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Academies reporting: how FRS 102 and the new SORP impact you

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The new Academies Accounts Direction was released on 23 May 2016 and the big challenge facing academy trusts is making the transition to the new basis of accounting standards in the UK, FRS 102. This latest Accounts Direction also combines the requirements of the Statement of Recommended Practice for Charities or "SORP", issued by the Charities Commission which academies must also comply with as exempt charities.

This is the biggest shake-up of UK accounting standards in decades and as the end of the financial year looms now is the time to start considering the key changes to your financial statements.

So what are the key areas of change?

Presentation of the accounts

Primary statements

The primary statements retain their familiar names:

- Statement of Financial Activities (SOFA)
- Balance Sheet
- Statement of Cash Flows (previously Cash Flow Statement)

The changes here are largely presentational.

The headings in the SOFA have been simplified as follows:

Income
- "Voluntary income" is renamed "Donations"
- "Activities for generating funds" is renamed "Income from other trading activities"

Expenditure
- "Costs of generating voluntary income" and "Fundraising trading" have now been combined into one line as "Expenditure on raising funds"

These changes mirror those set out in the new Charities SORP and should not result in any significant changes in allocation of academies' income and expenditure.

The number of classifications in the Statement of Cash Flows has reduced to three main headings, being operating, investing and financing. It now reconciles to "cash and cash equivalents" rather than just "cash". This might now pick up notice deposits that had previously excluded from a strict definition of "cash".

Governance costs

Governance costs are no longer included on the face of the SOFA but are instead included as a support cost and allocated back to charitable activities.

Comparative figures

FRS 102 and the new SORP require comparative information to be provided for all amounts included in the SOFA split by fund. The Accounts Direction does not mandate how this requirement should be complied with, but suggests either including additional columns for the comparative movements on the face of the SOFA, or by including the previous year SOFA in the notes to the accounts.

Our view is that in most cases the inclusion of the SOFA as a separate note will be the easiest path to follow from a compliance perspective and to prevent cluttering the SOFA.

Investments

For sponsored academies and others who hold investments such as listed shares, gains and losses have previously been reported at the bottom of the SOFA as other recognised gains and losses. These have now moved further up the SOFA so that these gains and losses are included within reported "net income/expenditure".

Direct costs reduced disclosures

Direct charitable expenditure is no longer required to split out into the individual expenditure categories in the note to the statutory accounts, with the disclosure reduced to staff costs, premises and other costs. However, the detailed information will still be required for submission in the Academies Accounts Return so academy trusts ought to ensure that this disclosure can be provided.

Transitioning to FRS 102 and the new SORP

All academy trusts transitioning to the FRS 102 need to revisit their existing accounting policies to ensure that these are in line with the latest Accounts Direction. Where an existing policy is changed or new one brought in, this can give rise to a transitional adjustment and restatement of the prior year figures. Any changes arising on transition will be set out in the notes to the accounts as follows:

- a narrative explanation of the changes to each accounting policy;
- a reconciliation of funds previously reported as at the date of transition (1 August 2014 for most academy trusts) and 31 August 2015 compared to those reported under FRS 102; and
- a reconciliation of the net income/expenditure reported in the previous year compared to that reported under FRS 102.

Most academies are unlikely to make adjustments on transition but the following areas should be considered:

Movements on Local Government Pension Schemes

There is no impact on the overall pension deficit (or surplus) under the new accounting rules, however the way the interest on any pension liability is calculated has changed.

In practice most academy trusts will see an increase in the interest cost charged to expenditure and a reduction in the amount charged to actuarial gains and losses on defined benefit pension schemes.

The key action required here is that academy trusts ensure that they request the pension scheme calculations for the current and prior year from the scheme's actuaries to be provided under FRS 102 so that any material change to the allocation in the comparative SOFA can be made.

Holiday pay accruals

The new accounting standards requires academies to recognise any material holiday pay owing to or from staff at the year-end as an accrual or prepayment in salary costs. This provision will need to be calculated as at the date of transition, the 31 August 2015 and 31 August 2016. In the event that this is a material amount any provision recognised will give rise to a corresponding adjustment to opening reserves.

Classification of computer software fixed assets

Computer software that would have previously been capitalised as tangible fixed assets should generally now be recognised as intangible assets where the software element can be separated out. While this is unlikely to be material for most academies when considering costs incurred in previous years, separately identifying future software capital spending is a practical way of meeting these requirements.

Option to restate fixed assets at fair value on transition

Academy trusts can elect to restate the carrying value of any fixed assets at fair value at the date of transition and treat this as deemed cost for accounting purposes. This new deemed cost will form the basis of depreciation and therefore could increase (or decrease) future charges to the SOFA. Our experience to date is that this option is unlikely to be taken up by many academy trusts as generally any land and buildings recognised in the accounts have been recognised at fair value on conversion, however, governors should consider and confirm that this is not a choice that they wish to make.

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Changes to disclosures and narrative reporting

The new SORP also includes a number of new disclosure requirements.

Key management personnel remuneration

Academies are now required to define which individuals make up the key management of the Trust and disclose their aggregate remuneration in the notes to the accounts. They are also required to explain in the Trustees' Report the process and policies in place for setting the remuneration of these individuals.

Deciding who the key management are is an area of judgement as different academies may reach differing conclusions depending on how decision-making responsibilities are delegated. FRS 102 defines key management personnel as being "those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity."

In a single academy trust this will generally be restricted to trustees and the senior leadership team. However, for multi-academy trusts, consideration will need to be made as to whether this should include the principals and senior leadership teams of individual academies.

This disclosure is in addition to the existing requirements to report the numbers of higher paid staff (those receiving emoluments more than £60,000) and the disclosure of staff trustee remuneration in the notes to the accounts.

Related party transaction reporting

The new Accounts Direction specifies that all transactions with related parties must be disclosed in the accounts. This differs to the previous requirement that material transactions be disclosed.

Reserves

Where material funds have been designated the reserves policy statement set out in the Trustees' Report should quantify and explain the purpose of the designations and, where set aside for future expenditure, the likely timing of that expenditure. While many academy trusts do not have large designated funds, this does clarify that funds set aside should be subject to a specific planned expenditure or else be funds which cannot be spent without realisation of an assets i.e. land and buildings.

Risk Management

Academy trusts are now required to provide a description of the principal risks and uncertainties they face, as identified by the trustees, together with a summary of their plans and strategies for managing those risks. This extends the previous requirements to disclose the principal risks facing the academy trust.

Best practice in this area is for academy trusts to ensure that they have appropriate risk monitoring and management processes in place that are subject to regular review by senior management and the trustees in the form of a risk register.

Critical accounting estimates and judgements

Academies now have to include some discussion regarding those key areas of judgement and key estimates underlying the accounts that have the most significant effect on the amounts recognised in the accounts.

This is presented as a separate note to the accounts so that users of the accounts may understand the key judgements and estimates that the academy trust has applied in preparing the accounts. In the Coketown model accounts included in the Accounts Direction, the estimates involved in calculating the carrying value of any Local Government Pension Scheme liability or surplus have been included as a critical accounting estimate. Academy trusts, in consultation with their advisors, should consider whether there are other areas of estimation and judgement that should be disclosed in their financial statements.

Operating leases

Academy trusts are now required to show the total of payments committed over the whole lease agreement rather than to disclose the amount of the annual commitment. This disclosure was previously calculated for the purpose of the Academies Accounts Return but is another area of convergence with international accounting standards.

EFA risk protection arrangement accounting and disclosure

For those academies opting into the scheme, the new Accounts Direction now includes suggested wording to disclose the element relating to trustees insurance.

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Next steps

Academy trusts need to take action now to review how the new accounting standards may impact you and ought to discuss this with your advisers.

While it appears that the changes facing academy trusts are not significant, most trusts will at minimum need to undertake a reformatting process of their existing financial statements. A review and adjustment to existing reporting and accounting systems also may be needed to ensure the information being extracted is consistent with the new Accounts Direction and is comparable to that produced for the previous year.

Where transitional adjustments are identified, academy trusts will need to go back to agree the impact on the accounts at the date of transition as well as the current and comparative year-ends. Given the tight reporting deadlines facing all academies remains unchanged, starting the transition process as soon as possible is the best way to get a head start on what is likely to be a challenging reporting process for all in the academy sector.

Please contact Tracey or Chris on the contact details below, if you require advice on this matter.

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