

Appendix 3: Thresholds for the UK and the Republic of Ireland

Thresholds for the use of the Financial Reporting Standard for Smaller Entities

A.1. Charities, including non-company charities that would qualify as a small company or small group, had they been incorporated in company law, may apply the FRSSE. Charities must refer to paragraphs 8 to 10 of the FRSSE to ensure they do not fall into the categories of entities excluded from applying the FRSSE, for example companies adopting the fair value rules of schedule D of Schedule 1 of Regulation 2008/409 to the Companies Act 2006 or charities that are engaged in certain regulated financial services activities. The thresholds defining small in the UK are set by the Companies Act 2006, section 382(3). A charity qualifies as small where any two of the following three criteria are met in both the current and preceding financial years:

- i) annual turnover (gross income for charities) not more than £6.5m;
- ii) balance sheet total not more than £3.26m; and
- iii) average number of employees not more than 50.

A group qualifies as small where any two of the following three criteria are met in both the current and preceding financial years:

- i) annual turnover (gross income for charities) not more than £6.5m (or £7.8m gross – before consolidation adjustments);
- ii) balance sheet total not more than £3.2m (or £3.9 m gross – before consolidation adjustments); and
- iii) average aggregate number of employees not more than 50.

Note: Charities produce an income and expenditure account and it is a condition of this SORP that charities adopting the FRSSE apply a 'gross income' threshold in place of the 'turnover' threshold applicable to for-profit companies that prepare a profit and loss account.

- A.2. For financial periods that are shorter or longer than 12 months, the 'turnover' and 'gross income' thresholds should be adjusted in proportion to the length of the financial period.
- A.3. The size parameters are subject to periodic amendment. The latest change in the UK was made in April 2008 by the Companies Act 2006 (Amendment) (Accounts and Reports) Regulations 2008, and applied to accounting (reporting) periods beginning on or after 6 April 2008.
- A.4. In the Republic of Ireland charitable companies are classed as public companies and cannot apply the FRSSE. However, non-company charities that meet the criteria set for small companies under the Companies Acts 1963-2009 may use the FRSSE provided two of the following three conditions are met:
- i) annual turnover (gross income for charities) not exceeding €8.8m;

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- ii) balance sheet total not exceeding €4.4m; and
 - iii) average number of employees not exceeding 50.
- A.5. The size parameters are subject to periodic amendment. The latest change in the Republic of Ireland was made by Statutory Instrument No. 304 of European Union (Accounts) Regulations 2012 which amended the amounts provided in Section 8 Companies (Amendment) Act 1986 and applies to accounting (reporting) periods ending on or after 3 August 2012.

Threshold for the preparation of accruals accounts

- A.6. Company charities, irrespective of size, must prepare accruals accounts that give a true and fair view. However, certain jurisdictions permit the trustees of smaller non-company charities to prepare their accounts on a receipts and payments basis, instead of preparing accounts on an accruals basis to give a true and fair view.
- A.7. In England and Wales, the threshold at which accruals accounts must be produced by non-company charities is a gross income of more than £250,000.
- A.8. In Scotland, the threshold at which accruals accounts must be produced by non-company charities is a gross income of £250,000 or more.
- A.9. In Northern Ireland, when section 64 of the Charities Act (Northern Ireland) 2008 is implemented, the threshold at which accruals accounts must be produced by non-company charities is a gross income of £100,000 or more. Currently, there are no form and content requirements for charity accounts in charity law; however, company charities must prepare accruals accounts giving a true and fair view.
- A.10. In the Republic of Ireland, the Charities Act 2009 has yet to be implemented. Prior to its implementation, there are no form and content requirements for charity accounts in charity law; however, company charities must prepare accruals accounts giving a true and fair view.

Threshold for statutory audit

- A.11. In England and Wales, an audit is required if either the charity's gross income exceeds £500,000 or its gross assets exceed £3.26m and gross income exceeds £250,000.
- A.12. In Scotland, an audit is required if either the charity's gross income is £500,000 or more or its gross assets exceed £3.26m and the charity has prepared accruals accounts.
- A.13. In Northern Ireland, once section 65 of the Charities Act (Northern Ireland) 2008 is implemented, the income threshold for audit will be gross income of £500,000. Currently, there is no charity law framework in effect for the audit of non-company charities. The audit of company charities is conducted under UK company law and the Companies (Northern Ireland) Order 1986.

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A.14. In the Republic of Ireland, section 50 of the Charities Act 2009, which provides for the minister to set an audit threshold of €500,000 (or less), has yet to be implemented. Consequently, there is no audit or reporting framework for non-company charities in charity law. Company charities must have an audit unless the company qualifies for an audit exemption. Since the threshold criteria for audit exemption set by the Companies (Amendment) Act 1986 did not apply to 'a company not trading for the acquisition of gain by the members', those company charities classed as public companies must be audited.

Threshold for the preparation of group accounts

- A.15. In England and Wales, any parent charity where the aggregate gross income of the group, the parent charity and its subsidiaries, exceeds £500,000 after consolidation adjustments must prepare group accounts. These group accounts are prepared in accordance with the Charities Act 2011 and applicable regulations. However, where a company charity is required by section 399 of the Companies Act 2006 to prepare group accounts, its group accounts are prepared under the Companies Act 2006.
- A.16. In Scotland, any parent charity where the aggregate gross income of the group, the parent charity and its subsidiaries, is £500,000 or more after consolidation adjustments must prepare group accounts. These group accounts are prepared in accordance with the Charities and Trustee Investment (Scotland) Act 2005 and applicable regulations. However, where a company charity is required by section 399 of the Companies Act 2006 to prepare group accounts, its group accounts are prepared under the Companies Act 2006.
- A.17. In Northern Ireland, schedule 6 to the Charities Act (Northern Ireland) 2008 has yet to be implemented, and the applicable regulations setting the income threshold for group accounts have not been made. Any parent company charity that does not fulfil the requirement for a small group under the Companies Act 2006 must prepare group accounts in accordance with company law requirements. It is best practice for a parent non-company charity to prepare group accounts where the combined income of the group would exceed the small group threshold.