

## Contents

<b>ACCOUNTING AND REPORTING BY CHARITIES: THE STATEMENT OF RECOMMENDED PRACTICE (SORP) – SCOPE AND APPLICATION .....</b>	<b>1</b>
INTRODUCTION.....	1
THE INTENDED USER OF THE SORP.....	2
OBJECTIVES OF THE SORP.....	2
THE INTENDED USER OF THE TRUSTEES' ANNUAL REPORT AND ACCOUNTS.....	3
SCOPE OF THE SORP.....	3
THE EFFECTIVE DATE OF COMMENCEMENT .....	4
TRANSITIONAL ARRANGEMENTS FOR CHARITIES REPORTING UNDER FRS 102 FOR THE FIRST TIME .....	4
CHOICE OF ACCOUNTS PREPARATION METHODS .....	4
HOW TO USE THE MODULAR SORP .....	4
USE OF THE TERMS 'MUST', 'SHOULD' AND 'MAY' .....	5
<b>INDEX OF SORP MODULES .....</b>	<b>7</b>
FINANCIAL REPORTING COUNCIL'S STATEMENT ON THE CHARITIES SORP (FRS 102) .....	9
<b>1. TRUSTEES' ANNUAL REPORT.....</b>	<b>10</b>
OVERVIEW AND THE PURPOSE OF THE TRUSTEES' ANNUAL REPORT.....	10
WHO IS RESPONSIBLE FOR PREPARING THE TRUSTEES' ANNUAL REPORT? .....	11
REPORTING BY SMALLER CHARITIES .....	11
THE CONTEXT FOR REPORTING.....	11
THE CONTENT OF THE TRUSTEES' ANNUAL REPORT REQUIRED OF ALL CHARITIES.....	12
THE PROVISION OF OTHER INFORMATION .....	14
THE ADDITIONAL CONTENT REQUIRED OF LARGER CHARITIES.....	15
<b>2. FUND ACCOUNTING .....</b>	<b>20</b>
INTRODUCTION.....	20
GENERAL PRINCIPLES OF FUND ACCOUNTING.....	21
TRANSFERS BETWEEN FUNDS.....	24
FUND DISCLOSURES IN THE NOTES TO THE ACCOUNTS.....	25
<b>3. ACCOUNTING STANDARDS, POLICIES, CONCEPTS AND PRINCIPLES, INCLUDING THE ADJUSTMENT OF ESTIMATES AND ERRORS .....</b>	<b>27</b>
INTRODUCTION.....	27
WHAT ARE ACCOUNTING STANDARDS, POLICIES, CONCEPTS AND PRINCIPLES?.....	27
LENGTH OF THE REPORTING PERIOD .....	28
PRESENTATION CURRENCY.....	29
GOING CONCERN .....	29
MATERIALITY .....	29
OFFSETTING.....	30
SOURCE OF REPORTING AND ACCOUNTING DISCLOSURE REQUIREMENTS .....	30
ALTERNATIVE MEASUREMENTS TO FAIR VALUE .....	30
SELECTION OF ACCOUNTING POLICIES .....	30
COMPLIANCE WITH THE SORP.....	31
CHANGES IN ACCOUNTING POLICIES .....	31

- CHANGES IN ACCOUNTING ESTIMATES..... 32
- CORRECTION OF A PRIOR PERIOD ERROR..... 32
- DISCLOSURE OF ACCOUNTING POLICIES, CHANGES IN ESTIMATION TECHNIQUES AND  
PRIOR PERIOD ERRORS..... 32
- 4. STATEMENT OF FINANCIAL ACTIVITIES ..... 35**
  - INTRODUCTION..... 35
  - PRESENTATION OF INFORMATION..... 37
  - LINE HEADINGS USED IN THE STATEMENT OF FINANCIAL ACTIVITIES ..... 41
- 5. RECOGNITION OF INCOME, INCLUDING LEGACIES, GRANTS AND CONTRACT INCOME..... 48**
  - INTRODUCTION..... 48
  - UNDERSTANDING THE NATURE OF INCOME ..... 48
  - GENERAL RULES FOR INCOME RECOGNITION..... 50
  - GENERAL PRINCIPLES FOR RECOGNISING INCOME FROM DONATIONS AND GRANTS ..... 50
  - IDENTIFICATION OF TERMS AND CONDITIONS..... 50
  - PERFORMANCE-RELATED CONDITIONS..... 51
  - OTHER TERMS AND CONDITIONS THAT LIMIT THE RECOGNITION OF INCOME ..... 51
  - DEFERRING INCOME WHERE CONDITIONS THAT LIMIT RECOGNITION ARE NOT MET..... 52
  - TERMS AND CONDITIONS THAT DO NOT PREVENT RECOGNITION ..... 52
  - RECOGNISING INCOME FROM LEGACIES ..... 53
  - INCOME FROM DONATED GOODS, FACILITIES AND SERVICES..... 54
  - INCOME FROM CONTRACTS FOR THE SUPPLY OF GOODS AND SERVICES..... 54
  - INCOME FROM MEMBERSHIP SUBSCRIPTIONS ..... 56
  - INCOME FROM INTEREST, ROYALTIES AND DIVIDENDS ..... 56
  - SETTLEMENT OF INSURANCE CLAIMS ..... 56
  - DISCLOSURES AND NOTES TO THE ACCOUNTS ..... 56
- 6. DONATED GOODS, FACILITIES AND SERVICES, INCLUDING VOLUNTEERS ..... 58**
  - INTRODUCTION..... 58
  - INCOME RECOGNITION CRITERIA ..... 58
  - MEASUREMENT BASES ..... 59
  - ACCOUNTING FOR DONATED FACILITIES AND SERVICES, INCLUDING VOLUNTEERS ..... 59
  - ACCOUNTING FOR DONATED GOODS AND SERVICES CAPITALISED AS TANGIBLE  
FIXED ASSETS..... 60
  - ACCOUNTING FOR DONATED GOODS FOR DISTRIBUTION TO BENEFICIARIES ..... 60
  - ACCOUNTING FOR DONATED GOODS FOR RESALE ..... 61
  - DISCLOSURES IN THE NOTES TO THE ACCOUNTS..... 62
- 7. RECOGNITION OF EXPENDITURE ..... 63**
  - INTRODUCTION..... 63
  - GENERAL RULES FOR THE RECOGNITION OF LIABILITIES AND EXPENDITURE ..... 63
  - RULES ON MEASUREMENT OF LIABILITIES ..... 64
  - PRINCIPLES FOR RECOGNISING LIABILITIES FROM CONSTRUCTIVE OBLIGATIONS ..... 64
  - CONDITIONS THAT LIMIT THE RECOGNITION OF A FUNDING COMMITMENT ..... 65
  - ACCOUNTING FOR LIABILITIES ARISING FROM PERFORMANCE-RELATED GRANTS ..... 66
  - PROVISIONS FOR LIABILITIES ..... 66
  - TREATMENT OF COMMITMENTS NOT RECOGNISED AS PROVISIONS OR LIABILITIES ..... 67

ACCOUNTING FOR ONEROUS CONTRACTS .....	67
TREATMENT OF EMPLOYEE BENEFITS.....	68
DISCLOSURE OF PROVISIONS AND FUNDING COMMITMENTS IN THE ACCOUNTS.....	69
<b>8. ALLOCATING COSTS BY ACTIVITY IN THE STATEMENT OF FINANCIAL ACTIVITIES.....</b>	<b>70</b>
INTRODUCTION.....	70
GENERAL PRINCIPLES FOR REPORTING ACTIVITIES.....	70
IDENTIFICATION OF SUPPORT COSTS.....	71
METHODS OF ALLOCATING COSTS TO ACTIVITIES.....	71
ACCOUNTING FOR COSTS SHARED BETWEEN FUNDRAISING AND CHARITABLE ACTIVITIES.....	72
DISCLOSURES REQUIRED IN THE NOTES TO THE ACCOUNTS.....	72
<b>9. DISCLOSURE OF TRUSTEE AND STAFF REMUNERATION, RELATED PARTY AND OTHER TRANSACTIONS .....</b>	<b>74</b>
INTRODUCTION.....	74
DISCLOSURE OF TRUSTEES' REMUNERATION AND BENEFITS.....	74
DISCLOSURE OF TRUSTEES' EXPENSES .....	75
TRANSACTIONS WITH RELATED PARTIES THAT REQUIRE DISCLOSURE .....	76
TRANSACTIONS WITH RELATED PARTIES THAT DO NOT REQUIRE DISCLOSURE.....	76
DISCLOSURE OF RELATED PARTY TRANSACTIONS .....	77
DISCLOSURE OF AUDIT, INDEPENDENT EXAMINATION AND OTHER FINANCIAL SERVICE FEES.....	78
DISCLOSURE OF EX-GRATIA PAYMENTS .....	78
DISCLOSURE OF STAFF COSTS AND EMPLOYEE BENEFITS .....	78
REMUNERATION AND BENEFITS RECEIVED BY KEY MANAGEMENT PERSONNEL.....	79
<b>10. BALANCE SHEET .....</b>	<b>80</b>
INTRODUCTION.....	80
STRUCTURE OF THE BALANCE SHEET .....	80
A: FIXED ASSETS – HEADINGS, CLASSIFICATION AND DISCLOSURES .....	82
B: CURRENT ASSETS – HEADINGS, CLASSIFICATION AND DISCLOSURES.....	90
C: LIABILITIES (C1 TO C3) – HEADINGS, CLASSIFICATION AND DISCLOSURES.....	92
D: FUNDS OF THE CHARITY (D1 TO D5) – CLASSIFICATION AND DISCLOSURES.....	95
<b>11. ACCOUNTING FOR FINANCIAL ASSETS AND FINANCIAL LIABILITIES .....</b>	<b>96</b>
INTRODUCTION.....	96
HOW ALL CHARITIES ACCOUNT FOR BASIC FINANCIAL INSTRUMENTS .....	97
THE ACCOUNTING TREATMENT FOR TRANSACTIONS INVOLVING EXTENDED CREDIT TERMS.....	98
HOW TO IDENTIFY A BASIC FINANCIAL INSTRUMENT UNDER FRS 102 .....	98
SUBSEQUENT MEASUREMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES .....	98
IMPAIRMENT OF FINANCIAL ASSETS .....	99
ACCOUNTING FOR CONCESSIONARY LOANS MADE OR RECEIVED .....	99
ACCOUNTING FOR FINANCIAL ASSETS AND FINANCIAL LIABILITIES WHICH DO NOT MEET THE FRS 102 DEFINITION OF BASIC FINANCIAL INSTRUMENTS.....	99
EXAMPLES OF OTHER FINANCIAL INSTRUMENTS .....	100
DISCLOSURES TO BE MADE IN THE NOTES TO THE ACCOUNTS.....	101

<b>12. IMPAIRMENT OF ASSETS</b> .....	<b>103</b>
INTRODUCTION.....	103
WHAT TO DO IF IMPAIRMENT IS INDICATED .....	103
IDENTIFICATION OF THE RECOVERABLE AMOUNT .....	103
INDICATORS OF IMPAIRMENT.....	105
ACCOUNTING FOR IMPAIRMENT LOSSES AND REVERSALS .....	106
DISCLOSURES TO BE MADE IN THE NOTES TO THE ACCOUNTS.....	106
<b>13. EVENTS AFTER THE END OF THE REPORTING PERIOD</b> .....	<b>107</b>
INTRODUCTION.....	107
ADJUSTING EVENTS OCCURRING AFTER THE END OF THE REPORTING PERIOD .....	107
NON-ADJUSTING EVENTS OCCURRING AFTER THE END OF THE REPORTING PERIOD .....	108
DISCLOSURE IN THE ACCOUNTS FOR NON-ADJUSTING EVENTS AFTER THE END OF THE REPORTING PERIOD.....	108
<b>14. STATEMENT OF CASH FLOWS</b> .....	<b>109</b>
INTRODUCTION.....	109
STRUCTURE OF THE STATEMENT OF CASH FLOWS.....	109
WHAT CASH FLOWS ARE INCLUDED AS OPERATING ACTIVITIES? .....	110
WHAT CASH FLOWS ARE INCLUDED AS INVESTING ACTIVITIES? .....	110
WHAT CASH FLOWS ARE INCLUDED AS FINANCING ACTIVITIES? .....	111
THE METHODS OF COMPILING THE STATEMENT OF CASH FLOWS .....	111
TEMPLATE FOR A STATEMENT OF CASH FLOWS .....	112
DISCLOSURES IN THE NOTES TO THE ACCOUNTS.....	112
<b>15. CHARITIES ESTABLISHED UNDER COMPANY LAW</b> .....	<b>115</b>
INTRODUCTION.....	115
PREPARATION OF THE DIRECTORS' REPORT .....	115
REQUIREMENT FOR AN INCOME AND EXPENDITURE ACCOUNT.....	116
PREPARATION OF A COMBINED STATEMENT OF FINANCIAL ACTIVITIES AND INCOME AND EXPENDITURE ACCOUNT .....	116
SUMMARY INCOME AND EXPENDITURE ACCOUNT .....	117
ADDITIONAL CONSIDERATIONS THAT APPLY WHEN CONSOLIDATED (GROUP) ACCOUNTS ARE PREPARED UNDER COMPANY LAW .....	118
DISCLOSURE OF EQUITY ON THE BALANCE SHEET.....	118
DISCLOSURE OF REVALUATION AND FAIR VALUE RESERVES (UK ONLY) .....	118
<b>16. PRESENTATION AND DISCLOSURE OF GRANT-MAKING ACTIVITIES</b> .....	<b>119</b>
INTRODUCTION.....	119
HOW CHARITIES MUST PRESENT GRANT-MAKING ACTIVITIES IN THEIR ACCOUNTS.....	119
HOW TO PRESENT GRANT-MAKING AND SUPPORT COSTS .....	120
ACCOUNTING FOR ACTIVITIES PARTLY UNDERTAKEN THROUGH GRANT-MAKING.....	120
THE TREATMENT OF GRANTS TO INDIVIDUALS .....	120
THE DISCLOSURE OF GRANT-MAKING ACTIVITIES IN THE NOTES TO THE ACCOUNTS.....	120
THE EXEMPTIONS TO DISCLOSURE .....	122
INFORMATION REQUIRED IN CASES OF SERIOUS PREJUDICE.....	122
THE STATUTORY EXEMPTION APPLICABLE IN ENGLAND AND WALES.....	123

<b>17. RETIREMENT AND POST-EMPLOYMENT BENEFITS</b> .....	<b>124</b>
INTRODUCTION.....	124
ACCOUNTING FOR DEFINED CONTRIBUTION PLANS .....	124
ACCOUNTING FOR DEFINED BENEFIT PLANS.....	125
FUND ACCOUNTING FOR DEFINED BENEFIT PLANS.....	125
FUND ACCOUNTING AND THE TREATMENT OF A DEFINED BENEFIT PLAN SURPLUS OR DEFICIT .....	125
ACCOUNTING FOR MULTI-EMPLOYER DEFINED BENEFIT PLANS WHICH HAVE BEEN TREATED AS DEFINED CONTRIBUTION PLANS .....	126
DISCLOSURES IN THE ACCOUNTS RELATING TO PLANS ACCOUNTED FOR AS DEFINED CONTRIBUTED PLANS.....	127
DISCLOSURES IN THE ACCOUNTS RELATING TO DEFINED BENEFIT PLANS .....	127
<b>18. ACCOUNTING FOR HERITAGE ASSETS</b> .....	<b>128</b>
INTRODUCTION.....	128
DEFINITION OF A HERITAGE ASSET .....	128
RECOGNITION AND MEASUREMENT OF HERITAGE ASSETS ON THE BALANCE SHEET.....	129
HOW TO MEASURE HERITAGE ASSETS THAT HAVE BEEN PURCHASED.....	130
HOW TO MEASURE HERITAGE ASSETS THAT HAVE BEEN DONATED .....	130
DEPRECIATION AND IMPAIRMENT OF HERITAGE ASSETS .....	131
ACCOUNTING TREATMENT FOR HERITAGE ASSETS RECOGNISED ON THE BALANCE SHEET.....	131
DISCLOSURES REQUIRED FOR ALL CHARITIES HOLDING HERITAGE ASSETS .....	131
DISCLOSURE OF HERITAGE ASSETS RECOGNISED ON THE BALANCE SHEET.....	132
DISCLOSURE OF HERITAGE ASSETS NOT RECOGNISED ON THE BALANCE SHEET .....	132
DISCLOSURE OF A FIVE-YEAR SUMMARY OF TRANSACTIONS .....	132
<b>19. ACCOUNTING FOR FUNDS RECEIVED AS AGENT OR AS CUSTODIAN TRUSTEE</b> .....	<b>134</b>
INTRODUCTION.....	134
ACCOUNTING FOR FUNDS HELD AS AGENT .....	135
DISTINGUISHING CONSORTIA OR SIMILAR ARRANGEMENTS INVOLVING A 'LEAD' CHARITY .....	135
DISCLOSURE OF FUNDS RECEIVED AS AGENT OR HELD AS CUSTODIAN TRUSTEE .....	135
<b>20. TOTAL RETURN (INVESTMENTS) – (ENGLAND AND WALES ONLY)</b> .....	<b>137</b>
INTRODUCTION.....	137
THE ACCOUNTING TREATMENT.....	138
DISCLOSURES REQUIRED IN THE NOTES TO THE ACCOUNTS WHERE PERMANENT ENDOWMENT IS INVESTED ON A TOTAL RETURN BASIS .....	138
DISCLOSURES REQUIRED IN THE TRUSTEES' ANNUAL REPORT .....	140
<b>21. ACCOUNTING FOR SOCIAL INVESTMENTS</b> .....	<b>141</b>
TYPES OF SOCIAL INVESTMENT AND INCOME RISK SHARING ARRANGEMENTS .....	141
PROGRAMME RELATED INVESTMENTS .....	142
MIXED MOTIVE (MIXED PURPOSE) INVESTMENTS .....	142
ETHICAL INVESTMENT POLICIES.....	143
SOCIAL INVESTMENTS IN PROPERTY (LAND AND BUILDINGS) .....	143

CONCESSIONARY LOANS .....	143
ACCOUNTING FOR GUARANTEES .....	144
THE PRESENTATION OF SOCIAL INVESTMENTS IN THE INVESTING CHARITY'S ACCOUNTS ...	144
THE RECLASSIFICATION OF A SOCIAL INVESTMENT AS A FINANCIAL INVESTMENT .....	144
HOW TO MEASURE SOCIAL INVESTMENTS.....	144
IMPAIRMENT OF SOCIAL INVESTMENTS .....	145
ACCOUNTING FOR IMPAIRMENT LOSSES .....	146
ACCOUNTING FOR GAINS ON DISPOSAL .....	146
INFORMATION TO BE PROVIDED IN THE INVESTING CHARITY'S TRUSTEES'	
ANNUAL REPORT .....	146
DISCLOSURES IN THE NOTES TO THE ACCOUNTS.....	146
<b>22. ACCOUNTING FOR CHARITIES POOLING FUNDS FOR INVESTMENT .....</b>	<b>148</b>
INTRODUCTION.....	148
COMMON INVESTMENT FUNDS AND COMMON DEPOSIT FUNDS .....	148
RESTRICTED PARTICIPATION COMMON INVESTMENT FUNDS (ENGLAND AND	
WALES ONLY) .....	148
ACCOUNTING FOR POOLING SCHEMES AND ARRANGEMENTS WITH COMMON TRUSTEES .....	149
DISCLOSURE FOR POOLING SCHEMES AND ARRANGEMENTS WITH COMMON TRUSTEES .....	149
<b>23. OVERVIEW OF CHARITY COMBINATIONS .....</b>	<b>151</b>
<b>24. ACCOUNTING FOR GROUPS AND THE PREPARATION OF CONSOLIDATED ACCOUNTS .....</b>	<b>153</b>
INTRODUCTION.....	153
THE LEGAL REQUIREMENTS TO PREPARE CONSOLIDATED ACCOUNTS .....	153
WHAT ARE CONSOLIDATED ACCOUNTS? .....	153
HOW CONTROL IS IDENTIFIED.....	154
CONSOLIDATION PROCEDURES AND ACCOUNTING FOR NON-CONTROLLING INTERESTS	
(MINORITY INTERESTS).....	156
ACCOUNTING FOR CHARITY COMBINATIONS.....	157
ACCOUNTING FOR THE ACQUISITION AND DISPOSAL OF	
NON-CHARITABLE SUBSIDIARIES .....	157
DISCLOSURES REQUIRED WHERE CONSOLIDATED ACCOUNTS ARE PREPARED .....	158
<b>25. BRANCHES, LINKED OR CONNECTED CHARITIES AND JOINT ARRANGEMENTS .....</b>	<b>160</b>
INTRODUCTION.....	160
WHAT IS MEANT BY THE TERM 'BRANCH'? .....	160
ACCOUNTING FOR BRANCHES.....	161
WHEN TO APPLY BRANCH ACCOUNTING TO OTHER ARRANGEMENTS.....	162
BRANCH ACCOUNTING FOR SPECIAL TRUSTS (ENGLAND AND WALES) AND	
SIMILAR ARRANGEMENTS.....	162
BRANCH ACCOUNTING FOR LINKED CHARITIES (ENGLAND AND WALES) .....	162
BRANCH ACCOUNTING FOR CONNECTED CHARITIES (SCOTLAND) .....	163
ACCOUNTING FOR JOINT ARRANGEMENTS INVOLVING OTHER CHARITIES .....	163
<b>26. CHARITIES AS SUBSIDIARIES .....</b>	<b>165</b>
INTRODUCTION.....	165
DISCLOSURE REQUIREMENTS .....	165

<b>27. CHARITY MERGERS .....</b>	<b>166</b>
INTRODUCTION.....	166
CRITERIA FOR MERGER ACCOUNTING.....	166
ACCOUNTING FOR MERGERS.....	167
ACCOUNTING FOR CHARITY RECONSTRUCTIONS AS MERGERS .....	167
DISCLOSURES RELATING TO MERGERS .....	167
<b>28. ACCOUNTING FOR ASSOCIATES.....</b>	<b>170</b>
INTRODUCTION.....	170
HOW TO IDENTIFY AN ASSOCIATE.....	170
ACCOUNTING FOR AN INTEREST IN AN ASSOCIATE .....	171
PRESENTATION OF ASSOCIATES IN THE ACCOUNTS .....	171
DISCLOSURES OF INTERESTS IN ASSOCIATES .....	172
<b>29. ACCOUNTING FOR JOINT VENTURES .....</b>	<b>173</b>
INTRODUCTION.....	173
THE DIFFERENT FORMS OF JOINT VENTURE ACTIVITY.....	173
METHOD FOR THE IDENTIFICATION OF RESPECTIVE INTERESTS IN JOINT VENTURE	
CHARITIES .....	174
ACCOUNTING FOR JOINT VENTURE CHARITIES.....	174
ACCOUNTING FOR JOINT VENTURES INVOLVING NON-CHARITABLE ENTITIES .....	175
PRESENTATION OF JOINT VENTURES INVOLVING NON-CHARITABLE ENTITIES IN	
CONSOLIDATED ACCOUNTS .....	175
DISCLOSURES RELATING TO JOINT VENTURES.....	175
<b>APPENDIX 1: GLOSSARY OF TERMS.....</b>	<b>177</b>
<b>APPENDIX 2: THE CHARITY ACCOUNTING (SORP) COMMITTEE.....</b>	<b>191</b>
MEMBERSHIP .....	191
<b>APPENDIX 3: THRESHOLDS FOR THE UK AND THE REPUBLIC OF IRELAND.....</b>	<b>192</b>
THRESHOLD FOR THE FINANCIAL REPORTING STANDARD FOR SMALLER ENTITIES.....	192
THRESHOLD FOR THE PREPARATION OF ACCRUALS ACCOUNTS .....	192
THRESHOLD FOR STATUTORY AUDIT.....	192
THRESHOLD FOR THE PREPARATION OF CONSOLIDATED (GROUP) ACCOUNTS .....	193