

New SORP

What's changing and how to prepare



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13 November 2025

S A Y E R | V I N C E N T



MAKING IT COUNT



Agenda for today

- Why a new SORP now?
- Key changes
 - Tiered reporting
 - Trustees' annual report
 - Financial statements
- How to prepare
- Further resources
- Q&A



Why a new SORP now?



CHARITIES SORP GOVERNANCE REVIEW 2018/19

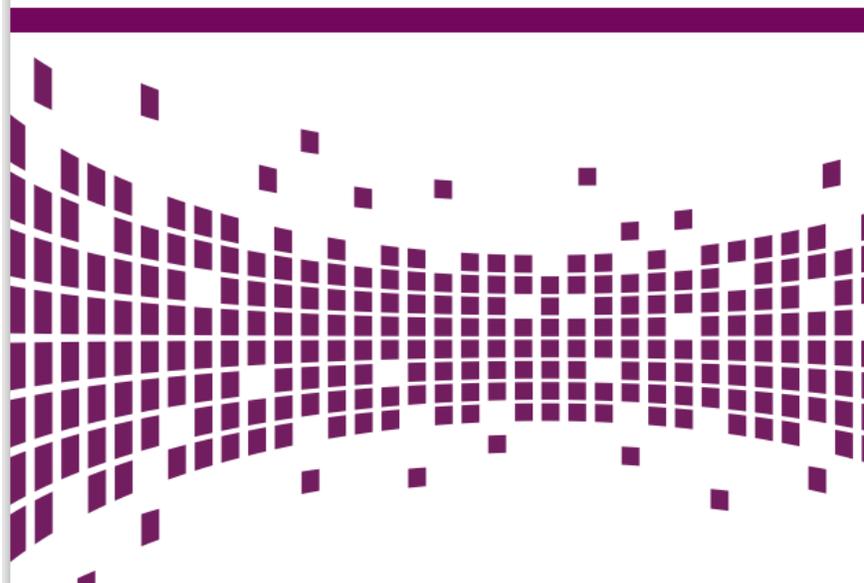
Independent Oversight Panel

Guiding the Development of the Charities SORP

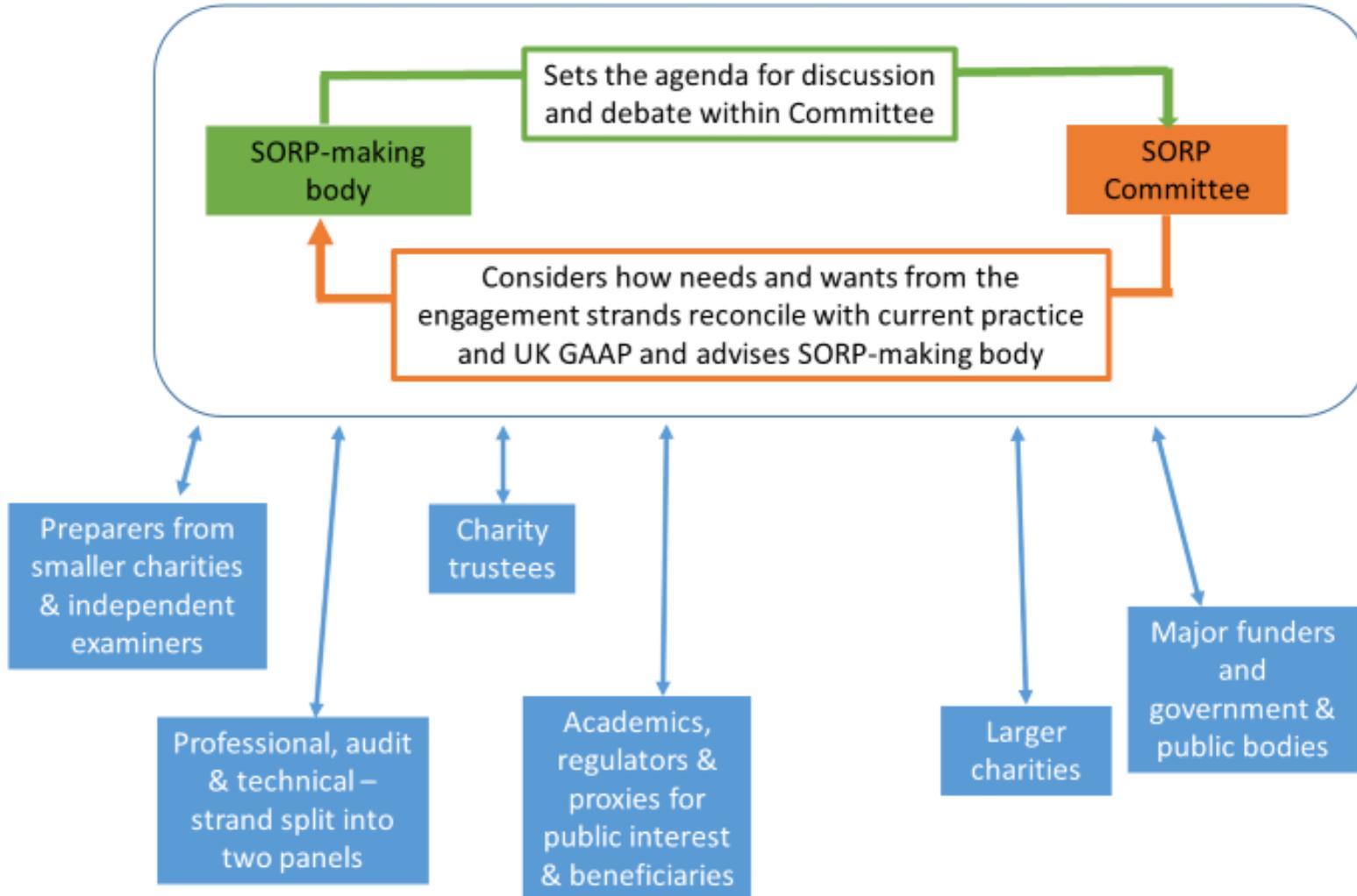
Exploring changes to the way the Statement of Recommended Practice: Accounting and Reporting by Charities is developed

REPORT AND RECOMMENDATIONS

June 2019



The SORP engagement process





New SORP for 2026

- Effective for periods from 1 January 2026
- 31 December 2026 first year-ends
- Be mindful of shortened accounting periods!

EXPOSURE DRAFT SORP 2026

Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland

(FRS 102)



CHARITY COMMISSION
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This Exposure Draft SORP 2026 is based on FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland. In relation to FRS 102, this SORP is for guidance only and is not a substitute for referring to the full text version of FRS 102 which is a joint copyright document of the FRC and the IFRS Foundation. The latest edition of FRS 102 was published on 10 September 2024 and is available at: <https://www.frc.org.uk/library/standards-codes-policy/accounting-and-reporting/uk-accounting-standards/frs-102/>

CHARITIES SORP 2026

(October 2025)

Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland

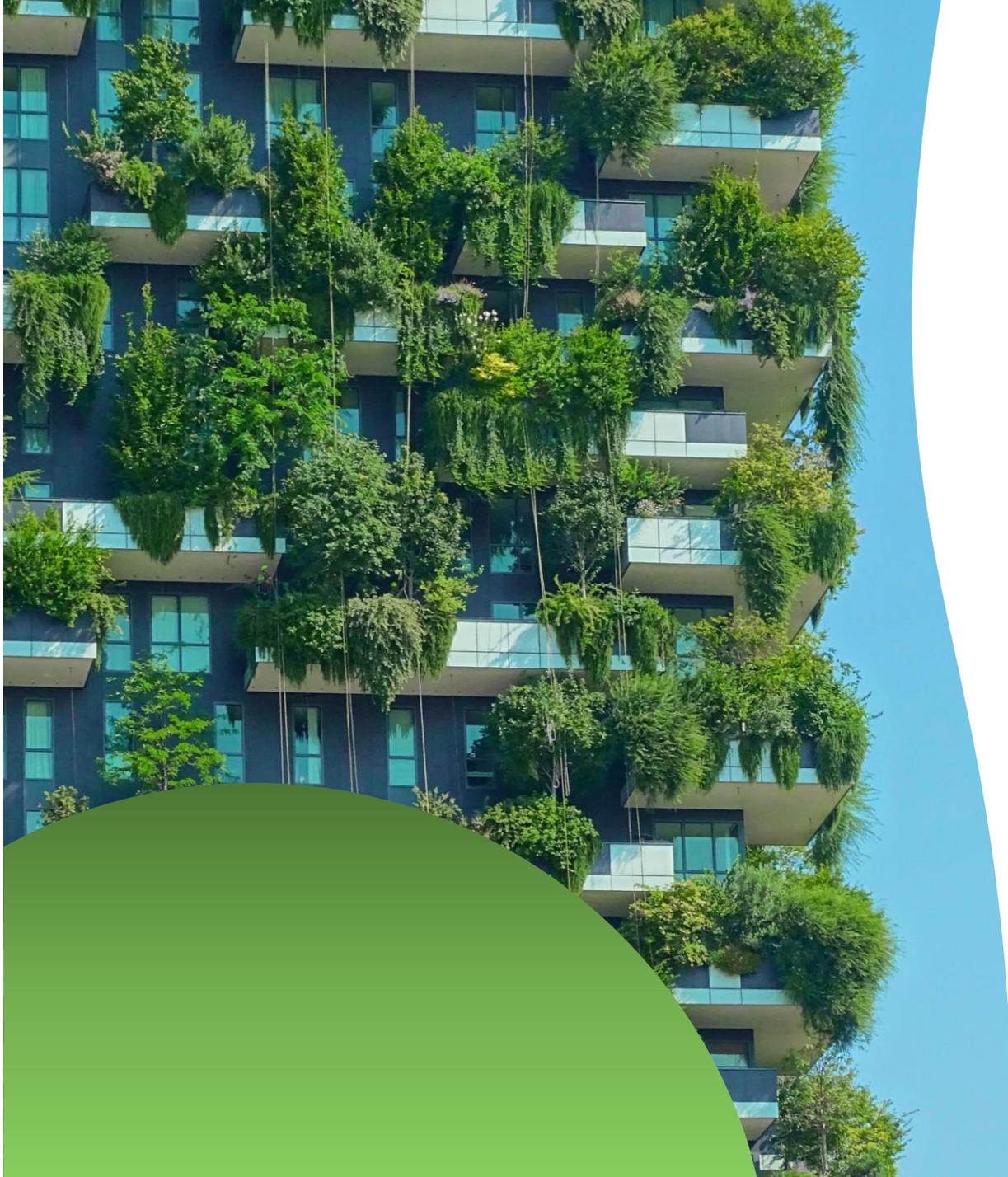
(FRS 102)

(effective 1 January 2026)



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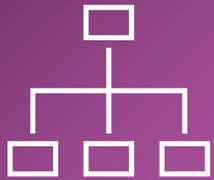


Why a new SORP now?

- To incorporate changes to FRS102
- Charities Act and CCEW guidance
- To address feedback from engagement strands and users of the SORP
 - “Think Small First”
 - Simplify where possible
 - Overall structure and presentation of the SORP
 - Trustees’ annual report
 - Specific accounting issues

Key changes

What's new in the SORP?



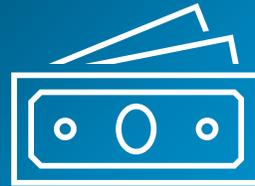
Tiering

3 tiers vs 2 to allow for more proportionality



More options

Options for small charities clearer



FRS102

Income recognition and leases

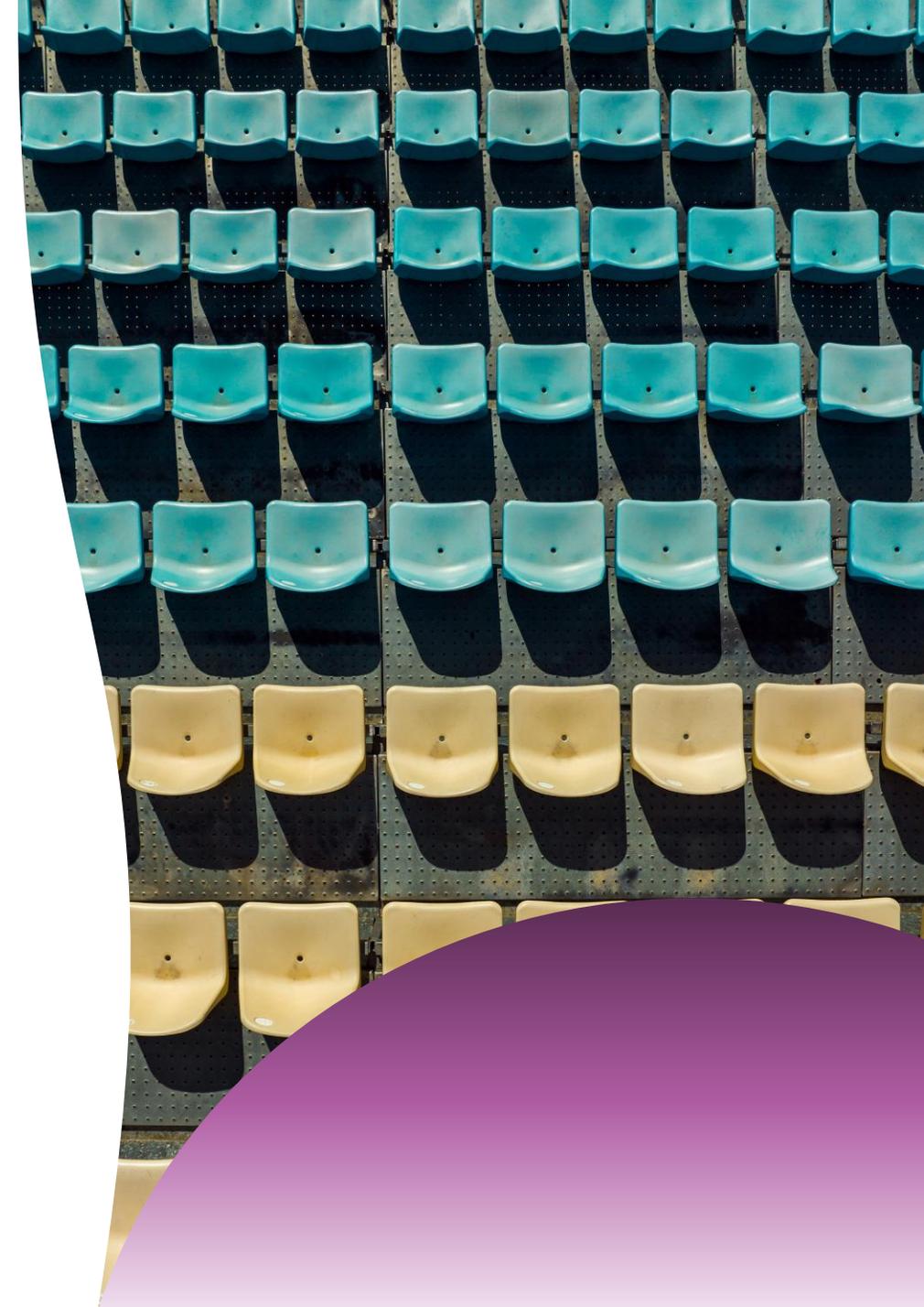


Clarity

Clarity on challenging areas e.g. funds, reserves, legacies, narrative reporting

Tiered reporting

- Tier 1 up to £500k income
 - Tier 2 from £500k to £15m income
 - Tier 3 the very largest charities (>£15m)
-
- Thresholds consistent with existing ones
 - But do not align with audit thresholds
 - Each section sets out requirements for each tier
 - Scope & application section explains tiers





Tiered reporting

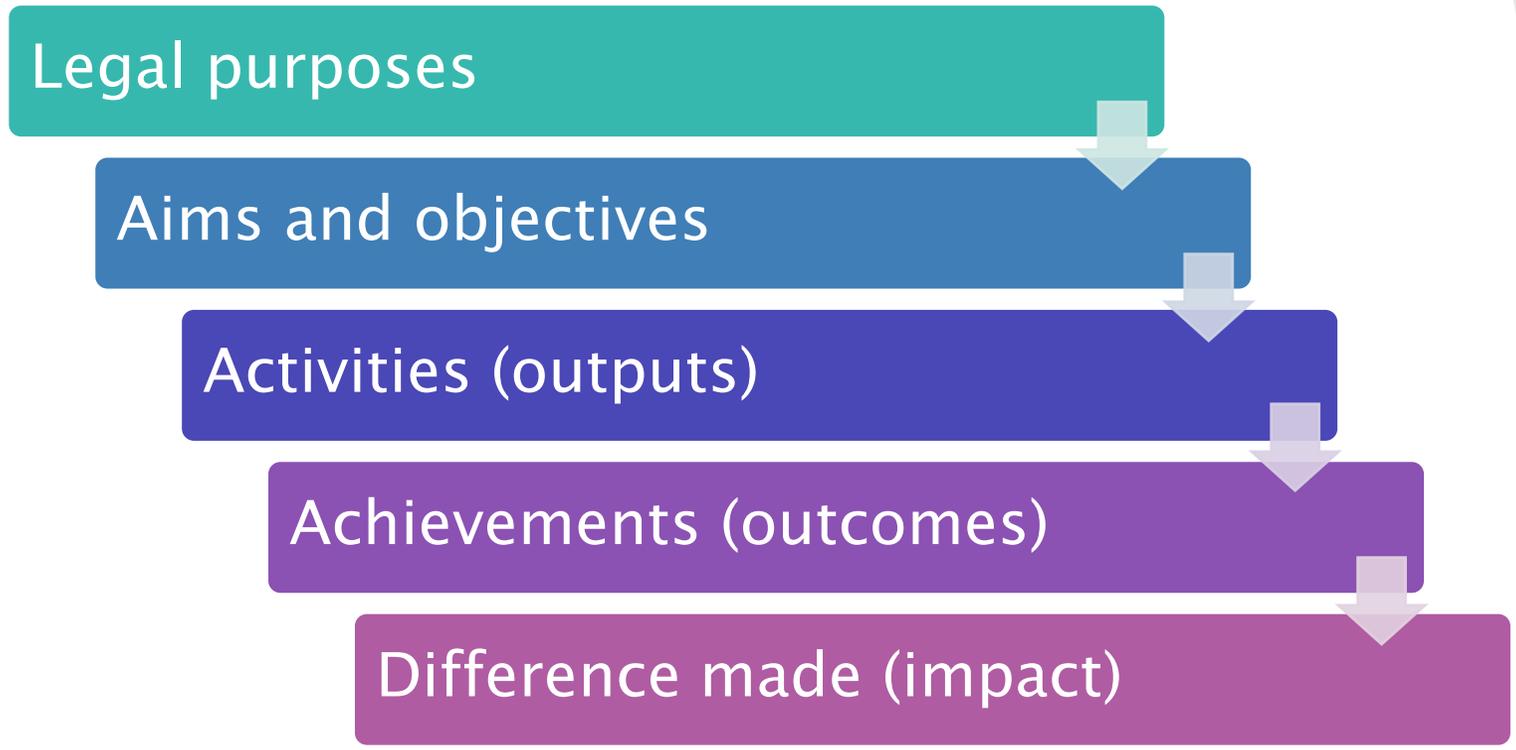
- **Total income** as shown in the Statement of Financial Activities for all funds, but:
 - **excluding** the receipt of any endowment
 - **including** any amount transferred to income funds during the year from endowment funds

Not different - just often misunderstood

Trustees' Annual Report



Context for reporting not changed



Trustees' annual report

- Must/should/may remains
- Same structure – increasing detail
- Impact reporting expectations
 - Prompt questions
- Tier 3 specifics
 - Performance of material fundraising activities
 - Effect of expenditure on fundraising on return
 - Factors affecting financial performance in future



Trustees' annual report – prompts

Objectives and activities – tier 2+

- What aims and objectives have trustees set for the charity this period and how has the charity performed against these?
- What significant activities does the charity undertake and how do these contribute to the achievement of the charity's stated aims and objectives?
- What are the changes or differences the charity seeks to make through its activities?
- What are the charity's strategies for achieving its stated aims and objectives?
- What criteria or measures does the charity use to assess success in the reporting period?

Achievements and performance – all tiers

- In what way has the charity's work made a difference to the circumstances of its beneficiaries?
- Has the charity's work provided any wider benefits to society as a whole?

Reserves

- All tiers
 - Reserves policy and why
 - Amount of reserves and why
- Explicitly defines “reserves”
 - that part of a charity’s unrestricted funds that is freely available to spend on its charitable purposes
- TAR reserves need to be consistent with accounts
 - If not evident, must provide a reconciliation



Volunteers

- Tier 1
 - Explanation to help the user to understand the scale and nature of the activities undertaken by volunteers and the input from volunteers
- Tier 2+
 - Info on number of volunteers
 - Activities volunteers support or help to provide
- All tiers
 - Notes must include details of contribution of general volunteers



Sustainability

- Tier 1 & 2
 - **May** explain how charity is responding to and managing ESG matters
 - ESG: Environmental, Social, Governance
- Tier 3
 - **Must** do the above





Other changes

- **Plans for the future**
 - Now required for all tiers
 - Previously only large charities
- **Financial review – legacy income**
 - Tier 2+
 - Should comment on impact of material legacy income recognised prior to resources being received
 - Expected to help users understand timing differences

Financial Statements

SoFA - Natural classification

- Available to Tier 1 only
- Optional alternative to activity-based reporting
- Present “relevant analysis of components of income/expenses incurred”
 - No staff costs table (unless non-small company...)
 - Need all other staff cost disclosures



SoFA for smaller charities

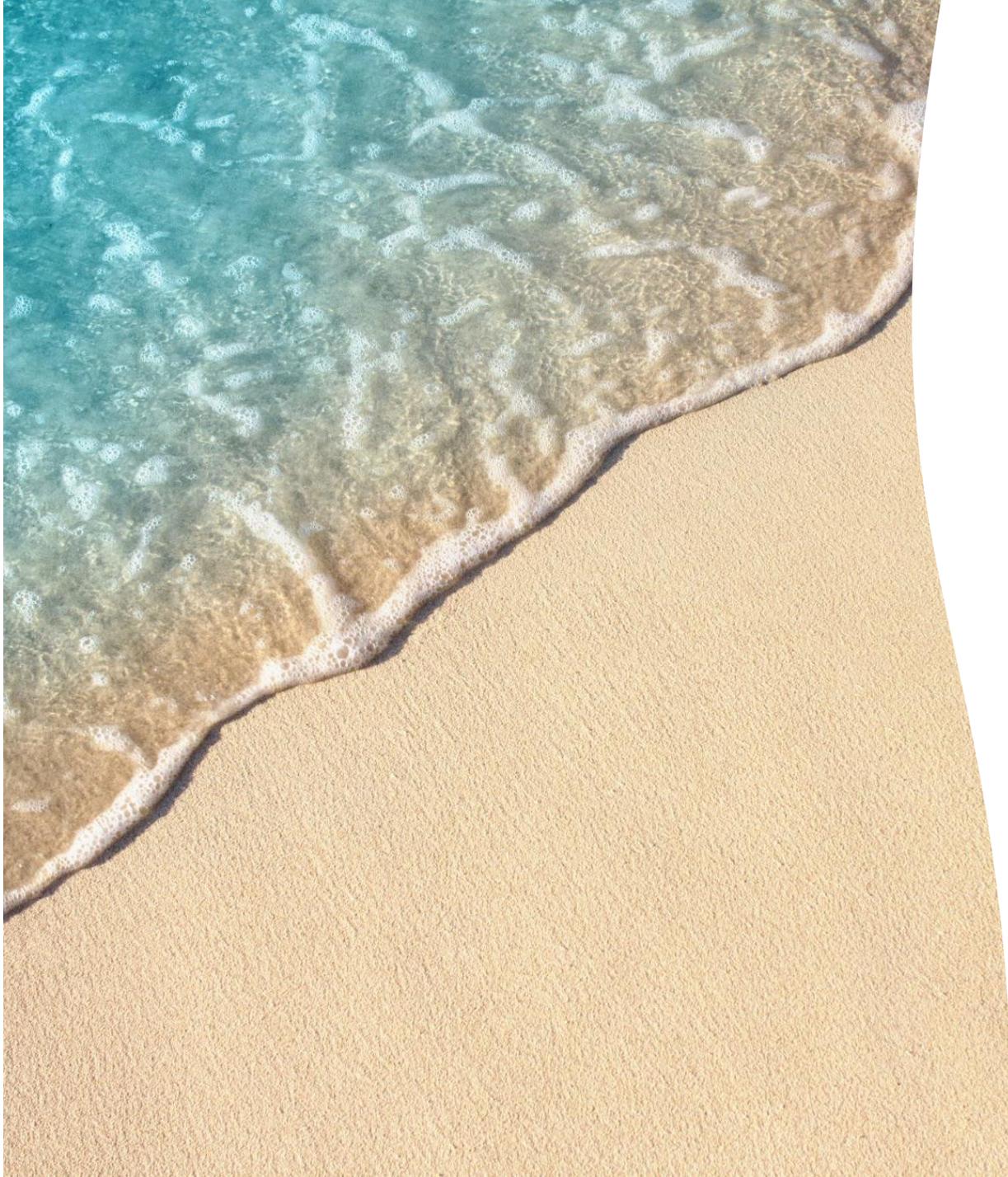
- Natural classification option for Tier 1
 - Illustrative SOFA (table 3, section 4)

	Unrestricted funds	Restricted income funds	Endowment funds	Total funds	Prior period Total funds
	£	£	£	£	£
Income and endowments from:					
(e.g.) Donations and legacies					
(e.g.) Charitable activities					
(e.g.) Other trading activities					
(e.g.) Investments					
(e.g.) Other					
Total					
Expenses incurred:					
(e.g.) Salary-related costs					
(e.g.) Premises-related costs					
(e.g.) Grants made					
(e.g.) Interest expense					
(e.g.) Depreciation					
(e.g.) Impairment charges					
(e.g.) Other expenses					
Total					

A blue pen with a silver tip is positioned diagonally across the top left of the slide. The background features a light blue bar chart on a white grid. A large, solid teal circle is partially visible in the bottom left corner.

Activity basis

- Analyse income and expenditure by activity
 - E.g. shops, residential care, gallery
- Link to activities described in trustees' report
- SoFA shows raising funds and charitable activities
- Notes show direct costs, support costs and governance costs



Income recognition changes

- Exchange transactions
 - SORP sections 5.9 - 5.53
 - Specific guidance on membership and royalty income
- Non-exchange transactions
 - SORP sections 5.63 onwards
- Disclosure requirements
 - All grouped at the end 5.102 - 5.114

Non-exchange transactions

- Receives value from a donor or grantor, and given freely but without providing equal value in exchange
- May have performance related conditions or other terms limiting recognition
- Specific examples are:
 - Donations of money, goods, facilities or services
 - Legacies
 - Grants including government and capital grants
 - Investment income



Exchange transactions

- Income from goods or services supplied under contract with third parties
- The considerations reflects the amount the charity expects to be entitled to
 - Specific examples are
 - Contracts and longer-term contracts
 - Membership subscriptions where right to services
 - Royalties / licences
 - Participation fees for fundraising events
 - Corporate sponsorship

Five step revenue recognition model

1

Identify your customer contract

2

Identify the performance obligations in the contract

3

Determine the transaction price

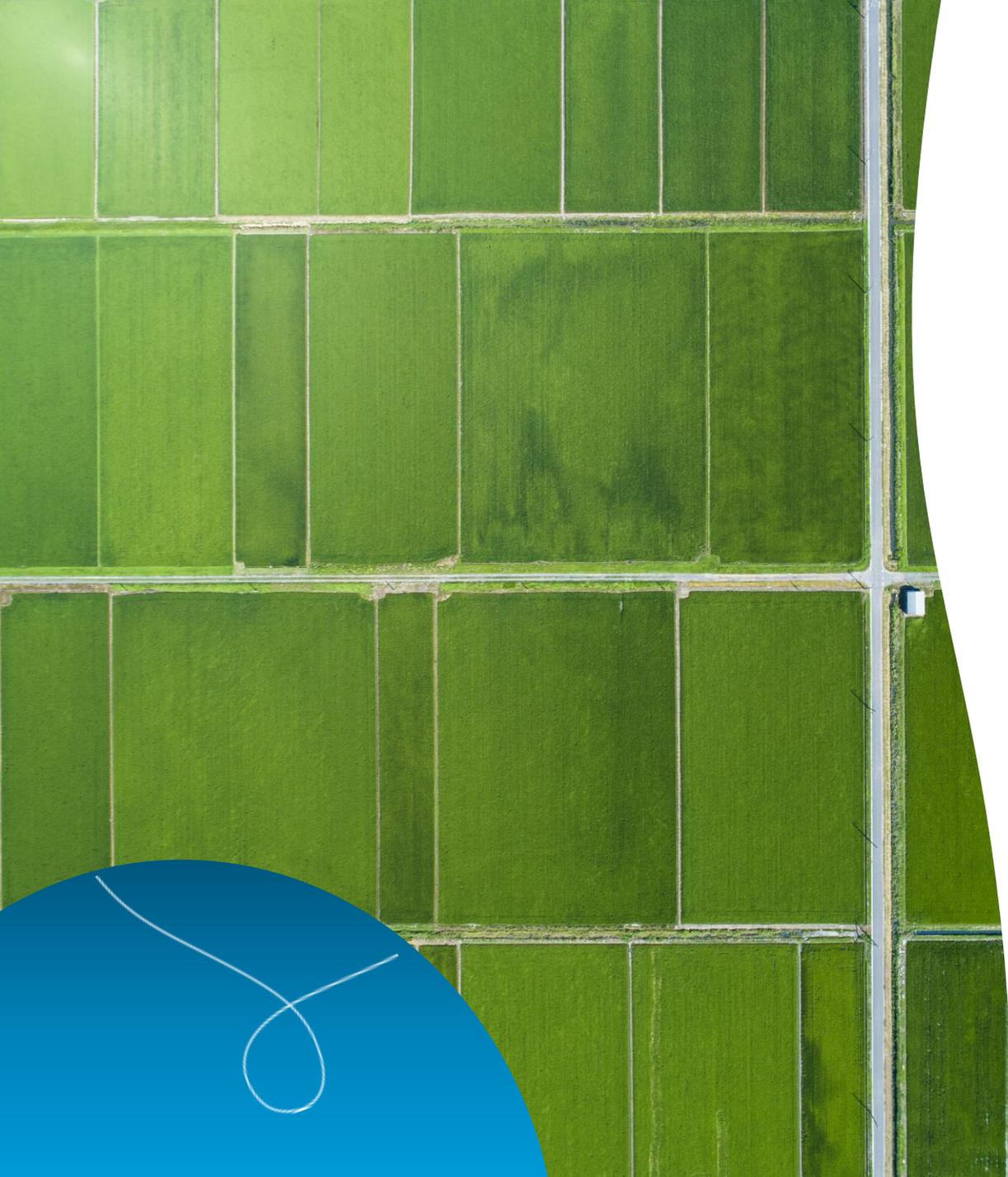
4

Allocate the price to the obligations

5

Recognise revenue when the performance obligations are satisfied





Exchange transactions examples

- Bundled services
 - Training and examinations
- Variable consideration
 - Royalties
- Licenses
 - Right of use
 - Right of access
- Non-refundable fees
 - Joining fees



Income recognition - legacies

- Still open to interpretation
- Receipt of legacy income is normally probable when all of the following met:
 - Grant of probate
 - Scotland - grant of confirmation
 - Executors establish sufficient assets to pay
 - Conditions are in control of charity or met
- Events after reporting period
 - Adjust if clear payment agreed by executors prior to year-end but paid or notified after

Lease accounting - what has changed

Old rules

- Finance leases
 - transfer the risks and rewards of ownership
- Operating leases
 - do not transfer the risks and rewards

Distinction now gone

- Single accounting treatment for lessees





Lease accounting

- All tiers
- Entire section 10B – 28 pages
- Flowchart for guidance
- New categories
 - Right of use asset
 - Lease liability
 - recognised under provisions
- Specific exemptions
- Common charity specific matters
 - Peppercorn arrangements
 - Lease with non-exchange component

Exemptions

Low value leases

- Based on underlying asset
- Not value of lease payments
- Judgement required

Short term leases

- Lease under 12 months
- No option to purchase
- Rolling renewals not exempt – look at intention

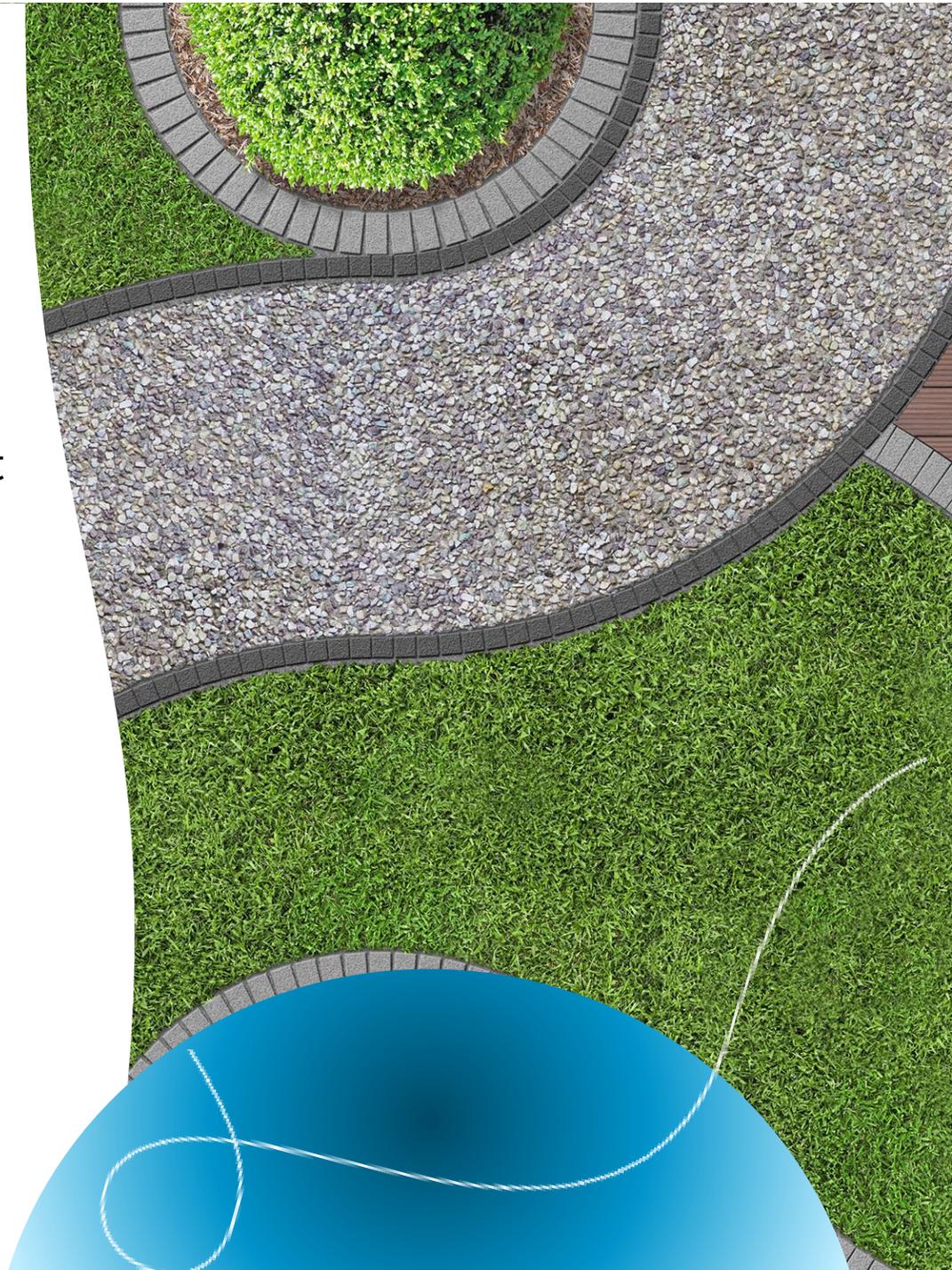
Disclosure requirements

- Retain existing lease commitment disclosure note for the above



Peppercorn lease arrangements

- May have legal form of lease
- Likely doesn't meet definition of lease
 - As payments due are very small or no payment due
- Treated as operating expense
- Narrative disclosure
 - Do consider whether to recognise as donated facility



Leases – non-exchange component

Payment below market rate but higher than nominal

- Should a gift in kind be recognised?
 - If market induced discount – **no**
 - Most likely
 - Recognise if landlord providing discount explicitly due to charitable status
 - “Expected to be reasonably obvious to the charity”
 - Value is based on the difference between actual payment and amount charity would have paid
 - May differ to the full rent on actual property leased



Leases – non-exchange component

Where gift in kind recognised

- Increase right-of-use (ROU) asset by value of gift
- Recognise income in full
- No increase in lease liability
- Impact
 - Increased gross assets (watch company thresholds)
 - Increased depreciation
 - ROU asset bigger than lease liability



Term of the lease

- Begins at commencement date
- Includes rent free periods and aggregate of:
 - Non-cancellable element
 - Period covered by option to extend if 'reasonably certain' to exercise
 - Period covered by option to terminate if 'reasonably certain' will not be exercised
- Period over which the contract is enforceable



Initial measurement of lease liability

- Calculate at the commencement date
- Net present value of unpaid lease payments
- Include any residual guarantees
- Discount the lease payments



Initial measurement of asset

- Include:
 - lease payments made (at or before commencement date) less lease incentives received
 - initial direct costs
 - any estimated costs for dismantling or restoration (may recognise at commencement date or incur an obligation as use asset over time)
 - non-exchange transaction element, where relevant



Subsequent measurement

Lease liability

- Reduce for lease payments made
- Increase for interest charges (finance cost)

Right of use asset

- Depreciation over useful life
 - Likely lease term unless ownership transferred
- Consider cost vs valuation model
 - Annual impairment appraisals under cost model
 - Increased depreciation under valuation model



Lease changes - implications

- Understand all lease obligations
- Increased gross assets
 - Could trigger breach of audit threshold
 - Could trigger company size change
- Increased expenditure
 - Depreciation and finance costs
- Consider banking and loan covenants
- Impact on free reserves



Social investments

No distinction for programme related or mixed motive investments

Accounting policy – no change

- Fair value
- Cost less impairment
 - where FV cannot be measured reliably

Impairment losses

- Report as charitable expense
- No choice

Gains on disposal

- Report as other income
- No choice



Statement of cashflows

Tier 3 MUST include

- Irrespective of entity size

Tier 1 & 2

- Optional UNLESS a non-small entity
 - Income threshold not breached if tier 1 or 2
 - Must meet both:
 - Gross assets > £7.5m
 - Employees > 50





How to Prepare



How to prepare

- Review existing agreements and arrangements for income and leases
- Seek advice
- Effective for periods starting 1 January 2026
 - Year ends from 31 December 2026
 - Watch for short periods
- Opportunity to refresh reporting
 - Engage with wider management and trustees

Transitional provisions for leases

Apply
retro-
spectively:

Opening reserves

- Apply cumulative effect of applying amendments to opening reserves

Comparative information not restated

- Comparative information remains as previously presented, with operating leases off-balance sheet



Transitional provisions for revenue

Permits
either:

Modified approach

- Apply cumulative effect of applying amendments to opening reserves
- Comparative figures are not restated
- Relevant only to contracts not complete at date of implementation

Full retrospective approach

- Comparative information is recalculated on the basis that policy had always been applied



Transition – Notes

Effect of transition to SORP 2026

The charity first applied Charities SORP 2026 with effect from 1 April 2026.

Upon transition, adjustments were required to the opening reserves at this date to account for the implementation of changes to accounting for operating leases and income recognition from exchange transactions. Details of these and the impact is detailed below.

	Unrestricted	Restricted	Total Funds
Reserves position	At 1 April 2026		
	£	£	£
Funds previously reported	4,547,500	218,000	4,765,500
Adjustments on transition to SORP 2026			
Recognition of right of use asset	100,000	-	100,000
Recognition of lease liability	(100,000)	-	(100,000)
Changes to income recognition for exchange transactions	25,000	-	25,000
Funds restated	4,572,500	218,000	4,790,500

Transition - SOFA

	Unrestricted £	Restricted £	2027 Total £	Unrestricted £	Restricted £	2026 Total £
Net movement in funds	386,300	(120,000)	266,300	(255,000)	178,000	(77,000)
Reconciliation of funds						
Funds brought forward	4,547,500	218,000	4,765,500	4,802,500	40,000	4,842,500
Effect of transition to SORP 2026	25,000	-	25,000	-	-	-
Funds brought forward as restated	4,572,500	218,000	4,790,500	4,802,500	40,000	4,842,500
Funds carried forward	4,958,800	98,000	5,056,800	4,547,500	218,000	4,765,500



Further Resources



Further resources

- Sayer Vincent events
 - SORP 2026 - 28 November 2025
 - Revenue Recognition - 5 December 2025
 - Lease accounting - 16 January 2026
- SORP microsite
 - <https://www.charitySORP.org/>
- FRC Factsheets
 - 9 - [Initial application](#)
 - 10 - [Revenue from contracts with customers](#)
 - 11 - [Lease accounting for lessees](#)



Financial thresholds in charity law

- DCMS consultation ran 3 April to 12 June
- Many thresholds unchanged since 1992
- Outcome issued 31 October 2025
- Most changes inflationary
- Anticipated to come into force on 1 October 2026
 - subject to the relevant legislation passing successfully through Parliament
 - awaiting clarity on implementation date

Financial thresholds in charity law

Area	Current	Outcome*
Charity registration	£5,000	£5,000
Annual return requirement	£10,000	£10,000
File accounts	£25,000	£25,000
Independent examination	£25,000	£40,000
Independent examination: Qualified examiner	£250,000	£500,000
Receipts and payments accounts	£250,000	£500,000
Audit – gross income exceeding	£1,000,000	£1,500,000
Audit – gross income exceeding where gross assets exceed	£250,000 £3,260,000	£500,000 £5,000,000
<small>*GOV.UK: Consultation on financial thresholds in charity law: government response</small>		
<small>Note: thresholds relevant in England and Wales only</small>		





Any questions?

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