1. An Introduction
2. Overview of Charities SORP
3. Key Areas of Charities SORP
4. Challenges in first time adoption
5. Where do I start?
6. Q&A
1. An Introduction
Angela Monahan

Senior Manager
Audit & Assurance

- Institute of Chartered Accountants
- Certificate in Charity Law, Trusteeship and Governance
- Member of Mazars Ireland Not for Profit team
- Participates in the technical screening for the Good Governance Awards
- Provides external audit, financial reporting advisory, technical accounting, regulatory and other assurance services to Not for Profit clients
2.
Overview of Charities SORP
Charities SORP | Fund Accounting

FUNDS OF A CHARITY

Unrestricted funds
- General
- Designated

Restricted funds
- Income
- Endowment
  - Expendable
  - Permanent
Reconciliation of funds by activity

Analysis of the funds of the charity

Purposes of each fund

Material transfers
See attached handout
3.

Key Areas of Difference
Recognition of Income

- Donations and legacies
- Charitable activities
- Other trading activities
- Investments
- Other
Recognition of Income

• The use of the accrual model for accounting for grants is not permitted under Charity SORP
Illustrative Example
A charity has received a grant towards capital expenditure of €100,000. The estimated useful life of the asset acquired is 10 years.

• How will this look under FRS 102, and in line with existing Company Law?

• How will this be accounted for under Charity SORP?
FRS 102

Step 1: Record the grant  
DR Bank 100,000  
CR Deferred Grant 100,000

Step 2: Purchase the asset  
DR Asset 100,000  
CR Bank 100,000

Step 3: Depreciate the asset  
DR Depreciation Expense 10,000  
CR Accumulated Depreciation 10,000

Step 4: Amortise the grant  
DR Deferred Grant 10,000  
CR Amortisation 10,000
Charities SORP

Step 1: Record the income
DR Bank 100,000
CR Income 100,000

Step 2: Purchase the asset
DR Asset 100,000
CR Bank 100,000

Step 3: Depreciate the asset
DR Depreciation Expense 10,000
CR Accumulated Depreciation 10,000
<table>
<thead>
<tr>
<th></th>
<th>SORP Treatment</th>
<th>FRS 102 Treatment</th>
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<tbody>
<tr>
<td><strong>SOFA</strong></td>
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<tr>
<td>Income and endowments from</td>
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<td></td>
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<tr>
<td>Charitable activities</td>
<td>100,000</td>
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<tr>
<td>Expenditure on</td>
<td></td>
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<tr>
<td>Charitable activities</td>
<td>-</td>
<td>10,000</td>
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<tr>
<td>Net surplus</td>
<td>90,000</td>
<td>-</td>
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<tr>
<td><strong>BALANCE SHEET</strong></td>
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<tr>
<td>Fixed assets (NBV)</td>
<td>90,000</td>
<td>90,000</td>
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<tr>
<td>Deferred income - capital grants</td>
<td>-</td>
<td>90,000</td>
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<tr>
<td>Net Assets</td>
<td>90,000</td>
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<tr>
<td>Total Funds</td>
<td>90,000</td>
<td>-</td>
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</table>
Charities SORP | Key Areas of Difference

Is there an agreement in place?

- **No**
  - Recognise when entitlement exists

- **Yes**
  - Are there terms & conditions? ("Ts & Cs")
Are there terms & conditions? ("Ts & Cs")

Which of the following T&Cs apply?

- Administrative
- Other
- Performance Related

Is the charity in control of meeting the T&C?

- Yes: Recognise when committed in writing
- No: Recognise when conditions are met
Analysis of Grant Agreements

• Deferred Income
  • Example 1
  • Example 2
Expenditure

• SORP Analysis
  • Charitable Activities
  • Cost of Raising Funds
  • Other

• Allocation of costs
  ▪ Direct costs
  ▪ Shared costs
  ▪ Support costs
Charities SORP | Key Areas of Difference

**Expenditure**

- Support Costs
  - Governance costs
  - Payroll admin
  - Budgeting/accounting
  - IT
  - Personnel – HR
  - Finance

- Methods of allocating costs
  - Usage
  - Per capita
  - Floor area/capacity
  - Time
Charities SORP | Key Areas of Difference

Donated Goods, Services and Facilities

• Recognition criteria

• Measurement bases

• Donated assets
## Funds

<table>
<thead>
<tr>
<th>Fund Name</th>
<th>Fund balances brought forward</th>
<th>Income</th>
<th>Expenditure</th>
<th>Transfers</th>
<th>Gains and losses</th>
<th>Fund balances carried forward</th>
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</thead>
<tbody>
<tr>
<td>Unrestricted</td>
<td></td>
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<tr>
<td>Restricted income</td>
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<td></td>
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<tr>
<td>Restricted endowment</td>
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</tbody>
</table>

### Notes to the accounts

- Purposes of each fund and restrictions imposed on each fund;

- Reasons for any material transfers;

- Where endowment has been converted to income, details of the amount converted and the legal power for its conversion;
Charities SORP | Key Areas of Difference

Trustee Annual Report

- Objectives & Activities
- Financial Review
- Reference & Administration Details
- Funds held as a custodian
- Achievements & Performance
- Structure, Governance & Management
- Exemptions from Disclosure
- Plans for future periods
Charities SORP | Key Areas of Difference

**Regulation & Governance**

- Compliance with other legislation – Governance Code, Internal Financial Controls, Fundraising Principles

- Areas of Governance:
  - Organisational chart
  - Strategic plan
  - Risk register
  - Policies & Procedures
4. Challenges of Implementation
5.
Where Do I Start?
Charities SORP | Where Do I Start?

- What is the nature of my funding?

- Can I decipher what funding is restricted or unrestricted?

- What makes up my current level of reserves?

- Do I have the appropriate personnel and resources to implement SORP?

- What is the capacity of my accounting system to implement fund accounting?
Divide and Conquer

To do list – short term

- Review of current and historic funding arrangements and contracts in place
- Review and analysis of existing reserves
- Identify any prior year adjustments on transition to SORP
- Identification of activity streams
- Update of nominal ledger cost centres
- Review of management reporting package
Charities SORP | Where Do I Start?

Divide and Conquer

To do list – medium - long term

• Establish a strategic plan

• Review governance structures, make up of boards and committees, relevance and expertise

• Establishment of organisational risk register and strategy for identification and mitigation of the key risks facing the organisation

• Start to draft the headings and content for Annual Report

• Review and documentation of robust policies and procedures

• Develop skill in impact reporting
6.
Q&A
Discussion
Contact Us

Should you require any further information, please contact our charities team:

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