

Report

To: Charities SORP Committee

From: Alison Bonathan, CIPFA Secretariat

Date: 26 July 2022

Subject: Expenses in the Charities SORP: Activity Reporting, Support Costs and Expenditure Classification

Purpose

The purpose of this report is to outline the suggested amendments to SORP modules 4 (Statement of financial activities), 7 (Recognition of expenditure) and 8 (Allocating cost by activity in the statement of financial activities) and the rationale for the suggested amendments.

Report

1. Introduction

- 1.1 At its meetings on 1 December 2021 and 12 January 2022, the Charities SORP Committee discussed matters pertaining to content on expenses in the Charities SORP. Specifically, the topics of Support Costs, Expenditure classification and Activity analysis were discussed, having been identified as important topics during the previous stages of SORP development.
- 1.2 The Secretariat has prepared draft modules for the new Charities SORP based on the tentative advice provided by the Charities SORP Committee at these meetings. The Secretariat has reviewed and redrafted:
 - module 8 (Allocating cost by activity in the statement of financial activities) in full; and
 - the parts of modules 4 (Statement of financial activities) and 7 (Recognition of expenditure) that relate to expenses and expense classification.
- 1.3 Additionally, noting the Charities SORP Committee's wish to highlight the option to prepare receipts and payments accounts to relevant smaller charities, the Secretariat has drafted an additional paragraph that refers to the receipts and payments basis. The Secretariat suggests this is included in the first chapter of the Charities SORP which explains the scope and application of the SORP. The parts of modules 4 and 7 that are not related to expenses but are related to other topics under consideration (for example, income) have not been reviewed but will be subject to review as a part of the consideration of the relevant topics on the SORP development programme later in the drafting process.

- 1.4 Annex 1 to this report provides a detailed analysis of the proposed amendments to the Charities SORP including the rationale for the proposals. Appendices 1 and 2 include the draft modules in full. Appendix 1 includes the draft modules with the proposed changes. Appendix 2 presents the same modules in track changes so that the SORP Committee can identify new or revised content.
- 1.5 The report highlights the issues that arise when drafting the SORP including the impact on tiered reporting.
- 1.6 The final sections of this report highlight further suggestions for improvement to the SORP as a result of the Secretariat's review. This review particularly considers issues such as accessibility and clarity of the SORP's provisions following the commentaries of the engagement strands about understandability of the SORP's provisions during the two preceding stages of SORP development.
- 1.7 To aid detailed discussion of the draft modules, questions for discussion have been included at the end of this report and in Annex 1.

2. Tiered Reporting – Working Assumptions

Number of tiers

- 2.1 Following the discussions of the Charities SORP Committee on 4 May 2022, the draft SORP modules presented as appendices to this report have been prepared based on the advice of the SORP Committee that there should be three tiers for the purpose of tiered reporting. The joint SORP making body decided for drafting purposes it would proceed with that working assumption.

Threshold for Tier 1

- 2.2 While acknowledging that the Committee meeting did not reach a consensus for the threshold for tier 1 the joint SORP-making body was of the view that the balance of the discussion of the debate was in favour of the £500k threshold (though it is acknowledged that some Committee members had strong views for this tier threshold being at gross income levels of £250k). So, the joint SORP-making body also agreed that drafting would take place with a second working assumption of the tier 1 threshold being for gross income levels at £500k. The threshold for tier 2 to tier 3 was set at the (gross) income level at the same amount as the small Companies Act 2006 threshold for turnover of £10.2m.
- 2.3 To avoid users of the SORP confusing SORP tiers with other thresholds for example thresholds under the Companies Act 2006, the draft modules refer to the tiers as tier 1, tier 2 and tier 3 (rather than small, medium and large).
 - Tier 1 requirements have been drafted for charities falling below the £500k gross income.
 - Tier 2 requirements have been drafted for charities falling between the tier 1 threshold for gross income and the higher threshold of £10.2m
 - Tier 3 requirements have been drafted for charities with gross income higher than the £10.2m threshold.
- 2.4 The introduction of more complex tiered reporting will probably be one of the more complex new areas for the next edition of the SORP, to ensure that all users fully understand the implications of the new requirements, it is suggested that a table is introduced at the beginning of each module which specifies the tiered reporting requirements for that module. This will mean that Charities and other users of the SORP will be able to quickly understand how the reporting requirements will apply for the tier they report under. There are several other alternatives to specifying/identifying the tiered reporting requirements, but this approach will clearly set out the requirements for each module and all users will be able to easily locate them.

- 2.5 Note that Annex 1 includes a question for the Committee on the use of the table and the approach to tiered reporting in each of the Modules considered in this report. The Committee's views are sought on whether the approach to tiered reporting for each module is appropriate or whether any alternatives might be included, for example, whether there might be more reporting for tier 3 for any of the modules or whether the reductions of reporting for tiers 1 or 2 are appropriate.

Does the Charities SORP Committee have any views on the current working assumptions 1) the number of tiers and 2) the gross income threshold for tier 1.

The Charities SORP Committee is invited to consider whether it agrees with the proposed tabular approach to identifying the tiered reporting requirements for each module.

The Charities SORP Committee is invited to consider the proposed approach to tiered reporting in the modules considered (question numbers 5.11 and 16) at the appropriate stages on the analysis of the changes to each module.

3. 'This SORP Requires'

- 3.1 Paragraph 6 of the SORP specifies that:

'The phrase 'this SORP requires' is used to distinguish the additional disclosures required by the SORP which are not specifically required by FRS 102.'

Paragraph 33 of the SORP sets out that

"[t]his SORP uses the term 'must' to indicate those elements that are important to the reader of the trustees' annual report that must be included within the report or to identify particular accounting treatments, disclosures or presentational requirements 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."

The last edition of the SORP included the decision that this SORP requires may be followed by a 'must'. During the Secretariat's review of SORP content on expenses, the Secretariat noted the instances of paragraphs that contain both "this SORP requires" and "must" (e.g. in paragraph 4.3).

- 3.2 The Secretariat would note that the inclusion of both 'this SORP requires' and 'must' makes the relevant paragraphs more complex. Taking into account the comments by the engagement strands and the SORP development process that the language of the SORP should be simplified the option could be taken to remove either the 'this SORP requires' or 'must' from these paragraphs.
- 3.3 The most readable option would be to remove the 'this SORP requires' and just retain the 'must'. However, this would lose the identifying phrase that indicates the additional disclosures required by the SORP which are not specifically required by FRS 102. The Secretariat would seek the views of the SORP Committee on whether the opportunity should be taken to simplify the language of the SORP for the instances where this occurs. Note that for the drafts in the Appendices the 'must' has been removed. The Secretariat would highlight that 'this SORP requires' appears 50 times in the SORP.

What are the Charities SORP Committee's views on simplifying the language in the SORP where the SORP both uses the identifier 'this SORP requires' and 'must'?

4. Tentative advice provided by the Charities SORP Committee

4.1 The tentative advice by the Charities SORP Committee at earlier stages in the process is summarised in Annex 2. The Secretariat produced the drafts of modules 4, 7 and 8 in response to this tentative advice.

4.2 The principal implications for the draft SORP for each of the topics considered in the development programme for the SORP are therefore:

- **Support costs:**
 - amend the SORP to increase focus on the ability of eligible charities to use 'natural classifications' and
 - add an illustrative SoFA demonstrating the use of natural classifications
- **Expenditure classification:** no specific changes were proposed
- **Activity analysis:** reducing disclosure requirements by combining tables 3 and 4 (currently in modules 4 and 8).

5. Proposed Changes to the SORP Following the Charities SORP Committee Advice

5.1 The key amendments made in response to earlier SORP Committee discussions as summarised in paragraph 4.2 of this report can be found as follows:

- **Support costs:**
 - The SORP Committee advise that the SORP be amended to increase focus on the ability of eligible charities to use 'natural classifications'
 - add an illustrative SoFA demonstrating the use of natural classifications

Proposed changes:

- Natural classifications now highlighted at the start of the module in paragraphs 4.1, 4.5, including a proposal to define what natural classification basis of reporting. Note that following Committee discussions and debate the choice to use natural classification basis of analysis is only available for Tier 1 charities.
- Table 2a included (illustrative SoFA prepared using the natural classification basis), and located above the equivalent table for analysis using the activity basis
- Options available to charities have been simplified. Amendments have been made to allow relevant charities a clearer understanding of the choice between the activity basis of analysis and natural classifications (rather than activity basis or an alternative approach, which may be natural classifications). Please see comments and questions against paragraphs 4.5 and 4.6 in the Annex.

The SORP Committee is invited to consider the list of amendments and questions in Annex 1 for support costs (see questions 6, 7, 8, 9 10)

5.2 **Activity analysis:** reducing disclosure requirements by combining tables 3 and 4 (currently in modules 4 and 8).

Proposed changes:

- Addressed. Please see comments against Table 3, Table 4 (end of Module 8) and paragraph 8.14

The SORP Committee is invited to consider the list of amendments and in Annex 1 relating to the changes for the activity basis of reporting.

6. Other Drafting Proposals

6.1 Annex 1 itemises all the other proposed drafting proposals for Modules 4, 7 and 8 as they relate to expenditure. It is suggested that this Annex is reviewed Module by Module for the remaining drafting changes and the questions that are raised in the Annex.

The SORP Committee is invited to consider the list of amendments and in Annex 1 relating to the other drafting suggestions for the expenditure Modules within the SORP.

7. Drafting Suggestions relating to the Structure or format of the SORP

7.1 In the Secretariat's review of Modules 4, 7 and 8 the Secretariat noted that there are a number of areas that would benefit from restructuring and redrafting. The majority of this related to the recognition and measurement of liabilities. This includes:

- **Measurement of liabilities** (paragraphs 7.9 – 7.12)
- **Principles for recognising liabilities from constructive obligations** (paragraphs 7.13 – 7.17)
- **Provisions for liabilities** (paragraphs 7.29 – 7.33)
- **Treatment of commitments not recognised as provisions or liabilities** (paragraphs 7.34 and 7.35)
- **Accounting for onerous contracts** (paragraphs 7.36 – 7.40)

- **Disclosure of provisions and funding commitments in the accounts** (paragraphs 7.44 and 7.45)

- 7.2 In addition, module 7 includes content on employee benefits (paragraphs 7.41 – 7.43 in the appendices to this report) and on grant-making (paragraphs 7.18 – 7.28 in the appendices to this report).
- 7.3 Module 7 precedes module 10 (Balance Sheet); this contains details of the correct treatment of liabilities e.g. the definition of a provision. The Secretariat considers that having text on provisions in two separate places could lead to confusion and added complexity around the definition and prescription of the SORP with regard to provisions and liabilities. It is therefore suggested that a separate module on provisions and liabilities is provided. This module can be cross referenced to from both Modules 7 and 10 to clearly set out the SORP's specifications on these complex and important areas.
- 7.4 Similarly, to avoid duplication within the SORP, text on retirement benefits could be removed from module 7 and replaced with a cross reference to module 17 or module 9, and text on grant-making could be removed from module 7 and replaced with a cross-reference to module 16.
- 7.5 It is suggested that the Balance Sheet module is positioned earlier in the SORP to encourage the user of the SORP to develop an understanding of the primary financial statements and their associated elements i.e. income, expenses assets, liabilities and funds of the charity before developing an understanding of financial reporting principles for specific types of asset or liability (such as a provision). Additionally, it would be useful to present the prescriptions of the financial statements together in successive modules so that the importance of the primary statements are understood. While the Secretariat understands that users of the SORP are unlikely to read the full SORP in the order it is written, it is of the view that key contents such as the definition of an asset should be included in a more prominent position in the SORP. For context, Sections 2 – 5 of FRS 102 concentrate on fundamental concepts (i.e. before financial reporting treatments are considered), being Concepts and Pervasive Principles (section 2); Financial Statement Presentation (section 3); Statement of Financial Position (section 4); and Statement of Comprehensive Income and Income Statement (section 5).
- 7.6 The Secretariat has not redrafted the SORP paragraphs referred to in 4.1 and 4.2 above. The redrafting of these paragraphs will depend on the SORP Committee's advice on the proposals for restructuring the SORP and the joint SORP-making body's decisions based on that advice. The Secretariat will revisit these paragraphs once the SORP Committee has considered the Secretariat's suggestions.

Does the Charities SORP Committee agree with the proposals for restructuring the Charities SORP as suggested in paragraphs 4.3 – 4.5 of this report?

8. Paragraph references

- 8.1 Unless otherwise indicated, paragraph references in the table in Annex 1 refer to the paragraph numbers in the draft SORP modules presented as appendices to this report.

Are there any further changes the Charities SORP Committee believes are necessary to the modules/sub-sections of modules under consideration?

Disclaimer

These Charities SORP Committee papers have been developed to assist in the development and drafting of the Charities SORP. Readers should not treat the information contained in these papers as being definitive for the production of the Charities SORP FRS 102 (Third Edition) which will be subject to due process including a detailed consultation.

Rationale for proposed amendments to the Charities SORP

The table below is intended to be used alongside either Appendix 1 or Appendix 2, which contain relevant draft revised SORP extracts. Appendix 2 includes the draft revised SORP extracts with track changes on. Appendix 1 contains the draft revised text without track changes (for ease of reading).

Paragraph reference(s)	Amendment made	Reason for Proposed Amendment	Question for consideration
Throughout extracts of the SORP	References to “smaller charities” changed to “charities in Tier 1”.	See main report following the Charities SORP Committee advice on 4 May 2022 the working assumption is that the SORP is drafted on the basis of three tiers. Per paragraph 2.3 “tier 1, tier 2, tier 3” is used rather than “small, medium, large” to avoid confusion with for example the Companies Act 2006 thresholds.	<i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>
Chapter 1 Scope and Application			
10. (within chapter 1, scope and application)	A new paragraph included on the option to prepare on a receipts and payments basis. Note that this paragraph does not include reference to how this might apply in Ireland as the relevant statutory provisions have not yet been issued. This will be kept under review.	The SORP Committee has advised that the SORP raise awareness of the option that relevant charities have to prepare receipts and payments (R&P) accounts at several of its meetings. The SORP committee suggested the inclusion of a paragraph within the SORP to clarify that charities may be able to prepare R&P accounts and, should they wish to do so, they will not need to apply the SORP.	<ol style="list-style-type: none"> 1. What is the Charities SORP Committee’s view on the suggested location of this paragraph? 2. One of the joint chair’s is interested to understand wish to include a paragraph in the SORP on situations when it might be preferable for a charity to prepare accruals accounts even though they may qualify to do R&P accounts <p>The Secretariat notes that inclusion of the proposed paragraph 10 in the Charities SORP may lead to confusion over subsequent SORP modules that refer to “all” charities, meaning all charities that apply the SORP.</p>

Paragraph reference(s)	Amendment made	Reason for Proposed Amendment	Question for consideration
			3. Does the Charities SORP Committee agree that this is a risk? If so, what could be done to mitigate the risk?
Module 4 Statement of Financial Activities			
4.1	A Table is introduced setting out tiered reporting requirements in relation to the use of natural classification and activity basis.	Advice provided by the Charities SORP Committee on 1 December 2021 that the SORP should be edited to better highlight the choice of natural classification for eligible charities.	<p>4. Does the Committee consider that the table explains the requirements clearly?</p> <p>In addition:</p> <p>The SORP currently allows charities to adopt “an alternative approach to their analysis” and gives natural classifications as an example of what the alternative would be.</p> <p>The Secretariat is of the view that it would be possible to simplify the SORP by referring only to the activity basis or natural classifications within the SORP (e.g. instead of referring to ‘an alternative approach such as natural classifications’, referring only to ‘natural classifications’) and has redrafted accordingly. This is consistent with FRS 102 (see FRS 102 paragraph 3.16)</p> <p>5. Does the Charities SORP Committee support redrafting the SORP so that the only two approaches to preparation referred to are the activity basis and natural classifications?</p>
4.1	Proposal to include an explanation of natural classifications in the Glossary	To ensure that charities in Tier 1 have a full understanding of both activity-based reporting	6. <i>Does the Charities SORP Committee agree that there should</i>

Paragraph reference(s)	Amendment made	Reason for Proposed Amendment	Question for consideration
	<p>(NB Activity Classification is already in the glossary). Proposed wording:</p> <p>Natural classification of expenses provides information about the expenses incurred by the charity according to what the expenses are (e.g. staff costs, grant-making, premises costs) without reference to the charitable activities the expenses contribute towards.</p>	<p>and natural classifications when deciding which approach to take.</p>	<p><i>be a definition of 'natural classification of expenses' in the glossary?</i></p>
4.2	<p>The words: "preparing their accounts on an accruals basis to give a true and fair view of their financial activities and financial position" have been deleted.</p>	<p>All charities applying the SORP are preparing their accounts on an accruals basis to give a true and fair view of their financial activities and financial position. Content removed to simplify the language in the SORP and avoid the potential for confusion.</p>	<p><i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i></p>
4.2, 4.4, 4.8	<p>Content from paragraph 4.4 on Table 2 moved further down the introduction to the module, resulting in paragraphs being renumbered.</p> <p>The phrase: "The structure, format and headings of the SoFA required by this SORP (when prepared on an activity basis) are set out in Table 2. FRS 102 does not address the presentation of charitable funds within the statement of comprehensive income provided by the SoFA." has been moved from paragraph 4.2 to paragraph 4.8.</p>	<p>Advice provided by the Charities SORP Committee on 1 December 2021 that the SORP should be edited to better highlight the choice of natural categories for eligible charities.</p> <p>Reference to Table 2 now moved so it falls after content on reporting by nature versus by activity to better highlight that the table is not relevant to charities reporting by nature.</p>	<p><i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i></p>
4.3	<p>"must" deleted</p>	<p>The paragraph specifies "this SORP requires"; "must" therefore unnecessary (see section 6 of the main report).</p>	<p><i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i></p>

Paragraph reference(s)	Amendment made	Reason for Proposed Amendment	Question for consideration
4.3	<p>Final sentence:</p> <p>“Comparative information provided for the separate classes of funds, if any, held by a charity may be presented either on the face of the SoFA or prominently in the notes to the accounts.”</p> <p>replaced with</p> <p>“This SORP requires that ... comparative information for separate classes of funds may be provided either on the face of the SoFA or in the notes to the accounts.”</p>	<p>Amendment suggested to make it clear that comparative information is required, and that the choice offered by the SORP is about where the comparative information is presented.</p>	<p><i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i></p>
4.4	<p>This paragraph is amended from</p> <p>“The statement of financial activities (SoFA) is a single accounting statement”</p> <p>to</p> <p>“The statement of financial activities (SoFA) is a single financial statement”</p>	<p>Amendment suggested to ensure consistency of language throughout the SORP.</p>	<p><i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i></p>
4.5, 4.6	<p>Additional paragraph included (para 4.5) to outline the choice of approaches to analysis that a charity in tier 1 may adopt.</p> <p>Text that previously covered the choice available to smaller charities:</p> <p>“However, smaller charities may opt to report their charity’s expenditure in a different way, for example by the nature of expenditure rather than on an activity basis.”</p> <p>removed from paragraph 4.6 (superseded by new paragraph).</p> <p>Wording changed to specify that charities in Tier 1 can adopt either the activity basis or natural classifications (i.e.</p>	<p>Agreed by the Charities SORP Committee on 1 December 2021 that the SORP should be edited to better highlight the choice of natural classification for eligible charities.</p> <p>Amendment to the wording around a “different way” to report expenses suggested to simplify the reporting requirements of the SORP. Charities will either use the activity basis or natural classifications. Wording that indicates there are other potential options (that are not outlined in the SORP) considered to be unhelpful, therefore it is proposed that such wording is removed from the SORP (see questions</p>	<p>Paragraph 4.25 encourages all charities (including charities in tier 1) to adopt activity-based analysis.</p> <p>7. Does the Committee consider that the preference remains to encourage all charities (including charities in tier 1) to adopt activity-based analysis?</p> <p>8. If so, would the Committee advise that this preference is reflected in the introduction to Module 4?</p> <p>9. Does the Committee have any other comments or</p>

Paragraph reference(s)	Amendment made	Reason for Proposed Amendment	Question for consideration
	reference to “different way” of reporting expenditure has been removed).	above referring to paragraph 4.1).	recommendations with respect to the suggested amendments?
4.10	Updated	Amendments made to reflect other changes, such as the changes to increase the prominence of natural classifications in the SORP.	<i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>
4.11	Additional detail clarifying that a change in presentation would be a change in accounting policy added.	As the new SORP will make the option to use natural classifications more prominent, suggested that awareness of natural classifications may increase therefore charities may opt to change from activity basis to natural classifications. Additional content suggested to ensure charities have an understanding of how to make this change and when/how often it will be permitted.	<i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>
Paragraphs 4.12 – 4.24 do not relate to activity reporting, support costs or expenditure classification and are therefore not under detailed consideration at this stage.			
4.25	Rephrased	Only the analysis of expenses differs between natural classifications and activity-based reporting. References to analysis of income removed to avoid confusion. Removed reference to “alternative approach” per comments against paragraphs 4.5 and 4.6 above.	<i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>
Old paragraph 4.23	Cut from this section, moved to section B1 and rephrased slightly.	Amendment suggested to ensure charities only need to look at section B of the module for further guidance on analysis of expenses irrespective of whether natural classifications or activity basis is adopted.	<i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>

Paragraph reference(s)	Amendment made	Reason for Proposed Amendment	Question for consideration
		Rephrased only so the wording makes sense in its new location.	
4.26, 4.28	Rephrased	Removed reference to “alternative approach” per comments against paragraphs 4.5 and 4.6 above.	<i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>
4.29	Rephrased	Amendment proposed to simplify the language in this paragraph.	<i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>
4.30	Rephrased	Amendment suggested to avoid use of both “nature” and “activity” in the same description, as this may cause confusion.	<i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>
Paragraphs 4.33 – 4.45 do not relate to activity reporting, support costs or expenditure classification and are therefore not under detailed consideration at this stage.			
4.55	Reference to governance costs removed	These costs fall under ‘support costs’ which are already referred to in the paragraph.	<i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>
4.56	Rephrased	Amendment suggested to avoid use of both “nature” and “activity” in the same description, as this may cause confusion.	<i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>

Paragraph reference(s)	Amendment made	Reason for Proposed Amendment	Question for consideration
Subheading above 4.60, 4.60	References to activity basis included.	Amendment suggested to avoid confusion.	<i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>
Table 3 (below paragraph 4.61); Table 4 (end of Module 8) 8.14	<p>Table 3 Expanded to show different types of costs across the top of the table, i.e. rather than including a single column for 'Support Costs', a range of additional columns have been included to separate out different types of support cost that charities might incur.</p> <p>An additional row added to Table 3 to allow charities to describe how costs are allocated to each activity.</p> <p>Table 4 deleted.</p> <p>Paragraph 8.14 updated to reflect the deletion of Table 4.</p>	<p>Advice given by the Charities SORP Committee on 12 January 2022 that:</p> <p>Table 3 should be expanded to allow for more detailed analysis of Support Costs.</p> <p>Table 4 would be redundant following the expansion of Table 3, therefore Table 4 to be deleted.</p>	<i>There is no specific question on this amendment. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>
Paragraphs 4.63 – 4.70 do not relate to activity reporting, support costs or expenditure classification and are therefore not under detailed consideration at this stage.			
Module 7 Recognition of Expenditure			
7.1	Table indicating the requirements of different tiers included. Note for expenses this module of the SORP will be applied equally to all three tiers.	To maintain consistency across all modules a table specifying the impact of tiered reporting requirements has been introduced.	<p>10. What is the Charities SORP Committee's view of the table set out in paragraph 7.1? Is this an appropriate approach to tiered reporting for module 7?</p> <p>The SORP Committee is invited to consider whether any additional reporting requirements might apply to any of the tiers for accountability or transparency.</p>
7.2	Rephrased.	Edit suggested to avoid the use of "expense" and "expenditure" interchangeably. <i>Please note</i>	<i>There is no specific question on this paragraph. Committee</i>

Paragraph reference(s)	Amendment made	Reason for Proposed Amendment	Question for consideration
		<p><i>that, following Committee discussions of this point, the Secretariat will review the SORP to ensure consistency of terminology across the document.</i></p> <p>“Used up” replaced with “consumed” for greater consistency with FRS 102.</p> <p>Edit suggested to remove reference to an expense “result[ing] in” a decrease in assets or an increase in liabilities – this phrasing is directional and therefore potentially problematic (e.g. when describing a provision, one might suggest that the existence of a liability leads to the recognition of an expense, which would contradict the existing phrasing in this paragraph).</p>	<p><i>Members are invited to make comments or recommendations with respect to the suggested amendments.</i></p>
7.3	Rephrased.	Edit suggested to improve readability of the SORP for the benefit of preparers.	<p><i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i></p>
7.4	Paragraphed reframed so expenses, rather than liabilities, are the subject.	This module is about the recognition of expenditure; it may be unclear to users of the SORP why the focus of the paragraph is liabilities given the previous two paragraphs focus on expenses. Edit suggested to improve accessibility of the SORP for the benefit of preparers.	<p><i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i></p>
7.4	Suggest including "exchange transactions" and "non-exchange transactions" in the glossary and hover-over boxes/hyperlinking/cross referencing to this paragraph. Note that for hard copy this will	Exchange transactions and non-exchange transactions are currently explained at a number of different points in the SORP in different contexts. For example, module 7 covers exchange and non-exchange	<p><i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with</i></p>

Paragraph reference(s)	Amendment made	Reason for Proposed Amendment	Question for consideration
	<p>be covered by the glossary description. Suggested wording for the glossary:</p> <p>Exchange transactions are usually contractual and involve an exchange of goods or services for consideration. For example, the employment of staff represents an exchange transaction, as the charity pays its staff in return for services rendered. Provision of charitable services under contract in return for payment represents an exchange transaction, as the charity earns income through the provision of services.</p> <p>Non-exchange transactions are those in which the charity either receives income without providing goods or services of approximately equal value in return or incurs an expense without receiving goods or services of approximately equal value in return. For example, income from gifts or expenses incurred making grants both represent non-exchange transactions.</p>	<p>transactions in the context of expenses. Module 5 currently covers exchange and non-exchange transactions in the context of income.</p> <p>Explaining the terms “exchange transactions” and “non-exchange transactions” in different contexts at different points in the SORP without a single overarching explanation in the SORP glossary creates the opportunity for inconsistency. A glossary description will also assist in the understanding of the transactions by the users of the SORP.</p>	<p><i>respect to the suggested amendments.</i></p>
7.5	“Rules” replaced with “principles”	FRS 102 and the SORP are principles-based; paragraph updated to reflect this.	<i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>
Subheading above para 7.6	“Rules” replaced with “principles”, “expenditure” replaced with “expenses”	<p>FRS 102 and the SORP are principles-based; sub-heading updated to reflect this.</p> <p>Edit suggested to avoid the use of “expense” and “expenditure” interchangeably.</p>	<i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>

Paragraph reference(s)	Amendment made	Reason for Proposed Amendment	Question for consideration
7.6	Additional paragraph suggested to make it clear why liabilities are referred to in this module.	Edit suggested to improve readability of the SORP for the benefit of preparers.	<i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>
7.7, 7.8	<p>Explanation of legal obligation removed from 7.8 – suggestion to include this in the glossary instead.</p> <p>Suggest hover-over boxes/hyperlinking/cross referencing from the glossary to this paragraph for both legal and constructive obligations. At the moment, constructive obligation is included in the glossary but legal obligation is not.</p> <p>Suggested wording for Legal Obligation for the glossary:</p> <p>A legal obligation arises when a charity enters into a binding contract or there is a statutory requirement to make a payment.</p>	<p>Suggested edit to allow the user of the SORP to refer to the glossary explanations for legal and constructive obligations as soon as they read the terms, reducing opportunity for confusion.</p> <p>Suggestion to amend the SORP to contain a single instance of an explanation of “legal obligation” and a single instance of an explanation of “constructive obligation” to avoid multiple explanations with slight differences that may lead to confusion or inconsistency. Clear glossary descriptions will also aid the understanding of these terms and their impact on the relevant transactions.</p>	<i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>
7.8	<p>The SORP currently states that “expenditure is recognised once the supplier of the goods or services has performed their part of the contract”.</p> <p>Suggestion to revisit the wording of this paragraph following the SORP Committee’s consideration of income.</p>	<p>This paragraph is currently too simplistic, for example there is no distinction between recognition of an expense over time as opposed to at a point in time.</p> <p>This distinction is drawn out in IFRS 15 <i>Revenue from Contracts with Customers</i>, which the SORP Committee may consider during its discussions of income. By revisiting paragraph 7.8 alongside income, it will be easier to ensure recognition of an expense is reflected in the SORP as the mirror image of recognition of income, and for</p>	11.Does the SORP Committee agree that paragraph 7.8 should be redrafted following the SORP Committee’s discussions of income?

Paragraph reference(s)	Amendment made	Reason for Proposed Amendment	Question for consideration
		cross referencing to be included.	
Old 7.7	Suggest deleting this paragraph	This paragraph paraphrases the more detailed, precise explanation of a constructive obligation as contained in the glossary. As above, suggestion to amend the SORP to contain a single instance of an explanation of “constructive obligation” to avoid multiple explanations with slight differences that may lead to confusion or inconsistency.	<i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>
Subheading above paragraph 7.9	Removal of reference to “Rules”	FRS 102 and the SORP are principles-based; sub-heading updated to reflect this.	<i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>
Note that no amendments have yet been made to paragraphs 7.9 – 7.17. These paragraphs will be revisited following the Committee’s discussion of suggestions to restructure the SORP as outlined in this report.			
7.18, 7.19	Suggestion to reverse the order of these paragraphs.	The paragraph now numbered 7.18 reads as more of an introduction. Paragraphs reversed to improve the flow of the SORP and improve readability for the user.	<i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>
7.18	Explanation of non-exchange transaction updated.	Edit to reflect suggested update to paragraph 7.4.	Does the Charities SORP Committee believe the SORP would benefit from the inclusion of an explanation of ‘funding commitment’?
7.18	“award of” update to “decision to award”	“award of” could include grants that have been awarded, i.e. cash has been transferred to the recipient, in which case the recognition of a liability would be inappropriate.	
7.18	Inclusion of “may create a funding commitment”	To ensure the user of the SORP understands the relevance of this paragraph which sits in a section entitled “Conditions that limit the	

Paragraph reference(s)	Amendment made	Reason for Proposed Amendment	Question for consideration
		recognition of a funding commitment”	
7.18	Reference made to the expense as well as the liability.	To ensure SORP users understand why this paragraph is included in a module about expenditure/expenses. This amendment is intended to achieve the aim of thinking “non-financial expert first”.	
7.18	Edited to refer to both legal and constructive obligations.	Edit suggested to ensure the SORP covers different types of obligation with respect to awarding a grant.	
7.18	No edit suggested at this stage. However, the last sentence effectively contains the definition of a liability.	Suggest this is revisited following the Charities SORP Committee’s discussions of proposals to restructure the SORP with respect to provisions. It would be preferable to cross reference to the definitions of a liability and a provision rather than effectively repeating the definition here.	<i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>
7.20	Removal of “commitment”	Edit suggested to streamline use of terminology.	<i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>
7.20	Content on measurement deleted, replaced with “for future payments”.	Edit suggested to avoid potential inconsistencies. e.g. the paragraph as written doesn’t consider the possible need for discounting the liability to present value. The Secretariat suggests that this paragraph links/cross references to measurement principles for liabilities. Reference to future payments suggested to clarify that the liability will be for the unremitted amount of the grant	<i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>

Paragraph reference(s)	Amendment made	Reason for Proposed Amendment	Question for consideration
		(thinking “non-financial expert first”).	
7.23	Rephrased	Additional content included with the intention of enhancing clarity and understandability of the paragraph. This amendment is intended to achieve the aim of thinking “non-financial expert first”.	<i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>
7.23	Suggestion that the final two sentences of the paragraph be deleted and replaced with a cross reference to the section of the SORP dealing with reversal of a provision.	<p>Edit suggested to ensure trustees/users of the SORP understand the principles behind the reversal of a provision. While the paragraph as written includes the requirements for reversing a provision in a single place (which might remain the preference of the SORP Committee), the benefits of a cross-reference rather than a repetition of the relevant requirements are:</p> <ul style="list-style-type: none"> • removal of potential for inconsistency or misinterpretation where requirements are set out more than once within the SORP but are worded slightly differently each time. • trustees/users of the SORP will read the requirements for the reversal of a provision in context, which may support a greater understanding of the requirements. 	12.Does the Charities SORP Committee agree with the proposal to cross reference to the SORP section on reversal of a provision, rather than duplicate requirements across the SORP?
7.25	Paragraph moved to below, rather than above, the subheading “Accounting for liabilities arising from performance-related grants”	This paragraph explains what is meant by ‘performance-related grant’. Edit suggested to include the paragraph in a sub-section about performance-related grants.	13.Does the Charities SORP Committee believe that paragraph 7.20 would benefit from cross-referencing to the sub-section on

Paragraph reference(s)	Amendment made	Reason for Proposed Amendment	Question for consideration
			performance related grants?
7.41 – 7.42	n/a	n/a	<p>14. On the assumption that similar explanations are included elsewhere in the SORP, does the Charities SORP Committee agree that these paragraphs should be removed from this module, leaving only a cross reference to the modules on Disclosure of trustee and staff remuneration, related party and other transactions (Module 9) and Retirement and post-employment benefits (Module 17)?</p> <p>(see main report paragraphs 4.1 to 4.4)</p>
<p>Note that no amendments have yet been made to paragraphs 7.29 – 7.40, 7.44 or 7.45. These paragraphs will be revisited following the Committee’s discussion of suggestions to restructure the SORP as outlined in this report.</p>			
<p>Module 8 Allocating cost by activity in the statement of financial activities</p>			
8.1	Table indicating the requirements of different tiers included	To maintain consistency with across all modules a table specifying the impact of tiered reporting requirements has been introduced at the beginning of module 8.	15. What is the Charities SORP Committee’s view of the table set out in paragraph 8.1? The Charities SORP Committee is invited to consider whether the table captures the reporting requirements for each of the tiers for this module or whether any different specifications should apply to any of the tiers.
8.3	References to costing removed	<p>This amendment is intended to achieve the aim of thinking “non-financial expert first”.</p> <p>Paragraph 8.7 explains the requirements for costing in a</p>	<p><i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with</i></p>

Paragraph reference(s)	Amendment made	Reason for Proposed Amendment	Question for consideration
		more detailed way that is easier to understand due to its use of examples and additional explanation. Edit suggested because references to use of the full cost basis may be confusing without the additional explanations and examples as included in paragraph 8.7.	<i>respect to the suggested amendments.</i>
8.4, 8.5	Explanation of significant activities move from 8.5 into 8.4	Edit suggested to include both sentences about significant activities in the same paragraph.	<i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>
Subheading above para 8.7	Inclusion of “and treatment” in the subheading	The content included under this subheading covers more than just the identification of support costs.	<i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>
8.7	Rephrased	At its meeting on 1 December 2021, the Charities SORP Committee supported the use of “enablers” to describe support costs to avoid giving the impression of support costs as ‘bad’. Edits suggested in response to these SORP Committee discussions.	<i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>
8.8	Bullet point on support costs rephrased.	At its meeting on 1 December 2021, the Charities SORP Committee supported the use of “enablers” to describe support costs to avoid giving the impression of support costs as ‘bad’. Edits suggested in response to these SORP Committee discussions. Examples of support costs included to enhance consistency between the bullet points in this paragraph.	<i>There is no specific question on this paragraph. Committee Members are invited to make comments or recommendations with respect to the suggested amendments.</i>

Extract of Table Presented at the 16 February 2022 Meeting of the SORP Committee

Topic (date reviewed)	Tentative conclusions reached	Implications for the text
Support costs (1 December 2021)	<p>The Chair noted that:</p> <ul style="list-style-type: none"> the SORP Committee agreed it would be preferable to retain the optionality currently offered to smaller charities in deciding between natural classification and activity-based classification. there were a range of views and no consensus on whether it would be reasonable to extend natural classifications to more charities. This should be revisited at the same time as tiered reporting. However, the Chair noted that some Committee Members were against extending the use of natural classification. there was support for amending the SORP to allow smaller charities to make a more informed choice between natural and activity-based classifications, for example by use of separate SORP modules. there was support for the suggestion of including an illustrative SoFA using natural classification in the SORP, alongside an illustrative activity-basis SoFA. there had not been support for giving guidance on what the natural classifications should be. <p>The Chair noted that discussions made reference to how charities can be supported in telling their stories. The principles underpinning expenditure classification should reflect how the charity is functioning and what the charity does. This suggests the need for a clear link between the SORP modules on expenditure and the TAR.</p> <p>Comments around perceptions of expenditure as ‘good’ or ‘bad’ were noted, with the Chair commenting that this indicates the need to consider an education piece for the users of the accounts.</p>	<p>Edit the SORP to better highlight the choice of natural categories for eligible charities (<i>and add an illustrative SoFA illustrating a layout that ‘should’ be followed</i>).</p>
Expenditure classification (1 December 2021)	<p>The Chair noted the potential benefits of a positive wording for the cost category, such as ‘enablers’. The Chair reflected that this wording had garnered broad support from Committee Members, and could serve as a platform for an education piece.</p> <p>The Chair noted that costs are costs – it is up to a charity to best decide how to undertake its charitable activity.</p> <p>The Chair noted that there was no support for including additional lines on the face of the SoFA, confirming this with the SORP Committee as a whole. Rather, the SORP Committee supported the use of narrative information to emphasise how the charity is functioning.</p>	-

Topic (date reviewed)	Tentative conclusions reached	Implications for the text
<p>Activity analysis (12 January 2022)</p>	<p>A committee Member suggested illustrative examples of the SOFA prepared using both the activity basis of reporting and 'natural classification' and using the same numbers to demonstrate the differences in classification and presentation of the two alternatives. The Chair noted that examples in the SORP at present do not include figures.</p> <p>The Secretariat noted that care would be needed when including examples in the SORP. The inclusion of too many examples in the SORP leads to the risk of the SORP becoming rules-based rather than principles-based. It recommended that the SORP should be clear on whether examples are illustrative or prescriptive.</p> <p>The Chair asked for Committee Members' thoughts on whether Table 4 should be removed from the SORP, being facilitated by the expansion of Table 3 to include more cost categories. It was agreed that this could be revisited at drafting stage.</p> <p>The Chair referred to discussions from previous meetings on the need for an education exercise on support costs.</p> <p>The Chair commented that the preparation of additional guidance beyond that included in the SORP would be deferred. Work would be undertaken on additional guidance once the text of the SORP was agreed. The Chair later noted there was precedent for prioritising the development of the text of the SORP, then preparing examples and guidance following the publication of the SORP.</p>	<p>Potential for a worked example.</p> <p>Module 8 - Table 4 not required but that Table 3 could be expanded to show the different type of costs across the top.</p> <p>Module 1 – a need to better align narrative reporting with reported expenditure.</p>