



## Charities Alert Charities SORP (FRS 102) – update bulletin 1

### In a nutshell

The update bulletin covers changes to the SORP to bring it into line with changes in FRS 102 and is effective for periods beginning on or after 1 January 2016. It can be early adopted for periods beginning on or after 1 January 2015.

The most significant changes include:

- The definition of a larger charity as one with an income of over £500,000. This level is not the same as that for audit exemption. All larger charities will be required to prepare a statement of cash flows.
- Responding to the FRC's withdrawal of the FRSE. Whilst FRS 102 includes Section 1A, which allows small entities to provide reduced disclosure, this has no effect for charities as the SORP requires such disclosures anyway and the SORP has the force of law.

*The Charities SORPs and Update Bulletin 1 are available at <http://www.charitySORP.org/>*

### Background

Amendments to Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland Update Bulletin 1 was published on 2 February 2016. It has not changed substantively from the earlier consultation draft. The bulletin updates the Charities SORP (FRS 102) issued in July 2014 for:

- Amendments to FRS 102 issued by the Financial Reporting Council in July 2015.
- The Charities Act 2011 (Accounts and Audit) Order 2015 made on 19 February 2015, which increased the charity audit income threshold from £500,000 to £1,000,000 in England and Wales.
- The withdrawal of by the FRC of the Financial Reporting Standard for Smaller Entities (FRSSE) – which means that the SORP *Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard for Smaller Entities (FRSSE)* is also withdrawn.

This alert covers only the changes in the bulletin from the original SORP published in 2014. A fuller discussion of the Charities SORP (FRS 102) can be found in our Charities Alert: *FRS 102 and the new SORP: a reminder*.

*Charities Alert: FRS 102 and the new SORP: a reminder*  
[www.deloitte.co.uk/charitiesandnotforprofit/](http://www.deloitte.co.uk/charitiesandnotforprofit/)

## Changes to relating to changes in FRS 102 and other clarifications

- A **definition of replacement cost** has been added to clarify the value at which any stock of goods donated for distribution to beneficiaries is recognised.
- Where an entity is unable to make a reliable estimate of **goodwill** the maximum period has been increased from five to ten years.
- The reversal in a subsequent period of impairment losses to **goodwill** is prohibited.
- Larger charities (those with an income of greater than £500,000 (UK) or €500,000 (Republic of Ireland) preparing their accounts under FRS 102 must provide a **statement of cash flows**, regardless of the exemption in Section 7 of FRS 102 as amended.
- Company law will not permit **merger accounting** for charitable companies entering into a business combination with a third party.
- The definition of a **related party** has been clarified to cover situations where **the reporting charity provides/ receives key management personnel services to/from the entity**.

*Larger charities are required to provide a statement of cash flows*

## Changes relating to the Charities Act 2011 (Accounts and Audit) Order

Although there has been a change in the threshold for audit in England and Wales, this threshold is no longer linked to the definition of a 'larger' charity. A larger charity, regardless of the audit threshold, is one whose income is greater than £500,000 (UK), and €500,000 (Republic of Ireland). Such a charity will need to include more information in its trustees' report, as well as prepare a statement of cash flows.

*No change in larger charities threshold*

## The withdrawal of the FRSSSE

As a result of the withdrawal of the FRSSSE, the Charities SORP (FRSSE) is also withdrawn. All charities in the UK and the Republic of Ireland must apply FRS 102 and the Charities SORP (FRS 102) when preparing their accounts on an accruals basis.

*All charities must use FRS 102 and the Charities SORP (FRS 102)*

The revisions to FRS 102 in July 2015 included Section (1A) which provides disclosure exemptions for small entities – those which would be small under company law: a level significantly in excess of the definition of a "larger charity". Whilst the update bulletin does not expressly forbid the use of these exemptions, the Charities SORP (FRS 102) includes specific disclosure requirements which overlap with those which might be exempt under section 1A. Because the SORP has the force of law, this overrides the exemptions in 1A and therefore all charities preparing SORP compliant accruals accounts must comply in full with the disclosure requirements of FRS 102 as applicable to large and medium-sized entities. The only relief is that those which are not "larger" within the SORP definition need not prepare a statement of cash flows.

## Timing and resources

Update Bulletin 1 applies for periods beginning on or after 1 January 2016 but can be early adopted and applied for reporting periods beginning on or after 1 January 2015 if all provisions are adopted. In the case of a charitable company then this will also mean adopting the changes to the Companies Act made in SI 2015/980, which will include changes to the audit report.

*More resources and how we can help are available in our resource centre*

More resources on new UK GAAP and how Deloitte can help you are available in our resource centre at [www.deloitte.co.uk/futureofukgaap](http://www.deloitte.co.uk/futureofukgaap).

## Contacts

If you would like further, more detailed information or advice, or to discuss how this will affect you, please contact your local Deloitte partner or:

Reza Motazed  
rmotazed@deloitte.co.uk

Nikki Loan  
nloan@deloitte.co.uk

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