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Charities SORP 2026

Implementation checklist

Background

The revised Charities SORP impacts accounting periods beginning on or after 1 January 2026, meaning that trustees and senior leaders will need to take additional steps throughout 2026 and early 2027 to ensure they are ready to prepare the annual accounts of their charities under the new framework.

The key changes relate to the form and content of the trustees' report, accounting for income from exchange transactions and lease accounting. However, updates have also been made to accounting for social investments and heritage assets. A full list of changes can be found here: https://www.charitysorp.org/documents/d/guest/summary-of-changes-sorp-2026-pdf

Trustees' report

The changes to the trustees' report are primarily designed to add more focus on sustainability efforts and better align the activities noted in a charity's financial statements with the activities described. The degree of change is proportional to your income/balance sheet levels and requirements are determined by "Tier".

The tiered thresholds are provided at Appendix 1 along with a series of prompts regarding how the report would be prepared depending on which tier the charity sits within. Further detail of the trustees' report requirements by Tier is provided at Appendix 2.

Income recognition

The most significant change relates **to income from exchange transactions** (i.e. when goods and services are transferred to the charity) where there are more prescriptive requirements than before.

The detail of this is set out in section 5.10-5.62: https://www.charitysorp.org/documents/d/guest/charities-sorp-2026-1

Income from non-exchange transactions such as grants and donations are therefore not captured by the revisions, though slight changes have been made in the SORP from paragraph 5.63 onwards.

However, the revisions to the SORP serve as a good opportunity for charities to ensure that income recognition principles are being fully complied with across all income streams.

Charities must follow five distinct steps when assessing the income from exchange transactions to be recognised in any given period:

1. Identify the **contract**(s) with a customer
2. Identify distinct **performance obligations**
3. Determine the **transaction price**
4. Allocate the transaction price to performance obligations
5. Recognise revenue when (or as) each obligation is satisfied

Definitions and examples of the above core concepts are provided at Appendix 3.

To support management, the framework at Appendix 3 can be used to help to document the consideration of the new criteria for **each individual exchange transaction**. Although non-exchange transactions (i.e. grants and donations where there are no goods or services received back) are not captured by these revisions, we **recommend** that each individual grant or contract that the charity has in place is assessed against this framework with appropriate detail included to confirm the income recognition treatment for the first reporting period under the new SORP.

Management will therefore need to collate all the relevant information from across the organisation at the earliest opportunity, and also consider what changes, if any, are required to the charity's accounting policies.

One other change as a result of the revised SORP is in respect of legacy income recognition where there may be a shift towards earlier recognition as paragraph 5.86 explicitly states when a legacy is probable (and therefore recognisable).

Any change in recognition would need to be adjusted for as either an adjustment to opening reserves or by re-stating prior year comparative information.

Lease accounting

Unless captured by the short term (under 12 months) or low value exemptions, all leases must be brought onto the balance sheet as a right-of-use asset with a corresponding lease liability. As a general rule, buildings and vehicles will always meet the definition of a right-of-use asset.

The detail of the accounting standard is set out in module 10B:
https://www.charitysorp.org/documents/d/guest/charities-sorp-2026-1

Appendix 4 sets out the steps charities should take ahead of preparing accounts for the first time under the revised SORP.

Any change in recognition would be prospective at the date of transition, with no restatement of prior year figures being required.

What steps should be taken now?

In addition to the matters noted in the Appendices, we also **recommend** adequate time is factored in to assess the following:

- The impact the trustees' report changes have on existing templates, in particular, how charitable activities are described and whether they are in line with how they are presented on the statement of financial activities and supporting notes (the finance team and/or trustees may subsequently need to modify template pro-formas);
- The capacity and capability of existing staff to be able to review income and lease agreements to be able to prepare relevant calculations under the new SORP so that any skills gaps can be identified; and
- The point at which your audit team will be required to comment on proposed transition amendments and any updates in accounting policies.

How will your audit team support?

Given the potential that the SORP revisions could significantly change how accounts are being presented, **agreeing revisions to treatment** with the audit team **in advance** of the first financial statement audit cycle under the new SORP is imperative i.e. at the planning or interim stage (or shortly after the conclusion of the current audit cycle).

Appendix 1

- What Tier will you be in?

Income	Tier	What requirements apply?	Relevant questions…
<£500,000	Tier 1	Simplified reporting (Additional Tier 2 and 3 requirements may be included if desired). No cash flow required (unless required under FRS 102)	1-2
£500,001 - £15,000,000	Tier 2	Activity based reporting (All Tier 1 and Tier 2 apply; Tier 3 requirements optional). No cash flow required (unless required under FRS 102)	3-7
>£15,000,001	Tier 3	ESG reporting requirements (All Tier requirements apply)	3-9

1. (Tier 1) Have you considered whether some areas of your trustees' report can be scaled back or simplified?
2. (Tier 1) Are you likely to exceed income of £500,000 in the near future? If so, have you considered incorporating Tier 2 reporting in your report to ensure that it is easier to ensure compliance in the future. You can optionally comply with that reporting should you desire.
3. (Tier 2) Do the activities in your trustees' report align with those in the SOFA/notes? Each activity in the SOFA/notes should have some narrative in the trustees' report (and vice versa).
4. (Tier 2) Have you got clear aims and objectives for which success can be measured? How can you measure success?
5. (Tier 2) Are investments material to the charity?
    a. What is your investment policy?
    b. How does your investment policy consider ESG?
6. (Tier 2) Was a material legacy received in this, or the prior, year?
    a. How has this been utilised? Or how will the charity use this?
7. (Tier 2) Are you likely to exceed income of £15,000,000 in the near future? If so, have you considered incorporating Tier 3 reporting in your report to ensure that it is easier to ensure compliance in the future. You can optionally comply with that reporting should you desire.
8. (Tier 3) Is fundraising (costs or income) material? If yes,
    a. Do you have clear fundraising objectives to measure performance against?
    b. Has the fundraising expenditure been effective?
9. (Tier 3) ESG
    a. Consider how the charity is responding to and addressing ESG related matters
    b. Does the charity have climate-based risks or opportunities?
    - If a charitable company - Does the charity fall in the scope of Carbon reporting regulations?

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Appendix 2

The tables which follow provide a summary of the requirements in each area. The requirements of Tier 1 are also requirements of Tier 2 and 3, and the requirements of Tier 2 are also requirements of Tier 3.

The headings within the SORP are as follows:

- Objectives and activities
- Achievements and performance
- Financial review
- Structure, governance and management
- Reference and administrative details
- Sustainability

Whilst there is no requirement for the report to be structured in a particular format, it can be a helpful guide to ensuring all the requirements of the SORP are met. Typically, the reference and administrative details information comes at the start of the report. **Parent charities** preparing consolidated accounts must expand their report to include relevant information about their subsidiary undertakings.

Objectives and activities

Tier	Requirements
Tier 1	Charities **must**: • Provide a summary of the purposes of the charity as set out in its governing document; and the main activities undertaken in relation to those purposes. • Provide an explanation of the main activities to further charity's purposes for the public benefit and confirmation of whether the trustees have had regard to the Charity Commission's guidance on public benefit. • Provide an explanation of the scale and nature off the activities undertaken by different volunteer roles and the input from volunteers. Charities **should**: • Provide an explanation of the activities, projects or services identified in the accompanying accounts.
Tier 2 **Tier 3**	Charities **must** • Provide a more detailed understanding of short term and longer term aims and objectives and how those in the short term relate to those in the longer term. • Provide an explanation of the use the charity makes of grant-making and social investment. Charities **should**: • Provide information on the number of volunteers and an explanation of the activities that volunteers support or help to provide (can be in terms of hours or staff equivalent time).

Achievements and performance

<table>
<tr><th>Tier</th><th>Requirements</th></tr>
<tr><td>Tier 1</td><td>The report must contain a summary of the main achievements of the charity.</td></tr>
<tr><td>Tier 2</td><td>The report must:
Set out how well the charity and any subsidiaries carried out their activities and the extent to which the achievements in the reporting period met the aims and objectives set by the charity for the reporting period.
Review investment performance against the investment objectives set where material financial investments are held.
Explain the impact the charity is making and consider the long-term effect of its activities on individual beneficiaries and on society as a whole.
The report should:
Include:
A summary of the measures or indicators used to assess performance (including in relation to environmental or social issues, if applicable)
An explanation of the outputs achieved by particular activities especially when numerical targets have been set (for example, the number of beneficiaries to be reached by a particular programme, or the number of events or interventions planned as part of an activity)
Information on activities, outputs, and outcomes (or impacts) in the context of how they have contributed to the achievement of the charity’s aims and objectives
Comment on significant positive and negative factors, both within and outside the charity’s control, which have affected the achievement of its objectives and, where relevant, explain how this has influenced future plans.</td></tr>
<tr><td>Tier 3</td><td>The report must:
Review the performance of material fundraising activities against the fundraising objectives.
Explain the effect any material expenditure incurred to raise income had, and is intended to have, on the net return from fundraising activities for both the reporting period and future periods.</td></tr>
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Financial review

Tier	Requirements
Tier 1	The report **must**: • Contain a review of the charity's financial position at the end of the reporting period. • Provide an explanation of any policy it has for holding reserves, state the amount of those reserves and why they are held, and if the trustees have decided that holding reserves is unnecessary, the report must disclose this fact and provide the reasons for this decision. • Provide a comparison of the amount of reserves with the charity's reserves policy and explain, where relevant, the steps the charity is taking, given their plans for the future activities of the charity, to bring the amount of reserves it holds into line with the policy. • Provide an explanation of any material amounts that have been designated or otherwise committed as at the end of the reporting period and indicate the likely timing of the expenditure of any material amounts designated or otherwise committed at the end of the reporting period. • Provide an explanation of why the charity is operating as a going concern if it has no reserves or negative net assets on the balance sheet). • Provide an explanation of the nature of any material uncertainties about the charity's ability to continue as a going concern.

Tier 2	The report **must:**
	• Comment on the significant events that have affected the financial performance and financial position of the charity during the reporting period. In particular the report must explain:
	  ○ The principal sources of income of the charity in the reporting period and how these resources have been spent to support the key objectives of the charity; and
	  ○ A description of the principal risks, including any risks arising from environmental issues, cyber and uncertainties facing the charity and its subsidiary undertakings, as identified by the charity trustees, together with a summary of their plans and strategies for managing those risks.
	• Report on any material financial investments and explain the policies adopted by the charity trustees for the selection, retention and realisation of investments including the extent (if any) to which it takes social, environmental or ethical considerations into account.
	• Provide a narrative explanation of the impact of a material pension liability arising from obligations to a defined-benefit pension scheme or pension asset on the financial position of the charity.
	• Disclose the impact of any material legacy income recognised in the accounts prior to the resources being received.

Tier 3	The report **must** explain any factors that are likely to affect the financial performance or position going forward.

Plans for the future

Tier	Requirements
Tier 1	The report **must** provide a summary of the charity's plans for the future.
Tier 2 **Tier 3**	The report **must**: • Provide a summary of the charity's plans for the future, including its aims and objectives and details of any activities planned to achieve them. The report **should**: • Explain the trustees' perspective of the future direction of the charity (how experience gained or lessons learned from past or current activities have influenced future plans and decisions about allocating resources to their best effect).

Structure, governance and management

Tier	Requirements
Tier 1	The report **must**: • Provide details of the nature of the governing document. • Provide details of how the charity is (or its trustees are) constituted. • Provide details of the methods used to recruit and appoint new charity trustees.
Tier 2 **Tier 3**	The report **must**: • Explain the charity's organisational structure (including subsidiary undertakings). • Explain the policies and procedures for the induction and ongoing training of trustees. • Provide the user with an understanding of how the charity is constituted and its governance and management structures. In particular, the report **must** explain: ○ how the charity makes decisions, for example, which types of decisions are taken by the charity's trustees, and which are delegated to staff; ○ the arrangements for setting the pay and remuneration of the charity's key management personnel and any benchmarks, parameters or criteria used in setting their pay; ○ if the charity is part of a wider network (for example, if it is affiliated with an umbrella group), how, if at all, this impacts on the operating policies adopted by the charity; and ○ relationships between the charity and related parties, including its subsidiary undertakings, and with any other charities and organisations with which it co-operates in the pursuit of its charitable objectives.

Reference and administrative details

Tier	Requirements
Tier 1	The report **must** provide the following reference and administrative information about the charity and its trustees: • the name of the charity; • any other name that the charity uses; • the charity registration number(s) for the jurisdiction(s) in which it is registered as a charity and, if applicable, its company registration number; • the address of the principal office of the charity; • the names of all those who were the charity’s trustees on the date the report was approved, or who served as a trustee in the reporting period; • where a charity has any corporate trustees, the names of the directors of the body corporate on the date the report was approved; and • the names of any trustee for the charity holding the title to property belonging to the charity (for example, holding trustee or nominee) on the date the report was approved; or who served as a trustee for the charity in holding the title to property belonging to the charity in the reporting period.
Tier 2 **Tier 3**	The report **must**: • Provide the name of the auditor. State to whom the trustees delegate day-to-day management of the charity and from whom trustees are taking advice – the name of any CEO or other senior management personnel to whom the trustees delegate day-to-day management of the charity, and the names and addresses of organisations providing bank services or professional advice to the charity.

Sustainability

Tier	Requirements
Tier 1 **Tier 2**	Trustees **may choose** to explain in the report how the charity is responding to and managing environmental, governance and social matters. Trustees are encouraged to consider the needs of stakeholders when reporting in this area.
Tier 3	The report **must** provide a summary of how the charity is responding to and managing environmental, governance and social matters (where the charity is already reporting on these matters but the detail is not included in the trustees’ annual report, details on where to find the information should be included, for example, a website link.) Charitable companies which fall within the scope of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (incorporating changes in the Companies (Directors’ Report) and Limited Liability Partnerships (Energy and Carbon Report) 2018 Regulations) must provide the disclosures required under these regulations. Some charitable companies may also be subject to the requirements in s414CB of the Companies Act 2006 for climate related disclosures. Charitable companies in the Republic of Ireland which fall within the scope of the European Union (Corporate Sustainability Reporting) Regulations 2024 must provide the disclosures required under these regulations.

Appendix 3

	Key information per agreement (total funding, length, payment terms and restrictions?)	Step 1 Is there a contract* in place?	Step 2 Are there identifiable performance obligations? What are these?	Step 3 Has the transaction price been set?	Step 4 Can the transaction price be allocated to obligations?	Step 5 Income to recognise for the year ended 31 December 2026	Auditor assessment
1							
…							

* If in step 1 it is determined that there is no contract in place and that the agreement in question is a non-exchange transaction, only the first two columns will need completing.

Key definitions:

Contract	A contract is where goods or services are transferred by the organisation **under an agreement where there are clearly identifiable and enforceable rights and obligations**, with payment terms being defined. Note that if cash is received in advance, income cannot be recognised until the performance obligation is fulfilled. Note that these are typically **unrestricted** in nature given they are **not a gift** so cannot be restricted under trust law. Examples of transactions with enforceable rights and obligations include the provision of educational services by a charity in return for course fees; the sale of educational goods by an art gallery or museum charity; or the provision of serviced residential accommodation by a residential care home in return for payment.
Grants and donations	**Voluntary** income received by the charity (i.e. the funder receives no equal value in exchange), though entitlement may be subject to performance conditions such as meeting specific milestones. Examples of transactions could be where funding is applied for and the funder provides an award letter or equivalent, donations through the charity's website etc.
Performance obligations	At the outset, the organisation must assess the goods and services promised (i.e. outputs) to the third party in return for payment which is the obligation they need to fulfil. Each obligation will need a transaction price allocated, unless there is only one obligation (e.g. once control i.e. when risks and rewards of an asset are transferred) or all conditions are satisfied at the same time.
Transaction price	How much the charity is entitled to in exchange for transferring goods or services. Estimation may be required if there is only one transaction price but there are bundled products and services meaning performance obligations are made at different times.

Appendix 4

	Requirement	Completed?
1	Collate data of all leases that the charity has in one central location. This should include: • Start and end dates • Details of break clauses/when rent reviews arise • Payment terms (in advance or arrears) • Currency of payments • Details of any incentives/rent-free periods • Implicit discount rate in lease agreement	
2	Determine if each lease meets the definition of a right-of-use asset or if eligible for exemption	
3	For leases where no exemption can be applied, prepare calculations for each lease as at the date of transition. These should be computed for the full lease term unless there is a reasonable expectation that a break clause will be exercised, and on the current rental amounts (unless future rent amounts are pre-determined).	
4	Prepare an accounting policy that sets out what judgements are taken when applying lease accounting. The below should be considered: • what constitutes a low value item • what discount rate is being use for each class of asset* • are lease calculations being prepared for the full lease term or only up to the break clause • how incidental costs are being treated e.g. repairment or dilapidations **The below hierarchy will need to be followed in order for the charity to assess what discount rate to use:* • *Is there a rate implicit in the lease (i.e a stated % of interest) – Will the lessor tell you this?* • *If not, what is the charity's incremental borrowing rate? – How much interest would you have to pay to borrow the money to purchase the same or similar asset?* • *If not known, what is the charity's obtainable borrowing rate? – How much interest would you have to pay to borrow a similar amount for a loan of the same term and value (.e.g. from a bank)* *If not possible to obtain, what is the interest rate on deposits obtainable by the charity?*	
5	Modify the chart of accounts to capture new balance sheet codes and to take into account depreciation and interest expenditure on the statement of financial activities.	
6	Determine when the management accounts will be adapted to take into account the changes and how the new structure impacts budgeting and forecasting.	
7	If applicable, meet with bankers to assess whether there may be any impact on loan covenant calculations.	
8	Upgrade statutory accounts templates for additional notes, accounting policies and disclosures, including statement of cash flows (which may require a section for 'financing activities' for the first time).	