Upcoming Changes to Charity Accounting - Consultation

The SORP making body has recently confirmed, in its Invitation to Comment on Draft Update Bulletin 2 issued in February 2018, that it will not be issuing an updated SORP, and instead the December 2017 amendments to FRS 102 will be brought into charity accounting by issuing a second Update Bulletin.

What are the proposed changes?

The Invitation to Comment on the Draft Bulletin clarifies that the amendments to FRS 102 are finalised, and therefore the changes in accounting treatment are not the subject of the Invitation to Comment. In fact, the consultation only focuses on how the changes are proposed to be reflected in the SORP (via Update Bulletin 2).

Draft Update Bulletin 2 contains three separate sections outlining "Clarifying" amendments, "Significant" amendments and "Other" amendments. Taken together some charities can anticipate some significant changes, the headlines being discussed below.

Comparative information

Comparative information must be provided for all amounts in the financial statements, including the notes. This would therefore include restricted fund movement notes and the note allocating assets and liabilities across different funds. While the clarity provided is welcome it means that already lengthy charity accounts may become even more cluttered.

Component accounting

Removal of the "undue cost or effort exemption" meaning more charities will have to spend time and possibly money, looking at whether and how specific assets, like properties, should be accounted for on a component basis. This clarification means that where an asset comprises two or more major components with substantially different useful economic lives, each component must be depreciated separately over its useful life, not to mention the prior year adjustment that may result.

Post year end payment of a donation to a charitable parent

The Draft Bulletin clarifies that an unpaid Gift Aid donation to a parent charity can only be accrued when the subsidiary has a legal obligation (for example by entering into a deed of covenant) to make the payment at the reporting date. Without that legal obligation it should not be accrued at the year end. As before, tax relief can still be claimed regardless of the accrual, provided the donation is made within nine months of the year end.

Mixed use properties

The removal of the undue cost or effort exemption for measuring the investment property component of a mixed-use property at fair value will have a similar impact to that of component accounting. Because of this amendment some charities will have to anticipate and budget for the cost of obtaining valuations which may be required in some cases simply to satisfy this accounting requirement. It should be noted however, that the proposed change has not removed the requirement for any fair value assessment to be “reliable”.

Investment property let to group members

Changes to FRS 102, and therefore charity accounting, now provide entities that rent investment property to another group entity with a choice of how to measure that investment property. Currently this must be measured at fair value but going forward charities can choose to measure it either at cost (less depreciation and impairment) or at fair value.

As noted above, these are the headline changes that will potentially have the biggest impact on charities but there are other changes, such as requiring charities to prepare a reconciliation of net debt as a note to the statement of cash flows, and we therefore encourage you to have a look at Draft Update Bulletin 2 and the Invitation to Comment.

When do these changes take effect?

We can expect the final version of Update Bulletin 2 in October 2018 and changes will apply for reporting periods beginning on or after 1 January 2019 (so March 2020 for charities with a March year-end). However, the amendments which clarify how existing requirements of FRS 102 must be applied, are effective immediately. The invitation to comment notes that whether early adoption will be possible depends on the legal position of the SORP in the jurisdiction where the charity is registered. You may remember that Update Bulletin 1, could not be early adopted in Scotland until amending legislation had been passed, so the exact timing of application remains to be confirmed.

Make your views known

The consultation ends on 4 April 2018, so if you would like to comment on the proposals, Draft Update Bulletin 2 and the Invitation to Comment are both available on the Charity SORP website (http://www.charitysorp.org/about-the-sorp/sorp-consultations/). The SORP making body is keen to hear what the sector thinks so we would encourage you to make your views known.

If you have any queries on the implications of the above, please do not hesitate to contact Euan Morrison, our Head of Charities at euan.morrison@chiene.co.uk.