

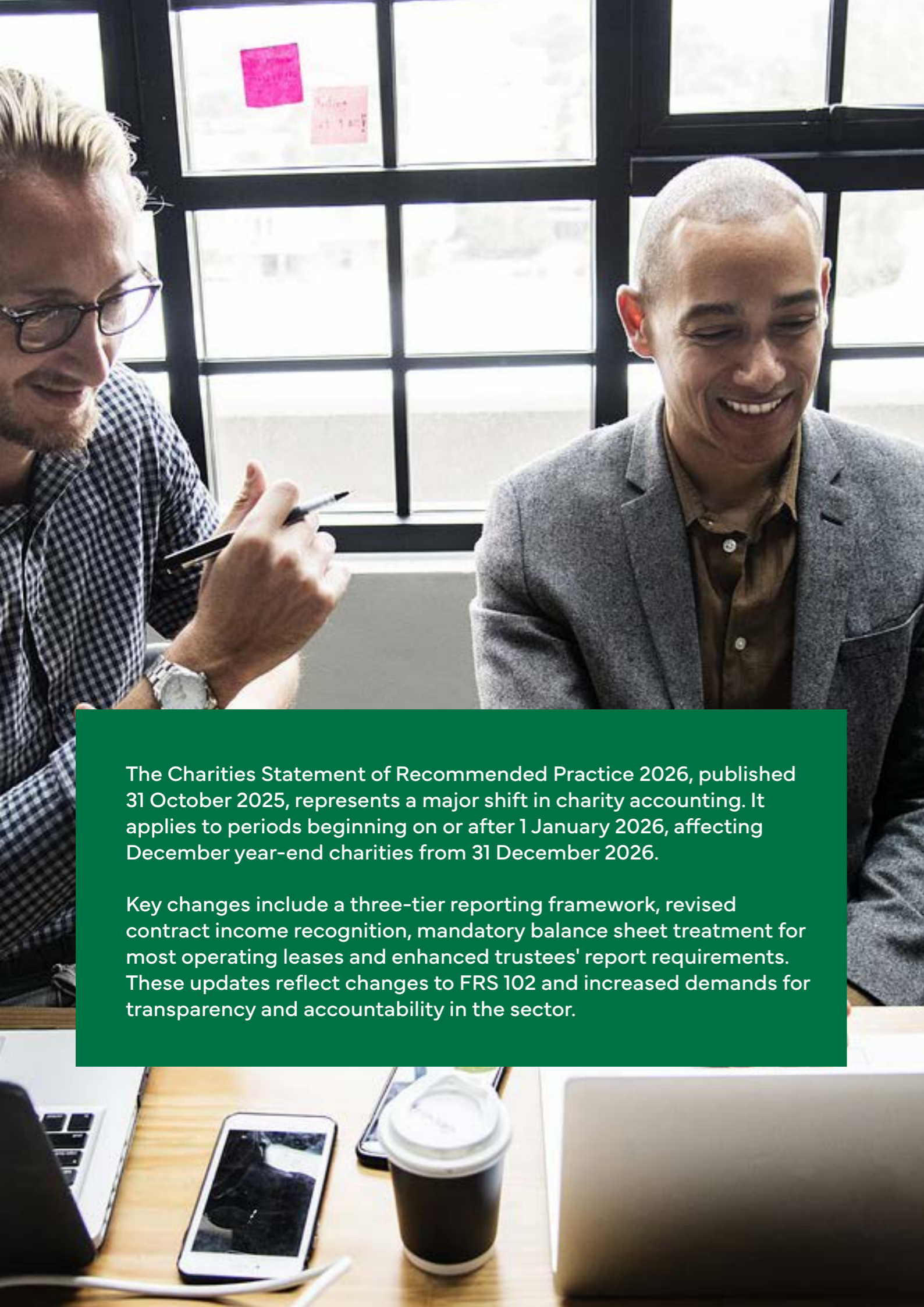


UHY Ross Brooke  
Chartered Accountants

# Your six step action plan for SORP 2026



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The Charities Statement of Recommended Practice 2026, published 31 October 2025, represents a major shift in charity accounting. It applies to periods beginning on or after 1 January 2026, affecting December year-end charities from 31 December 2026.

Key changes include a three-tier reporting framework, revised contract income recognition, mandatory balance sheet treatment for most operating leases and enhanced trustees' report requirements. These updates reflect changes to FRS 102 and increased demands for transparency and accountability in the sector.

## Three-tier reporting framework

The new SORP introduces a three-tier reporting framework with increasing disclosure and presentation requirements for larger charities.

### Tier 1: Charities with gross income up to £500,000:

- have simplified reporting obligations
- can report income and expenditure by natural classification rather than by activity
- may apply the exemption in section 7 of FRS 102 for small entities, which removes the requirement to prepare a statement of cash flows.

### Tier 2: Charities with gross income between £500,000 up to £15 million:

- must adopt activity-based reporting
- are subject to more detailed disclosure requirements than Tier 1
- are generally exempt from preparing a statement of cash flows if they meet the small entity exemption under FRS 102, as with tier 1 charities.

### Tier 3: Charities with gross income over £15 million:

- have the most comprehensive reporting requirements
- must prepare mandatory statement of cash flows
- must provide enhanced disclosures on impact reporting, volunteer contributions and sustainability covering environmental, governance and social matters.

**Note:** Charities in tiers 1 and 2 may still be required to provide a statement of cash flows if they do not meet the definition of a small entity, in accordance with paragraph 7.1B of FRS 102. The Charities SORP does not permit the application of FRS 102 Section 1A. Tier 1 and tier 2 charities that are exempt from preparing a cash flow statement under FRS 102 may still choose to produce one and may benefit from the analysis.

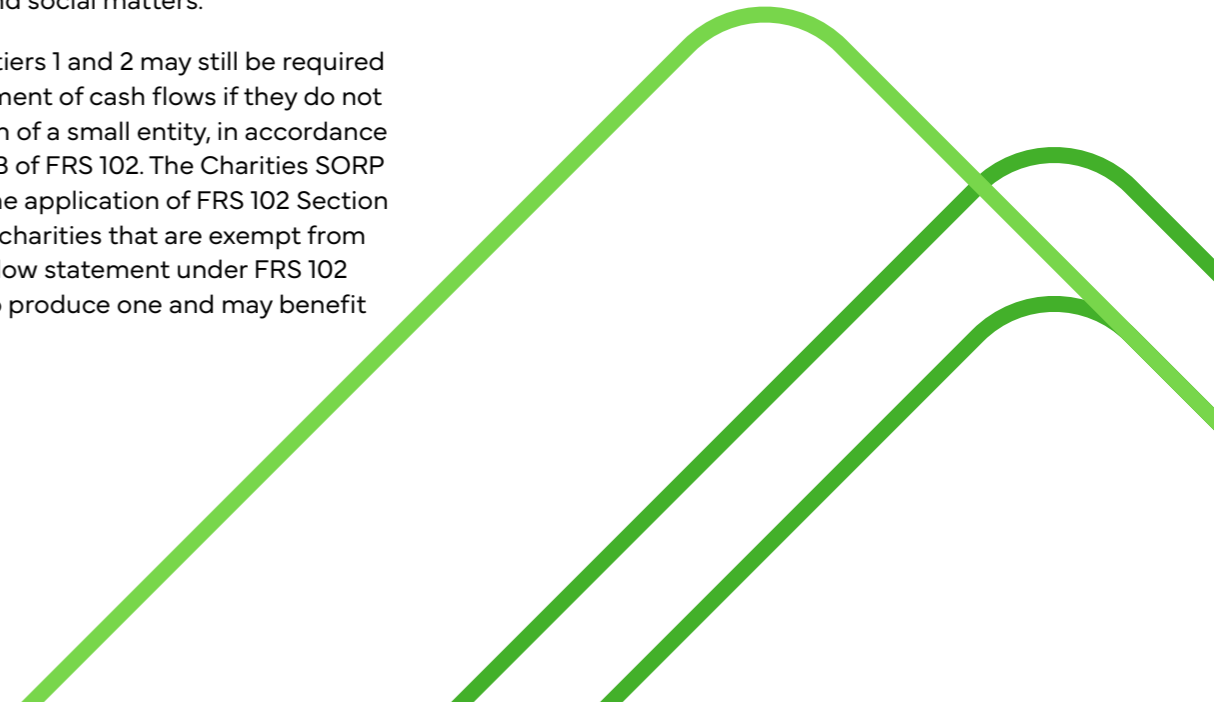
### Going concern

- **Explicit disclosure required:** charities must confirm they have considered future information and state significant judgments made in the going concern assessment
- **When no material uncertainties exist:** charities must explicitly disclose this judgment, whereas previously this was often implied
- **When material uncertainties exist:** these must be fully disclosed with details
- **Enhanced transparency:** the new requirements place greater emphasis on documenting and communicating the trustees' going concern assessment process and conclusions.

### Our tip

Tier status is determined solely by gross income each year, without the two out of three-year averaging used for company law thresholds.

Monitor gross income closely to anticipate tier movements and avoid unexpected reporting burden.



## Income recognition changes

The new FRS 102 Section 23 introduces a five-step revenue recognition model for income from exchange contracts. This represents a fundamental shift in how charities recognise certain types of income.

### Exchange vs. non-exchange transactions

The SORP requires charities to distinguish between exchange and non-exchange transactions.

#### Exchange transactions

These occur where your charity provides goods or services of approximately equal value to what it receives (eg. contracted services, membership fees, training courses and charity shop sales). In these cases, the five-step model applies:

1. Identify the contract with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations
5. Recognise revenue when (or as) the entity satisfies a performance obligation

#### Non-exchange transactions

These occur where resources are given without receiving equal value in return (eg. donations, grants without service delivery obligations and legacies).

For government grants specifically, the 'accrual model' permitted under FRS 102 Section 24 is not allowed by the SORP. Charities must use the performance model instead, recognising income only when entitlement and performance conditions are met.

#### Our tip

Start mapping your revenue streams now. Early classification prevents year end rework and audit challenges.

### Legacy income

Legacy income recognition continues to follow probability and measurement criteria. The SORP clarifies that whether receipt is probable and whether value can be reliably measured may be affected by events such as valuations and disputes.

#### Our tip

Keep an active log of all legacies and updates from executors—changes in valuations or disputes can quickly affect when and how much income you can recognise.

## Lease accounting changes

From 2026, most leases will need to be recorded on the balance sheet due to changes in FRS 102, which is reflected in the new Charities SORP. This is one of the most significant and challenging changes.

### Key changes for lessees

- removal of the distinction between finance and operating leases
- recognition of a right-of-use asset representing your charity's right to use the leased asset
- recognition of a corresponding lease liability
- both the asset and liability measured at the present value of future lease payments.

### Recognition exemptions

Some leases may qualify for simplified treatment:

#### Short-term leases

Leases with a term of less than 12 months at the commencement date. A lease cannot be classified as short-term if it includes a purchase option

#### Low-value assets

The assessment depends on the specific circumstances of the charity.

### Impact on financial position

This change will increase both your reported assets and liabilities, which could:

- affect audit threshold calculations
- impact banking covenants or loan agreements
- alter financial ratios used by funders or lenders.

### Social donation leases

Where a charity receives a lease at below-market rent, the donation element must be separately recognised as income when the lease begins, with narrative disclosure explaining the arrangement.

#### Our tip

Maintain a live lease register including lease terms, renewal options and payment schedules to streamline transition and impact assessment.

When leases are granted at below-market rates, calculate the social donation value by comparing market rent to actual charges. This difference may be material and, when recognised as income, could impact your charity's tier classification.



## Trustees' Annual Report enhancements

Trustees' Annual Reports requirements have been refreshed with additional guidance on how to report financial reserves and plans about the future, with dedicated sections on areas of particular interest to the public and donors. These include impact reporting, environmental, social and governance matters.

All tiers must include more detailed commentary on:

- **Aims and objectives:** clear articulation of charitable purpose
- **Achievements and performance:** evidence of impact and delivery against objectives
- **Plans for the future:** strategic direction and anticipated developments
- **Financial review:** including reserves policy and going concern assessment.

### Our tip

Use the report to tell your story. Align narrative impact with financial performance to demonstrate responsible stewardship of resources.

### Additional requirements for tier 3 charities (and encouraged for tiers 1 and 2)

#### Impact reporting

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. Both positive and negative factors should be addressed.

#### Sustainability disclosures

Environmental, governance and social matters, including sustainability practices and governance transparency

#### Volunteer contributions

Recognition and quantification where feasible.

The trustees' annual report must now be more clearly linked to the financial statements, creating a cohesive narrative that explains the numbers.

## Other notable changes

### Social investments

The revised SORP simplifies accounting for social investments and aligns definitions with the Charities Act. Presentation is clarified (for example, impairment losses are shown within expenditure on charitable activities and gains on disposal within other income), improving consistency across the sector.

### Provisions and contingencies

A new dedicated module (10A) consolidates guidance on provisions, commitments and contingent liabilities, making this area easier to understand and report.

### Fund accounting

Updated to reflect legislative changes, with new requirements to disclose legal powers used to remove capital restrictions or amend purposes of restricted funds.

### Heritage assets

Requirements apply to all tiers. The SORP clarifies how to measure the fair value of donated heritage assets and confirms that where the fair value cannot be reliably measured, the asset should not be recognised. The charity should disclose why the fair value cannot be determined.

### Our tip

Review your fund structures, restrictions and any legal powers used. You may need to provide additional disclosures in 2026.

## Audit and examination threshold changes

Requirement	Current threshold	New threshold (from 30 September 2026)
Accounts must be independently examined	Income over £25,000	Income over £40,000
Examination must be by a professionally qualified Independent Examiner	Income over £250,000	Income over £500,000
Non-company charities can choose to produce receipts and payments accounts	Income below £250,000	Income below £500,000
Accounts must be audited	Income over £1,000,000 Assets over £3,260,000	Income over £1,500,000 Assets over £5,000,000
Group accounts must be prepared and audited	Aggregate income of group £1,000,000	Aggregate income of group £1,500,000

Table taken from [GOV.UK](https://www.gov.uk)

### Our tip

Reassess your level of external scrutiny. This is an opportunity to reduce compliance workload, or to choose an audit voluntarily where stakeholders expect it.

## Prepare now for stronger charity reporting

SORP 2026 marks a major shift in how charities report their financial performance, obligations and impact. While some changes add complexity, particularly around income recognition, leases and reporting tiers, they also offer an opportunity to strengthen accountability and demonstrate value to stakeholders.

By preparing early, reviewing systems and planning for the new disclosures, charities can navigate the transition smoothly and ensure their reporting continues to reflect best practice.

## The next step

At UHY Ross Brooke we are here to guide you through each step and help you turn these changes into a platform for clearer, more confident reporting. Please ask your usual charity adviser for more information.

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