Charities SORP 2026 Proposed Changes

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Agenda

Session
Intro/Welcome
Background
Consultation: Financial Thresholds in Charity Law
SORP 2026 – proposed changes
SORP 2026 – consultation questions
Questions and discussion

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Background

Background

- FRS102 subject to periodic review by Financial Reporting Council (FRC)
- Charities that prepare accounts on an accruals basis must follow accounting standards that constitute UK GAAP – in this case FRS102
- The SORP applies and interprets FRS102 for charities
- As FRS102 has been updated, the SORP must be updated

Background

- Relevant timelines:
  - March 2025 – SORP 2026 consultation published
  - 20 June 2025 – consultation closes
  - Summer 2025 – SORP revised (if needed) and FRC approval obtained
  - Autumn 2025 – final version of SORP 2026 published
  - Effective for accounting periods beginning on or after 1 January 2026 (early adoption is permitted)

Consultation: Financial Thresholds in Charity Law (England and Wales)

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Consultation – Financial Thresholds in Charity Law

- DCMS consultation on changes – applies to England and Wales registered entities

- https://www.gov.uk/government/consultations/consultation-on-financial-thresholds-in-charity-law/consultation-on-financial-thresholds-in-charity-law

- 3 options:
  - Keep at current level
  - Raise in line CPIH inflation (Consumer Price Index with Housing)
  - Partial increase

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Consultation – Financial Thresholds in Charity Law

- Consulting on:
  - Registration threshold
  - Statement in official publications
  - Annual Return required
  - Annual report and accounts required
  - Independent examination threshold
  - Independent examiner qualification threshold
  - Receipts and payments threshold (for unincorporated charities)
  - Audit threshold
  - Audit threshold – larger charities by asset subject to accruals accounts but income below £1m

Consultation – Financial Thresholds in Charity Law

- Consulting on:
  - Aggregate income for group accounts
  - Audit requirement for group accounts
  - Remuneration for professional fundraisers
  - Remuneration for lower-paid collectors
  - Donor refunds
  - Charity Commission concurrent jurisdiction with the High Court
  - Release of charity rent charges
  - Charities Act 2022 thresholds

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Consultation – Financial Thresholds in Charity Law

- Selected key thresholds:

	Current / Option A	Option B	Option C
Receipts and Payments accounts	£250,000	£400,000	£300,000
Independent Examination	£25,000	£40,000	£30,000
Audit	£1,000,000 (£1million)	£1,500,000 (£1.5million)	£1,200,000 (£1.2million)
Audit – larger charities by asset level	£3,260,000 (£3.26million)	£5,000,000 (£5million)	£4,000,000 (£4million)

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Company Size Limits

- Small companies – 2 or more of the below for 2 years running:

	Periods ending on or before 5 April 2025	Periods beginning or or after 6 April 2025
Turnover no more than	£10.2million	£15million
Balance sheet total no more than	£5.1million	£7.5million
Employee numbers	50	50

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Company Size Limits

- Medium companies – 2 or more of the below for 2 years running:

	Periods ending on or before 5 April 2025	Periods beginning or or after 6 April 2025
Turnover no more than	£36million	£54million
Balance sheet total no more than	£18million	£27million
Employee numbers	250	250

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SORP 2026: Proposed Changes

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Tiered Reporting

- Proposal for 3 tiers of reporting

	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

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

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Tiered Reporting

- Proposal for 3 tiers of reporting

	Activity basis of reporting	Disclosures / Reporting Requirements
Tier 1	Optional	Tier 1 items
Tier 2	Required	Tier 1 and Tier 2 items
Tier 3	Required	Tier 1 and Tier 2 and Tier 3 items

Tiered Reporting

- Remember:
  - *Must* - mandatory
  - *Should* – recommended but not required
  - *May* - optional

- Materiality – para 3.20 states:

"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the users of the accounts make on the basis of those financial statements"

  - Entity specific
  - *Should* only disclose material accounting policies and *should* avoid unnecessary information on non-material transactions
  - SORP specifies when an item must be considered material

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Module 1 - Trustees' Report

- Several significant changes:
  - Impact Reporting
  - Sustainability Reporting
  - Volunteers
  - Reserves
  - Plans for the Future

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Module 1 - Trustees' Report

- Impact Reporting:
  - 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?
  - Tiers 2 and 3:
    - A summary of measures/indicators used to assess performance
    - An explanation of the outputs achieved by the charity's activities especially when numerical targets have been set.
    - Information on activities, outputs and outcomes/impacts and how they have contributed to the achievements of the charities aims and objectives
    - Report on positive and negative factors that have affected the achievement of objectives and how this might influence future plans.
  - Tier 3
    - The performance of material fundraising activities against fundraising objectives
    - If material expenditure incurred to raise income – explain the effect it has/will had on return for this and future years

Module 1 - Trustees' Report

- Sustainability Reporting:
  - The report must provide a summary of how the charity is responding to and managing environmental, governance and social matters
    - Tiers 1 and 2 - encouraged
    - Tier 3 - must

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Module 1 - Trustees' Report

- Volunteers:
  - All tiers:
    - Disclosure of the role played by volunteers
  - Tiers 2 and 3:
    - Number of volunteers – where practicable
    - Their contribution expressed in terms of full-time equivalent hours

Module 1 - Trustees' Report

- Reserves:
  - *Must* provide reconciliation of the reserves figure in the Trustees' Report to those shown in the accounts.
  - *Must* compare the amount of reserves with the charity's reserve policy and
  - *Must* explain the steps being taken to bring reserves into line with current plans.
  - *Must* identify and explain any designated or otherwise committed reserves at the year end.
  - *Must* indicate the likely timing of the expenditure of any designated or committed reserves at the year end.

Module 1 - Trustees' Report

- Plans for the future:
  - All tiers:
    - Disclosure of their future plans
    - Current SORP requires that larger charities provide a summary of their plans for the future.
    - Exposure Draft proposes to extend this to charities in ALL tiers

Module 4 – Statement of Financial Activities

- Enhanced guidance around use of natural classification of reporting:
  – Natural classification an option for Tier 1 charities
  – Charities can choose their own line descriptors for income and expenditure based on nature of their activities and with due consideration for the users of the accounts
  – But the SOFA must still be in the format set out in the SORP (table 3 on page 57), be columnar by fund, and must still include various totals/sub-totals, and reconciliations (para 4.24)
  – Natural classification basis doesn't remove disclosure requirements in other modules (e.g. trustee remuneration/expenses, related party transactions, employee and key management remuneration disclosures all still required)

Module 4 – Statement of Financial Activities

- Income from donations and legacies:
  - Now includes grants and donations implicit in a lease arrangement where the charity, as lessee, benefits from lease terms where the lessor made the lease at significantly below market rates
- Investment income
  - Now includes finance income on the net investment in a lease and income from operating leases (see module 10B 'Lease Accounting'). Any variable lease payments not included in the measurement of the net investment in a finance lease are also included in investment income.
- Other income:
  - Now includes income from sub-leasing right-of-use assets
  - Now excludes gains on disposal of programme-related investments (see Module 21 – now included within "gains/(losses) on investments)

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Module 4 – Statement of Financial Activities

- Analysis of expenditure on charitable activities:
  - Alternative layout of note allowed:
  - Example layout per current SORP:

Activity or programme	Activities undertaken directly	Grant funding of activities	Support costs	Total
	£	£	£	£
Activity 1				
Activity 2				
Activity 3				
Total				

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Module 4 – Statement of Financial Activities

- Analysis of expenditure on charitable activities:
  - Alternative layout of note allowed:
  - Example layout per SORP2026:

	Activity 1	Activity 2	Activity 3	Total	Basis for Apportionment
	£	£	£	£	
Activities undertaken directly					
Grant funding of activities					
e.g Salaries and wages (indirect)					Text describing method
eg Fundraising costs					Text describing method
eg IT costs					Text describing method
Total					

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Module 5 – Recognition of Income

- Applies to all tiers
- Split into two sections:
  - Section one – exchange transactions – reflects major change to FRS102 and recognition of contract income
  - Section two – non-exchange transactions – enhanced guidance and in particular re legacy income and capital grants

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Module 5 – Recognition of Income

- Exchange transactions – contract income
- FRS102 section 23 Revenue establishes a 5-step revenue recognition model for accounting for contract income
  - step one – identify the presence of a contract with a third party
  - step two – identify the performance obligations in the contract
  - step three – determine the transaction price
  - step four – allocate the transaction price to the performance obligations in the contract
  - step five – recognise income when or as the charity satisfies a performance obligation

Module 5 – Recognition of Income

- Contract income – step 1 - identify the presence of a contract with a third party
  - A charity must apply the revenue recognition model to account for a contract with a third party only when all of the following criteria are met:
    - the parties to the contract have approved the contract and are committed to performing their respective obligations
    - the charity can identify each party's rights regarding the goods or services to be transferred
    - the charity can identify the payment terms for the goods or services to be transferred
    - the contract has commercial substance (i.e. the risk, timing or amount of the charity's future cash flows is expected to change as a result of the contract)
    - it is probable that the third party will have the ability and intention to pay the consideration to which the charity will be entitled when it is due

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Module 5 – Recognition of Income

- Contract income – step 2 - identify the performance obligations in the contract
  - A charity must identify as a performance obligation each promise to transfer to the customer either:
    - a distinct good or service (or a distinct bundle of goods or services) or
    - a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the third party

Module 5 – Recognition of Income

- Contract income – step 3 - determine the transaction price
  - The transaction price is the amount of consideration to which the charity expects to be entitled in exchange for transferring the goods or services promised to a third party, excluding amounts collected on behalf of other third parties (e.g. VAT)
  - The consideration promised in a contract may include a variable amount (e.g. may be penalties, or performance bonuses/retrospective rebates) – the variable amount to consider will be the most likely amount to be received
  - If a charity offers payment terms to a third party that defers payment beyond normal business terms or is financed by the charity at a rate of interest that is not a market rate, the arrangement constitutes a financing transaction and so the charity *must* adjust the promised amount of consideration for the effects of the time value of money

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Module 5 – Recognition of Income

- Contract income – step 4 - allocate the transaction price to the performance obligations in the contract
  - *must* allocate the transaction price to each performance obligation identified in the contract on a relative stand-alone selling price basis unless the contract either contains only one performance obligation or all the performance obligations in a contract are satisfied at the same point in time
  - If there are no observable stand-alone prices, these must be estimated using a suitable estimation technique:
    - Adjusted market assessment approach
    - Expected cost plus a margin approach
    - Residual approach

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Module 5 – Recognition of Income

- Contract income – step 5 - recognise income when or as the charity satisfies a performance obligation
  - *Must* recognise income when (or as) the charity satisfies a performance obligation by transferring a promised good or service to a third party.
  - A good or service is transferred when (or as) the third party obtains control of that good or service.
  - Control of an asset refers to the ability to direct the use of and obtain substantially all of the remaining economic benefits that may flow from the asset.
  - For each performance obligation identified, a charity must determine at contract inception whether the performance obligation is satisfied over time or satisfied at a point in time.

Module 5 – Recognition of Income

- Exchange transactions – membership subscriptions
  - the charity must identify how it fulfils its performance obligations to the member, and this will be linked to how member benefits are drawn down
  - Must select a method of recognising income that best reflects the situation
  - Such a method could be recognising income on a straight-line basis over the membership period

Module 5 – Recognition of Income

- Exchange transactions – transition arrangements
  - 5-step model is applied retrospectively – two options:
    1. Cumulative effect at transition is recognised by adjusting opening reserves:
       - Don't restate comparatives
       - Apply the 5-step model to contracts not completed at date of transition
       - May take advantage of practical expedients in FRS102 (pars 1.65-1.67)
    2. Restate comparatives as if model had always been in place
       - Disclose where practicable the amount of adjustment to revenue and profit/loss for the effect of applying the model AND an explanation of the reasons for significant changes; OR
       - Disclose why an explanation why the above cannot be disclosed

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Module 5 – Recognition of Income

- Grant income:
  - No changes to recognition criteria – must still adopt the performance basis (para 5.71) and not the accruals basis
  - Grant income must be recognised as follows:
    - transactions that do not impose specified future performance-related conditions on the recipient are recognised in income when the resources are received or receivable
    - transactions that do impose specified future performance-related conditions on the recipient are recognised in income only when the performance-related conditions are satisfied
    - when resources are received or receivable before the performance-related conditions are satisfied, a liability is recognised (i.e. deferred income)
  - For clarity – for a grant without any performance-related conditions, it is likely that when the formal offer of funding is communicated in writing to the charity, there is a valid expectation that payment will be made and the income is receivable – so recognise in full at this point (even if paid in instalments)

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Module 5 – Recognition of Income

- Grant income – performance conditions:
  - Performance conditions are conditions that closely specify a level of output or service to be performed by a charity in receipt of a grant.
  - A restriction on the use of a grant or donation to a particular purpose or activity of a charity does not create a performance-related condition.
- Grant income – other conditions that limit recognition:
  - Other conditions may be attached to the grant funding such as being conditional on obtaining matched funding ore obtaining planning consent
  - Donor imposed terms that specify the time period over which the expenditure can take place – the agreement specifies when the funds can be spent and charity doesn't have discretion to spend earlier

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Module 5 – Recognition of Income

- Grant income – other conditions that do NOT limit recognition:
  - Para5.85 – conditions such as submission of accounts, progress reports, or certification of expenditure are considered administrative requirements and would not prevent recognition of income
  - Timing of the related expenditure is at the discretion of the charity and income cannot be deferred (or not recognised) just because the expenditure has not been incurred
  - Repayment conditions for unspent funds

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Module 5 – Recognition of Income

- Capital grants
  - Full amount transferred from restricted funds to unrestricted funds when asset purchased
  - Amount remains in restricted funds if income recognised/received but asset not purchased at balance sheet date
  - If grant income is unrestricted, charities *may* create a designated fund for the asset and charge the depreciation as an expense to the designated fund (rather than doing transfers)
  - Para 2.31 (in Module 2 Fund Accounting) gives guidance on whether use of asset is restricted or not:
    - If the charity required to hold the asset on an ongoing basis for a specific purpose (narrower than the general purpose of the charity) – likely restricted
    - If the charity acquired the asset for any charitable purpose - unrestricted

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Module 5 – Recognition of Income

- Gift aid payments within a charitable group (i.e. distributions from subsidiary to parent charity):
  - income is accrued when the Gift Aid payment is payable to the parent charity under a legal obligation – ie a deed of covenant is in place
  - A board decision to make a gift aid payment to a parent charity, that has not been taken prior to the reporting date, is not sufficient to create a legal obligation – i.e. no deed of covenant in place

Module 5 – Recognition of Income

- Legacy income: no major changes but some clarification and enhanced guidance provided:
  - Receipt of legacy income is normally probable when:
    - there has been grant of probate or, in Scotland, grant of confirmation;
    - the executors have established that there are sufficient assets in the estate, after settling any liabilities, to pay the legacy; and
    - any conditions attached to the legacy are either within the control of the charity or have been met
  - Legacy income must only be recognised when it can be reliably measured
    - may be affected by events such as valuations and disputes – such matters must be considered when determining whether to recognise or disclose as a contingent asset

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Module 7 – Recognition of Expenses

- Module has been streamlined – guidance and accounting for provisions and funding commitments have been moved to a new module, 10A
- No major changes to requirements
- Enhanced guidance around when a liability must be recognised when
  - *the charity has an obligation*
  - *the obligation is to transfer an economic resource*
  - *the obligation is a present obligation that exists as a result of past events*

Module 9 – Disclosure of Trustee and Staff remuneration and Related Party Transactions

- Disclosure of Trustees Remuneration, Benefits and Expenses
  - No material changes
  - Just to note the period a payment covered if different to the dates for which they were a trustee.
- New disclosure:
  - Required to disclose transactions with former related parties if it relates to a time when they were related.
  - Details of any contingent assets or liabilities in a related party transaction.
- Remuneration and benefits
  - **All** charities must disclose the total amount of any employee benefits received by trustees and its key management personnel - when calculating it *must* include Employer's NI contributions.

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Module 10A – Provisions, Contingent Liabilities, and Contingent Assets

- New module – guidance and accounting for provisions and funding commitments were previously included in Module 7 Recognition of Expenses
- No major changes to requirements
- Funding commitments not recognised as provisions or liabilities (eg grant offer made but not clear if recipient charity will proceed with the project, or conditions attached to the payments and not clear the recipient will meet the conditions):
  - Disclosed as contingent liability (no change)
  - Para 10A.23 “It is important that charities disclose the existence of unrecognised commitments and explain how these will be funded)

Module 10A – Provisions, Contingent Liabilities, and Contingent Assets

- Onerous contracts – enhanced guidance on accounting for these:
- If a charity has a contract that is onerous, the charity recognises and measures the present obligation under the contract as a provision. The unavoidable costs are the least net cost of exiting the contract, being the <u>lower</u> of:
  - the cost of fulfilling it
  - any compensation or penalties arising from failure to fulfil it, offset against any economic benefit that is derived from the contract
- The cost of fulfilling a contract comprises the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling it.

Module 10B – Lease Accounting

- New module – applies to all charities and covers presentation and disclosure of leases
- No longer a distinction between finance leases and operating leases (for lessees – there is for lessors)
- Under the new approach the lessee recognises, at the commencement of the lease, an asset and a liability with part of the consideration being paid to the lessor treated as a cost of financing the arrangement

Module 10B – Lease Accounting

- Exemptions available in respect of:
  - Short-term leases (12 months or less)
  - Low value assets (typical examples: personal computers, tablet devices, telephones, and small items of office furniture)
- If exemptions taken, must disclose:
  - The fact that exemptions have been taken
  - separately the amount of lease commitments for short-term and low value assets at the balance sheet date analysed between commitments due:
    - Not later than one year
    - Later than one year and not later than five years
    - Later than five years

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Module 10B – Lease Accounting

- Identifying features of a lease:
  - A contractual agreement is agreed by the parties for the identified asset.
  - The contract may specifically identify the asset or the asset may be implicit when it is made available for use by the lessee
  - The agreement gives the lessee the right to control the use of an identified asset. The agreement does this when the lessee has both the right to:
    - direct the use of the identified asset, and
    - obtain substantially all the economic benefits from that use
  - There will be a commencement date when the lessee obtains the right of control over the asset from the lessor
  - There will be a period of use specified when the lessee has the right of control over the asset. This can be viewed in terms of time or amount of use of an identified asset. For example, where an identified asset is a piece of equipment the amount of use could be the number of units of a product that the asset will be used to produce.
  - There are payments due by the lessee to the lessor for the right of control over the asset

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Module 10B – Lease Accounting

- Leases – initial recognition:
  - Must measure the right-of-use asset at cost, measure the lease liability, and identify the interest element of the lease
  - Calculating the cost:
    - the initial measurement of the lease liability assumed upon entering into the lease
    - adjustments for any lease payments made at or before commencement date less any lease incentives received. Lease incentives include costs of agreed enhancements or improvements undertaken by the charity as lessee where these costs are assumed by the lessor
    - any initial direct costs incurred by the lessee in taking up the lease
    - allowance for the expected dilapidation or similar costs of making good in order to return the asset in an agreed condition to the lessor at the end of the lease term
    - an adjustment for any non-exchange transaction component

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Module 10B – Lease Accounting

- Leases – initial recognition:
  - Calculating the initial lease liability:
    - DO NOT add up the total amount payable to the lessor over the lease term
    - Instead, need to calculate the present value of the lease payments using an interest rate
      - Default position is to use rate implicit in the lease (lessor might be willing to disclose the discount rate it is using);
      - Otherwise:
        - » Charity’s incremental borrowing rate
        - » Charity’s obtainable borrowing rate
        - » Last resort option: the rate on interest a charity would get on funds held on deposit (i.e. income interest rate)
  - Lease liabilities to be shown as separate line on the balance sheet

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Module 10B – Lease Accounting

- Leases below market rate or for nominal amounts:
  - Lease not viewed as having commercial substance; or
  - Lease not intended to generate commercial return to the lessor, rather
  - Arrangements are serving a social purpose – allowing the charity to further its charitable aims
- Nominal or peppercorn arrangements:
  - May have legal form of lease but very small or no payment due so unlikely to be a lease in accordance with FRS102
  - Payments then treated as an operating expense
  - Also need to consider the benefit gained by such arrangements and whether need to be accounted for as donated asset/service/facility

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Module 10B – Lease Accounting

- Social donation leases:
  - A social donation lease is an arrangement where the payments are below market rate but are higher than a nominal amount as a result of the lessor choosing to accept a lower rent for the philanthropic intention of providing a benefit to the lessee
  - Such leases will often contain a non-exchange component – the income in relation to the non-exchange element is recognised as part of the cost of the asset and in income
  - E.g. a lessor offers a charity a discount on rent as part of its social responsibility activities. Charity pays £60k per annum not £72k per annum - £12k is the non-exchange element (usually recognised in income at commencement of lease but may be spread over lease term)

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Module 10B – Lease Accounting

- Disclosures re leases:
  - General description of significant leasing arrangements
  - information about future cash outflows to which the lessee is potentially exposed that are not reflected in the measurement of lease liabilities, including variable lease payments, extension options and termination options, residual value guarantees and leases not yet commenced to which the lessee is committed
  - information about restrictions or covenants imposed by leases
  - the types of discount rate (interest rate implicit in the lease, lessee's incremental borrowing rate or lessee's obtainable borrowing rate or where none of these can be readily determined, the rate of interest otherwise obtainable by the charity on deposits held with financial institutions) used in calculating lease liabilities and the proportion of the total lease liability calculated using each of those types of discount rate
  - information about sale and leaseback transactions including all the disclosures required by Section 20 of FRS 102

Module 10B – Lease Accounting

- Disclosures re leases – all charities:
  - interest expense on lease liabilities
  - the expense relating to short-term leases if applying the relevant recognition exemption except for any expense relating to leases with a lease term of one month or less
  - the expense relating to leases of low-value assets if applying the relevant recognition exemption except for those expenses relating to short-term leases of low value assets
  - the expense relating to variable lease payments not included in the measurement of lease liabilities
  - income from subleasing right-of-use assets
  - total cash outflow for leases
  - gains or losses arising from sale and leaseback transactions

Module 10B – Lease Accounting

- Disclosures re leases – all charities by underlying class of asset:
  - the gross carrying amount and the accumulated depreciation at the beginning and end of the reporting period
  - a reconciliation of the carrying amount at the beginning and end of the reporting period showing separately:
    - additions
    - disposals
    - acquisitions through business combinations
    - revaluations
    - impairment losses recognised or reversed in the Statement of Financial Activities
    - depreciation
    - other changes

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Module 10B – Lease Accounting

- Disclosures re social donation leases or peppercorn arrangements:
  - Must disclose:
    - general description of the lease term,
    - the remaining term if not a perpetual lease,
    - any restrictions or conditions as to the use of the right-of-use asset
    - the presence of any reversion clauses
    - Any disclosures required elsewhere in the SORP (eg accounting policies, disclosures required under Module 6 Donated Assets if there's a non-exchange element of a social donation lease)
    - If portfolio approach taken
    - If a lease has been modified but no change in discount rate

Module 10B – Lease Accounting

- Transition arrangements
  - Transition arrangements are set out in Section 35 of FRS102
  - Adjustments are accounted for by restating opening reserves
  - Two concessions available:
    - Short-term lease concessions can be taken for any lease if the lease ends within 12 months of the date of transition -
    - Hindsight can be used to determine the lease term (e.g. if a lease with a variable term or exercised break clause ends after the date of transition)

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Module 14 – Statement of Cash Flows

- Not required for charities within Tiers 1 and 2 – unless FRS102 or company law otherwise requires them to prepare one
  - Can still chose to do one – “may” option
- Cash flows from operating activities:
  - Now includes cash payments for short-term leases, leases of low value assets, and variable lease payments not included in the measurement of the lease liability
- Cash flows from financing activities:
  - Cash payments by a lessee for the principal portion of a lease liability (previously this was just finance leases)

Module 14 – Statement of Cash Flows

- Increased guidance re including exchange rate movements – not new but now explicitly stated as a "must"

	Current year	Prior year
Change in cash and cash equivalents in the reporting period	X	X
Cash and cash equivalents at the beginning of the reporting period	X	X
Change in cash and cash equivalents due to exchange rate movements	X	(X)
Cash and cash equivalents at the end of the reporting period	X	X

- Note reconciling net debt
  - Now includes obligations under leases (previously just finance leases)

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Module 14 – Statement of Cash Flows

- Now includes specific guidance on supplier finance arrangements

"Supplier finance arrangements are characterised by one or more finance providers offering to pay amounts a charity owes its suppliers and the charity agreeing to pay according to the terms and conditions of the arrangements at the same date as, or a date later than, suppliers are paid. These arrangements provide the charity with extended payment terms, or the charity's suppliers with early payment terms, compared to the related invoice payment due date. These arrangements are often referred to as supply chain finance, payables finance or reverse factoring arrangements"

- Follow FRS102 para7.20C

Module 18 – Heritage Assets

- Applies to charities in all tiers
- Donated heritage assets – measure at fair value (as currently) but:
  - if the fair value cannot be measured reliably at a cost commensurate with the benefits to the users of the financial statements, NOT recognised on the balance sheet **BUT** must disclose:
    - The reasons why not recognised on the balance sheet and why the fair value cannot be measure reliably
    - The significance and nature of those assets
    - Information helpful in assessing the value of those assets
  - Ability to not be able to value at fair value is now considered exceptional – expectation is assets will be able to be valued

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Module 18 – Heritage Assets

- If heritage assets (purchased or acquired via donation) are held at valuation, the valuation should be reviewed “with sufficient frequency” to ensure valuation is current
- Where heritage assets are held by the charity as lessee as a right of use asset, these must be shown separately within the heritage assets note with the same disclosures as non-leased items

Module 21 – Social Investments

- Applies to charities in all tiers
- Charities in tier 2 and tier 3 must provide an explanation of the charity's social investment policies in the trustees' annual report and explain how the investments contributed to the achievement of the charity's purposes
- Accounting for Social Investments not included in FRS102 – so must follow the SORP

Module 21 – Social Investments

- Revised definition:
  - Current SORP split into programme-related investments and mixed motive (or mixed purpose) investments
  - SORP 2026 uses the term ‘social investment’ to describe a class of assets that comprises investments made for *both* a financial return and to further the investing charities’ purpose

“Social investments may take a variety of forms such as making loans, taking on a commitment (for example by giving a guarantee), or buying shares in a private company. An example is a development charity making a loan to a small-scale farming business. This helps to achieve the charity’s purposes directly through the investment by bringing benefits to the local population, as well as providing a financial return from interest on and repayment of the loan.”

- Comparative information MUST be restated on a like-for-like basis

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Module 21 – Social Investments

- Concessionary loans definition aligned with FRS102 – they are not repayable on demand (if they are repayable on demand, treated in line with Modules 11/12 on financial assets/liabilities)
- Charities making or receiving concessionary loans must opt to either:
  - initially recognise and measure the loans at the amount received or paid, with the carrying amount adjusted in subsequent years to reflect repayments and any accrued interest and adjusted, if necessary, for any impairment (with any losses recognised in income and expenditure).
  - apply the charity's accounting policy for financial instruments (refer to SORP module 11 'Accounting for financial assets and financial liabilities')
- The same accounting policy for the measurement of concessionary loans must be applied to concessionary loans made and received

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Module 21 – Social Investments

- Treatment of gains/losses on impairment or disposal has been simplified:
  - Impairment losses on social investments now recognised within "gains/(losses) on investments" line in SOFA

  (previously within "expenditure on charitable activities" for programme-related investments)
  - Gains on disposal of social investments now recognised within "gains/(losses) on investments" line in SOFA

  (previously within "other income" for programme-related investments)

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Consultation Questions

Consultation Questions

- Questions are split into sections
  - Each question has:
    - yes / no / no opinion response options
    - Text box to add any comments
- Each section ends with a free text box for any other comments on that section

Consultation Questions

- Section 1 – Tiered Reporting
    1. Do you support the move to three tiers?
    2. Do you consider that the proposed thresholds have been set at an appropriate monetary level in order to support a proportionate approach to reporting?
    3. Do you agree that the Exposure Draft SORP clearly sets out the proposed reporting requirements for each tier?
    4. Do you agree that charities within the largest income threshold should be referred to as "tier 3" charities, or should they be referred to as "tier 1" charities?
    5. Do you have any additional comments in relation to the proposed tiered reporting structure in the Exposure Draft SORP?

Consultation Questions

- Section 2 – Trustees’ Annual Report
    6. Do you agree that including prompt questions will help trustees to develop their Trustees' Annual Report?
    7. Do you consider the requirements for impact reporting for each tier to be proportionate?
    8. Do you consider the requirements for sustainability reporting for each tier to be proportionate?
    9. Do you consider the disclosures for volunteers to be proportionate?
    10. Do you consider the explanation of reserves in the glossary helpful?
    11. Do you consider the disclosures for reserves are proportionate?
    12. Do you consider the requirement for tier 1 charities to provide a summary of their plans for the future is proportionate?
    13. Do you consider that the additional disclosure will help to explain the treatment of legacies in the accounts?
    14. Do you have any other comments on module 1 and the proposals for the Trustees' Annual Report?

Consultation Questions

- Section 3 – Statement of Financial Activities

    15. Is the example table helpful?
    16. Do you have any other comments on module 4?

Consultation Questions

- Section 4 – Recognition of income
  17. Does the module explain the relevant requirements of the five-step model in FRS 102 in a clear and understandable way?
  18. Do you find the module easy to navigate as drafted?
  19. Do you consider that the guidance on exchange and non-exchange transactions should be set out in separate modules of the SORP rather than separate sections of the same module?
  20. In the Exposure Draft SORP, all the disclosure requirements are listed at the end of the module. Would it be clearer instead to set out the relevant disclosures at the end of each section within the module?
  21. Do you consider this clarification a helpful addition to the SORP?
  22. Does the module set out the accounting requirements for legacy income clearly?
  23. Accounting for legacies can be a complex area for charities to navigate. Is there a need for further guidance on this topic outside of the SORP?
  24. Do you have any other comments on module 5?

Consultation Questions

- Section 5 – Lease accounting
  25. Do you find the module easy to navigate as drafted?
  26. Does the module explain the relevant requirements of FRS 102 in a clear and understandable way?
  27. Does the section (paragraphs 108.68 to 108.84) on arrangements that are significantly below market value provide clarity on how to account for such arrangements?
  28. Are the additional disclosure requirements set out in paragraphs 108.95 and 108.129 reasonable for charities with such arrangements?
  29. Please provide any other comments you have on module 1OB.

Consultation Questions

- Section 6 – Statement of cash flows
  30. Do you agree with the proposal in the Exposure Draft SORP that only tier 1 and tier 2 charities, that do not meet the small entity threshold, and all tier 3 charities are required to prepare a statement of cash flows?
  31. Do you have any other comments on module 14?
- Section 7 – Total return
  32. Do you agree that the additional disclosures are helpful?
  33. Do you agree that the additional disclosures are proportionate?
  34. Do you have any other comments on module 20?

Consultation Questions

- Section 8 – Social investment
  35. Do you agree with the new approach to using the generic term 'social investments' instead of referring to 'programme related' and 'mixed motive' investments?
  36. Do you agree that the simplification of how gains and losses on social investments are reported is beneficial?
  37. Is the Exposure Draft SORP clear on the requirements for comparative figures and disclosures?
  38. Do you think there is a need for further guidance on the treatment of comparative figures and disclosures in this area?
  39. Do you have any other comments on module 21?

Consultation Questions

- Section 9 – Smaller charities
  40. Do you agree that the drafting, structure and proposals in the Exposure Draft SORP support the needs of smaller charities whilst addressing the needs of users of charity reports and accounts?
  41. Do you agree with the SORP-making body's decision to continue to disallow the application of Section 1A [of FRS102]?
- Section 10 – Other comments
  40. Do you have any other comments on the Exposure Draft SORP?

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Q&A

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