

## **Marie Curie Cancer Care comments on Future of Financial Reporting Revised standards FRED 46,47 & 48 (FRS 102)**

### **Income recognition (PBE 34.65)**

The proposal regarding the recognition of liabilities where there are performance conditions will cause difficulties for charities making and receiving grants, particularly in the area of medical research.

Our understanding of this section is that the funder would only recognise a liability for a grant given if the performance conditions are met. A performance conditions includes “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.” These clauses are normal in grant making in the charitable sector.

Currently if a charity provides a grant to another organisation it will recognise the liability even though it takes the proper precaution of reserving the right to be repaid or retain any element that is not spent on the project. In the vast majority of cases the funding commitment so made is complied with by the recipient and there is no repayment.

Under the FRED 48 proposal the liability would only be recognised when the condition is met, which is when the funding is spent by the recipient which may take many months and span one or more accounting periods. The financial position of the funder would not properly reflect the commitments made to grant recipients.

The readers of accounts might think that the apparent high level of reserves represented poor stewardship of the charity's resources when in fact they represented a timing difference between the awarding of a grant by the funder and the spending of the grant by the recipient. This is particularly pertinent in the field of medical research where grants are often for three-year periods.

In our opinion this could be resolved by retaining the current principle whereby a restriction placed by a donor, even if it may have the potential to result in repayment, is not treated as a performance condition and the liability is recognised unless there is a probability that part or all of the donation will not be able to be made.

It is also important that there is clarity that conditions such as making the final claim or sending a copy of the accounts do not become performance conditions that lead to the delay in recognising income.

### **Gifts in kind and fair value (PBE 34B.71)**

Paragraph PBE 34B.71 “requires resources received to be measured at their fair value. These fair values are usually the price that the entity would have to pay on the open market for an equivalent item.”

We see problems with this. If a charity receives services such as the rent of an office which is at a higher rate than it would normally incur or the provision of services by consultants that are more costly than the charity would be able to afford currently these would be included in the accounts at an arms' length valuation.

This will have the effect of inflating the charities administrative costs which is a very sensitive number with donors and commentators. It is better that such services are valued at the value in use by the charity.

An example might be where a charity is given the use of vacant space in a prestigious premises that it would not normally be able to afford. In this case at the level of rent that the charity would normally incur rather than reflect the market rent of the property.

A similar situation arises in respect of pro-bono consultants. Marie Curie has had the benefit of significant input from consultants at no cost in recent years. The charity would not have paid the rates charged by the firm but the consultants were willing to provide this assistance at no cost.

If the accounts were required to include the value of the work at the normal rate charged readers of the accounts who carefully scrutinise charity financial statements for high spending on administrative costs are likely to make unfavourable comparisons with other charities who had lower central costs. Charities should be able not to include such services if it would not have incurred the expenditure if it would have had to pay for them or at least include the value to the charity of the work done.