

Accounting and reporting by charities: the statement of recommended practice (SORP) – scope and application

Introduction

1. The Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and the Republic of Ireland (the SORP) is issued by the Charity Commission and the Office of the Scottish Charity Regulator in their role as the joint SORP-making body, recognised by the Financial Reporting Council.
2. This SORP provides guidance for charities on how to apply the Financial Reporting Standard applicable in the UK and Republic of Ireland (referred to as FRS 102 in this SORP). It is important for preparers of accounts to make reference to this standard when preparing accounts and in making the required disclosures.
3. The introduction to each module identifies the section(s) in FRS 102 relevant to the issues addressed by that module. This SORP provides guidance on how to apply FRS 102 to charity accounts and it should be noted that in the hierarchy established in accounting standards, FRS 102 requirements and legal requirements take precedence over the SORP. Therefore should an update to FRS 102 or a change in relevant legislation be made after the publication of this SORP, any of the provisions of this SORP that conflict with the updated FRS 102 or relevant legislation cease to have effect.
4. Where FRS 102 allows an accounting policy choice, the SORP will identify whether a particular treatment is required or whether charities can exercise a choice. The preparer should refer to the relevant SORP module to determine whether a particular policy is specified by the SORP as being more appropriate in the circumstances of a charity. Preparers should refer to FRS 102 as the disclosures listed in this SORP are not exhaustive.
5. This SORP sets out how charities are expected to apply FRS 102 to their particular activities and transactions, and explains how charities should present and disclose their activities and funds within their accounts. The SORP also sets out the content of the trustees' annual report which accompanies the accounts (financial statements). The trustees' annual report provides the context for, and a narrative explanation of, the financial information contained in the accounts.
6. This SORP includes charity-specific requirements that are additional to those of FRS 102. In particular, requirements relating to the trustees' annual report, fund accounting, the format of the statement of financial activities and additional disclosures aimed at providing a high level of accountability and transparency to donors, funders, financial supporters and other stakeholders. The phrase 'this SORP requires' is used to distinguish the additional disclosures required by the SORP which are not specifically required by FRS 102.

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7. Before applying this SORP, the following sections should be read which explain the scope and application of this SORP:
- the intended user of the SORP;
 - objectives of the SORP;
 - the intended user of the trustees' annual report and accounts;
 - scope of the SORP;
 - the effective date of commencement;
 - transitional arrangements for charities reporting under FRS 102 for the first time;
 - choice of accounts preparation methods;
 - how to use the modular SORP;
 - use of the terms 'must', 'should' and 'may';
- and also provides:
- an index of the SORP modules; and
 - the Financial Reporting Council's statement on the charities SORP (FRS 102).

The intended user of the SORP

8. The SORP is developed primarily to assist those involved in the preparation of the accounts and trustees' annual report of a charity. The SORP is also relevant to charity auditors, independent examiners and accountancy practitioners who are involved in the scrutiny of charity accounts or in advising on the application of accounting standards in the context of charities.
9. It is anticipated that users of this SORP will be familiar with accounting concepts, principles and terminology and possess a reasonable knowledge of accounting practice.

Objectives of the SORP

10. The recommendations of the SORP are intended to achieve the following objectives:
- improve the quality of financial reporting by charities;
 - enhance the relevance, comparability and understandability of the information presented in charity accounts;
 - provide clarification, explanation and interpretation of accounting standards and their application to charities and to sector specific transactions; and
 - assist those who are responsible for the preparation of the trustees' annual report and accounts.

The intended user of the trustees' annual report and accounts

11. The objective of the trustees' annual report (the report) and accounts is to provide information about a charity's financial performance and financial position that will be useful to a wide range of stakeholders in assessing the trustees' stewardship and management of charitable funds, and to assist the user of the accounts to make economic decisions in relation to the charity.
12. Although past, current and potential funders, donors and financial supporters of a charity are the primary audience for the financial information contained in a charity's report and accounts, the preparer should also be aware that interest in this information may also extend to a charity's service users and other beneficiaries.
13. The report and accounts should not be viewed simply as a statutory requirement or a technical exercise. The report and accounts, when read together, should help users of the information to understand what the charity is set up to do, the resources available to it, how these resources have been used and what has been achieved as a result of its activities.

Scope of the SORP

14. Except where an alternative reporting framework sets out in legislation or regulation, or in another SORP applies, the accounting recommendations of this SORP apply to all charities in the UK that prepare accounts on the accruals basis to give a true and fair view of a charity's financial position and financial activities regardless of their size, constitution or complexity. In the Republic of Ireland this SORP sets out recommended best practice.
15. Where a separate SORP exists for a particular class of charities (for example SORPs applicable to Registered Social Housing Providers or to Further and Higher Education Institutions, or Common Investment Funds), those charities should adhere to that SORP.
16. Charities applying this SORP may also be subject to specific regulations or legal requirements based on how they are constituted or their jurisdiction(s) of formation, operation or registration. For example, charities constituted as companies will need to meet the reporting requirements of company law. Whilst this SORP has been prepared to be consistent with the requirements of company and other relevant law and regulation, charities will need to ensure that any particular accounting requirements and disclosures applicable to them are also met.
17. The accounting recommendations of this SORP do not apply to charities preparing cash-based receipts and payments accounts. Charities preparing cash-based receipts and payments accounts must refer to the regulatory requirements of their jurisdiction(s) of registration regarding the format and content requirements for receipts and payments accounts and the trustees' annual report.

The effective date of commencement

18. This SORP is applicable to the accounts of relevant charities for reporting periods beginning on or after 1 January 2015. In those jurisdictions where the applicable SORP is specified in regulations, this SORP cannot be adopted until the applicable regulations are made allowing its application.

Transitional arrangements for charities reporting under FRS 102 for the first time

19. Section 35 of FRS 102 sets out a number of simplifications for the preparation of the opening balance sheet and comparative figures when reporting under FRS 102 for the first time. Comparative information must be restated as far as practicable on a like-for-like basis.
20. Charitable incorporated friendly societies that fall within the definition of a financial institution, as set out in the glossary to FRS 102, must make the additional disclosures required by section 34 of FRS 102.

Choice of accounts preparation methods

21. Charities in the UK and the Republic of Ireland must apply FRS 102 when preparing their accounts on an accruals basis unless eligible for, and opting to, prepare their accounts using the Financial Reporting Standard for Smaller Entities (FRSSE).
22. An eligible charity opting to apply the FRSSE when preparing its accounts must refer to the recommendations of the separate SORP applicable to charities preparing their accounts in accordance with the FRSSE.
23. Charities not eligible to, or choosing not to, prepare their accounts under the FRSSE must prepare their accounts under FRS 102 in conjunction with the recommendations of this SORP.
24. Charities reporting under this SORP that are eligible for, and choose to, apply the disclosure exemptions permitted by FRS 102 must make the disclosures required by the SORP module '[Disclosure of trustee and staff remuneration, related party and other transactions](#)'.

How to use the modular SORP

25. For a charity to state that it has prepared its accounts in accordance with this SORP, it must adhere to the SORP's requirements for the preparation of both the accounts and report.
26. The accounts of a charity comprise the following:
 - A statement of financial activities (SoFA) which provides an analysis of a charity's income and expenditure and movement in funds in the reporting period.
 - A balance sheet which sets out a charity's assets and liabilities and retained funds at its reporting date.

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- A statement of cash flows.
 - For charities that are companies, an income and expenditure account included either within the SoFA, or as a separate summary income and expenditure account in addition to the SoFA where necessary to meet the reporting requirements of company law.
 - Notes to the accounts that explain the accounting policies, provide more detail of how the income and expenditure is made up, and provide extra information about particular assets and liabilities, or about particular funds or transactions.
27. The SORP has a number of core modules to which all charities must refer when preparing their accounts and report. Supplementing these core modules, there are additional modules that apply only when a charity:
- undertakes a specific type of transaction;
 - needs to recognise, measure or disclose a specific asset or liability in a particular way;
 - has particular forms of investment; or
 - adopts a particular legal form or group structure.
28. When preparing their accounts, charities must refer to the index of modules to ensure that they identify all of the SORP's recommendations that apply to their transactions, assets and liabilities. This should be done for each reporting period and whenever a charity undertakes a new type of transaction. In particular, charities must select those modules that apply to their specific transactions and circumstances.
29. This SORP provides guidance to charities on the application of FRS 102 and also provides recommendations on accounting and reporting of charity-specific transactions that are not addressed within FRS 102.
30. The SORP also offers advice on how a charity may disclose particular issues, or provides examples or suggested layouts of particular notes which a charity may choose to follow.
31. See the SORP module '[Accounting standards, policies, concepts and principles, including the adjustment of estimates and errors](#)' for details of the SORP compliance statement that a charity must provide within its accounting policy note and the additional disclosures that it must make in the event of a departure from the SORP's provisions.

Use of the terms 'must', 'should' and 'may'

32. This SORP uses different terms to distinguish those requirements that must be followed in order to comply with the SORP from other recommendations which charities can opt to follow when preparing the trustees' annual report and accounts.

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33. This SORP uses the term 'must' to indicate those elements that are important to the reader of the trustees' annual report that must be included within the report or to identify particular accounting treatments, disclosures or presentational requirements that are likely to affect the ability of the accounts to give a true and fair view if not applied to material transactions or items. Where this SORP states that a recommendation is one which must be followed, non-adherence to that recommendation is a departure from this SORP.
34. This SORP uses the term 'should' for an item in the trustees' annual report or the accounts for those recommendations aimed at advancing standards of financial reporting as a matter of good practice. While charities are encouraged to follow all the SORP's recommendations, a failure to follow a 'should' recommendation with respect to the report or the accounts is not regarded as a departure from this SORP.
35. This SORP uses the term 'may' for an item in the trustees' annual report or an approach to a particular disclosure that a charity may choose to adopt or identifies that an alternative accounting treatment or disclosure of a transaction or event is allowed by the SORP. Charities may choose whether such examples or alternative treatments are adopted at their discretion.