

SORP update webinar

Introduction



Katharine Patel

Background

- First SORP update since 2019
- Intended to align SORP with FRS 102
- Current version is an exposure draft so still opportunity to comment
- Consultation closes 20 June 2025

Timetable



Size tiers and changes to trustees' reports



Edward Finch

Scope of Charities SORP

- SORP is an additional document to amplify FRS 102
- FRS 102 takes precedence if there are conflicts, legal requirements over both
- SORP refers to FRS 102 paragraphs, where possible
 - Future updates to FRS 102 will therefore affect the SORP
- SORP text is signed off by the Financial Reporting Council
 - Leases and income recognition will not change post consultation
- Comparatives need to be restated unless they arise from FRS 102 changes and there is a specific transitional provision (leases)
- Terminology:
 - ‘Must’ indicates a mandatory requirement or one which is directly taken from FRS 102
 - ‘Should’ refers to good practice items which are recommended
 - ‘May’ indicates possible alternative treatments

Size tiers

- Charity and company law thresholds still apply
- (E&W) Audit requirement remains at £1m income / £3.26m assets and £250k income (Scotland increase to £1m agreed)
- No asset or employee number thresholds
- The intention is to reduce disclosure for smaller charities
- Tier 2 thresholds aligned with Small Company threshold (E&W) and current Scottish audit threshold
- Tier 3 aligns with the Company law audit income threshold
 - Parallel consultation on numerous thresholds is ongoing

Three size tiers introduced

	Income threshold
Tier 1	Less than £0.5m
Tier 2	£0.5m - £15m
Tier 3	More than £15m

- Requirements are incremental
- Each section begins with details of tiering applicability
- Statement of cash flows is only required for tier 3 (as long as the charity qualifies as a “small entity”)

Impact on trustees' report

	Tier 1	Tier 2	Tier 3
Objectives & activities	<ul style="list-style-type: none"> • Summary of purposes & activities • Public benefit • Impact of volunteers • Details of work including financial summary 	<ul style="list-style-type: none"> • More detailed summary of short term & long term aims including objectives, strategy and progress KPIs • Grant making • Social investment and how this contributes to aims and objectives • More detail on volunteer time 	
Achievements & performance	<ul style="list-style-type: none"> • Summary of achievements – impact of work and benefit to society 	<ul style="list-style-type: none"> • How well the charity did against objectives including positive and negative factors • Impact assessment & summary of KPIs • Investment performance 	<ul style="list-style-type: none"> • Performance of fundraising against objectives including details of material costs to generate future income
Financial performance	<ul style="list-style-type: none"> • Review of financial position • Identify funds in deficit • Reserves policy & actual reserves reconciled to accounts • Going concern 	<ul style="list-style-type: none"> • Significant events affecting finances • Principal income sources • Principal risks • Investment policy – including responsible/ethical • Impact of pension deficits • Accrued legacy income 	<ul style="list-style-type: none"> • Any factors likely to affect future financial performance

Impact on trustees' report (continued)

	Tier 1	Tier 2	Tier 3
Plans for future periods	<ul style="list-style-type: none"> Summary of future plans 	<ul style="list-style-type: none"> Summary must include details of aims and objectives and activities to achieve these Trustee perspective on future direction including influence of past activities on plans 	
Structure & governance	<ul style="list-style-type: none"> Governing document Constitution Methods for appointing trustees 	<ul style="list-style-type: none"> Organisational structure including subs and wider networks Induction & training of trustees Governance & management structures Decision making process Process for setting KMP salaries Related party relationships 	
Reference & admin	<ul style="list-style-type: none"> Name, trading name, registration number(s), address, names of trustees Exemption from disclosing names if it would place individuals in danger 		<ul style="list-style-type: none"> Name of CEO decisions are delegated to, details of professional advisors
Sustainability	<ul style="list-style-type: none"> Encouraged to explain how the charity is responding to ESG issues 		<ul style="list-style-type: none"> Summary of how ESG is managed ESG including KPIs & risks May include diversity & social opportunity If in scope for SECR include details

- Parent charities must include relevant details for subsidiaries

Input to consultation process

- Do the size thresholds work?
 - Better pegged to other statutory / regulatory thresholds?
 - Would facilitate ongoing alignment
 - But different, e.g. different audit thresholds in E&W vs Scotland
- Do smaller charities really get relieved of much?
- Are the ESG provisions meaningful / clear?

Accounting for Leases



Katherine Peacock

Significant changes to lease accounting

- Current treatment of operating leases will be changing
- No distinction between finance and operating leases
- New treatment is consistent with revised FRS 102
 - Balance sheet recognition of 'right-of-use' asset
 - Recognise present value of future payments as liability
- Discount rate needed
- Depreciation and interest charged rather than rent in SOFA
- FRC will not accept changes to this treatment in the SORP

Impacts

- Increased assets and liabilities on the balance sheet
 - Could potentially change company size
 - Audit thresholds
- SOFA charge is weighted towards the start of the lease
- Increased EBITDA

Identifying leases

- Definition of lease
 - Contractual right to use an asset for a period of time in exchange for consideration
- Portfolio approach
- Separate components

- Identify your lease(s)
 - Commencement date
 - Term & break clause
 - Rent-free periods and incentives
 - Rent amounts and timings

Discounting future payments to present value

- Discount rates – use in order of...
 - Implied in lease
 - Incremental borrowing rate
 - Obtainable borrowing rate
 - Rate of interest obtainable on deposits
 - Charities only, last resort where the other options are impossible

Example:

3-year lease
starting on 1 Jan
2026, £10,000
payable in advance
Discount rate 5%

1. Identify cash flows and calculate PV at start of lease

Date	Amount	Discount factor	Present value of liability
1 Jan 2026	(10,000)		
1 Jan 2027	(10,000)	$1/1.05 = 0.9524$	(9,524)
1 Jan 2028	(10,000)	$1/1.05^2 = 0.9070$	(9,070)
Total			(18,594)

2. Calculate the right-of-use asset

PV of liability	18,594
Payment at commencement	10,000
Right-of-use asset	28,594

3. Journal at 1 Jan 2026

Dr Right-of-use asset	28,594
Cr Lease liability	18,594
Cr Cash	10,000

Example:

3-year lease
starting on 1 Jan
2026, £10,000
payable in advance
Discount rate 5%

4. Subsequent remeasurement of liability

	31 Dec 2026	31 Dec 2027	31 Dec 2028
Liability at 1 Jan	(18,594)	(19,524)	(10,000)
Payments made (1 Jan)	-	10,000	10,000
Subtotal	(18,594)	(9,524)	-
Interest charge (liability * 5%)	(930)	(476)	-
Liability at 31 December	(19,524)	(10,000)	-

5. Subsequent remeasurement of asset

	31 Dec 2026	31 Dec 2027	31 Dec 2028
Net book value at 1 Jan	28,594	19,062	9,531
Depreciation	(9,532)	(9,531)	(9,531)
Net book value 31 Dec	19,062	9,531	-

Example:

3-year lease
starting on 1 Jan
2026, £10,000
payable in advance
Discount rate 5%

6. Summary of SOFA impact

	31 Dec 2026	31 Dec 2027	31 Dec 2028
Interest charge	930	476	-
Depreciation	9,532	9,531	9,531
Total	10,462	10,007	9,531

Previously operating lease charge of £10,000 each year

Exemptions

- Allowable exemptions
 - Short term leases (less than 12 months)
 - Low value assets
- Not allowed to use low value asset exemption for
 - Land and buildings
 - Motor vehicles
 - Ships, aircraft, trains & production line equipment...



- Accounted for on straight-line basis over the life of the lease

Lease modifications

- If changes are significant: remeasure starting from the date of change
 - Check discount rate
 - Recalculate present value of liability
 - Recalculate interest payments
- New lease required for extra components if
 - Increase in scope of assets leased and
 - Rent increases consistent with assets included in change

Peppercorn 'leases'

- No payment or very small payments
- Outside the scope of FRS 102
- Recognise any costs as an operating expense
- Does the arrangement constitute a donated asset /service?
 - Charity benefits?
 - Would the charity have purchased the asset /service?
 - Donation of service or facility
- Is the arrangement in substance a gift?
 - No break clause, rent review or rent increase
 - Recognise as a 'donated asset' (or heritage asset)

Discounted Leases (‘Social Donation Leases’)

- Leases at below market rate but more than nominal
- Includes a ‘non-exchange’ (donation) component
- Recognise non-exchange component as income
 - The lessor could provide information on the market rate
 - Compare to similar assets leased by non-charitable organisations
- Valuation of non-exchange component
 - Lower of market value and value to the charity
- Accounting treatment
 - Include ‘non-exchange component in ‘right-of-use’ asset calculations
 - Use actual payments for the liability
 - Non-exchange income recognised at the start of a lease

Accounting for Discounted Leases ('Social Donation Leases')

Example

- Charity is offered 2-year lease at £60,000 per year, market rate is £120,000; charity would have paid £72,000 for alternative space
- Non-exchange component is £12,000 per year

1. Calculate PV of future payments (discount factor 5%)

Date	Amount	Discount factor	Present value of liability
1 Jan 2027	(60,000)	$1/1.05 = 0.9524$	(57,142)
1 Jan 2028	(60,000)	$1/1.05^2 = 0.9070$	(54,422)
Total			(111,564)

2. Calculate 'right-of-use' asset

PV of liability	111,564
Non exchange component	24,000 (2 years at £12000 pa)
Right-of-use asset	135,564

Accounting for Discounted Leases ('Social Donation Leases')

Example (continued)

3. Summary of impact (SOFA)

	31 Dec 2027	31 Dec 2028	Total
Non exchange income (donation)	24,000	-	24,000
Interest charge	(5,578)	(2,858)	(8,436)
Depreciation	(67,782)	(67,782)	(135,564)
Total	(49,360)	(70,640)	(120,000)
Previous treatment (rent expense)	(60,000)	(60,000)	(120,000)

4. Summary of impact (balance sheet)

	1 Jan 2027	31 Dec 2027	31 Dec 2028
Right of use asset	135,564	67,782	-
Creditors due within 1 year	(57,143)	(57,142)	-
Creditors due after 1 year	(54,421)	-	-

Transition and preparation

- No restatement of comparatives
- Effective for 31 December 2026 (earlier if short periods)
- Preparation:
 - Identify all leases (start and end dates, lease incentives, break clauses)
 - Identify any peppercorn or discounted leases
 - Identify any exempt leases
 - Consider the discount rate
 - Determine depreciation policy for right-of-use assets
- Consider a trial calculation in advance
- **Start preparation early!**

Input to consultation process

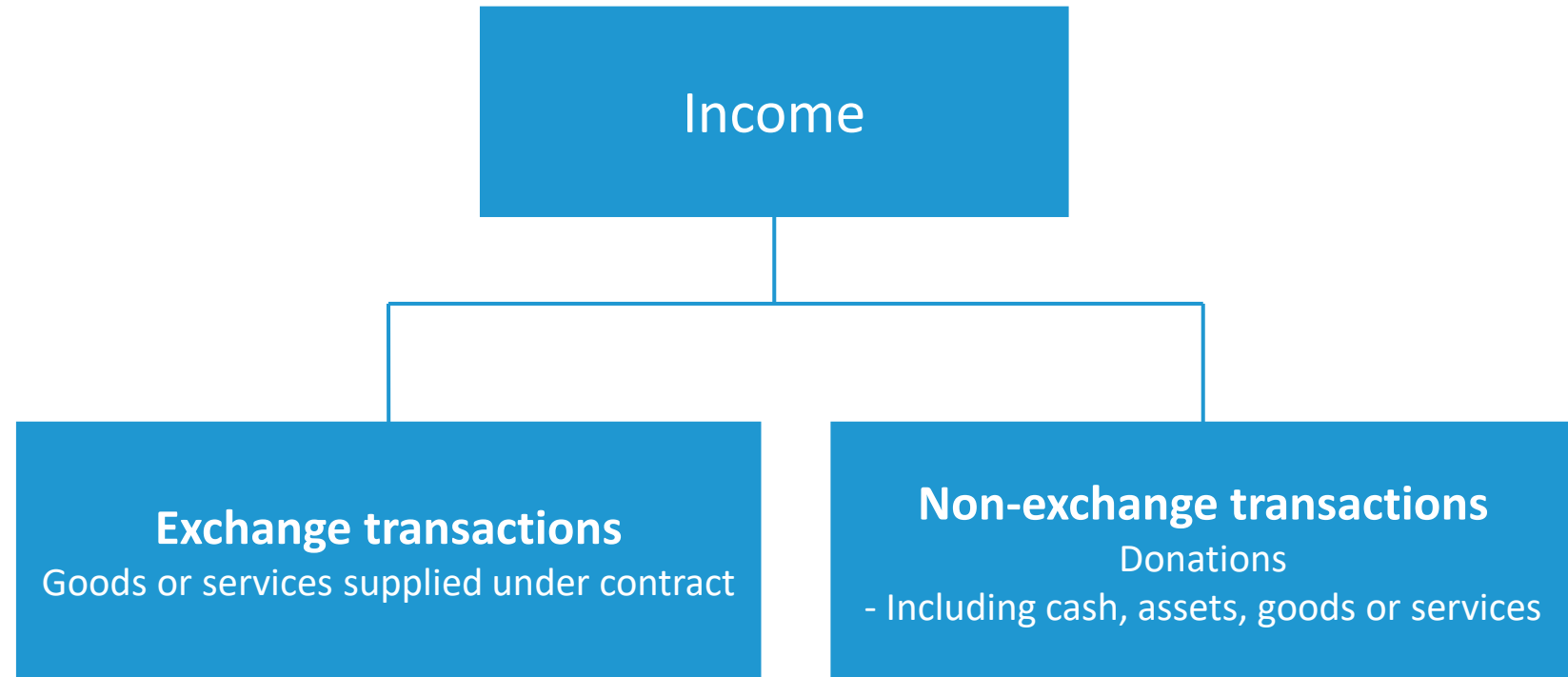
- Potential judgemental area around 'value to charity' on discounted leases – difficult to quantify
- Recognising non-exchange income upfront (rather than over life of lease) for discounted leases could potentially distort results
- Clarification on treatment of irrecoverable VAT on lease payments

Income recognition changes



Katherine Peacock

Classification of income



- Membership subscriptions could be either, depending on arrangements

Contract or Grant?

Identifying grants and contracts can be challenging but key for determining correct treatment



Contract (exchange)

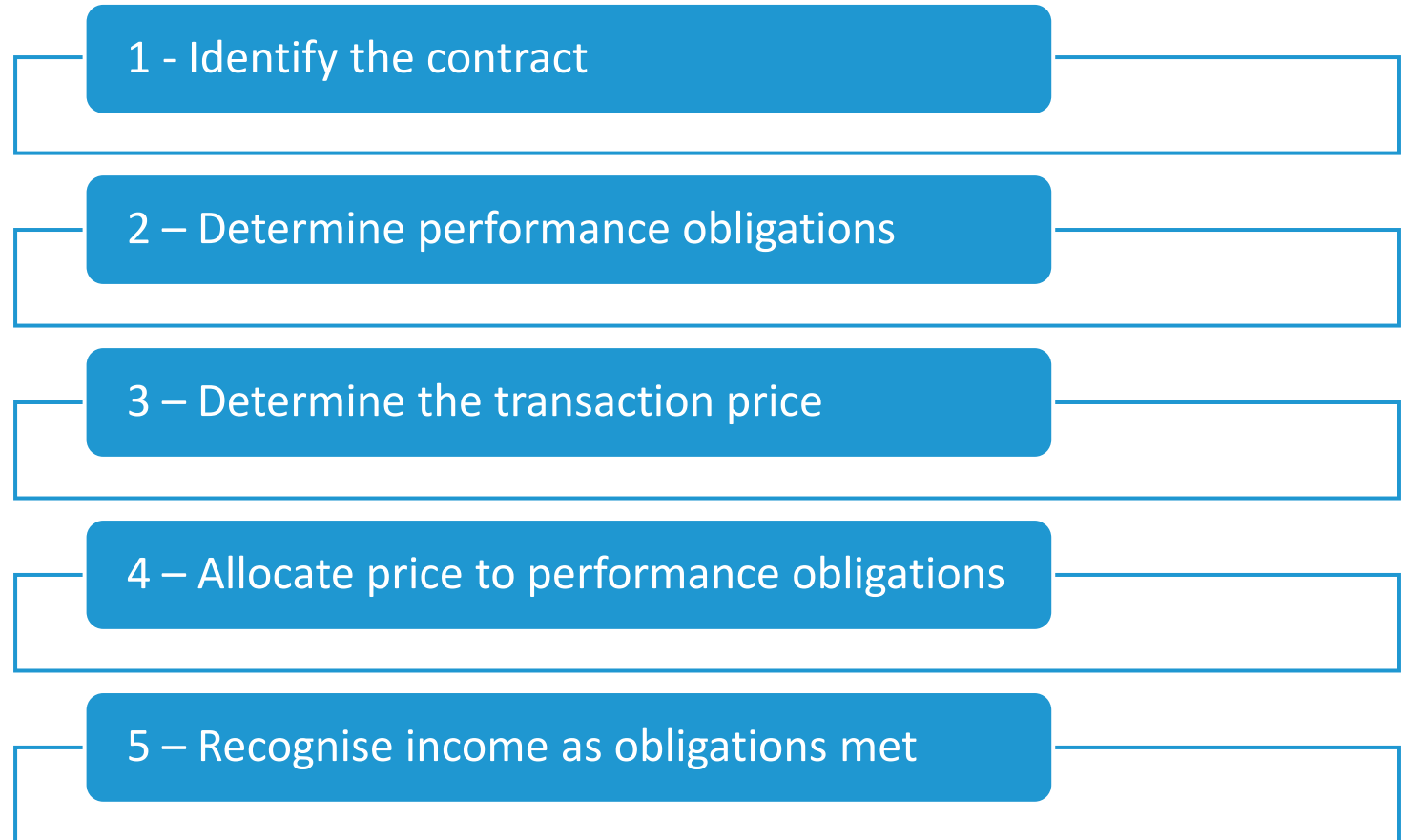
- Specific deliverables & milestones
- Clawback provisions
- Any surplus can be retained



Grant (non-exchange)

- Can be restricted or unrestricted
- Usually linked to specific project
- Surplus must be returned or used for similar work

Exchange transactions: Five-Step Model



Who will be affected & what can you prepare?

- Organisations with complex contracts with multiple deliverables
- Organisations with contracts covering multiple years
- **How to prepare**
 - Identify all contracts, including deliverables, terms and milestones
 - Identify any clawback provisions
 - If multiple deliverables, allocate income
 - Document milestones and match against projected expenditure and payment schedule
 - Review the basis of allocation of staff time where linked to milestones
 - Discuss with the funder if the payment schedule and milestones are not aligned

Non-exchange income

- Change from previous recognition conditions (entitlement, probability and measurement)
- If no future performance obligations are recognised when received
- If there are future performance obligations, recognise when conditions are met
- Clarification that capital grants should be recognised on receipt, even if the asset is purchased slightly later
- Clarification that a board decision alone is not sufficient to demonstrate commitment for 'gift aid' donations from subsidiaries

Legacy income recognition

- Entitlement removed from recognition conditions, but no other changes
- 'Probable' now defined as probate granted, executors determine there are sufficient funds and any conditions are in control of the charity
- No change to cut-off around post-year-end information
- Portfolio approach to legacies is allowable as an option
 - Only for charities with a high volume of smaller legacies
 - Material legacies must be considered individually
- Additional disclosure (Tier 3) for accrued legacy income in the trustees' report

Additional income disclosure

Non exchange transactions

- Details of nature and amounts, unfulfilled conditions, and contingencies
- Details of resources not recognised - volunteer services, donated goods for resale, not sold

Exchange transactions

- Disclose nature of performance obligations and how progress is measured
- Disaggregate into categories explaining how the revenue/cash flows are affected by economic factors
- Revenue from contracts must be disclosed separately
- Impairment losses must be disclosed separately
- Details of un-met performance obligations (contracts > 12 months only)

Input to consultation process

- Five-Step model could refer to FRS 102 rather than repeat full details
- Some examples of the Five-Step model would be beneficial
- Specific guidance on what constitutes a grant / contract would be useful
- Examples of how the additional income disclosure should be presented would be useful for consistency
- Measurement of legacy income is still open to interpretation on the timing of recognition, with properties and complex legacies, this can lead to variable outcomes

Other significant changes



Edward Finch

Social investments

- Mixed motive and programme related investments references removed – now just ‘Social Investments’ (consistent with CC14 update)
- Defined as "a class of assets that comprise investments made for both a financial return and to further the charity's purpose"
- Simplification of mixed-use property treatment
 - If property is partly used by charity and partly let to another charity with similar purposes it should be split between fixed assets and social investment (if impractical, allocate all to fixed assets)
 - Mixed-use property should only be split between fixed assets and investment property if the rented element could be sold or leased independently

Social investments

- Investments in shares – SORP now refers to valuation models if no transactions / market (although they were already in FRS 102)
- Social investment loans are more clearly defined as being loans to a third party, interest-free / below market rate to advance the charity's purpose and achieve financial return
- Concessionary loans meet the above conditions and, in addition, must not be repayable on demand
- Gains / losses on disposal, impairment losses and any subsequent reversal must be recognised as a gain / loss on investment rather than income / expenditure on the SOFA (as for PRI)

Commitments & contingency

- More detail added and wording aligned with FRS 102
 - Liabilities recognised where there is a past obligation, the amount can be estimated, and payment is probable
 - Provisions should be discounted if payment is expected after more than 1 year
 - Use the rate at which the charity could borrow
 - Or opportunity cost of investing funds if significant investments
 - Equivalent requirements added for funding commitments recognised as liabilities
 - If the funder can withdraw if performance measures are not met, expenditure should not be recognised
 - Case-by-case assessment if performance measures are outside the funder's control (e.g. conditional on planning permission)

Commitments & contingency

- No changes in the treatment of contingent liabilities
- Movements on provisions & commitments must be disclosed
 - There is now a prejudicial disclosure exemption, but expected to be rare
- Section on onerous contracts added in line with FRS 102

Heritage assets

- Expectation that heritage assets will be recognised on the balance sheet
 - Disclosure of assets with no easily obtainable value is now considered to be only in exceptional cases
 - As yet, no guidance on transitional arrangements
- Heritage assets should be recognised at cost or fair value
- Donated assets should be recognised at fair value

What isn't in the new SORP?

- No change to the threshold for higher-paid staff
 - Is £60,000 still appropriate?

Input to consultation process

- Guidance on treatment of heritage assets which have previously been disclosed rather than recognised on the balance sheet would be useful

CFG member views



Richard Sagar

Tiering

- The concept of Tiering is useful, but...
- The requirements for Tier 1 are too onerous for smaller charities. There should be a micro-Tier for smaller organisations consisting of 'musts' only
- Concerns about the breadth of Tier 2. There is a significant difference between a £500k charity and one with £15m of income, both in terms of the complexity of their governance and financial arrangements
- Increase the threshold at which Tier 2 applies to the Audit threshold (this amount will depend on the outcome of the financial thresholds consultation currently underway)
- Very little difference between Tier 2 & 3 in the SORP
- Other measures should be considered alongside income, i.e. assets, number of employees, etc...

Prompts and Impact reporting

- While members agreed that including prompt questions in the Trustees' Annual Report was helpful
- They did express concerns that it could lead to boilerplate responses from charities merely addressing the questions provided. This could affect the readability / value of the report
- Discretion should be given so that charities can tell the story of their impact on how they provide public benefit rather than merely follow prompts

Sustainability Reporting

- Very minimal requirements for all tiers
- Unclear if this is helpful to include in Trustees' Annual Report

Lease Accounting

- The section is well written but very complicated for smaller charities
- Info sheets that supplement the SORP with fully worked examples would be helpful.

Income recognition

- Concern that the requirements are not tailored to charities - Find and replace 'Charity' and 'Company' from FRS 102.
- Helpful in encouraging charities to think about exchange and non-exchange transactions.
- A separate model set of accounts would be very helpful (other SORPs do include them).

Other changes

- Volunteers - Concerns raised. Could require charities to collect additional info
- Reserves - Helpful new definition- questions RE what to exclude Re endowments
- Legacies - More guidance needed

Overall comments

- It's too long! Accounts already have a lot of 'clutter'
- More examples / tailoring for charities needed
- Is it 'small charity first' or 'regulator first'?
- Time is very tight for implementation / ensuring the sector is aware of relevant changes, ready for 2026

Q&A

Submit your questions using the Q&A function

Thank you

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