An introduction to the Charities SORP

January 2020

Introduction

The **Charities Act 2009** (the Act) was published in Ireland at the end of February 2009, and the majority of the provisions of the Act have now been enacted.

The Act facilitated the establishment of the **Charities Regulatory Authority** (CRA), which came into existence in 2014. The key functions of the CRA include "the maintenance of a public register of charitable organisations in Ireland and ensuring their compliance with the Charities Acts ". Any entity operating in Ireland that has a charitable purpose, promotes this purpose only, provides public benefit and is not an excluded body must register with the CRA and comply with the provisions of the Act. Entities that are incorporated under the Companies Acts in Ireland must also comply with the provisions of the **Companies Act 2014**.

In 2016, the CRA began a consultation process on the draft **Charities (Accounting and Reporting) Regulations 2016**; these regulations seek to increase the different income and expenditure thresholds from those currently set out in the Act. At the date of this publication, these regulations have not yet been enacted.

The current requirements under the Act, along with the proposed amendments under the Regulations, are as below:

Requirement	Under existing Charities Act 2009	Proposed under Charities (Accounting & Reporting) Regulations 2016
No requirement to file accounts with CRA, or have accounts audited/ examined	Gross income/expenditure <€10,000	Gross income/expenditure <€25,000
Preparation of simplified accounts, comprising a statement of receipts & payments, and a statement of assets & liabilities	Gross income/expenditure between <€10,001 and €100,000	Gross income/expenditure between <€25,001 and €250,000 Examination by independent examiner rather than full audit
Preparations of full accruals accounts which must be audited	Gross income/expenditure >€100,000	Gross income/expenditure >€250,000
Requirement to comply with Charity SORP	No current requirement	Gross income/expenditure >€250,000

Note that the simplified accounts option (for income between €10,001 and €100,000) is not available to entities if their constitution, governing document or other legislation requires accruals accounts to be prepared – for example, the **Companies Act 2014**.

Currently, there is no requirement under the Act for charities to prepare SORP-compliant accounts. However, the SORP encourages all charities to consider voluntary adoption:

"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."

This guide has been prepared in accordance with the **Charities SORP (FRS 102) - Second Edition**, published November 2019. The SORP or 'Statement of Recommended Practice' can be found online.

Specific accounting considerations

Generally, the SORP follows the accounting conventions of FRS102, and not many adjustments are anticipated on transition. Where there are differences between the accounting requirements of FRS102 and of the SORP, or where there are areas that may require specific consideration by charities, these are outlined below. All references are to the Charities SORP unless otherwise noted.

1 Income recognition - Module 5

Income recognition under the SORP is largely the same as revenue recognition under **section 23 of FRS102**. It is summarised in **Module 5.8** of the SORP, which states that income can only be recognised when:

- the charity is entitled to the income;
- it is probable that the economic benefits will flow to the charity; and
- the monetary amount can be measured reliably.

There are several areas of income specific to charities that the SORP considers in more detail. These are outlined below.

2 Legacies - Module 5

Legacies are not dealt with specifically in FRS102, but detail is included within **Module 5** of the SORP. Consideration should be given to each of the three income recognition points outlined in **section 1** above.

Entitlement – Evidence of entitlement to a legacy exists when a charity has sufficient evidence that a gift has been left to them and the executor is satisfied that the asset in question will not be required to satisfy claims in the estate (**M5.29**).

Probable – There is no set criteria for determining probability, but the SORP suggests a legacy 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 have been met, or are within the control of the charity (**M5.31**).

Measurement – The receipt should be measured at fair value, generally the expected cash amount to be distributed to the charity.

3 Donated goods and services - Module 6

Donated goods and services should be recognised at fair value, using the three criteria outlined at **section 1** above. Where fair value is not easily determined, the value can be derived from the cost of the item to the donor, or the estimated resale value, in the case of goods expected to be sold, after deducting any costs to sell (**M6.8-9**).

Donated goods 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) (**M6.16**). Where the goods and services are not consumed immediately, then the debit should be posted to stock or tangible fixed assets accordingly.

Donated time of **general volunteers** is not required to be recognised. However, general volunteers may have a significant impact within the charity in supporting its operations, and so charities must include a description of the role played by such general volunteers and provide an indication of the nature of their contributions in the accounts (**M6.18-19**).

4 Grant income - Module 5

FRS102 permits a choice of accounting methods for grant income – either the accruals model (released in line with costs, or over the useful life of the related asset where applicable), or the performance model (recognised in full when performance conditions met). However, the SORP requires that all **government grants** – whether revenue or capital in nature – are recognised in accordance with the performance model, and prohibits the use of the accruals model for such grants (**M5.10**).

Under the performance method, where there are no performance-related conditions, the grant is recognised in full, in income, as soon as the three criteria under **section 1** are met. Where there are performance-related conditions, then the income is only recognised when both these, and the criteria under **section 1**, are met.

This applies to both revenue grants and capital grants.

Note that the SORP only restricts the accounting treatment for government grants specifically; it is silent on other types of grants, and therefore the principles of FRS102 continue to apply, and the charity can elect to apply the model that best reflects the nature of the grant. The charity should make an accounting policy choice and apply this consistently.

5 Social investments - Module 21

The concept of social investments, including mixed motive investments, is unique to the SORP and is not dealt with specifically in FRS102.

A social investment under the SORP can be one of two investment types:

- a **programme related investment** is an asset held by a charity that provides investment funding to individuals or organisations in order to directly further the charitable purposes of the investing charity; any financial return obtained is not a primary reason for making the investment (**M21.9**); and
- a **mixed motive (or mixed purpose) investment** is an asset held by a charity that provides funding to individuals or organisations in order to generate a financial return for the investing charity and it also contributes to the investing charity's purposes through the activities or related tangible fixed assets funded by the investment (**M21.11**).

Both types of investment must either be disclosed as a separate line on the face of the balance sheet, or identified as a separate class of investments in the notes, depending on the materiality of the investment.

If either type of investment ceases to be held primarily to fund the charitable aims of the entity, or ceases to be a held to a significant extent for the contribution it makes to the charitable aims, then it must be reclassified as a financial investment (or another appropriate category, such as investment property) (**M21.23**).

6 Fund accounting - Module 2

Fund accounting distinguishes between two main categories of funds – those that are unrestricted in their use, and those that are restricted. A charity may hold both of these.

Unrestricted funds are spent at the discretion of the Trustees to further any of the charity's purposes (**M2.6**). Trustees may choose to set aside an element of unrestricted funds for a future project or commitment; such funds will be classified as **designated funds** (**M2.7**).

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 (**M2.8**).

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 endowment funds**. A gift of expendable endowment provides the trustees with a power to convert all or part of it into income (**M2.9**). Endowment funds will sit as a subcategory within restricted funds.

Charities should ensure that they have adequate accounting records to allow the identification and maintenance of each category and subcategory of fund.

7 Heritage assets - Module 18

A heritage asset is a tangible or intangible asset carried by a charity with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture (**M18.3**).

Heritage assets should be recognised on the balance sheet separately from other assets, where practicable, and should be measured initially at cost or valuation (if donated). They can continue to be carried at historic cost and depreciated, or the charity can adopt a policy of revaluation (**M18.12-13**).

However, it is acknowledged that there may be instances where such costs or valuations are not available, or cannot be obtained at a cost commensurate with the benefit to the users of the accounts and to the charity. In this instance, disclosure of the circumstances must be given in the notes to the accounts, including a note of the significance and nature of the asset, and any information that is helpful in assessing the value of such assets.

Specific presentation considerations

The SORP includes a number of disclosure requirements over and above those under FRS102. The main differences have been highlighted in the sections below. This is not a complete list of all disclosures required by the SORP.

1 Trustees’ report

The SORP requires the Trustees to prepare a Trustees’ Report within the financial statements.

If applicable, any additional legislative requirements such as a Directors’ Report can be included within this Trustees Report, along with a comment that the Trustees are considered to also be Directors for the purposes of company law.

There are a number of additional disclosure requirements applicable to only “large” charities. The SORP suggests that charities are large if they have gross income over **£500k/€500k**. However, this has yet to be enshrined in Irish law, and it is anticipated that the definition of “large” in Ireland will align with the thresholds for audit i.e. **€250k**.

The Trustees’ Report should contain, at a minimum, information on:

- 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.

Further details on the content required under each heading, along with details of the disclosure requirements for larger charities, can be found in **Module 1** of the SORP.

2 Primary statements

There are normally three primary statements in a set of charity accounts, each of which is dealt with in turn below. A fourth statement, a Statement of Changes in Equity, is only required where the entity has share capital and there has been movement in it during the year.

(A) Statement of financial activities

Where FRS 102 requires a Statement of Comprehensive Income (or Profit & Loss Account, as it is known under company law), the SORP requires a Statement of Financial Activities, or SOFA. The layout of the SOFA is significantly different from the SOCI; it requires the split of current year figures between restricted, unrestricted and endowment funds, and includes a reconciliation of funds carried forward. The spilt of prior year figures by fund type may be given on the face of the SOFA, or it may be given in the notes to the financial statements.

A pro forma SOFA can be found in **Table 2** of the SORP (within **Module 4**), and this is replicated opposite:

Statement of financial activities

	Unrestricted funds	Restricted funds	Endowment funds	Total funds	Prior period total funds
	€	€	€	€	€
Income and endowments from:					
Donations and legacies					
Charitable activities					
Other trading activities					
Investments					
Other					
Total					
Expenditure on:					
Raising funds					
Charitable activities					
Other					
Total					
Net gains/(losses) on investments					
Net income/(expenditure)					
Transfers between funds					
Other recognised gains/(losses)					
Gains/(losses) on revaluation of fixed assets					
Actuarial gains/(losses) on defined benefit pension schemes					
Other gains/(losses)					
Net movement in funds					
Reconciliation of funds					
Total funds brought forward					
Total funds carried forward					

(B) Balance sheet

The balance sheet under the SORP is very similar to that required by FRS102, with a small number of changes. These include "shareholders' funds" being replaced with "funds of the charity", which will show the split of closing funds between restricted, unrestricted and endowment funds, along with any other reserves. Unless the charity has share capital, there is unlikely to be any equity shares disclosed here.

A pro forma balance sheet can be found in **Table 5** of the SORP (within **Module 10**), and this is replicated below:

Balance sheet

Note ref.		Total funds €	Prior year funds €
	Fixed assets:		
	Intangible assets		
	Tangible assets		
	Heritage assets		
	Investments		
	Total fixed assets		
	Current assets:		
	Stocks		
	Debtors		
	Investments		
	Cash at bank and in hand		
	Total current assets		
	Liabilities:		
	Creditors: amounts falling due within one year		
	Net current assets or liabilities		
	Total assets less current liabilities		
	Creditors; amounts falling due after more than one year		
	Provisions for liabilities		
	Net asset or liabilities excluding pension asset or liability		
	Defined benefit pension scheme asset or liability		
	Total net assets or liabilities		
	The funds of the charity		
	Endowment funds		
	Restricted income funds		
	Unrestricted funds		
	Revaluation reserve		
	Pension reserve		
	Total charity funds		

(C) Statement of cash flows

The SORP requires that all large charities (see **section 1** above for definition) include a statement of cash flows. This is largely unchanged from the requirements of FRS102. A pro forma statement of cash flows can be found in **Tables 8 – 10** of **Module 14** of the SORP, and is given below. The analysis of net cash provided by operating activities may be given as a separate note (as per the pro forma below), or it may be given on the face of the statement.

Note that the triennial review of FRS102, effective for periods beginning on or after 1 January 2019, introduced the requirement for an **analysis of changes in net debt** to be given as part of the statement of cash flows. This analysis may be given alongside the primary statement, or it may be shown in the notes to the financial statements. For accounting periods commencing prior to 1 January 2019, this analysis is not required.

Statement of cash flows

Note ref.		Total funds	Prior year funds
		€	€
	Cash flows from operating activities		
	Net cash provided by (used in) operating activities		
	Cash flows from investing activities		
	Dividends, interest and rents from investments		
	Proceeds from the sale of property, plant and equipment		
	Purchase of property, plant and equipment		
	Proceeds from sale of investments		
	Purchase of investments		
	Net cash provided by (used in) investing activities		
	Cash flows from financing activities		
	Repayments of borrowing		
	Cash inflows from new borrowing		
	Receipt of endowment		
	Net cash provided by (used in) financing activities		
	Change in cash and cash equivalents in the reporting period		
	Cash and cash equivalent at the beginning of the reporting period		
	Change in cash and cash equivalents due to exchange rate movements		
	Cash and cash equivalents at the end of the reporting period		

Reconciliation of net income/(expenditure) to net cash flow from operation activities

Note ref.		Current year	Prior year
		€	€
	Net income/(expenditure) for the reporting period (as per the statement of financial activities)		
	Adjustments for:		
	Depreciation charges		
	(Gains)/losses on investments		
	Dividends, interest and rents from investments		
	Loss/(profit) on the sale of fixed assets		
	(Increase)/decrease in stocks		
	(Increase)/decrease in debtors		
	(Increase)/decrease in creditors		
	Net cash provided by (used in) operating activities		

Analysis of changes in net debt

	At start of year €	Cashflows	Acquisition/ disposal of subsidiaries	New finance leases	Fair value movements	Foreign exchange movements	Other non-cash changes	At end of year €
Cash								
Cash equivalents								
Overdraft facility repayable on demand								
Loans falling due within one year								
Loans falling due after more than one year								
Finance lease obligations								
TOTAL								

3 Notes to the financial statements

There are several additional disclosure requirements under the SORP. The key disclosures are highlighted below. This is not a complete list of disclosure requirements.

(A) Transition adjustments

Where a charity adopts the SORP for the first time, this fact should be stated, along with the **transition date** to the standard. The transition date is the opening date of the earliest balance sheet presented in the accounts; for example, if the financial year end of a charity is 31 December, and their first full SORP-compliant financial statements are published as at 31 December 2019, then their date of transition is 1 January 2018.

If there have been **adjustments** to the prior year figures as a result of applying the SORP, details of these should be given in the notes to the accounts. The notes should explain the nature of the adjustments and the impact both on the reported surplus/deficit for the year end on the charity's funds. This can be given in tabular form or with narrative, depending on what is clearest for the users of the financial statements.

If there have been no adjustments to previously-reported figures as a result of adopting the SORP, this fact should be stated.

(B) Allocation of support costs

The SORP requires disclosure of the apportionment of support costs by activity, along with any estimation techniques used to calculate this apportionment. It also requires the disclosure of total support costs incurred in the period, along with an analysis of material items within support costs (**M8.13**).

The SORP provides a pro forma disclosure in **Table 4**, within **Module 8**:

Analysis of support costs

Support cost (examples)	Raising funds	Activity 1	Activity 2	Activity 3	Grand total €	Basis of allocation
	€	€	€	€		
Governance						
Finance						
Information technology						
Human resources						
Function/activity total						

(C) Details of expenditure

Audit remuneration:

- All charities must disclose the amounts payable to their **auditor/independent examiner**, analysed between statutory audit/ independent examination, other assurance services, tax advisory services and other financial services.

Staff costs:

- Details must be given of **total staff costs and employee benefits**, analysed between wages & salaries, social security costs, employer contributions to pension schemes and any other employee benefits.
- As well as disclosure of the average number of staff during the reporting period, disclosure must be given of the number of employees who received benefits (excluding employer pension costs) **in excess of £60k/€70k** in bands of £/€10k upwards.

Trustees' expenses:

- Disclosure must be given of any **remuneration paid to Trustees**, even if nil. Care should be taken when Trustees are remunerated, as there are restrictions under charity law as to remuneration for Trustees.
- All charities should disclose the nature and amount of any **expenses** reimbursed to Trustees, even if nil.

(D) Related party disclosures

Under section 33.1A of FRS102, there is an exemption from the disclosure of related party transactions where the transaction is with a wholly-owned group member. Under the SORP, there is no such exemption, and so **all related party transactions** should be disclosed.

(E) Reconciliation of movements in funds

The notes to the accounts must provide information on the 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.

A sample disclosure is given in **Table 1** of **Module 2** of the SORP, which is replicated below:

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						

How Grant Thornton can help

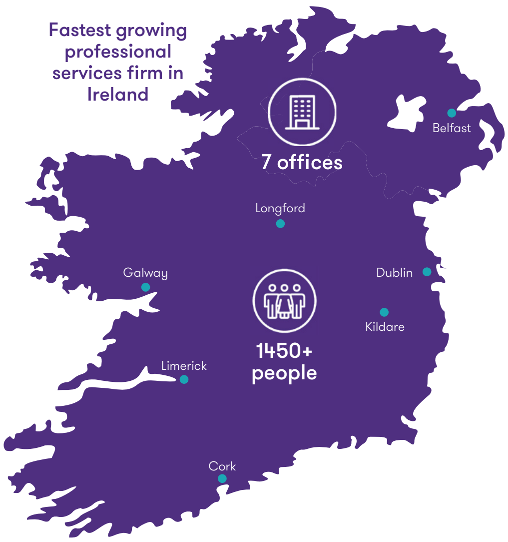
Grant Thornton has depth and strength across the Firm so your transition review will be performed by a relationship-led charity specialist engagement team.

We will work closely with you to ensure that your SORP accounting policies are understood and applied appropriately in the context of your organisation and that the implications of these policies are understood (for example, the impact that new sources of income will have on reported financial performance and how best to report this both internally and externally).

We will provide you with practical interpretations of existing and new accounting standards, to ensure that you are fully SORP compliant, as well as adopting accounting policies and practices that are relevant to your charity.

We will provide you and your finance teams with on-going support throughout this process and after completion, so you always have someone to support the practical implementation of the SORP after the initial conversion period. We are ideally situated to provide all of the support you require.

We are at the forefront of development of sector specific guidance. Our UK specialists were seconded to the Accounting Standards Board so Grant Thornton directly influenced the formation of the new reporting framework.



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