11. Accounting for financial assets and financial liabilities

Introduction

11.1. All charities are likely to have financial assets and financial liabilities. The FRSSE use the term 'financial instruments' to include both financial assets and financial liabilities. Charities reporting under the FRSSE should refer to section 12 of the FRSSE when accounting for financial instruments.

11.2. Financial assets include cash, shares held in other entities and contractual rights to receive cash or other financial assets from other entities, for example trade debtors or loans made by the charity.

11.3. A financial liability is a contractual obligation to transfer cash or another financial asset to another entity, for example trade creditors, a loan received by a charity or a provision made in relation to a grant commitment.

11.4. Concessionary loans made by charities to further their charitable aims are financial instruments.

11.5. An asset or liability arising from a non-exchange transaction such as a gift or a grant is not a financial instrument because it is non-contractual in nature. For certain non-exchange transactions where settlement is delayed and the effect of the time value of money is material, the transaction is recognised at the present value of the likely settlement amount.

11.6. This module deals with how financial assets and financial liabilities are accounted for except for those detailed below which are covered by other SORP modules:

- investments in subsidiaries, associates and joint ventures;
- leases; and
- defined benefit pension schemes.

11.7. Charities that hold derivative products and other more complex financial instruments should have regard to their own existing accounting policies for these transactions. If a charity has no existing policy, in developing a new policy it should have regard to sections 11 and 12 of FRS 102. More complex arrangements that charities may enter into include advance fee schemes and contracts or options to buy or sell foreign currency.

11.8. This module sets out:

- accounting for financial instruments;
- accounting for concessionary loans made or received; and
- disclosures to be made in the notes to the accounts.

Accounting for financial instruments

11.9. Charities preparing accounts using the FRSSE normally measure a financial asset or financial liability on its first recognition at the amount receivable or payable. However, borrowings must be stated in the balance sheet at fair value of the loan received. The carrying amount of the borrowing is then increased by the finance cost for the reporting period and reduced by payments made in respect of the borrowings. The finance costs must be allocated to periods over the term of the borrowing at a constant rate and charged to the activities disclosed in the SoFA that the borrowing funded.

11.10. Where borrowings involve an arrangement fee that is a significant additional cost of finance compared with the interest payable over the life of the loan, the arrangement fee must be treated as a finance cost and allocated to periods over the term of the borrowing at a constant rate. Where any arrangement fee is not significant, the fee must be charged as an expense to the relevant heading(s) of the SoFA immediately it is incurred.

11.11. Depending on their nature, financial instruments are carried in the balance sheet at the value of the consideration payable or receivable, market value or fair value of the instrument. For example:

- Current assets and current liabilities arising from contractual rights or obligations (for example trade debtors or trade liabilities) must be carried in the balance sheet at the cash amount or other consideration expected to be received or paid in their settlement.
- Borrowings, for example, a bank loan, must be measured at the fair value of the loan (see paragraph 11.9).
- This SORP requires that investments in listed shares which can be publicly traded must be measured at their market value.
- Investments in shares which cannot be publicly traded must be measured at cost less any provision for their diminution in value if a reliable estimate of market value cannot be established by the trustees, for example by using a valuation technique.

Accounting for concessionary loans made or received

11.12. Concessionary loans are those loans made or received by a charity to further its purposes and any interest charged is below the prevailing market rates. See the SORP module 'Accounting for social investments' for the accounting treatment of concessionary loans.

Disclosures to be made in the notes to the accounts

11.13. All charities must provide the detailed disclosure of assets and liabilities required by the SORP module 'Balance sheet'.

11.14. This SORP requires that charities must disclose the accounting policy adopted for each material class of financial instruments, including financial assets and liabilities.

11.15. If the charity makes or receives a concessionary loan, reference must also be made to the SORP module 'Accounting for social investments'.