CHARITIES: THE NEW ACCOUNTING REGIME

The new accounting regime, which converges UK accounting with international accounting standards, is due to be implemented for accounting periods commencing on or after 1 January 2015. For charities with a 31 March year end, the 2015/16 year will be the first prepared under the new standard. Existing UK accounting standards are being replaced by a new single standard, Financial Reporting Standard (FRS) 102.

Smaller organisations, including charities, will, alternatively, be able to adopt the Financial Reporting Standard for Smaller Entities (FRSSE) which is aligned with existing UK standards and has reduced disclosure requirements. This option will only be available for a limited time, however.

In response to the new accounting regime, the Charity Commission, together with the Scottish Charity Regulator, has drafted revised Statements of Recommended Practice (SORP) for charities, one based on FRS 102 and the other based on the FRSSE. The purpose of the SORP is to explain how accounting standards apply to the charity sector and to set out the particular formats and disclosures of charity accounts.

FRS 102 will not have a significant impact on charities which do not have complex transactions. The principal changes are:

- The requirement to accrue, in the Balance Sheet, for the full amount of a past service deficit on a defined benefit pension scheme to the extent that the charity has agreed to pay contributions to meet this deficit. In the past, the charity would account for these contributions in the year they were paid which meant that the cost was spread over several years. Where a charity has pension commitments of this nature, reserves may be significantly depleted.
- The requirement to accrue for any holiday entitlements which have not been taken by staff at the year end.
- The requirement to revalue any financial instruments (eg loans) which have other than basic terms.

Other principal changes relate to the write off period of goodwill and the accounting treatment of investment properties but these are unlikely to affect the majority of charities.

The additional changes which have been introduced by the SORP are:

- Minor changes to the wording and structure of the SOFA
- Additional narrative reporting in the Trustees Report in relation to activities and achievements and the financial position.
- Clarification on when income, including legacies, should be taken into account.

Although the new regime does not come into effect until 2015/16 for most charities, there will be a requirement to restate the prior year on the same basis. As a result, charities need to consider at an early stage what additional information may be necessary to do this.