

Charities SORP 2026

The new SORP was launched in October 2025. It has an effective date of 1 January 2026, meaning that 31 December 2026 will be the first year of application.

We already know that the new SORP brings in 3 major changes: the 5-step revenue recognition process, leases onto the balance sheet, and tiered narrative reporting for charities of varying size. But, as the SORP has grown by more than 96 pages, what else does it include?

Scope & application

This introductory section clarifies that the application of Section 1A of FRS 102 is not permitted by the SORP. Whilst this has largely been accepted practice, it is now explicitly stated.

The section also introduces tiered reporting:

- Tier 1: All charities applying accruals accounts and with a gross income of not more than £500,000 (€500,000).
- Tier 2: All charities with a gross income falling above the tier 1 threshold and with a gross income of not more than £15 million (€15 million).
- Tier 3: All charities with a gross income falling above the tier 2 threshold.

1. Trustees' Annual Report

This module has had a major rewrite and includes differing requirements for the different tiers. Charities in tier 1 must include all of the tier 1 requirements; charities in tier 2 must consider all of the tier 1 and tier 2 requirements, and charities in tier 3 must consider all of the requirements of tiers 1, 2 and 3.

The overall content of the front end is not significantly different to the old SORP – trustees are still required to prepare a thorough front end which is balanced, fair and forward-looking. It must explain their aims, objectives and activities in the year, and make relevant public benefit disclosures. There are minor clarifications throughout in the form of examples or prompt questions which will help trustees to prepare the content.

There is a new section requiring impact reporting (1.27-1.33). Tier 1 charities are asked to consider how their work made a difference to beneficiaries and provided benefit to wider society. Tier 2 and 3 charities are required to explain the impact the charity is making and must consider the long-term effect of its activities on individual beneficiaries and on society as a whole. Both positive and negative factors should be included.

There is a new section requiring ESG reporting (1.60-1.65). Tier 1 and 2 charities 'may choose' to explain how their charity is responding to and managing ESG matters. Tier 3 charities 'must' provide a summary of how their charity is responding to and managing ESG matters. SORP suggests charities could use KPIs for climate-related risks. Governance matters may include privacy, cyber security, data security and business ethics, whilst social matters may include information on employee engagement and wellbeing, board diversity and inclusion and how a charity supports its local community. If charities already report on these matters (for example in a separate social impact report) they can include a website link in the annual report. Paragraph 1.65 reminds charities of their environmental reporting requirements under the Companies Act, as applicable.

2. Fund accounting

This module applies in full to all tiers.

The module provides greater explanation on the different types of funds and how they are defined.

There is a new requirement that fund disclosures must include details of the legal powers used to remove any capital restrictions or amend purposes of a restricted fund, and legal powers used that allow an endowment to convert to income.

3. Accounting standards, policies, concepts & principles

This module applies in full to all tiers.

The module follows the principles of FRS 102 sections 2, 2A, 3, 8 and 10. Additional information is included in the SORP for:

Going concern: disclosures on the going concern assessment must confirm that it has considered information about the future, and any significant judgments made in arriving at the going concern conclusions. The SORP requires that where there are no material uncertainties about the charity's ability to continue to report on a going concern basis, this judgment should be disclosed. Where material uncertainties have been identified, they must be disclosed.

Materiality: in assessing whether information could reasonably be expected to influence decisions made by the users of a charity's accounts, charities are required to consider the characteristics of those users while also considering the charity's own circumstances. Charities should only disclose accounting policies that apply to material items or transactions. Charities should avoid providing unnecessary information for non-material items or transactions.

Estimates: developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information. Examples of estimates include depreciation expense and the fair value measurement of an asset or liability.

4. Statement of financial activities

Tier 1 charities may choose to adopt either the activity basis of reporting or the natural classification basis of reporting.

Tier 2 and 3 charities are required to adopt the activity basis of reporting.

The module gives more description on the headings in the SOFA and explains the type of items that should be included within each of the income and expenditure categories.

The SORP clarifies that 'net gains/(losses) in investments in jointly controlled entities and associates' is a separate line item to 'other net gains/(losses) on investments.'

5. Recognition of income, including contract income and income from legacies and grants

This module applies in full to all tiers.

This module is split up into 'section one – exchange transactions' which now includes detail around the 5-step model, commentary on membership and royalty income, and 'section two – non-exchange transactions.'

As with the previous SORP, the 'accrual model option' permitted under FRS 102 is not permitted by the SORP for the recognition of government grants.

The section on legacy income (5.85-5.96) removes the requirement of 'entitlement' in order to recognise a legacy. Now, the recognition criteria are in line with FRS 102, meaning that a legacy can be recorded when it is probable that the balance will be received and the sum can be reliably measured. The SORP adds that whether receipt of a legacy is probable and whether its value can be measured reliably may be affected by events such as valuations and disputes. The charity must consider such events when forming a judgment as to recognising the income or disclosing it as a contingent asset.

6. Donated goods, facilities and services, including volunteers

This module applies in full to all tiers.

There are minor clarifications and improvements to this module of the SORP.

The section includes some more detail for charities that hold donated goods for resale. For goods recognised at fair value on receipt, the value of the donated goods for resale should be treated as a component of 'income from other trading activities' with the corresponding stock recognised in the balance sheet.

7. Recognition of expenses

This module applies in full to all tiers.

Guidance on provisions has moved from this module into module 10A.

There is some clarity on the treatment of grants with performance-related conditions. The liability and expense arising from grants with performance-related conditions must be recognised to the extent that the recipient of the grant has provided the specified service or goods.

8. Allocating costs by activity in the statement of financial activities

Tier 1 charities may choose to adopt either the activity basis of reporting or the natural classification basis of reporting.

Tier 1 charities that choose to apply the activity basis of reporting must apply section 8 of the SORP in full. Tier 1 charities that choose to apply the natural basis of reporting are not required to apply section 8 of the SORP.

Tier 2 and 3 charities are required to adopt the activity basis of reporting.

There is some clarity on how costs are allocated to activities, including how to account for costs shared between fundraising and charitable activities, specifically explaining that marketing materials (like main shots or webpages) can only be regarded as a charitable expense if it fulfils an educational purpose.

9. Disclosure of trustee and staff remuneration, related party and other transactions

Tier 1 charities that have chosen to use natural classifications apply this section in full except for the disclosure of total staff costs and employee benefits (paragraph 9.28). Tier 1 charities that are companies must disclose the information required in paragraph 9.28 if they are not eligible for the small companies regime.

This module applies in full to tier 2 and 3 charities.

The module includes some incremental improvements to explanations and examples.

10. Balance sheet

This module applies in full to all tiers.

There are minor clarifications and improvements to this module of the SORP, including explanations of all the categories of balance sheet line items and what may be included in each.

10A. Provisions, contingent liabilities and contingent assets and funding commitments

This is a new module in the SORP that consolidates the guidance on provisions and commitments which had previously been spread across various SORP modules.

The module includes information on recognising a funding commitment as a liability only when specific criteria are met (i.e. an obligation has been created), onerous contracts and other contingent items.

10B. Lease accounting

This is a new module, bringing in the updated lease treatment.

This module applies in full to all tiers. Charities should review FRS 102 in the first instance to understand the changes but most of this is repeated in the SORP.

Key points:

- There is no longer a distinction between finance and operating leases for lessees. The distinction is retained for lessors.
- A right of use asset is introduced. This is the asset that represents a lessee's right to use an underlying asset for the lease term.
- Recognition exemptions relating to short term leases (a term of less than 12 months at the commencement date, but if there is a purchase option it cannot be short-term) or low value assets (must be highly dependent on, or highly interrelated with, other assets and it must be capable of use on its own, such as a laptop, phone, or small items of furniture).
- Clear examples used relevant to charities e.g. leasing of floorspace
- Clarity on the interest rate implicit. Where this cannot be readily determined, charities should consider the incremental borrowing rate or the charity's obtainable borrowing rate. Where these options are not determinable, the charity is required to use the rate of interest that it could otherwise obtain on deposits held with financial institutions.

Section 10B also considers how charities should account for arrangements that are below market value rent.

Social donation leases are also considered – these are arrangements where the lessor chooses to accept a lower rent for the philanthropic intention of providing a benefit to the lessee. These arrangements contain a non-exchange element, and charities will need to determine the value of that element of the lease (i.e. the value of the donated asset). A useful example is set out at table 9A.

11. Accounting for financial assets and financial liabilities

This module applies in full to all tiers.

There are minor clarifications and improvements to this module of the SORP.

The module follows the updates to FRS 102 in respect of basic and non-basic financial instruments, including clearer explanation of the meaning of a 'derivative'. A number of examples are given from paragraph 11.26.

12. Impairment of assets

This module applies in full to all tiers.

There are minor clarifications and improvements to this module of the SORP.

The module now includes a small section on impairment of inventories, linked to FRS 102.

13. Events after the end of the reporting period

This module applies in full to all tiers.

There are minor clarifications and improvements to this module of the SORP.

The module now includes some more relevant examples are given as to what an adjusting or non-adjusting event may be.

14. Statement of cash flows

Charities within tier 1 and tier 2 are not required to provide a statement of cash flows where they meet the definition of a small entity, in accordance with paragraph 7.1B of FRS 102, however, they may choose to do so and may benefit from the analysis. Tier 3 charities must provide a statement of cash flows. 7.1B of FRS 102 does not apply to tier 3 charities, even where they meet the definition of a small entity in FRS 102.

The module includes clearer examples of items to include in each section of the cash flow, along with an improved template. Further direction is given as to how charities should disclose cash not available or use to further charitable activities.

15. Charities established under company law

(Note: modules 15, 16 and 17 are under the heading 'selection 1' – these modules are to be used when a charity undertakes a specific type of transaction).

This module applies to all charities established under company law.

There are minor clarifications and improvements to this module of the SORP.

The module does include an updated template and clarifies how charitable companies with equity should disclose this on the balance sheet.

16. Presentation and disclosure of grant-making activities

(Note: modules 15, 16 and 17 are under the heading 'selection 1' – these modules are to be used when a charity undertakes a specific type of transaction).

This module applies in full to all tiers.

There are minor clarifications and improvements to this module of the SORP.

The module includes some additional explanation of disclosure of grants made to individuals and institutions.

17. Retirement benefits

(Note: modules 15, 16 and 17 are under the heading 'selection 1' – these modules are to be used when a charity undertakes a specific type of transaction).

This module applies in full to all tiers.

There are minor clarifications and improvements to this module of the SORP.

The module includes clarity on how charities should account for multi-employer defined benefit plans that have been treated as defined contribution plans.

18. Heritage assets

(Note: modules 18 and 19 are under the heading 'selection 2' – these modules are to be used when a charity needs to recognise, measure or disclose a specific asset or liability in a particular way).

This module applies in full to all tiers.

The module clarifies how to measure the fair value of donated heritage assets and explains that in situations where the fair value cannot be reliably measured, that asset should not be recognised in the accounts, and the charity should disclose why the fair value cannot be ascertained.

The module also links to section 10B in the event of a heritage asset that gives rise to a lease, but the SORP adds that a right-of-use heritage asset is not expected to be a common occurrence.

The 5 year summary of transactions must also now include the depreciation/amortisation recognised in each of the periods.

19. Accounting for funds received as agent or as holding trustee

(Note: modules 18 and 19 are under the heading 'selection 2' – these modules are to be used when a charity needs to recognise, measure or disclose a specific asset or liability in a particular way).

This module applies in full to all tiers.

There are minor clarifications and improvements to this module of the SORP.

This module now refers to 'holding' rather than 'custodian' trustee but the meaning remains the same.

20. Total return (investments) – (England and Wales only)

(Note: modules 20, 21 and 22 are under the heading 'selection 3' – these modules are to be used when a charity has particular forms of investment).

This module applies in full to all tiers for charities in England and Wales that adopt total return accounting.

The module includes reference to the amends made by the Charities Act 2022 which gives trustees a power, once they have made a section 104A(2) resolution, to then resolve (under section 104AA(2)) to use permanent endowment to invest the total return fund, or part of it, in social investments with a negative or uncertain financial return, provided that any losses are offset by gains made elsewhere in the relevant fund.

Where funds are invested in social investments that make a negative or uncertain financial return, the SORP requires additional disclosures around these amounts, losses and how the losses have been offset.

21. Accounting for social investments

(Note: modules 20, 21 and 22 are under the heading 'selection 3' – these modules are to be used when a charity has particular forms of investment).

This module applies in full to all tiers.

In addition, charities in tiers 2 and 3 must provide an explanation of the charity's social investment policies in the trustees' annual report and explain how the investments contributed to the achievement of the charity's purposes.

Previously the SORP has divided social investments into programme related investments and mixed motive investments. This has been simplified in the new SORP by only referring to social investments.

Additional guidance is given on social investment loans. PBE concessionary loans as defined in FSR 102, are not payable on demand. Loans which do not meet the concessionary loan definition are held as social investment loans and must be accounted for in line with sections 11 and 12 of FRS 102.

Some additional clarification is given regarding guarantees made as part of a social investment strategy.

22. Accounting for charities pooling funds for investment

(Note: modules 20, 21 and 22 are under the heading 'selection 3' – these modules are to be used when a charity has particular forms of investment).

This module applies in full to all tiers.

Additional explanation is given for common investment funds (CIFs) and common deposit funds (CDFs). CIFs and CDFs are charities which accept contributions or deposits from any charity and invest these contributions or deposits to earn a return for the investing charities. These funds do not follow the SORP but instead apply the reporting requirements in the jurisdiction in which they are established. Charities in England and Wales must follow the Charities (Accounts and Reports) Regulations 2008.

The module now also refers to charitable authorised investment funds (CAIFs) which are collective investment schemes authorised by the Financial Conduct Authority (FCA) and registered as charities.

23. Overview of charity combinations or interests in other entities

This module applies in full to all tiers.

There are minor clarifications and improvements to this module of the SORP and some clearer formatting of the flowchart guide to accounting for charity combinations or interests.

24. Accounting for groups and the preparation of consolidated accounts

This module applies in full to all tiers.

There are minor clarifications and improvements to this module of the SORP. The SORP now links to FRS 102 section 9 and refers to the charity law thresholds for producing consolidated accounts.

25. Branches, linked or connected charities and joint arrangements

This module applies in full to all tiers.

There are minor clarifications and improvements to this module of the SORP.

26. Charities as subsidiaries

This module applies in full to all tiers.

There are minor clarifications and improvements to this module of the SORP.

The SORP introduces a new disclosure requirement that relationships between a parent and its subsidiaries must be disclosed irrespective of whether there have been related party transactions.

27. Charity mergers

This module applies in full to all tiers.

The SORP now includes charity law clarifications. Charities that are UK registered companies and enter into a business combination with a third party cannot apply merger accounting to that combination. However, in exceptional circumstances where acquisition accounting does not provide a true and fair view, a UK registered charitable company may consider applying the true and fair override as outlined in Appendix III: Note on Legal Requirements of FRS 102.

Additional clarity is given for the disclosure requirement for charity mergers.

28. Accounting for associates

This module applies in full to all tiers.

There are minor clarifications and improvements to this module of the SORP.

Further guidance is given on identifying the existence of significant influence by an investing charity.

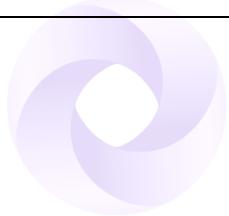
The SORP explains that trustees may be made available to another charity in order to provide that charity with expertise or to give it access to particular skills. An associate is created if the nomination or appointment power is used in conjunction with a formal or informal agreement to exercise significant influence through direct involvement in setting the funding recipient charity's financial and operating policies. However, the power to make a trustee appointment that is simply used to provide advice or expertise to the recipient charity, while allowing the recipient charity to adopt its own policies and strategies, does not create an associate relationship.

When consolidated accounts are prepared, the investing charity's share of the associate's results should be presented on the 'net gains/(losses) on investments in jointly controlled entities (JCEs) and associates' line in the consolidated SoFA. The old SORP required that the associate's results should be presented as a separate line in the consolidated SoFA, under either 'income', if a gain, or 'expenditure', if a loss.

29. Accounting for joint ventures

This module applies in full to all tiers.

There are minor clarifications and improvements to this module of the SORP. Additional explanation is given for the different types of joint venture and how to accounts for a joint venture that is also a charity.



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