

## Selection 1: Special transactions relating to charity operations

### 15. Charities established under company law

#### Introduction

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- 15.1. Charities registered as companies under company law (charitable companies) must comply with the reporting requirements of company law. However, charitable companies must adapt the presentation and headings used in their accounts for the special nature of the company and its activities.
- 15.2. In jurisdictions where adherence to this SORP is not a legal requirement, there is a strong presumption that charitable companies will comply with this SORP in order for their accounts to give a true and fair view as required by company law.
- 15.3. Charitable companies using this SORP must adapt their statement of financial activities (SoFA) to meet the requirements of company law or prepare a separate summary income and expenditure account.
- 15.4. This module, which applies to all charitable companies, explains how the following requirements of company law must be met by companies when applying this SORP:
  - preparation of the directors' report;
  - requirement for an income and expenditure account;
  - preparation of a combined SoFA and income and expenditure account;
  - summary income and expenditure account;
  - additional considerations that apply when consolidated (group) accounts are prepared under company law;
  - disclosure of equity on the balance sheet; and
  - disclosure of revaluation and fair value reserves (UK only).

#### Preparation of the directors' report

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- 15.5. Company law in both the UK and the Republic of Ireland requires certain information to be provided in the directors' report in addition to the information that this SORP requires to be included in the trustees' annual report.
  - 15.6. A combined directors' report and trustees' annual report can be prepared provided it includes all the information required by the SORP module '[Trustees' annual report](#)' and applicable charity law. Charitable companies should ensure that the combined annual report makes it clear that it also contains a directors' report as required by company law.
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- 15.7. Charitable companies registered in the UK which are classified as medium or large companies must also prepare a strategic report which must be presented as a separate distinct section of the trustees' annual report. Charitable companies registered in the Republic of Ireland should note that the Companies Act 2014 introduced a similar requirement for the directors' report to include a business review.
- 15.8. The strategic report provides context for: the financial accounts, an analysis of the charity's performance, its financial position and an insight into the charity's objectives and the risks and uncertainties it faces. The trustees' annual report may be adapted to provide the required contents of the strategic report by grouping, under the heading 'strategic report', the content contained in the trustees' annual report for: 'achievements and performance' and 'financial review'. The content of 'plans for future periods' may also be included within the strategic report if relevant to understanding the charity's development, performance and position at the end of the year.
- 15.9. The strategic report must contain the information required by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. Charities should also refer to guidance prepared by the Financial Reporting Council when preparing their strategic report. When approving the report, trustees should also specifically state that they have approved the strategic report. For further information on the content of the trustees' annual report see the SORP module '[Trustees' annual report](#)'.

### Requirement for an income and expenditure account

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- 15.10. Company law sets out the form and content requirements for the accounts. These detailed requirements are set out in the relevant Companies Act and in any Regulations made under that Act.
- 15.11. Not-for-profit companies reporting in the UK under the Companies Act 2006 or in the Republic of Ireland under the Companies Act 2014 must prepare an income and expenditure account as part of their accounts. The SoFA can often be adapted to include an income and expenditure account and therefore the presentation of a separate income and expenditure account may not be required.

### Preparation of a combined statement of financial activities and income and expenditure account

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- 15.12. To ensure that the SoFA meets the requirements of company law for an income and expenditure account, a combined statement must:
- identify, within the statement's heading, that an income and expenditure account is included;
  - include a line identifying the amount of any tax on activities; and
  - identify, as a prominent sub-total in the statement, the charity's net income/ expenditure for the reporting period.
- 15.13. If a combined statement is not presented, then the charitable company must produce a separate summary income and expenditure account as part of its accounts.
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### Summary income and expenditure account

- 15.14. The amounts presented in a summary income and expenditure account must be derived from the corresponding figures in the SoFA but exclude any endowment funds. The reporting of income and expenditure need not distinguish between unrestricted and restricted income funds. Charities must refer to the applicable regulations in their jurisdiction of company registration for the form and content requirements for company accounts and for those items that must be disclosed in the accounts. Normally greater disclosures are required of those companies classed as medium or large.
- 15.15. In the UK, a company must adapt the headings and sub-headings used in the income and expenditure account to reflect the special nature of its activities. In the Republic of Ireland, not-for-profit companies must produce an income and expenditure account which contains the line items specified in the Companies Act 2014. The example given in Table 11 is illustrative.

**Table 11: Minimum requirements for a summary income and expenditure account**

**Summary income and expenditure account for (named) company year ending (day/month/year)**

	Note	All income funds (current year)	All income funds (previous year)
		£	£
Income*			
Gains/(losses) on investments		x	x
Interest and investment income** †		x	x
<b>Gross income in the reporting period</b>		<b>X</b>	<b>X</b>
Expenditure*		x	x
Interest payable** †		x	x
Depreciation and charges for impairment of fixed assets** †		x	x
<b>Total expenditure in the reporting period</b>		<b>(X)</b>	<b>(X)</b>
Net income (expenditure) before tax for the reporting period		x	x
Tax payable		(X)	(X)
<b>Net income (expenditure) for the financial year</b>		<b>X</b>	<b>X</b>

\* Income and expenditure may be analysed in further detail using the analysis headings of the SoFA.

\*\* Items marked in the case of the UK only may either be shown as separate line items or included within other line items and disclosed separately in a note to the accounts.

† Items marked in the case of the Republic of Ireland must be shown as separate line items.

- 15.16. Charitable companies in the Republic of Ireland must also report, where applicable, the amount charged to cover provisions or adjustments to provisions (other than for depreciation and impairment).

## Additional considerations that apply when consolidated (group) accounts are prepared under company law

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- 15.17. Charitable companies prepare consolidated accounts (also known as group accounts) in the UK under section 399 of the Companies Act 2006 and in the Republic of Ireland under section 293 of the Companies Act 2014.
- 15.18. Charitable companies which are required to prepare consolidated accounts must prepare a summary consolidated income and expenditure account for the charity and its subsidiaries (the group) if the consolidated SoFA cannot be adapted to meet the requirements for an income and expenditure account.

## Disclosure of equity on the balance sheet

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- 15.19. Charitable companies are usually established as companies limited by guarantee. However, in rare cases, charitable companies may have issued share capital provided those shares have no right to receive a dividend or other distribution attached to them. Charitable companies that have issued share capital must modify the 'Funds of the charity' heading of the balance sheet to disclose called up share capital.
- 15.20. Provided no new share equity is issued, a charitable company preparing its accounts under FRS 102 need not provide a separate statement of changes in equity for the reporting period. Charitable companies with equity must provide details of equity as set out in section 4 of FRS 102.

## Disclosure of revaluation and fair value reserves (UK only)

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- 15.21. Regulations made under the UK Companies Act 2006 require a revaluation reserve to be set up when assets are revalued upwards. A revaluation reserve represents the difference between the cost or valuation of an asset when first recognised, less any depreciation and its subsequent revalued amount.
- 15.22. Although the separate reporting of a revaluation reserve has less significance for charities, as unlike commercial entities they do not distribute profits, the amount of any revaluation reserve must still be disclosed by charitable companies.
- 15.23. Similarly, regulations made under the Companies Act 2006 require a fair value reserve to be set up for certain financial instruments listed in the regulation when measured at fair value in the accounts.
- 15.24. To comply with the regulations made under the Companies Act 2006, charitable companies must disclose any revaluation and fair value reserves on the face of the balance sheet. These reserves will form part of the funds in which those assets carried at revaluation or at fair value are held. This can be done by showing these reserves as a separate component of the relevant class of fund.
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