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. Charitable companies reporting under UK company law should refer to the FRSSE which identifies company specific presentational and disclosures requirements in bold print. However, charitable companies must adapt the presentation and headings used in the FRSSE for the special nature of the company and its activities. Charities established as public guarantee companies in the Republic of Ireland are not permitted to follow the FRSSE.

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 using the FRSSE, 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 reserves (UK only).

Preparation of the directors' report

15.5. Company law in the UK 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.

The requirement for an income and expenditure account

15.7. Company law sets out the form and content requirements for the accounts. These detailed requirements are set out in the Companies Act 2006 and in Regulations made under that Act. Charities established as companies in the UK must refer to the FRSSE and Regulations to ensure the disclosure requirements of company law are met.

15.8. Not-for-profit companies reporting in the UK under the Companies Act 2006 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

15.9. 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.

15.10. 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

15.11. 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.

15.12. 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. The example given in Table 10 is illustrative.

Table 10: 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*			
Realised gains/(losses) on investments		x	x
Interest and investment income**		x	x
Gross income in the reporting period		X	X
Expenditure*			
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 may either be shown as separate line items as above or included within other line items and disclosed separately in a note to the accounts.

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

15.13. A charity in the UK that is the parent company of small group may voluntarily prepare consolidated accounts (also known as group accounts) under section 398 of the Companies Act 2006. However, consolidated accounts are required by charity law in England and Wales and Scotland when the aggregate income of the group after any consolidation adjustments exceeds £500,000 in the financial year.

15.14. Charitable companies which 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

15.15. 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. Charitable companies with share capital must provide details of their share capital as set out in section 12.9 of the FRSSE.

Disclosure of revaluation reserves (UK only)

15.16. 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.

15.17. 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.

15.18. To comply with the regulations made under the Companies Act 2006, charitable companies must disclose any revaluation reserves on the face of the balance sheet. These reserves will form part of the funds in which the revalued assets are held. This can be presented by showing these reserves as a separate component of the relevant class of fund.