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Supporting Irish Accountants

# Accounting Issues for Charities under SORP & FRS 102

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**Section 2: Accounting Issues for Charities under SORP & FRS 102**

**Introduction**

**What's covered in this section?**

- The principal adjustments where a change in accounting policy is required on adoption of FRS 102 Charities SORP from FRS 102
- Certain accounting requirements for charities applying either Full FRS 102 or Charities SORP
- General accounting examples under FRS 102 and Charities SORP
- Provision of a detailed guide on the differences between FRS 102 and FRS 102 charities SORP: and Old Irish GAAP/FRSSE and FRS 102 charities SORP
- Note from an accounting perspective – much of SORP is a replica of FRS 102 (Section 34 etc.). In general, not many accounting adjustments on transition

Note throughout this section we refer to FRS 102 and FRS 102 Charities SORP. Where something cannot be applied under the Charities SORP we have identified this.

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**Income recognition (S.5 of SORP)**

Income/expenditure recognition the same under SORP as was required under Section 34 of FRS 102 with the 4 exceptions as detailed in part 5 of this section.

General rule – income recognised when charity has:

- Entitlement
- It is probable future economic activities will flow
- It can be reliably estimated

1) Specific rule - Cash Donations

   - Recognised on a receivable basis assuming general conditions are met

2) Specific rule - Legacies – recognise when:

   - There is grant of probate; and
   - The executors have established that there is sufficient assets in the estate, after settling liabilities; and
   - Any conditions attached to the legacy are either within the control of the charity or have been met

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**Example 1: Legacies (Section 34 of FRS 102 & Section 5 of SORP)**

Charity A has been informed by a solicitor that it has been identified as a beneficiary of a persons will. The solicitor has stated that as of yet the amount of the legacy is not certain as it has not gone through probate, expenses have still to be paid and the interest is in the residue of the estate. The solicitor has stated a figure of CU100k - CU150k however this is only indicative.

Can the charity recognise any income in the current year?

The rules for recognition of legacies are (PBE34B.5 to 7 of FRS 102):

- There is grant of probate; and
- The executors have established that there is sufficient assets in the estate, after settling liabilities; and

- Any conditions attached to the legacy are either within the control of the charity or have been met

On this basis, the charity cannot recognise income in the current year as although there is entitlement to the funds and although it is probable economic benefits will flow, the amount of the legacy cannot be measured reliably hence it should not be recognised at that time. In addition there is no grant of probate.

However a contingent asset would need to be included in the notes detailing the legacy

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**Example 2: Legacies (Section 34 of FRS 102 & Section 5 of SORP)**

If we take example 1 and this time assume that the executor has determined that a payment will be made to the charity following the agreement of the estate's accounts and that a reliable estimate of CU100k can be given.

Can the charity recognise any income in the current year?

Yes as long as the likelihood of receipt is probable (as reliable estimate and entitlement has been established) the legacy would be recognised as income in the SOFA/I&E/P&L in the current year. The journals would be as follows assuming it will be receivable within 12 months of year end:

| | **CU** | **CU** |
|---|---|---|
| Dr legacy debtor | 100,000 | |
| Cr donations and legacy income in SOFA/income/turnover in I&E | | 100,000 |

If we assume that the executor believes it will not be received until 24 months after the recognition of income, there would be a requirement to present value the CU100,000 at a discount rate equal to the rate the charity could get on a deposit account for a similar length. Assume the PV is CU85,000 and CU9,000 and CU6,000 of this unwinds in the first and second year after recognition. The journals would be to:

| | **CU** | **CU** |
|---|---|---|
| Dr legacy debtor | 85,000 | |
| Cr donations and legacy income in SOFA | | 85,000 |
| Being journal to recognise income at present value. | | |

Then the below journal should be posted to reflect the unwinding of the discount:

| | **CU** | **CU** |
|---|---|---|
| Dr legacy debtor | 9,000 | |
| Cr donations and legacy income in SOFA **OR** interest income in P&L/I&E | | 9,000 |

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**Example 3: Legacies (Section 34 of FRS 102 & Section 5 of SORP)**

If we take example 2 and 6 months later it transpires that only CU60,000 will be received.

What are the journals required (ignoring present valuing):

The journals required are to:

| | **CU** | **CU** |
|---|---|---|
| Dr donations and legacy income in SOFA/ Income or turnover in I&E/P&L | 40,000 | |
| Cr legacy debtor | | 40,000 |

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**Example 4: Legacies (Section 34 of FRS 102 & Section 5 of SORP)**

Charity A has been notified by an executor that a payment will be made.

Can this be recognised in income?

Yes this should be recognised at that time.

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**Example 5: Legacies (Section 34 of FRS 102 & Section 5 of SORP)**

If we take example 4 and assume the notification was received post year end but before the accounts are authorised for issue. In this case can the charity recognise this legacy in income for the current year even though notification was not received until after year end?

Answer: It depends – If it is clear that the payment had been agreed by the executor prior to the end of the reporting period, it should be recognised as income and included as a receivable.

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**Example 6: Legacies (Section 34 of FRS 102 & Section 5 of SORP)**

Charity A has been informed by an executor that it is entitled to a house on the death of a life tenant. Can the charity recognise the market value of the house at that time?

Answer: No. It can only recognise it in income once the life tenant dies. However it should be disclosed as a contingent asset.

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**3) Donated goods and services (Section 34 of FRS 102 & S.6 of SORP)**

Donated goods and services – recognise when:

- Entitlement
- It is probable future economic activities will flow
- It can be reliably estimated

Income should be recognised on the above basis unless it is impractical to value the goods/services given the low value or the costs outweigh the benefits to the readers in which case it should be measured when sold

If recognised initially on receipt, then recognise credit in income and a corresponding debit in expenses/stock/fixed assets as applicable

If fair value cannot be determined easily then determine the value by:

- Assessing cost to the donor; or
- The expected resale value after deducting costs to sell

If fair value recognised in stock initially, then on the future same:

- Post the debit for the recognition of stock to income & set against sale amount

If fair value donated services – recognise at the fair value to charity (what would charity have to pay if they got someone else)

Donated time of volunteers is not required to be recognised

- In assessing whether a person is volunteer or a person providing services & hence income to be recognised determine if:
    - The person perform a business of the service that they provide to the charity; or

- The person is only ancillary to other charity staff

**Example 7: Donated goods or services – fixed assets**

Charity A received a gift in the form of a property which will be used for the purposes of its trade.

In this case under Section 6.6 of SORP or Section PBE34.67 to 34.70 & PBE34.1 of FRS 102 income should be recognised when the charity:

- Has entitlement; and
- Can reliably measure the asset/gift; and
- It is probable economic benefits will flow to the charity.

It should initially be measured at fair value unless it is impractical to measure. Assume the fair value of this asset was CU500,000

The journals required once the recognition criteria are met are as detailed below:

| | **CU** | **CU** |
|---|---|---|
| Dr Tangible fixed assets | 500,000 | |
| Cr donations and legacies in the SOFA **OR** Turnover/income in I&E or P&L | | 500,000 |

From then on, the asset is depreciated over its useful economic life as would be the case for any other fixed asset. Note if a restriction was imposed as part of the gift that it cannot be disposed the fair value should be adjusted downwards to reflect this restriction.

If this was a property which had sitting tenants and the charity decided to continue to lease it out then this would be classified as an investment property and included within investments in the financial statements for SORP accounts or within tangible fixed assets under FRS 102 and would have to carried at fair value. There would be no depreciation instead the movement would be recognised in the line 'gain/loss on investments' in the SOFA for SORP Accounts or in the P&L/I&E possibly within other operating income if just FRS 102 accounts are prepared.

**Example 8: Donated goods or services – donated goods held for resale – impractical to measure**

Charity A operates a charity shop as one of the activities of the charity and receives donated goods which it then sells on.

In this case under Section 6.6 of SORP or Section PBE34.67 to 70 & PBE34.1 to 2 of FRS 102, income should be recognised when the charity:

- Has entitlement; and
- Can reliably measure the asset/gift; and
- It is probable economic benefits will flow to the charity.

It should initially be measured at fair value unless it is impractical to measure or would result in undue cost given the value of the donated goods. If this is the case the donated goods should be recognised when sold. If fair value cannot be determined then the value placed on it should be obtained by:

- Assessing the cost of the item to the donor
- Or goods which are expected to be sold, the estimate resale value after deducting costs to sell

If we assume that it is impractical to measure given the low value of the goods, then on initial receipt, income should not be recognised instead under S6.10 of SORP or S,PBE34.70 of FRS 102, the income is recognised when sold. Assume for this example this item was sold for CU50. The journals required on sale would be to:

| | CU | CU |
|---|---|---|
| Dr Bank | 50 | |
| Cr income from other trading activities in the SOFA* / Turnover/income in P&L/I&E | | 50 |

* Note if the shop is the primary purpose of the charity then the Credit would go to 'income from charitable activities'.

Note if we assume that these were goods which were used by the Charity itself as opposed to being sold on, the following journals would be required:

| | CU | CU |
|---|---|---|
| Dr expenditure on charitable activities in the SOFA **OR** Administrative expenses in P&L/I&E | 50 | |
| Cr income from other trading activities in the SOFA* **OR** Turnover/income in P&L/I&E | | 50 |

* Note if the shop is the primary purpose of the charity then the Credit would go to 'income from charitable activities'.

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**Example 9: Donated goods or services – donated goods held for resale – practical to measure**

If we take example 8 and this time assume that the goods can be measured. Assume the fair value of the donated good was CU1,000 and the cost of onward sale is CU50.

Given that it can be measured assuming the recognition rules (e.g. on receipt) have been met the journal would be to:

| | CU | CU |
|---|---|---|
| Dr stock on the balance sheet | 950 | |
| Cr income - donations in the SOFA **OR** Turnover/income in P&L/I&E | | 950 |

Note as this is recognised in stock it should be reviewed for impairment and impairment booked if required (required by Section 10 & Section 12 of SORP OR S.27 of FRS 102).

**For FRS 102 SORP**

| | CU | CU |
|---|---|---|
| Dr income from other trading activities in the SOFA* **OR** Turnover/income in P&L/I&E | 950 | |
| Dr bank/debtors | 1,000 | |
| Cr stock on balance sheet | | 950 |
| Cr income from other trading activities in the SOFA **OR** Turnover/income in P&L/I&E | | 1,000 |

* Note if the shop is the primary purpose of the charity then the Credit would go to 'income from charitable activities'.

| **FRS 102 – Non SORP assuming no element of SORP adopted** | **CU** | **CU** |
|---|---|---|
| Dr cost of sales/administrative expenses | 950 | |
| Cr stock on the balance sheet | | 950 |
| Dr Bank | 1,000 | |
| Cr Turnover/income in P&L/I&E | | 1,000 |

**Example 10: Donated goods or services – donated goods held for resale – Other trading activities not main charitable activity**

Charity A's primary purpose is to provide knowledge and support to persons effected by a certain physical condition. It also carried on shops where donated goods are provided. The income from the shops in the year was CU1,000 and the expenses were CU 800 which includes wage costs.

The journals required under FRS 102 (non-SORP) are:

| | **CU** | **CU** |
|---|---|---|
| Dr Bank | 1,000 | |
| Cr Turnover/income | | 1,000 |
| Dr administrative expenses | 800 | |
| Cr Bank | | 800 |

The journals required under **FRS 102 SORP** are:

| | **CU** | **CU** |
|---|---|---|
| Dr income from other trading activities in the SOFA | 800 | |
| Dr bank/debtors | 200 | |
| Cr income from other trading activities in the SOFA | | 1,000 |

**Example 11: Donated goods or services – donated services**

The rules with regard to recognition of income where services are provided are similar to where donated goods are received as detailed in the examples above. However where services or facilities are given for the charity's own use they should be measured initially at the value to the charity (i.e. the amount the charity would have to be pay if it were to -pay for this facility service in the open market). Income should be recognised when the service or facility is received.

Charity A received the services of an electrician to repair wiring in the charity's premises at no charge. If the charity were to get an electrician it would cost the charity CU2,000. Therefore the journals required are:

| | **CU** | **CU** |
|---|---|---|
| Dr expenditure on charitable activities in the SOFA **OR** administrative expense in P&L/I&E | 2,000 | |
| Cr donations in the SOFA **OR** Income/Turnover in P&L/I&E | | 2,000 |

If this work related to the construction of its premises it may be possible to capitalise this cost and then depreciate.

If this time we assume the charity obtains an office rent free. Then the journal would be to:

| | **CU** | **CU** |
|---|---|---|
| Dr expenditure on charitable activities in the SOFA **OR** administrative expense in P&L/I&E | 2,000 | |
| Cr donations in the SOFA **OR** Income/Turnover in P&L/I&E | | 2,000 |

Here S.6.31 of SORP or PBE34.74 of FRS 102 requires disclosure of amounts and nature of non-exchange transactions recognised in the accounts.

Note the donated time of volunteers is not required to be recognised in the financial statements (usually individuals who do not perform a business on their own account in the service they provide).

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4) **Grants of all natures (including optional grants) – Performance model**

**NOTE FULL FRS 102 SORP ONLY PERMITS THE PERFORMANCE MODEL TO BE UTILISED FOR GRANTS. FRS 102 GIVES A CHOICE TO EITHER APPLY THE PERFORMANCE MODEL OR THE ACCRUALS MODEL**

Grants of all natures (including capital grants) – note change here from full FRS 102

a) If there are no performance conditions attached then recognise (ignore restriction on how the funds are to be used):

   – Immediately assuming the charity has:

     • Entitlement

     • Probable economic benefits will flow

     • Can be reliably measured

   – Even if costs have not been incurred the income must be recognised in the SOFA (applies to capital grants also)

   – If there are performance conditions attached then recognise:

     • Only when the performance conditions are met

     • Even if costs have not been incurred the income must be recognised in the SOFA (applies to capital grants also)

b) Example of performance conditions:

   – service level conditions, or

   – a set number of output to be done, or

   – opening hours of facilities, or

   – number of meals to be provided

   – Requirement to employ a certain number of staff for a set period

c) Terms attaching to a grant which can be ignored when looking if the performance conditions have been met:

   – Rules restricting the use of the funds

   – Conditions that allow for the recovery of the grant by the donor of any unexpended part of a grant:

     • Terms which are within the charity’s control & there is sufficient evidence that the terms will be met. Examples include:

     • Submission of accounts or certification of expenditure

- The requirement to hold it for charitable purposes and if sold to invest in charitable activities (as this is stated in the charity constitution then this is a given)

d) Accruals model with regard to government grants cannot be used under FRS 102 SORP (however it can be used if FRS 102 non SORP accounts are being prepared).

  – Must be recognised in income when performance conditions are met (regardless if costs have not been incurred).

**e) Accrual model FRS 102 only (cannot be utilised under FRS 102):**
the accruals model recognises the grant so as to match it with the costs incurred. So for revenue type grants such as training grants, the grant could be recognised in income in any of the following ways:

- Matched against direct training costs
- Taken over a period of time against salary for the employees expected to benefit from the training
- Taken systematically over a straight line basis
- Taken when cash is received

As can be seen there will be judgement required as to which best meets the company requirements. It is vital that the company applies the policy chosen consistently and discloses this in the accounting policies.

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**Example 12: Accruals model - capital grant – depreciable asset (applicable for FRS 102 only and not Charities SORP)**

Charity A received a grant of CU100,000 towards the cost of constructing its premises for provision of its charitable activities. This grant was provided on condition that the charity construct a specialist treatment unit for a certain type of beneficiary a number of years ago and on condition that it continue to be used by the charity for that purpose and if it is sold the disposals proceeds must be utilised for charitable purposes.

The useful life of the premises itself is 50 years.

In this case, the amount to be recognised each year will be based on the 50 year life as this is the life that the asset is depreciated over. Hence there is a matching of the depreciation charge on the property with amortisation of the grant. The total grant to be released each year is CU2,000 (CU100,000/50yrs). The journals required are:

| | **CU** | **CU** |
|---|---|---|
| Dr Bank | 100,000 | |
| Cr Deferred Revenue/Grant Liability | | 100,000 |

Being journal to recognise receipt of the funds

| | **CU** | **CU** |
|---|---|---|
| Dr Accumulated Amortisation on Grant Liability | 2,000 | |
| Cr Grant Amortisation – Other income | | 2,000 |

Being journal to recognise the release of the grant each year for 50 years.

If the above was a grant on land, which is non-depreciable, it is likely that this should be released over the terms of the building constructed on it.

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**Example 13: Accruals model (applicable for FRS 102 only and not Charities SORP) – capital grant**

Charity A received a grant of CU100,000 towards the cost of constructing its premises. A condition of the grant is that the Charity continues to utilise the manufacturing plant for a period of 20 years. As part of the grant they are required to maintain employment for 3 years.

In this particular case, judgement will have to be made as to whether in substance this is a capital grant or a revenue grant. All facts would have to be reviewed. However, given the large grant and the fact that it is principally towards the cost of the plant, in this particular case it would be treated as a capital grant and accounted for accordingly.

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**Example 14: Accruals model (applicable for FRS 102 only and not Charities SORP) – revenue grant**

If in example 12, the above was a Capital Assistance Scheme loan from a local authority to purchase a property to be used to house beneficiaries of the charity. This loan is mortgaged on the property. As part of the loan the charity is required to keep the properties in good structural order and proper repair and ensure that they are used for the charities purpose and let to eligible persons and rented to beneficiaries at fair rates. If the above conditions are met the loan will be forgiven after 20 years of receipt. If repayment is not made if requested the provider can take steps to recover the loan through the mortgage held.

In this case the loan is considered government assistance. The journals required under the accruals model would be the same as above.

**Note if this was a Capital Assistance loan which was not from a government agency it would be accounted as a concessionary loan under Section 11 of FRS 102 – the journals would differ as the loan would remain at 100k for the 20 years until forgiven.**

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**Example 15: Accruals model (applicable for FRS 102 only and not Charities SORP) – revenue grant**

Charity A obtained a grant for the cost of carrying out research which will go on for three years. The total amount of the grant was CU100,000. It was conditional on using the funds for this service and no other conditions were imposed. The costs are expected to incurred over the 3 year life evenly. Under the accruals model the income would be recognised evenly over a 3 year period (i.e. CU33,333 per annum). The journals required are to:

| | **CU** | **CU** |
|---|---|---|
| Dr Bank | 100,000 | |
| Cr Deferred revenue | | 66,667 |
| Cr Income in P&L/I&E | | 33,333 |

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**Example 16: Performance model (applicable for FRS 102 and Charities SORP) – revenue grant**

Charity A obtained a grant for the cost of carrying out research which will go on for three years. The total amount of the grant was CU100,000. It was conditional on using the funds for this service and no other conditions were imposed. The costs are expected to incurred over the 3 year life evenly. As it is probable that the conditions for this grant will be met (which are within the control of the charity), and given that there are no other performance conditions, under the performance model the full grant should be recognised in income on receipt.

The journals required are to:

| | CU | CU |
|---|---|---|
| Dr Bank | 100,000 | |
| Cr Donations in SOFA **OR** Income in P&L/I&E | | 100,000 |

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**Example 17: Performance model – Revenue Grant**

Charity A received a Capital Assistance Scheme loan of CU100,000 from a local authority to purchase a property to be used to house beneficiaries of the charity. This loan is mortgaged on the property. As part of the loan the charity is required to keep the properties in good structural order and proper repair and ensure that they are used for the charities purpose and let to eligible persons and rented to beneficiaries at fair rates. If the above conditions are met the loan will be forgiven after 20 years of receipt. If repayment is not made if requested the provider can take steps to recover the loan through the mortgage held.

As these are loans which are considered repayable unless certain conditions are met, it comes within the remit of Section 5 of SORP. As the charity must maintain the property to certain conditions and ensure they are let to eligible persons at a fair rate these would reflect performance conditions. Therefore the loan cannot be released to income until the 20 year period is over and all of the performance conditions have been met. This loan would be shown as a creditor greater than one year and only released as a donation on the expiry of the 20 years assuming all the conditions are met. This is supported by Section 11 of FRS 102 & Section 11 of SORP which specifically states that a liability cannot be derecognised until there is formal forgiveness of the loan received.

The journals required on initial receipt are:

| | CU | CU |
|---|---|---|
| Dr Bank | 100,000 | |
| Cr Government Capital Assistance loans – Loans > 1 year | | 100,000 |
| Being journal to defer income on initial recognition | | |

**The journals required on expiry of 20 years**

| | CU | CU |
|---|---|---|
| Dr Loans in 'creditors: amounts falling due within one year' | 100,000 | |
| Cr Donations & Legacies – unrestricted fund in SOFA OR Income in I&E/P&L | | 100,000 |
| Being journal to release the loan once it has been forgiven | | |

**Note if this was a loan which was not from a government agency it would be accounted as a concessionary loan – the journals would remain the same.**

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**Example 18: Capital grants (FRS 102 and FRS 102 SORP – performance model)**

Assume that a capital grant has been received by the charity in the year of CU50,000. The conditions of the grant states that the grant is conditional on the charity providing 100% occupancy for five years with the amount reducing for each of these 5 years.

Assume the 100% occupancy was achieved in year one.

Under this method the following would be the journals under the performance model:

| | CU | CU |
|---|---|---|
| Dr bank | 50,000 | |
| Cr income from charitable activities - restricted fund (CU50,000/5 yrs* 1 yr gone) | | 10,000 |

| | | |
|---|---|---|
| Cr deferred revenue | | 40,000 |

Being journal to defer the amount over the 5 year period

If the condition of the grant stated that the full amount of the grant is repayable if the 5 year condition is not met, then no income would be recognised until the end of year 5.

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**Example 19: Capital grants (FRS 102 and FRS 102 SORP – performance model) – Example of adjustment on transition from Accruals model to performance model when Charities SORP first adopted**

If we take example 18 and this time assume the grant was received in the comparative year prior to adoption of the SORP. Assume that the asset to which it relates is depreciated over 10 years (CU5,000 per year on grant element of cost) and that the accruals model was applied under full FRS 102. The carrying amount of the grant liability at 31 December 2015 was CU45,000.

**Journals for year ended 31 December 2015:**

| | **CU** | **CU** |
|---|---|---|
| Dr expenditure on charitable activities in SOFA with the reversal of amortisation – restricted column (assuming the amortisation was originally posted to restricted expenses as opposed to income). This then gets recognised in the restricted fund in the 'funds of the charity' section of the balance sheet which reflects the depreciation on the cost element of the asset covered by the grant | 5,000 | |
| Cr Government grants on balance sheet (CU50,000-CU45,000) | | 5,000 |

Being journal to reverse previous amortisation charged on the grant under accruals model

| | **CU** | **CU** |
|---|---|---|
| Dr Government grants on balance sheet (CU50,000-CU40,000) | 10,000 | |
| Cr income from charitable activities in SOFA with the release of grant for 1 year – restricted column. This then gets recognised in the restricted fund in the 'funds of the charity' section of the balance sheet which reflects the depreciation on the cost element of the asset covered by the grant | | 10,000 |

Being journal to reflect the restatement of the prior year balances due to the change of accounting policy for recognition of 1/5th of grant in the year

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**Example 20: Grants and performance conditions**

A grant was to be provided to a charity subject to the Charity obtaining matching funds to allow the construction to be completed. Given that this is a performance related condition the grant cannot be recognised in income until the matching funding is obtained by the charity. The journal to defer would be to Dr Bank and Cr Deferred revenue.

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**Example 21: Grants and performance conditions**

A grant was to be provided to a charity subject to the Charity obtaining planning permission to allow the construction to be completed. Given that this is a performance related condition the grant cannot be recognised in income until planning permission is obtained by the charity.

**Example 22: Grants and performance conditions**

A grant was provided by the HSE to a charity on condition that a certain service level must be achieved throughout the year. Given that this is a performance related condition the grant cannot be recognised in income until the service conditions have been met.

**Example 23: Grants and performance conditions**

A grant is provided subject to the charity providing a number of work placements in a particular period. In this case the income can only be recognised in the specified period in which the work placements are completed (i.e. the grants restricts when the work placements can be given). In this case the grant would be deferred until this period has elapsed and the requirements have been met.

This is similar where a number of training weeks are specified as part of the grant.

**Example 24: Grants and performance conditions**

A multi-period grant has been approved for a charity. However it will only be paid on the basis of agreed budgets. On this basis the charity cannot recognise the income until the grant provider has approved the budgets.

**Example 25: Grants and the performance model (Example of adjustment on transition from Accruals model to performance model when Charities SORP first adopted)**

Charity A applied a policy of recognising grants on an accruals basis under FRS 102. For the year ended 31 December 2016 the charity has decided to apply Charities SORP FRS 102 for the first time. At the 31 December 2014 and 2015 the charity held a liability for deferred capital grants on the balance sheet of CU769,000 and CU719,000 respectively (as the government grants were released to the income and expenditure statement over the life of the asset). These grants were provided on condition that the charity construct a specialist treatment unit for a certain type of beneficiary a number of years ago and on condition that it continue to be used by the charity for that purpose and if it is sold the disposals proceeds must be utilised for charitable purposes.

The amortisation credit recognised in the income and expenditure in the 2015 financial statements was CU50,000.

On adoption of the SORP the charity is required to change its accounting policy from the accruals basis to the performance basis. Given that the grants was given for a specific purpose this is a restricted grant and therefore should be recognised in a restricted fund.

From the facts above it is evident that under the performance basis the charity has complied with grant conditions and therefore the grant should have been recognised in full a number of years ago if the performance basis had of been applied. The requirement that the charity has to continue to use the property for charitable purposes does not prevent it from being recognised as this is within the control of the charity and the charity has full intention to abide by this condition.

The adjustments required are as follows:

**Journals for year ended 31 December 2015:**

| | CU | CU |
|---|---|---|
| Dr Government grants on balance sheet | 769,000 | |
| Cr restricted fund in the 'funds of the charity' section of the balance sheet | | 769,000 |

Being journal to reflect the restatement of the prior year opening reserve balance due to the change of accounting policy

| | CU | CU |
|---|---|---|
| Dr expenditure on charitable activities in SOFA with the reversal of amortisation – restricted column (assuming the amortisation was originally posted to expenses as opposed to income). This then gets recognised in the restricted fund in the 'funds of the charity' section of the balance sheet which reflects the depreciation on the cost element of the asset covered by the grant | 50,000 | |
| Cr Government grants on balance sheet | | 50,000 |

Being journal to reflect the restatement of the prior year results for the reversal of amortisation charged on government grants due to the change of accounting policy and instead reflect this as depreciation

**OR**

| | CU | CU |
|---|---|---|
| 1) Dr income with the reversal of amortisation (assuming the amortisation was originally posted to income as opposed to expenses). | 50,000 | |
| 2)*Dr expenditure on charitable activities – restricted fund | 50,000 | |
| 2) Cr expenditure on charitable activities | | 50,000 |
| 1) Cr Government grants on balance sheet | | 50,000 |

Being journal to reverse the amortisation of the capital grant recognised in 2016 and reflect the depreciation on the cost element of the asset covered by the grant being shown in the restricted fund.

*Journal 2 above reflects the reclassification of depreciation on the cost element of the asset covered by the grant from unrestricted as previously reported under FRS 102 to restricted. This then gets recognised in the restricted fund in the 'funds of the charity' section of the balance sheet.

**The journals required in the 2016 year assuming the 2016 trial balance was not prepared under SORP and the above journals were posted to reserves etc.:**

| | CU | CU |
|---|---|---|
| Dr expenditure on charitable activities in SOFA with the reversal of amortisation – restricted column (assuming the amortisation was originally posted to expenses as opposed to income). This reflects the depreciation on the cost element of the asset covered by the grant. Then this gets recognised in the restricted fund in the 'funds of the charity' section of the balance sheet | 50,000 | |
| Cr Government grants on balance sheet | | 50,000 |

Being journal to reverse the amortisation of the capital grant recognised in 2016

**OR**

| | CU | CU |
|---|---|---|
| 1) Dr income with the reversal of amortisation (assuming the amortisation was originally posted to income as opposed to expenses). | 50,000 | |
| 1) Cr Government grants on balance sheet | | 50,000 |
| 2) Dr expenditure on charitable activities - restricted fund | 50,000 | |
| 2) Cr expenditure on charitable activities - unrestricted fund | | 50,000 |

Being journal to reverse the amortisation of the capital grant recognised in 2016 and reflect the depreciation on the cost element of the asset covered by the grant being shown in the restricted fund

*Journal 2 above reflects the reclassification of depreciation on the cost element of the asset covered by the grant from unrestricted as previously reported under FRS 102 to restricted. This then gets recognised in the restricted fund in the 'funds of the charity' section of the balance sheet.

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**Example 26: Grants and the performance model (Example of adjustment on transition from Accruals model to performance model when Charities SORP first adopted):**

If in the above example (example 25) a grant was received in the 2015 year for CU769,000 and the only condition of the grant/donation was that it was to be used to purchase a fixed asset and that fixed asset was not purchased by the year end, the full grant should still be recognised in the SOFA. It is irrelevant that the expenditure has not been incurred. Assume that in 2016 the money was spent and the asset was put into use and amortisation of CU50,000 was credited to the income and expenditure account in that year. Assume 31 December 2016 is the first time preparing SORP accounts.

In that case the journal would be to:

**Journals for year ended 31 December 2015:**

| | CU | CU |
|---|---|---|
| Dr Government grants on balance sheet | 769,000 | |
| Cr restricted fund in the line 'Donations and legacies' in the SOFA (this then gets recognised in the restricted fund in the 'funds of the charity' section of the balance sheet). This reflects the depreciation on the cost element of the asset covered by the grant. Then this gets recognised in the restricted fund in the 'funds of the charity' section of the balance sheet. | | 769,000 |

Being journal to reflect the restatement of the prior year results and the opening reserve balance due to the change of accounting policy

There is no reversal of an amortisation credit here as the asset had not been put into use.

**The journals required in the 2016 year assuming the 2016 trial balance was not prepared under SORP and the above journals were posted to reserves etc.:**

| | CU | CU |
|---|---|---|
| Dr expenditure on charitable activities in SOFA with the reversal of amortisation – (assuming the amortisation was originally posted to expenses as opposed to income). | 50,000 | |
| Cr Government grants on balance sheet | | 50,000 |

Being journal to reverse the amortisation of the capital grant recognised in 2016

**OR**

| | CU | CU |
|---|---|---|
| Dr income with the reversal of amortisation (assuming the amortisation was originally posted to income as opposed to expenses). | 50,000 | |
| Cr Government grants on balance sheet | | 50,000 |

Being journal to reverse the amortisation of the capital grant recognised in 2016

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**Example 27: Capital grants and the performance model (Example of adjustment on transition from Accruals model to performance model when Charities SORP first adopted)**

If we take example 25 and this time assume that the grant/donation was provided on condition that it was used to construct a facility which could be used by the charity for general purposes as opposed to being used for specific purpose.

In this instance initially on receipt of the funds these would be classed as restricted funds. However once the building was constructed given that the grant only provided that it be used for general charity purposes the funds initially recognised in restricted funds could then be transferred to unrestricted funds in the transfer line in the SOFA. Applying this to the above example on adoption of FRS 102 SORP the journals would be:

**Journals for year ended 31 December 2015:**

| | CU | CU |
|---|---|---|
| Dr Government grants on balance sheet | 769,000 | |
| Cr unrestricted fund in the 'funds of the charity' section of the balance sheet | | 769,000 |

Being journal to reflect the restatement of the prior year opening reserve balance due to the change of accounting policy

| | CU | CU |
|---|---|---|
| Dr expenditure on charitable activities in SOFA with the reversal of amortisation – unrestricted column (assuming the amortisation was originally posted to expenses as opposed to income). This then gets recognised in the unrestricted fund in the 'funds of the charity' section of the balance sheet which reflects the depreciation on the cost element of the asset covered by the grant | 50,000 | |
| Cr Government grants on balance sheet | | 50,000 |

Being journal to reflect the restatement of the prior year results for the reversal of amortisation charged on government grants due to the change of accounting policy and instead reflect this as depreciation

**OR**

| | CU | CU |
|---|---|---|
| Dr income with the reversal of amortisation (assuming the amortisation was originally posted to income as opposed to expenses). | 50,000 | |
| Cr Government grants on balance sheet | | 50,000 |

Being journal to reverse the amortisation of the capital grant recognised in 2015

**The journals required in the 2016 year assuming the 2016 trial balance was not prepared under SORP and the above journals were not posted to reserves:**

| | CU | CU |
|---|---|---|

| | | |
|---|---|---|
| Dr expenditure on charitable activities in SOFA with the reversal of amortisation – unrestricted column (assuming the amortisation was originally posted to expenses as opposed to income). This reflects the depreciation on the cost element of the asset covered by the grant. This then gets recognised in the unrestricted fund in the 'funds of the charity' section of the balance sheet. | 50,000 | |
| Cr Government grants on balance sheet | | 50,000 |

Being journal to reverse the amortisation of the capital grant recognised in 2016

**OR**

| | **CU** | **CU** |
|---|---|---|
| Dr income with the reversal of amortisation (assuming the amortisation was originally posted to income as opposed to expenses). | 50,000 | |
| Cr Government grants on balance sheet | | 50,000 |

Being journal to reverse the amortisation of the capital grant recognised in 2016

---

**Example 28: Performance model – Revenue Grant – Example of adjustment on transition from Accruals model to performance model when Charities SORP first adopted**

Charity A previously applied the accruals model to grants. In previous years Charity A obtained a grant for the cost of carrying out research which will go on for three years. The total amount of the grant was CU100,000. It was conditional on using the funds for this service and no other conditions were imposed. The costs are expected to incurred over the 3 year life evenly. Under the accruals model the income was recognised evenly over a 3 year period (i.e. CU33,333 per annum).

The Charity has decided to adopt Charities SORP for year ended 31 December 2016. At this stage 2 of the 3 years have elapsed. The deferred income on the FRS 102 balance sheet at 31 December 2014 and 2015 was CU66,667 and CU33,333 respectively. Under SORP performance model as there are no performance conditions this would have been recognized as income immediately.

**Journals for year ended 31 December 2015:**

| | **CU** | **CU** |
|---|---|---|
| Dr Deferred revenue on balance sheet | 66,667 | |
| Cr restricted fund in the 'funds of the charity' section of the balance sheet | | 66,667 |

Being journal to reflect the restatement of the prior year opening reserve balance due to the change of accounting policy

| | **CU** | **CU** |
|---|---|---|
| Dr Donation & Legacies in SOFA - restricted column | 33,333 | |
| Cr Deferred revenue on balance sheet | | 33,333 |

Being journal to reflect the reverse the release of the grant under the accruals model under FRS 102 - as grant fully released on receipt under performance model. This assumes under FRS 102 there was a donations heading under FRS 102

**Journals for year ended 31 December 2016 assuming the above were brought forward for reserves and 2016 TB prepared under full FRS 102 (non SORP):**

| | **CU** | **CU** |
|---|---|---|
| Dr Donation & Legacies in SOFA - restricted column | 33,334 | |
| Cr Deferred revenue on balance sheet | | 33,334 |

Being journal to reflect the reverse the release of the grant under the accruals model under FRS 102 - as grant fully released on receipt under performance model. This assumes under FRS 102 there was a donations heading under FRS 102

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**Example 29: Performance model – Revenue Grant – Example of adjustment on transition from Accruals model to performance model when Charities SORP first adopted**

Charity A received a Capital Assistance Scheme loan of CU100,000 from a local authority to purchase a property to be used to house beneficiaries of the charity. This loan is mortgaged on the property. As part of the loan the charity is required to keep the properties in good structural order and proper repair and ensure that they are used for the charities purpose and let to eligible persons and rented to beneficiaries at fair rates. If the above conditions are met the loan will be forgiven after 20 years of receipt. If repayment is not made if requested the provider can take steps to recover the loan through the mortgage held.

Under full FRS 102 the accruals model was adopted and the loan/grant was written off over the life of the loan in line with the depreciation rate on the related property. The carrying value of the loan at 1 January 2015 and 31 December 2015 was CU90,000 and CU88,000 respectively (2k per annum).

As these are loans which are considered repayable unless certain conditions are met, it comes within the remit of Section 5 of SORP. As the charity must maintain the property to certain conditions and ensure they are let to eligible persons at a fair rate these would reflect performance conditions. Therefore the loan cannot be released in income until the 20 year period is over. This loan would be shown as a creditor greater than one year and only released as a donation on the expiry of the 20 years assuming all the conditions are met. This is supported by Section 11 of FRS 102 & Section 11 of SORP which specifically states that a liability cannot be derecognised until there is formal forgiveness of the loan received.

**Journals required in the 31 December 2015 year end:**

| | **CU** | **CU** |
|---|---|---|
| Dr Restricted fund in funds of the charity (100k-90k) | 10,000 | |
| Cr Government Capital Assistance loans – Loans > 1 year | | 10,000 |
| Being journal to reflect the restatement of the prior year opening reserve balance due to the change of accounting policy | | |
| | **CU** | **CU** |
| Dr Donations and legacies in Restricted fund section of SOFA (100k-90k) | 2,000 | |
| Cr Government Capital Assistance loans – Loans > 1 year | | 2,000 |
| Being journal to reflect the restatement of the prior year comparative due to the change of accounting policy | | |

**The journals required in year ended 31 December 2016 assuming the 2016 TB was prepared in accordance with Full FRS 102 and the above journals were posted to reserves etc.**

| | **CU** | **CU** |
|---|---|---|
| Dr Donations & Legacies – unrestricted fund in SOFA | 2,000 | |
| Cr Loans in ‘creditors: amounts falling due within one year’ | | 20,000 |
| Being journal to reflect reversal of accruals model journals | | |

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**Example 30: Adoption of the performance model – revenue grant – Example of adjustment on transition from Accruals model to performance model when Charities SORP first adopted**

Charity A decided to adopt Charities SORP FRS 102 for the year ended 31 December 2016. The company received a government revenue grant on 1 January 2014 of CU10,000 for the cost of employing 10 employees. A condition of the grant states that the employees must be kept on for a minimum of 2 years. Under FRS 102 the charity applied the accruals model as its accounting policy. As a result charity A recognised the full CU10,000 in 2014 on the basis that the conditions of the grant were likely to be achieved and that the CU10,000 grant was recognised in income to set against the first years cost of the employees.

On adoption of the SORP an adjustment is required to the comparative year to reflect the change in accounting policy from an accruals basis for government grants to a performance basis. The adjustments required are as follows:

**At 1 January 2015**

| | **CU** | **CU** |
|---|---|---|
| Dr General fund – unrestricted | 10,000 | |
| Cr Deferred Revenue | | 10,000 |

Being journal to recognise the deferral of the grant under the performance model as the grant cannot be recognised in the SOFA until after 31 December 2016.

**Year ended 31 December 2015**

No journals required other than the carry forward of the opening balance sheet journal above.

**Year ended 31 December 2016**

| | **CU** | **CU** |
|---|---|---|
| Dr Deferred Revenue | 10,000 | |
| Cr donations and legacies | | 10,000 |

Being journal to derecognise the grant liability as the performance conditions are met

---

**5) Change in Accounting Policy – possible adjustments on transition**

Income/expenditure recognition the same under SORP as was required under Section 34 of FRS 102 with the below exceptions:

- Government grants must be recognised under the performance basis. FRS 102 gave a choice to use the accruals basis or the performance basis – note only applied to government grants.
- Investment property must be carried at fair value. FRS 102 provided a get out if it could not be valued without undue cost or effort it could be carried at cost less impairment.
- Investment in associates/joint ventures must be carried at either cost less impairment or fair value through P&L. The option for FV through OCI is N/a.
- Self-constructed assets which are not complete cannot be classified as investment property

If applied any of above policies not permitted under SORP (unless it is felt a true and fair override is justified - unlikely) then a change of accounting policy is required to restate the comparative year and the opening balance sheet at the start of that year for the new accounting policy. Disclosures required:

- Detail nature of change
- The reason for the change and how this provides more reliable and relevant information
- The amount of adjustment for each line item in FS's affected for the current period, prior period and aggregate amt relating to period before those presented (if practicable, and if not practicable state why)
- Have word 'restated' over each note to which a change occurred
- Note change in accounting policy in SOCE if presented and in any event in the 'The analysis of Net Funds' note

Main adjustments will be where capital grants were accounted for under accruals model under FRS 102/FRSSE.

See examples 11 to 14 above for an example of the journals required for a change in accounting policy for recognising grants on a performance basis when previously they were recognised on an accruals basis. See illustration on the disclosure requirements in the financial statements which utilises the figures in example 11 above.

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**Example 31: Example prior period adjustment disclosure for a change in accounting policy from the accruals model to the performance model for government grants**

**PRIOR PERIOD ADJUSTMENT – CHANGE IN ACCOUNTING POLICY**

Previously the company applied FRS 102 as its accounting framework but did not apply the Statement of Recommended Practice “Accounting and Reporting by Charities” effective 1 January 2015. As a result of adopting the Charities SORP (FRS 102) in the current period a change in accounting policy was required so as to ensure compliance with the Charities SORP FRS 102.

Under FRS 102 the company adopted an accounting policy to recognise all grants on an accruals basis as opposed to on a performance basis. However, under the FRS 102 Charities SORP all grants including capital grants should be recognised as income in the SOFA on a performance basis (i.e. when the charity has entitlement to the funds, any performance conditions attached to the grants have been met, it is probable that the income will be received and the amount can be measured reliably). Given that the Charities SORP (FRS 102) represents best practice for all charities as it seeks to provide information relevant to the understanding of the directors and the performance and financial position of the Charity the directors believe the change in accounting policy is required.

As a result of the change in accounting policy from the accruals basis to the performance basis it has resulted in:

- the amount previously recognised as deferred income on the balance sheet at 31 December 2014 and 2013 of CU719,000 and CU769,000 respectively being released to a restricted fund within charity’s funds where the grant was given for a specific purpose **OR** to a general fund where the grants were not required to be applied for a specific purpose. The reason for this is that this CU719,000 and CU769,000 respectively would previously have been recognised in the SOFA had the performance model been applied from inception. If the performance basis had of being applied from inception this income would have been released to the SOFA in the years 201X, (CUXXX) and 201X (CUXXX) respectively.
- the amortisation credited/recognised in income **OR** in expenses in the year ended 31 December 2014 of CU50,000 on capital grants accounted for under the accruals model being reversed.
- the depreciation of CUXXXX on the element of the fixed asset cost covered by the grant being allocated to restricted funds in the SOFA from the unrestricted fund.
- the recognition of additional income in the SOFA of CUXXX with regard to grants received for capital purposes where the conditions of the grant were complied with which was recognised as deferred income on the balance sheet under the accruals model previously (**for illustrative purposes**).

The impact of applying the performance model as opposed to the accruals model for the current year is that:

- additional income of CU100,000 has been recognised in the SOFA with regard to capital grants received where the performance conditions have been met which previously would have been deferred and included in deferred income under the accruals model; and
- the amount recognised in expenditure on charitable activities would have been CU55,000 lower for the amortisation that would have been released on the capital grants under the accruals model.
- there would be no requirement to show the depreciation on the element of the fixed asset cost covered by the grant being allocated to restricted funds in the SOFA.

Below is the analysis of the adjustments to the SOFA and the balance sheet in the comparative year:

| BALANCE SHEET | As previously stated 2014 CU'000 | Prior year Adjustment CU'000 | As Restated 2014 CU'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Tangible assets | 1,500 | - | 1,500 |
| Investments | 996 | - | 996 |
| | **2,496** | **-** | **2,496** |
| **Current assets** | | | |
| Stocks | - | - | - |
| Debtors | 1.300 | - | 1.300 |
| Cash at bank and in hand | 500 | - | 500 |
| | **1,800** | **-** | **1,800** |
| **Creditors: amounts falling due within one year** | **(577)** | **-** | **(577)** |
| **Net current assets** | **1,223** | **-** | **1,223** |
| **Total assets less current liabilities** | **3,719** | **-** | **3,719** |
| **Capital grants** | **(719)** | **719** | **-** |
| **Provision for liabilities** | **-** | **-** | **-** |
| **Total net assets** | **3,000** | **719** | **3,719** |
| **The funds of the charity:** | | | |
| Restricted funds | - | 719 | 719 |
| Unrestricted funds | 3,000 | - | 3,000 |
| **Total charity funds** | **3,000** | **719** | **3,719** |

**STATEMENT OF FINANCIAL ACTIVITIES**

| | As previously stated 2014 CU'000 | Prior year Adjustment CU'000 | As Restated 2014 CU'000 |
|---|---|---|---|
| **Income from:** | | | |
| Donations and legacies | 2,400 | - | 2,400 |
| Charitable activities | 1,500 | - | 1,500 |
| Other trading activities | 105 | - | 105 |
| Investments | 2 | - | 2 |
| Other income | - | - | - |
| **Total income** | **4,007** | **-** | **4,007** |
| **Expenditure on:** | | | |
| Raising funds | 1,636 | - | 1,636 |
| Charitable activities | 1,225 | 50 | 1,275 |
| **Total expenditure** | **2,860** | **50** | **2,910** |
| Net gain on investments | 3 | - | 3 |
| **Net income for financial year** | **1,150** | **50** | **1,100** |
| **Transfer between funds** | **-** | **-** | **-** |
| **Net movement in funds** | **1,150** | **50** | **1,100** |
| **Reconciliation of funds:** | | | |
| Total funds brought forward | 1,850 | 769 | 2,669 |
| **Total funds carried forward** | **3,000** | **-** | **3,719** |

**Example 32: Investment property – on transition to SORP**

Under full FRS 102 a charity adopted the policy of recognising investment properties at cost less depreciation and amortisation as opposed to carrying them at fair value with movements in the fair value recognised in the SOFA on the basis that to value these at fair value would result in undue cost or effort. The SORP does not permit the cost model the fair value model must be used.

The charity is adopting the FRS 102 Charities SORP for the year ended 31 December 2016.

The total carrying amount at 31 December 2015 was CU80,000 after an accumulated depreciation charge of CU20,000. Assume CU10,000 was charged as depreciation in 2015. This was classified with PPE under full FRS 102.

Assume the market value at the start and end of comparative year was CU120,000 and CU130,000 respectively.

**Journals required at 31 December 2015**

| | CU | CU |
|---|---|---|
| Dr investment property in PPE (CU120k-CU90k) | 30,000 | |
| Cr General fund - unrestricted (CU120k-CU90k) | | 30,000 |
| Dr investment property in PPE (CU130k-(CU80k+CU30k)) | 20,000 | |
| Cr depreciation | | 10,000 |
| Cr gain on investment in SOFA | | 10,000 |

Being journal to reflect investment property at fair value and the reversal of the depreciation charge for the change in accounting policy including the restatement at the date of transition.

| | CU | CU |
|---|---|---|
| Dr investments with investment property | 130,000 | |
| Cr tangible fixed assets – PPE | | 130,000 |

Being journal to reflect reclassification from PPE to investments

---

**Example 33: Investment property**

Charity A purchased an investment property at a cost CU100,000. The market value at the year end date was CU130,000 respectively.

Under Section 16 of FRS 102 & Section 10 of FRS 102 SORP investment property must be held at fair value at year period end with movement in the fair value recognised in the P&L. Investment property is classified as investments in FRS 102 SORP but classified as within property, plant and equipment under FRS 102.

**Journals required at 31 December 2015**

| | CU | CU |
|---|---|---|
| Dr Investments on balance sheet OR investment property in PPE (CU130k-CU100k) | 30,000 | |
| Cr Gain on investments in SOFA **OR** Other operating income in P&L/I&E | | 30,000 |

Being journal to reflect investment property at fair value

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**6) Financial assets & liabilities (S.11 of SORP)**

a) Rules are as per FRS 102 (Section 11 & 12 & 34)

b) Financial instruments – basic financial instruments examples (definition as per Section 11):

c) Bank loans/overdrafts at market rate – state amount advanced less transaction costs where material and amortise over life of loan on the effective interest rate basis;

---

**Example 34: Loans with transaction costs/arrangement fees incurred**

Charity A received a loan of CU14,000,000 on 16 April 2015 from a bank at market rates. Arrangement fees of CU420,000 were incurred. The loan must be repaid by 31 March 2021 with interest charged as per below and repayments as per below.

**Note if the arrangement fee is not material it can be expensed immediately.**

Under Section 11 of SORP & S.11 of FRS 102 the journals required on initial recognition are:

| | **CU** | **CU** |
|---|---|---|
| Dr bank | 14,000,000 | |
| Cr bank loan | | 14,000,000 |
| | | |
| Dr bank loan | 420,000 | |
| Cr bank | | 420,000 |

Being journal to reflect the receipt of the loan and the payment of the arrangement fee which is set against the loan.

The CU420,000 arrangement fee is released to the SOFA within the line 'expenditure on chartable purposes' as an interest cost over the life of the loan on the effective interest rate basis. If non SORP accounts then it would be shown as an interest cost in the P&L. Through the use of an excel formula we determined the effective interest rate to be 2.5783%. The journal in the current year would be to (see table below back up for the numbers):

| | **CU** | **CU** |
|---|---|---|
| Dr expenditure on charitable activities – interest cost **OR** Interest cost in P&L/I&E | 106,937 | |
| Cr bank loan | | 106,937 |

Being journal to reflect the release of the arrangement fee for April 2015 to December 2016 under the effective interest method.

| Period Ending | Opening Balance | Interest for Period at the above rate | Payment of interest | Amount to be released - arrangement fees | Capital repayments | Closing Balance |
|---|---|---|---|---|---|---|
| | | | | | | |
| 01/04/2015 | 13,580,000 | - | - | | | 13,580,000 |
| 30/06/2015 | 13,580,000 | 350,135 | (336,000) | 14,135 | | 13,594,135 |
| 30/09/2015 | 13,594,135 | 350,500 | (336,000) | 14,500 | | 13,608,635 |
| 31/12/2015 | 13,608,635 | 350,873 | (336,000) | 14,873 | | 13,623,508 |
| 31/03/2016 | 13,623,508 | 351,257 | (336,000) | 15,257 | | 13,638,765 |
| 30/06/2016 | 13,638,765 | 351,650 | (336,000) | 15,650 | | 13,654,415 |
| 30/09/2016 | 13,654,415 | 352,054 | (336,000) | 16,054 | | 13,670,469 |
| 31/12/2016 | 13,670,469 | 352,468 | (336,000) | 16,468 | | 13,686,937 |
| 31/03/2017 | 13,686,937 | 352,892 | (336,000) | 16,892 | | 13,703,829 |
| 30/06/2017 | 13,703,829 | 353,328 | (336,000) | 17,328 | | 13,721,157 |
| 30/09/2017 | 13,721,157 | 353,775 | (336,000) | 17,775 | | 13,738,932 |
| 31/12/2017 | 13,738,932 | 354,233 | (336,000) | 18,233 | | 13,757,164 |
| 31/03/2018 | 13,757,164 | 354,703 | (336,000) | 18,703 | | 13,775,867 |
| 30/06/2018 | 13,775,867 | 355,185 | (336,000) | 19,185 | | 13,795,053 |
| 30/09/2018 | 13,795,053 | 355,680 | (336,000) | 19,680 | (400,000) | 13,414,732 |
| 31/12/2018 | 13,414,732 | 345,874 | (326,400) | 19,474 | (400,000) | 13,034,206 |
| 31/03/2019 | 13,034,206 | 336,063 | (316,800) | 19,263 | (400,000) | 12,653,469 |
| 30/06/2019 | 12,653,469 | 326,246 | (307,200) | 19,046 | (400,000) | 12,272,516 |
| 30/09/2019 | 12,272,516 | 316,424 | (297,600) | 18,824 | (400,000) | 11,891,340 |
| 31/12/2019 | 11,891,340 | 306,596 | (288,000) | 18,596 | (400,000) | 11,509,936 |
| 31/03/2020 | 11,509,936 | 296,762 | (278,400) | 18,362 | (400,000) | 11,128,298 |
| 30/06/2020 | 11,128,298 | 286,923 | (268,800) | 18,123 | (400,000) | 10,746,421 |
| 30/09/2020 | 10,746,421 | 277,077 | (259,200) | 17,877 | (400,000) | 10,364,297 |
| 31/12/2010 | 10,364,297 | 267,224 | (249,600) | 17,624 | - | 10,381,921 |
| 31/03/2021 | 10,381,921 | 267,679 | (249,600) | 18,079 | (10,400,000) | 0.00 |
| | 0 | 0 | | | | |
| | 0 | -00 | | **420,000** | | |

d) Debtors/creditors – no financing arrangement and at normal credit terms if <12 months then at the amount of invoice (no present valuing) = at the amount receivable/payable present valued using a deposit interest rate;

e) Cash = amount held

f) Investment in non-puttable shares = transaction cost initially and subsequently at fair value – movement go through line 'loss/gain on investments' in SOFA;

g) Loans given by charity at market rates – state at amount advanced less repayments etc.

h) Loans given by the charity/to the charity at a non-market rate which further the charitable activities of the charity = Choice under S.21 of SORP to either recognise:

1. Initially based on the discounted amount using a market based rate on a similar loan and & subsequently hold it at amortised costs releasing to SOFA on the effective interest rate basis;

2. Initially based on the actual amount advanced/received with no discounting and subsequently at the actual amount after repayments/impairments etc.

---

**Example 35: Concessionary loans – option not to discount**

Charity A received a loan from a third party/subsidiary company for CU100,000 which is interest free or below market interest rates and not repayable on demand (repayable in 5 years time). This loan was provided to further the charitable activities (e.g. to purchase a building to be used to provide charitable services).

In this instance the entity has a choice to carry this loan at amortised cost (discounting at a market rate of interest on initial recognition as a finance arrangement exists) under the rules of Section 11 of FRS 102 and the Charities SORP (assuming it meets the requirement of a basic financial instrument) or apply Section 21 of Charities SORP or Section 34 of FRS 102 to carrying this loan on initial recognition at the transaction amount i.e. the amount of the loan received less transaction costs – no discounting required.

In order to classify as a concessionary loan it must have been received/given in order to advance the charitable objectives of the charity.

If this was a loan given to a beneficiary at favourable rates it would be classified as a programme related investment/social investment.

Based on the above facts this loan meets the definition of a concessionary loan so the initial recognition journals are:

| | **CU** | **CU** |
|---|---|---|
| Dr bank | 100,000 | |
| Cr loan | | 100,000 |

Being journal to reflect the receipt on initial recognition. No discounting is required.

The above loan is defined as programme related loans under SORP and should be disclosed as such.

Note where a concessionary loan exists, the accounting policy must be disclosed as well as it being highlighted as a concessionary loan and the terms of same should be disclosed.

**Extract from the accounting policies note**

**Public benefit concessionary loans – programme related assets [If Required]**

Public benefit concessionary loans are initially measured at the amount received or paid in the balance sheet and subsequently adjusted to reflect any accrued interest payable or receivable and repayments made/received. Public benefit entity concessionary loans are loans made or received between a public benefit entity and another party at below the prevailing market rate of interest that are not repayable on demand and are for the purposes of furthering the objectives of the public benefit entity. To the extent that a loan that has been made is irrevocable, an impairment loss shall be recognised in the statement of financial activities within the expenditure on charitable activities cost.

**Extract from the notes to the financial statements with regard to concessionary loans:**

**1. DEBTORS[1,2]**

| | **2015 CU'000** | **2014 CU'000** |
|---|---|---|
| Trade debtors | 100 | 500 |
| Amounts due on public benefit entity concessionary loans[3] | - | - |
| Amount receivable from non-exchange transactions[4] | - | - |

---

[1] S19.68 of Charities SORP – at a minimum the debtors note must be split between: trade debtors, amounts owed by group undertakings, amounts owed by associated undertakings; prepayments and accrued income; and other debtors Company law requires any type of taxation debtor to be disclosed separately

[2] S19.68 of Charities SORP – where debtors are due after more than one year these should be split out

[3] Public benefit entity loans are required to disclose separately in the notes under Section 34 of FRS 102. (see accounting policy for definition of public benefit entity concessionary loans). The conditions attached to these loans are also required to be disclosed. S21.40 - 21.43 of Charities SORP requires this to be disclosed separately on the face of the balance sheet if it is deemed material enough. Where this loan is given in pursuit of the charity's charitable purpose then this would be classed as a programme related investment here, examples would be loans to other charities which is related to the charitable purpose.

[4] As this is not a financial instrument there is only a need to present value where settlement is delayed.

| | | |
|---|---|---|
| Legacies | 50 | - |
| Other debtors | - | - |
| Accrued income | - | - |
| Prepayments | 650 | 800 |
| | 800 | 1,300 |

The fair values of trade and other receivables approximate to their carrying amounts. Trade debtors are stated after provisions for impairments of CUXXX (2014: CUXXX).
The public benefit entity concessionary loan is interest free and repayable on demand.

## 2. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR[5]

| | 2015 CU'000 | 2014 CU'000 |
|---|---|---|
| Bank loans and overdrafts | - | - |
| Trade creditors | 500 | 400 |
| Amounts payable on public benefit entity concessionary loans (see note 23) [6] | - | - |
| Deferred income (see note 26)[7] | - | - |
| Accruals | 200 | 100 |
| Payments received on account for contracts | - | - |
| Payments received on account for performance related grants | - | - |
| Other creditors | - | - |
| Accruals for grants payable | - | - |
| PAYE/PRSI[8] | 54 | 77 |
| | 754 | 577 |

## 3. DETAILS OF BORROWINGS (IF ANY) [9]

| | **Within 1 year** CU'000 | **Between 1 & 2 years** CU'000 | **Between 2 & 5 years** CU'000 | **After 5 years** CU'000 | **Total** CU'000 |
|---|---|---|---|---|---|
| Repayable other than by instalments | | | | | |
| Bank Overdrafts | - | - | - | - | - |
| Public benefit entity concessionary loans | - | - | - | - | - |
| Finance Leases | - | - | - | - | - |
| Repayable by instalments[10] | - | - | - | - | - |
| Term Loan | | | | | |

[5] Creditors to be split out at a minimum as per below. S10.82 of Charities SORP
[6] Public benefit entity loans are required to disclose separately in the notes under Section 34 of FRS 102. (see accounting policy for definition of public benefit entity concessionary loans). The conditions attached to these loans are also required to be disclosed. Charities SORP requires this to be disclosed separately on the face of the balance sheet if it is deemed material enough.
[7] Required to be disclosed separately under company law. S5.59 of Charities SORP requires a note to be included detailing why the income is deferred and should analyse the movement of the deferred income account.
[8] Company law requires tax by type to be split out separately whether it be a debtor or a creditor. If this is an unincorporated entity it should be shown within the line 'taxation and social security'.
[9] Terms and conditions of loans to be disclosed under S11 of Charities SORP. Sch 3(67) of CA 2014 requires disclosure of terms of loans, the analysis of debt which is repayable other than by installments after 5 years and debt repayable in installments.
[10] Include details of bank loans, finance leases and HP agreements. Required under CA 2014 and Charities SORP. Need to disclose the terms of the loan etc. under S.11 of Charities SORP and under CA 2014

The bank facilities[11] are secured by a debenture incorporating fixed and floating charges over the assets of the company and personal guarantees from the Directors.

The facilities expiring within one year are annual facilities subject to review at various dates during 2015/2016. Interest is payable at a fixed rate of x% OR at the standard variable rate of interest of X%.

The public benefit entity concessionary loan is interest free and repayable on 31 December 2019.

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**Example 36: Concessionary loans – option to discount**

If we take example 25 above and this time assume the alternative treatment was applied then the difference between the discounted amount and the amount received would be shown as income initially and unwinding would be posted to the line 'cost of charitable activities in the SOFA as an interest cost over the life of the loan in line with the effective interest method.

| Calculated EIR | 5.00% | | | |
|---|---|---|---|---|
| **Period Ending** | **Opening Balance** | **Interest for Period at the above rate** | **Cashflow** | **Closing Balance** |
| | | | | |
| 31/12/2016 | 78,342 | 3,919 | | 82,261 |
| 31/12/2017 | 82,261 | 4,115 | | 86,377 |
| 31/12/2018 | 86,377 | 4,321 | | 90,698 |
| 31/12/2019 | 90,698 | 4,537 | | 95,236 |
| 31/12/2020 | 95,236 | 4,764 | (100,000) | -0 |

NOTE WHERE OPTION ONE IS CHOSEN S.21.26 OF SORP REQUIRES THAT WHERE THE AMOUNT IS REPAYABLE WITHIN ONE YEAR OR IS REPAYABLE ON DEMAND IT DOES NOT NEED TO BE DISCOUNTED (I.E. THE RULES IN NUMBER 2 APPLY).

| | **CU** | **CU** |
|---|---|---|
| Dr bank | 100,000 | |
| Cr loan | | 78,342 |
| Cr Income from donations and legacies in the SOFA **OR** Turnvoer/ income in P&L/I&E | | 21,658 |
| Being journal to reflect the receipt on initial recognition | | |

| | **CU** | **CU** |
|---|---|---|
| Dr cost of charitable activities – Interest expense in the SOFA **OR** Interest expense in P&L/I&E | 3,919 | |
| Cr loan | | 3,919 |
| Being journal to recognise the unwinding of the interest in the first year | | |

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i) Bonds issued at premium/discount = hold at amortised cost and release premium/discount over life of lease on the effective interest rate basis.

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**Example 37: Bonds issued at discount/premium**

Charity A acquired a capital guaranteed government bond for CU950,000 on 30 April 2016 and matures on 16 March 2021. The bond was for CU1 million and had a coupon rate of 5% with commission costs of CU2,000.

[11] Company assets pledged as security should be disclosed here, where the security is pledged in a personal capacity by the company directors this should be disclosed in the related party note

This should be accounted for under Section 11 of FRS 102 and Section 11 of Charities SORP. The discount should be amortised into the SOFA/P&L/I&E over the life of the bond on the effective interest rate basis and held at amortised cost. The effective interest rate is calculated by mathematical formula. It is a rate of .0693% per month as per below.

Table 1

| Period Ending | Opening Balance | Interest for Period at .0693% | Cashflow | Closing Balance |
|---|---|---|---|---|
| 30/04/2016 | 952,000 | - | | 952,000 |
| 31/05/2016 | 952,000 | 660 | | 952,660 |
| 30/06/2016 | 952,660 | 660 | | 953,320 |
| 31/07/2016 | 953,320 | 661 | | 953,981 |
| 31/08/2016 | 953,981 | 661 | | 954,642 |
| 30/09/2016 | 954,642 | 662 | | 955,304 |
| 31/10/2016 | 955,304 | 662 | | 955,966 |
| 30/11/2016 | 955,966 | 663 | | 956,628 |
| 31/12/2016 | 956,628 | 663 | | 957,291 |
| 31/01/2017 | 957,291 | 663 | | 957,955 |
| 28/02/2017 | 957,955 | 664 | | 958,619 |
| 31/03/2017 | 958,619 | 664 | | 959,283 |
| 30/04/2017 | 959,283 | 665 | | 959,948 |
| 31/05/2017 | 959,948 | 665 | | 960,613 |
| 30/06/2017 | 960,613 | 666 | | 961,279 |
| 31/07/2017 | 961,279 | 666 | | 961,945 |
| 31/08/2017 | 961,945 | 667 | | 962,612 |
| 30/09/2017 | 962,612 | 667 | | 963,279 |
| 31/10/2017 | 963,279 | 668 | | 963,947 |
| 30/11/2017 | 963,947 | 668 | | 964,615 |
| 31/12/2017 | 964,615 | 669 | | 965,283 |
| 31/01/2018 | 965,283 | 669 | | 965,952 |
| 28/02/2018 | 965,952 | 669 | | 966,622 |
| 31/03/2018 | 966,622 | 670 | | 967,292 |
| 30/04/2018 | 967,292 | 670 | | 967,962 |
| 31/05/2018 | 967,962 | 671 | | 968,633 |
| 30/06/2018 | 968,633 | 671 | | 969,304 |
| 31/07/2018 | 969,304 | 672 | | 969,976 |
| 31/08/2018 | 969,976 | 672 | | 970,648 |
| 30/09/2018 | 970,648 | 673 | | 971,321 |
| 31/10/2018 | 971,321 | 673 | | 971,994 |
| 30/11/2018 | 971,994 | 674 | | 972,668 |
| 31/12/2018 | 972,668 | 674 | | 973,342 |
| 31/01/2019 | 973,342 | 675 | | 974,016 |
| 28/02/2019 | 974,016 | 675 | | 974,691 |
| 31/03/2019 | 974,691 | 676 | | 975,367 |
| 30/04/2019 | 975,367 | 676 | | 976,043 |
| 31/05/2019 | 976,043 | 676 | | 976,719 |
| 30/06/2019 | 976,719 | 677 | | 977,396 |
| 31/07/2019 | 977,396 | 677 | | 978,074 |
| 31/08/2019 | 978,074 | 678 | | 978,752 |
| 30/09/2019 | 978,752 | 678 | | 979,430 |
| 31/10/2019 | 979,430 | 679 | | 980,109 |
| 30/11/2019 | 980,109 | 679 | | 980,788 |
| 31/12/2019 | 980,788 | 680 | | 981,468 |
| 31/01/2020 | 981,468 | 680 | | 982,148 |
| 29/02/2020 | 982,148 | 681 | | 982,829 |
| 31/03/2020 | 982,829 | 681 | | 983,510 |
| 30/04/2020 | 983,510 | 682 | | 984,191 |
| 31/05/2020 | 984,191 | 682 | | 984,874 |
| 30/06/2020 | 984,874 | 683 | | 985,556 |
| 31/07/2020 | 985,556 | 683 | | 986,239 |
| 31/08/2020 | 986,239 | 684 | | 986,923 |
| 30/09/2020 | 986,923 | 684 | | 987,607 |
| 31/10/2020 | 987,607 | 684 | | 988,291 |
| 30/11/2020 | 988,291 | 685 | | 988,976 |
| 31/12/2020 | 988,976 | 685 | | 989,662 |
| 31/01/2021 | 989,662 | 686 | | 990,347 |
| 28/02/2021 | 990,347 | 686 | | 991,034 |
| 31/03/2021 | 991,034 | 687 | | 991,721 |
| 30/04/2021 | 991,721 | 687 | | 992,408 |
| 31/05/2021 | 992,408 | 688 | | 993,096 |
| 30/06/2021 | 993,096 | 688 | | 993,784 |
| 31/07/2021 | 993,784 | 689 | | 994,473 |
| 31/08/2021 | 994,473 | 689 | | 995,162 |
| 30/09/2021 | 995,162 | 690 | | 995,852 |
| 31/10/2021 | 995,852 | 690 | | 996,542 |
| 30/11/2021 | 996,542 | 691 | | 997,233 |
| 31/12/2021 | 997,233 | 691 | | 997,924 |
| 31/01/2022 | 997,924 | 692 | | 998,615 |
| 28/02/2022 | 998,615 | 692 | | 999,307 |
| 31/03/2022 | 999,307 | 693 | (1,000,000) | 0 |

The journals required to account for this in the year ended 31 December 2016 are:

**Journal 1:**

| | **CU** | **CU** |
|---|---|---|
| Dr investment-government bond | 5,291 | |
| Cr investment income in SOFA **OR** Other Income in P&L/I&E | | 5,291 |

Being journal to unwind the discount on the bond up to 31 December 2016 so as to come to CU 957,291

Note when the coupon on the government bond is paid in the year, you will continue to recognise the full 5% in income i.e.

**Journal 2:**

| | **CU** | **CU** |
|---|---|---|
| Dr bank<br>(CU1,000,000 * 5%) | 50,000 | |
| Cr investment income in SOFA **OR** Other Income in P&L/I&E | | 50,000 |

At each period end the charity must review the bond for indicators of impairment which are given in Section 11. Where these are present they should be written down to the market value of bond/recoverable amount.

If come the following year the impairment has been reversed the previous impairment booked should be reversed back up to the amount it would have been stated at as if no impairment were carried out.

If we assume at 31 December 2016 or prior to the sign off of the accounts, the market value of the bond was CU940,000, then an impairment of CU17,291 (CU957,291-CU940,000) should be booked.

The Journal required would be:

| | **CU** | **CU** |
|---|---|---|
| Dr loss on investment in SOFA **OR** Impairment of investments in Admin in P&L/I&E | 17,291 | |
| Cr Government bond | | 17,291 |

Being journal to reflect the temporary impairment of the bond

From that date on you need to calculate the effective interest rate that will bring the CU940,000 to CU1,000,000 by the end of the bonds life. Effective interest rate calculated at 0.0983% through the use of a mathematical formula. See the amount to be released per month in the calculation below:

Table 2

| Period Ending | Opening Balance | Interest for Period at 0.0983% | Cashflow | Closing Balance |
|---|---|---|---|---|
| 31/12/2016 | 940,000 | - | | 940,000 |
| 31/01/2017 | 940,000 | 924 | | 940,924 |
| 28/02/2017 | 940,924 | 925 | | 941,848 |
| 31/03/2017 | 941,848 | 925 | | 942,774 |
| 30/04/2017 | 942,774 | 926 | | 943,700 |
| 31/05/2017 | 943,700 | 927 | | 944,627 |
| 30/06/2017 | 944,627 | 928 | | 945,556 |
| 31/07/2017 | 945,556 | 929 | | 946,485 |
| 31/08/2017 | 946,485 | 930 | | 947,415 |
| 30/09/2017 | 947,415 | 931 | | 948,346 |
| 31/10/2017 | 948,346 | 932 | | 949,278 |
| 30/11/2017 | 949,278 | 933 | | 950,210 |
| 31/12/2017 | 950,210 | 934 | | 951,144 |
| 31/01/2018 | 951,144 | 935 | | 952,079 |
| 28/02/2018 | 952,079 | 936 | | 953,014 |
| 31/03/2018 | 953,014 | 936 | | 953,951 |
| 30/04/2018 | 953,951 | 937 | | 954,888 |
| 31/05/2018 | 954,888 | 938 | | 955,827 |
| 30/06/2018 | 955,827 | 939 | | 956,766 |
| 31/07/2018 | 956,766 | 940 | | 957,706 |
| 31/08/2018 | 957,706 | 941 | | 958,647 |
| 30/09/2018 | 958,647 | 942 | | 959,589 |
| 31/10/2018 | 959,589 | 943 | | 960,532 |
| 30/11/2018 | 960,532 | 944 | | 961,476 |
| 31/12/2018 | 961,476 | 945 | | 962,420 |
| 31/01/2019 | 962,420 | 946 | | 963,366 |
| 28/02/2019 | 963,366 | 947 | | 964,313 |
| 31/03/2019 | 964,313 | 948 | | 965,260 |
| 30/04/2019 | 965,260 | 948 | | 966,209 |
| 31/05/2019 | 966,209 | 949 | | 967,158 |
| 30/06/2019 | 967,158 | 950 | | 968,109 |
| 31/07/2019 | 968,109 | 951 | | 969,060 |
| 31/08/2019 | 969,060 | 952 | | 970,012 |
| 30/09/2019 | 970,012 | 953 | | 970,965 |
| 31/10/2019 | 970,965 | 954 | | 971,919 |
| 30/11/2019 | 971,919 | 955 | | 972,875 |
| 31/12/2019 | 972,875 | 956 | | 973,830 |
| 31/01/2020 | 973,830 | 957 | | 974,787 |
| 29/02/2020 | 974,787 | 958 | | 975,745 |
| 31/03/2020 | 975,745 | 959 | | 976,704 |
| 30/04/2020 | 976,704 | 960 | | 977,664 |
| 31/05/2020 | 977,664 | 961 | | 978,624 |
| 30/06/2020 | 978,624 | 962 | | 979,586 |
| 31/07/2020 | 979,586 | 963 | | 980,549 |
| 31/08/2020 | 980,549 | 964 | | 981,512 |
| 30/09/2020 | 981,512 | 964 | | 982,477 |
| 31/10/2020 | 982,477 | 965 | | 983,442 |
| 30/11/2020 | 983,442 | 966 | | 984,408 |
| 31/12/2020 | 984,408 | 967 | | 985,376 |
| 31/01/2021 | 985,376 | 968 | | 986,344 |
| 28/02/2021 | 986,344 | 969 | | 987,313 |
| 31/03/2021 | 987,313 | 970 | | 988,283 |
| 30/04/2021 | 988,283 | 971 | | 989,255 |
| 31/05/2021 | 989,255 | 972 | | 990,227 |
| 30/06/2021 | 990,227 | 973 | | 991,200 |
| 31/07/2021 | 991,200 | 974 | | 992,174 |
| 31/08/2021 | 992,174 | 975 | | 993,149 |
| 30/09/2021 | 993,149 | 976 | | 994,124 |
| 31/10/2021 | 994,124 | 977 | | 995,101 |
| 30/11/2021 | 995,101 | 978 | | 996,079 |
| 31/12/2021 | 996,079 | 979 | | 997,058 |
| 31/01/2022 | 997,058 | 980 | | 998,038 |
| 28/02/2022 | 998,038 | 981 | | 999,018 |
| 31/03/2022 | 999,018 | 982 | (1,000,000) | 0 |

If we assume that at the 31 December 2017 the impairment had reversed. Then a journal would be required to reverse the previous impairment as follows

| | CU | CU |
|---|---|---|
| Dr investments – government bond (balance if no impairment had of been booked = CU965,283 as per table 1 above less carrying amount at 31 Dec 2017 of CU951,144 as per table 2 above) | 14,139 | |
| Cr gain/loss on investments in SOFA **OR** Reversal of Impairment in administrative expenses in P&L/I&E | | 14,139 |
| Being journal to reflect reversal of previous impairment | | |

**Note**: If the bond was purchased at a premium (i.e. purchased the bond for CU1,050,000) then the journals in journal 1 should be reversed so as to release the premium as a debit against income in the P&L for SORP accounts and for FRS 102 non SORP accounts it would be a debit to interest costs.

j) Non-puttable ordinary and preference shares carried at fair value.

---

**Example 38: Listed investments (Section 11 of SORP & FRS 102)**

Charity A had an investment in ordinary shares which were listed on the stock exchange. The fair value at 31/12/16 was CU11,000 and CU9,000 at 31/12/17. Assume these are unrestricted assets.

As these are listed investments which meet the definition for financial assets, they need to be recognised at fair value in the SOFA or P&L/I&E. The journal required is:

| | CU | CU |
|---|---|---|
| Dr 'Loss on investments' line in SOFA OR Fair value movement on listed investments in Administration expenses in P&L/I&E or separate on face of P&L (CU11,000 prior carrying amount – CU9,000) | 2,000 | |
| Cr Investments at Fair Value | | 2,000 |
| Being journal to reflect the movement in fair value during the year | | |

If this was an investment in shares which could not be reliably measured in line with Section 11 of FRS 102 valuation requirements it should be carried at cost less impairment

k) Complex financial instruments are as per Section 12 of FRS 102. See section 12 of FRS 102 for further details. Examples of complex instruments for charities and therefore need to be fair valued at each year end are; collective investment funds; funds whose performance is linked to the stock exchange; with profit bonds etc.

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**Example 39: Investments held at fair values (Section 11 of SORP & S.11 & 12 of FRS 102)**

The Charity holds an investment that must be carried at fair value under FRS 102 (e.g. listed shares, complex financial instruments such as with profit bonds, perpetual bonds, collective investments, bonds linked to ISEQ etc.). These are classified as complex financial instruments under Section 12 of FRS 102. The fair value of this investment at 1 30 September 2014 and 30 September 2015 was CU1,020,000 and CU990,000 respectively.

The investment cost CU1,000,000 purchased in year ended 30 September 2014.

The journals required are:

**At 30 September 2014**

| | CU | CU |
|---|---|---|
| Dr investments (1,020,000-1,000,000) | 20,000 | |
| Cr Investment income in SOFA – Unrestricted fund **OR** Fair value gain on investments in other operating income/other income | | 20,000 |
| Being journal to reflect investment at fair value | | |

**At 30 September 2015**

| | CU | CU |
|---|---|---|
| Dr investment income in (SOFA – Unrestricted fund (1,020,000-CU990,000) | 30,000 | |
| Cr investment | | 30,000 |
| Being journal to reflect investment at fair value | | |

**Example 40: Fair valuing complex financial instruments (Section 11 of SORP & S.11 & 12 of FRS 102)**

Charity A holds the following investment:

- Investment CU1 million linked to fund paying out on maturity capped at 20% (with profit bond)
- Underlying counterparty Bank of Ireland
- Remaining term - 4 years to maturity
- Current fund price +25% (2015 +12%)
- Probability of income being received – very good > 90%
- Absolute return fund, performance positive last 10 years, low volatility in price
- Current yield on BoI 2020 senior bond 0.29% (2015 1.37%)

| | | |
|---|---|---|
| Investment | 1,000,000 | |
| Year to maturity | 4 | |
| | **2016** | **2015** |
| Yield BoI 2020 bond | 0.29% | 1.37% |
| Likely income on maturity | 20% | 8% |
| **Discounted Value** | **1,186,180** | **1,008,966** |

This is one way to value this investment

**Example 41: Fair valuing complex financial instruments (Section 11 of SORP & S.11 & 12 of FRS 102)**

Charity A holds the following investment:

- Investment CU1 million linked to basket of stocks
- Underlying counterparty Spanish B rated Bank
- Remaining term - 6 years to maturity
- 2 stocks down > 50%, likelihood of income 0%
- Current yield on Spanish Bank 2022 senior bond 0.87% (2015 1.45%)

| | | |
|---|---|---|
| Investment | 1,000,000 | |
| Year to maturity | 6 | |
| | **2016** | **2015** |
| Yield 2022 bond | 0.87% | 1.45% |
| Likely income on maturity | 0% | 0% |
| **Discounted Value** | **949,353** | **904,140** |

l) Requirement to review financial assets for impairment in line with Section 11 and book impairment if required. Reverse impairment if the indicator reverses but not reverse it above what it would have been stated at had no impairment arose.

m) Required to carry listed investments at fair value (see example 27A)

---

**7) Programme related assets (S.21 of SORP – no applicable for FRS 102 non SORP)**

Programme related investment (PRA) defined in SORP as:

- Asset held by charity which provides investment funding to individuals or organisations in order to directly further charitable objectives, any financial return is secondary
  - If such assets exist and are tangible in nature carry within tangible fixed assets (TFA's) and depreciate (even if rental income is earned) e.g. providing use of building to another organisation who in turn provide a service to charities beneficiaries)
  - If such assets exist and are tangible in nature but it forms part of the charity's own building it will also be classed as TFA's
  - If such an assets is non-puttable ordinary shares it should be held at FV or at cost less impairment if it cannot be measured reliably
  - Gains/loss recognised in other income in SOFA
  - Impairment recognised in 'expenditure on charitable activities; in SOFA

- If investment not originally classed as a programme related asset but a financial asset it cannot be classed as a PRA subsequently.

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**8) Mixed motive investment defined in SORP (not dealt specifically within FRS 102) as:**

- Asset held similar to programme related investment but the charitable cause is not the primary motive, there is both a financial return & charitable motive

- If a mixed use property is used by the charity and some of the property is rented out, then each element should be separated; with value of rental element held as an investment property and balance as PPE unless it is impractical to apportion.

- If such assets exist and are tangible in nature carry within tangible fixed assets and depreciate (even if rental income is earned) where it is. providing use of building to another organisation who in turn provide a service to charities beneficiaries

- If such an asset is non-puttable ordinary shares it should be held at FV or at cost less impairment if it cannot be measured reliably

- Gains/loss recognised in 'gains/losses on investments' in SOFA

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**9) Fund Accounting (S.2 of SORP – not required under FRS 102 non SORP)**

This has already been discussed in Section 1A of this guide: Presentation of SORP financial statement's (see section 1 (D) (2)).

- Types of funds:
  - Restricted
  - Unrestricted
  - Endowment
  - Revaluation

- Restricted income/fund = income received of any kind where the donor has specifically included a condition that the funds/legacies/gift provided must be used for a specific purpose
  - If the donor merely expresses a form of non-binding preference as to use of the funds then they are not restricted
  - If fundraising carried out and it is stated that the funds will be used for a specific purposes then this would be restricted
  - Where capital grant received toward cost of building etc. need to assess if it is given for a specific premises which is to be used for a specific purpose within charity or if it can be used generally for charity
    - If can be used generally then once building is constructed it can be moved from restricted to unrestricted
    - If it is for specific purpose then needs to be kept in restricted and depreciation each year on building to be included in restricted expenses

- Unrestricted = where no condition attached to the gift etc. other than it be used for the charitable purpose

- Note designated funds go within the unrestricted fund column – designated funds are set up by the trustees, there is no legal requirement stating funds cannot be used for any purpose

- What charities need to do?
  - Review funds in existence at start of comparative year when SORP accounts first prepared to ascertain whether they are restricted, unrestricted or endowment funds

Then classify the income and expenses accordingly in the SOFA

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**Example 42: Fund accounting (S.2 of SORP – not required under FRS 102 non SORP)**

Charity A made a surplus of CU100,000 in the year in the restricted fund. The trustees have decided to transfer CU20,000 of this to a designated fund to provide for the future cost to purchase equipment.

What are the journals required?

| | **CU** | **CU** |
|---|---|---|
| Dr general fund | 20,000 | |
| Cr designated fund for equipment | | 20,000 |
| Being journal to reclassify within funds | | |

If required it may also be appropriate to transfer to a separate bank account but not necessarily required.

This would be shown in the movement in funds note in the financial statements.

If we take this example and this time assume that the directors determined that they would transfer the CU20,000 to an restricted fund in order to fund a deficit on that account. In this case the journals would be to:

| | **CU** | **CU** |
|---|---|---|
| Dr general fund | 20,000 | |
| Cr Restricted fund | | 20,000 |

This transfer would be shown on the face of the SOFA within the 'transfers' line.

Even if there was no surplus for the year in unrestricted fund and there was excess funds forward you could still make a transfer from unrestricted to restricted funds.

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**Example 43: Fund accounting (S.2 of SORP – not required under FRS 102 non SORP)**

Charity A received a grant towards the cost of purchase of a fixed asset. The condition of the grant was that it must be used to purchase the asset and if the asset was sold the proceeds must be used for charitable purposes. The asset can be used for all charitable activities. The value of the grant was CU100,000.

In this case on initial receipt the journal would be to:

| | **CU** | **CU** |
|---|---|---|
| Dr bank/debtor | 100,000 | |
| Cr Donations and legacies in SOFA –restricted fund | | 100,000 |

Once the funds are used to purchase the fixed assets the journal would be to:

| | **CU** | **CU** |
|---|---|---|
| Dr restricted funds | 100,000 | |
| Cr unrestricted funds | | 100,000 |
| Being journal to reflect transfer. Note this would be shown in the 'transfer' line in the SOFA | | |

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**10) Fixed assets (S.10 of SORP)**

Choice in relation to tangible fixed assets, heritage assets, intangible assets to carry at:

- cost less depreciation and impairment; or
- apply a revaluation policy such that the class chosen is carried at revaluation less depreciation and impairment

Revaluation option – under take revaluation so that carrying amount does not differ materially from fair value

- for land & buildings can be carried out on a rolling basis over 5 year period **(FRS 102 does not state this it merely says that each period end should reflect fair value)**
- Valuation would usually be performed by professional valuer – can use internal staff

For SORP accounts movement in revaluation recognised in 'gain or loss on revaluation of fixed assets' in SOFA. For FRS 102 non-SORP revaluation uplift recognised in other comprehensive income.

Recognise loss on disposal, impairment in cost of charitable activities for SORP but within admin expenses or shown separately if non SORP FRS 102 accounts prepared.

**10a) Heritage assets (S.18 of SORP) –**

Asset held principally for historic, artistic, scientific, geophysical or environmental qualities that is held principally for its contribution to knowledge and experience

Artistic or historic importance is not enough it must contribute to knowledge and experience.
Examples

- School operating in a historic building cannot classify as a historic asset as it is merely used as a facility for teaching.

- If it is used incidentally for service or admin purposes but principally held for contribution to knowledge and experience, it is a heritage asset

- Heritage assets include abbeys, monasteries, cathedrals and historic churches where a contribution to knowledge is ancillary to faith or other purposes

If a charity does not have a preservation or conservation purposes can only account for the asset as a heritage asset if the asset:

- Has historic, artistic, scientific, technological, geophysical or environmental policies; and

- Contributes to knowledge and culture through retention or use; and

- Is accessible to the public for viewing

Heritage assets should be shown separately under fixed assets in balance sheet

Measured initially at cost or valuation if donated. If valuation cannot be determined due to costs, depreciated replacement cost could be used

If reliable estimate cannot be determined then not included on balance sheet and disclosures provided.

See example disclosure below:

**Table 1: Analysis of heritage assets**

| **Basis of capitalisation** | **At valuation Group A** | **At cost Group B** | **Total** |
|---|---|---|---|
| | **CU** | **CU** | **CU** |
| Carrying amount at beginning of the reporting period | X | X | X |
| Additions | X | X | X |
| Disposals | (X) | (X) | (X) |
| Depreciation/Impairment | (X) | (X) | (X) |
| Revaluation | X | - | X |
| Carrying amount at reporting date | **X** | **X** | **X** |

**Table 2: Summary analysis of heritage assey transactions**

| | **2015** | **2014** | **2013** | **2012** | **2011** |
|---|---|---|---|---|---|
| | **CU** | **CU** | **CU** | **CU** | **CU** |
| **Purchases** | | | | | |
| Group A | | | | | |
| Group B | | | | | |
| **Donations** | | | | | |
| Group A | | | | | |
| Group B | | | | | |
| **Total additions** | | | | | |
| | | | | | |
| **Charge for impairment** | | | | | |
| Group A | | | | | |
| Group B | | | | | |
| **Total Charge for impairment** | | | | | |
| | | | | | |
| **Disposals** | | | | | |
| Group A | | | | | |
| Group B | | | | | |
| | | | | | |
| **Proceeds from disposals** | | | | | |
| Group A: carrying amount | | | | | |
| Group B: carrying amount | | | | | |
| **Total disposals** | | | | | |
| | | | | | |
| **Proceeds from disposals** | | | | | |
| Group A: sale proceeds | | | | | |
| Group B: sale proceeds | | | | | |
| **Total sale proceeds** | | | | | |

See revaluation example below

**Example 44: Revaluation policy on tangible fixed assets (Section 10 of SORP & Section 17 of FRS 102)**

Charity A has adopted a policy of revaluation on its PPE. The company purchased an asset for CU500,000 at the start of year 1 and determined the useful life to be 20 years. By the end of year one, there were indications of a change in market conditions and a valuation exercise was performed which showed the market value at CU525,000. At the end of year 4, a further valuation was performed as the difference in fair value and the carrying value was material, at this time the value was reduced to CU300,000. In year 8, a further valuation was performed which indicated a fair value of CU600,000.

Assume the depreciation on the revalued amount is transferred from the revaluation reserve to general unrestricted fund on a year by year basis as the depreciation is charged as required by company law. Assume the asset is not a restricted asset.

Company A would account for the changes in value in the following way:

**At end of year 1:**

The carrying value of the asset is CU475,000 (i.e. CU500,000 less depreciation for one year of CU25,000 (CU500,000/20yrs))

| | **CU** | **CU** |
|---|---|---|
| Dr fixed assets | 50,000 | |
| Cr 'Gains/losses on revaluation of fixed assets in SOFA/revaluation reserve **OR** Revaluation of tangible fixed assets in Other Comprehensive income & revaluation reserve | | 50,000 |

From then on CU27,632 will be charged in depreciation (CU525,000/19yrs left). The difference between this and the CU25,000 that would have been charged on historic cost basis will be transferred from the general reserve.

**At end of year 4:**

The carrying value of the asset is CU442,104 (i.e. CU525,000 less depreciation of CU27,632 for three years totaling CU82,896)

| | **CU** | **CU** |
|---|---|---|
| Dr expenditure on charitable activities line in SOFA OR revaluation of tangible fixed assets in P&L/I&E | 100,000 | |
| Dr 'Gains/losses on revaluation of fixed assets in SOFA/revaluation reserve' **OR** Revaluation of tangible fixed assets in Other Comprehensive income & revaluation reserve | 42,104 | |
| Cr fixed assets (CU442,104-CU300,000) | | 142,104 |

From then on the carrying amount of CU300,000 will be depreciated over the remaining life of 16 years (CU18,750 per annum).

**Note 1:** From the end of year 1 to end of year 4 for the depreciated asset, the additional depreciation charged of CU2,632 per annum (CU27,632-CU25,000) – (CU7,896 in total) as a result of the revaluation would have been transferred from the general unrestricted fund to the revaluation reserve. Hence carrying amount at end of year 4 in revaluation reserve was CU42,104.

**At end of year 8:**

The carrying value of the asset is CU225,000 (i.e. CU300,000 less depreciation of CU18,750 for 4 years totaling CU75,000)

| | CU | CU |
|---|---|---|
| Dr fixed assets (CU600,000 – CU225,000) | 375,000 | |
| Cr expenditure on charitable activities line in SOFA / reversal of impairment on tangible fixed assets (note 1) (€100,000 previously posted-€25,000 See Note 1 below) | | 75,000 |
| Cr 'Gains/losses on revaluation of fixed assets in SOFA/revaluation reserve' **OR** Revaluation of tangible fixed assets in Other Comprehensive income & revaluation reserve (€375,000-€75,000) | | 300,000 |

From then on the carrying amount of €600,000 will be depreciated over the remaining life of 12 years (€50,000 per annum).

**Note 1:**

The amount that can be credited to the SOFA is reduced by the additional depreciation that would have been charged had the asset not been revalued downward in the past i.e. original cost prior to downward revaluation of €500,000 / useful life of 20 years= €25,000 * 4 years = €100,000. This compares to depreciation charged while the asset was being depreciated on the reduced amount of €75,000 (year 5 to year 8 – €U300,000/UEL of 16 years* 4 years) = €25,000

***Transfer of depreciation on revalued amount from profit and loss reserves/general fund***

Taking the example above, at the end of year 2 for the depreciated asset, the additional depreciation charged of CU2,632 (CU27,632-CU25,000) as a result of the revaluation must be transferred from general fund OR P&L reserves to the revaluation reserve. The transfer should be shown in the movement on revaluation reserve note.

| | **Year 2** |
|---|---|
| | **CU** |
| Revaluation Reserve at 01/01/Year 2 | 50,000 |
| Transfer from Profit & Loss Reserve (CU2,632-263) | (2,632) |
| Revaluation Reserve at 31/12/Year 2 | 44,368 |

| | **CU** |
|---|---|
| Profit and Loss Reserves at 01/01/Year 2 | XXX |
| Transfer to Revaluation Reserve | 2,632 |
| Profit and Loss Reserves Reserve at 31/12/Year 2 | XXXXX |

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**11) Investment in subsidiaries, associates, JV's (S.28, 29 & S.24 of SORP / S.9, 14 & 15 of FRS 102)**

- In entity financial statements, measured at:
  - cost less impairment; or
  - Fair value with movement recognised in 'gains/losses on investments' in SOFA **OR** in Other Comprehensive Income
  - OR ONLY APPLICABLE IF APPLYING FRS 102 BUT NOT SORP - Fair value with movement recognised in P&L/I&E
- In Consol financial statements for associates and jointly controlled entities, measured under:

– Equity method

**12) Retirement and post-employment benefits (S.17 of SORP & S.28 of FRS 102)**

Defined contribution scheme:

- If pension contributions not payable within 12 months of YE then present value required.
- If a commitment to fund a deficit, the amount should be recognised on the balance sheet when committed
- Costs included within the cost of chartable activity and split by restricted/unrestricted funds as appropriate.

Defined benefit plan-

- Recognised for a pension at present value of liabilities less fair value of pension assets
- Actuarial gains/losses recognised in line 'other recognised gains and losses' line in SOFA
- the net interest to be recognised in the SOFA calculated on the net liability/asset using the relevant discount rate for liabilities.
- Multi-employer scheme – can be treated as a defined contribution scheme if the portion of assets and liabilities cannot be identified. If commitment made to find a deficit then this must be recognised as a liability.
- Past service costs recognised immediately
- Group schemes – requirement for at least 1 company in group to recognise DB scheme (i.e. the entity legally responsible for scheme)
    - If contractual agreement to share between the group then each entity recognises their portion of DB scheme

Requirement to accrue for holiday pay

**Example 45: Holiday pay accrual – carry forward of holiday leave including payment on leaving (S.17 of SORP & S.28 of FRS 102)**

Charity A has 20 employees. The charity provides 20 days annual leave per year (which is earned throughout the year) and employees can carry forward any unused leave to a future period and is entitled to be paid for the untaken leave if they leave the charity. At 31 December 2016, 10 of the employees had taken only 15 days and 2 employees had taken 17 days. The average pay rate per employee is CU100 per day assuming they are all in the same grade. Assume the rate of ER PRSI is 10%. The entity assumes that all employees will stay on to take the unused leave. The accrual required to be booked at 31 December 2016 is:

(10 employees at CU100 per day for 5 days) + (2 employees at CU100 per day for 3 days)=(10*CU100*5)+(2*CU100*3)= CU5,600 (plus ER PRSI assumed of 10% being CU560) = CU6,160

**Example 46: Holiday pay accrual (S.17 of SORP & S.28 of FRS 102)**

If we take example 32 and this time assume based on past experience only 90% of employees will remain on the following year based on past experience. In this case even though we believe 90% will stay on, we cannot accrue 90% of the cost as the employees are entitled to be paid in cash on leaving.

**Example 47: Holiday pay accrual – no cash payment for untaken holidays on leaving (S.17 of SORP & S.28 of FRS 102)**

If we take example 32 and this time assume the Charity does not pay employees for any unused holidays on leaving. If based on past experience, 10% of employees leave in the following year and usually do not take all the unused holiday entitlement. In this case as a cash payment is not required, at the year-end an accrual should be created as follows:

((10 employees*90%) at CU100 per day for 5 days) + ((2 employees*90%) at CU100 per day for 3 days)
=((10*.9)*CU100*5)+((2*.9)*CU100*3)= CU5,040 (plus ER PRSI assumed 10% being CU504) = CU5,544

**Example 48: Holiday year differs to accounting year (S.17 of SORP & S.28 of FRS 102)**

Charity A has a 30 June year end. It has 20 employees. The holiday entitlement runs on a calendar year. Management expect all employees will take their annual leave within the calendar year. All employees are salaried and the number of working days in the year is 270 days. At 30 June all 20 employees had taken 7 days leave since 1 January. If we assume 10 of the employees are administrative staff and get paid CU30,000 per annum and the other 10 are management staff and get paid CU60,000 per year. The accrual that would be required at 30 June is as follows:

Total annual cost for 10 administrative employees = 10 * CU30,000 =
CU300,000 Total annual cost for 10 management employees = 10 * CU60,000
= CU600,000

Total cost per day for each administrative staff = CU30,000/270 days=
CU111 Total cost per day for each management staff = CU60,000/270
days= CU222

Total annual leave earned for all 20 employees = 20 days annual leave / 12 months= 1.67 earned per month * 6 months leave earned= 10 days

Total days to be accrued= 10 days earned less 7 days taken pre 30 June= 3 days

Accrual required for admin staff= CU111*3 days= CU333*10 employees= CU3,333 Accrual required for managerial staff= CU222*3 days= CU666*10 employees= CU6,666 Employer PRSI would also be accrued on these amounts.

**Example 49: Holiday year differs to accounting year (S.17 of SORP& S.28 of FRS 102)**

Take example 35 but this time based on past experience management know that only 90% will take their annual leave entitlement and remaining 10% will lose the untaken leave. In this particular case the accrual would be reduced by 10% to 90%.

## 13) Impairment of assets (S.13 of SORP & S.27 of FRS 102)

- Applies to assets other than:
  - financial assets accounted for under Section 11 of SORP or Section 11 and 12 of FRS 102
  - Deferred tax asset
  - Employee benefits, investment properties, biological assets

- Inventory to be reviewed for impairment indicators

- Where assets are held for service potential as opposed to earn cash flows, impairment only required when:
  - The asset is physically damaged
  - Is not meeting its service requirements
  - Or demand for the service has decreased other than temporarily

---

**Example 50: Impairment of assets (other than financial assets covered by Section 11) – Section 12 of SORP & S.27 of FRS 102**

Charity A constructed a property a number of years ago which was specifically used by the charity to provide beneficiaries with a service (e.g. housing service, swimming pool). The carrying amount in the accounts is CU1,000,000

During the year there were indications of a significant reduction in the value of the property. Indications of the market value of the property is CU500,000.

The property itself continues to provide the resources it requires for its services. There has been no damage to the property and there is no indication that demand for the property and services are reducing.

**Does an impairment need to be recognised in the current year financial statements?**

No assuming the property is held for its service potential an impairment is only required where that property is not meeting the service requirements and the depreciation charge each year reflects the usage of the property.

As the aforementioned are the only indicators of impairment where an asset is held for service potential no impairment review is required. The property is not held specifically for financial purposes but to provide benefits to the public.

Assess for indicators of impairment which are:

- Significant decline in asset’s value
- Significant changes in technology or market/ economic or legal environment which has adverse effects on charity
- As asset becoming idle or plans for disposal of an assets
- Evidence of an asset’s obsolescence or physical damage
- Evidence of worse than expected results or cash flow from use of asset
- Significant decline in asset’s value
- Significant changes in technology or market/ economic or legal environment which has adverse effects on charity
- As asset becoming idle or plans for disposal of an assets
- Evidence of an asset’s obsolescence or physical damage

- Evidence of worse than expected results or cash flow from use of asset

When impairment indicators present carry out impairment review to assess recoverable amount

If recoverable amount > carrying amount, then no impairment and vice versa

If an impairment exists, write down asset to higher of:

- Fair value less cost to sell; or
- Value in use

Impairment recognised in expenditure on charity activities in SOFA to the activity the asset is used

- Reversal of impairment posted to expenditure on charity activities in SOFA to the activity the asset is used If conditions have reversed
- Reversal up to amount to which it would have been at had no impairment occurred

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**14) Business Combinations: (S.27 of SORP & Section 34 of FRS 102)**

**Example 51: Business Combinations: Mergers**

Charity A and Charity B have a year end of 31 December 2016 and are CLG's. Charity B merged with charity A on 1 January 2017. Under Section 34 of FRS 102 and S of SORP this is required to be accounted for under merger accounting. At the date of the merger the net funds of Charity B was €100,000 split €65,000 unrestricted and €35,000 restricted (made up €150,000 assets and €50,000 liabilities). At the start of the comparative period (i.e. 1 January 2016) the net funds of Charity B was €90,000 split €60,000 unrestricted and €30,000 restricted (made up €140,000 assets and €50,000 liabilities). The income in 31/12/16 for charity B was income of €160k and costs of €150k (profit split 5k to restricted & 5k to unrestricted).

The cost of the merger was €50,000.

Section 34 PBE34.80-81 of FRS 102 and Section 27 of SORP lays out the accounting treatment for mergers.

It is a Merger only if **all** of the below apply:

- No party portrayed as acquirer or acquire;
- No significant change in class of beneficiaries of the combined entities;
- All parties are represented on the board and decisions made to conscious.

Merger accounting requires the following in the 31 December 2017 accounts:

- Charity A to recognise the net funds of charity B at 31 December 2014 in a merger reserve (there is no fair value rules – it is transferred in at the carrying amount stated in Charity B at time of transfer)

- Comparative amounts of Charity A as previously stated to be adjusted to include Charity B results in balance sheet and SOFA

- Current year amounts Charity A to be adjusted to include Charity B results in balance sheet and SOFA for the full year (regardless of when it was acquired in that year).

- Cost associated with the merger must be expensed in the 31 December 2017 year in Charity A accounts.

- If restricted funds in Charity B, then should be shown as restricted in combined charity.

**Impact on 31 December 2016 accounts for Charity B**

- Consideration should be given to the audit report implications where accounts are required for Charity B by the Charities Regulator or Grant provider:

- Not companies Act requirement as Co. is considered dissolved– maybe carry out agreed upon procedures – agree who signs the accounts

- Implications on audit report – present on Break up basis??

- Post balance sheet event note

**Impact on 31 December 2016 accounts for Charity A**

- Post balance sheet event note;

**Impact on 31 December 2017 accounts for Charity A**

The following journals are required to be posted to the opening balance sheet within the comparative year (31/12/16)

| | **CU** | **CU** |
|---|---|---|
| Dr Fixed assets, debtors, etc. etc. | 140,000 | |
| Cr– Merger Reserve - unrestricted fund under heading 'funds of the charity' in Balance Sheet | | 60,000 |
| Cr– Merger Reserve - restricted fund under heading 'funds of the charity' in Balance Sheet | | 30,000 |
| Cr Creditors etc. etc. | | 50,000 |

Being journal to reflect the merger and get correct net assets at start of comparative period.

The following journals are required to be posted to the comparative year in Charity B books (31/12/16)

| | **CU** | **CU** |
|---|---|---|
| Dr Fixed assets, debtors, etc. etc. | 10,000 | |
| Dr Expenditure in SOFA in relevant area in unrestricted fund column in SOFA/I&E which follow through to Merger Reserve - unrestricted fund under heading 'funds of the charity' in Balance Sheet (65k-60k) | 75,000 | |
| Dr Expenditure in SOFA in relevant area in restricted fund column in SOFA/I&E which follow through to Merger Reserve - restricted fund under heading 'funds of the charity' in Balance Sheet (34k-30k) | 75,000 | |
| Cr– Income in relevant heading in unrestricted fund column in SOFA/I&E which follow through to Merger Reserve - unrestricted fund under heading 'funds of the charity' in Balance Sheet (65k-60k) | | 80,000 |
| Cr– Income in relevant heading in restricted fund column in SOFA/I&E which follow through to Merger Reserve - restricted fund under heading 'funds of the charity' in Balance Sheet (34k-30k) | | 80,000 |
| Cr Creditors etc. etc. | | - |

Being journal to reflect the merger and get correct net assets at end of comparative period & show results in the comparative year inclusive of Charity B.

The journals required in 2017 – None assuming the trial balance incorporates the results of the combined entity from 1 January.The €50,000 expenses should be expensed into SOFA/P&L possibly as exceptional items if material.

**Example 52: Business Combinations: Gifts of business etc.:**

Charity A was gifted a business during the year (which was not incorporated). The excess of fair value over liabilities at the date of the gift was €100,000 (split €150k assets/€50k liabilities).

If there is a transfer which is in substance a gift then this should be recognised as income (within other income in the SOFA) if the fair value of assets exceed the fair value of liabilities at time of gift. This is stated in Section 24.33 of SORP and Section 34 PBE34.77-79 of FRS 102.

If liabilities exceed asset fair value – recognised as an expense in SOFA or P&L/I&E.

**Journals required**

| | **CU** | **CU** |
|---|---|---|
| Dr Assets etc. | 150,000 | |
| Cr Liabilities etc. | | 50,000 |
| Cr– Other income in SOFA | | 100,000 |
| Being journal to reflect the gain on gift of business | | |

If in the above example, these were shares the journals would be to

| | **CU** | **CU** |
|---|---|---|
| Dr Investment in shares on Balance sheet | 100,000 | |
| Cr– Other income in SOFA | | 100,000 |
| Being journal to reflect the gain on gift of shares in business in the entity accounts | | |

In the consolidated financial statements, the €100,000 would be recognised as goodwill on the balance sheet and amortised.

**Example 53: Business combination: Not a merger or gift – Purchase accounting method**

Rules are as per Section 19 of FRS 102

**15) Other items**

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**Example 54: Insurance proceeds (Section 5 of SORP & Section 21 of FRS 102)**

Charity A has a possible insurance claim for damaged property worth €100,000. At the year end a settlement letter had not been received.

Can this CU100k be recognised in the year?

No as per Section 5.55 of SORP it cannot be recognised until it is virtually certain and a letter of settlement is received from the insurer. Section 21 states that it cannot be recognised until receipt is almost certain.

| | **CU** | **CU** |
|---|---|---|
| Dr debtor | 100,000 | |
| Cr Other income in SOFA **OR** Exceptional item in P&L/I&E | | 100,000 |

---

**Example 55: Operating leases (S.10 of SORP & S.20 of FRS 102)**

Charity X operates in a jurisdiction in which the consensus forecast by local banks is that the general price level index, as published by the government, will increase by an average of 10 per cent annually over the next five years. X leases some office space from Y for five years under an operating lease.

The lease payments are structured to reflect the expected 10 per cent annual general inflation over the five-year term of the lease as follows:

| | |
|---|---|
| Year 1 | €100,000 |
| Year 2 | €110,000 |
| Year 3 | €121,000 |
| Year 4 | €133,000 |
| Year 5 | €146,000 |

Charity X recognises annual rent expense equal to the amounts owed to the lessor as shown above. If the escalating payments are not clearly structured to compensate the lessor for expected inflationary cost increases based on published indexes or statistics, then X recognises annual rent expense on a straight-line basis: €122,000 each year (sum of the amounts payable under the lease divided by five years).

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**Example 56: Rent free period**

Charity A entered into a lease with a landlord for 10 years with a rent review after year 5. The rent payable on the lease per annum is CU200,000. As part of the agreement, the landlord agreed to provide the first 3 months rent free (CU200,000/12mths*3mths=CU50,000). Under Section 20, the lease incentive needs to be written off over the life of the lease. Assume the lease agreement commenced on 1 October and Company A's year end is 31 December. The journals required to be posted in Company A's TB at the 31 December are:

| | **CU** | **CU** |
|---|---|---|
| Dr expenditure on charitable activities in rent costs in SOFA **OR** Administrative expenses in P&L/I&E (CU16,250* X 3 months)* | 48,750 | |
| Cr Lease incentive accrual | | 48,750 |

From year 2 on, the €48,750 is written back to the profit and loss and set against the rental expense i.e. at the end of year 2 the accrual would be reduced to CU43,750 (CU48,750-CU5,000) to show the net cost of CU195,000 per annum.

If in the above example the landlord provided a contribution of CU50,000 towards the cost of fixed assets or towards the cost of relocating, the treatment would be the same.

*Calculate the actual total rental payments over the 10 years i.e. actual rent payments are only paid for 9 years and 9 months = CU200,000 *9.75 years= CU1,950,000. Therefore the total amount of rent to be charged over the life of the lease is = CU1,950,000/10 years = CU195,000 per annum or CU16,250 per month. Therefore for the first 3 months an accrual is required as no payment is made. However, this accrual is then reduced over the life of the lease such that the cost shown each year is CU195,000. **NOTE: THE DATE OF THE RENT REVIEW IS IGNORED**.

If this was given as a gift which would not be given if the entity was not a charity. The same journals would be required.

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**Common errors in FRS 102 SORP accounts**

- Not amortising premium/discounts on bonds over life of the bond
- Not including an accounting policy for concessionary loans or not considering such loans from an FRS 102 perspective
- Not disclosing the fact that it is a public benefit entity
- Not applying the ‘assets held for service potential’ and instead booking an impairment based on value in use
- Not identifying certain bonds as complex instruments (e.g. with profit bonds)
- Not recognising the value of donated services and goods as income and an expense.

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**Conclusion**

- Very little transition adjustments other than those listed above in part 5.
- Principles follow FRS 102.