What's changed?

Help-sheet 3: Differences between the Charities SORP for the Financial Reporting Standard for Smaller Entities - FRSSE SORP and the Charities SORP for the Financial Reporting Standard applicable in the UK and Republic of Ireland - FRS 102 SORP

Introduction

This help-sheet considers the differences between the two charities SORPs that provide guidance on applying the Financial Reporting Standard for Smaller Entities 2015 (FRSSE) and the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102). This help-sheet is intended to assist practitioners and preparers of charity accounts in making the choice of which SORP to follow when preparing their charity's accounts.

This help-sheet is no substitute for taking the advice of an accountant, independent examiner or auditor, familiar with charity accounting, when choosing between the FRSSE and FRS 102. Help-sheets are not part of either SORP and preparers of charity accounts and practitioners are under no obligation to use or refer to them.

This help-sheet sets out by module the main differences in accounting definitions, treatments and disclosures, if any, between the two SORPs. Preparers will need an understanding of accruals accounting and also an awareness of the content of the FRSSE and FRS 102 before making their final choice.

Preparers must note that the use of the FRSSE is subject to the charity meeting the eligibility criteria for using the FRSSE, otherwise FRS 102 must be followed. Any charity of any size may follow FRS 102.

FRSSE eligibility criteria

Charities, including non-company charities, that would qualify as a small company or fall within a 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 that they do not fall into the categories of entities excluded from applying the FRSSE, for example UK 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 are ineligible to follow the FRSSE.

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 £3.26m (or £3.9 million gross – before consolidation adjustments); and

iii) Average aggregate number of employees not more than 50.

Note: it is a condition of the FRSSE SORP that charities adopting the FRSSE apply a 'gross income' threshold in place of the 'turnover' threshold applicable to for-profit companies.

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.

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.

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;

ii) balance sheet total not exceeding €4.4m; and

iii) average number of employees not exceeding 50.

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.

Using the SORPs

Both SORPs require the user to follow those accounting treatments and provide those disclosures in the trustees' annual report or the notes to the accounts prefixed by the term 'must'. The FRSSE is based on existing UK Generally Accepted Accounting Practice (old GAAP). Therefore the FRSSE SORP permits those charities preparing accruals accounts prior to 1 January 2015 the option to retain their existing accounting policies (old GAAP) for certain types of transactions. However the FRS 102 SORP is based on new GAAP and therefore all charities following the FRS 102 SORP must adhere to the accounting policies set out in the FRS 102 SORP. The option to follow existing accounting policies (old GAAP) is consequently not available under new GAAP.

The FRSSE SORP, in permitting a charity the option to continue with some of its existing accounting policies, is adhering to the FRSSE which distinguishes between 'current practice' (new GAAP) and 'accepted practice' (old GAAP) when preparing the accounts.

Imminent changes to the FRSSE framework

The FRSSE is due to be replaced in the near future and updated for new GAAP. Therefore charities using the FRSSE may face further change to their accounting policies and the required disclosures once any replacement to the FRSSE takes effect. It follows that in due course the FRSSE SORP will also need to be withdrawn and updated to align with the replacement to the FRSSE framework.

Charities using the FRSSE will therefore potentially face changes to some of their accounting policies and the required disclosures twice in two years (years beginning 2015 and years beginning 2016) should the FRSSE be withdrawn and replaced in 2016 as anticipated.

Content (Hyperlinked index)

Format of the trustees' annual report and accounting statements:

Accounting policies, treatments and disclosures:

Trustees' Annual Report
Module 1

The requirements of the FRSSE SORP and FRS 102 SORP are identical. Both SORPs require more information to be provided by larger charities. Larger charities are those that are subject to statutory audit under charity law.

Statement of Financial Activities (SoFA)
Module 4

The basic structure of the SoFA, with its columnar presentation distinguishing the classes of fund held: unrestricted income, restricted income and endowment and the line headings used to describe income and expenditure are the same. Both SORPs, in compliance with the applicable accounting standard, require comparatives for each column in the SoFA, which can be disclosed by way of additional columns or in the notes to the accounts.

However there are a number of key differences:

- Gains and losses on investment assets count towards net income/expenditure in the FRS 102 SORP but are excluded from net income/expenditure in the FRSSE SORP.
- An additional category of 'other gains and losses' is present in the FRS 102 SORP only.

The FRSSE requires the separate disclosure of 'exceptional items' which are exceptional by virtue of size or incidence whereas the FRS 102 requires the separate disclosure of 'material items'. FRS 102 has an additional category of 'extraordinary items' which fall outside of ordinary activities and are of an abnormal nature and unlikely to recur; these must be disclosed separately in the SoFA after striking the total for net income/expenditure.

The FRSSE requires the costs of 'a fundamental reorganisation or restructuring that has a material effect on the nature or focus' of a charity to be disclosed whereas FRS 102 requires the separate disclosure of discontinued operations which must be done by way of additional columns in the SoFA.

The FRSSE SORP permits charities with an existing accounting policy of capitalising the data capture costs of internally generated databases to continue this accepted practice but this is accounting treatment is prohibited by FRS 102 and so is not an option under the FRS 102 SORP.

Balance sheet (the Statement of Financial Position)
Module 10

The format of the balance sheet is common to both SORPs. However, there are some differences in terminology. For example the FRSSE refers to write down of assets whereas FRS 102 refers to impairment and the FRSSE refers to non-financial fixed assets whereas FRS 102 uses the term non-monetary fixed assets.

There are differences of detailed accounting treatments:

- The FRSSE does not permit revaluation of intangible fixed assets.
- Capitalised goodwill is not to have a life of more than 20 years under the FRSSE but is assumed not to exceed 5 years under FRS 102, except where the economic life can be reliably measured.
- Options of including tangible fixed assets and stock at a fixed amount where certain criteria are met are only available under the FRSSE.
- FRS 102 does not permit the exclusion from the category of investment property property let and occupied by another group undertaking.
- Although both SORPs require the initial recognition of unlisted investments at cost, FRS 102 subsequently requires that, where practicable, they be measured at fair value under FRS 102; however an alternate approach is permitted by the FRSSE.
- FRS 102 requires, in the absence of knowledge of any pension scheme liability, that any contractual obligation to make additional payments to a defined benefit pension scheme be recognised.

There are also differences in the approach taken to disclosure:

- FRS 102 requires more disclosures to do with intangible fixed assets.
- FRS 102 requires more disclosures to do with investments.
- FRS 102 requires more disclosures to do with stock.
- FRS 102 requires more disclosures to do with liabilities.
- Disclosures differ on contingent items with the FRSSE requiring disclosure of amounts to do with capital expenditure and FRS 102 asking for an indication of uncertainties and any reimbursement.

Statement of cash flows
Module 14

The cash-flow statement is optional under the FRSSE and its format is based on old GAAP with three sections: cash generated from operating activities, cash flows from other sources and application of cash.

The FRS 102 SORP based on new GAAP has three sections: cash flows from operating activities, investing activities and financing activities. A cash-flow statement is mandatory when preparing the accounts under FRS 102 and in following the FRS 102 SORP.

Fund accounting
Module 2

The approach taken to this topic is the same in identifying and disclosing unrestricted, restricted and endowment funds. Both SORPs require the transfer between funds line to net to nil and consequently one-sided transfers are not permitted.

Accounting standards, policies, concepts and principals
Module 3

The terminology and definitions used differ significantly between the FRSSE (old GAAP) and FRS 102 (new GAAP) SORPs.

The most significant differences in definition are:

- Whilst both SORPs require trustees assess going concern, the FRS 102 SORP specifies that their review covers at least 12 months from the date the accounts are approved.
- The FRSSE SORP makes special mention of prudence and accruals which is not specifically referred to in FRS 102.
- The FRS 102 SORP refers to alternative measures to fair value.
- The FRSSE takes a different approach to determining accounting policies than FRS 102 with users of the FRSSE 'having regard' to FRS 102 as 'current practice'.

FRS 102 requires more disclosures than the FRSSE and this is reflected in the disclosure requirements of the FRS 102 SORP.

Recognition of income
Module 5

Both SORPs take the same approach to the criteria for income recognition with the definition of entitlement, measurement and probable (receipt is more likely than not) essentially the same.

The disclosure of certain details of government grants and deferred income is required by FRS 102 and the FRS 102 SORP. The disclosure of deferred income is good practice and is a 'should' in the FRSSE SORP.

Donated goods, facilities and services including volunteers
Module 6

Both SORPs take the same approach to the criteria for income recognition with the definition of entitlement, measurement and probable (receipt is more likely than not) essentially the same. Except for donated tangible fixed assets, both SORPs adopt the same approach to the recognition and measurement of donated goods, facilities and services. Neither SORP permits the valuation of ‘general volunteers’.

However the FRSSE requires donated tangible fixed assets to be recognised at their current value whereas FRS 102 requires recognition at their fair value. Where reference is made to a market price to determine an asset’s replacement cost or its fair value, the result will be the same. Also if cost to the donor is used as a measure the result will also be the same.

Recognition of expenditure
Module 7

Both SORPs require the discounting of liabilities and provisions for the time value of money where settlement is delayed for more than 12 months but the suggested discount rates differ with the FRSSE making reference to government bonds and FRS 102 to a market rate of interest or the opportunity cost of investment income forgone, as applicable.

The FRS 102 SORP includes a section on the treatment of employee benefits which is not found in the FRSSE. The accrual of paid annual leave (holiday pay) and paid sick leave, where material, is required by FRS 102 but is not required by the FRSSE.

FRS 102 requires more extensive disclosures than the FRSSE regarding the uncertainties relating to commitments and any reimbursements.

Allocating costs by activity in the statement of financial activities
Module 8

The approach taken to this topic is the same in both SORPs.

Disclosure of trustee and staff remuneration, related party and other transactions
Module 9

Due to FRS 102, the FRS 102 SORP requires a number of additional disclosures:

- The disclosure of the aggregate value of unconditional donations made by trustees is required.
- The disclosure of a charity's contributions to a pension fund for the benefit of employees.
- The terms and conditions of transactions with, and the details of any guarantee given or received from, related parties.
- More information on the nature, accounting policy and funding of termination payments.
- Disclosure of the total amount of employee benefits received by key management personnel.

Accounting for financial assets and liabilities
Module 11

The FRSSE has a much less detailed approach to financial instruments (financial assets, financial liabilities and equity instruments) than FRS 102 and this is reflected in the disclosures required. The FRS 102 SORP, reflecting the standard, differentiates between basic and other financial instruments. FRS 102 has very detailed and lengthy disclosures regarding financial instruments.

Write-down/ Impairment of assets
Module 12

The FRSSE uses the term write-down whereas FRS 102 uses the term impairment. Both standards require an assessment of the carrying amount against its recoverable amount where circumstances indicate this is necessary. The FRSSE uses net realisable value whereas FRS 102 refers to fair value but both are assessed against an active market.

Where a present value is to be calculated the FRSSE makes reference to relevant UK government bonds whereas FRS 102 refers to a market rate. It is likely that for most charities the discount rate will be higher under FRS 102, when reference is made to the rate at which the charity could borrow, than the FRSSE, resulting in a lower present value when reporting under FRS 102.

Post balance sheet events/ events after the end of the reporting period
Module 13

Aside from a difference in terminology, the treatment of adjusting and non-adjusting events is common to both SORPs.

Charities established under company law
Module 15

This module deals with company law requirements which are common to charitable companies whether the accounts are prepared under the FRSSE or FRS 102. Charitable companies registered in the Republic of Ireland cannot use the FRSSE.

The section referring to the ‘strategic report’ (UK only) is omitted from the FRSSE SORP as this a requirement of only medium and large companies. Also reference to a ‘fair value reserve’ is omitted from the FRSSE.

Presentation and disclosure of grant-making activities
Module 16

The approach taken to this topic is the same in both SORPs.

Retirement benefits/retirement and post-employment benefits
Module 17

The underlying methods and principles for the treatment of defined contribution and defined benefit pension schemes are very similar though FRS 102 offers some simplifications to the method of making calculations for defined benefit pension schemes. The FRSSE uses the term ‘scheme’ whereas FRS 102 makes reference to ‘plan’.

In the circumstances where a charity is participating in a multi-employer defined benefit pension scheme and it has been asked to make additional contributions but its share of any actuarial pension liability cannot be identified, the FRSSE SORP permits a charity to continue with its existing accounting policy whereas the FRS 102 SORP requires the present value of any additional repayments due to past service to be recognised as a liability.

Reflecting differences in the underlying standards, the FRSSE SORP and FRS 102 SORP have different disclosures for defined contribution and defined benefit pension schemes. FRS 102 requires more disclosure to a greater level of detail than the FRSSE.

Accounting for heritage assets
Module 18

Heritage assets are not considered PBE specific and therefore the FRSSE SORP permits a charity to continue with its existing accounting policies provided those policies reflect accepted practice and relevant disclosures are made. Otherwise the FRSSE SORP requires the charity to follow current practice and so the definitions and accounting policies are as for the FRS 102 SORP.

The disclosures that are mandatory in the FRS 102 SORP are best practice in the FRSSE SORP with the expectation that where a charity has no existing practice that the charity will follow current practice. As a matter of good practice users of the FRSSE SORP should make the same disclosures as required by the FRS 102 SORP.

Accounting for funds received as agent or custodian trustee
Module 19

The approach taken to this topic is the same in both SORPs.

Total return (investments)
Module 20

This module is only applicable to charities established in the jurisdiction of England and Wales. The approach taken to this topic is the same in both SORPs.

Accounting for social investments
Module 21

The approach taken to this topic is largely the same in both SORPs. However there are areas of difference:

- the FRSSE term ‘written down’ is used in place of the FRS 102 term ‘impairment’; and
- when measuring a social investment made in ordinary or preference shares, the FRSSE requires recognition at cost or market value whereas FRS 102 requires recognition at fair value, an approximation to fair value or if fair value cannot be estimated reliably cost less impairment. (Where shares are traded or there have been recent transactions valuations are likely to be the same under either SORP. Similarly where a market value/fair value is not available then valuation at cost will yield the same result.)

Otherwise, the approach taken to disclosure is the same in both SORPs.

Accounting for charities pooling investment
Module 22

The approach taken to this topic is the same in both SORPs.

Overview of charity combinations
Module 23

The approach taken to this topic is the same in both SORPs.

Accounting for groups and the preparation of consolidated accounts
Module 24

The preparation of consolidated accounts is not considered PBE specific and therefore the FRSSE SORP permits a charity to continue with its existing accounting policies provided those policies reflect accepted practice. Otherwise charities following the FRSSE should adhere to current practice which is the same as that required of charities following FRS 102.

The disclosures required differ in only the following instances:

- Charities following FRS 102 must provide some additional disclosures where a controlling interest is acquired in non-charitable subsidiaries.
- Charities following the FRS 102 must also disclose particulars of goodwill and negative goodwill.

Branches, linked or connected charities and joint arrangements
Module 25

The approach taken to this topic is the same in both SORPs.

Charities as subsidiaries
Module 26

The approach taken to this topic is the same in both SORPs.

Charity mergers
Module 27

The approach taken to this topic is the same in both SORPs.

Accounting for associates
Module 28

The topic of accounting for associates is not considered PBE specific and therefore the FRSSE SORP permits a charity to continue with its existing accounting policies provided those policies reflect accepted practice. Otherwise charities following the FRSSE should adhere to current practice which is the same as that required of charities following FRS 102.

Charities following FRS 102 must provide more disclosures than those following the FRSSE.

Accounting for joint ventures
Module 29

The topic of accounting for joint ventures is not considered PBE specific and therefore the FRSSE SORP permits a charity to continue with its existing accounting policies provided those policies reflect accepted practice. Otherwise charities following the FRSSE should adhere to current practice which is the same as that required of charities following FRS 102.

Charities following FRS 102 must provide more disclosures than those following the FRSSE.