



Universities UK

STATEMENT OF RECOMMENDED PRACTICE

**Accounting for further
and higher education**

2019 EDITION

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FOREWORD

This Statement of Recommended Practice (SORP) reflects the changes to UK Generally Accepted Accounting Practice (GAAP) following the Triennial Review of FRS 102, which are effective for financial years beginning on or after 1 January 2019. The SORP combines the requirements of institutions of both further and higher education throughout the United Kingdom, reflecting the collaboration between the key stakeholders – further and higher education funding and regulatory bodies, sector representative bodies, and accounting practitioners – all of whom are represented on the FE / HE SORP Board (the SORP Board).

The SORP Board was supported by a technical advisory group, with members drawn from the finance directors of institutions of further and higher education, funding bodies and the Financial Reporting Council. The technical group co-opted representatives from a number of professional firms and engaged EY as its advisor. Both the technical group and the SORP Board are indebted to the Chair of the technical group, Robert Fraser of the University of Glasgow and the Vice-Chair of the technical group, Louise Bissell of the University of Manchester, to EY, which developed the 2019 SORP for the technical advisory group and SORP Board to consider, and to the secretariat of the British Universities Finance Directors' Group (BUFDG) for secretarial and organisational support.

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Chair of the FE / HE SORP Board

1 October 2018

UPDATES

Minor updates to the SORP may be issued from time to time through the publication of SORP Guidance Notes, which are published on the SORP website (www.bufdg.ac.uk)

FINANCIAL REPORTING COUNCIL STATEMENT

Statement by the Financial Reporting Council on the Statement of Recommended Practice: Accounting for further and higher education

The aim of the Financial Reporting Council (FRC) is to promote transparency and integrity in business. In relation to accounting standards applicable in the UK and the Republic of Ireland, the FRC's overriding objective is to enable users of accounts to receive high-quality, understandable financial reporting proportionate to the size and complexity of the entity and users' information needs. In particular industries or sectors, clarification of aspects of those standards may be needed in order for the standards to be applied in a manner that is relevant and provides useful information to users of financial statements in that industry or sector.

Such clarification in connection with accounting standards is issued in the form of Statements of Recommended Practice (SORPs) by bodies recognised for this purpose by the FRC. The FE / HE SORP Board has confirmed that it shares the FRC's aim of high-quality financial reporting and has been recognised by the FRC for the purpose of issuing SORPs for further and higher education institutions.

In accordance with the FRC's 'Policy on Developing Statements of Recommended Practice (SORPs)', the FRC carried out a review of the SORP focusing on those aspects relevant to the financial statements but also including aspects relevant to the FRC's broader responsibilities where appropriate.

On the basis of its review, the FRC has concluded that the SORP has been developed in accordance with the FRC's 'Policy on Developing SORPs' and does not appear to:

- (a) contain any fundamental points of principle that are unacceptable in the context of present financial reporting practices;
- (b) conflict with an accounting standard; or
- (c) undermine the FRC's broader objectives.

20 June 2018

1: INTRODUCTION AND SCOPE

EFFECTIVE DATE OF COMMENCEMENT

- 1.1** The provisions of this Statement of Recommended Practice (SORP) must be adopted for accounting periods beginning on or after 1 January 2019 and thereafter. Early adoption is permitted as described in Section 27 ('Transition to the 2019 SORP') if the accounts direction of the relevant regulator permits it.

SCOPE OF THIS SORP

- 1.2** FRS 100 states that '*SORPs recommend particular accounting treatments and disclosures with the aim of narrowing areas of difference and variety between comparable entities. Compliance with a SORP that has been generally accepted by an industry or sector leads to enhanced comparability between the financial statements of entities in that industry or sector.*'
- 1.3** The recommendations in this SORP are applicable to all further education (FE) and higher education (HE) institutions in the United Kingdom (referred to as 'institutions' in this SORP). The SORP may be applicable to a wide range of FE and HE education providers, including those that are not in direct receipt of government funding.
- 1.4** Institutions following this SORP must apply all requirements under FRS 102 'The Financial Reporting Standard Applicable in the UK and the Republic of Ireland', relevant legislation, and accounts directions from the regulators applicable to the reporting institution. When an update to FRS 102, relevant legislation or accounts direction is issued after publication of the most recent edition of this SORP, any of the provisions of the SORP that conflict with the updated FRS 102, relevant legislation or accounts direction will cease to have effect. This SORP is drafted on the basis of UK accounting standards, which the SORP Board believes are appropriate for institutions.
- 1.5** When an institution applies this SORP, it must state in its financial statements the title of this SORP and whether its financial statements have been prepared in accordance with the SORP's provisions that are currently in effect. In the event of a departure from those provisions, the institution must give a brief description of how the financial statements depart from the recommended practice set out in the SORP, which must include:
- (a) or any treatment that is not in accordance with the SORP, the reasons why the treatment adopted is judged more appropriate to the entity's particular circumstances; and
 - (b) brief details of any disclosures recommended by the SORP that have not been provided, and the reasons why they have not been provided.
- 1.6** Entities that are small, as defined in company law, are permitted to adopt the small entity requirements of FRS 102. A small entity applying the small entities regime in FRS 102 is not required, but is encouraged to, provide the disclosures set out in paragraph 1.5 above.
- 1.7** In the event that an institution is required by legislation, or chooses, to comply with standards and interpretations issued (or adopted) by the International Accounting Standards Board that have been adopted in the European Union (EU-adopted IFRS), then it should use this SORP as guidance to the extent that it does not conflict with the requirements of EU-adopted IFRS.

1.8 This SORP is intended to:

- improve the quality of financial reporting by institutions;
- enhance the relevance and comparability of, and the ability to understand, the information presented in institutions' financial statements;
- provide clarification, explanation and interpretation of accounting standards and their application to sector-specific transactions; and
- assist those who are responsible for the preparation of financial statements.

Consistency with FRS 102

1.9 This SORP does not diverge from FRS 102. In certain areas, this SORP provides an interpretation to aid the practical implementation of FRS 102. These areas are the treatment of:

- (a) government grants (Section 17 'Government grants');
- (b) non-exchange transactions (Section 18 'Non-exchange transactions'); and
- (b) service concession arrangements (Section 26 'Specialised activities').

1.10 This SORP also requires a small number of additional disclosures to those required by FRS 102 to be made to ensure consistency, aid understandability and to assist with practical implementation of FRS 102. For example, institutions must refer to Appendix 1 for the line items to be included in the primary statements. In addition, the SORP requires a Strategic Report (which may also be called a treasurer's report, members' report, directors' report or report of the governing body or trustees' annual report).

FEATURES OF FURTHER AND HIGHER EDUCATION INSTITUTIONS NECESSITATING A SORP

Background

1.11 FE and HE institutions are complex organisations whose main activities are teaching and research. Their combined income amounts to a significant proportion of the income of the total public benefit entity sector. They are autonomous bodies established by Royal Charter, Act of Parliament or other instrument and have charitable status. Teaching is provided for students from the United Kingdom and other nations across the whole range of academic and vocational subjects. As well as full-time and part-time education, institutions also provide distance learning and online provision, as well as special and short courses for vocational and non-vocational continuing education. Research is carried out within most higher education institutions.

1.12 In addition to teaching and research, institutions frequently have a range of distinctive other activities, including knowledge transfer, the provision of student residences, catering and other services. Many have established limited liability companies, consortia, partnerships or joint ventures to carry out particular kinds of collaborative and commissioned teaching, training and research and other income-generating and commercial activities.

- 1.13** The mission of FE and HE institutions is achieved by the creation, transmission and utilisation of knowledge and skills, by the development of individuals (some from disadvantaged backgrounds), and by contributing to the cultural and civic life of a region and the nation. The funding to support these activities is equally widely defined, and encompasses tuition fees from students, government grants, grants from the private and charity sectors, and income earned from a wide range of activities.
- 1.14** Some FE and HE institutions also derive part of their funding from charitable donations and endowments. These types of funding can be more specific to certain activities and may or may not have a greater degree of restriction in their application. Income from charitable giving and endowments generally represents a minority proportion of funding for even the most active of fund-raising institutions, and is not central to the funding streams of further and higher education institutions.

Funding

- 1.15** Institutions receive their income from five main sources:
- (a) tuition fees and education contracts, due wholly or partly from students, and employers or other sponsoring bodies;
 - (b) funding body grants;
 - (c) research grants and contracts awarded by UK research councils, EU funding bodies, public sector bodies, government departments and industry;
 - (d) other income, from the provision of other contract and research services and consultancy, intellectual property income, student residences, conference facilities, catering services, sports facilities and commercial lettings; and
 - (e) donations and endowments, which may be for general purposes, or restricted by legally binding conditions to specific purposes.

Regulatory framework

- 1.16** FE and HE institutions operate within a number of regulatory frameworks which, whilst broadly similar to each other, vary depending on the different requirements of the UK funding bodies, charity regulators and relevant legislation. For the purposes of this SORP, the term 'regulator' includes funding bodies and those government departments and agencies responsible for funding and regulation.
- 1.17** Each regulator issues an accounts direction. In all cases, these accounts directions require institutions' financial statements to be prepared in accordance with this SORP. The accounts directions also require disclosures over and above those required by this SORP and FRS 102. These disclosures usually include the remuneration of the vice-chancellor or principal, the number of higher paid staff, and details of any compensation for loss of office paid to higher paid staff.

Terminology

- 1.18** This SORP uses the term ‘must’ to indicate those accounting treatments and disclosures that are likely to affect the ability of the accounts to give a true and fair view if not applied to material transactions or items. These ‘must’ requirements originate from FRS 102 unless otherwise stated. Where the SORP states that an item is always material or the recommendation is one that ‘must’ be followed, non-adherence to that recommendation is a departure from this SORP.
- 1.19** The SORP also identifies particular accounting treatments and disclosures that ‘should’ be followed. These recommendations are aimed at advancing standards of financial reporting as a matter of good practice. While institutions are encouraged to follow all the SORP’s recommendations, a failure to follow a ‘should’ recommendation is not regarded as a departure from this SORP.
- 1.20** Where the SORP states that a particular treatment or disclosure ‘may’ be adopted, this provides an illustration of an approach to a particular disclosure that an institution may choose to adopt or identifies that an alternative accounting treatment or disclosure of a transaction or event is allowed by the SORP.
- 1.21** The SORP includes a number of definitions taken from FRS 102 or other published material. These definitions are identified in italic font. Institutions should refer to the glossary of FRS 102 for further definitions as required.

Interaction with the Charities SORP

- 1.22** The Statement of Recommended Practice: Accounting and reporting for charities (the Charities SORP) notes that, *‘where a separate SORP exists for a particular class of charities (e.g. SORPs applicable to ... Further and Higher Education Institutions, ...) the charity trustees of charities in that class should adhere to that SORP and any reporting requirements placed on such charities by charity law’*.
- 1.23** The FRC ‘Statement Policy on Developing Statements of Recommended Practice (SORPs)’, issued in March 2016, states that: *‘Where entities or work may fall within the scope of more than one SORP, the SORP to be applied will usually be the SORP with the more specific application. In such circumstances, the SORP-making body should agree with the FRC and the other relevant SORP-making bodies which SORP should apply and identify this clearly within the relevant SORPs’*. The SORP Board agrees with this statement, as the further and higher education sector has special financial and reporting issues that are different from those of other organisations that have charitable status, and therefore in such cases, the requirements of SORP: Accounting for further and higher education should take precedence over SORP: Accounting and reporting for charities for such institutions.

2: CONCEPTS AND ACCOUNTING PRINCIPLES

Objective of financial statements

- 2.1** The objective of financial statements is to provide information about the financial position, performance and cash flows of the institution that is useful for economic decision-making by a broad range of users who are not in a position to demand reports tailored to meet their particular information needs.
- 2.2** These users include:
- the governing body of the institution;
 - funding bodies;
 - charity regulators;
 - government (England, Scotland, Wales and Northern Ireland);
 - government departments;
 - the institution's employees (past, present and future);
 - the institution's students (past, present and future);
 - lenders and creditors;
 - other institutions, schools and industry;
 - grant-awarding bodies, donors and benefactors; and
 - the general public.
- 2.3** Funders and financial supporters may have differing needs in detail, but there are certain key characteristics of financial information that are applicable to all. The main objectives of the financial statements and related reports are, therefore, to provide the following information:
- (a) a true and fair view of the financial position of the institution at the date of the Statement of Financial Position and of the income and expenditure, gains and losses, reserves and cash flows for the period then ended;
- (b) suitable analysis and appropriate disclosure of:
- i. the income from all sources within the reporting period;
 - ii. the expenditure on all activities within the reporting period;
 - iii. the assets and liabilities of the institution, classified in suitable form;
 - iv. any known or probable circumstances that might significantly affect the institution's financial position;
 - v. how the institution is performing financially, including the adequacy of its working capital, its solvency (or insolvency), and its investment performance; and
- (c) narrative disclosures to include:
- i. an explanation of the corporate governance of the institution and an appropriate statement of responsibilities; and
 - ii. a Strategic Report.

Concepts and pervasive principles

- 2.4** The accounting concepts and pervasive principles underlying the financial statements of entities are set out in Section 2 of FRS 102. Institutions applying FRS 102 and this SORP must apply these concepts and principles.
- 2.5** This SORP supports the application of the qualitative characteristics set out in FRS 102 of:
- understandability;
 - relevance;
 - materiality;
 - reliability;
 - substance over form;
 - prudence;
 - completeness;
 - comparability;
 - timeliness; and
 - balance between benefit and cost.

3: FINANCIAL STATEMENT PRESENTATION AND NARRATIVE REPORTING

Financial statements

- 3.1** Institutions' financial statements must include:
- (a) a Statement of Principal Accounting Policies and Estimation Techniques;
 - (b) a Statement of Comprehensive Income presenting the financial performance during the reporting period of the institution, and a Statement of Comprehensive Income of the consolidated group, if such a group exists;
 - (c) a Statement of Changes in Reserves of the institution, and a Statement of Changes in Reserves of the consolidated group, if such a group exists;
 - (d) a Statement of Financial Position presenting the financial position of the institution, and a Statement of Financial Position of the consolidated group, if such a group exists, at the end of the reporting period;
 - (e) a Statement of Cash Flows of the institution, and a Statement of Cash Flows of the consolidated group, if such a group exists; and
 - (f) notes to the financial statements.
- 3.2** Individual and consolidated financial statements must follow the format of the primary statements, as set out in Appendix 1 to this SORP. These must be updated to apply to the parent and/or consolidated entity as required.
- 3.3** The parent institution's Statement of Cash Flows may be omitted from the group accounts provided the institution's individual Statement of Financial Position shows cash at the current and preceding reporting dates. Parent institutions may also take some or all of the disclosure exemptions outlined within paragraph 1.12 of FRS 102, provided the disclosures set out in paragraph 1.11(c) of FRS 102 are made.
- 3.4** An institution that chooses to provide information described as segmental information must follow the requirements of IFRS 8: Operating segments (as adopted in the EU). Any other disclosures of disaggregated financial information must not be described as segmental information.
- 3.5** Except when FRS 102 permits or requires otherwise, comparative information must be shown for primary statements and the related notes. Comparatives for additional columns, as set out in paragraph 3.4 above, may be included within the notes to the accounts and need not be shown separately on the primary statements.
- 3.6** The financial statements must give a true and fair view of the state of affairs of the institution and group (as applicable) at the reporting date, and of the results and total comprehensive income and cash flows for the year then ended, whether channelled through the institution as an entity or through one or more associates, joint venture entities or subsidiary undertakings.
- 3.7** Where an institution or its subsidiary is constituted as a company, the financial statements must be properly prepared in accordance with the provisions of the Companies Act 2006. Separately established subsidiaries must follow the appropriate legal and financial reporting requirements for that entity.

Accounting for material items

- 3.8** An institution must present separately each material class of similar items and must present separately items of a dissimilar nature or function unless they are immaterial.
- 3.9** If a line item is not individually material, it is aggregated with other items either in the financial statements or in the notes. An item that may not warrant separate presentation in the financial statements may warrant separate presentation in the notes. An institution must not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions.
- 3.10** An institution need not provide a specific disclosure required by FRS 102 or this SORP if the information resulting from that disclosure is not material. This is the case even if FRS 102 or this SORP contains a list of specific requirements or describes them as minimum requirements, but not where the disclosure is required by relevant legislation or accounts direction from the regulator applicable to the reporting institution.
- 3.11** Institutions must present additional line items, headings and subtotals in the Statement of Comprehensive Income and the Statement of Financial Position when such presentation is relevant to an understanding of the institution's financial performance and financial position respectively.
- 3.12** When items included in the total comprehensive income are material, an institution must disclose their nature and amount separately, in the Statement of Comprehensive Income or in the notes.
- 3.13** Neither FRS 102 nor this SORP requires disclosure of 'operating profit'. However, if an institution elects to disclose the results of operating activities, the institution should ensure that the amount disclosed is representative of activities that would normally be regarded as 'operating'. For example, it would be inappropriate to exclude items clearly related to operations because they occur irregularly or infrequently or are unusual in amount.

Public benefit entity

- 3.14** A public benefit entity (PBE) is defined by FRS 102 as: 'an entity whose primary objective is to provide goods or services for the general public, community or social benefit and where any equity is provided with a view to supporting the entity's primary objectives rather than with a view to providing a financial return to equity providers, shareholders or members.'
- 3.15** Institutions must state that the institution and group is a PBE. This would normally be disclosed on the basis of a preparation note to the financial statements. Institutions must also adopt the PBE requirements of FRS 102 to the extent that these are relevant and permitted by this SORP.

Related reports and statements

- 3.16** This SORP requires that an institution's financial statements must be published with the following related reports:
- (a) a Strategic Report (which may also be called a treasurer's report, members' report, directors' report or report of the governing body or trustees' annual report);
 - (b) a statement of corporate governance and internal control;
 - (c) a statement of responsibilities of the governing body (if not included in the statement of corporate governance); and
 - (d) an independent auditor's report.

- 3.17** FE and HE institutions in Wales are required to prepare an annual report in compliance with the Charities Act 2011.

Public benefit reporting

- 3.18** Further reporting on public benefit must be included in line with relevant jurisdictions as follows. This disclosure is additional to that required by FRS 102.
- 3.19** HE institutions in England and HE and FE institutions in Wales must include a statement about the institution's charitable status and objectives, set out the names of trustees who have served at any time during the financial year and until the date on which the financial statements were formally approved, and provide in the notes to the financial statements aggregate information on payments to or on behalf of trustees, including payments to trustees for serving as trustees, and expenses. Either as a separate report within the financial statements, or within the Strategic Report, institutions must state that their trustees have had regard to the Charity Commission's guidance on public benefit and include a report on key activities during the year that demonstrate how the institution has delivered its charitable purposes for the public benefit.
- 3.20** FE and HE institutions in Northern Ireland must comply with the relevant regulator's regulations, directions and/or guidance, if applicable, in relation to public benefit requirements and charitable status.
- 3.21** In Scotland, the Charities Accounts (Scotland) Regulations 2010 do not require a separate statement on how the charity provides public benefit. However, the Office of the Scottish Charity Regulator expects this to be evident throughout the trustees' annual report.
- 3.22** As at the date of publication of this SORP, there are no additional specific requirements for FE institutions in England to include public benefit reporting disclosures.

Strategic Report

- 3.23** A Strategic Report (which may also be called a treasurer's report, members' report, directors' report or report of the governing body or trustees' annual report) must be prepared and presented alongside an institution's financial statements. Where an institution is required by a regulator to include certain content in this report, then these requirements must be followed. Institutions that are large- or medium-sized companies are required by the Companies Act 2006 to produce a Strategic Report, the content of which is determined by whether the company is quoted or unquoted. This SORP considers that disclosure of the following items is best practice for all institutions:

- its objectives and strategy for achieving those objectives;
- a fair and balanced review of its development and performance throughout the financial year and position at the end of the financial year;
- its future prospects;
- a description of the principal risks and uncertainties being faced; and
- its key performance indicators.

Institutions that are companies are also required to prepare and present a directors' report.

- 3.24** For all institutions, the Strategic Report should be produced in accordance with the following principles, in that it should:
- (a) set out an analysis of the institution through the eyes of the institution's governing body (or equivalent);
 - (b) focus on matters that are relevant to the interests of funders and financial supporters;

- (c) have a forward-looking orientation, identifying those trends and factors relevant to the funders and financial supporters' assessment of the current and future performance of the institution and the progress towards the achievement of long-term academic and business objectives;
- (d) complement as well as supplement the financial statements, in order to enhance the overall corporate disclosure;
- (e) be comprehensive and understandable;
- (f) be balanced and neutral, dealing even-handedly with both good and bad aspects; and
- (g) be comparable over time.

3.25 The Strategic Report should provide information to assist funders and financial supporters to assess the strategies adopted by the institution and the potential for those strategies to succeed. The key elements of the disclosure framework recommended to achieve this are, where significant:

- (a) the nature of the institution, including a description of the competitive and regulatory environment in which it operates, and the institution's objectives and strategies;
- (b) a fair and balanced review of the development and performance of the institution, both in the financial year under review and in the future;
- (c) the resources (tangible, financial, people and reputational), principal risks and uncertainties (including risk management arrangements) and stakeholder relationships that may affect the institution's long-term financial position; and
- (d) the position of the institution, including a description of the long-term financing, treasury policies and objectives, and liquidity of the institution, (including cash flows and payment performance) both in the financial year under review and the future.

3.26 Where the form and content of the Strategic Report are not prescribed, the principles set out above set a framework for the disclosures to be provided by the governing body (or equivalent) in the Strategic Report. The institution's governing body (or equivalent) should consider how best to use the framework to structure the Strategic Report and the precise content, including the level of detail to be disclosed, relating to the key elements set out above, given the particular circumstances of the institution. Where appropriate, the form and contents may be prescribed by relevant UK legislation.

Going concern

3.27 Institutions normally prepare their accounts on the basis of being a going concern. The governing body must make its own assessment of the institution's ability to continue as a going concern to assure itself of the validity of this assumption when preparing the accounts. In making this assessment, an institution's governing body must take into account all available information about the future for at least, but not limited to, 12 months from the date on which the accounts are approved.

3.28 An institution must disclose any material uncertainties related to events or conditions that cast significant doubt upon the entity's ability to continue as a going concern.

4: CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Consolidated financial statements

- 4.1** This section sets out the requirement to report consolidated financial statements. Paragraph 9.4 of FRS 102 describes a subsidiary as ‘*an entity that is controlled by the parent. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities*’. A presumption of control exists where the parent owns, directly or indirectly, over 50% of the voting power of the entity. Further guidance on what may constitute control is set out in FRS 102.
- 4.2** Each institution will need to clarify its relationship with its students’ union to determine whether the parent institution controls the students’ union. In particular, the institution must consider whether it has the power to exercise, or actually exercises, a dominant influence or control over the students’ union, or whether it and the students’ union are managed on a unified basis.
- 4.3** The institution must consider whether special purpose entities (SPEs) exist and therefore require consolidation. Such entities may exist where there is a narrow objective (e.g. to effect a lease or a financing arrangement, or certain development trusts). A number of circumstances to be considered when assessing the existence of an SPE are set out in paragraphs 9.10 – 9.12 of FRS 102. An institution must disclose the nature and extent of its interests in unconsolidated SPEs, and the risks associated with those investments.
- 4.4** A subsidiary may be excluded from consolidation where:
- the institution’s rights over the assets, or the management of the subsidiary undertaking, are severely restricted;
 - subsequent resale of the subsidiary undertaking was intended at the time of acquisition and the subsidiary undertaking has not previously been included in the consolidated financial statements; or
 - inclusion of the subsidiary is not material for the purpose of giving a true and fair view (but two or more subsidiaries may be excluded only if they are not material when taken together).

Most non-company charitable subsidiaries will be included in the individual accounts of the institution, as they will either be restricted funds or endowments. However, on occasions, an institution may control a charitable entity that does not meet the definition of a special trust, for example because the objects of the subsidiary are wider than those of the institution. Further guidance is provided within the Charities SORP.

- 4.5** Institutions must consolidate subsidiaries in accordance with paragraphs 9.13 – 9.22 of FRS 102 and must consider:
- (a) the methodology for consolidation;
 - (b) the treatment of intergroup balances;
 - (c) the requirement to have a uniform reporting date, which could include subsidiary financial statements with a reporting date within three months prior to the parent reporting date or subsidiary interim financial statements;
 - (d) the requirement to adopt uniform accounting policies;
 - (e) accounting for the acquisition and disposal of subsidiaries;

- (f) the treatment of non-controlling interest; and
- (g) disclosures required within consolidated financial statements.

4.6 When considering the requirement to adopt uniform accounting policies, the institution should pay special regard to the revaluation of fixed assets, including treatment as investment property or property, plant and equipment, the treatment of donations and endowments, and the format of the performance statement, which must follow the format required by the institution for the Statement of Comprehensive Income set out in Appendix 1 of this SORP. It should be noted that this is not an exhaustive list.

Separate financial statements

- 4.7** FRS 102 defines separate financial statements as ‘those presented by a parent in which the investments in subsidiaries, associates or jointly controlled entities are accounted for either at cost or fair value’. Section 3 (‘Financial statement presentation and narrative reporting’) of this SORP sets out the requirement to produce a Statement of Financial Position as a separate financial statement.
- 4.8** Investments in subsidiaries, associates and joint ventures must be recorded at either:
- (a) cost less impairment;
 - (b) fair value, with changes in fair value recognised in other comprehensive income; or
 - (c) fair value, with changes recognised in surplus or deficit.
- 4.9** The accounting policy choice must be applied consistently across each category of investments. It is likely that institutions will adopt the cost less impairment option for accounting for investments in subsidiaries, associates and joint ventures since the requirements of the fair value option are more onerous.
- 4.10** The financial statements must include disclosure of the accounting policy chosen for accounting for investments in subsidiaries, associates and joint ventures.

5: ACCOUNTING POLICIES, ESTIMATES AND ERRORS

Selection of accounting policies

- 5.1** The selection and application of accounting policies are set out in paragraphs 10.2 – 10.14 of FRS 102. Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.
- 5.2** FRS 102 includes detailed guidance for institutions on:
- selecting and applying accounting policies;
 - consistency of accounting policies;
 - changes in accounting policies; and
 - disclosure requirements where there has been a change in accounting policy.

Changes in accounting estimates

- 5.3** The requirements relating to changes in accounting estimates are set out in paragraphs 10.15 – 10.18 of FRS 102. Changes in accounting estimates result from new information or new developments, and are not corrections of errors. FRS 102 provides guidance that where it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate. Disclosure requirements for changes in accounting estimates are set out in paragraph 10.18 of FRS 102.

Corrections of prior period errors

- 5.4** The treatment for correction of material errors in prior period financial statements is set out in paragraphs 10.19 – 10.22 of FRS 102.
- 5.5** Prior period errors are omissions from, and misstatements in, an institution's financial statements arising from a failure to use, or misuse of, reliable information that:
- was available when the financial statements for that period were authorised for issue; and
 - could reasonably be expected to have been obtained and taken into account in the preparation of the financial statements.
- 5.6** The disclosure requirements for the correction of prior period errors are set out in paragraph 10.23 of FRS 102.

6: FINANCIAL INSTRUMENTS

Financial instruments overview

- 6.1** A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.
- 6.2** When accounting for its financial instruments, an institution must choose to apply either:
- (a) the provisions of both Section 11 and Section 12 of FRS 102 in full; or
 - (b) the recognition and measurement provisions of IAS 39: Financial instruments: Recognition and measurement (as adopted in the EU), the disclosure requirements of Section 11 and Section 12, and the presentation requirements of paragraphs 11.38A and 12.25B of FRS 102; or
 - (c) the recognition and measurement provisions of IFRS 9: Financial instruments (as adopted in the EU) and IAS 39 (as amended following the publication of IFRS 9), the disclosure requirements of Section 11 and Section 12, and the presentation requirements of paragraphs 11.38A and 12.25B of FRS 102.

An institution's choice of (a), (b) or (c) is an accounting policy choice. Institutions should refer to the footnote to paragraph 11.2 of FRS 102 for guidance on which version of IAS 39 to use if option (b) above is adopted.

Definitions

- 6.3** Basic financial instruments normally include:
- cash;
 - demand and fixed-term deposits when the entity is the depositor, e.g. bank accounts;
 - commercial paper and commercial bills held;
 - accounts, notes and loans receivable and payable;
 - bonds and similar debt instruments;
 - investments in non-derivative instruments that are the equity of the issuer (e.g. most ordinary shares and certain preference shares). This includes certain investment funds with investments held in traded equities; and
 - commitments to receive a loan if the commitment cannot be net settled in cash.
- 6.4** More complex financial instruments include:
- asset-backed securities, such as collateralised mortgage obligations, repurchase agreements and securitised packages of receivables;
 - options, rights, warrants, futures contracts, forward contracts and interest rate swaps that can be settled in cash or by exchanging for another financial instrument;
 - financial instruments that qualify and are designated as hedging instruments in accordance with the requirements in Section 12 of FRS 102;
 - commitments to make a loan to another entity; and
 - commitments to receive a loan if the commitment can be net settled in cash.
- 6.5** Specific examples of financial instruments that would fall under the scope of Section 11 and Section 12 respectively are set out in FRS 102.

- 6.6** Types of transactions that fall outside the scope of Section 11 and Section 12 respectively are set out in FRS 102. When accounting for these types of transaction, institutions should refer to the relevant section as indicated.

Initial recognition and measurement and subsequent measurement

- 6.7** Institutions that follow the requirements of Section 11 and Section 12 of FRS 102 in respect of initial recognition and measurement, subsequent measurement and de-recognition should refer to paragraphs 6.8 – 6.12 below.
- 6.8** When a basic financial asset or financial liability is recognised initially, an entity must generally measure it at the transaction price (adjusted for transaction costs except in the initial measurement of financial assets and liabilities that are subsequently measured at fair value through income and expenditure). Other criteria and accounting treatments for basic instruments are set out in FRS 102.
- 6.9** When a complex financial asset or financial liability is recognised initially, an institution must measure it at its fair value, which is normally the transaction price.
- 6.10** Basic financial instruments are in general held at amortised cost using the effective interest rate method or cost, and are subject to an annual impairment review, as detailed in FRS 102. Guidance on how to calculate amortised cost and the effective interest rate is included in FRS 102.
- 6.11** Investments in non-derivative instruments that are the equity of the issuer (e.g. most ordinary shares and certain preference shares) are measured at fair value where publicly traded or their value can otherwise be reliably measured. Otherwise, they are measured at cost less impairment.
- 6.12** Complex financial instruments are in general held at fair value, with changes in fair value taken directly to the surplus or deficit for the year except in certain situations. Details of other accounting treatments are set out in FRS 102. Guidance on how to determine fair value is included in FRS 102.

Hedge accounting

- 6.13** If specified criteria are met as set out in FRS 102, an entity has the option to designate a hedging relationship between a hedging instrument and a hedged item in such a way as to qualify for hedge accounting. The detailed accounting treatment for hedge accounting is set out in FRS 102.

Offsetting

- 6.14** A financial asset and a financial liability must be offset when, and only when, an institution currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously (this must be considered particularly in relation to cash balances and overdrafts).

Other financial instruments

- 6.15** Section 12 of FRS 102 deals with other financial instrument issues, focusing on more complex financial instruments and transactions. Institutions will need to consider the scope of Section 12 of FRS 102 to confirm that it does not apply, or apply the relevant requirements of FRS 102.
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Disclosure

- 6.16** Institutions should follow the disclosure requirements, insofar as they are applicable, that are set out in FRS 102. Additional disclosure requirements are required if an entity elects to hedge account. These are stipulated in FRS 102.
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Financial liabilities

- 6.17** Where an agreement to refinance, or to reschedule payments, on a long-term basis, is finalised after the reporting date and before the financial statements are authorised for issue, the liabilities must continue to be classified as due, as greater or less than one year in accordance with the terms of the repayment schedule of the debt at the reporting date.

7: STOCK

- 7.1** Section 13 of FRS 102 deals with the nature and measurement of stock. An institution must recognise stock in the Statement of Financial Position at the lower of cost and selling price, less costs to sell.

Costing methodology

- 7.2** Institutions may apply the first in: first out (FIFO) or the weighted average methodology for costing stock.
- 7.3** Institutions providing a service through commercial or research arrangements may have stock in relation to this service. This work in progress must include labour and other costs directly engaged in providing the service, but must not include profit margin or non-attributable overheads. Specific guidance on revenue recognition for non-exchange transactions, including research contracts, is provided in Section 18 ('Non-exchange transactions') of this SORP.
- 7.4** Disclosure requirements for stock are set out in paragraph 13.22 of FRS 102.

8: INVESTMENTS IN ASSOCIATES

- 8.1** FRS 102 defines an associate as *‘an entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture’*.
- 8.2** Institutions must consider whether they have significant influence over an entity with reference to their power to participate in the financial and operating decisions of the associate, but not control the associate. A direct or indirect voting right of 20% or more would normally be considered significant influence.
- 8.3** Within the consolidated financial statements, the associate must be accounted for using the equity method of accounting. Using this method, the initial equity investment is recorded at transaction cost, with subsequent changes made to reflect the institution’s share of the profit or loss, other comprehensive income and equity of the associate. The detailed methodology for equity accounting is set out in paragraph 14.8 of FRS 102.
- 8.4** An institution must include disclosures in relation to associates, as set out in paragraphs 14.12 – 14.15A of FRS 102. In addition, where an associate is material to the understanding of the financial statements, there should be additional disclosures in relation to the share of financial results, assets and liabilities of the associate.

9: INVESTMENTS IN JOINT VENTURES

- 9.1** FRS 102 considers three types of joint ventures: jointly controlled operations, jointly controlled assets and jointly controlled entities. A joint venture exists where there is a contractual arrangement under which two or more parties undertake an economic activity that is subject to joint control.
- 9.2** Institutions must consider collaborative activities and consortia and identify whether they are jointly controlled operations, jointly controlled assets or jointly controlled entities. Examples may include joint medical schools, joint teaching arrangements, joint research contracts and shared service arrangements.
- 9.3** Some institutions have arrangements with teaching hospitals that may include the sharing of resources, including buildings and employees, and the delivery of joint activities such as teaching and research. Institutions must have regard to whether these arrangements include joint operations or jointly controlled assets, as well as having regard to other topics such as leasing and revenue recognition when accounting for these arrangements.

Jointly controlled operations

- 9.4** Jointly controlled operations exist where the use of assets and other resources of the venturer are used. Each venturer will use its own assets and incur its own expenses and may use its own employees alongside similar ongoing activities. The joint venture agreement will usually set out a means by which the revenue earned from the joint operations and any expenditure incurred are shared between the venturers.
- 9.5** The requirements for accounting for jointly controlled operations are set out in paragraph 15.5 of FRS 102. Institutions will recognise only their share of the income from jointly controlled operations.

Jointly controlled assets

- 9.6** Jointly controlled assets exist where venturers have joint control, and frequently joint ownership, of specific assets dedicated to the purpose of the joint venture. The requirements for accounting for jointly controlled assets are set out in paragraph 15.7 of FRS 102.

Jointly controlled entities

- 9.7** Jointly controlled entities involve the establishment of a corporation, partnership or other entity in which each venturer has an interest. Within the consolidated financial statements, the jointly controlled entities must be accounted for using the equity method of accounting. Using this method, the initial equity investment is recorded at transaction cost, with subsequent changes made to reflect the institution's share of the profit or loss, other comprehensive income and equity of the jointly controlled entity. The detailed methodology for equity accounting is set out in paragraph 14.8 of FRS 102.

Disclosures

- 9.8** An institution must include disclosures in relation to jointly controlled operations, jointly controlled assets and joint ventures as set out in paragraphs 15.19 – 15.21A of FRS 102.
- 9.9** Where a joint venture is material to the understanding of the financial statements, the institution should provide further analysis of the share of financial results, assets and liabilities as appropriate.

10: INVESTMENT PROPERTY

- 10.1** FRS 102 defines investment property as ‘property (land or a building, or part of a building, or both) held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both, rather than for:
- (a) use in the production or supply of goods or services or for administrative purposes, or
 - (b) sale in the ordinary course of business.’
- Investment properties must be included within tangible assets in the Statement of Financial Position unless separate presentation is required as a result of the requirements of paragraphs 3.8 and 3.11 of this SORP.
- 10.2** Property held for the provision of social benefits by a public benefit entity such as FE and HE institutions must not be classified as investment property and must instead be classified as property, plant and equipment. The primary purpose of institutions is deemed to be providing social benefit. Therefore property held by institutions with a primary purpose of supporting education is deemed to be held for social benefit and is accounted for as an item of property, plant and equipment and not investment property. Examples of such property include student accommodation.
- 10.3** Institutions should determine whether the primary purpose of certain assets is for education and therefore social benefit. This is of particular relevance where a property derives an element of external income such as commonly found with science parks and incubator assets.
- 10.4** Mixed-use property must be separated between investment property and property, plant and equipment if the resulting portions could be sold separately or leased out separately under a finance lease. However, if the fair value of the investment property component cannot be measured reliably, the entire property must be accounted for as property, plant and equipment in accordance with Section 11 (‘Property, plant and equipment’) of this SORP.
- 10.5** Institutions that rent investment property to another group entity must account for those properties either:
- (a) at fair value with changes in fair value recognised in surplus or deficit for the year; or
 - (b) by transferring them to property, plant and equipment and applying the cost model.
- Where only part of a property is rented to another group entity and the remainder is used for other purposes, this accounting policy choice only applies to the component of that property rented to another group entity.
- 10.6** Consideration of whether a property meets the definition of an investment property must be made at the individual entity level and at the consolidated level. A property held by a subsidiary entity with the primary purpose of generating income for that entity must be accounted for as an investment property in that entity’s financial statements. The same property may be deemed to provide social benefit at the group level and therefore must be accounted for as an item of property, plant and equipment within the group financial statements. A subsidiary entity may have a primary purpose to support education, for example through the provision of student accommodation. In such cases, the property may be held for social benefit and must be accounted for as property, plant and equipment.
- 10.7** Institutions must initially recognise an investment property at cost, as defined in paragraphs 16.5 and 16.6 of FRS 102.
- 10.8** An investment property must be measured at fair value at the end of each reporting date, with any changes in fair value recognised immediately within the surplus or deficit for the year. Fair value must be determined without deduction for costs that may be incurred on any subsequent sale.
- 10.9** Institutions must comply with the disclosure requirements, as set out in paragraphs 16.10 and 16.11 of FRS 102.

11: PROPERTY, PLANT AND EQUIPMENT

11.1 This section only applies to property, plant and equipment and investment property rented to another group entity when the reporting entity chooses to use the cost model, as permitted by paragraph 10.5 of this SORP. It does not apply to biological assets, heritage assets or mineral rights and reserves. Donated assets are covered in Section 18 ('Non-exchange transactions') of this SORP. Property, plant and equipment must be included within tangible assets in the Statement of Financial Position.

Initial measurement

11.2 Property, plant and equipment must initially be recognised at cost. The cost of an item of property, plant and equipment is defined in paragraphs 17.10 – 17.12 of FRS 102. It includes the purchase price, including irrecoverable VAT, and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

11.3 An institution may adopt a policy of capitalising borrowing costs, in accordance with Section 25 of FRS 102, that are directly attributed to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. When an institution adopts a policy of capitalising borrowing costs, it must be applied consistently to all qualifying assets.

11.4 Institutions must recognise the costs of day-to-day servicing of an item of property, plant and equipment in the surplus or deficit in the period in which the costs are incurred.

Classification

11.5 A class of property, plant and equipment is a grouping of assets of a similar nature and use in an institution's operations. The following are examples of separate classes:

- (a) land and buildings;
- (b) plant and machinery;
- (c) fixtures, fittings, tools and equipment; and
- (d) assets under construction.

11.6 Further sub-divisions of classes may be used for clarity. For example, the land and buildings class of assets might be subdivided into teaching facilities, research laboratories and student accommodation.

Exchanges of assets

11.7 An item of property, plant and equipment may be acquired in exchange for a non-monetary asset or assets or a combination of monetary and non-monetary assets. An institution must measure the cost of the acquired asset at fair value unless the exchange transaction lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable. In that case, the asset's cost is measured at the carrying amount of the asset given up.

Subsequent measurement

- 11.8** Institutions must measure all items of property, plant and equipment after initial recognition using the cost model or the revaluation model. When the revaluation model is selected, FRS 102 states that this must be applied to all items of property, plant and equipment in the same class of asset (ie having a similar nature, function or use in the business).
- 11.9** Under the cost model, all items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.
- 11.10** Under the revaluation model, assets are revalued to fair value. Depreciation and impairment losses are subsequently charged on the revalued amount.
- 11.11** Revaluations must be sufficiently regular so that the carrying value of an asset at the reporting date is not materially different from its fair value.
- 11.12** The fair value of property, plant and equipment is usually determined from market-based evidence by appraisal that is normally undertaken by a professionally qualified valuer. Where there is no market-based evidence of fair value due to the specialised nature of the asset and the fact that the asset is rarely sold, institutions may need to estimate fair value by using an income or a depreciated replacement cost approach.
- 11.13** An increase in the value of an asset on revaluation is recognised in other comprehensive income and accumulated in reserves as a revaluation reserve. However, an increase must first be recognised in surplus or deficit, to the extent that it reverses a previous revaluation decrease of the same asset which was charged to surplus or deficit. Any remaining increase is then taken to other comprehensive income and accumulated in the revaluation reserve.
- 11.14** A decrease in an asset previously revalued upwards must first be debited to any credit balance held in the revaluation reserve in respect of that asset through other comprehensive income. Any remaining decrease is then charged to the surplus or deficit.

Depreciation

- 11.15** Institutions must follow the requirements set out in paragraphs 17.16 – 17.23 of FRS 102 with respect to depreciation. Institutions must allocate the depreciable amount of an asset on a systematic basis over its useful life.
- 11.16** If the major components of an item of property, plant and equipment have significantly different useful lives, the components must be recognised and depreciated separately. This ensures that assets are depreciated and charged to the surplus or deficit in line with their consumption of economic benefits. Parts of some items of property, plant and equipment may require replacement at regular intervals (e.g. the roof of a building). An institution must add to the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if the replacement part is expected to provide incremental future benefits to the institution. The carrying amount of those parts that are replaced is derecognised regardless of whether the replaced parts had been depreciated separately. If it is impracticable for an institution to identify the carrying amount of the replaced part, it may be estimated using the current cost of the replacement part as a proxy for the original cost of the replaced part and adjusting it for depreciation and impairment.
- 11.17** Where factors exist that indicate that the residual value, useful life and depreciation method of an asset may have changed since the last reporting date, these must be reviewed and revised where necessary. Further guidance is provided in paragraphs 17.19 to 17.23 of FRS 102.

Impairment

- 11.18** Institutions should refer to Section 20 ('Impairment of assets') of this SORP. The classification of an item of property, plant and equipment as held for sale is a trigger of impairment and the asset should be assessed for impairment.
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Derecognition

- 11.19** Property, plant and equipment must be derecognised on disposal or when no future economic benefits are expected from use or disposal.
- 11.20** The gain or loss on disposal is calculated as the difference between the net disposal proceeds and the carrying amount of the item. The gain or loss must be reported in the surplus or deficit for the period in which the asset was disposed of. Any gains must not be classified as revenue.
- 11.21** The date of disposal must be determined by reference to the same criteria for recognising revenue from the sale of goods, as set out in Section 23 of FRS 102.
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Disclosures

- 11.22** Institutions must follow the disclosure requirements set out in paragraphs 17.30A to 17.32A of FRS 102.
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Exchequer interests

- 11.23** Exchequer interests in those assets funded through the public purse imply a retained interest by central government. Institutions must consider the likelihood of having to repay any funds relating to such assets and assess whether a contingent liability must be disclosed.

12: INTANGIBLE ASSETS OTHER THAN GOODWILL

- 12.1** An intangible asset is ‘an identifiable non-monetary asset without physical substance. Such an asset is identifiable when:
- (a) it is separable, ie capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or
 - (b) it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations’.
- (FRS 102 Appendix Glossary p 300).
- 12.2** An institution must recognise an intangible asset if, and only if:
- (a) it is probable that the expected future economic benefits that are attributable to the asset will flow to the institution; and
 - (b) the cost or value of the asset can be measured reliably.
- 12.3** An intangible asset purchased separately from a business must be initially recognised at its cost, as set out in paragraph 18.10 of FRS 102.
- 12.4** An intangible asset acquired in a business combination must be recognised separately from goodwill when certain conditions are satisfied. These conditions are set out in paragraph 18.8 of FRS 102. An institution can choose to recognise intangible assets separately from goodwill where certain conditions are met, as outlined in paragraph 18.8 of FRS 102. An intangible asset acquired in a business combination must be initially recorded at its fair value, where this can be measured with sufficient reliability.
- 12.5** An internally developed intangible asset may be capitalised from the date when the intangible asset first meets the recognition criteria set out in paragraph 18.4 and paragraph 18.8H of FRS 102. Providing the recognition criteria are met, costs incurred during a development phase may be capitalised. Institutions should refer to guidance on what costs are eligible and ineligible for capitalisation, as set out in paragraphs 18.8C and 18.8H – 18.8K of FRS 102.
- 12.6** Costs incurred during a research phase must be expensed as the asset does not meet the criteria for recognition at this stage.
- 12.7** Institutions may measure intangible assets after initial recognition using the cost model or, in certain circumstances, the revaluation model. It is expected that the cost model will be widely used by institutions.
- 12.8** All intangible assets are considered to have finite lives that will be limited to the period of any contractual or legal rights (including any renewal periods where the cost of renewal is not significant). If, in exceptional cases, institutions are unable to make a reliable estimate of the useful life of an intangible asset, the life must not exceed 10 years. Amortisation must be charged on a systematic basis over the useful life and institutions should follow the requirements of Section 18 of FRS 102 in relation to the review of the amortisation period and amortisation method and residual values.
- 12.9** Institutions should refer to Section 20 (‘Impairment of assets’) of this SORP in relation to the impairment of intangible assets.
- 12.10** Institutions must comply with the disclosure requirements set out in paragraphs 18.27 – 18.29A of FRS 102.

Website development costs

- 12.11** Costs associated with websites developed for advertising or promotional purposes are expensed as incurred.
- 12.12** In respect of other websites, expenditure incurred during the application and infrastructure development stage, the graphical design stage and the content development stage may be capitalised if the criteria for capitalising development costs are met. This applies equally to internal and external costs. An institution intending to capitalise website development costs should consider the facts carefully to ensure that the criteria for capitalisation are met.
- 12.13** The costs in respect of new online course development are likely to be considered as expenditure for new products and are therefore expensed as incurred.

13: BUSINESS COMBINATIONS AND GOODWILL

- 13.1** FRS 102 defines a business combination as *‘the bringing together of separate entities or businesses into one reporting entity.’* The result of nearly all business combinations is that one entity, the acquirer, obtains control of one or more other businesses, the acquiree. Institutions must assess whether a combination of an institution with another institution is an acquisition or merger. Merger accounting may only be used where combinations are not, in substance, the acquisition of an entity (or another institution) by an institution but the formation of a new reporting institution as a substantially equal partnership where no party is dominant.
- 13.2** Paragraphs 19.6 – 19.26A of FRS 102 set out the considerations for a business combination including:
- applying the purchase method of accounting;
 - identifying the acquirer;
 - the cost of a business combination;
 - adjustments to the cost of a business combination contingent on future events;
 - allocating the cost of a business combination to the assets acquired and liabilities and provisions for contingent liabilities assumed;
 - the treatment of contingent liabilities; and
 - disclosures for business combinations.
- 13.3** Goodwill acquired on a business combination is recognised as an asset initially at cost, with subsequent measurement in line with the amortisation of intangible assets, as set out in Section 12 (‘Intangible assets other than goodwill’) of this SORP. If the useful life of goodwill cannot be reliably estimated, supporting reasons for the period chosen must be disclosed in line with paragraph 19.25G of FRS 102.
- 13.4** Should the net fair value of the identifiable assets, liabilities and provisions acquired be greater than the acquirer’s interest (usually the amount paid), then the acquirer must at first reassess the net fair values and subsequently recognise any excess in the surplus or deficit in the periods in which the benefit is derived from the non-monetary assets acquired. Negative goodwill must be recognised immediately below goodwill on the Statement of Financial Position.
- 13.5** Specific guidance to public benefit entities for combinations that are in substance a gift and combinations that are a merger are set out in Section 34 of FRS 102.
- 13.6** A combination that is in substance a gift exists where the combination is transacted at nil or nominal consideration that is not a fair value exchange. In such circumstances, any surplus or deficit arising on the transaction is recorded immediately within the surplus or deficit within the Statement of Comprehensive Income.
- 13.7** A merger is an entity combination that results in the creation of a new reporting entity formed from the combining parties, in which:
- (a) the controlling parties of the combining entities come together in a partnership for the mutual sharing of risks and benefits of the newly formed entity; and
 - (b) no one party to the combination in substance obtains control over any other, or is otherwise seen to be dominant.

- 13.8** Merger accounting must be applied if the following three criteria are met (unless it is not permitted by the statutory framework under which a public entity reports):
- (a) no party to the combination is portrayed as either the acquirer or acquiree, either by its own board or management or by that of another party to the combination;
 - (b) there is no significant change to the classes of the beneficiaries of the combining entities or the purpose of the benefits provided as a result of the combination; and
 - (c) all parties to the combination, as represented by the members of the board, participate in establishing the management structure of the combined entity and in selecting the management personnel, and such decisions are made on the basis of a consensus between the parties to the combination rather than purely by exercising voting rights.

If merger accounting is not permitted by the statutory framework under which a public entity operates, then the disclosure requirements of paragraphs 3.5 and 3.6 of FRS 102 must be provided, and where a public benefit entity reports under company law, paragraph A4.30A of FRS 102 must be considered. If paragraph A4.30A is applied, then relevant disclosures are required, as set out by Section 396(5) of the Companies Act 2006. These disclosures need to make it clear that the entities have applied the true and fair override and set out the reasons why.

- 13.9** The accounting requirements and disclosure requirements for a merger are set out in paragraphs PBE34.80 – PBE34.86 of FRS 102.

- 13.10** The use of merger accounting is also permitted where a business combination occurs under common control. Institutions must follow the accounting requirements and disclosures set out in paragraphs 19.29 – 19.33 of FRS 102.

14: LEASES

- 14.1** Accounting for agreements that transfer the rights to use assets from one contracting party to another are set out within Section 20 of FRS 102. When accounting for finance and operating leases, institutions must follow the prescribed treatments as presented in Section 14 ('Leases') of this SORP.
- 14.2** The scope of leases is set out in paragraphs 20.1 – 20.3A of FRS 102. This scope includes some arrangements that do not take the legal form of a lease but convey rights to use assets in return for payments, such as service contracts, outsourcing arrangements, telecommunications contracts that provide rights to capacity, and take-or-pay contracts. Such arrangements are leases of assets.
- 14.3** A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an asset. All other leases are classified as operating leases.
- 14.4** Institutions must apply the concept of 'substance over form' when determining how to classify leases and the transfer of risks and rewards. The following are normally indicators of a finance lease:
- (a) the lease transfers ownership of the asset to the lessee by the end of the lease term;
 - (b) the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable, such that it is reasonably certain that the option will be exercised;
 - (c) the lease term is for the major part of the economic life of the asset even if title is not transferred;
 - (d) at the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
 - (e) the leased assets are of such a specialised nature that only the lessee can use them without major modifications.
- 14.5** Other indicators are provided in paragraph 20.6 of FRS 102. It is the responsibility of management to consider substance over form and determine whether the risks and rewards of ownership have been substantially transferred by reference to these situations.

15: PROVISIONS AND CONTINGENCIES

- 15.1** Section 21 of FRS 102 deals with provisions, contingent liabilities and contingent assets. The Appendix to Section 21 includes specific examples that provide guidance on applying the requirements of Section 21 in recognising and measuring provisions.

Initial recognition

- 15.2** The use of a provision is restricted to a liability where there is some uncertainty as to the timing or amount that has been incurred. An institution must only recognise a provision where the following three conditions are met:
- there is an obligation at the reporting date as a result of a past event, and the institution has no realistic alternative to settlement;
 - the transfer of economic benefits in settlement is more likely than not; and
 - the value of the obligation can be estimated reliably.
- 15.3** The obligation to settle may be a legal obligation on the institution or a constructive obligation because the past event has created valid expectations in other parties that the institution will settle. Obligations that will arise from an institution's future actions never require a provision however likely they are to occur, even if they are contractual. For example, there are no grounds for recognising a provision for future repairs and maintenance in respect of freehold buildings. Nor should provisions be recognised for future operating losses. This is because these costs relate to the future operation of an institution, rather than to a past event. As such, they must be written off as operating expenses when incurred.
- 15.4** An institution must make a provision for the present obligation that arises under a contract that is onerous. An onerous contract is one in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The onerous aspect of the contract must be valued as the least net cost of exiting from the contract that is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. For example, an institution may be contractually required under an operating lease to make payments to lease an asset for which it no longer has any use. It would provide for ongoing obligations under the lease, including dilapidations and service charges net of any anticipated income from sub-letting.
- 15.5** Detailed guidance on providing for the costs of restructuring is set out in FRS 102; for example, a closure of a department or a redundancy programme. A constructive obligation to restructure arises only when an institution:
- (a) has a detailed formal plan for the restructuring, identifying at least:
 - i. the business or part of a business concerned;
 - ii. the principal locations affected;
 - iii. the location, function and approximate number of employees who will be compensated for terminating their services;
 - iv. the expenditures that will be undertaken; and
 - v. when the plan will be implemented; and
 - (b) has raised a valid expectation to those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.
- 15.6** Institutions must recognise a provision for past deficits within multi-employer pension schemes, as set out in paragraph 21.18 of this SORP.

Initial measurement

- 15.7** The value of the provision is management's best estimate of the amount the institution would rationally pay to settle the obligation at the reporting date and must be disclosed at present value where the time value of money is material. When some or all of the amount required to settle a provision may be reimbursed, (for example through an insurance claim), the institution must recognise the reimbursement as a separate asset only when receipt is virtually certain. In valuing the provision, management may take account of:
- (a) past experience of similar transactions;
 - (b) the opinion of experts, as appropriate; and
 - (c) uncertainties, by weighting all possible outcomes.

Subsequent measurement

- 15.8** An institution must charge against a provision only those expenditures for which the provision was originally recognised.
- 15.9** Each provision must be adjusted at each reporting date to ensure it reflects the current best estimate of the settlement value. Any adjustments, and the unwinding of any discounts if used, must be recognised through the institution's income and expenditure.

Contingent liabilities

- 15.10** A contingent liability is not recognised in the Statement of Financial Position but must be disclosed as a note. A contingent liability arises when an event leads to:
- (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the institution; or
 - (b) a present obligation that arises from past events but is not recognised because:
 - i. it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
 - ii. the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets

- 15.11** A contingent asset is not recognised in the Statement of Financial Position but is disclosed as a note. A contingent asset arises if it is possible that an asset may arise from a past event. If in any period it becomes virtually certain that an inflow of economic benefits will occur, then the asset and its associated gain must be recognised in that reporting period.

Disclosure

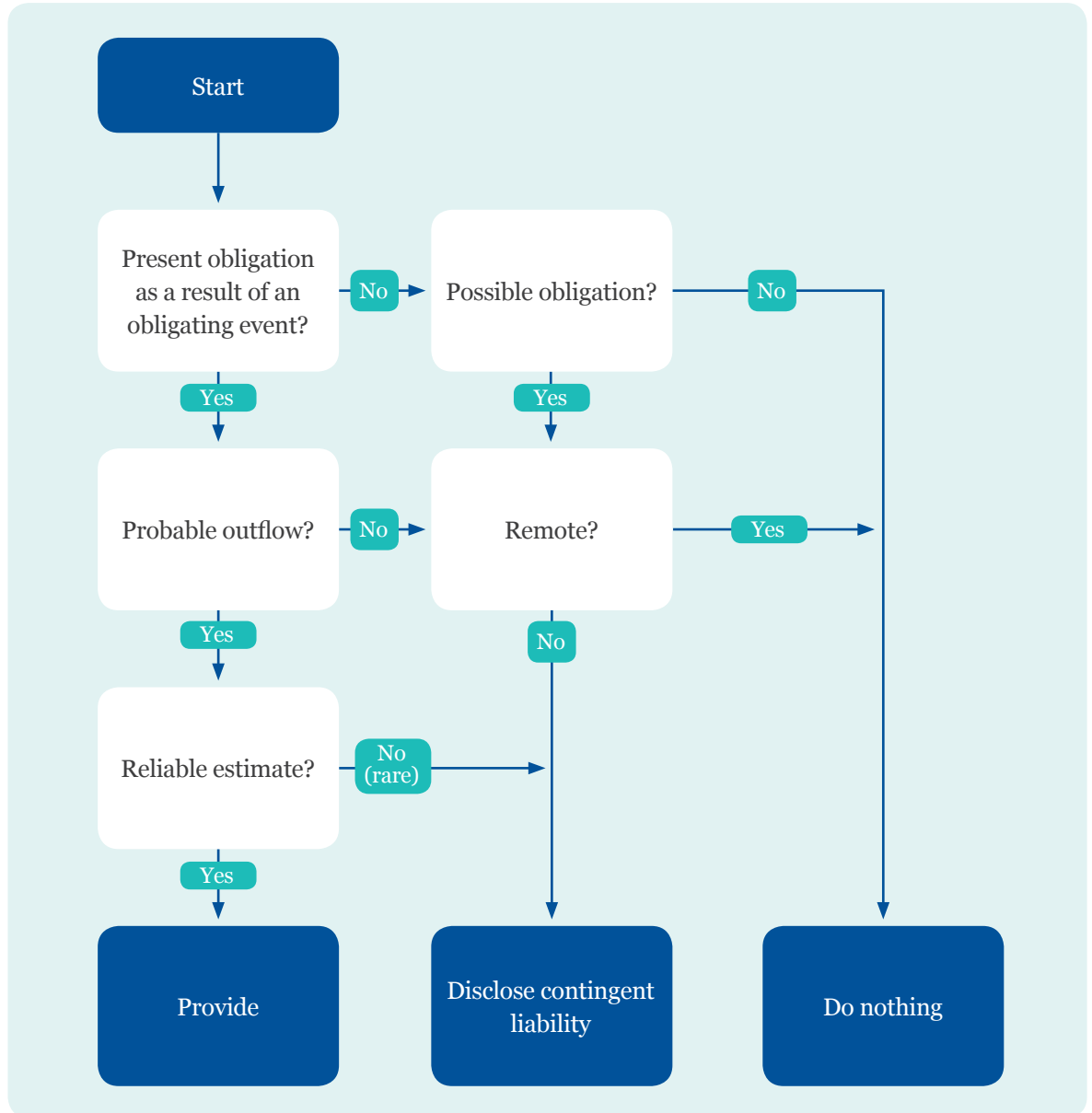
- 15.12** Disclosure requirements are set out in paragraphs 21.14 – 21.17A of FRS 102.

Prejudicial disclosures

- 15.13** It is extremely rare that disclosure of some, or all, of the required information may prejudice seriously the position of the institution on the subject matter of the provision, contingent liability or contingent asset. In these circumstances, the institution must make the disclosures, as set out in paragraph 21.17 of FRS 102.

Provisions and contingencies decision tree

Note: in rare cases it is not clear whether there is a present obligation. In these cases, a past event is deemed to give rise to a present obligation if, taking account of all available evidence, it is more likely than not that a present obligation exists at the reporting date.



16: REVENUE

- 16.1** Section 23 of FRS 102 applies to revenue received from exchange transactions:
- the sale of goods;
 - the rendering of services such as the provision of education, accommodation, and commercial research contracts;
 - construction contracts in which the institution is the contractor; and
 - interest received on investments, and royalties or dividends received.
- 16.2** This section includes revenue from transactions that have commercial substance. Commercial substance is deemed to exist where the customer receives goods or services in return and at equivalent fair value for the revenue paid. Examples include:
- tuition fees paid by students, whether or not the cash is provided through a third-party funder, for example the Student Loans Company;
 - consultancy; and
 - other commercial revenue, including from accommodation, catering and conferences.
- 16.3** Funding from government and non-government sources for education contracts, similar grants such as quality-related research grants, and broader research grants, are generally not deemed to be of commercial substance despite the benefit that society receives from such income. Such revenue is considered within Section 24 and Section 34 of FRS 102. There may be examples of commercial research contracts whereby the output is delivered specifically for the funder and has commercial substance. Such contracts are recorded as revenue transactions whether or not the funding body is a government body.
- 16.4** Revenue is recognised when:
- the amount of revenue can be reliably measured;
 - it is probable that the economic benefits associated with the transaction will flow to the institution;
 - the stage of completion at the end of the reporting period can be measured reliably; and
 - the costs of services delivered, such as the delivery of education, and the future costs of delivery for the same transaction, can be measured reliably.
- 16.5** Revenue is recognised on contracts when the outcome can be estimated reliably. Further detail is set out in paragraphs 23.14 – 23.27 of FRS 102.
- 16.6** Revenue is measured at the fair value of the consideration received or receivable. The fair value of the consideration received or receivable must be recognised net of any trade discounts, prompt settlement discounts and volume rebates allowed by the institution.
- 16.7** Where institutions receive grant funding for a set number of studentships under which they have responsibility for selecting and allocating funding to students, they must ensure that revenue is not double counted. In cases where the institution acts as principal, revenue should be accounted for once, as grant funding, and the billing of tuition fees to the student should not be included in fee income.

Fee waivers, bursaries, scholarships and student support

16.8 Fee waivers, bursaries, scholarships and student support may be fee discounts or expenditure, regardless of their title. Institutions must look to the substance of arrangements to determine the appropriate accounting treatment, taking into consideration the nature of the payment and how commonly payments are made, such that when payments become akin to common practice, they are in effect discounts. The treatment must be in line with the wider definition of revenue outlined within FRS 102 as ‘the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity’.

Agency arrangements

16.9 Agency arrangements may exist for revenue, government grants and non-exchange transactions. Where the institution is an agent, it would not normally be exposed to the majority of the benefits and risks associated with the exchange transaction (including performance of the transaction, price or credit risk). Where the institution disburses funds it has received as paying agent on behalf of a funding body or other body, and has no beneficial interest or risks related to the receipt and subsequent disbursement of the funds, these funds must be excluded from the income of the institution. Any commissions received whilst acting as agent would be included as income.

16.10 Institutions may be required by a funder to provide a memorandum disclosure note, if required by the funder, on agency funds in the notes to the accounts, which shows movements of the funds during the year, and any unspent balances at the year-end.

Accounting for research income

16.11 Research income may be received as commercial revenue transactions, from government sources and from non-government sources. In all instances, the income should be recorded within research within the surplus or deficit in the Statement of Comprehensive Income:

- (a) Research income from commercial sources must be accounted for in accordance with Section 16 (‘Revenue’) of this SORP.
- (b) Research grants from government sources must be accounted for using the accrual model or the performance model, as set out within Section 17 (‘Government grants’) of this SORP.
- (c) Research grants from non-government sources must be accounted for using the performance model, as set out within Section 18 (‘Non-exchange transactions’) of this SORP.

17: GOVERNMENT GRANTS

- 17.1** Section 24 of FRS 102 sets out the accounting requirements for government grants. Government grants are provided by government bodies and do not include donations or funding from charities or other benefactors (which are referred to as ‘non-exchange transactions’ in FRS 102 and this SORP). Economically, government grants and non-exchange transactions may be very similar, in that they reflect money that is granted or donated as opposed to a commercial transaction arising under contract. This section sets out the requirements for government grants; the accounting requirements for non-exchange transactions are set out in Section 18 (‘Non-exchange transactions’) of this SORP.
- 17.2** Government grants are transfers of resources from government bodies including, but not limited to:
- (a) government departments and their agencies and non-departmental public bodies;
 - (b) local government;
 - (c) EU funding agencies;
 - (d) local and regional funding agencies (e.g. Regional Growth Fund and UK research councils); and
 - (e) NHS bodies.
- 17.3** For the purposes of this SORP, where a funding entity receives a significant portion of its income from non-government sources, it is considered a non-government entity and therefore funding provided by them would be a non-exchange transaction (see Section 18 of this SORP).
- 17.4** Government grants only include grants that can reliably have a value put on them. Grants that cannot have a value reliably put on them are therefore not recognised, but this is unlikely to be a frequent occurrence. Transactions with government that cannot be distinguished from normal trading transactions of the entity and have commercial substance are accounted for in accordance with Section 16 (‘Revenue’) of this SORP.
- 17.5** Government grants include funds received from funding bodies to support education, research, and business and community links.
- 17.6** Should an institution receive a joint grant funded by a government and non-government body, the institution should account for the grant in proportion to the level of grant received from each grantor. For example, a capital grant provided 50% by a government body and 50% by a non-government body will need to account for 50% of the capital grant in accordance with government grants (see paragraphs 17.7 – 17.10 below) and 50% in accordance with non-exchange transactions (Section 18 of this SORP).

Accounting for government grants

- 17.7** This SORP allows the accounting policy choice of applying the accrual model or the performance model when accounting for government grants except for capital grants for land. An institution must apply the chosen policy consistently to each class of grant. This SORP identifies capital grants for land, other capital grants and revenue grants as being different classes of grant.
- 17.8** An institution must choose which policy to apply for revenue government grants and other, non-land, capital government grants. Capital government grants for land must be accounted for in accordance with the performance model.

- 17.9** Where an institution receives a government grant for a combination of two or more of revenue, land and other capital, the institution must allocate the grant between the revenue, land and other capital elements. The grant allocated for revenue, land and other capital must be accounted for in accordance with the institution's accounting policy for each class of grant.
- 17.10** Whichever policy is adopted, government grants must not be recognised until there is reasonable assurance that the institution will comply with the conditions attaching to them and that the grants will be received. Where a grant becomes repayable, it must be recognised as a liability when the repayment meets the definition of a liability.

Accrual model

- 17.11** Under the accrual model, institutions must account for government grants as follows:
- (a) an institution adopting the accrual model will classify each grant as either a capital or a revenue grant;
 - (b) revenue government grants will be recognised in income on a systematic basis over the periods in which the entity recognises the related costs for which the grant is intended to compensate. Capital government grants must be recognised in income on a systematic basis over the expected useful life of the asset to which the grant relates. The income must be recorded within the surplus or deficit in the Statement of Comprehensive Income under the relevant heading of funding body grants, research grants or other income, as appropriate to the nature of the grant; and
 - (c) where part of a government grant is deferred, it must be recognised as deferred income within creditors and not deducted from the carrying amount of the asset. The deferred income must be allocated between creditors due within one year and due after more than one year.
- 17.12** It should be noted that the accrual model is not available for grants and other funding that are non-exchange transactions, ie are not regarded as government grants (see Section 18 of this SORP).

Performance model

- 17.13** An institution adopting the performance model must recognise income from government grants within the surplus or deficit in the Statement of Comprehensive Income when performance-related conditions are met. If a restriction is in use but no performance-related condition exists, then the income must be recorded in the surplus or deficit in the Statement of Comprehensive Income as soon as the institution is entitled to the income.
- 17.14** FRS 102 defines a performance-related condition as '*a condition that requires the performance of a particular level of service or units of output to be delivered, with payment of, or entitlement to, the resources conditional on that performance*':
- (a) Where the grant relates to more than one reporting period, it will be necessary to analyse the 'output' conditions to ascertain whether in substance they are a series of conditions covering sequential periods rather than a single test only performed at the end. This is important because in the latter situation, no grant income could be recognised until the end of the grant period. Government grants with performance-related conditions include education contracts and annual grants from funding bodies that stipulate the particular academic year and/or students to which the grant relates.
 - (b) A grant with unfulfilled performance-related conditions is held as deferred income until such time that the conditions are met, at which point the income is recorded within the surplus or deficit in the Statement of Comprehensive Income.

- (c) Some conditions (including procedural-type conditions) are not performance related and would be ignored for the purposes of determining when recognition occurs. An example of this could be submitting a grant claim form.
- (d) A number of grants, including many EU grants, have output requirements to be delivered many years after the grants have been utilised. Where an institution can demonstrate that these outcome measures are likely to be achieved at the date of grant award, for example through initial project due diligence, these measures are not deemed performance-related conditions. However, a failure to meet such output requirements at a later date may indicate that the institution is no longer entitled to the grant and the situation must be considered on an annual basis to assess whether a contingent liability must be disclosed or a provision recorded in the financial statements, in line with Section 15 ('Provisions and contingencies') of this SORP.

17.15 A restriction is defined in FRS 102 as *'a requirement that limits or directs the purposes for which a resource may be used that does not meet the definition of a performance-related condition'*:

- (a) An example of a restriction could be a grant for funding a defined area of research which does not have specified units of delivery and therefore does not include performance-related conditions.
- (b) Grants with restrictions are recorded within the income on entitlement to the income and subsequently retained within a restricted reserve until such time that expenditure is incurred in line with the restriction. This SORP requires that the notes to the accounts must provide further details on the nature of restrictions.

17.16 Examples of the above are:

- (a) Grants may include specific requirements that meet the definition of performance-related conditions. Careful analysis of the documentation may be needed to identify the relevant performance-related conditions and to allocate portions of the grant against multiple performance-related conditions. For example, a grant to fund a specific academic post over three years is likely to include performance-related conditions where the grantor specifies the 'level of service' or 'units of output' to be delivered over the three-year period. Examples of a specified level of service include teaching days or research days.
- (b) In some cases, it will be difficult to identify a condition related to unit of output. For example:
- A grant to fund the chemistry department (payable by three annual instalments) is unlikely to be regarded as including performance-related conditions. The institution is free to spend the money on labour, equipment or other overheads and therefore only contains a restriction as to how the funds are spent. The arrangement to pay in instalments over three years is not of itself an indication of a performance-related condition.
 - Capital grants may include performance-related conditions for the construction phase. However, the terms of many capital grants are sufficiently broad that they only have restrictions during the period of construction. A capital grant where the use of the building is specified over a 20-year period of time may include performance-related conditions relating to the construction of the building. The specified use of the building for a period of time after construction is a restriction, not a performance-related condition.
 - Grants with no outstanding performance-related conditions are recorded immediately within income when the grant proceeds are received or receivable. Typical transactions include a government-funded research grant with no specific deliverables – it is expected that such transactions will rarely occur.

Government grant disclosures

17.17 The financial statements must disclose:

- the accounting policy for income recognition for each class of grant accounted for as government grants;
- the nature and amounts of grant, for example, the major government grant income streams by funding bodies;
- unfulfilled conditions attached to grants not recognised in income in categories that support the reader of the financial statements; for example, conditions that will be met through time, performance or milestones; and
- an indication of other forms of government assistance from which the entity has directly benefited. Note that this need not include the Treasury's exchequer interest, which is not linked to a specific asset, but to a value within the overall estate.

18: NON-EXCHANGE TRANSACTIONS

- 18.1** A non-exchange transaction is ‘a transaction whereby an entity receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange’ (FRS 102 Appendix 1 Glossary p 304). Non-exchange transactions include, but are not limited to, donations of cash, goods and services and endowments. These transactions will include gifts in kind, for example, a donation of an asset or piece of equipment for operational use. A donated asset may be classified as a heritage asset, as set out in Section 26 (‘Specialised activities’) of this SORP.
- 18.2** Non-exchange transactions include grants from private and charitable individuals or organisations, including research grants.
- 18.3** In accordance with FRS 102, non-exchange transactions with performance-related conditions, including research grants from non-government sources, must be accounted for in accordance with the performance model, as set out in paragraphs 17.13 – 17.16 of this SORP.
- 18.4** Non-exchange transactions may be received with performance-related conditions, with restrictions, with neither or with both. This SORP considers that donations and endowments form a subset of non-exchange transactions and these may or may not have performance-related conditions and/or restrictions attached to them. The most common classes of non-exchange transactions include:
- 77. non-exchange transactions with performance-related conditions;
 - 78. donations with no restrictions;
 - 79. donations with restrictions; and
 - 80. endowments (endowments do not include performance-related conditions but they may have either permanent or temporary restrictions).
- 18.5** Although all non-exchange transactions are accounted for using the performance model the timing of the recognition of income, the categorisation of that income within the surplus or deficit in the Statement of Comprehensive Income and the presentation in reserves differ for each class. This section provides guidance, but institutions must use their own judgement in determining the correct accounting treatment specific to their situation and transactions. Institutions can use the flow charts on pages 50 – 51 to assist in determining the correct treatment.
- 18.6** Income must be recorded within the surplus or deficit in the Statement of Comprehensive Income as research, donations or other income in line with the intentions of the donor. For example, a small number of research and similar grants contain no performance-related conditions and are therefore donations. Institutions may wish to distinguish donations for research and similar grants from other donations and endowments by recording income within research, donations and endowments or other income as appropriate.

Non-exchange transactions with performance-related conditions

- 18.7** Non-exchange transactions with performance-related conditions may arise from research and similar grants from non-government sources where the grantor's intention is not for the institution to establish an endowment fund. Institutions should refer to paragraphs 17.14 and 17.16 of this SORP for further guidance on performance-related conditions.

Donations and endowments

DONATIONS WITH NO RESTRICTIONS

- 18.8** Donations with no restrictions in use include amounts given to the institution by way of cash or asset with no restrictions on how the donation should be used. Examples include individual private donations not collected through a fund-raising programme with a specific purpose, and research funds, typically from medical charities, with no requirements on delivery other than a requirement to continue research in a broad area, so that the institution is not restricted in the use of the funds. An institution must consider its own circumstances to determine whether funds are restricted or not.

DONATIONS WITH RESTRICTIONS

- 18.9** Donations with restrictions will typically include amounts raised through fund-raising programmes under which the general use of the funds is specified, for example to raise funds for science. However, if the donor requests a specific level of service or units of output (for example teaching hours), then a non-exchange transaction with performance-related conditions is likely to exist unless the intention of the grantor was for the institution to set up an endowment fund, in which case the fund should be accounted for as an endowment. It is expected that donations with performance-related conditions will be rare.
- 18.10** A donation to carry out research in a particular research field is considered to be a donation with a restriction. However, a performance-related condition may exist if the donor specified the specific time period over which the donation should be spent in a way that represents a performance-related condition over which the institution is entitled to the income. Such a specification should include the 'level of service' or 'unit of output' to be delivered over the time period.

ENDOWMENT FUNDS

- 18.11** An endowment fund is a form of charitable trust retained for the benefit of the institution. Endowment funds must be sub-divided into their capital element and an accumulated income fund. Where a grantor indicates an intention for the institution to establish an endowment, then the income should be accounted for as an endowment fund.
- 18.12** A donation to establish an endowment fund, which prohibits the conversion of the capital into income, creates a permanent endowment fund. A permanent endowment fund must generally be held indefinitely. However, where an institution has the power to use the capital element of endowment funds, such funds are known as expendable endowments.

EXPENDABLE ENDOWMENT FUNDS

- 18.13** Expendable endowment funds may also exist where the funds donated with a specific restriction are so large in relation to the area of spend to which they relate that they will need to be retained over more than a short period of time. This SORP considers that a timeframe of under two years is unlikely to create an expendable endowment.

RESTRICTED AND UNRESTRICTED PERMANENT ENDOWMENT FUNDS

18.14 Endowment funds are permanent where the donor has stipulated that the capital element of the endowment fund must be held indefinitely. The investment income from such funds may be restricted in use (restricted permanent endowments) or unrestricted in use (unrestricted permanent endowment), depending on the requirements specified by the donor.

Accounting for donations

18.15 Institutions should account for donations as follows:

- (a) Donations with performance-related conditions are non-exchange transactions with performance-related conditions. They should be accounted for in accordance with 17.13 – 17.16 of this SORP.
- (b) Donations with restrictions must be recorded within income under donations and endowments on entitlement to the income. The restricted income received is held in the temporarily restricted reserve until such time that expenditure is incurred in accordance with the restrictions.
- (c) Donations with no restrictions must be recorded within income under donations on entitlement to the income.

Accounting for endowments

18.16 Institutions should account for endowments as follows:

- (a) Where a donor establishes an endowment, there will be no performance-related conditions. Any conditions required by the donor are restrictions on the use of these funds. Therefore, new endowments must be recorded within income, under donations and endowments, on entitlement to the income. The restricted income received is held in the temporarily (expendable) or permanently restricted reserve until such time that expenditure is incurred in accordance with the restrictions.
- (b) The gain or loss on the value of any investments held by the endowment fund is recorded within the surplus or deficit under the gain or loss on investments. The gain or loss should normally be retained in the capital element of the fund to which it relates, refer to paragraph (d) below.
- (c) Investment income received from the endowment fund's investments is recorded within investment income and held within the temporarily or permanently restricted reserve to the extent that it has not been spent in line with the restrictions of the donation.
- (d) Where endowment funds are invested for the longer term in order to generate an income and maintain or grow the capital value of the fund, investment gains and losses will be credited or charged to the endowment based on periodic valuations. These will generally be attributable to the capital segment of the fund, as the accumulated income segment is, by definition, held for spending in the short term. There will be situations, however, where an institution attributes part of a valuation gain to the accumulated income segment of the fund, based on the extent to which the relevant investments exceed the balance on the capital segment.

Disclosure for non-exchange transactions

- 18.17** This SORP requires that the notes to the accounts must include disclosures identifying:
- (a) the brought-forward restricted reserves, additions, investment return (being the fair value movement on the investments), investment income in the year, expenditure in the year and carried-forward restricted reserves. Reserves should be analysed by materially similar types of restriction and may include government grants with restrictions, as set out in paragraph 17.15 of this SORP. This would typically include an analysis between:
 - i. permanently restricted reserves:
 - permanently restricted endowments; and
 - permanent unrestricted endowments;
 - ii. temporarily restricted reserves;
 - expendable restricted endowments; and
 - donations with restrictions;
 - (b) the nature and amounts of donations and endowments received, identifying those held as restricted reserves and those with no restrictions recognised in income within the year;
 - (c) unfulfilled conditions attached to non-exchange transactions not recognised in income in categories that meaningfully support the reader of the financial statements, for example conditions that will be met through time, performance or milestones;
 - (d) an indication of other forms of donations and endowments from which the entity has directly benefited but the institution is unable to reliably quantify, such as volunteer time;
 - (e) an analysis of the assets in the Statement of Financial Position, by classification held by the institution as endowment fund investments, for example cash, equity and property; and
 - (f) the value and type of any endowed assets, for example endowed property.

Disclosure of material endowments

- 18.18** The notes to the financial statements must disclose for each individually material charitable fund:
- (c) its assets and liabilities;
 - (d) its income and expenditure; and
 - (e) its nature and purpose, including the restrictions on its use.

An indication should also be given as to whether or not sufficient resources are held in an appropriate form to enable the charitable fund to be applied in accordance with any restrictions.

- 18.19** Material transfers between different endowment funds should be disclosed separately and should be accompanied by an explanation of the nature of the transfers and the reasons for them.

- 18.20** Any permanent endowment fund where the accumulated income segment is in deficit is to be treated as material and so must be disclosed separately, and an explanation provided.

- 18.21** The same information as set out in paragraphs 18.17 – 18.19 above must be disclosed in aggregate for appropriate classes of non-material endowment funds. For example, prize funds rewarding excellence and bursary funds to support students in financial difficulty might be separate classes of endowment.

Designated funds

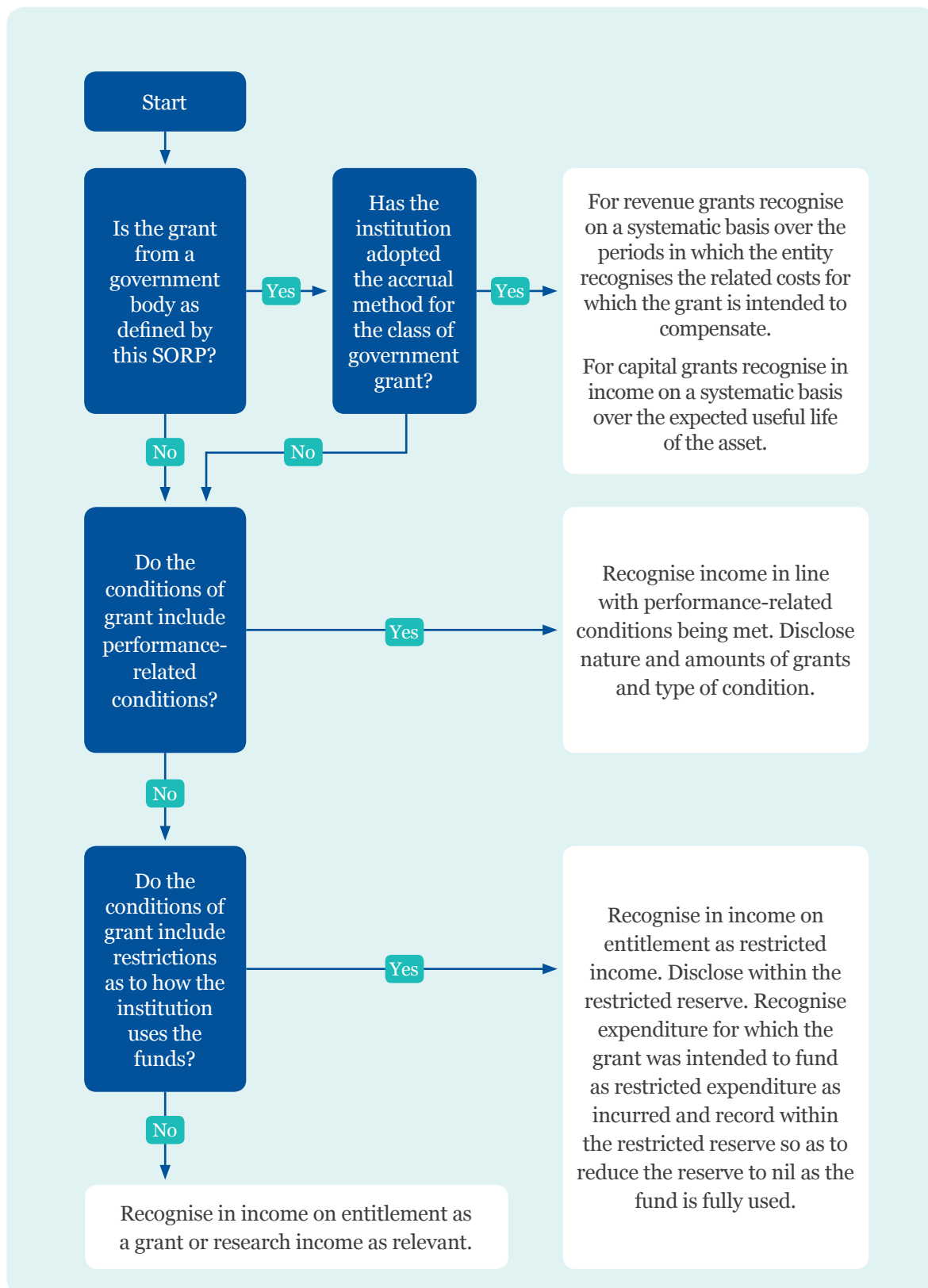
18.22 Institutions may wish to designate elements of their income and expenditure reserves for specific purposes. Such designations are an internal matter for each institution and therefore must not be disclosed in the primary statements. Restrictions on the use of reserves only exist where such restrictions are imposed by a donor.

Total return accounting

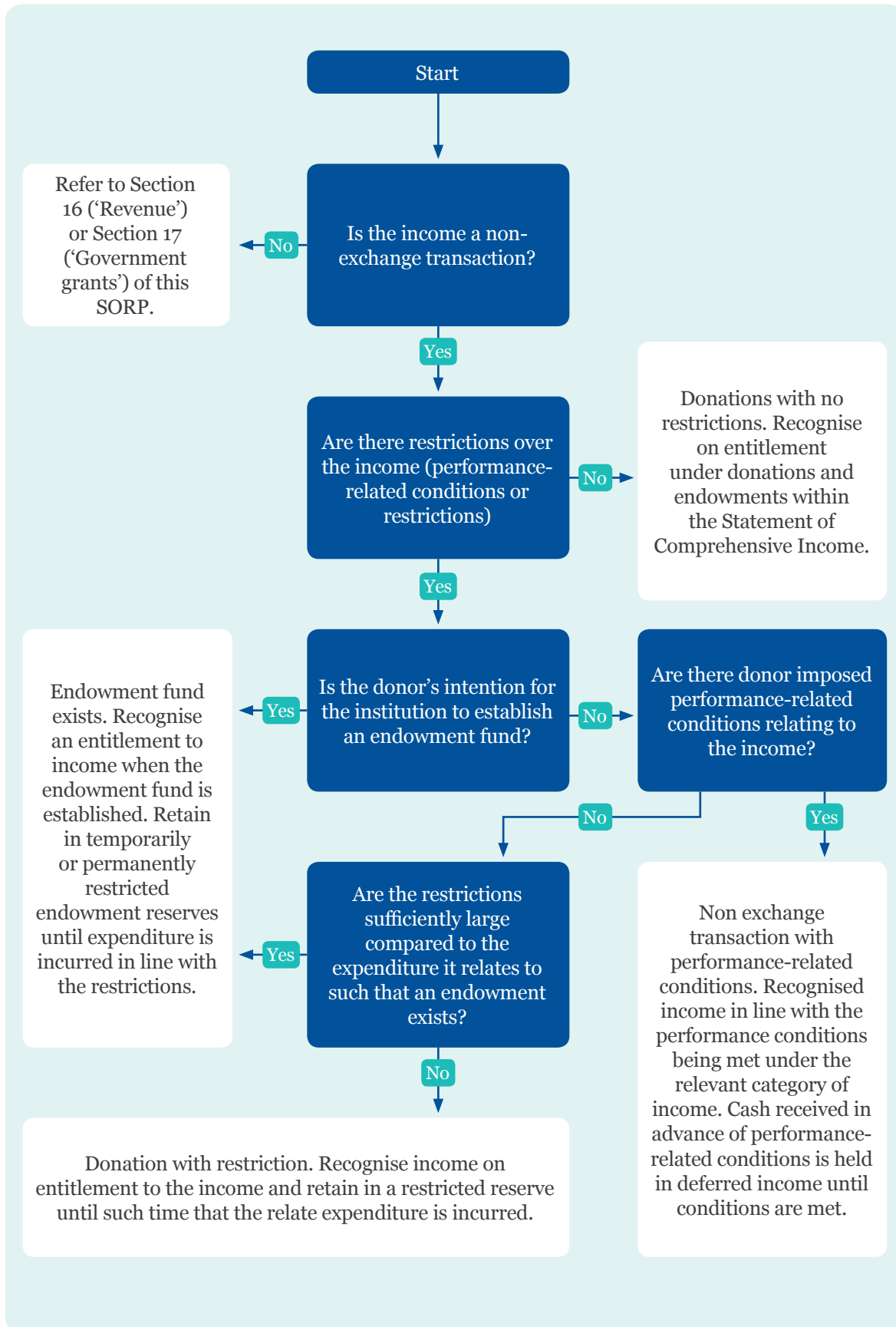
18.23 Where an institution adopts a total return approach to the investment of some or all of its permanent endowment funds, the institution should refer to Section 3 (paragraphs 20.1 – 20.12) of the Charities SORP for the resulting accounting treatment. This affects the way in which investment income and investment gains and losses are allocated between the capital and income elements of a permanent endowment fund. Total return accounting does not change the quantum of investment income credited to the Statement of Comprehensive Income.

Revenue, government grants and non-exchange transactions

Also refer to the flow diagram on page 48 for non-exchange transactions, which provides more detail in relation to donations and endowments



Non-exchange transactions – donations and endowments



19: BORROWING COSTS

- 19.1** Borrowing costs include interest costs, finance charges in respect of finance leases and exchange differences arising from foreign currency borrowings, to the extent that they are an adjustment to interest costs.
- 19.2** Institutions may choose to capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset or to expense borrowing costs in the period incurred.
- 19.3** Further details on the amounts eligible for capitalisation, the time limits for capitalisation and disclosure requirements are set out in Section 25 of FRS 102.

20: IMPAIRMENT OF ASSETS

- 20.1** Section 27 of FRS 102 deals with impairment of assets.
- 20.2** An impairment loss occurs when the carrying amount of an asset exceeds its recoverable amount. Institutions must assess whether there are indications of impairment of assets at each reporting date, but only have to assess recoverable amounts if there are such indications. For assets measured on a recoverable amount basis, any impairment loss is charged to the surplus or deficit in the period it arises. If it is not possible to estimate the recoverable amount of the individual asset, the institution must estimate the recoverable amount of a cash-generating unit.
- 20.3** Where assets are specialised in nature and held for service potential, the use of a cash-generating unit to assess whether an impairment loss has occurred or not may not be appropriate. In such circumstances, an asset (or more likely, a group of assets that in combination deliver service potential) must be assessed for impairment. Institutions should refer to paragraph 20.9 below for requirements on measuring the recoverable amount for specialised assets.
- 20.4** A group of assets that in combination deliver service potential may be at a faculty, school or department level depending upon the interdependence of service delivery from groups of assets. An asset is unlikely to deliver solely an individual course and therefore it is unlikely that the service potential is measured at the individual course level.

Impairment indicators

- 20.5** Indicators of impairment include:
- evidence of obsolescence or physical damage of an asset;
 - a significant adverse change in the environment or competitive market. This may be caused by, for example, the entrance of a new supplier of a course or service, changes in the regulatory or statutory environment, or significant changes in the value of an indicator used to measure the fair value of a non-current asset on acquisition. Such changes may include income streams from courses or underperformance against the recurrent funding agreement with the funding body;
 - significant and greater than expected decline of an asset's market value, for example due to a slump in property prices;
 - sufficient market increases in rates of return on investments to materially affect the discount rate used in calculating the asset's value;
 - significant changes that have occurred, or are planned imminently, to the way the asset is used, for example the governing body may require a restructure or business plans lead to courses being withdrawn and assets becoming idle;
 - evidence indicating that the economic performance of an asset is significantly worse than expected; and
 - significant decline of the selling price, less costs to sell, of stock that is below the carrying amount.
- 20.6** If there is an indication of impairment, then the institution must measure the recoverable amount.

Measuring the recoverable amount

- 20.7** The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. If either of these amounts exceeds the asset's carrying amount, the asset is not impaired. The best indication of the fair value for an asset is the asset's market price in an active market, which may not exist for many assets operated by institutions, in which case the remaining service potential may be assessed (see paragraph 20.9 below).
- 20.8** Value in use is the present value of future cash flows expected to be derived from an asset. Determining value in use involves estimating the future cash inflows and outflows generated by use of the asset and its ultimate disposal and applying the appropriate discount rate to those cash flows.
- 20.9** Institutions may have specialised assets held for their service potential for which a cash-flow-driven valuation may not be appropriate. In these circumstances, value in use is determined by the present value of the asset's remaining service potential plus the net amount the entity will receive from its disposal. In some cases, this may be taken to be costs avoided by possession of the asset. The use of a depreciated replacement cost valuation is a suitable model to measure recoverable amount where there has been an indication of reduced service potential.
- 20.10** FRS 102 requires the fair value of goodwill to be derived from measurement of the fair value of the cash-generating units of which the goodwill is part. As above, it may be appropriate to assess the present value of the asset's remaining service potential in relation to the service unit of which the goodwill is part where the unit is predominantly formed of specialised assets and activities.

Reversal of an impairment loss

- 20.11** For all assets other than goodwill, when circumstances that previously caused an asset or cash-generating unit to be impaired no longer exist or when there is clear evidence of an increase in selling price because of changed economic circumstances, the institution must reverse the impairment so that the new carrying amount is the lower of the depreciated cost and the revised recoverable amount. An impairment loss for goodwill must not be reversed in a subsequent period.
- 20.12** Factors to be considered in estimating cash flows are set out in paragraphs 27.16 – 27.20A of FRS 102.
- 20.13** Disclosure requirements for impairments are set out in paragraphs 27.32 and 27.33A of FRS 102.

21: EMPLOYEE BENEFITS

21.1 Employee benefits are all forms of consideration given by an entity in exchange for services rendered by employees (except share-based payments transactions, which are dealt with in Section 26 of FRS 102).

21.2 There are four types of employee benefits covered by this section.

Short-term employee benefits

21.3 These are employee benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service. This would include a bonus based on a single year's performance.

21.4 Examples relevant to the sector include:

- wages, salaries and social security contributions;
- short-term compensated absences such as paid annual leave; and
- non-monetary benefits for current employees. When considering short-term employee benefits, salaries are reported gross of any salary sacrifice arrangement.

21.5 For guidance on how to account for short-term employee benefits, refer to paragraphs 28.4 – 28.8 of FRS 102. There are no specific disclosure requirements for short-term employee benefits except for disclosure of key management personnel total compensation, which is included in Section 25 ('Related party disclosures') of this SORP.

Post-employment benefits

21.6 These are employee benefits (other than termination benefits and short-term benefits) that are payable after the completion of employment, ie pension plans and other retirement benefits.

21.7 There are two types of pension plan:

- defined contribution; and
- defined benefit.

21.8 Defined contribution plans are those under which an entity pays fixed contributions into a pension fund and has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all the employee benefits relating to employee service in the current and prior periods.

21.9 Defined benefit plans are post-employment benefit plans other than defined contribution plans.

21.10 Multi-employer plans are classified as defined contribution plans or defined benefit plans on the basis of the terms of the plan. However, if sufficient information is not available to use defined benefit accounting for a multi-employer plan that is a defined benefit plan, institutions must account for the plan as if it were a defined contribution plan with additional disclosure requirements.

21.11 For requirements on how to classify pension plans, including multi-employer plans, refer to paragraphs 28.9 – 28.12 of FRS 102.

- 21.12** The sector uses the following multi-employer pension plans, which are accounted for as defined contribution plans since there is insufficient information available to account for them as defined benefit schemes:
- Universities Superannuation Scheme (USS);
 - Superannuation Arrangements of the University of London;
 - Teachers' Pension Scheme (TPS) and Scottish Teachers' Superannuation Scheme (STSS);
 - National Health Service Pension Scheme; and
 - Local Government Pension Schemes with pooled assets.
- 21.13** Institutions should refer to paragraphs 28.13 and 28.13A of FRS 102 for details on how to account for defined contribution plans.
- 21.14** For disclosure requirements for defined contribution plans, including multi-employer-defined benefit plans that are accounted for as if they were defined contribution plans, institutions should follow paragraphs 28.40 and 28.40A of FRS 102.
- 21.15** Institutions should refer to paragraphs 28.14 – 28.28 of FRS 102 for details on how to account for defined benefit plans. For disclosure requirements, follow paragraphs 28.41 and 28.41A of FRS 102.
- 21.16** Institutions that have subsidiaries and that participate in a group defined benefit plan that shares risks between entities under common control must consider whether there is an agreement or policy for charging the cost of the plan to individual group entities. If so, the cost of the plan must be charged in line with the agreement or policy.
- 21.17** Where no such agreement or policy exists, the cost of a defined benefit plan and a corresponding net defined benefit asset or liability must be recognised in the individual accounts of the group entity that is the sponsoring employer for the plan, which is likely to be the institution. The other group entities and/or subsidiary companies must recognise a cost equal to their contribution payable for the period in their individual accounts. Where institutions participate in group pension schemes, they should refer to paragraph 28.38 of FRS 102.

MULTI-EMPLOYER SCHEME PAST DEFICITS

- 21.18** Where an institution participates in a defined benefit multi-employer plan and sufficient information is not available to use defined benefit accounting and the institution has an obligation to fund past deficits within the scheme, the institution must recognise a liability on the Statement of Financial Position for this obligation and account for it in accordance with paragraph 28.11A of FRS 102. Such an obligation is anticipated to exist with funded multi-employer schemes such as USS. Unfunded multi-employer schemes such as the TPS and NHS schemes do not give rise to such contractual obligations and any notional past deficit is funded on a 'pay-as-you-go' basis.
- 21.19** An obligation normally arises where the institution has agreed to pay contributions to fund past deficits. Where an obligation is based on a percentage of future salaries, the institution must calculate its obligation at the reporting date by making assumptions over future pension fund membership and salaries over the remaining agreed deficit recovery period.
- 21.20** Multi-employer schemes typically perform triennial valuations, and as a result, reassess their deficit recovery plans every three years. On agreeing a new deficit recovery plan, the institution must increase or decrease its liability accordingly.

RETIREMENT BENEFIT SCHEMES

Universities Superannuation Scheme and Superannuation Arrangements of the University of London

- 21.21** These schemes are multi-employer defined benefit schemes that are externally funded. The assets of these schemes are held in separate trustee-administered funds. These schemes have currently confirmed (at the date of SORP approval) that it is not possible to identify each institution's share of the underlying assets and liabilities of the schemes and hence institutions are able to apply the exemption set out above, and contributions to the schemes must be accounted for as if they were defined contribution schemes. It is likely that institutions will have an obligation to fund past deficits with these schemes, which must be accounted for in accordance with paragraph 20.18 of this SORP.
- 21.22** Should it be possible to identify an institution's share of the underlying assets and liabilities of these schemes in the future, then these must be accounted for as defined benefit plans, as required by paragraph 28.11 of FRS 102.

Teachers' Pension Scheme, Scottish Teachers' Superannuation Scheme and National Health Service Pension Scheme

- 21.23** These schemes are multi-employer defined benefit schemes. These schemes require institutions to pay a contribution to central government reflecting benefits earned during the year. These contributions are not put aside into a separate fund, and nor are additional contributions thereafter required by central government in relation to those benefits. The pensions are paid by central government. The government treats the pension scheme as an unfunded defined benefit scheme.
- 21.24** It is not possible for these schemes to identify separately each institution's share of the underlying liabilities in the scheme on a consistent and reasonable basis and these liabilities are not backed by any identifiable assets. Therefore, these schemes must be treated as though they were defined contribution schemes.

Local Government Pension Schemes

- 21.25** The Local Government Pension Schemes (LGPS) are multi-employer schemes where it is normally possible for individual employers as admitted bodies to identify their share of assets and liabilities. Therefore, it is considered where institutions are admitted bodies to the LGPS that these schemes must be accounted for as defined benefit schemes (provided that the assets and liabilities relating to member institutions can be measured on a reliable and consistent basis).

LGPS pooled valuations

- 21.26** While the vast majority of LGPS schemes must be accounted for as defined benefit schemes, some LGPS administrators have indicated that they can only provide institutions with a 'pooled valuation' (ie assets and liabilities are only identified on an aggregate basis for a group of institutions and/or other admitted bodies that then share a common contribution rate). If, in this exceptional circumstance, the scheme has confirmed that it is not possible for the scheme's actuary to identify the institution's share of the underlying assets and liabilities on a consistent and reasonable basis, then institutions may be able to apply the multi-employer exemption set out above.

Other long-term employee benefits

- 21.27** This section discusses all employee benefits other than short-term employee benefits, post-employment employee benefits and termination benefits.
- 21.28** Examples relevant to the sector may include: long-term compensated absences such as long-service leave, other long-service benefits and long-term disability benefits. This would also include a long-term incentive/bonus scheme.
- 21.29** For guidance on how to account for other long-term employee benefits, refer to paragraphs 28.29 to 28.30 of FRS 102. For disclosure requirements, follow paragraph 28.42 of FRS 102.

Termination benefits

- 21.30** These are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate the employment before the normal retirement date or an employee's decision to accept voluntary redundancy in exchange for those benefits.
- 21.31** For guidance on how to account for termination benefits, refer to paragraphs 28.31 – 28.37 of FRS 102. For disclosure requirements for termination benefits, institutions should follow paragraphs 28.43 and 28.44 of FRS 102. Where there is uncertainty about the number of employees who will accept voluntary redundancy, a contingent liability exists and institutions should refer to Section 15 ('Provisions and contingencies') of this SORP.

22: INCOME TAX

- 22.1** Section 29 of FRS 102 deals with accounting for income tax.
- 22.2** The vast majority of institutions are charities, either registered with the Charity Commission or the Office of the Scottish Charities Regulator, or exempt charities within the meaning of Part 3 of Charities Act 2011, and as such are charities within the meaning of paragraph 1 of Schedule 6 to the Finance Act 2010. Institutions are therefore potentially exempt from taxation in respect of UK income or capital gains received within categories covered by Section 256 of the Taxation of Chargeable Gains Act 1992 and Sections 478–489 of the Corporation Tax Act 2010, to the extent that such income or gains are applied to exclusively charitable purposes.
- 22.3** Whilst non-charitable subsidiary companies do not enjoy these tax exemptions, they are able to shelter their corporation tax liabilities through the use of Gift Aid. Institutions should refer to paragraph 29.14A of FRS 102 in determining how income tax and deferred tax must be accounted for and measured on Gift Aid payments from subsidiaries.
- 22.4** It is therefore unlikely that current and deferred tax will have significant implications for institutions with wholly UK activities. However, where institutions have overseas activities, they must apply the provisions set out in paragraphs 29.3 – 29.19 of FRS 102 on the recognition and measurement of current and deferred tax, and in particular, the requirement under paragraph 29.19 of FRS 102, which requires withholding tax suffered to be shown as part of the tax charge.
- 22.5** As noted above, non-charitable subsidiary entities must comply with FRS 102 and recognise current tax on any profits not sheltered by Gift Aid, and deferred tax on any timing differences that have originated and are not reversed by the reporting date, except as required otherwise by FRS 102. Any current or deferred tax arising in such a subsidiary will then need to be consolidated in the group financial statements.
- 22.6** Deferred tax must not be recognised on permanent differences.
- 22.7** The disclosure requirements for the recognition and measurement of deferred tax are set out in paragraphs 29.25 – 29.27 of FRS 102 and must be applied in full where material to the financial statements.

23: FOREIGN CURRENCY TRANSLATION

23.1 Section 30 of FRS 102 deals with foreign currency translation. It prescribes how to include foreign currency transactions and foreign operations in the financial statements, and how to translate financial statements into a presentation currency.

Functional currency

23.2 Each institution must identify its functional currency. This is the currency of the primary economic environment in which the entity operates, expected to be UK Pound Sterling (£) for the majority of institutions applying this SORP.

Initial recognition

23.3 Institutions must record foreign currency transactions on initial recognition in the functional currency by applying the appropriate spot exchange rate at the date of the transaction. For practical reasons, a rate that approximates the actual rate at the date of the transaction is often used. For example, an average rate for a week or a month might be used for all transactions in each foreign currency occurring during that period. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.

Reporting at the end of the subsequent reporting periods

23.4 At the end of each reporting period, the institution must:

- translate foreign currency monetary items using the closing rate;
- translate non-monetary items that are measured at historical cost in a foreign currency using the exchange rate at the date of the transaction; and
- translate non-monetary items that are measured at fair value in a foreign currency using the exchange rates at the date when the fair value was determined.

23.5 Exchange differences arise from the settlement, or translation, of monetary transactions at rates different from those used on initial recognition. Institutions must recognise such exchange differences in the surplus or deficit in the period in which they arise, except as described in paragraph 23.8 below.

23.6 When a gain or loss on a non-monetary item is recognised in other comprehensive income, an institution must recognise any exchange component of that gain or loss in other comprehensive income. For example, an exchange movement on a previously revalued asset would be recognised in other comprehensive income in line with the underlying revaluation.

Net investment in a foreign operation

- 23.7** Institutions may have a net investment in a foreign operation in their own unconsolidated accounts, in addition to non-monetary equity investments, for example long-term receivables or loans. Exchange differences arising from such monetary investments must be recognised in the surplus or deficit in the separate financial statements of the institution, or the individual financial statements of the foreign entity, as appropriate.
- 23.8** Where the net investment is in a subsidiary of the institution, the consolidated financial statements will report exchange differences within other comprehensive income and recognise the accumulated exchange differences on the net investment within equity. They must not be recognised in surplus or deficit on disposal of the net investment.
- 23.9** Institutions should refer to Section 30 of FRS 102 for further details on translating foreign operations to the institution's currency for consolidation purposes.
- 23.10** Disclosure requirements for foreign currency translation are set out in paragraphs 30.24 – 30.27 of FRS 102.

24: EVENTS AFTER THE END OF THE REPORTING PERIOD

- 24.1** Section 32 of FRS 102 deals with events after the end of the reporting period.
- 24.2** Institutions are required to identify events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue, and to make adjustments or disclosures where these are material to the understanding of the financial statements.
- 24.3** Two types of events can be identified:
- adjusting events are those that provide evidence of conditions that existed at the end of the reporting period, for example information that indicates an asset was impaired at the period end; and
 - non-adjusting events are those that indicate conditions that arose after the end of the reporting period, for example a decline in the market value of investments between the period end and the date when the financial statements are authorised for issue.
- Whilst adjusting events will result in changes to assets or liabilities included in the financial statements, non-adjusting events only result in disclosure.
- 24.4** An adjusting event arises where a present obligation to pay Gift Aid exists at the period end, normally through a board minute of the subsidiary. In such circumstances, the value of the Gift Aid payment may be adjusted after the reporting date to provide greater accuracy in the measurement of the existing asset within the institution's Statement of Financial Position.
- 24.5** The institution must disclose the date when the financial statements were authorised for issue and who gave that authorisation. Further disclosure requirements are set out in paragraphs 32.9 – 32.11 of FRS 102.

25: RELATED PARTY DISCLOSURES

25.1 Section 33 of FRS 102 deals with related party disclosures.

Related party defined

25.2 Institutions must provide the disclosures necessary to draw attention to the possibility that their financial position has been affected by the existence of related parties and the transactions and balances with such parties. A related party exists where a person, or close family member, has control or joint control and has significant influence or is a member of key management personnel of the institution. It is the substance of a relationship, rather than the legal form, that must be considered in determining disclosure requirements.

25.3 The conditions that determine whether an individual or an entity is related to the institution are set out in paragraph 33.2 of FRS 102.

25.4 Related parties in institutions are likely to include:

- members of the governing body, and their ‘close family’, who hold influential posts in public or private sector organisations with which the institution has transactions;
- senior staff who hold significant influence on other bodies with which the institution has transactions, eg an NHS trust;
- associates, collaborations and joint venture entities not fully eliminated on consolidation; and
- pension schemes for the benefit of employees of either the reporting entity or an entity related to the reporting entity.

25.5 Disclosures required by this section need not be given of transactions entered into between two or more members of a group, provided that any subsidiary that is a party to the transaction is wholly owned by such a member.

25.6 Relationships that are not considered related parties are set out in paragraph 33.4 of FRS 102. The following relationships are not related parties simply by virtue of their normal dealings with an institution:

- providers of finance;
- trade unions;
- public utilities;
- a customer, supplier or franchisor with whom an entity transacts a significant volume of business, merely by virtue of resulting economic dependence; and
- government departments and agencies.

25.7 Institutions must also give due consideration as to whether or not bodies such as students’ unions and separate development trusts are related parties in the context of FRS 102.

Key management personnel total compensation

- 25.8** Institutions must disclose the total compensation paid to key management personnel. FRS 102 defines key management personnel as *‘those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity’*. Compensation includes all employee benefits, and all forms of consideration paid, payable or provided by the institution or on its behalf in exchange for services to the institution. Institutions are required to disclose this information at an aggregate level, not an individual level. The disclosure should be reported gross of any salary sacrifice arrangements.

Disclosure of higher paid staff

- 25.9** Institutions must disclose remuneration of higher paid staff in bands of £10,000, unless otherwise required by a regulator’s accounts direction. Institutions should adopt a starting value as advised by the relevant regulator or, in the absence of a requirement by the regulator, should adopt a starting point that is appropriate to identify the higher paid staff members of the institution. Remuneration should be disclosed gross of any salary sacrifice arrangements. This disclosure is additional to that required by FRS 102.

Disclosure

- 25.10** The disclosure requirements for related parties are set out in paragraphs 33.5 – 33.14 of FRS 102.

26: SPECIALISED ACTIVITIES

26.1 Section 34 of FRS 102 details the accounting arrangements for specialised activities, a number of which have been covered elsewhere within this SORP. The following activities, which have not been covered elsewhere, may be relevant to HE and FE institutions:

- agriculture;
- service concession arrangements where the institution is the grantor;
- heritage assets;
- funding commitments; and
- public benefit entity concessionary loans.

Agriculture

26.2 A small number of institutions, such as veterinary and agricultural colleges, engage in agricultural activities. Biological assets or agricultural produce must be recognised at fair value or cost.

26.3 The requirements for the recognition, measurement and disclosure of biological assets and agricultural produce are set out in paragraphs 34.2 – 34.10A of FRS 102.

Service concession arrangements where the institution is the grantor

26.4 Section 34 of FRS 102 deals with service concession arrangements. Institutions must account for arrangements as set out below if:

- (a) an institution acts as principal in the arrangement;
- (b) an arrangement meets the definition of a service concession arrangement; and
- (c) the arrangement passes the control tests set out in FRS 102.

26.5 A decision tree to assist with the identification of service concession arrangements is set out on page 70.

A) IS THE INSTITUTION ACTING AS PRINCIPAL WITHIN THE ARRANGEMENT?

26.6 Institutions should consider whether such arrangements result in an agent or principal arrangement. Where the institution is responsible for an annual unitary payment, such as within a private finance initiative, the institution will be the principal.

26.7 Residence arrangements where the institution takes the student debt and void risk, on each student rental agreement, will result in the institution acting as a principal rather than as an agent and therefore recognising revenue received from the students gross of payments to the operator. If an institution has made a guarantee through a minimum occupancy guarantee, then it will be the principal in such arrangements. An arrangement under which the institution acts as agent will be outside the scope of service concession arrangements.

B) DOES AN ARRANGEMENT MEET THE DEFINITION OF A SERVICE CONCESSION ARRANGEMENT?

26.8 A service concession arrangement typically involves a third party constructing the infrastructure used to provide the public service or to upgrade it, and operate and maintain it for a specified period of time. In return, the third-party entity is paid for its services over the period, and during this period the arrangement is governed by a contract, clearly setting out performance standards.

- 26.9** Typical features of service concessions include:
- (a) the procuring entity, the grantor, is normally a public sector body or public benefit entity;
 - (b) the operator is constructing or upgrading infrastructure assets used to deliver services to the public;
 - (c) an infrastructure asset is provided by a third-party operator;
 - (d) the operator is responsible for managing at least some of the assets and services, and is not merely an agent;
 - (e) the contract sets out the initial price and the mechanism through which future prices are to be set or regulated; and
 - (f) the operator is obliged to transfer the asset to the public benefit entity at the end of the contract, in a specified condition for little or no additional consideration.
- 26.10** There are several arrangements within the FE and HE sectors that are expected to meet the definition of a service concession arrangement, with the institution acting as grantor. This would include private finance initiative schemes and many residence arrangements.
- 26.11** Student residence arrangements are likely to provide infrastructure for public service in this context, as such assets support the delivery of education for social benefit. This is supported by the charitable status and public benefit obligations of institutions. The definition of an infrastructure asset includes, but is not limited to, accommodation, teaching facilities, research facilities, fixed assets for management and administration purposes, and major equipment.

C) DOES THE ARRANGEMENT PASS THE CONTROL TESTS, AS SET OUT IN FRS 102?

- 26.12** The arrangement is deemed to be in scope if it passes the following tests of control:
- (a) the grantor must control or regulate the infrastructure services that the operator must provide with the infrastructure, to whom the operator must provide them and at what price; and
 - (b) the grantor must control any significant residual interest, through beneficial entitlement or otherwise, in the infrastructure at the end of the term of the arrangement.

Where an asset has no significant residual interest, for example because the arrangement is for substantially the life of the asset, then test (b) above does not apply and instead the arrangement is within scope of test (a) alone.

Accounting for service concession arrangements

- 26.13** If the above considerations are all met, the arrangement must be accounted for, in accordance with the leasing requirements of FRS 102, as described below.
- 26.14** Institutions must determine whether scheme revenues are generated from third parties, for example where the institution is acting as agent to the student rental income, or by payments made by the institutions to the operator.
- 26.15** Where the arrangement involves only payments by third parties, the institution will have no liabilities or assets to account for relating to third-party payments. Under this scenario, the institution must recognise as asset and liability any requirement to purchase the asset at the end of the arrangement or any option to do so that is reasonably certain to be exercised.

- 26.16** An arrangement is accounted for as a service concession arrangement where the payment mechanism provides for the grantor to make minimum lease payments to the operator. This could be through a contracted unitary payment or a minimum occupancy guarantee or a nominations agreement.
- 26.17** Arrangements that involve renewable nominations rights will have a guaranteed minimum payment liability equivalent to any outstanding nominations agreed at the reporting date.

INITIAL RECOGNITION

- 26.18** Infrastructure must be recognised as property, plant and equipment or intangible assets of the institution because the institution has the right to control the use of the infrastructure. A related liability must be recognised at the same time within creditors, allocated between creditors greater than or less than one year.
- 26.19** The infrastructure and related liability should be recognised at the point that the institution assumes the guarantee – for example, when an institution nominates a number of rooms.
- 26.20** Where the operator enhances infrastructure already recognised on the Statement of Financial Position of the institution, it must recognise the present value of the minimum payments relating to the enhancements in the carrying value of the infrastructure where the relevant criteria are met.

MEASUREMENT

- 26.21** The fixed asset should be recognised at the present value of the minimum lease payments in accordance with the principles of finance lease accounting. Where an occupancy guarantee exists on a residence arrangement, the resulting value will frequently be significantly lower than the fair value of the whole asset. In this section, the ‘minimum lease payments’ are the elements of the minimum payments that are related to the property, plant and equipment that have been constructed and provided under the agreement. It will frequently require judgement to identify this element.

ALLOCATION OF PAYMENTS TO THE ASSET, LIFECYCLE, FINANCING COST AND SERVICES

- 26.22** Subsequent to initial recognition, the minimum payments under the arrangement should be allocated between:
- (a) service costs to reflect the service element of the arrangement;
 - (b) lifecycle additions;
 - (c) repayment of the financial liability; and
 - (d) an imputed finance charge (using the effective interest method set out in paragraphs 11.15 – 11.20 of FRS 102).
- 26.23** At the outset, service concession contracts typically include a financial model on which these allocations can be based.
- 26.24** Where an arrangement has an occupancy guarantee, the guaranteed minimum payments are allocated between the repayment of the liability, the imputed finance charge, lifecycle additions and services in accordance with the specific circumstances of the scheme.
- 26.25** Additional income received from students over and above the guaranteed payments should be recorded in income in the year to which they relate as residence income received and an expense for the payment to the operator for services. This is a contingent rental payment to the operator.

PREPAYMENTS

- 26.26** Where the service concession arrangement requires payments to be made for the asset before the infrastructure is recognised as an asset on the Statement of Financial Position, these should be recognised as prepayments. On recognition of the asset and finance lease liability, the prepayment can be netted from the liability as an initial payment.

DEPRECIATION AND IMPAIRMENT

26.27 Assets recognised under the service concession arrangement rules of FRS 102 must be depreciated and impaired in the same way as all assets of the same class.

Occupancy guarantees

26.28 A number of arrangements exist that do not meet the tests of a service concession arrangement, but under which the institution has an occupancy or similar guarantee. In such circumstances, an institution must consider whether a provision should be recorded or a contingent liability disclosed for future guaranteed payments that would not be met through rental income receipts.

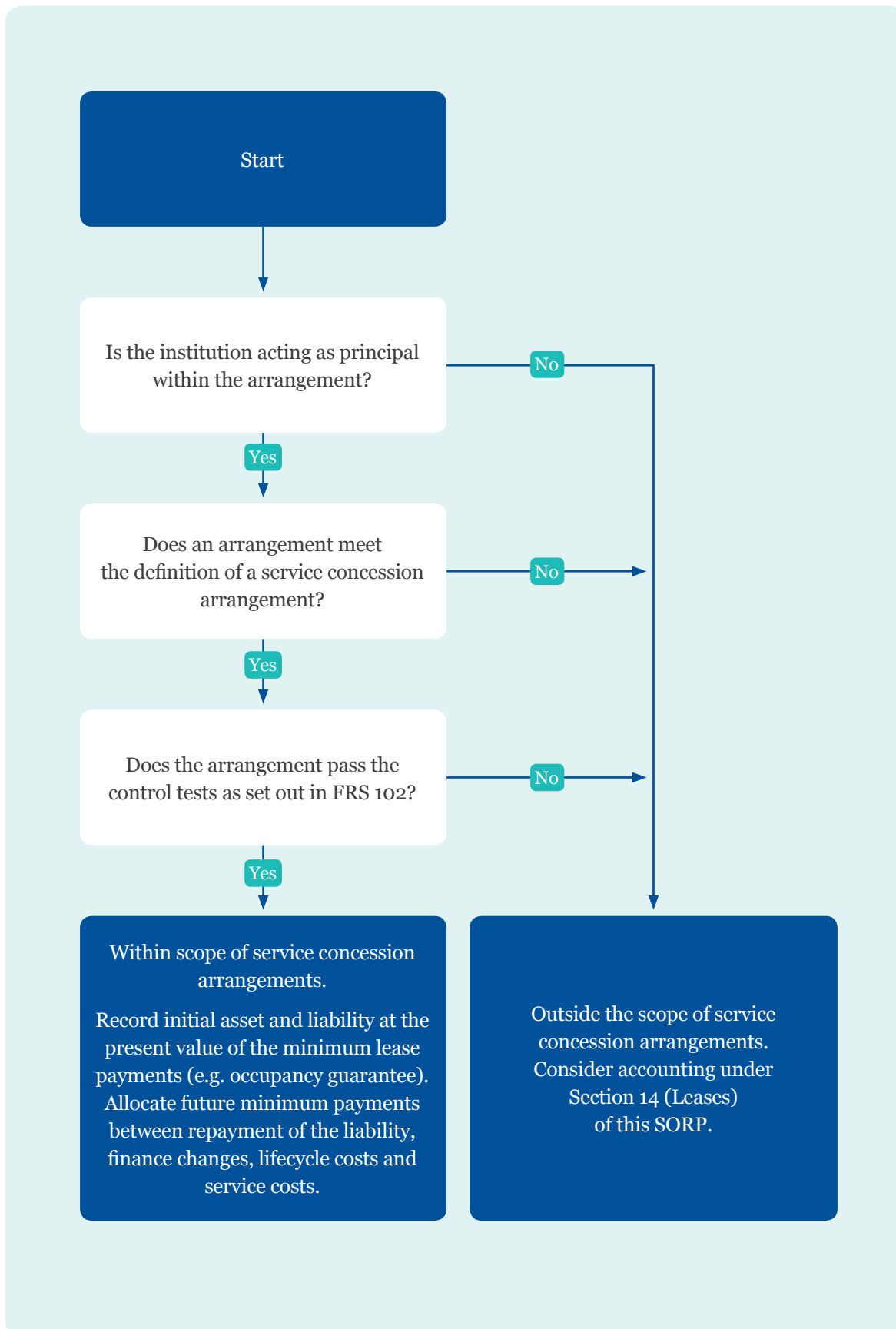
Disclosures

26.29 This SORP requires a number of disclosures to be provided in relation to service concession arrangements. These are over and above the requirements of FRS 102, as outlined in paragraphs 34.16B and 34.16C of FRS 102, but in line with other public sector entity disclosure requirements under their accounting frameworks.

26.30 Institutions must comply with the following disclosure requirements for all service concession arrangements, whether or not an asset and/or liability is recorded on the Statement of Financial Position:

- (a) the value of the assets held under service concession arrangements at each reporting date, and an analysis of the movement in these values. It may be appropriate for institutions to disclose whether an asset is held at a value other than fair value where these values are materially different;
- (b) the value of the liabilities resulting from the service concession arrangement at each reporting date, and an analysis of the movement in these values;
- (c) details of the future minimum payments due to be made, separated into repayments of liability, interest and service charges:
 1. within one year;
 2. within two to five years; or
 3. later than five years;
- (d) the following disclosures must be provided individually for each arrangement or in aggregate for each class of arrangements:
 1. a description of the arrangement;
 2. significant terms of the arrangement that may affect the amount, timing and certainty of future cash flows;
 3. the nature and extent, where significant, of:
 - i. rights to use specified assets;
 - ii. rights to expect provision of services;
 - iii. obligations to acquire or build items of property, plant and equipment;
 - iv. rights to receive specified assets at the end of the concession period;
 - v. renewal and termination options;
 - vi. other rights and obligations; and
 - vii. changes in the arrangement occurring during the period.

Service concession decision tree



Heritage assets

- 26.31** A heritage asset is an item of tangible or intangible asset with historic, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.
- 26.32** Historic assets used by the institution itself, for example historical buildings used for teaching, must be treated as operational rather than heritage assets and accounted for in accordance with the requirements of Section 11 ('Property, plant and equipment') of this SORP. Institutions may wish to consider whether it is appropriate to apply the heritage assets disclosures in this case.
- 26.33** Institutions must recognise and measure heritage assets in accordance with the requirements of Section 11 ('Property, plant and equipment') or Section 12 ('Intangible assets other than goodwill') of this SORP as appropriate. Heritage assets must be recognised separately from other assets in the Statement of Financial Position.
- 26.34** Where heritage assets have previously been capitalised or are recently purchased, information on the cost or value of the asset will be available. Where this information is not available, and cannot be obtained at a cost that is commensurate with the benefits to users of the financial statements, the assets must not be recognised but must be disclosed. Heritage assets must be assessed annually for impairment.
- 26.35** Disclosure requirements for heritage assets are set out in paragraphs 34.55 and 34.56 of FRS 102.

Funding commitments

- 26.36** An institution must recognise a liability (measured at the present value of the resources committed), where it has made a commitment that it will provide resources to another party, if, and only if:
- the obligation (which may be constructive) is such that the institution cannot realistically withdraw from it; and
 - the entitlement of the other party to the resources does not depend on the satisfaction of performance-related conditions.
- 26.37** Commitments made that are performance related will be recognised when those performance-related conditions are met. Bursaries and scholarships paid to students are likely to meet the definition of funding commitments and should be recognised as the student is entitled to the payment.
- 26.38** Disclosure requirements for funding commitments are set out in paragraphs 34.62 and 34.63 of FRS 102.

Public benefit entity concessionary loans

- 26.39** Concessionary loans are loans made or received between the institution and a third party at below the prevailing market rate of interest and that are not repayable on demand.
- 26.40** The recognition, measurement, presentation and disclosure requirements for concessionary loans are set out in paragraphs PBE34.87 – PBE34.97 of FRS 102.

27: TRANSITION TO THE 2019 SORP

First-time adoption of FRS 102

27.1 Where an institution is adopting FRS 102 for the first time, it must refer to the transition guidance in Section 35 of FRS 102.

First-time adoption of SORP: Accounting for further and higher education

27.2 Where an entity previously prepared its financial statements in accordance with FRS 102, but did not previously apply the 2015 version of this SORP, the entity must consider the requirements of the 2019 SORP in preparing its first set of financial statements in accordance with this SORP. The entity must consider any potential changes to the accounting treatment from adopting this SORP, and those changes must be accounted for in accordance with the requirements of Section 10 of FRS 102. Entities must also consider the presentation and disclosure requirements included in this SORP.

Transition to the 2019 SORP from the 2015 SORP

NATURE OF AMENDMENTS TO THE 2015 SORP

27.3 The changes to this SORP when compared with the 2015 SORP have arisen as a result of:

- consequential amendments required to the 2015 SORP following the Triennial Review of FRS 102;
- minor improvements and clarifications; and
- changes in terminology.

EFFECTIVE DATE

27.4 Institutions must apply this SORP for accounting periods beginning on or after 1 January 2019.

27.5 Early application of this SORP is permitted provided that:

- (a) all the Triennial Review 2017 amendments to FRS 102 are implemented (the Triennial Review 2017 amendments are those changes made to FRS 102 as described in the document entitled 'Amendments to FRS 102: The Financial Reporting Standard applicable in the UK and Republic of Ireland Triennial Review 2017 incremental improvements and clarifications' on the FRC website); and
- (b) the amendments to this SORP from the 2015 SORP are applied at the same time; and
- (c) the relevant funding body permits early adoption.

27.6 This is with the exception of:

- (a) certain of the Triennial Review 2017 amendments, where early application of each or any of those amendments is permitted. The amendments, which an institution can choose to adopt each or any of, are set out in paragraph 1.18 of FRS 102; and
- (b) the amendments to the 2015 SORP that were previously included in the document entitled 'FEHE SORP Guidance note 2015' issued by Universities UK and that have now been introduced into the 2019 SORP. These amendments were effective prior to the date of approval of this SORP.

If an institution applies this SORP before 1 January 2019, it must disclose that fact.

EXCEPTIONS FROM RETROSPECTIVE APPLICATION OF THE TRIENNIAL REVIEW 2017 AMENDMENTS

27.7 When an entity first applies the Triennial Review 2017 amendments, as an exception to retrospective application, it:

- (a) may elect to measure an investment property rented to another group entity, that is measured on an ongoing basis at cost less accumulated depreciation and accumulated impairment losses, at its fair value and use that fair value as its deemed cost at the date of transition to this SORP; and
- (b) must only apply any change to an accounting policy arising from the Triennial Review 2017 amendments to paragraph 18.8 of FRS 102 and paragraph 12.4 of this SORP prospectively (ie it must not restate comparative information), and therefore must not subsume intangible assets that previously have been separately recognised within goodwill.

28: OTHER ACCOUNTING REQUIREMENTS

- 28.1** This section includes a number of topics covered by FRS 102 that are not thought to have a significant impact on institutions and have not been covered elsewhere within this SORP. They are included here for completeness.

Liabilities and equity

- 28.2** In general, this section will not be applicable to most institutions in the sector.
- 28.3** Those institutions with subsidiary companies may need to consider the requirements of FRS 102 and should refer to Section 22 ('Liabilities and equity') for guidance on how to classify and account for certain financial instruments.

Hyperinflation

- 28.4** Section 31 of FRS 102 deals with hyperinflation. This section is unlikely to be relevant for further and higher education institutions.

Share-based payment

- 28.5** Section 26 of FRS 102 deals with share-based payment. This section is unlikely to be relevant for further and higher education institutions.

APPENDIX 1 – PRIMARY STATEMENTS

Consolidated and Institution Statement of Comprehensive Income

YEAR ENDED 31 JULY 201Y

	NOTES	YEAR ENDED 31 JULY 201Y		YEAR ENDED 31 JULY 201X	
		CONSOLIDATED £'000	UNIVERSITY £'000	CONSOLIDATED £'000	UNIVERSITY £'000
INCOME					
Tuition fees and education contracts	XX	XX	XX	XX	XX
Funding body grants	XX	XX	XX	XX	XX
Research grants and contracts	XX	XX	XX	XX	XX
Other income	XX	XX	XX	XX	XX
Investment income	XX	XX	XX	XX	XX
Donations and endowments	XX	XX	XX	XX	XX
TOTAL INCOME		XX	XX	XX	XX
EXPENDITURE					
Staff costs	XX	XX	XX	XX	XX
Fundamental restructuring costs	XX	XX	XX	XX	XX
Other operating expenses		XX	XX	XX	XX
Depreciation	XX	XX	XX	XX	XX
Interest and other finance costs	XX	XX	XX	XX	XX
TOTAL EXPENDITURE	XX	XX	XX	XX	XX
SURPLUS/(DEFICIT) BEFORE OTHER GAINS/(LOSSES) AND SHARE OF OPERATING SURPLUS/(DEFICIT) OF JOINT VENTURES AND ASSOCIATES.		XX	XX	XX	XX
Gain/ (loss) on disposal of fixed assets		XX	XX	XX	XX
(Loss)/ Gain on investments	XX	XX	XX	XX	XX
Share of operating surplus/ (deficit) in joint venture	XX	XX	XX	XX	XX
Share of operating surplus/ (deficit) in associate	XX	XX	XX	XX	XX
SURPLUS/ (DEFICIT) BEFORE TAX		XX	XX	XX	XX
Taxation	XX	XX	XX	XX	XX
SURPLUS/ (DEFICIT) FOR THE YEAR		XX	XX	XX	XX
OTHER COMPREHENSIVE INCOME:					
Unrealised surplus on revaluation of land and buildings	xx	XX	XX	XX	XX
Actuarial (loss)/ gain in respect of pension schemes	xx	XX	XX	XX	XX
Change in fair value of hedging financial instruments		XX	XX	XX	XX
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		XX	XX	XX	XX
Represented by:					
Endowment comprehensive income for the year		XX	XX	XX	XX
Restricted comprehensive income for the year		XX	XX	XX	XX
Unrestricted comprehensive income for the year		XX	XX	XX	XX
SURPLUS FOR THE YEAR ATTRIBUTABLE TO:					
Non-controlling interest		XX	XX	XX	XX
Revaluation reserve		XX	XX	XX	XX
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO					
Non-controlling interest		XX	XX	XX	XX
Revaluation reserve		XX	XX	XX	XX
All items of income and expenditure relate to continuing activities					

Consolidated and Institution Statement of Financial Position

YEAR ENDED 31 JULY 201Y

	NOTES	YEAR ENDED 31 JULY 201Y		YEAR ENDED 31 JULY 201X	
		CONSOLIDATED £'000	UNIVERSITY £'000	CONSOLIDATED £'000	UNIVERSITY £'000
NON-CURRENT ASSETS					
Intangible assets and goodwill	XX	XX	XX	XX	XX
Fixed assets					
Fixed assets	XX	XX	XX	XX	XX
Heritage assets	XX	XX	XX	XX	XX
Investments	XX	XX	XX	XX	XX
Investments in joint ventures	XX	XX	XX	XX	XX
Investments in associate	XX	XX	XX	XX	XX
CURRENT ASSETS					
Stock	XX	XX	XX	XX	XX
Trade and other receivables	XX	XX	XX	XX	XX
Investments	XX	XX	XX	XX	XX
Cash and cash equivalents	XX	XX	XX	XX	XX
		XX	XX	XX	XX
LESS: CREDITORS;					
amounts falling due within one year	XX	XX	XX	XX	XX
Share of net liabilities in associate	XX	XX	XX	XX	XX
NET CURRENT (LIABILITIES)/ASSETS		XX	XX	XX	XX
TOTAL ASSETS LESS CURRENT LIABILITIES		XX	XX	XX	XX
Creditors; amounts falling due within one year	XX	XX	XX	XX	XX
PROVISIONS					
Pension provisions	XX	XX	XX	XX	XX
Other provisions	XX	XX	XX	XX	XX
TOTAL NET ASSETS		XX	XX	XX	XX
RESTRICTED RESERVES					
Income and expenditure reserve – endowment reserve	XX	XX	XX	XX	XX
Income and expenditure reserve – restricted reserve	XX	XX	XX	XX	XX
UNRESTRICTED RESERVES					
Income and expenditure reserve - unrestricted		XX	XX	XX	XX
Revaluation reserve		XX	XX	XX	XX
		XX	XX	XX	XX
Non controlling interest		XX	XX	XX	XX
TOTAL RESERVES		XX	XX	XX	XX

The financial statements were approved by the Governing Body on [insert date] and were signed on its behalf on that date by:

[Name], Vice-Chancellor

[Name], Chair of Council

[Name], Finance Director

Consolidated Statement of Cash Flows

YEAR ENDED 31 JULY 201Y

	NOTES	YEAR ENDED 31 JULY 201Y 000	YEAR ENDED 31 JULY 201X 000
CASH FLOW FROM OPERATING ACTIVITIES			
Surplus for the year before taxation	XX	XX	XX
ADJUSTMENT FOR NON-CASH ITEMS			
Depreciation	XX	XX	XX
Benefit on acquisition of ABC College released to Income	XX	XX	XX
Amortisation of goodwill	XX	XX	XX
Investment income	XX	XX	XX
(Loss) / Gain on endowments, donations and investment property		XX	XX
Decrease/ (increase) in stock		XX	XX
Decrease/ (increase) in debtors	XX	XX	XX
Increase/ (decrease) in creditors	XX	XX	XX
Increase/ (decrease) in provisions	XX	XX	XX
Receipt of donated equipment		XX	XX
Pension costs less contributions payable	XX	XX	XX
Share of operating surplus/ (Deficit) in joint venture	XX	XX	XX
Non controlling interest		XX	XX
Share of operating surplus/ (Deficit) in associate	XX	XX	XX
ADJUSTMENT FOR INVESTING OR FINANCING ACTIVITIES			
Investment income		XX	
Interest payable		XX	
Profit on the sale of fixed assets		XX	
		XX	XX
CASH FLOWS FROM OPERATING ACTIVITIES			
Taxation		XX	XX
NET CASH INFLOW FROM OPERATING ACTIVITIES			
		XX	XX
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales of fixed assets		XX	
Non-current investment disposal		XX	XX
Investment income		XX	XX
Endowment funds invested		XX	XX
Withdrawal of deposits		XX	XX
Payments made to acquire fixed assets		XX	XX
		XX	XX
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		XX	XX
Interest element of finance lease rental payment		XX	XX
New secured loans		XX	XX
Repayments of amounts borrowed		XX	XX
Capital element of finance lease rental payments		XX	XX
		XX	XX
(DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS IN THE YEAR			
		XX	XX
Cash and cash equivalents at beginning of the year		XX	XX
Cash and cash equivalents at end of the year		XX	XX

APPENDIX 2 – MEMBERSHIP OF THE FE/HE SORP BOARD

The SORP Board

The SORP Board is the body recognised by the Financial Reporting Council as the preparer and issuer of the Further and Higher Education SORP. Membership is:

CHAIR	Professor Julia Buckingham CBE, Vice-Chancellor and President, Brunel University London
SECTOR REPRESENTATIVES	
Association of Colleges	Mr Julian Gravatt
Colleges Scotland	Mr Alan Williamson, Edinburgh College
NI	Mr David McCullough, South Eastern Regional College
GuildHE	Mr David Butcher, Leeds Trinity University
SECTOR REGULATORS/FUNDERS	
England	Ms Mary Anne O'Reilly, Office for Students (OfS)
Scotland	Mr Andrew Millar, Scottish Funding Council (SFC)
Wales	Mr Ewen Brierley, Higher Education Funding Council for Wales (HEFCW)
Wales	Mr Tony Clark, Department for Education and Skills
NI	Mr David Conliffe, Department for the Economy
FE	Mr Mike Hunter, Department of Education
BUFDG	
Chair of BUFDG	Mr Robert Fraser, University of Glasgow Mr Andrew Connolly, University of Exeter
AUDIT REPRESENTATIVES	
PWC	Mr Ian Looker
EY – Development Partner	Mr Keith Macpherson
FRC OBSERVER	Ms Mei Ashelford
SECRETARIAT	Universities UK, Mr Samuel Roseveare

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Universities UK acts on behalf of universities, represented by their heads of institution.

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