

Changes in financial reporting

Specialist sectors



Important changes are being made to UK GAAP with new accounting standards mandatorily effective in the UK (and ROI) for periods commencing on or after 1 January 2015. In [Changes to financial reporting: The time to act is now](#), we provided an overview of the considerations that you need to think about now. In this commentary we look at an overview of new financial reporting frameworks for your specialist sector clients

Statements of Recommended Practice (SORPs)

SORPs have been in existence for many years and are recommendations on accounting practices for specialist industries or sectors. They are issued and updated by sector bodies but are recognised as being acceptable by the Financial Reporting Council.

The publication of new Financial Reporting Standards (FRSs) 100 to 103 and limited scope amendments to the FRSSSE, mandatorily effective for periods commencing on or after 1 January 2015, have prompted a series of updates to specialist sector SORPs (see right). Many of these updates also take into account sector developments and general improvements from their predecessor versions.

In this summary, we provide an overview of some of the key changes in the updated charities and LLP SORPs, before taking a brief look at the position in some other specialist areas.

Charities

Pick your own Charities SORP

Two new Charities SORPs have been published by the joint SORP making committee; SORP (FRS 102) and SORP (FRSSE).

As the names suggest the former is for non-small charities that fall within the current scope of FRS 102 for periods commencing on or after 1 January 2015. Smaller charities can either choose

to apply FRS 102 (and hence the FRS 102 SORP) or apply the FRSSSE version of the SORP.

It is expected that SORP (FRSSE), however, will require further



Updated SORPs

Updated SORPs that have been issued at the time of writing are noted below:

Authorised Funds www.investmentfunds.org.uk

Charities www.charitycorp.org

Further and Higher Education www.fehesorp.ac.uk

Limited Liability Partnerships www.ccab.org.uk

We are currently awaiting publication of final versions of the following SORPs

Investment Trusts www.theaic.co.uk

Pension Schemes www.prag.org.uk

Registered Social Housing Providers www.housing.org.uk

It is expected that the SORP for the insurance sector will be withdrawn once FRS 103 Insurance Contracts becomes effective on 1 January 2015

revision once the impact of wider consultations on small entity reporting is known. Some of the key differences seen in each of the SORPs are considered below.

It should be noted that neither of the new Charities SORPs can currently be early adopted as the 2008 Accounting Regulations explicitly require that the 2005 SORP is used to prepare accruals accounts. Until there is an update to the Regulations to allow for the new SORPs then SORP 2005 must be used.

Further to options as to whether the FRS 102 or FRSSSE version of the SORP is used, both SORPs have been published in a modular format. This will allow users to pick and choose the relevant modules for their particular Charity.

Presentation changes for both SORPs

Both versions of the Charities SORP make a number of changes to presentation and disclosure requirements. Though the changes

within the FRS 102 version are more extensive, there are some changes common to both.

The requirements for the Trustees' Report are identical in both the FRSSE and FRS 102 versions though greater scope of information is now required for charities subject to audit under Charity Law. For unaudited charities the information provided will not differ greatly from SORP 2005.

One area that also sees common change across both new Charities SORPs is the presentation of the SOFA, which now has 'plain English' (horizontal) headings. Income will be shown, for example, as 'donations and legacies' (formerly 'voluntary income'), 'charitable activities' (formerly 'incoming resources from charitable activities') and 'other trading activities' (formerly 'activities for generating funds'). Similarly 'resources expended' becomes 'expenditure' which is then summarised under three headings 'raising funds', 'charitable expenditure', and 'other'. Governance costs are only required to be disclosed in the notes as part of support costs.

Charities SORP (FRSSE) specific changes

The underlying accounting requirements within the FRSSE version of the SORP are largely based on the FRSSE (effective January 2015) and hence remain relatively untouched. FRSSE 2015 itself makes limited scope accounting changes to areas such as intangible asset amortisation and related parties.

A number of the notes disclosure changes that stem from the application of FRS 102 do not appear in the FRSSE SORP. Also, the FRS 102 requirement to prepare a cash flow statement is not included in the FRSSE SORP.

As noted above, we expect to see changes to the FRSSE SORP as the future of small entity reporting requirements becomes clear.

Charities SORP (FRS 102) specific changes

As would be expected, the accounting and presentation changes within the FRS 102 SORP are more extensive. Some of the areas where requirements differ between SORP 2005 and the FRS 102 version are noted below:

- Income recognition criteria includes 'entitlement' and 'measurement', though the third criteria (formerly 'probable') becomes 'virtually certain'
- There is no exemption from preparation of a statement of cash flows within SORP (FRS 102)
- Going concern disclosures are enhanced and there are changes to other notes disclosures due to underlying FRS 102 requirements
- Short term employee benefit (ie holiday pay) accounting requirements differ
- Investment property definitions change
- There is greater complexity when accounting for 'other' financial instruments

There are a number of helpsheets available which outline the detailed differences between the SORPs that are available from www.charitycorp.org. Details of our recorded webinar on this subject can be found [here](#).

Limited Liability Partnerships

Applying the new LLP SORP

The Consultative Committee of Accounting Bodies (CCAB) published the updated SORP for LLPs in mid-2014. This SORP is mandatorily applicable for periods commencing on or after 1 January 2015, though can be early adopted.

Many of the changes which impact on companies will also impact on LLPs and whilst the new LLP SORP contains many changes which are straightforward and will not affect existing practice, there are some more substantive changes seen. Some of these areas are considered below.

LLP post-retirement benefits

The application of FRS 102 (and potentially FRS 103) can lead to additional complication when accounting for member's post-retirement benefits. The updated SORP therefore includes updated guidance, including a decision-making flow chart, to summarise the standard applicable in different circumstances.

Essentially, an unconditional contractual obligation will fall within the scope of FRS 103 where a former member is contractually entitled to an agreed percentage of annual LLP profits each year until death. The ultimate accounting and disclosure requirements in this area are determined by whether the obligation falls within the scope of FRS 102 or 103.

Members report

The 'members report' is no longer required as part of the annual report. However no changes have been made to information previously required to be contained within it (i.e. principal activities, branches outside the UK, identity of designated members, members drawings policy). Therefore this is unlikely to mean any change in practical terms to the annual report, but information could be disclosed elsewhere in the accounts rather than within a separate members report.

Financial instruments in LLPs

Additional guidance has been added to the LLP SORP regarding members' capital classed as a liability which may now constitute a financing arrangement and need to be discounted to present value in certain circumstances to comply with FRS 102.

The puttables exemption guidance has also seen some clarification though ultimately the basic accounting will largely be unchanged.

Guidance on contractual or constructive obligations and annuities has also been updated to reflect FRS 102's requirements relating to financial liabilities differ from current UK GAAP requirements.



Other LLP issues

Other areas where changes are seen include:

- Updated guidance on business combinations and group accounts to reflect FRS 102 restrictions on merger accounting
- Clarification of existing requirements where there were known issues or misunderstandings (includes statement of cash flows presentation and examples of automatic division of profits)
- Inclusion of other presentation and disclosure guidance and requirements deriving from FRS 102 requirements

Many of the changes are relatively straightforward and will not affect existing accounting or presentation. However, as noted above, where the LLP is accounting in line with FRS 102 some areas will be subject to wider impact. Details of our upcoming webinar on this subject can be found [here](#).

Other Sectors

As highlighted above, SORPs and relevant accounting guidance in certain other sectors are still subject to finalisation. A summary of some of the proposals made to date is provided below.

Academies

For many academy trusts, the first application of new UK GAAP, based on new Charity reporting requirements, will be when reporting for the period to 31 August 2016. However, new trusts incorporated very early in 2015 will need to apply new

UK GAAP to August 2015 accounts where they are caught by provisions of Company Law and Education Funding Agency (EFA) annual reporting requirements. As a result, the EFA are currently in the process of preparing guidance for affected academies and considering the impact on future editions of the Accounts Direction.

Pensions

At the time of writing, the updated Pensions SORP is subject to final publication. Earlier drafts of the updated SORP proposed changes to comply with FRS 102 and updates to reflect changes in the sector since the publication of its predecessor version. Keep an eye on our monthly [Newswire](#) and [blogs](#) for further information when the new SORP is published. Details of our upcoming webinar on this subject can be found [here](#).



Registered Social Housing Providers (RSHPs)

The updated RSHP SORP has been consulted upon though the final SORP has not been published at the time of writing. The RSHP SORP has been rewritten to reflect FRS 102 requirements and changes in the sector since its predecessor version was published.

How can Mercia help?

We have been keeping you up-to-date with the development of these new accounting requirements with our:

- [conferences](#)
- [courses](#)
- [webinars](#)
- [client letters](#)
- [newswire](#)
- [blogs](#)

You can rest assured that we will continue to do so and take closer looks at the areas of change using all of these channels in the months ahead.

Details of all the new UK GAAP support we offer, including all the downloads we have produced can be found at www.mercia-group.co.uk/newukgaap

You can also find details of our range of Specialist Assignment Manuals at www.mercia-group.co.uk/technical_manuals/specialist_assignments

If you are specifically looking for training on the new UK GAAP or specialist sectors, our 2014 training programmes are available on our website and you can search for courses in your area using our course search facility. Details of our [webinar programme](#) can also be found on our website. If you would like an in-house course you can find out more at www.mercia-group.co.uk/training or contact us on **0116 258 1200**. We can also provide in-house courses for your clients.

You will find details of everything that we do on our website at www.mercia-group.co.uk and a subscription to our free monthly newswire is a great way of keeping yourself up to date.