

Presentation of the Statement of Financial Activities (SOFA) - discussion briefing

Prepared by: Charities SORP-making body

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Purpose of the briefing paper

The purpose of the briefing paper is to assist the engagement strands and the SORP Committee reflect on the current presentation of the SOFA under the SORP and to undertake a problem solving exercise to identify the option(s) for changing the SORP, if any, and identify a preferred option and make a recommendation as to what the change to the SORP should be, if any.

Reflection- what does the SORP say about presentation of the SOFA?

The information relating to the presentation of the SOFA is outlined in the Module 4 as follows:

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.*

4.9. The columns of the SoFA must be used to distinguish restricted income funds from unrestricted funds and endowment funds.

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.

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.

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.

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.

Structure of the SOFA – smaller charities

4.22. The analysis of income and expenditure by activity is encouraged for all charities preparing accruals accounts. However, smaller charities 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.

Structure of the SOFA – all charities reporting on an activity basis:

4.27. This SORP requires that larger charities 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.

4.30. Expenditure shared between two or more activities should be apportioned between them on a reasonable, justifiable and consistent basis

FRS 102 and the scope for changing the SORP to remove comparatives

One of the strands mentioned that presentation of comparatives causes cutter in the accounts and difficulty for some charities.

FRS 102 requires that comparative information must be provided for all amounts presented in the SOFA. There has been an initial submission to the FRC's call for views to inform the periodic review of FRS102 requesting the SORP determine when comparatives are required for SORP specific items and also to allow discretion as to how the SOFA is presented.

At the SORP Committee meeting in February 2021 it was mentioned that in the previous discussions on this topic with the FRC, it was felt there was insufficient evidence to support this departure from FRS 102. However the engagement process meant that the Committee was in a different development space and that already there was evidence as a part of the engagement process. There would also be

opportunities to gather further evidence as part of the debates with the engagement strands.

CIPFA noted that from a technical perspective it would be very difficult to depart from FRS 102. It may be useful to consider where comparative information might obscure the key messages in the accounts, for example, this might be with the presentation of comparative information for the SOFA, where, if sufficient evidence were available, there may be a case for departure if this made the key messages of charity accounts harder to read.

Engagement strand feedback during the exploration stage

It was suggested that there was a general lack of understanding by preparers of accounts and the link between the cost of an activity and the income was not always obvious.

“Some charities do not do activity reporting very well and it is not always easy to compare the cost of an activity to the income generated from the activity. Could the SOFA be presented to clearly link costs to related income, where appropriate? For example, in relation to grant funding, it could be shown how the grant was used to fund a particular activity.” (PTS(A))

The idea of an upside down SOFA was also suggested. For example start with what the charity does and then show the costs of doing this and then explain how this was funded from sources of income. An alternative is to start with net resources available for spending on charitable activities and then show how they have been spent.

Observations from the SORP Committee

The committee noted that suggestions had been made before to turn the SOFA upside down and/or linking costs to associated income. It has been a popular idea to consider as this would show the money that a charity has expended followed by the income that has been generated. There was a concern, however, that when reading the accounts that this would not be consistent with the Companies Act 2006 accounts and may be more challenging for readers that are more familiar with ‘for-profit’ accounts to understand. However, the Committee had no objections to taking this topic forward for further consideration and discussion.

Other research and debate

The research undertaken in 2008-09 by the Charity Commission and the Office of the Scottish Charity Regulator and facilitated by the UK accountancy bodies, sector partners and the SORP Committee looked at both the trustees’ annual report and the financial statements and invited stakeholders to identify the particular changes they wished to see (available [here](#)). The research was much debated by the Committee in

2012 and the current format of the SOFA is supported by the research findings. The report, however, mentioned that:

“In the case of form and content, although the SOFA was viewed as an appropriate financial statement for charities by academics, most auditors and preparers reported that users struggled with both the columnar approach of the SOFA and the terminology used. In addition, auditors, funders and preparers believed that there was too much information on the face of the SOFA and advocated that much of it be ‘relegated’ to the notes (but not discarded). For example, it was suggested that a re-titled and revised SOFA should merely distinguish between restricted and unrestricted funds on the face of the document, with additional details provided in the notes. Overall most comments made related to difficulties in understanding the detail in the SOFA.

While there was no agreement on the way forward, some auditors and preparers discussed whether the format of the SOFA could be radically changed, with expenditure coming before income. It was contended that this would recognise that, unlike commercial companies, charities exist to spend money...”

The report also considered income classification/ recognition and, in particular, *“the fact that some incoming resources are recognised in full in the year of receipt or award (including capital grants) but the related expenditure may be incurred in future years, was viewed as especially problematic. Some saw it as distorting the annual financial performance of the charity as reported in the SOFA, and often confusing users of financial statements.”* During the committee debate on the topic in 2012 it was noted that linking an item of income with expenditure did not result in matching because expenditure may be incurred ahead of income generated. An example of fundraising related activities was given, where substantial upfront costs may be incurred before income streams from the new fundraising activities are generated. However, the Committee noted that the Trustees Annual Report does provide trustees with an opportunity to explain the charity’s financial results where such a mismatch of timing occurs.

What needs to be done?

Step 1- Making the case for change- a ‘basis for conclusions’

A coherent case is needed to determine any potential changes to the format/ presentation of the SOFA and/ or linking income to associated expenditure, defining what those changes are and how the new format would work in practice from the perspective of both the reader and the preparer of the SORP. Without a case for change- no change will be considered because its rationale cannot be explained to those affected.

Step 2- Advising the change required to the SORP

Having made the case for change the detailed changes required to the SORP need to be set out. The potential changes to the format/ presentation of the SOFA and, in

particular the possible link of expenditure to income may cut across later topics and so changes are only required in respect of those aspects of the SORP that have yet to be discussed as part of the reflection process. If no detail is given, the conclusion drawn is that the detail is left wholly to the discretion of the SORP Committee and SORP-making body.

Undertaking an assessment of the impact (savings or costs on the preparer and benefits or disadvantages to the reader)

The FRC will require an impact assessment but until the implications of change are worked through the SORP framework the impact is unlikely to be clear and so this will be considered at the drafting stage of the process.

Step 3- Recommendation

The case made by each strand or combination of strands will inform the deliberations of the SORP Committee and so there needs to be a clear recommendation.

The SORP Committee will be having its own discussion as about what needs to be done and taking the evidence and views from the process as a whole the Committee will settle on a recommended approach for drafting the SORP based on the evidence presented.