

Chiene + Tait LLP

Response to Invitation to Comment Draft Update Bulletin 2

Chiene + Tait LLP is pleased to have the opportunity to respond to the proposals relating to Update Bulletin 2.

Although we acknowledge the reasons provided by the SORP making body for not issuing an updated SORP, and instead effecting the amendments to FRS 102 by issuing a second Update Bulletin, we consider that this may add confusion to the application of the SORP in preparing accounts. Those preparing accounts will have to refer to Updates Bulletins 1 and 2 alongside the SORP and FRS 102, and in addition they will also have to heed the guidance in Information Sheet 1. Although we understand possible sector frustration at full revisions of the SORP every three to four years, we believe greater consideration could have been given to providing a new SORP updated for Bulletin 1, Information Sheet 1, and the recent required changes to FRS 102, as a single point of reference alongside FRS 102 itself.

Question 1

The Invitation to Comment notes that the amendments to FRS 102 are finalised, and therefore not the subject of the consultation. Instead the consultation focuses on how the changes have been reflected in the SORP.

We do not fully agree with the reflection of the amendments to FRS102 in the following areas:

Clarifying amendments

Module 3 - Comparative information

While we understand the importance of disclosure of comparative information, as there is already a large volume of information contained within the notes to the financial statements under the SORP, there is a significant risk that excess disclosure could reduce clarity. Lack of clarity could arise due to user confusion over having two very similar notes in appearance, and simply, volume of information to review and digest. This has particular application where it is considered that full comparative notes must now be included for movements in restricted and unrestricted reserves during the period. We believe that sufficient information is already provided by virtue of the disclosure of current period opening balances (ie prior period closing balances) and comparative movement in the Statement of Financial Activities. While the full disclosure of comparative period reserve movements should be highlighted as worthy of consideration by preparers of charity accounts, we do not consider it mandatory and that an accounting choice would be more appropriate for this particular note.

Module 10 – Balance sheet, asset component depreciation

The amendments made in Module 10 to remove the undue cost or effort exemption bring component accounting to the fore and while we acknowledge that this is required under FRS 102 we consider it important to highlight that this may be a significant issue, and prove a costly exercise for many of the charities affected, with little obvious benefit to the charity or its stakeholders. We would therefore suggest that further consideration be given to seek a more practical application of the requirement for component accounting for charities, whether this means relaxation of the proposed changes or additional guidance for implementation.

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Significant amendments

Scope and application

While we appreciate the legal position in relation to application of the proposed changes, we would wish to note the potential for confusion arising in respect of timing of implementation and feel this should be made clearer within the Bulletin.

It should be made clearer whether the clarifying amendments will apply to financial statements not yet signed off as soon as the Bulletin is finalised (currently planned for October 2018), or whether they apply immediately. This is important in order that those preparing charity accounts can incorporate into their timetabling sufficient additional time to make accounting changes where they may become necessary.

Additional guidance on timing of application would also be welcome in respect of each jurisdiction where the Bulletin will apply, particularly in light of the fact that all four charity law jurisdictions are represented on the SORP making committee.

Module 10 – Balance sheet, mixed use property

The removal of the undue cost or effort exemption, in line with FRS 102, for measuring the investment property component of a mixed-use property at fair value may have a similar impact to that of component accounting. Although this is accounting required by FRS 102 we question whether the cost of obtaining valuations which may be required in some cases is proportionate to the benefit. We do, however, recognise that the valuations are still required to be “reliable” and note that in many cases, a reliable valuation will continue to be difficult to obtain irrespective of whether there would previously have been undue cost or effort involved in securing it.

The proposals for the reflection of the other amendments to FRS102 we are in general agreement with.

Question 2

There are no other amendments to the Charities SORP (FRS 102) that we consider necessary based on the recent amendments to FRS 102.