Charities SORP requirements

And the practical application of Surf AP

Bright
Simply brilliant software

1

Charities and Not-for-Profit Organisations Online

- Thank you for joining our Support Team for an online workshop on the Charities SORP FRS 102 requirements (Including Charities Regulatory Requirements) and the practical application of Surf AP in producing a compliant Trustees' Annual Report and Financial Statements.
- With regulation and governance demands continually increasing for Irish charities and non-profits, it is timely to engage in an update of the key areas of Financial Reporting and Governance.

Bright

2

Bright

- Charities SORP FRS 102 requirements
(Including Charities Regulatory Requirements)
11.00am – 11.45am
(Presenter: Martin Nolan)

- Practical application of Surf AP for charities
11.45am – 12.30pm
(Presenter: Aaron Mc Donald)

3

Bright

Martin C. Nolan
Head of Compliance

A graduate of UCD with a master's degree from DCU and a qualified chartered accountant, Martin has worked at senior management level in Deloitte and at management level in PwC, principally in audit assurance. He has lectured extensively on financial reporting, audit assurance and corporate finance.

He has specialist knowledge of the Charity sector and holds several voluntary non-executive director positions in the charity and not-for-profit sector. Martin volunteers as a Technical Reviewer for the Leinster Society of Chartered Accounts Published Accounts Awards – Charity Sector.

Aaron McDonald
Support Team Lead

Aaron has been working with Bright for several years and is responsible for developing, training and coaching a team of support agents on Surf AP.

He understands exactly how charities function within the product and has trained all support staff on charity functionalities within the software.
In addition, Aaron analyses call metrics and works closely with our product and development teams to identify improvements in key areas that can be made to the software in order to make workflows for end users as smooth as possible.

4

Disclaimer

Please note that the following slides cannot be relied upon to cover specific situations. In many instances the slides contain bullet points which are selected key aspects only of complex legislation and standards, and the presentation is a commentary given in general terms.

Bright

5

Slides Contents

Bright

6

Slides Contents (continued)

Bright

7

Background – Overview

- The charity sector in the Republic of Ireland (ROI) is a significant area of economic activity and continues to expand.
- The number of registered charities at the end of February 2023 as per the Charities Regulatory Authority(CRA) is stated at 11,600 with over 60,000 trustees. Note that all Schools are included in the register since 2019.
- The recent spate of Charity Sector financial scandals has highlighted significant failings in governance, accountability and ethical behaviour and has led to an outcry for urgent government action.

Bright

8

Background – Overview (continued)

- The ROI Charities Regulator completed an extensive public consultation process on the future governance of charities in April 2018 and issued a new Charities Governance Code in November 2018.
- The proposed new legislation on financial reporting (currently expected by the end of 2023, implementation date not known) will mean that, for the first time, all registered Irish charities will have regulations regardless of their legal form.
- One of the key changes that will be made is the introduction of mandatory financial reporting.

Bright

9

Background Overview (continued)

- "The new regulations will make the Charities SORP mandatory for larger charities in the ROI and this will bring greater transparency in terms of disclosures. For smaller charities, this will involve an independent examination of accounts while larger concerns with turnover above **€250,000 will require a full audit**."
- **The Current General Legislative and Regulatory Regime for Charities**
- 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.

Bright

10

Background Overview (continued)

- In the ROI:
- Charitable organisations of all legal forms regardless of size, corporate and unincorporated, must keep proper books of account.
- Company charities, irrespective of size, must prepare accruals accounts that give a true and fair view.
- The Charities Act 2009 has yet to be fully 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.

Bright

11

Summary of Reporting Requirements to CRA for Charities that are not Companies

Gross income or total expenditure	€10,000 or less	Between €10,001 and €100,000	Above €100,001
Books of account	Proper books of account	Proper books of account	Proper books of account
Requirement for annual statement of accounts	None	Have option: Annual statement of accounts Or Income and expenditure account together with a statement of assets and liabilities	Annual statement of accounts
External scrutiny - audit or examination	None	Audited or examined	Audited
Reporting to CRA - Annual activities report	Required to complete the financial information section. It is optional for a charity in this income bracket to submit a profit and loss account (or income and expenditure account and statement of assets and liabilities) for the reporting period.	Required to complete the financial information section and is required to provide: A profit and loss account (or income and expenditure account and statement of assets and liabilities) for the reporting period.	Required to complete the financial information section and is required to provide a full set of audited accounts for the reporting period - including trustees' / directors' and auditor's reports.

Bright

12

CRA Annual Return

- All registered charities are required to complete an annual return to the CRA, within 10 months after the financial year end. This is an online process. The number and type of documents required in order to complete your annual report will depend on the size of your charity in terms of gross annual income.
- The CRA will obtain from the Companies Registration Office (CRO) Annual Returns which include the annual financial statements made by charities that are companies (to minimise the demands made by dual reporting).

Bright

13

What is a Charity - ROI

To be a recognised and legal charity in the ROI you must be on the register of charities maintained by the CRA.

You must have a charity registration number.

An organisation is considered to be a charity if its purposes are deemed to be exclusively charitable, operate in the Republic of Ireland and provide public benefit, regardless of their size, their income or their legal structure.

The charitable purposes defined in the Act are:

- the prevention or relief of poverty or economic hardship
- the advancement of education
- the advancement of religion; or
- any other purpose that is of benefit to the community, which is specifically broken down in the Act.

Bright

14

Distinguishing the Role of the CRA and the Revenue Commissioners

- The CRA and the Revenue Commissioners are two distinct bodies. It is the CRA that has responsibility for the registration and regulation of charities in ROI, not the Revenue Commissioners.
- Charities which were registered with the Revenue Commissioners for charitable tax exemption purposes (i.e., had a CHY number) as at 16th October 2014 , were automatically placed on the Register of Charities.
- An organisation must be a registered charity with the CRA before applying to the Revenue Commissioners. No charity is legally required to apply to the Revenue for a CHY number unless they wish to avail of charitable tax exemption schemes

Bright

15

The size of the charity sector UK/NI

- In broad terms there are approximately than 244,000 registered charities in the UK [England & Wales, Scotland and Northern Ireland] with an estimated total annual income in excess of stg£80 billion. There are also exempt and excepted charities which are not required to register and are therefore not included in the aforementioned figures.

Bright

16

The Current Legislative and Regulatory Regime for UK Charities In England and Wales:

- The threshold at which accruals accounts must be produced by non-company charities is a gross income of more than stg£250,000.
- The threshold for a statutory audit is if either the charity's gross annual income exceeds stg£1m or its gross assets exceed stg£3.26m and gross annual income exceeds stg£250,000.
- Any parent charity where the aggregate gross income of the group (i.e., the parent charity and its subsidiaries) exceeds stg£1m after consolidation adjustments must prepare consolidated accounts.

Relevant Charities Legislation:

- Charities Act (England and Wales) 2011;
- Charities (Accounts and Reports) Regulations 2008.

Bright

17

In Scotland

- The threshold at which accruals accounts must be produced by non-company charities is a gross income of more than stg£250,000.
- The threshold for a statutory audit is if either the charity's gross annual income is stg£500,000 or more or its gross assets exceed stg£3.26m and the charity has prepared accruals accounts.
- Any parent charity where the aggregate gross income of the group (i.e. the parent charity and its subsidiaries) exceeds stg£500,000 after consolidation adjustments must prepare consolidated accounts.

Relevant Charities Legislation:

- Charities and Trustee Investment (Scotland) Act 2005
- Charities Accounts (Scotland) Regulations 2006

Bright

18

In Northern Ireland

- The threshold at which accruals accounts must be produced by non-company charities is a gross annual income of stg£250,000 or more
- The threshold for a statutory audit is if the charity's gross annual income exceeds stg£500,000.
- Any parent charity where the aggregate gross income of the group (i.e. the parent charity and its subsidiaries) exceeds stg£500,000 after consolidation adjustments must prepare consolidated accounts.
- Relevant Charities Legislation: Charities (Accounts and Reports) Regulations (Northern Ireland)
- 2015 [effective 1/1/2016]; Charities Act (Northern Ireland) 2008, 2013 and 2022.

Bright

19

Charities Governance Code

(Extract from CRA Governance Code, Nov. '18)

Contents Headings follow: [See CRA booklet for full contents]

Bright

20

What is the Charities Governance Code?

The code explains the minimum standards you should meet to effectively manage and control your charity.

- An overview of the Legal duties of charity trustees is set out as follows:
- "Ensure your charity is carrying out its charitable purposes for the public benefit, comply with your charity's governing document, manage your charity's resources responsibly, be accountable and comply with the law
- Act in the best interest of your charity, Act with reasonable skill and care " [CRA Governance Code]

Bright

21

The Six Principles of Charity Governance

Principle 1: Advancing charitable purpose

By law, charity trustees must ensure their charity promotes its charitable purpose only and that it is of public benefit.

Principle 2 : Behaving with integrity

The legal duty to act in the best interests of the charity means that charity trustees must:

- be independent; and not act in their own personal interest or the interest of other individuals or bodies.

Principle 3 : Leading people

Charity trustees are responsible for providing leadership to volunteers, employees and contractors. This includes taking their duty of care towards these people seriously and promoting a culture of respect.

Bright

22

The Six Principles of Charity Governance (continued)

Principle 4 : Exercising control

All charities, no matter what their complexity, must abide by all legal and regulatory requirements that are relevant to the work they do. The charity trustees are responsible for making sure this happens. The trustees are also responsible for a charity's funds and any property or other assets that it holds.

Principle 5 : Working effectively

Running a charity well means you need capable charity trustees who work together as an effective team. Board meetings are especially important, as this is where charity trustees exercise their collective authority.

It is also important that there is a good mix of skills, experience and background amongst charity trustees and that these are refreshed on an ongoing basis.

Principle 6: Being accountable and transparent

Accountability for your charity does not just mean accounting for the money you have brought in and spent (although that is clearly very important). It involves being open and transparent about all charity matters.

It is about being able to: stand over what your charity does and how it does it; and justify this to any person or group who queries what your charity has done or is doing.

Bright

23

The New Charities Governance Process

- " We expect all charities to meet all of the core standards set out in this Code, unless a particular core standard does not apply to a particular charity. For example, if you are a volunteer-only charity you cannot meet core standards that apply to charities that employ staff. "
- "We expect more complex charities to meet both the core and the additional standards set out in this Code. "

Bright

24

The New Charities Governance Process

- How to report compliance:
- To comply with the Code, you must complete the Compliance Record Form (included on the CRA website) every year.
- On the form, you need to identify the actions you took in the year to meet each standard.
- You must keep this Compliance Record Form as the Charities Regulator could ask you for it at any time.

Bright

25

Board of Trustees Common Governance Issues and Remedies (not an exhaustive list):

- Ineffective Board meetings due to haphazard agenda
- Failure to prioritise agenda items and inadequate time allocated for discussion
- Insufficient questioning with healthy scepticism of the key management team members e.g., annual budgets etc.
- Insufficient consideration of possible occurrence of fraud resulting in inadequate systems of internal control e.g., number and use of credit cards

Bright

26

End of Topic One

Bright

Simply brilliant software

27

The responsibilities of Trustees for the preparation of the Trustees' (Directors') Annual Report and Financial Statements

- The Trustees (Board of Directors) have a prime responsibility for the preparation of the Trustees' (Directors') Annual Report and financial statements that give a true and fair view. They are responsible for managing their charity's resource, to be accountable and comply with the law.
- It is usual that the day-to-day management of the charity is delegated to the Key Management personnel. However, the Board must retain control of the charity.

Bright

28

Overview of the Proposed Charity Financial Accounting Regulations and Charities SORP

The General Scheme of the Charities (Amendment) Bill 2022 was published on 29th April 2022.

Key Proposals of the Bill:

1) Charities SORP required for charities with income over €250,000.
2) Adoption of a Simplified Accounting Format by charities with income between €25,000 and €250,000.
3) Provide an Exemption from Audit for charities with income up to €250,000.
4) Provide for Independent Examination of financial statements for charities with income between €25,000 and €250,000.
5) Provide an exemption from the requirement to prepare and submit financial statements in a particular format for all charities with income under €25,000.
6) Provide an exemption from independent examination of financial statements for all charities with income under €25,000.

Bright

29

The contents of the Trustees' (Directors') Annual Report

The following is a listing of the main broad headings/topics that need to be addressed in the Trustees' Report:

- Objectives and activities
- Achievements and performance
- Financial review
- Structure, governance and management
- Reference and administrative details
- Exemption from disclosures (if any); and
- Funds held as custodian trustee on behalf of others.

Bright

30

The contents of the Trustees' (Directors') Annual Report

- In addition to the information required to be provided by all charities, larger charities (Income in excess of £500,000 as per Charities SORP (FRS 102) and update Bulletins), are required to disclose information on their plans for the future, including its aims and objectives and details of any activities planned to achieve them.
- 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.

Bright

31

Common Difficulties with matters for inclusion in the Trustees' Annual Report:

- Insufficient Discussion of meaningful key performance indicators
- Insufficient discussion of Reserves Policy and provision of calculations in support of the policy
- Insufficient discussion of exceptional income/expenditure and the affect of these on the organisation
- Challenge of providing meaningful charts/diagrams to help in getting message across to users of the report
- Insufficient detail in Review of performance
- Insufficient detail on charity's impact [Measuring impact is an important means of persuading or communicating with donors and for demonstrating accountability to stakeholders].

Bright

32

2.B In your pack please a Sample of Extracts from a Trustees' Annual Report for the Year Ended 31 December 2021

Peter McVerry Trust Company CLG
[presented in Black & White, 34 pages]

LauraLynn [The Children's Sunshine Home]
[presented in colour with a large range of charts etc.,102 pages]

Other examples:
www.charitiesinstituteireland.ie see triple lock list.

Bright

33

2.C The application of the Charities SORP (FRS 102) (second edition – October 2019) Financial Reporting Requirements in the preparation of the Annual Report and Audited Financial Statements of a charity.

- "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)" ("Charities SORP"). (effective 1 January 2019).
- Note: the current SORP is under review and may be revised to be effective from 1 January 2025, awaiting completion of delayed FRS102 Review.

Bright

34

1. The Structure and Content of the SORP Index of SORP modules) (14 Core modules)

1) Trustees annual report
2) Fund accounting
3) Accounting standards, policies, concepts and principles, including the adjustment of estimates and errors
4) Statement of financial activities - SOFA
5) Recognition of income, including legacies, grants and contract income
6) Donated goods, facilities and services, including volunteers
7) Recognition of expenditure
8) Allocating costs by activity in the statement of financial activities
9) Disclosure of trustee and staff remuneration, related party and other transactions
10) Balance sheet
11) Accounting for financial assets and financial liabilities
12) Impairment of assets
13) Events after the end of the reporting period
14) Statement of cash flows

- Special transactions relating to charity operations (3 modules)

1) Charities established under company law
2) Presentation and disclosure of grant-making activities
3) Retirement and post-employment benefits

- Accounting for special types of assets held (2 modules)

1) 1. Accounting for heritage assets
2) 2. Accounting for funds received as agent or as custodian trustee

- Accounting for investments, including social investments
- Accounting for branches, charity groups and combinations

Bright

35

SORP - 14 Core modules

- Brief introductory Comments:
- The requirements of FRS 102 and legal requirements take precedence over the guidance in the Charities SORP (FRS 102).
- The Charities SORP FRS 102 (2019)includes the changes required in the Update Bulletins 1 and 2.

Bright

36

The SORP uses the terms "must", "should" and "may".

- **Must follow** - no option but to do
- **Should follow** - to enhance reporting and reflect good practice
- **May follow** - refers to items that charities may choose at their discretion to adopt or to identify an alternative accounting treatment or disclosure that is allowed by the SORP.

Bright

37

The Structure of the Trustees' Annual Report and Financial Statements

- Trustees' Annual Report
- Independent Auditor's Report to Members
- Financial Statements:
- Statement of Financial Activities [SOFA]
- Balance Sheet
- Statement of Cash Flows
- Notes to the Financial Statements

Bright

38

Trustees' Annual Report [TAR]

- The SORP requires the trustees to prepare a trustees' annual report. Trustees may present the contents of their report in any order and under any headings that they choose.
- **Primary purpose of the TAR** "is to ensure that the trustees are publicly accountable to its stakeholders for the stewardship and management of the funds it holds on trust"
- **A secondary purpose of the TAR** is to provide the trustees with an opportunity to explain aspects of the activities and objectives of the charity that the financial statements cannot convey on their own
- The TAR helps explain "what the charity is set up to do, how it is going about it, and what is achieved as a result of its works. The TAR should explain the governance and management structure of the charity
- **The TAR "Should provide a fair, balanced and understandable review of the charity's structure, legal purposes, objectives, activities, financial performance and financial position"**

Bright

39

Trustees' Annual Report - the main broad headings/topics that need to be addressed in and an indication of the level of detail required:

- 1. Objectives and activities,(What was it set up to do)
- Activities undertaken
- What has been achieved
- Funds available
- Participation by volunteers, in hours etc.
- Larger charities are required to provide greater detail and commentary including their short-term and long-term aims and objectives, strategies for achieving those aims, social investment policy, Grant -making and the scale and nature of activities undertaken by volunteers.

Bright

40

2. Achievements and Performance

- The report must:
- Review the significant charitable activities undertaken
- Review the main achievements against objectives set in the reporting period
- Review the performance of material fundraising activities against the fundraising objectives set
- Review investment performance against objectives set
- Review the difference that they have made for their beneficiaries and if practicable any wider benefits to society as a whole
- Provide a description of the impact being achieved for both individual beneficiaries and at societal level

Bright

41

3. Financial Review
All charities must:

- Provide a review of the charity's financial position at the end of the reporting period
- Discuss in particular the charity's policy on reserves, stating the level held and why
- Any uncertainties regarding going concern should be highlighted and explained
- Identify any fund or subsidiary undertaking that is materially in deficit, the circumstances and proposed actions to eliminate the deficit.
- **Larger charities are required to comment on:**
- significant events that have affected their financial performance and financial position
- where relevant, material financial investments and the investment policy
- the principal risks and uncertainties facing the charity and plans for managing them
- the impact of material pension liabilities under defined benefit pension schemes.
- 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"

Bright

42

4. Structure, Governance and Management

- Provide details of the charity's governing document and how it is constituted
- Method used to recruit and appoint new trustees

Larger charities are required to provide greater detail and commentary on:

- Organisational structure including subsidiaries, if any
- Reserved powers of the trustees
- Policies and procedures for training trustees
- Relationships with wider networks and related parties

Bright

43

5. Reference and Administrative Details

- The report must state to whom the trustees delegate day-to-day management of the charity and from whom the trustees are taking advice. Details to include:
- Name of the charity as registered. Any other name which the charity uses
- Charity registration number(s) for the jurisdiction(s) in which it is registered as a charity
- Company registration number, if applicable
- Address of principal office and if relevant the registered office
- Names and addresses of those providing services;
- Banks, Solicitors, Auditor and Investment Advisers
- Names of all trustees on the date of approval of the TAR or who served in the reporting period
- Names of all directors of any corporate trustees on the date of approval of the TAR.
- Names of any trustee holding the title to property belonging to the charity at the date of approval of the TAR and financial statements or who served as a trustee for the charity in holding the title to the property during the reporting period

Bright

44

6. Exemption from disclosures

- In certain circumstances, the names of trustees, the charity's principal address, the name of the CEO or other senior staff members need not be disclosed where:
- disclosure may place the beneficiaries, trustees or staff members at risk;
- The Charities Regulator has given the charity's trustees the authority to omit certain information

7. Funds held as custodian trustee on behalf of others.

- Where a charity is, or its trustees are acting as agent or "custodian trustee" full disclosure must be given in the TAR or financial statements.

Bright

45

3. Trustees' Annual Report - Fund Accounting

- Charity trustees are responsible and accountable for the proper use of funds held and to account for the different class of funds.
- The categorisation of funds is a key feature of charity accounting. Each class of fund has unique characteristics in trust law.
- It requires that the accounting records be kept in such a way that the separate fund transactions can be identified, recorded and reported upon appropriately.
- FRS 102 does not deal with fund accounting by charities and therefore the SORP reflects the current accounting practice which charities adopting the SORP must follow.

Bright

46

Classes of Charitable Funds

- The Total Funds of the Charity may be comprised of:

Unrestricted Funds:
- General
- Designated

Restricted Funds/ Special Trusts:
- Income
- Endowment*

- *Endowment:
- Expendable
- Permanent

Bright

47

Restricted Funds/ Special Trusts:

- Restricted funds are funds that can only be used for a specified purpose. Trustees must ensure that restricted funds are not used in a way that is inconsistent with the donor restrictions.
- Typically, these funds are raised from donations, legacies or bequests, certain grants or from public appeal where the use of the funds raised is specified at the time of the appeal e.g., famine relief appeal for a specific country or location within a country. The donor/grantor specifies how the funds may be used.
- The accounting records should separately identify each restricted fund and the income received and expenditure made relating thereto.
- Where restricted funds are invested temporarily, any income derived should be added to the restricted fund.
- Restricted funds fall into one of two sub-classes:

Restricted Income Funds

- Such 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.

Bright

48

Restricted Endowment Funds:

Permanent Endowment:

- A gift of endowment, where there is no power to convert the capital into income i.e.,must be retained intact, is known as a permanent endowment fund.
- A permanent endowment fund must normally be held indefinitely. However, it is possible that 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.
- Note that 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.
- Endowment funds held as investments (quoted stocks/shares etc.) are to be stated at market value at the reporting date. Resulting gains or losses should be shown as a movement on the fund in the SOFA under the heading "Other Recognised Gains and losses".

Bright

49

Expendable Endowment:

- 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 the power to convert all or part of it into income.
- 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.

Bright

50

Accounting for Expenses Related to Endowment

- Expenses are permitted to be charged to permanent endowment funds where it is incurred in the administration and protection of the investments or property of the endowment.
- Examples of expenses are:
- fees incurred in managing the investment of the endowment
- costs of valuation fees and expenses incurred in connection with the sale of endowed land
- cost of improvements to land held as an endowment investment
- loss of value due to depreciation or impairment of an endowed property
- 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 (general funds).

Bright

51

Transfers Between Funds

- Transfers between funds should be shown on a separate line in the SOFA and should always net to nil.
- Examples are as follows:
- The transfer of assets from unrestricted funds to finance a deficit on a restricted fund
- Where restricted funds have been lawfully released and transferred to unrestricted funds
- Where charity law permits the proceeds of restricted funds to be spent for an alternative purpose e.g. When the original objective of the settlor or the testator became impossible, impracticable, or illegal to perform, the cy-près doctrine allows the court to amend the terms of the charitable trust as closely as possible to the original intention of the testator or settlor to prevent the trust from failing.

Bright

52

Other Fund Disclosures in the Notes to the Accounts

- The following must be disclosed:
- details of the movement on material individual funds in the reporting period, reconciling the opening and closing fund balances
- details of the purpose of each fund and any restrictions on any material individual fund
- 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 reasons for any material transfers between different classes of funds
- details of the planned use of any material designated funds, explaining the purpose of the designation
- where an endowment fund has been converted to income, details of the amount(s) converted and the legal power for its conversion
- Note: comparatives must be provided for the summary of assets and liabilities of each category of fund and for the detail of movements in material individual funds.

Bright

53

4.A Statement of Financial Activities – SOFA

- 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 the statement of comprehensive income in FRS 102.
- The 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.
- "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" (SORP Section 4.4).
- There should be a clear link between the activities described in the trustees' annual report and those reported in the SOFA or in the notes to the financial statements

Bright

54

Format and Structure of the SOFA

- The SORP sets out a template of the SOFA which is in columnar form. The total fund movements are analysed between Unrestricted, Restricted, Endowment.
- FRS 102 requires that comparative information must be provided for all amounts presented in the SOFA. The 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 on the face of the SOFA or prominently in the notes to the accounts.
- The favoured presentation format by many ROI charities is to provide a landscape presentation showing the current year and comparative information for the separate class of funds on the same page.

Bright

55

Format and Structure of the SOFA

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.
- 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 sub-totals.

Bright

56

Accounting for Material Items

- 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
- The disclosure 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.

Bright

57

Accounting for Extraordinary Items

Extraordinary items are material events or transactions that:

- fall outside the charity's ordinary activities
- are by their nature extremely rare; and
- are not expected to recur

Accounting for Discontinued Operations

- 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).

Bright

58

Format and Content of the SOFA

- The SORP requires that larger charities above the charity audit threshold and those smaller charities opting to report on an activity basis must classify their income and expenditure by activity .
- Income must be analysed according to the activity that produced the resources
- Expenditure must be analysed by the nature of the activities undertaken

Bright

59

4 B . INCOME

- Income is typically analysed under the following headings:
- Income and Endowments from:
- Donations and legacies
- Charitable activities
- Other trading activities
- Investments
- Other

Bright

60

Income Recognition

Income is recognised where:

- There is entitlement which usually occurs when the charity has control over the income
- Receipt of income is probable - it is more likely than not that the income will be received
- Income is measurable - can be measured reliably

All income should be reported gross.

Bright

61

Categories of income

- Income from **exchange transactions**
- (contract income e.g., sale of goods and services);
- And
- Income from **non-exchange transactions** e.g.; legacies, grants of a general nature which are not conditional on the provision of certain levels or volumes of a service or supply of charitable goods, gifts in kind, donations of cash, donations of goods, donated services that otherwise would have been purchased e.g., legal or accounting services or facilities, donations of equipment.
- The donated goods and services are required to be measured at the value to the charity (open market value for the equivalent goods or services).

Bright

62

Income and Receipt of Endowments

Income from Donations and legacies includes:

- Legacies received by the charity
- Membership subscriptions and sponsorships (where these are, in substance, donations rather than a payment for goods and services)
- Gifts and donations received
- Any tax reclaimed on amounts received as gifts or donations
- Grants of a general nature
- Gifts in kind and donated goods or services and facilities for the charity's own use or distribution to beneficiaries

Bright

63

Income from Charitable Activities includes:

- the sale of goods or services as part of the charitable activities of the charity (also known as primary purpose trading)
- Ancillary trades connected to primary purpose trading
- contractual payments from government or public authorities and other parties which fund the provision of particular goods or services e.g., the provision of care
- Performance-related grants where the income is conditional on delivering certain levels or volumes of a service or supply of goods
- The sale of goods or services made or provided by the beneficiaries of the charity
- Letting of non-investment property in the furtherance of charitable purposes

Bright

64

Income from Other trading activities includes:

Bright

- Income from non-charitable trading activities, including non-charitable trading activities of subsidiary entities consolidated into group accounts
- Shop income from selling donated and bought-in goods
- 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 letting and licensing arrangements for property held primarily for functional use by the charity but temporarily surplus to operational requirements (not income from investment properties or from properties let as part of the main charitable purpose of the charity)
- 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.
- Income from sponsorships and social lotteries which cannot be considered pure donations

65

Income from Investments

Investment income is earned from holding assets for investment purposes and includes:

- Dividends
- Interest received on cash deposits, government and corporate bonds
- Rental income from investment properties

Where income from investments is material , it must be presented as a separate heading on the face of the SOFA.

Bright

66

Other Income

Other income represents income that cannot be reported under the other analysis headings provided in the SOFA.

Where amounts are sufficiently material they may need to be presented under a separate heading in the SOFA.

Other Income includes:

- Gain on disposal of a tangible fixed asset held for the charity's own use
- Gains on disposal of programme related investments
- Royalties from the exploitation of intellectual property rights *Conversion of endowment funds into income

Bright

67

Other Income :

Bright

***Conversion of endowment funds into income**

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 conversion may arise in situations where a charity has received an endowment of a capital sum from a donor and the donor gives the trustees discretion to apply some or all of this capital sum to fund activities over time (Expendable Endowment fund).

In this instance the amount transferred will be shown as a deduction in the "other income" heading in the Endowment Funds column and the same figure will appear under the unrestricted funds column. This will ensure that the donation is not recognised twice.

Alternatively, a conversion of endowment funds into income may be included under the heading "Transfers between Funds".

Note that the relevant endowment funds on conversion 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.

68

Recognition of Income Including Legacies, Grants, and Contract Income

SORP Core Module 5 provides detailed guidance for income recognition relating to:

Donations and grants:

Terms or performance related conditions or other conditions which must be met

Defer or not to defer

Bright

69

Legacies

Entitlement to a legacy cannot arise without the charity knowing of both the existence of a valid will and the death of the benefactor.

Receipt to be recognised when it is probable that it will be received:

- Probable when there has been grant of probate
- Executors have established that there are sufficient assets after settling any liabilities to pay the legacy
- Any conditions attached to the legacy are either within the control of the charity or have been met.
- There will normally be sufficient certainty of receipt when notice of intention to pay the legacy is received from the personal representatives of the estate

Bright

70

Legacy received after the reporting date – an Adjusting Event:

- Where a notice of a legacy is received after the reporting date but before the date of approval of the financial statements by the trustees, and it is clear that the executors have agreed prior to the reporting date that the legacy can be paid;
- Then it should be treated as an adjusting event and accrued as income if receipt is probable.

Bright

71

Legacy Entitlement Uncertainty & Contingent Asset

- In some cases, a charity may have entitlement to a legacy but there is uncertainty as to the amount of the payment e.g. 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 residual 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.

Bright

72

Legacy Measurement - Fair Value

Bright

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.

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.

The unwinding of the discount should be treated as an adjustment to legacy income and not as interest receivable.

Legacy Impairment

If a legacy debtor is impaired because it is doubtful that full settlement will be received (as a result of new information) , 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.

73

Income from Donated goods, facilities and services

Recognition Criteria

- 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. They must be recognised as income when the criteria for their recognition are met.

Income Recognition Criteria:

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
- 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.

Bright

74

Income from Donated goods, facilities and services

Bright

- Measurement Bases

Donated goods must be measured at fair value.

Where there is no direct evidence of fair value, a value may be derived from:

- the cost of the item to the donor
- in the case of goods that are expected to be sold, the estimated resale value after deducting the cost to sell the goods
- If the fair value cannot be determined without undue cost or delay, then the items must be recognised as income when they are sold.

If stocks of goods for distribution to beneficiaries are received then the cost of these is deemed to be the fair value at the time of their receipt. They should be recognised as income and stock.

If they are to be distributed freely, or for a nominal consideration , then the carrying amount should be accounted for at the lower of deemed cost, adjusted for any loss of service potential and replacement cost. "Replacement cost: 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" - Bulletin 1 (February 2016). "Service potential: 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 cash inflows" - Bulletin 2 October 2018, effective 1 January 2019.

75

Accounting for Donated Facilities and Services, including Volunteers Donated Facilities and Services:

- If a charity is given facilities and services for its own use which it otherwise have purchased, these must be included in the charity's accounts when received, provided the value can be measured reliably e.g., pro-bono services such as accounting, legal or other professional advice.
- Measure and include in accounts on the basis of the value of the of the gift to the charity, i.e., the amount the charity would pay in the open market for the service. This could be determined by estimating the amount saved by not paying for the service by reference to the supplier of the service or from past experience.
- 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 SOFA.

Bright

76

Accounting for Donated Facilities and Services, including Volunteers

Accounting for Volunteers

- Charities often rely on the contribution of unpaid general volunteers in carrying out their activities, without whom the charity's activities would be reduced.
- However, placing a monetary value on their contribution presents significant difficulties.
- Given the absence of a reliable measurement basis, the contribution of general volunteers must not be included as income in charity accounts.
- 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.
- The annual report filed with the Charities Regulator also requires information to be provided regarding the number of volunteers engaged with the charity and the nature of their contribution to the charity's activities.

Bright

77

Accounting for Donated Goods and Services Capitalised as Tangible Fixed Assets

- Tangible fixed assets donated to a charity for use in carrying out its activities are recognised as such at fair value to the charity in accordance with its accounting policies and the corresponding gains are recognised as income from donations within the SOFA.
- 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 e.g., donation of services by a firm of building or electrical contractors
- Such tangible fixed assets must be subject to depreciation or amortisation and assessed for indications of their reporting at reporting date.

[It is essential to refer to the SORP guidance when in doubt as to the correct treatments].

Bright

78

4 C. Recognition of Expenditure

Expenditure is the amount of a charity's resources that have been spent or otherwise used up in carrying out its activities in the furtherance of its objectives.

An expense results in either a decrease in a charity's assets or an increase in its liabilities.

Bright

79

Recognition of Liabilities and Expenditure

Bright

A liabilty 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

A **legal obligation** arises when a charity enters into a binding contract or there is a statutory requirement to make a payment

A **constructive obligation** arises where a charity , as a result of its actions, indicates to other parties that it accepts particular responsibilities and thereby creates a valid expectation on their part that the charity will meet them.

80

Measurement of Liabilities and Expenditure

- 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.
- When a charity accrues a provision that it will settle over a number of 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.
- The discount rate to be used should reflect the cost of funds to the charity and its assessment of the time value of money. An 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, use the opportunity cost of income from investments foregone.
- The unwinding of the discount must be treated as a financing cost in the SOFA , allocated to the appropriate expenditure heading.

Bright

81

Provisions for Liabilities

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.

The charity must distinguish separately on the balance sheet provisions for liabilities and the related expenditure must be charged to the appropriate heading in the SOFA.

Bright

82

Accounting for Onerous Contracts

It may arise where the unavoidable costs of fulfilling a contract exceed the expected economic benefit derived from it. Accordingly, the charity must recognise these irrecoverable costs.

An example of an onerous contract would be when a charity leases a property which it subsequently leaves unused, and the property cannot be sub-let to recover the charity's costs.

Bright

83

Disclosure of Provisions and Funding Commitments in the Accounts

Bright

There is a requirement for charities to 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 the following information:

- A reconciliation of the movements in provisions and funding commitments
- Disclose any funding commitment that is not recognised as a liability or provision

84

4 D. EXPENDITURE

Charities must distinguish expenditure between that incurred for charitable activities and that incurred for the purpose of raising funds. An analysis of the activities included under each heading must be provided , either on the face of the SOFA or in the notes to the accounts. The activity analysis must be on a full cost basis which includes direct costs and shared costs (support costs and governance costs).

Expenditure is typically analysed under the following headings:

- Raising funds
- Charitable activities
- Other
- Gains/(losses) on investments
- Transfers between funds
- Other recognised gains/(losses)

Bright

85

EXPENDITURE

Raising Funds

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.

Examples of the types of costs incurred are:

- seeking donations, grants and legacies
- operating membership schemes and social lotteries
- organising, running/staging events, including the performance fees, licence fees and other related costs
- setting up a supporter database or setting up a new fundraising activity (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.
- contracting with agents to raise funds on behalf of the charity

Bright

86

Examples of the types of costs incurred are:

Bright

- Operating charity shops selling donated and / or bought in goods (costs will typically include: cost of bought in goods, cleaning and other costs associated with donated goods, staff costs etc.)
- Operating a trading company undertaking non-charitable trading activities e.g., running a commercial restaurant to raise funds for the charity (costs will typically include: cost or goods or services sold, staff costs, premises costs, allocated support costs etc.,)
- Advertising, marketing and direct mail materials, including publicity costs not associated with educational material designed wholly or mainly to further the charity's purposes
- Investment management costs (costs will typically include: portfolio management fees; investment advice fees: administration of the investments: costs of licensing intellectual property; agent fees for rent collection on investment properties, repairs and maintenance of investment properties*

87

*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.

*Investment management costs associated with endowment fund investments should generally be charged to the endowment fund in the SOFA.

Where investment valuation fees are incurred for accounting purposes in connection with investment properties they are normally allocated as part of governance costs to the fund that holds the assets which are being valued.

Charities may choose to expand the analysis provided within this heading for example by identifying separately:

- expenditure on raising donations and legacies
- expenditure on other trading activities
- investment management costs
- either in the SOFA or by way of an explanatory note.

Bright

88

EXPENDITURE
Charitable Activities

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 apportioned support and governance costs.

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 TAR. The sub-headings should reflect the nature of the activity undertaken.

Expenditure by a subsidiary on activities that fall within the parent charity's purposes should be analysed as charitable activity when consolidated accounts are prepared.

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 objectives or programme of work.

Costs associated with grant making include the grants actually made and the associated support costs.

The cost of charitable activities presented in the SOFA includes the costs of both direct service provision and the payment of grants

Bright

89

EXPENDITURE
Other

Other Expenditure includes amounts that is neither related to the raising of funds for the charity nor part of its expenditure on charitable activities.

Where an amount is material an additional sub-heading should be used.

Sample: 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				

Bright

90

EXPENDITURE
Gains/(losses) on investments

Items under this heading comprise realised and unrealised gains/(losses) on investment assets and investment properties including gains or losses on their revaluation in the reporting period.

Bright

91

EXPENDITURE
Transfers between Funds

Bright

Transfers between funds should be shown on a separate line in the SOFA and should always net to nil.

92

EXPENDITURE

Other Recognised Gains/(losses)

This heading includes:

- **Gains/(losses) on revaluation of Fixed Assets** (Property, plant and equipment) used by a charity and heritage and intangible assets. This heading should not be used when adjusting for a reversal in a previous charge for impairment.
- **Actuarial gains/(losses) on defined benefit pension schemes** and post-employment benefit plans
- **Other** recognised gains/(losses)

e.g.:

- hedge accounting, change in fair value that cannot be recognised as income or expenditure
- foreign exchange gains or losses arising on conversion of non-monetary assets not elsewhere included

Bright

93

Reconciliation of Funds

The opening and closing balances for each class of funds must be shown with the difference reconciled by the movement in funds in the reporting period.

Bright

94

Allocating of Costs by Activity in the SOFA

General Principles:

- Charities 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 - through its SOFA or related notes
- The analysis of activities should provide an understanding of how a charity raises its funds and uses them to further its purposes.
- e.g., charitable activities may be analysed according to services provided, projects or programmes undertaken, or by the particular aims or objectives taken forward.
- There should be consistency between the activities reported and those noted in the TAR.

The analysis must be on a full-cost basis: typically comprising of direct costs; shared costs and support costs

Bright

95

Allocating of Costs in the SOFA Methodology

Direct costs to be allocated to the activity giving rise to the costs e.g., direct salary costs

Shared costs which contribute directly to more than one activity should be apportioned between those activities on a reasonable, justifiable and consistent basis e.g., the cost of a staff member whose time is divided between a fundraising activity and working on a charitable project. Depreciation, amortisation and impairment should be apportioned using the same principles

Support costs which are not attributable to a single activity must be apportioned between the activities being supported. Support costs are likely to include finance, information technology, costs of a human resource function and infrastructure costs such as building management.

Governance costs are also considered to be support costs and should be separately identified. These costs typically include audit (internal and independent external audit), legal costs supporting trustees on governance matters , constitutional and statutory costs (filing requirements of the CRO/CRA etc.)

Where costs are specifically identifiable and relevant to a restricted fund, they should be allocated to the restricted fund unless prohibited by the terms of the gift or donation.

Bright

96

Allocating of Costs in the SOFA
Examples of bases of apportionment:

- Usage of a resource or activity in terms of time taken, capacity used, requests made or other measures
- Per capita - based on the number of people employed in an activity
- Floor area occupied by an activity
- Number of beneficiaries

Bright

97

Allocating of Costs in the SOFA
Examples of bases of apportionment:

Bright

Disclosure Requirements in Notes to the Accounts

- Details of the accounting policy adopted for the apportionment of costs between activities and any estimation technique(s) used to calculate their apportionment
- 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
- 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

98

Allocating of Costs in the SOFA

The information required for support costs and their apportionment may be provided in a tabular format.

Sample: Analysis of Support Costs

Support cost	Raising funds	Activity 1	Activity 2	Activity 3	Total current period	Total prior period	Basis of allocation
	€	€	€	€	€	€	
Governance							Text describing method
Finance							Text describing me thod
Human Resources							Text describing me thod
Functional Activity Total	x	x	x	x	x	x	

Bright

99

Allocating of Costs in the SOFA

The information required for governance costs and their apportionment may be provided in a tabular format.

Sample: Analysis of Governance Costs

Governance costs					Total
	€	€	€	€	€
Governance					
Finance					
Human Resources					
Functional Activity Total	x	x	x	x	x

Bright

100

5. General Disclosure Matters

Basis of Preparation of Financial Statements

The notes to the financial statements must include "an explicit and unreserved statement of compliance" with FRS 102 and charities must state whether the financial statements were prepared in accordance with the Charities SORP (FRS 102) and whether the financial statements were prepared in accordance with applicable charity and / or company law in the jurisdiction(s) of registration

- Legal form of the entity
- Its country of incorporation
- Address of its registered office (or principal place of business, if different from the registered office)

Bright

101

5. General Disclosure Matters

Basis of Preparation of Financial Statements

- Where a charity has applied the special sections of FRS 102 with the prefix "PBE", the financial statements should disclose that the charity meets the definition of a public benefit entity (PBE) as set out in FRS 102. In particular this applies to Incoming Resources from Non- Exchange Transactions [FRS 102 - PBE 34.64 - PBE 34.74].
- Non-exchange transactions include, but are not limited to, donations (of cash, goods and services) and legacies.
- A non-exchange transaction is a transaction whereby an entity receives value from another entity without directly giving approximately equal value in exchange or gives value to another entity without directly receiving approximately equal value in exchange.

Bright

102

5. General Disclosure Matters

Bright

- Charities that are companies should state whether they have adapted the profit and loss formats required by Schedule 3 of the Companies Act 2014 to present results in accordance with the formats provided by the Charities SORP (FRS 102), which details the income and expenditure by nature of activity.
- Also, if the reserves section of the balance sheet has been adjusted, this fact should be stated.
- The trustees should explain their reason for making these changes.

103

Accounting Policies Disclosure

- Disclosure is required of the accounting policies applied to material items or transactions and the measurement bases used
- Accounting policies should be reviewed regularly to ensure that they remain the most appropriate
- Further information will be required if there is a need to change an accounting policy as a result of a change in the requirements of FRS 102 or a voluntary change

Bright

104

Accounting Estimates

Accounting estimates are required in certain situations to apply an accounting policy.

Examples:

- Useful life of tangible fixed assets
- Impairment of fixed assets and financial assets
- Allocating of costs to activities
- Distinguishing direct costs from support costs
- Estimating provisions for bad debts, where relevant
- Determining provisions against stocks e.g. obsolescence, damage etc

Bright

105

Significant Accounting Judgements and Key Sources of Estimation Uncertainty

Charities are required to disclose the key judgements, estimates and assumptions made by management in applying accounting policies.

Examples of estimation uncertainty:

- Valuations attributed to properties
- Assumptions used to value defined benefit pension liabilities
- Depreciation assumptions
- Impairment of fixed assets

Bright

106

Significant Accounting Judgements and Key Sources of Estimation Uncertainty

Examples of judgements:

- Depreciation of Tangible Fixed Assets
- Impairments
- Property valuation
- Defined benefit pension scheme

Bright

107

Prior Period Errors

Bright

Where a material error or omission is identified in a charity's financial statements subsequent to their publication this must be corrected by restating the prior periods comparatives and if the error occurred before the prior period then the opening balances for the earliest period presented must be restated.

Full details are to be provided on the nature of the error etc.

Presentation Currency

In general, the financial statements should be prepared in the currency of the jurisdiction in which it operates and disclosed accordingly.

108

Going Concern

- When preparing the financial statements, management of an entity must make an assessment of the entity's ability to continue as a going concern.
- A charity is a going concern unless it is being liquidated or has ceased trading: or it is intended to liquidate or cease trading or have no realistic alternative but to do so.
- Usually, a minimum period of 12 months from the date of approval and signing of the financial statements is considered.

Bright

109

6. Disclosure of Trustee and Staff Remuneration, Related Party and Other Transactions

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

A transaction involving a trustee or other related party must always be regarded as material regardless of size.

Bright

110

SORP (FRS 102) Note Disclosure Topics:

Bright

- 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
- Remuneration and benefits received by key management personnel
- It is necessary to take into account the Companies Act disclosures of these items for incorporated charities.

111

SORP (FRS 102) Note Disclosure Topics:

Disclosure of Trustees' Remuneration and Benefits

Generally trustees and directors of charities do not receive remuneration or other benefits from the charities for which they are responsible or from other entities or parties connected with those charities.

The SORP requires the following information to 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 e.g., a provision in the governing document/ constitution;
- Name of the trustee receiving the remuneration or other benefits;
- Details of why the remuneration or other benefits were paid
- The amount of the remuneration paid
- The amount of any pension contributions paid by the charity on behalf of the trustee for the reporting period;
- The amount of any other benefit, e.g., termination benefits, private health insurance, provision of a car, accommodation etc.

Bright

112

Disclosure of Trustees' Remuneration and Benefits

- Where relevant, payments may be analysed between that paid to them as a trustee, if any, from that received for other services or other employment with the charity.
- It is advisable that the charity consult with the CRA and Revenue Commissioners prior to entering into these types of arrangements with trustees.
- If no remuneration or other benefits are paid to trustees, or parties connected to them, this must be stated

Bright

113

Disclosure of Trustees' Expenses

- Trustees may incur costs in fulfilling their duties e.g., in travelling to meetings, 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 the trustee.
- 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.
- The SORP requires disclosure that no trustee expenses have been incurred, or that one or more trustees has claimed expenses or had their expenses met by the charity.

Bright

114

Disclosure of Trustees' Expenses

Bright

If expenses have been incurred, the SORP requires that the following must be disclosed:

- The total amount of expenses reimbursed to trustees or paid directly to third parties
- The nature of those expenses e.g.,travel, subsistence , accommodation, entertainment etc.
- The number of trustees reimbursed for expenses or who had expenses paid by the charity
- There is no requirement to provide the names of individual trustees.
- If a trustee has incurred expenses on behalf of the charity that are material and does not reclaim them, the amount of these waived expenses must be disclosed.

115

Transactions with Related Parties that Require Disclosure

- Related Party is a term used to identify those persons that are closely connected to the reporting charity or its trustees.
- 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.
- Requirements in relation to Related Parties are governed by the Charities SORP (FRS 102), Charities Act 2009 and the Companies Act 2014.
- In considering a possible related party relationship, a charity must assess the substance of the relationship and not merely its legal form. On occasion legal advice may be necessary.

Bright

116

Transactions with Related Parties that Do Not Require Disclosure

- Donations received by the reporting charity from a trustee or a related party provided the donor has not attached conditions
- Services provided on a voluntary basis as an unpaid general volunteer by a trustee or 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
- 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
- The payment or reimbursement of out -of -pocket expenses where the trustee acts as agent for the charity

Bright

117

Disclosure of Related Party Transactions

If there have been no related party transactions in the reporting period that require disclosure this fact must be stated.

Related party transactions take a variety of forms. They may be in the normal course of the charity's activities or they may be significant one-off transactions.

Related party transactions may typically include:

- Trading transaction (purchases and sales of goods)
- Leases
- Donations (of goods, property, money or other assets
- The supply of services by the charity to the related party and vice versa
- The provision of loans and guarantees
- The settlement of liabilities on behalf of the charity
- The above list is not intended to be an exhaustive list and care needs to be taken to identify all related party transactions and ensure that they are transacted in an open and transparent manner in accordance with the charity's policies and procedures. accommodation etc.

Bright

118

Where a charity has one or more related party transactions they must disclose:

- The **description of a relationship** between the parties
- A **description of the transaction**
- The **amounts** involved
- **Outstanding balances** with related parties at the reporting date and any provisions for bad doubtful debts
- Any **amounts written off** from such balances during the reporting period
- **Terms and conditions**, including any security and the nature of the consideration to be provided in settlement
- **Details of any guarantees** given or received
- **Any other elements** of the transactions which are necessary for the understanding of the accounts
- **The name(s)** of the related party or parties

Bright

119

Disclosure of Audit, Independent Examination and Other Financial Service Fees

If a company is regarded as being a micro, small or medium -sized company it is not required, under section 322 of the Companies Act 2014, to disclose information in relation to the auditor's remuneration.

However , the Charities SORP (FRS 102) does require disclosure of the amounts payable to the auditors or independent examiner analysed as follows:

The SORP requires the following information to be provided for each individual trustee who received remuneration or other benefits in the reporting period:

- statutory audit or independent examination
- assurance services other than audit or independent examination
- tax advisory services; and
- other financial services e.g., consultancy, financial advice or accountancy services

Bright

120

Disclosure of Ex-gratia Payments

- 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.
- Legal advice should be obtained before making ex-gratia payments and trustees should consider whether the approval of the CRA or other stakeholder is required.

The following disclosures apply in respect of each ex-gratia payment (or in aggregate):

- Explanation of the nature of the payment
- The legal authority or reason for making the payment
- The amount of the payment (or the value of any waiver of a right to receive an asset)

Bright

121

Disclosure of Staff Costs and Employee Benefits

- The 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 [Gross]
- Social security costs [Employer PRSI]
- Employer's contribution to a defined contribution pension scheme
- Operating costs of a defined benefit pension scheme (excluding pension finance costs related to the defined benefit pension scheme)
- Other forms of employee benefits

Bright

122

Disclosure of Staff Costs and Employee Benefits (continued)

Where relevant, a charity must state, in respect of Redundancy or Termination Payments for the reporting period:

- The total amount
- The nature of the payment
- The accounting policy
- The extent of funding at the reporting date

Bright

123

Disclosure of Staff Costs and Employee benefits (continued)

Bright

- Where a connected or independent company / organisation employs and remunerates the employees who work in the charity, the nature of the arrangement and the amounts involved should be disclosed.
- Arrangements in place with third parties for the provision of staff should also be disclosed, e.g., agency staff arrangements in healthcare organisations.

124

Disclosure of Staff Costs and Employee Benefits (continued)

The SORP requires that all charities must disclose the following:

- Average head count (number of staff employed)
- This may be extended to provide details of the average 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 may be provided of staffing according to the number of staff engaged in particular activities of the charity

Bright

125

Disclosure of Staff Costs and Employee Benefits (continued)

Charities must also disclose:

- Details of the number of employees whose total employee benefits (excluding employer pension costs and employer social insurance costs) are more than €70,000 upwards, in bands of €10,000. Some government bodies in the Republic of Ireland may set this threshold at a lower level of €60,000 upwards [e.g., HSE], in bands of €10,000.
- If there are no employees who received benefits (excluding employer pension costs and employer social insurance costs) in excess of €70,000 then this fact must be disclosed.

Bright

126

Sample: Salary Range (Excluding employer pension and social insurance contributions)

Salary range	Number of employees	Number of employees
€	2022	2021
140,001 - 150,000		
130,001 - 140, 000		
120,001 - 130,000		
110,001 - 120,000		
100,001 - 110,00		
90,001 - 100,000		
80,001 - 90,000		
70,001-80,000 [SORP Requirement]		
60,001 - 70,000 [HSE Requirement]		

Bright

127

Remuneration and Benefits Received by Key Management Personnel

Bright

- 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 trustees.
- FRS 102 uses the term "key management personnel" to describe the trustees and senior management of the charity.
- The FRS 102 Appendix 1 - Glossary of Terms, defines Key Management Personnel as "persons having authority and responsibility for directing and controlling the activities of the charity, directly or indirectly, including any director (whether executive or otherwise) of the entity".

128

Remuneration and Benefits Received by Key Management Personnel

- Charities must disclose the total amount of any employee benefits (including employer pension contributions) received by trustees and its key management personnel for their services to the charity.
- Individual salaries of members of the team do not have to be disclosed.
- A charity may wish to provide further information on the amount paid to its chief executive or highest paid employee. It may also choose to provide details of benefits paid to key management on an individual basis.

Bright

129

7. Balance Sheet

General Comments:

- All charities preparing accruals accounts must prepare a balance sheet at the end of each reporting period which gives a true and fair view.
- The balance sheet sets out a summary of the assets and liabilities of a charity at its reporting date.
- The objective of the balance sheet is to show the resources available to the charity and whether the resources are available for all purposes of the charity or whether they are restricted and have to be used for specific purposes because of legal restrictions placed on their use.
- The Charities SORP (FRS 102) delineates the structure to be adopted for the format of a charity's balance sheet. Corresponding amounts must be provided for each heading in the balance sheet.
- The same format of the balance sheet should be used from year to year unless there are special reasons for a change, and in such circumstances a note should be included to explain the reason for the change.

Bright

130

Balance Sheet Format:

The balance sheet format is similar to a standard company balance sheet format with a few important differences.

- Fixed assets may include Heritage Assets

The Total Funds of the charity is analysed between:

- Endowment funds
- Restricted income funds
- Unrestricted funds (including designated funds)
- Revaluation reserve
- Pension reserve (if applicable)

Bright

131

Balance Sheet

Fixed Assets include:

- **Intangible assets**

examples:

- Goodwill purchased on acquisition of a business,
- Licences,
- Concessions,
- Patents,
- Trademarks,
- Software, depending on the purpose of software costs they may be treated as an intangible or as a tangible fixed asset.

Bright

132

Intangible assets

Bright

- Internally generated intangible assets must not be capitalised.
- Expenditure on research must always be written off.
- Expenditure on development may be capitalised but rigorous criteria must be met.
- Intangible fixed assets may be revalued.
- Intangible assets should be amortised over their useful life; if useful life cannot be estimated, it is presumed not to exceed ten years.
- Where a charity has intangible assets, it must provide comprehensive information

133

Tangible assets

The general rule is that tangible fixed assets must be measured initially at their historical cost.

- A charity may choose to adopt a policy of revaluation of one or more classes of assets.
- Any part of a revaluation reserve arising from a revaluation of an asset held by a restricted fund must be included in restricted reserves.
- Items donated to a charity for on-going use e.g.,property, motor vehicles, furniture etc., are recognised as tangible fixed assets and the corresponding gain is recognised in the SOFA as income from donations.
- Borrowing costs, that are directly attributable to the construction of tangible fixed assets, may be capitalised or may be written off as an expense in the SOFA as they are incurred.
- Where a charity leases a tangible fixed asset, that asset must be capitalised in a similar fashion to a direct acquisition of a tangible fixed asset. The asset should be depreciated in accordance with its depreciation policy for tangible fixed assets.

Bright

134

Heritage Assets

- SORP Section 18 - Accounting for special types of assets held - Heritage Assets, provides detailed guidance on accounting for heritage assets and should be referred to by any charity holding heritage assets.
- "A heritage asset is a tangible 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" SORP Section 10.39.
- "It is important to note that an asset may have the attributes of a heritage asset, e.g., 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" SORP 18.4.

Bright

135

Heritage assets

Examples of Tangible Heritage Assets are:

- Paintings,
- Religious artifacts
- Sculptures
- Manuscripts
- Museum collections
- Art collections
- Archives
- Abbeys, monasteries, cathedrals and historic churches and monuments and associated artefacts (artifacts) where a contribution to knowledge and culture is ancillary to faith or other purposes

Example of an Intangible Heritage Asset:

A library of digital recordings or film rights can be a heritage asset if it is held for its contribution to knowledge and culture

Bright

136

Heritage Assets

Recognition and Measurement

- If donated, heritage assets should be measured initially at either their cost or valuation.
- Charities may adopt any reliable valuation technique to estimate the fair value of a heritage asset e.g., market value, depreciated replacement cost.
- 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.
- A note should set out the nature of the asset and its accounting treatment. If purchased, the cost will be known, and the asset should be recognised at that amount.

Heritage assets

Heritage assets must be reported as a separate class of fixed assets on the balance sheet.

There are extensive disclosure requirements regarding heritage assets, including a summary of transactions for the reporting period and for each of the previous four reporting periods.

Bright

137

Investment Assets

Bright

- Fixed asset investments are held by charities to generate income or for their investment potential or both. Such investments must be shown as a separate category within fixed assets.
- Fixed asset investments exclude those held specifically for sale or those which the charity expects to realise within 12 months of the reporting date.
- Investment gains and losses, whether realised or unrealised, are combined and shown in the heading "Gains /(Losses) on investments in the SOFA.

138

Investment Assets

Investments include:

- Investments (quoted shares and bonds) listed or traded on a recognised stock exchange
- Investment properties
- Unlisted investments - private equity holdings
- Social investments

Bright

139

Investments

Measurement and Recognition

- Investments (quoted shares and bonds) listed or traded on a recognised stock exchange are measured initially at cost and subsequently at fair value (market value) at the reporting date

Investment properties

- Measured initially at cost and subsequently at fair value at the reporting date. Investment properties measured at fair value must not be depreciated.
- Unlisted investments - private equity holdings are measured initially at cost and subsequently at fair value at the reporting date.

Bright

140

Investments
Measurement and Recognition

Social investments

The term "Social Investments" is used in the SORP to describe programme related and mixed motive investments. Programme related investments are held to further the charitable purposes of the investing charity and the achievement of a financial return is incidental to furthering the charitable purposes. Mixed motive investments are a form of social investment which has two purposes i.e., partly to further the charitable purposes and partly to generate a financial return.

Bright

141

Investments

Measurement and Recognition
Examples of mixed motive investments:

- Repayable loans
- Non - repayable loans (quasi equity)
- Concessionary loans (interest free or below prevailing market rates)
- Equity investments (ordinary or preference shares)
- Property letting
- Performance related income
- Profit sharing arrangements
- Partnerships
- Guarantees

Bright

142

Bright

Investments
Measurement and Recognition

Social investments:

- A charity engaging in social investments needs to consider carefully the nature of the arrangement and account for the substance of the arrangement (not just the legal form).
- Accounting for and disclosure of Social Investments is discussed in detail in Section 21 of the SORP and should be referred to for detailed guidance.

Disclosures:

- 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 and disclosed separately in the note to the accounts analysing investments.

143

Current Assets

Bright

- Stocks
- Debtors
- Investments held for resale
- Cash
- A charity must provide details of relevant accounting policies and bases of measurements.

144

Liabilities

- Creditors: amounts falling due within one year
- Creditors: amounts falling due after one year
- Provisions for liabilities e.g. Restructuring, Onerous contracts
- A charity must provide details of relevant accounting policies and the basis on which creditors and provisions for liabilities and charges are recognised and measured.

Bright

145

Contingent Liabilities and Contingent Assets

A charity must provide full details including an estimate of any financial effect.

Commitments
All material capital and other commitments need to be disclosed.

- Capital - "contracted for" and "Authorised by the trustees but not contracted for" at the reporting date.
- Future minimum lease payments
- Other commitments

Bright

146

Defined Benefit Pension Scheme Asset or Liability

See SORP module seventeen for detailed guidance

147

Accounting for Financial Assets/Liabilities

Bright

All charities are likely to have financial assets and liabilities (Financial Instruments).

A financial asset represents financial resources available to the charity and examples include investments in equities or bonds, debtors and cash.

A financial liability on the other hand is a financial claim on the charity's resources e.g., loans, creditors.

FRS 102 section 11 [Basic Financial Instruments] and section 12 [Other more complex Financial Instruments Issues] provide detailed guidance.

Accounting for Financial Assets/Liabilities [Financial Instruments]: The table below lists the common basic financial instruments and the measurement bases that a charity must use. Charities normally measure a basic financial asset or liability on its initial recognition at the amount receivable or payable including any related transactions costs. However, if initially measured at fair value, transaction costs are not included in the measurement of financial assets or liabilities, but rather the transaction costs are treated as an expense.

148

Accounting for Financial Assets/Liabilities [Financial Instruments]
Common Basic Financial Instruments
Table 7 - Charities SORP (FRS 102)

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 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 held on 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 that 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

149

Bright

Subsequent Measurement of Financial Assets/Liabilities [Financial Instruments]
The subsequent measurement of a financial asset and a financial liability depends on their nature and settlement dates. The carrying amount at the reporting date must be calculated without any deduction for transaction costs that may be incurred on sale or disposal.

Financial Instrument	Subsequent Measurement
Current assets and current liabilities	Must be measured at the cash or other consideration expected to be paid or received and not discounted
Overdraft (loan payable on demand)	Amount of overdraft facility drawn down
Debt instruments - e.g., bank loan	Measured at amortised cost using the effective interest method
Investment in shares; publicly traded	Measured at fair value (market value)
Investment in shares; not publicly traded	Measured at cost less - if fair value cannot be established using a valuation technique

150

Accounting for Financial Assets/Liabilities

Bright

[Financial Instruments]

Impairment of Financial Assets

- Charities must assess all financial assets measured at amortised cost or fair value for impairment at each reporting date.
- An impairment loss arises when the recoverable amount of a financial asset is less than the carrying amount
- Any impairment loss must be recognised immediately in the SOFA under the appropriate headings under which the initial gain was recognized.

151

Accounting for Financial Assets/Liabilities

Bright

[Financial Instruments]

Derecognition of a Financial Asset

A financial asset can only be derecognised where;

- The contractual rights attaching to the asset have been settled or expired
- All the significant risks and rewards of the asset are transferred to another party
- Where some of the risks and rewards are retained - any rights and obligations retained should be recognised separately.

Derecognition of a Financial Liability

A financial liability should only be derecognised when it is extinguished or settled.

152

Accounting for Financial Assets/Liabilities

[Financial Instruments]

Bright

Disclosures Required in respect of Basic Financial Instruments:

- Measurement bases and accounting policies;
- The carrying amount of financial assets measured at fair value through income and expenditure;
- The carrying amount of financial assets measured at amortised cost [not required from 1 January 2019];
- The carrying amount of financial liabilities measured at fair value through income and expenditure;
- The carrying amount of financial liabilities measured at amortised cost [not required from 1 January 2019];
- The carrying amount of financial liabilities measured at cost less impairment [not required from 1 January 2019];
- Information about the significance financial instruments to the charity's financial position or performance e.g., terms and conditions of loans or the use of hedging to manage financial risk;

153

Disclosures Required in respect of Basic Financial Instruments:

Bright

- For all financial assets and 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 liabilities measured at fair value, and financial assets and liabilities measured at amortised cost;
- The total interest income and expense for financial assets and liabilities that are not measured at fair value ;
- The amount of any impairment loss for each class of financial asset;
- The risks arising from financial instruments where they are particularly significant to the charity (e.g., they are principal financial risks for the charity - effective 1 January 2019)

154

Impairment of assets

An impairment loss occurs when the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs to sell the asset and its value in use.

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.

FRS 102 section 27 provides detailed guidance on impairments.

Indicators of impairment:

- Significant decline in an asset's market value
- Significant changes in technology or markets giving rise to negative impacts for the charity
- An asset becoming idle or disposal plans earlier than expected
- Evidence of an asset's obsolescence or physical damage
- Charity incurring a net deficit and projections are showing negative trend

155

Accounting for Impairment Losses and Reversals

- 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 and must be recognised as expenditure in the SOFA.
- The impairment loss must be charged to the heading(s) under which the asset is deployed.
- On occasions, the recoverable amount of an asset may increase as a result of external conditions or an increase in the expected use of the asset. In such circumstances the previous impairment loss should be reversed and recognised in the SOFA as a reduction in expenditure.

Bright

156

Accounting for Impairment Losses and Reversals

Required Disclosures:

- The following information must be provided in the notes to the accounts;
- The amount of impairment losses recognised in the SOFA during the reporting period and the heading(s) under which the impairment losses are included
- The amount of reversals of any impairment losses recognised in the SOFA during the reporting period and the heading(s) under which the impairment losses were reversed

In addition, a charity must disclose a description of the events and circumstances that led to the recognition or reversal of an impairment loss.

157

Events After the End of the Reporting Period

FRS 102 section 32 sets out in detail the requirements in respect of Events After the End of the Reporting Period.

Charities are required to assess the effect of events occurring between the end of the reporting period and the date of approval of the accounts to see whether adjustments to amounts or disclosures are necessary. Such events fall into two categories.

Adjusting events

- An adjusting event provides evidence of conditions existing at the reporting date which affect items in the balance sheet and items reported in the SOFA. The charity must review and amend the amounts recognised in the accounts and any related disclosures in the notes to the accounts to reflect adjusting events.

158

Events After the End of the Reporting Period

Examples of adjusting events

- Identification of material fraud, misstatement or error
- New information regarding an impairment of an asset
- 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
- Indication that the charity may not be a going concern

159

Events After the End of the Reporting Period

Non-adjusting events

Non-adjusting events relate to conditions that arose after the end of reporting period. The disclosure of non-adjusting events provides useful and relevant information about the charity to users of the accounts.

Examples:

- The commencement of major litigation
- Entering into significant commitments or the identification of material contingent liabilities or proving of material guarantees
- A material decline in the market value of investments
- Opening of a new branch
- Major purchase of asset
- Announcement or commencement of the implementation of a major restructuring

160

8. Statement of cash flows

The statement of cash flows assists users of the charity's accounts to understand how the charity generated cash during the reporting period and what it has done with the cash. It also is helpful in assessing a charity's liquidity and underlying solvency.

The statement identifies a charity's cash flows and the net increase or decrease in cash and cash equivalents in the reporting period.

Cash is defined as "cash on hand and deemed deposits". 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 usually have a maturity of three months or less.

Cash and cash equivalents include:

- Demand deposit accounts
- Current accounts bank overdrafts (repayable on demand and those that form an integral part of the charity's day-to-day cash management)
- Investment bank accounts
- Investments with a short maturity date e.g., short-dated gilts

161

Structure of the Statement of Cash Flows

- Cash flows must be analysed over three headings:
- Operating activities
- Investing activities
- Financing activities
- In addition, a Reconciliation of Net Debt is to be included as a note [from 1st January 2019].

162

Structure of the Statement of cash flows

Operating activities

- Operating activities are the principal income producing activities of a charity that are recognised as income and expenditure in the charity's SOFA.

Investing activities

- Investing activities include the acquisition or disposal of investments and the cash generated from holding investment assets (excludes highly liquid investments which are included in cash equivalents). It also includes the acquisition or disposal of tangible fixed assets.

Examples:

- Receipts from interest and dividends, rental on investment properties, proceeds from the sale of tangible fixed assets, payments to acquire tangible fixed assets, receipts from the sale of investment properties

163

Structure of the Statement of cash flows

Financing activities

Financing activities include borrowings and gifts of permanent endowment or expendable endowment funds. Endowment funds are considered to be "capital" as they must be invested or retained.

Examples:

- Receipts from donations of endowment
- Receipts from borrowings
- Repayments of borrowings
- Payments in respect of finance leases
- Receipts from the use of a bank overdraft facility ((if not treated as part of cash equivalents)
- The cash flow methodology may be either through using the Indirect Method or the Direct Method. The Indirect method is the most commonly used due to being the most straight forward.

164

Structure of the Statement of cash flows

Disclosures:
- Reconciliation of Net Debt is to be included as a note
- If a charity is holding a significant level of cash or cash equivalents and these are not available for use to further charitable activities, the charity must disclose the amount unavailable and explain why.

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.

165

8. Presentation and Disclosure of Grant-Making Activities

Module 16 of the Charities SORP (FRS 102) applies to all charities where grant-making is a material component of their charitable activities.

FRS 102 does not contain any specific requirements and module 16 sets out the specific disclosure requirements for grant-making charities.

A grant is a voluntary payment made by a charity to further the purposes of the charity to either a person or institution. Grants may be made to fund the general purposes of, or for a specific purpose of, the recipient.

Such grant payments may be unconditional or subject to conditions which must be met before the recipient is entitled to the payment.

2023

166

Presentation of Grant - Making Activities

Bright

- **Grants made must be included under the heading of "expenditure on charitable activities" in the SOFA**
- **Information provided should help the user to understand how grants made relate to the purposes and policies of the charity**
- **Trustees' Annual report should discuss the details**

167

Presentation and Disclosure of Grant-Making Activities

- The notes to the accounts should provide the users 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.

168

Grant-Making and Support Costs

A charity preparing its accounts on activity basis must include related support costs, for example:

- Pre grant award (grant application process)
- Monitoring costs post grant award
- Support costs relating to grant-making activities (shared costs, etc.)

Types of Grant-Making Activity:

- Grants to individuals
- Grants to institutions

Bright

169

Disclosure of Grant-making Activities

The notes to the accounts should contain:

- The total amount of grants paid analysed between grants to individuals and those 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

Table 12 Analysis of Grants Charities SORP (FRS 102) Activity Funded Wholly Through Grant Making

Analysis	Grants to Institutions	Grants to individuals	Support costs	Totals
	€	€	€	€
Activity or project 1				
Activity or project 2				
Activity or project 3				
Total				

170

Disclosure of Grant-making Activities

The following analysis is appropriate where charities undertake their activities by providing services directly and by funding of third parties

Table 13 Analysis of Charitable Activities Charities SORP (FRS 102) Activity Carried Out Through Direct Service or Programme Activity and Grant Funding of Third Parties

Analysis	Activities undertaken directly	Grants funding of activites	Support costs	Totals
	€	€	€	€
Activity 1				
Activity 2				
Activity 3				
Total				

171

Accounting for Branches, Charity Groups and Combinations

Charities should refer to Section 9 of FRS 102, "Consolidated and Separate Financial Statement" and sections 23 to 29 of Charities SORP (FRS 102) for guidance on accounting for branches, charity groups and combinations.

There are important considerations to be made regarding the requirements to consolidate, applicable exemptions, exclusions etc.

Guidance on the application of Consolidation Procedures is set out in Section 9 of FRS 102.

Bright

172

Accounting for Branches, Charity Groups and Combinations

Bright

The following disclosures must be provided in the consolidated accounts:

- 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
- Disclose if the reporting date of any subsidiaries is not coterminous with that of the parent
- The nature and extent of any significant restrictions on the ability of subsidiaries to transfer funds to the parent charity e.g., cash dividends, repayment of loans.
- The value of any non-controlling interest (minority interest) as a separate heading in the balance sheet after "Funds of the charity" heading.
- The name of any subsidiary excluded from consolidation, and the reason for its exclusion
- The nature and extent of any interests in unconsolidated Special Purpose Entities (SPEs), and the risks associated with those interests (Effective 1 January 2019, Update Bulletin 2).

173

Accounting for Branches, Charity Groups and Combinations

Bright

The following disclosures must be provided in relation to each material subsidiary in the notes to the consolidated accounts:

Note disclosure:

- **Name, company registration number and, if applicable, its charity registration number and its CHY number**
- **The means of control of the subsidiary, i.e.,percentage of equity held or other means of control**
- **The aggregate amount of its assets, liabilities and funds at the end of the reporting period**
- **A summary of its turnover (or gross income) and expenditure and its profit or loss (surplus or deficit) for the reporting period**

174

Accounting for Branches, Charity Groups and Combinations

If a charity has a large number of subsidiaries, the charity may limit the disclosure to those subsidiaries that have a material effect on the amounts shown in the consolidated accounts.

On acquisition of a material subsidiary during the reporting period the charity must disclose the following:

- Date of acquisition
- The cost and consideration i.e. by cash, debt instrument or other means
- The useful life of goodwill and, if this cannot be reliably estimated, the supporting reasons for the period chosen (maximum period to be used is 10 years where the useful life cannot be reliably estimated - Update Bulletin 1)
- The periods in which any negative goodwill will be recognised
- The amounts recognised for each class of assets, liabilities and contingent liabilities at acquisition.
- A qualitative description of the nature of intangible assets, including goodwill (Update Bulletin 2, effective 1 January 2019)

175

Accounting for Branches, Charity Groups and Combinations

Bright

Branches

Charity SORP (FRS 102) Section 25 applies to charities that operate through branches.

FRS 102 does not deal with accounting for branches.

The term "branch" is used to describe a charity's administrative internal structure arranged to carry out activities according to function, location or other suitable factors.

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.

Bright

176

Accounting for Branches, Charity Groups and Combinations

- What is a Branch
  - Indicators that an Entity is a Branch:
    - Uses the same name of the charity
    - Raises funds exclusively for the reporting charity and/or its local activities
    - Uses the charity's registration number, logo, letterheads, publicity and website
    - Uses the charity's CHY number to claim tax relief
    - It represents itself to the public as the reporting charity's local representative
    - Receives support from the reporting charity via; advice, publicity materials, advocacy

Bright

177

Accounting for Branches, Charity Groups and Combinations

Associate

- Charities that have investments in "Associates" and " Joint Ventures " must follow specific accounting and disclosure requirements under FRS 102 and Charity SORP FRS 102.
- An associate is an entity over which the investing charity has significant influence (20% or more of the voting power, unless it can be clearly demonstrated that significant influence does not exist) but it is not a subsidiary or joint venture.
- Where consolidated accounts are prepared , the charity must use the equity method to measure its interest in the associate.
- The investment in the associate must be classified as a fixed asset investment and separately identified in the balance sheet or in note to the accounts.

Bright

178

Accounting for Branches, Charity Groups and Combinations

Joint Venture

- As per the Charities SORP (FRS 102) 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.
- In a joint venture entity, there will be a contractual agreement between the parties that share control of the entity.
- Joint control exists only where the strategic financial and operating decisions relating to the activity require unanimous consent of the parties sharing control.
- Where consolidated accounts are prepared , the charity must use the equity method to measure its interest in the joint venture.
- 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.

Bright

179

10. Common Charity Risks and Related Frauds

Areas of Risk:

- Limited knowledge of Trustees of their roles and responsibilities
- In smaller charities over representation by trustees who are service users of the charity may limit the number of non-users who may have particular skills appropriate to run a board of trustees effectively
- Limited involvement of trustees (directors) in key decision making by the charity
- Limited monitoring of transactions
- Limited engagement with charity staff
- Excessive influence of a dominant individual (e.g., chairperson) or group
- Lack of formal organisation structure setting out roles and responsibilities of staff (particularly Key Management)
- Tone at the top lacking in emphasis on Ethics and good governance
- Weak financial and internal controls and insufficient division of duties and rotation of duties, lack of accountability

Bright

180

Common Charity Risks and Related Frauds

Areas of Risk (Continued):

- Lack of defined schedule of matters and material transactions designated for approval by the trustees (including use of Charity Company Seal)
- Widespread network of branches or operations with a high degree of autonomy
- Significant reliance on volunteers with insufficient management of their activities
- Cash based transactions, income and expenditure
- Unpredictable income flows (grants, legacies, donations etc.) and related management of cash flows
- Undisclosed related party transactions with conflicts of interest
- Absence of a risk register and failure to monitor key risks

Bright

181

Common Charity Risks and Related Frauds

Areas of Risk (Continued):

- Lack of challenge or oversight by trustees (directors)
- Reputational risk - failure to respond to threats to the "Good Name" of the charity
- Data breach - inadequate procedures to prevent breaches of GDPR and insufficient insurance cover
- Inadequate insurance - insufficient insurance cover for risky activities of the whole organisation including branches
- Mission creep – the charity follows money and does not remain true to its mission
- High level of turnover among the management team and among employees in general - may weakened the organisation's memory regarding how transactions are processed resulting in less attention to necessary controls procedures

Bright

182

Common Charity Risks and Related Frauds

Areas of Fraud Potential (not an exhaustive list):

- Theft of donated cash
- Theft of valuable donated goods
- Misappropriation of funds through:
- - wrongful use of credit cards (including cash withdrawals), excessive number of credit cards in use. Board should approve card allocation and credit limits.
- -Expense claims - excessive /inflated, e.g., extravagant spending on travel, restaurants, personal items (designer clothes etc.)
- -Unauthorised or improperly authorised expense claims
- Non- disclosure of conflict of interest by a related party in the awarding of contracts
- Unauthorised fundraising - misuse of charity name and theft of funds
- Unauthorised disposal of charity assets and theft of proceeds

Bright

183

Common Charity Risks and Related Frauds

Areas of Fraud Potential (Continued) (not an exhaustive list):

- External third-party hacking attacks - credit card scams
- false invoicing
- "GoFundMe" fundraising for an individual with a particular disability or condition and giving the impression that they are connected to a particular charity without the knowledge or approval of the charity
- "The time is always right to do what's right" Dr. Martin Luther King

Bright

184

11. Appendix 1 - List of Useful Resources

Websites:

Charities Regulator - www.charitiesregulator.ie
The Wheel - www.wheel.ie
Charities Institute - www.charitiesinstituteireland.ie
Boardmatch Ireland - www.boardmatchireland.ie
Carmichael House - www.carmichaelcentre.ie
Companies Registration Office - www.cro.ie
Data Protection Commission - www.dataprotection.ie
DFI (Disability Federation of Ireland) - www.dfi.ie
Charity SORP - www.charitysorp.org

Bright

185

End of session 1

Any questions?

Bright

186

Practical application of Surf AP for charities

[Charity SORP (FRS 102) Compliant]

Bright
Simply brilliant software

187

Product Demo

Bright

188

Application of Surf AP for Charities' Accounts

- **We have a very useful guide on our help site that can be used for future reference on the setup of charity accounts in Surf AP**
  https://surfaccountingsoftware.zendesk.com/hc/en-gb/articles/11205088814225-Charity

- **How to setup restricted and unrestricted funds**
  - Accounting for the particular funds held by a charity is a fundamental feature of charity accounting. There are two primary classes of funds; those that are unrestricted in their use and can be spent for any charitable purpose, and those that are restricted in their use and can only be used for a specific purpose.

  How to setup activities – 12 different types of activities
  (5 Income, 5 Expenditure, exceptional items and realised gains/losses)
  A charity's Statement of Financial Activities (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.
  - 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
- Activities related to Income are analysed by Fund, Activities related to Expenditure are analysed by Cost.

Section

189

Overview and setup of Costs

- 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.
- 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:

Section

190

Overview and setup of Costs

- 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.

- **Important points to note**

1. Nominal codes have no impact on the Statement of Financial Activities or the Income/Expenditure analysis by activity/fund notes. These pages only use the Funds, Activities and Costs to produce figures.
2. You cannot post unrounded figures in a charity

Section

191

4. Posting entries on charity datasets

- **How to do a journal posting**
- **How to do a comparative journal posting**

Important points to note when posting
Posting Funds in Journals
Every line item MUST have a fund assigned.

Posting by Activity
- When posting journals all profit and loss items require that an Activity is assigned.
- If you do not assign an Activity the posting will not appear on the Statement of Financial Activities and applicable notes.
- Balance Sheet items should never have an activity assigned to them.
- The Activity selected will determine where on the SoFA the amount will show and in which notes the item is analysed.
- **Posting Costs in Journals**
- Only items relating to Expenditure should have Costs assigned to
- A cost must be assigned if you want it analysed in the Expenditure notes to the SoFA.
- Income should not be analysed by costs, do not assign costs to income
- All amounts associated with a cost and an expense activity will be broken down in the notes to the accounts. **Support** cost types will have additional disclosures in the notes to the financial statements as these are required to be analysed in detail.

Section

192

Compliance Database on Charity Dataset

Directors Report

Within the Report Information under Directors' Report section there are over 70 user definable fields which enable the user to modify the Directors Report to the charities particular requirements.

These user definable fields cover all ranges of items required in the report, for example:

- Compliance Statement
- Mission, Objectives and Strategy
- Structure, Governance and Management
- Committee Details
- Financial Review
- 10 User Defined Additional Paragraphs

Section

193

Compliance Database on Charity Dataset

Statement of Financial Activities

- The SoFA section of the compliance database allows for one user definable line of text on the Statement of Financial Activities to be modified. This item allows the user to enter an additional descriptive breakdown under Income from Charitable Activities. If the default text is removed from this text box the additional line will not show on the SoFA.

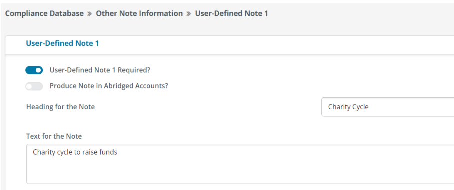
Section

194

Compliance Database on Charity Dataset

Other Note Information

- In Other Note Information you can enter additional information in relation to a number of sections in your financial statements. Each section contains user definable text boxes where more detail can be added. Each section is triggered by options that you have selected in the Compliance Database or by postings made to the nominal ledger. User defined Notes can also be added.



Section

195

Questions & Answers

Bright

196