ILM Factsheet
SORP 2005 and accounting for legacy income

Background

The Charity SORP (Statement of Recommended Practice) - originally published in October 1995 was last revised and reissued in February 2005 (SORP 2005). The latest version applies to charity accounting periods beginning on or after 1 April 2005, although earlier compliance was recommended. Although it is referred to as 'recommended practice' it is best thought of as being 'required' practice. Any departure from its guidance is required to be explained in a charity's accounts

The accounting recommendations of the SORP apply to all charities in the United Kingdom that prepare accounts on an accruals basis to give a true and fair view of a charity's financial activities and position regardless of its size, constitution or complexity.

Accounting for legacy income

Accounting for legacy income under the SORP should adhere to the following guidelines:

1. Legacy income should be included in a charity's accounts on the earlier of receipt of the legacy or the date of approval of a distribution e.g. approval of the final estate accounts.

A practical way of achieving this is to accrue at the year-end for legacy income where the distribution has been approved by the charity prior to the year-end, but the income is received after the year-end. Under these circumstances, there is no doubt about measurement of the legacy income whereas, with any other practice, there may be difficulties in confirming the charity's entitlement.

A charity needs to take care to review the legacy income it receives after the year end. Strictly, legacy income meeting the recognition criteria should be included up to the date that the accounts are signed by the charity's trustees.

2. Legacy income should be included as part of 'voluntary income' on the face of the Statement of Financial Activities (SoFA). The SoFA is a single accounting statement with the objective of showing all incoming resources and resources expended by the charity.

3. If legacy income is material it should be disclosed separately as part of voluntary income either on the face of the SoFA or in the notes to the accounts. The charity should also provide details of the costs incurred in generating the legacy income.

4. Consideration needs to be given whether any legacy income is 'restricted' for accounts purposes. Restricted funds are funds that can only be used for a particular purpose. For example, a testator may have left funds for a charity's work in a particular geographical area. Restricted funds need to be disclosed separately from unrestricted funds on the face of the SoFA.

5. Anticipated legacy income notified to the charity, but which is not included in the accounts by the year end, should be referred to in the notes to the accounts with an

estimate of the value involved. This relates to legacy income where the death of the testator was prior to the year end.

6. Where practicable, the notes to the accounts should include details of reversionary interests - again giving their estimated value.

7. Comparative figures should be provided for the disclosures set out under headings 5 and 6.

8. Where legacy income is material to a charity the accounting policy adopted to deal with pecuniary, residuary and reversionary interests should be disclosed.Statement of Financial Activities – legacy income

For completeness particular sections of the SORP dealing with legacy income are paragraphs 123 to 128 and are as follows:

Paragraph 123 – It is good practice to monitor a legacy from the time when notification is received to its final receipt. A charity should not, however, regard a legacy as receivable simply because it has been told about it. It should only do so when the legacy has been received or if, before receipt, there is sufficient evidence to provide the necessary certainty that the legacy will be received and the value of the incoming resources can be measured with sufficient reliability.

Paragraph 124 – there will normally be sufficient certainty of receipt, for example, as soon as a charity receives a letter from the personal representatives of the estate advising that payment of the legacy will be made or that the property bequeathed will be transferred. It is likely that the value of the resource will also be measurable from this time. However, legacies which are not immediately payable should not be treated as receivable until the conditions associated with payment have been fulfilled.

Paragraph 125 – it is unlikely in practice that the entitlement, certainty of receipt and measurability conditions will be satisfied before receipt of a letter from the personal representatives advising of an intended payment or transfer. The amount which is available in the estate for distribution to the beneficiaries may not have been finalised and, even if it has, there may still be outstanding matters relation to the precise division of the amount.

In these circumstances, entitlement may be in doubt or it may not be possible to provide a reasonable estimate of the legacy receivable, in which case it should not be included in the Statement of Financial Activities.

Paragraph 126 – Where a charity receives a payment on account of its interest in an estate or a letter advising that such a payment will be made, the payment, or intended payment, on account should be treated as receivable.

Paragraph 127 – Similarly, where a payment is received or notified as receivable (by the personal representatives) after the accounting year end (hence providing evidence of a condition that existed at the balance sheet date), then it should be accrued in the Statement of Financial Activities and the balance sheet. Disclosure in the Notes to the Accounts and under Accounting Policies SORP 2005 continues with a paragraph about disclosure requirements.

Paragraph 128 – Where the charity has been notified of material legacies which have not been included in the Statement of Financial Activities (because the conditions of recognition have nor been met), this fact and an estimate of the amounts receivable should be disclosed in the notes to the accounts. Similarly, an indication should be provided of the nature of any material assets bequeathed to the charity but subject to a life tenancy interest held by a third party. Where material, the accounting policy notes should distinguish between the accounting treatments adopted for pecuniary and residuary legacies and legacies subject to a life interest held by another party.

Copies of the SORP

The Charity SORP can be downloaded free of charge from the Charity Commission Website, at (http://www.charity-commission.gov.uk/investigations/sorp/sorpfront.asp).