

Buzzacott

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# FEHE SORP 2026 update webinar

30 June 2026



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# Agenda

01 Introduction

02 Transition

03 Leases

04 Revenue  
recognition

05 Next steps

06 Q&A

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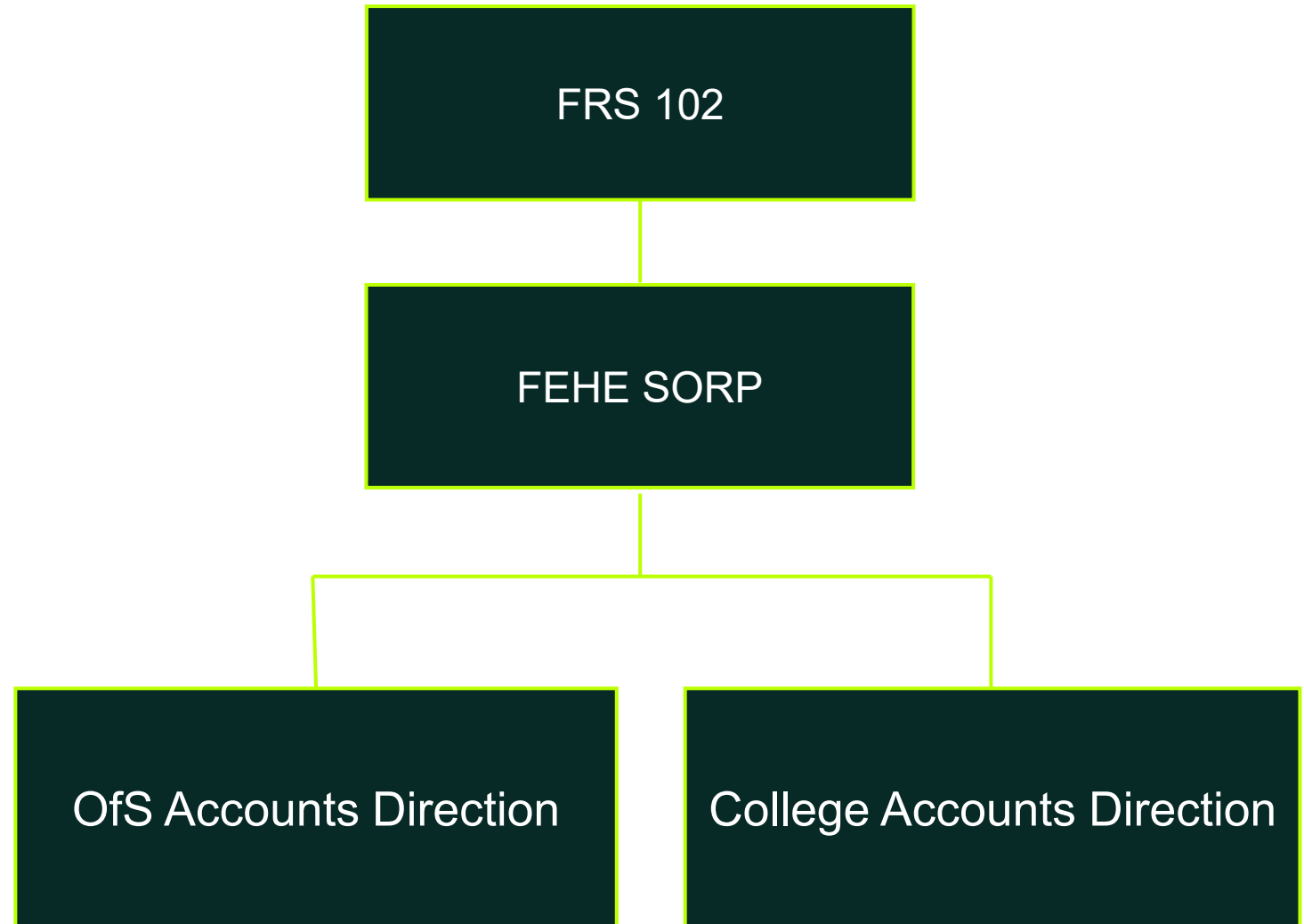
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# Introduction

Shachi Blakemore



# Accounting framework



# Other considerations

Applicable from 31 July 2027  
year ends

Lease accounting

Income recognition

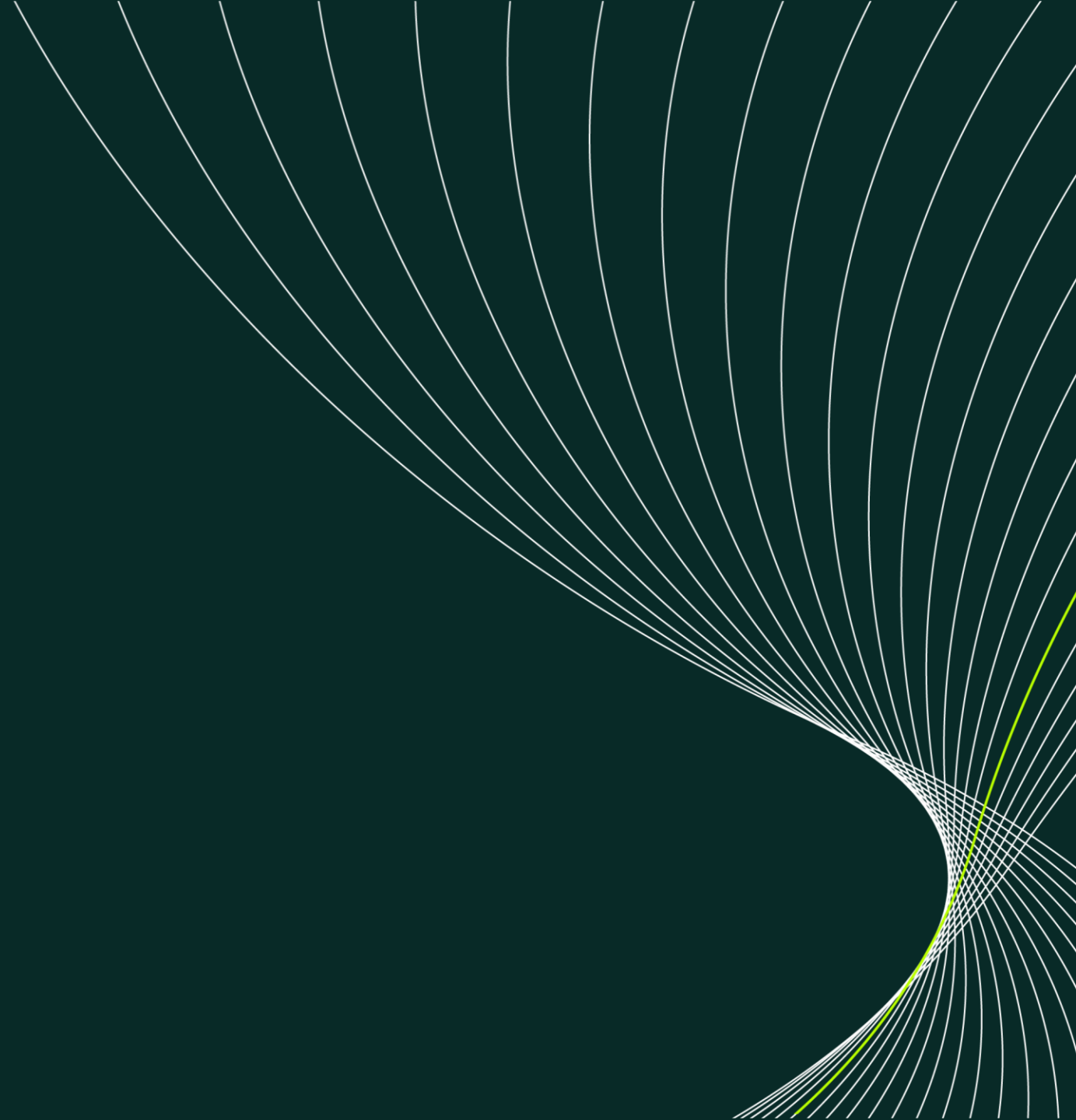
Annual report

Other disclosures

02

# Transition

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# Choice of adoption approach - income

## Full retrospective approach

- Amend the comparatives
- Full restatement and disclosure
- ✓ Prior year will be more comparable
- ✗ More work and disclosures needed

## Modified retrospective approach

- Amend for contracts in progress at transition date
- Adjustment made through reserves on day 1
- ✓ Simpler approach
- ✗ Prior year less comparable

# No choice - leases

Modified  
retrospective  
approach

- "Shall not restate comparative information"
- Adjustment made through reserves on day 1
- ✓ Simpler approach
- ✗ Prior year less comparable

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# Leases (as lessee)

Robert Cloke



# Key changes

- On balance sheet lease accounting model
- Operating leases will typically be brought onto the balance sheet

	Existing FEHE SORP	Revised FEHE SORP
<b>Balance sheet</b>	£nil	Asset: "Right-of-use" asset Liability: lease liability
<b>Income statement</b>	Straight line expense	Depreciation expense Front-loaded interest expense
<b>Cash flow statement</b>	Operating activities	Financing activities

# How does it work?



# Step 1: Identifying a lease

***A contract contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration***

- Is there an identified asset?
  - *Consider embedded leases in contracts*
- Does the lessee have the right to control the use of the identified asset for a period of time?
  - *Does the supplier have substitution rights*
- Is the contract in exchange for consideration?
  - *Peppercorn leases*
  - *Discounted leases*

## Step 2: Determining the lease term

- The lease term consists of:
  - Non-cancellable period of the lease (ie, period for which lessee cannot choose for lease to be shorter)
  - Plus any optional periods where the lessee is ***reasonably certain*** to take them
- Points to consider:
  - Level of investment in asset
  - Alternatives available
  - College/university strategy
  - Favourable terms
  - Rolling leases
  - Subsequent remeasurement when plans change

## Step 3: Identifying exemptions

*Exemptions available for  
short-term leases and low  
value assets*

*These will continue to over  
accounted for on a straight-  
line basis over the life of  
the lease*

- Exemption for short-term leases
  - Initial lease term is 12 months or less (see Step 2)
  - Must be applied consistently for each class of asset
- Exemption for low value assets
  - The SORP and FRS102 do not define low value
  - Certain assets are listed as not being low value
  - Judgement required with the rest
  - Can be applied on a lease-by-lease basis
- The following are NOT low-value assets:



## Step 4: Measuring the lease liability

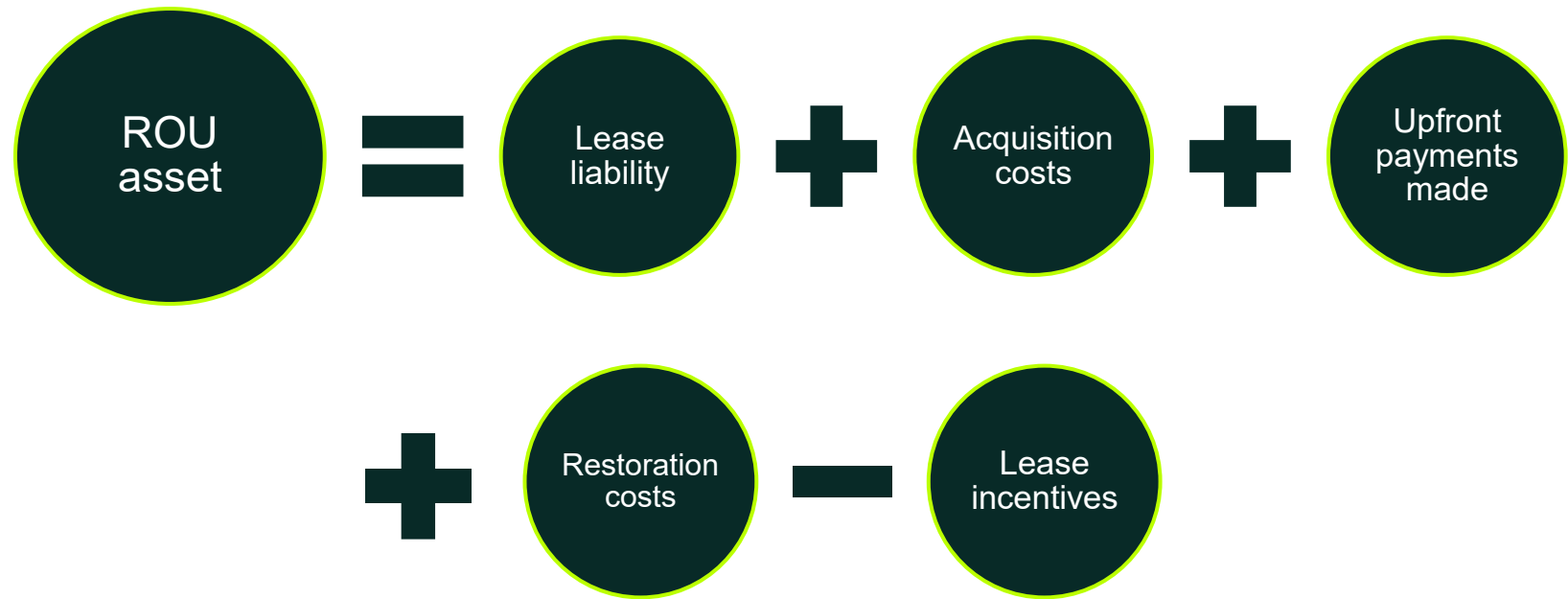


Determining present value – calculating a discount rate

1. Interest rate implicit in the lease
2. Incremental borrowing rate
  - *The rate you would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value in a similar economic environment.*
3. Obtainable borrowing rate
  - *The rate you would have to pay to borrow over a similar term, an amount similar to the total undiscounted value of lease payments.*
4. Rate obtainable on deposits

Rent reviews and variable lease payments

## Step 5: Measuring the ROU asset



- Initial recognition
- Subsequent depreciation and impairment
- Treatment of irrecoverable VAT?

# Example 1

## Scenario:

A lessee enters a lease contract for the right to use a building for a term of 10 years.

Annual rent payments are £100,000 in arrears.

The rate of borrowing is 5%.

Year	Payment	Interest	Depreciation	I&E costs	Asset NBV	Liability	Net Balance sheet
0	-	-	-	-	772,173	772,173	-
1	100,000	38,609	77,217	115,826	694,956	710,782	(15,826)
2	100,000	35,539	77,217	112,756	617,738	646,321	(28,583)
3	100,000	32,316	77,217	109,533	540,521	578,637	(38,116)
4	100,000	28,932	77,217	106,149	463,304	507,569	(44,265)
5	100,000	25,378	77,217	102,595	386,087	432,947	(46,861)
6	100,000	21,647	77,217	98,864	308,869	354,594	(45,725)
7	100,000	17,730	77,217	94,947	231,652	272,324	(40,672)
8	100,000	13,616	77,217	90,833	154,435	185,940	(31,505)
9	100,000	9,297	77,217	86,514	77,217	95,237	(18,020)
10	100,000	4,762	77,217	81,979	-	-	-

# Example 2

## Scenario:

A lessee enters into a lease contract for the right to use a building for a term of 10 years. Annual rent payments are £100,000 in arrears.

The rate of borrowing is 5% + lease incentive of 18m @ 50% rent.

+ 5-year break clause exercisable and expected to be utilised at a penalty cost of £50,000.

+ Costs to remove leasehold improvements at termination are estimated at £75,000.

Year	Rent payments	Restoration payments	Interest	Depreciation	I&E costs
0					
1	50,000		23,029	92,119	115,148
2	75,000		21,681	92,119	113,800
3	100,000		19,015	92,119	111,134
4	100,000		14,966	92,119	107,085
5	150,000	75,000	10,715	92,119	102,834

Year	Asset NBV	Lease liability	Provision	Net balance sheet
0	460,594	401,829	58,764	-
1	368,475	371,920	61,702	(65,148)
2	276,356	315,516	64,787	(103,947)
3	184,237	231,292	68,026	(115,081)
4	92,119	142,857	71,427	(122,166)
5	-	-	-	-

# Example 3

## Scenario:

A lessee enters a lease contract for the right to use a building for a term of 5 years

Annual rent payments are £100,000 in arrears

The rate of borrowing is 5%

Irrecoverable VAT of 20% is charged

What is the impact of the VAT treatment?

### Option 1 - account for VAT as a separate expense

Year	Lease payments (net)	Interest	Depreciation	VAT	I&E costs	Asset NBV	Liability	Net balance sheet
0	-	-	-	-	-	432,948	432,948	-
1	100,000	21,647	86,590	20,000	<b>128,237</b>	346,358	354,595	<b>(8,237)</b>
2	100,000	17,730	86,590	20,000	<b>124,319</b>	259,769	272,325	<b>(12,556)</b>
3	100,000	13,616	86,590	20,000	<b>120,206</b>	173,179	185,941	<b>(12,762)</b>
4	100,000	9,297	86,590	20,000	<b>115,887</b>	86,590	95,238	<b>(8,649)</b>
5	100,000	4,762	86,590	20,000	<b>111,351</b>	-	-	-

### Option 2 - account for VAT as part of lease payments

Year	Lease payments (gross)	Interest	Depreciation	VAT	I&E costs	Asset NBV	Liability	Net balance sheet
0	-	-	-	-	-	519,537	519,537	-
1	120,000	25,977	103,907	-	<b>129,884</b>	415,630	425,514	<b>(9,884)</b>
2	120,000	21,276	103,907	-	<b>125,183</b>	311,722	326,790	<b>(15,067)</b>
3	120,000	16,339	103,907	-	<b>120,247</b>	207,815	223,129	<b>(15,314)</b>
4	120,000	11,156	103,907	-	<b>115,064</b>	103,907	114,286	<b>(10,378)</b>
5	120,000	5,714	103,907	-	<b>109,622</b>	-	-	-

# Disclosures and implementation

## Disclosures

- Analysis of right of use assets
- Analysis of lease liabilities
- Amounts recognised in comprehensive income and cashflows
- Commitments for short term and low-value leases (similar to existing operating lease disclosure)
- Discount rates used

## Transition and implementation

- No restatement of comparatives
- “Modified retrospective approach” – cumulative impact recognised as adjustment to opening equity

## Preparation

- Identify all leases and exemptions
- Work through the calculations (Excel models and software available)
- Document your judgements and get auditor agreement.
- Watch out for further guidance

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# Revenue recognition

Kunal Mistry



# Income – which type?

There are **three key parts of the SORP** for each of the three classes of income:

## Revenue from contracts with customers

Section 16

### Examples

- Tuition fees
- Consultancy
- Commercial
- Revenue
- Catering
- Conferences

## Government grants

Section 17

### Examples

- Grants from DfE,
- UK Research Council
- NHS bodies
- Local government and other UK funding bodies

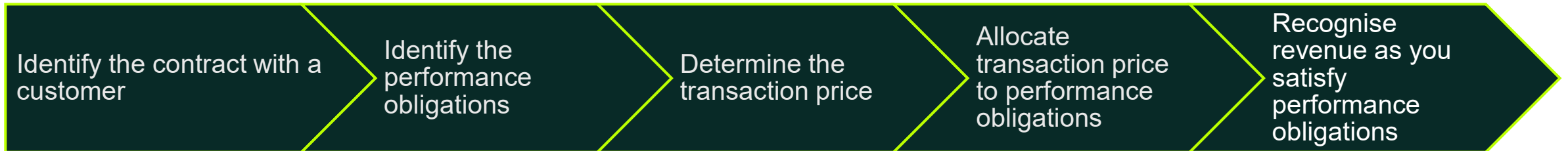
## Non-exchange transactions

Section 18

### Examples

- Donations of goods and services

# Section 16 Revenue from contracts with customers



## Step 1

- Are there enforceable rights and obligations from both parties, and at what point?

## Step 2

- Distinct good or service
- Provided directly as principal (as opposed to through third party as agent?)
- The promise is separate from other promises

## Step 3

- More complex if variable or over time
- Consideration payable to customer: Includes bursaries, scholarships and student support

## Step 4

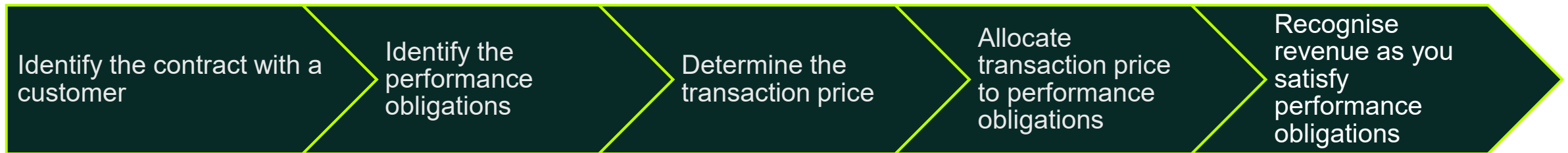
## Step 5

- Assess whether satisfied over time or at a point in time

# Contracts – example

- Contract with local employer consortium to deliver a workforce development programme
- Performance obligations per contract:
  - Delivery of five bespoke bridging courses
  - Ongoing student mentoring
  - Careers Fair attendance
  - Curriculum co-design with employers
- Annual renewal for £250,000 per annual subject to performance evaluation
- Co-design is year one only

# Contracts example



## Step 1

- Contract renews annually
- £250,000 per annum
- Curriculum co-design for first year

## Step 2

- Four distinct promises

## Step 3

- Price of each needs estimating
- Adjusted market approach
- Expected cost plus margin

## Step 4

- £20,000 per course
- £60,000 over 12 months
- £10,000
- Up to £80,000

## Step 5

- As each course delivered
- Over lifespan
- After attending fair
- Based on costs incurred

# Income recognition checklist

	<b>Key information per material agreement (total funding, length, payment terms and restrictions?) (Or type of agreement if high volume, low value)</b>	<b>Is there a contract in place?</b>	<b>Are there identifiable performance obligations? What are these?</b>	<b>Has the transaction price been set?</b>	<b>How will the transaction price be allocated to obligations?</b>	<b>Income to recognise for the year ended 31 July 2027</b>	<b>Auditor assessment</b>
1							
2							
3							
...							

- Starting point for analysing contracts and collating data
- If a contract has multiple elements split each one out on a separate line
- Do you have complex contracts with multiple deliverables and/or those that cover multiple years?

# Grants

## **Government grants (expect to remain outside scope of section 16)**

Accounting policy choice:

- Accrual model (recognising income as costs are incurred)
- Performance model (recognise only when conditions met)

Land is always based on the performance model

16-19 and Apprenticeship funding for Colleges?

## **Non-government grants (potentially in scope of section 16)**

Accrual model not applicable

Performance conditions?

# Tuition fees and education contracts

## Tuition fee accounting policy from SORP 2026 draft model accounts

*"Income from the provision of tuition services and education contracts is measured at the fair value of the amounts which the Institution expects to be entitled to in exchange for the delivery of the services, **net** of any consideration payable to the students (or other parties that purchase the institution's goods or services from the student) - **such as fee waivers, discounts, scholarships and bursaries.**"*

- Impacts on financial health, reported income and access and participation disclosures
- Separate contract or combined?
- Expecting guidance from DfE on specific bursaries within colleges – importance for consistency given financial health ratios

# Tuition fee examples

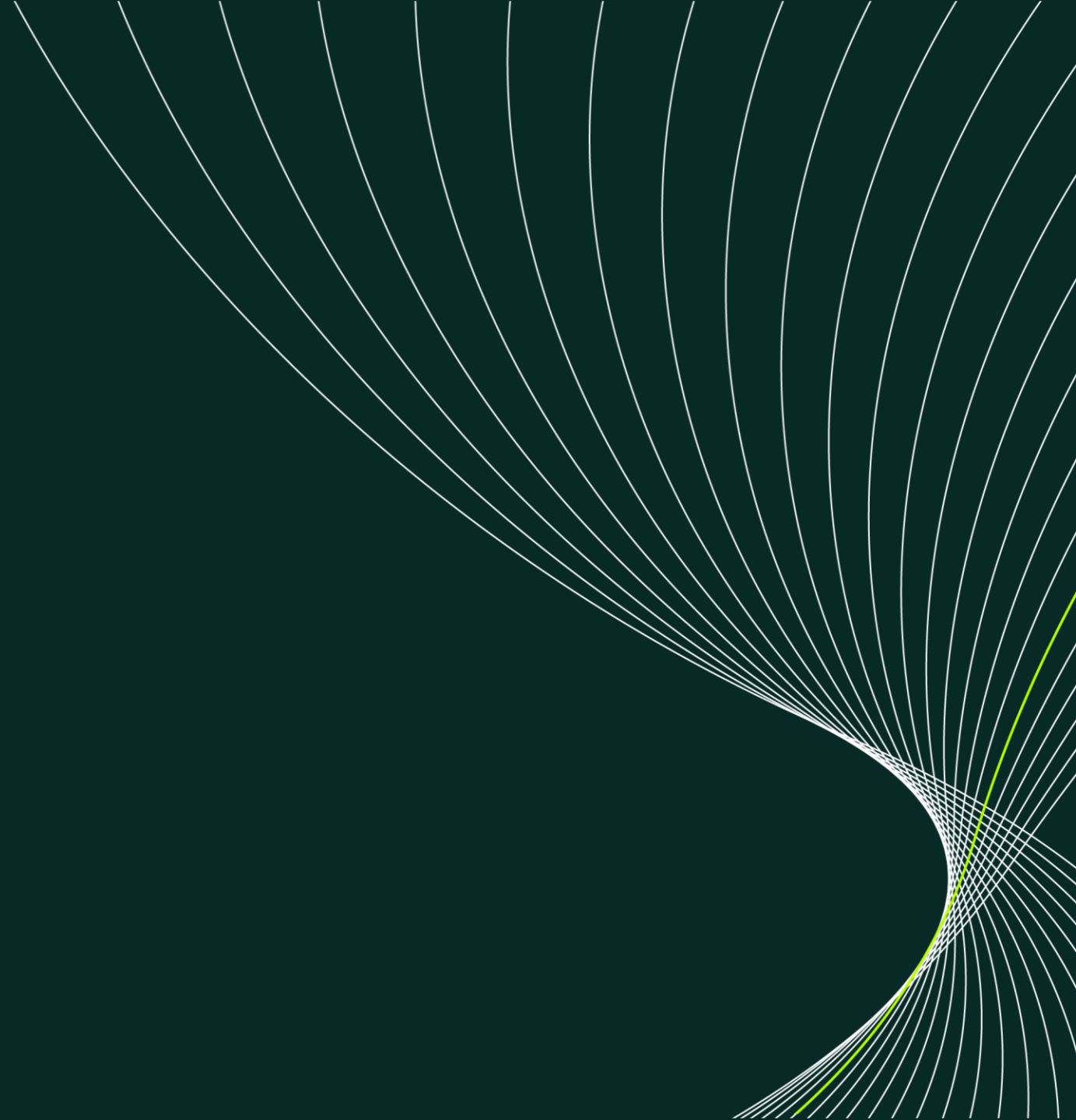
## Each type may have slightly different arrangements

- Student pays a tuition fee subject to Institution awarding bursary – **net**
  - **Fee £10,000 less bursary £3,000 – income recognised: £7,000**
- Student awarded full scholarship (no tuition fee) – **no income**
  - **Fee £10,000, institution covers this – income recognised: nil**
- Student receives scholarship independently – **separate**
  - **Fee £10,000, independent body covers this – income recognised: £10,000**
- Institution receives scholarship funding from a government body – **depends on arrangements**
  - **Separate contracts or acting as an agent?**
- Supplementary guidance in addition to SORP shows examples

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# Next steps

Shachi Blakemore



# Practicalities

- Processes for capturing/updating information
- Wider consultation and training eg. Estates team, Commercial operations
- Choosing approach to adjusting for income
- Areas of judgement
- Summary calculations
- Reporting implications – budgets, forecasts, management reporting
- Financial KPIs/health
- Loan covenants
- Audit of opening adjustments – timetable
- Timeline for further guidance

# Speakers



## **Shachi Blakemore**

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## **Kunal Mistry**

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## **Robert Cloke**

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# Other resources

## June 2026

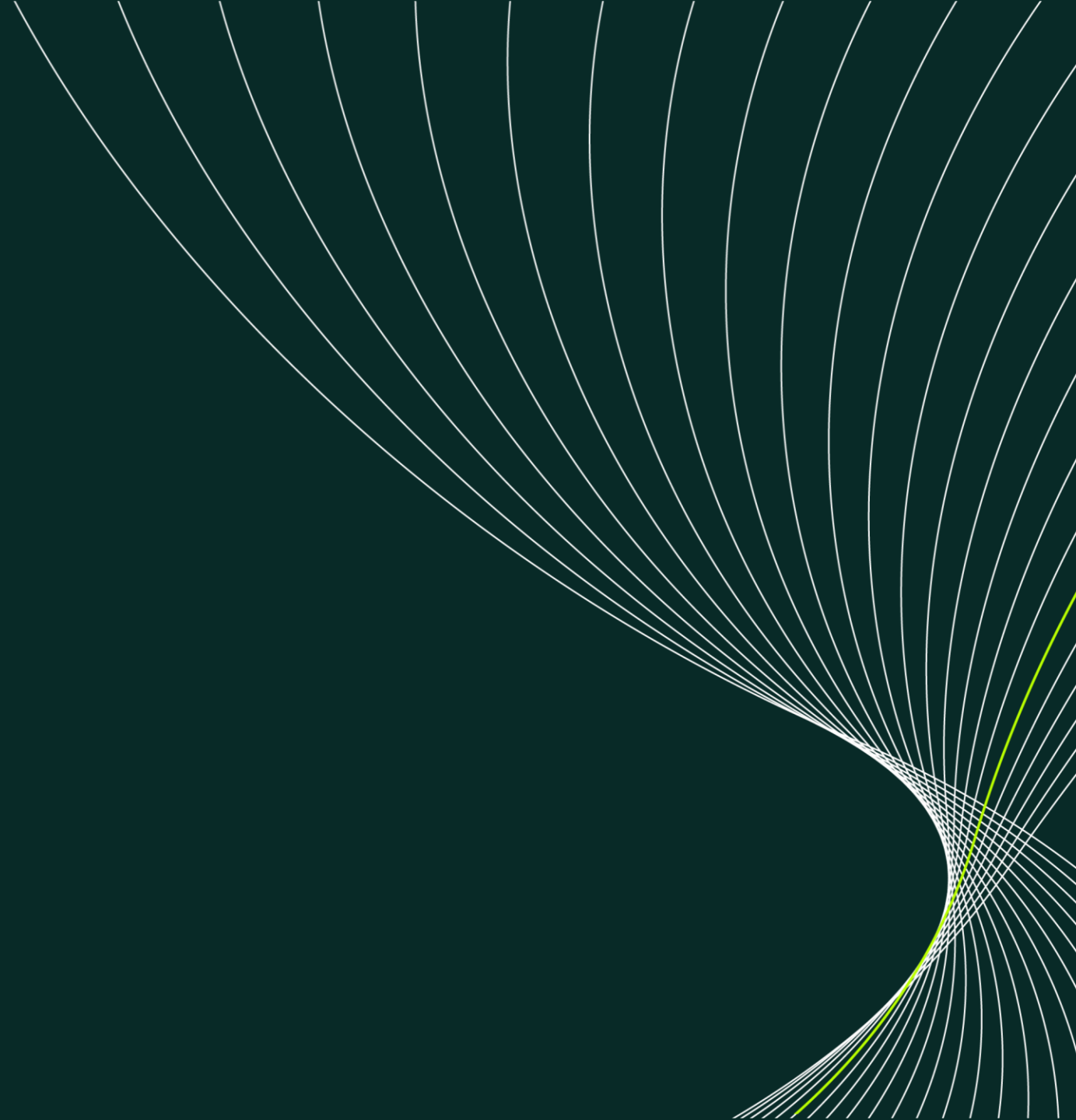
- [VAT and tax update for Further and Higher Education sector webinar slides](#)
- [Further Education Benchmarking report](#)

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# 06

**Q&A**



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# Thank you!

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