

Buzzacott

SORP 2026 Implementation

26 February 2026



Agenda

01 Introduction

02 Trustees'
Report

03 Income
recognition

04 Lease
accounting

05 Q&A

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Introduction

Edward Finch

A decorative graphic consisting of numerous thin, white, curved lines that sweep from the top right towards the bottom left, creating a sense of motion and depth. A single, thicker, light green line follows the same path, acting as a focal point within the white lines.

Introduction

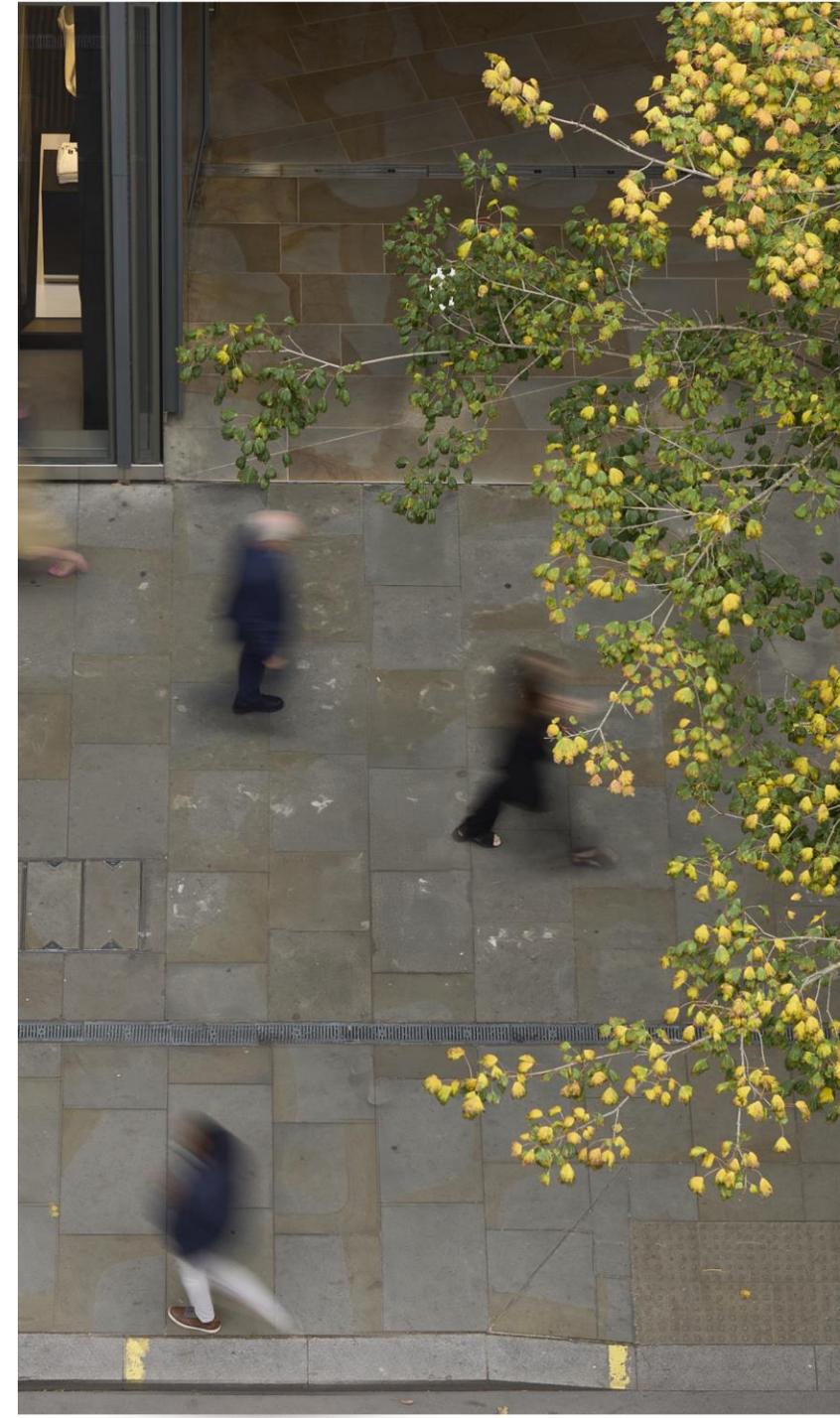
- SORP 2026 now in force
- Applies for accounting periods starting on or after 1 January 2026
- Not significantly changed from the Exposure Draft
- Now is the time to start preparing!

Key topics of focus

Trustees' report

Income
recognition

Lease accounting



Size thresholds

- Unchanged from the Exposure Draft
- No direct link to Companies Act if there are future changes
- Variation between areas of the UK
- Three 'tiers' for charity size retained

	Income threshold
Tier 1	Less than £0.5m
Tier 2	£0.5m - £15m
Tier 3	More than £15m

- Changes to **audit thresholds**
 - E&W Audit threshold increases to £1.5m (or £5m assets and £0.5m income) from September 2026
 - Scotland Audit threshold increased to £1m (or £3.26m assets) from January 2026
 - NI: No change – audit threshold remains income greater than £0.5m
 - No asset or employee number thresholds

International considerations

As well as the specific points relating to the topics covered in more detail, international organisations may need to consider:

GAAP differences

- Compatibility of framework
 - IFRS convergence
 - Differences between IFRS for SME and FRS 102 (in particular leases)
 - INPAS not compatible
- Impact on consolidation/ aggregation reporting packs

Other areas

- Activity classification (consistency)
- Timeline for information gathering
- Briefing international finance teams and auditors



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Changes to the trustees' report

Peter Mackereth



Changes to the trustees' report

Trustees' report not in scope of FRS 102

- Committee chose to largely re-write
- But much content is very familiar

Three tier reporting structure

- Requirements scale with charity size (a bit)
- Some proportionality for smaller charities

	Tier 1	Tier 2	Tier 3
Objectives and activities	1.19 to 1.22	+ 1.23 to 1.26	
Achievements & performance	1.27	+ 1.28 to 1.32	+ 1.33
Financial review	1.34 to 1.42	+ 1.43 to 1.45	+ 1.46
Plans for future periods	1.47	+ 1.48 to 1.49	
Structure, governance & management	1.50 to 1.51	+ 1.52 to 1.54	
Reference & administrative details	1.55 to 1.56	+ 1.57 to 1.59	
Sustainability	1.60		+ 1.61 to 1.65

Recap: what's the purpose?

1.3 The main purpose of the trustees' annual report ("the report") is to ensure that the charity is publicly accountable to its stakeholders for the stewardship of the funds it holds. To communicate relevant information in the most helpful way, trustees should ask themselves:

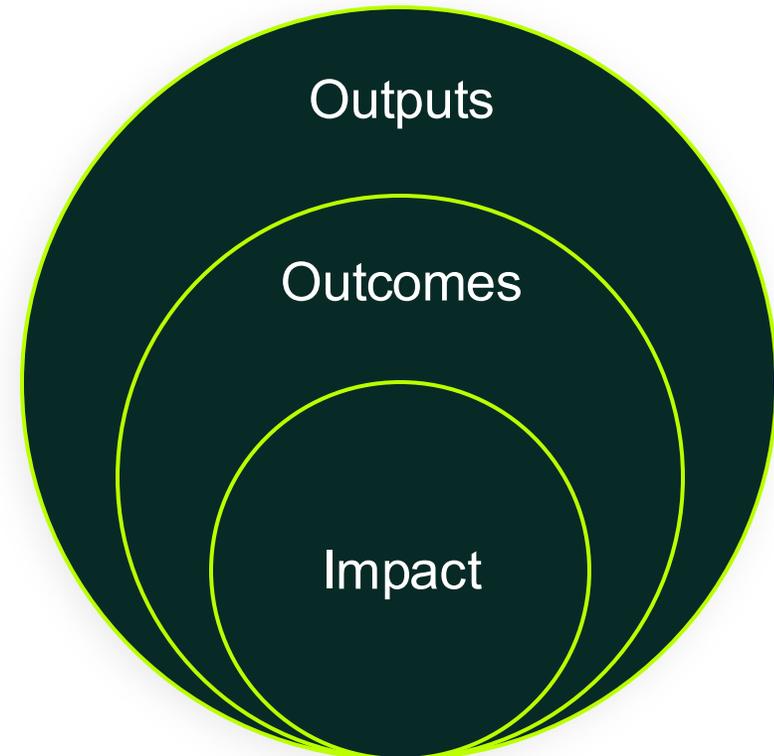
- *Who are the users of the report?*
- *What are the information needs of users of the report?*

Users may vary from charity to charity, but will normally include funders, donors, financial supporters, service users, members, beneficiaries, and other stakeholders.

What have you done?

What has it achieved?

What difference has it made?



Changes to the trustees' report

Impact reporting now mandatory for all charities

- Tier 2 and 3 must give details of outcomes
- Emphasis on linking mission, activities, results, and impact

Joining up

- Activities across narrative and numbers
- Reserves, going concern, and future plans

Updates to detailed disclosures

- Far greater specific expectations for reserves
- Details of delegated authority required at Tier 2
- More detail expected on investment policy, ethical considerations, pension deficits, and accrued legacy income

ESG and sustainability – new area

- How ESG matters are managed
- Climate-related risks and opportunities
- KPIs to monitor sustainability and climate targets

ESG and sustainability

Environmental

Climate change

Carbon/environmental footprint

Green tech

Investment policy

Social

Your employees

Safeguarding

Supply chain management

Board diversity and inclusion

Governance

Data security and privacy

Business ethics

Anti bribery / whistleblowing

Transparency

Reporting



Objectives



KPIs



Impact



Risk management

Detailed requirements

	Tier 1	Tier 2	Tier 3
Objectives and activities	<ul style="list-style-type: none"> • Summary of purposes and activities • Public benefit • Impact of volunteers • Details of work including financial summary 	<ul style="list-style-type: none"> • More detailed summary of short term and long term aims including objectives, strategy and progress KPIs • Grant making • Social investment and how this contributes to aims and objectives • More detail on volunteer time 	
Achievements and performance	<ul style="list-style-type: none"> • Summary of achievements – impact of work and benefit to society 	<ul style="list-style-type: none"> • How well the charity did against objectives including positive and negative factors • Impact assessment and summary of KPIs • Investment performance 	<ul style="list-style-type: none"> • Performance of fundraising against objectives including details of material costs to generate future income

Detailed requirements

	Tier 1	Tier 2	Tier 3
Financial performance	<ul style="list-style-type: none">• Review of financial position• Identify funds in deficit• Reserves policy and actual reserves reconciled to accounts• Going concern	<ul style="list-style-type: none">• Significant events affecting finances• Principal income sources• Principal risks• Investment policy – including responsible/ethical• Impact of pension deficits• Accrued legacy income	<ul style="list-style-type: none">• Any factors likely to affect future financial performance

Detailed requirements

	Tier 1	Tier 2	Tier 3
Plans for future periods	<ul style="list-style-type: none"> Summary of future plans 	<ul style="list-style-type: none"> Summary must include details of aims and objectives and activities to achieve these Trustee perspective on future direction including influence of past activities on plans 	
Structure and governance	<ul style="list-style-type: none"> Governing document Constitution Methods for appointing trustees 	<ul style="list-style-type: none"> Organisational structure including subs and wider networks Induction and training of trustees Governance and management structures Decision making process Process for setting KMP salaries Related party relationships 	
Reference and admin	<ul style="list-style-type: none"> Name, trading name, registration number(s), address, names of trustees Exemption from disclosing names if it would place individuals in danger 		<ul style="list-style-type: none"> Name of CEO decisions are delegated to, details of professional advisors
Sustainability	<ul style="list-style-type: none"> Encouraged to explain how the charity is responding to ESG issues 		<ul style="list-style-type: none"> Summary of how ESG is managed ESG including KPIs and risks May include diversity and social opportunity If in scope for SECR include details

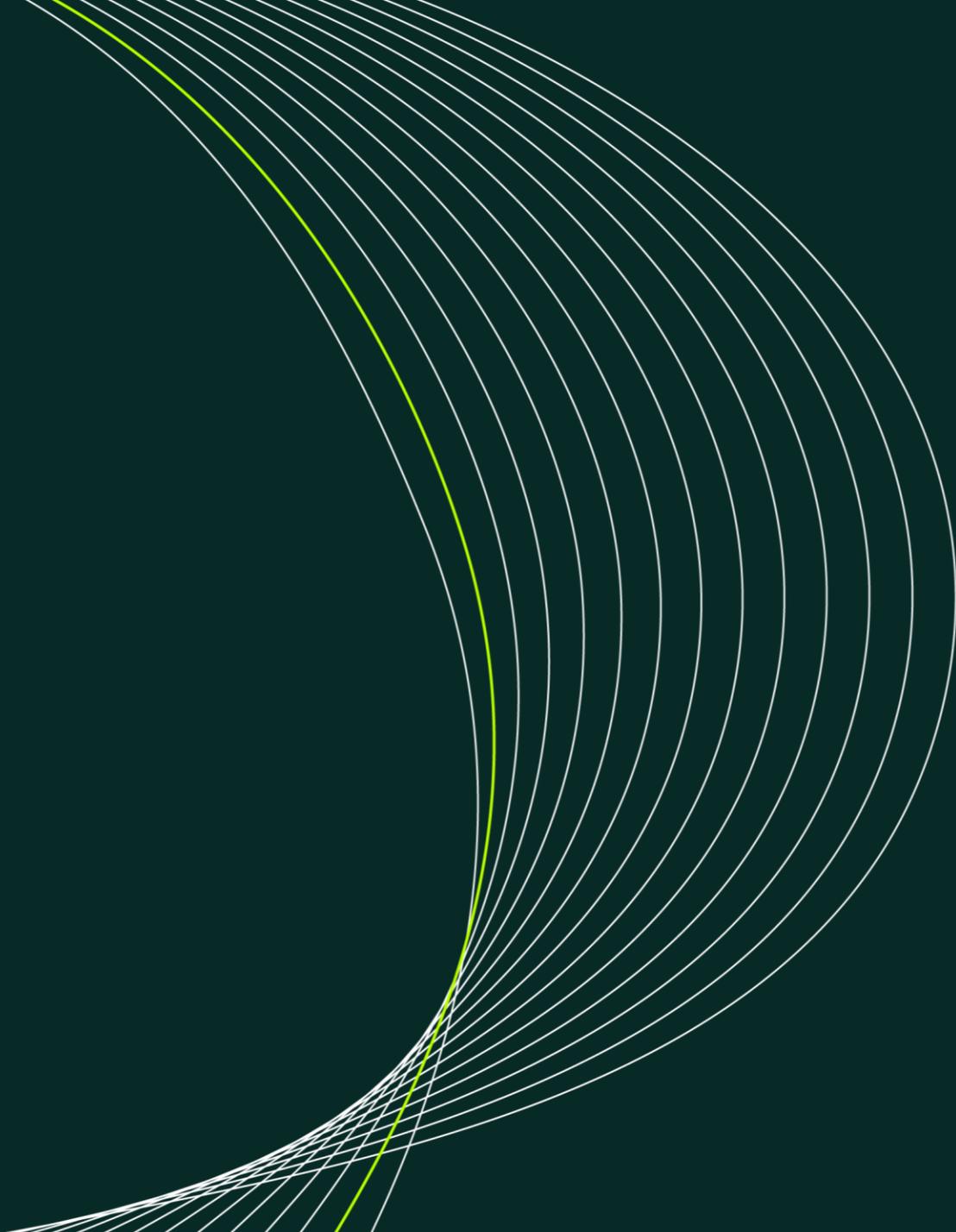
An opportunity...?

- An ideal chance to refresh the trustees report style and impact
 - Revisions intended to encourage concise meaningful reporting
 - Reassess structure, clarity, and relevance
 - Critical review of historic information included
 - Focus on key impact of the charity
 - Opportunity to start from a blank sheet of paper...
- Planning time to review the report early is essential

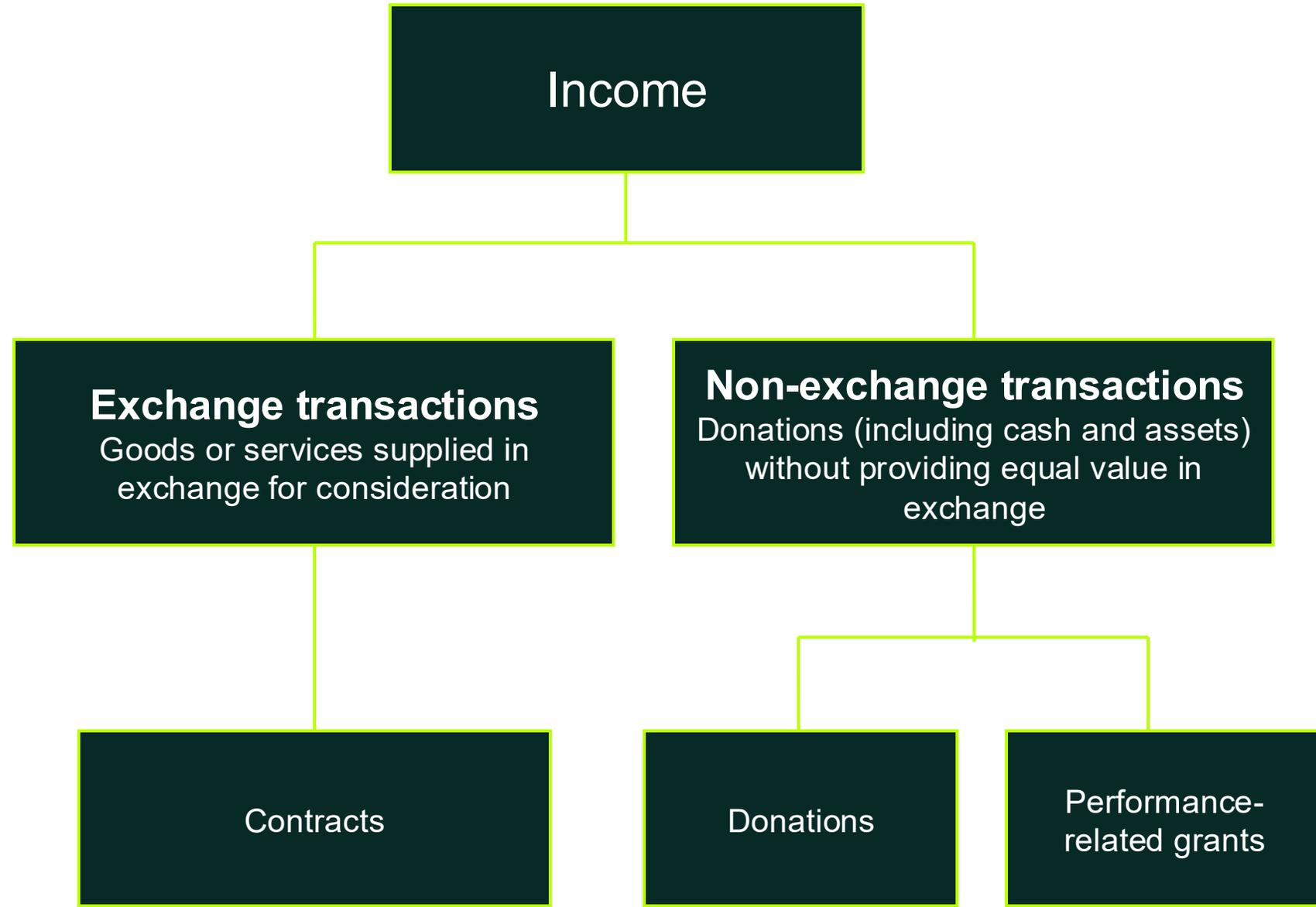
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Income recognition

Kunal Mistry



Classification of income



Grants and contracts

Understand the substance of the transaction

Consider whether:

- Receipt of income is subject to fulfilling performance related conditions
- Is grant income in exchange for the transfer of goods/services and there is a contract between parties? Or not?

Any restrictions?

Consider whether:

- Terms of a donation or grant impose a restriction
- Terms of a contract limit income to be spent on specified purposes or restrict use of the surplus

Exchange transactions – 5 step model

1 - Identify the presence of a contract

2 – Identify the performance obligations

3 – Determine the transaction price

4 – Allocate price to the performance obligations

5 – Recognise income as obligations met

Practicalities and preparation

- INGOs tend to have agreements with multiple deliverables covering multiple years

How to prepare

- Identify all contracts, including deliverables, terms, and milestones
- Identify any clawback provisions
- If multiple deliverables, allocate income
- Document milestones and match against projected expenditure and payment schedule
- Review the basis of allocation of staff time where linked to milestones
- Discuss with the funder if the payment schedule and milestones are not aligned – opportunity to review how agreements are set up?

Income recognition checklist

	Key information per material agreement (total funding, length, payment terms and restrictions?) (or type of agreement if high volume, low value)	Is there a contract in place?	Are there identifiable performance obligations? What are these?	Has the transaction price been set?	How will the transaction price be allocated to obligations?	Income to recognise for the year ended 31 December 2026	Auditor assessment
1							
2							
3							
...							

- Starting point for analysing contracts and collating data
- If a contract has multiple elements split each one out on a separate line

Example:

Exchange transactions

- Agreement is a multi-year contract under a FCDO-funded programme to support a series of educational and governance changes in West Africa.

Per agreement:

- *Payments are linked to achievement of development milestones and KPI-driven payments.*
- *Fees are payable when the organisation has delivered its contractual obligations to the satisfaction of the funder.*

Performance obligation (from schedule)	Description	Allocated price
PO1: Co-creation milestone package	Contribute to strategy, Theory of Change, safeguarding framework, etc.	£45,000
PO2: Output 1 – Community interventions (Year 1)	Community dialogues, safe-spaces, mobilisation, behaviour-change work.	£120,000
PO3: Output 2 – Advocacy deliverables	Global and national advocacy content, stakeholder engagement.	£60,000
PO4: KPI-linked performance payment	Contract-management indicators (e.g., quality, delivery, risk).	£25,000
PO5: Reimbursables	Eligible travel and delivery costs.	£30,000
Total price		£280,000

Example:

Exchange transactions

1. Identify the presence of a contract

Signed, binding contract with obligations and enforceable rights, providing benefit to the funder.

2. Identify the performance obligations

Performance obligations set out in schedule on the agreement

3. Determine the transaction price

Attached schedule sets out the fee structure, KPI-linked payments and milestone payments

4. Allocate price to the performance obligations

See table.

5. Recognise income as obligations met

As each milestone is met, income can be recognised.

If all milestones (PO1-PO5) have been completed in year, the full £280,000 can be recognised.

Example

Non-exchange transactions

Non-exchange income – are there future performance obligations?

- No - recognise when received
- Yes - recognise when conditions are met

Example: The agreement is a charitable research grant awarded to the charity to develop research data to support programme implementation aimed at reducing under-5 mortality in West Africa. The period of the grant is 2 years from 1 January 2026 and is for £140k per annum with payments made on the date agreement is signed and after a mid-point progress report has been sent.

Key points per agreement:

- Agreement confirms the funds are used for public benefit and not to supply goods/service to the funder, there is a restriction placed on the funds and there are compliance conditions in the form of targets and milestones → **Non-exchange**
- You may not use funds provided under this Agreement ('Grant Funds') for any purpose other than the Project → **Restricted**
- Payments are subject to Your compliance with this Agreement, including Your achievement, and the Foundation's approval, of any applicable targets, milestones, and reporting deliverables required under this Agreement → **No performance obligations but paragraph 5.78 indicates income could be spread over the two years i.e. £140k per annum**

Other examples

Income stream	Classification	When to recognise income
Event fees	Exchange	When the event occurs
Corporate sponsorship	Exchange	As sponsor benefits are delivered
Donations	Non-exchange	When receipt is probable and measurable

Other changes affecting income

Legacies

- Entitlement removed from recognition conditions
- 'Probable' now defined as probate granted, executors determine there are sufficient funds, and any conditions are under control of the charity
- Measured reliably
- Portfolio approach permitted if high volume of smaller legacies
- Tier 3 charities required to disclose significant accrued legacy income

Capital grants – recognise on receipt

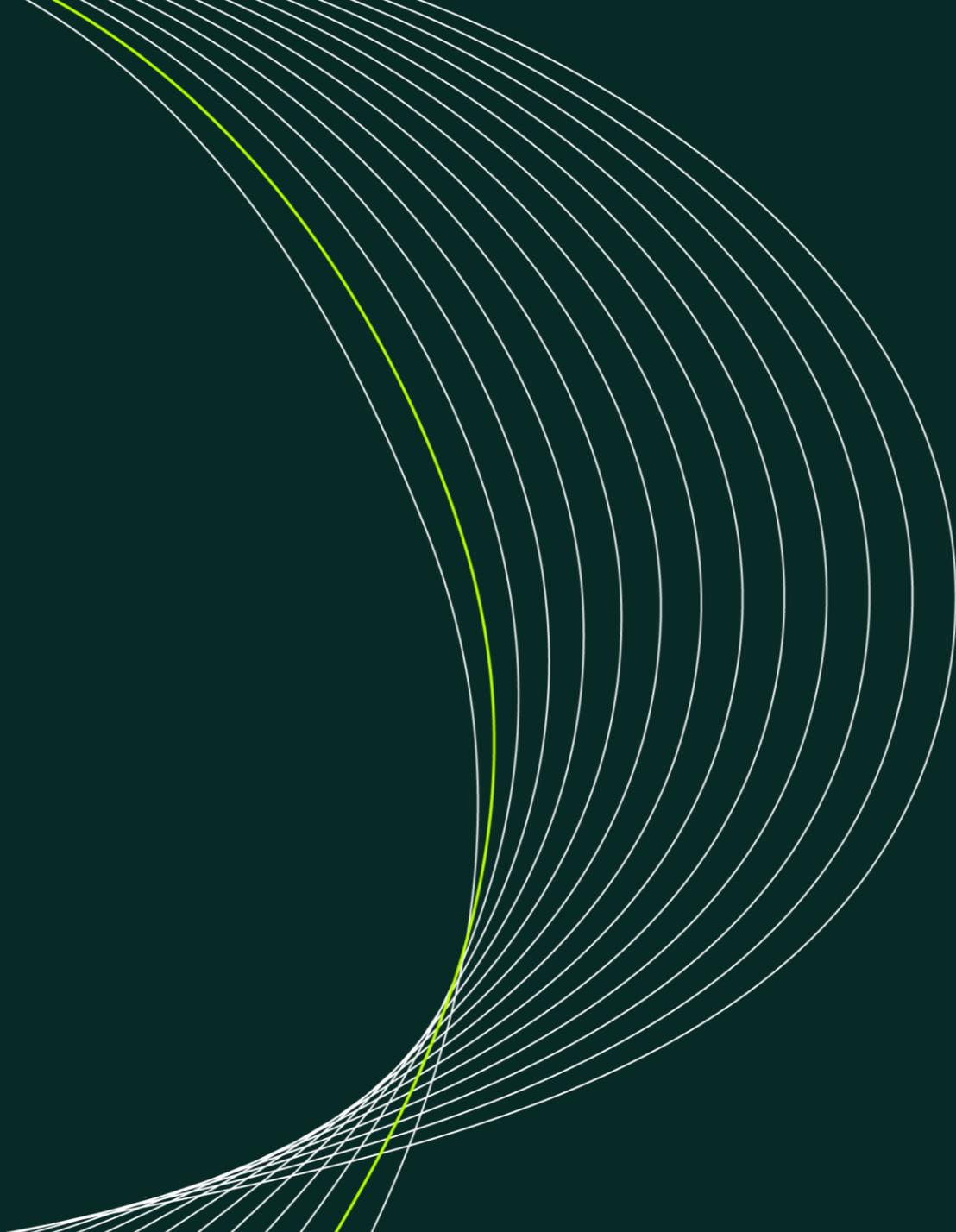
Clarification that Board decision alone is not enough to accrue **'Gift Aid' donations from subsidiary companies**

- Need payment pre year-end
- Or a deed of covenant in place

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Lease accounting

Hugh Swainson



Key changes to lease accounting

Balance sheet

- Recognition of right of use asset
- Recognise present value of future payments as a liability
- Increased assets and liabilities
- Could affect audit thresholds and company size limits
- Potential change in net current assets/liabilities

SOFA

- Depreciation of asset element
- Interest charge on unwinding of discounting on liability
- No rent charge
- Cost weighted towards the start of the lease

Identifying leases

Definition of a lease

- Contractual right to use an asset for a period of time in exchange for consideration
- Commencement date
- Terms and break clause
- Rent-free periods and incentives
- Rent amounts and timings, including variable payments

Portfolio approach

Separate components

Setting a discount rate

Discount rates – use the below in order of priority

- Interest rate implicit in the lease
- Incremental borrowing rate (IBR)
- Obtainable borrowing rate
- Rate of interest obtainable on deposits (Charities only, last resort where the other options are not possible)

Overseas leases – rate not implicit in the lease agreement

- Consider the incremental borrowing rate and whether borrowing would most realistically occur:
 - In the UK (usual for many INGOs)
 - In overseas country, if the INGO has local borrowing ability
- If determining an IBR is too difficult (e.g., no local borrowing market, no comparable loan products), use the obtainable borrowing rate, likely based on UK borrowing rates

Example:

3-year lease in overseas country renting an office, starting on 1 Jan 2026, £10,000 payable in advance, UK office pays for lease

Discount rate – no rate implicit in lease, 5% (rate obtained from UK bank)

1. Identify cash flows and calculate PV at start of lease

Date	Amount	Discount factor	Present value of liability
1 Jan 2026	(10,000)		
1 Jan 2027	(10,000)	$1/1.05 = 0.9524$	(9,524)
1 Jan 2028	(10,000)	$1/1.05^2 = 0.9070$	(9,070)
Total			(18,594)

2. Calculate the right-of-use asset

PV of liability	18,594
Payment at commencement	10,000
Right-of-use asset	28,594

3. Journal at 1 Jan 2026

Dr Right-of-use asset	28,594
Cr Lease liability	18,594
Cr Cash	10,000

Example:

3-year lease in overseas country renting an office, starting on 1 Jan 2026, £10,000 payable in advance, UK office pays for lease

Discount rate – no rate implicit in lease, 5% (rate obtained from UK bank)

4. Summary of SOFA impact

	31 Dec 2026	31 Dec 2027	31 Dec 2028
Interest charge	930	476	-
Depreciation	9,532	9,531	9,531
Total	10,462	10,007	9,531

Previously operating lease charge of £10,000 each year

Exemptions

Short term leases (less than 12 months)

- At the commencement date, assess whether a lease term is 12 months or less and confirm there is no option to purchase the asset.
- If both conditions are met, the lease qualifies as a short-term lease under FRS 102.

Low value assets

- Not allowed to use low value asset exemption for:
 - Land and buildings
 - Motor vehicles
 - Ships, aircraft, trains & production line equipment...



- Accounted for on straight-line basis over the life of the lease

Other types of leases

Leases in hyperinflationary economies

Lease component	Monetary?	Treatment under hyperinflation (FRS 102 Section 31)
Lease liability	Monetary	Not restated; monetary gain/loss recognised
ROU asset	Non-monetary	Restated using price index; depreciation restated
Lease expense/income	N/A	Restated to period-end purchasing power

Peppercorn leases

- Outside of scope of FRS102
- Consider whether to recognised donated services/asset

Discounted leases

- Includes a donation component
- Value at lower of market value and value to the charity
- Include donation element in right of use asset
- Actual payments for calculating liability
- Donation income element recognised at start of lease

Transitional provisions

Modified Retrospective Approach

- No restatement of comparative figures
- Cumulative adjustment at the start of first period
- Difference between the asset and liabilities recognised on 1 January 2026 recognised in reserves
- Additional disclosure on change in accounting policy in notes

Right of use assets

- Separate line on balance sheet (with supporting note)
- Clearly identify in fixed asset note
- Show transfer in at 1 January 2026

Liability

- New line in creditors notes
- Split between amounts within one year and after one year

Reserves

- Net movement shown as transfer in

First year disclosure example

X Tangible Fixed Assets

	Freehold buildings £'000	Right of use assets £'000	Plant & Machinery £'000	Furniture and equipment £'000	Total £'000
Cost or valuation					
<u>At 1 January 2026</u>	14,534	—	1,180	931	16,645
Initial recognition	—	260	—	—	260
Additions	—	100	—	120	220
Disposals	—	—	—	—	—
<u>At 31 December 2026</u>	14,534	360	1,180	1,051	17,125
Depreciation					
<u>At 1 January 2026</u>	2,850	—	610	663	4,123
Charge for the year	291	75	118	148	632
Released on disposal	—	—	—	—	—
<u>At 31 March 2025</u>	3,141	75	728	811	4,755
Net book value					
<u>At 31 December 2026</u>	11,393	285	452	240	12,370
<u>At 31 December 2025</u>	11,684	—	570	268	12,522

Leases transferred in on 1 Jan 2026

New leases in 2026

Depreciation charge on all right of use assets

Practicalities for preparation

Identify all leases in place

- Commencement date
- Term and break clauses
- Rent amount and timings

Identify any peppercorn leases / discounted leases

Identify any exempt leases

Set discount rate

Start calculating balances at transition date

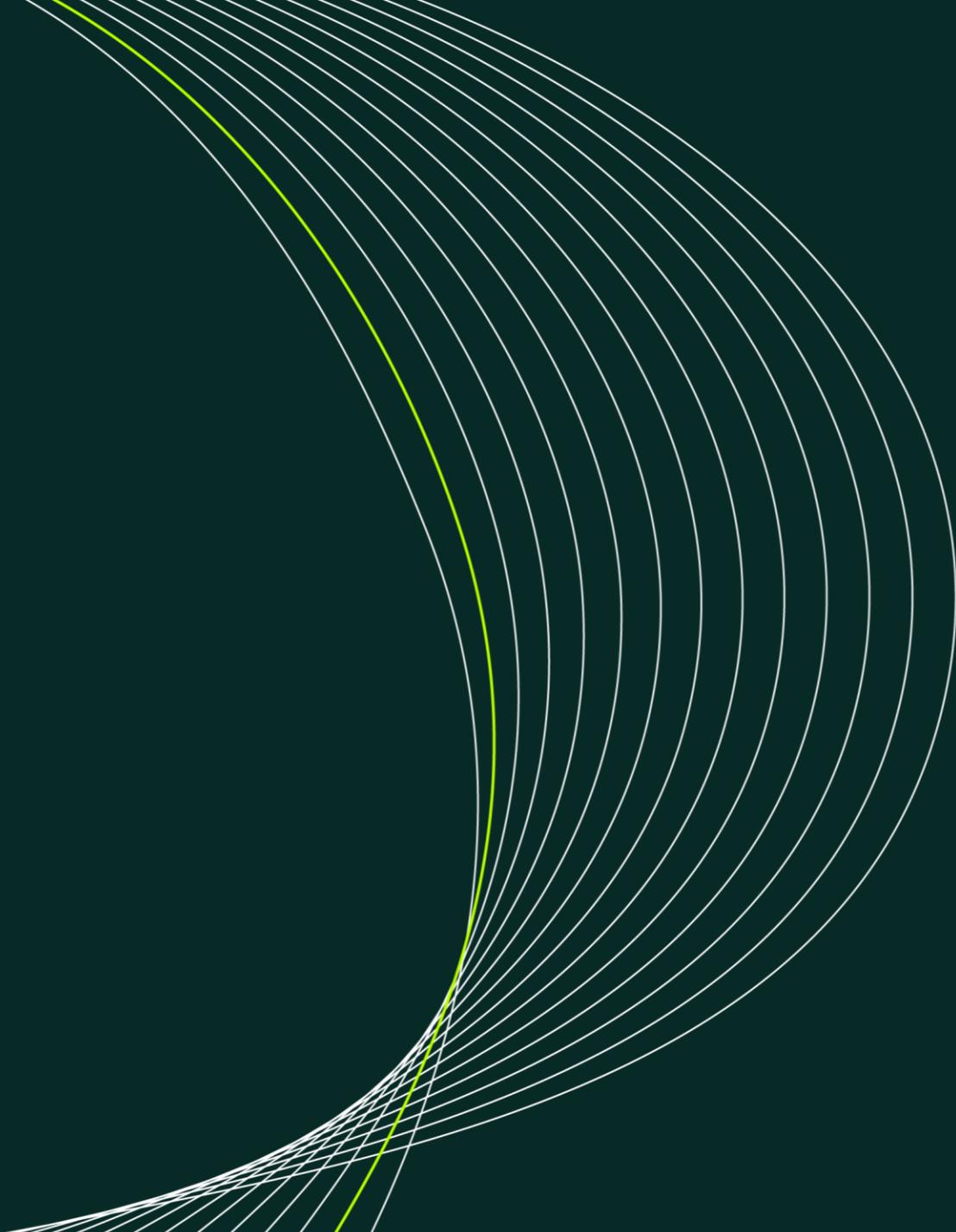
Monitor new leases once implemented

Where to account for the lease (UK books or locally)

Fund accounting

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Q&A



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Thank you!

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