguish between the two as they are recognised differently in a charity's accounts.
- 5.4. Income from exchange transactions is received by the charity for goods or services supplied under contract. The income the charity receives is approximately equal in value to the goods or services supplied by the charity to the purchaser. The essential feature of income from a non-exchange transaction is that the charity receives value from the donor without providing equal value in exchange.

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- 5.5. Income from non-exchange transactions (gifts) are donations of money, goods, facilities or services which are given freely to the charity by a donor. Grants are a form of non-exchange transaction where the grant-maker awards a grant without receiving equal value in exchange. However, even though grants are classified as non-exchange transactions, a grant may be presented as income from charitable activities where the payment is made to secure the provision of particular goods or services.
- 5.6. A donation or grant that can be used for any purpose of the charity is unrestricted income. However, a donation or grant may be restricted to a specific purpose of a charity. A restriction may result from a specific appeal by the charity, or from the decision of the grant-maker or donor to support a specific purpose of the charity rather than making funds available for the charity's general use. Simply because a grant is restricted to a particular purpose of the recipient charity does not mean it should be recognised as a performance-related grant. Restricted grants that are not subject to performance-related conditions, are included within the SoFA heading 'Income from donations and legacies'.
- 5.7. Transactions must be accounted for and presented in accordance with their substance and not simply their legal form. Charities must therefore consider the substance of any conditions attaching to donations or grants and to the substance of any contractual terms when determining their entitlement to income. Similarly, the substance of any restriction placed on the use of income must be considered when determining whether or not income is presented as restricted funds in a charity's accounts. In particular, a charity should consider:
- Whether entitlement to income is subject to fulfilling performance-related conditions. Performance-related conditions distinguish a contract or performance-related grant from an unconditional gift or grant.
 - The terms of a donation or grant that impose a restriction on use which is narrower than the general purposes of the charity. Terms placed on gifts that limit a charity's discretion over how income must be used are presented as restricted income in the accounts.
 - The terms of a contract may limit payments to amounts expended by the charity on purposes specified in the contract and restrict the charity's use of any surplus. Income that is restricted by contractual terms may be presented as restricted in the accounts if the restrictions are in substance the same as would apply to a restricted donation or grant.
 - The terms of a gift that require it to be held as endowment that must be invested and not spent. Material endowment funds must be presented as a separate class of restricted funds.

General rules for income recognition

- 5.8. Income is recognised in the statement of financial activities (SoFA) when a transaction or other event results in an increase in the charity's assets or a reduction in its liabilities. Income must only be recognised in the accounts of a charity when all of the following criteria are met:
- 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.
- 5.9. All income must be reported gross when raised by the charity (or by volunteers working at the charity's direction) or its agents. Any fee charged for fundraising by a third party and deducted from the amount collected before it is remitted to the charity must not be offset against fundraising income recognised in the accounts but be reported as a fundraising expense. However, in the case of individuals not employed by, or contracted by, the charity who are acting on a purely voluntary basis and outside of the charity's control, the charity recognises the net amount remitted.

General principles for recognising income from donations and grants

- 5.10. Income from donations or grants is recognised when there is evidence of entitlement to the gift, receipt is probable and its amount can be measured reliably. The use of the 'accrual model' option (section 24 of FRS 102) for the recognition of income from government grants is not permitted by this SORP.
- 5.11. In the case of a grant, evidence of entitlement will usually exist when the formal offer of funding is communicated in writing to the charity. However some grants will contain terms or conditions that must be met before the charity has entitlement to the resources.
- 5.12. In the case of a donation, entitlement usually arises immediately on its receipt. However, some gifts may include terms or conditions which must be met before the charity is entitled to the resources.

Identification of terms and conditions

- 5.13. Charities need to identify donations or grants that are subject to terms or performance-related conditions or other conditions that must be met before there is unconditional entitlement to the gifted resources.
- 5.14. Not all terms or conditions attaching to a grant or donation prevent its recognition as income. A term or condition that simply restricts the use of a grant or donation does not affect a charity's entitlement to the gift and recognition of income. However, a restriction does affect how the gift or grant is reported in the accounts. For more information refer to the SORP module 'Fund accounting'.

- 5.15. When accounting for grants and donations, charities should identify:
- those donations and grants that are subject to performance-related conditions; and
 - other terms or conditions that may prevent income recognition.

Performance-related conditions

- 5.16. Grant funding agreements may contain conditions that specify the services to be performed by a charity in receipt of a grant. For example, the grant may be in the form of a service level agreement where the conditions for payment are linked to the achievement of a particular level of service or the units of output delivered. The performance-related conditions contained in a funding agreement might, for example, specify the number of meals provided or the opening hours of a facility used by beneficiaries. Income must only be recognised to the extent that the charity has provided the specified goods or services as entitlement to the grant only occurs when the performance-related conditions are met.
- 5.17. Although performance-related conditions can apply to any form of gift, in practice it is unusual to see performance-related conditions apply to donations.
- 5.18. A restriction on the use of a grant or donation to a particular purpose or activity of a charity does not create a performance-related condition. A restriction creates a requirement that limits or directs the purpose for which a resource may be used but it does not require a specific level of performance or output from the recipient charity.
- 5.19. It is important at the outset of any arrangement that the charity identifies whether the funding agreement is a performance-related grant or a contract. This is important because the consequence of non-compliance with performance-related conditions and the liability for non-performance of a contract differ. The law of contract provides for the buyer to seek costs, damages and recompense for any failure or breach of contract by the seller, whereas a breach of grant conditions may lead to a partial or full repayment of the grant when repayment terms apply to the grant.

Other terms and conditions that limit the recognition of income

- 5.20. Performance-related conditions are not the only conditions that may apply to donations and grants. For example, a grant may be conditional on a charity obtaining matched funding, or subject to a successful planning consent. Meeting these conditions would not be wholly within the control of the recipient charity and the outcome of the specified event is uncertain. The charity would not have unconditional entitlement to the income until these conditions were met.
- 5.21. Donor imposed conditions may also specify the time period over which the expenditure of resources on a service can take place. Specification of a time period may amount to a pre-condition for use that limits the charity's ability to spend a grant or donation until it has performed the activity related to the specified time period. For example, a condition might specify the provision of a number of training weeks or the completion of a number of work placements in a particular period.

- 5.22. Time-related conditions may be implied. For example when a multi-period grant is approved and is to be paid on the basis of agreed annual budgets, the charity may not be entitled to spend part or all of that income in advance of its budgeted year(s) without the further prior approval of the grant-maker.

Deferring income where conditions that limit recognition are not met

- 5.23. Where terms and conditions have not been met or uncertainty exists as to whether the recipient charity can meet the terms or conditions otherwise within its control, the income should not be recognised but deferred as a liability until it is probable that the terms or conditions imposed can be met.
- 5.24. A grant that is subject to performance-related conditions received in advance of delivering the goods and services required by that condition, or is subject to unmet conditions wholly outside the control of the recipient charity, is accounted for as a liability and shown on the balance sheet as deferred income. Deferred income is released to income in the reporting period in which the performance-related or other conditions that limit recognition are met.
- 5.25. When income from a grant or donation has not been recognised due to the conditions applying to the gift not being wholly within the control of the recipient charity, it should be disclosed as a contingent asset if receipt of the grant or donation is probable once those conditions are met.

Terms and conditions that do not prevent recognition

- 5.26. When meeting terms or conditions are within the charity's control and there is sufficient evidence that they have been or will be met, then the income must be recognised. Terms or conditions such as the submission of accounts or certification of expenditure are administrative requirements and would not prevent the recognition of income.
- 5.27. A donation or grant without conditions should not be deferred even if the resources are received in advance of the expenditure on the activity funded by them. The timing of the related expenditure is at the discretion of the charity and the income cannot be deferred simply because the related expenditure has not been incurred. For example where a donation or grant is given specifically to provide a fixed asset or a fixed asset is donated (a gift in kind), the charity is normally entitled to that income when it is receivable. At this point, all of the income must be recognised in the SoFA and not deferred over the life of the asset.
- 5.28. Similarly, a condition that allows for the recovery by the donor of any unexpended part of a grant does not prevent recognition. Instead, a liability to any repayment is recognised when repayment becomes probable.

Recognising income from legacies

- 5.29. For accounting purposes, entitlement to a legacy cannot arise without the charity knowing of both the existence of a valid will and the death of the benefactor. Those charities with databases of current donors may well have information about an individual donor's intention or decision to leave a gift to them in their will and charities may also employ agents or carry out their own research to review publicly available information on recent deaths including the granting of probate. Charities having such information should use this information when developing their accounting policy for recognising income from legacies. For accounting purposes, evidence of entitlement to a legacy exists when the charity has sufficient evidence that a gift has been left to them and the executor is satisfied that the property in question will not be required to satisfy claims in the estate.
- 5.30. Of itself, establishing entitlement is insufficient to recognise legacy income. The recognition of the gift is also affected by the probability of receipt and the ability to estimate with sufficient accuracy the amount receivable.
- 5.31. 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.
- 5.32. Charities which receive a significant number of legacies in a reporting period and have detailed historical information on the settlement of legacies may apply an estimation technique in measuring the value of legacies that are recognised to allow for potential variation in settlement values and the risk of a will being contested. For example, where a charity has numerous immaterial legacies, by using a portfolio approach, the charity may estimate the monetary value of the income that may be received from legacies to which they are entitled by applying a formula or mathematical model. However a portfolio approach is unsuitable for material legacies or when a charity only receives legacies infrequently, as these should be considered individually. When a portfolio approach is not adopted charities must recognise a legacy when the executors have determined that a payment can be made following the agreement of the estate's accounts, or on notification by the executors that payment will be made.
- 5.33. 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.

- 5.34. In some cases, a charity may have entitlement to a legacy but there is uncertainty as to the amount of the payment. For example, the legacy may be subject to challenge or the charity's interest may be a residual one. If the interest of the charity in a pecuniary or residuary legacy cannot be measured reliably, details of the legacy should be disclosed as a contingent asset until the criteria for income recognition are met. Where a legacy is subject to the interest of a life tenant, the legacy would not be recognised as income until the death of the life tenant.
- 5.35. Charities should measure or estimate the fair value of the legacy income receivable based on the information available. The fair value receivable will generally be the expected cash amount to be distributed to the charity from the estate. Legacy income must only be recognised when it can be measured or estimated with sufficient reliability. Legacy income classified as receivable within one year should not be discounted by the time value of money.
- 5.36. If the distribution is to be deferred for more than 12 months and an estimate can be made of the likely date of distribution, the legacy, if material, may be discounted by the interest rate the charity anticipates it would earn on a comparable deposit over a similar time frame using the effective interest method set out in section 11 of FRS 102. The unwinding of the discount should be reported as an adjustment to legacy income and not as interest receivable.
- 5.37. If a legacy debtor is impaired because it is doubtful that full settlement will be received, then an adjustment is made to reduce the amount of the legacy debtor and legacy income rather than charging the adjustment as expenditure in the SoFA.

Income from donated goods, facilities and services

- 5.38. Goods, facilities and services donated to a charity must be recognised as income when the criteria for their recognition are met. However, issues can arise in measuring the fair value of donated goods and services. Charities that have received donations of goods, facilities or services, including the services of volunteers, must refer to the separate SORP module '[Donated goods, facilities and services, including volunteers](#)', which sets out the requirements for the recognition, measurement and disclosures of these income sources.

Income from contracts for the supply of goods and services

- 5.39. Income earned from the sale of goods and services under contract is normally classified as unrestricted funds because it is not a gift and so cannot be restricted by trust law and any surplus may normally be spent on any purpose of the charity.
- 5.40. However, if a contract specifically requires all income received under it to be spent on a particular purpose of the charity and any unspent income to be returned to the funder or only applied for that particular purpose, then, in substance, the income may be regarded as restricted. If contract income is presented as restricted then all relevant disclosures required for a restricted fund must be made.

Accounting and reporting by charities

- 5.41. Entitlement to the income from the sale of goods arises when the 'significant risks and rewards' of ownership are transferred to the buyer. Usually, entitlement to income occurs with the supply of goods to the buyer. Income to which a charity has entitlement must be recognised in the SoFA when the income from the sale and the costs of the goods sold can both be measured reliably and receipt of the income is probable.
- 5.42. Income from the supply of services is recognised with the delivery of the contracted service provided that: the stage of the completion, the costs incurred in delivering the service and the costs to complete the requirements of the contract can all be measured reliably.
- 5.43. A charity must select a method to measure the stage of completion of a service contract that provides the most reliable estimate of the right to receive payment for the work performed. Possible methods include:
- the proportion of costs incurred for work performed to date compared with the total estimated costs to completion; or
 - surveys of the work performed; or
 - completion of a physical proportion of the service contract work.
- 5.44. It may also be appropriate to recognise income based on the time spent in providing a service as a proportion of the total time to be spent to fulfil the contract when this provides the most reliable estimate of a charity's entitlement.
- 5.45. Simply incurring costs in relation to a contract does not in itself justify the recognition of income. The cost criterion is met where the costs incurred and the costs to complete the transaction can be measured reliably. If the costs incurred and the costs to complete cannot be measured reliably then the receipt should be treated as an advance payment and deferred.
- 5.46. Where income is received in advance, then a charity may not have entitlement to the income until the goods or services have been provided. For example, where a charity sells gift vouchers, the income should be deferred until such time as the goods or services have been provided or the voucher has expired. Income received in advance should be deferred until the charity becomes entitled to it.
- 5.47. Income is recognised at the fair value of the consideration received or receivable after making an adjustment for any extended credit terms offered. If extended credit terms are offered on exchange transactions (contract income), the amount receivable should be discounted by the time value of money at a rate of interest that reflects the financing transaction involved. The unwinding of the discount represents the interest receivable from the buyer. No discounting is required where:
- normal credit terms are offered;
 - extended credit terms provide for payment within 12 months of the invoice date; or
 - the transaction amount is not material.

Income from membership subscriptions

- 5.48. Membership subscriptions received by a charity may be in the nature of a gift, or the member may buy a right to services or other benefits. When the substance of the subscription is that of a gift, the income and any associated Gift Aid or other tax refund should be recognised on the same basis as a donation. If the subscription purchases the right to services or benefits, the incoming resource should be recognised as income earned from the provision of goods and services as income from charitable activities.

Income from interest, royalties and dividends

- 5.49. Income from interest, royalties and dividends must be recognised when its receipt is probable and the amount receivable can be measured reliably.
- 5.50. 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.
- 5.51. Royalties and income from the exploitation of intellectual property rights are accrued in accordance with the substance of the relevant agreement.
- 5.52. 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.

Settlement of insurance claims

- 5.53. An insurance claim must be recognised when a charity has established its entitlement to the reimbursement of the insured loss, the receipt of that reimbursement is virtually certain and its amount can be measured reliably.
- 5.54. Receipt is virtually certain when an offer of settlement is received from the insurer. The insurance settlement is recognised at the fair value receivable, which will normally be the settlement amount agreed with the insurer if this is available at the reporting date.
- 5.55. A charity must recognise the amount of the insurance reimbursement either as an item of other income or by offsetting it against the related expense heading in the SoFA. The amount reimbursed through an insurance claim is recognised as an addition to the fund that initially suffered the insured loss.

Disclosures and notes to the accounts

- 5.56. All charities must explain in the notes to the accounts the accounting policies adopted for the recognition of each material item of income.
- 5.57. This SORP requires that the headings used to analyse income in the SoFA must follow those required by the SORP module '[Statement of financial activities](#)'.

Accounting and reporting by charities

5.58. A charity in receipt of government grants must also disclose:

- the nature and amounts of government grants recognised in the accounts;
- unfulfilled conditions and other contingencies attaching to grants that have been recognised in income; and
- an indication of other forms of government assistance from which the charity has directly benefited.

5.59. When a charity has deferred income, the notes to the accounts must explain the reasons why income is deferred and should analyse the movement on the deferred income account, identifying income deferred in the current year and the amounts released from previous reporting periods.

6. Donated goods, facilities and services, including volunteers

Introduction

- 6.1. The donation of goods, facilities and services to a charity provides an economic resource for use by the charity to further its aims and objectives.
- 6.2. This module applies to all charities that have received donated goods, facilities or services in the reporting period.
- 6.3. Charities should refer to section 34 of FRS 102 for more information. This module deals with how goods, facilities and services donated to charities are recognised, measured and disclosed in their accounts and sets out:
- **income recognition criteria;**
 - **measurement bases;**
 - **accounting for donated facilities and services, including volunteers;**
 - **accounting for donated goods and services capitalised as tangible fixed assets;**
 - **accounting for donated goods for distribution to beneficiaries;**
 - **accounting for donated goods for resale; and**
 - **disclosures in the notes to the accounts.**
- 6.4. Income is recognised by a charity in its accounts for goods, facilities and services donated to it once the income recognition criteria set out in paragraph 6.6 are met. When measuring the value of donated goods, facilities and services, practical considerations may impact on the measurement bases adopted. For example, although goods donated for sale are normally recognised at the point of receipt, practicability may dictate that they are recognised only on their sale. Before undertaking a valuation, the charity should consider the materiality of the donations received and whether the cost involved in undertaking a valuation is justified by the benefits to the users of the accounts in terms of their better understanding the resources available to the charity and to the charity itself from having this financial information.
- 6.5. Commercial discounts offered in the normal course of trade should not be recognised or disclosed as a donation in charity accounts as they are an inducement to the customer to make a purchase by lowering the price paid.

Income recognition criteria

- 6.6. Donated goods, facilities and services must be recognised as income when the following criteria are met:
- Entitlement – control over the expected economic benefits that flow from the donation has passed to the charity and any performance-related conditions attached to the donation have been fully met.

Accounting and reporting by charities

- Probable – it is more likely than not that the economic benefits associated with the donated item will flow to the charity.
 - Measurement – the fair value or value to the charity of the donated item can be measured reliably.
- 6.7. Donated goods, facilities and services are unlikely to be subject to performance-related conditions which would result in the deferral of income until those conditions are met. A restriction on the use of a donation does not prevent its recognition as income.

Measurement bases

- 6.8. Donated goods must be measured at their fair value, unless it is impractical to measure reliably the fair value of donated item(s).
- 6.9. When there is no direct evidence of fair value for an equivalent item, a value may be derived from:
- the cost of the item to the donor; or
 - in the case of goods that are expected to be sold, the estimated resale value after deducting the cost to sell the goods.
- 6.10. If it is impractical to measure the fair value of goods donated for resale or if the costs of valuation outweigh the benefit to users of the accounts and the charity of this information, the donated goods must then be recognised when they are sold.
- 6.11. The terms of a gift may require the charity to make on-going use of the donated item, so preventing its sale. In such instances, there may be costs involved in removing such a restriction before the asset could be sold. This would be reflected in a lower assessment of the fair value amount than if the use of that asset was not so restricted.
- 6.12. The cost of any stock of goods donated for distribution to beneficiaries is deemed to be the fair value of those gifts at the time of their receipt. If the goods held are to be distributed freely or for a nominal consideration, then the carrying amount should be subsequently adjusted for any loss of service potential.

Accounting for donated facilities and services, including volunteers

- 6.13. If a charity is given facilities and services for its own use which it would otherwise have purchased, these must be included in the charity's accounts when received, provided the value of the gift can be measured reliably.
- 6.14. Measuring donated services using fair value would not be practical as such services cannot be resold and the use of fair value may result in an overstatement of the value of the donation to the charity. Donated facilities and services are therefore measured and included in accounts on the basis of the value of the gift to the charity.
- 6.15. Value to the charity is the amount that the charity would pay in the open market for an alternative item that would provide a benefit to the charity equivalent to the donated item. Value to the charity may be lower than, but cannot exceed, the price the charity would pay in the open market for the item.

Accounting and reporting by charities

- 6.16. Donated facilities and services that are consumed immediately must be recognised as income, with an equivalent amount recognised as an expense under the appropriate heading in the statement of financial activities (SoFA).
- 6.17. Facilities such as office accommodation or services supplied by an individual or an entity as part of their trade or profession can usually be reasonably quantified and must be included in a charity's accounts.
- 6.18. Charities often rely on the contribution of unpaid general volunteers in carrying out their activities. However, placing a monetary value on their contribution presents significant difficulties. For example, charities might not employ additional staff were volunteers not available, or volunteers might complement the work of paid staff rather than replace them. These factors, together with the lack of a market comparator price for general volunteers, make it impractical for their contribution to be measured reliably for accounting purposes. Given the absence of a reliable measurement basis, the contribution of general volunteers must not be included as income in charity accounts.
- 6.19. However, it is important that the user of the accounts understands the nature and scale of the role played by general volunteers. Charities must include a description of the role played by general volunteers and provide an indication of the nature of their contribution in a note to the accounts.

Accounting for donated goods and services capitalised as tangible fixed assets

- 6.20. Goods donated for on-going use by a charity in carrying out its activities are recognised as tangible fixed assets with the corresponding gain recognised as income from donations within the SoFA. Donated vehicles, plant or furniture are recognised as tangible fixed assets when their fair value exceeds the threshold for capitalisation set by the charity's accounting policy.
- 6.21. If donated services are used in the construction of a tangible fixed asset, the value of services donated will only form part of the construction cost of the asset when the value to the charity of the donated services can be measured reliably. For example, the services donated by a firm of building or electrical contractors would be valued because these services would normally be provided as part of the donor's trade.
- 6.22. In common with any other tangible assets, donated goods held as tangible fixed assets must be subject to depreciation or amortisation and assessed for indications of their impairment at the reporting date.

Accounting for donated goods for distribution to beneficiaries

- 6.23. Donated goods held by the charity for distribution to its beneficiaries should be recognised as stock, with the corresponding income recognised within donations and measured at its fair value.

Accounting and reporting by charities

- 6.24. It may be necessary when valuing the donation to consider any restriction on the sale of the asset or the factors that may reduce the fair value of the asset, such as proximity to a product expiry date or the availability of lower-cost substitutes for the donated item, for example a generic version of a drug. Donated goods held in stock for distribution must be assessed for impairment at the reporting date.
- 6.25. In the reporting period in which the stocks are distributed, they are recognised as an expense and appropriately analysed as expenditure in the SoFA. The expense recognised is the carrying amount of the stocks at the point of distribution.
- 6.26. If it is impractical to assess the value of donated stock held for distribution at the time of receipt, or if the costs involved in undertaking the valuation of donated stock outweigh the benefit to users of the accounts and to the charity of having this financial information, the value to the charity of the gift must be recognised as a component of donations when it is distributed, with an equivalent amount recognised as charitable expenditure.

Accounting for donated goods for resale

- 6.27. In accepting donated goods for resale, the charity is receiving a gift in kind on trust for conversion into cash to fund the charity's activities. Where practicable, donated goods for resale are measured at fair value on initial recognition, which is the expected proceeds from sale less the expected costs of sale.
- 6.28. Charities accepting goods for resale under the UK retail gift aid scheme are acting as agent in selling the goods on behalf of the donor and are in law entitled only to an administration fee until such time as the donor waives their entitlement to the sale proceeds. Charities which have historical data may use an estimation technique to recognise income from such arrangements from the point of sale, for example by applying a formula or mathematical model to estimate the likely amount of the donations that will result from their subsequent sale. Income may be recognised from the point of sale where this reflects the substance of the transaction provided the income recognised is adjusted to reflect the risk that some sales will not result in a donation. Where a donor does not waive their entitlement to the sale proceeds, the administration fee is analysed as 'Income from other trading activities' in the SoFA.
- 6.29. Estimating the fair value of donated goods for resale is often impractical because of the volume of low-value items received or the absence of detailed stock control systems or records. In such circumstances, donated goods for resale are not recognised on receipt. Instead, the value to the charity of the donated goods sold is recognised as income when sold. The proceeds of sale are categorised as 'Income from other trading activities' in the SoFA.
- 6.30. If recognised at fair value on receipt, the value of the donated goods for resale should be treated as a component of 'Income from other trading activities' with the corresponding stock recognised in the balance sheet. On its sale the value of the stock is charged against 'Income from other trading activities' and the proceeds of the sale are also recognised as 'Income from other trading activities'.

Disclosures in the notes to the accounts

6.31. All charities receiving donated goods, facilities or services must disclose in the notes to the accounts:

- the accounting policy for the recognition and valuation of donated goods, facilities and services;
- the nature and amounts of donated goods, facilities and services receivable from non-exchange transactions recognised in the accounts, for example seconded staff, use of property etc.;
- any unfulfilled conditions or other contingencies attaching to resources from non-exchange transactions that have not been recognised as income in the reporting period; and
- an indication of other forms of resources from non-exchange transactions from which the charity has benefitted but not recognised in its accounts, for example the contribution of unpaid general volunteers.

7. Recognition of expenditure

Introduction

- 7.1. Expenditure is the amount of a charity's resources that have been spent or otherwise used up in carrying out its activities. An expense results in either a decrease in a charity's assets or an increase in its liabilities.
- 7.2. Examples of an expense include cash spent to purchase goods or services, the depreciation charge on tangible fixed assets, and incurring a liability when goods and services are purchased on credit.
- 7.3. Liabilities can result from exchange transactions that are contractual, for example the purchase of goods or services or the employment of staff. Liabilities can also arise from non-exchange transactions, such as making grants or other funding commitments to further a charity's purposes for which the charity receives no other benefit in return.
- 7.4. Charities should refer to sections 21, 28 and 34 of FRS 102 for more information. This module applies to all charities and sets out:
 - general rules for the recognition of liabilities and expenditure;
 - rules on measurement of liabilities;
 - principles for recognising liabilities from constructive obligations;
 - conditions that limit the recognition of a funding commitment;
 - accounting for liabilities arising from performance-related grants;
 - provisions for liabilities;
 - treatment of commitments not recognised as provisions or liabilities;
 - accounting for onerous contracts;
 - treatment of employee benefits; and
 - disclosure of provisions and funding commitments in the accounts.

General rules for the recognition of liabilities and expenditure

- 7.5. Liabilities arise from legal or constructive obligations that commit the charity to expenditure. A liability and related expenditure must be recognised when 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.

Accounting and reporting by charities

- 7.6. A legal obligation arises when a charity enters into a binding contract or there is a statutory requirement to make a payment. When a charity enters into a contract for the supply of goods or services, expenditure is recognised once the supplier of the goods or services has performed their part of the contract.
- 7.7. A constructive obligation arises as a result of a charity's actions when it indicates to other parties that it accepts particular responsibilities and thereby creates a valid expectation on their part that the charity will meet them.

Rules on measurement of liabilities

- 7.8. A liability must be measured on recognition at its historical cost and then subsequently measured at the best estimate of the amount required to settle the obligation at the reporting date. The exception is that certain financial instruments must be adjusted to their present value; these include financial liabilities where settlement is deferred for more than 12 months after the reporting date. Refer to the SORP module '[Accounting for financial assets and financial liabilities](#)' for more information.
- 7.9. When a charity accrues a provision in the reporting period that it will settle over several years, the future payments have a reduced value in today's terms (known as its present value). Where this adjustment would be material, the payments required to settle the obligation should be discounted to their present value.
- 7.10. The discount rate used should reflect the cost of money to the charity, and its current assessment of the time value of money and the credit risks specific to the provision that affect the time value of money. Depending on the charity's circumstances, the appropriate discount rate may be the market rate of interest at which the charity could borrow over the relevant time period or, if the charity has significant funds invested, the opportunity cost of income from investments foregone.
- 7.11. The unwinding of the discount must be treated as a financing cost in the statement of financial activities (SoFA). It should be allocated to the appropriate expenditure heading. For example, the unwinding of a discount resulting from a grant liability should be allocated to charitable expenditure.

Principles for recognising liabilities from constructive obligations

- 7.12. Charities frequently provide services or make grants to their beneficiaries on a non-contractual basis. Although a charity's commitments to provide services or grants are not always legally binding under contract, a liability can still arise if the charity has no realistic alternative to settling an obligation resulting from a commitment it has made. However, not all commitments to provide future services or funding will result in a charity recognising a constructive obligation as a liability or provision.
- 7.13. A charity may make general statements or policy statements about their future intentions, for example the aim of relieving famine in a particular location or improving the quality of care provided to a particular group of people. Such statements can be communicated in a variety of ways, including mission statements, setting out future plans within a trustee's annual report or simply making a general policy statement. Statements such as these do not create a constructive obligation as discretion is retained by the charity as to their implementation.

- 7.14. Evidence of 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.
- 7.15. It follows that a charity's decision to provide funding does not create a constructive obligation that must be recognised as a liability unless that decision has been communicated to those affected before the reporting date. The commitment must be communicated in a sufficiently specific manner so as to create a valid expectation on the recipient's part that the charity will discharge its responsibilities.
- 7.16. The formal written offer of a grant indicates to the recipient that it is probable that settlement will take place. In such circumstances, the charity cannot realistically withdraw from its commitment and so it is unlikely to have a realistic alternative but to meet the obligation. However, the recognition of any resulting liability would be dependent on any conditions attaching to the commitment.

Conditions that limit the recognition of a funding commitment

- 7.17. Funding commitments can be made which give the funder the discretion to avoid future expenditure based on their assessment of whether the conditions attached to the commitment will be met by the recipient.
- 7.18. The award of a grant is a non-exchange transaction. A charity awards a grant to further its own charitable purposes but without creating a contractual relationship with the recipient. The award of a grant is recognised as a liability only 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.
- 7.19. Where a grant commitment is payable over a period of more than one year, a liability must be recognised for the full amount of the constructive obligation unless conditions apply to payments falling due after the reporting date. Where payments for later years are subject to performance-related conditions, the donor charity may be able to legitimately withdraw from its commitment if a particular condition attaching to the grant is not met.
- 7.20. Where a condition remains within the control of the donor charity, then the donor charity retains the discretion to avoid the expenditure and therefore a liability must not be recognised. For example, where a commitment is made to provide grant funding over a number of years, future payments may be subject to a review by the donor charity which gives it discretion to terminate the funding agreement. Provided the review condition has been communicated to the recipient as part of the funding agreement and the review has substance, then a constructive liability is unlikely to arise for payments relating to periods subsequent to the review date.

Accounting and reporting by charities

- 7.21. Alternatively, when there is no condition attaching to the grant that enables the donor charity to realistically avoid the commitment, a liability for the full funding obligation must be recognised.
- 7.22. Not all terms attaching to a funding commitment create a condition that gives a donor charity discretion to withdraw from its funding obligation. For example, a term in a grant offer that seeks to relieve the donor charity from a future obligation in the event of a lack of funds at a future settlement date would not normally prevent the recognition of a liability if payment is probable. The liability would only be derecognised (reversed) if a future event requires the funding offer to be rescinded. The reversal of the balance sheet provision must be recognised in the SoFA and deducted from the heading to which the expenditure was originally charged.
- 7.23. Grant commitments may contain conditions that are outside the control of the donor charity. For example, a charity may promise a grant payment on the condition that the recipient finds matching funding. When a condition falls outside the control of the donor charity, a liability arises and expenditure must be recognised if the payment of the grant is probable.
- 7.24. Certain grants may contain specific conditions that closely specify a level of output or service to be performed by the recipient of the grant. These are termed performance-related grants.

Accounting for liabilities arising from performance-related grants

- 7.25. The key characteristic of a performance-related grant is that the amount of the grant payable to the recipient is determined by the extent of their performance in meeting the conditions set out in the grant agreement.
- 7.26. The payment of a performance-related grant is conditional on the grant recipient delivering a specified level of service or units of output. For example, the payment might be conditional on the number of meals provided or the usage or opening hours of a facility. In such cases the grant-maker will often have negotiated the nature of services to be provided. The liability and expenditure arising from performance-related grants must be recognised to the extent that the recipient of the grant has provided the specified service or goods.
- 7.27. A grant that is restricted to a particular purpose does not create a performance-related condition, as the payment of the grant is not conditional on the achievement of a specified level of service or outputs by the recipient. Similarly, a grant that funds a project over a number of years is not recognised as a performance-related grant simply because the funding obligation is to be met over an extended period of time.

Provisions for liabilities

- 7.28. A charity must recognise a liability for a legal or constructive obligation as a provision when either the timing or the amount of the future expenditure required to settle the obligation is uncertain.

Accounting and reporting by charities

- 7.29. Charities must distinguish separately on the balance sheet provisions for liabilities. The expenditure related to a provision must be charged to the appropriate heading in the SoFA.
- 7.30. The amount recognised as a provision should be the best estimate of the expenditure required to settle or to transfer it to a third party at the reporting date. When calculating this amount, consideration must be given to:
- when the payments are likely to be made; and
 - future events and uncertainties which may affect the amount required to settle the obligation.
- 7.31. Charities must review the best estimate of a provision at the reporting date and adjust it appropriately. If a transfer of resources is no longer needed to settle the obligation, the amount of the provision no longer required should be reversed, with a corresponding credit to the expenditure heading in the SoFA against which the provision was originally charged.
- 7.32. If a provision is likely to be settled within 12 months of its initial recognition, it need not be discounted for the time value of money as it does not constitute a financing transaction. If the expected settlement date of the obligation is 12 months or more after making the provision and the effect would be material, the present value of the provision must be calculated using an appropriate discount rate.

Treatment of commitments not recognised as provisions or liabilities

- 7.33. Not all funding commitments are recognised as liabilities or provisions and so it is important that charities disclose the existence of unrecognised commitments and explain how these will be funded. For example, a grant offer may have been made but there is uncertainty as to whether the recipient charity will be able to proceed with its proposal. If it becomes clear that the payment is possible but not probable, then a liability for the commitment should not be recognised. Instead, the funding commitment should be disclosed as a contingent liability. Further guidance on accounting for contingent liabilities is provided in the SORP module 'Balance sheet'.
- 7.34. A charity may intend to use unrestricted funds held at the reporting date to meet a funding commitment and may decide to designate a portion of unrestricted funds for this purpose. This SORP permits the use of a designation on the balance sheet to identify that portion of unrestricted funds that have been set aside to meet the commitments. However, activities that are to be wholly financed from future income must not form part of such a designation.

Accounting for onerous contracts

- 7.35. Situations may arise where the unavoidable costs of fulfilling a contract exceed the expected economic benefit derived from it. In such circumstances, a charity must recognise these irrecoverable costs. An onerous contract may arise, for example, when a charity leases a property which it subsequently leaves unused and the property cannot be sub-let to recover the charity's costs.

- 7.36. Routine purchase orders and contracts which can be cancelled by agreement without paying compensation should not be regarded as onerous. However, a charity must make a provision for a material loss-making contract which cannot be cancelled without the payment of compensation. If a charity identifies a contract as onerous, it must make an immediate provision for the unavoidable loss. This provision is the lower of the costs involved in completing the contract and the cost of any compensation payable as result of withdrawing from the contract.
- 7.37. However, a charity may choose to provide a level of service to its beneficiaries over and above the minimum requirements of a contract as part of its charitable activities. Any additional costs incurred in providing a level of service above contractual requirements do not create an onerous contract even when these costs cannot be recovered. Costs that are incurred on a discretionary basis from which the charity can withdraw should be excluded from any assessment of whether a contract is onerous.
- 7.38. Before calculating the provision for an onerous contract, the charity must undertake an impairment review of the fixed assets used in supplying the contracted service(s). For more information refer to the SORP module '[Impairment of assets](#)'.
- 7.39. A contract entered into on a full cost recovery or cost plus margin basis is only likely to become onerous if unavoidable costs arise in meeting the contract which cannot be recovered under the terms of the contract.

Treatment of employee benefits

- 7.40. Employee benefits include all costs incurred by the charity in exchange for the services of its employees and any remunerated trustees. Expenditure is recognised for all employee benefits resulting from their service to the charity during the reporting period unless the staff costs have been capitalised as part of the cost of an asset.
- 7.41. Charities must recognise a liability for the cost of all benefits to which employees are entitled at the reporting date that have yet to be paid. Employee benefits are measured as follows:
- Short-term employee benefits such as wages and salaries are measured at the amount expected to be paid in exchange for that service and not discounted for the time value of money.
 - A liability for paid annual leave and paid sick leave is recognised, if a material component of total expenditure, and not discounted for the time value of money.
 - Termination benefits are measured at the best estimate of the expenditure required to settle the obligation at the reporting date. If the expected settlement date of the termination payments is 12 months or more after making the provision and the effect would be material, the present value of the obligation must be calculated using an appropriate discount rate.
 - Post-employment benefits arising under defined benefit plans are measured at the present value of the obligation under the plan at the reporting date less the fair value of the plan assets at the reporting date (reference should be made to the SORP module '[Retirement and post-employment benefits](#)').

7.42. Disclosure requirements for expenditure on staff costs are set out in the SORP module 'Disclosure of trustee and staff remuneration, related party and other transactions'.

Disclosure of provisions and funding commitments in the accounts

7.43. All charities must analyse the expenditure resulting from recognised funding commitments and provisions across the appropriate heading(s) in the SoFA and provide in the notes to the accounts:

- a reconciliation of the movements in provisions and funding commitments showing:
 - the carrying amount at the beginning of the reporting period;
 - additions during the reporting period, including adjustments that result from changes in measuring the discounted amount;
 - amounts charged against the provision during the reporting period;
 - unused amounts reversed during the reporting period; and
 - the carrying amount at the end of the reporting period;
- a brief description of the nature of the provision or commitment made and the expected amount and timing of any resulting payments;
- an indication of the uncertainties about the amount or timing of those payments, including any performance-related conditions attached to the commitment; and
- the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

7.44. Charities must also disclose for any funding commitment that is not recognised as a liability or provision:

- details of 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.

7.45. Comparative information for prior periods is not required for any of the disclosures set out in this section.

7.46. This SORP requires that if unrestricted funds have been designated to fund a commitment on the face of the balance sheet, the notes to the accounts must disclose:

- the nature of any amounts designated; and
- if not explained in the trustees' annual report, the likely timing of that expenditure.

8. Allocating costs by activity in the statement of financial activities

Introduction

- 8.1. This module applies to all charities that prepare their statement of financial activities (SoFA) on an activity basis. This SORP requires larger charities above the statutory audit threshold for charities in their jurisdiction(s) of registration to report on an activity basis. FRS 102 does not address how to present a SoFA on an activity basis or the allocation of costs to activities in that statement.
- 8.2. The SoFA must distinguish between expenditure incurred on charitable activities which contribute to furthering the charity's aims and purposes, and those undertaken to raise funds. Further analysis of significant activities included within these broad categories must be provided either on the face of the SoFA or in the notes to the accounts.
- 8.3. The activity analysis must be on a full cost basis. Full cost is made up of the total of the direct costs and shared costs, including support costs, involved in undertaking each reported activity. This module sets out:
 - **general principles for reporting activities;**
 - **identification of support costs;**
 - **methods of allocating costs to activities;**
 - **accounting for costs shared between fundraising and charitable activities; and**
 - **disclosures required in the notes to the accounts.**

General principles for reporting activities

- 8.4. A charity's SoFA or related notes should provide an analysis of a charity's significant activities in a way that is relevant to both the charity and the users of its accounts.
- 8.5. Significant activities are those which, due to their scale or importance, are key to the charity in meeting its aims and objectives. The analysis of activities should provide an understanding of how a charity raises its funds and uses them to further its purposes. For example, charitable activities may be analysed according to services provided, projects or programmes undertaken, or by the particular aims or objectives taken forward.
- 8.6. The activities reported should also be consistent with the significant activities noted in the trustees' annual report. The narrative provided by the trustees' annual report should help the user of the accounts to understand the nature of those significant activities and what has been achieved as a result of the expenditure incurred on them.

Identification of support costs

- 8.7. While some costs relate directly to a single activity, the cost of certain central or regional support functions may be shared across more than one activity undertaken by the charity. For example, governance costs, payroll administration, purchasing, budgeting and accounting, information technology, personnel (human resources), building management services and finance are functions that are likely to support more than one area of activity. These costs must be apportioned across the activities that the function supports in order to arrive at the full cost for each reported activity including relevant restricted funds unless prohibited by the terms of a gift.

Methods of allocating costs to activities

- 8.8. To ensure that the accounts present the costs of activities fairly, charities should ensure that the method(s) of cost allocation adopted are reasonable and consistently applied. In attributing costs to activities, the following principles must be applied:
- Direct costs attributable to a single activity must be allocated directly to that activity (for example the salary cost of someone solely employed on a particular activity or the cost of running a vehicle used wholly for a particular activity).
 - Shared costs which contribute directly to more than one activity must be apportioned between those activities (for example the cost of a staff member whose time is divided between a fundraising activity and working on a charitable project).
 - Support costs which are not attributable to a single activity must also be apportioned between the activities being supported.
- 8.9. The method(s) of apportionment adopted by a charity should be reasonable and be consistent between reporting periods unless circumstances change. Charities should also balance the benefits of greater accuracy with the costs involved when selecting methods of apportioning costs. Examples of bases for apportionment that may be applied include:
- usage of a resource or activity in terms of time taken, capacity used, requests made or other measure;
 - per capita, based on the number of people employed within an activity;
 - floor area occupied by an activity; or
 - time, where staff duties span more than one activity.

Accounting for costs shared between fundraising and charitable activities

- 8.10. Information about the aims, objectives and projects of a charity is frequently provided in the context of mail shots, websites, public fundraising collections and telephone fundraising. In determining whether costs are shared, a distinction should be drawn between:
- publicity or information costs involved in raising the profile of the charity which is associated with fundraising; and
 - educational publicity or information to further the charity's aims and objectives.
- 8.11. For publicity or information to be regarded as charitable expenditure, it must be provided for an educational purpose. In the context of a fundraising activity, in order to achieve an educational purpose the information supplied must fulfill the following educational criteria:
- be targeted at beneficiaries or others who can use the information to further the charity's purposes;
 - be information on which the recipient can act in an informed manner to further the charity's purposes; and
 - be related to other educational activities or objectives undertaken by the charity.
- 8.12. For example, a health education charity might target high-risk beneficiary groups or medical professionals when distributing its fundraising material and, as part of the same mailing, also supply information on health risks and symptom recognition. The health information supplied would be charitable expenditure because it is targeted at beneficiaries or others who could act on the information and has been distributed by the charity as part of its health education activity. The shared cost of producing and distributing the information should therefore be fairly apportioned between the fundraising and charitable activities. If the educational criteria had not been met then all relevant costs would be attributed to fundraising activities.

Disclosures required in the notes to the accounts

- 8.13. This SORP requires that charities reporting on an activity basis must disclose:
- details of the accounting policy adopted for the apportionment of costs between activities and any estimation technique(s) used to calculate their apportionment;
 - the total amount of support costs incurred in the reporting period;
 - an analysis of material items or categories of expenditure included within support costs, with the total amount of governance costs incurred separately identified (refer to Appendix 1, '[Glossary of terms](#)', for the definition of governance costs); and
 - the amount of support costs apportioned to each of the charity's significant activities as disclosed in the SoFA or in the notes to the accounts.
- 8.14. The information required for support costs and their apportionment may be provided in a tabular format (see Table 4).

Table 4: Analysis of support costs

Support cost (examples)	Raising funds	Activity 1	Activity 2	Activity 3	Grand Total	Basis of allocation
	£	£	£	£		
Governance	x	x	x	x	x	Text describing method
Finance	x	x	x	x	x	Text describing method
Information Technology	x	x	x	x	x	Text describing method
Human Resources	x	x	x	x	x	Text describing method
Function/ Activity Total	x	x	x	x	x	

9. Disclosure of trustee and staff remuneration, related party and other transactions

Introduction

- 9.1. A charity's accounts should inform the user and help them to assess a charity's financial performance and position, and the stewardship exercised by its trustees over the charitable funds held.
- 9.2. The disclosure of certain transactions is important for stewardship purposes to provide assurance that the charity is operating for the public benefit and that its trustees are acting in the interests of their charity and not for private benefit. For this reason, this SORP requires that disclosure must be made of transactions involving trustees, related parties, staff remuneration and ex-gratia payments. The payments made to the auditor or independent examiner must also be disclosed.
- 9.3. A transaction involving a trustee or other related party must always be regarded as material regardless of its size. A charity must make the same disclosures for de- facto trustees (see Appendix 1, 'Glossary of terms') as for trustees.
- 9.4. Charities should refer to section 33 of FRS 102 for more information. This module applies to all charities and sets out:
 - disclosure of trustees' remuneration and benefits;
 - disclosure of trustees' expenses;
 - transactions with related parties that require disclosure;
 - transactions with related parties that do not require disclosure;
 - disclosure of related party transactions;
 - disclosure of audit, independent examination and other financial service fees;
 - disclosure of ex-gratia payments;
 - disclosure of staff costs and employee benefits; and
 - remuneration and benefits received by key management personnel.

Disclosure of trustees' remuneration and benefits

- 9.5. Most trustees are volunteers who give their time and expertise without charge. However, provided the arrangement is legally authorised, a trustee may be remunerated for their role as a trustee. On occasions, a trustee may also be employed in some other role, either directly by the charity or by a related entity, including a subsidiary, joint venture or associate of the charity.
- 9.6. This SORP requires that all charities must disclose in the notes to the accounts that either:
 - none of the trustees have been paid any remuneration or received any other benefits from an employment with their charity or a related entity; or

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- one or more of the trustees has been paid remuneration or has received other benefits from an employment with their charity or a related entity.
- 9.7. This SORP requires the following information must be provided for each individual trustee who received remuneration or other benefits in the reporting period:
- the legal authority under which the payment was made (for example a provision in the governing document of the charity, an Order of the Court, or the charity regulator for the jurisdiction(s) of registration);
 - the name of the remunerated trustee;
 - details of why the remuneration or other employment benefits were paid;
 - the amount of remuneration paid;
 - the amount of any pension contributions paid by the charity for the reporting period; and
 - the amount of any other benefit, for example any termination benefits, private health cover or the provision of a vehicle.
- 9.8. If a trustee receives remuneration or other benefits from their employment with the charity in addition to their trusteeship, the note may distinguish between remuneration and benefits received as a trustee, if any, from that received for other services or other employment with the charity.

Disclosure of trustees' expenses

- 9.9. Trustees may incur costs in fulfilling their duties, for example in travelling to meetings or visiting charity facilities or activities to understand or monitor what is taking place. The reimbursement of properly incurred expenses is not considered a payment for goods or services or the remuneration of a trustee, nor does it count as any kind of personal benefit.
- 9.10. Trustee expenses include the reimbursement by a charity of costs incurred by its trustees in carrying out their duties and similar payments made by a charity direct to third parties on their behalf. For example, a charity may purchase travel tickets or pay for accommodation used by its trustees when carrying out their duties.
- 9.11. This SORP requires that all charities must disclose either:
- that no trustee expenses have been incurred; or
 - that one or more of the trustees has claimed expenses or had their expenses met by the charity.
- 9.12. If expenses have been incurred, this SORP also requires that charities must disclose:
- the total amount of expenses reimbursed to trustees or paid directly to third parties;
 - the nature of those expenses (for example travel, subsistence, accommodation, entertainment etc.); and
 - the number of trustees reimbursed for expenses or who had expenses paid by the charity.

Transactions with related parties that require disclosure

- 9.13. A decision by a charity to enter into any transaction must be made in the charity's own interests and for the benefit of its beneficiaries. The disclosure of related party transactions is an important element of transparency in financial reporting because:
- related parties may enter into transactions that unrelated parties would not;
 - transactions between related parties may not be made at the same amounts or on the same terms as those between unrelated parties; and
 - the existence of the relationship may be sufficient to affect the transactions of the charity with other parties.
- 9.14. Users of the accounts need to be able to assess whether the relationship between the charity and the other party or parties to a transaction may have been influenced by interests other than those of the charity. Disclosing related party transactions also shows how far, if at all, the reported financial position and activities may have been affected by such transactions.
- 9.15. Related parties include a charity's trustees and their close family members and those entities which they control or in which they have a significant interest. Entities related to a charity include any subsidiary, joint venture or associate of the charity. Appendix 1, '[Glossary of terms](#)' provides a full definition of persons or entities that must be regarded as a related party for disclosure purposes.
- 9.16. In considering a possible related party relationship, a charity must assess 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.
- 9.17. This SORP requires all transactions between a charity and a related party must be disclosed subject to the exemptions set out in the following paragraphs.

Transactions with related parties that do not require disclosure

- 9.18. The following transactions involving trustees or other related parties need not be disclosed unless there is evidence to indicate that they have influenced the charity's activities or use of resources:
- Donations to the reporting charity from a trustee or a related party provided the donor has not attached conditions which would, or might, require the charity to alter significantly the nature of its existing activities if it were to accept the donation. Examples of conditions that make the donation a transaction that must be disclosed include: requiring the charity to purchase goods or services from a specified supplier; making an interest bearing loan to the charity; or requiring that payments be made to a specified third party. However charities must provide an aggregate disclosure of the total amount of donations received without conditions.
 - Services provided on a voluntary basis to a charity as an unpaid general volunteer by a trustee or other related party.

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- Contracts of employment between the charity and its employees (except where the employee is a trustee or other related party).
- The purchase from the charity by a trustee, or other related party, of minor articles which are offered for sale on the same terms as they are offered to the general public, for example a small purchase made from a charity shop.
- The provision of services to a trustee or other related party where the services are received on the same terms as they are received by other beneficiaries of the charity. Examples include the use of a village hall by members of its committee of management as inhabitants of the area of benefit.
- The payment or reimbursement of out-of-pocket expenses where the trustee acts as agent for the charity (but certain details of trustee expenses must be disclosed – see ‘[Disclosure of trustees expenses](#)’).
- The amount of any expenses waived by a trustee need not be disclosed unless the amount is material in the context of a charity’s total expenditure.

Disclosure of related party transactions

9.19. If there have been no related party transactions in the reporting period that require disclosure, this SORP requires that this fact must be stated.

9.20. All charities that have one or more related party transactions must disclose:

- the description of a relationship between the parties (including the interest of the related party or parties in the transaction);
- a description of the transaction(s);
- the amounts involved;
- outstanding balances with related parties at the reporting date and any provisions for doubtful debts;
- any amounts written off from such balances during the reporting period;
- the terms and conditions, including any security and the nature of the consideration to be provided in settlement;
- details of any guarantees given or received; and
- any other elements of the transactions which are necessary for the understanding of the accounts; and
- this SORP requires the disclosure of the name(s) of the transacting related party or parties.

9.21. The reporting charity must not state that related party transactions were made at open market value or on terms equivalent to those that prevail in arm’s length transactions unless such terms can be substantiated.

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- 9.22. The required disclosure may be given in total for similar transactions and type of related party except where disclosure of an individual transaction or connected transactions:
- is necessary for an understanding of the impact of the transactions on the accounts of the charity; or
 - is required by law.

Disclosure of audit, independent examination and other financial service fees

- 9.23. This SORP requires that charities must disclose in the notes to the accounts the amounts payable to their auditor or independent examiner, analysed between fees payable for:
- statutory audit or independent examination;
 - assurance services other than audit or independent examination;
 - tax advisory services; and
 - other financial services, for example consultancy, financial advice or accountancy services.

Disclosure of ex-gratia payments

- 9.24. An ex-gratia payment is a payment, or the waiver of a right to an asset which the trustees have no legal obligation or legal power to make from a charity's funds but which they believe they have a moral obligation to make. For the purposes of disclosure, occasional gifts of small and inexpensive items such as flowers or chocolates should not be regarded as ex-gratia payments.
- 9.25. This SORP requires that charities must disclose details of all ex-gratia payments made including those where the charity has obtained the authority of the Court, the Attorney General or the charity regulator for the jurisdiction(s) of registration to sanction the payment or waiver. Charities may aggregate payments of a similar nature where this does not impact on the understanding of the arrangement. For each payment (or in aggregate) the notes to the accounts must:
- provide an explanation of the nature of the payment
 - state the legal authority or reason for making the payment; and
 - state the amount of the payment (or value of any waiver of a right to an asset).

Disclosure of staff costs and employee benefits

- 9.26. This SORP requires that charities reporting on an activity basis must provide details of their total staff costs and employee benefits for the reporting period, analysed between:
- wages and salaries;
 - social security costs;

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- employer's contribution to defined contribution pension schemes;
 - the operating costs of defined benefit pension schemes (excluding pension finance costs related to defined benefit pension schemes); and
 - other forms of employee benefits.
- 9.27. In addition for any redundancy or termination payments relating to the reporting period, charities must state:
- 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.
- 9.28. The information provided for staff costs and employee benefits must also include any expenditure on staff working for the charity whose contracts are with and are paid by a related party.
- 9.29. This SORP requires that all charities must disclose the average head count (number of staff employed) during the reporting period. Charities may also provide details of the average number of full-time and part-time staff for the reporting period together with an estimate of the equivalent number of full-time staff. Further analysis of staffing according to the number of staff engaged in particular activities of the charity may also be provided where this information helps the user of the accounts understand how staff are deployed.
- 9.30. This SORP also requires that all charities must disclose:
- the fact that there are no employees who received employee benefits (excluding employer pension costs) of more than £60,000 (€70,000); or
 - the number of employees whose total employee benefits (excluding employer pension costs) for the reporting period fell within each band of £10,000 (€10,000) from £60,000 (€70,000) upwards.

Remuneration and benefits received by key management personnel

- 9.31. Although the trustees control and manage the administration of a charity, the day- to-day management of its activities may be delegated to senior management personnel who report to the trustees. FRS 102 uses the term 'key management personnel' to describe the trustees and senior management of the charity.
- 9.32. All charities must disclose the total amount of any employee benefits received by trustees and its key management personnel for their services to the charity. The trustees of charities, particularly larger charities (charities subject to charity audit), should give consideration to the information needs of their funders and other stakeholders in making their accounting disclosures. For example, it may be helpful to provide details of the employee benefits received by the charity's Chief Executive Officer or highest paid staff member, or alternatively a charity may choose to disclose the amount of employee benefits paid to its key management personnel on an individual basis.

10. Balance sheet

Introduction

- 10.1. All charities preparing accruals accounts must prepare a balance sheet at the end of each reporting period which gives a true and fair view of their financial position. The balance sheet provides a snapshot statement of a charity's assets and liabilities and how these are represented by the different classes of funds held by a charity.
- 10.2. The objective of the balance sheet is to show the resources available to the charity and whether these are available for all purposes of the charity or have to be used for specific purposes because of legal restrictions placed on their use.
- 10.3. This module applies to all charities and sets out:
- structure of the balance sheet;
 - fixed assets – headings, classification and disclosures;
 - current assets – headings, classification and disclosures;
 - liabilities – headings, classification and disclosures; and
 - funds of the charity – classification and disclosures.
- 10.4. Each section explains:
- what items are included in each heading of the balance sheet;
 - the recognition principles and the measurement methods used for balance sheet items; and
 - the information that must be, or should be, provided in the notes if not shown on the face of the balance sheet.
- 10.5. For information on the recognition and measurement of financial assets and liabilities charities must refer to the SORP module '[Accounting for financial assets and financial liabilities](#)'.

Structure of the balance sheet

- 10.6. Table 5 sets out the format of a charity's balance sheet and the headings used to present its assets, liabilities and funds. A charity's balance sheet must:
- adopt the same format in subsequent reporting periods unless there are special reasons for a change that are explained in the notes; and
 - provide corresponding amounts for the previous reporting period for each heading disclosed in the balance sheet.

Table 5: Balance sheet

Note ref.		Total funds	Prior year funds	Further details
		£	£	
	Fixed assets:			A
	Intangible assets			A1
	Tangible assets			A2
	Heritage assets			A3
	Investments			A4
	<i>Total fixed assets</i>			
	Current assets:			B
	Stocks			B1
	Debtors			B2
	Investments			B3
	Cash at bank and in hand			B4
	<i>Total current assets</i>			
	Liabilities:			C
	Creditors: Amounts falling due within one year			C1
	<i>Net current assets or liabilities</i>			
	<i>Total assets less current liabilities</i>			
	Creditors: Amounts falling due after more than one year			C2
	Provisions for liabilities			C3
	<i>Net asset or liabilities excluding pension asset or liability</i>			
	Defined benefit pension scheme asset or liability			C4
	Total net assets or liabilities			
	The funds of the charity:			D
	Endowment funds			D1
	Restricted income funds			D2
	Unrestricted funds			D3
	Revaluation reserve			D4
	Pension reserve			D5
	<i>Total unrestricted funds</i>			
	Total charity funds			

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- 10.7. If there is a nil amount for a particular balance sheet heading in the current reporting period, a corresponding amount for the reporting period must still be disclosed unless that amount is also nil. If the amount for both the current and previous reporting periods is nil, then the heading should be omitted from the balance sheet.
- 10.8. The balance sheet must be signed by one or more trustees, each of whom has been authorised to do so by the trustee body, and must specify the date the accounts, including the balance sheet, were approved by the trustee body.
- 10.9. Where necessary to give a true and fair view, additional information must be provided in an additional heading or sub-heading in the balance sheet or given in a note to the accounts. Charities may choose to analyse the items included in any balance sheet heading in greater detail either on the face of the balance sheet or in a related note. The balance sheet may also be presented in a columnar format that analyses balance sheet items by class of fund: unrestricted, restricted income and endowment.
- 10.10. Where the corresponding amount for the previous reporting period is not comparable due to a change in accounting policy it must be adjusted if material to the balance sheet and the reason for the adjustment explained in the notes to the accounts.
- 10.11. The sections that follow are cross-referenced to the analysis headings shown in Table 5.

A: Fixed assets – headings, classification and disclosures

- 10.12. Fixed assets provide an economic benefit to the charity on an on-going basis (i.e. for more than one reporting period) through their ability to:
 - generate income and/or gains; and/or
 - contribute to furthering the charity's objectives.
- 10.13. Charities that hold or have received donated fixed assets in the reporting period must refer to the SORP module '**Donated goods, facilities and services, including volunteers**'.
- 10.14. Fixed assets are recognised when:
 - a resource is controlled by the charity as a result of a past event or transaction, for example a past gift or purchase;
 - it is probable that the expected future economic benefits associated with the asset will flow to the charity; and
 - the historical cost or fair value of the asset can be measured reliably.

Disclosure in the notes applying to all classes of fixed assets

- 10.15. For each class of fixed assets, including as a requirement of this SORP, fixed asset investments and heritage assets, the following analysis of their cost or valuation must be provided in the notes to the accounts:
 - cost or valuation at the beginning of the reporting period;
 - acquisitions during the reporting period;
 - revaluations during the reporting period;

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- disposals during the reporting period;
- transfers to or from that class of item during the reporting period; and
- cost or valuation at the end of the reporting period.

10.16. The following analysis must also be provided for each class of fixed assets that is subject to depreciation, amortisation, or impairment provisions:

- the cumulative amount of depreciation or impairment provided at the beginning of the reporting period;
- amount adjusted on disposal;
- amount of depreciation or amortisation provided in the reporting period;
- amount of any impairment provision in the reporting period;
- amount of any impairment reversals in the reporting period;
- amount of any transfer or other adjustment in the reporting period; and
- the cumulative amount of depreciation, amortisation or impairment provided at the end of the reporting period.

10.17. The carrying amount for each class of fixed assets must also be provided at the beginning and end of the reporting period.

A1: Intangible fixed assets

10.18. Intangible fixed assets are non-monetary fixed assets that do not have physical substance but are identifiable and are controlled by the charity through custody or legal rights. Intangible fixed assets include goodwill purchased on the acquisition of a business and/or purchased intangible assets such as concessions, patents, licences, trademarks and similar rights. Although such assets lack physical substance they provide an on-going economic benefit to the charity.

10.19. The cost of internally generated goodwill or intangible assets such as brands and logos must not be capitalised and are written off as expenditure as incurred. Expenditure on research must always be written off but the costs incurred in the development phase of an internal project may in certain circumstances be recognised as an intangible asset.

10.20. The criteria for the recognition of development costs as an intangible asset are rigorous and involve a demonstration of technical and financial feasibility of the development asset. For more information refer to section 18 of FRS 102.

10.21. Intangible fixed assets must be initially measured at their historical cost. The residual value of intangible fixed assets is nil when calculating the charge for amortisation unless reliable evidence exists to the contrary. Amortisation (see Appendix 1, '[Glossary of terms](#)') on intangible fixed assets must be charged as an expense to the relevant statement of financial activities (SoFA) category reflecting the use of the asset.

10.22. Charities may opt, after initial recognition at cost, to use the revaluation model; for more information refer to section 18 of FRS 102.

10.23. Capitalised goodwill and intangible assets must be amortised on a straight-line (or a more appropriate systematic) basis over their useful economic lives, which must be reviewed at each reporting date. If the useful life cannot be estimated reliably it is presumed to be no more than five years.

Disclosures

10.24. The notes to the accounts for all charities must:

- explain the accounting policies adopted for intangible assets, including the measurement basis adopted, the amortisation rates and methods used, the reasons for choosing those amortisation rates and, where relevant, the policies for the recognition of any capitalised development expenditure;
- provide an analysis reconciling the opening and closing carrying amounts of each class of intangible asset held;
- for intangible assets acquired by way of grant, their value on initial recognition and their carrying amount;
- the carrying amounts of any intangible assets to which the charity has restricted title or that are pledged as security for liabilities;
- the amount of contractual commitments for the acquisition of intangible assets;
- the amount of research and development expenditure recognised as expenditure in the year;
- the heading(s) in the SoFA in which a charge of amortisation of intangible assets is included;
- if an accounting policy of revaluation is adopted, the effective date of the revaluation, whether an independent valuer was involved and the methods applied;
- for each revalued class of intangible assets, the carrying amount that would have been recognised had the assets been carried under the cost model; and
- a description of any individual intangible asset that is material, together with its carrying amount and remaining amortisation period.

A2: Tangible fixed assets

10.25. Tangible fixed assets, such as land and buildings, plant, vehicles and equipment, are held to provide an on-going economic benefit to a charity through their contribution, directly or indirectly, to the provision of goods or services by the charity.

10.26. Tangible fixed assets must be measured initially on the balance sheet at their historical cost. All costs incurred to bring a tangible fixed asset into its intended working condition should be included in the measurement of cost. Charities may adopt an accounting policy of capitalising borrowing costs, including interest, that are directly attributable to the construction of tangible fixed assets, or may write off such borrowing costs as an expense in the SoFA as they are incurred.

Accounting for hire purchase and leasing arrangements

- 10.27. If leasing a tangible fixed asset, the lease must be classified as a finance lease unless it meets the criteria of an operating lease. The characteristic of a finance lease is that the hire purchase or lease arrangements transfer substantially all the risks and rewards of ownership to the lessee.
- 10.28. Charities must refer to section 20 of FRS 102 for more information about the recognition, measurement and note disclosures required for leases.

Accounting for depreciation

- 10.29. A tangible fixed asset, less its residual value (its scrap or realisable value at the end of its economic life), must be depreciated on a systematic basis over its useful economic life. The charity should choose a depreciation method which reflects the use of the asset and the expected timing or pattern of consumption of its economic benefits.
- 10.30. Some assets may have a high residual value which will remove the need for depreciation to be charged. For example, land is not depreciated because it will not generally wear out and its residual valuation is likely to be at least equal to its cost or valuation. However, land is tested for impairment.
- 10.31. Where an asset comprises two or more major components which have substantially different useful economic lives, each component must, unless impractical or involving undue cost or effort, be depreciated separately over its useful economic life.
- 10.32. The depreciation charged for the reporting period must be recognised as an expense in the SoFA. The expense is charged or apportioned to the relevant SoFA heading(s) reflecting the asset's use.

Accounting for the revaluation of tangible fixed assets

- 10.33. A charity may choose to adopt an accounting policy of revaluing one or more classes of the tangible fixed assets it holds. For example, land and buildings may be revalued but not motor vehicles. If a policy of revaluation is adopted, then all assets within that particular class must be revalued. Buildings of a similar nature, function or use held by the charity constitute a class of tangible fixed assets.
- 10.34. In the case of other tangible fixed assets such as motor vehicles, there may be an active second-hand market for the asset, or appropriate indices may exist allowing a valuation to be made with reasonable reliability.
- 10.35. If a policy of revaluation is adopted, then charities must:
- Carry all assets within the relevant class of tangible fixed assets carried at their revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. However, if the trustees believe that a reliable market valuation is not possible, then the value in use to the charity or its depreciated replacement cost should be used.

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- Undertake valuations on a regular basis to ensure that the carrying amount does not differ materially from the fair value of the asset at the end of the reporting period. This appraisal is normally undertaken by professionally qualified valuers although it may be carried out internally provided staff have knowledge of the relevant property market.
- Undertake valuations of land and buildings with sufficient regularity, for example charities may undertake a review on a rolling basis over a five-year period.

10.36. If a policy of revaluation is adopted, then revaluations and recognised gains and losses must be presented in the accounts as follows:

- A separate revaluation reserve must be shown within the funds analysis on the balance sheet.
- Revaluation gains must be recognised as 'Gains on the revaluation of fixed assets' within the SoFA, unless they reverse a charge for impairment that has previously been recognised as a cost within the expenditure headings of the SoFA.
- Any gain on disposal over the carrying amount must be recognised in 'Other' income within the SoFA.
- Revaluation losses must be recognised as an expense in the relevant expenditure heading of the SoFA except to the extent to which they offset any previous revaluation gains, in which case the loss is shown in the 'Gains/(losses) on the revaluation of fixed assets' section of the SoFA.

Disclosures

10.37. The notes to the accounts must:

- set out the depreciation method used and the useful economic lives of assets or the depreciation rate used;
- state the amount of borrowing costs, if any, capitalised in the construction of tangible fixed assets and, where applicable, the capitalisation rate used;
- state the amount of contractual commitments to acquire tangible fixed assets;
- identify the existence and carrying amounts of property, plant and equipment to which the charity has restricted title or that are pledged as security for liabilities; and
- provide an analysis reconciling the opening and closing carrying amounts of each class of tangible fixed asset held. An example of such an analysis is given in Table 6.

Table 6: Analysis of opening and closing carrying amounts

	Freehold land and buildings	Leasehold land and buildings	Plant and machinery	Fixtures, fittings and equipment	Total
	£	£	£	£	£
Cost or valuation					
At beginning of the year					
Additions					
Disposals					
Revaluations					
Transfers					
At end of the year					
Depreciation and impairments					
At beginning of the year					
Disposals					
Depreciation					
Impairment					
Transfers					
At end of the year					
Net book value at beginning of the year					
Net book value at end of the year					

10.38. If any class of tangible fixed assets has been revalued, charities must disclose:

- the effective date of the revaluation;
- whether an independent valuer was involved;
- the methods and significant assumptions applied in estimating the items' fair value; and
- for each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the historical cost model.

A3: Heritage assets

10.39. A heritage asset is a tangible asset or intangible asset with historic, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

10.40. Heritage assets are a distinct class of tangible fixed asset or intangible fixed asset. Charities holding heritage assets must refer to the SORP module '[Accounting for heritage assets](#)'. This module explains the recognition, measurement and disclosures relevant to heritage assets.

A4: Investments

10.41. Fixed asset investments are held to generate income or for their investment potential, or both. Investments may include 'social investments' where the purpose in making the investment is wholly or partly to further the charity's aims.

10.42. Fixed asset investments exclude those investments held specifically for sale or those investments which the charity expects to realise within 12 months of the reporting date.

10.43. Investment gains and losses, whether realised or unrealised, are combined and shown in the heading 'Gains/(losses) on investments' in the SoFA.

Investments listed or traded on a recognised stock exchange

10.44. Fixed asset investments in quoted shares, traded bonds and similar investments must be measured initially at cost and subsequently at fair value (their market value) at the reporting date. This treatment is in accordance paragraph 11.14(d) of FRS 102.

Investment properties

10.45. An investment property is property (land or a building, or both) held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation, or both rather than for use in the production or supply of goods and services or for administrative purposes; or sale in the ordinary course of business.

10.46. Land and/or buildings are excluded from investment properties and treated as tangible fixed assets instead if:

- the construction work and development has not been completed; or
- the property is occupied by the charity for its own purposes; or
- the property is held for sale in the ordinary course of business (in which case the property must be included as a current asset).

10.47. Mixed use property should be separated between investment property and property held for operational use as a tangible fixed asset. However, if the fair value of the investment property component cannot be measured reliably without undue cost or effort, the entire property should be accounted for as property within tangible fixed assets.

10.48. Investment properties must be measured initially at cost and subsequently at fair value at the reporting date. This SORP does not permit charities using FRS 102 to subsequently measure investment properties at their cost less accumulated depreciation and any accumulated impairment losses. Depreciation is not provided on investment property.

Unlisted investments

10.49. Unlisted equity investments must be measured initially at cost and subsequently measured at fair value unless fair value cannot be measured reliably in which case it is measured at cost less impairment. Where the charity holds an interest in subsidiaries, associates and joint venture entities, it should refer to the relevant SORP module(s).

Social investments

10.50. This SORP uses the term 'social investments' to describe programme related and mixed motive investments. Programme related investments are held to further the charitable purposes of the investing charity. Although programme related investments can generate a financial return, the achievement of a financial return is incidental to furthering the charitable purposes of the investing charity.

10.51. Mixed motive investments are a form of social investment made in part to further the charitable purposes of the investing charity and in part to generate a financial return.

10.52. Charities holding mixed motive or programme related investments must refer to the SORP module '[Accounting for social investments](#)', which explains their recognition, measurement and disclosure.

Disclosure of investments and investment properties

10.53. The notes to the accounts must:

- state the accounting policies for investments, including the basis on which investments are measured;
- provide an analysis of investments by class of investment identifying the amounts held within each class, with those investments held at fair value differentiated from those held at historical cost less impairment; and
- provide an analysis reconciling the opening and closing carrying amounts of each class of fixed asset investment held.

10.54. The classes of investments disclosed in the note will vary from charity to charity reflecting the differing nature of the investments held. This SORP requires that the analysis must as a minimum identify material amounts held in the following classes of investment:

- cash or cash equivalents;
- listed investments;
- investment properties;
- loans to group undertakings;
- equity investment in group undertakings;
- social investments; and
- other investments.

10.55. Charities must also refer to the SORP module '[Accounting for financial assets and financial liabilities](#)' for the further disclosures that apply to investments as financial instruments.

10.56. Charities holding investment property must also disclose:

- the methods and significant assumptions applied in determining the fair value of investment property;
- the extent to which the fair value of investment property is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and class of the property being valued (or if there has been no such valuation this fact must be disclosed);
- the existence and amounts of any restrictions on the ability to realise investment property or on the remittance of income and proceeds of disposal;
- any contractual obligations for the purchase, construction, or development of investment property or for repairs, maintenance or enhancements; and
- in the analysis (see paragraph 10.15) the additions resulting from acquisitions through business combinations, if any.

B: Current assets – headings, classification and disclosures

10.57. Current assets are the assets of the charity which are not intended for use on a continuing basis in the charity's activities and are usually consumed, realised or expended as part of the charity's activities, within 12 months of its reporting date. Current assets include stocks, debtors, investments held for sale and cash. The sections that follow set out how these categories of assets are measured and disclosed in the accounts.

10.58. Charities that hold donated assets for distribution or resale or have received them in the reporting period must refer to the SORP module '**Donated goods, facilities, and services, including volunteers**'.

B1: Stocks

10.59. Stocks are items that will be used by the charity in providing goods and services. Stocks may include goods held for distribution to beneficiaries, or educational literature or brochures for distribution.

10.60. Stocks held for sale as part of a non-charitable trade must be measured at the lower of the cost and net realisable value of the separate items of stock or groups of similar items.

10.61. When goods or services are provided as part of a charitable activity either free or at a subsidised cost, then net realisable value should be based on the service potential provided by the items of stock. For example, if goods are held for free distribution and the item continues to meet the need(s) for which it was purchased, then it should not be written down to a nil realisable value except where the item of stock is damaged or obsolete. Damaged or obsolete stocks should be written down as an expense and charged to the relevant SoFA heading(s) reflecting their intended use.

10.62. Charities which have contracts of less than one year's duration may have work in progress at the reporting date. Where the value of work in progress is material, it should be valued at cost less any foreseeable loss that is likely to occur on the contract and shown separately as a subheading within stock.

Disclosures

10.63. The notes to the accounts must disclose:

- the accounting policies adopted in measuring the value of stocks and, if applicable, work in progress and any cost formulae used;
- the carrying amount of stocks and, if applicable, work in progress analysed between activities;
- the amount of stocks recognised as an expense;
- any charges for impairment or reversal of impairment losses; and
- the carrying amount of any stocks pledged as security for liabilities.

B2: Debtors

10.64. Debtors include amounts owed to the charity for the provision of goods and services or amounts the charity has paid in advance for the goods and services it will receive. Debtors also include amounts receivable on grant funding to which the charity is entitled.

10.65. Debtors must be measured at their recoverable amounts (the amount the charity anticipates it will receive from a debt or the amount it has paid in advance for goods or services).

10.66. An amount recoverable more than a year after the end of the reporting date must be measured at its present value at the balance sheet date if the time value of money is material and the settlement terms constitute a financing transaction. The unwinding of the discount is credited to income as interest receivable.

Disclosures

10.67. The notes to the accounts must set out, within the disclosure of accounting policies, the basis on which debtors are measured.

10.68. This SORP requires that the notes to the accounts must also provide an analysis of the amounts, including comparatives for the previous reporting period, of the following items:

- trade debtors;
- amounts owed by group and associated undertakings;
- prepayments and accrued income; and
- other debtors.

10.69. If material to the disclosure of debtors, the amount of debtors recoverable more than a year after the reporting date, if not shown as a separate line on the balance sheet, must be separately disclosed in the notes to the accounts.

B3: Current asset investments

10.70. Current asset investments are investments which a charity holds for resale or pending their sale and cash or cash equivalents with a maturity date of less than one year. This heading includes cash on deposit and cash equivalents with a maturity of less than one year held for investment purposes rather than to meet short-term cash commitments as they fall due.

10.71. To be classified as a current asset, the charity should not intend to hold the cash or cash equivalents as part of its on-going investment activities for more than one year from the reporting date. However, cash and cash equivalents that are held from time to time as part of a fixed asset investment portfolio should be presented as part of fixed asset investments. Current asset investments must be valued at their fair value except where they qualify as 'basic' financial instruments. For more information refer to the SORP module '[Accounting for financial assets and financial liabilities](#)'.

Disclosures

10.72. The notes to the accounts must explain, within the disclosure of accounting policies, the basis on which current asset investments are measured and how the charity has defined any short-term, highly liquid investments as current asset investments.

10.73. This SORP requires that the notes must provide an analysis of amounts, including comparatives for the previous reporting period, of the following items included within current asset investments:

- cash equivalents on deposit;
- investment properties held for sale (charities may opt to include any properties previously classified as investment properties which have been redesignated as held for sale);
- investment in group undertakings held for sale;
- listed investments; and
- other investments.

B4: Cash at bank and in hand

10.74. Cash at bank and in hand is held to meet short-term cash commitments as they fall due rather than for investment purposes and includes all cash equivalents held in the form of short-term highly liquid investments. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value. A cash equivalent will normally have a short maturity of, say, three months or less from the date of acquisition.

Disclosures

10.75. The notes to the accounts must explain, within the disclosure of accounting policies, how the charity has defined any short-term, highly liquid investments included as cash at bank and in hand.

C: Liabilities (C1 to C3) – headings, classification and disclosures

10.76. Liabilities are amounts due to creditors and any provision made as a result of an obligation to transfer economic benefits, usually in the form of a cash payment, to a third party. Liabilities must be measured at their settlement amount except for certain types of financial liabilities. A liability is recognised for the amount that the charity anticipates it will pay to settle the debt or the amount it has received as an advance payment for goods or services it must provide.

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10.77. A provision is a liability where the amount and/or timing of its settlement is uncertain. A provision is only recognised when:

- there is a present obligation at the reporting date as a result of a past event;
- it is probable that a transfer of economic benefit, usually in the form of cash, will be required in settlement; and
- the amount of the settlement can be estimated reliably.

10.78. Provisions for liabilities must be measured at the best estimate of their settlement amount. If the settlement date of a provision is likely to be more than 12 months from the reporting date and the time value of money is material to the amount, then the provision should be discounted back to its present value at the reporting date.

10.79. Provisions recognised in the balance sheet must be reviewed at the reporting date and adjusted to reflect the current best estimate of the settlement amount.

Disclosures

10.80. In the balance sheet, creditors and provisions must be analysed between:

- (C1) creditors: amounts falling due within one year;
- (C2) creditors: amounts falling due after one year; and
- (C3): provisions for liabilities.

10.81. The notes to the accounts must explain, within the disclosure of accounting policies, the basis on which creditors and provisions for liabilities and charges are recognised and measured.

10.82. This SORP requires that in the notes, creditors falling due within one year and after one year must be analysed between:

- accruals for grants payable;
- bank loans and overdrafts;
- trade creditors;
- amounts owed to group and associated undertakings;
- payments received on account for contracts or performance-related grants;
- accruals and deferred income;
- taxation and social security; and
- other creditors.

10.83. Charities must also disclose:

- an analysis reconciling the opening and closing carrying amounts of each class of provisions;
- a brief description of the nature of the obligation and the expected amount and timing of resulting payments;

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- an indication of the uncertainties about the amount or timing of those outflows; and
- the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

Contingent liabilities and contingent assets

10.84. A contingent liability is either a possible but uncertain obligation or a present obligation that is not recognised because:

- a transfer of economic benefit to settle the possible obligation is not probable; or
- the amount of the obligation cannot be estimated reliably.

10.85. A contingent asset is a possible asset that arises from a past event but is not recognised in the balance sheet as its existence can only be confirmed by future events which are not within the charity's control.

Disclosures

10.86. Contingent liabilities are disclosed unless the possibility of their existence is remote. Contingent assets are disclosed when their existence is probable.

10.87. The notes to the accounts must provide for each class of item:

- a brief description of each contingent item; and
- where practicable, an estimate of its financial effect.

10.88. Charities must, where practicable, also provide:

- an indication of the uncertainties relating to the amount or timing of settlement; and
- the possibility of any reimbursement; or
- if it is impractical to make one or more of these disclosures that fact must be stated; or
- in extremely rare cases where FRS 102 allows non-disclosure of information that would be expected to seriously prejudice the position of the entity in a dispute with other parties, the general nature of the dispute and the reason why disclosure has not been made must be given.

C4: Defined benefit pension scheme asset or liability

10.89. Charities that participate in a defined benefit pension scheme must refer to the SORP module '[Retirement and post-employment benefits](#)' for the recognition, measurement and disclosure of defined benefit pension scheme assets and liabilities.

D: Funds of the charity (D1 to D5) – classification and disclosures

10.90. The assets and liabilities administered by a charity are referred to as its funds.

10.91. Charities must refer to the SORP module 'Fund accounting', which sets out the required disclosures for the separate funds a charity may hold. A charity may choose to disclose the amount identified in its reserves policy statement as its reserve fund under a sub-heading of its unrestricted funds provided that this amount is positive.

10.92. A revaluation reserve arises on the revaluation of an asset subsequent to its initial recognition. While a revaluation reserve will often form part of the unrestricted funds of the charity, any part of the reserve derived from the revaluation of assets held within a restricted fund must be shown as part of restricted funds.

10.93. Charities participating in a defined benefit pension scheme may show the equivalent value of the pension asset or liability as a separate pension reserve. The pension reserve will often form part of the unrestricted funds of the charity. The circumstances when part of a pension reserve may be allocated to a restricted fund are set out in the SORP module 'Retirement and post-employment benefits'. In the case of those multi-employer pension schemes where an actuarial valuation of a defined benefit pension plan liability is unavailable, the pension reserve may also include the value of any provision made to meet the obligation resulting from a funding agreement to make good a deficit related to a defined benefit pension scheme.

11. Accounting for financial assets and financial liabilities

Introduction

- 11.1. All charities are likely to have financial assets and financial liabilities. A financial asset represents financial resources available to the charity and examples include financial investments in shares or bonds, debtors and cash. A financial liability is a financial claim on the charity's resources and examples include loans, creditors and legal or constructive obligations, including provisions for grants payable.
- 11.2. FRS 102 uses the term 'financial instruments' to include both financial assets and financial liabilities. Charities should refer to sections 11 and 12 of FRS 102 for more information.
- 11.3. This module deals with the recognition and measurement of financial assets and financial liabilities except for those detailed below which are covered by other SORP modules and by FRS 102:
- investments in subsidiaries, associates and joint ventures;
 - leases; and
 - employers' rights and obligations under employee benefit plans.
- 11.4. Table 7 lists the common basic financial instruments and the measurement bases that charities must use. Where FRS 102 uses different terminology, which is based on International Financial Reporting Standards (IFRS), this is noted (in brackets).
- 11.5. Concessionary loans made by charities to further their charitable aims are financial instruments.
- 11.6. This module sets out:
- how all charities account for basic financial instruments;
 - the accounting treatment for transactions involving extended credit terms;
 - how to identify a basic financial instrument under FRS 102;
 - subsequent measurement of financial assets and financial liabilities;
 - impairment of financial assets;
 - accounting for concessionary loans made or received;
 - accounting for financial assets and financial liabilities which do not meet the FRS 102 definition of basic financial instruments;
 - examples of 'other financial instruments'; and
 - disclosures to be made in the notes to the accounts.

Table 7: Common basic financial instruments

Financial instrument	Measurement on initial recognition
Cash	Cash held
Debtors – including trade debtors and loans receivable (trade accounts and notes receivable)	Settlement amount after any trade discounts (provided normal credit terms apply) or amount advanced by the charity
Creditors – including trade creditors and loans payable (trade accounts and notes payable)	Settlement amount after any trade discounts (provided normal credit terms apply) or amount advanced to the charity
Overdraft (loan payable on demand)	Amount of the overdraft facility drawn down
Qualifying long-term loans (that meet the debt instrument criteria in FRS 102)	Amount of principal advanced less material arrangement or similar fees
Bank deposit	Cash amount of deposit
Investment in non-puttable (i.e. without an option to sell the shares at a later date at an agreed price) ordinary and preference shares or non-convertible preference shares	Transaction price (cost)
Loans advanced by the charity on market terms (that meet the debt instrument criteria in FRS 102)	Amount of principal advanced

How all charities account for basic financial instruments

- 11.7. Charities preparing accounts normally measure a basic financial asset or basic financial liability on its initial recognition at the amount receivable or payable including any related transaction costs. However, if initially measured at fair value, transaction costs are not included in the measurement of financial assets or liabilities; instead, the transaction costs are treated as an expense. If extended credit is offered, the accounting treatment depends on those extended credit terms.
- 11.8. Examples of basic financial instruments include:
- A qualifying long-term loan received from a bank bearing a market rate of interest which meets the qualifying criteria set out in section 11 of FRS 102. It is recognised at its transaction value, which is normally the principal amount advanced.
 - A trade debtor (current asset) for goods sold to a customer is initially measured at the cash receivable, which is normally the invoice price after allowing for any applicable trade discounts or volume discounts, provided settlement is on normal payment terms and settlement is due within 12 months of the invoice date.
- 11.9. If an arrangement fee is charged on a loan made to the charity and it is material, it must be treated as a deduction from the amount of principal advanced. This is because the amount of principal advanced is effectively reduced by the arrangement fee charged. The effect of this accounting treatment is to treat the arrangement fee as a component of the finance charge. The effective interest rate on the loan must be calculated to reflect the arrangement fee being amortised over the period of the loan. However, arrangement fees that are not material should be treated instead as an expense under the relevant heading(s) of the SoFA.

11.10. For more information on the effective interest method, refer to section 11 of FRS 102.

The accounting treatment for transactions involving extended credit terms

11.11. Where credit is offered by, or to, the charity on normal credit terms, the resulting debtor or creditor must be measured at the invoice price less any trade discounts. However, where credit terms are offered beyond normal credit terms and settlement is extended for at least 12 months after the invoice date, then the financing element must be separately identified and included under the relevant heading(s) of the SoFA.

11.12. 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).

11.13. For more information on calculating present value, refer to section 11 of FRS 102.

How to identify a basic financial instrument under FRS 102

11.14. FRS 102 distinguishes basic financial instruments from other financial instruments. The simpler recognition and measurement requirements apply only to basic financial instruments.

11.15. If a charity has a type of financial asset or financial liability which is not listed in the table of common basic financial instruments, it must refer to the detailed criteria set out in section 11 of FRS 102 to establish its accounting treatment.

11.16. A non-exchange transaction such as a gift or a grant is not a financial instrument because it is non-contractual in nature. For commitments resulting from non-exchange transactions where settlement is delayed and the effect of the time value of money is material, the transaction is recognised at the present value of the likely settlement amount.

Subsequent measurement of financial assets and financial liabilities

11.17. The subsequent measurement of financial assets and financial liabilities depends on their nature and settlement dates. The carrying amount must be calculated without any deduction for transaction costs that may be incurred on sale or disposal.

For example:

- Current assets and current liabilities must be measured at the cash or other consideration expected to be paid or received and not discounted.
- Debt instruments, for example a bank loan, must be measured at amortised cost using the effective interest method.
- Investments in shares which can be publicly traded must be measured at fair value (market value).

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- Investments in shares which cannot be publicly traded must be measured at cost less impairment if fair value cannot be established using a valuation technique.
- 11.18. Charities that make concessionary loans or hold other financial assets or liabilities or are planning to acquire such assets or assume such liabilities must refer to the information contained in the sections that follow. More complex arrangements that charities may enter into include advance fee schemes and contracts or options to buy or sell foreign currency and 'derivatives'.
- 11.19. A derivative is a financial instrument or contract, the value of which changes in response to a change in a specified financial variable (for example, the interest rate) or non-financial variable (for example, tonnage shipped); it requires no or little initial investment and it is settled at a future date.

Impairment of financial assets

11.20. Financial assets measured at cost or amortised cost must be reviewed for impairment at each reporting date. A financial asset is impaired when its recoverable amount is less than its carrying amount. The charge for impairment is taken to the appropriate heading(s) in the SoFA under which the initial gain was recognised. For example, a bad debt would be charged against the income stream that is suffering the bad debt, while a downward adjustment of a previous revaluation of a fixed asset investment would be charged to gains and losses on investments within the SoFA. For information about the indicators of impairment and for more information on accounting for the impairment of financial assets, refer to section 11 of FRS 102.

Accounting for concessionary loans made or received

11.21. Concessionary loans are those loans made or received by a charity to further its purposes and any interest charged is below the prevailing market rates. See the SORP module '[Accounting for social investments](#)' for the accounting treatments for concessionary loans.

Accounting for financial assets and financial liabilities which do not meet the FRS 102 definition of basic financial instruments

- 11.22. The accounting treatment for basic financial instruments is available only for financial assets and financial liabilities that fall within the definition set out in section 11 of FRS 102. The accounting treatment of other financial assets and financial liabilities requires a more complex accounting approach, as set out in section 12 of FRS 102.
- 11.23. This category of 'other financial instruments' includes derivatives such as:
- interest rate swaps that do not meet the definition of a basic financial instrument; and
 - options and forward contracts.
- 11.24. Other financial instruments must be both initially recognised and then subsequently measured at fair value.

11.25. Section 12 of FRS 102 explains what is meant by the term 'hedge accounting' and the criteria that must be met to apply hedge accounting and the accounting treatment to be followed for hedging transactions.

11.26. Charities using hedge accounting must recognise the change in the fair value of the instrument in the 'other recognised gains and losses' section of the SoFA until such time as the instrument is realised or the hedging relationship ends. The gain or loss is then reclassified and shown under the relevant income or expenditure heading(s) of the SoFA.

Examples of other financial instruments

Advance fee schemes

11.27. Advance fee arrangements can take several forms and the accounting treatment will depend on the substance of the arrangement. Examples include:

- A simple discount is offered by the charity on the prevailing fee rates payable in return for payment in advance. The advance payment must be treated as deferred income until the criteria for income recognition are met.
- Interest is paid by the charity on the advance, in which case the transaction is in substance a loan and is classed as a basic financial instrument. The financing cost is the interest paid and this must be treated as an interest expense. (If the interest rate paid is below the market rate for an equivalent loan, then the loan may qualify for treatment as a concessionary loan.)
- The charity offers a fixed price or a guarantee to cap the amount of fees that might otherwise be payable in return for a fixed payment that buys two or more years of services from the charity in advance. In this case, the customer avoids having to pay any inflation increases. The cost to the charity is the revenue foregone from fee increases, in exchange for which the charity receives the cash-flow advantage of the lump sum prepaid. This is a type of 'other financial instrument' where the financing cost is not an interest rate but is the financial effect of the fee increase foregone spread over the term of the arrangement expressed as a discount rate.

Foreign exchange contracts and options

11.28. A contract for purchasing foreign exchange is a contract to buy an amount of foreign currency at an agreed rate at a future date. The transaction cost of entering into the contract is treated as an expense. The contract itself is a financial instrument.

11.29. 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.

11.30. 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.

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- 11.31. An option for purchasing foreign exchange is an arrangement whereby, for a fee, the charity has purchased an option to buy or sell an amount of foreign currency at an agreed rate at a future date. The charity is not bound to exercise the option and if not exercised, the option lapses. The fee or premium for the option is capitalised but any separately identifiable transaction cost incurred in acquiring the option is treated as an expense. The option is subsequently measured at fair value.
- 11.32. Where an option is purchased to manage an exchange risk associated with a liability such as a known purchase or a grant, the charity may opt to treat it as a hedging transaction when this treatment is permitted by section 12 of FRS 102. If a charity intends to treat an option as a hedging transaction, reference must be made to section 12 of FRS 102 for the criteria that must be met in order for the transaction to be treated as a hedging transaction.
- 11.33. If the option is not eligible to be treated as a hedging transaction, or if eligible is not classed as a hedging transaction at its inception, then any unrealised gain or loss at the reporting date is taken to the relevant expenditure heading(s) in the SoFA. The minimum carrying amount of an option is nil. At the end of each subsequent reporting period or when the option is exercised or expires, whichever is the earlier, the gain or loss on exercising the option or the writing off of any residual carrying amount is charged to the SoFA.

Disclosures to be made in the notes to the accounts

- 11.34. All charities must provide the detailed disclosure of assets and liabilities required by the SORP module '[Balance sheet](#)'.
- 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;

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- 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.

11.36. If the charity makes or receives a concessionary loan, reference must also be made to the SORP module '[Accounting for social investments](#)'.

11.37. If the charity defaults on the terms of a loan, refer to section 11 of FRS 102 for the disclosures required.

11.38. Where financial instruments are measured at fair value, refer to section 11 of FRS 102 for any applicable disclosures relating to credit risk and the nature of the instrument.

11.39. Where a financial asset which does not qualify for de-recognition has been transferred to a third party, refer to section 11 of FRS 102 for disclosures.

11.40. For other financial instruments, refer to section 12 of FRS 102 for the additional disclosures required for hedge accounting.

12. Impairment of assets

Introduction

- 12.1. An impairment loss occurs when the carrying amount of an asset exceeds its recoverable amount. The impairment loss reflects a decline in the future economic benefits or service potential of an asset, over and above the depreciation charged for the asset's use. Depreciation is a provision made on a systematic basis over the economic life of an asset to reflect its use and consumption of the economic benefits or service potential provided by the asset.
- 12.2. Charities should refer to section 27 of FRS 102 for more information. This module must be applied by all charities when accounting for the impairment of all assets except:
- deferred tax assets, employee benefits, investment properties measured at fair value and biological assets;
 - programme related or mixed motive investments which must be referred to the SORP module '[Accounting for social investments](#)'; and
 - financial assets that fall within the scope of sections 11 and 12 of FRS 102 which deal with basic and other financial instruments.
- 12.3. This module sets out for all charities:
- [what to do if impairment is indicated](#);
 - [identification of the recoverable amount](#);
 - [indicators of impairment](#);
 - [accounting for impairment losses and reversals](#); and
 - [disclosures to be made in the notes to the accounts](#).

What to do if impairment is indicated

- 12.4. At each reporting date, a charity must assess whether there is any indication that an asset may be impaired. If there is no indication of impairment, then it is not necessary to estimate the recoverable amount. If there is an indication that an asset is impaired, then its recoverable amount must be estimated. An impairment loss must be recognised if, and only if, the recoverable amount of an asset is less than its carrying amount.

Identification of the recoverable amount

- 12.5. The recoverable amount of an asset is the higher of its fair value less costs to sell the asset and its value in use. It is not always necessary to determine both an asset's fair value less costs to sell and its value in use as if either amount is equal to or exceeds the asset's carrying amount then the asset is not impaired.

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- 12.6. Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of its disposal. The best evidence of fair value is a binding sale agreement in an arm's length transaction or the market price in an active market. In the absence of such evidence, a charity should consider the outcome of recent transactions for similar assets within the same sphere of activity.
- 12.7. A charity's assets may be subject to a restriction as to their use. A restriction may be imposed by the donor or created by the terms of an appeal used to fund the purchase of an asset. While a restriction will affect how the charity uses an asset, it is unlikely that a restriction imposed by charity law on the use of an asset would be passed on to a purchaser of that asset. Therefore, a restriction on use of an asset imposed by charity law would not normally reduce the amount obtainable on the sale of that asset.
- 12.8. Occasionally, the terms of a gift will require the on-going use of a specified asset by the charity which would prevent its sale. In such instances, there may be costs involved in removing the restriction before the asset can be sold. The additional cost of removing a restriction should be reflected in the estimate of the asset's fair value less costs to sell.
- 12.9. The method used to determine the 'value in use' of an asset held by a charity will depend on whether the asset is primarily held to generate cash as a commercial return or for its service potential to the charity's beneficiaries.
- 12.10. An asset is held to generate a commercial return when it is used to generate a positive cash flow and earn a return that reflects the risks involved in holding the asset. When an asset is held to generate cash flows, its value in use will be the present value of the future cash flows expected to be derived from the asset.
- 12.11. The calculation of an asset's value in use involves estimating the amount of the net cash flow that will be generated from the asset's use and then applying a discount rate to establish the present value of those future cash flows. The discount rate used is normally the current market rate the charity would pay to obtain comparable credit over the remaining life of the asset. The market rate is adjusted for uncertainty as to the asset's ability to generate cash in the future, which means that the greater the uncertainty, the greater the risk and therefore the higher the market rate used in the calculation. This will in turn result in a lower present value amount for the value in use of the asset.
- 12.12. However, charities often hold assets primarily to provide services to their beneficiaries rather than for generating cash flows. A charity may provide its services freely or at below commercial rates. Where an asset is primarily held for its service potential to beneficiaries, it would be inappropriate to measure value in use by reference to its cash flow. In such circumstances, it is more appropriate to regard value in use as the present value of the asset's service potential rather than the present value of its cash flow.

12.13. The method used to value an asset's service potential should be reliable, relevant to the asset and capable of measurement. Depreciated replacement cost is one method that may be used to provide a measure of an asset's service potential. The replacement cost of an asset is the lowest economical cost that would be incurred in replacing the asset's service potential. This value for replacement cost is then reduced to reflect the remaining economic life of the asset in its used condition.

12.14. Value in use measured on the basis of an asset's service potential will have particular relevance for specialist assets used by a charity. The market value of a specialist asset may not reflect the cost that a charity avoids by using that asset in providing services. For example, the market value of a specialist building may be less than its recent construction cost. However, provided the building continues to meet its intended service potential then its value in use would be better reflected by its replacement cost (its construction cost) rather than the amount for which it could be sold in the market.

Indicators of impairment

12.15. Charities must refer to FRS 102 (paragraph 27.9) and the examples of indicators of impairment. These indicators of impairment may arise from both external and internal sources of information and include:

- a significant decline in an asset's market value;
- significant changes in technology or markets, or in the economic or legal environment, which have an adverse effect on the charity's activities;
- an asset becoming idle, or plans being made for its disposal earlier than expected;
- evidence of an asset's obsolescence or physical damage; and
- evidence of worse than expected results or cash flow from the use of an asset.

12.16. The demand or need for the services provided by a charity using an asset may fluctuate over time and a temporary reduction in demand is not necessarily an indication of its impairment. Similarly, an asset's service potential may not always be fully utilised and surplus capacity at certain periods will not always indicate impairment. For example, it may be necessary to have the spare capacity to respond to urgent need or have the capacity to provide services at all times in the face of fluctuating need. In such circumstances, the surplus capacity is part of the required service potential of the asset and the asset is not impaired.

12.17. However, where demand for services significantly decreases or ceases, the assets used to provide those services may be impaired. Similarly, major social, demographic or environmental changes may have an impact on the number, nature or needs of a charity's beneficiaries and may therefore also provide an indicator of impairment.

Accounting for impairment losses and reversals

- 12.18. If, and only if, the recoverable amount of an asset is less than its carrying amount, a charity must reduce the carrying amount of the asset to its recoverable amount. This reduction is an impairment loss which must be immediately recognised as expenditure in the statement of financial activities (SoFA). The impairment losses must be charged to the heading(s) under which the asset is deployed.
- 12.19. If an asset is impaired, a review of its remaining useful life should also be undertaken; if its economic life has been significantly curtailed, the charge for depreciation is adjusted accordingly. A similar review is undertaken if a previous charge for impairment is reversed to identify whether the economic life of the asset has been extended.
- 12.20. On occasions, the recoverable amount of an asset may subsequently increase as a result of external conditions or an increase in the expected use of the asset. In these circumstances, the carrying amount of the asset must be increased to the recoverable amount by reversing the impairment loss previously recognised. This reversal must be immediately recognised under the appropriate expenditure heading(s) in the SoFA as a reduction in expenditure. The reversal of an impairment loss must not increase the carrying amount of an asset above the amount that would have been its carrying amount if no impairment had been recognised.

Disclosures to be made in the notes to the accounts

- 12.21. For each relevant class of asset held by a charity, the following information relating to impairment must be provided in the notes to the accounts:
- the amount of impairment losses recognised in the SoFA during the period and the heading(s) under which the impairment losses are included; and
 - the amount of reversals of any impairment losses recognised in the SoFA during the period and the heading(s) under which the impairment losses were reversed.
- 12.22. Charities must also disclose a description of the events and circumstances that led to the recognition or reversal of an impairment loss.

13. Events after the end of the reporting period

Introduction

- 13.1. This module applies to all charities. Charities should refer to section 32 of FRS 102.
- 13.2. Once the accounts have been prepared, there is often a period of time before the trustees formally approve them. When preparing the accounts, charities make estimates or judgements based on the information available at the time, so they are required to assess the effect of events occurring between the end of the reporting period and the approval of the accounts to see whether adjustments to amounts or disclosures are necessary.
- 13.3. Events occurring after the end of the reporting period fall into two categories: adjusting events and non-adjusting events.

Adjusting events occurring after the end of the reporting period

- 13.4. Adjusting events are those events occurring after the end of the reporting period but before the accounts are authorised for issue which provide evidence of conditions existing at the reporting date which affect items in the balance sheet and items reported in the statement of financial activities. Charities must review and amend the amounts recognised in the accounts and any related disclosures in the notes to the accounts to reflect adjusting events.
- 13.5. Examples of events occurring after the end of the reporting period that require adjustment include:
- settlement of a court case that confirms that the charity had a liability at the end of the reporting period and not a contingent liability;
 - notification that the payment of a legacy from an estate is no longer probable as a result of the will being contested;
 - the determination of the amount of a Gift Aid payment to a parent charity by a subsidiary undertaking, when the subsidiary had a present legal (for example, a deed) or constructive obligation to make the payment at the reporting date;
 - information allowing a more reliable estimate of an amount designated (however, designation of funds for a new purpose after the reporting date is not an adjusting event);
 - identification of a fraud, misstatement or error which has a material effect on an item in the accounts;
 - new information concerning an impairment of an asset, for example doubts over the authenticity of a heritage asset or a bad debt; or
 - new information that indicates that the charity may not be a going concern.
- 13.6. If there is uncertainty about the charity being a going concern, this must be disclosed (see the SORP module '[Accounting standards, policies, concepts and principles](#)'). If the charity is no longer a going concern, the accounts must be restated on an appropriate basis.

Non-adjusting events occurring after the end of the reporting period

13.7. Non-adjusting events are those events occurring after the end of the reporting period but before the accounts are authorised for issue which relate to conditions that arose after the end of the reporting period. The disclosure of non-adjusting events provides useful and relevant information about the charity to users of the accounts. Examples of non-adjusting events that may occur after the reporting date that should be disclosed include:

- a decision that the charity is going to merge with another charity;
- the opening of a new branch in a new locality or a material expansion of the range or scale of activities undertaken;
- the purchase of a new building to expand a charity's capacity to further its purposes;
- the announcement or implementation of a major restructuring;
- the announcement of a new fundraising appeal or the degree of success achieved by a fundraising appeal;
- a material loss of assets or diminution in the value (impairment) of assets subsequent to the reporting date, for example due to fire or flood;
- a material decline in the market value of investments;
- the commencement of major litigation; or
- the entering into significant commitments or the identification of material contingent liabilities or the giving of material guarantees.

Disclosure in the accounts for non-adjusting events after the end of the reporting period

13.8. For each category of non-adjusting event, the notes to the accounts must provide details of the nature of the event and an estimate of its financial effect or a statement that such an estimate cannot be made.

14. Statement of cash flows

Introduction

- 14.1. Charities preparing their accounts under FRS 102 must provide a statement of cash flows except where the disclosure exemptions permitted by this SORP have been taken. Charities should refer to section 7 of FRS 102.
- 14.2. The statement of cash flows provides information about the ways in which a charity uses the cash generated by its activities and about changes in cash and cash equivalents held by a charity. It also provides information that is helpful in assessing a charity's liquidity and underlying solvency. 'Liquidity' refers to the ability of a charity to meet its immediate and short-term obligations as they fall due. 'Solvency' refers to the capability of the charity to meet its longer-term obligations as they fall due.
- 14.3. The statement identifies a charity's cash flows and the net increase or decrease in cash and cash equivalents in the reporting period. Cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value. Highly liquid investments normally have a maturity of three months or less from the date of acquisition.
- 14.4. Bank overdrafts which are repayable on demand and form an integral part of day-to-day cash management can be included as a component of cash and cash equivalents and may be included as part of cash and cash equivalents. However, other forms of overdraft or loan always count as part of borrowings and are shown as financing activities.
- 14.5. This module sets out:
- structure of the statement of cash flows;
 - what cash flows are included as operating activities?;
 - what cash flows are included as investing activities?;
 - what cash flows are included as financing activities?;
 - the methods of compiling the statement of cash flows;
 - template for a statement of cash flows; and
 - disclosures in the notes to the accounts.

Structure of the statement of cash flows

- 14.6. The format of the statement of cash flows must follow the requirements of section 7 of FRS 102. The statement of cash flows must analyse cash flows using three standard headings: operating activities, investing activities and financing activities. The statement of cash flows includes the movement in cash balances of unrestricted funds and restricted funds including endowment funds.

14.7. A template for the statement of cash flows is provided in Table 8, which should be adapted as necessary for the reporting purposes of the charity. For example, a columnar presentation may be adopted to distinguish between cash flows relating to restricted funds and cash flows relating to unrestricted funds. When a charity is preparing consolidated accounts, a statement of cash flows must be prepared on a consolidated basis.

What cash flows are included as operating activities?

14.8. Operating activities are the principal income producing activities of a charity that are recognised as income and expenditure in the charity's statement of financial activities (SoFA). The cash flow from operating activities indicates the extent to which operating activities have generated or consumed cash.

14.9. Examples of cash flows arising from operating activities include:

- cash receipts from donations and grants;
- cash receipts from Gift Aid claims or repayments of tax;
- cash receipts from contracts for the supply of goods and services;
- cash receipts from fees, rents (excluding rent from investment properties) and royalties;
- cash receipts from the repayment of loans made to further the charity's purposes;
- cash payments of grants made;
- cash payments to suppliers of goods and services;
- cash payments to and on behalf of staff (for example, staff salaries and pension contributions);
- cash payments of interest on borrowing related to operational activities;
- cash advances made to other parties as social investments; and
- cash payments of taxes on income (for example, tax paid on profit retained by a wholly owned subsidiary).

What cash flows are included as investing activities?

14.10. Investing activities include the acquisition or disposal of investments and the cash generated from holding investment assets but excludes those highly liquid investments which are classed as cash equivalents in the accounts. It also includes the acquisition of, or disposal of, tangible fixed assets including property, plant and equipment.

14.11. Examples of cash flows arising from investing activities include:

- cash receipts from interest and dividends received;
- cash receipts from rent on investment properties;
- cash receipts from the repayment of loans by a non-charitable trading subsidiary (charity entity accounts only);

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- cash receipts from the sale of plant, property and equipment and other long-term assets;
- cash receipts from the sale of investment properties and other long-term investments (including the sale of endowment investments);
- cash payments to acquire investments (including conversion of endowment from cash to another form of investment); and
- cash payments to acquire tangible fixed assets, including property and equipment and other long-term assets (including conversion of endowment from cash to another form of fixed asset).

What cash flows are included as financing activities?

14.12. Financing activities relate to borrowing and gifts of permanent endowment or expendable endowment funds. Endowment funds are considered to be 'capital' in charity law as they must be invested or retained.

14.13. Examples of cash flows arising from financing activities include:

- cash receipts from donations of endowment or the accumulation of cash under a power to create expendable endowment;
- cash receipts from new borrowing by way of loan or mortgage and other long- or short-term borrowings;
- cash receipts from the use of a bank overdraft facility (if not treated as a component of cash equivalents);
- cash repayments of borrowing including mortgages, loans and other borrowing; and
- cash payments by a lessee which reduces the outstanding liability relating to a finance lease.

The methods of compiling the statement of cash flows

14.14. FRS 102 permits charities to use either the direct or indirect method when presenting the cash flow from operating activities and section 7 of FRS 102 provides guidance on these methods. The indirect method is the method most commonly used and is the method illustrated in Table 8.

14.15. The charity must choose to present the statement of cash flows using either:

- the indirect method, which involves deriving the cash flows from operating activities. The net movement of funds shown in the statement of financial activities (SoFA) is adjusted for:
- non-cash movements in the SoFA,
- any deferrals or accruals arising from cash receipts or payments, and
- items of income or expenditure related to investing or financing cash flows; or
- the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed.

14.16. A charity using hedge accounting for a transaction must show the cash flow of the hedging instrument as an item within the same heading as that of the linked transaction. For more information on hedge accounting, refer to section 12 of FRS 102.

Template for a statement of cash flows

14.17. A template for a statement of cash flows using the indirect method is given in Table 8. Charities using this format must provide a reconciliation to show how the net income/ (expenditure) presented in the SoFA has been adjusted to arrive at the cash flows from operating activities presented in the statement of cash flows. An example of how this reconciliation may be set out is given in Table 9 below. A reconciliation of cash and cash equivalents must also be provided and an example is given in Table 10.

14.18. Table 8 includes an adjustment for the change in cash and cash equivalents due to exchange rate movements. Accounting standards require foreign currency denominated financial assets and financial liabilities to be recalculated at the reporting date. This item is necessary if the statement of cash flows is to reconcile to the balance sheet. Refer to section 30 of FRS 102 for more information on foreign currency translation.

14.19. The template for a statement of cash flows set out in Table 8 must be adapted as necessary for any additional items that apply. An example would be cash flows arising from the payment of taxes. Similarly, any headings that do not apply must be omitted.

Disclosures in the notes to the accounts

14.20. When significant cash or cash equivalents are held which are not available for use to further charitable activities, for example cash and cash equivalents held in endowment funds, the charity must disclose:

- the amount unavailable; and
- explain why it is unavailable for use.

14.21. Examples of financing transactions include the conversion of expendable endowment into income funds in advance of the relevant investments being sold, or the removal of the legal restriction on the expenditure of permanent endowment enabling it to be spent in the future.

14.22. If the components of cash and cash equivalents presented in the statement of cash flows are different to the equivalent items in the charity's balance sheet, a reconciliation must be provided.

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 charges	X	X
(Gains)/losses on investments	X	(X)
Dividends, interest and rents from investments	(X)	(X)
Loss/(profit) on the 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

Selection 1: Special transactions relating to charity operations

15. Charities established under company law

Introduction

- 15.1. Charities registered as companies under company law (charitable companies) must comply with the reporting requirements of company law. However, charitable companies must adapt the presentation and headings used in their accounts for the special nature of the company and its activities.
- 15.2. In jurisdictions where adherence to this SORP is not a legal requirement, there is a strong presumption that charitable companies will comply with this SORP in order for their accounts to give a true and fair view as required by company law.
- 15.3. Charitable companies using this SORP must adapt their statement of financial activities (SoFA) to meet the requirements of company law or prepare a separate summary income and expenditure account.
- 15.4. This module, which applies to all charitable companies, explains how the following requirements of company law must be met by companies when applying this SORP:
- preparation of the directors' report;
 - requirement for an income and expenditure account;
 - preparation of a combined SoFA and income and expenditure account;
 - summary income and expenditure account;
 - additional considerations that apply when consolidated (group) accounts are prepared under company law;
 - disclosure of equity on the balance sheet; and
 - disclosure of revaluation and fair value reserves (UK only).

Preparation of the directors' report

- 15.5. Company law in both the UK and the Republic of Ireland requires certain information to be provided in the directors' report in addition to the information that this SORP requires to be included in the trustees' annual report.
- 15.6. A combined directors' report and trustees' annual report can be prepared provided it includes all the information required by the SORP module 'Trustees' annual report' and applicable charity law. Charitable companies should ensure that the combined annual report makes it clear that it also contains a directors' report as required by company law.

- 15.7. Charitable companies registered in the UK which are classified as medium or large companies must also prepare a strategic report which must be presented as a separate distinct section of the trustees' annual report. Charitable companies registered in the Republic of Ireland should note that as at June 2014 a Companies Bill is under consideration which may introduce a similar requirement for the directors' report to include a business review.
- 15.8. The strategic report provides context for: the financial accounts, an analysis of the charity's performance, its financial position and an insight into the charity's objectives and the risks and uncertainties it faces. The trustees' annual report may be adapted to provide the required contents of the strategic report by grouping, under the heading 'strategic report', the content contained in the trustees' annual report for: 'achievements and performance' and 'financial review'. The content of 'plans for future periods' may also be included within the strategic report if relevant to understanding the charity's development, performance and position at the end of the year.
- 15.9. The strategic report must contain the information required by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. Charities should also refer to guidance prepared by the Financial Reporting Council when preparing their strategic report. When approving the report, trustees should also specifically state that they have approved the strategic report. For further information on the content of the trustees' annual report see the SORP module '[Trustees' annual report](#)'.

Requirement for an income and expenditure account

- 15.10. Company law sets out the form and content requirements for the accounts. These detailed requirements are set out in the relevant Companies Act and in any Regulations made under that Act.
- 15.11. Not-for-profit companies reporting in the UK under the Companies Act 2006 or in the Republic of Ireland under the Companies Act 1963 must prepare an income and expenditure account as part of their accounts. The SoFA can often be adapted to include an income and expenditure account and therefore the presentation of a separate income and expenditure account may not be required.

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

- 15.12. 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.
- 15.13. 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.

Summary income and expenditure account

15.14. The amounts presented in a summary income and expenditure account must be derived from the corresponding figures in the SoFA but exclude any endowment funds. The reporting of income and expenditure need not 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 and for those items that must be disclosed in the accounts. Normally greater disclosures are required of those companies classed as medium or large.

15.15. 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. In the Republic of Ireland, not-for-profit companies must produce an income and expenditure account which contains the line items specified in Schedule 6 to the Companies Act 1963. The example given in Table 11 is illustrative.

Table 11: Minimum requirements for a summary income and expenditure account

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*			
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.

15.16. Charitable companies in the Republic of Ireland must also report, where applicable, the amount charged to cover provisions or adjustments to provisions (other than for depreciation and impairment).

Additional considerations that apply when consolidated (group) accounts are prepared under company law

- 15.17. Charitable companies prepare consolidated accounts (also known as group accounts) in the UK under section 399 of the Companies Act 2006 and in the Republic of Ireland under section 150 of the Companies Act 1963.
- 15.18. Charitable companies which are required to prepare consolidated accounts must prepare a summary consolidated income and expenditure account for the charity and its subsidiaries (the group) if the consolidated SoFA cannot be adapted to meet the requirements for an income and expenditure account.

Disclosure of equity on the balance sheet

- 15.19. Charitable companies are usually established as companies limited by guarantee. However, in rare cases, charitable companies may have issued share capital provided those shares have no right to receive a dividend or other distribution attached to them. Charitable companies that have issued share capital must modify the 'Funds of the charity' heading of the balance sheet to disclose called up share capital.
- 15.20. Provided no new share equity is issued, a charitable company preparing its accounts under FRS 102 need not provide a separate statement of changes in equity for the reporting period. Charitable companies with equity must provide details of equity as set out in section 4 of FRS 102.

Disclosure of revaluation and fair value reserves (UK only)

- 15.21. Regulations made under the UK Companies Act 2006 require a revaluation reserve to be set up when assets are revalued upwards. A revaluation reserve represents the difference between the cost or valuation of an asset when first recognised, less any depreciation and its subsequent revalued amount.
- 15.22. Although the separate reporting of a revaluation reserve has less significance for charities, as unlike commercial entities they do not distribute profits, the amount of any revaluation reserve must still be disclosed by charitable companies.
- 15.23. Similarly, regulations made under the Companies Act 2006 require a fair value reserve to be set up for certain financial instruments listed in the regulation when measured at fair value in the accounts.
- 15.24. To comply with the regulations made under the Companies Act 2006, charitable companies must disclose any revaluation and fair value reserves 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.

17. Retirement and post-employment benefits

Introduction

- 17.1. This module applies to all charities that provide post-employment benefits to their former staff after they have left the employment of the charity. The most common form of post-employment benefit is a pension plan or scheme. The accounting requirements and disclosures in the notes to the accounts for post-employment benefit plans depend on whether the plan is classified as a defined contribution plan or defined benefit plan. Charities should refer to section 28 of FRS 102 for more information.
- 17.2. This module sets out:
- accounting for defined contribution plans;
 - accounting for defined benefit plans;
 - fund accounting for defined benefit plans;
 - fund accounting and the treatment of a defined benefit plan surplus or deficit;
 - accounting for multi-employer defined benefit plans which have been treated as defined contribution plans;
 - disclosures in the accounts relating to plans accounted for as defined contribution plans; and
 - disclosures in the accounts relating to defined benefit plans.

Accounting for defined contribution plans

- 17.3. Defined contribution plans are post-employment benefit plans under which the employer, for example the charity (or its subsidiary), pays fixed contributions into a separate entity (a fund). The employer has no legal or constructive obligation to pay further contributions or to make direct benefit payments to employees if the fund does not hold sufficient assets to pay all the employee benefits relating to employee service in the current and prior periods.
- 17.4. The most common form of defined contribution plan is where the charity employer pays a fixed contribution, usually expressed as a proportion of the employee's salary, into a pension fund for the period that the employee is with the charity. The charity is under no further obligation to make any extra payments, irrespective of how that pension fund performs.
- 17.5. Any liability and expenses should be allocated to unrestricted funds and restricted funds on the same basis as other employee-related costs unless the terms of a restriction prohibit the allocation of such costs to a restricted fund.

Accounting for defined benefit plans

- 17.6. Defined benefit plans are any post-employment benefit plans that are not defined contribution plans. A feature of defined benefit pension plans is that the employer has offered a guarantee as to the amount or level of pension or benefit ultimately payable and is therefore liable to make additional contributions to provide that guaranteed level of benefit. Under defined benefit plans, a charity's (and/or its subsidiary's) obligation is to provide the agreed benefits to current and former employees. Actuarial risk and investment risk are effectively borne by the employer.
- 17.7. Charities must refer to section 28 of FRS 102 for the methodology to be followed in calculating the components and costs of a defined benefit pension plan.

Fund accounting for defined benefit plans

- 17.8. Defined benefit plan component costs must be allocated between the expenditure categories in the statement of financial activities (SoFA) on a fair and reasonable basis. The allocations are made on the basis of the charity's own computations. The basis of the allocations should be consistent from year to year. One approach is to allocate the defined benefit plan components based on the staff costs of employees within the scheme, although other approaches (for example, allocation based on pension contributions payable) may also produce an equitable allocation.
- 17.9. In cases where a restricted fund may be of a short-term nature or staff may be frequently transferred between activities funded from restricted funds, there may be uncertainty as to the fund which will ultimately recover any surplus or meet future contributions resulting from any deficit. In these circumstances, the restricted funds should be charged only an appropriate portion of the current service cost component of the pension cost relating to the staff engaged in activities funded from restricted funds.
- 17.10. Past service costs and gains and losses on curtailments and settlements should be charged to restricted funds only when a charity can demonstrate that the costs relate to staff presently engaged in the activities funded by the restricted funds.

Fund accounting and the treatment of a defined benefit plan surplus or deficit

- 17.11. A surplus in a defined benefit plan is the excess of the value of the assets in the plan over the present value of the plan's liabilities. A deficit in a defined benefit plan is the shortfall in the value of the assets in the plan below the present value of the plan's liabilities.
- 17.12. The plan surplus is a defined benefit plan asset and it is recognised to the extent that the charity is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

Accounting and reporting by charities

- 17.13. The plan deficit is a defined benefit plan liability that recognises a charity's obligations under defined benefit plans. The liability recognised is the net total of the following amounts:
- the present value of its obligations under defined benefit plans (its defined benefit obligation) at the reporting date; minus
 - the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.
- 17.14. Charities must recognise the actuarial gain or loss arising in the reporting period in the 'other recognised gains and losses' heading in the SoFA under a separate sub-heading, 'actuarial gains or losses on defined benefit pension schemes'.
- 17.15. Where a surplus or deficit in a defined benefit plan gives rise to an asset or liability, the asset or liability must be shown on the balance sheet within the unrestricted funds of the charity, except where staff are specifically engaged on a long-term project funded from restricted funds and it is demonstrable that all or part of the asset or liability is properly attributable to those restricted funds.
- 17.16. It may be necessary for the charity to liaise with the provider of a particular restricted fund in order to establish the basis on which any pension asset or liability is allocated to that fund and the pension costs that may be properly charged to it. Charities allocating a pension asset or a liability to a restricted fund should review the basis of the allocation annually to assess whether the benefit or obligation continues to accrue to that fund.
- 17.17. Where staff changes or the cessation of a particular project indicate that the economic benefits or obligations will no longer accrue to a particular restricted fund, then the asset or liability should be allocated to the unrestricted funds by means of a transfer in the SoFA.

Accounting for multi-employer defined benefit plans which have been treated as defined contribution plans

- 17.18. A multi-employer defined benefit pension scheme must be accounted for as a defined benefit pension plan unless insufficient information is available so to do. In such circumstances, charities participating in a multi- employer defined benefit plan scheme must account for contributions to the plan as if they were made to a defined contribution plan.
- 17.19. A charity that is accounting for its obligations under a defined benefit multi-employer plan as though it were a defined contribution plan must also recognise any liability to make payments to fund any deficit relating to past service where it has entered into an agreement to make those payments. A charity must recognise a liability for the present value of contributions payable that result from the terms of the agreement with the multi-employer plan. This expense should be allocated, where practicable, to the activities in the SoFA to which the past service cost relates and must be disclosed separately if it is material (refer to the SORP module '[Statement of financial activities](#)'). In all other cases, the charity should account for its obligations under a multi-employer defined benefit plan as a defined benefit plan and report its share of components of plan cost and its share of any actuarial gain or loss in accordance with FRS 102.

17.20. Charities operating group plans should refer to section 28 of FRS 102.

Disclosures in the accounts relating to plans accounted for as defined contributed plans

17.21. A charity operating a defined contribution plan must disclose:

- the amount of contributions recognised in the SoFA as an expense; and
- this SORP requires the disclosure of the basis for allocating the liability and expense between activities and between restricted and unrestricted funds.

17.22. A charity participating in a defined benefit plan should normally be able to ascertain its share of the underlying assets and liabilities of the plan and make the disclosures required by section 28 of FRS 102. However, in exceptional cases this information may be unavailable for defined benefit multi-employer plans and where this information cannot be obtained, the charity must also disclose:

- the fact that it is a defined benefit plan; and
- such information as is available about the plan's surplus or deficit and the
- implications, if any, for the reporting charity.

17.23. A charity that participates in a multi-employer defined benefit plan that is accounted for as a defined contribution plan must also include in its disclosures:

- a description of the extent to which the charity can be liable to the plan for other entities' obligations under the terms and conditions of the multi-employer plan; and
- an explanation of how any liability arising from an agreement with a multi-employer plan to fund a deficit has been determined.

Disclosures in the accounts relating to defined benefit plans

17.24. Charities reporting under FRS 102 must make the disclosures set out in section 28 of FRS 102.

28. Accounting for associates

Introduction

- 28.1. Charities with an interest in an associate entity must comply with the requirements of this module. If a charity has a long-term participating interest in another entity and exercises significant influence over its operating and financial policies, then that entity is likely to be an associate. Charities should refer to section 14 of FRS 102.
- 28.2. This module sets out:
- how to identify an associate;
 - accounting for an interest in an associate;
 - presentation of associates in the accounts; and
 - disclosures of interests in associates.

How to identify an associate

- 28.3. An associate is an entity over which the investing charity has significant influence, but it is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the associate but is not control or joint control over those policies.
- 28.4. A charity is presumed to have an interest in an associate if, as the investing charity, it holds directly or indirectly 20 per cent or more of the voting power of the associate – unless it can be clearly demonstrated that significant influence does not exist.
- 28.5. Where the charity has an interest in an entity but holds, directly or indirectly, less than 20 per cent of the voting power of that entity, it is presumed that no significant influence exists, unless such influence can be clearly demonstrated.
- 28.6. An investing charity exercises significant influence over an associate if it actively influences the associate's policy decisions so as to benefit. For example, when the associate is a commercial investment, the investing charity might exercise influence over the associate's dividend and reinvestment policies. When the associate is another charity or a programme related investment, the investing charity might exercise influence over the associate to ensure that its activities or objectives contribute to its own.
- 28.7. Charities may nominate a trustee or trustees or make them available to other charities in order to provide those charities with expertise or to give them access to particular skills. Some funders and grant-making charities combine financial assistance with the provision of advice, or they may be invited by the recipient of the funding to provide or nominate a trustee or trustees with particular skills. Where the recipient charity operates with a small trustee body, this might qualify as creating an associate.
- 28.8. An associate is created if the nomination or appointment power is used in conjunction with a formal or informal agreement to exercise significant influence through direct involvement in setting the funding recipient charity's financial and operating policies. However, the power to make a trustee appointment that is simply used to provide advice or expertise to the recipient charity, while allowing the recipient charity to adopt its own policies and strategies, does not create an associate relationship.

Accounting for an interest in an associate

- 28.9. The accounting treatment of an associate depends on whether or not the investing charity prepares consolidated accounts. If a charity does not prepare consolidated accounts then in its individual accounts it must include the interest in its associate at its cost less impairment (the cost model) or, if the fair value of the charity's interest can be measured reliably, it may opt to measure its interest at fair value with any gain or loss taken through income and expenditure.
- 28.10. However, when consolidated accounts are prepared, the charity must use the equity method of accounting to measure its interest in the associate.
- 28.11. The equity method of accounting requires the associate to be initially recognised at its cost (the transaction price paid), including any cost incurred making the investment (transaction costs). The initial cost equates to the fair value of net assets acquired, plus any goodwill. For more information on the equity method, refer to section 14 of FRS 102.
- 28.12. If the interest in the associate is achieved through the power to appoint trustees to a charity, the interest should be initially recognised at the fair value of the investing charity's share of the associate's net assets on appointment of the trustees. If no consideration is involved, the interest in the associate established through trusteeship is accounted for as though it were a gift, and recognised as a gain under the 'Income from donations and legacies' heading in the statement of financial activities (SoFA).
- 28.13. The investing charity's share of the associate's net assets is determined by its ownership interest in the associate. If the associate is a charity, then reference should be made to any formal agreement to identify a basis for measuring the interest or share in the associate. The rebuttable presumption, in the absence of any information to the contrary, is that the interest in the associate is measured by reference to the proportion of the voting rights held by the parent based on voting rights attaching to that interest as set out in the associate charity's governing document.
- 28.14. Using the equity method, the carrying amount of an investment in an associate is subsequently adjusted through the SoFA to reflect the investing charity's share of the associate's results. The carrying amount thereby reflects the investor's share of the post-acquisition change in the net assets of the associate.

Presentation of associates in the accounts

- 28.15. An investment in an associate must be classified as a fixed asset investment and separately identified either on the investing charity's balance sheet or in its notes to the accounts analysing the classes of fixed asset investments it holds.
- 28.16. If the associate is a charity, the investment should be presented within restricted funds, as the purposes of the associate are likely to be distinct from those of the investing charity. The investment should be shown as a programme related investment.
- 28.17. When consolidated accounts are prepared, the investing charity's share of the associate's results should be presented as a separate line in the consolidated SoFA, under either 'Income', if a gain, or 'Expenditure', if a loss.

Disclosures of interests in associates

28.18. All charities with an investment in an associate must disclose:

- the accounting policy adopted for investments in associates;
- the carrying amount of investments in associates;
- where the charity is not a parent, the effect of including those investments as if they had been accounted for using the equity method;
- this SORP also requires for each material associate that is a charity, an analysis of the investing charity's share of the income and expenditure of the associate, analysed across the main areas of the associate's activities; and
- this SORP requires the disclosure of the name of the associate(s).

28.19. If preparing entity accounts using the cost model, the trustees must also disclose the amount of dividends and other distributions recognised as income.

28.20. Charities reporting under FRS 102 must also disclose the following:

- For investments in associates accounted for by the equity method, an investor must disclose separately its share of the profit and loss (incoming resources/ resources expended) of such associates and its share of any discontinued operations of such associates, and the fair value of investments in associates for which there are published price quotations.
- For investments in associates accounted for by the fair value method, an investor must make the following disclosures:
 - the basis for determining fair value, for example the quoted market price in an active market or a valuation technique;
 - when a valuation technique is used, the assumptions applied in determining fair value for each associate; and
 - if a reliable measure of fair value is no longer available for an associate, the charity must disclose that fact.

29. Accounting for joint ventures

Introduction

- 29.1. Charities may collaborate with other charities or entities in a number of ways. This module applies to charities that collaborate with other charities or entities through various types of joint venture activity and sets out the accounting treatment for joint venture entities. Charities should refer to section 15 of FRS 102.
- 29.2. A joint venture entity is a jointly controlled entity in which each party (venturer) has an interest. The other venturers may be charities, social enterprises or for-profit companies or other entities.
- 29.3. A unique feature of a joint venture entity is a contractual agreement between the parties that share control of the entity.
- 29.4. The contractual agreement between the venturers establishes joint control over the economic activity of the entity. Joint control exists only where the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control.
- 29.5. This module sets out:
- the different forms of joint venture activity;
 - method for the identification of respective interests in joint venture charities;
 - accounting for joint venture charities;
 - accounting for joint ventures involving non-charitable entities;
 - presentation of joint ventures involving non-charitable entities in the consolidated accounts; and
 - disclosures relating to joint ventures.

The different forms of joint venture activity

- 29.6. There are three forms of joint venture activity:
- jointly controlled operations where each venturer uses its own assets, incurs its own expenses and liabilities, raises its own finance and shares the income from the joint venture in a way that is agreed with the other venturers;
 - jointly controlled assets acquired for the joint venture with the assets, liabilities, income, expenses and income of the joint venture shared between the venturers; or
 - jointly controlled entities where a separate legal entity, for example a company, is established in which each venturer has an interest with a contractual agreement in place and joint control exercised.
- 29.7. This module deals with joint venture activities that are carried out through a separate jointly controlled entity.

29.8. Where charities undertake joint venture activities through jointly controlled operations or through using jointly controlled assets, each charity's gross share of the incoming resources and resources expended and the assets and liabilities should be included in the participating charities' own accounts in accordance with the SORP module 'Branches, linked or connected charities and joint arrangements'.

Method for the identification of respective interests in joint venture charities

29.9. Each venturer exercises its right to shared control through an agreement with the other parties to the joint venture. On occasion, the joint venture entity will be established to undertake an activity that furthers the charitable purposes of the investing charities, for example to carry out a joint project. When the joint venture entity is itself a charity, control may be exercised through the appointment of trustees rather than through an equity share. In the absence of equity, judgement is required in order to identify the respective interests of each charity in the joint venture entity.

29.10. In order to identify the respective interests of each venturer, reference should be made to the evidence provided by:

- the joint venture agreement or contract;
- the governing document or any legislative provision, including the provisions that apply upon winding up or ceasing the joint venture;
- the respective voting power of the venturers;
- the pattern of distribution of benefits from the joint venture charity between the venturers; and
- the value of the funding provided by each venturer in support of the activities undertaken by the joint venture; or
- in the absence of any evidence to the contrary, the net assets and results should be attributed equally between the venturers.

Accounting for joint venture charities

29.11. An interest in a joint venture charity is normally treated as a restricted fund in the accounts of the reporting charity.

29.12. In a charity's own entity accounts, a joint venture charity should be included in its accounts as a programme related investment at cost (the value of any funds transferred at the inception of the joint venture entity) less impairment (the cost model) or, if the fair value of the charity's interest can be measured reliably, the charity may opt to measure its interest at fair value.

29.13. If consolidated accounts are prepared, the equity method of accounting must be used. The venturer's share of the net income or net expenditure in a joint venture charity is recognised as a separate line in the statement of financial activities (SoFA), under either 'Income', if a gain, or 'Expenditure', if a loss. On the balance sheet, the net carrying amount should be shown under 'Programme related investments', where the interest is held primarily to further the purposes of the investing charity, and is normally treated as a component of restricted funds.

Accounting for joint ventures involving non-charitable entities

- 29.14. Charities may also enter into a joint venture as a commercial activity to raise funds. The accounting treatment of a non-charitable joint venture entity depends on whether the investing charity prepares consolidated accounts or entity accounts.
- 29.15. In a charity's own entity accounts, a joint venture entity must be included in its accounts at cost less impairment (the cost model) or, if the fair value of the charity's interest can be measured reliably, the charity may opt to measure its interest at fair value with any gain or loss taken through income and expenditure.
- 29.16. When consolidated accounts are prepared, the charity must use the equity method of accounting in its consolidated accounts to measure its interest in the joint venture.

Presentation of joint ventures involving non-charitable entities in consolidated accounts

- 29.17. The equity method requires the interest in a joint venture to be initially recognised at its cost (the transaction price including any transaction costs). The initial cost recognised therefore equates to the value of net assets acquired, plus any goodwill. The carrying amount is then adjusted for the post-acquisition change in the investor's share of net assets in the joint venture entity. The carrying amount of an investment in the joint venture is subsequently adjusted through the SoFA to reflect the investing charity's share of the associate's results.
- 29.18. The equity method requires the net share of profit or loss to be shown as a separate line in the consolidated SoFA either as a gain under 'Income' or as a loss under 'Expenditure'. The share of net assets in the joint venture is shown as a separate line in 'Fixed assets' on the balance sheet as a sub-class of investments, with any distributions or dividends received reflected in a reduction to the carrying amount of the joint venture.

Disclosures relating to joint ventures

- 29.19. All charities with an investment in a joint venture entity must disclose:
- the accounting policy adopted for investments in joint ventures;
 - the carrying amount of investments in jointly controlled entities;
 - the aggregate amount of its commitments relating to each joint venture, including its share in the capital commitments that have been incurred jointly with other venturers, as well as its share of the capital commitments of the joint venture itself;
 - the fair value of investments in non-charitable joint ventures accounted for using the equity method for which there are published price quotations;
 - where the charity is not a parent, the effect of including those investments as if they had been accounted for using the equity method;

Accounting and reporting by charities

- for each material joint venture charity, this SORP requires that the investing charity's share of the income and expenditure of the joint venture charity analysed across the main areas of the joint venture charity's activities; and
- for each material joint venture charity the investing charity's share of the assets and liabilities and funds of the joint venture charity at the reporting date; and
- this SORP requires disclosure of the name of each joint venture entity

29.20. Charities reporting under FRS 102 must also disclose the following:

- For investments in joint venture entities accounted for by the equity method, an investor must disclose separately its share of the profit and loss (incoming resources/resources expended) of such joint venture entities and its share of any discontinued operations.
- For investments in joint venture entities accounted for by the fair value method, an investor must make the following disclosures:
 - the basis for determining fair value, e.g. the quoted market price in an active market or a valuation technique (when a valuation technique is used, the charity must disclose the assumptions applied in determining fair value for each associate); and
 - if a reliable measure of fair value is no longer available for a joint venture, the charity shall disclose that fact.