

Preparing for SORP 2026: Essential accounting updates and guidance for Charities

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Maximise your **potential**

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Key dates – SORP and audit threshold changes

- SORP 2026 applicable for accounting periods beginning on or after 1 January 2026.
- First year affected will be 31 December 2026 for most charities but take care with short periods.
- New audit thresholds (probably) for periods ending 30 September 2026 onwards: Income threshold rises from £1 million to £1.5 million; Gross asset threshold from £3.26 million to £5 million.
- Independent examination threshold will apply from £40k income, up from £25k. Requirement for an Independent Examiner to hold an accounting qualification rises from £250k to £500k.
- Non-company charities with income of up to £500k will be able to produce Receipts & Payments statement.

Tiering

- SORP introduces the concept of Tiering for the first time to create differential requirements for the Trustees' report.
 - Tier 1:** Income up to £500k
 - Tier 2:** Income £500k - £15 million
 - Tier 3:** Income £15 million and above
- Requirements are cumulative: Tier 3 must comply with requirements for Tiers 1 and 2.
- Will Tier 1 stay at £500k? Time will tell...

Trustees' report

'Must' and 'encouraged' disclosures

Tier 1	Tier 2	Tier 3
Objectives	Objectives and link to activities	Sustainability reporting
Volunteers	Investment performance	Performance of fundraising initiatives
Achievements	Grant making	Name of the Chief Executive
Future plans	Social investment	Names of professional advisors
Reserves	Impact reporting	
Going concern	Principal income streams	
Appointment of trustees	Impact of material legacies	
Names of Trustees	Decision making structures	
Registration & office details	Trustee induction	
	Pay and remuneration	

Reserves

Extended disclosures for all charities

	Old SORP	New SORP
Small charities/Tier 1 MUST	Policy – the amount of reserves and why	<p>Policy – the amount of reserves and why</p> <p>Provide a reconciliation of reserves held</p> <p>Identify designated and committed funds and the likely timing of expenditure</p> <p>Compare the reserves held with the policy – and explain plans to align</p>
Larger charities/Tier 2 SHOULD	<p>State the total funds</p> <p>Identify restricted, designated & committed funds and the likely timing of expenditure</p> <p>Identify funds only realisable by disposing of fixed assets</p> <p>Compare the reserves held with the policy – and explain plans to align</p>	

Volunteers

New requirements

	Old SORP	New SORP
Tier 1	<i>Small charities – N/A</i>	MUST include narrative disclosure of volunteer roles and activities. Disclosure of hours is optional
Tier 2	<p><i>Large charities</i></p> <p>MUST include detail on the scale and nature of volunteer contribution</p> <p>MAY provide explanation of activities</p> <p>MAY include hours or staff equivalents</p>	<p>MUST include basic narrative of volunteer roles and activities. Disclosure of hours is optional</p> <p>SHOULD include more detailed disclosure including the number of volunteers and activities supported</p> <p>MAY include hours or staff equivalents</p>

Impact

A change of emphasis

Old SORP	New SORP
Impact reporting encouraged, but not mandatory	Mandatory reporting for all tiers – focus on outcomes not outputs
Narrative focussed on activities (not necessarily outcomes)	Qualitative and quantitative evidence of impact linked to objectives (case studies, KPIs)
Limited linkage between impact and financial data	Narrative should align with resource allocation and financial sustainability

Sustainability – ESG context and impact

- MUST provide a summary of how the charity is responding to and managing environmental, social and governance matters
- May provide KPIs used to assess progress against targets for climate and carbon-related risks
- May include details of areas such as:
 - Cyber and data security – consider personal data as well as financial data security
 - Diversity and inclusion – consider employees, trustees, service users
 - Board recruitment and skills audits

Charities that qualify as Large companies (2 from 3 of: Income more than £36 million, Gross assets more than £18 million, Employees over 250) will still have to include full Streamlined Energy & Carbon disclosures.



Key actions now

- Identify your tier. If income is close to a threshold, or highly variable, keep a close eye on the next tier up. Tier thresholds are one year only (no equivalent of the Companies Act 2 year rule) so a single unexpected income item could trigger a tier change.
- Where issues such as ESG and impact have greatly enhanced requirements, be clear on what the charity's strategies, policies & KPIs are (whether qualitative or quantitative). *Do we already have systems in place to capture the data that will need to be reported at the year end?*
- Impact reporting in particular may be tricky for some charities. *E.g. the impact of enhanced English or Maths skills on an adult learner may only become apparent over many years.*



Income recognition

- Significant changes to income recognition to align with broader FRS 102 amendments
- Module now split into two parts: exchange transactions and non-exchange transactions
- No changes to income recognition for non-exchange transactions
- Potentially significant changes for some exchange transactions
- Some limited guidance on when grant income might be exchange versus non-exchange
- Updates and guidance on legacy income recognition, but no changes to the core requirements



What is an exchange transaction?

“Income from exchange transactions is received by the charity for goods or services supplied under contract with third parties. The income reflects consideration which the charity expects to be entitled to in exchange for providing goods or services. An example of this could be income from a local authority under a contractual arrangement in exchange for providing residential care services.”

- Key point: the charity provides goods or services and receives **consideration that reflects the value of those goods or services**. A non-exchange transaction will be where the charity receives resources without being obliged to provide anything of equal value to the payer.

“A grant is either an exchange or non-exchange transaction:

- *where a charity receives grant income in exchange for the transfer of goods or services and there is a contract between the parties, the income must be accounted for as an exchange transaction*
- *where a charity receives grant income **and the grant-maker does not directly receive equal value in exchange**, the income must be accounted for as a non-exchange transaction”*

Exchange transactions: the five step model

The new SORP incorporates FRS 102's 5 step model for recognising income from exchange contracts. The model requires charities to identify distinct goods or services provided and the amount of consideration they are entitled to in return.

The new model may accelerate or delay income recognition, and hence potentially affect the charity's position as regards Tier reporting or statutory audit thresholds.

The five steps are:

- Identify the contract with a customer/funder
- Review the contract for the specific performance obligations
- Determine the transaction price
- Apply the transaction price to the performance obligations in the contract
- Recognise income as the performance obligations are met

Exchange and non-exchange elements

- Some income transactions may contain both an exchange and a non-exchange element, such as a membership fee.
- An exchange element would be where there is a purchase of a right to services or benefits.
- A non-exchange element would be more in the nature of a donation with no right to any resources of equal exchange (such as a member newsletter).
- Need to consider the substance of the transaction.





Example: Membership fees (1)

- Annual membership fee includes access to a historic building and grounds for the period of one year
- This part is an exchange transaction with the member (a right to services)
- Using the 5-step revenue model, you will need to consider how any performance obligations are satisfied – so how might the benefits be drawn down
- If open benefit, cannot know how many times the member will visit or when (unless any limits in the T&Cs)
- Therefore, select an appropriate method to recognise income (straight line basis over 12 months)



Example: Membership fees (2)

- Annual membership fee of a county ornithological society is £20
- Members receive a quarterly email newsletter, plus access to local events
- Members also receive a copy of the annual county bird report: a substantial publication that is sold to non-members at a price of £15
- Possible treatment: £15 per member recognised on delivery of the annual report, £5 split evenly over the year



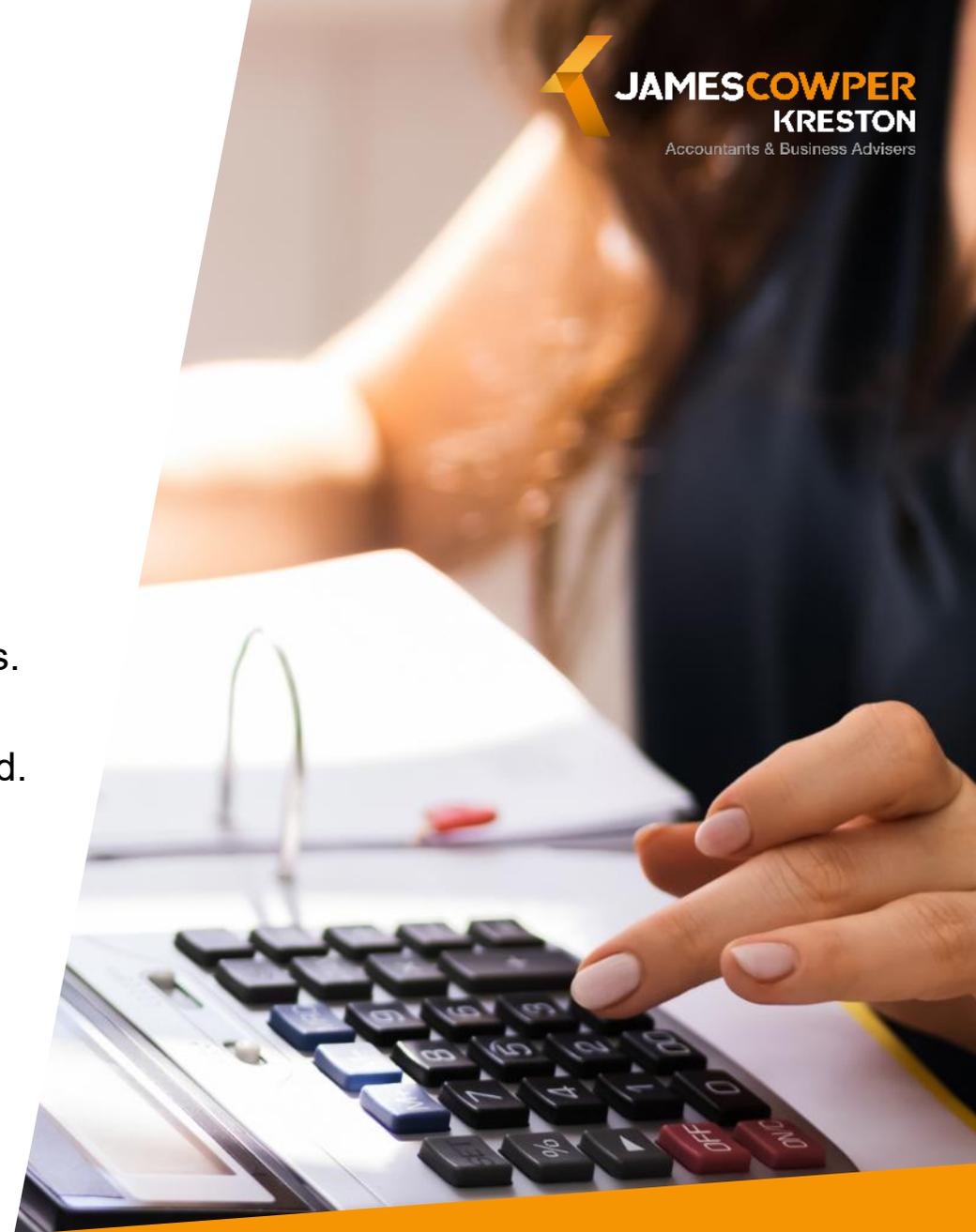
Example: training and examinations

	2026 £	2027 £	2028 £
<i>Training materials</i>	500		
<i>Module 1</i>	2,500		
<i>Module 2</i>		2,500	
<i>Module 3</i>			2,500
<i>Total cost per attendee</i>	3,000	2,500	2,500

- Total contract price is £8,000
- Price is broken down and allocated to individual performance obligations
- Course materials recognised when they are provided to the learner
- Revenue for individual modules recognised when delivered

Non-refundable upfront fees

- The contractual arrangement includes a non-refundable fee at the start of the contract.
- The entity carries out administrative set up processes, but no good or service transfers to the third party.
- The upfront fee is an advance payment for future goods or services.
- Recognise revenue when service provided, not when the fee is paid.





Example: golf club joining fee

	2026 £	2027 £	Total £
<i>Joining fee</i>	1,500	1,500	3,000
<i>Annual membership</i>	3,750	3,750	7,500
<i>Total cost of membership</i>	5,250	5,250	10,500

- New member joins halfway through the reporting period. Joining fee is £3,000, membership is £7,500 for the year
- Contractual period for membership is over 12 months
- No requirement to renew at the end of that period
- Joining fee does not transfer a good or service to the customer
- Service therefore provided over 12 months, 6 months in each financial year
- Spread the total contract price including the non-refundable upfront fee over the full period

Bundling and unbundling of services

- Goods or services might be highly interdependent or interrelated – so they are affected by other goods and services in the contract.
- The promise in the contract therefore cannot be satisfied by transferring each of the goods or services independently.





Example: event sponsorships

A charity enters into a fixed fee contract with a sponsor in return for:

- A promotional video covering their activities
- An invitation to charity events and other partner dinners
- Placing their sponsor logo at the relevant events and dinners
- Giving the sponsor access to present at the events

The events are not yet specified and may vary from one year to another.

With the exception of the video, the individual performance obligations are interrelated – therefore recognise the revenue by bundling the services together (so event, sponsorship and speaking as one).

What should we be doing now?

- Look at all sources of income and assessing, in conjunction with accountants & auditors whether income is exchange or non-exchange.
- For exchange income, apply the 5-step model – this may not be quick or easy where there are (for example) bundled services, contingent consideration, delivery over long periods.
- Apply any changes to current recognition models in the current year management accounts – do not leave this until after the year end as it could cause nasty surprises such as a change in Tier or even audit requirement/exemption.



Accounting for lease obligations

- Accounting for lease obligations changes significantly to align with FRS 102 and wider international accounting standards.
- Accounting for lessors is unchanged, only lessees are affected.
- Operating leases as defined in old UK GAAP have effectively disappeared, with almost all lease obligations now on balance sheet.
- Some useful exemptions for peppercorn leases, short term leases (less than one year's duration), and small value leases for items such as photocopiers, franking machines etc.
- A Right-of-use asset and a lease liability will go on to the Balance sheet. Payments under the lease will be split between a finance cost in the SoFA and a reduction in the liability.
- Broad impact will be that lessees report higher gross assets (watch out for the audit threshold!), higher net debt & higher EBITDA. Lessees with bank or operating covenants that cover any of these will need to make an early assessment of the likely impact and discuss with the covenant holder where necessary.

Calculating the Right-of-use asset

The value of the Right-of-use asset is the sum of:

- Payments due under the lease; **plus**
- Initial direct costs of the lessee (e.g. legal fees); **plus**
- Costs to restore or remove the asset at the end of the term (if included within the lease); **plus**
- Payments made to the lessor at or before the lease commences; **less**
- Any lease incentives received; **plus**
- The value of any social donation (see later slide)

Calculating the discount rate

The total value of the future payments under the lease is discounted using either:

- The interest rate implicit in the lease; or (only if that rate is not readily determinable)
- The lessee's Incremental Borrowing Rate.

The implicit rate is the discount rate at which the future payments under the lease **plus** the residual value of the asset at the end of the lease term are equal to the fair value of the asset plus the lessor's initial direct costs. This can be very difficult for a lessee to judge as they will often not have reliable information on either the lessor's initial costs or the value of the asset concerned at the end of the lease.

If the interest rate implicit in the lease cannot be determined reliably, the Incremental Borrowing Rate is the rate at which the charity would be able to borrow funds to acquire a similar asset over a similar term.

Once the discount rate has been determined, calculate an annual interest charge through the SoFA as

Dr Interest payable

Cr Lease liability



Example - Non-exchange component lease (Social donation)

- A charity enters into an agreement to lease an office for three years.
- Market rent for the property is £72,000 per annum, landlord discounts to £60,000 per annum as part of their Corporate Social Responsibility agenda.
- The charity's legal fees to arrange the lease are £8,000.

Accounting treatment

- The ROU asset is £224,000 – being $(3 \times £72,000) + £8,000$
- The total lease obligation before discounting is £180,000.
- The £36,000 CSR discount is included as income, either recognised in full in year one, or spread over the life of the lease according to the exact agreement.



Example - Nominal/peppercorn consideration

- A charity enters into an agreement to lease an office for three years.
- Market rent for the property is £72,000 per annum.
- Landlord offers nominal consideration for use of the office of £100 per annum.

Accounting treatment

- The minimum payments due are very small, so this does not meet the definition of a lease.
- Expense £100 per annum through the SoFA.
- The non-exchange component of £71,900 is recognised in income as a donation.

Next steps for leases

- Identify all leases. Charities with a large number of charity shops or car leases (e.g. homecare providers) may have dozens of individual leases.
- Make sure that all lease information is readily accessible in one place.
- The SORP allows a single discount rate to be used across classes of identical assets (e.g. shops) but each individual lease will have a unique ROU asset and lease obligation calculation.
- Adopt the year end accounting treatment in the management accounts as soon as possible. Don't leave it until after the year end as this risks masking performance against covenants or even possibly audit thresholds.
- Where covenants will be affected talk to the counterparty now to discuss the impact, and any necessary modification to the covenant.
- Talk to your accountant/auditor.

We'd be happy to answer any questions, or contact us:



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