

FAQ

Income recognition: what's changing in the Charities SORP 2026?

In the webinar held on 19 June 2025, RSM covered the key changes in income recognition proposed in the Exposure Draft SORP 2026. The session focussed on exchange transactions and the new five step model, as well as non-exchange transactions, including grants, membership income, donated goods, services and facilities, and legacies.

Should you require any further information or assistance regarding SORP, please do not hesitate to contact us.



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FAQ

Exchange transactions (five step model)

Does this also relate to capital grants as well as revenue grants?

Grants for fixed assets would not usually meet the criteria of an exchange transaction as control of the asset does not typically pass to the third party (ie they do not receive the economic benefit of the asset). There will however be some limited situations where this is the case.

What happens if the charity receives a multi-year grant from a local authority which is deemed to be a contract and the revenue is recognised over time, but any future payments to the charity in future years are dependent on meeting specific criteria?

The contract would need to be broken down into the individual performance obligations that are satisfied over time, some of which may occur in future years and the income recognised when each performance obligation is satisfied.

Most grants have a performance obligation – do we treat them as contracts?

Grants with performance conditions are not automatically contracts. The draft SORP addresses the determination of contracts as exchange transactions and grants with performance obligations which are non-exchange transactions. As was already the case with the current SORP, the assessment of whether a funding arrangement is a grant or a contract will require careful consideration on a case by case basis as to whether it meets the criteria of a contract as set out in FRS102 given the relevance to recognition of exchange income.



Income from non exchange transactions

How to deal with legacy that is a percentage of deceased's estate?

There is no change from the current SORP in this area. Legacy income must only be recognised when it is probable and it can be reliably measured.

Charities should measure or estimate the fair value of the legacy income receivable based on the information available.

Does regular reporting to a grant funder count as a performance obligation?

As is the case with the current SORP, administrative tasks such as reporting are not considered to be performance conditions that prevent the recognition of grant income.

What is the definition of a grant?

A grant is defined by the draft SORP as a form of non-exchange transaction where the grant-maker awards the grant without receiving equal value in exchange.



FAQ

Income from memberships and subscriptions

Membership subscriptions are presumably an exchange transaction. Are we expected to break the benefits down?

Membership subscriptions can be both exchange and non-exchange transactions depending on whether the substance is of a donation or whether it purchases the rights to goods and services.

If the subscription purchases the rights to goods and services, then the five step model for exchange transactions, will need to be considered identifying the performance obligation for each promise to transfer the goods or services.

Where a ticket price includes return visits for a year, would this income need to be spread over 12 months?

Yes. The performance obligation here would be satisfied over time (the membership period). The draft SORP uses this example and suggests recognising the income evenly over the 12 months as measuring the exact usage over the period would not be practicable.

Treatment of life memberships (eg ICAEW or National Trust)

Life memberships are considered to be exchange transactions when they purchase the rights to goods and services. They are therefore subject to the five-step model.

The individual performance obligations as part of the membership will need to be identified. Some may be satisfied at a point in time, while others will be satisfied over time.

The income relating to obligations satisfied over time should be spread over the expected period of delivery being the life expectancy of the member. The expected period may be arrived at using an average usage period.

Lifetime memberships that are in substance a donation will be recognised as such.

Transition

How do you deal with income that crosses the changeover date between current and 2026 SORPs?

FRS102 allows two options on transition:

Option one is to apply the change prospectively. The five step model will be applied to any ongoing contracts at the point of transition. Comparatives do not need to be restated. The changes to income recognition in relation to the ongoing contracts is adjusted through opening reserves.

Option two is to apply the changes retrospectively to all contracts. This includes restating the comparative figures.

Can you clarify 'transition date' – is it the first day of the comparative period or the first day of the mandatory reporting period?

Paragraph 3.14 requires an entity to disclose, in a complete set of financial statements, comparative information in respect of the preceding period for all amounts presented in the financial statements, as well as specified comparative narrative and descriptive information. An entity may present comparative information in respect of more than one preceding period.

Therefore, an entity's date of transition to this FRS is the beginning of the earliest period for which the entity presents full comparative information in accordance with this FRS in its first financial statements that comply with this FRS.



FAQ

Income from donated goods, services and facilities

What about goods donated for sale (eg in charity shops)?

There has been no change from the existing SORP here. In some cases it may be impracticable to estimate the value of the donated goods with sufficient reliability when the goods are received; for example, in the case of high volume, low value second-hand goods donated for resale.

If it is impracticable to measure the fair value of goods donated for resale at the point the goods are received, the donated goods must be recognised as income, at the sales value, when they are sold.

If I account for the rent-free space donated, the cost would be the same amount?

Correct. Where donated facilities and services are consumed immediately by the charity, an amount equivalent to the income is recognised as an expense under the appropriate heading in the statement of financial activities (SoFA).

How do you value the donated services of Trustees?

Trustees are treated in the same way as general volunteers and therefore their time for acting as Trustee is not valued as this is not something the charity would have otherwise paid for.

Professional or other services donated by a Trustee that would otherwise have been purchased from a third party should be valued in the same way as any other donated services.

How about a scenario where a charity is given a service free of charge but wouldn't have taken it otherwise?

Where the charity would not have purchased the service or facility at all had it not been donated, the value to the charity is expected to be nil as it should only be recognised where it would have otherwise purchased.

We are a Sailing Charity and have been donated high-value boats – do we value them now or at sale?

If the intention is to sell the donated boats, where practicable, donated goods for resale are recognised when received or receivable, and measured at fair value. The fair value is likely to be the expected proceeds from sale less the expected costs of sale.

For items such as high value boats where there is open market evidence of the value, then the donation should be valued at the point they are receivable or received.

If not practicable to do so (such as in the case of high volume, low value goods donated to charity shops) goods donated for resale are recognised when sold.

If the boats are gifted as fixed assets to be used by the charity on an ongoing basis then they should be valued at the point of donation.

Should a free Independent Examination be treated as a donation?

Yes. This is a service that the charity would have to purchase if it hadn't been donated and it is something where an alternative market value could be reliably measured.

Donated office space: what if charity is gifted larger space than it needs?

The draft SORP states that the value to the charity may be lower than the market price because the service or facility received was a premium service but the charity would otherwise only have paid for a standard service, and so the value to the charity may be the value of a standard service.

In this scenario, the charity would value the donation based on the amount of space they actually need and would have therefore paid for. However where the charity would not have otherwise have purchased the facility had it not been donated no value would be recognised.

Detailed worked example – five step model

During the webinar we worked through a scenario which is set out here again with some more detailed explanatory notes.

This example is provided for illustrative purposes only and values attributed within the example are not necessarily indicative of real world values for similar items.

01		Identify the contract(s) with the third party <p>Identify income from third parties which takes the form of a contract. A contract is an agreement between two or more parties that creates enforceable rights and obligations. This can take many forms - a verbal undertaking, a sale of an item in a shop with agreed terms of sale or a formal documented contract.</p>
02		Identify the performance obligations in the contract <p>Requires the charity to identify the goods or services promised within the contract. Distinct goods and services should be accounted for as separate deliverables (this process is sometimes known as 'unbundling'). To be distinct the third party must be able to benefit from the good or service on its own and the promise by the charity to transfer the good or service is separate for other promises in a contract.</p>
03		Determine the transaction price <p>Requires the charity to determine the transaction price for the contract. This will be affected by a number of factors including whether there is any variable consideration and how this should be measured/recognised.</p>
04		Allocate the transaction price to the performance obligations in the contract <p>Requires the charity to allocate the transaction price determined in Step 3 to the performance obligations identified in Step 2. The allocation of the transaction price should be based on stand-alone selling price for each performance obligation. Where there are no observable standalone prices these must be estimated. The SORP gives a number of examples of methods that could be used to do this.</p>
05		Recognise income when (or as) the charity satisfies a performance obligation <p>Specifies how the charity should determine when to recognise income in relation to a performance obligation. This focuses on when control of the good or service passes to the third party, with income either recognised over time or at a point in time.</p>

Detailed worked example – five step model

Continued

01

Identify the presence of a contract with a third party

ABC Care provides counselling training courses to members of the public.

The course participant pays a non-refundable course fee of £10,000 on commencement of the course. The course is for a period of 10 weeks and the text book is provided at the commencement of the course.

In addition to the delivery of the programme, ABC Care provides the participant with additional resources comprising a textbook and access to a mentor throughout the course (both of which are purchased externally by ABC Care). These are included within the course fee to the participant.

In this example there is a contract between the charity and the course participant – to provide the specified services for a fee.

02

Identify the performance obligations in the contract

There are three performance obligations in this example. The course itself, the provision of the textbook and the access to a mentor for the duration of the course.

In this example the mentoring is provided by a third party so is a separate performance obligation. If this service was provided by charity staff as part of the overall course fee then these two may be combined into one obligation. Charities will need to take care to ensure they clearly understand what is being provided as part of the contract when assessing the separate obligations.

03

Determine the transaction price

ABC Care has now identified the three separate performance obligations, and their standalone selling prices are as follows:

- Study programme - £10,000¹
- Textbook - £500²
- Mentoring - £1,500²

¹ Amount charged by ABC Care.

² Purchase cost to ABC Care from third party.

In this example the charity has a well-established pricing policy for its training course and this is used as the basis for the standalone selling price for the good and services being promised. The total price for the course is £10,000. The price for the textbook and mentoring are both based on the equivalent price for purchasing these items directly.

Detailed worked example – five step model

Continued

04

Allocate the transaction price to the performance obligations in the contract

Performance obligation	Standalone selling price	Selling price ratio	Transaction price allocation
Tuition	£10,000	83%	£8,300
Textbook	£500	4%	£400
Mentoring	£1,500	13%	£1,300
Total	£12,000	100%	£10,000

The transaction price is allocated to each of the three performance obligations on the same ratio as the stand alone selling components.

The purpose of this step is to apportion the income to each of the performance obligations so that the income can then be recognised as and when each obligation is satisfied. The cost to the charity and whether any of the individual components are sold at a loss is not relevant here.

05

Recognise income when or as the charity satisfies a performance obligation

A charity must recognise income when (or as) the charity satisfies a performance obligation by transferring a promised good or service (ie an asset) to a third party. A good or service is transferred when (or as) the third party obtains control of that good or service.

For each performance obligation identified, a charity must determine at contract inception whether the performance obligation is satisfied over time or satisfied at a point in time.

ABC Care has determined that the tuition and delivery of the study programme and access to mentor are both satisfied over time whilst the provision of the textbook is satisfied at a point in time.

The performance obligation in relation to the textbook is deemed to satisfied when the book is delivered to the participant at the start of the course. £400 (being the allocated transaction price for this item) would therefore be recognised at the start of the course.

The performance obligations for the course provision and mentoring are deemed to be satisfied over time, being the length of the course so the remaining elements of the transaction price (£8,300 and £1,300) would be spread over the 10 week duration of the course. If the 10-week period spans two financial years, then the proportion of income due in the second year would be deferred at the year end.

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