

## SORP 2005

A new Statement of Recommended Practice (SORP 2005), Accounting and Reporting by Charities, was published in March 2005. This replaces the previous SORP 2000 and is mandatory for all accounting periods starting on or after 1 April 2005. The main changes to the SORP are as follows.

### **Trustee' annual report**

SORP 2005 contains more focused recommendations on content, in particular with an emphasis on the reporting of activities and achievements against organisational objectives.

SORP 2005 requires a new format for the presentation of the information for the report.

The seven sections are as follows:

- Reference and Administrative details
- Structure, Governance and Management
- Objectives and Activities
- Achievements and Performance
- Financial Review
- Plans for future periods
- Reference and Administrative Details of the Charity, its Trustees and Advisers.

Whilst most of the detailed content of the report was requested in previous SORPs, SORP2005 builds on these past recommendations by adding a number of additional disclosures to the report including:

- The name of the chief executive and senior staff
- The induction and training provided for new trustees
- Details of any social or programme related investments

Principle funding sources and details of any social, environmental and ethical concerns taken account of in investment policy.

### **Recognition of incoming resources and resources expended**

There is more specific guidance on recognising when incoming resources and resources expended should be brought into the Statement of Financial Activities (SoFA).

Guidance has also been reviewed in relation to the valuation of donated services and facilities. These were called 'Intangible Income' in earlier SORPs. There is also clarification that the services of unpaid volunteers are not to be included in the SoFA.

### **Activity reporting**

Perhaps the most significant change resulting from SORP 2005 is the requirement to show costs and income based on activities. Essentially, activities are one of the following three types:

- Charitable (achieving the charity's charitable objectives)
- Fundraising (raising funds to expend on charitable objectives) and
- Governance (overseeing the work of the charity).

There may, of course, be a variety of individual activities within each of the above headings, more details of which may be given in the notes. However, as a consequence of the changes, 'Support costs' and 'Grants' are not to be shown on the face of the SoFA, but rather allocated across each activity.

The revised section on support costs explains what support costs are, explains how they relate to activities and outlines what should be reported about them in notes to the accounts.

## Heritage assets

The term 'Heritage Assets' is now used in place of 'inalienable and historic assets' and is more narrowly defined as tangible fixed assets that are of historical, artistic or scientific importance and are held to advance the preservation and conservation objectives of a charity. Where similar assets, such as antique furniture or works of art, held for investment purposes are held for other purposes they should not be considered as heritage assets. Consequently, such assets do not fall within the category of heritage assets.

As before, Heritage Assets should be capitalised unless no reliable cost information is available, or valuation approaches lack sufficient reliability, or there are significant costs in producing valuations that outweigh the benefits of valuation.

## Accounting for new situations

The SORP deals with a number of situations that were not mentioned in previous versions, of which the most notable are as follows:

- Total return - Charities can make use of administrative provisions to allow them to adopt a total return approach to managing investments held as permanent endowment.
- Common Investments and Pooling - Schemes. A short section has been added dealing with Common Investment Funds and Investment Pooling Schemes. The Trustee Act 2000 has made it easier for charities in England and Wales to use pooling schemes and it is important that charities are aware of the accounting implications.
- Programme Related Investments - A new section has been added explaining how to account for such investments and related sections explain how these should be accounted for in the SoFA and Balance Sheet.

For further information on how James Cowper can assist Charities visit:

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