Save the Children

ACCOUNTING STANDARDS BOARD
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To the ASB,

<u>Save the Children response to Consultation on FRED 48 – FRS 102</u>

These comments form the views of Save the Children UK. We are happy to discuss further the issues raised in this document.

1 Paragraph 9.31 (d)

We believe there is a typographical error in this paragraph and that it should read:

'Where the fair value of the consideration received by the reporting entity <u>is less than</u> the book value of the part of the business (or other non-monetary assets) no longer owned by the reporting entity (and any related goodwill) together with any cash given up, the reporting entity should recognise a loss, either as an impairment in accordance with Section 27 Impairment of Assets or, for any loss remaining after an impairment review of the relevant assets, in profit or loss.'

2 Definition of restrictions

The current definition reads:

'A requirement that limits or directs the purposes for which a resource may be used but does not require that resource to be returned to the donor if the resource is not used as specified.'

We believe that the second part of this definition 'does not require that resource to be returned to the donor if the resource is not used as specified' is incorrect as restricted income usually has to be returned to the donor if it is not used for the specified purpose. If restricted income no longer includes amounts which could be returned to the donor, this would fundamentally change how we account for restricted income and would contradict the definition of restricted income as currently defined in the Charity SORP and the Charity Commission's published guidance.

3 Definition of performance conditions

The current definition reads:

'A requirement that specifies that the resource is either to be used by the recipient as specified, or if not so used, to be returned to the donor.'

We believe that this means that any restriction imposed on a donation which has a possibility of repayment would now to be treated as a performance condition. This will fundamentally change how we account for restricted income and that restricted income as currently defined in the Charity SORP and the Charity Commission's published guidance could not be recognised as income when received.

This is further emphasised by the wording given in paragraph PBE34B.13, 'Some resources are given with performance conditions attached which require the recipient to use the resources for a particular purpose in order to be entitled to retain the resources. An entity will not recognise income from the resources until the performance conditions have been met.', and also in example 4 given in the Staff Guidance paper for 'Incoming resources from non-exchange transactions'. Both of these appear to confuse the idea of a purpose restriction and a performance condition.

Under current UK GAAP and Charity SORP, in example 4, the condition given by the donor would be considered a purpose restriction, not a performance condition, and the income would therefore be recognised in the period when the income is received. By treating the condition as a performance condition, the income is deferred, creating a liability on the balance sheet. However, this contradicts paragraph 2.45, which states that 'this FRS does not allow the recognition of items in the statement of position that do not meet the definition of assets or of liabilities regardless of whether they result from applying the notion commonly referred to as the matching concept for measuring profit or loss' as it is not probable that the recipient will be unlikely to use the income as specified so the recognition criteria for a liability has not been met.

4 Recognition of grants relating to assets

The current proposal states that:

'Grants relating to assets shall be recognised in the income on a systematic basis over the expected useful life of the asset.'

This treatment also appears to contradict paragraph 2.45 as above, and would lead to a very different income recognition treatment than if the asset had been gifted to the entity directly, despite the fact that in substance, the result for the entity is the same, as it still ends up with the same asset.

5 Recognition of concessionary loans

We would also want this treatment to apply to trading subsidiaries as otherwise there is no cost benefit to the public benefit entity of adopting this exemption.

6 Disclosure of related party transactions

Under current SORP there is a specific exemption from disclosing donations from related parties where there are no attached conditions. Under the proposed FRS, there is no such exemption. Save the Children feel that this would be an onerous requirement, particularly for charities which receive many staff payroll donations, and would not enhance transparency for users of the accounts.

7 Income tax

The profits of charities' trading subsidiaries are required to be transferred to the Charity within 6 months of the year end under a Deed of Covenant. The new standards may lead to these subsidiaries restating their profits. While the restatements are not expected to be material, it is possible that a Corporation Tax liability could arise. We propose that the ASB put in transitional arrangements to avoid this possibility.

Yours sincerely,

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