27. Charity mergers

Introduction

27.1. The reporting tiers applied for module 27 are as specified in the table below.

Table 27.1A: Tiered reporting requirements for module 27

All tiers	The requirements for charity mergers in this module apply fully to all charities.

27.2. This module applies to charities that have combined and meet the criteria for merger accounting. Charities should refer to FRS 102, section 19 Business Combinations and Goodwill and Section 34 Public Benefit Entity Combinations paragraphs 34.75 to 34.86.

27.3. A charity merger involves two or more charities coming together in a partnership for the mutual sharing of risks and benefits, with no party obtaining control over any other. A merger often involves the formation of a new charity to further the purposes of the combining charities and to control the activities, assets, and liabilities of the combining charities. The module sets out:

- Criteria for merger accounting
- Accounting for mergers
- Accounting for charity reconstructions as mergers
- Disclosures relating to mergers

Criteria for merger accounting

27.4. A charity combination must be accounted for as a merger if all of the following criteria are met:

- it is permitted by the statutory framework
- no party to the combination is portrayed as either acquirer or acquiree, either by its governing body or management or by that of another party to the combination
- all parties to the combination, as represented by the members of the governing body, participate in establishing the management structure of the combined charity and in selecting the management personnel. Such decisions are made on the basis of a consensus between the parties to the combination, rather than purely by exercising voting rights
- there is no significant change to the class of beneficiaries of the combining entities or the purpose of the benefits provided as a result of the combination

27.5. Charities that are UK registered companies and enter into a business combination with a third party cannot apply merger accounting to that combination. However, in exceptional circumstances where acquisition accounting does not provide a true and fair view, a charitable company may consider applying the true and fair override as outlined in Appendix III: Note on Legal Requirements of FRS 102. If adopting merger accounting, the charity must provide the corresponding disclosures. Unincorporated charities, charitable incorporated organisations and non-UK registered companies can continue to apply merger accounting if they meet the criteria set out in FRS 102 and this SORP, provided merger accounting is not prohibited by other relevant legislation.

27.6. When charities merge, their purposes must be the same or substantially the same. The purposes of the new reporting entity must encompass those of the combining charities. While a merger may result in some changes to how activities are carried out, and/or some minor changes to purposes, a significant change in purposes or the beneficiary class would rule out accounting for the combination using merger accounting.

27.7. For merger accounting to apply, no major change to the classes of beneficiaries or the purposes of the benefits provided should occur. Minor adjustments, such as slightly broadening the beneficiary class or purposes, do not preclude the use of merger accounting.

27.8. If the combination does not meet all of the above criteria, then it must be treated as an acquisition (see the SORP module 24 '*Accounting for groups and the preparation of consolidated accounts*').

Accounting for mergers

27.9. Merger accounting involves aggregating the assets, liabilities and funds of the combining charities and presenting them as though they had always been part of the same reporting charity. Although the merger may have taken place part way through a reporting period, the accounts must be drawn up to include the results of the combining charities for the whole of the reporting period in which the merger occurred.

27.10. Any funds of the combining charities that are restricted to the particular purposes of the new charity must continue to be presented as 'restricted' in the accounts of the merged charity. The unrestricted funds of the constituent charities to the merger will be aggregated provided that their purposes are identical to the new charity. Refer to the SORP module 2 '*Fund accounting*' for more information on the classification of funds.

27.11. The accounts must present comparative amounts on the same basis to show the aggregated results for the combining charities for the previous reporting period. The comparative amounts should be identified as being 'combined' figures.

27.12. The carrying amount of assets and liabilities of the combining charities is not restated to fair value, although adjustments must be made to ensure uniformity of accounting policies.

Accounting for charity reconstructions as mergers

27.13. In some cases, a charity may change its legal form but there is no significant change to its purposes and beneficiary class. The most common examples are the decision by trustees of an unincorporated charity to establish a charitable company or charitable incorporated organisation to take forward the charity's work and the conversion of a charitable company to a charitable incorporated organisation. Another common example is the transfer of activities to a wholly-owned subsidiary undertaking. A subsidiary entity may be established to undertake non-charitable trading activities previously undertaken by the parent charity.

27.14. These reconstructions should be treated as mergers and not acquisitions, provided that:

- the use of the merger accounting method is not prohibited by company law or other relevant legislation
- the beneficiary class is not significantly changed
- the purposes for which funds are held are not significantly changed
- the persons who constitute the trustee body are not significantly changed
- no non-controlling interest in the net assets of the charity is altered by the transfer

Disclosures relating to mergers

27.15. In the reporting period in which the merger takes place, the accounts for the merged charities must disclose:

- the names and descriptions of the combining charities
- the date of the merger
- an analysis of the principal components of the current reporting period's statement of financial activities (SoFA), to indicate
- the amounts relating to the merged charity for the period after the date of the merger
- the amounts relating to each party to the merger up to the date of the merger
- an analysis of the principal components of the previous period's SoFA between each party to the merger
- the aggregate carrying amount of the net assets of each party to the merger, differentiating between restricted and unrestricted funds at the date of the merger
- the nature and amount of any significant adjustments they have made in order to align accounting policies, and an explanation of any further

adjustments to net assets as a result of the merger (for example any restatement of unrestricted funds)

27.16. This SORP requires that the accounts of a charity created by a merger must disclose in reporting periods subsequent to the merger:

- the names and descriptions of the combining charities
- the date of the merger

27.17. Tables 21 to 23 illustrate how these disclosures may be shown. On a merger taking place, the unrestricted funds of the participating charities may become restricted in whole or in part due to their objects being narrower than those of the merged charity. In such cases, Table 23 should be adapted accordingly.

Table 21: Analysis of principal SoFA components for the current reporting period

	Charity A (pre-merger)	Charity B (pre-merger)	Charity (post-merger)	Combined total
	£	£	£	£
Total income				
Total expenditure				
Net income/(expenditure)				
Other gains/(losses)				
Net movement in funds				

Table 22: Analysis of principal SoFA components for the previous reporting period

	Charity A	Charity B	Combined total
	£	£	£
Total income			
Total expenditure			
Net income/(expenditure)			
Other gains/(losses)			
Net movement in funds			
Total funds brought forward			
Total funds carried forward			

Table 23: Analysis of net assets at the date of merger

	Charity A	Charity B	Combined total
	£	£	£
Net assets			
Represented by:			
Unrestricted funds			
Restricted income funds			
Endowment funds			
Total funds			