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Honorary Treasurers Forum: Charity SORP 2026

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Welcome

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Amendments to FRS102 and the SORP

Timetable

- **FRS102**
  - 27 March 2024, second periodic review issued March 2024
  - effective date for most changes is periods beginning on or after 1 January 2026
- **New Charity SORP**
  - updated for changes to FRS102
  - finalised on 31 October 2025
- **Planning ahead**
  - Effective for accounting periods beginning on or after 1 January 2026 (early adoption is permitted)

Amendments to FRS102 and the SORP

Income Recognition

- Aligning with FRS102 & IFRS 15
- New 5 step model
- Charity specific income guidance

Leases

- Removal of the distinction between finance and operating leases
- Extension to agreements that contain leases

Amendments to FRS102 and the SORP

Other amendments

- Tier System
- Trustee report
- Going concern
- Recognition of Income
- Lease accounting
- Statement of cashflows
- Provisions & Contingent liabilities
- Heritage assets

Amendments to FRS102 and the SORP

Proposal for 3 tiers of reporting

- Concept of “large” charity disappears (currently charities with income over £500,000 are “large charities”)

	Current	Proposed
Tier 1	Income up to £500,000	Income up to £500,000
Tier 2	Income over £500,000	Income £500,000 - £15million
Tier 3	N/A	Income over £15million

Specific differences for tiers

Module 1

- SORP module 1 ‘Trustees’ annual report
- SORP module 4 ‘Statement of financial activities’
- SORP module 8 ‘Allocating costs by activity in the statement of financial activities’
- SORP module 9 ‘Disclosure of trustee and staff remuneration, related party and other transactions’; and
- SORP module 14 ‘Statement of cashflows’

Specific differences for tiers

Some SORP modules apply to all tiers. Specific differences for tiers are outlined in:

- SORP module 1 ‘Trustees’ annual report;
- This module includes new and enhanced disclosure requirements plus changes to the structure of the module. The new requirements include:
- Module 1.60 – 1.72 reporting on how a charity is responding to and managing environmental, governance and social matters; (encouraged for Tier 1 & 2 – Mandatory for Tier 3)
- Module 1.15 -1.32 impact reporting is now a ‘must’ for all charities; and
- Tier 2 and tier 3 charities should provide more narrative on how legacies are recognised in the accounts.

Other updates

Some SORP modules apply to all tiers. Specific differences for tiers are outlined in:

- **Going Concern:** More guidance has been included on the going concern basis of preparation.
- **Cashflows:** Only charities in tier 3 are required by SORP to produce a statement of cashflows. However, charities in tiers 1 and 2 are required by FRS 102 to prepare a statement of cash flows where they do not meet the definition of a small entity under FRS 102.
- **Heritage Assets:** The main change to this module relates to providing clarity on the measurement of heritage assets that have been donated.
- **Provisions & Contingent liabilities:** This module was covered as part of module 7 in the previous SORP. The new module gives preparers a clearer understanding of the meaning of provisions, contingent assets and contingent liabilities.

Income Recognition

Key changes

- Charities must now carefully assess whether income arises from:
- **Exchange transactions** (where goods or services are provided in return), or
- **Non-exchange transactions** (pure grants or donations)

Current approach:

- Reasonably simple income recognition:
- Exchange of services – at a point in time
- Provision of services – over time using stage of completion

New approach:

- One unified approach to income recognition
- Assumes all income received under contract (implied or otherwise)
- Five step model

Five Step Model

- Identify the contract
- Identify the performance obligations within that contract
- Identify the contract price
- Allocate the contract price to each performance obligation
- Recognise income for each performance obligation as it is met

Step One: Identify the contract

Criteria:

- Contract has been approved by both parties
- Each party's rights can be identified
- The payment terms can be identified
- Contract has commercial substance
- Probable the entity will collect the consideration it is entitled to

Step Two: Identify the Performance Obligations

Module 5.20 – 5.21

- A performance obligation is a **promise** in a contract with a third party to transfer to the third party **either** a **distinct good or service** (or a distinct bundle of goods/services) or **a series** of distinct goods or services **that are substantially the same and** with the same pattern of transfer

It is distinct

if both are met:

The third party can benefit from it, either on its **own, or together with other resources** (i.e. capable of being sold separately), **and**

It is **separate** from other promises in the contract

Step Three: Determine the Transaction Price

- The transaction price is the amount of consideration to which the entity expects to be entitled in exchange for transferring goods or services promised to a customer, excluding amounts collected on behalf of third parties (eg some sales taxes). For more information on this step refer to FRS 102 Section 23 paragraphs 23.41 to 23.64.

Considerations

- Variable consideration
- Sales with a right of return (refund liability and refund asset as inventory)
- Sales-based or usage-based royalties
- Time value of money
- Non-cash consideration (Fair Value)
- Consideration payable to a customer

Variable Consideration

FRS102.23.43 – FRS102.23.47

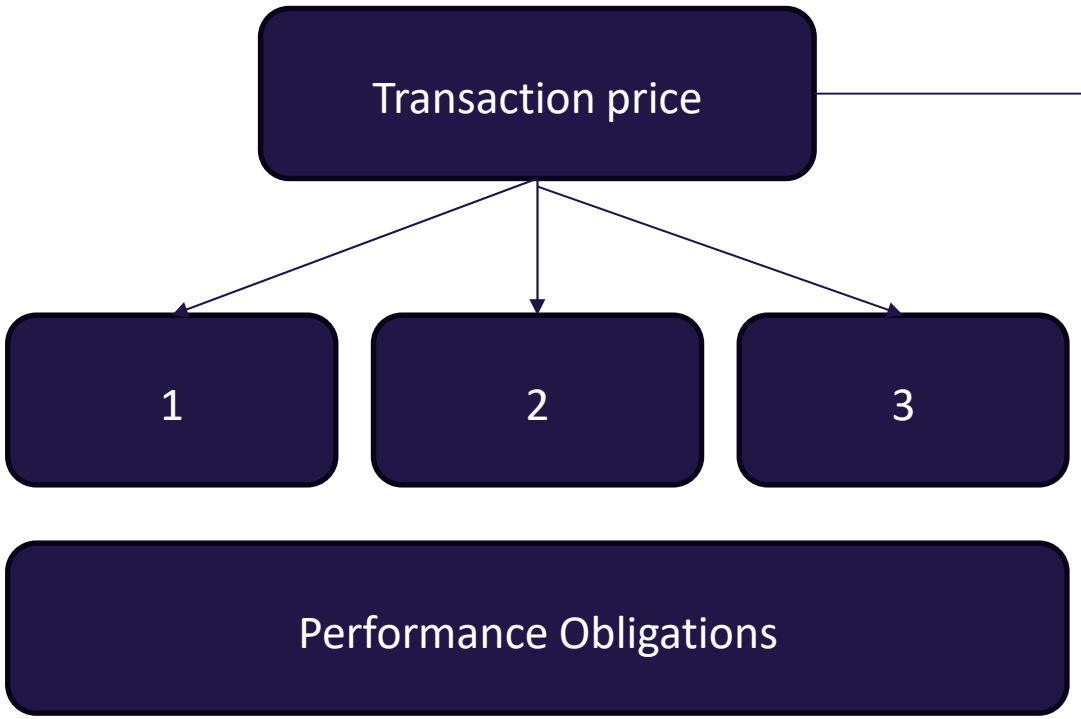
- Discounts
- Rebates
- Refunds
- Performance
- Bonuses
- Penalties

Measure variable consideration:
- Based on expected values or
- The most likely outcome

An entity shall apply one method consistently throughout the contract. Only include an amount of variable consideration… to the extent that it is **highly probable.**

At the end of each **reporting period** an entity shall update the estimate…. to reflect any relevant changes in circumstances.

Step Four - Allocate the transaction price



- Allocate in proportion to stand-alone selling prices.
- The stand-alone selling price is the price at which a charity would sell a good or service promised in a contract separately to a third party
- Best evidence is the observable price of the good/service

If stand-alone selling price not directly observable, a charity shall estimate it, applying methods consistently in similar circumstances.

- Adjusted market assessment
- Charity Specific factors
- Information about the third party

Step Five: Recognising Income

At a point in time	Over time
• Third Party obtains control of asset. Indicators: - Charity has a present right to receive payment; - Third Party has legal title to the asset; - Third Party has physical possession of the asset; - Third Party has significant risks and rewards of ownership of the asset; - The Third Party has accepted asset.	One of following criteria is met: • Third Party simultaneously receives and consumes benefits • The Charity's performance creates or enhances an asset that customer controls • The Charity creates an asset with no alternative use to the entity and has an enforceable right to payment for performance completed to date. Measurement basis: • Output method Input method (5.47-5.53)

Practical challenges

- Impact on performance related pay schemes
- Impact on KPIs and internal and external communications
- Budgeting
- Managing and updating internal functions, e.g. marketing, legal, sales teams etc
- First time adoption – fully retrospective approach or modified retrospective approach

Lease Accounting

Key changes

Current approach:

- Distinction between an operating lease and a finance lease
- Restricted to consideration of lease agreements only
- Operating leases: recognised as in year income or expense
- Finance leases: recognised as an asset with corresponding liability and in year finance income or expense

Lease Accounting Module 10B

Key changes

New approach:

- No distinction between operating and finance lease
- Extension to consider all contracts that may contain a lease
- Exemptions available for:
    - short-term leases
    - low value assets

Two Exceptions

Two exceptions to the accounting treatment

Short term leases	Low Value assets
Lease term of 12 months or less and contains no purchase options (election by class of asset)	Based on value of asset regardless of whether lease payments are material to lessee (election on lease by lease basis)

- Recognise lease payments on a straight-line basis as an expense in the profit/loss

Peppercorn and Social Donation Leases

Key differences to FRS102

- 10B.75. Typically, arrangements under which the charity pays nil or only a nominal amount of consideration are known as peppercorn arrangements.
- 10B.76. While these arrangements may have the legal form of a lease, it is unlikely they will meet the definition of a lease under FRS 102 as the payments due are likely to be very small or there may be no payment due. Any nominal payments that are made are treated as an operating expense. Such arrangements are outside the scope of Section 20 of FRS 102
- 10B.78 if the arrangement means that an asset is available to the charity to use to carry out its charitable activities, the charity will need to identify the fair value of that asset and account for a donated asset in line with the treatment described in SORP module 6 ‘Donated goods, facilities and services including volunteers’

Peppercorn and Social Donation Leases

Key differences to FRS102

- 10B.80. A charity lessee must use the information readily available to it to determine whether it is party to a social donation lease. This could include:

- information provided by the lessor about the discount or reduction in lease payments being given to the charity

- information about the lease payments for very similar assets made by lessees who are not charities

10B.83. The value of the incoming resources from the non-exchange component is recognised as part of the cost of the right-of-use asset (see paragraph 10B.49) when the resources are received or receivable. The charity recognises the related income at the same time, assuming there are no performance-related conditions (which are considered unlikely in most lease arrangements).

Social Donation Lease

Example

Facts	Treatment
The lessor states that as part of its corporate social responsibility activities, it will give the charity a 50% discount on the office space, so the charity will pay £60,000/year instead. If the arrangement had not been available, the charity expected to pay £72,000/year for office space elsewhere.	The information available to the charity indicates there is a nonexchange component in the lease. Where the charity determines that it is a facility it has received under this arrangement, it is the value to the charity of the office space that is important. The non-exchange component is £12,000/year - the difference between the value to the charity and the payment being made. Assuming no performance-related conditions exist in the arrangement, the charity will recognise the income when it is received or receivable. This will usually be at the commencement of the lease but may be over the term of the lease depending on the terms of the arrangement. Refer to SORP module 6 'Donated goods, facilities and services, including volunteers' for more guidance.

Lease liability measurement

The lease liability shall be measured at the present value of the lease payments outstanding.

- Lease payments shall include:

Fixed payments
+ Any variable payments – only if dependent on an index or rate (e.g. consumer price index)
+ Amounts expected payable under residual value guarantees
+ Exercise price of a purchase option (if reasonably certain to be exercised)
+ Any penalties for terminating the lease

Right of Use Asset – Cost Measurement

- A **right-of-use** asset is initially recognised as:

The initial measurement of the lease liability
+ any initial direct costs incurred
+/- any lease payments made or lease incentives received before commencement of the lease
+ an estimate of any obligations for costs to dismantle or restore the asset to its original condition (section 21)

Subsequent measurement

Lease liability	Right of use asset
Reduce by lease payments and increase by unwinding of interest	• Measure using cost model, revaluation model, or fair value for investment properties • Consider impairments, dismantling provisions

- Any remeasurements are adjusted through the lease liability and right-of-use asset (e.g. change in assessment of lease term)

Illustration – Financial Statement Impact

- Numbers based on 4-year lease, £10,000 p.a. payable in advance, discount rate 6%

SOPL	Initial	Year 1	Year 2	Year 3	Year 4
Interest expense		1,604	1,100	566	0
Depreciation expense		9,182	9,182	9,183	9,183
Total lease expense to P/L		**10,786**	**10,282**	**9,749**	**9,183**
BS					
Right of use asset	36,730	27,548	18,366	9,183	-
Lease liability	(36,730)	(28,334)	(19,434)	(10,000)	-

Our upcoming sessions:

Revenue Accounting webinar : 2 December at 9am

Higher Education SORP webinar : 14 January at 9am

Charity SORP follow up webinar: 20 January at 9am

To sign up, contact Ketsia Tampo on ktampo@hwfisher.co.uk

Thank You

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