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Charity Reporting under the FRS 102 SORP (2014)

This article looks at how charities can adopt a best practice approach by reporting under the FRS 102 SORP (2014).

The SORP, *the Statement of Recommended Practice, Accounting and Reporting by Charities; the FRS 102 SORP (2014)* was developed, in accordance with Financial Reporting Council guidelines, by the Charity Commission for England and Wales and by the Scottish Regulator.

While the Charities SORP has no jurisdiction outside the UK, most Irish charities have voluntarily adopted it in order to follow respected practice in relation to accounting and reporting and most particularly to meet their stakeholders' needs. Adopting the Charities SORP provides a best practice approach in respect of accounting and reporting for charities. The SORP was introduced for accounting periods commencing on or after the 1st January 2015.

Paragraph 10 of the SORP outlines the following objectives for the SORP:

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

In general terms, the Charities SORP requires, inter alia, the following in the financial statements and annual report:

- A Trustees Report (required for all bar cash based charities); and
- The Financial Statements (and particularly the Statement of Financial Activities) to be presented in a specified layout that distinguishes, for example, between specific categories of income and of expenditure.

The Trustees Report

In many ways, this document is more important than the financial statements as it should be written in a clear narrative format for users to enable them to assess how successful the charity has been in meeting its objectives and to allow the charity to reflect on the key challenges it faces. The Report has been broken up into six separate sections and each of these sections will now be explained. It should be pointed out that larger charities are expected to provide more detailed information than smaller charities. Large charities are normally those subject to audit and in the Republic of Ireland a gross income of €100,000 requires such an audit.

1. Objectives and activities

This section is to help users understand how the charity's objectives have been met by providing an analysis of its activities during the year and whether they have achieved their objective. This should include a discussion of its strategies for achieving its aims and how the charity measures its success.

2. Achievement and performance

Charities must summarise their main achievements and performance during the year which will include the significant activities undertaken, most likely taking into account fundraising. The achievements must be set against the charities objectives. However, the review must provide a fair and balanced view of its performance.

3. Financial review

Charities should review their financial position at the year end, including their policy for holding reserves, and if there are doubts as to whether it can continue as a going concern that should be explained. Larger charities would also be expected to describe the principal risks and uncertainties they face and how they plan to manage those risks. They should also provide an explanation of their principal funding sources and their investment policies.

4. Plans for future periods

Only larger charities should provide a summary of their future plans, including details of any activities that are planned to meet their objectives, including how lessons learnt from the past have influenced their resource allocation.

5. Structure, governance and management

All charities should provide details of their governing document, how the charity is constituted and how new charity trustees are appointed. Larger charities are also expected to provide details of their management structures and to explain how their trustees are trained.

6. Reference and administrative details

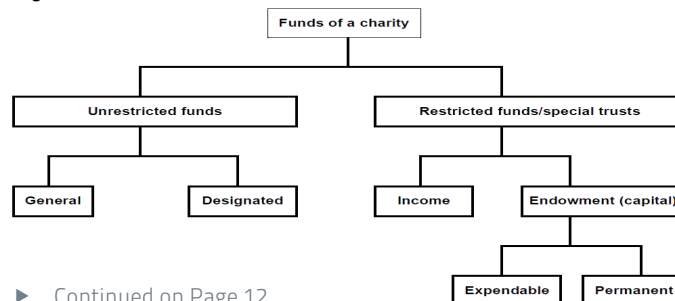
All charities should disclose their name, registration number and principal office address together with names of those who were trustees on the date the report was approved or who served during the reporting period. Larger charities need also to provide details to whom the trustees delegate day to day management of the charity.

The Financial Statements

Before examining the primary statements of a charity, it should be mentioned that one of the cornerstones of the SORP is to recognise separately the incoming and outgoing resources of each of the funds in both the statement of financial activities and the balance sheet.

The SORP sets out the different classes of charitable funds as follows:

Figure 1: The classes of charitable funds



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Unrestricted funds

These are freely available to be spent as the trustees see fit to meet the charity's objectives. They are broken down into two categories – general (not earmarked for a particular purpose) and designated (earmarked for a special purpose).

Restricted funds/ special trusts

These funds may only be used for the purpose specified by the donor and these may include land and buildings, investments and cash. Any income earned on those assets is added to the fund. These funds can also be split between income (funds to be spent or applied within a reasonable period from their receipt to further a specific purpose of the charity), expendable endowment (donations to be kept in capital but powers given to the trustees to use the funds as income) and permanent endowment (donations to be held as capital with no power to convert the funds into income).

Generally, if these are material, restricted funds must be disclosed separately from unrestricted funds in both the Statement of Financial Activities (SOFA) and the balance sheet. More details can be provided in the notes as per Age Action:

Movement of Funds

	Designated Funds	Restricted Funds	Unrestricted Funds	Total Restricted 2016	Restricted Funds	Unrestricted Funds	Total 2015
	€	€	€	€	€	€	€
Opening balance	-	-	816,265	816,265	-	769,578	769,578
Net movement	141,319	-	(24,195)	117,124	-	46,687	46,687
Closing balance	141,319	-	792,070	933,389	-	816,265	816,265
Represented by:							
Fixed assets		-	34,120	34,120	-	16,720	16,720
Current assets	141,319	231,495	864,180	1,236,994	356,380	894,160	1,250,540
Current liabilities	-	(231,495)	(106,230)	(337,725)	(356,380)	(85,135)	(441,515)
Capital grants	-	-	-	-	-	(9,480)	(9,480)
	141,319	-	792,070	933,389	-	816,265	816,265

An amount of €141,319 received from CCT Corporate Nominees Limited has been designated by the directors for specific capital projects identified by the Senior Management Team.

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Statement of Financial Activities

It is a requirement of charity law that charities use all their funds to further their objectives – effectively to breakeven and not make a profit. The traditional profit and loss account or statement of comprehensive income required by FRS 102 for private companies, therefore, is not providing relevant information on the performance of the charity. As an alternative, the SORP requires the publication of a Statement of Financial Activities (SOFA) which present the incoming resources available to the charity and shows how these have been used to meet the charity's objectives. A good example is provided by Concern Worldwide (UK) for their annual financial statements for the year ended 31st December 2016:

Statement of Financial Activities for the year ended 31 December 2016

	Notes	Restricted Funds Stg£	Unrestricted Funds Stg £	Total 2016 Stg £	Total 2015 Stg £
Incoming resources:					
Donations and legacies	2a	2,621,569	4,769,655	7,391,224	10,285,067
Charitable activities – grants and contracts from governments and other co-funders	2b	18,521,592	585,235	19,106,827	21,348,396
Other income		-	864	864	2,901
Total income		21,143,161	5,355,754	26,498,915	31,636,364
Expenditure on:					
Charitable activities	3	21,504,119	2,237,575	23,741,694	27,724,848
Raising funds	4	180,860	2,407,190	2,588,050	2,907,219
Total expenditure		21,684,979	4,644,765	26,329,744	30,632,067

Net movement in funds		(541,818)	710,989	169,171	1,004,297
Reconciliation of funds:					
Total funds brought forward		1,786,386	2,826,629	4,613,015	3,608,718
Total funds carried forward	14	1,244,568	3,537,618	4,782,186	4,613,015

The company had no recognised gains and losses in the financial year or preceding year other than those dealt with in the Statement of Financial Activities.

The SOFA shows the funds being split between restricted and unrestricted funds and the net movement for the year being added to the opening funds brought forward from the previous reporting period.

Balance Sheet

The balance sheet is fairly similar to a private company with the only difference being the split of the funds between those which are restricted and those unrestricted. The example provided below is that of Trocaire for their annual report for year ended 28th February 2017:

Consolidated Balance Sheet as at 28 February 2017

	Notes	2017 €'000	2016 €'000
Fixed assets			
Tangible fixed assets	9	<u>938</u>	<u>977</u>
Current Assets			
Debtors	10	31,301	26,634
Cash at bank and pm short-term deposit		24,838	32,489
Short term investments	11	<u>1</u>	<u>1</u>
		56,140	59,124
Creditors (Amounts falling due within one year)	12	<u>(8,952)</u>	<u>(9,406)</u>
Net Current Assets		47,188	49,718
Retirement benefit scheme liability	17	(2,869)	(3,353)
Total Net Assets		<u>45,257</u>	<u>47,342</u>
Funds of the charity			
Restricted funds	14	29,162	29,150
Unrestricted funds	15	16,095	18,192
Total funds		<u>45,257</u>	<u>47,342</u>

The financial statements were approved by the Board of Trustees on 21/06/2017 and signed on its behalf by: Eamon Martin and William Crean.

Statement of Cash Flows

The third primary statement is based on IAS 7 *Cash Flow Statements* and thus permits the adoption of either the direct or the indirect method of reporting operating cash flows. The former has not been used in practice in this country thus it is not likely to be adopted. The SORP also requires cash flows to be reported in three headings only – operating, investing and financing. Focus Ireland have adopted the new presentation for their financial statements for the year ended 31st December 2016.

Consolidated Statement of Cash Flows for the Financial Year Ended 31 December 2016

	Notes	2016 €	2015 €
Cash flows from charitable activities	29	<u>2,302,461</u>	<u>1,902,357</u>
Cash flows used on investing activities			
Purchase of tangible fixed assets		(10,403,896)	(6,175,620)
Net cash used in investing activities		(10,403,896)	<u>(6,175,620)</u>
Cash flows from financing activities			
Interest paid		(87,802)	(13,016)
Increase in bank loans		5,382,622	348,140
Increase in CAS Housing loans		4,457,188	3,359,333
Increase in CALF loans		454,239	201,537
Cash inflows from capital donations			<u>50,000</u>
Net cash provided by financing activities		10,206,247	<u>3,945,994</u>
Change in cash and cash equivalents in the financial year		2,104,812	(327,269)
Cash and cash equivalents at the beginning of the financial year		2,959,376	3,286,645
Total cash and cash equivalents at the end of the financial year		<u>5,064,188</u>	<u>2,959,376</u>

As can be seen by the primary statements, there is a need to supply back up notes to provide more detailed information about certain items in those statements. Probably the most useful is the detailed make up of both the incoming and outgoing resources contained in the SOFA.

The recording of both is governed largely by the rules in FRS 102 as adapted by the SORP. One key difference, however, is that charities must adopt the performance model whereas it is a choice in FRS 102 and, in practice, the accruals model is only adopted by private companies. In the performance model, capital grants are released to the SOFA as the charity performs under the grant aiding contract and not over the estimated useful lives of the fixed assets.

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Expenditure on charitable activities

Expenditure on charitable activities can be analysed as shown below. Concern provide details of both expenditure on charitable activities and the costs of raising funds. Expenditure on overseas programmes represents contributions by Concern (UK), to the overseas programmes of Concern Worldwide. As many of these programmes achieve results in more than one of these categories, Concern (UK) has introduced an integrated programming category in 2016.

	Direct costs Stg £	Support costs (see note 6) Stg £	2016 Total costs Stg £	2015 Total costs Stg £
Overseas programmes				
Health	4,788,715	62,806	4,851,521	5,070,738
Education	1,702,934	22,891	1,725,825	2,003,389
Livelihoods	4,680,109	57,654	4,737,763	5,312,628
Integrated programming	4,947,525	66,505	5,014,030	—
Emergency	6,404,771	85,986	6,490,757	14,509,380
Total overseas programmes	22,524,054	295,842	22,819,896	26,896,135
Policy, Advocacy and Campaigning	713,459	127,874	841,333	763,203
Governance (Note 5)	32,752	47,711	80,463	65,510
Total charitable expenditure	23,270,265	471,427	23,741,692	27,724,848
2015 – Total	27,261,708	463,140	N/A	27,724,848

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Cost of raising funds

	Campaign costs Stg £	Staff costs Stg £	Occupancy & other direct costs Stg £	Total direct costs Stg £	Support costs (see note 6) Stg £	2016 Total costs Stg £	2015 Total costs Stg £
Individual giving	428,054	982,010	373,221	1,783,285	131,496	1,914,781	2,263,319
Corporates, major donors and trusts	24,634	260,034	86,190	370,858	16,182	387,040	417,881
Legacy	28,008	—	—	28,008	—	28,008	26,134
Community fundraising	—	145,196	30,755	175,951	7,899	183,850	165,757
Retail costs	7,729	38,729	22,546	69,004	5,367	74,371	30,128
Total	488,425	1,425,969	512,712	2,427,106	160,944	2,588,050	2,903,219
2015 – Total	1,121,442	1,261,651	370,028	2,753,121	154,098	N/A	2,903,219

Conclusion

The new SORP is not very different from its predecessor of 2005 but it is now in alignment with FRS 102, the accounting standard for private companies. The main issue is that although very little has changed, the Charities Regulator requires annual reporting but has not made it mandatory to provide SORP financial statements. Charities should refer to the Annual Reporting Guide (S40) provided on its website www.charitiesregulatoryauthority.ie for templates for smaller charities and details required for larger charities to be submitted to the Regulator.