

# Introduction

The Charities Statement of Recommended Practice (SORP) provides guidance for charities preparing accounts on an accruals basis.

All charitable companies are required by law to prepare accruals-based accounts and therefore must follow the SORP.

Unincorporated charities with income of less than £250,000 have the option of preparing accounts on an accruals or a receipts and payments basis. Unincorporated charities choosing to prepare accruals-based accounts must also follow the SORP.

The Charity Commission and the Office of the Scottish Charity Regulator (OSCR), as the joint SORP-making body for charities, have developed two SORPs – one to support the Financial Reporting Standard for Smaller Entities (FRSSE) (the FRSSE SORP) and one to support the Financial Reporting Standard applicable in the UK and the Republic of Ireland (FRS 102) (the FRS 102 SORP). Both these SORPs apply for accounting periods on or after 1 January 2015.

## WHICH SORP SHOULD I FOLLOW?

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The Charity Commission and OSCR, as SORP-making bodies, emphasise that it is important to make the right choice of SORP and that charities should speak to their auditor, independent examiner or accountant for their advice on which SORP to use.

To help charities to make their decision, a helpsheet has been created by the Charity Commission and OSCR that explains the main differences between the FRS 102 SORP and the FRSSE SORP and the criteria that must be met to be able to adopt the FRSSE SORP. This helpsheet is available on the SORP microsite ([www.charitySORP.org](http://www.charitySORP.org)).

Most charities will be able to choose whether to prepare accounts using the FRSSE SORP or the FRS 102 SORP. Charities may use the FRSSE SORP if they meet two of the following three small company criteria:

- gross income not exceeding £6.5m (€8.8m).
- total assets not exceeding £3.26m (€4.4m).
- employs no more than 50 staff.

It should be noted that charitable companies in the Republic of Ireland are not able to use the FRSSE SORP.

The FRS 102 SORP may be used by any charity.

Although the two SORPs have the same structure and order of modules, the requirements differ significantly due to underlying differences in terminology, accounting policies and disclosures required by the FRSSE and FRS 102. Charities following the FRS 102 SORP are required to make additional disclosures in the notes to the accounts and to provide a cash flow statement. Those following the FRSSE SORP are required to make fewer disclosures and do not have to provide a cash flow statement.

However, the FRSSE, on which the FRSSE SORP is based, will be reviewed or withdrawn by 2016. This may mean that charities following the FRSSE SORP have to make two successive changes to their accounting policies and financial statements in a short period of time.

Further information on SORP developments is available on the Charities SORP microsite ([www.charitySORP.org](http://www.charitySORP.org)).

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