The Evolving World of Financial Reporting

The world of accounting may not seem the most dynamic to most, this is understandable if you consider that double entry bookkeeping, a system for recording financial transactions, has been largely unchanged since its invention in the 15th century (some say it goes back further).

However there was a significant accounting change that occurred in January 2015, the change is a financial accounting and reporting one, how accounts are presented to the regulators, such as Charity Commission and Companies House, if you are a registered charity then there will be a new SORP due to be released on 1 January 2015. The purpose of article is to explain the impact of change and what it means for arts organisations.

In the world of accounting and for accountants it is a big deal, in the context of managing and running an organisation nothing fundamental will change, the general requirements for control, planning, decision making and performance evaluation remain.

Within the field of accounting there are two main branches, namely management accounting and financial accounting. Management accounting provides information for managers of an organisation to help direct, manage and control its operations; financial accounting provides information to external stakeholders, such as funders, regulatory and statutory bodies (Arts Council, Charity Commission, and Companies House), creditors and others who are outside the organisation.

The preparation of financial accounts for arts organisations is governed by a regulatory framework, made up of accounting standards (UK GAAP, Generally Accepted Accounting Principles), statute (Companies Act) and where appropriate the charity SORP (Statement of Recommended Practice) 2005. The purpose of the accounting framework is to prescribe formats of the accounts, how information is to be presented, and what information needs to be disclosed to readers. Management accounting, which is predominantly for internal use does not follow any prescribed formats.

For the accountants preparing the accounts, there will be changes in how we present accounts, adjustments to formats and the language adopted. As with most accounting regulatory changes there will be an impact on how organisations record data and present that to their accountants, this will impact on time and complexity and thus potentially reflect on fees charged, either as one off or recurring. In house systems, such as accounting packages will need to be modified to match revised presentations, For those interested in financial reporting I have selected a few areas that will affect arts organisations and charities, changes cited in brackets. There will be greater clarity on accounting & recognition for grants (performance v accrual model), cash flow statements (three main headings and small charities will have to prepare a cash flow), donated goods and services (if significant, now have to be valued on receipt by the organisation) and revaluation gains (now to recorded as income).

One of the key drivers behind the change is Internationalisation, ensuring that UK accounting rules and standards are consistent with International Standards and Rules. In addition there will be some differing terminology contained within FRS 102, for example a balance sheet will be now known as a 'Statement of financial position', a Cash flow statement as 'a statement of cash flows'.

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