



PREPARING FOR THE NEW CHARITIES SORP

Key Changes & Practical Implications



OUR SPEAKERS

Burgess Hodgson are a team of experienced and knowledgeable professionals dedicated to providing exceptional service and expert guidance to our clients.



MATT JONES
Partner

Matt is the Burgess Hodgson expert in the preparation of financial accounts and the audits of charitable organisations and charitable companies. As well as compliance Matt also assists with producing regular, swift and focussed management information.

In his spare time, he runs a local Community Amateur Sports Club.

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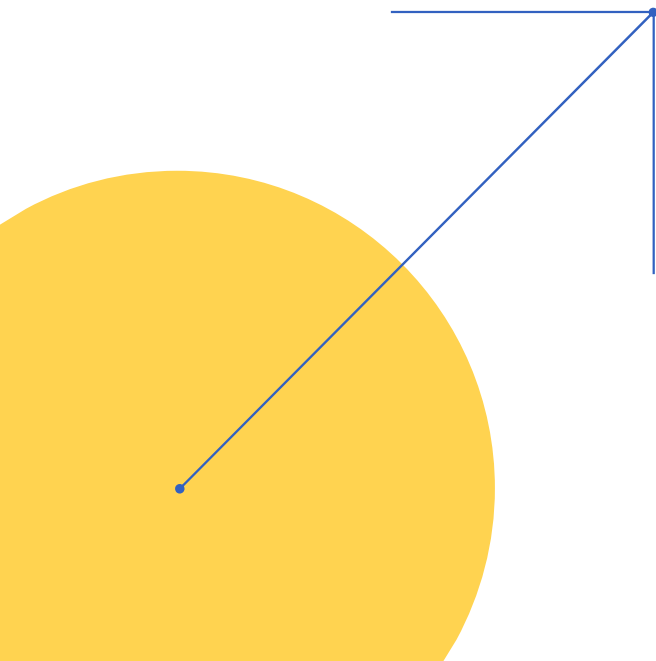


CONNOR HARNEY
Senior Manager

Connor has gained extensive experience in financial management, working across a wide range of finance functions for clients ranging from small to medium-sized owner-managed businesses. Connor currently manages client engagements for his team, including audit and advisory work for multiple charities.

Connor has also achieved the Diploma in Charity Accounting (DChA) awarded by ICAEW.

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THE **NEW** CHARITIES SORP 2026

SORP Changes driven by need to:

- Maintain consistency with FRS 102
- Desire for improvement by users of Charity annual reports and accounts
- Shift to a more proportionate accounting regime

Developed from public consultation process

Aim of webinar:

We will focus on the significant changes to the reporting and provide a brief overview of the changes and some consideration points Trustees and charity professionals should be thinking about now to ensure readiness for the changes.

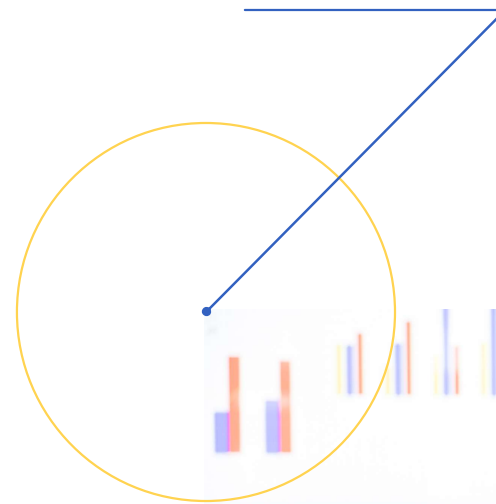
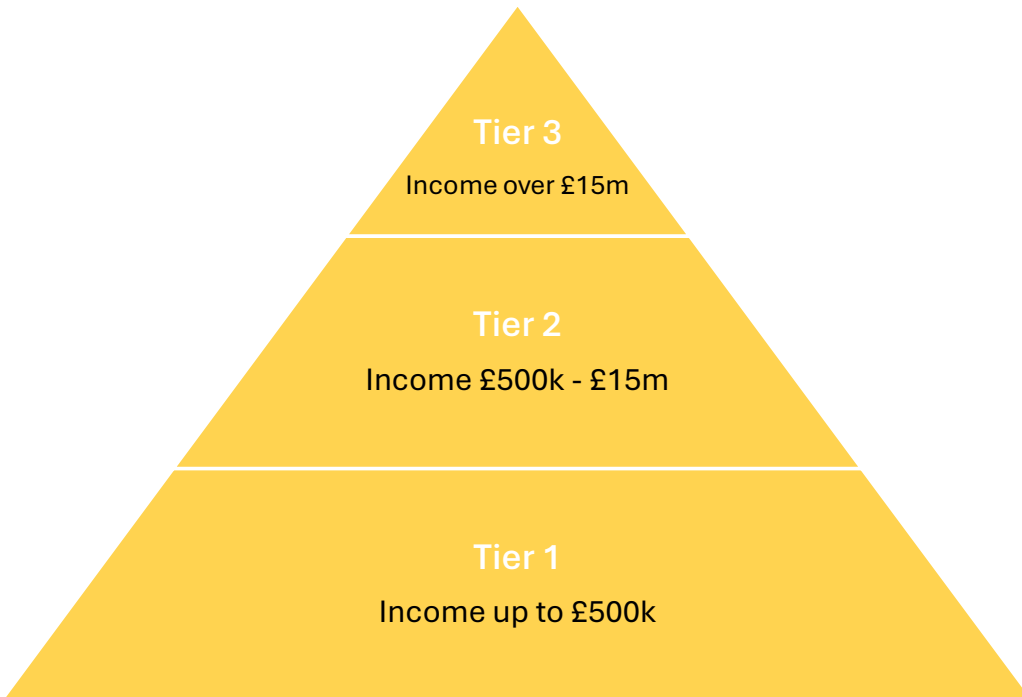




THE **THREE TIER** REPORTING SYSTEM

Charities SORP 2026 will apply to reporting periods starting on or after **1 January 2026**.

Under the new SORP there will be a three-tier reporting system determined by income:

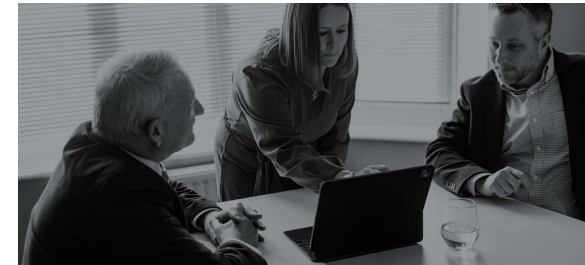
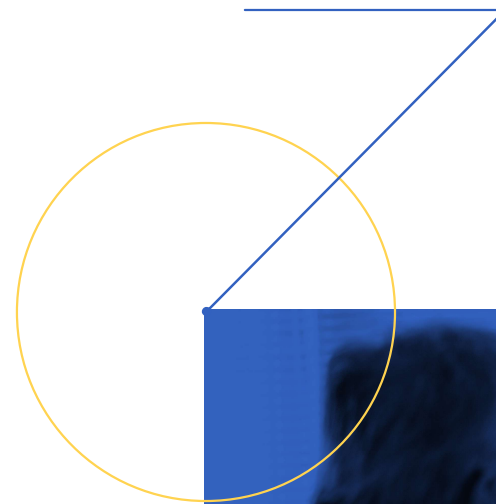




MODULES EFFECTED

Most modules in the SORP have the same reporting standards. There are tiered requirements for:

- Module 1** Trustees' Annual Report
- Module 4** Statement of Financial Activities (natural classification or activity basis)
- Module 8** Allocating costs by activity in the statement of financial activities
- Module 9** Disclosure of trustee and staff remuneration, related party and other transactions
- Module 14** Statement of cash flows





CHANGES TO ACCOUNTS & EXAMINATION REQUIREMENTS

Changes expected to come into effect for accounting years ending on or after 30 September 2026 (years commencing 1 October 2025)

- Independent examination – Income over £40k
- Preparation of receipts and payments accounts - Income under £500k
- Independent examination by a certified professional – Income over £500k
- Audit – Income over £1.5m OR Income over £500k and assets over £5m





SUMMARY

YEAR END ON OR AFTER 31/12/2026

INCOME	ACCOUNTS	SCRUTINY	SORP REPORTING
Under £25k	Not filed at Charity Commission	None	Tier 1
£25k - £40k	Filed at Charity Commission, accruals or I&E	None	Tier 1
Under £500k	Filed at Charity Commission, accruals or I&E	Independent Exam	Tier 1
£500k - £1.5m	Filed at Charity Commission, accruals basis	Independent Exam by a Certified Accountant	Tier 2
£500k - £1.5m Gross Assets Over £5m	Filed at Charity Commission, accruals basis	Audit	Tier 2
£1.5m - £15m	Filed at Charity Commission, accruals basis	Audit	Tier 2
£15m +	Filed at Charity Commission, accruals basis	Audit	Tier 3

NB: Charitable companies will also need consideration of thresholds under company law for I&E accounts or audit



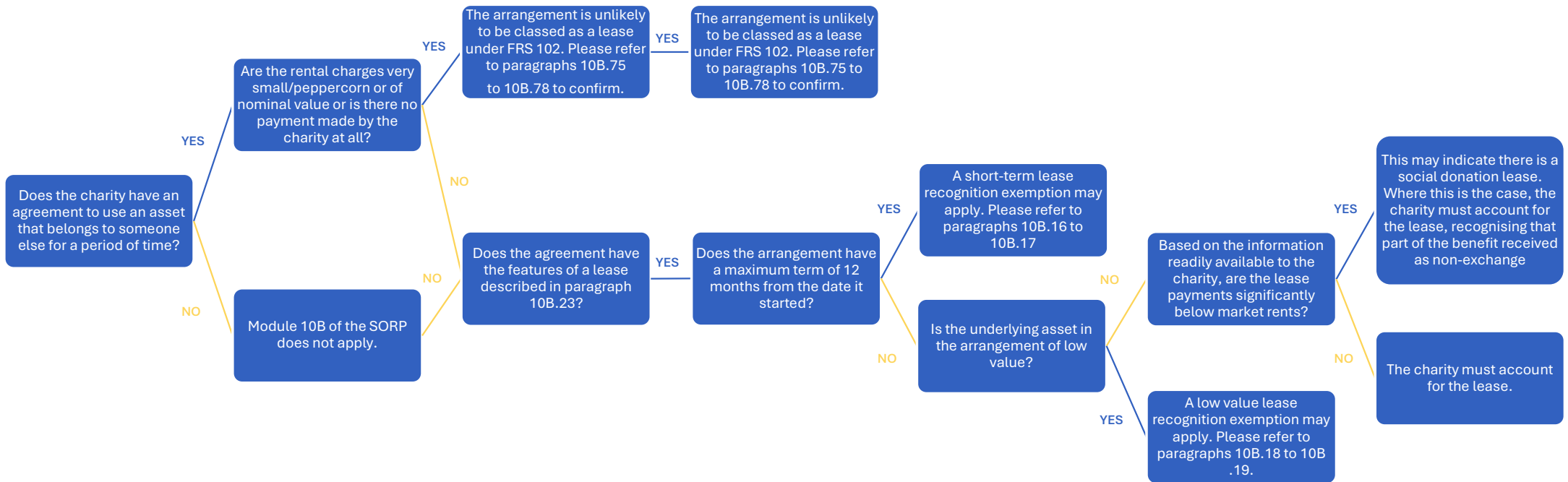
CHANGES TO LEASES

- Periods beginning on or after 1 January 2026
- Most operating leases will now be presented in financial statements as Right of Use (ROU) assets
- Recognise asset and liability in the balance sheet
- Depreciate and charge interest over term of lease
- Affects leases which are longer than 12 months
 - e.g. three-year car lease or five-year office lease
- Exemptions
 - Short-term leases
 - Leases ending within 12 months of transition date
 - Low-value items
- SORP provides clarity on how to decide whether something is a lease
- Peppercorn rent and social leases considered





SORP LEASES FLOWCHART





RIGHT-OF-USE ASSET - RECOGNITION





RIGHT-OF-USE ASSET WITH SOCIAL DONATION EXAMPLE

Charity enters into an agreement to use one floor of a five-storey office for three years

Market rent per floor	£120,000 pa
Lessor offers 50% discount to Charity as part of its corporate social responsibility	£60,000 pa
Rent cost for equivalent space	£72,000 pa
Non-exchange component	£12,000 pa

- The payments of £60K meets the definition of a lease
- £12K non-exchange component recognised as income
- Assuming no performance-related conditions exist in the arrangement, the charity will recognise the income when it is received or receivable. This will usually be at the commencement of the lease but may be over the term of the lease depending on the terms of the arrangement.



RIGHT-OF-USE ASSET WITH PEPPERCORN RENT EXAMPLE

Charity enters into an agreement to use one floor of a five-storey office for three years

Market rent per floor	£120,000 pa
Lessor offers nominal consideration for use of the office	£10 pa
Rent cost for equivalent space	£72,000 pa
Non-exchange component	£71,990 pa

- As payments are very small, it does not meet the definition of a lease
- £71,990 recognised as donation



TRANSITIONAL PROVISIONS - LEASES

Apply Retrospectively

- ROU asset = PV of remaining lease payments at transition date
- Lease liability = PV of remaining lease payments
- Any difference affects opening reserves
- Comparative information not restated





TRANSITIONAL PROVISIONS - EXAMPLE

Scenario:

- Charity has a lease with 3 years remaining.
- Annual lease payments: £10,000
- Discount rate: 5%

Modified / Simplified Approach

ROU Asset	£27,233
Lease Liability	£27,233
Impact on Reserves	No Adjustment
No prior year reinstatement	
Depreciations & interest from transition date	

Present Value Calculation

- $(£10,000 / 1.05) + (£10,000 / 1.05^2) + (£10,000 / 1.05^3) = \mathbf{£27,233}$

Journal Entry at Transition

- Dr Right-of-Use Asset = £27,233
- Cr Lease Liability = £27,233



WHAT SHOULD YOU DO NOW? - LEASES

- Prepare a complete lease register
- Identify leases eligible for exemptions (short-term / low-value)
- Calculate present value of lease commitments
- Assess impact on:
 - Balance sheet (ROU assets & liabilities)
 - Surplus/deficit (interest + depreciation)
 - Reserves
 - Audit/Company Size impact
- Brief trustees on reserves and balance sheet impact
- Engage accountants/auditors early and draft required disclosures





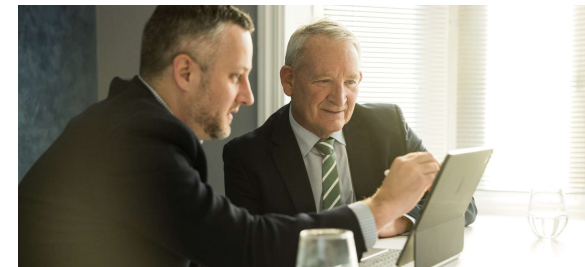
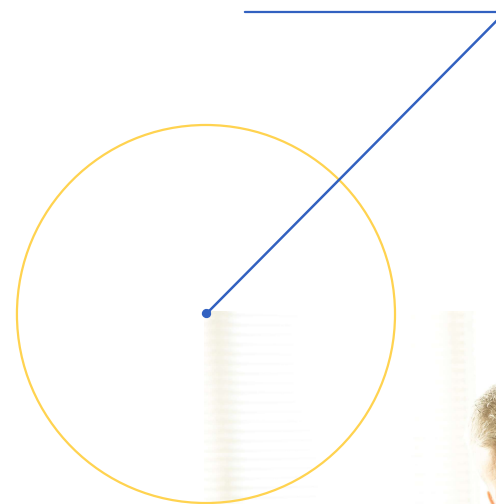
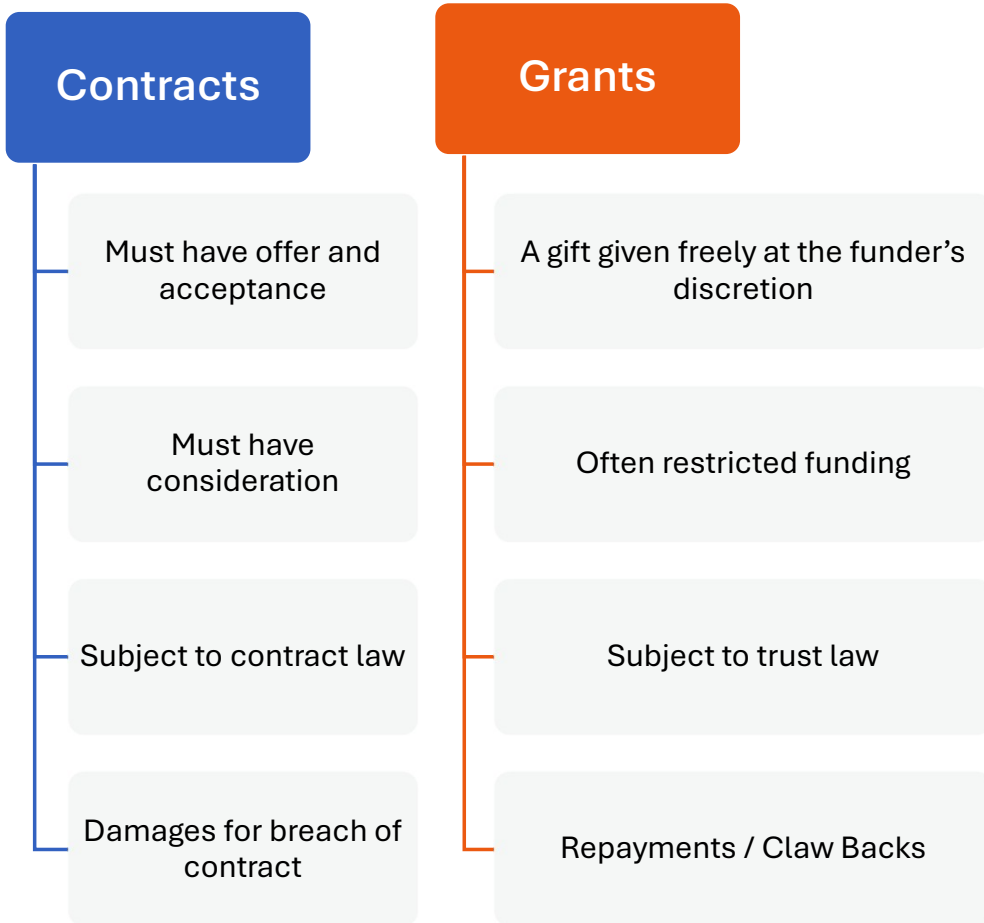
CHANGES TO INCOME RECOGNITION

- Income from contracts recognised as services are delivered
- Exchange vs non-exchange transactions
- Five step revenue recognition model
- Increased use of contract liabilities





CONTRACT V GRANT





EXCHANGE TRANSACTIONS V NON-EXCHANGE TRANSACTIONS

Exchange Transactions

Income from goods or services supplied under contract with third parties

The considerations reflect the amount the charity expects to be entitled to

Examples:

1. Contracts and longer-term contracts
2. Membership subscriptions where right to services
3. Royalties / licenses
4. Participation fees for fundraising events
5. Corporate sponsorship

Non-Exchange Transactions

Receives value from a donor or grantor and given freely without equal value in exchange

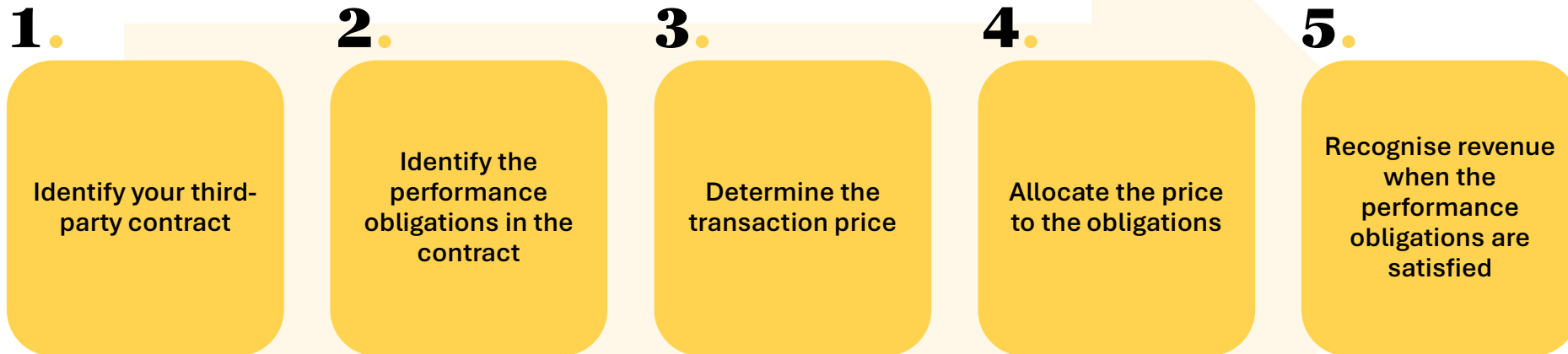
May have performance related conditions or other terms limiting recognition

Examples:

1. Donations of money, goods, facilities or services
2. Legacies
3. Grants including government and capital grants
4. Investment income



5 STEP INCOME RECOGNITION MODEL





EXAMPLE 1 INCOME FROM CONTRACTS RECOGNISED AS SERVICES ARE DELIVERED

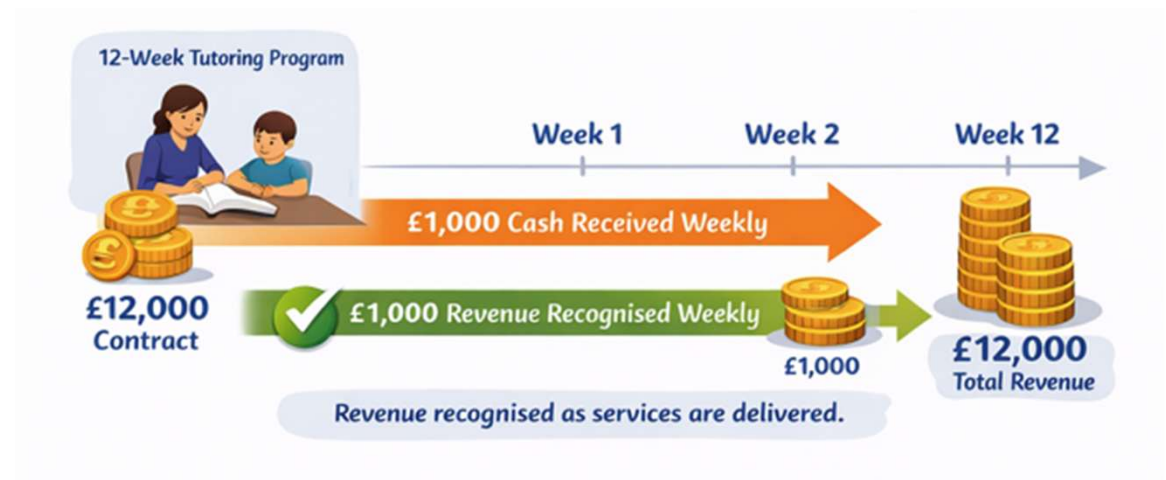
Scenario:

A charity, signs a contract with a local council to run weekly after-school tutoring sessions for 12 weeks, receiving £12,000.

Old approach: They might have recognised the full £12,000 at the start of the contract.

New SORP approach: Income is recognised as services are delivered. Each week, as one-twelfthth of the sessions is completed, they recognise £1,000 ($£12,000 \div 12$ weeks).

Benefit: Reflects the timing of actual performance and avoids overstating income upfront.





EXAMPLE 2 EXCHANGE VS NON-EXCHANGE TRANSACTIONS

Exchange transaction: Charity sells tickets for a charity gala dinner for £50 each. Income is recognised when the dinner occurs because the charity is providing the promised service in return for payment.

Non-exchange transaction: The same charity receives a £5,000 grant from a foundation with no direct service required. Income is recognised when eligibility criteria are met (e.g., when the charity has the right to the funds and any conditions are fulfilled).

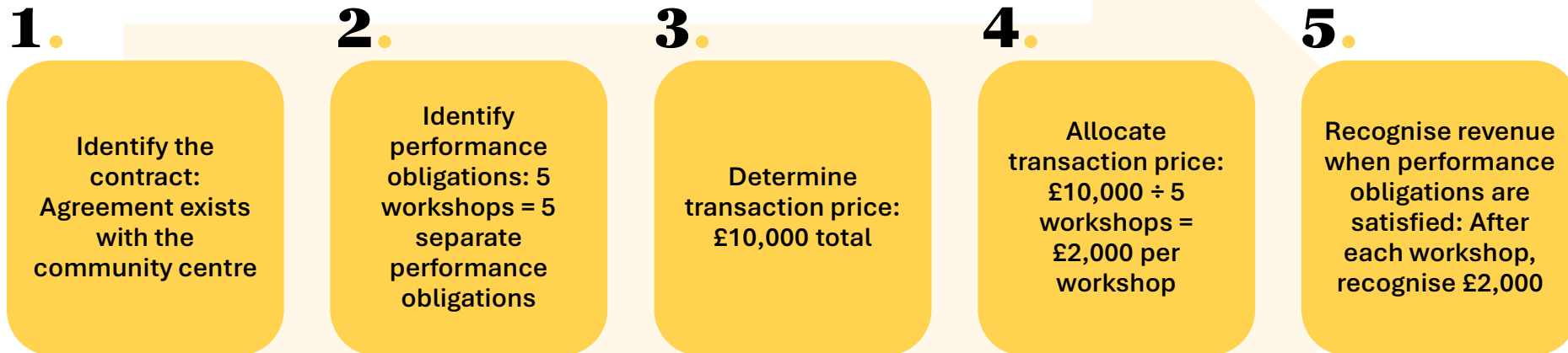
Key takeaway: Exchange = something is provided in return; non-exchange = no direct return service.





EXAMPLE 3 FIVE STEP REVENUE RECOGNITION MODEL

Scenario: Charity signs a £10,000 contract with a community centre to provide 5 community workshops





EXAMPLE 4 INCREASED USE OF CONTRACT LIABILITIES

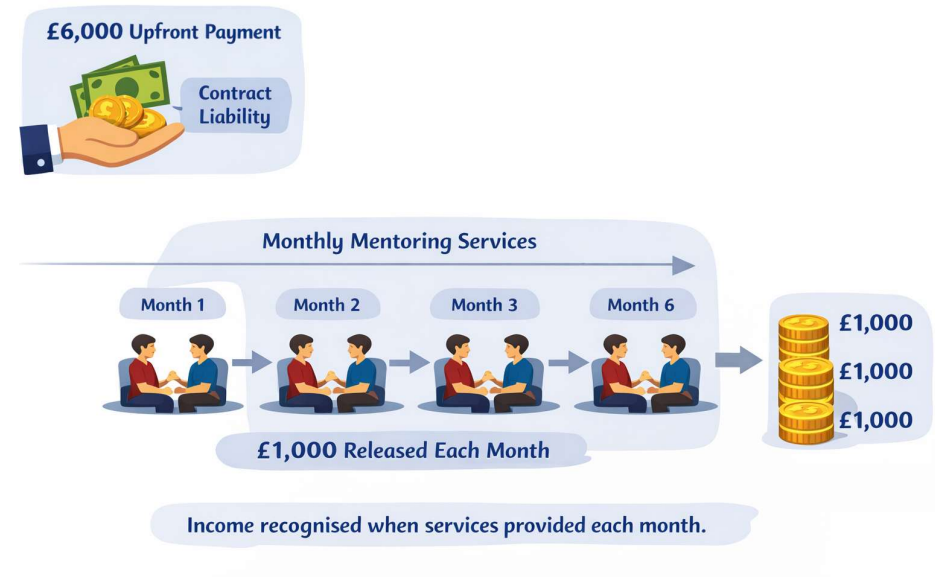
Scenario:

A donor pays £6,000 upfront for 6 months of monthly mentoring services for young people.

Treatment:

- At receipt: Record £6,000 as a contract liability (deferred income).
- Each month: Deliver the service → release £1,000 from contract liability into income.

Key point: Contract liabilities highlight income received in advance that hasn't been earned yet, improving transparency.





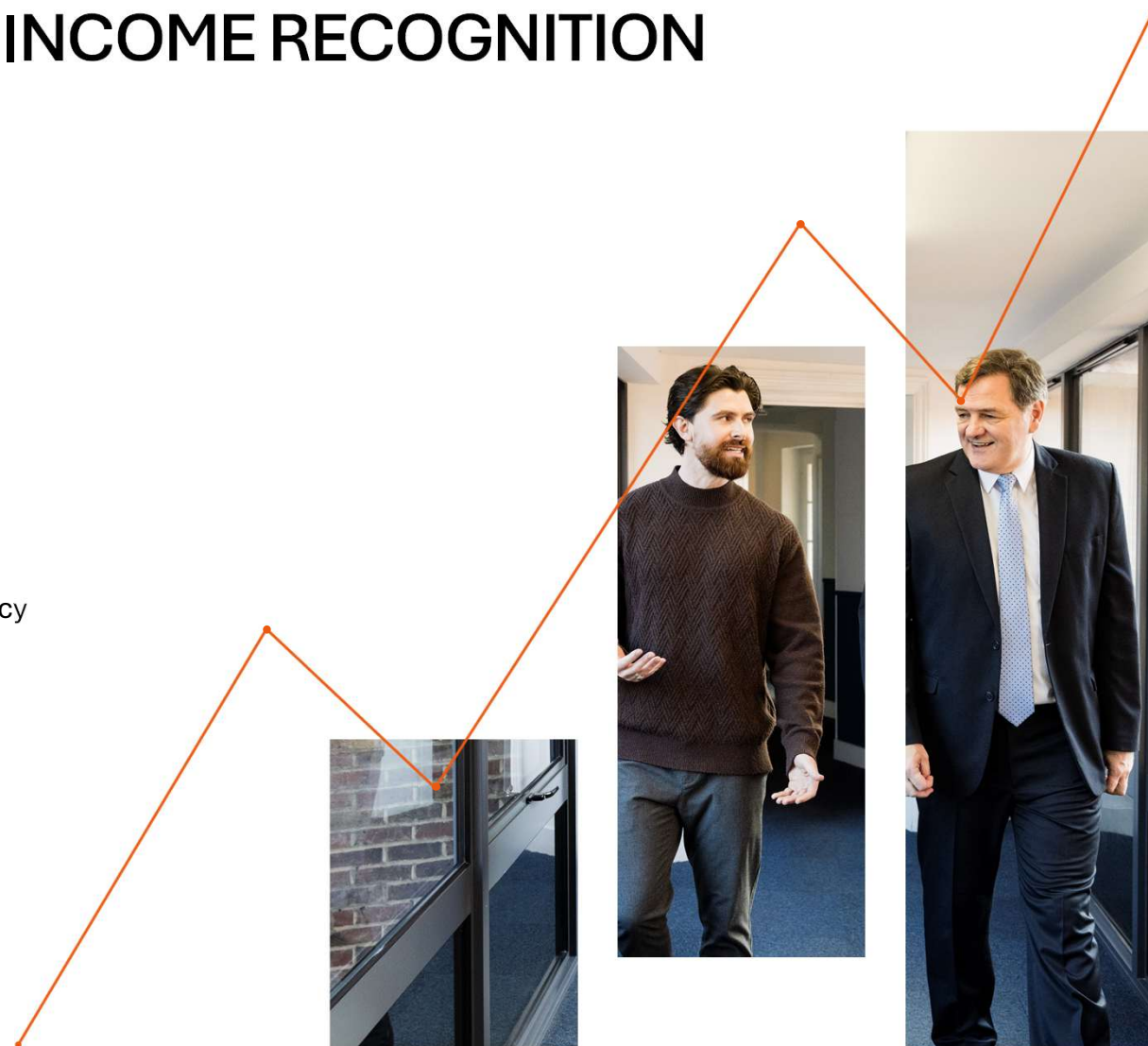
TRANSITIONAL PROVISIONS – INCOME RECOGNITION

Modified approach

- Apply cumulative effect of applying amendments to opening reserves
- Comparative figures are not restated
- Relevant only to contracts not complete at date of implementation

Full retrospective approach

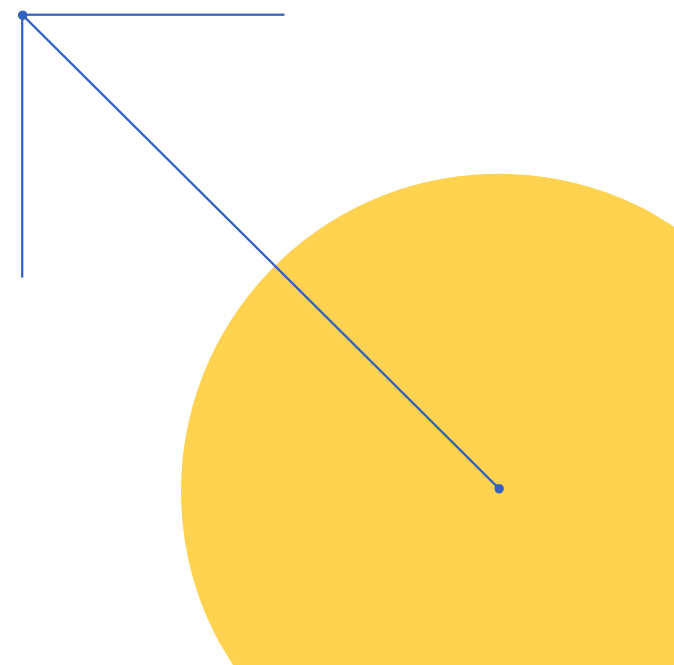
- Comparative information is recalculated on the basis that policy had always been applied





WHAT SHOULD YOU DO NOW? – INCOME RECOGNITION

- Evaluate what you currently have – different types of contracts, grants and leases - what are the terms and conditions?
- Set up a database to record all of the information in one place
- Do you have all of the documentation you need to carry out the assessments?
- For exchange transactions, work through the 5 step model and document your assessment
- Compare to current accounting treatment – any significant differences?
- Discuss with accountant/auditor
- Discuss with trustees and management





OTHER ACCOUNTING TREATMENT CHANGES – HERITAGE ASSETS

Definition:

- Assets of historical, artistic, scientific, or cultural significance

Examples:

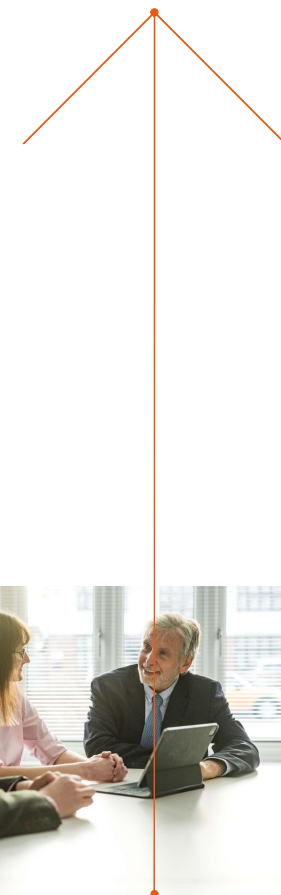
- Paintings, historic buildings, archaeological collections

Recognition & Measurement:

- Heritage assets that have been acquired through a donation or another form of non-exchange transaction **must** now be measured at FV

Discloser Requirements:

- **Must** now include a reconciliation between opening and closing values





CASH FLOWS

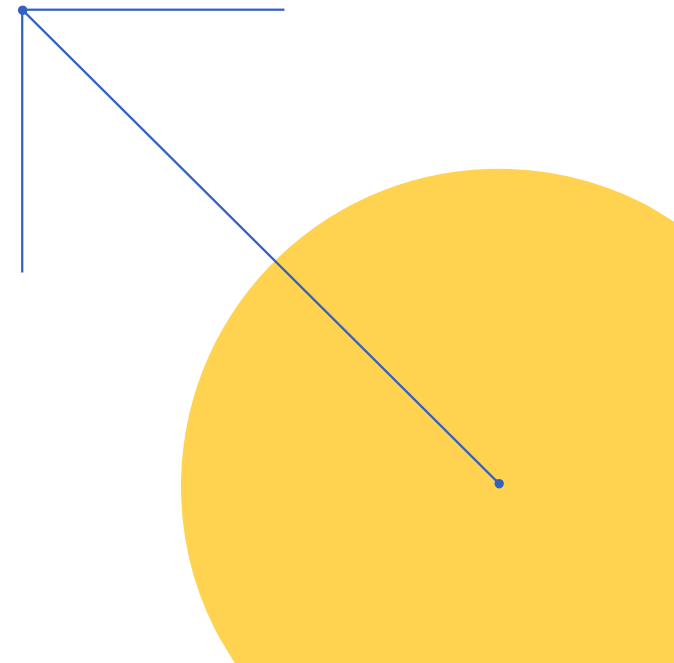
Tier	Requirement
Tier 3	Must include cash flow statement
Tier 1 & 2	Optional if a small entity (see below)

Small Entity Criteria (Companies Act / audit exemption)

- Gross assets < £7.5 million
- Employees < 50

Companies Act override:

Even if Tier 1 or 2, a cash flow statement may still be required





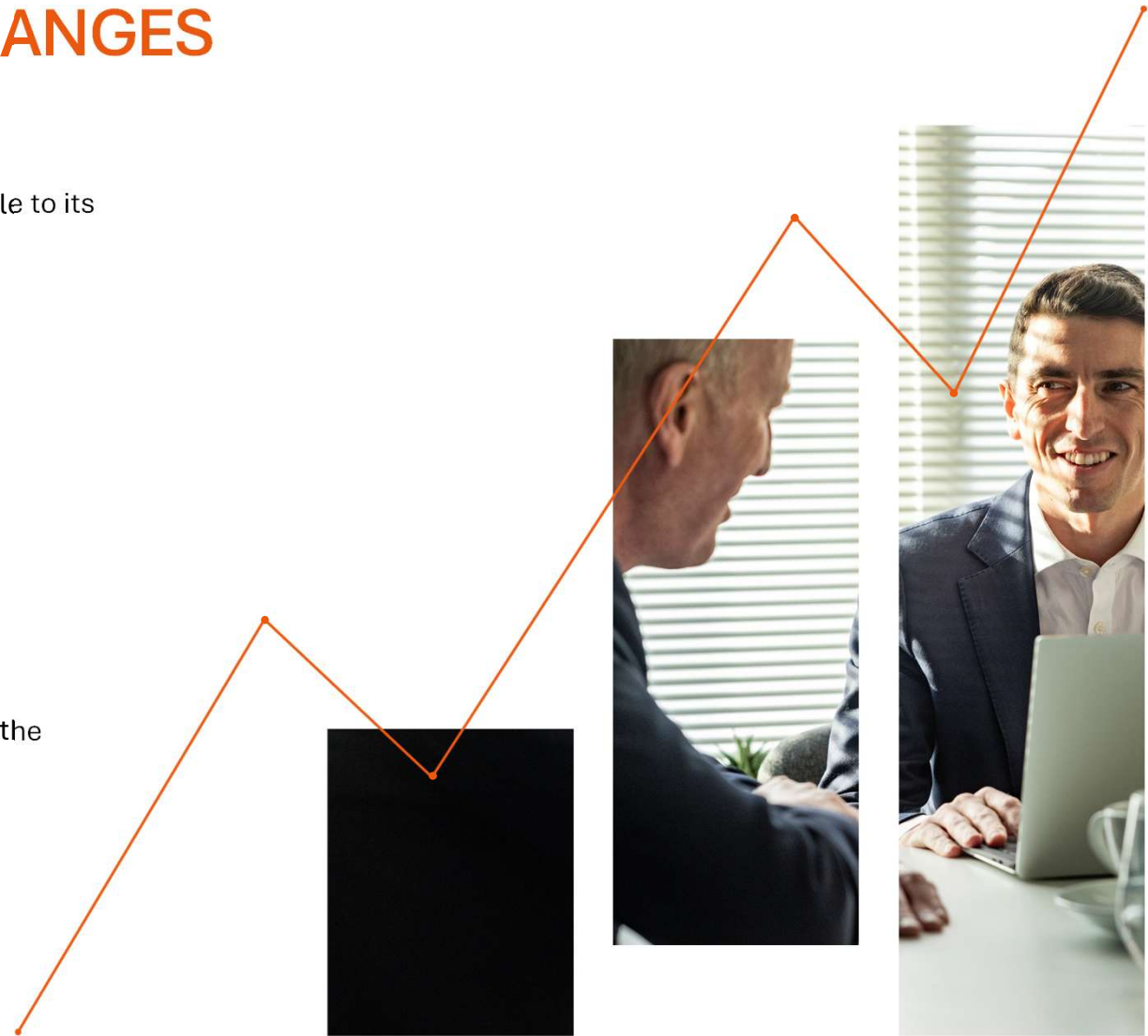
THE TRUSTEE REPORT **KEY CHANGES**

Primary purpose: to ensure that the charity is publicly accountable to its stakeholders for the stewardship of the funds it holds

Who are the key stakeholders?

- Funders, donors and financial supporters
- Service users
- Employees and volunteers
- Members
- Local communities

A good report should clarify the outputs, outcomes and impact of the charity and link these to the figures reported.





OBJECTIVES AND ACTIVITIES

Volunteers

All Tiers – Must explain the scale and nature of activities undertaken by volunteers

Tiers 2 & 3 – Should detail number of volunteers and may provide number of volunteer hours

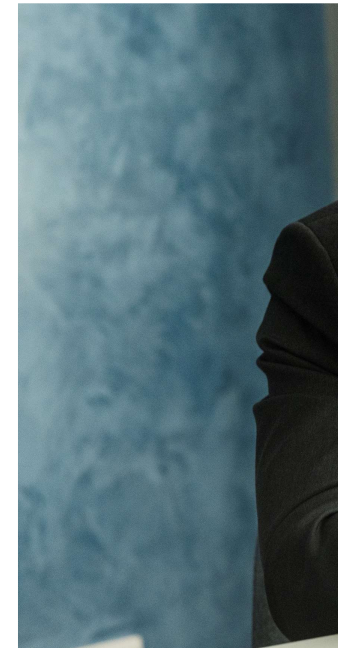
Action – Ensure systems in place to capture volunteering data

Activities

All Tiers – Must explain the outputs of the charity

Tiers 2 & 3 – Must provide more detail of the short and long term aims and objectives

Action – Prepare or review mid to long term plans and consider how these will be measured against





ACHIEVEMENTS AND PERFORMANCE

Impact reporting

Definition – the difference a charity’s work has made to the circumstances of its beneficiaries and, if practicable, any wider benefits to society as a whole.

Prompts are included in the SORP as a guideline

Plans for future periods

All Tiers – Must provide a summary of the charity’s plans for the future. May link to reserves and going concern.

Action – Consider and set the targets and plans for the charity. Make these specific and measurable. In future years impact reporting will be driven by the goals set now





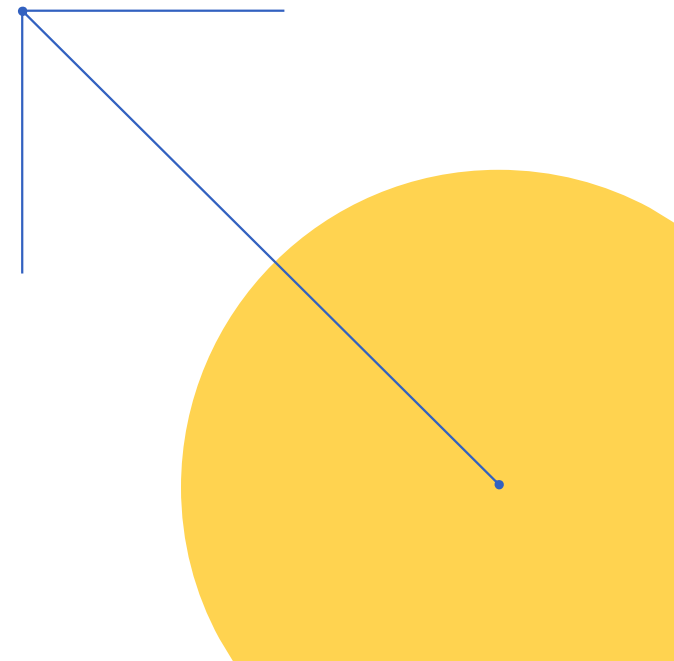
FINANCIAL REVIEW

Reserves

Definition – The part of a charity’s funds that is freely available to spend on any of the charity’s purposes

Reserves	
Unrestricted funds	£X
LESS: Items not readily available for spending E.g. Fixed Assets, Investments, committed spending	(£X)
ADD: Items available for spending E.g. expendable endowment is readily available for spending	£X
Total reserves	£X

Action – Consider any changes to the calculation of reserves reference to the definitions ahead of the first reporting date. This may have an impact on management decisions prior to yearend to fall in line with the reserves policy





FINANCIAL REVIEW

Risks and uncertainties

Tiers 2 & 3 – Additional risks and uncertainties should now be discussed, including:

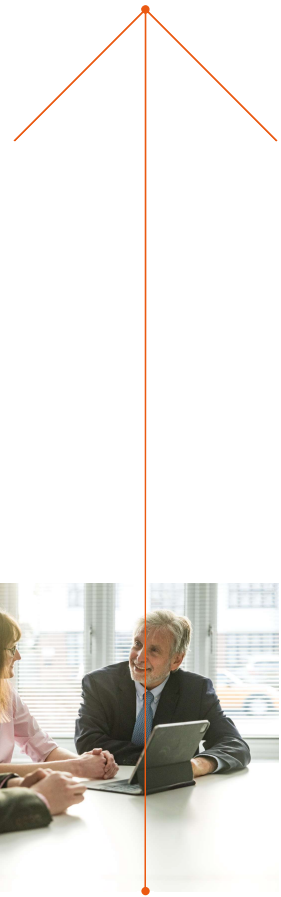
Environmental issues

How is the charity addressing environmental issues, any policies for waste reduction, energy efficiency, sustainable purchasing

Cyber risk and uncertainties

How is the charity addressing cyber crime targeting financial gain or disruption

Action – Ensure training and awareness for Trustees and key staff.
Draft relevant policies





OTHER POINTS

Sustainability

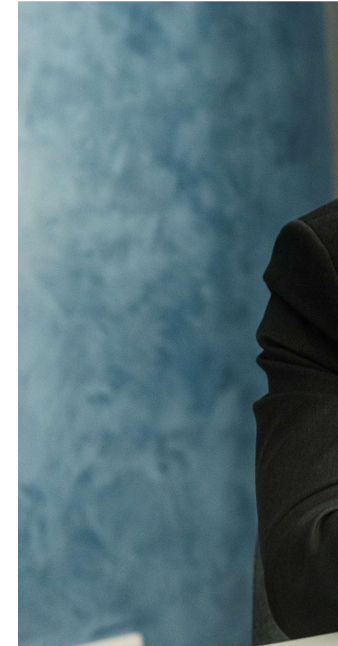
All Tiers – May explain response to environmental, governance and social matters.

Tier 3 only – More detailed review of considerations. Allow plenty of time to draft

Going concern

All Tiers – Must have an accounting policy, even where this is to confirm there are no material uncertainties about the charity's ability to continue

Where no reserves and/or negative net assets, an explanation as to why the charity is still operating as a going concern must be included



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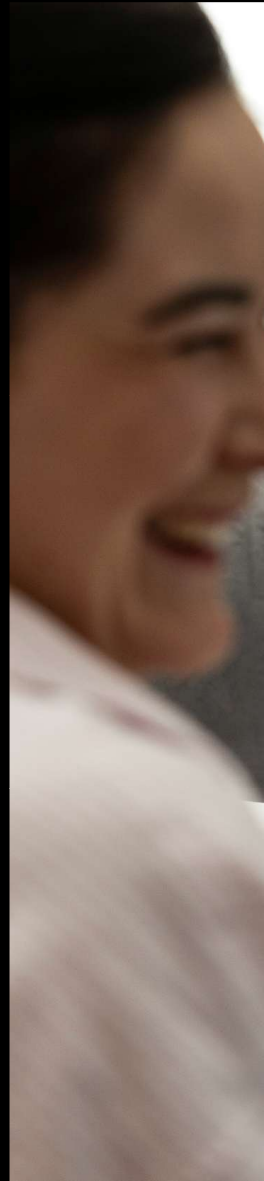
Thank you



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BURGESS HODGSON: SOME OF THE SERVICES WE OFFER

PREPARATION OF ANNUAL STATUTORY ACCOUNTS

Preparation of the Statutory Accounts in a format compliant with UK Accounting Standards and Companies House / Charity Commission requirements, to ensure the entity and Directors/Trustees remain compliant.

COMPLETION OF UK GAAP AUDIT

Our approach to audit is designed to add value, and produce positive benefits from our procedures, rather than simply provide statutory reports. Our procedures include an annual review of systems and controls in the business, and adherence to company policy. At the end of the audit, we will produce a bespoke and comprehensive management report to highlight areas of business risk and methods of mitigating them, as well as any matters that we feel should be brought to your attention.

BOOKKEEPING SUPPORT AND TRAINING

Provisional support and training as and when required which can be provided by one of our Xero Certified management accounts team members. We can also provide telephone support should this be needed. We can also assist with management reports and excel templates.

PAYROLL SERVICES SUMMARY

A dedicated team to produce your ePayslips on a regular basis, report to HM Revenue & Customs and ensure you are fully compliant with the RTI reporting requirements. We can also include the handling of your auto enrolment pension including communications, contribution uploads and general management.

OUTSOURCED FINANCE

We can support as a finance team of the business through various levels from CFO down to Bookkeeper including all typical processes such as management accounts, forecasting and budgets and so on.

VAT

We can assist with the preparation or review of VAT compliance and provide assistance with return submissions.

