



not for profit | housing SORP 2010 update

the team



Murtaza Jessa
partner
020 7969 5551
mjessa@haysmacintyre.com



Adam Halsey
partner
020 7969 5657
ahalsey@haysmacintyre.com



Stephen Fisher
senior audit manager
020 7969 5565
sfisher@haysmacintyre.com



Richard Weaver
head of charities
020 7969 5567
rweaver@haysmacintyre.com



Graham Elliott
VAT partner
020 7969 5610
gelliott@haysmacintyre.com



Phil Salmon
director of VAT services
020 7969 5611
psalmon@haysmacintyre.com

introduction

The 2010 update to the Statement of Recommended Practice: Accounting by registered social housing providers ("housing SORP") applies for periods commencing on or after 1 April 2011. Earlier adoption is encouraged.

key areas of change

The areas of change are:

- Component accounting
- Business combinations and treatment of non exchange transactions

Of these the former is likely to have the more widespread immediate effect.

component accounting

Under component accounting, where an asset is made up of two or more components with substantially different lives each component should be accounted for separately for the purposes of depreciation, replacement and disposal.

Key components could include: kitchens, bathrooms, central heating, lifts, roofs, windows and structure. Under the rigorous application of component accounting, the common existing practice of treating the replacement of a component e.g. fitting new kitchens or bathrooms as an expense will need to cease. Rather assets replaced should be written out and the loss on scrapping them recognised whilst the new assets will be capitalised and depreciated. Some providers will find that adoption of component accounting will mean that assets previously written off will be reinstated by way of a prior period adjustment.

The adoption of component accounting will be a major challenge. In view of this we have prepared a more detailed datasheet.

business combinations

The three types of combinations

- Mergers which for accounting purposes are defined according to very limited criteria. In such cases, the financial statements aggregate the results, assets and liabilities of the merged bodies at book value. They also present the merged entity as if it had always existed i.e. by including the results of both entities for the entire period and restating the prior period.

- Acquisitions where in substance one entity acquires another in a commercial transaction. Under acquisition accounting the assets and liabilities of the entity acquired are measured at fair value and the difference between fair value and the consideration gives rise to positive or negative goodwill. The acquirer should bring in the results and cashflows of the acquired provider only from the date of acquisition and comparative figures should not be changed.
- Acquisitions arising from non exchange transactions. This common form of acquisition arises where one not for profit business is in substance gifted to another. Under the treatment previously adopted this would frequently give rise to negative goodwill, calculated as the consideration given (nil) less the fair value of the net assets of the acquired providers which would then be amortised.

The update recognises that this latter form of acquisition is not a fair value exchange and hence stipulates that the fair value of the gifted net assets or liabilities should be recognised simply as a gain or loss in the income and expenditure account in the year of the transaction.

other matters

For the first time the SORP contains additional technical notes. Whilst these do not carry the authority of the body of the SORP (and are not approved by the Accounting Standards Board) they will be useful as practical assistance. These cover the areas above and also the assessment of impairment of property values.

conclusion

The changes will have a potentially material impact. Early consideration by providers is therefore strongly advisable.

about haysmacintyre

haysmacintyre, Chartered Accountants and business advisers, works with over 550 charities and not for profit organisations in the UK and overseas. Our services include the full range of audit, tax, VAT and comprehensive advisory services. Our multi-disciplinary specialist team has extensive sector experience working for a diverse range of charities. We are based in one location which ensures an integrated and comprehensive approach to our clients' requirements.

haysmacintyre is a founding member of MSI Global Alliance (MSI), an international alliance of independent legal and accounting firms, with 250 members in 100 countries.



Disclaimer: This datasheet has been produced by the partners of haysmacintyre and is for private circulation only. Whilst every care has been taken in preparation of this document, it may contain errors for which we cannot be held responsible. In the case of a specific problem, it is recommended that professional advice be sought. The material contained in this datasheet may not be reproduced in whole or in part by any means, without prior permission from haysmacintyre.

