June 2026

# Charity FRS 102 factsheet – Periodic Review 2024 and Charity SORP 2026

The revised Charity Statement of Recommended Practice (Charity SORP 2026) becomes effective for accounting periods beginning on or after 1 January 2026. This update follows the Financial Reporting Council's (FRC) amendments to FRS 102, issued as part of its periodic review and provides clarity on charity specific issues.

## Summary

Where the Charity SORP applies, compliance with it is a legal requirement under UK charity law. Accordingly, trustees are responsible for ensuring that the annual report and accounts comply with both the recognition and measurement requirements of FRS 102 and the presentation, disclosure and narrative reporting requirements of the Charity SORP.

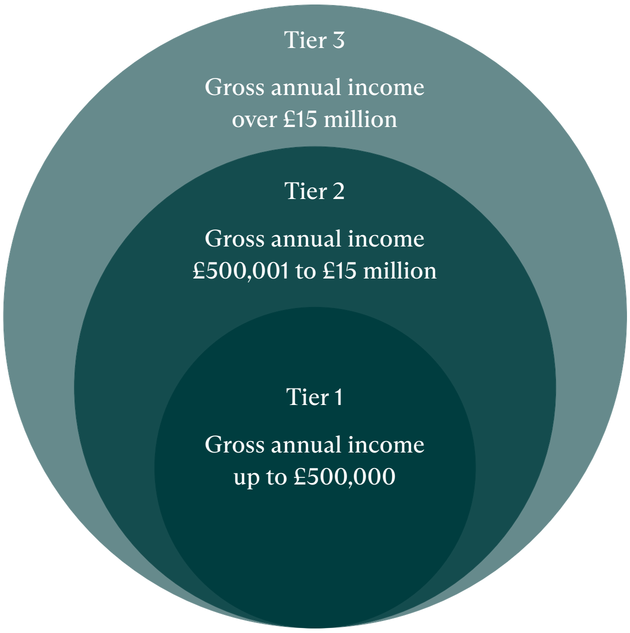
Early adoption of the Charity SORP 2026 is permitted only where the applicable charity accounting regulations in the relevant jurisdiction allow it, and where permitted, both the revised SORP and the underlying FRS 102 amendments must be adopted at the same time. Please note that Scottish charities cannot early adopt SORP 2026 because the applicable SORP is specified in the Scottish accounting regulations which only permit use of the Charity SORP 2026 for periods beginning on or after 1 January 2026.

The revised SORP introduces a three-tier reporting structure to ensure that disclosure requirements are proportionate to a charity's size, while maintaining transparency and accountability. A charity's tier is determined solely by its gross annual income and is reassessed each year. Gross annual income is the total income recorded in the Statement of Financial Activities less any endowment received in the year plus any amount transferred to income funds from endowment funds.

With the introduction of the tier structure, charitable companies must comply with both the Charity SORP's tier requirements and the Companies Act size thresholds. As these two frameworks operate independently, a charitable company may face different reporting obligations under each.

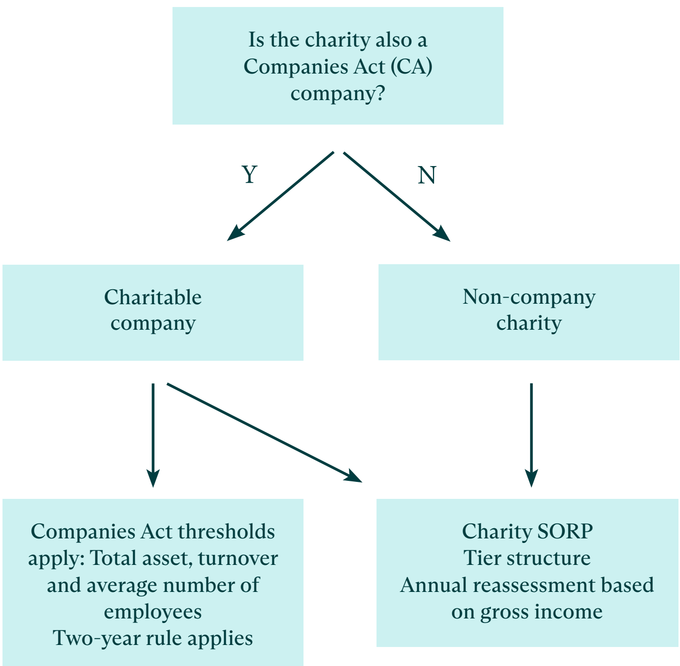
## Three income-based reporting tiers

Under the Charity SORP 2026, charities fall within one of three reporting tiers, and the higher the tier, the more extensive the reporting requirements are. The new tier structure:




Calculating gross annual income may not be straightforward, particularly where a charity has permanent endowment, receives legacies that increase its endowment, or applies a total return approach to its investments. Determining the income to be recognised also requires application of accounting policies and may involve judgement. This is particularly the case where there are complex income streams, such as legacies and performance-related grants, or where it is necessary to assess whether the charity is acting as principal or agent in an income arrangement.

For charitable companies, the new tier structure means they must determine both their Charity SORP tier and their Companies Act size classification, as each independently affects the presentation and disclosure requirements applicable to their accounts. It is also important to note that charity audit requirements are determined by applicable charity law and regulations in the relevant jurisdiction(s). These requirements do not align directly with the SORP tiers or Companies Act size thresholds and must be considered separately when assessing whether an audit is required.



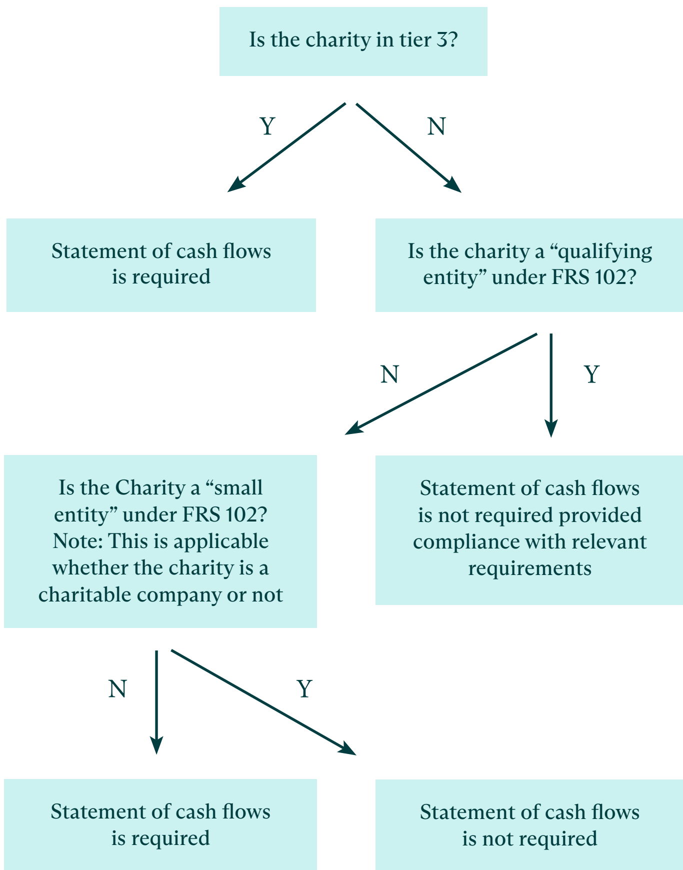

Each module within the Charity SORP specifies the tier requirements, although some modules apply to all tiers.

Charities within tier 1 are required to comply with the tier 1 reporting requirements, which covers the baseline requirements of the Charity SORP. Meanwhile charities falling within tier 2 must prepare their accounts on an activity basis and comply with both the tier 1 and tier 2 requirements. Lastly, charities within tier 3 must also prepare their accounts on an activity basis and comply with all tier 1, tier 2 and tier 3 reporting requirements.

Although the revised SORP introduces some additional disclosure requirements, it continues the previous SORP's approach to materiality. Charities are not required to provide disclosures that are not material to users of the financial statements, but may choose to include additional information beyond their tier requirements where this enhances the clarity of the accounts. This is consistent with the SORP's requirement to avoid providing unnecessary information for non-material items or transactions. Accordingly, charities need to apply judgement in determining both whether an item is material and the extent of disclosures to be included in their accounts.

## Statement of cash flows

The revised SORP changes when a statement of cash flows must be prepared, requiring it only for tier 3 charities. However, tier 1 and tier 2 charities must still prepare a cash flow statement where this is required by FRS 102—for example, where the charity does not qualify as a small entity under the companies act criteria (regardless of whether it is a charitable company). Charities must therefore assess both their SORP tier and small entity status independently. A decision tree is included below.



## Trustees' annual report (TAR) changes

The requirement for the Trustees' Annual Report (TAR) continues to require charities to present a fair and balanced account of their activities during the period. The revised SORP introduces significant updates to the TAR requirements, which apply either to all charities or specifically to those within particular reporting tiers. These changes are:

- Impact reporting

  The revised SORP requires that the TAR, within the achievements and performance section, explains the charity's main achievements, particularly how its activities have made a difference to its beneficiaries and whether its activities provided wider benefits to society.

  Tier 2 and tier 3 charities have additional reporting requirements, including explaining how effectively they carried out their activities, which achievements met the charity's aims and objectives, and the long-term effects of their activities on beneficiaries and on society.

  Charities that are not direct service providers, such as grant-making charities, may find it more difficult to demonstrate impact through traditional output or outcome measures. In such cases, trustees may wish to include more reflections on how projects were selected and how this links to the charity's wider public benefit obligations.

- Reserves transparency

  Although the core principles of reserves reporting are unchanged, the TAR, within the financial review section, must align with the financial statements by comparing reserves with the charity's reserves policy and (where relevant) explaining the steps being taken to bring reserves into line with that policy.

  The reserves review must also identify and explain any material designated or committed amounts at the year end and indicate the likely timing of the related expenditure. Where the reserves figure disclosed in the TAR is not consistent with the amounts presented in the accounts, a reserves reconciliation must be included (either in the funds note or as a separate note).

  For charities with no reserves or negative net assets, trustees must also explain clearly why the charity remains a going concern.

- Legacies

  Legacy income continues to be recognised only when the receipt is probable, and the amount can be reliably measured. The revised SORP, however, emphasises the need for greater transparency, particularly where recognition occurs significantly before cash is received.

  Tier 2 and tier 3 charities should explain in their financial review the impact of any material legacy income recognised in the accounts prior to the resources being received. All charities must also explain any material legacy income debtors in the notes to the accounts to help users understand the effect of timing differences on the resources available to the charity.

- Sustainability reporting

  The revised SORP places a more explicit focus on sustainability reporting, requiring tier 3 charities to include a dedicated section within the TAR summarising how the charity responds to and manages environmental, governance and social matters. Tier 1 and tier 2 charities are encouraged to provide disclosures where appropriate.

  Charities must understand that the sustainability reporting extends beyond environmental or climate-related matters but also covers governance issues such as privacy, cybersecurity, data security and business risk. It further encompasses social matters including employee engagement and wellbeing, board diversity and local community engagement.

  Note that these reporting requirements are separate from the Streamlined Energy & Carbon Reporting (SECR) requirements which applies to large charitable companies and must be complied with as well.

## Income recognition

The underlying distinction between exchange and non-exchange transactions has not changed. The accounting treatment for non-exchange income transactions also remains broadly the same, and the latest amendments largely affect exchange income transactions. In particular, the new five step revenue model replaces the previous, more flexible guidance and now requires a more structured assessment of income from exchange based activities.

The FRS 102 five-step revenue recognition model aligns to the principles of IFRS 15 but has been simplified for UK GAAP reporters. For exchange income transactions, the model requires charities to:

- Identify the contract with a third party (customer)
- Identify the performance obligations
- Determine the transaction price
- Allocate the price to performance obligations
- Recognise income when (or as) each performance obligation is satisfied

This structured approach may result in a significant change for charities delivering multi-component services, multi-year contracts, or activities with variable consideration.

Charities will need to pay special attention as well to income from membership subscriptions, which may fall either as exchange or non exchange transactions depending on the benefits received by members. As with other exchange transactions, membership subscriptions that provide substantive benefits to members are subject to the five step model under the revised SORP. This contrasts with membership subscriptions that primarily represent a contribution to the charity's aims and provide only insignificant benefits to members, which are donations in nature. The assessment may be more complicated for lifetime membership subscriptions as benefits are provided over an extended period or indefinitely, despite the payment being made upfront.

Our FRS 102 factsheet on revenue provides a more detailed explanation of the five-step model, including the transition choices, specific guidance for long-term contracts, contract costs and royalties. Special consideration should be given to these where applicable.

## Leases

The revised SORP introduces a new module covering lease accounting. This module explains the requirements of FRS 102 and includes a diagram to help users understand how the module applies in different circumstances, including when the module or FRS 102 may not apply.

The new lease accounting requirements introduce a shift to on balance sheet recognition. Under the new model, at the commencement date of the lease, the lessees must recognise a right of use asset and a corresponding lease liability, unless an exemption applies for short term or low value leases. This replaces the previous distinction between operating and finance leases. As a result, these new requirements will affect balance sheet size, expense profiles, and potentially reserves and covenant calculations.

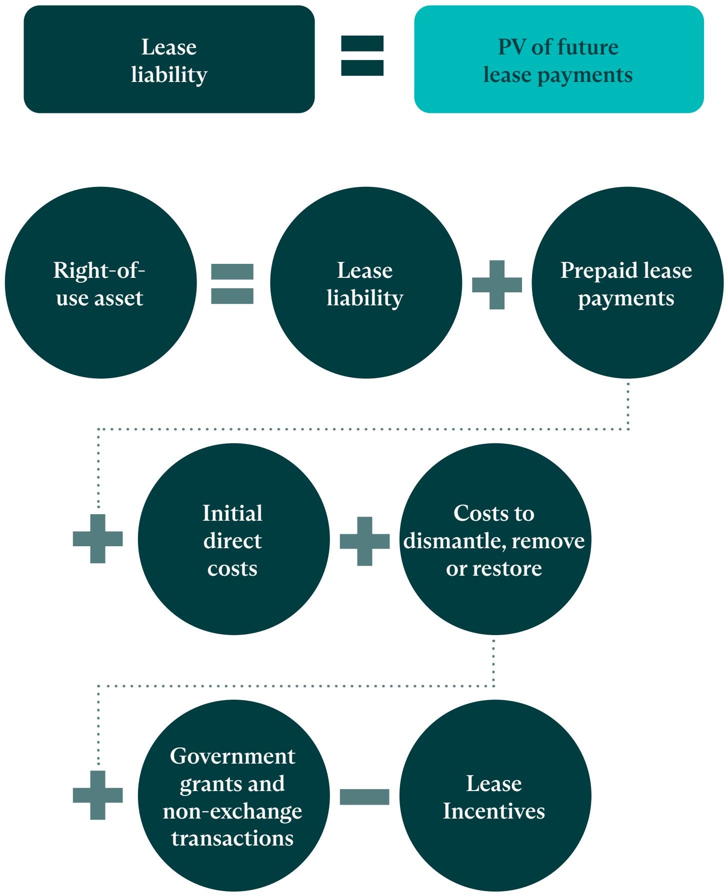
During the transition, comparative figures do not need to be restated because charities must adopt a modified retrospective transition approach. Under this approach, opening reserves are adjusted at the transition date without revisiting prior year figures.

Our FRS 102 factsheet on leases provides a more detailed explanation of the lease requirements and the transition.

Discount rates

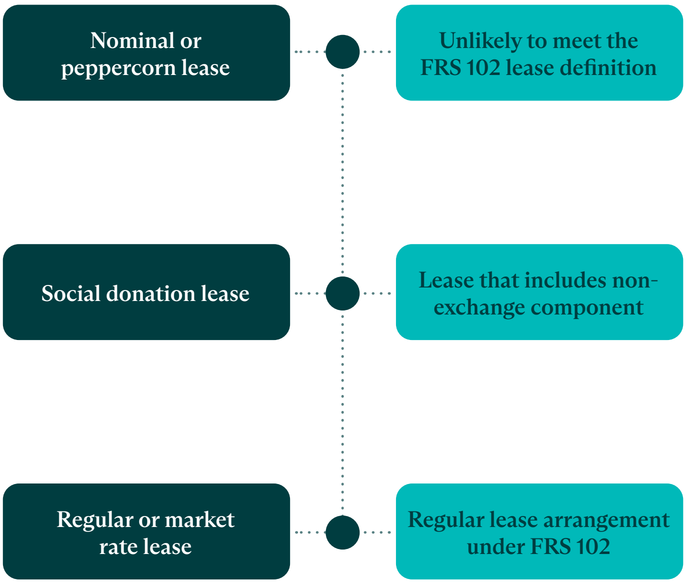
One of the most difficult areas for charities can be establishing a suitable discount rate to use on their leases. The SORP states that where a charity is unable to readily determine either the interest rate implicit in the lease, or the charity's incremental or obtainable borrowing rate, the charity is required to use the rate of interest that it could obtain on deposits held with financial institutions. The SORP further added that this might be the option most suitable for charities that never or seldom borrow money.

### Lease liability and Right-of-use assets formula:



## Special considerations related to charity leases

### Nominal/ peppercorn, social donation lease and regular lease arrangements




- Nominal or peppercorn leases

  Charities often enter into peppercorn or nominal rent arrangements. The revised SORP notes that, while these arrangements may be leases in legal form, they are unlikely to meet the definition of a lease under FRS 102. Judgement is therefore required, and the accounting treatment should reflect the substance of the arrangement. When doing so, the charity will need to assess the benefit received and apply the relevant SORP requirements, particularly those relating to donated goods, facilities and services, and heritage assets.

- Social donation leases

  Social donation leases are arrangements in which the lessor deliberately accepts a below market rent for philanthropic purposes, allowing the lessee to benefit from reduced lease costs. A charity may act as either as a lessor or a lessee in a social donation lease. The discussion below is when a charity is a lessee in a social donation lease arrangement.

  As social donation leases include a non-exchange component, the charity must assess the nature of the incoming resources (ie whether they are, in substance, a donation of an asset, a service or a facility), as this will determine the appropriate measurement basis. Management judgement may be required when making this assessment.

  The non-exchange component of a social donation lease is recognised as part of the cost of the right-of-use asset (as shown in the ROU asset formula above) when the related resources are received or receivable. The related non-exchange income is recognised at the same time provided that there is no related performance conditions attached to it.

- Disclosure requirements for social donation, nominal or peppercorn leases

  Where a charity has social donation lease or nominal/ peppercorn arrangements, it must provide a general description of the lease term and disclose the remaining term, if the lease is not perpetual, any restrictions or conditions on the use of the right of use asset, and the existence of any reversion clauses.

  Where a social donation lease includes a non exchange component, the charity must include the mandatory disclosures for donated goods, facilities, or services, including any related accounting judgements used.

## Other changes

- Social investments

  The revised SORP simplifies the accounting framework for social investments by removing the distinction between programme related investments and mixed motive investments. All such arrangements are now accounted for under a single social investment category. This change is intended to reduce complexity and inconsistency in practice and to better reflect how charities use investments to further their charitable purposes while also seeking some financial return.

  For charities that previously classified investments as mixed motive investments, the removal of this category has a direct accounting impact and the prior year comparative figures must be restated to reflect the new classification.

- Provision and contingencies

  The revised SORP introduces a separate module for provisions and contingencies, including funding commitments. While the related underlying accounting principles remain unchanged, the revised guidance is clearer particularly in relation to funding commitments ie when to recognise it as liability (provision) or when it should only be disclosed as contingent liability.

The revised SORP also clarifies the requirements on designated funds. Designations do not, in themselves, determine whether a provision should be recognised. A charity may designate funds for a future cost, but this does not give rise to a provision; it simply reflects internal decisions made by trustees. Where unrestricted funds have been designated to fund a commitment, charities must disclose the nature of the designation and, unless already explained in the Trustees' Annual Report, the expected timing of any related payments.

- Related parties and staff disclosures

The revised SORP reinforces expectations around transparency in related party and staff disclosures. Charities must disclose related party transactions, including those involving trustees, key management personnel and connected persons, in line with FRS 102 and SORP requirements. While the underlying principles are familiar, the revised SORP clarifies certain disclosure points that charities should explicitly address in the notes to the accounts including an explicit statement where no related-party transactions have occurred during the reporting period if that is the case.

The revised SORP also clarifies the need to clearly distinguish ex-gratia payments from termination payments in staff-related disclosures. Termination payments arise from contractual or legal obligations and are accounted for accordingly. Meanwhile, ex-gratia payments are payments made at the discretion of trustees and not a result of a contract or other legal obligation. Ex- Gratia payments may require additional scrutiny, including appropriate trustee approval and, where applicable, regulator consent. More guidance on this can be found on Charity Commission ex-gratia payment guidance (CC7).

- Heritage assets

The revised SORP provides clearer guidance on the recognition and measurement of heritage assets, aligning more closely with the FRS 102 requirements, particularly where such assets have been donated to the charity. While the underlying principles are consistent with previous SORPs, the revised guidance strengthens expectations around fair-value measurement and clarifies the circumstances in which non-recognition is permitted.

For any queries relating to this factsheet, please speak to your usual Saffery contact or get in touch with:

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## Step-by-step transition plan to Charity SORP 2026

Our FRS 102 factsheets on revenue and leases provide more detailed action items relating to these significant areas of change. Please refer to those as well.

| Step | Action Item | Considerations | Done (✓) |
|---|---|---|---|
| 1 | Identify first reporting period affected. | First period beginning on or after 1 Jan 2026 unless early adopted. | ☐ |
| 2 | Determine the charity's SORP tier (tier 1, tier 2 or tier 3). Document related calculations. | Document any judgements involved when determining the gross income. | ☐ |
| 3 | Determine mandatory reporting requirements for the Trustees' Annual Report (TAR) based on the charity's tier and, where applicable, the Companies Act, including any relevant changes:<br>• Impact reporting<br>• Reserves disclosures<br>• Legacy debtors | | ☐ |
| 4 | For lower tier charities, evaluate whether to adopt any optional reporting requirements such as:<br>• Sustainability reporting<br>• Detailed impact reporting<br>• Legacy income | | ☐ |
| 5 | Document transition elections and potential simplifications (practical expedients) covering:<br>• Revenue recognition on exchange transactions<br>• Leases including short-term and low-value asset lease exemptions | Document policy choices and practical expedients used clearly.<br>This is discussed in more detail in our FRS 102 Disclosure factsheet. | ☐ |
| 6 | Map all income streams between exchange and non-exchange. | Document rationale on any judgement made particularly those related to membership subscriptions. | ☐ |
| 7 | If there are any nominal or peppercorn leases, assess the appropriate accounting treatment for them. | Document the assessment made. | ☐ |
| 8 | For social donation leases where the charity is the lessee, assess the nature of the incoming resources/ non-exchange component. | Document the assessment made. | ☐ |
| 9 | Document the basis for the discount rates use on leases. | Availability of incremental borrowing rate or obtainable borrowing rate as discount rate. | ☐ |
| 10 | Confirm cash flow statement requirements. | Consider the requirements of the Charity SORP and FRS 102. | ☐ |
| 11 | Reclassify all previous Mixed Motive Investments as Social Investments and restate comparatives. | | ☐ |
| 12 | Update systems, processes and related internal controls to address the new reporting requirements. | | ☐ |
| 13 | Prepare updated and expanded accounting policies that reflect the accounting changes, elections and judgements made. | | ☐ |
| 14 | Prepare transition disclosures. | Explain changes, impacts, restatements and choices taken. | ☐ |
| 15 | Prepare new and/or expanded accounts disclosures covering:<br>• Going concern<br>• Leases<br>• Revenue on exchange transactions<br>• Related party transactions<br>• Provisions and contingencies, including funding commitments<br>• Social investments | | ☐ |
| 16 | Train staff and communicate with governance and other stakeholders ahead of year end. | | ☐ |