



OPERATIONAL MANUAL

Approved 14 December 2022

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Abbreviations

ASB	Accounting Standards Board
APB	Auditing Practices Board
BMZ	German Federal Ministry for Economic Cooperation and Development
CBF	Caribbean Biodiversity Fund
CQS	Consultants' Qualifications
GEF	Global Environment Facility
KfW	KfW Entwicklungsbank, known as the German Development Bank
LCS	Least-Cost Selection
NCTF	National Conservation Trust Fund
QBS	Quality Based Selection
QCBS	Quality and Cost-Based Selection
RFP	Request for Proposals
SOFA	Statement of Financial Activity
SORP	Statement of Recommended Practice
TNC	The Nature Conservancy
TOR	Terms of Reference

1. INTRODUCTION

- 1.1.1 This operational manual (the “**Operational Manual**”) is intended to support the administrative and financial operations of the CBF, which is recognized as a non-profit organization by the Charity Commission for England and Wales (the “**Commission**”) and registered as No.08204716 on September 6, 2012. Capitalized terms used but not defined herein shall have the meanings given to them in the Articles of Association of the CBF (the “**Articles**”), unless expressly provided otherwise. Unless expressly provided otherwise in this Operational Manual, a reference to legislation or a legislative provision is a reference to it as amended, extended or re-enacted from time to time.
- 1.1.2 The CBF was created with support from the German government, through KfW and BMZ, TNC, and the GEF, through the United Nations Development Programme (the “**UNDP**”) and International Bank for Reconstruction and Development (the “**World Bank**”), acting as GEF Implementing Agencies.
- 1.1.3 The objects of the CBF are to promote for the benefit of the public the conservation, protection and management of biodiversity and natural resources in the Participating Countries by providing a sustainable flow of funds to support, without limitation, enforcement, infrastructure, monitoring needs and other activities that contribute substantially to the conservation, protection and maintenance of biodiversity within the National Protected Areas Systems, the expansion of such systems, regional conservation priorities or any other area of environmental significance of the Participating Countries (the “**Objects**”). The CBF’s income and assets shall be used exclusively for charitable, educational and scientific purposes for the benefit of the public, and the provisions of this Operational Manual and the Articles shall be interpreted in a manner consistent with these Objects.
- 1.1.4 This Operational Manual is to be used by the Directors, its Chief Executive Officer and any persons or entities engaged by the CBF to ensure its effective operation and achievement of its Objects. This Operational Manual aims to provide guidance for carrying out the obligations of the CBF as these are set out in the Articles, the Companies Act 1985, the Companies Act 2006, the Charities Act 2011 (the “**Acts**”) (in each case as amended, extended or re-enacted from time to time) and any other applicable laws.

2. GOVERNANCE, STRUCTURE AND ORGANIZATION

The CBF is structured as an umbrella fund with permanent and non-permanent funding. It currently works through two main instruments: i) an endowment for conservation priorities (the “**Endowment**”); and ii) a sinking fund for ecosystem-based adaptation (the “**EbA Facility**”). The CBF is also exploring and will continue to explore other funding mechanisms, in keeping with its Objects. The CBF, together with a number of NCTFs, form the Caribbean Sustainable Finance Architecture. The CBF governance structure includes any subscriber to the Memorandum of Association of the CBF and such other persons as are admitted to membership in accordance with the Articles are entered as such in the CBF’s register of members (a “**Member**”), the Board, Committees and the CBF’s Secretariat (the “**CBF Secretariat**”).

The CBF has the power to do anything in addition that is calculated to further its Objects or is conducive or incidental to doing so. In addition to any powers and duties set forth in this Operational Manual, to further its Objects the CBF has the specific power to establish and maintain any and all financial instruments and facilities and funding structures and mechanisms as are necessary for or incidental or ancillary to the implementation and accomplishment of the Objects which may benefit multiple institutions, non-governmental organizations (“NGOs”), funds, charities, trusts and other suitable beneficiaries as the Board in its prudent discretion determines for that purpose.

2.1 The Board of Directors

2.1.1 The Directors manage the business of the CBF and exercise all the powers of the CBF unless the Directors are subject to restrictions imposed by the Acts, the Articles or any Member Resolution.

2.1.2 The Directors’ responsibilities and duties include:

- (a) approving, periodically reviewing and modifying (as necessary) this Operational Manual and any other operational manuals of the CBF from time to time;
- (b) approving, periodically reviewing and modifying (as necessary) the policies and procedures that guide the operations of the CBF;
- (c) authorizing the opening of bank accounts;
- (d) designating signatories for accounts, contracts and any other instruments that commit the CBF’s resources;
- (e) contracting with an investment manager or investment managers, investment consultant, custodian, registered agent and any other professional service provider that is engaged in the interest of sound operation of the CBF;
- (f) appointing and supervising activities of a Chief Executive Officer to attend to the Board’s operational and administrative needs;
- (g) ensuring that the CBF’s resources are used prudently and lawfully in the furtherance of its Objects;
- (h) acting with integrity and not do anything to harm the reputation of the CBF;
- (i) maintaining overall responsibility for fundraising and the appropriate use of funds raised;
- (j) not receiving any benefit from the CBF unless expressly authorised in accordance with the Articles; and
- (k) appointing or replacing an independent outside auditor and procuring that the CBF shall file an annual report and accounts with the Commission.

provided that in so doing the Directors shall comply with the CBF Authority Policy annexed to this Operational Manual as Annex 1 (the “CBF Authority Policy”) in each case.

- 2.1.3 At all times the Directors constituting a majority of the Board must not be affiliated with the governments of any of the Participating Countries and must also be representatives of civil society, including, but not limited to, representatives of national, international and local non-governmental organizations, research and scientific organizations, universities and the private sector.

2.2 Committees

2.2.1 The Directors may, subject to the Articles, or any resolution of the Members, establish committees (each a “**Committee**”) to advise it or to carry out specific responsibilities of the Board in accordance with this Operational Manual or any other operational manuals of the CBF in existence from time to time (each a “**Board Committee**”) or to provide technical assistance and/or advice on projects and initiatives pursuant to the Objects (“**Technical Committees**”). Members of a Committee may, but need not, be Directors, provided that each Board Committee must be chaired by a Director appointed by the Board. Each Technical Committee may be chaired by a Director but does not need to be. The Board may establish procedures for Committees and delegate to a Committee such authority as may be necessary or desirable for the efficient management of the property, affairs, business and activities of the CBF. A Committee’s authority shall continue until terminated by the Board.

2.2.2 The Directors shall establish an executive committee (the “**Executive Committee**”).

- (a) The Executive Committee shall be a maximum of four members and shall be comprised of:
- (i) the chairperson elected by the Board from time to time (the “**Chairperson**”), Vice Chairperson elected by the Board from time to time (the “**Vice Chairperson**”), and Treasurer elected by the Board from time to time (the “**Treasurer**”); and
 - (ii) up to one other member, provided such other member is a Director of the CBF (each such member an “**Executive Committee Director**”).
- (b) These positions are nominated and appointed at the discretion of the Board. The positions of the Executive Committee Directors may be appointed for up to two years and may be renewed at the discretion of the Board, for up to three consecutive terms provided that the term of an Executive Committee Director shall automatically expire upon expiry of that Executive Committee Director’s appointment as a Director on the Board.

- (c) The terms of the appointment of the Chairperson, Vice-Chairperson and Treasurer to the Executive Committee shall run concurrently and conterminously with his or her term as Chairperson, Vice-Chairperson or Treasurer (as applicable) of the Board.
- 2.2.3 The Directors shall establish a finance committee (the “**Finance Committee**”). The Finance Committee must be chaired by the Treasurer and shall include at least one (1) Director with (a) an understanding of generally accepted accounting principles and their application to the preparation of financial statements as well as accounting for estimates, accruals and reserves, (b) experience preparing, auditing, analyzing or evaluating financial statements that are generally comparable in breadth and complexity of issues to those of the CBF, (c) an understanding of internal control over financial reporting and audit committee functions, and (d) a suitable understanding of the risks and returns in relation to financial investments, or such other Director together with suitably qualified advisors and/or other members of the Finance Committee as the Board shall reasonably consider appropriate and appoint for such function. Such financially qualified Director or other Director appointed by the Board as above, along with any other advisors and/or members of the Finance Committee (as applicable), shall review and recommend to the Board strategies and procedures for the investment of funds held by the CBF. It shall also supervise the management of the investment of assets the CBF.

2.3 The Chief Executive Officer

- 2.3.1 The Chief Executive Officer of the CBF from time to time in office (the “**Chief Executive Officer**”) will be appointed by the Directors and is responsible for the general and active management of the affairs of the CBF and its day-to-day operations and activities, subject to the supervision and control by the Board, and with such responsibility acts as the head of and with the assistance of the CBF Secretariat. The Chief Executive Officer will ensure that the instructions of the Board are carried out and that the Board receives the necessary operational support to meet and transact the business of the CBF. The Chief Executive Officer shall have the specific duties set forth herein and in the Articles, and such other duties as the Board may from time to time prescribe.
- 2.3.2 The Chief Executive Officer’s responsibilities include:
- (a) reporting to the Board on the activities of the trust, and promptly, regularly and fully informing the Board about the current affairs, activities and finances of the CBF, and for obtaining the Board’s advice and approval in all cases where this may be required by the Articles or this Operational Manual or any other relevant policies and procedures of the CBF from time to time;
 - (b) calling a Board Meeting at the request of the Chairperson elected by the Board or if requested to do so by a Director;
 - (c) circulating Notices of Meetings;

- (d) participating in Board Meetings from time to time as requested by the Board and ensuring that appropriate staff members are available to assist at Board Meetings;
- (e) verifying that any proxy appointment is consistent with Section 12 of the Articles;
- (f) ensuring that minutes are taken at all Board Meetings;
- (g) overseeing preparation of the annual and Directors' reports;
- (h) ensuring that all required documents are filed with the CBF Secretariat and the CBF's registered secretary (if any) (the "**Registered Secretary**");
- (i) overseeing, administering, monitoring, and evaluating the use of CBF funds and resources and their transfer to or use by the relevant beneficiaries and ensuring and enforcing compliance with all relevant checks and balances, board approvals, applicable policies and procedures of the CBF, any partnership, financing or other applicable agreements and all obligations related thereto and reporting to the Board on all of the preceding;
- (j) preparing or causing to be prepared and signing contracts, leases, tax returns, grant agreements, applications for permits and registrations, and all other written documents on behalf of the CBF, subject to any approvals by the Board;
- (k) liaising with Governmental organizations, local communities, NGOs, businesses, each of the International Bank for Reconstruction and Development (acting as an implementing agency of the Global Environment Facility), the German government, through KfW, and TNC and any other donors to the CBF as recorded in the operational manuals from time to time (the "**Donors**"), and the media;
- (l) collaborating with members of the Board in discussing, developing and, where applicable, implementing various funding strategies and mechanisms for the CBF which are consistent with its Objects and the Articles;
- (m) preparing plans, strategies, budgets and RFPs, including long-term strategic plans, annual operating plans, internal operations manuals and policies, and annual budgets for the consideration of and approval by the Board and a quarterly report on investment management returns and fund transfers to the Donors and the Board;
- (n) coordinating with other initiatives in order to achieve greater efficiencies and synergies, access additional potential sources of funding, and raise awareness of any potential negative impacts on biodiversity that could result from proposed or current Donor-funded, government-funded and private-sector-funded initiatives;

- (o) hiring and supervising CBF staff based on Board-approved budgets and other parameters discussed with the Board from time to time;
- (p) preparing and maintaining financial records and accounts, either directly or by supervising other officers and staff or professional service providers who may be charged with that responsibility;
- (q) maintaining relations with any investment manager and/or investment consultant;
- (r) reporting to Donors per financing and/or grant agreements; and
- (s) ensuring that all other tasks assigned by the Board are performed and instructions of the Board are carried out in order for the CBF to achieve its Objects.

2.3.3 In his or her relations with the Board and the Registered Secretary, the Chief Executive Officer must:

- (a) ensure that information which is relevant to the secretarial affairs of the CBF is provided promptly;
- (b) notify the Registered Secretary promptly of any changes to the Directors or their particulars, and to the accounting reference date; and
- (c) ensure that minutes are taken of all meetings and all meetings of the Committees in accordance with the Articles and provide such minutes to the Registered Secretary.

2.4 **The Secretariat and its Functions**

2.4.1 The CBF Secretariat will be managed by a Chief Executive Officer. The CBF Secretariat will keep established an office within one of the Participating Countries or otherwise in such location as determined by the Chief Executive Officer with the approval of the Board.

2.4.2 The CBF Secretariat's responsibilities will include:

- (a) general operational and administrative support to the CBF, including assisting and coordinating with the Chief Executive Officer as necessary for the performance of his duties and responsibilities in heading up the CBF Secretariat and those set out in paragraph 2.3.2 and for furthering the Objects;
- (b) managing fiduciary services, including tracking funds with the investment manager or investment managers, notifying any investment manager of the timing of transfers of investment proceeds to beneficiaries
- (c) assisting the Board and the Chief Executive Officer in respect of overall CBF policy development;

- (d) facilitating meetings and coordinating the annual audit of the CBF; and
- (e) establishing and implementing the CBF's marketing and communications strategy.

2.5 The Registered Secretary

The Board is the principal source of instructions to the Registered Secretary. The Registered Secretary will coordinate with the Chief Executive Officer in providing services that will enable the CBF to comply with the following legal requirements of the Acts:

2.5.1 maintaining:

- (a) the register of Members, who shall initially be TNC and KfW;
- (b) the register of Directors;
- (c) the register of charges (if any) on the CBF's assets;
- (d) minute books of the proceedings of meetings; and
- (e) any other documentation that is required to comply with the Articles, the Acts or other applicable laws;

2.5.2 provide a registered office facility in the United Kingdom to ensure that statutory registers and the minute books for the company are available to the public and the company's officers, Members and auditors in accordance with the Acts and any other applicable laws;

2.5.3 provide a safe-keeping facility for the company's title documents;

2.5.4 prepare the statutory accounts for the CBF;

2.5.5 handle necessary notifications and compliance requirements arising from appointment (or resignation) of Directors and/or Members (up to twice a year);

2.5.6 draft minutes approving the statutory accounts;

2.5.7 prepare and lodge the signed annual return at UK Companies House;

2.5.8 submit the company's statutory accounts to UK Companies House;

2.5.9 keep records of information and documentation provided by any asset or investment manager engaged by the CBF, as provided to it by the CBF from time to time; and

2.5.10 carry out such other services as are approved by the Board from time to time.

3. OPERATIONS

CBF Secretariat

3.1 Funding of the CBF Secretariat

- 3.1.1 In each fiscal year, the CBF Secretariat's administrative expenses will be funded, as approved by the Board, by way of the allocation of a percentage of the monthly average of the value of the CBF's endowment over the preceding thirty six (36) months (or such number of months as are available for the calculation), calculated by reference to the monthly figures which are notified to the CBF by its investment manager (the "**Reference Endowment Value**"), and the CBF Secretariat shall have discretion to identify further funding for operating expenses from other instruments of the CBF and other sources, to be approved by the Board at its discretion, as reasonably appropriate for such purposes from time to time.
- 3.1.2 In exercise of the discretionary powers to source and approve further funding for operating expenses set out in paragraph 3.1.1 above, the CBF shall use its reasonable and prudent endeavours to source such funds from the income and gains of the CBF's investments, save that the Board reserves its discretion in that regard and to source further external funding in order to secure the operational capability and stability of the CBF Secretariat.
- 3.1.3 Subject to paragraph 3.1.4 below, the CBF intends that any funds to be used for operating expenses or otherwise shall not be distributed from sums representing capital in its Endowment.
- 3.1.4 Unless otherwise approved pursuant to the Articles, in each fiscal year the CBF may not authorize the use of funds from the Endowment for operating expenses which would exceed one percent (1%) of the Reference Endowment Value.

3.2 Procurement of Goods and Consultant Services for the CBF

- 3.2.1 The objective of this section is to detail the policies and procedures that govern the CBF's procurement of goods, works, non-consulting services, and consulting services. This policy and these procedures apply to all CBF operations and instruments, unless otherwise required by a Donor, and to all CBF grantees, unless otherwise approved by the CBF and defined in the relevant legal agreement.
- 3.2.2 The CBF Secretariat is responsible for implementing this procurement policy and the procedures in the case of CBF institutional procurement processes.

3.3 Procurement Principles

- 3.3.1 The CBF recognizes the importance of conducting procurement procedures in a transparent and efficient manner. The following principles guide the CBF's procurement processes:
 - (a) the need for competitive procurement, including both international and local competition as appropriate;
 - (b) the need for high-quality goods, works, and services;

- (c) the need for transparency and impartiality in any selection process;
- (d) the need for economy and efficiency in the goods, works, and services, to be delivered or acquired;
- (e) the need for agility and pro-activity in conducting its procurement processes;
- (f) the need to give qualified consultants an opportunity to compete;
- (g) the need to assure identical conditions for all potential providers, always furnishing all interested parties with the same information at the same time; and
- (h) the need for selection processes made by means of objective judgment based on pre-established criteria for each process which are known to all.

3.4 Advertisement and publicity

3.4.1 In procuring goods, works, and services, the CBF may make use of a whole range of media to advertise the relevant process in order to attract interest and ensure the process is as pro-active as possible. The vehicles most used, but not limited to, for advertising and publicizing procurement processes are:

- (a) the CBF website;
- (b) newspapers with a wide readership, including national newspapers as needed;
- (c) partners' websites;
- (d) specialized websites and other electronic distribution means; and
- (e) direct invitations to providers.

3.5 Methods of procurement

The CBF recognizes that, in the majority of cases for procuring goods, works, non-consulting and consulting services, the above mentioned procurement principles can best be addressed through competition among qualified shortlisted firms or individuals in which the selection is based on the quality of the good, or proposal and, where appropriate, on the cost of the services to be provided. The CBF also recognizes that some of the works and services may require international competitive selection. The CBF understands that different methods for selecting goods, works, and services providers exist according to the value and type of procurement process used.

General guide: the procurement process will be initiated by the administrative assistant unless otherwise assigned by Chief Executive Officer. However, the individual who initiates the procurement process will not evaluate quotations for selection of vendors unless approved by the Chief Executive Officer. The Finance Officer should sit on all evaluation committees unless there is evidence of a conflict

of interest. For quotations stated in local currency, the exchange rate will be determined based on the buying cheque rate of the local central bank on the day of evaluation, unless otherwise specified by the vendor. Changes required to be made to any quantity of products or services after the selection process is allowed with the support of a justification memo approved by the responsible officer and verified by the Chief Executive Officer.

To comply with any Donors' requirements, the CBF shall follow the Donors' requirements for "No Objections" as established in any given financing or legal agreement. Additionally, the CBF shall provide Donors with the relevant documents and information necessary for their monitoring and review of any procurement process as established in any given financing or legal agreement. In addition, the CBF shall follow the Donors' policies as required related to minimum contract requirements, initially agree on draft contracts for the different tender processes, or submit contracts with consultants or vendors as needed for the respective Donor's "No Objection" prior to signature.

A combination of methods may be used in relation to selection for consulting services. The following methods of procurement are employed by the CBF.

- (a) Goods, Works and Non-consulting Services
 - (i) Shopping;
 - (ii) Direct Purchase;
- (b) Competitive Selection for Consulting Services
 - (i) Least-Cost Selection ("LCS");
 - (ii) Quality and Cost based Selection ("QCBS");
 - (iii) Quality Based Selection ("QBS");
 - (iv) Fixed Budget; and
 - (v) Consultants' Qualifications ("CQS");
- (c) Non-competitive Selection for Consulting Services
- (d) Single Source Selection ("SSS").

3.5.1 Competitive Selection Procedure

- (a) The responsible officer is required to draft the scope of work, call for proposal or request for quotation. Responsible officer means, the individual who will directly engage the vendor providing the products or performing the services on behalf of the CBF. This document should be approved by the Chief Executive Officer or a designate as assigned by the CBF.

- (b) Request for Proposals (“**RFP**”)or Request for Quotations (“**RFQ**”) may be done in a single-stage or as needed in a two-stage process. A two-stage process usually refers to RFPs/RFQs for consultancy services with a value of US\$200,000 and greater where in the first stage a number of eligible and qualified applicants are identified who will then be invited to submit an offer. In the first stage, applicants are required on the basis of a public Request for Application to demonstrate their qualification in terms of experience, capacity and resources to perform the Contract. Applicants which fulfil the requirements are considered prequalified and shortlisted. In the second stage, the RFP or RFQ, a technical proposal or service proposal and financial proposal shall be submitted and evaluated separately.
- (c) CBF will advertise on its website, with partner organization, potential suppliers and on social media. RFPs and RFQs with a value of US\$200,000 and greater should be given a 45 day period for responses by potential suppliers.
- (d) Offers received must be opened on the date specified in the document stipulated in item (a). An evaluation team will then be selected and the offers will be evaluated.
- (e) Evaluation should comply with section 3.5.3(f)(vi). The CBF reserves the right to adjust the criteria and method as required prior to the proposal submission deadline, which must be provided to all potential vendors.
- (f) A vendor is selected based on the accumulative points derived from an evaluation of both the technical and financial proposals. The vendor with the highest accumulative points is awarded the contract. At this stage, the CBF reserves the right to engage into a negotiation.
- (g) The CBF reserves the right to negotiate the price, method and scope of work after the selection process is complete. At no time in the process are the CBF staff or any other affiliate allowed to enter into negotiations that may invalidate the integrity of the procurement process.
- (h) The CBF will prepare a contract for agreement and signing where the services of a consultant are required. For goods, works and non-consultancy services this may require other documents as specified by the vendor (e.g. a purchase order).

3.5.2 Goods, Works and Non-consulting Services

For the procurement of goods, works and non-consulting services, specifications must list performance requirements or salient characteristics as well as appropriate nomenclature. Specifications cannot include make, model, or brand.

- (a) **Shopping** is a procurement method based on comparing price quotations obtained from several suppliers (in the case of goods), from several contractors (in the case of civil works), or service providers (in the case of non-consulting services) with a minimum of three, to assure competitive prices, and is an appropriate method for procuring limited quantities of readily available off-the-shelf goods, standard specification commodities of small value, or simple civil works of small value when more competitive methods are not justified on the basis of cost and efficiency. The selected provider is the one that offers the lowest price, provided they fulfil all the technical criteria and specifications stipulated for the specified demand.

If it is not possible to obtain at least three quotations, the reasons and justification why no other competitive method could be considered must be recorded. Requests for quotations shall indicate the description and quantity of the goods or specifications of works, as well as desired delivery (or completion), time and place. Quotations may be submitted by letter, facsimile, or by electronic means.

- (b) **Direct Purchase** may only be used when the values are very low or there is a clear justification for contracting a specific supplier. This justification must fit one of the cases described below:
- (i) purchasing of stationery and office supplies;
 - (ii) when previous jobs or processes underway need to be supplemented;
 - (iii) in emergency situations or when people’s physical integrity is at risk;
 - (iv) when standardized equipment or spare parts are needed in order to work with existing equipment;
 - (v) when the contractor requisitions the purchase of essential items from a specific supplier as a precondition for quality and performance; or
 - (vi) when a good or service is obtainable only from one supplier or one supplier has acknowledged expertise in the matter in question.

Requirements and approvals for goods, works and non-consulting services.

The Table below details the requirements and approvals required for the procurement of goods, works and non-consulting services.

Procurement of Goods, Works and Non-consulting Services Requirements and Approvals				
Amount (USD)	Requirements and Documentation	Reviewer	Approver	Designated Approver

<p>≤ 500.00</p>	<p>Price quotations and analysis not required.</p> <p>Report to Chief Executive Officer on the 5th of each month as required.</p> <p>No Procurement Report required.</p>	<p>No Review Required</p>	<p>Finance Officer (for amounts above USD100.00)</p>	<p>Direct Supervisor</p>
<p>500.01 – 3,000.00</p>	<p>Vendor research required with a minimum three price quotations comparing similar specifications or characteristics. Written justification required if the lowest price vendor is not selected.</p> <p>Quotations require filing.</p> <p>Evaluation form completed – between two or three persons evaluating based on criteria.</p> <p>Report to Chief Executive Officer on the 5th of each month as required.</p> <p>Procurement Report required.</p>	<p>No Review Required</p>	<p>Finance Officer</p>	<p>Direct Supervisor</p>

<p>3,000.01 – 30,000.00</p>	<p>Vendor research required with a minimum three price quotations comparing similar specifications or characteristics. Written justification required if the lowest price vendor is not selected.</p> <p>Quotations require filing.</p> <p>Evaluation form completed – between two or three persons evaluating based on criteria.</p> <p>Report to Treasurer on the 5th of each month as required.</p> <p>Procurement Report required.</p>	<p>Finance Officer</p>	<p>Chief Executive Officer</p>	<p>Treasurer</p>
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<p>30,000.01 – 500,000.00</p>	<p>Request for quotes to vendors, works or non-consulting service providers required indicating specifications or characteristics for goods, works or non-consulting services to be provided. Requests for quotations shall indicate the description and quantity of the goods or works. A minimum of three bids, including detailed pricing and a narrative explanation, are required.</p> <p>For service above US\$200,000, international competitive bidding is required. (see section 3.5.3(f))</p> <p>Report quarterly according to CBF financial quarters.</p> <p>Procurement Report required.</p>	<p>Chief Executive Officer</p>	<p>Executive</p>	<p>Executive Committee</p>	<p>Board of Directors</p>
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<p>≥ 500,000.01</p>	<p>Request for quotes to vendors, works or non-consulting service providers required indicating specifications or characteristics for goods, works or non-consulting services to be provided. Requests for quotations shall indicate the description and quantity of the goods or works. A minimum of three bids, including detailed pricing and a narrative explanation, are required.</p> <p>For service above US\$200,000, international competitive bidding is required. (see section 3.5.3(f))</p> <p>Procurement Report required.</p>	<p>Chief Executive Officer</p>	<p>Board of Directors</p>	<p>Board of Directors</p>
<p><i>The role of the reviewer is to ensure that the procurement procedures stipulated in this manual are adhered to prior to final approval submission. If the reviewer is unavailable this responsibility is placed on the approver.</i></p>				

3.5.3 Competitive Selection Methods for Consultancy Services

The CBF understands and recognizes the need to select a method on the procurement process. The organization will take into consideration any budgetary constraints, the length of the work required and the impact over-time. One of the following methods should be selected:

(a) *Quality and Cost-Based Selection (“**QCBS**”):*

QCBS uses a competitive process among shortlisted firms or individuals that takes into account the quality of the proposal or product and the cost of the service in the selection of the successful firm. Cost as a factor of selection is used judiciously. In general, the relative weight to be given to the quality and cost should be 80% and 20% respectively. The QCBS method of selection is preferred.

(b) *Quality-Based Selection (“**QBS**”):*

QBS is used for complex or highly specialized assignments for which it is difficult to define precise terms of reference (“TOR”) or assignments that have a high downstream impact and in which the overriding objective is to have the best experts. Because of the emphasis on the quality of the proposal, the RFP may request submission of a technical proposal only (without the financial proposal), or request submission of both technical and financial proposals at the same time, but in separate envelopes (two-envelope system).

(c) *Fixed Budget:*

This method is appropriate only when the assignment is simple and can be precisely defined and when the budget is fixed. The RFP indicates the available budget and requests that the consultants provide their best technical and financial proposals in separate envelopes, within the budget. TORs should be particularly well prepared to make sure that the budget is sufficient for the consultants to perform the expected tasks. Evaluation of all technical proposals is carried out first, then the price proposals are opened in public and prices read out aloud. Proposals that exceed the indicated budget are rejected. The consultant who has submitted the highest ranked technical proposal among the rest should be selected and invited to negotiate a contract.

(d) *Least-Cost Selection (“LCS”):*

This method is only appropriate for selecting consultants for assignments of a standard or routine nature such as, but not limited to, audits, engineering design of noncomplex works, and so forth where well-established practices and standards exist. Under this method, a “minimum” qualifying mark for the “quality” is established. Proposals, to be submitted in two envelopes, are invited from a shortlist. Technical proposals are opened first and evaluated. Those securing less than the minimum qualifying mark are rejected, and the financial proposals of the rest are opened in public.

(e) *Consultants’ Qualifications (“CQS”):*

This method may be used for small assignments (below US\$10,000.01) for which the need for preparing and evaluating competitive proposals is not justified. In such cases, the CBF should prepare the TOR, request expressions of interest and information on the consultants’ experience and competence relevant to the assignment, establish a shortlist, and select the firm or individual with the most appropriate qualifications and references. The selected firm or individual should be asked to submit a combined technical-financial proposal and then be invited to negotiate the contract.

(f) *Components of competitive selection procurement methods*

The following are *key components of competitive selection processes* described in sections (a) through (e).

- (i) *Terms of Reference (“TOR”)* that define clearly the objectives, goals, tasks and scope of the assignment, period of performance, minimum desired qualifications for service providers, description of how performance and deliverables will be evaluated and monitored, required reports and/or deliverable provide background information (including a list of existing relevant studies and basic data) to facilitate the consultants’ preparation of their proposals.
- (ii) *Budget.* A well-thought-through cost estimate is prepared to earmark realistic budgetary resources.
- (iii) *Advertising.* Information is disseminated by appropriate means in order to obtain proposals from several qualified firms or individuals. Pre-identification of experienced firms or individuals may be sought through “expressions of interest”. The information requested should be the minimum required to make a judgment on the firm’s suitability and not be so complex as to discourage consultants from expressing interest. TORs should be advertised for a minimum of 30 days except for bids over US\$200,000 which require a minimum of 45 days and international competitive bidding, including publication on a suitable Internet-platform(s) and/or as required by any specific CBF Donor. Thresholds for international competitive bidding may be stricter depending on the requirements of any particular Donor.
- (iv) *Shortlist.* A sufficient number of qualified firms is available for having a shortlist of firms with competitive costs. In general, a shortlist will comprise no less than three firms or individuals.
- (v) Request for Proposals (“**RFP**”). RFPs should include:
 - a) a letter of invitation (i.e. the services sought, the details of the CBF and the date, time, and address for submission of proposals);
 - b) information to consultants (i.e. the necessary information that would help assist the consultants prepare proposals);
 - c) TORs describing the activities and/or products to be delivered; and
 - d) the evaluation and award process (i.e. a description of how the evaluation process and award process will be conducted).

- (vi) *A Rating System for Evaluating Proposals.* The quality of a technical proposal is rated taking into account:
- a) the consultant’s / firm’s /individual’s relevant experience for the assignment;
 - b) the quality of the methodology proposed;
 - c) transfer of knowledge, if required in the TOR; and
 - d) weighted numerical ratings, consistent with the type and complexity of the assignment and taking into account any pre-selection using the above criteria, will be used to score the proposals.

Requirements and approvals for consulting services. The table below details the requirements and approvals required for the procurement of consulting services. The CFO and Chief Executive Officer are required to provide information on any procurement process as required by the CBF staff and Board.

Procurement of Consulting Services Requirements and Approvals				
Amount (USD)	Requirements and Documentation	Reviewer	Approver	Designated Approver
Up to 10,000.00	<p>Single Source Selection as justifiable in Section 3.5.4(a)</p> <p>Application package must be approved by CBF Chief Executive Officer prior to publication.</p> <p>Evaluation form completed – minimum of three-person selection committee evaluating based on criteria.</p> <p>Report to the Chief Executive Officer on the 5th of each month as required.</p> <p>Procurement Report required.</p>	Finance Officer	Program Manager	Chief Executive Officer

<p>10,000.01 – 30,000.00</p>	<p>Competitive Selection of Consulting Services required.</p> <p>Application package must be approved by Treasurer prior to publication.</p> <p>Evaluation form completed – minimum of three-person selection committee evaluating based on criteria.</p> <p>Single Source Selection as justifiable in Section 3.5.4(a)</p> <p>Evaluation form completed – between two or three persons evaluating based on criteria.</p> <p>Report to Executive Committee on the 5th of each month as required.</p> <p>Procurement Report required.</p>	<p>Finance Officer</p>	<p>Chief Executive Officer</p>	<p>Treasurer</p>
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<p>30,000.01 – 500,000.00</p>	<p>Competitive Selection Method for Consulting Services required.</p> <p>For service above US\$200,000, international competitive bidding is required. (see section 3.5.3(f))</p> <p>Application package must be approved by Board of Director prior to publication.</p> <p>Evaluation form completed – minimum of three-person selection committee evaluating based on criteria.</p> <p>Single Source Selection as justifiable in Section 3.5.4(a)</p> <p>Report to the Board on the 5th of each month as required.</p> <p>Procurement Report required.</p>	<p>Chief Executive Officer</p>	<p>Executive Committee</p>	<p>Board of Directors</p>
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<p>≥ 500,000.01</p>	<p>Competitive Selection Method for Consulting Services required.</p> <p>For service above US\$200,000, international competitive bidding is required. (see section 3.5.3(f))</p> <p>Application package must be approved by CBF Chief Executive Officer prior to publication.</p> <p>Evaluation form completed – minimum of three-person selection committee evaluating based on criteria.</p> <p>Single Source Selection as justifiable in Section 3.5.4(a)</p> <p>Procurement Report required.</p>	<p>Chief Executive Officer</p>	<p>Board of Directors</p>	<p>Board of Directors</p>
<p><i>The role of the reviewer is to ensure that the procedures stipulated in the policy are adhered to final approval submission. If the reviewer is unavailable this responsible is placed on the approver.</i></p>				

3.5.4 Non-competitive Selection Methods for Consulting Services

- (a) The CBF recognizes that non-competitive selection is an exceptional practice that may be justified in certain cases. In those cases, the following selection method may be used:

Single Source Selection (“SSS”). SSS does not involve a competitive selection process and may be appropriate only if it presents a clear advantage over competition such as (a) for tasks valued at less than US\$10,000 that represent a natural continuation of previous work carried out by the firm or individuals, provided they do not exceed 25% of the original contract value; (b) in emergency cases, such as in response to disasters and for consulting services required during the period of time immediately following the emergency; (c) for very small assignments; or (d) when only one firm is qualified or has experience of exceptional worth for the assignment.

3.5.5 Conflict of Interest and Sanctionable Actions

- (a) In implementing this procurement policy and these procedures, the CBF will apply its best efforts to identify whether the following potential or real conflicts of interest are present in the selection process:
 - (i) conflict between consulting activities and procurement of goods, works or services that will be supplied to the CBF or previous involvement in the selection process;
 - (ii) conflict among consulting assignments: neither consultants (including their personnel and sub-consultants) nor any of their affiliates shall be hired for any assignment that, by its nature, may be in conflict with another assignment the consultants have accepted for the CBF; and
 - (iii) relationships with CBF staff: conflict arising when the goods or service provider (including their personnel and sub-consultants) have a business or family relationship with the CBF Secretariat's staff or a CBF Director, or anyone else with a material interest in or control over the CBF.

The Board is the final authority for decisions related to potential or real conflicts of interest in any selection process.

- (b) The CBF recognizes that actions of both staff and vendor are capable of a breach of procedure or contract in relation to the procurement process. Both parties can be sanctioned when:
 - (i) a member of the CBF staff or potential vendor, makes any offer to reward the staff, firm or individual for the award of work;
 - (ii) a potential vendor interferes with the procurement process by requesting information on other offers made to the CBF;
 - (iii) a member of staff of the CBF does not disclose a conflict of interest which is integral to the selection process;
 - (iv) the selected vendor does not meet deliverables in a specified time (with a reasonable allowance of an extension); and/or
 - (v) a selected vendor breaches the contract by either ceasing to work intentionally or without reason.

(c) For consultancy services, a declaration of undertaking must be signed upon signature of the contract.

3.6 Procurement Reports

- 3.6.1 Documentation for each procurement process shall be registered, as required in Section 3.5, in a Procurement Report that includes, as appropriate, the following:

- (a) a narrative report, including:
 - (i) the procurement and advertisement methods used;
 - (ii) the date of invitation to quote/apply;
 - (iii) the deadline for quotes/applications;
 - (iv) the estimated cost of the goods, works, or services being procured;
 - (v) the responses to bid;
 - (vi) the evaluation criteria utilized and scoring; and
 - (vii) the selected candidate or quote;
- (b) Terms of Reference; and
- (c) invitations(s) to bid.

3.7 Use of the CBF Procurement Policy by beneficiaries and grantees

All CBF beneficiaries and grantees shall guide their procurement procedures according to the policy described above. They can implement their own procurement manual if approved by the CBF or implement Section 3 of this Operational Manual. In the second case, they will read their own institution's name where it is written the "CBF" and threshold tiers shall be adjusted with approval of the CBF Secretariat to align with the organization's structure, financial and obligation capacity. Regardless of which manual is chosen to be implemented by the grantee or partner, all procurement over US\$30,000 requires a no-objection from the CBF's program manager (the "**Program Manager**") and in his/her absence the Chief Executive Officer. The decision on which procurement manual is implemented by each beneficiary or grantee will be recorded in the proper legal agreement between CBF and the beneficiary or grantee.

3.8 Contracting of staff

For the contracting of staff, the same key components of the competitive selection process mentioned above apply. The CBF Secretariat will prepare in advance of each contracting process a comprehensive tender document that specifies details of timelines, application and evaluation procedures.

Meetings and associated procedures

3.9 General Meetings

- 3.9.1 Written notice of a General Meeting must be sent to Members in advance of the General Meetings following the notice procedures set forth in Section 8 of the Articles.

3.9.2 The Chief Executive Officer must record and keep (or cause to be recorded and kept) accurate and complete minutes of all General Meetings, which must include:

- (a) the approved agenda;
- (b) names of Members present and, if relevant, the proxies of any Members and the appointor of the proxy;
- (c) proceedings;
- (d) decisions taken at the meeting; and
- (e) decisions taken by written resolution since the last meeting,

provided also that the Chief Executive Officer must file a copy of all such minutes with the Registered Secretary.

3.10 Meetings of the Board of Directors

3.10.1 Written notice of meetings of the Board must be sent to Directors in advance of the meetings following the notice procedures set forth in Section 8 of the Articles.

3.10.2 Meetings shall be presided by the Chairperson. The Vice Chairperson shall replace the Chairperson and exercise all of the powers and duties of the latter in the event of an absence or vacancy of the Chairperson. In the event of the absence or vacancy of both the Chairperson and Vice Chairperson, the Directors in attendance shall appoint from among themselves a meeting Chairperson.

3.10.3 The Board may in its reasonable discretion grant observational rights to any party, revocable by the Board at any time, relating to meetings of the Board (the “**Observer Rights**”). Observer Rights will be granted to such parties in accordance with Section 17.5 of the Articles and those parties may include representatives from the following:

- (a) Participating Countries’ governments;
- (b) partners; and
- (c) civil society members.

3.10.4 The Chief Executive Officer must keep and record (or cause to be recorded and kept) accurate and complete minutes of all Board Meetings, which must include:

- (a) the appointments of officers made by the Directors;
- (b) proceedings;
- (c) names of the Directors present at the Board Meeting;

- (d) decisions taken at the Board Meetings;
- (e) where appropriate, the reasons for decisions; and
- (f) decisions taken by written resolution since the last Board Meeting.

3.11 Conflicts of Interest

- 3.11.1 The CBF has established a conflicts of interest policy with regard to its Directors and their associated duties (the “**Conflicts Policy**”), a copy of which is attached hereto as Annex 2. In general, the Conflicts Policy provides guidance on the legal requirements and sets out the policy of the CBF in relation to conflicts of interest. The following is a general overview of the Conflicts Policy.
- 3.11.2 Each of the Directors and staff of the CBF (including the Chief Executive Officer) must declare in a written statement addressed to the Chairperson of the Board, or if the Chairperson is in conflict, to the other Directors in general, the nature and extent of any interest, direct or indirect, which he or she has in a proposed transaction or arrangement with the CBF or in any transaction or arrangement entered into by the CBF which has not previously been declared, unless the transaction or arrangement is permitted by the Articles.
- 3.11.3 A Director should absent himself or herself from any discussions of the Board in which it is possible that a conflict will arise between his or her duty to act solely in the interests of the CBF and any personal interest (including but not limited to any personal financial interest).
- 3.11.4 The un-conflicted Directors may (subject to such terms and conditions, if any, as they may see fit to impose from time to time, and subject always to their right to vary or terminate such authorisation) authorise:
- (a) any matter which would otherwise result in a Director infringing his or her duty to avoid a situation in which he or she has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the CBF and which may reasonably be regarded as likely to give rise to a conflict of interest; and
 - (b) a Director to accept or continue in any office, employment or position in addition to his or her office as a Director of the CBF and without prejudice to the generality of Section 23 of the Articles may authorise the manner in which a conflict of interest arising out of such office, employment or position may be dealt with, either before or at the time that such a conflict of interest arises.
- 3.11.5 The Director in question and any other interested Director are not counted in the quorum at any Board meeting at which such matter, or such office, employment or position, is approved and it is agreed to without their voting or would have been agreed to if their votes had not been counted.

3.11.6 An interest includes both direct and indirect interests but excludes an interest which may arise due to the Director's involvement in the management of a not for profit beneficiary of the CBF.

3.11.7 The CBF may from time to time also establish conflicts of interest policies with regard to its other advisers, consultants and third party and other professionals engaged on its behalf and each of their associated duties. Any such policies established shall be similar in nature to those in place from time to time with regard to the Directors and shall be established based on the relevant engagements in place and the other operational needs of the CBF on an *ad hoc* basis.

3.12 Contracts and Decision Processes

In authorizing or signing documents or instruments in writing for the CBF and in making decisions in relation thereto, the Board, the Directors, the Chief Executive Officer and the CBF Secretariat shall at all times act in accordance with the Articles, the CBF Authority Policy, this Operational Manual and all other operational manuals of the CBF from time to time.

4. CBF INSTRUMENTS AND GENERAL BENEFICIARY FUNDING

4.1 General funding strategy and transfer policies

4.1.1 The CBF shall establish and maintain any and all financial instruments and facilities and funding structures and mechanisms as are necessary for or incidental or ancillary to the implementation and accomplishment of the Objects from time to time.

4.1.2 In connection with the above initiative, the CBF will establish and implement such policies and procedures as are necessary to ensure the safeguarding and effective transfer and use of all CBF funds, including specific checks and balances and other obligations owed by beneficiaries to the CBF in connection therewith, and may develop further, bespoke operational manuals from time to time to govern individual elements from within the wider CBF finance architecture.

5. ENVIRONMENTAL AND SOCIAL SAFEGUARDS

5.1.1 General

This paragraph describes the principles and implementation of environmental and social safeguards that the CBF shall apply to its income and assets, and the distribution of resources to eligible beneficiaries.

- (a) By way of overall considerations in achieving its Objects, as defined in Article 2 of the Articles, CBF investments and resources distributed by the CBF to eligible entities that achieve benefits in one area should not lead to adverse environmental or social impacts in other areas. All efforts should be made to avoid adverse impacts, and if avoidance is not feasible, then they should be minimized, mitigated, and offset, as appropriate.

- (b) The CBF environmental and social investments safeguards or screens shall be defined in the CBF Investments Policy as approved by the CBF Board of Directors from time to time.
- (c) In order to safeguard the CBF's distribution of its resources, firstly, all resources distributed by the CBF to eligible entities are expected to generate significant positive environmental benefits in conserving the natural integrity and biodiversity of the Participating Countries. Secondly, any such resources distributed are expected to catalyze positive social outcomes related to the improvement of natural resources and environmental conditions and potential economic benefits to local populations from improved tourism and other economic opportunities.
- (d) Notwithstanding the safeguards and considerations outlined above, the CBF generally recognizes that, during the implementation of activities supported by the CBF, there may be unintended adverse, environmental, social and economic consequences.

5.1.2 The CBF safeguarding principles:

In order to address any potential or unintended adverse environmental and social consequences due to the use of CBF resources to implement any activity, the following safeguarding principles shall be upheld by the CBF and any entity eligible to receive CBF resources.

- (a) Environmental and Social Impact Assessment: ensure that activities supported by the CBF's resources include an initial screening for potential environmental and social impacts associated with the design, construction, and use of any activities using environmental and social guidelines, as applicable, and the identification of measures to mitigate the impacts identified, must be undertaken by proponents at the national level consistent with this Operational Manual, the respective partnership agreement between the NCTF and the CBF and the respective country's legal and regulatory requirements. Environmental and social assessments should be conducted as needed.
- (b) Biodiversity Conservation, Natural Habitats, and Sustainable Management of Living Resources: ensure that activities supported by the CBF's resources do not adversely impact biodiversity, habitats, or ecosystem services and avoid or minimize any adverse impact on ecosystem services of relevance to affected communities.
- (c) Involuntary Resettlement: ensure that activities supported by the CBF's resources avoid or minimize involuntary resettlement and the adverse social and economic impacts that can result when a project involves involuntary resettlement, acquisition of land or other assets, or restrictions on the use of or access to terrestrial or marine resources. Involuntary resettlement is understood to comprise both physical displacement of individuals or communities and economic displacement through loss of assets or involuntary restrictions on

access to legally designated parks and protected areas resulting in adverse impacts on the livelihoods of affected persons.

- (d) **Indigenous Peoples and Local Communities:** ensure that activities supported by the CBF's resources respect the rights of Indigenous Peoples and local communities and take into account their views, needs and rights, respect their cultural uniqueness, avoid any harm from CBF supported activities, and promote opportunities to improve their livelihoods.
- (e) **Stakeholders Participation and Gender Equality:** ensure that activities supported by the CBF's resources that may impact positively or negatively different stakeholders address this issue by (i) ensuring stakeholder consultations are carried out; (ii) providing guidelines to proponents to include sustainable development action plans which would harmonize social strategy with conservation practices to offer sustainable alternatives to substitute damaging practices; (iii) ensure the integration of gender perspectives to promote gender equality and the empowerment of women in sustainable development; and (iv) undertaking adequate M&E to verify adoption of these guidelines.
- (f) **Physical Cultural Resources and Cultural Heritage:** ensure that the use of the CBF's resources does not result in adverse impacts to tangible cultural heritage.

5.1.3 Safeguards implementation:

Implementation of these safeguarding principles shall be conducted as follows:

- (a) activities financed by the CBF must observe all of the above safeguarding principles;
- (b) each recipient of the CBF's resources shall adhere to the safeguarding principles described in paragraph 5.1.2 by including these principles as an annex in any legal agreement signed between the CBF and the relevant recipient and shall report on these as stipulated in the agreement;
- (c) if a recipient already has safeguarding policies in place, the CBF shall critically review these and determine whether or not they are equivalent to and align with the standards set out in the safeguarding principles in paragraph 5.1.2;
- (d) each recipient of the CBF's resources that makes an onward grant of those resources shall ensure that the ultimate recipient observes all safeguards set out in this Operational Manual; and
- (e) the CBF and all recipients of its resources may be subject to external audits to review and assess compliance with the safeguarding principles set out in this Operational Manual.

6. INVESTMENT OF FINANCIAL ASSETS

6.1 Introduction

6.1.1 The CBF will hold contributions from time to time from various Donors and other sources of finance and funding as provided for in paragraph 4.1 in order to generate long-term sustainable financing for carrying out the Objects.

6.1.2 Any and all funds held will be properly and diligently allocated to relevant beneficiaries and carefully administered by the CBF and, as applicable, by an investment manager on its behalf, in accordance with the relevant CBF policies and procedures, the Articles and this Operational Manual, including, without limitation, by allocating funds to various accounts and sub-accounts of Participating Countries, their affiliated NCTFs and any other relevant institution, organization, entity or person that has been approved as a beneficiary of the CBF in accordance with the relevant CBF policies and procedures, the Articles and this Operational Manual from time to time.

6.1.3 The Board is responsible for contracting with an investment manager, investment consultant, custodian, registered agent and any other professional service provider that is engaged in the interest of sound operation of the CBF. The Board will appoint a Chief Executive Officer to attend to the Board's operational and administrative needs.

6.2 Investment Policy

The CBF shall, at its discretion, establish and maintain investment polic(y/ies) to govern the relevant sources of finance and funding as provided for in paragraph 4.1. The CBF relies on the financial expertise of its Finance Committee to develop any such investment polic(y/ies) and guidelines, as well as spending polic(y/ies), which shall be discussed and considered for approval by the Board.

6.3 Investment management performance evaluations

The Board, in consultation with its Finance Committee, is responsible for evaluating the investment consultant's or investment manager's performance. The Board assumes this responsibility through annual meetings with the investment consultant or investment manager, and the Finance Committee carries out this responsibility through quarterly examinations and discussion of current year and cumulative results in comparison with a target portfolio and reference indices, by teleconference or physical meetings.

7. ACCOUNTS AND AUDITS

7.1 Accounts

Accounts are prepared in accordance with the requirements under the Acts and the UK Accounting Standards Board (the "UK ASB") code of practice. The Chief Executive Officer and his or her staff are responsible for keeping the accounts and for producing statements at the end of the financial year that present a true and fair value of the CBF's worth. The statements comprise: (1) a SOFA; (2) a balance sheet and (3)

explanatory notes that explain in more detail how income and expenditure is made up and gives extra information about particular assets and payments.

7.2 Audits

7.2.1 The accounts of the CBF are subject to an annual audit in accordance with the procedures required by part 16 of the Companies Act 2006 or, otherwise, at the request of a Donor, to provide independent scrutiny of accounts. In accordance with World Bank requirements, the auditor should be a registered auditor who, as an audit professional, applies auditing standards issued by the UK APB.

7.2.2 Audit terms of reference will specify that the auditor will (i) be a “**registered auditor**” who is registered with a recognized supervisory body in accordance with the Companies Act 2006 and (ii) use accounting recommendations and guidance of the Charities SORP (FRS 102) (attached hereto as Annex 3) that supplement accounting standards for registered UK charities as a reference point.

7.2.3 The auditors shall conduct annual audits for a period of three consecutive fiscal years at which time the Board will select a new auditor.

8. REPORTING

8.1 UK Requirements

The table below sets out the various mandatory financial and reporting requirements of the CBF¹ and documents to be provided to oversight bodies in accordance with the Acts and other applicable laws:

Recipient	Document	Brief Description	Applicable directives ²	Submission Date	Disclosure
Charity Commission					
	Annual Accounts	Presentation of the CBF’s financial situation through its (1) sources of income and expenditure, and (2) assets and liabilities.	The entities created under the Companies Act, use the accrual accounting method and present: A balance sheet. A statement of financial activities (“ SoFA ”) showing all income and expenditure during the year. An income and expenditure	At the latest, 10 months after the end of the financial year.	Available to the public.

¹ The submission dates for the documents required by UK oversight bodies differ from the submission dates required by Donors. The latter appear in §6.2.

² Obligatory according to the Charities SORP (FRS 102) or the Companies Act 2006.

			account (except where incorporated in the SoFA). Explanatory notes.		
	Audit	Financial audit of the CBF's accounts.	The auditor is independent and applies the standards of the Auditing Practices Board.	At the latest, 10 months after the financial year-end.	Available to the public.
	Annual Return	Update of general information on the CBF, including questions on income and spending, trustee payments, employees, assets and liabilities.	Annual accounts and annual trustees' report also to be submitted.	At the latest, 10 months after the financial year-end.	Available to the public.
	Trustees' Annual Report	A succinct but comprehensive report on the activities of the CBF for the past year. ³ In practice, companies normally produce a director's report and the report is expanded to include all the information required to be included in the annual report.	A list of Directors in place at the end of the year and those who served in the course of the year. The name, address, number and purpose of the CBF. A declaration on management of risks. The Objectives and activities of the CBF. The achievements and performance of the CBF. A financial review of the CBF. The structure, governance and management of the CBF. Reference and administrative details of	At the latest, 10 months after the financial year-end.	Available to the public.

³ Sufficient information must be made available to allow various stakeholders to evaluate the performance of the CBF.

			<p>the CBF.</p> <p>A summary of the arrangements for investing the assets.</p> <p>Performance of the invested portfolio</p> <p>Grant making policy.</p> <p>Other subjects listed on the web site of the Charities Commission and in the Charities SORP (FRS 102).</p> <p>-Subjects that are desirable, but not mandatory.⁴</p>		
Companies House					
	Accounts	See section on accounts above.	See section on accounts above.	At the latest, 9 months after the end of the relevant accounting reference period.	Available to the Public.
	Audit	<p>An auditor's report is to be filed with the accounts.</p> <p>To be exempt, the Company must meet any 2 of the following:</p> <p>(1) annual turnover must be not more than £10.2 million; or</p> <p>(2) the balance sheet total must be not</p>	The auditor must be independent.	At the latest, 9 months after the end of the relevant accounting reference period.	Available to the Public.

⁴ According to Publication RS8 – *Transparency and Accountability*, the treatment of the following subjects is desirable to attain “**best practice**”: (1) The activities and amounts spent on the activities of the CBF; (2) Expenditures made on fundraising activities; (3) The impact of activities; (4) Management expenses of the CBF; (5) The policy for investing assets; (6) Sources for contributions received by the CBF.

		more than £5.1 million; or (3) the average number of employees must be not more than 50.			
	Director's Report	A Director's Report is to be filed with the accounts. See section on Director's Report above.	See section on Director's Report above. Must also include the topics required by Chapter 5 of the Companies Act 2006.	At the latest, 9 months after the end of the relevant accounting reference period.	Available to the Public.
	Annual Return	Update of general information on the CBF.		At least once every 12 months. To be submitted within 10 months of the end of the CBF's financial year.	Available to the public.

8.2 Donor Requirements

The CBF is also responsible for making various documents accessible to the Donors in accordance with the requirements of any relevant, binding agreements entered into with them from time to time.

9. EVALUATIONS

The Board may, at its discretion, request that the CBF be the subject of an independent evaluation covering any or all of the following: the effectiveness of its governance structures, grant-making operations and impact on conservation.

ANNEX 1
CBF AUTHORITY POLICY



Powers of Representation and Signatory Authorities Policy and Procedures

The objective of this Policy and Procedure is to provide additional guidelines and record on the CBF powers of representation and signatory authorities to facilitate different decision-making processes in accordance with the CBF Articles of Association and Operational Manual. If a provision of this Policy and Procedures document at any time conflicts or is otherwise inconsistent with a provision of the CBF's articles of association (the "**Articles**") and/or its operational manual (the "**Operational Manual**"), the relevant provision of the Articles and/or the Operational Manual, as applicable, shall prevail and the CBF Board shall procure a variation of this Policy and Procedure document to the extent necessary to permit them to administer their affairs as provided herein.

This policy shall be reviewed as and when the CBF Board of Directors determines and in any event no less frequently than annually. Adopted by the Directors on this day of 2016.

Defined terms in this Policy and Procedure document shall have the meanings given to them in the Articles or the Operational Manual, as applicable, unless expressly provided otherwise.

A. CBF Board of Directors
A.1 Simple Majority Decisions
Subject to Article 18.3 (Vacancies), every Director shall have one (1) vote in relation to powers of Directors.
Operational Manual Section 2.1
The Directors manage the business of the CBF and exercise all the powers of the CBF unless the
Directors are subject to restrictions imposed by the Acts, the Articles or any Member Resolution.

CBF Secretariat

6 Colonial Hill Plaza * Thompson Blvd. A * PO Box CB 11398 * Nassau * Bahamas
(UK Registered Charity: 1149889 * UK Registered Company: 8204716)

<p>The Directors' responsibilities include:</p> <ul style="list-style-type: none">a) Approving, periodically reviewing and modifying (as necessary) the policies and procedures that guide the operations of the CBF;b) Approving, periodically reviewing and modifying (as necessary) this Operational Manual;c) Authorizing the opening of bank accounts;d) Designating signatories for accounts, contracts and any other instruments that commit the CBF's resources;e) Contracting with an investment manager, investment consultant, custodian, registered agent and any other professional service provider that is engaged in the interest of sound operation of the CBF;f) Appointing and supervising activities of a CBF CEO to attend to the Board's operational and administrative needs;g) Controlling the use of funds; andh) Appointing or replacing an independent outside auditor.
Article 17.5 and Operational Manual Section 2.6
Vertical Agreements approval subject to Article 10.2 (c).
Approve CBF Secretariat staff selection upon recommendation by the CBF CEO.
Selection or reappointment of CBF accountants.
Approve contracts for services of amounts in excess of US\$50,000.
Approve funding proposal to donors of over US\$1,000,000.
A.2 Special Majority Vote (3/4) Decisions
Article 10.2 (c) <ul style="list-style-type: none">(i) adopt, or amend, the Operational Manual;(ii) adopt, or amend, the CBF's Investment Guidelines;(iii) appoint, or replace, the CBF's auditor;(iv) appoint, or replace, the CBF's investment advisor;

CBF Secretariat

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<p>(v) request any amendment or change to the Articles by the Members;</p> <p>(vi) grant Observer Rights to any person; or</p> <p>(vii) remove a Director in accordance with Section 18.2 of the Articles.</p>
B. CBF Members Written Resolutions
Article 11.2 A Member Resolution is required to: (a) amend, restate, modify or replace the CBF's memorandum of association or the Articles; (b) enter into, amend, restate, modify, assign or terminate any Vertical Agreement; (c) cause a suspension or termination or otherwise affect a National Protected Areas Trust Fund's right to receive payments under a Vertical Agreement; (d) authorize the payment of any Administrative Expenses that would cause the total cost of Administrative Expenses in any Fiscal Year to exceed one percent (1%) of the Reference Endowment Value; (e) authorize any Recapitalization; or (f) admit new Members.
Selection or re-appointment of CBF Auditors ¹
C. CBF Executive Committee (Unanimous approval)
Provide policy guidance as required to the CBF CEO with regards to: <ul style="list-style-type: none">• CBF day-to-day activities;• CBF Policies and Procedures.
Approve NPATFs Payments Request as stipulated in the CBF Payments and Transfers Policy and Procedures
Approve contracts for services or acquisition of goods of US\$20,001 – US\$50,000.

¹ Required by the UK Company's Act

Approve proposals to donors up to \$1,000,000.
D. CBF Board Chair and Vice-Chair or Treasurer (Dual approval/signature)
Negotiate and sign CBF CEO contract. Upon CBF Board approval and signature of Members written resolution, signature of Vertical Agreements on behalf of the CBF.
E. CBF Board Chair and Treasurer (Dual approval/signature)
Signature of contract with the CBF's investment manager. Signature of any CBF investment bank account. Signature for transaction from CBF's endowment or other investments accounts. Approve contracts for services of US\$10,001 – US\$20,000. Approval of transfers to an NPATF within a CBF payment Period
F. CBF Board Chair
Operational Manual Section 2.6 Preside over CBF Board Meetings Preside over CBF Executive Committee
Day-to-day supervision of CBF CEO Approve CBF CEO monthly reports Signature and approval authority and access over any CBF Secretariat operational account(s), including accounts related to the implementation of projects ²
G. CBF Finance Committee
G.1 Finance Committee
Provide recommendations to the CBF Board with regards to changes to the

² CBF Board Chair authorised as sole signatory and approver in any one instance as alternative to Committee Chair or CBF Secretariat management (and vice versa), each of whom have like authority under this policy and procedures

<p>CBF Investments Policy and CBF Finance Committee Charter</p> <p>Oversee the investment portfolio and other finance matters related to the operations of the CBF, such as annual accounts and audits and any other more specific, related matters set out in the CBF Finance Committee Charter from time to time</p>
<p>G.2 Committee Chair (CBF Treasurer)</p>
<p>Preside over the CBF Finance Committee</p> <p>Approve guidance to CBF Investment Manager within the bounds of the CBF Investment Policy and CBF Finance Committee Charter.</p> <p>Approve CBF CEO expense reports</p> <p>Signature and approval authority and access over any CBF Secretariat operational account(s), including accounts related to the implementation of projects</p>
<p>H. CBF CEO</p>
<p>H.1 Vertical Agreements</p>
<p>Negotiate Vertical Agreement with NPATFs that have submitted a CBF Eligibility Request.</p>
<p>H.2 CBF Secretariat Management</p>
<p>Lead CBF staff hiring process.</p> <p>Negotiate and sign CBF staff contracts upon CBF Board approval.</p> <p>Signature and approval authority and access over any CBF Secretariat operational account(s), including accounts related to the implementation of projects</p> <p>Approval and signature of service contracts of up to US\$10,000.</p> <p>Signature of all other contracts, memoranda of understandings, partnership agreements, and other similar documents provided required approvals are obtained as stipulated in this Policy and Approval.</p>
<p>H.3 Institutional Representation</p>
<p>Represent CBF in meetings, national, regional and international fora.</p> <p>Approve CBF press releases and other public position papers.</p>

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ANNEX 2
CONFLICTS OF INTEREST POLICY FOR THE CARIBBEAN BIODIVERSITY
FUND



CONFLICTS OF INTEREST POLICY AND PROCEDURES

All existing and new Directors shall receive a copy of this policy and shall be deemed to have accepted it. For the purpose of this policy “**Directors**” means the directors and chief executive officer appointed and in office from time to time in accordance with the CBF’s Articles and “**Director**” means any one of them.

1. Introduction

- 1.1 The aim of this document is to give guidance on the legal requirements and set out the policy of the CBF in relation to conflicts of interest.
- 1.1 Each Director owes a duty of loyalty to the CBF and a number of general duties to the CBF in addition. Among these are a number of statutory directors’ duties, including a duty to act in accordance with the CBF’s constitution (ie. its Articles), a duty to promote the success of the CBF for the benefit of its members as a whole, a duty to avoid conflicts of interest, a duty not to accept benefits from third parties and a duty to declare interests in transactions involving the CBF. Failure to observe these duties may constitute a breach of directors’ duties and may result in the Director being personally liable to enforcement by the CBF or, in some cases, its members.
- 1.2 Taking into account the general duties above, Directors must properly manage situations where there may be a conflict of interest.

2. What is a conflict of interest?

- 2.1 In general terms, a conflict of interest means any situation where an interest of a Director (whether personal, by virtue of duty of loyalty to another organisation or otherwise) conflicts, or might possibly be regarded as conflicting, with the interests of the CBF (or, for example, the Director’s duty of loyalty to the CBF or its duty to promote the success of the CBF).
- 2.2 The separate duty not to accept benefits from third parties could also result in a conflict of interest. Conflicts of interest are not just about personal benefits or benefits received by people or organisations connected with a Director. Certainly, the conferring of such benefits may give rise to conflicts that need to be authorised and managed. However, a conflict (or appearance or possibility of a conflict) can arise simply because a Director has interests in or

loyalty or other duties owed to other organisations whose interests might conflict with those of the CBF.

- 2.3 Where a conflict of interest arises for a Director as a result of circumstances affecting a connected person, it is the Director that must comply with this policy – not the connected person (unless the connected person is also a Director).

3. Overview of the conflicts procedure

- 3.1 A Director must declare any interest in any matter to be decided by the Directors.

- 3.2 Any conflict between the interests of the CBF and the interests of a Director, and any conflict between the duty of loyalty owed to the CBF and the duty of loyalty a Director may have to any other organisation must be:

3.2.1 identified;

3.2.2 managed in accordance with the Articles; and

3.2.3 recorded and reported in the minutes of the meeting.

4. Declaring interests

- 4.1 All Directors must declare their interests, and any gifts or hospitality received in connection with their role in the CBF. There is no legal definition of what is an “interest”. It is just a question of common sense whether circumstances are such that a Director has an interest.

- 4.2 A Director Declaration of Interests Form is attached at Appendix A. This should be completed:

4.2.1 by all new Directors;

4.2.2 annually by all existing Directors; and

4.2.3 when any existing Director becomes aware of a new interest.

- 4.3 Directors should err on the side of caution when completing their Declaration of Interests form, listing all interests that may give rise to a conflict of interests.

- 4.4 A Register of Directors’ Interests will be maintained by the Secretary or, if none, the Chairperson and be accessible to the Directors. A model Register is attached at Appendix B.

5. Identifying conflicts of interest

- 5.1 Each agenda for Director meetings (or for a Director decision to be made outside a meeting) will include an item for declaration of interests and identification of any conflicts or potential conflicts of interest.
- 5.2 Prior to, or at the beginning of any Director decision making process (or committee meeting), Directors must declare any interest in relation to matters on the agenda and whether or not they think this may give rise to a conflict of interest. Directors not attending the meeting or taking part in the decision making process should declare any interest in advance to the Chairperson. Notwithstanding anything to the contrary in the Articles, the CBF's policy is that all interests should be declared at each meeting to avoid uncertainty.
- 5.3 The declaration can be by oral notification to the Chairperson or, in the case of interests not previously disclosed, by using the form attached as Appendix A. Any new interests declared in this way will be entered in the Register.
- 5.4 After disclosure by a Director of an interest, the other Directors will have the right to determine (without the interested Director being present) whether a conflict exists in the circumstances. Any determination regarding the existence of a conflict will be made by a majority vote of the other Directors taking part in the decision-making. The interested Director cannot vote or be counted in the quorum in relation to the decision about whether their interest does or does not give rise to a conflict.
- 5.5 Under the relevant legislation a breach of the duty to avoid conflicts of interest will not arise where the situation "cannot reasonably be regarded as likely giving rise to a conflict" – a so called general safe harbour under the legislation. If this safe harbour is used in any given situation of a possible conflict or receipt of a benefit from a third party, it is advisable for the Directors to record their reasons for deciding that there was no conflict of interest concern.

6. Consequences of establishing a conflict of interest

If a Director has a conflict of interest the Director must disclose the material facts as to the relevant interest, including the nature and extent thereof, to the board of Directors, in accordance with this policy and must absent himself or herself from any discussions or votes of the Directors related to such matter, unless otherwise determined by the board.

7. Additional considerations where interests arise from potential benefits to a Director

- 7.1 The Directors and certain persons regarded as "connected" with them cannot receive any benefits from the CBF except to the extent permitted by:
 - 7.1.1 the Articles;

- 7.1.2 Sections 73A and 73B of the Charities Act 2006;
 - 7.1.3 the Companies Act 2006; and
 - 7.1.4 the Charity Commission or the Court.
- 7.2 The direct and indirect benefits permitted to a Director under the Articles are outlined in Section 4.4, and include:
- 7.2.1 subject to the Articles, the CBF may make payments to a National Protected Areas Trust Fund from which a Director has been appointed;
 - 7.2.2 a benefit received from the CBF in the Director's capacity as a beneficiary of the CBF, provided that a majority of the Directors do not benefit in this way and the benefit is approved by a majority of the disinterested Directors;
 - 7.2.3 reasonable and proper payments from a donee or grantee of the National Protected Areas Trust Fund that appointed such Director on account of services performed by such Director on behalf of such donee or grantee;
 - 7.2.4 insurance designed to indemnify the Directors in accordance with the terms of, and subject to the conditions in, Section 73F of the Charities Act 1933;
 - 7.2.5 the payment by the CBF of reasonable and proper premiums in respect of indemnity insurance effected in accordance with the Articles; and
 - 7.2.6 a Director or other officer of the Charity may receive payment under an indemnity from the Charity in accordance with the indemnity provisions set out in the Articles.
- 7.3 If a proposed benefit to a Director is not permitted under the Articles, legal advice should be obtained before proceeding.
- 8. Directors appointed by external bodies and ex officio Directors**
- 8.1 Ex officio Directors and Directors appointed by external bodies are likely to face potential conflicts and they must manage conflicts carefully.
 - 8.2 It is a general principle of charity law that appointed Directors must act independently of the body which appointed them and act only in the best interests of the charity. If this would lead to a Director acting in a way which conflicts with the interests of the body appointing them, the Director must consider whether they personally have a conflict of interest – they may do if they owe a duty of loyalty to the appointing body.
 - 8.3 Any conflict of interest must be managed in accordance with this policy and the CBF's Articles.

9. Situations where all the Directors have a conflict of interest

- 9.1 Where the full board is conflicted, the Directors should seek legal advice. Options include seeking an order from the Charity Commission (under Section 26 of the Charities Act 1993) sanctioning the proposed action.

10. Record keeping

All discussions and decisions about a conflict of interest must be recorded and reported in the minutes of the meeting. The report should record:

- 10.1 any relevant interests of the Directors;
- 10.2 any conflicts of interest, including any decisions made as to whether a Director did or did not have a conflict of interest;
- 10.3 the actions taken to manage the conflict in accordance with the CBF's Articles;
- 10.4 the names of persons present for discussion; and
- 10.5 any other relevant information.

11. Policy Review

- 11.1 This policy shall be reviewed as and when the Directors determine and in any event no less frequently than annually. Adopted by the Directors on this 13 day of May 2016.

Appendix A to EXHIBIT 2

CARIBBEAN BIODIVERSITY FUND

Director Declaration of Interests Form

I, _____, as
 Director of _____ Caribbean Biodiversity Fund have set
 out below my interests in accordance with the organisation’s conflicts of interest policy.

I am a new Director.

[I have also completed the Charity’s new Director Declaration Form.]

I am an existing Director.

Category	<i>Please give details of the interest and whether it applies to yourself or, where appropriate, a member of your immediate family, connected persons or some other close personal connection.</i>
Current employment and any previous employment in which you continue to have a financial interest.	
Appointments (voluntary or otherwise), e.g. Directorships, directorships, local authority membership, tribunals, etc.	
Membership of any professional bodies, special interest groups or mutual support organisations.	
Investments in unlisted companies, partnerships and other forms of business, major shareholdings (charities may set a figure here, e.g. more than 1% or 5% of issued capital) and beneficial interests.	
Gifts of hospitality offered to you by external bodies and whether this was declined or accepted in the last twelve months.	
Do you use, or care for a user of the	

organisation's services?	
Any contractual relationship with the charity or its subsidiary.	
Any other interests not covered by the above that could give rise to a conflict of interest.	

To the best of my knowledge, the above information is complete and correct. I undertake to update as necessary the information provided, and to review the accuracy of the information on an annual basis. I give my consent for it to be used for the purposes described in the conflicts of interest policy and for no other purpose.

Signed: _____

Position: _____

Date: _____

This form is based on a model produced by the UK Institute of Chartered Secretaries and Administrators www.icsa.org.uk

Appendix B to EXHIBIT 2

Register of Director’s Interests

Name of Director	Description of Interest	Does the Interest relate to the Director or a person closely connected to the Director (please	Date notified	Is the Interest current?

This Register can be used either to record all Director interests chronologically as they are disclosed or to have separate pages for each Director with their interests recorded chronologically.

This Register is based on a model produced by the Institute of Chartered Secretaries and Administrators www.icsa.org.uk and is reproduced with their kind permission.

Appendix C to EXHIBIT 2

EXHIBIT 1:

CODE OF CONDUCT FOR INDIVIDUAL DIRECTORS

General Expectations.

1. Be familiar with the CBF's objectives, procedures and programs. Be familiar with the area of the CBF's operations.
2. Perform the duties of a Board Member diligently and responsibly. Act loyally to the CBF and show as much care in governing CBF as in considering one's own affairs.
3. Follow national and local developments that are of concern to the CBF.
4. Be willing to serve on CBF committees and task forces.
5. Act with the highest standards of integrity at all times.

Meetings.

6. Prepare for CBF Board and sub-committee meetings reading all relevant papers in advance.
7. Attend all Board and relevant committee meetings unless absolutely unavoidable. Work as hard and as long as necessary to cover Board matters with due diligence.
8. Participate actively in Board discussions, in accordance with one's conscience. Support all decisions made by the Board.
9. Suggest agenda items for Board and Committee meetings to ensure that all policy related matters are covered.

Relationships with Staff.

10. Support/advise the Chief Executive Officer through introductions and information.
11. Do not give direction to staff members except through the Chief Executive Officer.
12. Avoid asking for personal favors from staff.

Conflicts of Interest.

13. Serve first and foremost the CBF as a whole and not any special or national interest or stakeholder group regardless of the basis of appointment.
14. Avoid any conflict of interest and disclose any potential conflicts before the Board in any relevant discussions.
15. Never accept favors or gifts from anyone who does business with the CBF.
16. Maintain independence and objectivity in deliberating all Board matters.

Fiduciary responsibilities.

17. Read and understand the CBF's financial statements and exercise due care in all financial matters.
18. Treat the resources of the CBF with the same care as a reasonable person will treat their own.
19. Take care to ensure that the resources of the CBF are only used in furtherance of the CBF's objectives.
20. Do not use the CBF's resources or the position as a member of the Board of Directors for personal gain.

** "Fiduciary" means of the nature of the CBF or depending on public confidence. Fiduciary responsibilities are those arising from the fact that the resources of the CBF are entrusted to the CBF Board by the CBF's Donors for use in achieving the CBF's mission

ANNEX 3
CHARITIES SORP (FRS 102)

CHARITIES SORP (FRS 102)

(second edition - October 2019)

Accounting and Reporting by Charities:
Statement of Recommended Practice
applicable to charities preparing their
accounts in accordance with the Financial
Reporting Standard applicable in the UK
and Republic of Ireland

(FRS 102)

(effective 1 January 2019)



CHARITY COMMISSION
FOR ENGLAND AND WALES



Secretariat to the Charities SORP



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ISBN 978 1 84508 528 5

Published by CIPFA on behalf of the Joint SORP-Making Body: the Charity Commission for England and Wales, the Charity Commission for Northern Ireland and the Office of the Scottish Charity Regulator.

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Printed by The Complete Product Company, Malmesbury

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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 for England and Wales, the Charity Commission for Northern Ireland 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.

Accounting and Reporting by Charities

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 if 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 second edition of the SORP is applicable to the accounts of relevant charities for reporting periods beginning on or after 1 January 2019 (this edition consolidates the changes to the SORP for Update Bulletins 1 and 2, Update Bulletin 1 has an earlier effective date). In those jurisdictions where the applicable SORP under which accounts are prepared is specified in regulations, this SORP cannot be adopted until the new regulations are made allowing its use.
- 18A. The second edition incorporates changes to UK-Irish Generally Accepted Accounting Practice since the launch of the SORP (FRS 102) which is effective for reporting periods beginning on or after 1 January 2015. The changes made are effective for different accounting periods as further explained in the subsequent paragraphs.

Changes made by Update Bulletin 1 – effective for reporting periods beginning on or after 1 January 2016

- 18B. In February 2016 this SORP was updated to incorporate amendments necessary to maintain consistency with accounting standards and changes in charity audit thresholds in England and Wales. The changes made by Update Bulletin 1 are applicable for accounts of relevant charities for reporting periods beginning on or after 1 January 2016. Except where prohibited by regulations or charity or company law, the early application of the amendments made to this SORP is permitted for reporting periods beginning on or after 1 January 2015. If the option of early application is taken then all the amendments made to this SORP must be effected, as applicable to the charity’s circumstances, in the reporting charity’s trustees’ annual report and accounts.

The amendments made to the SORP by means of Update Bulletin 1 were:

Section/Module/Appendix	Amendment
Accounting and reporting by charities: the statement of recommended practice (SORP) – scope and application	Insertion of the dates from which the amendments made by Update Bulletin 1 were effective.
Module 6: Donated goods, facilities and services, including volunteers:	Amendments to the measurement basis of the carrying value for inventories held for distribution at no or nominal consideration to require their measurement at the lower of cost adjusted, when applicable, for any loss of service potential and replacement cost. The amendments offer a definition of ‘replacement cost’.
Module 10: Balance sheet and Module 24: Accounting for groups and the preparation of consolidated accounts	Revisions to the maximum period over which goodwill and other intangible assets may be amortised from five to ten years in those exceptional cases where a charity is unable to make a reliable estimate of an asset’s useful economic life.
Module 12: Impairment of assets	Amendments prohibiting the reversal of impairment losses for goodwill.

Module 14: Statement of cash flows	Amendments requiring larger charities to prepare a statement of cash flows.
Module 17: Charity mergers	Revisions prohibiting merger accounting for charities that are companies and enter into a business combination with a third party.
Appendix 1: Glossary	Changes to the definitions of larger charities and related parties.

Changes made by Update Bulletin 2 – effective for reporting periods beginning on or after 1 January 2019

18C. In October 2018 this SORP was updated to incorporate amendments necessary to maintain consistency with accounting standards. The changes made by Update Bulletin 2 are applicable for accounts of relevant charities for reporting periods beginning on or after 1 January 2019. Except where prohibited by regulations or charity or company law, the early application of the amendments made to this SORP is permitted provided that all of the amendments are applied at the same time. It should be noted that the insertion of paragraph 3.49 and amendments to paragraphs 5.52, 10.31 and 13.5 represent amendments which clarify how charities must apply FRS 102. These amendments to the SORP are applicable for accounts of relevant charities for reporting periods beginning on or after the date of publication of Update Bulletin 2 ie 5 October 2018. However these amendments reflect existing requirements of FRS 102 and were already applicable for charities preparing accounts in accordance with that standard. If applying the amendments set out in this Update Bulletin for the first time, section 1 Scope of FRS 102 sets out optional transitional provisions which may be adopted if relevant.

The significant amendments made to the SORP by means of Update Bulletin 2 were:

Section/Module/Appendix	Amendment
Accounting and reporting by charities: the statement of recommended practice (SORP) – scope and application	Insertion of the dates from which the amendments made by Update Bulletin 2 were effective.
Module 10: Balance sheet	Amendments: <ul style="list-style-type: none"> • permitting charities that rent investment property to another group entity to measure the investment property either at cost (less depreciation and impairment) or at fair value; • removing the undue cost or effort exemption for the investment property component of mixed use property to require measurement at fair value; • removing the disclosure of stocks recognised as an expense.
Module 14: Statement of cash flows	Amendments requiring charities to prepare a reconciliation of net debt as a note to the statement of cash flows.

Module 27: Charity mergers	Revisions including the transfer of activities to a subsidiary undertaking as an example of a charity reconstruction that may be accounted for as a merger.
Appendix 1: Glossary	Insertion of the definition of the term service potential.

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. Charities with a principal activity similar to those listed in the FRS 102 definition of a financial institution must make the additional disclosures required by section 34 of FRS 102. This is likely to include charitable incorporated friendly societies. It excludes those charities which make social investments including concessionary rate finance in the form of programme related investments, unless such lending is the charity's principal or sole charitable activity.

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.
22. [Deleted]
23. [Deleted]
24. Charities reporting under this SORP that are eligible for, and choose to, apply the disclosure exemptions permitted by FRS 102 must nevertheless 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.
 - 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.
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.

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Appendices

Appendix 1: Glossary of terms

Appendix 2: The Charity Accounting (SORP) Committee

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

Appendix 4: Basis for conclusions

Statement by the Financial Reporting Council on the Charities SORP (FRS 102) (second edition – October 2019)

The aim of the Financial Reporting Council (FRC) is to promote transparency and integrity in business. In relation to accounting standards applicable in the UK and Republic of Ireland, the FRC's overriding objective is to enable users of accounts to receive high-quality understandable financial reporting proportionate to the size and complexity of the entity and users' information needs. In particular industries or sectors, clarification of aspects of those standards may be needed in order for the standards to be applied in a manner that is relevant and provides useful information to users of financial statements in that industry or sector.

Such clarification in connection with accounting standards is issued in the form of Statements of Recommended Practice (SORPs) by bodies recognised for this purpose by the FRC. The Charity Commission for England and Wales, the Charity Commission for Northern Ireland (CCNI) and the Office of the Scottish Charity Regulator (OSCR), in their role as the joint SORP-making body have confirmed that they share the FRC's aim of high-quality financial reporting and have been recognised by the FRC for the purpose of issuing SORPs for charities.

In accordance with the FRC's *Policy on Developing Statements of Recommended Practice (SORPs)* the FRC carried out a review of the *Charities SORP (FRS 102)* (second edition – October 2019) focusing on those aspects relevant to the financial statements but also including aspects relevant to the FRC's broader responsibilities when appropriate.

On the basis of its review, the FRC has concluded that the SORP has been developed in accordance with the FRC's *Policy on Developing SORPs* and does not appear to:

- (a) contain any fundamental points of principle that are unacceptable in the context of present financial reporting practices;
- (b) conflict with an accounting standard; or
- (c) undermine the FRC's broader objectives.

2 October 2019

1. Trustees' annual report

Overview and the purpose of the trustees' annual report

- 1.1. The primary purpose of the trustees' annual report (the report) is to ensure that the charity is publicly accountable to its stakeholders for the stewardship and management of the funds it holds on trust. The trustees should consider the information needs of the primary users of their report. These may vary from charity to charity but will normally include funders, donors, financial supporters, service users and other beneficiaries.
- 1.2. The report should be a coherent document that meets the requirements of law and regulation. It should provide a fair, balanced and understandable review of the charity's structure, legal purposes, objectives, activities, financial performance and financial position. Good reporting explains what the charity is set up to do, how it is going about it, and what is achieved as a result of its work. The report should assist the user to make economic decisions in relation to the charity and to assess the charity's progress against its objectives and to understand its plans in relation to its purposes.
- 1.3. For the report to be prepared in accordance with this SORP, charities are required to comply with all the applicable reporting requirements prefixed with a 'must'. This module distinguishes those requirements that all charities must comply with from those more detailed reporting requirements applicable to larger charities.
- 1.4. Trustees of charitable companies must also prepare a directors' report as required by company law. A separate trustees' annual report is not required provided that any statutory directors' report prepared also contains all the information that this SORP requires to be provided in the trustees' annual report. UK charitable companies that qualify as medium or large companies must provide a 'strategic report' that meets the requirements of company law. For more information see the SORP module '[Charities established under company law](#)'.
- 1.5. Legal requirements and the requirements of this SORP do not limit the inclusion of other information within the report or the provision of additional information accompanying the accounts (financial statements). A charity may include other relevant material in the report, for example a Chairman's Report, an environmental report, or an impact assessment. FRS 102 does not specify any requirements for narrative reporting though the Financial Reporting Council (FRC) does issue guidance on the strategic report. This module specifies this SORP's requirements for a trustees' annual report and its content.
- 1.6. This module sets out:
 - [who is responsible for preparing the trustees' annual report](#);
 - [reporting by smaller charities](#);
 - [the context for reporting](#);
 - [the content of the trustees' annual report required of all charities](#);
 - [the provision of other information](#); and
 - [the additional content required of larger charities](#).

Who is responsible for preparing the trustees' annual report?

- 1.7. The responsibility for preparing the report rests with the charity's trustees. Although trustees may seek the assistance of the charity's staff or advisers in drafting the report, the trustees must approve the final text of the report.
- 1.8. The report provides important accompanying information to the accounts and therefore should be provided whenever a full set of accounts is distributed or otherwise made available. The report must identify the reporting period (financial year) of the charity to which it relates and the date of its approval. One or more of the charity's trustees must sign and date the report on behalf of the trustees upon their approval of the report.

Reporting by smaller charities

- 1.9. The reporting requirements take account of the size of the charity. Less information is required of smaller charities. Smaller charities is a term used in the SORP to identify those charities with a gross income of £500,000 (UK) or 500,000 euros (Republic of Ireland) or less in the reporting period. This module uses the term 'all charities' to identify those elements of the report that both smaller and larger charities must provide.
- 1.10. Smaller charities are encouraged to include some or all of the additional information required of larger charities if the charity trustees consider such additional information relevant to their charity's stakeholders.

The context for reporting

- 1.11. The report provides an essential link between a charity's legal purposes and the charity's aims and objectives and the activities it undertakes to achieve them. It should focus on information relevant to the charity's stakeholders and tell the charity's story in a balanced manner, acknowledging both significant successes and failures. Trustees may present the contents of their report in any order and under any headings that they choose.
- 1.12. Good reporting provides a context within which to interpret the accounts and links the activities and achievements reported with the sources of income used to finance them and the expenditure incurred on those activities. A charity's accounts focus on its financial position and financial performance. In isolation this information does not give the user a rounded overview of what has been achieved from the charity's activities and the resources used in their delivery. The report and accounts taken together should provide a picture of what the charity has done (its outputs) or achieved (its outcomes), or what difference it has made (its impact).
- 1.13. Parent charities preparing consolidated accounts must expand their report to include relevant information about their subsidiary undertakings.

The content of the trustees' annual report required of all charities

- 1.14. The SORP's requirements that all charities must follow are set out in the following headings:
- objectives and activities;
 - achievements and performance;
 - financial review;
 - structure, governance and management;
 - reference and administrative details;
 - exemptions from disclosure; and
 - funds held as custodian trustee on behalf of others.
- 1.15. The headings used in the report may be amended to fit the preferences of the charity provided the information required by this module is clearly presented in the report.
- 1.16. Larger charities must also refer to the section 'The additional content required of larger charities' for their report to be compliant with the SORP.

Objectives and activities

- 1.17. The report provides information intended to help the user understand how the charity's aims fulfil its legal purposes, the activities it undertakes and what it has achieved. All charities must provide a summary of:
- the purposes of the charity as set out in its governing document; and
 - the main activities undertaken in relation to those purposes.
- 1.18. Charities in England and Wales must also:
- explain the main activities undertaken to further the charity's purposes for the public benefit; and
 - include in their report a statement confirming whether the trustees have had regard to the Charity Commission's guidance on public benefit.
- 1.19. The report should explain the activities, projects or services identified in the accompanying accounts. As far as practicable, numerical information provided in the report about the resources spent on particular activities should be consistent with the analysis provided in the accounts.

Achievements and performance

- 1.20. The report must contain a summary of the main achievements of the charity. The report should identify the difference the charity's work has made to the circumstances of its beneficiaries and, if practicable, explain any wider benefits to society as a whole.

Financial review

- 1.21. The report must contain a review of the charity's financial position at the end of the reporting period.
- 1.22. The charity must explain any policy it has for holding reserves and state the amounts of those reserves and why they are held. If the trustees have decided that holding reserves is unnecessary, the report must disclose this fact and provide the reasons behind this decision.
- 1.23. If, at the date of approving the report and accounts, there are uncertainties about the charity's ability to continue as a going concern, the nature of these uncertainties should be explained.
- 1.24. The report must also identify any fund or subsidiary undertaking that is materially in deficit, explaining the circumstances giving rise to the deficit and the steps being taken to eliminate the deficit.

Structure, governance and management

- 1.25. The report must provide details of:
 - the nature of the governing document (e.g. trust deed, memorandum and articles of association, Charity Commission scheme, Royal Charter, etc.);
 - how the charity is (or its trustees are) constituted (e.g. limited company, unincorporated association, trustees incorporated as a body, charitable incorporated organisation, community benefit society, industrial and provident or friendly society etc.); and
 - the methods used to recruit and appoint new charity trustees, including details of any constitutional provisions for appointment, for example election to post. Where any other person or external body is entitled to appoint one or more of the charity trustees, the report should explain this and give the name of that person or body.
- 1.26. Charities may withhold certain governance and management details where the criteria for exemption from disclosure are satisfied (see 'Exemptions from disclosure').

Reference and administrative details

- 1.27. The report must provide the following reference and administrative information about the charity and its trustees:
 - the name of the charity, which in the case of a registered charity means the name by which it is registered;
 - any other name which the charity uses;
 - the charity registration number(s) for the jurisdiction(s) in which it is registered as a charity and, if applicable, its company registration number;
 - the address of the principal office of the charity and, in the case of a charitable company, the address of its registered office;
 - the names of all those who were the charity's trustees on the date the report was approved or who served as a trustee in the reporting period;
 - where a charity has any corporate trustees, the names of the directors of the body corporate on the date the report was approved; and

Accounting and Reporting by Charities

- the names of any trustee for the charity holding the title to property belonging to the charity (for example custodian trustee or nominee) on the date the report was approved; or
 - who served as a trustee for the charity in holding the title to property belonging to the charity in the reporting period.
- 1.28. Charities may withhold certain reference and administrative details where the criteria for exemption from disclosure are satisfied (see 'Exemptions from disclosure').

Exemptions from disclosure

- 1.29. On occasions, the disclosure of the names of trustees or of the charity's principal address or the disclosure of the name(s) of any chief executive officer or other senior staff member(s) could lead to that person (or others) being placed in personal danger (e.g. in the case of a women's refuge). In such circumstances, the applicable law and regulations may permit the withholding of these details. Where a report omits the name of a trustee, chief executive officer or senior staff member or the charity's principal address, it should give the reason for the omission.
- 1.30. Charities in England and Wales may omit the names of those persons and the charity's principal address from their report provided the Charity Commission has given the charity trustees the authority to do this. In Scotland there is also a provision under charity law for such information to be excluded.
- 1.31. The directors of charitable companies registered in the UK should note that, with the exception of the name of the auditor, or senior statutory auditor in the case of an audit firm (section 506 Companies Act 2006), there is no corresponding dispensation in relation to the disclosure of names.

Funds held as custodian trustee on behalf of others

- 1.32. If a charity is, or its trustees are, acting as custodian trustees, the charity must refer to the SORP module '[Accounting for funds received as agent or as custodian trustee](#)'.

The provision of other information

- 1.33. Charities often use other means of providing information, outside of the statutory reporting framework, to provide information about the charity and what the charity is doing. Such information is often tailored to the needs of particular audiences and presented through annual reviews, newsletters and websites. While charity trustees might usefully refer to these other sources of information within their report, such additional information is not a substitute for good statutory reporting.

The additional content required of larger charities

- 1.34. A greater degree of public accountability and stewardship reporting is expected of larger charities. Larger charities in compiling their report must meet the requirements placed on all charities as set out above and also provide the additional information detailed under the following headings:
- objectives and activities;
 - achievements and performance;
 - financial review;
 - plans for future periods;
 - structure, governance and management; and
 - reference and administrative details.

Objectives and activities

- 1.35. Good reporting provides a coherent explanation of the charity's strategies for achieving its aims and objectives and explains how the activities it undertook contributed to their achievement.
- 1.36. In particular, the report of larger charities must provide an explanation of:
- its aims, including details of the issues it seeks to tackle and the changes or differences it seeks to make through its activities;
 - how the achievement of its aims will further its legal purposes;
 - its strategies for achieving its stated aims and objectives;
 - the criteria or measures it uses to assess success in the reporting period; and
 - the significant activities undertaken (including its main programmes, projects or services provided), explaining how they contribute to the achievement of its stated aims and objectives.
- 1.37. Larger charities in their report should also provide the user with a more detailed understanding of their short-term and longer-term aims and objectives. A charity with longer-term aims and objectives should explain how the aims and objectives set for the reporting period relate to its longer-term aims and objectives. When explaining activities, it is important for the user to understand their scale and the resources used in their delivery; for example, it may be helpful to provide details of the amount spent on, or the number of staff engaged in, undertaking a particular activity.
- 1.38. The report must include an explanation of the use the charity makes of the following:
- Social investment, when this forms a material part of its charitable and investment activities. In particular, the report must provide an explanation of its social investment policies and explain how any programme related investments contributed to the achievement of its aims and objectives.
 - Grant-making, when this forms a material part of its charitable activities. In particular, the report must explain the charity's grant-making policy and explain how its grant-making activities contribute to the achievement of its aims and objectives.

- Volunteers, when their contribution is significant to a charity's ability to undertake a particular activity. The explanation should help the user to understand the scale and nature of the activities undertaken. However, measurement issues, including attributing an economic value to the contribution of general volunteers, prevent the inclusion of their contribution in the statement of financial activities (see the SORP module '[Donated goods, facilities and services, including volunteers](#)').

1.39. Charities reporting on the contribution of general volunteers may provide:

- an explanation of the activities that volunteers support or help to provide; and
- details of the contribution in terms of volunteer hours or staff equivalents.

Achievements and performance

1.40. Good reporting sets out how well the activities undertaken by the charity and any subsidiaries performed and the extent to which the achievements in the reporting period met the aims and objectives set by the charity for the reporting period. Good reporting provides a balanced view of successes and failures along with the supporting evidence, and demonstrates the extent of performance and achievement against the objectives set and the lessons learned.

1.41. In particular, the report must review:

- the significant charitable activities undertaken;
- the achievements against objectives set;
- the performance of material fundraising activities against the fundraising objectives set;
- investment performance against the investment objectives set where material financial investments are held; and
- if material expenditure was incurred to raise income in the future, the report must explain the effect this expenditure has had, and is intended to have, on the net return from fundraising activities for both the reporting period and future periods.

1.42. The report should provide a balanced picture of a charity's progress against its objectives. For example, it may explain progress by reference to the indicators, milestones and benchmarks the charity uses to assess the achievement of objectives.

1.43. In reviewing achievements and performance, charities may consider the difference they have made by reference to terms such as inputs, activities, outputs, outcomes and impacts, with impact viewed in terms of the long-term effect of a charity's activities on both individual beneficiaries and at a societal level. Charities are encouraged to develop and use impact reporting (impact, arguably, being the ultimate expression of the performance of a charity), although it is acknowledged that there may be major measurement problems associated with this in many situations.

- 1.44. In reviewing its achievements and performance, the charity should include a summary of the measures or indicators used to assess performance when it provides evidence of the achievements in the reporting period. Explaining the outputs achieved by particular activities can be helpful, particularly when numerical targets have been set. Examples of such targets include the number of beneficiaries to be reached by a particular programme, or the number of events or interventions planned as part of an activity. However, information on activities, outputs, and outcomes (or impacts) should always be put in the context of how they have contributed to the achievement of the charity's aims and objectives.
- 1.45. The report should comment on those significant positive and negative factors both within and outside the charity's control which have affected the achievement of its objectives and, where relevant, explain how this has affected future plans. These factors might include relationships with employees, service users, beneficiaries and funders and the charity's position in the wider community.

Financial review

- 1.46. The report must also comment on the significant events that have affected the financial performance and financial position of the charity during the reporting period. In particular the report must explain:
- the financial effect of significant events;
 - where the charity holds material financial investments, the investment policy and objectives set;
 - a description of the principal risks and uncertainties facing the charity and its subsidiary undertakings, as identified by the charity trustees, together with a summary of their plans and strategies for managing those risks; and
 - any factors that are likely to affect the financial performance or position going forward.
- 1.47. The financial review should also explain:
- the principal funding sources of the charity in the reporting period and how these resources support the key objectives of the charity;
 - the impact, if any, of a material pension liability arising from obligations to a defined benefit pension scheme or pension asset on the financial position of the charity; and
 - where the charity holds material financial investments, the extent (if any) to which it takes social, environmental or ethical considerations into account in its investment policy.
- 1.48. The review of the charity's reserves should:
- state the amount of the total funds the charity holds at the end of the reporting period;
 - identify the amount of any funds which are restricted and not available for general purposes of the charity at the end of the reporting period;
 - identify and explain any material amounts which have been designated or otherwise committed as at the end of the reporting period;
 - indicate the likely timing of the expenditure of any material amounts designated or otherwise committed at the end of the reporting period;

- identify the amount of any fund that can only be realised by disposing of tangible fixed assets or programme related investments;
- state the amount of reserves the charity holds at the end of the reporting period after making allowance for any restricted funds, and the amount of designations, commitments (not provided for as a liability in the accounts) or the carrying amount of functional assets which the charity considers to represent a commitment of the reserves they hold; and
- compare the amount of reserves with the charity's reserves policy and explain, where relevant, what steps it is taking to bring the amount of reserves it holds into line with the level of reserves identified by the trustees as appropriate given their plans for the future activities of the charity.

Plans for future periods

- 1.49. The report must provide a summary of the charity's plans for the future, including its aims and objectives and details of any activities planned to achieve them.
- 1.50. The report should explain the trustees' perspective of the future direction of the charity. It should explain, where relevant, how experience gained or lessons learned from past or current activities have influenced future plans and decisions about allocating resources to their best effect.

Structure, governance and management

- 1.51. The report must provide the user with an understanding of how the charity is constituted, its governance and management structures, and how its trustees are trained. In particular, the report must explain:
- the charity's organisational structure and, where relevant, those of its subsidiary undertakings;
 - how the charity makes decisions, for example which types of decisions are taken by the charity's trustees and which are delegated to staff;
 - the policies and procedures for the induction and training of trustees;
 - the arrangements for setting the pay and remuneration of the charity's key management personnel and any benchmarks, parameters or criteria used in setting their pay;
 - if the charity is part of a wider network (for example if it is affiliated with an umbrella group), how, if at all, this impacts on the operating policies adopted by the charity; and
 - relationships between the charity and related parties, including its subsidiary undertakings, and with any other charities and organisations with which it co-operates in the pursuit of its charitable objectives.

Reference and administrative details

- 1.52. The report must state to whom the trustees' delegate day-to-day management of the charity and from whom trustees are taking advice. In particular, the report must provide:
- the name of any chief executive officer or other senior management personnel to whom the charity trustees delegate day-to-day management of the charity on the date the report was approved or who served in such a position in the reporting period in question; and
 - the names and addresses of any other relevant organisations or persons providing banking services or professional advice to the charity, including its solicitors, auditor and investment advisers.
- 1.53. Certain details may be withheld where the criteria for exemption from disclosure, as set out in the 'Exemptions from disclosure', are met.

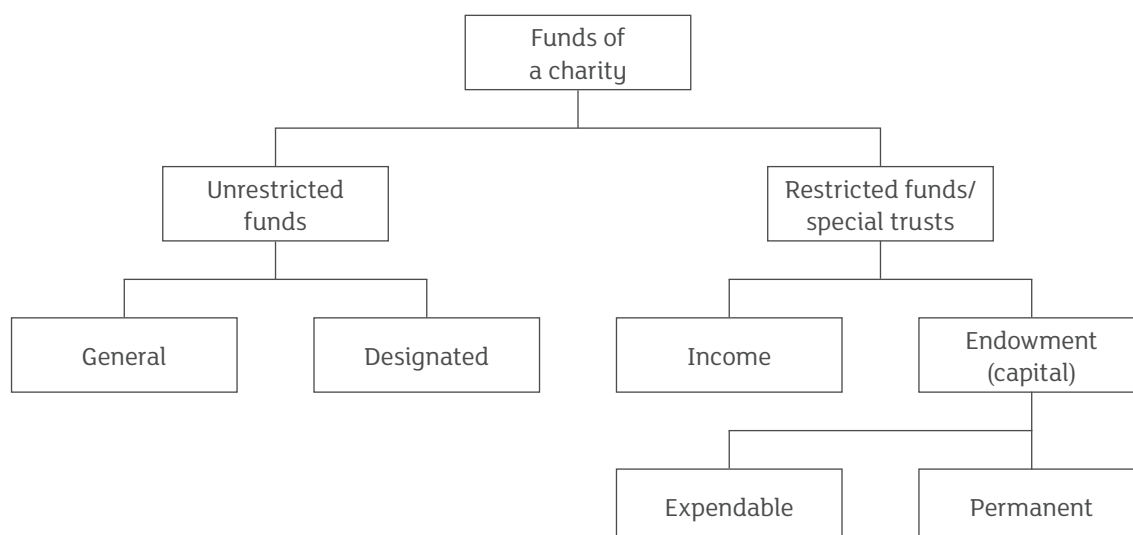
2. Fund accounting

Introduction

- 2.1. Accounting for the particular charitable funds held by a charity is a key feature of charity accounting. Each class of fund has unique characteristics in trust law. Fund accounting distinguishes between two primary classes of fund: those that are unrestricted in their use, which can be spent for any charitable purposes of a charity, and those that are restricted in use, which can only be lawfully used for a specific charitable purpose.
- 2.2. The proper administration of individual charitable funds is essential if charity trustees are not to act in breach of trust.
- 2.3. Restricted funds (also known as special trusts in England and Wales) are further analysed between restricted income funds and endowment funds (also known as capital funds).

Figure 1 sets out these classes of fund diagrammatically. This differentiation of funds is an essential feature in the presentation of a charity's statement of financial activities (SoFA) and balance sheet.

Figure 1: The classes of charitable funds



- 2.4. FRS 102 does not deal with fund accounting by charities and therefore this module reflects the requirements of charity law and current accounting practice which charities adopting this SORP must follow. This module sets out:
 - [general principles of fund accounting](#);
 - [transfers between funds](#); and
 - [fund disclosures in the notes to the accounts](#).

General principles of fund accounting

- 2.5. A prerequisite of fund accounting is an understanding of the different classes of funds a charity may hold on trust. A charity may hold both unrestricted and restricted funds. Income generated by the investment of a particular fund's assets accrues to that fund unless the terms of the initial gift provide otherwise, for example in the case of permanent endowment. Similarly, any Gift Aid amount recovered on a donation forms part of that gift and is an addition to the same fund as the initial donation unless the donor or the terms of the appeal have specified otherwise.

Unrestricted funds

- 2.6. Unrestricted funds are spent or applied at the discretion of the trustees to further any of the charity's purposes. Unrestricted funds can be used to supplement expenditure made from restricted funds. For example, a restricted grant may have provided part of the funding needed for a specific project. In this case unrestricted funds may be used to meet any funding shortfall for that project.
- 2.7. Trustees may choose during the reporting period to set aside a part of the unrestricted funds to be used for a particular future project or commitment. By earmarking funds in this way, the trustees set up a designated fund that remains part of the unrestricted funds of the charity. This is because the designation has an administrative purpose only and does not legally restrict the trustees' discretion in how to apply the unrestricted funds that they have earmarked. Identifying designated funds may be helpful when explaining the charity's reserve policy and the level of reserves it holds.

Restricted funds

- 2.8. Funds held on specific trusts under charity law are classed as restricted funds. The specific trusts may be declared by the donor when making the gift or may result from the terms of an appeal for funds. The specific trusts establish the purpose for which a charity can lawfully use the restricted funds. It is possible that a charity may have several individual restricted funds, each for a particular purpose of the charity.
- 2.9. In certain circumstances the donor may express a form of non-binding preference as to the use of the funds, which falls short of imposing a restriction in trust law. In which case the charity will include the funds as part of its unrestricted funds. To respect these non-binding donor wishes, trustees may decide to designate those funds to reflect the purposes which the donor had in mind.
- 2.10. Some trustees have the power to declare special trusts over unrestricted funds. Where such a power is available to the trustees and they use it, the assets affected will form part of the restricted funds as a special trust. The trustees' discretion to apply that fund will then be legally restricted.

- 2.11. Restricted funds fall into one of two sub-classes: restricted income funds or endowment funds. Restricted income funds are to be spent or applied within a reasonable period from their receipt to further a specific purpose of the charity, which is to further one or more but not all of the charity's charitable purposes. Alternatively the restricted fund may be an endowment. Trust law requires a charity to invest the assets of an endowment, or retain them for the charity's use in furtherance of its charitable purposes, rather than apply or spend them as income (see 'Endowment funds' below).
- 2.12. When a tangible fixed asset is funded through an appeal or by way of a grant or donation, the accounting treatment of the asset acquired will depend on the circumstances of each case. In deciding whether the asset is categorised as restricted or unrestricted, trustees should consider whether the terms of the gift:
- require the charity to hold the tangible fixed asset acquired on an on-going basis for a specific purpose; or
 - are met once the specified asset is acquired, so allowing the charity to use the asset acquired on an unrestricted basis for any charitable purpose.
- 2.13. In some circumstances the trustees may be able to settle a tangible fixed asset on trust for a specific purpose implied by the appeal, provided this is consistent with the charity's governing instrument. Where this happens, the trustees' decision is legally binding and the asset is an addition to the restricted funds.
- 2.14. In maintaining the accounting records, charities must separately identify each restricted fund and the income received and expenditure made from each restricted fund.
- 2.15. Costs charged to a restricted fund relate to the activities undertaken to further the specific charitable purposes the fund was established to support. These costs include both direct and support costs associated with the activities undertaken by the restricted fund(s). In addition to a reasonable allocation of support costs, other costs associated with raising, investing and managing the restricted funds should normally be charged to the fund to which the cost relates. Expenditure attributable to a restricted fund may still be charged to it even if there is an insufficient balance on that fund at the time. However, expenditure should only be charged to a restricted fund in deficit when there is a realistic expectation that future income will be received to cover the shortfall, for example when a decision has been made to invite donations to that restricted fund.

Endowment funds

- 2.16. A gift of endowment, where there is no power to convert the capital into income, is known as a permanent endowment fund. A permanent endowment fund must normally be held indefinitely. Where trustees have the power to convert endowment funds into income, such funds are known as expendable endowments. A gift of expendable endowment provides the trustees with a power to convert all or part of it into income.

- 2.17. Expendable endowment is distinguishable from income funds in that there is no actual requirement to spend or apply the capital unless, or until, the trustees decide to spend it. If the trustees exercise the power to spend or apply the capital of the expendable endowment, the relevant funds become unrestricted funds or restricted income funds depending on whether the terms of the gift permit expenditure for any of the charity's purposes, or only for specific purposes.
- 2.18. The income generated from endowment funds held for investment must be spent on furthering its charitable purposes unless the charity exercises a power of accumulation or a charity in England and Wales has invested the endowment on a total return basis (see the SORP module '[Total return \(investments\)](#)') under the provisions of section 104A of the Charities Act 2011 as amended by the Trust (Capital and Income) Act 2013 or an Order of the Charity Commission made under section 105 of the Charities Act 2011. If there is no restriction as to the use of the income, the income is an addition to unrestricted funds. It is possible that a charity may have several endowment funds; the income from each endowment being restricted to a particular purpose.
- 2.19. The concept of permanence does not mean that a charity must keep holding the assets in the endowment funds in the form that they were initially given. The investments or property held within an endowment fund can be changed. For example, a charity could sell a particular equity investment and reinvest the proceeds in a different financial asset, or it might use the proceeds from the sale of endowed freehold land and buildings to purchase a new freehold property which will then form part of the endowment.
- 2.20. In some cases the permanent endowment's trusts will require the retention of a specific asset for the charity's own use, for example a building. It follows that an endowed asset may be capable of depreciation or impairment. Trustees that use income funds to build, erect, extend or improve a building on land which is an endowment asset should note that the default position is that the value of the enhancement to the asset will form part of the endowment in the absence of evidence to the contrary.

Accounting for expenses related to endowment

- 2.21. A charity cannot use permanent endowment as if it were income, for example to make payments or grants to third parties. Trust law only permits expenses to be charged to permanent endowment when incurred in the administration or protection of the investments or property of the endowment, for example:
- fees incurred in managing the investment of the endowment;
 - the costs of valuation fees and expenses incurred in connection with the sale of endowed land;
 - the cost of improvements to land held as an endowment investment; or
 - the loss of value due to depreciation or impairment of an endowed property.
- 2.22. If the endowment has insufficient funds to meet the expenses that can be charged to it, or the terms of the trust of the endowed gift prohibit the charging of expenses, then the expenses must be charged to income funds. Other expenses must normally be charged to income funds.

Accounting for the investment return on income and endowment funds

2.23. The return on investment is made up of the income derived from the investment (interest, dividends, royalties or rents) and any gain or loss in the market value of the investment.

If a charity sells an investment, a gain or loss on the carrying amount of the asset is realised upon its disposal. Where a charity retains an investment, an unrealised gain or loss on the carrying amount of the investment may arise at the balance sheet date.

2.24. For unrestricted funds and restricted income funds, trust law requires both the income and any investment gain or loss to be allocated to the fund holding the investment. Where the charity has a number of individual restricted income funds, any investment income and gain or loss on investments must be allocated to the individual restricted funds holding the investment.

2.25. Trust law applies different rules to endowment funds. In the case of endowment, trustees cannot add the income from investments to the endowment capital except where they have a power to invest on a total return basis (see the SORP module 'Total return (investments)') or exercise a power of accumulation. Instead, the income from the investment is allocated to either unrestricted funds or a restricted income fund depending on the terms of the gift. However, any gain or loss on investment is attributed to the endowment capital. If a charity has several invested endowments, any gain or loss on investments must be allocated correctly to each individual endowment.

Transfers between funds

2.26. The transfer line in the SoFA is used to record transfers between funds. The total transfers recorded between classes of fund in the reporting period must always net to nil. A transfer may be made for several reasons, including:

- to transfer assets from unrestricted funds to finance a deficit on a restricted fund;
- to transfer the value of tangible fixed assets from restricted to unrestricted funds when the asset has been purchased from a restricted fund donation but is held for a general and not a restricted purpose;
- where restricted funds have been lawfully released and transferred to unrestricted funds;
- where the trustees have exercised a power to declare a special trust over a gift initially recognised as unrestricted; or
- where charity law permits the proceeds of restricted funds to be spent for an alternative purpose (such as the cy-près procedures in England and Wales), for example the alternative use of the proceeds of a failed appeal, or the alternative use of excess of funds raised from an appeal.

Fund disclosures in the notes to the accounts

- 2.27. For the proper administration of charitable funds, the accounting records of a charity must identify the transactions for each of the funds held. This SORP requires that items recorded in the SoFA must be analysed between unrestricted funds, restricted income funds and endowment funds. The information for endowment funds provided in the SoFA should combine the presentation of permanent and expendable endowment.
- 2.28. This SORP requires that the notes to the accounts must provide information on material individual fund balances, movements in the reporting period and the purposes for which the funds are held. The notes must differentiate unrestricted funds (both general and designated), restricted income funds, permanently endowed funds and expendable endowments. Table 1, 'Outline summary of fund movements' gives an example of how the movements in material funds may be shown.
- 2.29. In particular, this SORP requires that notes to the accounts must disclose:
- a summary of the assets and liabilities of each category of fund of the charity, if not provided by presenting this information in a columnar balance sheet;
 - details of the purposes and trust law restrictions imposed on each material individual fund;
 - details of the movements on material individual funds in the reporting period, reconciling the opening and closing fund balance (small funds with similar purposes may be aggregated);
 - details of the reasons for any material transfers between different classes of funds;
 - where endowment has been converted to income, details of the amount(s) converted and the legal power for its conversion;
 - where the trustees have a power to invest permanent endowment on a total return basis, the details of the movements in the value of unapplied total return for the reporting period (refer to the SORP module '[Total return \(investments\)](#)'); and
 - details of the planned use of any material designated funds, explaining the purpose of the designation.
- 2.30. In deciding on the most suitable form of presentation, the charity should consider:
- the complexity of the fund structure; and
 - the need for any separate fund statement(s) or note(s) to agree with the charity's SoFA and balance sheet.

Table 1: Outline summary of fund movements

Fund name	Fund balances brought forward	Income	Expenditure	Transfers	Gains and losses	Fund balances carried forward
	£	£	£	£	£	£
Fund 1						
Fund 2						
Fund 3						
Other funds						
Total funds						

3. Accounting standards, policies, concepts and principles, including the adjustment of estimates and errors

Introduction

- 3.1. This module explains how accounting standards, policies, concepts and principles are applied in charity accounting. Charities should refer to sections 2, 3 and 10 of FRS 102 for more information.
- 3.2. Accounting policies provide the basis on which the accounts are prepared and explain the accounting treatment of material transactions or items in the accounts. The concept of materiality is an important consideration when selecting accounting policies. Materiality relates to the financial information provided in the accounts and an item is material when its omission or misstatement could influence the economic decisions that users make on the basis of those accounts.
- 3.3. This module sets out:
- what are accounting standards, policies, concepts and principles;
 - length of the reporting period;
 - presentation currency;
 - going concern;
 - materiality;
 - offsetting;
 - source of reporting and accounting disclosure requirements;
 - alternative measurements to fair value;
 - selection of accounting policies;
 - compliance with the SORP;
 - changes in accounting policies;
 - changes in accounting estimates;
 - correction of a prior period error; and
 - disclosure of accounting policies, changes in estimation techniques and prior period errors.

What are accounting standards, policies, concepts and principles?

- 3.4. Accounting standards set out the basis for recognising and measuring assets, liabilities, income and expenses and for their disclosure in accounts. Charities preparing accounts in accordance with accounting standards will normally, in so doing, meet the relevant legal requirements for their accounts to give a true and fair view of their financial position and activities.

- 3.5. Accounting policies are the principles, bases, conventions, practices and rules by which transactions and items are recognised, measured and presented in the accounts. The accounting policies that a charity adopts must follow the requirements of FRS 102 unless the effect of not following a particular requirement would be immaterial, or in very rare circumstances, where to do so would conflict with the objectives of providing information useful for economic decision-making by users of the accounts and/or the legal obligation for the accounts to give a 'true and fair' view.
- 3.6. The SORP supplements FRS 102 and has been developed in light of the special factors prevailing or transactions undertaken within the charity sector.
- 3.7. In certain jurisdictions, it is a legal requirement for charities preparing their accounts on an accruals basis to adhere to the methods and principles of this SORP. Charities should refer to the guidance issued by the charity regulator in their jurisdiction(s) of registration to find out whether they are subject to a legal requirement to follow this SORP.
- 3.8. Accounting policies are supplemented by estimation techniques where judgement is required in measuring the value of income and expenditure and of assets and liabilities. It is essential that the accounts are accompanied by an explanation of the bases and estimation techniques used in their preparation.
- 3.9. Charity accounts must be prepared on a timely basis and be presented in a way that makes financial information understandable to users who have a reasonable knowledge of charity financial management and/or accounting and a willingness to study the information with reasonable diligence.
- 3.10. The accounts must present financial information that is relevant, reliable, comparable and complete. Information should not be excluded simply because it is complicated; however, the preparer should also balance the cost of obtaining information with the benefit it provides both internally to management and externally to funders and other stakeholders.
- 3.11. Transactions and events must also be accounted for with prudence and presented in a way that represents their substance and not merely their legal form. This will require the exercise of judgement and may on occasion require the disclosure of more information than specifically recommended in this SORP.

Length of the reporting period

- 3.12. All charities must prepare a set of accounts annually and they should normally have a 12-month reporting period. If the accounts are prepared for a shorter or longer reporting period, the charity must disclose:
 - that the reporting period is for less than or more than 12 months;
 - the reason for the shorter or longer accounting period;
 - the fact that the comparative amounts presented in the accounts (including the related notes) are not entirely comparable; and
 - this SORP also requires a charity to state the legal authority it has for the change to its reporting period.

Presentation currency

- 3.13. The presentation currency is the currency in which the accounts are denominated. A charity should normally prepare its accounts in the currency of the jurisdiction of its administration unless it operates predominantly by generating and spending its cash in a different currency. Where a charity operates predominantly in a different currency, it should prepare its accounts in that currency.

Going concern

- 3.14. Charities normally prepare their accounts on the basis of being a going concern. The trustees must make their own assessment of their charity's ability to continue as a going concern to assure themselves of the validity of this assumption when preparing their accounts. In making this assessment, a charity's trustees should take into account all available information about the future for at least, but not limited to, 12 months from the date the accounts are approved.

Materiality

- 3.15. FRS 102 and this SORP set certain accounting treatments and disclosures in the context of their materiality. Charities, in preparing their accounts, should therefore give particular consideration to material items or transactions as their omission or misstatement could influence economic decision-making by the user of the accounts and any assessment of the stewardship of charitable funds. An omission or misstatement of a material item may result in the accounts failing to give a true and fair view.
- 3.16. Materiality needs to be considered in the context of the accounts and depends on:
- the size of the item or error;
 - the nature of the item or error;
 - the impact of its omission or misstatement on the reported gross income or total expenditure and net assets; and
 - the impact of its omission or misstatement on particular analysis headings within the statement of financial activities, balance sheet and, where applicable, statement of cash flows and on the disclosures made in the notes to the accounts
- 3.17. Charities should only disclose accounting policies that apply to material items or transactions. Charities should avoid providing unnecessary information for non material items or transactions.
- 3.18. Although FRS 102 and this SORP need only be applied to material items or transactions, it is inappropriate to make, or leave uncorrected, immaterial departures from this SORP to achieve a particular presentation of an entity's financial position, financial performance or cash flows.
- 3.19. This SORP specifies when a charity must always consider a particular item or transaction material, for example the disclosure of related party transactions. Also, as a matter of emphasis, SORP modules may make particular reference to materiality.

Offsetting

- 3.20. A charity must not offset assets and liabilities, or income and expenses, unless required or permitted by this SORP or FRS 102. Offsetting does not include making provisions for the impairment of stock or for bad debts. Similarly, a charity reports any gains and losses on the disposal of its fixed assets by deducting the carrying amount of the asset and related selling expenses from the proceeds of the disposal.

Source of reporting and accounting disclosure requirements

- 3.21. This SORP distinguishes the accounting treatment(s) and the disclosures required in the notes to the accounts that:
- apply to all charities;
 - apply only to those charities termed 'larger charities' in this SORP;
 - are required by FRS 102; or
 - are required by this SORP due to charity law or in order to provide a higher standard of transparency and disclosure in the interests of funders, donors and users of charity accounts.
- 3.22. In preparing the charity's accounts, the charity must:
- apply the relevant requirements of FRS 102;
 - apply the recommendations of this SORP; and
 - select accounting policies that comply with FRS 102 and this SORP.

Alternative measurements to fair value

- 3.23. For certain items in the accounts FRS 102 permits a choice between measurement at historical cost or fair value. FRS 102 also requires donated services and facilities to be measured at the value of the gift to the charity. Where a balance sheet heading contains items measured at both historical cost and fair value, it is important to identify the accounting bases the charity has adopted in the relevant note.

Selection of accounting policies

- 3.24. Charities must refer to FRS 102 and the modules contained in this SORP when selecting their accounting policies for the treatment of particular items, transactions or events in the accounts.
- 3.25. If FRS 102 does not address the matter, then charities adopting FRS 102 should refer to the hierarchy of sources set out in section 10 of FRS 102.
- 3.26. In extremely rare circumstances a charity may conclude that compliance with a particular requirement of FRS 102 or this SORP would conflict with the objective of providing information useful for economic decision-making by users of the accounts and/or a legal obligation for the accounts to give a true and fair view.
- 3.27. Charities must not depart from either FRS 102 or the SORP simply because it gives the user a more appealing picture of the financial position or the results of the charity.

Compliance with the SORP

- 3.28. For a charity to state that its report and accounts are compliant with this SORP, both its trustees' annual report and its accounts must be prepared fully in accordance with the reporting and accounting recommendations of this SORP. To state that their accounts have been prepared in accordance with this SORP, a charity must:
- consider those SORP modules that apply to the activities, transactions and circumstances of the reporting charity;
 - comply with applicable format requirements and accounting treatments specified by this SORP and provide those disclosures that this SORP specifies 'must' be provided;
 - make any additional disclosures required by the FRS 102; and
 - only depart from the requirements of this SORP or the FRS 102 if necessary for the accounts to give a true and fair view.
- 3.29. This SORP uses the term 'must' to indicate those recommendations 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 the SORP states that an item is always material or the recommendation is one which 'must' be followed, non-adherence to that recommendation is a departure from this SORP.
- 3.30. The SORP also identifies particular recommendations that 'should' be followed. These recommendations are 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 is not regarded as a departure from this SORP.
- 3.31. Where the SORP states that a particular accounting treatment or disclosure 'may' be adopted, this provides an illustration of 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.

Changes in accounting policies

- 3.32. FRS 102 requires accounting policies to be applied consistently for similar transactions, events and conditions and between reporting periods.
- 3.33. A change to an existing accounting policy is only justified if:
- it is required due to a change in FRS 102 that applies to the reporting period; or
 - it results in the accounts providing reliable and more appropriate and relevant information about the effect of transactions, other events or conditions that affect the reported financial position, financial performance or cash flows of the charity or group.

- 3.34. A change in an accounting policy must be applied retrospectively to comparative information for all prior periods to the earliest date for which it is practicable, except where an accounting standard requires or permits an alternative treatment on its first adoption.

Changes in accounting estimates

- 3.35. Changing an accounting estimate as a result of new information or developments is not the same as correcting an error. Similarly, a change in an estimation technique used or in a model used when a reliable measure of fair value is no longer available is not a change in accounting policy. Adjusting for changes in accounting estimates and estimation techniques results in a change to the transaction value or carrying amount of the asset or liability in the current reporting period; no adjustment is to be made in respect of prior reporting periods.

Correction of a prior period error

- 3.36. Charities must correct material errors resulting from an omission or misstatement in a prior period by either restating the comparative amounts for the prior period(s) in which the error occurred, or by restating the opening balance of the asset or liability for the item(s) for all prior periods for which comparative information is presented to the earliest date for which it is practicable.

Disclosure of accounting policies, changes in estimation techniques and prior period errors

- 3.37. In order to comply with the Application of Financial Reporting Requirements (FRS 100) and FRS 102 the notes to the accounts must:
- state whether the accounts were prepared in accordance with this SORP;
 - state whether the accounts were prepared in accordance with FRS 102;
 - set out the accounting policies used that are relevant to an understanding of the accounts and the measurement bases used in preparing them: and
 - this SORP requires a charity to state whether the accounts were prepared in accordance with applicable charity and/or company law in the jurisdiction(s) of registration.
- 3.38. All charities must explain if there are material uncertainties related to events or conditions that cast significant doubt on the charity's ability to continue as a going concern. In making their explanation, charities should provide:
- a brief explanation as to those factors that support the conclusion that the charity is a going concern; and
 - a balanced, proportionate and clear disclosure of any uncertainties that makes the going concern assumption doubtful; or
 - if the accounts are not prepared on a going concern basis, this fact must be disclosed, together with the basis on which the trustees prepared the accounts and the reason why the charity is not regarded as a going concern.

- 3.39. Where there are no material uncertainties about the charity's ability to continue, this should be stated.
- 3.40. Charities must also state:
- that the charity is a public benefit entity;
 - the judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the accounts;
 - the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period; and
 - in respect of those assets and liabilities where there is a significant risk of material adjustment within the next reporting period, the notes must include details of their nature and their carrying amount as at the end of the reporting period.
- 3.41. Where there has been a material departure from the requirements of FRS 102, the notes to the accounts must:
- state that the trustees have concluded that the accounts present a true and fair view;
 - confirm that it has complied with FRS 102 or applicable legislation, except that it has departed from a particular requirement of FRS 102 or applicable legislation to achieve a fair presentation; and
 - explain the nature of the departure, including the treatment required by FRS 102 and the reason why that treatment would be so misleading in the circumstances that it would conflict with the requirement to give a true and fair view, and the treatment adopted.
- 3.42. Where charities have made a material departure from a recommendation of this SORP that must be followed, FRS 100 requires that the notes to the accounts must:
- provide a brief description of how the accounts depart from the recommended practice set out in this SORP;
 - for any treatment that is not in accordance with the SORP, the reasons why the treatment adopted is judged more appropriate to the charity's particular circumstances;
 - give brief details of any disclosures required by this SORP that have not been provided, and the reasons why they have not been provided; and
 - this SORP requires that if the departure was necessary for the accounts to give a true and fair view, the effect of the departure must also be quantified.
- 3.43. Where a material departure from the requirements of FRS 102 is also a departure from requirements of this SORP, a combined note may be provided.

Accounting and Reporting by Charities

- 3.44. Where charities have changed an accounting policy, the notes to the accounts must disclose:
- the nature of the change in accounting policy;
 - the reasons why applying the new accounting policy provides reliable and more relevant information; and
 - to the extent practicable, the amount of the adjustment for each line item in the accounts affected for the current period, each prior period presented and the aggregate amount of the adjustment relating to periods before those presented.
- 3.45. If it is not practicable to disclose the amount of the adjustment, charities must give an explanation of the adjustment.
- 3.46. The notes must disclose the nature of any change(s) to accounting estimates and the effect of the change on assets, liabilities, income and expenses for the current period. If it is practicable for the charity to estimate the effect of the change in one or more future periods, the charity must disclose those estimates.
- 3.47. If a charity identifies material prior period errors, it must correct them and disclose in the notes to the accounts:
- the nature of the prior period error;
 - for each prior period presented in the accounts, to the extent practicable, the amount of the correction for each account line item affected; and
 - to the extent practicable, the amount of the correction at the beginning of the earliest prior period presented in the accounts.
- 3.48. If it is not practicable to disclose the amount of the correction relating to prior period errors then an explanation must be provided.

Comparative information

- 3.49. FRS 102 requires that comparative information must be provided for all amounts presented in the current period's financial statements, which includes the notes. Therefore charities must provide comparative information for all amounts presented in the accounts and notes to the accounts unless otherwise stated in FRS 102. This requirement for comparative information applies to all those disclosures that are additionally required by this SORP.

4. Statement of financial activities

Introduction

- 4.1. All charities preparing their accounts on an accruals basis to give a true and fair view of their financial activities and financial position must prepare a statement of financial activities (SoFA) for each reporting period; termed statement of comprehensive income in FRS 102. The structure, format and headings of the SoFA required by this SORP (when prepared on an activity basis) are set out in Table 2. FRS 102 does not address the presentation of charitable funds within the statement of comprehensive income provided by the SoFA.
- 4.2. FRS 102 requires that comparative information must be provided for all amounts presented in the SoFA. This SORP requires that the comparative information provided for the total funds of a charity must be presented on the face of the SoFA. Comparative information provided for the separate classes of funds, if any, held by a charity may be presented either on the face of the SoFA or prominently in the notes to the accounts.
- 4.3. The column in Table 2 headed 'Further details' provides references to later sections of this module that set out those activities and transaction(s) falling within each of the SoFA's headings.
- 4.4. The statement of financial activities (SoFA) is a single accounting statement that includes all income, gains, expenditure and losses recognised for the reporting period. It provides the user with an analysis of the income and endowment funds received and the expenditure by the charity on its activities, and presents a reconciliation of the movements in a charity's funds for the reporting period.
- 4.5. The SoFA should be prepared with the needs of the charity's stakeholders in mind (see the SORP module '[Accounting and reporting by charities – the statement of recommended practice \(SORP\) scope and application](#)'). Charities reporting on an activity basis should ensure that those activities reviewed in the trustees' annual report are also reported on the face of the SoFA or in the notes to the accounts.
- 4.6. This SORP requires expenditure to be reported on an activity basis to show how the charity has used its resources to further its charitable aims for the public benefit. However, smaller charities may opt to report their charity's expenditure in a different way, for example by the nature of expenditure rather than on an activity basis.

Table 2: Statement of financial activities

	Unrestricted funds	Restricted funds	Endowment funds	Total funds	Prior period Total funds	Further details
	£	£	£	£	£	£
Income and endowments from:						
Donations and legacies						A1
Charitable activities						A2
Other trading activities						A3
Investments						A4
Other						A5
Total						
Expenditure on:						
Raising funds						B1
Charitable activities						B2
Other						B3
Total						
Net gains/(losses) on investments						B4
Net income/(expenditure)						
Transfers between funds						C
Other recognised gains/(losses):						
Gains/(losses) on revaluation of fixed assets						D1
Actuarial gains/(losses) on defined benefit pension schemes						D2
Other gains/(losses)						D3
Net movement in funds						
Reconciliation of funds:						E
Total funds brought forward						
Total funds carried forward						

4.7. The module is divided into two parts as follows:

- **Presentation of information:**
 - structure of the SoFA – all charities;
 - accounting for material items – all charities;
 - accounting for extraordinary items – all charities;
 - accounting for discontinued operations – all charities;
 - structure of the SoFA – smaller charities; and
 - structure of the SoFA – all charities reporting on an activity basis.
- **Line headings used in the statement of financial activities:**
 - A1 Income from donations and legacies;
 - A2 Income from charitable activities;
 - A3 Income from other trading activities;
 - A4 Investment income
 - A5 Other income;
 - Analysis of income in the notes to the accounts;
 - B1 Expenditure on raising funds;
 - B2 Expenditure on charitable activities;
 - B3 Other expenditure;
 - Analysis of expenditure in the notes to the accounts;
 - B4 Gains/(losses) on investments;
 - C Transfers between funds;
 - D1 Gains/(losses) on revaluations of fixed assets;
 - D2 Actuarial gains/(losses) on defined benefit pension schemes;
 - D3 Other gains/(losses); and
 - E Reconciliation of funds.

Presentation of information

Structure of the SoFA – all charities

4.8. A charity's statement of financial activities (SoFA) must:

- adopt the same format in subsequent reporting periods unless there are special reasons for a change that is explained in the notes to the accounts;
- provide comparative amounts for the total funds presented on the face of the SoFA; and
- omit headings where there is nothing to report in both the current and preceding reporting period.

- 4.9. The columns of the SoFA must be used to distinguish restricted income funds, which may only be spent for a particular purpose of the charity, from unrestricted funds, which can be spent on any of its purposes, and endowment funds. Endowment funds are restricted funds which either cannot be spent (permanent endowment) or where there is no actual requirement to spend or apply the capital unless, or until, the trustees decide to spend it (expendable endowment).
- 4.10. All of the charity's income and expenditure, transfers and other recognised gains and losses must be analysed between the classes of funds, but a charity will not necessarily have funds of all three classes.
- 4.11. If a class of funds would not be considered material it may be combined with another class of funds and shown as a single combined funds column. If a single combined total funds column is used the heading must be changed to 'all unrestricted and restricted funds' or 'all unrestricted, restricted and endowed funds' as appropriate. Where a single column approach is followed the summary of fund movements must include an analysis for each class of fund for each row in the SoFA together with a total that corresponds to the total shown in the SoFA. For more information refer to the SORP module '[Fund accounting](#)'.
- 4.12. A charity may vary the order in which it presents headings within the income and expenditure sections of the SoFA to meet its own presentational needs. Some charities may also find it informative to their users to insert additional subtotals.
- 4.13. A charity may add additional columns to the SoFA to present material funds or activities on the face of the statement rather than in the notes. Any additional analysis of this type provided on the face of the SoFA must make clear the class of fund (unrestricted, restricted or endowment) in the column title. In providing additional information, a balance needs to be struck between the provision of additional information and the resulting complexity of the statement.

Accounting for material items – all charities

- 4.14. All charities must disclose the nature and amount of any material item(s) of income or expenditure when this information is relevant to an understanding of the charity's financial performance.
- 4.15. The disclosure of material items must be made either in the notes or by the insertion of an additional line within the relevant activity heading on the face of the SoFA when necessary for the presentation of a true and fair view of a charity's financial activities. For example material items that should be disclosed separately are a material fraud or the loss of a material tangible fixed asset.

Accounting for extraordinary items – all charities

- 4.16. Events and transactions falling outside a charity's ordinary activities are by their nature extremely rare and are referred to as extraordinary items.

- 4.17. Extraordinary items are material events or transactions that:
- fall outside of the charity's ordinary activities;
 - are abnormal in their nature; and
 - are not expected to recur.
- 4.18. In the unlikely event of their occurrence, extraordinary items must be disclosed on the face of the SoFA immediately after the total of net income/(expenditure). The nature of each extraordinary item should be explained in the notes to the accounts.

Accounting for discontinued operations – all charities

- 4.19. Charities are established to pursue one or more charitable purposes for the public benefit. Decisions as to the use of resources and the relative priority given to the charity's aims may differ from year to year to reflect the demands placed on the charity by its beneficiaries and social and economic circumstances. Such changes in the way in which activities are provided, or goods or services are delivered, or the range or extent of the activities pursued, do not represent discontinued operations.
- 4.20. For example, a charity providing disaster relief and humanitarian assistance may operate on a global basis and carry out its activities in different countries in different years. Similarly, a charity providing services to the elderly may alter the way in which it delivers its services, for example by switching from residential care to supporting the elderly in their own homes. Neither charity is discontinuing its charitable purpose; they are fulfilling it in a different way.
- 4.21. Discontinued operations represent the complete discontinuation of, or disposal of, a separate line of business activity or charitable activity and not simply the spending out of a restricted fund. In the event of a charity having a discontinued operation, an analysis of continuing and discontinued operations must be provided in the SoFA by way of additional column(s).

Structure of the SoFA – smaller charities

- 4.22. The analysis of income and expenditure by activity is encouraged for all charities preparing accruals accounts. However, smaller charities are not required to report their income and expenditure on an activity basis and may adopt an alternative approach to their analysis.
- 4.23. This analysis may be based on the nature of the income and expenditure. For example, expenditure could be analysed by salary-related costs, premises-related costs, interest expenses, transport costs and grants made. Alternatively, the headings used by the charity to record expenditure in its own accounting records could be used.
- 4.24. Where an alternative approach to analysis is adopted, this SORP requires that charities must disclose in their SoFA:
- total income of the charity;
 - a relevant analysis of the components of income;
 - total expenditure of the charity;
 - a relevant analysis of the components of expenditure;
 - gains/(losses) on investments (where applicable);
 - net income/(expenditure);
 - transfers between funds;

- gains on the revaluation of fixed assets (where applicable);
 - actuarial gains/(losses) on any defined benefit pension scheme (where applicable);
 - net movement in funds;
 - total funds brought forward from the previous reporting period; and
 - total funds carried forward at the end of the reporting period.
- 4.25. If a material component of income or expenditure is not presented on the face of the SoFA, the nature and amount of the item must be disclosed in the notes to the accounts.
- 4.26. Charities preparing their accounts using a natural or alternative basis of analysis must also provide those disclosures required by other modules relevant to the charity. For example, a charity must disclose any remuneration, benefits or expenses paid to trustees and any related party transactions.

Structure of the SoFA – all charities reporting on an activity basis

- 4.27. This SORP requires that larger charities and those smaller charities opting to report on an activity basis must classify their income and expenditure by activity.
- 4.28. Income must be analysed according to the activity that produced the resources. Expenditure must be analysed by the nature of the activities undertaken.
- 4.29. Where relevant to the understanding of material activities, the expenditure analysis headings should enable the user of the accounts to understand the relationship with income derived from the activity. For example:
- a charity selling donated goods through a shop could use the description ‘Shops’ within row A3 (‘Income from other trading activities’) and row B1 (‘Expenditure on raising funds’);
 - a charity running a care home could use the description ‘Residential care fees’ within row A2 (‘Income from charitable activities’) and ‘Residential care costs’ in row B2 (‘Expenditure on charitable activities’);
 - an arts charity providing a mix of paid-for and free services could use the description ‘Admission fees for galleries and exhibitions’ within row A2 (‘Income from charitable activities’) and use the heading ‘Operation of art gallery and touring exhibitions to schools and community’ in row B2 (‘Expenditure on charitable activities’); and
 - an endowed grant-making charity mainly making grants to advance education could use the description ‘Investment income’ within row A4 (‘Investment income’) and ‘Grants to education and research institutions, student bursaries and other grants’ in row B2 (‘Expenditure on charitable activities’).
- 4.30. In most cases, it will be clear which activity generated the income or expenditure. Expenditure shared between two or more activities should be apportioned between them on a reasonable, justifiable and consistent basis (see the SORP module [‘Allocating costs by activity in the statement of financial activities’](#)).

Line headings used in the statement of financial activities

A: Income and receipt of endowment

A1: Income from donations and legacies

- 4.31. Donations and legacies include all income received by the charity that is, in substance, a gift made to it on a voluntary basis. A donation or legacy may be for any purpose of the charity (unrestricted funds) or for a particular purpose of the charity (restricted income funds or endowment funds).
- 4.32. Donations and legacies do not provide any significant benefit to the donor in return for their payment other than the knowledge that the charity must use the gift to further its purposes. Income from donations and legacies includes:
- donations and gifts made by individuals and corporations, including any related tax refund or Gift Aid claimed on gifts made by individuals but excluding goods donated for resale;
 - legacies receivable by the charity;
 - grants of a general nature provided by government and charitable foundations which are not conditional on delivering certain levels or volumes of a service or supply of charitable goods;
 - membership subscriptions and sponsorships where these are, in substance, donations rather than payment for goods or services; and
 - donated goods for the charity's own use or distribution and donated services and facilities.

A2: Income from charitable activities

- 4.33. Income from charitable activities includes income earned both from the supply of goods or services under contractual arrangements and from performance-related grants which have conditions that specify the provision of particular goods or services to be provided by the charity. To fall within this analysis heading, the activities specified by the contractual terms or grant conditions must be undertaken for the charitable purposes of the charity.
- 4.34. Income from charitable activities includes:
- the sale of goods and services as part of the charitable activities of the charity (also known as primary purpose trading), whether the sale is intended to make a profit or is at or below cost;
 - contractual payments from government or public authorities and other parties which fund the provision of particular goods or services, for example the provision of care;
 - the sale of goods or services made or provided by the beneficiaries of the charity;
 - performance-related grants where the income is conditional on delivering certain levels or volumes of a service or supply of goods;
 - ancillary trades connected to primary purpose trading; and
 - the letting of non-investment property in furtherance of charitable purposes.

A3: Income from other trading activities

- 4.35. Income from other trading activities includes income earned from both trading activities to raise funds for the charity and income from fundraising events. To fall within this analysis heading, the income must be received in exchange for supplying goods and services in order to raise funds for the charity. While selling donated goods is legally considered to be the realisation of a donation in kind, in economic terms it is similar to a trading activity and should therefore be included in this analysis heading.
- 4.36. Income from other trading activities includes:
- income from non-charitable trading activities, including non-charitable trading activities of subsidiary entities consolidated into group accounts;
 - membership subscriptions and sponsorships where the recipient is not a beneficiary and where these are, in substance, a payment for goods or services;
 - income from fundraising events such as jumble sales, firework displays and concerts by the charity (or by volunteers working under the charity's management direction) or its agents;
 - shop income from selling donated and bought-in goods;
 - income from letting and licensing arrangements for property held primarily for functional use by the charity but temporarily surplus to operational requirements; and
 - income from sponsorships and social lotteries which cannot be considered pure donations.

A4: Investment income

- 4.37. Investment income is earned from holding assets for investment purposes and includes dividends, interest, and rents from investment property. Where income from investments is material, it must be presented as a separate heading on the face of the SoFA.
- 4.38. While income must be presented gross in the SoFA before the deduction of any costs incurred, it is often not practicable for charities to identify the investment management costs incurred within collective investment schemes, such as unit trusts or common investment funds, prior to the distribution of income. Where it is not practicable to identify the investment management costs incurred within the scheme with reasonable accuracy, the investment income should be reported net.

A5 Other income

4.39. Other income represents income that cannot be reported under the other analysis headings provided within the SoFA. Other income may also include the conversion of endowment funds into income with the equivalent offsetting reduction to endowment funds shown as a deduction under other income in the 'Endowment funds' column. This approach may be helpful in those jurisdictions that include such items in the calculation of gross income for audit threshold purposes. Alternatively, a conversion of endowment funds into income may be included under the heading 'Transfers between funds'.

4.40. The conversion of endowment into income includes:

- capital funds released to an income fund from expendable endowment; and
- the release of funds to income from the 'unapplied total return fund' held within the permanent endowment fund where a charity has authority to adopt a total return approach to investment.

4.41. This heading should also include all other sources of income unless the amount is sufficiently material as to require its presentation as a separate SoFA heading. Other income may include:

- a gain on the disposal of a tangible fixed asset held for the charity's own use;
- a gain on the disposal of a programme related investment;
- any royalties from the exploitation of intellectual property rights; and
- any other income not falling into the other income categories.

Analysis of income in the notes to the accounts

4.42. Unless analysed on the face of the SoFA, this SORP requires that the notes to the accounts must provide an analysis of the material components of income included within each analysis heading of the SoFA. Amounts for similar activities should be aggregated so as to provide an analysis of:

- donations and legacies, distinguishing between the types of gift receivable, for example the amount of donations, grants of a general nature and legacies;
- income from charitable activities, identifying the nature of the activities undertaken and the income produced;
- income from other trading activities, identifying the nature of the trading or fundraising activity and income produced;
- investment income analysed according to each class of investment shown on the balance sheet or in the investment note to the accounts; and
- the nature and amount of other income receivable.

4.43. Where applicable, this SORP requires that the notes to the accounts must give the amount and reason for the conversion of all or part of any endowment fund converted into income in the reporting period.

B: Expenditure

B1: Expenditure on raising funds

- 4.44. Expenditure on raising funds includes all expenditure incurred by a charity to raise funds for its charitable purposes. It includes the costs of all fundraising activities, events, non-charitable trading activities, and the sale of donated goods. However, any costs incurred in providing goods or services as a charitable activity must not be included in this heading, even if a charge is made for their provision.
- 4.45. Expenditure on raising funds includes those costs incurred in:
- seeking donations, grants and legacies;
 - operating membership schemes and social lotteries;
 - staging events, including the performance fees, licence fees and other related costs;
 - contracting with agents to raise funds on behalf of the charity;
 - operating charity shops selling donated and/or bought-in goods;
 - operating a trading company undertaking non-charitable trading activities;
 - advertising, marketing and direct mail materials, including publicity costs not associated with educational material designed wholly or mainly to further the charity's purposes; and
 - investment management costs.
- 4.46. Investment management costs include the costs of:
- portfolio management;
 - obtaining investment advice;
 - administration of the investments;
 - costs of licensing intellectual property; and
 - rent collection, property repairs and maintenance charges.
- 4.47. Where investment management costs are material, these costs should be presented as a separate heading on the face of the SoFA or in the notes to the accounts.
- 4.48. Costs associated with acquiring and disposing of investments would normally form part of the acquisition cost of the investment or reduce the return on disposals. These costs are therefore not part of investment management costs. Where investment managers deduct management fees from investment income, the charity should report the gross investment income before fees and report the management fees charged in this cost category. However, charities are not expected to prorate investment management fees charged to a collective investment scheme to identify the notional cost attributable to its own holding in the scheme.
- 4.49. Investment management costs associated with endowment fund investments should generally be charged to the endowment fund in the SoFA. Further guidance on the charging of investment management costs to endowment funds is provided in the SORP module '[Fund accounting](#)'.

- 4.50. Fundraising costs may be incurred in starting up a new source of future income such as legacies, or in developing a supporter database. In most cases these start-up costs should not be carried forward as prepayments or deferred expenditure. Instead, such costs are charged to the SoFA as incurred. Data capture costs of an internally developed database must not be capitalised. The costs of a database that has been purchased or donated to the charity can be capitalised where it is probable that it will generate economic benefits, for example in generating income, and the resulting database has a readily ascertainable cost or value.
- 4.51. Charities may choose to expand the analysis provided within this heading for example by identifying separately 'Expenditure on raising donations and legacies' (A1), 'Expenditure on other trading activities' (A3) and 'Investment management costs' (A4) either in the SoFA or by way of an explanatory note.

B2: Expenditure on charitable activities

- 4.52. Expenditure on charitable activities includes all costs incurred by a charity in undertaking activities that further its charitable aims for the benefit of its beneficiaries, including those support costs and costs relating to the governance of the charity apportioned to charitable activities. Costs involved in negotiating contracts or grants that require the charity to provide specific charitable services should also be regarded as part of the cost of carrying out that activity.
- 4.53. Additional sub-headings should be added to the analysis of charitable activities to identify the significant charitable activities undertaken which have been reviewed in the trustees' annual report. The sub-headings used should reflect the nature of the activity undertaken.
- 4.54. On occasions, a subsidiary entity may undertake activities specifically to further the purposes of a parent charity rather than as a fundraising activity. Expenditure incurred by a subsidiary on activities that fall within the parent charity's purposes should be analysed as charitable activity when consolidated accounts are prepared.
- 4.55. Charities may carry out their activities through a combination of direct service provision and the grant funding of third parties to undertake work that contributes to the charity's aims or programme of work. The cost of charitable activities presented in the SoFA includes the costs of both direct service provision and the payment of grants. Charities making grants must refer to the SORP module '[Presentation and disclosure of grant-making activities](#)', which sets out the particular disclosures required for grant-making in the notes to the accounts.

B3: Other expenditure

- 4.56. Other expenditure includes all expenditure that is neither related to raising funds for the charity nor part of its expenditure on charitable activities. Where an amount is material or its presentation on the face of the SoFA is necessary for an understanding of a charity's financial performance, an additional sub-heading should be used.

Analysis of expenditure in the notes to the accounts

- 4.57. This SORP requires that the notes to the accounts must provide a relevant analysis of the activities included within each expenditure heading provided on the face of the SoFA. The analysis provided should aggregate the cost of similar activities and provide the user of the accounts with an understanding of the charity's main activities.
- 4.58. This SORP also requires that the analysis must give details of the support costs charged to an activity and the cost of grant funding to third parties that have been included within the cost of charitable activities. The total provided within the analysis must reconcile with the amounts presented within the relevant expenditure headings of the SoFA. This information may, for example, be presented in a tabular format (see Table 3).

Table 3: Analysis of expenditure on charitable activities

Activity or programme	Activities undertaken directly	Grant funding of activities	Support costs	Total
	£	£	£	£
Activity 1				
Activity 2				
Activity 3				
Total				

B4: Gains/(losses) on investment assets

- 4.59. This heading is used to record any realised and unrealised gains or losses on investment assets and investment properties, including those gains or losses arising from their revaluation in the reporting period.

C: Transfers between funds

- 4.60. All transfers between the different classes of funds must be shown in the transfer row of the SoFA. The transfer line must always net to nil. Refer to the SORP module '[Fund accounting](#)' for more information.
- 4.61. The transfer row may also be used to record the conversion of endowment funds (including the release of any unapplied total return where a total return approach to investment is adopted) into income. Alternatively, charities may choose to present the conversion of endowment funds in row A5 ('Other income').

D: Other recognised gains/(losses)

D1: Gains/(losses) on the revaluation of fixed assets

- 4.62. This heading includes gains or losses on the revaluation of property, plant and equipment used by a charity, and heritage assets and intangible assets. This heading should not be used when adjusting for a reversal in a previous charge for impairment.

D2: Actuarial gains/(losses) on defined benefit pension schemes

- 4.63. This heading is used to record actuarial gains or losses on defined benefit pension schemes and post-employment benefit plans.

4.64. Charities which operate defined benefit pension schemes must refer to the SORP module 'Retirement and post-employment benefits', which provides recommendations on the recognition of pension costs, assets and liabilities and their disclosure in the accounts.

D3: Other recognised gains/(losses)

4.65. A charity must insert additional headings to report any other gains and losses required by accounting standards or which company law (when the charity is a company) requires to be recognised outside of a charity's income and expenditure account.

4.66. Items presented within this category include:

- where hedge accounting is adopted for that portion of the change in fair value of the hedging instrument that cannot be recognised as income or expenditure; and
- foreign exchange gains or losses arising on conversion of non-monetary assets at the end of the reporting period where the valuation, gains or losses on those assets are not accounted for in headings B4, D1 and D2.

E: Reconciliation of funds

4.67. This SORP requires that the opening and closing balances for each class of fund must be shown with the difference reconciled by the movement in funds in the reporting period. The closing fund balances presented in the SoFA must agree with the equivalent totals shown in the 'Funds of the charity' section on the balance sheet.

5. Recognition of income, including legacies, grants and contract income

Introduction

- 5.1. Income is the inflow of economic benefits to a charity from the activities that it undertakes. Income is an inflow of resources that results in an enhancement to the charity's assets or a decrease in its liabilities.
- 5.2. Charities should refer to sections 23, 24 and 34 of FRS 102 for more information. This module applies to all charities and sets out:
- understanding the nature of income;
 - general rules for income recognition;
 - general principles for recognising income from donations and grants;
 - identification of terms and conditions;
 - performance-related conditions;
 - other terms and conditions that limit the recognition of income;
 - deferring income where conditions that limit recognition are not met;
 - terms and conditions that do not prevent recognition;
 - recognising income from legacies;
 - income from donated goods, facilities and services;
 - income from contracts for the supply of goods and services;
 - income from membership subscriptions;
 - income from interest, royalties or dividends;
 - settlement of insurance claims; and
 - disclosures and notes to the accounts.

Understanding the nature of income

- 5.3. There are two broad categories of income: income from exchange transactions (contract income) and income from non-exchange transactions (gifts). It is important for charities to distinguish between the two as they are recognised differently in a charity's accounts.
- 5.4. Income from exchange transactions is received by the charity for goods or services supplied under contract. The income the charity receives is approximately equal in value to the goods or services supplied by the charity to the purchaser. The essential feature of income from a non-exchange transaction is that the charity receives value from the donor without providing equal value in exchange.

- 5.5. Income from non-exchange transactions (gifts) are donations of money, goods, facilities or services which are given freely to the charity by a donor. Grants are a form of non-exchange transaction where the grant-maker awards a grant without receiving equal value in exchange. However, even though grants are classified as non-exchange transactions, a grant may be presented as income from charitable activities where the payment is made to secure the provision of particular goods or services.
- 5.6. A donation or grant that can be used for any purpose of the charity is unrestricted income. However, a donation or grant may be restricted to a specific purpose of a charity. A restriction may result from a specific appeal by the charity, or from the decision of the grant-maker or donor to support a specific purpose of the charity rather than making funds available for the charity's general use. Simply because a grant is restricted to a particular purpose of the recipient charity does not mean it should be recognised as a performance-related grant. Restricted grants that are not subject to performance-related conditions, are included within the SoFA heading 'Income from donations and legacies'.
- 5.7. Transactions must be accounted for and presented in accordance with their substance and not simply their legal form. Charities must therefore consider the substance of any conditions attaching to donations or grants and to the substance of any contractual terms when determining their entitlement to income. Similarly, the substance of any restriction placed on the use of income must be considered when determining whether or not income is presented as restricted funds in a charity's accounts. In particular, a charity should consider:
- Whether entitlement to income is subject to fulfilling performance-related conditions. Performance-related conditions distinguish a contract or performance-related grant from an unconditional gift or grant.
 - The terms of a donation or grant that impose a restriction on use which is narrower than the general purposes of the charity. Terms placed on gifts that limit a charity's discretion over how income must be used are presented as restricted income in the accounts.
 - The terms of a contract may limit payments to amounts expended by the charity on purposes specified in the contract and restrict the charity's use of any surplus. Income that is restricted by contractual terms may be presented as restricted in the accounts if the restrictions are in substance the same as would apply to a restricted donation or grant.
 - The terms of a gift that require it to be held as endowment that must be invested and not spent. Material endowment funds must be presented as a separate class of restricted funds.

General rules for income recognition

- 5.8. Income is recognised in the statement of financial activities (SoFA) when a transaction or other event results in an increase in the charity's assets or a reduction in its liabilities. Income must only be recognised in the accounts of a charity when all of the following criteria are met:
- Entitlement – control over the rights or other access to the economic benefit has passed to the charity.
 - Probable – it is more likely than not that the economic benefits associated with the transaction or gift will flow to the charity.
 - Measurement – the monetary value or amount of the income can be measured reliably and the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.
- 5.9. All income must be reported gross when raised by the charity (or by volunteers working at the charity's direction) or its agents. Any fee charged for fundraising by a third party and deducted from the amount collected before it is remitted to the charity must not be offset against fundraising income recognised in the accounts but be reported as a fundraising expense. However, in the case of individuals not employed by, or contracted by, the charity who are acting on a purely voluntary basis and outside of the charity's control, the charity recognises the net amount remitted.

General principles for recognising income from donations and grants

- 5.10. Income from donations or grants is recognised when there is evidence of entitlement to the gift, receipt is probable and its amount can be measured reliably. The use of the 'accrual model' option (section 24 of FRS 102) for the recognition of income from government grants is not permitted by this SORP.
- 5.11. In the case of a grant, evidence of entitlement will usually exist when the formal offer of funding is communicated in writing to the charity. However some grants will contain terms or conditions that must be met before the charity has entitlement to the resources.
- 5.12. In the case of a donation, entitlement usually arises immediately on its receipt. However, some gifts may include terms or conditions which must be met before the charity is entitled to the resources.

Identification of terms and conditions

- 5.13. Charities need to identify donations or grants that are subject to terms or performance-related conditions or other conditions that must be met before there is unconditional entitlement to the gifted resources.
- 5.14. Not all terms or conditions attaching to a grant or donation prevent its recognition as income. A term or condition that simply restricts the use of a grant or donation does not affect a charity's entitlement to the gift and recognition of income. However, a restriction does affect how the gift or grant is reported in the accounts. For more information refer to the SORP module '[Fund accounting](#)'.

- 5.15. When accounting for grants and donations, charities should identify:
- those donations and grants that are subject to performance-related conditions; and
 - other terms or conditions that may prevent income recognition.

Performance-related conditions

- 5.16. Grant funding agreements may contain conditions that specify the services to be performed by a charity in receipt of a grant. For example, the grant may be in the form of a service level agreement where the conditions for payment are linked to the achievement of a particular level of service or the units of output delivered. The performance-related conditions contained in a funding agreement might, for example, specify the number of meals provided or the opening hours of a facility used by beneficiaries. Income must only be recognised to the extent that the charity has provided the specified goods or services as entitlement to the grant only occurs when the performance-related conditions are met.
- 5.17. Although performance-related conditions can apply to any form of gift, in practice it is unusual to see performance-related conditions apply to donations.
- 5.18. A restriction on the use of a grant or donation to a particular purpose or activity of a charity does not create a performance-related condition. A restriction creates a requirement that limits or directs the purpose for which a resource may be used but it does not require a specific level of performance or output from the recipient charity.
- 5.19. It is important at the outset of any arrangement that the charity identifies whether the funding agreement is a performance-related grant or a contract. This is important because the consequence of non-compliance with performance-related conditions and the liability for non-performance of a contract differ. The law of contract provides for the buyer to seek costs, damages and recompense for any failure or breach of contract by the seller, whereas a breach of grant conditions may lead to a partial or full repayment of the grant when repayment terms apply to the grant.

Other terms and conditions that limit the recognition of income

- 5.20. Performance-related conditions are not the only conditions that may apply to donations and grants. For example, a grant may be conditional on a charity obtaining matched funding, or subject to a successful planning consent. Meeting these conditions would not be wholly within the control of the recipient charity and the outcome of the specified event is uncertain. The charity would not have unconditional entitlement to the income until these conditions were met.
- 5.21. Donor imposed conditions may also specify the time period over which the expenditure of resources on a service can take place. Specification of a time period may amount to a pre-condition for use that limits the charity's ability to spend a grant or donation until it has performed the activity related to the specified time period. For example, a condition might specify the provision of a number of training weeks or the completion of a number of work placements in a particular period.

- 5.22. Time-related conditions may be implied. For example when a multi-period grant is approved and is to be paid on the basis of agreed annual budgets, the charity may not be entitled to spend part or all of that income in advance of its budgeted year(s) without the further prior approval of the grant-maker.

Deferring income where conditions that limit recognition are not met

- 5.23. Where terms and conditions have not been met or uncertainty exists as to whether the recipient charity can meet the terms or conditions otherwise within its control, the income should not be recognised but deferred as a liability until it is probable that the terms or conditions imposed can be met.
- 5.24. A grant that is subject to performance-related conditions received in advance of delivering the goods and services required by that condition, or is subject to unmet conditions wholly outside the control of the recipient charity, is accounted for as a liability and shown on the balance sheet as deferred income. Deferred income is released to income in the reporting period in which the performance-related or other conditions that limit recognition are met.
- 5.25. When income from a grant or donation has not been recognised due to the conditions applying to the gift not being wholly within the control of the recipient charity, it should be disclosed as a contingent asset if receipt of the grant or donation is probable once those conditions are met.

Terms and conditions that do not prevent recognition

- 5.26. When meeting terms or conditions are within the charity's control and there is sufficient evidence that they have been or will be met, then the income must be recognised. Terms or conditions such as the submission of accounts or certification of expenditure are administrative requirements and would not prevent the recognition of income.
- 5.27. A donation or grant without conditions should not be deferred even if the resources are received in advance of the expenditure on the activity funded by them. The timing of the related expenditure is at the discretion of the charity and the income cannot be deferred simply because the related expenditure has not been incurred. For example where a donation or grant is given specifically to provide a fixed asset or a fixed asset is donated (a gift in kind), the charity is normally entitled to that income when it is receivable. At this point, all of the income must be recognised in the SoFA and not deferred over the life of the asset.
- 5.28. Similarly, a condition that allows for the recovery by the donor of any unexpended part of a grant does not prevent recognition. Instead, a liability to any repayment is recognised when repayment becomes probable.

Recognising income from legacies

- 5.29. For accounting purposes, entitlement to a legacy cannot arise without the charity knowing of both the existence of a valid will and the death of the benefactor. Those charities with databases of current donors may well have information about an individual donor's intention or decision to leave a gift to them in their will and charities may also employ agents or carry out their own research to review publicly available information on recent deaths including the granting of probate. Charities having such information should use this information when developing their accounting policy for recognising income from legacies. For accounting purposes, evidence of entitlement to a legacy exists when the charity has sufficient evidence that a gift has been left to them and the executor is satisfied that the property in question will not be required to satisfy claims in the estate.
- 5.30. Of itself, establishing entitlement is insufficient to recognise legacy income. The recognition of the gift is also affected by the probability of receipt and the ability to estimate with sufficient accuracy the amount receivable.
- 5.31. Receipt of a legacy must be recognised when it is probable that it will be received. Receipt is normally probable when:
- there has been grant of probate;
 - the executors have established that there are sufficient assets in the estate, after settling any liabilities, to pay the legacy; and
 - any conditions attached to the legacy are either within the control of the charity or have been met.
- 5.32. Charities which receive a significant number of legacies in a reporting period and have detailed historical information on the settlement of legacies may apply an estimation technique in measuring the value of legacies that are recognised to allow for potential variation in settlement values and the risk of a will being contested. For example, where a charity has numerous immaterial legacies, by using a portfolio approach, the charity may estimate the monetary value of the income that may be received from legacies to which they are entitled by applying a formula or mathematical model. However a portfolio approach is unsuitable for material legacies or when a charity only receives legacies infrequently, as these should be considered individually. When a portfolio approach is not adopted charities must recognise a legacy when the executors have determined that a payment can be made following the agreement of the estate's accounts, or on notification by the executors that payment will be made.
- 5.33. Where a payment is received from an estate or is notified as receivable by the executors after the reporting date and before the accounts are authorised for issue but it is clear that the payment had been agreed by the executors prior to the end of the reporting period, then it should be treated as an adjusting event and accrued as income if receipt is probable.

- 5.34. In some cases, a charity may have entitlement to a legacy but there is uncertainty as to the amount of the payment. For example, the legacy may be subject to challenge or the charity's interest may be a residual one. If the interest of the charity in a pecuniary or residuary legacy cannot be measured reliably, details of the legacy should be disclosed as a contingent asset until the criteria for income recognition are met. Where a legacy is subject to the interest of a life tenant, the legacy would not be recognised as income until the death of the life tenant.
- 5.35. Charities should measure or estimate the fair value of the legacy income receivable based on the information available. The fair value receivable will generally be the expected cash amount to be distributed to the charity from the estate. Legacy income must only be recognised when it can be measured or estimated with sufficient reliability. Legacy income classified as receivable within one year should not be discounted by the time value of money.
- 5.36. If the distribution is to be deferred for more than 12 months and an estimate can be made of the likely date of distribution, the legacy, if material, may be discounted by the interest rate the charity anticipates it would earn on a comparable deposit over a similar time frame using the effective interest method set out in section 11 of FRS 102. The unwinding of the discount should be reported as an adjustment to legacy income and not as interest receivable.
- 5.37. If a legacy debtor is impaired because it is doubtful that full settlement will be received, then an adjustment is made to reduce the amount of the legacy debtor and legacy income rather than charging the adjustment as expenditure in the SoFA.

Income from donated goods, facilities and services

- 5.38. Goods, facilities and services donated to a charity must be recognised as income when the criteria for their recognition are met. However, issues can arise in measuring the fair value of donated goods and services. Charities that have received donations of goods, facilities or services, including the services of volunteers, must refer to the separate SORP module '[Donated goods, facilities and services, including volunteers](#)', which sets out the requirements for the recognition, measurement and disclosures of these income sources.

Income from contracts for the supply of goods and services

- 5.39. Income earned from the sale of goods and services under contract is normally classified as unrestricted funds because it is not a gift and so cannot be restricted by trust law and any surplus may normally be spent on any purpose of the charity.
- 5.40. However, if a contract specifically requires all income received under it to be spent on a particular purpose of the charity and any unspent income to be returned to the funder or only applied for that particular purpose, then, in substance, the income may be regarded as restricted. If contract income is presented as restricted then all relevant disclosures required for a restricted fund must be made.

- 5.41. Entitlement to the income from the sale of goods arises when the 'significant risks and rewards' of ownership are transferred to the buyer. Usually, entitlement to income occurs with the supply of goods to the buyer. Income to which a charity has entitlement must be recognised in the SoFA when the income from the sale and the costs of the goods sold can both be measured reliably and receipt of the income is probable.
- 5.42. Income from the supply of services is recognised with the delivery of the contracted service provided that: the stage of the completion, the costs incurred in delivering the service and the costs to complete the requirements of the contract can all be measured reliably.
- 5.43. A charity must select a method to measure the stage of completion of a service contract that provides the most reliable estimate of the right to receive payment for the work performed. Possible methods include:
- the proportion of costs incurred for work performed to date compared with the total estimated costs to completion; or
 - surveys of the work performed; or
 - completion of a physical proportion of the service contract work.
- 5.44. It may also be appropriate to recognise income based on the time spent in providing a service as a proportion of the total time to be spent to fulfil the contract when this provides the most reliable estimate of a charity's entitlement.
- 5.45. Simply incurring costs in relation to a contract does not in itself justify the recognition of income. The cost criterion is met where the costs incurred and the costs to complete the transaction can be measured reliably. If the costs incurred and the costs to complete cannot be measured reliably then the receipt should be treated as an advance payment and deferred.
- 5.46. Where income is received in advance, then a charity may not have entitlement to the income until the goods or services have been provided. For example, where a charity sells gift vouchers, the income should be deferred until such time as the goods or services have been provided or the voucher has expired. Income received in advance should be deferred until the charity becomes entitled to it.
- 5.47. Income is recognised at the fair value of the consideration received or receivable after making an adjustment for any extended credit terms offered. If extended credit terms are offered on exchange transactions (contract income), the amount receivable should be discounted by the time value of money at a rate of interest that reflects the financing transaction involved. The unwinding of the discount represents the interest receivable from the buyer. No discounting is required where:
- normal credit terms are offered;
 - extended credit terms provide for payment within 12 months of the invoice date; or
 - the transaction amount is not material.

Income from membership subscriptions

- 5.48. Membership subscriptions received by a charity may be in the nature of a gift, or the member may buy a right to services or other benefits. When the substance of the subscription is that of a gift, the income and any associated Gift Aid or other tax refund should be recognised on the same basis as a donation. If the subscription purchases the right to services or benefits, the incoming resource should be recognised as income earned from the provision of goods and services as income from charitable activities.

Income from interest, royalties and dividends

- 5.49. Income from interest, royalties and dividends must be recognised when its receipt is probable and the amount receivable can be measured reliably.
- 5.50. Interest is recognised using the effective interest method (see section 11 of FRS 102 for more information). However, interest on concessionary loans and interest receivable on bank deposit accounts and from government gilts will not require adjustment, as the rate receivable normally reflects the effective interest rate applicable to the asset.
- 5.51. Royalties and income from the exploitation of intellectual property rights are accrued in accordance with the substance of the relevant agreement.
- 5.52. Dividends are accrued when the shareholder's right to receive payment is established. In the case of a Gift Aid payment made within a charitable group, income is accrued when the Gift Aid payment is payable to the parent charity under a legal obligation. Measurement is at the fair value receivable, which will normally be the transaction value.

Settlement of insurance claims

- 5.53. An insurance claim must be recognised when a charity has established its entitlement to the reimbursement of the insured loss, the receipt of that reimbursement is virtually certain and its amount can be measured reliably.
- 5.54. Receipt is virtually certain when an offer of settlement is received from the insurer. The insurance settlement is recognised at the fair value receivable, which will normally be the settlement amount agreed with the insurer if this is available at the reporting date.
- 5.55. A charity must recognise the amount of the insurance reimbursement either as an item of other income or by offsetting it against the related expense heading in the SoFA. The amount reimbursed through an insurance claim is recognised as an addition to the fund that initially suffered the insured loss.

Disclosures and notes to the accounts

- 5.56. All charities must explain in the notes to the accounts the accounting policies adopted for the recognition of each material item of income.
- 5.57. This SORP requires that the headings used to analyse income in the SoFA must follow those required by the SORP module '[Statement of financial activities](#)'.

5.58. A charity in receipt of government grants must also disclose:

- the nature and amounts of government grants recognised in the accounts;
- unfulfilled conditions and other contingencies attaching to grants that have been recognised in income; and
- an indication of other forms of government assistance from which the charity has directly benefited.

5.59. When a charity has deferred income, the notes to the accounts must explain the reasons why income is deferred and should analyse the movement on the deferred income account, identifying income deferred in the current year and the amounts released from previous reporting periods.

6. Donated goods, facilities and services, including volunteers

Introduction

- 6.1. The donation of goods, facilities and services to a charity provides an economic resource for use by the charity to further its aims and objectives.
- 6.2. This module applies to all charities that have received donated goods, facilities or services in the reporting period.
- 6.3. Charities should refer to section 34 of FRS 102 for more information. This module deals with how goods, facilities and services donated to charities are recognised, measured and disclosed in their accounts and sets out:
 - income recognition criteria;
 - measurement bases;
 - accounting for donated facilities and services, including volunteers;
 - accounting for donated goods and services capitalised as tangible fixed assets;
 - accounting for donated goods for distribution to beneficiaries;
 - accounting for donated goods for resale; and
 - disclosures in the notes to the accounts.
- 6.4. Income is recognised by a charity in its accounts for goods, facilities and services donated to it once the income recognition criteria set out in paragraph 6.6 are met. When measuring the value of donated goods, facilities and services, practical considerations may impact on the measurement bases adopted. For example, although goods donated for sale are normally recognised at the point of receipt, practicability may dictate that they are recognised only on their sale. Before undertaking a valuation, the charity should consider the materiality of the donations received and whether the cost involved in undertaking a valuation is justified by the benefits to the users of the accounts in terms of their better understanding the resources available to the charity and to the charity itself from having this financial information.
- 6.5. Commercial discounts offered in the normal course of trade should not be recognised or disclosed as a donation in charity accounts as they are an inducement to the customer to make a purchase by lowering the price paid.

Income recognition criteria

- 6.6. Donated goods, facilities and services must be recognised as income when the following criteria are met:
 - Entitlement – control over the expected economic benefits that flow from the donation has passed to the charity and any performance-related conditions attached to the donation have been fully met.
 - Probable – it is more likely than not that the economic benefits associated with the donated item will flow to the charity.
 - Measurement – the fair value or value to the charity of the donated item can be measured reliably.

- 6.7. Donated goods, facilities and services are unlikely to be subject to performance-related conditions which would result in the deferral of income until those conditions are met. A restriction on the use of a donation does not prevent its recognition as income.

Measurement bases

- 6.8. Donated goods must be measured at their fair value, unless it is impractical to measure reliably the fair value of donated item(s).
- 6.9. When there is no direct evidence of fair value for an equivalent item, a value may be derived from:
- the cost of the item to the donor; or
 - in the case of goods that are expected to be sold, the estimated resale value after deducting the cost to sell the goods.
- 6.10. If it is impractical to measure the fair value of goods donated for resale or if the costs of valuation outweigh the benefit to users of the accounts and the charity of this information, the donated goods must then be recognised when they are sold.
- 6.11. The terms of a gift may require the charity to make on-going use of the donated item, so preventing its sale. In such instances, there may be costs involved in removing such a restriction before the asset could be sold. This would be reflected in a lower assessment of the fair value amount than if the use of that asset was not so restricted.
- 6.12. The cost of any stock of goods donated for distribution to beneficiaries is deemed to be the fair value of those gifts at the time of their receipt. If the goods held are to be distributed freely or for a nominal consideration, then the carrying amount should be subsequently adjusted to reflect the lower of deemed cost adjusted for any loss of service potential and replacement cost. Where replacement cost is the economic cost incurred if the charity was to replace the service potential of the donated goods at its own expense in the most economic manner.

Accounting for donated facilities and services, including volunteers

- 6.13. If a charity is given facilities and services for its own use which it would otherwise have purchased, these must be included in the charity's accounts when received, provided the value of the gift can be measured reliably.
- 6.14. Measuring donated services using fair value would not be practical as such services cannot be resold and the use of fair value may result in an overstatement of the value of the donation to the charity. Donated facilities and services are therefore measured and included in accounts on the basis of the value of the gift to the charity.
- 6.15. Value to the charity is the amount that the charity would pay in the open market for an alternative item that would provide a benefit to the charity equivalent to the donated item. Value to the charity may be lower than, but cannot exceed, the price the charity would pay in the open market for the item.

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- 6.16. Donated facilities and services that are consumed immediately must be recognised as income, with an equivalent amount recognised as an expense under the appropriate heading in the statement of financial activities (SoFA).
- 6.17. Facilities such as office accommodation or services supplied by an individual or an entity as part of their trade or profession can usually be reasonably quantified and must be included in a charity's accounts.
- 6.18. Charities often rely on the contribution of unpaid general volunteers in carrying out their activities. However, placing a monetary value on their contribution presents significant difficulties. For example, charities might not employ additional staff were volunteers not available, or volunteers might complement the work of paid staff rather than replace them. These factors, together with the lack of a market comparator price for general volunteers, make it impractical for their contribution to be measured reliably for accounting purposes. Given the absence of a reliable measurement basis, the contribution of general volunteers must not be included as income in charity accounts.
- 6.19. However, it is important that the user of the accounts understands the nature and scale of the role played by general volunteers. Charities must include a description of the role played by general volunteers and provide an indication of the nature of their contribution in a note to the accounts.

Accounting for donated goods and services capitalised as tangible fixed assets

- 6.20. Goods donated for on-going use by a charity in carrying out its activities are recognised as tangible fixed assets with the corresponding gain recognised as income from donations within the SoFA. Donated vehicles, plant or furniture are recognised as tangible fixed assets when their fair value exceeds the threshold for capitalisation set by the charity's accounting policy.
- 6.21. If donated services are used in the construction of a tangible fixed asset, the value of services donated will only form part of the construction cost of the asset when the value to the charity of the donated services can be measured reliably. For example, the services donated by a firm of building or electrical contractors would be valued because these services would normally be provided as part of the donor's trade.
- 6.22. In common with any other tangible assets, donated goods held as tangible fixed assets must be subject to depreciation or amortisation and assessed for indications of their impairment at the reporting date.

Accounting for donated goods for distribution to beneficiaries

- 6.23. Donated goods held by the charity for distribution to its beneficiaries should be recognised as stock, with the corresponding income recognised within donations and measured at its fair value.

- 6.24. It may be necessary when valuing the donation to consider any restriction on the sale of the asset or the factors that may reduce the fair value of the asset, such as proximity to a product expiry date or the availability of lower-cost substitutes for the donated item, for example a generic version of a drug. Donated goods held in stock for distribution must be assessed for impairment at the reporting date.
- 6.25. In the reporting period in which the stocks are distributed, they are recognised as an expense and appropriately analysed as expenditure in the SoFA. The expense recognised is the carrying amount of the stocks at the point of distribution.
- 6.26. If it is impractical to assess the value of donated stock held for distribution at the time of receipt, or if the costs involved in undertaking the valuation of donated stock outweigh the benefit to users of the accounts and to the charity of having this financial information, the value to the charity of the gift must be recognised as a component of donations when it is distributed, with an equivalent amount recognised as charitable expenditure.

Accounting for donated goods for resale

- 6.27. In accepting donated goods for resale, the charity is receiving a gift in kind on trust for conversion into cash to fund the charity's activities. Where practicable, donated goods for resale are measured at fair value on initial recognition, which is the expected proceeds from sale less the expected costs of sale.
- 6.28. Charities accepting goods for resale under the UK retail Gift Aid scheme are acting as agent in selling the goods on behalf of the donor and are in law entitled only to an administration fee until such time as the donor waives their entitlement to the sale proceeds. Charities which have historical data may use an estimation technique to recognise income from such arrangements from the point of sale, for example by applying a formula or mathematical model to estimate the likely amount of the donations that will result from their subsequent sale. Income may be recognised from the point of sale where this reflects the substance of the transaction provided the income recognised is adjusted to reflect the risk that some sales will not result in a donation. Where a donor does not waive their entitlement to the sale proceeds, the administration fee is analysed as 'Income from other trading activities' in the SoFA.
- 6.29. Estimating the fair value of donated goods for resale is often impractical because of the volume of low-value items received or the absence of detailed stock control systems or records. In such circumstances, donated goods for resale are not recognised on receipt. Instead, the value to the charity of the donated goods sold is recognised as income when sold. The proceeds of sale are categorised as 'Income from other trading activities' in the SoFA.
- 6.30. If recognised at fair value on receipt, the value of the donated goods for resale should be treated as a component of 'Income from other trading activities' with the corresponding stock recognised in the balance sheet. On its sale the value of the stock is charged against 'Income from other trading activities' and the proceeds of the sale are also recognised as 'Income from other trading activities'.

Disclosures in the notes to the accounts

- 6.31. All charities receiving donated goods, facilities or services must disclose in the notes to the accounts:
- the accounting policy for the recognition and valuation of donated goods, facilities and services;
 - the nature and amounts of donated goods, facilities and services receivable from
 - non-exchange transactions recognised in the accounts, for example seconded staff, use of property etc.;
 - any unfulfilled conditions or other contingencies attaching to resources from
 - non-exchange transactions that have not been recognised as income in the reporting period; and
 - an indication of other forms of resources from non-exchange transactions from which the charity has benefitted but not recognised in its accounts, for example the contribution of unpaid general volunteers.

7. Recognition of expenditure

Introduction

- 7.1. Expenditure is the amount of a charity's resources that have been spent or otherwise used up in carrying out its activities. An expense results in either a decrease in a charity's assets or an increase in its liabilities.
- 7.2. Examples of an expense include cash spent to purchase goods or services, the depreciation charge on tangible fixed assets, and incurring a liability when goods and services are purchased on credit.
- 7.3. Liabilities can result from exchange transactions that are contractual, for example the purchase of goods or services or the employment of staff. Liabilities can also arise from non-exchange transactions, such as making grants or other funding commitments to further a charity's purposes for which the charity receives no other benefit in return.
- 7.4. Charities should refer to sections 21, 28 and 34 of FRS 102 for more information. This module applies to all charities and sets out:
 - [general rules for the recognition of liabilities and expenditure](#);
 - [rules on measurement of liabilities](#);
 - [principles for recognising liabilities from constructive obligations](#);
 - [conditions that limit the recognition of a funding commitment](#);
 - [accounting for liabilities arising from performance-related grants](#);
 - [provisions for liabilities](#);
 - [treatment of commitments not recognised as provisions or liabilities](#);
 - [accounting for onerous contracts](#);
 - [treatment of employee benefits](#); and
 - [disclosure of provisions and funding commitments in the accounts](#).

General rules for the recognition of liabilities and expenditure

- 7.5. Liabilities arise from legal or constructive obligations that commit the charity to expenditure. A liability and related expenditure must be recognised when all of the following criteria are met:
 - **Obligation** – a present legal or constructive obligation exists at the reporting date as a result of a past event.
 - **Probable** – it is more likely than not that a transfer of economic benefits, often cash, will be required in settlement.
 - **Measurement** – the amount of the obligation can be measured or estimated reliably.

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- 7.6. A legal obligation arises when a charity enters into a binding contract or there is a statutory requirement to make a payment. When a charity enters into a contract for the supply of goods or services, expenditure is recognised once the supplier of the goods or services has performed their part of the contract.
- 7.7. A constructive obligation arises as a result of a charity's actions when it indicates to other parties that it accepts particular responsibilities and thereby creates a valid expectation on their part that the charity will meet them.

Rules on measurement of liabilities

- 7.8. A liability must be measured on recognition at its historical cost and then subsequently measured at the best estimate of the amount required to settle the obligation at the reporting date. The exception is that certain financial instruments must be adjusted to their present value; these include financial liabilities where settlement is deferred for more than 12 months after the reporting date. Refer to the SORP module '[Accounting for financial assets and financial liabilities](#)' for more information.
- 7.9. When a charity accrues a provision in the reporting period that it will settle over several years, the future payments have a reduced value in today's terms (known as its present value). Where this adjustment would be material, the payments required to settle the obligation should be discounted to their present value.
- 7.10. The discount rate used should reflect the cost of money to the charity, and its current assessment of the time value of money and the credit risks specific to the provision that affect the time value of money. Depending on the charity's circumstances, the appropriate discount rate may be the market rate of interest at which the charity could borrow over the relevant time period or, if the charity has significant funds invested, the opportunity cost of income from investments foregone.
- 7.11. The unwinding of the discount must be treated as a financing cost in the statement of financial activities (SoFA). It should be allocated to the appropriate expenditure heading. For example, the unwinding of a discount resulting from a grant liability should be allocated to charitable expenditure.

Principles for recognising liabilities from constructive obligations

- 7.12. Charities frequently provide services or make grants to their beneficiaries on a non-contractual basis. Although a charity's commitments to provide services or grants are not always legally binding under contract, a liability can still arise if the charity has no realistic alternative to settling an obligation resulting from a commitment it has made. However, not all commitments to provide future services or funding will result in a charity recognising a constructive obligation as a liability or provision.
- 7.13. A charity may make general statements or policy statements about their future intentions, for example the aim of relieving famine in a particular location or improving the quality of care provided to a particular group of people. Such statements can be communicated in a variety of ways, including mission statements, setting out future plans within a trustee's annual report or simply making a general policy statement. Statements such as these do not create a constructive obligation as discretion is retained by the charity as to their implementation.

- 7.14. Evidence of a constructive obligation exists where:
- the commitment made by the charity is specific, for example a promise is made to provide particular goods, services or grant funding;
 - this commitment is communicated directly to particular beneficiaries or grant recipients; and
 - there is an established pattern of practice that indicates to the recipients of services or funding that the charity will meet its commitment.
- 7.15. It follows that a charity's decision to provide funding does not create a constructive obligation that must be recognised as a liability unless that decision has been communicated to those affected before the reporting date. The commitment must be communicated in a sufficiently specific manner so as to create a valid expectation on the recipient's part that the charity will discharge its responsibilities.
- 7.16. The formal written offer of a grant indicates to the recipient that it is probable that settlement will take place. In such circumstances, the charity cannot realistically withdraw from its commitment and so it is unlikely to have a realistic alternative but to meet the obligation. However, the recognition of any resulting liability would be dependent on any conditions attaching to the commitment.

Conditions that limit the recognition of a funding commitment

- 7.17. Funding commitments can be made which give the funder the discretion to avoid future expenditure based on their assessment of whether the conditions attached to the commitment will be met by the recipient.
- 7.18. The award of a grant is a non-exchange transaction. A charity awards a grant to further its own charitable purposes but without creating a contractual relationship with the recipient. The award of a grant is recognised as a liability only when the criteria for a constructive obligation are met, payment is probable, it can be measured reliably, and there are no conditions attaching to its payment that limit its recognition.
- 7.19. Where a grant commitment is payable over a period of more than one year, a liability must be recognised for the full amount of the constructive obligation unless conditions apply to payments falling due after the reporting date. Where payments for later years are subject to performance-related conditions, the donor charity may be able to legitimately withdraw from its commitment if a particular condition attaching to the grant is not met.
- 7.20. Where a condition remains within the control of the donor charity, then the donor charity retains the discretion to avoid the expenditure and therefore a liability must not be recognised. For example, where a commitment is made to provide grant funding over a number of years, future payments may be subject to a review by the donor charity which gives it discretion to terminate the funding agreement. Provided the review condition has been communicated to the recipient as part of the funding agreement and the review has substance, then a constructive liability is unlikely to arise for payments relating to periods subsequent to the review date.

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- 7.21. Alternatively, when there is no condition attaching to the grant that enables the donor charity to realistically avoid the commitment, a liability for the full funding obligation must be recognised.
- 7.22. Not all terms attaching to a funding commitment create a condition that gives a donor charity discretion to withdraw from its funding obligation. For example, a term in a grant offer that seeks to relieve the donor charity from a future obligation in the event of a lack of funds at a future settlement date would not normally prevent the recognition of a liability if payment is probable. The liability would only be derecognised (reversed) if a future event requires the funding offer to be rescinded. The reversal of the balance sheet provision must be recognised in the SoFA and deducted from the heading to which the expenditure was originally charged.
- 7.23. Grant commitments may contain conditions that are outside the control of the donor charity. For example, a charity may promise a grant payment on the condition that the recipient finds matching funding. When a condition falls outside the control of the donor charity, a liability arises and expenditure must be recognised if the payment of the grant is probable.
- 7.24. Certain grants may contain specific conditions that closely specify a level of output or service to be performed by the recipient of the grant. These are termed performance-related grants.

Accounting for liabilities arising from performance-related grants

- 7.25. The key characteristic of a performance-related grant is that the amount of the grant payable to the recipient is determined by the extent of their performance in meeting the conditions set out in the grant agreement.
- 7.26. The payment of a performance-related grant is conditional on the grant recipient delivering a specified level of service or units of output. For example, the payment might be conditional on the number of meals provided or the usage or opening hours of a facility. In such cases the grant-maker will often have negotiated the nature of services to be provided. The liability and expenditure arising from performance-related grants must be recognised to the extent that the recipient of the grant has provided the specified service or goods.
- 7.27. A grant that is restricted to a particular purpose does not create a performance-related condition, as the payment of the grant is not conditional on the achievement of a specified level of service or outputs by the recipient. Similarly, a grant that funds a project over a number of years is not recognised as a performance-related grant simply because the funding obligation is to be met over an extended period of time.

Provisions for liabilities

- 7.28. A charity must recognise a liability for a legal or constructive obligation as a provision when either the timing or the amount of the future expenditure required to settle the obligation is uncertain.

- 7.29. Charities must distinguish separately on the balance sheet provisions for liabilities. The expenditure related to a provision must be charged to the appropriate heading in the SoFA.
- 7.30. The amount recognised as a provision should be the best estimate of the expenditure required to settle or to transfer it to a third party at the reporting date. When calculating this amount, consideration must be given to:
- when the payments are likely to be made; and
 - future events and uncertainties which may affect the amount required to settle the obligation.
- 7.31. Charities must review the best estimate of a provision at the reporting date and adjust it appropriately. If a transfer of resources is no longer needed to settle the obligation, the amount of the provision no longer required should be reversed, with a corresponding credit to the expenditure heading in the SoFA against which the provision was originally charged.
- 7.32. If a provision is likely to be settled within 12 months of its initial recognition, it need not be discounted for the time value of money as it does not constitute a financing transaction. If the expected settlement date of the obligation is 12 months or more after making the provision and the effect would be material, the present value of the provision must be calculated using an appropriate discount rate.

Treatment of commitments not recognised as provisions or liabilities

- 7.33. Not all funding commitments are recognised as liabilities or provisions and so it is important that charities disclose the existence of unrecognised commitments and explain how these will be funded. For example, a grant offer may have been made but there is uncertainty as to whether the recipient charity will be able to proceed with its proposal. If it becomes clear that the payment is possible but not probable, then a liability for the commitment should not be recognised. Instead, the funding commitment should be disclosed as a contingent liability. Further guidance on accounting for contingent liabilities is provided in the SORP module '[Balance sheet](#)'.
- 7.34. A charity may intend to use unrestricted funds held at the reporting date to meet a funding commitment and may decide to designate a portion of unrestricted funds for this purpose. This SORP permits the use of a designation on the balance sheet to identify that portion of unrestricted funds that have been set aside to meet the commitments. However, activities that are to be wholly financed from future income must not form part of such a designation.

Accounting for onerous contracts

- 7.35. Situations may arise where the unavoidable costs of fulfilling a contract exceed the expected economic benefit derived from it. In such circumstances, a charity must recognise these irrecoverable costs. An onerous contract may arise, for example, when a charity leases a property which it subsequently leaves unused and the property cannot be sub-let to recover the charity's costs.

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- 7.36. Routine purchase orders and contracts which can be cancelled by agreement without paying compensation should not be regarded as onerous. However, a charity must make a provision for a material loss-making contract which cannot be cancelled without the payment of compensation. If a charity identifies a contract as onerous, it must make an immediate provision for the unavoidable loss. This provision is the lower of the costs involved in completing the contract and the cost of any compensation payable as result of withdrawing from the contract.
- 7.37. However, a charity may choose to provide a level of service to its beneficiaries over and above the minimum requirements of a contract as part of its charitable activities. Any additional costs incurred in providing a level of service above contractual requirements do not create an onerous contract even when these costs cannot be recovered. Costs that are incurred on a discretionary basis from which the charity can withdraw should be excluded from any assessment of whether a contract is onerous.
- 7.38. Before calculating the provision for an onerous contract, the charity must undertake an impairment review of the fixed assets used in supplying the contracted service(s). For more information refer to the SORP module '[Impairment of assets](#)'.
- 7.39. A contract entered into on a full cost recovery or cost plus margin basis is only likely to become onerous if unavoidable costs arise in meeting the contract which cannot be recovered under the terms of the contract.

Treatment of employee benefits

- 7.40. Employee benefits include all costs incurred by the charity in exchange for the services of its employees and any remunerated trustees. Expenditure is recognised for all employee benefits resulting from their service to the charity during the reporting period unless the staff costs have been capitalised as part of the cost of an asset.
- 7.41. Charities must recognise a liability for the cost of all benefits to which employees are entitled at the reporting date that have yet to be paid. Employee benefits are measured as follows:
- Short-term employee benefits such as wages and salaries are measured at the amount expected to be paid in exchange for that service and not discounted for the time value of money.
 - A liability for paid annual leave and paid sick leave is recognised, if a material component of total expenditure, and not discounted for the time value of money.
 - Termination benefits are measured at the best estimate of the expenditure required to settle the obligation at the reporting date. If the expected settlement date of the termination payments is 12 months or more after making the provision and the effect would be material, the present value of the obligation must be calculated using an appropriate discount rate.
 - Post-employment benefits arising under defined benefit plans are measured at the present value of the obligation under the plan at the reporting date less the fair value of the plan assets at the reporting date (reference should be made to the SORP module '[Retirement and post-employment benefits](#)').

7.42. Disclosure requirements for expenditure on staff costs are set out in the SORP module 'Disclosure of trustee and staff remuneration, related party and other transactions'.

Disclosure of provisions and funding commitments in the accounts

7.43. All charities must analyse the expenditure resulting from recognised funding commitments and provisions across the appropriate heading(s) in the SoFA and provide in the notes to the accounts:

- a reconciliation of the movements in provisions and funding commitments showing:
 - the carrying amount at the beginning of the reporting period;
 - additions during the reporting period, including adjustments that result from changes in measuring the discounted amount;
 - amounts charged against the provision during the reporting period;
 - unused amounts reversed during the reporting period; and
 - the carrying amount at the end of the reporting period;
- a brief description of the nature of the provision or commitment made and the expected amount and timing of any resulting payments;
- an indication of the uncertainties about the amount or timing of those payments, including any performance-related conditions attached to the commitment; and
- the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

7.44. Charities must also disclose for any funding commitment that is not recognised as a liability or provision:

- details of commitment made;
- the time frame of that commitment;
- any performance-related conditions attached to that commitment; and
- details of how the commitment will be funded.

7.45. Comparative information for prior periods is not required for any of the disclosures set out in this section.

7.46. This SORP requires that if unrestricted funds have been designated to fund a commitment on the face of the balance sheet, the notes to the accounts must disclose:

- the nature of any amounts designated; and
- if not explained in the trustees' annual report, the likely timing of that expenditure.

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

Introduction

- 8.1. This module applies to all charities that prepare their statement of financial activities (SoFA) on an activity basis. This SORP requires larger charities to report on an activity basis. FRS 102 does not address how to present a SoFA on an activity basis or the allocation of costs to activities in that statement.
- 8.2. The SoFA must distinguish between expenditure incurred on charitable activities which contribute to furthering the charity's aims and purposes, and those undertaken to raise funds. Further analysis of significant activities included within these broad categories must be provided either on the face of the SoFA or in the notes to the accounts.
- 8.3. The activity analysis must be on a full cost basis. Full cost is made up of the total of the direct costs and shared costs, including support costs, involved in undertaking each reported activity. This module sets out:
 - general principles for reporting activities;
 - identification of support costs;
 - methods of allocating costs to activities;
 - accounting for costs shared between fundraising and charitable activities; and
 - disclosures required in the notes to the accounts.

General principles for reporting activities

- 8.4. A charity's SoFA or related notes should provide an analysis of a charity's significant activities in a way that is relevant to both the charity and the users of its accounts.
- 8.5. Significant activities are those which, due to their scale or importance, are key to the charity in meeting its aims and objectives. The analysis of activities should provide an understanding of how a charity raises its funds and uses them to further its purposes. For example, charitable activities may be analysed according to services provided, projects or programmes undertaken, or by the particular aims or objectives taken forward.
- 8.6. The activities reported should also be consistent with the significant activities noted in the trustees' annual report. The narrative provided by the trustees' annual report should help the user of the accounts to understand the nature of those significant activities and what has been achieved as a result of the expenditure incurred on them.

Identification of support costs

- 8.7. While some costs relate directly to a single activity, the cost of certain central or regional support functions may be shared across more than one activity undertaken by the charity. For example, governance costs, payroll administration, purchasing, budgeting and accounting, information technology, personnel (human resources), building management services and finance are functions that are likely to support more than one area of activity. These costs must be apportioned across the activities that the function supports in order to arrive at the full cost for each reported activity including relevant restricted funds unless prohibited by the terms of a gift.

Methods of allocating costs to activities

- 8.8. To ensure that the accounts present the costs of activities fairly, charities should ensure that the method(s) of cost allocation adopted are reasonable and consistently applied. In attributing costs to activities, the following principles must be applied:
- Direct costs attributable to a single activity must be allocated directly to that activity (for example the salary cost of someone solely employed on a particular activity or the cost of running a vehicle used wholly for a particular activity).
 - Shared costs which contribute directly to more than one activity must be apportioned between those activities (for example the cost of a staff member whose time is divided between a fundraising activity and working on a charitable project).
 - Support costs which are not attributable to a single activity must also be apportioned between the activities being supported.
- 8.9. The method(s) of apportionment adopted by a charity should be reasonable and be consistent between reporting periods unless circumstances change. Charities should also balance the benefits of greater accuracy with the costs involved when selecting methods of apportioning costs. Examples of bases for apportionment that may be applied include:
- usage of a resource or activity in terms of time taken, capacity used, requests made or other measure;
 - per capita, based on the number of people employed within an activity;
 - floor area occupied by an activity; or
 - time, where staff duties span more than one activity.

Accounting for costs shared between fundraising and charitable activities

- 8.10. Information about the aims, objectives and projects of a charity is frequently provided in the context of mail shots, websites, public fundraising collections and telephone fundraising. In determining whether costs are shared, a distinction should be drawn between:
- publicity or information costs involved in raising the profile of the charity which is associated with fundraising; and
 - educational publicity or information to further the charity's aims and objectives.
- 8.11. For publicity or information to be regarded as charitable expenditure, it must be provided for an educational purpose. In the context of a fundraising activity, in order to achieve an educational purpose the information supplied must fulfil the following educational criteria:
- be targeted at beneficiaries or others who can use the information to further the charity's purposes;
 - be information on which the recipient can act in an informed manner to further the charity's purposes; and
 - be related to other educational activities or objectives undertaken by the charity.
- 8.12. For example, a health education charity might target high-risk beneficiary groups or medical professionals when distributing its fundraising material and, as part of the same mailing, also supply information on health risks and symptom recognition. The health information supplied would be charitable expenditure because it is targeted at beneficiaries or others who could act on the information and has been distributed by the charity as part of its health education activity. The shared cost of producing and distributing the information should therefore be fairly apportioned between the fundraising and charitable activities. If the educational criteria had not been met then all relevant costs would be attributed to fundraising activities.

Disclosures required in the notes to the accounts

- 8.13. This SORP requires that charities reporting on an activity basis must disclose:
- details of the accounting policy adopted for the apportionment of costs between activities and any estimation technique(s) used to calculate their apportionment;
 - the total amount of support costs incurred in the reporting period;
 - an analysis of material items or categories of expenditure included within support costs, with the total amount of governance costs incurred separately identified (refer to Appendix 1, '[Glossary of terms](#)', for the definition of governance costs); and
 - the amount of support costs apportioned to each of the charity's significant activities as disclosed in the SoFA or in the notes to the accounts.
- 8.14. The information required for support costs and their apportionment may be provided in a tabular format (see Table 4).

Table 4: Analysis of support costs

Support cost (examples)	Raising funds	Activity 1	Activity 2	Activity 3	Grand Total	Basis of allocation
	£	£	£	£		
Governance	x	x	x	x	x	Text describing method
Finance	x	x	x	x	x	Text describing method
Information Technology	x	x	x	x	x	Text describing method
Human Resources	x	x	x	x	x	Text describing method
Function/ Activity Total	x	x	x	x	x	

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

Introduction

- 9.1. A charity's accounts should inform the user and help them to assess a charity's financial performance and position, and the stewardship exercised by its trustees over the charitable funds held.
- 9.2. The disclosure of certain transactions is important for stewardship purposes to provide assurance that the charity is operating for the public benefit and that its trustees are acting in the interests of their charity and not for private benefit. For this reason, this SORP requires that disclosure must be made of transactions involving trustees, related parties, staff remuneration and ex-gratia payments. The payments made to the auditor or independent examiner must also be disclosed.
- 9.3. A transaction involving a trustee or other related party must always be regarded as material regardless of its size. A charity must make the same disclosures for de-facto trustees (see Appendix 1, 'Glossary of terms') as for trustees.
- 9.4. Charities should refer to section 33 of FRS 102 for more information. This module applies to all charities and sets out:
 - disclosure of trustees' remuneration and benefits;
 - disclosure of trustees' expenses;
 - transactions with related parties that require disclosure;
 - transactions with related parties that do not require disclosure;
 - disclosure of related party transactions;
 - disclosure of audit, independent examination and other financial service fees;
 - disclosure of ex-gratia payments;
 - disclosure of staff costs and employee benefits; and
 - remuneration and benefits received by key management personnel.

Disclosure of trustees' remuneration and benefits

- 9.5. Most trustees are volunteers who give their time and expertise without charge. However, provided the arrangement is legally authorised, a trustee may be remunerated for their role as a trustee. On occasions, a trustee may also be employed in some other role, either directly by the charity or by a related entity, including a subsidiary, joint venture or associate of the charity.
- 9.6. This SORP requires that all charities must disclose in the notes to the accounts that either:
 - none of the trustees have been paid any remuneration or received any other benefits from an employment with their charity or a related entity; or
 - one or more of the trustees has been paid remuneration or has received other benefits from an employment with their charity or a related entity.

- 9.7. This SORP requires the following information must be provided for each individual trustee who received remuneration or other benefits in the reporting period:
- the legal authority under which the payment was made (for example a provision in the governing document of the charity, an Order of the Court, or the charity regulator for the jurisdiction(s) of registration);
 - the name of the remunerated trustee;
 - details of why the remuneration or other employment benefits were paid;
 - the amount of remuneration paid;
 - the amount of any pension contributions paid by the charity for the reporting period; and
 - the amount of any other benefit, for example any termination benefits, private health cover or the provision of a vehicle.
- 9.8. If a trustee receives remuneration or other benefits from their employment with the charity in addition to their trusteeship, the note may distinguish between remuneration and benefits received as a trustee, if any, from that received for other services or other employment with the charity.

Disclosure of trustees' expenses

- 9.9. Trustees may incur costs in fulfilling their duties, for example in travelling to meetings or visiting charity facilities or activities to understand or monitor what is taking place. The reimbursement of properly incurred expenses is not considered a payment for goods or services or the remuneration of a trustee, nor does it count as any kind of personal benefit.
- 9.10. Trustee expenses include the reimbursement by a charity of costs incurred by its trustees in carrying out their duties and similar payments made by a charity direct to third parties on their behalf. For example, a charity may purchase travel tickets or pay for accommodation used by its trustees when carrying out their duties.
- 9.11. This SORP requires that all charities must disclose either:
- that no trustee expenses have been incurred; or
 - that one or more of the trustees has claimed expenses or had their expenses met by the charity.
- 9.12. If expenses have been incurred, this SORP also requires that charities must disclose:
- the total amount of expenses reimbursed to trustees or paid directly to third parties;
 - the nature of those expenses (for example travel, subsistence, accommodation, entertainment etc.); and
 - the number of trustees reimbursed for expenses or who had expenses paid by the charity.

Transactions with related parties that require disclosure

- 9.13. A decision by a charity to enter into any transaction must be made in the charity's own interests and for the benefit of its beneficiaries. The disclosure of related party transactions is an important element of transparency in financial reporting because:
- related parties may enter into transactions that unrelated parties would not;
 - transactions between related parties may not be made at the same amounts or on the same terms as those between unrelated parties; and
 - the existence of the relationship may be sufficient to affect the transactions of the charity with other parties.
- 9.14. Users of the accounts need to be able to assess whether the relationship between the charity and the other party or parties to a transaction may have been influenced by interests other than those of the charity. Disclosing related party transactions also shows how far, if at all, the reported financial position and activities may have been affected by such transactions.
- 9.15. Related parties include a charity's trustees and their close family members and those entities which they control or in which they have a significant interest. Entities related to a charity include any subsidiary, joint venture or associate of the charity. Appendix 1, '[Glossary of terms](#)' provides a full definition of persons or entities that must be regarded as a related party for disclosure purposes.
- 9.16. In considering a possible related party relationship, a charity must assess the substance of the relationship and not merely its legal form. For example, if a person has significant influence over a charity's decision-making or if a charity acts on their instructions, then that person must be treated as related to the charity.
- 9.17. This SORP requires all transactions between a charity and a related party must be disclosed subject to the exemptions set out in the following paragraphs.

Transactions with related parties that do not require disclosure

- 9.18. The following transactions involving trustees or other related parties need not be disclosed unless there is evidence to indicate that they have influenced the charity's activities or use of resources:
- Donations to the reporting charity from a trustee or a related party provided the donor has not attached conditions which would, or might, require the charity to alter significantly the nature of its existing activities if it were to accept the donation. Examples of conditions that make the donation a transaction that must be disclosed include: requiring the charity to purchase goods or services from a specified supplier; making an interest bearing loan to the charity; or requiring that payments be made to a specified third party. However charities must provide an aggregate disclosure of the total amount of donations received without conditions.
 - Services provided on a voluntary basis to a charity as an unpaid general volunteer by a trustee or other related party.
 - Contracts of employment between the charity and its employees (except where the employee is a trustee or other related party).

- The purchase from the charity by a trustee, or other related party, of minor articles which are offered for sale on the same terms as they are offered to the general public, for example a small purchase made from a charity shop.
- The provision of services to a trustee or other related party where the services are received on the same terms as they are received by other beneficiaries of the charity. Examples include the use of a village hall by members of its committee of management as inhabitants of the area of benefit.
- The payment or reimbursement of out-of-pocket expenses where the trustee acts as agent for the charity (but certain details of trustee expenses must be disclosed – see [‘Disclosure of trustees expenses’](#)).
- The amount of any expenses waived by a trustee need not be disclosed unless the amount is material in the context of a charity’s total expenditure.

Disclosure of related party transactions

- 9.19. If there have been no related party transactions in the reporting period that require disclosure, this SORP requires that this fact must be stated.
- 9.20. All charities that have one or more related party transactions must disclose:
- the description of a relationship between the parties (including the interest of the related party or parties in the transaction);
 - a description of the transaction(s);
 - the amounts involved;
 - outstanding balances with related parties at the reporting date and any provisions for doubtful debts;
 - any amounts written off from such balances during the reporting period;
 - the terms and conditions, including any security and the nature of the consideration to be provided in settlement;
 - details of any guarantees given or received; and
 - any other elements of the transactions which are necessary for the understanding of the accounts; and
 - this SORP requires the disclosure of the name(s) of the transacting related party or parties.
- 9.21. The reporting charity must not state that related party transactions were made at open market value or on terms equivalent to those that prevail in arm’s length transactions unless such terms can be substantiated.
- 9.22. The required disclosure may be given in total for similar transactions and type of related party except where disclosure of an individual transaction or connected transactions:
- is necessary for an understanding of the impact of the transactions on the accounts of the charity; or
 - is required by law.

Disclosure of audit, independent examination and other financial service fees

- 9.23. This SORP requires that charities must disclose in the notes to the accounts the amounts payable to their auditor or independent examiner, analysed between fees payable for:
- statutory audit or independent examination;
 - assurance services other than audit or independent examination;
 - tax advisory services; and
 - other financial services, for example consultancy, financial advice or accountancy services.

Disclosure of ex-gratia payments

- 9.24. An ex-gratia payment is a payment, or the waiver of a right to an asset which the trustees have no legal obligation or legal power to make from a charity's funds but which they believe they have a moral obligation to make. For the purposes of disclosure, occasional gifts of small and inexpensive items such as flowers or chocolates should not be regarded as ex-gratia payments.
- 9.25. This SORP requires that charities must disclose details of all ex-gratia payments made including those where the charity has obtained the authority of the Court, the Attorney General or the charity regulator for the jurisdiction(s) of registration to sanction the payment or waiver. Charities may aggregate payments of a similar nature where this does not impact on the understanding of the arrangement. For each payment (or in aggregate) the notes to the accounts must:
- provide an explanation of the nature of the payment;
 - state the legal authority or reason for making the payment; and
 - state the amount of the payment (or value of any waiver of a right to an asset).

Disclosure of staff costs and employee benefits

- 9.26. This SORP requires that charities reporting on an activity basis must provide details of their total staff costs and employee benefits for the reporting period, analysed between:
- wages and salaries;
 - social security costs;
 - employer's contribution to defined contribution pension schemes;
 - the operating costs of defined benefit pension schemes (excluding pension finance costs related to defined benefit pension schemes); and
 - other forms of employee benefits.

- 9.27. In addition for any redundancy or termination payments relating to the reporting period, charities must state:
- the total amount for the reporting period;
 - the nature of the payment;
 - its accounting policy; and
 - the extent of funding at the reporting (balance sheet) date.
- 9.28. The information provided for staff costs and employee benefits must also include any expenditure on staff working for the charity whose contracts are with and are paid by a related party.
- 9.29. This SORP requires that all charities must disclose the average head count (number of staff employed) during the reporting period. Charities may also provide details of the average number of full-time and part-time staff for the reporting period together with an estimate of the equivalent number of full-time staff. Further analysis of staffing according to the number of staff engaged in particular activities of the charity may also be provided where this information helps the user of the accounts understand how staff are deployed.
- 9.30. This SORP also requires that all charities must disclose:
- the fact that there are no employees who received employee benefits (excluding employer pension costs) of more than £60,000 (€70,000); or
 - the number of employees whose total employee benefits (excluding employer pension costs) for the reporting period fell within each band of £10,000 (€10,000) from £60,000 (€70,000) upwards.

Remuneration and benefits received by key management personnel

- 9.31. Although the trustees control and manage the administration of a charity, the day-to-day management of its activities may be delegated to senior management personnel who report to the trustees. FRS 102 uses the term 'key management personnel' to describe the trustees and senior management of the charity.
- 9.32. All charities must disclose the total amount of any employee benefits received by trustees and its key management personnel for their services to the charity. The trustees of charities, particularly larger charities, should give consideration to the information needs of their funders and other stakeholders in making their accounting disclosures. For example, it may be helpful to provide details of the employee benefits received by the charity's Chief Executive Officer or highest paid staff member, or alternatively a charity may choose to disclose the amount of employee benefits paid to its key management personnel on an individual basis.

10. Balance sheet

Introduction

- 10.1. All charities preparing accruals accounts must prepare a balance sheet at the end of each reporting period which gives a true and fair view of their financial position. The balance sheet provides a snapshot statement of a charity's assets and liabilities and how these are represented by the different classes of funds held by a charity.
- 10.2. The objective of the balance sheet is to show the resources available to the charity and whether these are available for all purposes of the charity or have to be used for specific purposes because of legal restrictions placed on their use.
- 10.3. This module applies to all charities and sets out:
- [structure of the balance sheet](#);
 - [fixed assets – headings, classification and disclosures](#);
 - [current assets – headings, classification and disclosures](#);
 - [liabilities – headings, classification and disclosures](#); and
 - [funds of the charity – classification and disclosures](#).
- 10.4. Each section explains:
- what items are included in each heading of the balance sheet;
 - the recognition principles and the measurement methods used for balance sheet items; and
 - the information that must be, or should be, provided in the notes if not shown on the face of the balance sheet.
- 10.5. For information on the recognition and measurement of financial assets and liabilities charities must refer to the SORP module '[Accounting for financial assets and financial liabilities](#)'.

Structure of the balance sheet

- 10.6. Table 5 sets out the format of a charity's balance sheet and the headings used to present its assets, liabilities and funds. A charity's balance sheet must:
- adopt the same format in subsequent reporting periods unless there are special reasons for a change that are explained in the notes; and
 - provide corresponding amounts for the previous reporting period for each heading disclosed in the balance sheet.

Table 5: Balance sheet

Note ref.		Total funds	Prior year funds	Further details
		£	£	
	Fixed assets:			A
	Intangible assets			A1
	Tangible assets			A2
	Heritage assets			A3
	Investments			A4
	<i>Total fixed assets</i>			
	Current assets:			B
	Stocks			B1
	Debtors			B2
	Investments			B3
	Cash at bank and in hand			B4
	<i>Total current assets</i>			
	Liabilities:			C
	Creditors: Amounts falling due within one year			C1
	<i>Net current assets or liabilities</i>			
	<i>Total assets less current liabilities</i>			
	Creditors: Amounts falling due after more than one year			C2
	Provisions for liabilities			C3
	<i>Net asset or liabilities excluding pension asset or liability</i>			
	Defined benefit pension scheme asset or liability			C4
	Total net assets or liabilities			
	The funds of the charity:			D
	Endowment funds			D1
	Restricted income funds			D2
	Unrestricted funds			D3
	Revaluation reserve			D4
	Pension reserve			D5
	<i>Total unrestricted funds</i>			
	Total charity funds			

- 10.7. If there is a nil amount for a particular balance sheet heading in the current reporting period, a corresponding amount for the reporting period must still be disclosed unless that amount is also nil. If the amount for both the current and previous reporting periods is nil, then the heading should be omitted from the balance sheet.
- 10.8. The balance sheet must be signed by one or more trustees, each of whom has been authorised to do so by the trustee body, and must specify the date the accounts, including the balance sheet, were approved by the trustee body.
- 10.9. Where necessary to give a true and fair view, additional information must be provided in an additional heading or sub-heading in the balance sheet or given in a note to the accounts. Charities may choose to analyse the items included in any balance sheet heading in greater detail either on the face of the balance sheet or in a related note. The balance sheet may also be presented in a columnar format that analyses balance sheet items by class of fund: unrestricted, restricted income and endowment.
- 10.10. Where the corresponding amount for the previous reporting period is not comparable due to a change in accounting policy it must be adjusted if material to the balance sheet and the reason for the adjustment explained in the notes to the accounts.
- 10.11. The sections that follow are cross-referenced to the analysis headings shown in Table 5.

A: Fixed assets – headings, classification and disclosures

- 10.12. Fixed assets provide an economic benefit to the charity on an on-going basis (i.e. for more than one reporting period) through their ability to:
- generate income and/or gains; and/or
 - contribute to furthering the charity's objectives.
- 10.13. Charities that hold or have received donated fixed assets in the reporting period must refer to the SORP module '[Donated goods, facilities and services, including volunteers](#)'.
- 10.14. Fixed assets are recognised when:
- a resource is controlled by the charity as a result of a past event or transaction, for example a past gift or purchase;
 - it is probable that the expected future economic benefits associated with the asset will flow to the charity; and
 - the historical cost or fair value of the asset can be measured reliably.

Disclosure in the notes applying to all classes of fixed assets

- 10.15. For each class of fixed assets, including as a requirement of this SORP, fixed asset investments and heritage assets, the following analysis of their cost or valuation must be provided in the notes to the accounts:
- cost or valuation at the beginning of the reporting period;
 - acquisitions during the reporting period;
 - revaluations during the reporting period;
 - disposals during the reporting period;

- transfers to or from that class of item during the reporting period; and
- cost or valuation at the end of the reporting period.

10.16. The following analysis must also be provided for each class of fixed assets that is subject to depreciation, amortisation, or impairment provisions:

- the cumulative amount of depreciation or impairment provided at the beginning of the reporting period;
- amount adjusted on disposal;
- amount of depreciation or amortisation provided in the reporting period;
- amount of any impairment provision in the reporting period;
- amount of any impairment reversals in the reporting period;
- amount of any transfer or other adjustment in the reporting period; and
- the cumulative amount of depreciation, amortisation or impairment provided at the end of the reporting period.

10.17. The carrying amount for each class of fixed assets must also be provided at the beginning and end of the reporting period.

A1: Intangible fixed assets

10.18. Intangible fixed assets are non-monetary fixed assets that do not have physical substance but are identifiable and are controlled by the charity through custody or legal rights. Intangible fixed assets include goodwill purchased on the acquisition of a business and/or purchased intangible assets such as concessions, patents, licences, trademarks and similar rights. Although such assets lack physical substance they provide an on-going economic benefit to the charity.

10.19. The cost of internally generated goodwill or intangible assets such as brands and logos must not be capitalised and are written off as expenditure as incurred. Expenditure on research must always be written off but the costs incurred in the development phase of an internal project may in certain circumstances be recognised as an intangible asset.

10.20. The criteria for the recognition of development costs as an intangible asset are rigorous and involve a demonstration of technical and financial feasibility of the development asset. For more information refer to section 18 of FRS 102.

10.21. Intangible fixed assets must be initially measured at their historical cost. The residual value of intangible fixed assets is nil when calculating the charge for amortisation unless reliable evidence exists to the contrary. Amortisation (see Appendix 1, '[Glossary of terms](#)') on intangible fixed assets must be charged as an expense to the relevant statement of financial activities (SoFA) category reflecting the use of the asset.

10.22. Charities may opt, after initial recognition at cost, to use the revaluation model; for more information refer to section 18 of FRS 102.

10.23. Capitalised goodwill and intangible assets must be amortised on a straight-line (or a more appropriate systematic) basis over their useful economic lives, which must be reviewed at each reporting date. If, in exceptional cases, the useful life cannot be estimated reliably it is presumed to be no more than ten years.

Disclosures

10.24. The notes to the accounts for all charities must:

- explain the accounting policies adopted for intangible assets, including the measurement basis adopted, the amortisation rates and methods used, the reasons for choosing those amortisation rates and, where relevant, the policies for the recognition of any capitalised development expenditure;
- provide an analysis reconciling the opening and closing carrying amounts of each class of intangible asset held;
- for intangible assets acquired by way of grant, their value on initial recognition and their carrying amount;
- the carrying amounts of any intangible assets to which the charity has restricted title or that are pledged as security for liabilities;
- the amount of contractual commitments for the acquisition of intangible assets;
- the amount of research and development expenditure recognised as expenditure in the year;
- the heading(s) in the SoFA in which a charge of amortisation of intangible assets is included;
- if an accounting policy of revaluation is adopted, the effective date of the revaluation, whether an independent valuer was involved and the methods applied;
- for each revalued class of intangible assets, the carrying amount that would have been recognised had the assets been carried under the cost model; and
- a description of any individual intangible asset that is material, together with its carrying amount and remaining amortisation period.

A2: Tangible fixed assets

10.25. Tangible fixed assets, such as land and buildings, plant, vehicles and equipment, are held to provide an on-going economic benefit to a charity through their contribution, directly or indirectly, to the provision of goods or services by the charity.

10.26. Tangible fixed assets must be measured initially on the balance sheet at their historical cost. All costs incurred to bring a tangible fixed asset into its intended working condition should be included in the measurement of cost. Charities may adopt an accounting policy of capitalising borrowing costs, including interest, that are directly attributable to the construction of tangible fixed assets, or may write off such borrowing costs as an expense in the SoFA as they are incurred.

Accounting for hire purchase and leasing arrangements

- 10.27. If leasing a tangible fixed asset, the lease must be classified as a finance lease unless it meets the criteria of an operating lease. The characteristic of a finance lease is that the hire purchase or lease arrangements transfer substantially all the risks and rewards of ownership to the lessee.
- 10.28. Charities must refer to section 20 of FRS 102 for more information about the recognition, measurement and note disclosures required for leases.

Accounting for depreciation

- 10.29. A tangible fixed asset, less its residual value (its scrap or realisable value at the end of its economic life), must be depreciated on a systematic basis over its useful economic life. The charity should choose a depreciation method which reflects the use of the asset and the expected timing or pattern of consumption of its economic benefits.
- 10.30. Some assets may have a high residual value which will remove the need for depreciation to be charged. For example, land is not depreciated because it will not generally wear out and its residual valuation is likely to be at least equal to its cost or valuation. However, land is tested for impairment.
- 10.31. Where an asset comprises two or more major components which have substantially different useful economic lives, each component must be depreciated separately over its useful economic life.
- 10.32. The depreciation charged for the reporting period must be recognised as an expense in the SoFA. The expense is charged or apportioned to the relevant SoFA heading(s) reflecting the asset's use.

Accounting for the revaluation of tangible fixed assets

- 10.33. A charity may choose to adopt an accounting policy of revaluing one or more classes of the tangible fixed assets it holds. For example, land and buildings may be revalued but not motor vehicles. If a policy of revaluation is adopted, then all assets within that particular class must be revalued. Buildings of a similar nature, function or use held by the charity constitute a class of tangible fixed assets.
- 10.34. In the case of other tangible fixed assets such as motor vehicles, there may be an active second-hand market for the asset, or appropriate indices may exist allowing a valuation to be made with reasonable reliability.
- 10.35. If a policy of revaluation is adopted, then charities must:
- Carry all assets within the relevant class of tangible fixed assets carried at their revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. However, if the trustees believe that a reliable market valuation is not possible, then the value in use to the charity or its depreciated replacement cost should be used.

- Undertake valuations on a regular basis to ensure that the carrying amount does not differ materially from the fair value of the asset at the end of the reporting period. This appraisal is normally undertaken by professionally qualified valuers although it may be carried out internally provided staff have knowledge of the relevant property market.
- Undertake valuations of land and buildings with sufficient regularity, for example charities may undertake a review on a rolling basis over a five-year period.

10.36. If a policy of revaluation is adopted, then revaluations and recognised gains and losses must be presented in the accounts as follows:

- A separate revaluation reserve must be shown within the funds analysis on the balance sheet.
- Revaluation gains must be recognised as 'Gains on the revaluation of fixed assets' within the SoFA, unless they reverse a charge for impairment that has previously been recognised as a cost within the expenditure headings of the SoFA.
- Any gain on disposal over the carrying amount must be recognised in 'Other' income within the SoFA.
- Revaluation losses must be recognised as an expense in the relevant expenditure heading of the SoFA except to the extent to which they offset any previous revaluation gains, in which case the loss is shown in the 'Gains/(losses) on the revaluation of fixed assets' section of the SoFA.

Disclosures

10.36A. The disclosures in paragraph 10.37 are relevant to a charity that chooses to measure investment property rented to another group entity under the cost model, as permitted by paragraph 10.48A.

10.37. The notes to the accounts must:

- set out the depreciation method used and the useful economic lives of assets or the depreciation rate used;
- state the amount of borrowing costs, if any, capitalised in the construction of tangible fixed assets and, where applicable, the capitalisation rate used;
- state the amount of contractual commitments to acquire tangible fixed assets;
- identify the existence and carrying amounts of property, plant and equipment to which the charity has restricted title or that are pledged as security for liabilities; and
- provide an analysis reconciling the opening and closing carrying amounts of each class of tangible fixed asset held. An example of such an analysis is given in Table 6.

Table 6: Analysis of opening and closing carrying amounts

	Freehold land and buildings	Leasehold land and buildings	Plant and machinery	Fixtures, fittings and equipment	Total
	£	£	£	£	£
Cost or valuation					
At beginning of the year					
Additions					
Disposals					
Revaluations					
Transfers					
At end of the year					
Depreciation and impairments					
At beginning of the year					
Disposals					
Depreciation					
Impairment					
Transfers					
At end of the year					
Net book value at beginning of the year					
Net book value at end of the year					

10.38. If any class of tangible fixed assets has been revalued, charities must disclose:

- the effective date of the revaluation;
- whether an independent valuer was involved;
- the methods and significant assumptions applied in estimating the items' fair value; and
- for each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the historical cost model.

A3: Heritage assets

10.39. A heritage asset is a tangible asset or intangible asset with historic, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

10.40. Heritage assets are a distinct class of tangible fixed asset or intangible fixed asset. Charities holding heritage assets must refer to the SORP module '[Accounting for heritage assets](#)'. This module explains the recognition, measurement and disclosures relevant to heritage assets.

A4: Investments

- 10.41. Fixed asset investments are held to generate income or for their investment potential, or both. Investments may include 'social investments' where the purpose in making the investment is wholly or partly to further the charity's aims.
- 10.42. Fixed asset investments exclude those investments held specifically for sale or those investments which the charity expects to realise within 12 months of the reporting date.
- 10.43. Investment gains and losses, whether realised or unrealised, are combined and shown in the heading 'Gains/(losses) on investments' in the SoFA.

Investments listed or traded on a recognised stock exchange

- 10.44. Fixed asset investments in quoted shares, traded bonds and similar investments must be measured initially at cost and subsequently at fair value (their market value) at the reporting date. This treatment is in accordance paragraph 11.14(d) of FRS 102.

Investment properties

- 10.45. An investment property is property (land or a building, or both) held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation, or both rather than for use in the production or supply of goods and services or for administrative purposes; or sale in the ordinary course of business.
- 10.46. Land and/or buildings are excluded from investment properties and treated as tangible fixed assets instead if:
- the construction work and development has not been completed; or
 - the property is occupied by the charity for its own purposes; or
 - the property is held for sale in the ordinary course of business (in which case the property must be included as a current asset).
- 10.47. Mixed use property should be separated between investment property and property held for operational use as a tangible fixed asset if the resulting portions could be sold separately (or leased out separately under a finance lease). However, if the fair value of the investment property component cannot be measured reliably, the entire property should be accounted for as property within tangible fixed assets.
- 10.48. Investment properties must be measured initially at cost and subsequently at fair value at the reporting date, except where that property is rented to another group entity. Depreciation is not provided on investment property measured at fair value.
- 10.48A. A charity that rents investment properties to another group entity may choose to account for those properties in its individual financial statements either: at fair value with any gain or loss taken through the SoFA; or transfer them to tangible fixed assets, and measure them using the cost model. Investment property measured using the cost model is carried at cost less any accumulated depreciation and any accumulated impairment losses.
- 10.48B. When only part of a property is rented to another group entity, paragraph 10.48A only applies to the component of that property that is rented to another group entity.

Unlisted investments

10.49. Unlisted equity investments must be measured initially at cost and subsequently measured at fair value unless fair value cannot be measured reliably in which case it is measured at cost less impairment. Where the charity holds an interest in subsidiaries, associates and joint venture entities, it should refer to the relevant SORP module(s).

Social investments

10.50. This SORP uses the term 'social investments' to describe programme related and mixed motive investments. Programme related investments are held to further the charitable purposes of the investing charity. Although programme related investments can generate a financial return, the achievement of a financial return is incidental to furthering the charitable purposes of the investing charity.

10.51. Mixed motive investments are a form of social investment made in part to further the charitable purposes of the investing charity and in part to generate a financial return.

10.52. Charities holding mixed motive or programme related investments must refer to the SORP module '[Accounting for social investments](#)', which explains their recognition, measurement and disclosure.

Disclosure of investments and investment properties

10.53. The notes to the accounts must:

- state the accounting policies for investments, including the basis on which investments are measured;
- provide an analysis of investments by class of investment identifying the amounts held within each class, with those investments held at fair value differentiated from those held at historical cost less impairment; and
- provide an analysis reconciling the opening and closing carrying amounts of each class of fixed asset investment held.

10.54. The classes of investments disclosed in the note will vary from charity to charity reflecting the differing nature of the investments held. This SORP requires that the analysis must as a minimum identify material amounts held in the following classes of investment:

- cash or cash equivalents;
- listed investments;
- investment properties;
- loans to group undertakings;
- equity investment in group undertakings;
- social investments; and
- other investments.

10.55. Charities must also refer to the SORP module '[Accounting for financial assets and financial liabilities](#)' for the further disclosures that apply to investments as financial instruments.

10.56. Charities holding investment property must also disclose:

- the methods and significant assumptions applied in determining the fair value of investment property;
- the extent to which the fair value of investment property is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and class of the property being valued (or if there has been no such valuation this fact must be disclosed);
- the existence and amounts of any restrictions on the ability to realise investment property or on the remittance of income and proceeds of disposal;
- any contractual obligations for the purchase, construction, or development of investment property or for repairs, maintenance or enhancements;
- in the analysis (see paragraph 10.15) the additions resulting from acquisitions through business combinations, if any; and
- the carrying amount at the end of the reporting period of investment property rented to another group entity, where the charity has chosen to account for such property using the cost model.

B: Current assets – headings, classification and disclosures

10.57. Current assets are the assets of the charity which are not intended for use on a continuing basis in the charity's activities and are usually consumed, realised or expended as part of the charity's activities, within 12 months of its reporting date. Current assets include stocks, debtors, investments held for sale and cash. The sections that follow set out how these categories of assets are measured and disclosed in the accounts.

10.58. Charities that hold donated assets for distribution or resale or have received them in the reporting period must refer to the SORP module '[Donated goods, facilities, and services, including volunteers](#)'.

B1: Stocks

10.59. Stocks are items that will be used by the charity in providing goods and services. Stocks may include goods held for distribution to beneficiaries, or educational literature or brochures for distribution.

10.60. Stocks held for sale as part of a non-charitable trade must be measured at the lower of the cost and net realisable value of the separate items of stock or groups of similar items.

10.61. When goods or services are provided as part of a charitable activity either free or at a subsidised cost, then net realisable value should be based on the service potential provided by the items of stock. For example, if goods are held for free distribution and the item continues to meet the need(s) for which it was purchased, then it should not be written down to a nil realisable value except where the item of stock is damaged or obsolete. Damaged or obsolete stocks should be written down as an expense and charged to the relevant SoFA heading(s) reflecting their intended use.

10.62. Charities which have contracts of less than one year's duration may have work in progress at the reporting date. Where the value of work in progress is material, it should be valued at cost

less any foreseeable loss that is likely to occur on the contract and shown separately as a subheading within stock.

Disclosures

10.63. The notes to the accounts must disclose:

- the accounting policies adopted in measuring the value of stocks and, if applicable, work in progress and any cost formulae used;
- the carrying amount of stocks and, if applicable, work in progress analysed between activities;
- any charges for impairment or reversal of impairment losses; and
- the carrying amount of any stocks pledged as security for liabilities.

B2: Debtors

10.64. Debtors include amounts owed to the charity for the provision of goods and services or amounts the charity has paid in advance for the goods and services it will receive. Debtors also include amounts receivable on grant funding to which the charity is entitled.

10.65. Debtors must be measured at their recoverable amounts (the amount the charity anticipates it will receive from a debt or the amount it has paid in advance for goods or services).

10.66. An amount recoverable more than a year after the end of the reporting date must be measured at its present value at the balance sheet date if the time value of money is material and the settlement terms constitute a financing transaction. The unwinding of the discount is credited to income as interest receivable.

Disclosures

10.67. The notes to the accounts must set out, within the disclosure of accounting policies, the basis on which debtors are measured.

10.68. This SORP requires that the notes to the accounts must also provide an analysis of the amounts, including comparatives for the previous reporting period, of the following items:

- trade debtors;
- amounts owed by group and associated undertakings;
- prepayments and accrued income; and
- other debtors.

10.69. If material to the disclosure of debtors, the amount of debtors recoverable more than a year after the reporting date, if not shown as a separate line on the balance sheet, must be separately disclosed in the notes to the accounts.

B3: Current asset investments

10.70. Current asset investments are investments which a charity holds for resale or pending their sale and cash or cash equivalents with a maturity date of less than one year. This heading includes cash on deposit and cash equivalents with a maturity of less than one year held for investment purposes rather than to meet short-term cash commitments as they fall due.

10.71. To be classified as a current asset, the charity should not intend to hold the cash or cash equivalents as part of its on-going investment activities for more than one year from the reporting date. However, cash and cash equivalents that are held from time to time as part of a fixed asset investment portfolio should be presented as part of fixed asset investments. Current asset investments must be valued at their fair value except where they qualify as 'basic' financial instruments. For more information refer to the SORP module '[Accounting for financial assets and financial liabilities](#)'.

Disclosures

10.72. The notes to the accounts must explain, within the disclosure of accounting policies, the basis on which current asset investments are measured and how the charity has defined any short-term, highly liquid investments as current asset investments.

10.73. This SORP requires that the notes must provide an analysis of amounts, including comparatives for the previous reporting period, of the following items included within current asset investments:

- cash equivalents on deposit;
- investment properties held for sale (charities may opt to include any properties previously classified as investment properties which have been redesignated as held for sale);
- investment in group undertakings held for sale;
- listed investments; and
- other investments.

B4: Cash at bank and in hand

10.74. Cash at bank and in hand is held to meet short-term cash commitments as they fall due rather than for investment purposes and includes all cash equivalents held in the form of short-term highly liquid investments. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value. A cash equivalent will normally have a short maturity of, say, three months or less from the date of acquisition.

Disclosures

10.75. The notes to the accounts must explain, within the disclosure of accounting policies, how the charity has defined any short-term, highly liquid investments included as cash at bank and in hand.

C: Liabilities (C1 to C3) – headings, classification and disclosures

10.76. Liabilities are amounts due to creditors and any provision made as a result of an obligation to transfer economic benefits, usually in the form of a cash payment, to a third party. Liabilities must be measured at their settlement amount except for certain types of financial liabilities. A liability is recognised for the amount that the charity anticipates it will pay to settle the debt or the amount it has received as an advance payment for goods or services it must provide.

10.77. A provision is a liability where the amount and/or timing of its settlement is uncertain.

A provision is only recognised when:

- there is a present obligation at the reporting date as a result of a past event;
- it is probable that a transfer of economic benefit, usually in the form of cash, will be required in settlement; and
- the amount of the settlement can be estimated reliably.

10.78. Provisions for liabilities must be measured at the best estimate of their settlement amount. If the settlement date of a provision is likely to be more than 12 months from the reporting date and the time value of money is material to the amount, then the provision should be discounted back to its present value at the reporting date.

10.79. Provisions recognised in the balance sheet must be reviewed at the reporting date and adjusted to reflect the current best estimate of the settlement amount.

Disclosures

10.80. In the balance sheet, creditors and provisions must be analysed between:

- (C1) creditors: amounts falling due within one year;
- (C2) creditors: amounts falling due after one year; and
- (C3): provisions for liabilities.

10.81. The notes to the accounts must explain, within the disclosure of accounting policies, the basis on which creditors and provisions for liabilities and charges are recognised and measured.

10.82. This SORP requires that in the notes, creditors falling due within one year and after one year must be analysed between:

- accruals for grants payable;
- bank loans and overdrafts;
- trade creditors;
- amounts owed to group and associated undertakings;
- payments received on account for contracts or performance-related grants;
- accruals and deferred income;
- taxation and social security; and
- other creditors.

10.83. Charities must also disclose:

- an analysis reconciling the opening and closing carrying amounts of each class of provisions;
- a brief description of the nature of the obligation and the expected amount and timing of resulting payments;
- an indication of the uncertainties about the amount or timing of those outflows; and
- the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

Contingent liabilities and contingent assets

10.84. A contingent liability is either a possible but uncertain obligation or a present obligation that is not recognised because:

- a transfer of economic benefit to settle the possible obligation is not probable; or
- the amount of the obligation cannot be estimated reliably.

10.85. A contingent asset is a possible asset that arises from a past event but is not recognised in the balance sheet as its existence can only be confirmed by future events which are not within the charity's control.

Disclosures

10.86. Contingent liabilities are disclosed unless the possibility of their existence is remote. Contingent assets are disclosed when their existence is probable.

10.87. The notes to the accounts must provide for each class of item:

- a brief description of each contingent item; and
- where practicable, an estimate of its financial effect.

10.88. Charities must, where practicable, also provide:

- an indication of the uncertainties relating to the amount or timing of settlement; and
- the possibility of any reimbursement; or
- if it is impractical to make one or more of these disclosures that fact must be stated; or
- in extremely rare cases where FRS 102 allows non-disclosure of information that would be expected to seriously prejudice the position of the entity in a dispute with other parties, the general nature of the dispute and the reason why disclosure has not been made must be given.

C4: Defined benefit pension scheme asset or liability

10.89. Charities that participate in a defined benefit pension scheme must refer to the SORP module '[Retirement and post-employment benefits](#)' for the recognition, measurement and disclosure of defined benefit pension scheme assets and liabilities.

D: Funds of the charity (D1 to D5) – classification and disclosures

- 10.90. The assets and liabilities administered by a charity are referred to as its funds.
- 10.91. Charities must refer to the SORP module '[Fund accounting](#)', which sets out the required disclosures for the separate funds a charity may hold. A charity may choose to disclose the amount identified in its reserves policy statement as its reserve fund under a sub-heading of its unrestricted funds provided that this amount is positive.
- 10.92. A revaluation reserve arises on the revaluation of an asset subsequent to its initial recognition. While a revaluation reserve will often form part of the unrestricted funds of the charity, any part of the reserve derived from the revaluation of assets held within a restricted fund must be shown as part of restricted funds.
- 10.93. Charities participating in a defined benefit pension scheme may show the equivalent value of the pension asset or liability as a separate pension reserve. The pension reserve will often form part of the unrestricted funds of the charity. The circumstances when part of a pension reserve may be allocated to a restricted fund are set out in the SORP module '[Retirement and post-employment benefits](#)'. In the case of those multi-employer pension schemes where an actuarial valuation of a defined benefit pension plan liability is unavailable, the pension reserve may also include the value of any provision made to meet the obligation resulting from a funding agreement to make good a deficit related to a defined benefit pension scheme.

11. Accounting for financial assets and financial liabilities

Introduction

- 11.1. All charities are likely to have financial assets and financial liabilities. A financial asset represents financial resources available to the charity and examples include financial investments in shares or bonds, debtors and cash. A financial liability is a financial claim on the charity's resources and examples include loans, creditors and legal or constructive obligations, including provisions for grants payable.
- 11.2. FRS 102 uses the term 'financial instruments' to include both financial assets and financial liabilities. Charities should refer to sections 11 and 12 of FRS 102 for more information.
- 11.3. This module deals with the recognition and measurement of financial assets and financial liabilities except for those detailed below which are covered by other SORP modules and by FRS 102:
- investments in subsidiaries, associates and joint ventures;
 - leases; and
 - employers' rights and obligations under employee benefit plans.
- 11.4. Table 7 lists the common basic financial instruments and the measurement bases that charities must use. Where FRS 102 uses different terminology, which is based on International Financial Reporting Standards (IFRS), this is noted (in brackets).
- 11.5. Concessionary loans made by charities to further their charitable aims are financial instruments.
- 11.6. This module sets out:
- [how all charities account for basic financial instruments](#);
 - [the accounting treatment for transactions involving extended credit terms](#);
 - [how to identify a basic financial instrument under FRS 102](#);
 - [subsequent measurement of financial assets and financial liabilities](#);
 - [impairment of financial assets](#);
 - [accounting for concessionary loans made or received](#);
 - [accounting for financial assets and financial liabilities which do not meet the FRS 102 definition of basic financial instruments](#);
 - [examples of 'other financial instruments'](#); and
 - [disclosures to be made in the notes to the accounts](#).

Table 7: Common basic financial instruments

Financial instrument	Measurement on initial recognition
Cash	Cash held
Debtors – including trade debtors and loans receivable (trade accounts and notes receivable)	Settlement amount after any trade discounts (provided normal credit terms apply) or amount advanced by the charity
Creditors – including trade creditors and loans payable (trade accounts and notes payable)	Settlement amount after any trade discounts (provided normal credit terms apply) or amount advanced to the charity
Overdraft (loan payable on demand)	Amount of the overdraft facility drawn down
Qualifying long-term loans (that meet the debt instrument criteria in FRS 102)	Amount of principal advanced less material arrangement or similar fees
Bank deposit	Cash amount of deposit
Investment in a non-derivative instrument that is equity of the issuer (e.g. most ordinary shares and certain preference shares that are free of any derivative or conditional element which could affect their market value or the charity's right to the shareholding)	Transaction price (cost)
Loans advanced by the charity on market terms (that meet the debt instrument criteria in FRS 102)	Amount of principal advanced

How all charities account for basic financial instruments

11.7. Charities preparing accounts normally measure a basic financial asset or basic financial liability on its initial recognition at the amount receivable or payable adjusted for any related transaction costs. However, if initially measured at fair value, transaction costs are not included in the measurement of financial assets or liabilities; instead, the transaction costs are treated as an expense. If extended credit is offered, the accounting treatment depends on those extended credit terms.

11.8. Examples of basic financial instruments include:

- A qualifying long-term loan received from a bank bearing a market rate of interest which meets the qualifying criteria set out in section 11 of FRS 102. It is recognised at its transaction value, which is normally the principal amount advanced.
- A trade debtor (current asset) for goods sold to a customer is initially measured at the cash receivable, which is normally the invoice price after allowing for any applicable trade discounts or volume discounts, provided settlement is on normal payment terms and settlement is due within 12 months of the invoice date.

- 11.9. If an arrangement fee is charged on a loan made to the charity and it is material, it must be treated as a deduction from the amount of principal advanced. This is because the amount of principal advanced is effectively reduced by the arrangement fee charged. The effect of this accounting treatment is to treat the arrangement fee as a component of the finance charge. The effective interest rate on the loan must be calculated to reflect the arrangement fee being amortised over the period of the loan. However, arrangement fees that are not material should be treated instead as an expense under the relevant heading(s) of the SoFA.
- 11.10. For more information on the effective interest method, refer to section 11 of FRS 102.

The accounting treatment for transactions involving extended credit terms

- 11.11. Where credit is offered by, or to, the charity on normal credit terms, the resulting debtor or creditor must be measured at the invoice price less any trade discounts. However, where credit terms are offered beyond normal credit terms and settlement is extended for at least 12 months after the invoice date, then the financing element must be separately identified and included under the relevant heading(s) of the SoFA.
- 11.12. The financing element is the difference between the settlement amount and the present value of that amount. The calculation of the present value of the settlement amount requires the identification of the timing and amount of future payment(s) due and then discounting these amounts at a market rate of interest for a similar debt instrument as determined at initial recognition having adjusted for transaction costs. A similar debt instrument may be an unsecured loan of an amount equivalent to the settlement value over a comparable time period. The unwinding of the discount is shown as a financing transaction (interest receivable or interest payable as appropriate).
- 11.13. For more information on calculating present value, refer to section 11 of FRS 102.

How to identify a basic financial instrument under FRS 102

- 11.14. FRS 102 distinguishes basic financial instruments from other financial instruments. The simpler recognition and measurement requirements apply only to basic financial instruments.
- 11.15. If a charity has a type of financial asset or financial liability which is not listed in the table of common basic financial instruments, it must refer to the detailed criteria set out in section 11 of FRS 102 to establish its accounting treatment.
- 11.16. A non-exchange transaction such as a gift or a grant is not a financial instrument because it is non-contractual in nature. For commitments resulting from non-exchange transactions where settlement is delayed and the effect of the time value of money is material, the transaction is recognised at the present value of the likely settlement amount.

Subsequent measurement of financial assets and financial liabilities

11.17. The subsequent measurement of financial assets and financial liabilities depends on their nature and settlement dates. The carrying amount must be calculated without any deduction for transaction costs that may be incurred on sale or disposal.

For example:

- Current assets and current liabilities must be measured at the cash or other consideration expected to be paid or received and not discounted.
- Debt instruments, for example a bank loan, must be measured at amortised cost using the effective interest method.
- Investments in shares which can be publicly traded must be measured at fair value (market value).
- Investments in shares which cannot be publicly traded must be measured at cost less impairment if fair value cannot be established using a valuation technique.

11.18. Charities that make concessionary loans or hold other financial assets or liabilities or are planning to acquire such assets or assume such liabilities must refer to the information contained in the sections that follow. More complex arrangements that charities may enter into include advance fee schemes and contracts or options to buy or sell foreign currency and 'derivatives'.

11.19. A derivative is a financial instrument or contract, the value of which changes in response to a change in a specified financial variable (for example, the interest rate) or non-financial variable (for example, tonnage shipped); it requires no or little initial investment and it is settled at a future date.

Impairment of financial assets

11.20. Financial assets measured at cost or amortised cost must be reviewed for impairment at each reporting date. A financial asset is impaired when its recoverable amount is less than its carrying amount. The charge for impairment is taken to the appropriate heading(s) in the SoFA under which the initial gain was recognised. For example, a bad debt would be charged against the income stream that is suffering the bad debt, while a downward adjustment of a previous revaluation of a fixed asset investment would be charged to gains and losses on investments within the SoFA. For information about the indicators of impairment and for more information on accounting for the impairment of financial assets, refer to section 11 of FRS 102.

Accounting for concessionary loans made or received

11.21. Concessionary loans are those loans made or received by a charity to further its purposes and any interest charged is below the prevailing market rates. See the SORP module '[Accounting for social investments](#)' for the accounting treatments for concessionary loans.

Accounting for financial assets and financial liabilities which do not meet the FRS 102 definition of basic financial instruments

- 11.22. The accounting treatment for basic financial instruments is available only for financial assets and financial liabilities that fall within the definition set out in section 11 of FRS 102. The accounting treatment of other financial assets and financial liabilities requires a more complex accounting approach, as set out in section 12 of FRS 102.
- 11.23. This category of 'other financial instruments' includes derivatives such as:
- interest rate swaps that do not meet the definition of a basic financial instrument; and
 - options and forward contracts.
- 11.24. Other financial instruments must be both initially recognised and then subsequently measured at fair value.
- 11.25. Section 12 of FRS 102 explains what is meant by the term 'hedge accounting' and the criteria that must be met to apply hedge accounting and the accounting treatment to be followed for hedging transactions.
- 11.26. Charities using hedge accounting must recognise the change in the fair value of the instrument in the 'other recognised gains and losses' section of the SoFA until such time as the instrument is realised or the hedging relationship ends. The gain or loss is then reclassified and shown under the relevant income or expenditure heading(s) of the SoFA.

Examples of other financial instruments

Advance fee schemes

- 11.27. Advance fee arrangements can take several forms and the accounting treatment will depend on the substance of the arrangement. Examples include:
- A simple discount is offered by the charity on the prevailing fee rates payable in return for payment in advance. The advance payment must be treated as deferred income until the criteria for income recognition are met.
 - Interest is paid by the charity on the advance, in which case the transaction is in substance a loan and is classed as a basic financial instrument. The financing cost is the interest paid and this must be treated as an interest expense. (If the interest rate paid is below the market rate for an equivalent loan, then the loan may qualify for treatment as a concessionary loan.)
 - The charity offers a fixed price or a guarantee to cap the amount of fees that might otherwise be payable in return for a fixed payment that buys two or more years of services from the charity in advance. In this case, the customer avoids having to pay any inflation increases. The cost to the charity is the revenue foregone from fee increases, in exchange for which the charity receives the cash-flow advantage of the lump sum prepaid. This is a type of 'other financial instrument' where the financing cost is not an interest rate but is the financial effect of the fee increase foregone spread over the term of the arrangement expressed as a discount rate.

Foreign exchange contracts and options

- 11.28. A contract for purchasing foreign exchange is a contract to buy an amount of foreign currency at an agreed rate at a future date. The transaction cost of entering into the contract is treated as an expense. The contract itself is a financial instrument.
- 11.29. Where the contract is to manage an exchange risk associated with a liability such as a known purchase or a grant payment, the charity may opt to treat it as a hedging transaction. If it is intended to treat the contract as a hedging transaction, then charities must refer to section 12 of FRS 102 for the criteria for a hedging transaction.
- 11.30. If the contract is not classed as a hedging transaction at its inception, the gain or loss on the contract at the reporting date is taken to the relevant expenditure heading(s) in the SoFA. At the end of each subsequent reporting period or when the contract is fulfilled, whichever is the earlier, any gain or loss not previously recognised is also taken to the SoFA.
- 11.31. An option for purchasing foreign exchange is an arrangement whereby, for a fee, the charity has purchased an option to buy or sell an amount of foreign currency at an agreed rate at a future date. The charity is not bound to exercise the option and if not exercised, the option lapses. The fee or premium for the option is capitalised but any separately identifiable transaction cost incurred in acquiring the option is treated as an expense. The option is subsequently measured at fair value.
- 11.32. Where an option is purchased to manage an exchange risk associated with a liability such as a known purchase or a grant, the charity may opt to treat it as a hedging transaction when this treatment is permitted by section 12 of FRS 102. If a charity intends to treat an option as a hedging transaction, reference must be made to section 12 of FRS 102 for the criteria that must be met in order for the transaction to be treated as a hedging transaction.
- 11.33. If the option is not eligible to be treated as a hedging transaction, or if eligible is not classed as a hedging transaction at its inception, then any unrealised gain or loss at the reporting date is taken to the relevant expenditure heading(s) in the SoFA. The minimum carrying amount of an option is nil. At the end of each subsequent reporting period or when the option is exercised or expires, whichever is the earlier, the gain or loss on exercising the option or the writing off of any residual carrying amount is charged to the SoFA.

Disclosures to be made in the notes to the accounts

- 11.34. All charities must provide the detailed disclosure of assets and liabilities required by the SORP module '[Balance sheet](#)'.
- 11.35. Charities with basic financial instruments must disclose:
- the measurement bases and the accounting policies used for financial instruments;
 - the carrying amount of financial assets measured at fair value through income and expenditure (termed profit or loss in FRS 102);
 - the carrying amount of financial liabilities measured at fair value through income and expenditure (termed profit or loss in FRS 102);
 - information about the significance of financial instruments to the charity's financial position or performance, for example the terms and conditions of loans or the use of hedging to manage financial risk;

- for all financial assets and financial liabilities measured at fair value, the basis for determining fair value, including any assumptions applied when using a valuation technique;
- if the charity or its subsidiary has provided financial assets as a form of security, the carrying amount of the financial assets pledged as security and the terms and conditions relating to its pledge;
- the income, expense, net gains and losses, including changes in fair value, for financial assets and financial liabilities measured at fair value, and financial assets and financial liabilities measured at amortised cost;
- the total interest income and expense for financial assets and financial liabilities that are not measured at fair value; and
- the amount of any impairment loss for each class of financial asset.

11.35A. When the risks arising from financial instruments are particularly significant to the charity (for example because they are principal financial risks for the charity) additional disclosure may be required. Reference should be made to section 34 *Specialised Activities* of FRS 102 for examples of disclosure requirements for risks arising from financial instruments that may be relevant in such cases.

11.36. If the charity makes or receives a concessionary loan, reference must also be made to the SORP module '[Accounting for social investments](#)'.

11.37. If the charity defaults on the terms of a loan, refer to section 11 of FRS 102 for the disclosures required.

11.38. Where financial instruments are measured at fair value, refer to section 11 of FRS 102 for any applicable disclosures relating to credit risk and the nature of the instrument.

11.39. Where a financial asset which does not qualify for de-recognition has been transferred to a third party, refer to section 11 of FRS 102 for disclosures.

11.40. For other financial instruments, refer to section 12 of FRS 102 for the additional disclosures required for hedge accounting.

12. Impairment of assets

Introduction

- 12.1. An impairment loss occurs when the carrying amount of an asset exceeds its recoverable amount. The impairment loss reflects a decline in the future economic benefits or service potential of an asset, over and above the depreciation charged for the asset's use. Depreciation is a provision made on a systematic basis over the economic life of an asset to reflect its use and consumption of the economic benefits or service potential provided by the asset.
- 12.2. Charities should refer to section 27 of FRS 102 for more information. This module must be applied by all charities when accounting for the impairment of all assets except:
- deferred tax assets, employee benefits, investment properties measured at fair value and biological assets;
 - programme related or mixed motive investments which must be referred to the SORP module '[Accounting for social investments](#)'; and
 - financial assets that fall within the scope of sections 11 and 12 of FRS 102 which deal with basic and other financial instruments.
- 12.3. This module sets out for all charities:
- [what to do if impairment is indicated](#);
 - [identification of the recoverable amount](#);
 - [indicators of impairment](#);
 - [accounting for impairment losses and reversals](#); and
 - [disclosures to be made in the notes to the accounts](#).

What to do if impairment is indicated

- 12.4. At each reporting date, a charity must assess whether there is any indication that an asset may be impaired. If there is no indication of impairment, then it is not necessary to estimate the recoverable amount. If there is an indication that an asset is impaired, then its recoverable amount must be estimated. An impairment loss must be recognised if, and only if, the recoverable amount of an asset is less than its carrying amount.

Identification of the recoverable amount

- 12.5. The recoverable amount of an asset is the higher of its fair value less costs to sell the asset and its value in use. It is not always necessary to determine both an asset's fair value less costs to sell and its value in use as if either amount is equal to or exceeds the asset's carrying amount then the asset is not impaired.

- 12.6. Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of its disposal. The best evidence of fair value is a binding sale agreement in an arm's length transaction or the market price in an active market. In the absence of such evidence, a charity should consider the outcome of recent transactions for similar assets within the same sphere of activity.
- 12.7. A charity's assets may be subject to a restriction as to their use. A restriction may be imposed by the donor or created by the terms of an appeal used to fund the purchase of an asset. While a restriction will affect how the charity uses an asset, it is unlikely that a restriction imposed by charity law on the use of an asset would be passed on to a purchaser of that asset. Therefore, a restriction on use of an asset imposed by charity law would not normally reduce the amount obtainable on the sale of that asset.
- 12.8. Occasionally, the terms of a gift will require the on-going use of a specified asset by the charity which would prevent its sale. In such instances, there may be costs involved in removing the restriction before the asset can be sold. The additional cost of removing a restriction should be reflected in the estimate of the asset's fair value less costs to sell.
- 12.9. The method used to determine the 'value in use' of an asset held by a charity will depend on whether the asset is primarily held to generate cash as a commercial return or for its service potential to the charity's beneficiaries.
- 12.10. An asset is held to generate a commercial return when it is used to generate a positive cash flow and earn a return that reflects the risks involved in holding the asset. When an asset is held to generate cash flows, its value in use will be the present value of the future cash flows expected to be derived from the asset.
- 12.11. The calculation of an asset's value in use involves estimating the amount of the net cash flow that will be generated from the asset's use and then applying a discount rate to establish the present value of those future cash flows. The discount rate used is normally the current market rate the charity would pay to obtain comparable credit over the remaining life of the asset. The market rate is adjusted for uncertainty as to the asset's ability to generate cash in the future, which means that the greater the uncertainty, the greater the risk and therefore the higher the market rate used in the calculation. This will in turn result in a lower present value amount for the value in use of the asset.
- 12.12. However, charities often hold assets primarily to provide services to their beneficiaries rather than for generating cash flows. A charity may provide its services freely or at below commercial rates. Where an asset is primarily held for its service potential to beneficiaries, it would be inappropriate to measure value in use by reference to its cash flow. In such circumstances, it is more appropriate to regard value in use as the present value of the asset's service potential rather than the present value of its cash flow.
- 12.13. The method used to value an asset's service potential should be reliable, relevant to the asset and capable of measurement. Depreciated replacement cost is one method that may be used to provide a measure of an asset's service potential. The replacement cost of an asset is the lowest economical cost that would be incurred in replacing the asset's service potential. This value for replacement cost is then reduced to reflect the remaining economic life of the asset in its used condition.

12.14. Value in use measured on the basis of an asset's service potential will have particular relevance for specialist assets used by a charity. The market value of a specialist asset may not reflect the cost that a charity avoids by using that asset in providing services. For example, the market value of a specialist building may be less than its recent construction cost. However, provided the building continues to meet its intended service potential then its value in use would be better reflected by its replacement cost (its construction cost) rather than the amount for which it could be sold in the market.

Indicators of impairment

12.15. Charities must refer to FRS 102 (paragraph 27.9) and the examples of indicators of impairment. These indicators of impairment may arise from both external and internal sources of information and include:

- a significant decline in an asset's market value;
- significant changes in technology or markets, or in the economic or legal environment, which have an adverse effect on the charity's activities;
- an asset becoming idle, or plans being made for its disposal earlier than expected;
- evidence of an asset's obsolescence or physical damage; and
- evidence of worse than expected results or cash flow from the use of an asset.

12.16. The demand or need for the services provided by a charity using an asset may fluctuate over time and a temporary reduction in demand is not necessarily an indication of its impairment. Similarly, an asset's service potential may not always be fully utilised and surplus capacity at certain periods will not always indicate impairment. For example, it may be necessary to have the spare capacity to respond to urgent need or have the capacity to provide services at all times in the face of fluctuating need. In such circumstances, the surplus capacity is part of the required service potential of the asset and the asset is not impaired.

12.17. However, where demand for services significantly decreases or ceases, the assets used to provide those services may be impaired. Similarly, major social, demographic or environmental changes may have an impact on the number, nature or needs of a charity's beneficiaries and may therefore also provide an indicator of impairment.

Accounting for impairment losses and reversals

12.18. If, and only if, the recoverable amount of an asset is less than its carrying amount, a charity must reduce the carrying amount of the asset to its recoverable amount. This reduction is an impairment loss which must be immediately recognised as expenditure in the statement of financial activities (SoFA). The impairment losses must be charged to the heading(s) under which the asset is deployed.

12.19. If an asset is impaired, a review of its remaining useful life should also be undertaken; if its economic life has been significantly curtailed, the charge for depreciation is adjusted accordingly. A similar review is undertaken if a previous charge for impairment is reversed to identify whether the economic life of the asset has been extended.

12.20. On occasions, the recoverable amount of an asset may subsequently increase as a result of external conditions or an increase in the expected use of the asset. In these circumstances, for all assets other than goodwill, the carrying amount of the asset must be increased to the recoverable amount by reversing the impairment loss previously recognised. This reversal must be immediately recognised under the appropriate expenditure heading(s) in the SoFA as a reduction in expenditure. The reversal of an impairment loss must not increase the carrying amount of an asset above the amount that would have been its carrying amount if no impairment had been recognised. An impairment loss recognised for goodwill must not be reversed in a subsequent reporting period.

Disclosures to be made in the notes to the accounts

12.21. For each relevant class of asset held by a charity, the following information relating to impairment must be provided in the notes to the accounts:

- the amount of impairment losses recognised in the SoFA during the period and the heading(s) under which the impairment losses are included; and
- the amount of reversals of any impairment losses recognised in the SoFA during the period and the heading(s) under which the impairment losses were reversed.

12.22. Charities must also disclose a description of the events and circumstances that led to the recognition or reversal of an impairment loss.

13. Events after the end of the reporting period

Introduction

- 13.1. This module applies to all charities. Charities should refer to section 32 of FRS 102.
- 13.2. Once the accounts have been prepared, there is often a period of time before the trustees formally approve them. When preparing the accounts, charities make estimates or judgements based on the information available at the time, so they are required to assess the effect of events occurring between the end of the reporting period and the approval of the accounts to see whether adjustments to amounts or disclosures are necessary.
- 13.3. Events occurring after the end of the reporting period fall into two categories: adjusting events and non-adjusting events.

Adjusting events occurring after the end of the reporting period

- 13.4. Adjusting events are those events occurring after the end of the reporting period but before the accounts are authorised for issue which provide evidence of conditions existing at the reporting date which affect items in the balance sheet and items reported in the statement of financial activities. Charities must review and amend the amounts recognised in the accounts and any related disclosures in the notes to the accounts to reflect adjusting events.
- 13.5. Examples of events occurring after the end of the reporting period that require adjustment include:
- settlement of a court case that confirms that the charity had a liability at the end of the reporting period and not a contingent liability;
 - notification that the payment of a legacy from an estate is no longer probable as a result of the will being contested;
 - the determination of the amount of a Gift Aid payment to a parent charity by a subsidiary undertaking, when the subsidiary had a present legal (for example, a deed) obligation to make the payment at the reporting date;
 - information allowing a more reliable estimate of an amount designated (however, designation of funds for a new purpose after the reporting date is not an adjusting event);
 - identification of a fraud, misstatement or error which has a material effect on an item in the accounts;
 - new information concerning an impairment of an asset, for example doubts over the authenticity of a heritage asset or a bad debt; or
 - new information that indicates that the charity may not be a going concern.
- 13.6. If there is uncertainty about the charity being a going concern, this must be disclosed (see the SORP module '[Accounting standards, policies, concepts and principles](#)'). If the charity is no longer a going concern, the accounts must be restated on an appropriate basis.

Non-adjusting events occurring after the end of the reporting period

- 13.7. Non-adjusting events are those events occurring after the end of the reporting period but before the accounts are authorised for issue which relate to conditions that arose after the end of the reporting period. The disclosure of non-adjusting events provides useful and relevant information about the charity to users of the accounts. Examples of non-adjusting events that may occur after the reporting date that should be disclosed include:
- a decision that the charity is going to merge with another charity;
 - the opening of a new branch in a new locality or a material expansion of the range or scale of activities undertaken;
 - the purchase of a new building to expand a charity's capacity to further its purposes;
 - the announcement or implementation of a major restructuring;
 - the announcement of a new fundraising appeal or the degree of success achieved by a fundraising appeal;
 - a material loss of assets or diminution in the value (impairment) of assets subsequent to the reporting date, for example due to fire or flood;
 - a material decline in the market value of investments;
 - the commencement of major litigation; or
 - the entering into significant commitments or the identification of material contingent liabilities or the giving of material guarantees.

Disclosure in the accounts for non-adjusting events after the end of the reporting period

- 13.8. For each category of non-adjusting event, the notes to the accounts must provide details of the nature of the event and an estimate of its financial effect or a statement that such an estimate cannot be made.

14. Statement of cash flows

Introduction

- 14.1. Larger charities preparing their accounts under FRS 102 must provide a statement of cash flows except where the disclosure exemptions permitted by this SORP have been taken. Charities should refer to section 7 of FRS 102 for more information about how to prepare a statement of cash flows.
- 14.2. The statement of cash flows provides information about the ways in which a charity uses the cash generated by its activities and about changes in cash and cash equivalents held by a charity. It also provides information that is helpful in assessing a charity's liquidity and underlying solvency. 'Liquidity' refers to the ability of a charity to meet its immediate and short-term obligations as they fall due. 'Solvency' refers to the capability of the charity to meet its longer-term obligations as they fall due.
- 14.3. The statement identifies a charity's cash flows and the net increase or decrease in cash and cash equivalents in the reporting period. Cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value. Highly liquid investments normally have a maturity of three months or less from the date of acquisition.
- 14.4. Bank overdrafts which are repayable on demand and form an integral part of day-to-day cash management can be included as a component of cash and cash equivalents and may be included as part of cash and cash equivalents. However, other forms of overdraft or loan always count as part of borrowings and are shown as financing activities.
- 14.5. This module sets out:
- [structure of the statement of cash flows;](#)
 - [what cash flows are included as operating activities?;](#)
 - [what cash flows are included as investing activities?;](#)
 - [what cash flows are included as financing activities?;](#)
 - [the methods of compiling the statement of cash flows;](#)
 - [template for a statement of cash flows; and](#)
 - [disclosures in the notes to the accounts.](#)

Structure of the statement of cash flows

- 14.6. The format of the statement of cash flows must follow the requirements of section 7 of FRS 102. The statement of cash flows must analyse cash flows using three standard headings: operating activities, investing activities and financing activities. The statement of cash flows includes the movement in cash balances of unrestricted funds and restricted funds including endowment funds.

14.7. A template for the statement of cash flows is provided in Table 8, which should be adapted as necessary for the reporting purposes of the charity. For example, a columnar presentation may be adopted to distinguish between cash flows relating to restricted funds and cash flows relating to unrestricted funds. When a charity is preparing consolidated accounts, a statement of cash flows must be prepared on a consolidated basis.

What cash flows are included as operating activities?

14.8. Operating activities are the principal income producing activities of a charity that are recognised as income and expenditure in the charity's statement of financial activities (SoFA). The cash flow from operating activities indicates the extent to which operating activities have generated or consumed cash.

14.9. Examples of cash flows arising from operating activities include:

- cash receipts from donations and grants;
- cash receipts from Gift Aid claims or repayments of tax;
- cash receipts from contracts for the supply of goods and services;
- cash receipts from fees, rents (excluding rent from investment properties) and royalties;
- cash receipts from the repayment of loans made to further the charity's purposes;
- cash payments of grants made;
- cash payments to suppliers of goods and services;
- cash payments to and on behalf of staff (for example, staff salaries and pension contributions);
- cash payments of interest on borrowing related to operational activities;
- cash advances made to other parties as social investments; and
- cash payments of taxes on income (for example, tax paid on profit retained by a wholly owned subsidiary).

What cash flows are included as investing activities?

14.10. Investing activities include the acquisition or disposal of investments and the cash generated from holding investment assets but excludes those highly liquid investments which are classed as cash equivalents in the accounts. It also includes the acquisition of, or disposal of, tangible fixed assets including property, plant and equipment.

14.11. Examples of cash flows arising from investing activities include:

- cash receipts from interest and dividends received;
- cash receipts from rent on investment properties;
- cash receipts from the repayment of loans by a non-charitable trading subsidiary (charity entity accounts only);
- cash receipts from the sale of plant, property and equipment and other long-term assets;

- cash receipts from the sale of investment properties and other long-term investments (including the sale of endowment investments);
- cash payments to acquire investments (including conversion of endowment from cash to another form of investment); and
- cash payments to acquire tangible fixed assets, including property and equipment and other long-term assets (including conversion of endowment from cash to another form of fixed asset).

What cash flows are included as financing activities?

14.12. Financing activities relate to borrowing and gifts of permanent endowment or expendable endowment funds. Endowment funds are considered to be ‘capital’ in charity law as they must be invested or retained.

14.13. Examples of cash flows arising from financing activities include:

- cash receipts from donations of endowment or the accumulation of cash under a power to create expendable endowment;
- cash receipts from new borrowing by way of loan or mortgage and other long- or short-term borrowings;
- cash receipts from the use of a bank overdraft facility (if not treated as a component of cash equivalents);
- cash repayments of borrowing including mortgages, loans and other borrowing; and
- cash payments by a lessee which reduces the outstanding liability relating to a finance lease.

The methods of compiling the statement of cash flows

14.14. FRS 102 permits charities to use either the direct or indirect method when presenting the cash flow from operating activities and section 7 of FRS 102 provides guidance on these methods. The indirect method is the method most commonly used and is the method illustrated in Table 8.

14.15. The charity must choose to present the statement of cash flows using either:

- the indirect method, which involves deriving the cash flows from operating activities. The net movement of funds shown in the statement of financial activities (SoFA) is adjusted for:
 - non-cash movements in the SoFA,
 - any deferrals or accruals arising from cash receipts or payments, and
 - items of income or expenditure related to investing or financing cash flows; or
- the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed.

14.16. A charity using hedge accounting for a transaction must show the cash flow of the hedging instrument as an item within the same heading as that of the linked transaction. For more information on hedge accounting, refer to section 12 of FRS 102.

Template for a statement of cash flows

14.17. A template for a statement of cash flows using the indirect method is given in Table 8. Charities using this format must provide a reconciliation to show how the net income/ (expenditure) presented in the SoFA has been adjusted to arrive at the cash flows from operating activities presented in the statement of cash flows. An example of how this reconciliation may be set out is given in Table 9 below. A reconciliation of cash and cash equivalents must also be provided and an example is given in Table 10.

14.17A. A reconciliation of net debt must also be provided. Net debt consists of the borrowings of a charity, any related derivatives, and obligations under finance leases, less any cash and cash equivalents. When several balances (or parts thereof) from the balance sheet have been combined to form the components of opening and closing net debt, sufficient detail shall be shown to ensure users can identify these balances. Section 7 of FRS 102 does not require the analysis to be presented for prior periods.

14.17B. An example of how this reconciliation may be set out is given in Table 10A, which should be adapted as necessary for the reporting purposes of the charity. For example, a layout may be adopted which distinguishes between debt used to finance tangible fixed assets, and debt used to finance operational costs. A layout may also be adopted which distinguishes between the timing of the cash flows associated with debt financing and the purpose for which those cash flows were applied.

14.18. Table 8 includes an adjustment for the change in cash and cash equivalents due to exchange rate movements. Accounting standards require foreign currency denominated financial assets and financial liabilities to be recalculated at the reporting date. This item is necessary if the statement of cash flows is to reconcile to the balance sheet. Refer to section 30 of FRS 102 for more information on foreign currency translation.

14.19. The template for a statement of cash flows set out in Table 8 must be adapted as necessary for any additional items that apply. An example would be cash flows arising from the payment of taxes. Similarly, any headings that do not apply must be omitted.

Disclosures in the notes to the accounts

14.20. When significant cash or cash equivalents are held which are not available for use to further charitable activities, for example cash and cash equivalents held in endowment funds, the charity must disclose:

- the amount unavailable; and
- explain why it is unavailable for use.

14.21. Examples of financing transactions include the conversion of expendable endowment into income funds in advance of the relevant investments being sold, or the removal of the legal restriction on the expenditure of permanent endowment enabling it to be spent in the future.

14.22. If the components of cash and cash equivalents presented in the statement of cash flows are different to the equivalent items in the charity's balance sheet, a reconciliation must be provided.

Table 8: Statement of cash flows

	Total funds	Prior year funds	Note
	£	£	
Cash flows from operating activities:			
<i>Net cash provided by (used in) operating activities</i>	X	(X)	(Table 9)
Cash flows from investing activities:			
Dividends, interest and rents from investments	X	X	
Proceeds from the sale of property, plant and equipment	X	X	
Purchase of property, plant and equipment	(X)	(X)	
Proceeds from sale of investments	X	-	
Purchase of investments	-	(X)	
<i>Net cash provided by (used in) investing activities</i>	X	X	
Cash flows from financing activities:			
Repayments of borrowing	(X)	(X)	
Cash inflows from new borrowing	X	-	
Receipt of endowment	X	X	
<i>Net cash provided by (used in) financing activities</i>	X	X	
<i>Change in cash and cash equivalents in the reporting period</i>	X	X	
Cash and cash equivalents at the beginning of the reporting period	X	X	(Table 10)
Change in cash and cash equivalents due to exchange rate movements	X	(X)	
<i>Cash and cash equivalents at the end of the reporting period</i>	X	X	(Table 10)

Table 9: Reconciliation of net income/(expenditure) to net cash flow from operating activities

	Current Year	Prior Year
	£	£
Net income/(expenditure) for the reporting period (as per the statement of financial activities)	X	(X)
Adjustments for:		
Depreciation charges	X	X
(Gains)/losses on investments	X	(X)
Dividends, interest and rents from investments	(X)	(X)
Loss/(profit) on the sale of fixed assets	X	(X)
(Increase)/decrease in stocks	(X)	X
(Increase)/decrease in debtors	(X)	X
Increase/(decrease) in creditors	X	(X)
Net cash provided by (used in) operating activities	X	(X)

Table 10: Analysis of cash and cash equivalents

	Current year	Prior year
	£	£
Cash in hand	X	X
Notice deposits (less than 3 months)	X	X
Overdraft facility repayable on demand	(X)	(X)
Total cash and cash equivalents	X	X

Table 10A: Analysis of changes in net debt

	At start of year	Cash-flows	Acquisition/disposal of subsidiaries	New finance leases	Fair value movements	Foreign exchange movements	Other non-cash changes	At end of year
	£	£						
Cash	x	(x)	-	-	-	-	-	x
Cash equivalents	x	(x)	-	-	-	x	-	x
Overdraft facility repayable on demand	(x)	(x)	-	-	-	-	-	(x)
		(x)						
Loans falling due within one year	(x)	(x)	(x)	-	-	-	x	(x)
Loans falling due after more than one year	(x)	(x)	(x)	-	-	-	(x)	(x)
Finance lease obligations	(x)	x	(x)	(x)	-	-	-	(x)
TOTAL	(x)	(x)	(x)	(x)	x	x	-	(x)

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. However, charitable companies must adapt the presentation and headings used in their accounts for the special nature of the company and its activities.
- 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, 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 and fair value reserves (UK only).

Preparation of the directors' report

- 15.5. Company law in both the UK and the Republic of Ireland 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.

- 15.7. Charitable companies registered in the UK which are classified as medium or large companies must also prepare a strategic report which must be presented as a separate distinct section of the trustees' annual report. Charitable companies registered in the Republic of Ireland should note that the Companies Act 2014 introduced a similar requirement for the directors' report to include a business review.
- 15.8. The strategic report provides context for: the financial accounts, an analysis of the charity's performance, its financial position and an insight into the charity's objectives and the risks and uncertainties it faces. The trustees' annual report may be adapted to provide the required contents of the strategic report by grouping, under the heading 'strategic report', the content contained in the trustees' annual report for: 'achievements and performance' and 'financial review'. The content of 'plans for future periods' may also be included within the strategic report if relevant to understanding the charity's development, performance and position at the end of the year.
- 15.9. The strategic report must contain the information required by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. Charities should also refer to guidance prepared by the Financial Reporting Council when preparing their strategic report. When approving the report, trustees should also specifically state that they have approved the strategic report. For further information on the content of the trustees' annual report see the SORP module '[Trustees' annual report](#)'.

Requirement for an income and expenditure account

- 15.10. Company law sets out the form and content requirements for the accounts. These detailed requirements are set out in the relevant Companies Act and in any Regulations made under that Act.
- 15.11. Not-for-profit companies reporting in the UK under the Companies Act 2006 or in the Republic of Ireland under the Companies Act 2014 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

- 15.12. 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.
- 15.13. 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

15.14. 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. Charities must refer to the applicable regulations in their jurisdiction of company registration for the form and content requirements for company accounts and for those items that must be disclosed in the accounts. Normally greater disclosures are required of those companies classed as medium or large.

15.15. 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. In the Republic of Ireland, not-for-profit companies must produce an income and expenditure account which contains the line items specified in the Companies Act 2014. The example given in Table 11 is illustrative.

Table 11: 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*			
Gains/(losses) on investments		x	x
Interest and investment income** †		x	x
Gross income in the reporting period		X	X
Expenditure*		x	x
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 in the case of the UK only may either be shown as separate line items or included within other line items and disclosed separately in a note to the accounts.

† Items marked in the case of the Republic of Ireland must be shown as separate line items.

15.16. Charitable companies in the Republic of Ireland must also report, where applicable, the amount charged to cover provisions or adjustments to provisions (other than for depreciation and impairment).

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

- 15.17. Charitable companies prepare consolidated accounts (also known as group accounts) in the UK under section 399 of the Companies Act 2006 and in the Republic of Ireland under section 293 of the Companies Act 2014.
- 15.18. Charitable companies which are required to 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

- 15.19. 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.
- 15.20. Provided no new share equity is issued, a charitable company preparing its accounts under FRS 102 need not provide a separate statement of changes in equity for the reporting period. Charitable companies with equity must provide details of equity as set out in section 4 of FRS 102.

Disclosure of revaluation and fair value reserves (UK only)

- 15.21. 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.
- 15.22. 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.
- 15.23. Similarly, regulations made under the Companies Act 2006 require a fair value reserve to be set up for certain financial instruments listed in the regulation when measured at fair value in the accounts.
- 15.24. To comply with the regulations made under the Companies Act 2006, charitable companies must disclose any revaluation and fair value reserves on the face of the balance sheet. These reserves will form part of the funds in which those assets carried at revaluation or at fair value are held. This can be done by showing these reserves as a separate component of the relevant class of fund.

16. Presentation and disclosure of grant-making activities

Introduction

- 16.1. This module applies to all charities where grant-making is a material component of their charitable activities. FRS 102 does not contain any specific requirements and this SORP sets out the specific disclosure requirements for grant-making charities.
- 16.2. For the purposes of this module, a grant is a voluntary payment made by a charity to further the purposes of the grant-making charity to either a person or an institution. Grant payments may be made to fund the general purposes of, or for a specific purpose of, the recipient, for example funding a particular activity or service.
- 16.3. A grant payment may be unconditional, or subject to conditions which must be met before the recipient is entitled to the payment. Refer to the SORP module '[Recognition of expenditure](#)', for the basis on which any liability for grant commitments and obligations are recognised in a charity's accounts.
- 16.4. This module sets out for all charities:
- [how charities must present grant-making activities in their accounts](#);
 - [how to present grant-making and support costs](#);
 - [accounting for activities partly undertaken through grant-making](#);
 - [the treatment of grants to individuals](#);
 - [the disclosure of grant-making activities in the notes to the accounts](#);
 - [the exemptions to disclosure](#);
 - [information required in cases of serious prejudice](#); and
 - [the statutory exemption applicable in England and Wales](#).

How charities must present grant-making activities in their accounts

- 16.5. Grants made by a charity must be included under the heading of 'expenditure on charitable activities' in the statement of financial activities (SoFA).
- 16.6. The information provided in the notes to the accounts should help the user to understand how grants made by a charity relate to its purposes and the policies adopted by the trustees in pursuing them.
- 16.7. The SORP module '[Trustees' annual report](#)' provides further details of the narrative reporting of the grant-making activities and policies that must be provided in the trustees' annual report.
- 16.8. The notes to the accounts should provide the user of the accounts with an understanding of the activities or projects that are being funded and whether the financial support is provided directly to individuals or to assist an institution to undertake activities or projects. In the case of institutional grants, information as to the recipient(s) of the funding must be provided so that the user can appreciate the type and range of institutions supported. This information must be disclosed in the notes or in the trustees' annual report to the accounts unless the charity is eligible to (and chooses to) take advantage of certain exemptions to disclosure, or the charity has elected to provide this information via the charity's webpage.

How to present grant-making and support costs

- 16.9. When reporting on the cost of grant-making activities, charities preparing their SoFA on an activity basis must include related support costs. Support costs related to grant-making activities will include:
- costs incurred as part of the grant application and decision-making processes prior to the award of a grant;
 - monitoring costs incurred following the award of a grant; and
 - support costs incurred relating to grant-making activities (refer to the SORP module [‘Allocating costs by activity in the statement of financial activities’](#) for guidance on the allocation of support costs to activities).

Accounting for activities partly undertaken through grant-making

- 16.10. Charities may carry out their activities through a combination of direct service provision and grants to third party institutions. In such cases, the total cost of the activity is the combined expenditure incurred directly by the charity and the funding provided to third party individuals or institutions through its grant-making activities.

The treatment of grants to individuals

- 16.11. A grant to an individual is one that is made for the direct benefit of the individual who receives it, for example to relieve financial hardship or as an educational bursary. Charities are not required to name the recipients of individual grants (except where the recipient is a related party).
- 16.12. All other grants should be regarded as institutional. For example, a grant which is made to an individual to carry out a research project should be regarded as a grant to the institution to which the individual is connected rather than as a grant to the individual undertaking the research.

The disclosure of grant-making activities in the notes to the accounts

- 16.13. This SORP requires that the notes to the accounts must provide the following details which reconcile with the total of grants payable:
- the total amount of grants paid analysed between grants to individuals and grants to institutions;
 - an analysis of the total amount of grants paid by nature or type of activity or project being supported; and
 - the amount of support costs allocated to grant-making activities.
- 16.14. This analysis of grants should provide the user of the accounts with an understanding of the nature of the activities or projects being funded by the grant-maker.
- 16.15. For example, in the case of activity funded exclusively through grant-making, this analysis may be set out as shown in Table 12.

Table 12: Analysis of grants

Analysis	Grants to institutions	Grants to individuals	Support cost	Total
	£	£	£	£
Activity or Project 1				
Activity or Project 2				
Activity or Project 3				
Total				

- 16.16. The analysis should relate to the grant-making charity's purposes. In the case of a general grant-maker, its grants may be analysed under project or activity headings such as social welfare, medical research, the performing arts, welfare of people in financial need, or help to people seeking to further their education. Alternatively, the analysis may be based on projects or programmes undertaken or by type of activity or geographical location of the project being funded.
- 16.17. Charities that make grants to institutions must also disclose details of a sufficient number of these institutional grants so that the user of the accounts can develop an understanding of the range of institutions the charity has supported. This disclosure must include all grants made to each institution when these are material in the context of the charity's total charitable expenditure. This information must be provided in the notes to the accounts, or by providing details of the charity's webpage URL at which this information can be accessed, or this information may be set out within the trustees' annual report.
- 16.18. This analysis, whether provided as a note to the accounts or made available on the charity's website or included within the trustees' annual report, must provide:
- the name of the institution(s) in receipt of material grants;
 - the total value of grants made to each institution in receipt of material grants in the reporting period; and
 - a reconciliation of the amount of material institutional grants disclosed to the total amount of institutional grants made in the reporting period.
- 16.19. Charities that provide a number of different grants to a single institution to undertake different activities or projects must disclose the total value of the grants to that institution. For example, a charity may have made grants to different officers or departments of a particular university for different projects. Such grants must be treated as made to the same institution.
- 16.20. When activities are carried out through a combination of direct service or programme activity and grant funding of third parties, the notes to the accounts must differentiate between activities undertaken directly by the charity and grant-funded activities. The disclosures required may be presented in a format such as that shown in Table 13.

Table 13: Analysis of charitable activities

Activity or programme	Activities undertaken directly	Grant funding of activities	Support costs	Total
	£	£	£	£
Activity 1				
Activity 2				
Activity 3				
Total				

The exemptions to disclosure

16.21. Information provided in relation to grant-making need not be disclosed where:

- grants are made to individuals – in which case details of the recipient are not required (except those grants made to related parties);
- the grant-making activities in total are not material in the context of a charity's overall charitable activities – in which case no disclosures are required;
- total grants to a particular institution are not material in the context of institutional grants – in which case the name of the recipient institution need not be disclosed; or
- disclosure could result in serious prejudice to the grant maker and/or the recipient institution or individual working for the recipient institution.

16.22. In exceptional cases, it is possible that the disclosure of the details of one or more of those grants could seriously prejudice the furtherance of the purposes either of the recipient institution or of the charity itself. Situations where serious prejudice is clearly indicated include those where disclosure could result in serious personal injury.

Information required in cases of serious prejudice

16.23. This SORP requires that where the circumstances amount to serious prejudice, a charity may withhold details of the recipient of any institutional grant but must, in such circumstances, state as part of its disclosure of material grants made to institutions:

- the total number, value and general purpose of those grants where these details have not been disclosed; and
- that an exemption applies to disclosure on the grounds of serious prejudice.

16.24. It is very unlikely that all the material institutional grants of a charity would fall within this exemption.

The statutory exemption applicable in England and Wales

16.25. Charity law provides an exemption to charitable trusts registered in England and Wales from providing the names of grant recipients and the amounts of such grants during the lifetime of the settlor who donated the funds from which the grants are paid or during the lifetime of any spouse or civil partner of the settlor. A charitable trust that opts to use this disclosure exemption is required by this SORP to state that this exemption has been taken in the notes to the accounts. This disclosure exemption does not apply to charities registered in Scotland, Northern Ireland or the Republic of Ireland.

17. Retirement and post-employment benefits

Introduction

- 17.1. This module applies to all charities that provide post-employment benefits to their former staff after they have left the employment of the charity. The most common form of post-employment benefit is a pension plan or scheme. The accounting requirements and disclosures in the notes to the accounts for post-employment benefit plans depend on whether the plan is classified as a defined contribution plan or defined benefit plan. Charities should refer to section 28 of FRS 102 for more information.
- 17.2. This module sets out:
- [accounting for defined contribution plans](#);
 - [accounting for defined benefit plans](#);
 - [fund accounting for defined benefit plans](#);
 - [fund accounting and the treatment of a defined benefit plan surplus or deficit](#);
 - [accounting for multi-employer defined benefit plans which have been treated as defined contribution plans](#);
 - [disclosures in the accounts relating to plans accounted for as defined contribution plans](#); and
 - [disclosures in the accounts relating to defined benefit plans](#).

Accounting for defined contribution plans

- 17.3. Defined contribution plans are post-employment benefit plans under which the employer, for example the charity (or its subsidiary), pays fixed contributions into a separate entity (a fund). The employer has no legal or constructive obligation to pay further contributions or to make direct benefit payments to employees if the fund does not hold sufficient assets to pay all the employee benefits relating to employee service in the current and prior periods.
- 17.4. The most common form of defined contribution plan is where the charity employer pays a fixed contribution, usually expressed as a proportion of the employee's salary, into a pension fund for the period that the employee is with the charity. The charity is under no further obligation to make any extra payments, irrespective of how that pension fund performs.
- 17.5. Any liability and expenses should be allocated to unrestricted funds and restricted funds on the same basis as other employee-related costs unless the terms of a restriction prohibit the allocation of such costs to a restricted fund.

Accounting for defined benefit plans

- 17.6. Defined benefit plans are any post-employment benefit plans that are not defined contribution plans. A feature of defined benefit pension plans is that the employer has offered a guarantee as to the amount or level of pension or benefit ultimately payable and is therefore liable to make additional contributions to provide that guaranteed level of benefit. Under defined benefit plans, a charity's (and/or its subsidiary's) obligation is to provide the agreed benefits to current and former employees. Actuarial risk and investment risk are effectively borne by the employer.
- 17.7. Charities must refer to section 28 of FRS 102 for the methodology to be followed in calculating the components and costs of a defined benefit pension plan.

Fund accounting for defined benefit plans

- 17.8. Defined benefit plan component costs must be allocated between the expenditure categories in the statement of financial activities (SoFA) on a fair and reasonable basis. The allocations are made on the basis of the charity's own computations. The basis of the allocations should be consistent from year to year. One approach is to allocate the defined benefit plan components based on the staff costs of employees within the scheme, although other approaches (for example, allocation based on pension contributions payable) may also produce an equitable allocation.
- 17.9. In cases where a restricted fund may be of a short-term nature or staff may be frequently transferred between activities funded from restricted funds, there may be uncertainty as to the fund which will ultimately recover any surplus or meet future contributions resulting from any deficit. In these circumstances, the restricted funds should be charged only an appropriate portion of the current service cost component of the pension cost relating to the staff engaged in activities funded from restricted funds.
- 17.10. Past service costs and gains and losses on curtailments and settlements should be charged to restricted funds only when a charity can demonstrate that the costs relate to staff presently engaged in the activities funded by the restricted funds.

Fund accounting and the treatment of a defined benefit plan surplus or deficit

- 17.11. A surplus in a defined benefit plan is the excess of the value of the assets in the plan over the present value of the plan's liabilities. A deficit in a defined benefit plan is the shortfall in the value of the assets in the plan below the present value of the plan's liabilities.
- 17.12. The plan surplus is a defined benefit plan asset and it is recognised to the extent that the charity is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

- 17.13. The plan deficit is a defined benefit plan liability that recognises a charity's obligations under defined benefit plans. The liability recognised is the net total of the following amounts:
- the present value of its obligations under defined benefit plans (its defined benefit obligation) at the reporting date; minus
 - the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.
- 17.14. Charities must recognise the actuarial gain or loss arising in the reporting period in the 'other recognised gains and losses' heading in the SoFA under a separate sub-heading, 'actuarial gains or losses on defined benefit pension schemes'.
- 17.15. Where a surplus or deficit in a defined benefit plan gives rise to an asset or liability, the asset or liability must be shown on the balance sheet within the unrestricted funds of the charity, except where staff are specifically engaged on a long-term project funded from restricted funds and it is demonstrable that all or part of the asset or liability is properly attributable to those restricted funds.
- 17.16. It may be necessary for the charity to liaise with the provider of a particular restricted fund in order to establish the basis on which any pension asset or liability is allocated to that fund and the pension costs that may be properly charged to it. Charities allocating a pension asset or a liability to a restricted fund should review the basis of the allocation annually to assess whether the benefit or obligation continues to accrue to that fund.
- 17.17. Where staff changes or the cessation of a particular project indicate that the economic benefits or obligations will no longer accrue to a particular restricted fund, then the asset or liability should be allocated to the unrestricted funds by means of a transfer in the SoFA.

Accounting for multi-employer defined benefit plans which have been treated as defined contribution plans

- 17.18. A multi-employer defined benefit pension scheme must be accounted for as a defined benefit pension plan unless insufficient information is available so to do. In such circumstances, charities participating in a multi-employer defined benefit plan scheme must account for contributions to the plan as if they were made to a defined contribution plan.
- 17.19. A charity that is accounting for its obligations under a defined benefit multi-employer plan as though it were a defined contribution plan must also recognise any liability to make payments to fund any deficit relating to past service where it has entered into an agreement to make those payments. A charity must recognise a liability for the present value of contributions payable that result from the terms of the agreement with the multi-employer plan. This expense should be allocated, where practicable, to the activities in the SoFA to which the past service cost relates and must be disclosed separately if it is material (refer to the SORP module '[Statement of financial activities](#)'). In all other cases, the charity should account for its obligations under a multi-employer defined benefit plan as a defined benefit plan and report its share of components of plan cost and its share of any actuarial gain or loss in accordance with FRS 102.
- 17.20. Charities operating group plans should refer to section 28 of FRS 102.

Disclosures in the accounts relating to plans accounted for as defined contributed plans

17.21. A charity operating a defined contribution plan must disclose:

- the amount of contributions recognised in the SoFA as an expense; and
- this SORP requires the disclosure of the basis for allocating the liability and expense between activities and between restricted and unrestricted funds.

17.22. A charity participating in a defined benefit plan should normally be able to ascertain its share of the underlying assets and liabilities of the plan and make the disclosures required by section 28 of FRS 102. However, in exceptional cases this information may be unavailable for defined benefit multi-employer plans and where this information cannot be obtained, the charity must also disclose:

- the fact that it is a defined benefit plan; and
- such information as is available about the plan's surplus or deficit and the implications, if any, for the reporting charity.

17.23. A charity that participates in a multi-employer defined benefit plan that is accounted for as a defined contribution plan must also include in its disclosures:

- a description of the extent to which the charity can be liable to the plan for other entities' obligations under the terms and conditions of the multi-employer plan; and
- an explanation of how any liability arising from an agreement with a multi-employer plan to fund a deficit has been determined.

Disclosures in the accounts relating to defined benefit plans

17.24. Charities reporting under FRS 102 must make the disclosures set out in section 28 of FRS 102.

Selection 2: Accounting for special types of assets held

18. Accounting for heritage assets

Introduction

- 18.1. This module applies to all charities which hold heritage assets. Charities holding heritage assets should refer to section 34 of FRS 102.
- 18.2. This module sets out:
- definition of a heritage asset;
 - recognition and measurement of heritage assets on the balance sheet;
 - how to measure heritage assets that have been purchased;
 - how to measure heritage assets that have been donated;
 - depreciation and impairment of heritage assets;
 - accounting treatment for heritage assets recognised on the balance sheet;
 - disclosures required for all charities holding heritage assets;
 - disclosure of heritage assets recognised on the balance sheet;
 - disclosure of heritage assets not recognised on the balance sheet; and
 - disclosure of a five-year summary of transactions.

Definition of a heritage asset

- 18.3. A heritage asset is a tangible or intangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.
- 18.4. An asset may have the attributes of a heritage asset, for example it may be of historic or artistic importance, but unless it is also held and maintained for its contribution to knowledge and culture then it will not fall within the definition of a heritage asset.
- 18.5. Assets with heritage attributes may be used operationally for purposes unconnected with the promotion of knowledge and culture or even held as investments. In such instances, the asset is accounted for within tangible fixed assets or investments as appropriate.

For example:

- A historic building used by an educational establishment for teaching would not be accounted for as a heritage asset because it is held to provide a facility for teaching rather than the building itself contributing to knowledge and culture.
- In the case of a museum or gallery, it is the collections held and not the buildings or display cases that house them that will be treated as heritage assets unless the structures themselves also have the attributes of a heritage asset and are held principally for their contribution to knowledge and culture.

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- Works of art or historic buildings principally held for investment purposes are categorised as investments, as they are held for investment gain or for income generation rather than for their contribution to knowledge and culture.
- 18.6. Similarly, a requirement to hold and maintain an asset, for example as an endowment, does not mean that asset is held for its contribution to knowledge and culture.
- For example:
- An inalienable building or painting, which must be retained indefinitely by a charity due to the terms of a gift, is not a heritage asset unless it meets the definition of a heritage asset.
- 18.7. However, a heritage asset used incidentally for operational purposes unconnected with the promotion of knowledge and culture may still fall within the definition of a heritage asset.
- For example:
- A historic building incidentally used for service or administrative activities by a charity but principally held and maintained for its contribution to knowledge and culture is accounted for as a heritage asset.
- 18.8. Although a heritage asset is normally tangible, it is possible for it to be intangible.
- For example:
- A library of digital recordings or film rights can be a heritage asset if it is held for its contribution to knowledge and culture.
- 18.9. Heritage assets may include abbeys, monasteries, cathedrals and historic churches and monuments where a contribution to knowledge and culture is ancillary to faith or other purposes.
- 18.10. Similarly, the artefacts contained within, or associated with, such assets may also be heritage assets. For example, associated artefacts could include religious artefacts contained within a cathedral or historic church.
- 18.11. Charities that do not have preservation or conservation purposes should account for an asset as a heritage asset only if that asset:
- has historic, artistic, scientific, technological, geophysical or environmental qualities;
 - contributes to knowledge and culture through its retention and use; and
 - is accessible to the public for viewing and/or research.

Recognition and measurement of heritage assets on the balance sheet

- 18.12. Heritage assets must be recognised as an asset on a charity's balance sheet separately from other assets where practicable. Heritage assets are reported as a separate class of tangible fixed asset on the balance sheet and should be measured initially at either their cost or valuation if donated.
- 18.13. Heritage assets initially recognised at cost may continue to be carried at historical cost subject to any depreciation or impairment, or charities may choose to adopt a policy of valuation.

- 18.14. Charities are not required to recognise heritage assets on the balance sheet if information on their cost or valuation is not available and such information cannot be obtained at a cost commensurate with the benefit to the users of the accounts and to the charity. Where reliable information on cost or value is not available, charities will need to consider if the cost of obtaining a valuation is justified by the usefulness of the information to the users of the accounts and to the charity for its own stewardship purposes.
- 18.15. Charities may adopt any reliable valuation technique to estimate the fair value of a heritage asset. For example, for some heritage buildings, the use of market value may provide a reasonable approach; in other cases, the use of depreciated replacement cost may be appropriate. However, depreciated replacement cost may not be an appropriate method where a building cannot be replicated using modern building methods or where the value of the original asset lies in its unique historic or heritage qualities. If a valuation method is adopted, it must be applied to all assets within a particular class or to a group of similar assets.

How to measure heritage assets that have been purchased

- 18.16. When a heritage asset is purchased, its cost of acquisition will be known and therefore the asset must be recognised initially at this amount. Should the acquisition be by way of an exchange of assets, the cost of acquisition is represented by the carrying amount of the asset exchanged and any cash settlement made or payable at the date the charity assumed legal title or control of the acquired asset. A heritage asset that is recognised initially at its cost may be subsequently carried at a valuation where a charity adopts a policy of carrying its heritage assets (or group of heritage assets) at valuation. There is no prescribed minimum period between valuations. However, if the valuation model is adopted, the carrying amount of the asset should be reviewed with sufficient frequency to ensure that the valuations remain current.

How to measure heritage assets that have been donated

- 18.17. Heritage assets donated to the charity should be recognised initially at their fair value where practicable. Fair value can often be estimated by reference to recent market transactions or binding sale agreements between knowledgeable, willing parties in an arm's length transaction in identical assets or in assets that are substantially the same as the asset being measured. Fair value may be determined by the appraisal of market-based evidence by trustees or staff who have relevant skills, knowledge and experience or by a professionally qualified valuer. Where no market-based evidence exists, depreciated replacement cost may be used to estimate the fair value of certain properties held as heritage assets. If a reliable estimate cannot be made of the asset's fair value or the cost of valuation is likely to exceed the benefits provided by the information, the asset is not recognised in the accounts and the relevant note disclosures concerning the nature of asset and its accounting treatment must be provided.
- 18.18. Where a heritage asset has been acquired by way of donation or other form of non-exchange transaction, the initial valuation may be treated as its deemed cost removing the need for subsequent revaluations.

Depreciation and impairment of heritage assets

18.19. A heritage asset must be depreciated over its useful economic life. However, certain heritage assets may have indefinite lives and are therefore not depreciated. In either case, a heritage asset must be reviewed at the reporting date for impairment. Impairment may be due to physical deterioration, breakage, new evidence giving rise to doubts as to its authenticity, or other factors.

Accounting treatment for heritage assets recognised on the balance sheet

18.20. When heritage assets are recognised on the balance sheet, a charity must:

- present heritage assets as a separate class of fixed asset in the balance sheet;
- provide an analysis, in the notes to the accounts, of those classes or groups of heritage assets reported at cost and those reported at valuation;
- include the value placed on any heritage asset gifted to the charity in the 'income from donations and legacies' heading in the statement of financial activities (SoFA) and allocate that income to a restricted fund when the use of the asset is restricted;
- recognise any change in the valuation of a heritage asset as a 'gain or loss on revaluation of fixed assets' in the SoFA;
- recognise any gain on the disposal of a heritage asset as 'other income' in the SoFA; and
- recognise any loss on disposal, depreciation or impairment of a heritage asset as a cost of charitable activities in the SoFA.

Disclosures required for all charities holding heritage assets

18.21. All charities must disclose the following for all heritage assets held:

- an indication of the nature and scale of heritage assets held;
- the policy for the acquisition, preservation, management and disposal of heritage assets (including a description of the records maintained by the charity of its collection of heritage assets and information on the extent to which access to the assets is permitted); and
- the accounting policies adopted for heritage assets, including details of the measurement bases used.

18.22. The above notes should be brief but sufficiently informative. Charities providing further information on these matters in the trustees' annual report should include a cross reference to the annual report in the notes.

18.23. The disclosures relating to heritage assets can be aggregated for groups or classes of heritage assets provided that this does not obscure significant information.

Disclosure of heritage assets recognised on the balance sheet

18.24. When heritage assets are recognised on the balance sheet, all charities must disclose:

- the carrying amount of heritage assets by class or group both at the beginning of the reporting period and at the reporting date, distinguishing between classes or groups of heritage assets recognised at cost and those recognised at valuation at the reporting date; and
- where assets are recognised at valuation, sufficient information to assist in understanding the valuation being recognised (date of valuation, method used, whether carried out by external valuers and, if so, their qualifications, and any significant limitations on the valuation).

18.25. Charities may choose to present a reconciliation of the movements between the opening and closing carrying amount(s) in the balance sheet for heritage assets. This information may be presented in a tabular format (see Table 14).

Table 14: Analysis of heritage assets

Basis of capitalisation	At valuation Group A	At cost Group B	Total
	£	£	£
Carrying amount at beginning of the reporting period	X	X	X
Additions	X	X	X
Disposals	(X)	(X)	(X)
Depreciation/impairment	(X)	(X)	(X)
Revaluation	X	-	X
Carrying amount at reporting date	X	X	X

Disclosure of heritage assets not recognised on the balance sheet

18.26. When heritage assets have not been recognised in the balance sheet, charities must:

- explain the reasons why;
- describe the significance and nature of those assets; and
- disclose information that is helpful in assessing the value of those assets.

18.27. In exceptional circumstances where it is not practicable to obtain a valuation of heritage assets acquired by donation the reason why it is not practicable must be stated.

Disclosure of a five-year summary of transactions

- 18.28. All charities must provide a summary of transactions relating to heritage assets for the reporting period and for each of the previous four reporting periods disclosing:
- the cost of acquisition of heritage assets;
 - the value of heritage assets acquired by donation;
 - the carrying amount of heritage assets disposed of in the period and the proceeds received; and
 - any impairment recognised in the period.
- 18.29. The summary must show separately those transactions that are included in the balance sheet and those that are not. Charities that have been operating for fewer than five years must provide information for such prior periods as are available. The required information may be presented in a tabular format (see Table 15).
- 18.30. The disclosures required in the five-year summary need not be given for any accounting period earlier than the period immediately before 1 January 2015 if it is impractical to provide this information; a statement explaining why it is impractical must be provided.
- 18.31. Charities should note that the accounting disclosures required for heritage assets are similar to those of the withdrawn Financial Reporting Standard 30 'Heritage Assets' which was in effect from 1 April 2010. The information required to provide a summary of heritage asset transactions should therefore be available to those charities which have been operating since 2010.

Table 15: Summary analysis of heritage asset transactions

	2015	2014	2013	2012	2011
	£	£	£	£	£
Purchases					
Group A					
Group B					
Donations					
Group A					
Group B					
Total additions					
Charge for impairment					
Group A					
Group B					
Total charge for impairment					
Disposals					
Group A: carrying amount					
Group B: carrying amount					
Total disposals					
Proceeds from disposals					
Group A: sale proceeds					
Group B: sale proceeds					
Total sale proceeds					

19. Accounting for funds received as agent or as custodian trustee

Introduction

- 19.1. Charities may agree to administer the funds of another entity as its agent. As agent, a charity will act in line with the instructions of the entity that acts as the principal. For example, a charity may operate in an area of the world where the principal does not and so, by agreement with the principal, the charity administers the principal's funds in accordance with the instructions received. Within the charity sector, agency arrangements are sometimes referred to as conduit funding because the charity, in acting as agent, provides a conduit through which funds are passed in order to fund activities or assist the beneficiaries of the principal.
- 19.2. The agent is usually bound by an agency agreement and distributes the funds it holds as agent to specified third parties in line with the instructions given by the principal. The funds transferred to the agent remain under the control of the principal and the principal remains responsible for the charitable application of those funds. A charity acting as agent should ensure that the terms of the agency agreement and the use of the funds are consistent with its own purposes.
- 19.3. It is important to consider the substance of the arrangement over its legal form so as to distinguish between a charity acting as agent and a charity acting as principal:
- As agent, the trustees of a charity have no discretion about the use to which the funds received are put. The charity acts only in accordance with the instructions or directions of the principal.
 - As principal, the trustees of a charity have discretion (subject to the purposes or terms on which the funds are held) as to how the funds are used.
- 19.4. A restricted donation is not an agency arrangement. A charity accounts for the receipt of a restricted fund as principal because the charity's trustees control how it is subsequently spent. For example, even if the purposes of the gift were narrowly defined by the donor, the trustees of a grant-making charity would still retain discretion as to the selection of grant recipients and the timing of the payment.
- 19.5. Charities may also act as custodian trustee holding the title to property belonging to another charity on its behalf. Property held as custodian does not belong to the custodian trustee and so is not a component of the custodian trustee's assets, income or expenditure in the reporting period.
- 19.6. This module sets out:
- [accounting for funds held as agent](#);
 - [distinguishing consortia or similar arrangements involving a 'lead' charity](#); and
 - [the disclosure of funds received as agent or held as custodian trustee](#).

Accounting for funds held as agent

- 19.7. Funds received by a charity as agent are not recognised as an asset in its accounts because the funds are not within its control. Consequently, the receipt of funds as agent is not recognised as income nor is its distribution recognised as the agent's expenditure.
- 19.8. However, any fee receivable by a charity for acting as agent is recognised as its income. Similarly, any costs incurred by a charity in the administration of the agency arrangement are recognised as expenditure in its accounts.

Distinguishing consortia or similar arrangements involving a 'lead' charity

- 19.9. Charities may also enter into a consortium or similar arrangement whereby two or more charities co-operate to achieve economies in the purchase or supply of goods or services for members of the arrangement or to a third party. The accounting for a consortium's transactions requires an understanding of the substance of any underlying contractual arrangements.
- 19.10. Consortium arrangements can be set up through:
- a formal joint venture arrangement (refer to the SORP module, '[Branches, linked or connected charities and joint arrangements](#)');
 - a joint venture entity (refer to the SORP module '[Accounting for joint ventures](#)');
 - a charity acting as principal entering into contractual arrangements and then
 - sub-contracting with other parties or charities to deliver components of the contract (refer to the SORP module '[Recognition of income, including legacies, grants and contract income](#)' and the examples of revenue recognition given in the appendix to section 23 of FRS 102); or
 - a lead charity acting as agent for the consortium's members administering the contractual arrangements on behalf of all the members of the consortium.
- 19.11. When a lead charity acts as agent for members of a consortium, it may provide administrative support to the consortium arrangement, including invoicing and making payments on behalf of the consortium members. However, each charity participating in the consortium retains its own contractual obligations and rights despite the lead charity being the main point of contact with the customer or being the commissioning body for a service. The lead charity is not acting as agent if it is the principal under the contract and is then subcontracting work to third parties, including other charities, in order to fulfil its contractual obligations.

Disclosure of funds received as agent or held as custodian trustee

19.12. This SORP requires that a charity that has acted as agent during the reporting period must disclose in the notes to the accounts:

- an analysis of funds received and paid by the charity as agent;
- details of any balances held as agent at the reporting date;
- details of any balances outstanding between any participating consortium members for which it is administratively responsible; and
- where funds have been held as agent for related parties the charity must make the required disclosures for related parties required by the SORP module '[Disclosure of trustee and staff remuneration, related party and other transactions](#)'.

19.13. This SORP requires that a charity that has acted as custodian trustee during the reporting period must disclose in the trustees' annual report or as a note to the accounts:

- a description of the assets, classes of assets or categories of assets which they hold in this capacity;
- the name and objects of the charity (or charities) on whose behalf the assets are held and how this activity falls within the custodian charity's objects; and
- details of the arrangements for safe custody and segregation of such assets from the charity's own assets.

Selection 3: Accounting for investments

20. Total return (investments) – (England and Wales only)

Introduction

- 20.1. This module applies to charities established in England and Wales that hold investments as permanent endowment and adopt a total return approach to the investment of those funds. This module reflects the requirements of charity law and regulations in England and Wales where a statutory power exists that enables charities to adopt a total return policy for the investment of permanently endowed funds. FRS 102 does not deal with specific issue of charities with permanent endowment funds invested on a total return basis.
- 20.2. Trust law requires the trustees of a permanently endowed fund to be even-handed in the way that they allocate investment returns between current and future beneficiaries. Under standard trust rules, income generated from endowed investments must be spent on the purposes of the fund for current beneficiaries and any capital gains or losses must be allocated to the capital of the endowment held to produce income for the benefit of future beneficiaries.
- 20.3. When a total return approach to investment is adopted, the permanently endowed funds are invested to produce an investment return without regard to whether that return is in the form of income (for example, dividends or interest) or capital appreciation.
- 20.4. The investment return forms a component of the endowment fund known as the ‘unapplied total return’. The trustees then periodically determine how much of the ‘unapplied total return’ is released to income for spending and how much is retained for investment as a component of the endowment. This allocation must be made equitably to balance the need for income to meet current requirements and to hold funds as part of the endowment to produce investment returns for the future.
- 20.5. Under a total return approach to investment, the endowment has two distinct components:
 - the value of the original and any subsequent gifts made to the capital of the endowment (which cannot normally be spent) which is termed the ‘value of the trust for investment’; and
 - the ‘unapplied total return’ which represents the accumulated investment returns from the investment of the endowment less any amounts which have been allocated to income.
- 20.6. A charity must have the relevant investment power to adopt a total return approach to investment. This power may be granted to endowed charities in England and Wales by an order of the Charity Commission made under section 105 of the Charities Act 2011 or exercised by trustees under section 104A of the Charities Act 2011 as amended by the Trust (Capital and Income) Act 2013. Charities exercising the power to invest on a total return basis under section 104A of the Charities Act 2011 must also refer to the Charities (Total Return) Regulations 2013 and the further guidance available from the Charity Commission’s website.

20.7. This module sets out:

- the accounting treatment;
- disclosures required in the notes to the accounts where permanent endowment is invested on a total return basis; and
- disclosures required in the trustees' annual report.

The accounting treatment

20.8. This SORP requires that the following accounting treatment must be used where a charity adopts a total return approach to the investment of endowment:

- income from the endowment's investments must be recognised as 'investment income' in the endowment column of the statement of financial activities (SoFA);
- investment gains and losses (realised and unrealised gains and losses) must be recognised as 'investment gains and losses' in the endowment column of the SoFA;
- any part of the unapplied total return that is allocated to income funds must be separately identified in the SoFA as an allocation between endowment funds and income funds either within the 'transfer' line or within the 'other income' section of the SoFA; and
- the amount of any unapplied total return fund must be included as a part of the relevant endowment together with the value of the trust for investment on the balance sheet.

20.9. Exceptionally, where investment losses exceed the amount of unapplied total return, the loss must be treated as a reduction in the value of the trust for investment component of the permanent endowment until such time as these losses are reversed.

Disclosures required in the notes to the accounts where permanent endowment is invested on a total return basis

20.10. This SORP requires that the notes to the accounts must provide the following information for each endowment fund that is invested on a total return basis:

- the amount of the value of the trust for investment which comprises the gift component of the endowment at the start of the reporting period;
- the amount of any additional gifts to the endowment fund during the reporting period added to the value of the trust for investment;
- the amount of any unapplied total return at the start of the reporting period;
- the amount of the investment return from the investment of the endowment for the reporting period;
- the amount of any allocations of unapplied total return to income funds;
- the amount of any recoupment to make good the value of the trust for investment;
- the amount of any allocation from the trust for investment to the unapplied total return;

- the amount of any unapplied total return at the end of the reporting period;
- the total amount of the endowment fund at the end of the reporting period; and
- details of the power of investment or the order that permits the charity to adopt a total return approach to investment.

20.11. Table 16 summarises how the disclosures required in the notes to the accounts may be set out.

Table 16: Example of the disclosure of a total return approach to investment of permanent endowment

	Trust for investment	Unapplied Total Return	Total Endowment
	£	£	£
At beginning of the reporting period:			
Gift component of the permanent endowment	X	-	X
Unapplied total return	-	X	X
Total	X	X	X
Movements in the reporting period:			
Gift of endowment funds	X	-	X
Recoupment of trust for investment	X	(X)	-
Allocation from trust for investment	(X)	X	-
Investment return: dividends and interest	-	X	X
Investment return: realised and unrealised gains and (losses)	-	X	X
Less: Investment management costs	-	(X)	(X)
Total	X	X	X
Unapplied total return allocated to income in the reporting period	-	(X)	(X)
Net movements in reporting period	X	X	X
At end of the reporting period:			
Gift component of the permanent endowment	X	-	X
Unapplied total return	-	X	X
Total	X	X	X

Disclosures required in the trustees' annual report

20.12. This SORP requires that a charity that has been granted the power to invest on a total return basis by a Charity Commission order (charities registered in England and Wales), or where the trustees have exercised the power granted under section 104A(2) of the Charities Act 2011, must provide the following additional information in the trustees' annual report:

- the date that the initial value of the trust for investment and the initial value of the unapplied total return was established;
- the policy used to identify the initial amounts of the trust for investment and any unapplied total return and the date this analysis was performed;
- an explanation of the policies used by the charity's trustees and the factors considered in determining the amount of the unapplied total return allocated to income (termed the trust for application) and any amounts allocated to the trust for investment in the reporting period;
- an explanation of the policies used by the charity trustees and the factors considered in determining the amount, if any, of the trust for investment (permanent endowment) allocated to the unapplied total return or any recoupment made from the unapplied total return into the trust for investment in the reporting period; and
- the name and professional qualifications of any person who has provided advice to the charity's trustees as to the amount that can be allocated to income and/or the trust for investment from the unapplied total return in the reporting period.

21. Accounting for social investments

Types of social investment and income risk sharing arrangements

- 21.1. This module applies to all charities making social investments. It explains when an investment is recognised either as a programme related investment or as a mixed motive (mixed purpose) investment. FRS 102 does not deal with accounting for social investments and therefore this module explains how social investments must be measured and disclosed when accounts are prepared using this SORP.
- 21.2. A wide range of terms are in current use to describe a developing variety of investment structures and other contractual arrangements that can be used to carry out or fund charitable activities. These investments and arrangements can take a number of contractual and legal forms such as repayable loans, non-repayable loans (quasi equity), concessionary loans, equity investments, property letting, and performance-related income or profit-sharing arrangements or partnerships.
- 21.3. A charity making or in receipt of social investments or undertaking complex contractual arrangements needs to consider carefully the nature of the arrangement and account for the substance of the arrangement.
- 21.4. To account for the investment or contractual arrangement correctly, a charity needs to be able to identify:
- the nature of the asset or entitlement to income acquired;
 - the basis upon which any financial return is calculated;
 - the method(s) to be used to measure financial return;
 - the nature of any liabilities or obligations acquired;
 - the method(s) to be used to measure any liability or obligation; and
 - their motive(s) for acquiring the investment.
- 21.5. Reference must be made to the SORP module '[Balance sheet](#)', which sets out the classification and disclosures required for financial investments and liabilities, and to the SORP module '[Recognition of income, including legacies, grants and contract income](#)', which sets out the basis for income recognition including profit sharing arrangements.

How the SORP defines social investment

- 21.6. This SORP uses the term 'social investment' to describe programme related investments and mixed motive investments.
- 21.7. When a programme related investment or mixed purpose investment is held in a subsidiary entity, an associate or joint venture, reference must also be made to the SORP modules '[Accounting for groups and the preparation of consolidated accounts](#)', '[Accounting for associates](#)' and '[Accounting for joint ventures](#)'.

21.8. This module sets out:

- programme related investments;
- mixed motive (mixed purpose) investments;
- ethical investment policies;
- social investments in property (land and buildings);
- concessionary loans;
- accounting for guarantees;
- the presentation of social investments in the investing charity's accounts;
- the reclassification of a social investment as a financial investment;
- how to measure social investments;
- impairment of social investments;
- accounting for impairment losses;
- accounting for gains on disposal;
- information to be provided in the investing charity's trustees' annual report; and
- disclosures in the notes to the accounts.

Programme related investments

21.9. A programme related investment is an asset held by a charity that provides investment funding to individuals or organisations in order to directly further the charitable purposes of the investing charity; any financial return obtained is not a primary reason for making the investment.

21.10. A programme related investment is made exclusively to further the charitable aims of the investing charity by funding specific activities or related tangible fixed assets of a third party which, in turn, contribute to the investor's own charitable purposes.

Mixed motive (mixed purpose) investments

21.11. A mixed motive (or mixed purpose) investment is an asset held by a charity that provides funding to individuals or organisations in order to generate a financial return for the investing charity and it also contributes to the investing charity's purposes through the activities or related tangible fixed assets funded by the investment.

21.12. A mixed motive investment can be distinguished from a programme related investment in that the investment is not made wholly to further the investing charity's charitable purposes. The investment is deemed to be 'mixed motive' as neither the investment return nor the contribution to the investing charity's purposes is sufficient on its own to justify the investment decision. The investment is not justified wholly by either the financial return or by the contribution it makes to the investing charity's aims but by the combination of the two.

Ethical investment policies

21.13. Investment decisions may be subject to the ethical, socially responsible or mission related investment policies adopted by a charity. The adoption of ethical, socially responsible or mission related investment policies does not create a separate class of investment asset that is presented separately in a charity's balance sheet. However, investment policies must be explained in the trustees' annual report and the value of investments held in pursuit of particular ethical investment policies may be identified separately in the note to the accounts analysing investments.

Social investments in property (land and buildings)

- 21.14. Property may be classified as a programme related investment only when it is held specifically to enable a third party to undertake particular activities using the property that contribute to the investing charity's charitable purposes. Property may also be classified as mixed motive investment when it is held for a combination of the financial return it generates and the contribution its use by another charity or third party makes to the investing charity's purposes.
- 21.15. Property used by a charity to provide goods or services or used for its own administrative purposes must be presented within tangible fixed assets (property, plant and equipment). Similarly, property that is let out to further the lessor charity's own purposes by providing a service to a charity's own beneficiaries must also be accounted for within tangible fixed assets.
- 21.16. Property that is held primarily to generate rental income and/or for its capital appreciation must be accounted for as investment property.
- 21.17. A mixed use property used in part by the charity to provide goods or services and for its own administrative purposes and in part to generate rental income must be apportioned between tangible fixed assets and investment property. However, if such an apportionment is impractical, the whole property must be classed as a tangible fixed asset.
- 21.18. A charity that decides to occupy a property partly to carry out its own activities, and partly lets it to a charity or third party which undertakes activities that further the landlord charity's purposes, should apportion it between tangible fixed assets and mixed motive investment. However, if such an apportionment is impractical, the whole property must be classed as a tangible fixed asset.

Concessionary loans

21.19. A programme related investment or mixed motive investment may be made in the form of a concessionary loan to a third party interest free or at below prevailing market rates. Concessionary loans are not made solely to achieve a financial return. Concessionary loans are made wholly or in part to advance charitable purposes for the benefit of a charity's beneficiaries.

Accounting for guarantees

21.20. A charity may, as part of its strategy for programme related investments or mixed motive investments, provide loan guarantees to facilitate the financing of activities undertaken by third parties. All such guarantees must be recognised by the charity making a guarantee as either a provision or a contingent liability depending upon the circumstances that exist as at the reporting date. A charity receiving a guarantee discloses the guarantee as a contingent asset when an inflow of economic benefits is probable. If it is virtually certain that the guarantee will be called upon it is no longer contingent and the income receivable is recognised.

The presentation of social investments in the investing charity's accounts

21.21. Programme related investments must be disclosed either as a separate line on the face of the balance sheet or identified as a separate class of investment in the notes to the accounts, depending on the materiality of the holding.

21.22. Mixed motive investments must be disclosed either as a separate line on the face of the balance sheet or identified as a separate class of investment in the notes to the accounts, depending on the materiality of the holding.

The reclassification of a social investment as a financial investment

21.23. If a programme related investment ceases to be held primarily to further the charitable aims of the investing charity, it must be reclassified as a financial investment, or investment property, or a mixed motive investment, as appropriate. Similarly, if a mixed motive investment ceases to be held to a significant extent for the contribution it makes to the investor's charitable aims, it must be reclassified as a financial investment or investment property, as appropriate.

21.24. However, if the failure of the investment to contribute to the charitable purposes and aims of the investing charity is only temporary, a social investment should not be reclassified; instead, it should be subject to a review for impairment.

21.25. A financial investment acquired to generate a financial return must not be subsequently reclassified as a social investment as the initial decision to make the investment was based wholly on commercial considerations. Similarly, where financial investments are selected on ethical or mission-based criteria, the investments must not be classified as social investments as they are held primarily for financial return. However, the notes to the accounts may be used to identify the amounts of investments held which were selected using ethical or mission-based criteria.

How to measure social investments

21.26. Charities making (or receiving) concessionary loans repayable on demand or within one year should not adjust the carrying amount of the loan to reflect the below prevailing market rates of interest being charged. However, for loans repayable in more than one year, a charity making (or receiving) concessionary loans must opt to either:

- initially recognise and measure the loans at the amount received or paid, with the

carrying amount adjusted in subsequent years to reflect repayments and any accrued interest and adjusted if necessary for any impairment; or

- measure such loans initially at their fair value and subsequently at their amortised cost using the effective interest method (this would effectively treat the concessionary element of the loan as a financing cost or interest income, as applicable). For more information on the use of the effective interest method, refer to section 11 of FRS 102.

21.27. The same accounting policy for the measurement of concessionary loans must be applied to concessionary loans both made and received.

21.28. When a programme related investment or mixed motive investment takes the form of ordinary or preference shares, it must be measured at the reporting date:

- at its fair value, if this can be measured reliably; or
- if its fair value cannot be measured reliably, at its cost less impairment.

21.29. The bid price must be used to measure fair value for accounting purposes of shares that are traded in an active market. When quoted prices are unavailable, the price of recent transactions of identical (or similar) investments in an arm's length transaction between knowledgeable, willing parties may provide evidence of their fair value, provided that there has not been a significant change in economic circumstances since those transactions. Prices may need to be adjusted if the last transaction price is not a good estimate of fair value, for example if the transaction was as a result of a forced sale.

21.30. If neither the market price nor recent transaction prices provide a reliable estimate of fair value, then cost less impairment should be used.

21.31. If the contribution made by a programme related investment or mixed purpose investment to the investor's charitable purposes is reduced significantly, for example due to a change in the activities financed by the investment, then the classification of the asset must be reviewed. When necessary, the asset must be reclassified appropriately in the balance sheet and/or the notes to the accounts to reflect the purpose of the investment.

21.32. Programme related investments or mixed motive investments that are measured at cost or amortised cost must be assessed for objective evidence of impairment at the end of each reporting period.

Impairment of social investments

21.33. If there is objective evidence of impairment, for example a default on repayments due or evidence of significant financial difficulty in the entity in which the investment has been made, then an immediate impairment loss must be recognised in the statement of financial activities (SoFA). The impairment is measured on the same basis as other investments or financial assets.

Accounting for impairment losses

21.34. An impairment loss arising on a programme related investment should be recognised as a cost within 'expenditure on charitable activities' in the SoFA.

21.35. In the case of a mixed motive investment, the loss should be recognised as an investment impairment in the 'gains/(losses) on investments' line in the SoFA.

Accounting and Reporting by Charities

21.36. Any reversal of a previous impairment must be credited to the heading in the SoFA that was initially charged with the impairment. The reversal of an impairment charge must not result in an asset's carrying amount exceeding its carrying amount prior to its initial impairment.

Accounting for gains on disposal

21.37. Any gain on the disposal of a programme related investment is recognised as 'other income' in the SoFA after offsetting any prior impairment loss.

21.38. Any gain on the disposal of a mixed purpose investment is recognised in the 'gains/(losses) on investments' line in the SoFA after offsetting any prior impairment loss.

Information to be provided in the investing charity's trustees' annual report

21.39. This SORP requires that larger charities must include an explanation of the charity's policy for the use of programme related investments and mixed motive investments in the trustees' annual report when such holdings are material. The report must also explain the investment's performance in relation to the objectives set by the trustees. Further guidance is provided in the SORP module '[Trustees' annual report](#)'.

Disclosures in the notes to the accounts

21.40. This SORP requires that the accounting policy note must disclose:

- the measurement bases used for programme related investments and mixed motive investments; and
- any other accounting policies that are relevant to understanding these transactions in the accounts.

21.41. This SORP also requires that the notes to the accounts must present programme related investment and mixed motive investment as separate classes of investment in the relevant note, if not separately disclosed on the balance sheet, and disclose:

- those details required by the SORP module '[Balance sheet](#)' for the relevant classes of fixed asset into which the investment falls;
- details and amount of any guarantee made to or on behalf of a third party;
- the name of the entity or entities benefiting from those guarantees; and
- an explanation as to how the guarantee furthers the charity's aims.

21.42. The applicable disclosures set out in the SORP module '[Accounting for financial assets and financial liabilities](#)' must also be made.

21.43. Section 34 of FRS 102 sets out the accounting treatment and disclosures relating to concessionary loans. Charities must disclose:

- the carrying amount of concessionary loans made or received (multiple loans made or received may be disclosed in aggregate, provided that such aggregation does not obscure significant information);
- the terms and conditions of concessionary loan arrangements, for example the interest rate, any security provided and the terms of repayment;

- the value of any concessionary loans which have been committed but not taken up at the reporting date; and
- separately amounts payable or receivable within one year and amounts payable or receivable after more than one year.

22. Accounting for charities pooling funds for investment

Introduction

22.1. FRS 102 does not address how charities account for pooled investment funds. This module sets out the accounting requirements, reflecting charity law, for:

- common investment funds and common deposit funds;
- restricted participation common investment funds (England and Wales only);
- accounting for pooling schemes and arrangements with common trustees; and
- disclosures for pooling schemes and arrangements with common trustees.

Common investment funds and common deposit funds

22.2. Common investment funds (CIFs) and common deposit funds (CDFs) are charities which accept contributions or deposits from any charity and invest these contributions or deposits to earn a return for the investing charities.

22.3. The fund managers and any corporate trustees of CIFs and CDFs are usually regulated by the financial markets' regulator in the jurisdiction(s) in which they are established.

22.4. CIFs and CDFs must not adopt the charities SORP. Instead, as collective investment schemes, CIFs and CDFs must follow the Investment Management Association Statement of Recommended Practice in conjunction with any charity-specific reporting requirements set out in the regulations applying in the jurisdiction in which they are established.

Restricted participation common investment funds (England and Wales only)

22.5. Certain CIFs restrict participation in the fund to particular charities that are connected in some way, for example by having similar purposes but without necessarily sharing a common body of trustees. Restricted participation CIFs should adopt the Investment Management Association Statement of Recommended Practice in order to provide appropriate accountability to their charity investors to whom they owe a fiduciary duty.

22.6. In England and Wales, the applicable Charities (Accounts and Reports) Regulations place particular reporting requirements on CIFs, including restricted participation CIFs, which are based on the Investment Management Association Statement of Recommended Practice.

Accounting for pooling schemes and arrangements with common trustees

- 22.7. Charities with the same body of trustees may pool their investments to form a single investment fund, resulting in greater efficiency in the management of the investment. A pooling scheme or arrangement with common trustees may include linked charities or special trusts (England and Wales) or connected charities (Scotland). Separate charity accounts are not generally published for the pooling scheme or arrangement. Instead, the pooling scheme or arrangement must be presented as a restricted fund of the reporting charity responsible for operating the pooling scheme or arrangement.
- 22.8. The assets of the pooling scheme or arrangement are the investments held. Its liabilities are the share of these investments due to those charities or funds which have invested through the pooling scheme or arrangement. The income and costs of managing investments will accrue to the charities or funds investing in the pool. Much of this information will already be presented in the reporting charity's accounts but charities may choose to summarise this information as a note to the accounts, as set out in Table 17.

Table 17: Analysis of fund movements for a pooling scheme

	Fund/Charity A	Fund/Charity B	Fund/Charity C	Fund/Charity D	Fund/Charity E	Total
	£	£	£	£	£	£
Net assets brought forward						
Additions to investment pool						
Investment income						
Investment management expenses						
Realised investment gains/(losses)						
Unrealised investment gains/(losses)						
Less distributions (for charitable expenditure)						
Net assets carried forward						

- 22.9. A pooling scheme or arrangement that is registered or established as a separate charity must prepare its own accounts in accordance with this SORP and must make the additional disclosures set out in the section below.

Disclosure for pooling schemes and arrangements with common trustees

22.10. This SORP requires that a charity which is a pooling scheme or arrangement preparing separate accounts must disclose:

- that the accounts presented are for an investment pooling scheme or arrangement;
- the date and authority, if any, for the scheme or arrangement (for example, a scheme registered with a charity regulator);
- the names of the charities participating in the pooling scheme or arrangement;
- an analysis of the investments held within the pooling scheme or arrangement in accordance with the SORP module '[Balance sheet](#)'; and
- an analysis of the investment income, gains and investment management costs in accordance with the SORP module '[Statement of financial activities](#)'.

22.11. The notes to the accounts should also provide:

- an analysis of the proportions of the funds of the pooling scheme or arrangement attributable to each participating charity or fund at the end of the reporting period; and
- an analysis of the of fund movements attributable to each participating charity or fund, reconciling the value of funds brought forward and carried forward.

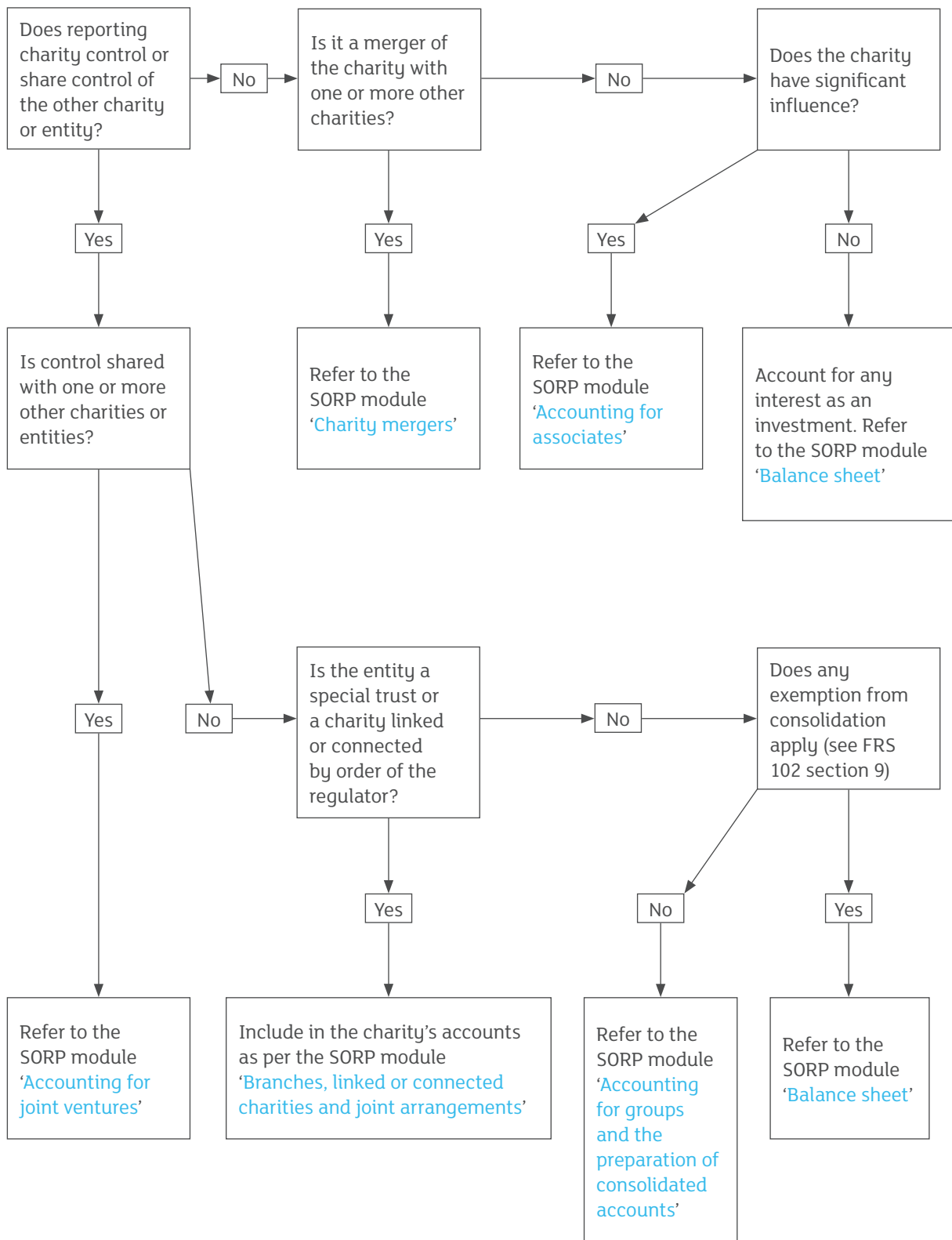
22.12. An example of how the analysis of fund movements for an investment pooling scheme or arrangement may be presented as set out in Table 17.

Selection 4: Accounting for branches, charity groups and combinations

23. Overview of charity combinations

- 23.1. Charities may operate through branches or group structures or share resources, knowledge or service arrangements by working with other charities or non-charity entities to further shared objectives by establishing joint arrangements, activities and operations.
- 23.2. The accounting to be followed for the combination or joint venture depends on the substance of the arrangement and what form it takes, the nature and level of control exercised and whether that control is exercised over the other entity. Depending on the nature of the arrangement, the charity must refer to:
- the SORP module '[Charity mergers](#)';
 - the SORP module '[Accounting for associates](#)';
 - the SORP module '[Balance sheet](#)';
 - the SORP module '[Accounting for joint ventures](#)';
 - the SORP module '[Branches, linked or connected charities and joint arrangements](#)'; or
 - the SORP module '[Accounting for groups and the preparation of consolidated accounts](#)'.
- 23.3. If the reporting charity is itself a subsidiary, it must refer to the SORP module '[Charities as subsidiaries](#)'.
- 23.4. Related party transactions between a parent charity and its subsidiaries, associates and joint ventures must be disclosed. Similarly, in those circumstances where charities have trustees in common, consideration should be given as to whether the circumstances are such that related party disclosures are required. Refer to the SORP module '[Disclosure of trustee and staff remuneration, related party and other transactions](#)'.
- 23.5. Figure 2 provides a guide to which module to refer to when deciding on the accounting for a charity combination.

Figure 2: Guide to accounting for charity combinations



24. Accounting for groups and the preparation of consolidated accounts

Introduction

- 24.1. All charities preparing consolidated accounts, whether as a requirement of company or charity law or on a voluntary basis, must follow this module. Charities should refer to section 9 of FRS 102 for more information.
- 24.2. Consolidated accounts are prepared by a parent charity and include all of the resources controlled by the parent charity. A parent charity is a charity that has one or more charitable or non-charitable subsidiaries (subsidiary entities).
- 24.3. Where consolidated accounts are prepared, the accounting disclosures required of the charity by other applicable modules are extended to the group accounts (unless otherwise stated).
- 24.4. This module sets out:
- the legal requirements to prepare consolidated accounts;
 - what are consolidated accounts?;
 - how control is identified;
 - the consolidation procedures and accounting for non-controlling (minority interests);
 - accounting for charity combinations;
 - accounting for the acquisition and disposal of non-charitable subsidiaries; and
 - disclosures required where consolidated accounts are prepared.

The legal requirements to prepare consolidated accounts

- 24.5. A parent charity must prepare consolidated accounts to include all of its subsidiary entities where the accounts' preparation is a requirement of:
- company law;
 - charity law in the relevant legal jurisdiction(s); or
 - any other statutory or mandatory framework applicable to the charity.
- 24.6. Details of the thresholds at which the preparation of consolidated accounts is mandatory are set out in Appendix 3, 'Thresholds for the UK and the Republic of Ireland'.

What are consolidated accounts?

- 24.7. Consolidated accounts, which are also known as group accounts, combine the activities, assets and liabilities of the reporting charity with those of the subsidiaries it controls. Consolidated accounts include the activities and funds of any subsidiary charity that is controlled by a parent charity as its trustee.
- 24.8. Consolidated accounts present the financial performance and financial position of the accounting group as though it were a single economic entity with a unity of trusteeship.

Accounting and Reporting by Charities

- 24.9. Consolidated accounts must include any associates or joint venture entities in which the parent charity has an interest. Refer to the separate SORP modules '[Accounting for associates](#)' and '[Accounting for joint ventures](#)' for more information.
- 24.10. The headings used in the accounting statements must state that they present the 'consolidated statement of financial activities' and 'consolidated balance sheet' of the parent charity and its subsidiaries, and the 'consolidated statement of cash flows'.
- 24.11. Consolidated accounts must also include any special purpose entity that is controlled by a parent charity and created to undertake an activity for the benefit of the parent charity. For more information about what constitutes a special purpose entity and the criteria for its consolidation, refer to section 9 of FRS 102.
- 24.12. A subsidiary is not excluded from consolidation because its activities are dissimilar to those of the parent charity or other entities within the consolidation. Nor is a subsidiary excluded from consolidation because it operates in a jurisdiction that imposes restrictions on transferring cash or other assets out of that jurisdiction provided it is able to control and manage those assets within that jurisdiction to further its charitable purposes. If immaterial subsidiaries, associates or joint ventures are excluded from the consolidated accounts, these are treated as investments and are reported at cost or fair value as appropriate. For more information, refer to the SORP modules '[Balance sheet](#)', '[Accounting for associates](#)' or '[Accounting for joint ventures](#)'.
- 24.13. A subsidiary must be excluded from consolidation where:
- severe long-term restrictions substantially hinder the exercise of the rights of the parent over the assets or management of the subsidiary; a charitable subsidiary must only be excluded when both its charitable objects and its beneficiary class are not concurrent with that of its parent; or
 - the subsidiary is held exclusively with a view to its subsequent resale and the subsidiary has not been previously consolidated by the charity.
- 24.13A. A subsidiary may be excluded from consolidation when its inclusion is not material for the purpose of giving a true and fair view (but two or more subsidiaries must only be excluded if they are not material when taken together).

How control is identified

- 24.14. A parent charity consolidates the subsidiaries it controls. 'Control' is the power to govern the financial and operating policies of an entity in order to obtain benefits from its activities.
- 24.15. Control is made up of two elements: power and benefit. The underlying principle is that the parent charity exercises control to obtain benefit from its interest in the subsidiary. The parent charity is deemed to exercise control over a subsidiary if it has both the power to govern and the ability to benefit.

- 24.16. The power element is presumed to exist when the parent charity owns, directly or indirectly through its subsidiaries, more than half the voting power of an entity. However, control can also exist when the parent charity directly or indirectly controls half or less than half of the voting power of an entity, if it has:
- power over more than half of the voting rights by virtue of agreement with other investors;
 - the power to govern the financial and operating policies of the entity under a statute or an agreement;
 - the power to appoint or remove the majority of the members of the board of directors or equivalent governing body, and control of the entity is by that board or body; or
 - the power to cast the majority of votes at the meetings of the board of directors or equivalent governing body, and control of the entity is by that board or body.
- 24.17. The nature of the control a parent charity exercises differs in its character between non-charitable subsidiaries and controlled charities. Where a charity exercises control as an owner or investor in a non-charitable subsidiary, it does so to benefit from the cash flows and the financial return from that investment.
- 24.18. The parent charity can exercise control through trusteeship, which gives a parent charity the ability to govern the financial and operating policies of the subsidiary charity. The consolidated accounts show the total funds under the trusteeship of the parent charity.
- 24.19. The power element of control of one charity by another can be identified through:
- sole trusteeship;
 - powers to appoint and/or remove a majority of the trustees;
 - the terms of a formal agreement or arrangement; or
 - the provisions of a clause in the governing document or a legislative provision.
- 24.20. Having trustees in common does not in itself demonstrate that the power element is present. Also, simply being the sole or main funder of another charity or entity is insufficient to demonstrate that the power element is present. While the funding of one charity by another indicates a degree of concurrence of purposes, for control to exist the power element must be present.
- 24.21. The benefit element of control is met where the purposes of the parent charity and its subsidiary charity are concurrent. The purposes of the parent charity do not have to be identical to those of its charitable subsidiary, nor do they need to encompass all the purposes of the charitable subsidiary. For concurrence, the purposes of the parent charity have to be similar enough to those of the subsidiary that the activities of the subsidiary can be seen to contribute to the purposes and aims of the parent charity and to benefit the parent charity's beneficiaries.

- 24.22. When considering whether the purposes are concurrent, judgement is required. The charity should consider whether the preparation of consolidated accounts will give a true and fair view of the nature of control it can exercise and its ability to benefit from its interest as the trustee of another charity.
- 24.23. The parent charity might benefit where the services and benefits provided by the subsidiary charity to its own beneficiaries also contribute to the purposes of the parent charity. The funds of the subsidiary charity are restricted to its own purposes and, unless the parent and subsidiary charity have identical purposes, the subsidiary will be a separate component of the group's reported restricted funds. The reporting of a restriction over the use of a subsidiary charity's funds is important for the understanding of the consolidated accounts and of how funds held by charitable subsidiaries may be used. For example, the funds of a subsidiary charity are not normally available to the creditors of the parent charity in the event of the latter's insolvency.

Consolidation procedures and accounting for non-controlling interests (minority interests)

- 24.24. For guidance on how to apply the consolidation procedures, charities should refer to section 9 of FRS 102. In particular, a parent charity must ensure that:
- the consolidation is undertaken on a line-by-line basis;
 - balances and transactions between the parent and the subsidiary are eliminated;
 - the accounts of the parent and its subsidiaries have, if practicable, the same reporting date; and
 - uniform group-accounting policies are adopted for transactions and other events or conditions in similar circumstances.
- 24.25. Transactions between a parent and subsidiary charity are eliminated on consolidation. In the consolidated balance sheet, the charitable funds of the parent charity and the subsidiary charity must not be consolidated on a line-by-line basis; instead, the subsidiary charity's funds should be shown as a component of restricted funds – unless the subsidiary and parent have identical purposes. Where the purposes are identical, the unrestricted funds of the subsidiary are a component of the unrestricted funds of the group.
- 24.26. In some cases, a parent charity may not own the entire equity of a subsidiary. In this case, a non-controlling interest (minority interest) must be recognised. A non-controlling interest exists where a third party has a right to dividends or the distribution of resources, a claim on the net assets of the subsidiary through the holding of equity or significant influence through its voting power.
- 24.27. Where a non-controlling interest exists, it is important to consider the substance of the interest as well as legal form. For example, a subsidiary may be established to assist a charity to further its aims with supporters of the charity subscribing to the share capital. If the non-controlling interest enters into an agreement to waive their right to a share of the net assets in the event of the subsidiary being wound up and to receiving any dividends, then the parent charity enjoys all the economic benefits of the subsidiary and the non-controlling interest should not be recognised.

- 24.28. Where a non-controlling interest in a non-charitable subsidiary is recognised, the parent charity must:
- present in its consolidated balance sheet the non-controlling interest in the net assets of the consolidated subsidiaries separately from the parent charity's interest in them;
 - separately present the non-controlling interest share of net income (or net expenditure) in the income or expenditure section of the consolidated SoFA; and
 - present separately the non-controlling interest's share of any net gain or loss reported within the 'other recognised gains and losses' section of the consolidated SoFA.
- 24.29. In the case of a non-controlling interest in a subsidiary charity, the measurement of the non-controlling interest should consider the substance of the arrangement and the extent to which, if at all, the non-controlling interest benefits from its interest.

Accounting for charity combinations

- 24.30. Charities may on occasion combine into one reporting entity or operate through a restructured group. To establish whether the combination meets the definition and criteria of a merger, reference must be made to the SORP module 'Charity mergers'. Combinations that are not mergers may also take place between charities whereby assets and liabilities of one charity are transferred into the control of another charity at nil or nominal consideration and are in substance a gift. If the fair value of the assets received exceeds the fair value of the liabilities assumed, a gain is recognised and shown separately within income – normally as a gift (donation). Conversely, if the fair value of liabilities assumed exceed the fair value of the assets acquired then a net loss is recognised and shown separately in charitable expenditure. If the combination is neither in substance a gift nor a merger, it must be accounted for as an acquisition with any negative goodwill written off in the reporting period of acquisition.

Accounting for the acquisition and disposal of non-charitable subsidiaries

- 24.31. The income and expenditure of a subsidiary are included in the consolidated accounts from the date of the acquisition. The income and expenditure of a subsidiary are similarly included in the consolidated accounts until the date on which the parent charity ceases to control the subsidiary.
- 24.32. Where the parent charity purchases a non-charitable subsidiary and the consideration paid exceeds the value of the net assets acquired, goodwill arises on acquisition and is disclosed in the consolidated balance sheet. 'Goodwill' is an intangible fixed asset arising on the acquisition of a subsidiary purchased by the reporting charity. If, in exceptional cases, the useful economic life for goodwill cannot be estimated reliably, it is presumed to be ten years. Goodwill must be amortised and reviewed for impairment at each balance-sheet date.
- 24.33. However, in the case of a combination which is in substance a gift to the parent charity (where the consideration paid is nil or a nominal amount and is less than the net assets acquired) the parent charity has made a gain. The parent charity should recognise that gain as 'other income' in the consolidated SoFA, rather than treat it as negative goodwill on consolidation. In all other cases, where a parent charity acquires a subsidiary for consideration that is less than the value of the assets acquired, negative goodwill arises on the acquisition. Negative goodwill is disclosed separately on the consolidated balance sheet

and released to income as the acquired non-monetary assets are depreciated or recovered through sale. Any negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised as income in the periods expected to benefit.

24.34. On the disposal of a controlling interest in a subsidiary, the reporting charity recognises a gain or loss on disposal in the appropriate line of the consolidated SoFA. If the reporting charity retains an equity interest in the former subsidiary, it must determine whether the retained interest represents an investment, an associate or a joint venture entity and account for it accordingly.

Intangible assets acquired in the acquisition of non-charitable subsidiaries

24.34A. An intangible asset is recognised as an asset if, and only if:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost or value of the asset can be measured reliably.

24.34B. Where a parent charity acquires a non-charitable subsidiary and acquires intangible assets, these assets must be recognised separately from goodwill when:

- the recognition criteria set out in paragraph 24.34A are met entirely;
- the intangible asset arises from contractual or other legal rights; and
- the intangible asset is separable (i.e. capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged either individually or together with a related contract, asset or liability).

24.34C. A charity may additionally choose to recognise any or all intangible assets separately from goodwill when the recognition criteria set out in paragraph 24.4A are met, and when either of the following conditions are satisfied:

- the intangible asset arises from contractual or other legal rights; or
- the intangible asset is separable.

24.34D. Where a charity chooses to recognise such additional intangible assets, this policy must be applied to all intangible assets in the same class (i.e. having a similar nature, function or use in the charity), and must be applied consistently to all non-charitable subsidiaries acquired. The charity must also disclose the nature of those intangible assets and the reason why they have been separated from goodwill. For more information refer to section 18 *Intangible Assets other than Goodwill* of FRS 102.

Disclosures required where consolidated accounts are prepared

24.35. The following disclosures must be made in the group's accounting policies note when consolidated accounts are prepared:

- a statement that the accounts are consolidated;
- the basis for concluding that control exists when the parent charity does not own, directly or indirectly through subsidiaries, more than half of the voting power;
- any difference in the reporting date of the accounts of the reporting charity parent and its subsidiaries in the preparation of the consolidated accounts;

- the nature and extent of any significant restrictions on the ability of subsidiaries to transfer funds to the parent charity in the form of cash dividends or to repay loans;
- the value of any non-controlling interest as a separate item, after the 'Funds of the charity' heading, on the balance sheet;
- the name of any subsidiary excluded from consolidation, and the reason for its exclusion; and
- the nature and extent of any interests in unconsolidated special purpose entities, and the risks associated with those interests.

24.36. This SORP requires that consolidated accounts must disclose, in relation to each material subsidiary:

- its name(s), company number and, where applicable, its charity registration number;
- particulars including the percentage of the parent charity's equity shareholding or other means of control;
- the aggregate amount of its assets, liabilities and funds at the end of the reporting period; and
- a summary of its turnover (or gross income) and expenditure and its profit or loss (or surplus or deficit) for the reporting period;

24.37. If a charity has a large number of subsidiary undertakings, the SORP allows a charity to limit the information to those subsidiary undertakings the results or financial position of which have a material effect on the amounts shown in the consolidated accounts.

24.38. A charity purchasing a controlling interest in non-charitable subsidiaries for consideration must make the disclosures required by FRS 102 paragraphs 19.26 and 19.26A.

24.39. Where the reporting charity acquires a material subsidiary in the reporting period, it must disclose:

- the date of acquisition;
- the cost of acquisition and how it was settled, for example by cash or debt instrument;
- the useful life of goodwill, and if this cannot be reliably estimated, supporting reasons for this;
- the periods in which any negative goodwill will be recognised;
- the amounts recognised for each class of assets, liabilities and contingent liabilities at acquisition; and
- a qualitative description of the nature of intangible assets included in goodwill.

25. Branches, linked or connected charities and joint arrangements

Introduction

- 25.1. All charities that operate through branches must apply this module. This module also applies to charities when accounting for:
- special trusts and any other non-corporate entities which are administered by, or on behalf of, the reporting charity and whose funds are held for specific purposes which are within the general purposes of the reporting charity;
 - charities linked by the Charity Commission (England and Wales);
 - charities that are connected (Scotland); and
 - joint venture arrangements involving shared assets or shared operations that do not involve a separate joint venture entity being established.
- 25.2. FRS 102 does not deal with accounting for branches, special trusts, linked or connected charities, and shared operations or assets. This module therefore reflects current accounting practice and the requirements of charity law which charities adopting this SORP must follow.
- 25.3. This module sets out:
- what is meant by the term 'branch'?
 - accounting for branches;
 - when to apply branch accounting to other arrangements;
 - branch accounting for special trusts (England and Wales) and similar arrangements;
 - branch accounting for linked charities (England and Wales);
 - branch accounting for connected charities (Scotland); and
 - accounting for joint arrangements involving other charities.

What is meant by the term 'branch'?

- 25.4. The term 'branch' is used in this SORP to describe a charity's administrative arrangements whereby its internal operating structure is arranged according to function, location or other factor designed to facilitate its administration.
- 25.5. Branches may include supporters' groups, members' groups, and offices in different countries, communities or parishes that are part of a charity. Branches are commonly used to organise fundraising, to represent the charity in a locality or to carry out the charity's work in a locality.

25.6. The indicators of a branch include the following:

- It uses the name of the reporting charity in its title.
- It raises funds exclusively for the reporting charity and/or its local activities.
- It uses the reporting charity's registration number on its letterheads, publicity and website.
- It uses the reporting charity's registration number to receive tax relief on its activities.
- It represents itself to the public as the reporting charity's local representative or its representative for a particular purpose.
- It receives support from the reporting charity through advice, publicity materials, fundraising, etc.

25.7. Excluded from the SORP definition of branches are:

- charities that are incorporated and have a legal personality separate from their directors/trustees and members, for example charities incorporated under the Companies Act, Industrial and Provident Societies, Charitable Incorporated Organisation or companies established by statute or Royal Charter;
- groups of people who gather together to raise funds for a charity or a number of different charities; and
- special-interest groups that are affiliated to a particular charity but do not themselves undertake charitable or fundraising activities for the charity.

25.8. All the funds held by the branch will be the legal property of the reporting charity or under the direct control and management of the trustees of the reporting charity. This is the case whether or not a branch has a separate bank account.

Accounting for branches

25.9. A branch is an internal structure adopted by a charity to undertake its activities. All transactions undertaken through a branch must be accounted for gross in the reporting charity's own accounts. Similarly, the reporting charity's balance sheet must include all assets and liabilities of the branch when in aggregate these amounts are material. For example, the branch may hold funds at the reporting date that have been raised but not yet remitted to the head office of the reporting charity. When material, these funds must be included in the accounts of the reporting charity.

25.10. Funds raised by a branch for the general purposes of the charity will be accounted for by the reporting charity as unrestricted funds. Funds raised by a branch for specific purposes are accounted for as restricted funds of the charity.

25.11. Any branch accounts form part of the results reported in the accounts of the reporting charity. Individual memorandum branch accounts may be prepared covering only each branch in order to provide information for the benefit of local supporters and beneficiaries.

When to apply branch accounting to other arrangements

- 25.12. Branch accounting should also be adopted for those other arrangements that are not subsidiaries, associates or joint venture entities. Branch accounting should be adopted for:
- special trusts (in England and Wales) and similar arrangements;
 - charities linked by the Charity Commission (England and Wales);
 - charities that are connected (Scotland); and
 - joint venture arrangements that do not involve a joint venture entity being established.

Branch accounting for special trusts (England and Wales) and similar arrangements

- 25.13. If a separate legal entity, which is not an incorporated charity, is administered by, or on behalf of, the reporting charity and its funds are held for specific purposes which are within the general purposes of the reporting charity, that entity may form part of the reporting charity for accounting purposes.
- 25.14. In England and Wales such arrangements will usually fall within the definition of a special trust set out in section 287 of the Charities Act 2011: 'property which is held and administered by or on behalf of a charity for any special purposes of the charity, and is so held and administered on separate trusts relating only to that property'.
- 25.15. A special trust may be a separate endowment fund, a restricted fund, for example a prize fund, or a specific piece of land or an item of property. A special trust can be a separate non-company charity, but where this is the case it is usually listed as a component of the register entry for the reporting charity itself.
- 25.16. A special trust is not a separate reporting entity in charity law for the purposes of preparing and filing of a trustees' annual report and accounts. Instead, it is accounted for as a restricted fund in the accounts of the charity that is acting as trustee of the special trust.
- 25.17. A special trust is accounted for in a similar manner to a branch, but the accounts should separately identify the special trust(s) as a component of restricted funds.

Branch accounting for linked charities (England and Wales)

- 25.18. In England and Wales, the Charity Commission can link two or more charities using a direction made under section 12 of the Charities Act 2011. The effect is to link two or more charities for registration and accounting purposes, with the aim of simplifying the reporting arrangements. Linking can apply where the charities either have trustees in common or the charities have common purposes and are interdependent.

- 25.19. Branch accounting should be adopted for all linked charities that are not companies established under company law. If one or more of the linked charities is a company, company law requires that each prepares its own entity accounts. Consolidated accounts must be prepared by the parent charity if the combined income of the reporting charity and linked subsidiary-company charities exceeds the applicable threshold (see [Appendix 3, 'Thresholds for the UK and the Republic of Ireland'](#)) or they have been linked for reporting purposes in which case a linked charitable company is treated as a subsidiary. Refer to the SORP module '[Accounting for groups and the preparation of consolidated accounts](#)'.
- 25.20. Accounts prepared for linked charities on a branch basis combine (or aggregate) the funds held by each linked charity. However, the funds of each linked charity must be separately identifiable as they are not merged together. Each charity retains its own charitable purpose. The separate charities are reported in a manner that is similar to the presentation of restricted funds (refer to the SORP module 'Fund accounting' for the disclosures required for restricted funds).
- 25.21. Linked charities should be presented in the combined accounts by:
- including a separate column or columns in the statement of financial activities (SoFA) and the balance sheet for each linked charity; or
 - providing an analysis in the notes to the accounts differentiating the activities and funds held by each linked charity, including any restricted funds.

[Branch accounting for connected charities \(Scotland\)](#)

- 25.22. In Scotland, two or more charities can be connected under Regulation 7 of the Charities Accounts (Scotland) Regulations 2006 (as amended). Connected charities are those charities that have common or related charitable purposes or those that have common control or unity of administration. The connected charities may prepare a single set of accounts.
- 25.23. Where connected charities prepare a single set of accounts, they must include all of the information for each charity that would be required if each charity produced individual accounts. This may be achieved, for example, by including a separate column or columns in the SoFA and balance sheet.

[Accounting for joint arrangements involving other charities](#)

- 25.24. Joint arrangements can take many forms, and charities must consider the substance of the arrangement. Charities should make reference to any agreements to identify the charity's share of the income and expenditure, and assets and liabilities relating to the joint arrangement.
- 25.25. A joint venture is a specific form of joint arrangement. A joint venture is established by contractual agreement whereby two or more parties (the venturers) undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over an economic activity. It exists only where the strategic financial and operating decisions relating to the activity require the unanimous consent of all of the parties sharing control.

25.26. Where the joint venture is one of jointly controlled operations or jointly controlled assets, each venturer includes in its accounts its own charity's share of the income and expenditure and assets and liabilities relating to the joint venture activity. Where appropriate, the joint venture should be reported as a separate activity in the SoFA and notes to the accounts. However, if a joint venture entity is established, refer to the SORP module '[Accounting for joint ventures](#)' for the accounting treatment to follow.

26. Charities as subsidiaries

Introduction

- 26.1. On occasion, a company or other incorporated body may act as a charity's corporate trustee, or a charity's trustees may be appointed by another entity. In these circumstances, the charity can be viewed for accounting purposes as a subsidiary because it is being 'controlled' by another entity through the trusteeship arrangements. This module applies to charities that are treated as a subsidiary in the accounts of another entity.
- 26.2. A subsidiary is an entity that is controlled by a parent entity. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Although a charity is controlled and managed by its trustees, it can be a subsidiary for accounting purposes when the criteria for control are met.
- 26.3. A charity that is a subsidiary, for accounting purposes, of another charity or other entity, must make the disclosures required by this module in its own accounts.
- 26.4. Charities should refer to section 33 of FRS 102 for more information.

Disclosure requirements

- 26.5. A charity that is a subsidiary must disclose in a note to its own accounts the name of its parent entity.
- 26.6. This SORP also requires that a subsidiary must also disclose:
- the country of incorporation of its parent entity, if it is outside the UK or the Republic of Ireland;
 - if unincorporated, the address of its parent's place of business;
 - if the parent is a charity, its charity registration number and, if applicable, its company registration number in the jurisdiction of its registration;
 - the parent's principal purposes and activities;
 - how control can be exercised by the parent, for example through corporate trusteeship or through a power to appoint or remove the majority of trustees; and
 - the address from which the public can obtain the consolidated accounts that include the subsidiary charity's accounts.
- 26.7. Where for accounting purposes the parent entity is itself a subsidiary of another entity, this SORP requires that the notes to the accounts must disclose the same information about the subsidiary charity's ultimate parent entity.
- 26.8. Charities must also make the applicable disclosures set out in the SORP module '[Disclosure of trustee and staff remuneration, related party and other transactions](#)'.

27. Charity mergers

Introduction

- 27.1. A charity merger involves two or more charities coming together in partnership for the mutual sharing of risks and benefits, usually through the creation of a new charity. No party obtains control over any other, or is otherwise seen to be dominant.
- 27.2. This module applies to charities that have combined and meet the criteria for merger accounting. Charities should refer to sections 19 and 34 of FRS 102.
- 27.3. 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](#); and
 - [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.
- 27.4A. Due to changes in UK company law, charities that are UK registered companies and enter into a business combination with a third party will no longer be able to apply merger accounting to that combination. Unincorporated charities, charitable incorporated organisations and non-UK registered companies will continue to be able to apply merger accounting if they meet the criteria set out in FRS 102 and this SORP and merger accounting is not prohibited by other relevant legislation. The joint SORP-making body will issue an information sheet to confirm the position for Irish charitable companies. If a charitable company is considering a true and fair override in order to use merger accounting it is encouraged to read Appendix III *Note on Legal Requirements* of FRS 102 and if adopting merger accounting to provide the corresponding disclosures.

- 27.5. When charities merge, their purposes must be concurrent and 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 merging accounting.
- 27.6. No significant change to classes of beneficiaries or the purpose of the benefits provided is construed as meaning that there has been no major change. A limited widening of beneficiary class or purposes does not in itself preclude the use of merger accounting.
- 27.7. If the combination does not meet all of the above criteria, then it must be treated as an acquisition (see the SORP module '[Accounting for groups and the preparation of consolidated accounts](#)').

Accounting for mergers

- 27.8. 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.
- 27.9. 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 '[Fund accounting](#)' for more information on the classification of funds.
- 27.10. 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.
- 27.11. The carrying amount of assets and liabilities of the combining charities are not restated to fair value, although adjustments must be made to ensure uniformity of accounting policies.

Accounting for charity reconstructions as mergers

- 27.12. In some cases, a charity may change its legal form but its purposes and beneficiary class remain unchanged. 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.

27.13. 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; and
- no non-controlling interest in the net assets of the charity is altered by the transfer.

Disclosures relating to mergers

27.14. 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; and
 - 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 accounts 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; and
- 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).

27.15. 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; and
- the date of the merger.

27.16. Tables 18 to 20 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 20 should be adapted accordingly.

Table 18: 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 19: 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 20: 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			

28. Accounting for associates

Introduction

- 28.1. Charities with an interest in an associate entity must comply with the requirements of this module. If a charity has a long-term participating interest in another entity and exercises significant influence over its operating and financial policies, then that entity is likely to be an associate. Charities should refer to section 14 of FRS 102.
- 28.2. This module sets out:
- [how to identify an associate;](#)
 - [accounting for an interest in an associate;](#)
 - [presentation of associates in the accounts; and](#)
 - [disclosures of interests in associates.](#)

How to identify an associate

- 28.3. An associate is an entity over which the investing charity has significant influence, but it is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the associate but is not control or joint control over those policies.
- 28.4. A charity is presumed to have an interest in an associate if, as the investing charity, it holds directly or indirectly 20 per cent or more of the voting power of the associate – unless it can be clearly demonstrated that significant influence does not exist.
- 28.5. Where the charity has an interest in an entity but holds, directly or indirectly, less than 20 per cent of the voting power of that entity, it is presumed that no significant influence exists, unless such influence can be clearly demonstrated.
- 28.6. An investing charity exercises significant influence over an associate if it actively influences the associate's policy decisions so as to benefit. For example, when the associate is a commercial investment, the investing charity might exercise influence over the associate's dividend and reinvestment policies. When the associate is another charity or a programme related investment, the investing charity might exercise influence over the associate to ensure that its activities or objectives contribute to its own.
- 28.7. Charities may nominate a trustee or trustees or make them available to other charities in order to provide those charities with expertise or to give them access to particular skills. Some funders and grant-making charities combine financial assistance with the provision of advice, or they may be invited by the recipient of the funding to provide or nominate a trustee or trustees with particular skills. Where the recipient charity operates with a small trustee body, this might qualify as creating an associate.
- 28.8. An associate is created if the nomination or appointment power is used in conjunction with a formal or informal agreement to exercise significant influence through direct involvement in setting the funding recipient charity's financial and operating policies. However, the power to make a trustee appointment that is simply used to provide advice or expertise to the recipient charity, while allowing the recipient charity to adopt its own policies and strategies, does not create an associate relationship.

Accounting for an interest in an associate

- 28.9. The accounting treatment of an associate depends on whether or not the investing charity prepares consolidated accounts. If a charity does not prepare consolidated accounts then in its individual accounts it must include the interest in its associate at its cost less impairment (the cost model) or, if the fair value of the charity's interest can be measured reliably, it may opt to measure its interest at fair value with any gain or loss taken through income and expenditure.
- 28.10. However, when consolidated accounts are prepared, the charity must use the equity method of accounting to measure its interest in the associate.
- 28.11. The equity method of accounting requires the associate to be initially recognised at its cost (the transaction price paid), including any cost incurred making the investment (transaction costs). The initial cost equates to the fair value of net assets acquired, plus any goodwill. For more information on the equity method, refer to section 14 of FRS 102.
- 28.12. If the interest in the associate is achieved through the power to appoint trustees to a charity, the interest should be initially recognised at the fair value of the investing charity's share of the associate's net assets on appointment of the trustees. If no consideration is involved, the interest in the associate established through trusteeship is accounted for as though it were a gift, and recognised as a gain under the 'Income from donations and legacies' heading in the statement of financial activities (SoFA).
- 28.13. The investing charity's share of the associate's net assets is determined by its ownership interest in the associate. If the associate is a charity, then reference should be made to any formal agreement to identify a basis for measuring the interest or share in the associate. The rebuttable presumption, in the absence of any information to the contrary, is that the interest in the associate is measured by reference to the proportion of the voting rights held by the parent based on voting rights attaching to that interest as set out in the associate charity's governing document.
- 28.14. Using the equity method, the carrying amount of an investment in an associate is subsequently adjusted through the SoFA to reflect the investing charity's share of the associate's results. The carrying amount thereby reflects the investor's share of the post-acquisition change in the net assets of the associate.

Presentation of associates in the accounts

- 28.15. An investment in an associate must be classified as a fixed asset investment and separately identified either on the investing charity's balance sheet or in its notes to the accounts analysing the classes of fixed asset investments it holds.
- 28.16. If the associate is a charity, the investment should be presented within restricted funds, as the purposes of the associate are likely to be distinct from those of the investing charity. The investment should be shown as a programme related investment.
- 28.17. When consolidated accounts are prepared, the investing charity's share of the associate's results should be presented as a separate line in the consolidated SoFA, under either 'Income', if a gain, or 'Expenditure', if a loss.

Disclosures of interests in associates

28.18. All charities with an investment in an associate must disclose:

- the accounting policy adopted for investments in associates;
- the carrying amount of investments in associates;
- where the charity is not a parent, the effect of including those investments as if they had been accounted for using the equity method;
- this SORP also requires for each material associate that is a charity, an analysis of the investing charity's share of the income and expenditure of the associate, analysed across the main areas of the associate's activities; and
- this SORP requires the disclosure of the name of the associate(s).

28.19. If preparing entity accounts using the cost model, the trustees must also disclose the amount of dividends and other distributions recognised as income.

28.20. Charities reporting under FRS 102 must also disclose the following:

- For investments in associates accounted for by the equity method, an investor must disclose separately its share of the profit and loss (incoming resources/resources expended) of such associates and its share of any discontinued operations of such associates, and the fair value of investments in associates for which there are published price quotations.
- For investments in associates accounted for by the fair value method, an investor must make the following disclosures:
 - the basis for determining fair value, for example the quoted market price in an active market or a valuation technique;
 - when a valuation technique is used, the assumptions applied in determining fair value for each associate; and
 - if a reliable measure of fair value is no longer available for an associate, the charity must disclose that fact.

29. Accounting for joint ventures

Introduction

- 29.1. Charities may collaborate with other charities or entities in a number of ways. This module applies to charities that collaborate with other charities or entities through various types of joint venture activity and sets out the accounting treatment for joint venture entities. Charities should refer to section 15 of FRS 102.
- 29.2. A joint venture entity is a jointly controlled entity in which each party (venturer) has an interest. The other venturers may be charities, social enterprises or for-profit companies or other entities.
- 29.3. A unique feature of a joint venture entity is a contractual agreement between the parties that share control of the entity.
- 29.4. The contractual agreement between the venturers establishes joint control over the economic activity of the entity. Joint control exists only where the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control.
- 29.5. This module sets out:
- the different forms of joint venture activity;
 - method for the identification of respective interests in joint venture charities;
 - accounting for joint venture charities;
 - accounting for joint ventures involving non-charitable entities;
 - presentation of joint ventures involving non-charitable entities in the consolidated accounts; and
 - disclosures relating to joint ventures.

The different forms of joint venture activity

- 29.6. There are three forms of joint venture activity:
- jointly controlled operations where each venturer uses its own assets, incurs its own expenses and liabilities, raises its own finance and shares the income from the joint venture in a way that is agreed with the other venturers;
 - jointly controlled assets acquired for the joint venture with the assets, liabilities, income, expenses and income of the joint venture shared between the venturers; or
 - jointly controlled entities where a separate legal entity, for example a company, is established in which each venturer has an interest with a contractual agreement in place and joint control exercised.
- 29.7. This module deals with joint venture activities that are carried out through a separate jointly controlled entity.

29.8. Where charities undertake joint venture activities through jointly controlled operations or through using jointly controlled assets, each charity's gross share of the incoming resources and resources expended and the assets and liabilities should be included in the participating charities' own accounts in accordance with the SORP module '[Branches, linked or connected charities and joint arrangements](#)'.

Method for the identification of respective interests in joint venture charities

29.9. Each venturer exercises its right to shared control through an agreement with the other parties to the joint venture. On occasion, the joint venture entity will be established to undertake an activity that furthers the charitable purposes of the investing charities, for example to carry out a joint project. When the joint venture entity is itself a charity, control may be exercised through the appointment of trustees rather than through an equity share. In the absence of equity, judgement is required in order to identify the respective interests of each charity in the joint venture entity.

29.10. In order to identify the respective interests of each venturer, reference should be made to the evidence provided by:

- the joint venture agreement or contract;
- the governing document or any legislative provision, including the provisions that apply upon winding up or ceasing the joint venture;
- the respective voting power of the venturers;
- the pattern of distribution of benefits from the joint venture charity between the venturers; and
- the value of the funding provided by each venturer in support of the activities undertaken by the joint venture; or
- in the absence of any evidence to the contrary, the net assets and results should be attributed equally between the venturers.

Accounting for joint venture charities

29.11. An interest in a joint venture charity is normally treated as a restricted fund in the accounts of the reporting charity.

29.12. In a charity's own entity accounts, a joint venture charity should be included in its accounts as a programme related investment at cost (the value of any funds transferred at the inception of the joint venture entity) less impairment (the cost model) or, if the fair value of the charity's interest can be measured reliably, the charity may opt to measure its interest at fair value.

29.13. If consolidated accounts are prepared, the equity method of accounting must be used. The venturer's share of the net income or net expenditure in a joint venture charity is recognised as a separate line in the statement of financial activities (SoFA), under either 'Income', if a gain, or 'Expenditure', if a loss. On the balance sheet, the net carrying amount should be shown under 'Programme related investments', where the interest is held primarily to further the purposes of the investing charity, and is normally treated as a component of restricted funds.

Accounting for joint ventures involving non-charitable entities

- 29.14. Charities may also enter into a joint venture as a commercial activity to raise funds. The accounting treatment of a non-charitable joint venture entity depends on whether the investing charity prepares consolidated accounts or entity accounts.
- 29.15. In a charity's own entity accounts, a joint venture entity must be included in its accounts at cost less impairment (the cost model) or, if the fair value of the charity's interest can be measured reliably, the charity may opt to measure its interest at fair value with any gain or loss taken through income and expenditure.
- 29.16. When consolidated accounts are prepared, the charity must use the equity method of accounting in its consolidated accounts to measure its interest in the joint venture.

Presentation of joint ventures involving non-charitable entities in consolidated accounts

- 29.17. The equity method requires the interest in a joint venture to be initially recognised at its cost (the transaction price including any transaction costs). The initial cost recognised therefore equates to the value of net assets acquired, plus any goodwill. The carrying amount is then adjusted for the post-acquisition change in the investor's share of net assets in the joint venture entity. The carrying amount of an investment in the joint venture is subsequently adjusted through the SoFA to reflect the investing charity's share of the associate's results.
- 29.18. The equity method requires the net share of profit or loss to be shown as a separate line in the consolidated SoFA either as a gain under 'Income' or as a loss under 'Expenditure'. The share of net assets in the joint venture is shown as a separate line in 'Fixed assets' on the balance sheet as a sub-class of investments, with any distributions or dividends received reflected in a reduction to the carrying amount of the joint venture.

Disclosures relating to joint ventures

- 29.19. All charities with an investment in a joint venture entity must disclose:
- the accounting policy adopted for investments in joint ventures;
 - the carrying amount of investments in jointly controlled entities;
 - the aggregate amount of its commitments relating to each joint venture, including its share in the capital commitments that have been incurred jointly with other venturers, as well as its share of the capital commitments of the joint venture itself;
 - the fair value of investments in non-charitable joint ventures accounted for using the equity method for which there are published price quotations;
 - where the charity is not a parent, the effect of including those investments as if they had been accounted for using the equity method;

- for each material joint venture charity, this SORP requires that the investing charity's share of the income and expenditure of the joint venture charity analysed across the main areas of the joint venture charity's activities; and
- for each material joint venture charity the investing charity's share of the assets and liabilities and funds of the joint venture charity at the reporting date; and
- this SORP requires disclosure of the name of each joint venture entity

29.20. Charities reporting under FRS 102 must also disclose the following:

- For investments in joint venture entities accounted for by the equity method, an investor must disclose separately its share of the profit and loss (incoming resources/ resources expended) of such joint venture entities and its share of any discontinued operations.
- For investments in joint venture entities accounted for by the fair value method, an investor must make the following disclosures:
 - the basis for determining fair value, e.g. the quoted market price in an active market or a valuation technique (when a valuation technique is used, the charity must disclose the assumptions applied in determining fair value for each associate); and
 - if a reliable measure of fair value is no longer available for a joint venture, the charity shall disclose that fact.

Appendices

Appendix 1: Glossary of terms

Accounts is a term used in the SORP to refer to the statement of financial activities (SoFA), income and expenditure account (where produced or required by company law), balance sheet and statement of cash flows and notes.

Accruals accounts record the income and expenditure of the charity and the increase or reduction in its assets and liabilities. All income and charges relating to the reporting period to which the accounts relate must be taken into account without regard to the date of payment or receipt. Accruals accounts are compiled on a ‘true and fair’ basis in accordance with accounting standards and the SORP.

Activity classification of costs is the method of identifying the total cost of an activity, including both direct and indirect costs. An activity is a project, programme of work or activity that furthers one or more of a charity’s legal purposes, or an activity undertaken to raise funds for the charity.

The SORP identifies three high-level activities for charities preparing accruals accounts: expenditure on raising funds, expenditure on charitable activities and other expenditure.

Amortisation is an accounting term referring to the using up of the economic benefits of an asset related to the time the asset is held. An example would be a right to patent royalties for a set period of time; the value of this right declines in accordance with the fall in future benefits receivable.

Asset is a resource controlled by the charity as a result of past events and from which future economic benefits are expected to enable the charity to further its charitable aims.

Audit when referred to in the SORP is the statutory requirement under charity law for an audit of the charity or the group where the charity’s or group’s gross income and/or assets exceed the relevant threshold. The audit threshold is set by charity law on the basis of the income received in the reporting period and the total assets held at the end of the year.

Balance sheet (also known as a statement of financial position) is a statement of the assets, liabilities and funds of the charity (the funds of the charity may also be known as the residual interest) at the end of the reporting period (financial year).

Branch Refer to the SORP module ‘[Branches, linked or connected charities and joint arrangements](#)’.

Capital is the charity law term used by the SORP for resources received by the charity which the trustees are either legally required to invest or retain and use for the charity’s purposes. Capital is the term applied to permanent endowment where the trustees have no power to convert it into income and apply or spend it; the term also applies to expendable endowment where the trustees do have this power.

Charitable companies (company charities) are those charities established under company law for exclusively charitable purposes. The reference to company law is the law as it applies in England and Wales, Scotland, Northern Ireland and the Republic of Ireland. A feature of charitable companies is that of dual registration with the regulator for companies and the charity regulator. Both company law and charity law apply to the annual reporting requirements of a charitable company.

Charity is any institution established for purposes which are exclusively charitable in the law applying in England and Wales, Scotland, Northern Ireland or the Republic of Ireland. A charity includes all those activities, administrative branches and funds falling within the scope of a single governing instrument or for which the trustees are otherwise legally liable to account. The reference to a single governing instrument includes a situation where instruments are supplemental to the main instrument apply.

Charity trustees are the people who under the governing document are responsible for the general control and management and administration of the reporting charity. Charity trustees are those defined in section 177 of the Charities Act 2011, section 106 of the Charities and Trustee Investment (Scotland) Act 2005, section 180 of the Charities Act (Northern Ireland) 2008 or Part 1 of the Charities Act 2009 (Republic of Ireland). In the charity's governing document trustees may be called trustees, committee members, governors or directors, or they may be referred to by some other title. In the case of a company charity it is the directors who are the charity trustees.

Combined financial statements (aggregated accounts) are accounts prepared by the reporting charity which aggregate the assets and liabilities and income and expenses of one or more connected charities with the financial performance of the reporting entity itself. The combined accounts provide a 'true and fair' view of all of the charities controlled and administered by the trustees of the reporting charity.

Common deposit funds (CDFs) are collective investment schemes that are authorised to accept deposits and are for charity investors only. They are investment vehicles that pool deposits and provide diversification to reduce risk, and are tax efficient, cost effective and administratively simple. They are deemed by law to be charities themselves, and enjoy the same tax status as other charities.

Common investment funds (CIFs) are collective investment schemes that are similar to authorised unit trusts and are for charity investors only. They are investment vehicles that provide diversification to reduce risk, and are tax efficient, cost effective and administratively simple. They are deemed by law to be charities themselves, and enjoy the same tax status as other charities.

Consideration is the term for the resources used to settle a transaction or the making of a payment in cash or kind.

Consolidated accounts is an accounting term for the accounts (financial statements) of a parent and its subsidiaries presented as those of a single economic entity.

Constructive obligations is an accounting term for obligations that derive from actions where:

- through an established pattern of past practice, published policies or a sufficiently specific current statement, the reporting charity has indicated to other parties that it will accept certain responsibilities; and
- as a result, the charity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Contingent asset is an accounting term for a possible asset that arises from past events. Its existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the entity's control.

Contingent liability is an accounting term for either:

- a possible obligation that arises from past events where its existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the entity's control; or
- a present obligation that arises from past events but is not recognised in the accounts – either because it is not probable that a transfer of economic benefits will be required to settle the obligation, or because the amount of the obligation cannot be measured with sufficient reliability.

Contract income is income received by a charity for the purpose of providing the goods or services under the terms of a legal contract. It is important that trustees establish from the outset whether the receipt of income is subject to a legally binding contract for the supply of goods or services.

Indicators of a contract for the supply of services are:

- the payer, rather than the recipient charity, has taken the lead in identifying the services to be provided; and/or
- the arrangement provides for damages to be paid in the case of a breach of its terms, rather than, for example, for total or partial refund of the payment made.

If there is no contract, the rights and obligations of the parties will depend primarily on the law of trusts and conditional gifts, rather than on the law of contract; such arrangements are termed performance-related grants by the SORP. A contractual payment to the charity will normally be unrestricted income of the charity.

Control (of an entity) is the power to govern the financial and operating policies of an entity in order to obtain benefits from its activities. For example, a charity may exercise control over a subsidiary in order to raise funds for the charity through trading activities or as a vehicle to carry out certain of the charity's aims.

Custodian trustees have no power to make management decisions and can only act on the lawful instructions of the charity trustees regarding the property they hold on behalf of the charity. The term custodian trustee includes any non-executive trustee in whose name property belonging to the charity is held.

De facto trustee is a person who has not been validly appointed as a trustee but is acting as the trustee of the charity and is exercising the functions that could only be properly discharged by a trustee. This may have come about due to an error, omission or oversight in the appointment process of that trustee. A trustee who is a de facto trustee of a company charity may alternatively be known as a de facto director.

Deferred income consists of resources received by a charity that do not meet the criteria for recognition as income in the statement of financial activities (SoFA) because entitlement to the income does not exist at the balance sheet date. Deferred income is not recognised in the SoFA until the charity is entitled to the income. Instead, deferred income is disclosed as a liability in the balance sheet.

Defined benefit pension scheme (sometimes known as a final salary pension scheme) is a pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits paid are not directly related to the investments of the scheme.

Defined contribution pension scheme is a retirement benefit plan under which an entity pays fixed contributions into a separate entity (a fund), and has no legal or constructive obligations to pay further contributions if the fund does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Derivatives are defined in FRS 102 as a financial instrument which in summary has all three of the following characteristics: its value changes in response to a change in the underlying variable, it requires no initial net investment or an initial net investment smaller than would otherwise be expected, and it is settled at a future date. In their simplest form, derivatives can be used to reduce the cost and/or risk associated with holding or acquiring assets. Examples include 'fixing' an interest rate on a loan for an agreed rate over a fixed time period, or agreeing a future value of foreign exchange for settlement at an agreed date at an agreed exchange rate.

Designated fund is a portion of the unrestricted funds of the reporting charity that has been set aside for a particular purpose by the trustees. For example, the value of functional fixed assets used to further the charity's aims may be identified as a separate designated fund. Designated funds continue to count as part of the unrestricted funds of the charity, but the trustees may choose to exclude designated funds from the calculation of the charity's reserves.

Donated services and facilities include gifts of facilities or services including the contribution of volunteers. Donated services and facilities can also be referred to as intangible income.

Donations comprise gifts that will not provide any economic return to the donor other than the knowledge that someone will benefit from the donation. Income from donations includes gifts that must be spent on some particular area of work (i.e. restricted income funds) or given to be held as endowment funds. Donations will normally include gifts in kind and donated services.

Donations, for accounting presentation purposes, exclude any gifts such as performance-related grants where entitlement is dependent on the performance of a particular level of service or units of output being delivered.

Economic benefits refers to the value derived from an asset in terms of cash flows generated, its cash flow generating capacity, or the service potential created, or costs saved or avoided by having control over the asset.

Employee benefits are all forms of consideration paid by a charity in exchange for the service rendered by employees, including trustees, and include all remuneration, salary, benefits, profit-sharing and bonuses, employer's pension contributions and any termination payments made. For employers with employee members of a defined benefit pension scheme, employee benefits include the change in the net defined benefit liability arising from employee service rendered during the reporting period and the cost of plan introductions, benefit changes, curtailments and settlements.

Endowment funds are resources received by the charity that represent capital. A feature of endowment funds is that charity law requires the trustees to invest it or to retain and use it for the charity's purposes. The term endowment applies to permanent endowment, where the trustees have no power to convert it into income and apply it, and to expendable endowment where the trustees do have this power.

Ex gratia payments are payments made at the discretion of trustees and not as a result of a contract or other legal obligation.

Ex gratia payments are of two distinct types:

- those which, in furtherance of the charity's charitable aims, are ex gratia payments by a charity in relation to its charitable activities (for example extra payments to retiring employees); and
- those which are not in furtherance of the charity's charitable aims and are ex gratia payments that the trustees believe are expedient to make as a result of a compelling moral obligation.

Fair value is an accounting term for the amount for which an asset could be exchanged, a liability settled, or an equity instrument granted between knowledgeable, willing parties in an arm's length transaction. For traded securities in which there is an established market, the fair value is the value of the security quoted in the London Stock Exchange's *Daily Official List* or equivalent. For other assets where there is no market price on a traded market, it is the trustees' or valuer's best estimate of fair value. In these circumstances, fair value measurement aims to estimate an exchange price for the asset or liability being measured in the absence of an actual transaction for that asset or liability.

Financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial statement is a term used in FRS 102 to describe the accounts.

Fundraising costs consist of three categories:

- costs of generating donations;
- fundraising trading costs, which are the costs of trading to raise funds and include the cost of goods sold and any other costs associated with a trading operation; and
- investment management costs.

Funds is a legal term for the money and other assets held on trust. A fund may be unrestricted and available to apply or spend on any of the purposes of the charity or it may be restricted to a specified purpose or purposes.

Restricted funds may be either endowment or restricted income funds, depending on the nature of the restriction. Where the fund is not endowment and is held on trust for spending on specific purposes, it is known as a restricted income fund. Each fund is a pool of resources that is held and maintained separately from other pools because of the circumstances in which the resources were originally received, or the restrictions on that fund which determine the way those resources are subsequently to be treated. Refer to the SORP module '[Fund accounting](#)' for the legal position as regards the various funds of a charity.

General volunteer is a term used in the SORP for a person who is giving unremunerated assistance to the charity of any kind other than assistance which is related to their trade or profession.

Governance costs are the costs associated with the governance arrangements of the charity. These costs will normally include internal and external audit, legal advice for trustees and costs associated with constitutional and statutory requirements, for example the cost of trustee meetings and preparing statutory accounts.

Included within governance costs are any costs associated with the strategic as opposed to day-to-day management of the charity's activities. These costs will include any employee benefits for trusteeship, the cost of charity employees involved in meetings with trustees and the cost of any administrative support provided to the trustees.

Governing document is a legal term and means any document that sets out the charity's purposes for the public benefit and how it is to operate. It may be a trust deed, constitution, memorandum and articles of association, scheme of the Commission, Royal Charter, conveyance or will.

Government grants represent the assistance by government in the form of a transfer of resources to a charity in return for past or future compliance with specified conditions relating to the operating activities of the charity (or its subsidiary). Government refers to government, government agencies and similar bodies whether local, national or international.

Grant income is any voluntary income received by the charity (or other transfer of property) from a person or institution. The income or transfer may be for the general purposes of the charity, or for a specific purpose. It may be unconditional or be subject to conditions which, if not satisfied by the recipient charity, may lead to the grant property acquired with the aid of the grant or part of it being reclaimed by the grant-maker.

Entitlement to grant income may be subject to performance conditions, in which case it is classified as a performance-related grant and is recognised as the performance conditions are met.

Grant payments are any voluntary payments (or other transfer of property) in favour of a person or institution made by a charity in furtherance of its charitable aims. The payment or transfer may be for the general purposes of the recipient, or for some specific purpose such as the supply of a particular service. It may be unconditional, or be subject to conditions which, if not satisfied by the recipient, may lead to the grant, or property acquired with the aid of the grant or part of it being reclaimed by the charity.

A charity may make a performance-related grant, in which case it recognises its liability, as the goods or services specified in the grant terms are provided by the recipient.

Gross income is a term defined in charity law and is used to determine the thresholds governing the requirements for accounts' scrutiny, the preparation of accruals accounts by non-company charities, submission of reports and accounts and any annual return to the charity regulator.

The definition of gross income may vary by jurisdiction. In relation to consolidated accounts, gross income is the gross income of the group after any adjustments arising from consolidation (e.g. intra-group sales).

Group accounts is an alternative term for consolidated accounts.

Heritage assets are tangible and intangible assets with historic, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture.

Impact reporting is the term used in this SORP to describe the difference a charity's work has made to the circumstances of its beneficiaries and, if practicable, any wider benefits to society as a whole.

Inalienable asset is an asset held by a charity which it must retain indefinitely. Inalienable assets have all of the following characteristics:

- The asset is retained indefinitely for a charity's own use and benefit to further its charitable aims.
- The charity is effectively prohibited from disposing of the asset without external consent.
- The asset, by its nature, will belong to a charity's restricted funds and, depending on the trusts attached to the asset, may be part of the permanent endowment.

Disposal without external consent could be prohibited by the charity's governing document, the donor's imposed conditions or in some other way. Normally, the asset will belong to the charity's permanent endowment, where it is held on trusts that contemplate its retention and continuing use but not its disposal.

However, in the case of a gift in kind of a wasting asset, such as a building, a long lease or a non-durable artefact, the terms of trust may not have provided for its maintenance in perpetuity or its replacement. The asset will be expended to the extent of the aggregate amount of its depreciation or amortisation, properly provided for in the annual accounts (i.e. based on its currently anticipated useful life).

Intangible asset is an accounting term for an identifiable non-monetary asset without physical substance. Such an asset is identifiable when:

- it is separable, i.e. is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or
- it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

International Financial Reporting Standards (IFRS) are the standards and interpretations adopted by the International Accounting Standards Board (IASB). They comprise:

- the International Financial Reporting Standards;
- the International Accounting Standards; and
- interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).

Investment management costs include the costs of:

- portfolio management;
- obtaining investment advice;
- administration of the investments; and
- rent collection, property repairs and maintenance charges relating to investment properties.

Investment property is an accounting term for property (land, a building and/or part of a building) that is held to earn rental income or for capital appreciation, or both, rather than for:

- use by the charity as functional property to further the charity's charitable aims;
- use in the production or supply of goods or services or for administrative purposes; or
- sale in the ordinary course of business.

Key management personnel is a term used by FRS 102 for those persons having authority and responsibility for planning, directing and controlling the activities of the charity, directly or indirectly, including any director (whether executive or otherwise) of the charity. This definition includes trustees and those members of staff who are the senior management personnel to whom the trustees have delegated significant authority or responsibility in the day-to-day running of the charity.

Larger charities is a term used in the SORP to identify those charities with a gross income exceeding £500,000 (UK) or 500,000 euros (Republic of Ireland) in the reporting period.

Legal purposes is the term used to describe what the charity has been established to do as set out in its governing document.

Liability is an accounting term for a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow of economic resources from the entity.

It includes an obligation of an entity to transfer economic benefits that results from a duty or responsibility obligating the entity either legally or practically (a constructive obligation), because it would be financially or otherwise operationally damaging to the entity not to discharge the duty or responsibility.

A moral obligation does not create a liability unless it meets the definition of a liability or the definition of a constructive obligation.

Material or **materiality** is an accounting test of what elements of information should be given in a particular set of accounts (financial statements). Omissions or misstatements of items are material if they could individually or collectively influence the economic decisions of users taken on the basis of the accounts.

Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor in identifying whether it is material.

Immaterial information will need to be excluded to avoid clutter that impairs the ability to understand other information provided. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects.

Materiality is identified from a combination of factors, rather than any one in particular. The principal factors normally taken into account are:

- the item's size judged in the context of the accounts as a whole and the other information available to users that would affect their evaluation of the accounts (this includes, for example, considering how the item affects the evaluation of trends and similar considerations); and
- the item's nature in relation to:
 - the transactions or other events giving rise to it;

- the legality, sensitivity, normality and potential consequences of the event or transaction;
- the identity of the parties involved; and
- the particular headings and disclosures that are affected.

If there are two or more similar items, the materiality of the items in aggregate as well as of the items individually needs to be considered.

The person preparing the accounts is responsible for deciding whether an item is material. This process may result in different materiality considerations being applied, depending on which aspect of the accounts is being considered. For example, there is a requirement for a high degree of accuracy in the case of certain disclosures such as trustees' remuneration and expenses, which will override normal materiality considerations.

Measurement is the process of determining the monetary amounts at which the elements in the accounts are to be recognised and carried.

Non-company charity is any charity that has not been established as a company charity under company law. Non-company charities include unincorporated trusts or associations, charitable incorporated organisations and charities established by Royal Charter.

Onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected under the contract.

Performance-related grant is the term used to describe a grant that has the characteristics similar to those of a contract, in that:

- the terms of the grant require the performance of a specified service that furthers the objectives of the grant maker; and
- entitlement to the grant receivable is conditional on a specified output being provided by the grant recipient.

Pooling scheme is a class of Common Investment Fund that provides for the pooling of investments belonging to two or more charities (which may be special trusts) that are administered by the same trustee body as the body managing the pooling scheme. Such schemes are referred to as 'pool charities', and may be established with or without a formal scheme of the Charity Commission (England and Wales) or the courts.

Programme related investments are a type of social investment and are made directly in pursuit of the charity's charitable purposes. The primary motivation for making a programme related investment is not for financial gain but to further the objects of the funding charity. Programme related investments can generate some financial return, and the funding may or may not be provided on commercial terms. Such investments could include loans to individual beneficiaries (such as for housing deposits) or to other charities (for example, in relation to regeneration projects).

Provision is an accounting term for a liability of uncertain timing or amount. A provision is recognised when:

- a charity has a present obligation (a legal or constructive obligation that exists at the balance sheet date) as a result of a past event;
- it is probable that a transfer of economic benefits will be required to settle the obligation; and
- the amount can be reliably estimated.

Public benefit entity is defined by FRS 102 as: ‘an entity whose primary objective is to provide goods or services for the general public, community or social benefit and where any equity is provided with a view to supporting the entity’s primary objectives rather than with a view to providing a financial return to equity providers, shareholders or members’. Charities are one type of public benefit entity.

Recognition is the process of incorporating in the accounts (financial statements) an item that meets the definition of an ‘element’ and which satisfies the following criteria:

- It is probable that any future economic benefit associated with the item will flow to or from the entity.
- The item has a cost or value that can be measured with reliability.

Related parties is a term used by the SORP that combines the requirements of charity law, company law and the Financial Reporting Standard applicable in the UK and the Republic of Ireland. The term is used to identify those persons or entities that are closely connected to the reporting charity or its trustees.

The following ‘natural persons’ are classed as related parties:

- A. any charity trustee and custodian trustee of the charity;
- B. a person who is the donor of any land to the charity (whether the gift was made on or after the establishment of the charity); and
- C. any person who is:
 1. a child, parent, grandchild, grandparent, brother or sister of any such trustee (A) or donor (B) of land;
 2. an officer, agent or a member of the key management personnel of the charity;
 3. the spouse or civil partner of any of the above persons (A, B, C1 and C2);
 4. carrying on business in partnership with any of the above persons (A, B, C1, C2 and C3);
 5. a person, or a close member of that person’s family, who has control or joint control over the reporting charity;
 6. a person, or a close member of that person’s family, who has significant influence over the reporting charity.

‘Close member of a person’s family’ refers to:

- a. that person’s children or spouse;
- b. the children, stepchildren or illegitimate children of that person’s spouse or domestic partner;

- c. dependants of that person; and
- d. that person's domestic partner who lives with them as husband or wife or in an equivalent same-sex relationship.

A charity is not necessarily related to another charity simply because a particular person happens to be a trustee of both. It will only be 'related' if the relationship means that one charity, in furthering its charitable aims, is under the direction or control of the trustees of another charity.

The following entities, which are not 'natural persons', are classed as related parties of a reporting entity (including a reporting charity) if any of the following conditions apply:

- the entity and the reporting charity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
- one entity is an associate or joint venture of the other entity (or a member of the group in which the other entity is the parent or a member);
- both entities are joint ventures of the same third entity;
- one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- the entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity;
- the reporting charity provides/receives key management personnel services to/from the entity;
- an entity that is controlled or jointly controlled by a person, or two or more persons, identified in A, B or C;
- an entity in which a person, or two or more such persons, identified in A, B or C, taken together, have a substantial interest or significant influence over the entity;

Control is presumed to exist when one or more persons identified in A, B or C, taken alone or together, hold directly or indirectly, more than half the voting power of an entity. However, control can also exist when they, directly or indirectly, control half or less than half of the voting power of an entity, if they have:

- power over more than half of the voting rights by virtue of agreement with other investors;
- the power to govern the financial and operating policies of the entity under a statute or an agreement;
- the power to appoint or remove the majority of the members of the board of directors or equivalent governing body, and control of the entity is by that board or body; or
- the power to cast the majority of votes at the meetings of the board of directors or equivalent governing body, and control of the entity is by that board or body.

An individual has a substantial interest or significant influence in an entity where that person, or two or more persons identified in A, B or C, taken together, have an interest in the equity share capital of that entity of a nominal value of more than one-fifth of that share capital, or is entitled to exercise, or control the exercise of, more than one-fifth of the voting power at any general meeting of that entity.

Related party transactions are the transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

Reporting charity is the charity preparing and filing the statutory annual report and accounts (financial statements) for itself and one or more connected (Scotland) or linked (England and Wales) charities or subsidiaries that it controls. The accounts of the reporting charity will combine any special trusts or connected or linked charities administered by the reporting charity. The accounts of the reporting charity will be consolidated where they include one or more subsidiaries.

Reporting date is the last date of the charity's reporting period (its financial year).

Reporting period is the accounting period (financial year) for the reporting charity. The reporting period, which is normally 12 months long, is the period of time over which the transactions of the charity are measured and reported in the accounts (financial statements).

Reserves Refer to the SORP module '[Trustees' annual report](#)'.

Restricted funds may be either endowment or restricted income funds, depending on the nature of the restriction. Where the fund is not an endowment fund and is held on trust for spending on specific purposes, it is known as a restricted income fund.

The resources (the assets and liabilities) of each restricted fund are held and maintained separately from other funds. This is in recognition of the circumstances in which the resources were originally received, and/or the restrictions on that fund that determine the way those resources are subsequently to be treated.

Service potential is the capacity to provide services that contribute to achieving a charity's objectives. Service potential enables a charity to achieve its objectives without necessarily generating net cash inflows.

Significant activities are the activities that the trustees consider to be the main or the most important activities undertaken to further the charity's aims and objectives in the reporting period.

Social investment is a class of assets that comprises investments undertaken for both a financial return and to (in whole or part) further the investing charity's charitable aims and objectives.

Social lotteries are lotteries that are permitted by the law of the jurisdiction(s) in which the charity is fundraising and are not operated for private or commercial gain for a non-charitable purpose. The regulations applying to social lotteries normally have limitations on the amount of money that can be raised through the sale of tickets, and/or have specific requirements for registration or licensing. They may also set limits on the size of the prize or prize fund.

Special purpose entity is a term referring to a corporation, trust, partnership or unincorporated entity established by the charity (the sponsor) or on its behalf to achieve a narrow, well-defined objective. A feature of a special purpose entity is that its managing board has only limited decision-making powers: the entity is, in substance, controlled by the sponsor.

Special trust as defined in section 287 of the Charities Act 2011 (charities registered in England and Wales only) is property that 'is held and administered by or on behalf of a charity for any special purposes of the charity, and is so held or administered on separate trusts relating only to that property'. Whether registered or not, a distinguishing feature of special trusts is that they do not file a separate trustees' annual report and accounts. Instead, a reporting charity combines within its annual report and accounts the results of the special trusts it holds or administers as a component of the restricted funds it reports.

Statement of financial activities (SoFA), analogous to a statement of comprehensive income, shows the income, the expenditure, gains and losses, and transfers between funds during the reporting period (the financial year). The statement reconciles total funds brought forward and total funds carried forward at the end of the financial year.

Stock (also known as inventories) is assets which are:

- held for sale in the ordinary course of business;
- in the process of production for sale; or
- in the form of materials or supplies to be consumed in the production process or in the rendering or providing of services.

Support costs are costs incurred to facilitate an activity. Unlike direct costs, which result directly from undertaking the activity, support costs do not change directly as a result of the activity undertaken. Support costs include the central or regional office functions, such as governance, general management, payroll administration, budgeting and accounting, information technology, human resources and finance.

Total return is an approach to investment management that allows trustees to manage investments without the need to take account of whether the return is income (dividends, interest, etc.) or capital gains (and losses). Refer to the SORP module '[Total return \(investments\)](#)' for more information.

Trading is an activity which has the 'badges of trade' that have been established by the courts. These are: profit-seeking motive; existing trade connections (linked or connected trading activity); repetition; method of finance (borrowing); interval between purchase and sale; selling organisation; method of acquisition (purchased for sale); operations pending sale (making it fit for sale); and the nature of the asset.

Trustees has the same meaning as charity trustees.

Unrestricted fund is a legal term for the unexpended resources held by a charity on trust, comprising money and other assets that can be used for any of the charitable aims of the charity. The use of unrestricted funds is not restricted to any particular charitable purpose of the charity.

Appendix 2: The Charity Accounting (SORP) Committee (2014/19)

Membership

Joint Chairs

Laura Anderson
Nigel Davies
Fiona Muldoon (since 2018)

Members

Sarah Anderson
Caron Bradshaw
Richard Bray
Michael Brougham
Tom Connaughton
Pat Dennigan (2014–18)
Mark Hill
Geoff Hunt (2014–16)
Noel Hyndman
Simon Ling
Kenneth McDowell
Sheila Nordon
Carol Rudge
Joe Saxton (2014–17)
Jenny Simpson
Darren Spivey
Mark Spofforth

Observer members

Mei Ashelford (2014–18)
James Brooke-Turner (2016–18)
Jenny Carter (2015–19)
Jelena Griscenko (since 2019)
Tom Malone (2016–18)
Fiona Muldoon (2014–18)
Una Ní Dhubhghaill (2014–16)
Max Rutherford (since 2018)
John Tracey (2016–17)

Secretariat

Easton Bilsborough (2016–19)
Anne Davis (2014–15)
Alison Scott (2014–17)
Sarah Sheen (since 2019)
Pesh Framjee (2014–18)
– Special Adviser to CIPFA Secretariat

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

Threshold for the Financial Reporting Standard for Smaller Entities

A.1. [Deleted]

Threshold for the preparation of accruals accounts

- A.2. 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.3. 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.4. 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.5. In Northern Ireland, the threshold at which accruals accounts must be produced by non-company charities is a gross income of more than £250,000.
- A.6. In the Republic of Ireland, section 48 of 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.7. In England and Wales, an audit is required if either the charity's gross income exceeds £1 million or its gross assets exceed £3.26m and gross income exceeds £250,000.
- A.8. 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.9. In Northern Ireland, an audit is required when the charity's gross income exceeds £500,000.
- A.10. 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. The audit of company charities is conducted under Irish company law. Company charities must have an audit unless the company qualifies for an audit exemption.

Threshold for the preparation of consolidated (group) accounts

- A.11. In England and Wales, any parent charity where the aggregate gross income of the group, the parent charity and its subsidiaries, exceeds £1 million after consolidation adjustments must prepare consolidated accounts. These consolidated 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 consolidated (group) accounts, its group accounts are prepared under the Companies Act 2006.

- A.12. 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 consolidated accounts. These consolidated 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 consolidated (group) accounts, its group accounts are prepared under the Companies Act 2006.
- A.13. In Northern Ireland, any parent company charity where the aggregate gross income of the group, the parent charity and its subsidiaries, is more than £500,000 after consolidation adjustments must prepare consolidated accounts. These consolidated accounts are prepared in accordance with the Charities Act (Northern Ireland) 2008 and applicable regulations. However, where a company charity is required by section 399 of the Companies Act 2006 to prepare consolidated (group) accounts, its group accounts are prepared under the Companies Act 2006.
- A.14. In the Republic of Ireland, the only legal requirement for consolidated (group) accounts applies to parent company charities. Consolidated accounts are prepared in accordance with the Companies Act 2014.

Appendix 4: Basis for conclusions

Introduction

- B.1. This appendix summarises the main issues considered by the joint SORP-making body in producing the second edition of the Charities SORP (FRS 102). It summarises the deliberations of the joint SORP-making body in updating the first edition of the Charities SORP (FRS 102) approved by the FRC on 22 May 2014 for developments in UK-Irish Generally Accepted Accounting Practice and charity and company law since the SORP was first published. It accompanies, but is not part of, the SORP. The second edition was approved by the FRC on 2 October 2019.

Background

- B.2. The first edition of the Charities SORP (FRS 102) was issued in July 2014. In accordance with the FRC's *Policy on Developing SORPs*, the joint SORP-making body reviews the SORP annually for changes in accounting standards and new developments.
- B.3. Since July 2014, the joint SORP-making body has consulted on a number of consequential amendments to the SORP to reflect changes in accounting standards and legislation subsequent to its issue. This edition of the SORP updates the first edition by incorporating these amendments, as well as number of other minor amendments to reflect changes in legislation and changes to SORP definitions. It is intended to assist preparers by providing a revised edition of the Charities SORP (FRS 102) ('the SORP') which consolidates the relevant requirements and reduces need for SORP users to refer to multiple points of reference.
- B.4. The amendments to the SORP are set out in two Update Bulletins which are accessible from the Charities SORP's microsite. Preparers should refer to these documents for more detail on these amendments described below.

Amendments made by Update Bulletin 1

- B.5. Update Bulletin 1 updated the SORP for:
- Amendments to FRS 102 set out in *Amendments to FRS 102 – Small entities and other minor amendments* issued by the FRC in July 2015;
 - The withdrawal of the *Accounting and reporting by charities: statement of recommended practice applicable to charities adopting the Financial Reporting Standard for Smaller Entities* (the Charities SORP (FRSSE)); and
 - The Charities Act 2011 (Accounts and Audit) Order 2015 made on 19 February 2015.
- B.6. The amendments to the SORP were proposed in an exposure draft issued in June 2015. The feedback from this draft was considered in the finalisation of Update Bulletin 1 published in February 2016.
- B.7. The amendments made by Update Bulletin 1 were effective for accounting periods beginning on or after 1 January 2016. Provided it would not be contrary to charity or company law in the charity's jurisdiction of filing, early application was permitted provided all the amendments in this section were applied at the same time.

Scope of Charities SORP (FRS 102) widened

- B.8. In 2015 the FRC withdrew the Financial Reporting Standard for Smaller Entities (FRSSE) and replaced it with a new section for small entities (Section 1A Small Entities) within FRS 102. The FRSSE was withdrawn for accounting periods beginning on or after 1 January 2016. As a result, the Charities SORP (FRSSE) was no longer applicable, with all charities preparing accruals accounts required to apply the Charities SORP (FRS 102) for accounting periods beginning on or after 1 January 2016. The SORP (FRS 102) was amended to implement the withdrawal of the Charities SORP (FRSSE) and the requirement for all charities to apply the Charities SORP (FRS 102).
- B.9. The joint SORP-making body considered various solutions for the replacement of the Charities SORP (FRSSE). They consulted on its withdrawal and the proposal to widen the scope of the Charities SORP (FRS 102) in 2015. Respondents to the consultation supported the proposal to move to a single SORP. Although a charity can follow the SORP and apply the small entities regime option (Section 1A Small Entities) within FRS 102 in order to produce true and fair accounts the preparer must also follow all the applicable requirements of the SORP. This solution was considered as unifying the reporting framework and providing donors and users of the accounts with a common presentation of financial information.

Definition of a larger charity

- B.10. Prior to Update Bulletin 1, the definition of a larger charity in the SORP was linked to the charity law audit threshold. The SORP required those charities required by charity law to have an audit to provide greater disclosure in their trustees' annual report and notes to the accounts.
- B.11. *The Charities Act 2011 (Accounts and Audit) Order 2015* increased the charity audit income threshold from £500,000 to £1 million in England and Wales with effect for reporting periods ending on or after 31 March 2015. As a result, the definition of a larger charity was amended so it is not linked to the statutory audit threshold in order to ensure that the definition of smaller charity remained the same across the UK charity law jurisdictions. The glossary of the SORP now defines larger charities as those charities with a gross income exceeding £500,000 (UK) or 500,000 euros (Republic of Ireland) in the reporting period.
- B.12. The joint SORP-making body consulted on the definition of a larger charity in 2015. Respondents supported the proposal to de-link the definition from the statutory audit threshold. The joint SORP-making body concluded that the revised definition preserved the current consistency in reporting practice for charities in the UK and the Republic of Ireland, avoided confusion for charities operating in different jurisdictions and sought to future proof the SORP from any further divergent changes in audit thresholds.

Preparation of a statement of cash flows

- B.13. Prior to Update Bulletin 1, the preparation of a statement of cash flows was required by all charities applying the SORP (FRS 102). This reflected the requirement of FRS 102 and differed to the SORP (FRSSE), where the preparation of a statement of cash flows was optional. In 2015 the FRC withdrew the FRSSE and replaced it with a new section for small entities (Section 1A Small Entities) within FRS 102. Section 1A does not require small entities to prepare a statement of cash flows. Similarly, section 7 of FRS 102 was also amended to exempt small entities applying full FRS 102 from the requirement to prepare a statement of cash flows.

- B.14. As set out in paragraph B.9, following the withdrawal of the FRSSE, the Charities SORP (FRSSE) was no longer applicable. All charities preparing accruals accounts were required to apply the Charities SORP (FRS 102) for accounting periods beginning on or after 1 January 2016. These changes would have resulted in all charities preparing a statement of cash flows based on the requirements of the Charities SORP (FRS 102) prior to Update Bulletin 1.
- B.15. The joint SORP-making body consulted on this requirement to present a statement of cash flows in 2015. They considered various options, including whether to allow charities which meet the definition of a small entity with the option not to provide a statement of cash flows. Respondents to the consultation supported only those charities defined as larger charities by the SORP being required to prepare a statement of cash flows. In considering the requirement, it was noted that the preparation of the statement of cash flows is valuable to a charity as it ensures the movement of its cash balances and cash position are actively considered as part of its annual reporting cycle. The statement was also noted as being useful to funders considering the underlying solvency of a charity at the reporting date, and for enquiring about its solvency going forward.
- B.16. The joint SORP-making body concluded that the preparation of the statement of cash flows would only be mandatory for those charities that the SORP classifies as larger charities (those with a gross income exceeding £500,000 (UK) or 500,000 euros (Republic of Ireland) in the reporting period, see paragraph B.12). However, the presentation of the statement of cash flows would always be encouraged as good practice regardless of a charity's size. Therefore, charities that do not meet the definition of a larger charity may choose to adopt the cash flow requirements if they wish.

Application of merger accounting

- B.17. UK company law does not permit merger accounting where UK charitable companies enter into a business combination with a third party. Section 34 of FRS 102 was amended in July 2015 to clarify the application of merger accounting by public benefit entities. This clarification is reflected in paragraphs 27.4 and 27.4A of the SORP.

Inventories held for distribution at no or nominal consideration

- B.18. The July 2015 amendments to FRS 102 introduced a requirement for inventories held for distribution at no or nominal consideration to be measured at the lower of cost, adjusted for any loss of service potential, and replacement cost. Paragraph 6.12 of the SORP reflects this change in respect of goods donated for distribution.

Other amendments

- B.19 Three other amendments were made to the SORP as follows:
- [Module 10: Balance Sheet](#) and [Module 24: Accounting for Groups and the Preparation of Consolidated Accounts](#): increased the maximum period over which goodwill and other intangible assets may be amortised from five to ten years in those exceptional cases where an entity is unable to make a reliable estimate of the asset's useful economic life;
 - [Module 12: Impairment of assets](#): prohibiting the reversal of impairment losses for goodwill; and
 - [Appendix 1: Glossary](#): amending the definition of related parties.

B.20. Preparers should refer to Update Bulletin 1 for the detail of these amendments.

Amendments made by Update Bulletin 2

- B.21. Update Bulletin 2 updated the SORP for amendments to FRS 102 made as part of the 2017 Triennial Review of FRS 102. These are set out in *Amendments to FRS 102 – Triennial review 2017 – Incremental improvements and clarifications* issued by the FRC in December 2017. The amendments to the SORP were limited to only those considered as being necessary as a result of the changes made in response to the 2017 Triennial Review of FRS 102.
- B.22. The amendments to the SORP were proposed in an exposure draft issued in February 2018. The feedback from this exposure draft was considered in the finalisation of Update Bulletin 2 published in October 2018.
- B.23. Update Bulletin 2 made 23 amendments to the SORP. These amendments have been divided into three categories, as follows:
- Clarifying amendments;
 - Significant amendments; and
 - Other amendments.

Clarifying amendments

- B.24. These amendments ensure that the SORP remains consistent with the original drafting intention of FRS 102. They are applicable to accounting periods beginning on or after the date of publication of Update Bulletin 2 (i.e. 5 October 2018). Although, as they reflect the existing requirements of FRS 102, they are already applicable for charities preparing accounting in accordance with that standard.

Comparative information

- B.25. Section 3 of FRS 102 requires that unless an exception is permitted by FRS 102, comparative information must be provided for all amounts presented in the current period's financial statements, which includes the notes. Paragraph 3.49 of the SORP clarifies this requirement.

Gift aid payments made by a subsidiary to its parent

- B.26. FRS 102 requires payments by subsidiaries to their charitable parents that qualify for gift aid to be accounted for as distributions to owners, and treated akin to dividends. Section 23 of FRS 102 requires dividends to be recognised when the shareholder's right to receive payment is established. The parent charity's right to receive payment is established when the subsidiary has a legal obligation to distribute its profits to its owners at the reporting date. Therefore, a gift aid payment shall not be recognised as a liability in the individual accounts of a subsidiary unless a legal obligation for the subsidiary to make the payment exists at the reporting date.

- B.27. The following paragraphs of the SORP reflect this treatment from the parent charity's perspective:
- Paragraph 5.52 clarifies that gift aid income is accrued when a gift aid payment is payable to a parent charity under a legal obligation.
 - Paragraph 13.5 clarifies that when a gift aid payment is payable to a parent charity under a legal obligation at the reporting date, the determination of the payment amount is an adjusting event which occurs after the end of the reporting period.

Depreciation of major components

- B.28. Section 17 of FRS 102 requires major components of an item of property, plant and equipment that have significantly different useful economic lives to be depreciated separately over their useful economic life. The accounting treatment for depreciating assets comprising of two or more major components in paragraph 10.31 of the SORP was aligned to reflect this requirement.

Significant amendments

- B.29. These amendments relate to changes to the text of FRS 102 made as part of the 2017 Triennial Review. They are considered to be more likely to have an impact on the accounts of charities compared to the 'Other amendments' (see paragraphs B.43 to B.45).
- B.30. These amendments were effective for accounting periods beginning on or after 1 January 2019. Provided it would not be contrary to charity or company law in the charity's jurisdiction of filing, early application was permitted provided all the amendments in this section and the other amendments below were applied at the same time.

Investment properties including those rented to another group entity

- B.31. The 2017 Triennial Review introduced an accounting policy choice for entities that rent investment property to another group entity whereby they can choose to measure that investment property using the cost model or fair value. Paragraph 10.48A of the SORP reflects this change.
- B.32. In reflecting this accounting policy choice, the joint SORP-making body concluded that not requiring charities to measure the fair value of investment property rented to another group entity removes the cost of obtaining this information. This cost was considered to outweigh its benefit to users of the accounts and the charity, as the information is of little use when the investment property would be treated as property, plant and equipment in the consolidated financial statements.
- B.33. The 2017 Triennial Review also removed the undue cost and effort exemption for measuring investment property at fair value. FRS 102 requires all investment property (with the exemption of investment property rented to another group) to be measured at fair value. This is consistent with the treatment required by the SORP prior to Update Bulletin 2, which did not permit charities to measure investment properties at cost (less depreciation and impairment).
- B.34. The SORP only included an undue cost and effort exemption for the measurement of the investment property component of a mixed use property prior to Update Bulletin 2. Paragraph 10.47 of the SORP no longer permits this exemption.

Group reconstructions

- B.35. The *2017 Triennial Review* expanded the definition of a group reconstruction to incorporate the transfer of a business in certain circumstances. These reconstructions can be accounted for using merger accounting, provided the use of this method is not prohibited by company law or other relevant legislation.
- B.36. Paragraph 27.12 of the SORP includes examples of charity reconstructions that may be accounted for as mergers. These examples have been expanded to include the transfer of activities to a wholly-owned subsidiary undertaking as an example of group reconstruction that may be accounted for as a merger. The joint SORP-making body considered the example as common to the sector.

Net debt reconciliation

- B.37. The *2017 Triennial Review* introduced a new requirement for an entity to disclose a net debt reconciliation. The SORP module '[Statement of cash flows](#)' now requires charities to prepare a reconciliation of net debt as a note to the statement of cash flows.
- B.38. In reflecting this additional disclosure in the SORP, the joint SORP-making body concluded that it would be helpful to provide an example of how this reconciliation may be adapted for the reporting purposes of a charity. Table 10A gives an example of how a net debt reconciliation may be shown.

Definition of service potential

- B.39. The *2017 Triennial Review* introduced a new glossary definition of service potential. This was inserted into the glossary of the SORP given its application in determining the 'value in use' of assets which are primarily held by charities to provide services to their beneficiaries (see the SORP module '[Impairment of assets](#)').

Disclosure of stock recognised as an expense

- B.40. The *2017 Triennial Review* removed the requirement for entities to disclose the amount of stock recognised as an expense. Paragraph 10.63 of the SORP reflects this change.

Other amendments made by Update Bulletin 2

- B.41. The other 12 amendments relate to changes to the text of FRS 102 made as part of the *2017 Triennial Review*. They are considered to be less significant and likely to have an impact on the accounts of only a limited number of charities, or editorial amendments necessary to ensure the SORP remains in line with the language of FRS 102.
- B.42. These amendments were effective for accounting periods beginning on or after 1 January 2019. Provided it would not be contrary to charity or company law in the charity's jurisdiction of filing, early application was permitted provided these amendments and the significant amendments above were applied at the same time.
- B.43. Preparers should refer to Update Bulletin 2 for the detail of these amendments.

Other amendments

Reporting requirements for charitable companies reporting in the Republic of Ireland

- B.44. The Companies Act 2014 replaced the Companies Acts 1963-2013 in the Republic of Ireland. The legal references in paragraphs 15.11 and 15.15 of the SORP have been amended to reflect this change.

Threshold for charities reporting in Northern Ireland

- B.45. The Charities (Accounts and Reports) Regulations (Northern Ireland) 2015 commenced on 1 January 2016. [Appendix 3, 'Thresholds for the UK and the Republic of Ireland'](#) has been amended to reflect this change.
- B.46. The thresholds and requirements in Appendix 3 apply to registered charities for reporting periods beginning on or after 1 January 2016, or their date of registration with the Charity Commission for Northern Ireland if later.



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