



Education
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Transition to FRS 102 and Charities SORP 2015

**For academy trusts incorporated before 1
January 2015**

August 2015

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Introduction

In March 2013 the Financial Reporting Council (FRC) published a new financial reporting standard ([FRS 102](#)) to replace existing UK accounting standards for accounting periods beginning on or after 1 January 2015. The Charity Commission and the Office of the Scottish Charity Regulator, as the joint SORP-making body for charities, subsequently issued a new [Charities SORP \(Statement of Recommended Practice\)](#) on 16 July 2014, based on FRS 102, hereafter referred to as 'SORP 2015'.

EFA takes the SORP and translates it into a form relevant to academy trusts, which it publishes as an annual Academies Accounts Direction. Academy trusts need to be aware of the changes introduced by SORP 2015 as these changes will be integrated into future Accounts Directions.

This guide provides:

- an overview of the main changes arising from SORP 2015 that are relevant to established academy trusts (incorporated before 1 January 2015)
- a timeline of key dates
- specific actions that these trusts should consider now

This guide is not intended to be a substitute for SORP 2015. A full copy of SORP 2015 together with useful help sheets can be found at [on the charities SORP website](#).

The Charity Commission also published a separate SORP based on the Financial Reporting Standard for Smaller Entities (FRSSE) in 2014. However, this will be withdrawn in 2016. Academy trusts must not follow the SORP based on FRSSE.

Where academy trusts are unsure about any of the changes, we recommend that they discuss them with their professional advisors.

Timing of the changes

SORP 2015 is effective for accounting periods commencing on or after 1 January 2015.

It applies to academy trusts as follows:

- **established trusts incorporated before 1 January 2015** – these trusts will first use SORP 2015 to prepare their financial statements for the period ending 31 August 2016. However, their transition period will begin on 1 September 2014 because their first financial statements under SORP 2015 will include opening balances at 1 September 2014 as part of their prior year comparative figures
- **new trusts incorporated between 1 January 2015 and 1 March 2015** – this small cohort of trusts will first apply SORP 2015 to prepare their financial statements for the period ending 31 August 2015
- **new trusts incorporated after 1 March 2015** – these trusts will first use SORP 2015 to prepare their financial statements for the period ending 31 August 2015, or for the period ending 31 August 2016 if they opt to extend their first period under the Companies Act

Impact on the Academies Accounts Direction

The timeline set out above means that two Accounts Directions are in force for the period ended 31 August 2015 based on:

- SORP 2005 for established trusts
- SORP 2015 for new trusts

From 2016 onwards there will be only one Accounts Direction, based on SORP 2015. This guide is for established trusts that will apply SORP 2015 for the first time for the period ended 31 August 2016.

Impact on the Academies Accounts Return

The staggered adoption of SORP 2015 in the academies sector means that at 31 August 2015 and 31 March 2016 (the reporting dates for the academies accounts return) academy trusts will not all have the same underlying accounting approach.

We are not issuing separate accounts returns at these dates to reflect the two available SORPs and will continue to require trusts to complete the existing accounts returns. The published [guidance for the 2014 to 2015 accounts return](#) explains where there are differences for trusts under SORP 2015. We expect to issue the first accounts return with revisions to reflect SORP 2015 for the period ending 31 August 2016 in summer 2016.

Transition issues

Due to the simplicity of operations for the majority of academy trusts, there should not be significant changes to their financial reporting arising from SORP 2015. As a minimum established academy trusts should consider:

- revisiting and revising their accounting policies as appropriate
- the need for restating comparatives for the year ended 31 August 2015, together with the opening balance sheet figures at 1 September 2014, within their financial statement for the period ended 31 August 2016
- revising the format of the statutory accounts, ensuring that the trustees are aware of, and understand, the changes. The Accounts Direction for the period ending 31 August 2016 will provide model financial statements (the 'Coketown model') based on SORP 2015, covering most situations
- whether the trust's accounting systems will be able to accommodate the changes
- the impact on timetables for preparing, auditing and approving the financial statements. The trust's management team should plan and discuss this with the trustees, professional advisers and auditors as appropriate
- whether specialist assistance is needed to identify transitional issues
- whether finance staff need training on the changes to the SORP

The main changes in SORP 2015

Area	Impact of SORP 2015/FRS102	Actions required
Trustees' Report	<p>Changes required by SORP 2015 are minimal and should not require too much additional effort for most academy trusts.</p> <p>Changes include explaining arrangements and policies for setting pay and remuneration of the academy trust's key management personnel, including an explanation of any benchmark or parameters/criteria used for setting pay.</p> <p>Key management personnel is a term used by FRS 102 for those persons having authority and responsibility for planning, directing and controlling the activities of a reporting entity, directly or indirectly, including any director (whether executive or otherwise). This includes academy directors and those members of staff who are the senior management personnel to whom the trustees have delegated significant authority or responsibility in the day-to-day running of the academy trust. In practice this is likely to equate to trustees and members of an academy trust's senior leadership team. For multi-academy trusts it may also include principals and senior leadership teams of individual academies. However, this will depend on the specific circumstances and levels of delegation in place.</p> <p>Trusts should also compare the actual level of reserves held with the level stated in the reserves policy and identify the level of free reserves held.</p>	<ul style="list-style-type: none"> • Determine the academy trust's key management personnel. • Compare the current level of reserves against the reserves policy. • Ensure risks can be identified and that the trust can describe how they are being managed.

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	Risk management disclosures now require a description of the risks identified and a summary of the trust's plans and strategies for managing them.	
<p>Statement of Financial Activities:</p> <p>Income and expenditure headings</p>	<p>The activity basis of accounting, under which charities classify their income and expenditure by activity, has been retained but several of the headings have been changed. A help sheet is available on the Charities SORP website. This includes a mapping between SORP 2005 and SORP 2015 headings (see help sheet 2).</p> <p>Changes to income headings:</p> <ul style="list-style-type: none"> • 'voluntary income' is renamed 'income from donations' (including capital grants) • income from charitable activities is retained • income from 'activities for generating funds' is renamed 'income from other trading activities' (which includes income from trading activities and fundraising events where the income is received in exchange for goods or services) • income from investments is retained • other income is retained <p>Changes to expenditure headings:</p> <ul style="list-style-type: none"> • 'costs of generating voluntary income' and 'fundraising trading' 	<ul style="list-style-type: none"> • Consider whether accounting systems are set up to capture this information. Trusts may wish to revisit their 'chart of accounts' and other internal reporting. • Make required changes to the statutory accounts format. • Restate prior period comparative figures where headings and/or accounting policies have changed.

Area	Impact of SORP 2015/FRS102	Actions required
	<p>are combined into 'expenditure on raising funds'</p> <ul style="list-style-type: none"> • 'expenditure on charitable activities is retained' • 'governance costs' is no longer a separate heading and is now included within 'expenditure on charitable activities' <p>Implication</p> <p>These are changes in titles rather than changes to the basis for classification and so there shouldn't be any significant changes to the allocation of the main sources of academy income such as General Annual Grant.</p>	
<p>Statement of Financial Activities:</p> <p>Comparative figures</p>	<p>Comparative figures will now be required for all columns in the SoFA either by way of adding further columns or by providing this information prominently in the notes. The current SORP 2005 only requires a total column to be provided on the SoFA for the comparative period's funds.</p> <p>Implication</p> <p>The financial statements will include more detailed comparative information in respect of the SoFA.</p>	<ul style="list-style-type: none"> • No action required by academy trusts at this stage. The Coketown model accounts will illustrate the required format of comparative information.
<p>Statement of Financial Activities:</p>	<p>If an academy trust has investments, then any realised and unrealised gains and losses will now be reported in the SoFA as part of net income/expenditure rather than being reported as other</p>	<ul style="list-style-type: none"> • No action required by academy trusts at this stage. The Coketown model accounts will illustrate the required

Area	Impact of SORP 2015/FRS102	Actions required
Investments	<p>recognised gains and losses.</p> <p>Implication</p> <p>There is no impact on the net surplus of the period. However the net incoming/outgoing resources will be increased or reduced by any investment gains or losses respectively.</p>	<p>format.</p> <ul style="list-style-type: none"> Restate prior period comparative figures under the new heading.
<p>Statement of Financial Activities:</p> <p>Governance costs</p>	<p>Governance costs will no longer be separately disclosed on the face of the SoFA but will be included within charitable activities as support costs.</p> <p>Implication</p> <p>Governance costs will no longer be separately identifiable from reviewing the SoFA in isolation.</p>	<ul style="list-style-type: none"> No action required by academy trusts at this stage. The Coketown model accounts will illustrate the required format of support and governance costs. Restate prior period comparative figures under the new heading.
<p>Balance Sheet:</p> <p>Basic format</p>	<p>The balance sheet format is generally unchanged.</p> <p>Implication</p> <p>No significant changes required to the balance sheet.</p>	<ul style="list-style-type: none"> No action required by academy trusts at this stage. The Coketown model accounts will illustrate the format.
<p>Balance Sheet:</p> <p>Intangible fixed assets</p>	<p>Under FRS 102 computer software licenses that are separable should be capitalised as 'intangible fixed assets' Under FRS5 such items would have been included within tangible fixed assets.</p> <p>'Separable' items include word processing or finance packages because they are not required for the computer hardware to operate.</p>	<ul style="list-style-type: none"> Determine whether software licenses held are material in total. Depreciation on these intangibles will be described as amortisation, but the useful economic lives of the assets should be

Area	Impact of SORP 2015/FRS102	Actions required
	<p>It would exclude software such as a Windows operating system.</p> <p>Implication</p> <p>For most trusts a further asset class of intangible fixed assets will need to be included within the balance sheet. This mirrors the information already required as part of the Accounts Return.</p>	<p>unaffected.</p> <ul style="list-style-type: none"> • Calculate any opening reserves adjustments that will be required on transition (1 September 2014). • Consider whether accounting systems are set up to capture this information. Trusts may wish to revisit their 'chart of accounts' and other internal reporting. • Determine the adjustments required to the 31 August 2015 figures that will form comparatives in the 31 August 2016 financial statements.
<p>Balance Sheet:</p> <p>Employee benefits – holiday pay accrual</p>	<p>Under FRS102 there is a requirement to recognise a liability in the balance sheet for any outstanding paid annual leave, if material. Such a circumstance may arise when the holiday year is not coterminous with the financial year.</p> <p>Implication</p> <p>Additional liabilities may need to be reflected on the balance sheet.</p> <p>Example</p> <p>Employees of trust A are permitted 24 days annual leave which must</p>	<ul style="list-style-type: none"> • For staff with holiday entitlement, determine whether their holiday year is different to the financial year. This is most likely to be an issue for non-teaching staff. • Review the system for capturing outstanding holiday entitlement for staff. • Should consider whether accounting systems are set up to capture this information. Trusts may wish to revisit

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	<p>be taken in the holiday year which commences on 1 April. At 31 August an employee, pro-rata is entitled to have taken 10 days holiday. Trust A calculates from holiday records that the outstanding holiday (i.e. holiday not taken from an allowance of 10 days) is 36 days for all employees at the same pay grade. Trust A would make an accrual for the 36 days outstanding holiday measured at the average salary per day.</p> <p>Overall impact</p> <p>On transition to FRS102, a new provision would be recognised for outstanding holiday pay, with a corresponding adjustment to opening reserves. In future years trusts will need to consider changes to the annual holiday allowance, pattern of holidays taken and holiday year and the impact on the accrual.</p>	<p>their 'chart of accounts' and other internal reporting.</p> <ul style="list-style-type: none"> • Calculate any opening reserves adjustments that will be required on transition (1 September 2014). • Determine the adjustments required to the 31 August 2015 figures that will form comparatives in the 31 August 2016 financial statements.
<p>Balance Sheet:</p> <p>Property, plant and equipment</p>	<p>The option to hold property, plant and equipment (PPE) under the cost model or the revaluation model is still available under FRS102 but there is also an option to take a revalued amount as deemed cost on the date of transition (1 September 2014). The option to have a one-off valuation of PPE at the date of transition is available, even if a cost model was previously adopted and will continue to be adopted after transition.</p> <p>Implication</p> <p>A one-off revaluation may strengthen the balance sheet (and increase the related restricted fixed asset fund). A higher valuation</p>	<ul style="list-style-type: none"> • Consider whether to take the option to have a one-off revaluation on transition (this can be applied to a single item rather than the old UKGAAP where revaluations were applied to a class of asset). • Approval of accounting policy choice by the trustees. • Where applicable, arrange and obtain a valuation of relevant PPE, ensuring that

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	<p>will, however, increase the depreciation charge through the SoFA.</p> <p>The cost of obtaining a valuation would need to be considered.</p>	<p>the valuer understands the basis of valuation required under FRS102 and SORP 2015.</p> <ul style="list-style-type: none"> • Calculate any opening reserves adjustments that will be required on transition (1 September 2014). • Determine the adjustments required to the 31 August 2015 figures that will form comparatives in the 31 August 2016 financial statements.
<p>Statement of Cash Flows:</p> <p>Fewer headings and different reconciliation</p>	<p>The cash flow statement has been renamed the statement of cash flows and now has a more simplified structure with three main headings:</p> <ul style="list-style-type: none"> • operating activities – being the principal income producing activities of the trust including cash receipts from donations and grants, cash payments to suppliers of goods and services, staff salaries, pension contributions etc. • investing activities – including the acquisition or disposal of investments and the cash generated from holding investment assets and the acquisition or disposal of tangible fixed assets. • financing activities – relating to borrowing and permanent and 	<ul style="list-style-type: none"> • No action required by academy trusts at this stage. The Coketown model accounts will illustrate the required format of the statement of cash flows. • Academy trusts should consider the definition of ‘cash equivalents’ under FRS102, being ‘short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value’. • Restate prior period comparative figures

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	<p>expendable endowments.</p> <p>Also, this now reconciles down to cash and cash equivalents rather than just cash. This means that deposit accounts that are not repayable on demand without penalty, for example 3 month term deposits and indeed any other liquid resources, are now included in the bottom total as cash equivalents.</p> <p>Implication</p> <p>The number of headings is reduced from those under FRS1, but otherwise the makeup of trusts' statements of cash flows should not alter significantly. However, with the introduction of cash and cash equivalents, the statement of cash flows may not equate to cash at bank and in hand.</p>	<p>under the new headings.</p>
<p>Accounting policies:</p> <p>Income recognition</p>	<p>Income should be recognised in the accounts when it becomes 'probable' (i.e. more likely than not) whereas under SORP 2005 it was recognised when income became 'virtually certain'.</p> <p>Implication</p> <p>This may mean income being recognised earlier than at present. For example an academy trust that receives income subject to performance related terms or conditions should recognise the income as soon as it is probable the terms or conditions can be met. However, it is unlikely to have a significant impact for trusts and, given that the majority of income is from EFA (and does not contain</p>	<ul style="list-style-type: none"> • Identify the sources of income received. • Consider if there are any sources of income that have performance related conditions. • Revisit the wording required on other policies in light of changes to terminology. • Consider any critical areas of judgement involved in preparing the financial

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	performance related conditions) there is no impact on the main sources of income such as General Annual Grant.	<p>statements as well as key assumptions and key sources of estimation uncertainty.</p> <ul style="list-style-type: none"> • Consider the basis of the going concern assumption, taking into account all available information about the future for at least, but not limited to, 12 months from the date the accounts are approved. • Consider whether prior period comparative figures and opening balances at 1 September 2014 need to be restated.
<p>Accounting disclosures:</p> <p>Key management personnel</p>	<p>Key management personnel are considered to be related parties. SORP 2015 requires the total remuneration and benefits paid to key management personnel to be disclosed.</p> <p>Implication</p> <p>An additional disclosure will be required in the staff costs section of the financial statements.</p>	<ul style="list-style-type: none"> • Determine the academy trust's key management personnel. • Consider the information needs of funders and other stakeholders to determine whether more detailed disclosures may be helpful in this area.
<p>Accounting disclosures:</p> <p>Going</p>	<p>SORP 2015 states that financial statements must include disclosure of any material uncertainties of which the trustees are aware in making their going concern assessment, and where there are no material uncertainties about the academy trust's ability to continue</p>	<ul style="list-style-type: none"> • Continue to consider the trust's going concern status.

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concern	<p>as a going concern, this should be clearly stated.</p> <p>Implication</p> <p>For most trusts, this should not result in any significant additional disclosure. However trusts will need to state that they have considered a period of at least 12 months from the date the accounts are authorised for issue.</p>	
<p>Accounting disclosures:</p> <p>Related party transactions</p>	<p>Any transactions involving a trustee or other related party must always be regarded as material. Additionally the new SORP specifically requires disclosure of the terms and conditions of any related party transactions and states that a related party transaction should not be described as being ‘at arm’s length’ unless this can be substantiated.</p> <p>Implication</p> <p>This may capture the disclosure of more transactions in the financial statements.</p>	<ul style="list-style-type: none"> • Reflect on compliance of previous disclosures and ensure that appropriate processes are in place to: <ul style="list-style-type: none"> • determine the trust’s related parties i.e. by reference to trustees’ other interests and other relationships • record any transactions with related parties
<p>Accounting disclosures:</p> <p>Employee benefits – pensions</p>	<p>Under FRS102 there are differences in the detailed valuation requirements of pension scheme assets/liabilities.</p> <p>There are also changes in the recognition of interest costs in the SoFA. Rather than an ‘expected return on plan assets’ and ‘interest on pension liabilities’ there will be a ‘net interest charge’ on the net defined benefit pension liability.</p>	<ul style="list-style-type: none"> • Contact the scheme actuary to ensure that they are aware of the requirements of FRS102 and that they will provide the relevant comparative disclosures for 2015. • Determine the adjustments required to

Area	Impact of SORP 2015/FRS102	Actions required
	<p>Implication</p> <p>There will be changes to the figures recognised for ‘net interest charge’ and ‘actuarial gains/losses’. This is unlikely to affect the pension asset/liability.</p>	<p>the 31 August 2015 figures that will form comparatives in the 31 August 2016 financial statements.</p>
<p>Accounting disclosures:</p> <p>Operating leases</p>	<p>The disclosure of commitments under operating leases must now show the expected future minimum lease payments over the remaining life of the lease (under existing UKGAAP disclosure was only required of the annual commitment).</p> <p>Implication</p> <p>Certain disclosure items will need to be restated.</p> <p>Example</p> <p>An academy trust leases equipment at a cost of £1,000 per annum for two years on 30 August. Under current UK GAAP, at 31 August, the trust would disclose the annual commitment of £1,000. Under FRS 102 the trust would need to show the total future lease payments at 31 August, being £2,000.</p>	<ul style="list-style-type: none"> • Determine which disclosures will require amending under FRS 102. • Ensure that the relevant information is available to enable comparative disclosures to be populated (this disclosure is already a requirement of the Annual Accounts Return).
<p>Accounting disclosures:</p> <p>Government grants</p>	<p>For government grants, the following information must be disclosed:</p> <ul style="list-style-type: none"> • The nature and amounts of government grants recognised in the accounts • Unfulfilled conditions and other contingencies attaching to 	<ul style="list-style-type: none"> • Determine what government grants are received. • Consider whether there are any unfulfilled conditions or contingencies.

Area	Impact of SORP 2015/FRS102	Actions required
	<p>grants that have been recognised in income</p> <ul style="list-style-type: none"> An indication of any other forms of government assistance from which the trust has directly benefitted. <p>Implication</p> <p>Additional information will need to be disclosed in respect of government grants.</p>	<ul style="list-style-type: none"> Consider any other forms of government assistance received.
Transition	<p>The following information will need to be included in the financial statements for the period ended 31 August 2016, where this is the first period of adoption:</p> <ul style="list-style-type: none"> A description of each change in accounting policy. Reconciliations of the opening balance sheet at the date of transition (1 September 2014) and the comparative financial year end (31 August 2015). A reconciliation of the statement of financial activities for the comparative financial year (31 August 2015). <p>If a trust becomes aware of errors made under the previous financial reporting framework, the above reconciliations should distinguish the correction of those errors from changes in accounting policies.</p>	<ul style="list-style-type: none"> Review and consider the implications of the above. Identify the impacts and work required to collate the information for the transition date and 31 August 2015. Put processes in place to change internal systems and year end processes as necessary. Prepare a list of transitional adjustments required to the opening balance sheet at 1 September 2014 and prepare a balance sheet reconciliation. Read through the Coketown model accounts included within the Academies

Area	Impact of SORP 2015/FRS102	Actions required
		<p>Accounts Direction 2015 (SORP 2015) to ensure that any additional information required to be disclosed is obtained for the comparative period on a timely basis.</p> <ul style="list-style-type: none"> • Determine the adjustments required to the 31 August 2015 figures that will form comparatives in the 31 August 2016 financial statements. • Draft new skeleton for SORP 2015 accounts and prepare reconciliation to the transition date and 31 August 2015 (and consider whether any of the adjustments represent errors in previous years).



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