

0:0:8.821 --> 0:0:9.741

Neal Trup

Hi, everyone.

0:0:9.981 --> 0:0:12.941

Laura Renaud-Studer

Hello everyone. Good morning.

0:0:13.821 --> 0:0:15.261

Laura Renaud-Studer

We still have a few people.

0:0:16.781 --> 0:0:23.901

Laura Renaud-Studer

trying to join, so just bear with me as a click yes to them joining.

0:0:30.61 --> 0:0:31.941

Laura Renaud-Studer

We'll just give people another minute.

0:0:33.181 --> 0:0:34.461

Laura Renaud-Studer

And then we can start.

0:0:49.21 --> 0:0:49.781

Laura Renaud-Studer

All right.

0:0:50.541 --> 0:1:9.341

Laura Renaud-Studer

Let's do it. Good morning again, everyone, and welcome. So my name is Laura Renaud Studer. I'm Investment Director at Figurative. Thank you very much, all of you, for joining us today. The webinar is on the new financial reporting requirements for charities.

0:1:9.821 --> 0:1:30.941

Laura Renaud-Studer

And we are very delighted to be joined by Neil Trapp. Neil is a chartered accountant and trainer specialising in charities and social enterprises. And Neil will take us through the key changes under the new charities SOP, and that includes the trustees annual reporting, the income recognition,

0:1:31.501 --> 0:1:41.661

Laura Renaud-Studer

And all of that, that you'll explain much better than me and what it means in practise for the management account and the different reports.

0:1:43.301 --> 0:2:6.541

Laura Renaud-Studer

Before we dive in, just a couple of quick housekeeping points. As usual, you can use the comments function. So that's the chat here. And then we'll also do a few polls and we'll put the questions in the Q&A. We will direct you through what to use at what point in time. So don't worry too much about it.

0:2:6.581 --> 0:2:26.61

Laura Renaud-Studer

now. And Neil will take us through the presentation and sometime pause for questions, but feel free to also put some questions during the presentation in the chat function. And then we can cover as many as possible.

And yeah, without further ado,

0:2:26.141 --> 0:2:29.821

Laura Renaud-Studer

I'll hand over to Neil. Thank you, everyone.

0:2:31.741 --> 0:2:53.341

Neal Trup

Okay, welcome everyone. Good to see you all today. So yeah, my name is Neil. I'm a chartered accountant and I'm also a member of the Charity Sort Committee. So SOP is a key area for me and there's lots of changes. We don't have a lot of time and also is

0:2:53.581 --> 0:3:11.661

Neal Trup

is not a lot to get through it all, but I will cover, you know, an overall and hopefully get a little bit deeper into a few areas that I think are areas that you want me to do a little bit more detail. And that's why I'm going to just

0:3:12.821 --> 0:3:35.21

Neal Trup

Let's put my slides up here. And by the way, all the slides will be sent to you afterwards, as well as an example set of accounts. So I'm going to start the slides here. So I've moved quickly on to poll number one.

0:3:36.501 --> 0:3:53.581

Neal Trup

As Laura says, if you can just answer in the Q&A, it just helps me understand what your organisation sort of legal structure is, because that helps me give emphasis during the session. So if you can, if you can sort of just

0:3:54.861 --> 0:3:55.981

Neal Trup

Let us know.

0:3:58.541 --> 0:4:0.861

Neal Trup

Laura, is that coming through?

0:4:4.61 --> 0:4:4.701

Laura Renaud-Studer

So...

0:4:5.741 --> 0:4:6.61

Neal Trup

Yeah.

0:4:5.901 --> 0:4:8.941

Laura Renaud-Studer

So I can see everyone is putting it in the chat yet, because like you all.

0:4:8.781 --> 0:4:9.61

Neal Trup

Yeah.

0:4:10.101 --> 0:4:25.341

Laura Renaud-Studer

quicker than we are. I don't think our Q&A chat is, that's fine. Let's just use the chat. Thank you everyone. So we're saying charity, a lot of charities, one CIO, 2 CIOs.

0:4:12.541 --> 0:4:13.181

Neal Trup

Okay.

0:4:18.541 --> 0:4:19.21

Neal Trup

Okay.

0:4:27.741 --> 0:4:33.21

Laura Renaud-Studer

I'm expecting most of the audience to be, yeah, charities.

0:4:33.981 --> 0:4:34.541

Neal Trup

Okay.

0:4:36.381 --> 0:4:54.941

Neal Trup

OK, all right. OK, so let's move on then. That's really helpful, because that gives me a good idea as well. So if we move on to poll 2, these are the only polls that we've got, but as I say, it helps me give emphasis during the session. So what I want to ask here is,

0:4:37.901 --> 0:4:38.221

Laura Renaud-Studer

Yeah.

0:4:55.61 --> 0:5:10.861

Neal Trup

What are the main things you want to understand today? Is it around the new trustees report requirements? Is it particularly income recognition changes? Is it leasing? Is it income recognition and leasing or is it all the topics or is it something else?

0:5:12.221 --> 0:5:17.501

Neal Trup

I mean, I will cover everything, but it's just about where I know the emphasis is.

0:5:18.541 --> 0:5:24.461

Laura Renaud-Studer

All topics, new requirements for the trustee report, income recognition.

0:5:26.861 --> 0:5:30.861

Laura Renaud-Studer

Annual report, leasing, yes, leasing is a leak.

0:5:31.861 --> 0:5:33.661

Neal Trup

Leasing, OK.

0:5:32.21 --> 0:5:36.781

Laura Renaud-Studer

Company and your report income recognition. OK, so yeah, a lot of...

0:5:38.461 --> 0:5:42.781

Laura Renaud-Studer

Income recognition and annual report, but also, yeah, all topics probably.

0:5:43.581 --> 0:5:53.501

Neal Trup

All right, no, that's fine because I will cover everything. So I'll try and do it evenly if that's, does that feel right?

There's no dominant sort of area.

0:5:53.461 --> 0:6:0.61

Laura Renaud-Studer

Probably income recognition and trust general report seems to be a bit more dominant than the leasing apparently from the chat.

0:5:59.341 --> 0:6:18.701

Neal Trup

OK, that's OK, but that sounds that sounds fine. OK, thank you. That's really helpful. And I will cover everything anyway. But OK, so let me start off here. So this year, 2026, is a very big year of change for

0:6:19.261 --> 0:6:39.901

Neal Trup

both the accounting and reporting requirements for charities and indeed companies. And that change affects accounting periods beginning on or after 1st of January. So it's the first really accounting period within 2026. So some of you will already be in that, some of you yet to.

0:6:40.221 --> 0:6:59.181

Neal Trup

If you've got like a December year end or a March year end, for example, then you will already be under the regime. If you've got, say, a June year end, for example, then you won't be quite yet. Okay, so that's the accounting requirement. And then there's also alongside

0:6:59.461 --> 0:7:17.981

Neal Trup

There's changes to thresholds for audit and independent examination and so on and various charity thresholds. And they confusingly are a different date and they apply for accounting periods ending on or after the 30th of September.

0:7:18.381 --> 0:7:36.941

Neal Trup

Now that probably means you're already in the financial year, because if you're if you're sort of say December year end, then you will be impacted by that in the current financial period. And indeed, if you're 30th of September year end, then you are impacted

0:7:37.181 --> 0:7:57.341

Neal Trup

already. If you're 31st of March, then it won't apply to 31st of March 2026, but it will apply to 31st of March 2027, in which case the two would be at the same time, but it won't always be the case. There will be some where the thresholds are slightly different for your

0:7:57.621 --> 0:8:16.781

Neal Trup

to your organisation. So those are sort of like main changes overall. And just to give you a very summary

table of the changes around these thresholds, you can see the current level in bold here. I'm just going to pick out one or two. There's actually about 40 thresholds.

0:8:16.981 --> 0:8:37.581

Neal Trup

different types of thresholds that have changed. These are the main ones that I wanted to just highlight. So independent examination is required for any charity currently with an income of 25,000 or more, that's moving up to 40. So for smaller charities, 30, 35,000, they may not need an independent examination.

0:8:38.541 --> 0:8:58.461

Neal Trup

But also in terms of audit, which is what I wanted to particularly pick out, that threshold is currently 1 million of gross income. That's increasing to 1.5 million. And there's a for asset rich organisations with large assets but smaller income,

0:8:58.821 --> 0:9:21.61

Neal Trup

that's increasing, that's currently at 3.26 million if your income is above 250K. And if you've got, and the new requirements will be 5 billion of assets if your income is 500K rather than these audit thresholds, which otherwise would apply. So there's quite a few sort of changes that are going on. Another one, just

0:9:21.261 --> 0:9:41.501

Neal Trup

to point out, some of you might be, if you're non-company charities like a CIO, you might be producing cash-based accounts, receipts and payments. That currently has a threshold of 250,000, but that's doubling to half a million for accounting periods ending up from 30th of September.

0:9:42.61 --> 0:10:0.301

Neal Trup

this year. So that's quite a significant leap there. But what I'm going to concentrate really on this session is on SORP, is on the charity account, and also briefly on other company accounts as well, because if any of you are like CICs or

0:10:0.621 --> 0:10:20.381

Neal Trup

other sorts of companies. And you'll see here on the slide, we've got FRS 102, Financial Reporting Standard 102. That is the core standard for companies in the UK and the charity SORP is like a bolt on. It is part of FRS 102 really, but it has some of the specific rules.

0:10:20.541 --> 0:10:40.21

Neal Trup

of charities. So it's not a framework in itself. It is in effect a bolt on to FRS 102. So a lot of the changes that are happening under the SORB are really driven by changes in FRS 102. That's particularly the case with a lot of the income recognition and the leasing.

0:10:40.861 --> 0:11:2.621

Neal Trup

And this slide here is like a one page summary of the changes to the SORB. So it's just to give you a sort of an overall view of it. So what we've got here is we've got a three tier reporting regime coming in. At the moment we have

0:11:2.701 --> 0:11:23.821

Neal Trup

too. It's not really as much a change in levels as might appear to be the case, because effectively we're adding a 15 million tier. So we've got up to half a million, halfway into 15 million, and now 15 million. The 15 million tiers come in because of changes to small company reporting within the Companies Act.

0:11:24.101 --> 0:11:45.661

Neal Trup

So that's why that's coming there. But what it does do, the SOP is restructured and is much clearer about what applies to tier one, tier 2 and tier 3. So it makes it a lot easier to use than the current SOP. There's some new disclosures, particularly in the annual report,

0:11:45.861 --> 0:12:7.21

Neal Trup

around future plan sustainability and volunteers. And I'm going to go through that. There's some like prompt questions which are helped to help prepare us when you're putting together the annual report about some of the key questions that you need to cover. There's an updated definition of reserves. We're talking like free reserves.

0:12:7.341 --> 0:12:25.261

Neal Trup

It's not really a change, it's a nuanced change, but it's mainly about making the definition clearer and more consistent. And in particular, about reconciling the reserves figure in the annual report to the accounts. And I'm going to cover that as well.

0:12:26.301 --> 0:12:46.221

Neal Trup

There's going to just jump onto income recognition. So there's a new income recognition for contracts and sales, which I am going to go into a bit more detail. There's some more clarifications around what's called non-exchange income. We're talking about grants, legacies, donations.

0:12:47.101 --> 0:13:5.821

Neal Trup

not major changes, but they're just tidying up, making things a little bit clearer, may impact some people on the edges, but in the main it won't. And the leases, putting the leases on the balance sheet. The sort of the good news for preparers is that the statement of cash flows

0:13:6.141 --> 0:13:25.661

Neal Trup

is now only required where income is above 15 million. That's a Company Act requirement. It's now not required for any charities below. It's currently at half a million. So those are the main changes. So I am going to move on to the next slide.

0:13:25.981 --> 0:13:44.621

Neal Trup

Okay, so here, this table is another way of summarising some of the changes. So you're aware, I've highlighted the changes. I've just broken down the different parts of the account. So we've got the narrative reporting, like the trustees report, director's report, you've got your accounting policies, you've got

0:13:45.261 --> 0:14:5.581

Neal Trup

donations and grants, how they recognise a balance sheet and the notes and the income and expenditure or the profit and loss camp. You can see with a charity, every bit is changing. So there's quite a lot of change there. If you're doing receipts and payments, there's not really any change except the threshold is increasing to

0:14:5.821 --> 0:14:26.781

Neal Trup

half million. And if you're non-charity like a CIC is less changes, there's main changes will be around income recognition and leases. That's fusing FRS 102. Doesn't come up a lot in our sector, but some organisations will use FRS 105, which is micro entities.

0:14:27.581 --> 0:14:46.941

Neal Trup

not allowed for charities, but if your incomes below 1,000,000, some people will use it. These are much more basic accounts and the changes are much more limited and they're really limited to changes to income recognition because the leases don't apply. So you can see, hopefully this table is useful to give you a broad overview about where

0:14:46.981 --> 0:14:49.581

Neal Trup

where the changes are happening.

0:14:51.181 --> 0:15:9.501

Neal Trup

Okay, and this is just a summary of the sort tiers that I've mentioned. So we've got tier one up to half a million, tier 2, one to 15 million, tier 3 is at 15, 15 million. And then separate to that, you've got the receipts and payments for non

0:15:9.901 --> 0:15:28.781

Neal Trup

company threshold, company charities, a company charity has to do so, but a CIO say with income now less than either 250 or half a million can use receipts and payments. So I'm going to get into a little bit more detail now about the changes. So

0:15:29.21 --> 0:15:44.141

Neal Trup

This is about the annual report. So in a way, I've divided into the three areas, annual report, income

recognition and leasing. So this slide's annual report. The main things are around reconciliation, explanation of reserves.

0:15:45.981 --> 0:16:6.381

Neal Trup

and linking it to going concern. And now all charities have to talk about their plans for the future under the current sort, those below half a million, it was not required, but now it's required to all. And tiers 2 and three need to give even more details really of their plans.

0:16:7.141 --> 0:16:9.21

Neal Trup

In terms of volunteers.

0:16:11.181 --> 0:16:31.581

Neal Trup

This is now becoming more of a specific requirement about disclosing the scale and nature activities of volunteers and in charities in tier two and three, even more information. I'll show you some examples of that, including numbers and maybe even calculations as to

0:16:32.221 --> 0:16:52.21

Neal Trup

the value of the volunteers, even though you're not generally going to put that into the actual accounts. Impact is another key change that is now becoming a much clearer requirement so that the user of the accounts can understand the impact that the charities have made. And again, I will show you examples here.

0:16:52.181 --> 0:17:11.901

Neal Trup

And there's some other changes around that have been encouraged to explain about how they're sort of responding to sustainability and also explanations, for example, legacy income. If you do get legacy income, you need to articulate it much more clearly so that someone understands how you're doing.

0:17:12.221 --> 0:17:33.261

Neal Trup

And then sort of being able to emphasise around risk management, including cyber risks. And again, I will show you some examples of that. Moving quickly on to income recognition. So what's changing here? The main change is around what the SWC talks about as

0:17:34.541 --> 0:17:52.381

Neal Trup

exchange income. So where there's some sort of two-way element, we're talking about contracts or sales where there is an exchange of goods or services for money, or it could be in kind as well. It can be in kind if it's a genuine exchange.

0:17:53.341 --> 0:18:11.981

Neal Trup

And there's this five step model, and I'm going to talk through about it, about how you recognise it. But it's essentially moving on to fulfilment of promises and obligations, rather than transfer of what's called risk and rewards, which we have now. Some

0:18:12.221 --> 0:18:36.621

Neal Trup

Organisations won't be affected by it, but some will be massively affected. So it really depends upon your income. And I'll go through some examples to make that a little bit clearer. There's a lot of judgments as well that go into that, which I'll go into a bit more detail. In terms of legacy income, not a lot of change for most organisations, but you will need an updated policy.

0:18:37.501 --> 0:18:56.861

Neal Trup

income might be recognised a bit earlier or later, depending on how your policy is. Now, at the moment, where the SOP is going, it's about when the control passes, which is generally around probate. It's not always, there are always going to be issues around that, but it would

0:18:57.501 --> 0:19:17.421

Neal Trup

probably won't make impact for most organisations, but some who were recognising it very early or very late might have to move more towards the middle there. Again, there's lots of judgments there. Cash grants and things, not really a lot of difference, but the word entitlement, which

0:19:17.661 --> 0:19:36.781

Neal Trup

was in the current sort, which really refers to the control of the grant that has been removed and it's just looking at when it is received or receivable. I'll give you one or two examples on that. I probably won't affect too much.

0:19:36.861 --> 0:19:55.901

Neal Trup

organisation, too much in the actual treatment. But it's just making things a bit more consistent and clearer. Donated goods and services, again, not a change. It's always been about the value to the charity. But now I think sort of makes it a little bit clearer and I will go through one or two

0:19:56.141 --> 0:20:14.541

Neal Trup

examples on that. And then leasing. So with the leasing, we're talking about mainly, you know, leases of premises or vehicles will be the main type of leases. And it's, you know, instead of just paying rent, it's now treated as if you

0:20:14.941 --> 0:20:34.301

Neal Trup

have an asset, only asset for the period of the lease, and then you capitalise it, put it on the balance sheet and depreciate it. And then the liability, which will be all your lease payments, need to be included as well. And I'm going to go through some examples. This could really change your accounts and your balance sheet quite a bit.

0:20:34.381 --> 0:20:52.861

Neal Trup

and there's a lot of judgement and there may be a lot of complications here. The good news is there are some exemptions. So low value items like computers, equipment, office equipment don't need to be capitalised and nor do short term leases of less than 12 months.

0:20:53.181 --> 0:21:13.221

Neal Trup

And just to be clear about low value items, it's about the individual asset, not about the overall lease amount. So you might lease, just to give a mad example, we might lease 100 iPads. That is still considered low value because you look at it on an individual asset.

0:21:13.341 --> 0:21:33.821

Neal Trup

each asset is small, therefore you get the exemption. So it could have a higher lease payment than say a vehicle, but a vehicle cannot be counted as a low value item, irrespective of the lease payment. That's what FRS 102 says. So you've got to look at it as an individual asset.

0:21:34.141 --> 0:21:34.381

Neal Trup

Um...

0:21:35.581 --> 0:21:54.461

Neal Trup

And the lease liability, I think, is going to add quite a lot to the balance sheet. Some of you may have peppercorn or low rent leases. So peppercorn lease or nominal lease, the good news is that's exempt from all these requirements. A low value lease is more complex.

0:21:54.701 --> 0:22:14.621

Neal Trup

If it's low because it's really subject to restrictions that is really the market rent, then that's treated as a normal market value lease. But if there is a lease where you are being, where it's lower because whoever the landlord is, is giving you effectively a donation,

0:22:14.661 --> 0:22:34.301

Neal Trup

that they're seeing it as a donation, then you have to separate the two bits out and say, well, what is the donation element? That is not a lease. What is the lease amount? And base it on that. So it gets a little bit more complicated. There's a lot of judgement about how you might

0:22:34.461 --> 0:22:35.501

Neal Trup

Work that out.

0:22:36.861 --> 0:22:57.501

Neal Trup

So I'm going to just quickly go through a few moments and then we'll look at any questions that may have

come through. So the trustees annual report. So I mentioned about prompt questions. I'm not going to go through these. These are just reproduced from the sort, but you can see what it is. It is there designed to make it a little bit

0:22:57.821 --> 0:23:16.381

Neal Trup

more helpful to users to bring a bit of consistency. And it's certainly about understanding who the trustees report is aimed for, you know, who are your users, who are your funders, who are your stakeholders and making sure that it is written in that way. And then this is where

0:23:16.701 --> 0:23:35.261

Neal Trup

there is quite a bit of difference between the different tiers as to what is required. So if you're up to tier one, then, I mean, all tiers need to look at these questions about, you know, what differences the charity made to its beneficiaries, for example.

0:23:35.661 --> 0:23:56.141

Neal Trup

and also wider public benefit. And then for tier 2, you've got these additional questions around its objects, its activities, strategy and performance. There is another set of tier 3, so if any of you are tier 3, then you'll need to go to the sort, but most of you will be tier 2 or

0:23:56.381 --> 0:24:3.741

Neal Trup

Or less, which is why I've reproduced it here, but I think it is a helpful approach for users.

0:24:4.781 --> 0:24:29.541

Neal Trup

Now, I'm going to move on to reserves, because that is, you know, there is a change here, not necessarily in the amount of reserves, but certainly in the way that it is sort of disclosed and calculated and reconciled.

And SWOP 2026 does give a very clear definition of reserves. It takes away the word free reserves, but it

0:24:29.541 --> 0:24:49.181

Neal Trup

What we're talking about is effectively free reserves. So reserves are not tied up in assets, designated funds and commitments and so on. And what it says is you've got to start with the unrestricted funds figure that is sitting in the balance sheet, and then you've got to make those deductions

0:24:49.501 --> 0:25:8.941

Neal Trup

And then that shows your reserves. Now, that's always sort of been the case, but very often, or almost always, that calculation is done offline in a sense. It's not shown in the accounts. And now it is required to show that calculation and that reconciliation. And

0:25:8.981 --> 0:25:27.581

Neal Trup

also a requirement to compare your actual reserves to the policy. And if you're out of line to explain why and what you're doing about it, and especially if you are below your reserves policy, whether there are any implications for government concern.

0:25:28.21 --> 0:25:47.821

Neal Trup

And this is just an example of what we're talking about is where you take the unrestricted funds, in this case 401, that will be agreed to the balance sheet, and then we're taking out fixed assets, lease liabilities and so on to get our free reserves and then comparing it to

0:25:49.21 --> 0:26:8.301

Neal Trup

to your policy. In this case, we've got a range. I mean, you might have a specific figure, but it makes it even clearer to the reader. In this case, we're at 147, we're very much within our policy. And if not, then we would have some sort of explanation. I'm going to move on to volunteers.

0:26:9.341 --> 0:26:28.621

Neal Trup

So in terms of volunteers, there needs to be more explanation of the scale in nature to help a reader understand what the volunteers are doing in the organisational activities and, you know, helping look at their different roles, for example, and especially

0:26:28.861 --> 0:26:49.821

Neal Trup

Tier 2 and tier 3 should actually include the number of what's called general volunteers and the activities that are supported. What I want to do here is just explain the difference between what SOP talks about in general and non-general volunteers. Now this is not a change, but I think the SOP emphasises it more clearly.

0:26:50.61 --> 0:27:12.701

Neal Trup

because there is a different accounting treatment. So general volunteers, these are volunteers that generally work within your charity. They might be working in a charity shop, they might be delivering some support or whatever. Now non-general or specialist volunteers, these are generally like trades people. So to give you an example, let's say

0:27:12.861 --> 0:27:33.501

Neal Trup

you have an office or a charity shop and you have a leak or something and you call in a plumber and the plumber comes and sorts it out and then the plumber says, I'm doing it for free because, you know, I support your charity. But that's not a general volunteer. That's a service that you would have otherwise paid for. If that's the case, you have to treat it as

0:27:33.821 --> 0:27:55.501

Neal Trup

donated income and donated expenditure. And what you have to do is add the value to the charity. So it might be that the charity, this particular plumber charges premium rates and you would have gone to a cheaper plumber. And if that's the case, you have to put in the price of the cheaper plumber that you would have gone to. But nonetheless,

0:27:55.741 --> 0:28:15.501

Neal Trup

that has to be accounted in your account, whereas general volunteers, you don't put the numbers into the account. I know there's judgement always going to be that case, but that's a really important distinction. Again, not a change, but improved clarity. And then the other areas around impact. So we're talking about being

0:28:15.661 --> 0:28:40.181

Neal Trup

making it very clear about the main achievements of the charity. And it can use all sorts of statistics and testimonials and other stuff, which, you know, is really important. You've got to put it in a style that works for your users. But also you need to link it to the charitable expenditure. You need to be, it needs to be clear about these are your achievements and this is what it costs. And I'll show you an example.

0:28:40.181 --> 0:29:1.901

Neal Trup

example of that. And it sets out these two questions that you need to ask, need to answer. I know it's easy to ask and not always easy to answer, but you know, what difference has the charity made to its beneficiaries and what difference, wider benefits to society as a whole? So those are the core questions that need to be

0:29:2.141 --> 0:29:21.501

Neal Trup

answered in the impact. I'll give you examples, a fairly simple example. And charities in Tiers 2 and 3 need to also explain longer term impacts as well. This is just an example, you know, some might use a theory of change or something, and you could have an infographic or something like this.

0:29:21.821 --> 0:29:40.701

Neal Trup

You don't have to do it in this way. It's really about, you know, what works for you as an organisation. And this is an example, and I'll show you an example, Kat, where in the trustees report, we've got, oops, in the trustees annual report, we might set out, you know, the different

0:29:41.981 --> 0:30:1.101

Neal Trup

outcomes and so on that we've achieved and achievements we've done in the year. In this case, with this particular organisation works with older people, young people, one does sort of community activities. And this is how it's set out in the annual report. So you can see it very clearly. But if you go to the accounts, it's using the same categories. So

0:30:1.341 --> 0:30:23.981

Neal Trup

If a reader wants to see how much you've spent on the younger people, you've achieved that, that's what it's cost. And at the moment, these links are often not the case. You are meant to make it much, much clearer to

sort of link it. I'm just wondering whether, are there any questions at this point before I go into income recognition?

0:30:24.381 --> 0:30:29.181

Neal Trup

So that's around the annual report. We'll go through an example soon.

0:30:30.621 --> 0:30:41.181

Laura Renaud-Studer

So there is no question in the chat for now. But if anyone has any question and wants to share live, that's absolutely welcome.

0:30:33.901 --> 0:30:34.301

Neal Trup

Okay.

0:30:42.101 --> 0:30:47.821

Neal Trup

Okay, any questions? If not, then I'll carry on and I'll pick up questions later on.

0:30:50.301 --> 0:30:51.101

Laura Renaud-Studer

Okay, let's do that.

0:30:50.381 --> 0:31:1.301

Neal Trup

OK, so let's go, and you will get all the slides as well, and the sort of sample accounts that I'm going to go through soon. So, in terms of income, yes, yeah.

0:30:59.101 --> 0:31:11.501

Laura Renaud-Studer

We have one, sorry Neil. We have one from Rose. Deciding whether the rent lease is major or low, depending on overall turnover of the charity or is there a set figure?

0:31:12.181 --> 0:31:33.221

Neal Trup

No, there's no figure and it's nothing to do with the size of the charity. It's to do with the item itself. So what the sort says, or like FRS 102, it doesn't say what's small, but it says what isn't. So like vehicles, land, buildings, machinery, and

0:31:33.421 --> 0:31:54.381

Neal Trup

I mean, it talks about aircraft and other stuff. That is not small, cannot be small in any circumstance. But then what is small is up to you to decide what you think is small, but it's based on an individual asset itself, nothing to do with the size of the organisation.

0:31:54.661 --> 0:32:16.541

Neal Trup

So an iPad will be small, it will be exempt. It doesn't matter whether you're a tiny organisation or a large one, you know, a little office printer, a cheap printer will be exempt, whatever, whereas a very large photocopy machine might be not. So that's how it is. Nothing to do with materiality to do with the organisation.

0:32:16.781 --> 0:32:19.21

Neal Trup

At all, it's to do with the aspect itself.

0:32:19.741 --> 0:32:28.381

Laura Renaud-Studer

And could you clarify? Okay, cool. Are you okay, Rose? Or do you want a tiny clarification on annual office leads? I think you seem to be okay.

0:32:19.981 --> 0:32:20.541

Neal Trup

Okay.

0:32:29.981 --> 0:32:30.461

Laura Renaud-Studer

Cool.

0:32:30.301 --> 0:32:33.421

Neal Trup

I mean, there will be judgments, but that's the principle.

0:32:34.941 --> 0:32:35.661

Laura Renaud-Studer

Thank you.

0:32:35.581 --> 0:32:54.221

Neal Trup

Okay, so I'm going to move on to, and I will pick up Lisa again anyway a little bit more, income recognition. So what SORP and talks about, it talks about these two types of income, main two types of income, exchange income and non-exchange. So it's more of a legal term really, but we're talking exchange where there's some

0:32:54.541 --> 0:33:17.421

Neal Trup

two way element to the transaction, cash going one way and service or goods going the other way of equivalent value. So we're talking about contract sales, rental room hire and that type of thing. Current recognition is called risk and rewards. We talk about the invoice amount and we might defer or accruing income.

0:33:17.821 --> 0:33:39.581

Neal Trup

you know, in arrears or in advance. And that's changing to this five step model based on promises and deliverables, which I'm going to cover. But the emphasis is about the control. When the control is delivered, is provided to the customer. Again, a lot of judgement here, non-exchange things like grants, donations, legacies.

0:33:39.901 --> 0:34:2.541

Neal Trup

That currently has what's called the entitlement basis under the new SORP. It's just rather than have this entitlement basis that covers all types of non-exchange, now separated out. So we're talking about grants and donations generally received and receivable. So that's clearer to understand and legacies will be on the basis of probable when it's probable, more likely than not, that you will get it.

0:34:3.821 --> 0:34:22.381

Neal Trup

And that usually happens at probate. And this is just a sort of a summary. I know I don't have a lot of time to go into a little bit more detail, but this is sort of breaking it down, receiving receivable, probable, measurable, which I've mentioned here. Donated goods are measured at what's called fair value.

0:34:22.541 --> 0:34:42.461

Neal Trup

So that's a sort of like the exchange value of it. Often it can't be measured reliably. And if that's the case, you can, like with goods, base it on when you sell it. This would be often what's done in a charity shop, for example. Donated services and facilities, this is

0:34:42.781 --> 0:35:5.501

Neal Trup

recognised when you would have purchased them and the value that you would have paid, not necessarily that the donor would have charged you. It's about the value you would have paid if you had to buy independently. And that often does come down to a judgment. And volunteers, I've talked about, general volunteers not recognised in the numbers

0:35:5.621 --> 0:35:23.661

Neal Trup

accepted in the annual report, specialists, volunteers, trade and so on should be recognised at the value to the charity. And then sometimes, you know, non-exchange, exchange, it's simple to think of, but it's not always, there's often a grey area. What's a contract? What's a grant?

0:35:25.181 --> 0:35:44.701

Neal Trup

Sometimes it's clear, but sometimes it isn't. And this table really gives you indicators about, you know, contracts sent to be a service based on price, profits can be retained, grants sent to be about funding, about, you know, based on cost, about beneficiaries receiving the service and so on.

0:35:44.981 --> 0:36:4.701

Neal Trup

and unspent amounts going back. But again, there was going to be a judgement sometimes in these areas. Local authority contracts are like full of these grey areas. So I'm going to quickly go on to the five step model. So this is the income recognition change. I know quite a few of you said you wanted to look at this.

0:36:5.501 --> 0:36:26.701

Neal Trup

This one is where there is potentially significant change for some organisations. And these are the five steps we're talking about. Identify that there's a contract. As I've just said in the previous slide, sometimes usually it's really obvious there is a contract as a sale or whatever. Not always is it partly granted, is it a grant or contract? So there are sometimes

0:36:26.981 --> 0:36:45.501

Neal Trup

few judgments a bit that might apply there. Identify the promises. So what are the promises? What's what are the, you know, the deliverables that are sitting in the contract? Again, sometimes they're really clear. Sometimes the whole bundle isn't always clear and you need to disaggregate it.

0:36:45.941 --> 0:37:5.221

Neal Trup

What is the price? Again, sometimes it's clear, sometimes it isn't, particularly if it's for a whole bundle. And then you have to allocate the transaction price, particularly if it is a mix of services. And then you recognise revenue at what's called appointed time, that's like a specific date or whatever month.

0:37:6.141 --> 0:37:24.61

Neal Trup

or over a period of time. So it's through, you know, a year or something, like a membership or something might be like that. And to give you some examples here, so I'm going to focus on a couple of them here, annual membership. So it might be, in this case, we've got charity garden,

0:37:24.301 --> 0:37:46.781

Neal Trup

you get through your annual membership, you get free entrance, you get a quarterly journal and you come to an annual event. You just pay a single figure maybe, but really you are getting 3 promises here, 3 deliverables. And so that's what you need to think about. The one I'm going to give a little bit more detail is an emergency alarm. So this is about

0:37:47.181 --> 0:38:6.461

Neal Trup

charity that supports vulnerable adults and the vulnerable adults will pay monthly amounts or it might be paid by the local authority, but basically it's a monthly fee and they will get the equipment up front, they'll get a monitoring service and then they get an annual service and replacement of the back.

0:38:6.621 --> 0:38:25.901

Neal Trup

and that sort of thing. So again, you've got three separate promises here. And that's the example I'm just going to look at here is in this particular case, it's 25 pound a month. You get everything. And at the moment, you would just recognise 25 pound a month. Under the new rules,

0:38:26.621 --> 0:38:45.341

Neal Trup

We're looking at, we're separating out the promises. We've got the three promises here, the equipment and the setup, the monitoring and the annual service. And what we've worked it out based on the equipment and the sort of separable price. It's not always straightforward. There may be a bit of

0:38:46.541 --> 0:39:8.61

Neal Trup

judgement going in here. But in this case, we've said 120 relates to equipment. And that all comes up up front because we're delivering it straight away. The service, the monitoring is 10 pound a month because that's through the year to any point in time. And then the annual service comes at the end. So you can see that in this case, we're just spreading it evenly.

0:39:8.261 --> 0:39:28.61

Neal Trup

And in this case, we're spreading it very differently. And the difference in the balance sheet goes to what's called a contract creditor or contract debtor. So contract debtor is where you deliver the promises in advance and contract creditor is where you deliver the promises in arrears. So it is going to be quite

0:39:28.221 --> 0:39:47.821

Neal Trup

challenging for some organisations to separate it out. This is a similar one. This is like a membership of a youth club, for example. The moment you pay 50 pound a year. But in this case, we're separating it out. We're giving a sort of a diary up front. We're giving it access to facilities.

0:39:48.61 --> 0:40:7.101

Neal Trup

and then we've got a summer event. So we're separating out the promises. So that's the difference between the five-step model and there's a lot of judgments that come into it. You know, it's not straightforward. Is it exchange or not? Usually the same, but it's not always sort of like,

0:40:7.821 --> 0:40:26.301

Neal Trup

With a grant, is it receivable? When do we have receivable? Do we have performance obligations? That's quite similar to now, but sometimes there is judgement going in. What's the value to the charity of donated goods and services, judgement over legacies, when it becomes probable and measurable?

0:40:26.581 --> 0:40:45.341

Neal Trup

what's the separable elements of a contract? Is it an integrated supply? If it's an integrated supply, then you don't separate it out. In other words, something that would never be broken up, for example, we don't need to start breaking up in a computer into the process of the screen or whatever, because it is an integrated thing.

0:40:45.901 --> 0:41:4.781

Neal Trup

Some of these things are separate things, and if they are, then they should be separable. But you can see there's judgement that goes into that. Is it a point in time or not? And what's general and non-general? So you can see that there's, you know, there's a lot of judgement that's going to sit in here, and it's important that you are

0:41:5.821 --> 0:41:21.981

Neal Trup

able to articulate and, you know, sort of have information to support supporting evidence, especially if you're subject to audit. The auditors will be looking for where you've come to some of these judgments. So now I'm going to move into leasing.

0:41:22.741 --> 0:41:41.501

Laura Renaud-Studer

Before you do, Neil, I do have two questions. So one is, if a charity is not a limited company and is in tier one and is lower income threshold, etc, they have read that the new SOAP does not apply and wanted to cheque whether that was correct or not. And if this is

0:41:23.181 --> 0:41:24.781

Neal Trup

So, yes, please, yeah.

0:41:26.461 --> 0:41:26.781

Neal Trup

Yeah.

0:41:40.781 --> 0:41:59.581

Neal Trup

No, that's not quite, okay, that's not quite true. I think what it does is if you're a non-company and your income is below 250 for accounting periods beginning before 30th of September or below half a million, 30th of September onwards,

0:41:59.781 --> 0:42:18.941

Neal Trup

You can use what's called receipts and payments accounts. And if you are, then you're right. The sort doesn't apply, although you still got to do an annual report. But only if you're doing that type of accounts. If you're doing SOP accounts, you must, if you're doing accruals account, you must use SOP. So

0:42:19.541 --> 0:42:23.181

Neal Trup

It won't apply only if you do receipts and payments.

0:42:25.741 --> 0:42:28.221

Laura Renaud-Studer

So I hope that clarifies your question.

0:42:26.301 --> 0:42:47.741

Neal Trup

Okay, is that okay? But that's what it is. No, tier one, if you're tier one during accrual accounts, then you have

to do it. The basic difference between tier one, tier 2 and tier 3 is around disclosure in the mainly of the annual report. The income recognition is exactly the same across all three tiers.

0:42:47.941 --> 0:42:51.21

Neal Trup

The leasing is exactly the same across all three tiers.

0:42:52.621 --> 0:43:6.141

Laura Renaud-Studer

Thanks, Neil. We had a second question, which I'm not sure I fully understand. So, Sarah, would you mind clarifying your questions? Because it might be about a specific moment of Neil's presentation.

0:42:53.741 --> 0:42:54.221

Neal Trup

Okay.

0:43:8.541 --> 0:43:13.21

Laura Renaud-Studer

Do you want to clarify in the chat or feel free to unmute yourself?

0:43:19.661 --> 0:43:19.901

Neal Trup

Matt.

0:43:21.581 --> 0:43:23.581

Neal Trup

If not, I can pick it up at the end.

0:43:24.541 --> 0:43:24.861

Laura Renaud-Studer

Oh.

0:43:24.541 --> 0:43:25.261

Neal Trup

Fish.

0:43:26.541 --> 0:43:28.541

Laura Renaud-Studer

Do you want to clarify in the chat, Sarah? Sorry.

0:43:29.741 --> 0:43:35.821

Neal Trup

Okay, whilst you're doing that, shall I get on with the leasing and I'll come back to that question. Is that okay?

0:43:37.661 --> 0:43:56.621

Neal Trup

Okay, so I'm going to move on to the leasing. I will come back to Sarah's question. Okay, so what we're talking about here is capitalising leases, so putting it on the balance sheet. So it's a bit like, in inverted commas, pretending that you own the asset for a particular period.

0:43:56.861 --> 0:44:15.901

Neal Trup

And the first thing you need to do is determine is there a lease? It might seem simple, but it's not quite as clear as that. The definition of a lease under the SOAR is here that I've put on the slide. It's the right control

0:44:16.61 --> 0:44:34.701

Neal Trup

an identified asset for consideration. So that means that you control that asset during the period of the lease. It's a specific asset. So it's that specific building or that specific office, or if it's a vehicle, it's that vehicle with a registration on that specific.

0:44:35.21 --> 0:44:54.301

Neal Trup

If the lessor can just change it, like give you a different vehicle each week or whatever it is, that's not a specific asset. So you've got to be really clear about specific assets and you've got to be able to write control. Sometimes local authorities, they'll lease something and they'll put so many conditions on. They say, you have to do this, you have to do that.

0:44:55.101 --> 0:45:15.581

Neal Trup

you could decide or make a take a view that you don't have the right to control. So it is really important to think about that because if you don't meet the definition of a lease, you don't need to do capitalise it on the

boundary. And the other thing is about consideration. It's got to be that you're paying some sort of like rent for it.

0:45:15.901 --> 0:45:35.21

Neal Trup

because that means things like peppercorn leases are not considered a lease under these these calculations. And then it's about do you fall under the exemption? We talk about if it's below 12 months of a lease or it's low value. And as I've answered already, it's by type of asset

0:45:35.341 --> 0:45:54.861

Neal Trup

not by the amount of the rent payment. And it's individual assets. So if you've got a collection of 100 assets, it's only you have to look at each individual one to determine whether it falls under these requirements. But then the next one is determine the lease length. Again, it might seem simple, but actually,

0:45:55.101 --> 0:46:14.421

Neal Trup

It can be quite complex, especially if you have like a break clause, for example, which is very typical in an office or a shop lease or something, a property lease. And this is what you have to do. You have to take the non-cancellable lease term and then any extensions or terminations that are reasonably certain.

0:46:14.701 --> 0:46:35.741

Neal Trup

to be exercised. So what we're talking about, to give you an example, if you have a 10 year lease with a five year break, the non-cancellable element is five years. Okay, so you start with that position and then you've got to the trustees have got to make a few of the directors. Is it reasonably certain, which is like almost 90% plus really,

0:46:35.941 --> 0:46:55.981

Neal Trup

that they are going to take the exercise. If they're not, then it's counted as a five year lease. If they are, then it's a tenure lease. And you can see there's judgments. And usually if an auditor will be looking at, you know, the reasonably sad, if you're in a location in a position where no other building could work,

0:46:56.221 --> 0:47:15.341

Neal Trup

then it's reasonably certain that you would be taking it. If you could just move somewhere else, more likely to be a shorter lease. So that can make a huge difference, 5 or 10 year lease, but that's the sort of judgments and rules around that. You've got to identify the lease payments. Again, it might seem obvious, this is the lease payment.

0:47:15.621 --> 0:47:34.621

Neal Trup

It's not always clear. Sometimes lease of an office might include cleaning or other things. So are there other elements that relate to it? Are there variable lease payments? Sometimes in a shop, in a shopping centre, you pay a lease plus you might pay a percentage of turnover. So you've got to just exclude all the variable.

0:47:34.861 --> 0:47:54.461

Neal Trup

elements of it. So there's a lot of complexity that can be in there. And then you've got to apply discount rate. Now what that means, if you're paying at least, you know, 10,000 a year for 10 years, 10,000 pounds in 10 years is not the same as 10,000 pound now. So you've got to apply a discount rate to put it in today's value.

0:47:55.341 --> 0:48:16.701

Neal Trup

How do you get there? Again, there are rules around it. You have to 1st look at if you can get the interest rate implicit in the lease. Almost, you're not going to get it with buildings and so on. And generally what people are going to do is go down with this called incremental obtainable borrow rate.

0:48:16.901 --> 0:48:37.61

Neal Trup

I'm only going to talk about the obtainable borrower rate because that's the simplest of what I think most people would do. That's like if you were to borrow the, you know, the undiscounted amount as if it was a loan, what would the bank charge you? And you could ask your bank or you could go on to the bank's website, how much would a loan of 100,000 cost?

0:48:37.421 --> 0:48:57.421

Neal Trup

for some charities, they're just not in a position that they would ever be able to borrow it, in which case you

can use a deposit rate for the same amount. So that's where you get the discount rate from. And this slide here, I haven't really got time, but it's just a summary of some of the things that I've looked at. The main thing is,

0:48:57.541 --> 0:49:16.701

Neal Trup

Is it low value, short term, so you can take an exemption? Is it a market rate? A market rate will include things like commercial discounts, even like charity discounts if they are commercially driven. The low market would be where it's part lease and part donation and it should be

0:49:16.741 --> 0:49:35.901

Neal Trup

obvious that it's a donation. You know, there's a real intention of it being a donation, in which case you separate the two out. The donation is treated as a donated element and then the rest of it is treated as a lease and peppercorn nominal value is excluded. And just to give you one example on

0:49:36.181 --> 0:49:55.821

Neal Trup

the leasing calculations. So here we are, we've got a youth centre, it leases some offices, or centre, five-year lease. Okay, no break clause, nothing. So straightforward, just to give you the calculation, and it pays 20,000 a year. At the moment, you simply pay rent.

0:49:55.981 --> 0:50:15.901

Neal Trup

for five years. And in the future, under new sort, you've got to treat it as an asset. So you've got to take a five-year lease, 20,000 rent, discount rate, 6%, that's obtainable borrowing rate. That's what we've asked the bank for. And it gives us 84,000 in today's

0:50:16.301 --> 0:50:37.901

Neal Trup

money and 84,000 becomes our right of use asset. It's called a right of use asset and we just depreciate it over five years because that's the lease. And then we have to put a lease liability in. These are our rent payments in current value at 84,000. Each year we will pay 20,000 and then financing costs. You've got to treat it as if you've got a loan.

0:50:38.141 --> 0:50:57.701

Neal Trup

That is the interest on the loan and that is based on the 6%. So you can see there's quite a bit of calculation there. And then obviously in accounting systems is another completely complex area to put in. Judgements, like with the e-income record, there's a lot of judgements. You know, what is the lease length?

0:50:57.821 --> 0:51:18.301

Neal Trup

You know, is it reasonably certain? I haven't covered rolling leases, but the principles are the same. Is it reasonably certain? And if so, what's the reasonably certain period? Peppercorn leases add value to the charity. Do you have right of control, the discount rate, variable elements and etc.? You can see there's a lot of judgments.

0:51:18.621 --> 0:51:19.981

Neal Trup

That go into that.

0:51:20.861 --> 0:51:27.741

Neal Trup

Are there any other questions? Because if not, then I'm going to actually show it in a real, a real example.

0:51:28.541 --> 0:51:39.501

Laura Renaud-Studer

We do have questions. So I think Sarah, we know how to unmute you now. Ellen, are you able to unmute Sarah so she can ask her question?

0:51:48.61 --> 0:51:48.781

Neal Trup

Sarah.

0:51:52.341 --> 0:51:53.421

Sarah Boud

Can you hear me?

0:51:53.821 --> 0:51:55.781

Neal Trup

Yes, yeah, yeah, yeah.

0:51:53.901 --> 0:51:55.101

Laura Renaud-Studer

Yes.

0:51:55.421 --> 0:52:13.301

Sarah Boud

Okay, I think that my point is probably passed a while back. I was looking at kind of the sort of extra information that we needed to record and I'm in position of sort of head of fundraising and to me it looks like

0:51:58.941 --> 0:52:0.301

Laura Renaud-Studer

It's OK. It's OK.

0:52:13.341 --> 0:52:31.221

Sarah Boud

a lot of the information that we record under our pipeline, sort of, you know, what we record there. So I'm guessing that it's just we need to give more information to our finance team for this financial information. Is that kind of

0:52:32.181 --> 0:52:32.901

Sarah Boud

It really.

0:52:32.381 --> 0:52:51.501

Neal Trup

I would say so, yeah. I think one of the things, and I'll show you in the example, there needs to be more collaboration. I think one of the difficulties in the sector is that you've got your two halves of the account, your front and the back, or the words and the numbers. And what often happens is they're like,

0:52:51.661 --> 0:53:10.581

Neal Trup

zip together at the end. And this has been a problem because there's inconsistencies between the annual report and the numbers, the outcomes and the financial information. And one of the key things about this sort is it's trying to bring it together, linking it

0:53:10.661 --> 0:53:23.101

Neal Trup

much, much better. And I think one of the implications of that is that teams within the organisation, finance teams and others are going to have to work much more closely together. I think it's a really good point made.

0:53:25.661 --> 0:53:28.341

Neal Trup

Okay, so what I'm going to do, yes.

0:53:26.541 --> 0:53:39.581

Laura Renaud-Studer

Thank you. So we do have a question on leasing. Question from Rose. If you have a 12 month contract that you choose to renew each year, would you have to decide how many years you would be staying there?

0:53:30.301 --> 0:53:30.701

Neal Trup

Yes.

0:53:35.981 --> 0:53:36.261

Neal Trup

Yeah.

0:53:41.101 --> 0:54:0.301

Neal Trup

I think you've got to look at the intention, the reasonably certain. If it's generally a rolling lease and either party can just, you know, sort of that terminated and there's no long term sort of intention there, then it's below 12 months. If it's

0:54:0.501 --> 0:54:18.221

Neal Trup

If you are intending to stay somewhere for 10 years, it's just simply that it's done as a rolling lease, then you've got to look at what is reasonably certain. And this is a problem, these are judgments that need to be made and supported. But it is about your intention and being reasonably certain.

0:54:20.581 --> 0:54:39.101

Neal Trup

I mean, this is the thing, is it? This sort of brings in a lot of a lot of judgments, you know, it isn't it isn't like as straightforward as as might appear to be. So, what I'm going to move on to now, because it's 5 to 12, and this is the last main bit I want to go through.

0:54:39.261 --> 0:54:59.581

Neal Trup

This is Midminster Committee Association is made-up, right? We will circulate this to you. This is the March 27 accounts. And what it is, is it's to give you an overview of what, you know, what it looks like, what it could look like under the new sort.

0:54:59.861 --> 0:55:20.541

Neal Trup

This is a tier 2 charity, by the way. So tier one might be a little bit simpler, but this is not, although this is an example, it's not a model. The reason I say that is it is done for training purposes and it's not like a perfect model set. It's just an example set.

0:55:20.701 --> 0:55:44.701

Neal Trup

OK, albeit compliant. So we've just got our front page. We've got all our trustees and so on. So now we're going to move into the annual report. So the first thing is the boring first bit. You're going to have to update all your references to SORP 26 and so on here. And what I've done here

0:55:44.981 --> 0:56:3.341

Neal Trup

And I think you need to make it clear, in this case, the charities in tier 2. The other thing I haven't really covered here, but you'll see it as we go through, is about the approach to transition. And when you transition, there are some different approaches to use. But effectively, I think the main one

0:56:3.661 --> 0:56:22.301

Neal Trup

that you're going to use, most likely to use. And I would recommend only this approach. It's what's called the modified retrospective. What that means is you don't change the comparative numbers at all. You change the opening balances. That's a lot simpler than trying to change like your income recognition can be done

0:56:22.621 --> 0:56:47.221

Neal Trup

You can modify all of last year against the new five step model. I think that's not practicable in my view. So I would take the modified retrospective approach, but you can use other approaches. The main thing is you mentioned it there. So we've got the strategy and the governance manager. It's not really changed very much. Staffing has not really changed very much. But you can see here now with

0:56:47.261 --> 0:57:8.221

Neal Trup

This is the type of thing, this is just an example, you can do it in charts or whatever way you want to do it. We've got 96 volunteers and we've separated out the hours. One of the things in terms of comparatives, the SOP does say where possible you should restate the previous year's comparatives. You don't have to.

0:57:8.541 --> 0:57:28.141

Neal Trup

In this case, I have, because you might not have the information, for example, but this is what we're talking about. And in this case, you know, we put a value to it, 80,000 pounds is the hours. We've not put it through the accounts because you're not allowed to, these are general volunteers, but we're disclosing it. So it's helpful to

0:57:28.461 --> 0:57:51.101

Neal Trup

the reader. So now I'm going to move on to other areas. So we've got charitable objects, public benefits, we've just listed them here. But this is where we're going to need to be a little bit more detail about your achievements and your impact, how you measure it. We've got this our theory of change model here. You might do it in a completely different way. There's no requirement to do it in this way.

0:57:51.381 --> 0:58:11.101

Neal Trup

This is just an example, but it's highlighting, you know, you need to be a bit clearer about it. What I've done here is we've got our various sort of like outcomes, achievements that we've done and split it by older younger people in community. And the reason is, is we need to link it.

0:58:11.181 --> 0:58:30.261

Neal Trup

to expenditure so that when we come to the expenditure notes, you can see how much we've spent on these different categories. So it's really important there's an alignment. There's a good example of what it's trying to do is align the words bit with numbers so you can get a much better understanding.

0:58:30.661 --> 0:58:50.21

Neal Trup

And we've got a bit more information about beneficiary feedback. The finance review, it hasn't changed a lot, but I think it should be clearer and again, definitely should be aligned with the numbers very clearly, especially, for example, around reserves. And that's what I've got here.

0:58:50.421 --> 0:59:10.21

Neal Trup

is we've got a reference, so a lot more referencing to the notes, for example, which we've got here, note 14 and 15, which we will come on to and the reserves policy. And here we are. I've shown the reserves are calculated in the notes, the 147 I showed you on the slide before, but

0:59:11.221 --> 0:59:30.741

Neal Trup

I've done it as a graph. You don't have to, no requirement to do so. It's just, in my view, I think it makes it quite easy to see where your reserves are in comparison with the policy. And then you need to be in the first year explaining the indications of SORP 26 on the financial statement. So in this case,

0:59:30.981 --> 0:59:50.741

Neal Trup

We've got a lease which has added 106,000 in this example to the balance sheet. So we've explained what's happened here. We've implemented the income and that's added, you know, 58,000 in this case to income. You'll see a little bit as we go through and I will show you a comparison.

0:59:51.21 --> 1:0:10.661

Neal Trup

So we talked about the transition adjustment and the overall impact for users. So I've set out here very clearly the implications, which application of new sort has added fixed assets of 183,000, right? And that includes implications of

1:0:10.981 --> 1:0:32.421

Neal Trup

capitalising the lease on creditor changes, net assets have increased and so on. But when we go through the notes, you'll see a little bit more detail about that. But it's really important that the user is seeing that investment performance as just a current requirement. A key risks, it is sort of a requirement now, but I think it's

1:0:32.661 --> 1:0:51.221

Neal Trup

to be much clearer. And again, I've simplified it. Some people might have more complex things, but you can see what I'm trying to do here to bring out the key risks and the mitigation and cyber risks. It's now a requirement to say something about how you're managing cyber risks.

1:0:51.461 --> 1:1:10.341

Neal Trup

Environmental and social responsibilities. I didn't cover that in detail, but is not required, but it's encouraged. It doesn't have to be anything very specific, very detailed. You can see I put it a little bit in there. Large organisations will go into a lot more detail.

1:1:10.581 --> 1:1:30.221

Neal Trup

and sort of stuff around the plans for the future. So it's to give you an idea, this is not a perfect version, an idea of some of the changes there in the annual report. So I'm going to move on. That's the independent examiner's report. Moving on to the statement of financial activities. So we've got an income of just

1:1:30.341 --> 1:1:49.541

Neal Trup

you know, 562,000. That's higher than it would be under SORT 19. And I'll show you a comparison of that. It's mainly to do with the five-step model, where we've had to recognise income a little bit earlier.

Otherwise, this looks largely the same. And the balance sheet,

1:1:50.21 --> 1:2:10.261

Neal Trup

The balance sheet has changed quite a bit, not in comparison to 26, because 26 under old SORB, the comparatives, and 27 is under the new SORB. It makes the comparison between these two figures not really very usable. So you need to be aware if you are looking at that comparisons, this doesn't give you

1:2:10.661 --> 1:2:30.821
Neal Trup

very easy comparisons to make at all. So not massive changes there, but obviously we've got more assets and more liabilities, mainly because of the lease. Now, one of the things you'll notice that this is an income of over half a million, but there's no statement of cash flow.

1:2:31.501 --> 1:2:50.261
Neal Trup

because it's not required now. So it would have been required, but it's not. So that's gone. And then we move into the accounting policies. So we're going to need to update note one quite a bit, I think. I think it's an opportunity to refresh everything, but I'm mainly going to go through the changes. So the first

1:2:50.341 --> 1:3:9.541
Neal Trup

statement that no one will ever read, no one reads, but you will need to update it because you need to update all the references to the latest sort. And I've mentioned we're in tier 2. Fund accounting hasn't changed. That's like restricted unrestricted funds. But income recognition, so we've said we're using the five step model.

1:3:10.21 --> 1:3:29.461
Neal Trup

and in grants and donations, we make it clear that it is on a received and receivable basis and legacies on a probable basis. If you do have a lot of legacies, you're going to need to give a lot more detail. Donated goods, I'm just stating the approach here, but you might need to update

1:3:30.261 --> 1:3:49.861
Neal Trup

Its expenditure probably hasn't changed massively. Tangible fixed assets, right of use assets is now included. And the debtors and creditors now talk about contract debtors. In this case, contract debtors reflecting promises fulfilled, but not yet invoiced and the other way around for creditors. We've got a whole new

1:3:50.181 --> 1:3:54.981
Neal Trup

note on leases and right of use assets and about exemptions.

1:3:57.21 --> 1:4:15.861
Neal Trup

So you can see there's quite a bit that needs to go in there. One of the things I think is important to point out is about VAT. Lease liabilities when you're doing these calculations for right of use assets, at least it's always net of VAT. Doesn't matter whether you're registered for VAT or not, got nothing to do with it.

1:4:16.141 --> 1:4:36.461
Neal Trup

is just when you do the calculations, net of VAT, because the tax is due what we do in the year, you don't capitalise that at all. So whether it's a cost or reclaimable is just dealt with in the normal way. Concessory peppercorn leases, if that's relevant, is putting it there. So you can see there's quite a bit of up.

1:4:36.541 --> 1:4:55.781
Neal Trup

update to the notes, to note one, the rest of the notes here. So the main thing is our counselling has changed slightly because that's our contracting. Note 3 hasn't really changed. Now this is

1:4:55.941 --> 1:5:15.541
Neal Trup

important here, this is usually quite a boring note, analysis of expenditure by charitable activities. But what you'll see is these are the same categories that I've used in the annual report. And that's a really key thing about the new SORP is making sure that the words in the description, what you're doing,

1:5:16.501 --> 1:5:35.941
Neal Trup

in the, you know, in the annual report is consistent with here. So you can see you want, if you want to look at the older adults, you can see what we've achieved, you can see how much it's cost. So you can follow it through. That's a very important part of the new sort. We've got our government's costs. You can see here,

1:5:36.261 --> 1:5:55.941
Neal Trup

in governance costs here, or depreciation on tangible assets, that's as it was, but now we've got depreciation on right of use assets as well. And now we've got the lease liability interest being included as well in our other costs. Here has already changed, staff costs, tangible assets,

1:5:56.21 --> 1:6:15.101

Neal Trup

So now we've got our right of use assets being brought in here. So it's making quite a difference in our assets. Debtors, we've now got our contract assets, which is sitting here and it meant to explain what it relates to. And similar with creditors, we've got some

1:6:15.301 --> 1:6:34.421

Neal Trup

We've got our operating lease liabilities and our contract lease liabilities. There's a further note giving more detail. In this case, we've got social investment and you might have that as well. That's not really changed really. Reserves, so this is what I showed you on the slide, the calculation of reserves.

1:6:34.661 --> 1:6:54.421

Neal Trup

agreeing to the balance sheet. Movement of funds hasn't really changed a lot, but we've got the reconciliation of the opening transition adjustment. So because of the adoption of the SORP, we've got to take the unrestricted reserves at the end of the previous financial year, in this case, 321. We've added the right of use asset, 120,

1:6:54.581 --> 1:7:14.261

Neal Trup

Our lease liability is 102, that's based on our lease liability payments. We put in a dilapidations provision and contract assets have come in as well. So you can see overall it's come to a net 15,000 and that's the starting position that we've used. I think that's much easier than

1:7:14.981 --> 1:7:33.381

Neal Trup

changing all the comparisons. Then we've got this whole note on the lease obligations. You'll already be doing this analysis about the lease liabilities, but now it's being included in the actual accounts here and things like short term and low value assets.

1:7:33.781 --> 1:7:52.181

Neal Trup

If you all take advantage of that, you've got to disclose and you've still got to disclose the rent and everything in it. So there's still disclosures that come to that. Analysis of net assets, that's sort of as it was before. Pension commitments I won't talk about hasn't really changed.

1:7:54.661 --> 1:8:9.221

Neal Trup

So there's quite a lot in there and I'm just going to very quickly finish off and then we can go to sort of questions. I'm going to go back to the slides because it just picks up a couple of the points here around those accounts.

1:8:10.901 --> 1:8:14.21

Neal Trup

Okay, and what you'll see here is...

1:8:15.21 --> 1:8:34.981

Neal Trup

What I've done here, those example accounts are sort of an enhancement of a set of accounts that I've used for training for quite some time. And I've used the same figures, I've got 2025 accounts under Salk 19 and Salk 26 to see the difference.

1:8:35.61 --> 1:8:54.981

Neal Trup

So the only difference between these two columns is the application of the new SORP, nothing else. You can see the difference it's making that our income has gone up from 504 to 562, for example. In some cases it will go down, in some cases it will make no difference, but be aware these can have implants.

1:8:55.461 --> 1:9:14.501

Neal Trup

and here we've got the implications of the rent and the being replaced by depreciation and interest and obviously the change in terms of the funds brought forward. Now the balance sheets affected even more because we've got all the new right of use assets on, we've got

1:9:14.621 --> 1:9:33.301

Neal Trup

the contract debtors, we've got all big changes in creditors and so on, just simply as a result of the lease. And even our funds have changed, have gone up, you know, by 69,000. And just for those of you who like metrics,

1:9:33.461 --> 1:9:52.261

Neal Trup

Again, the difference between these two is simply the change from SORP 19 to SORP 26, nothing else. You see our gross assets have gone up, that might affect thresholds, it might affect grant applications, your liabilities have gone up, net assets have gone up, their current

1:9:52.421 --> 1:10:11.781

Neal Trup

assets have got up. Now here is interesting. We had a surplus of 635 pounds under SOP 26, but under SOP 19, it would have been a loss of 53. Massive difference could be the other way around. So these things really can change the figures. Things like EBITDA has also changed massively.

1:10:11.981 --> 1:10:32.21

Neal Trup

Usually EBITDA will go up because we're taking rent out of costs and we're putting it into depreciation interest, which sits after it. Even reserves has gone up as well. So I've just, I've gone through all of this. This is just about changes to accounting policies.

1:10:32.341 --> 1:10:51.861

Neal Trup

And these are just the extracts of the account. Just be aware if you are a non-charity, all the leasing that I've mentioned, if you're using FRS 102, that equally applies. And micro entities also have to do the income recognition.

1:10:51.941 --> 1:11:12.941

Neal Trup

and obviously small companies income recognition. And just to finish up, about management accounts, obviously it creates an issue about what you're going to do. Are you going to, you know, use the same approach for sort, you know, replace depreciation interest, put all the leasing on the balance sheet, include it in your management accounts, or are you going to use a year-end approach, or are you going to look at

1:11:13.701 --> 1:11:35.461

Neal Trup

you know, some hybrid of sort of major items. If you don't replace, if you use year-end approach, it means your management accounts can be quite different. And if you do, it makes it sometimes more difficult to understand. Very similar with the income recognition model. If you're using software, I haven't really got time now, but if you're using software,

1:11:35.741 --> 1:11:56.301

Neal Trup

it can give you a few complications. And I have got a slide about how you might do it. So last slide really, you know, this one sort of summarises some of the actions you might take. Think of your users, you know, when you're writing your annual report. And the very final takeaways, I'd say, is start planning now.

1:11:56.421 --> 1:12:16.101

Neal Trup

Think of key actions, make sure trustees involve your accountant, work through implications for bookkeeping, what you can do about management reporting and think of your users and how you're going to communicate it. So I'm going to stop there because we did say quarter past, but I'm happy to answer questions and stay on a little bit longer.

1:12:16.421 --> 1:12:34.301

Neal Trup

if any of you have got questions. We will circulate the slides and the example set of accounts. But any questions, any feedback, has it covered what you wanted to do? I know I've cantered through it because there are a lot of complications here.

1:12:35.381 --> 1:12:56.341

Laura Renaud-Studer

Thank you, Neil. Thank you very much. You should all be able to unmute yourself now and directly ask any question that you may have. We have a lot of thank you in a chat. People find it like very clear and helpful. So that's general feedback overall. But if you have any outstanding questions, feel free to ask Neil now.

1:12:59.141 --> 1:12:59.541

Neal Trup

Yeah.

1:13:8.501 --> 1:13:22.341

Neal Trup

Any questions of our bamboozled you? I mean, there is a lot of change. I think it's underestimated how complex some of these changes are and the implications. This is a really major change in accounting.

1:13:23.861 --> 1:13:30.821

Laura Renaud-Studer

And also, we've recorded the webinar, so we'll also be able to share it online and with you all.

1:13:32.821 --> 1:13:37.621

Richard

Neil, thank you very much for this. Where can we find further information, please, if we want to look into this? Where would you recommend?

1:13:38.981 --> 1:13:58.181

Neal Trup

Well, you can certainly go on to the SORP website, charity SORP website, because that's the official one set up by the Charity Commission, which will give you all the SORP. You can look at all the different modules and different elements. Beyond that, I would say there's a lot of free webinars

1:13:59.941 --> 1:14:17.301

Neal Trup

You know, sort of auditors like Seva Vincent, MHA, they do a lot of online web, they're all free to do on different topics. There's also ICAW, Institute of Chartered Counselling in Wales, you don't need to be a member, you can join their charity.

1:14:18.261 --> 1:14:37.861

Neal Trup

sort of like grouping, it's free to join and they have a lot of free webinars. And also they have a hub, I think, which you can have access to, which gives you a lot of information. So there is quite a bit about in terms of the technicalities, there's much less about some of the implementation, some of the

1:14:38.141 --> 1:14:46.661

Neal Trup

the complexities about implications for bookkeeping and some of the system changes and other things. I think that will come in time.

1:14:49.301 --> 1:15:10.341

Laura Renaud-Studer

Also, just to flag, we do plan to do another webinar about this specific topic again later in the year, so that it can be a bit more practical with like people actually trying to make sense of it in their day-to-day. So yes, please join our mailing list if you're not already.

1:14:49.541 --> 1:14:50.21

Neal Trup

OK.

1:15:11.461 --> 1:15:21.381

Laura Renaud-Studer

And I will share the details as soon as we have, but expect that to happen around, yeah, between October and December sometime.

1:15:23.61 --> 1:15:25.621

Neal Trup

OK, yep. Any final questions?

1:15:30.181 --> 1:15:35.781

Neal Trup

You know, I know there's a lot to take away, and I know it's far from straightforward.

1:15:45.711 --> 1:16:2.711

Laura Renaud-Studer

A lot of thank you, Neil. So I think if we don't have any additional questions, we can close it off. And thank you again for your time, Neil. Thank you again. A lot to think about, definitely. But the general feedback was that it was really, really helpful.

1:15:48.581 --> 1:15:49.61

Neal Trup

Two.

1:16:3.701 --> 1:16:7.621

Neal Trup

Thanks. Thank you. OK, thank you. Bye. Have a good day.

1:16:6.821 --> 1:16:8.101

Laura Renaud-Studer

Thank you, everyone.

1:16:9.221 --> 1:16:9.701

Laura Renaud-Studer

Bye-bye.