Charity SORPs 2015 – the major changes

This guide is for all charities that are preparing accruals accounts, regardless of size and regardless of which SORP they are adopting. It is designed to point out the main changes from the old SORP to the new ones.

It should be pointed out that in reality most charities will engage an accountant to prepare their accounts and so for the most part it will be the accountants trying to understand all the changes and agonising over the difference in treatment for this or that particular item rather than the charity trustees. So this guide does not go into much detail, rather it will alert you to the major changes. There are also differences between the two new SORPs which are covered in our other guide.

If you are preparing your own accounts I would encourage you to read the excellent Charity Commission help sheets which provide much more detail and consult the SORP itself.

They are available here: http://www.charitysorp.org/about-the-sorp/helpsheets/

A few definitions first:

'Smaller charity' – One that is below the audit threshold

'Larger charity' – One that is above the audit threshold

'Audit threshold' - Currently, charities require an audit if the total income is over £500k, but this drops to £250k if they have total assets worth £3.26m.

However there is a consultation progress regarding increasing these limits. The current proposals would mean a change to an income threshold of £1m, dropping to £500k if they have assets worth £3.36m (alternative proposal is £5m).

The Major changes to the SORP:

Modular structure

The new SORPs are now built around modules – ie core modules covering issues faced by most charities and further modules dealing with particular issues eg special types of assets, investments, and branches and groups.

The use of 'must', 'should' and 'may'

The SORP now uses specific terms to identify those requirements that must be followed in order to comply from those recommendations that should be followed as best practice and the options or illustrations that may be adopted by a charity when preparing its accounts.

Trustees' Annual Report

The headings for the annual report remain the same for all charities but there are some additional items.

Additional for all charities - If the trustees have decided that holding reserves is unnecessary, the report must disclose this fact and provide the reasons behind this decision.

Additional for smaller charities (those below the audit threshold – currently) - If there are uncertainties about the charity's ability to continue as a going concern, the nature of these uncertainties should be explained.

Additional only for larger charities only (those above the audit threshold) - They will now have to discuss their social investment policies, the contribution of programme related investments, and the financial effect of significant events. They must also describe the principal risks and uncertainties facing the charity along with mitigation plans. They will also need to disclose arrangements for setting pay for the charity's key personnel.

Recognition of income

There has been a change in one of the elements of the test regarding when to recognise income on the SOFA. Below is a comparison of those elements with the old SORP and the new ones:

Old SORP	New SORPs
Entitlement – The charity must have control over the rights or other access to the income enabling the charity to determine its future application (eg an offer letter / agreed budget)	No change
Measurement – The monetary value of the income must be able to be measured with sufficient reliability	No change
Certainty – Income will be recognised when it is virtually certain that the income will be received	Probable - income is recognised when there is sufficient certainty of receipt (receipt is more likely than not)

This appears to be a lowering of the bar and in theory may lead to more income being recognised in one period than under the old SORP. Remember though that entitlement has to exist in the first place. This can be a contentious area, particularly when applied to grant income and in truth it would be possible to write at length just on this matter. That said the actual guidance within the new SORPs is very good and should help you make the right decision – the treatment of each grant must be considered in isolation based on its particular terms and conditions.

Change of SOFA headings (if you are choosing to, or have to prepare a full SOFA)

Remember that the full SOFA format has only ever been a requirement for larger charities. Smaller charities have always been able to prepare simpler accounts, categorising income and expenditure under 'natural headings' like grants, bank interest, salaries, rent and rates etc, doing away with the need to produce further notes to give this analysis.

This is a substantial time and cost saving relief given to charities within the legal regulations.

If you are preparing a full SOFA, the income and expenditure headings have been reduced and a 'plain English' style has been adopted. The headings are an improvement but you will still need to provide more information in the notes anyway.

There are also some minor changes regarding the position of headings e.g. gains and losses on investments.

Addition of comparative columns for all funds, not just the total funds

Previously, corresponding amounts for each line item in the SOFA were only required for the total funds. This requirement stays the same, however in addition, somewhere in the accounts – either on the SOFA or in the notes, corresponding amounts for each line item must be reported for each fund. This could lead to a six column SOFA.

Recognition of donated goods

Where SORP 2005 required income from the receipt of donated goods for sale was recognised once sold, the new SORPs require recognition at the point of receipt at fair value. The income can only be recognised at the point of sale if is not practical and/or the costs of recognition on receipt outweigh the benefit to users of the accounts and the charity of this information.