

New Financial Reporting Requirements: A Practical Guide for Charities

18^h June 2026

11:00am to 12:15pm

Figurative Arts & Culture

Neal Trup

NEAL HOWARD
Growing Social Enterprises



Your Trainer: Neal Trup

- Chartered Accountant
- Charities and not for profit sector expertise
- Lead adviser/trainer for financial management for Government's Youth investment Fund support for grantees
- Delivers training to charities, social enterprises, funders and social investors
- Member of the Charities SORP Committee with a remit for representing small charities

Poll 1

Is your organisation a:

- Charity Company
- CIO, CCBS or other charity
- Community Interest Company (CIC)
- Other type of company
- Community Benefit Society (non-charity)
- LLP
- Other

Poll 2

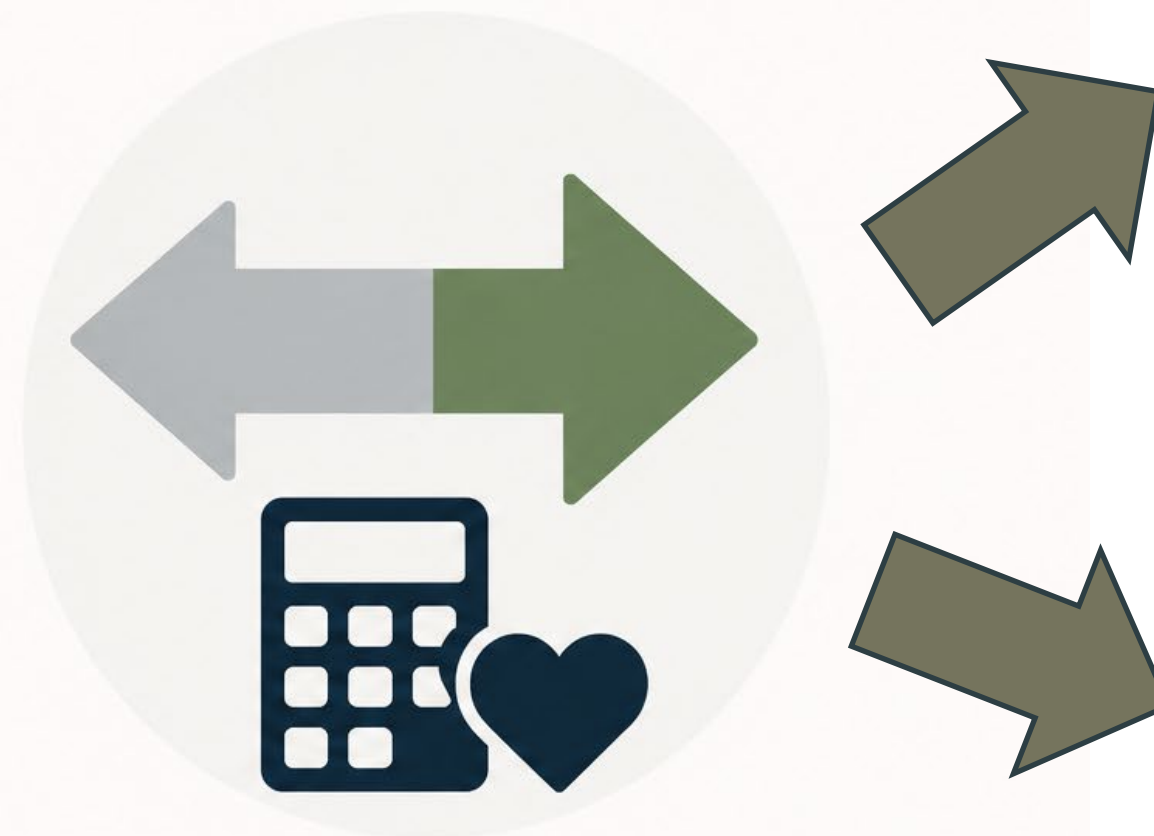
What is/are the main topic(s) you wish to understand today:

- New requirements for the Trustees Annual Report
- Income recognition
- Leasing
- Income recognition & leasing
- All topics
- Other (please put in chat)

2026

A YEAR OF CHANGE

FOR CHARITY AND
SOCIAL ENTERPRISE ACCOUNTING



New accounting and reporting requirements for charities & companies (SORP and FRS102/105)
For accounting periods beginning on or after 1st January 2026

New charity, independent examination and audit thresholds
For accounting periods ending on or after 30th Sept 2026

Financial thresholds in charity law


Reporting and accounting thresholds (England and Wales)

Threshold	Current level	Periods ending from 30 Sep 26
Independent Examination (gross annual income).	£25,000	£40,000
Qualification requirements for independent examiners (gross income)	£250,000	£500.000
Receipts and payments accounts (max income for non-company charities)	£250,000	£500.000
Audit of accounts of larger charities (income)	£1m	£1.5m
The value of assets over which account auditing requirements apply where gross annual income is greater than £250k (current) or £500k (new).	£3,26m	£5m
Aggregate income for group accounts	£1m	£1.5m
The gross aggregate income of a charity group over which audit requirements apply.	£1m	£1.5m

Changes to Company and Charity Accounting

This Financial Reporting Standard is for reference in the UK and Republic of Ireland only
Due to copyright restrictions, the full text of FRS 102 and the Basis for Conclusions that accompanies the standard is not available outside the UK and Republic of Ireland. This Financial Reporting Standard is available in the UK and Republic of Ireland only and is not to be distributed to or read by any party outside this territory. Users outside the UK and Republic of Ireland should visit our webpage at: www.frc.org.uk/FRS

Standard
Accounting and Reporting



September 2024

FRS 102
The Financial Reporting Standard applicable in the UK and Republic of Ireland

CHARITIES SORP 2026
(October 2025)

Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland

(FRS 102)
(effective 1 January 2026)



Charities SORP 2026

Key changes Effective accounting periods beginning on or after 1st Jan 2026

- Introduction of an income based **3-tier reporting regime** and with the SORP modules structured to provide clarity as to requirements for each tier
- New and **enhanced disclosures** in the trustees' annual report for future plans, sustainability and volunteers. New **prompt questions** to help preparers meet the trustees' annual report requirements
- Updated definition of **reserves** and reconciliation in the annual report
- New example for the **natural classification** reporting option for small charities
- Inclusion of the FRS102 five-step **income recognition** model for contracts
- Updates and clarifications to **recognition criteria for non-exchange income** such as grants, donations and legacies as well as some additional disclosure requirements
- New on-balance sheet and disclosure requirements for **operational leases**
- **Statement of cashflows** to be required only where income is above £15m

The impact of different accounting - Key changes from 2026

Accounting	Charity SORP 2026	Charity Receipts & Payments	Non-charity FRS102 2026	Non-charity FRS105 2026
Narrative reporting	Reconciliation of reserves and enhanced disclosures for future activities, volunteers, outcomes and sustainability	No changes at present (new guidance has been promised). . Threshold to increase to £500k (30 Sept 2026)	No changes as already minimal	No change as director's report not required
Accounting policies	Updated policies to reflect relevant changes such as for legacies, income recognition and leases	No changes at present	Will need to be updated to reflect changes to income recognition and leases	Minimal
Grants and donations	Based on received / receivable and probable	No change to cash basis	No change to accruals / performance basis	No change
Balance sheet and notes	Leases as assets and liabilities, plus contract assets & liabilities	No change to statement of A&L	Leases as assets and liabilities, plus contract assets & liabilities	Contract assets & liabilities
Income & Expenditure /P&L	Changes to income recognition. Rent replaced by depreciation & interest	No changes as cash basis	Changes to income recognition and rent / leases	Changes to income recognition

Charities SORP 2026 New tiers*

Receipts & Payments	R&P	Non-company UK charities (e.g. CIOs and unincorporated) with income less than £250,000 (£500,000 from 30 Sept 2026)
SORP	Tier 1	All charities applying accruals accounts (including all company charities) and with a gross income of not more than £500,000
SORP	Tier 2	All charities with a gross income falling above the tier 1 threshold and with a gross income of not more than £15m
SORP	Tier 3	All charities with a gross income falling above the tier 2 threshold

*SORP tier levels will be subject to a public consultation later in 2026

Overview of the key changes

IMPACT ON CHARITIES – TRUSTEES’ ANNUAL REPORT

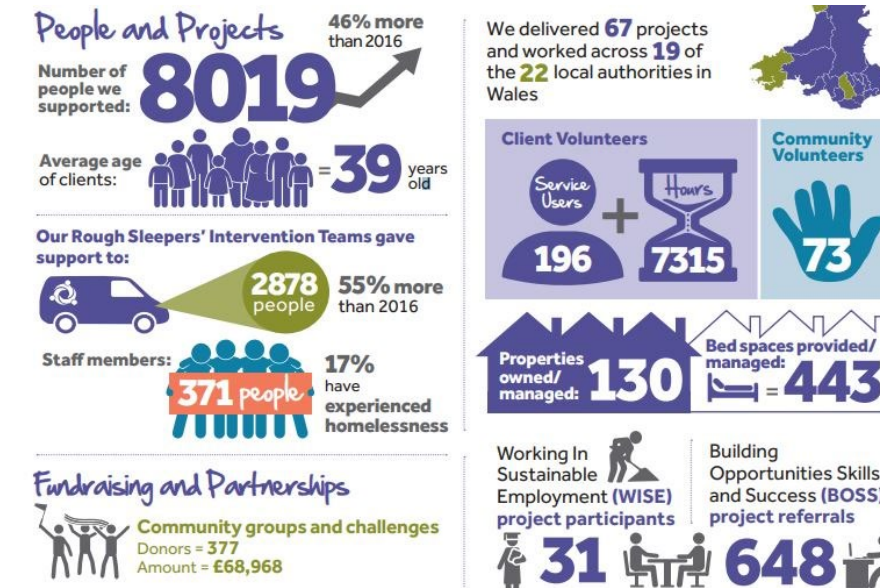


Reserves and future plans

- Reconciliation and explanation of the calculations
- Comparison with reserves policy and link to going concern
- Summary of plans for the future (now all charities)
- Tier 2&3 to include aims and objectives and details of any activities planned to achieve them and trustees’ perspective

Volunteers

- Disclose the scale and nature of activities undertaken by different volunteers
- More details for charities in Tier 2&3 with information on the activities supported and may include volunteer hours or staff equivalents where practical to do so.



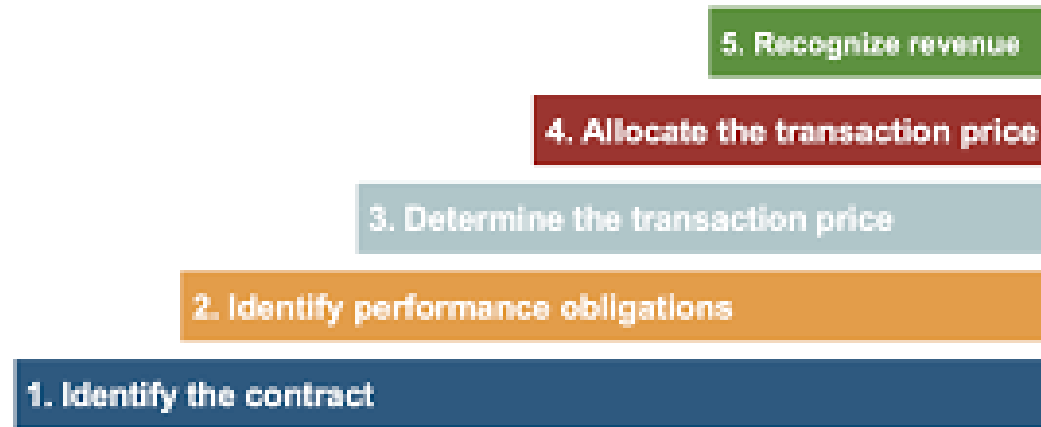
Other

- **Sustainability** - All charities encouraged to explain how they are responding to and managing ESG
- Explanations of the policy and calculation of recognition for **legacy income**
- How the charity manages **risk**, including **Cyber** risks

Impact

- Articulation of the impact of the charity and its activities on beneficiaries and wider society
- Extra detail and analysis for tier 2&3 charities

IMPACT ON CHARITIES - INCOME



Revenue Recognition: The 5-step model

- Income earlier or later
- New: contract debtors & creditors
- Satisfying performance obligations
- Transfer of control
- Varying judgements being made such as un-bundling services and income allocations



Grants & cash donations

- Updated policy may be needed but probably not too much difference as it is still about “control” and subject to any performance conditions

Legacy Income

- Updated policies may be needed
- Recognition may be earlier or later
- Judgements and approach disclosed in notes



Donated goods and services

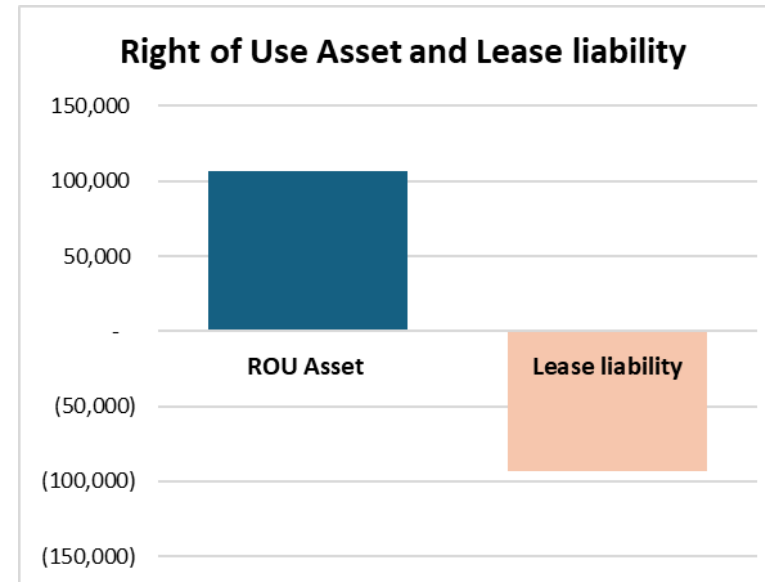
- Based on the value to the charity. Not a change, but SORP is now clearer so compliance may be better

IMPACT ON CHARITIES - LEASING



Assets to be on balance sheet

- This could add significant assets to the balance sheet and for smaller charities will probably be the largest figure
- Mainly buildings, vehicles and major equipment
- Varying judgements being made such as on lease terms, dilapidations, modifications and discount rates will impact right of use asset values and lease liabilities



Exemptions

- Low value items such as computer and office equipment
- Short term leases of less than 12 months



Lease liability

- Potentially a very large figure on the balance sheet
- May initially look concerning and impact financial metrics & assessments
- Could impact funding, banking or social investment covenants

Peppercorn and low rent leases

- Peppercorn & nominal leases will usually be exempt
- Low rent leases may be classed as “social donation” leases if there is a philanthropic intent as part of the agreement
- May need significant judgement as to the correct treatment and especially where there are restrictions on use and performance conditions



Trustee's Annual Report

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Trustees report (SORP 2026) - Prompt questions

Framing the report (applies to all charities)

- Who are the intended users of the Trustees' Annual Report?
- What information do those users need to understand the charity's work, performance and financial position?
- Is the report balanced, clear and understandable to a non-technical reader?
- Does the narrative align clearly with the financial statements?

Tier 1 (up to £500k) – What the charity has achieved (mandatory for all charities)

- What difference has the charity's work made to its beneficiaries during the year?
- What evidence demonstrates those outcomes or impacts?
- Has the charity's work provided any wider public benefit or benefit to society as a whole?
- Are both successes and significant challenges explained?

Trustees report (SORP 2026) - Prompt questions

Tier 2 – £500k to £15m (Objectives, activities and performance)

Objectives and purpose

What are the charity's aims and objectives?

What needs or issues is the charity seeking to address?

How do the objectives support delivery of public benefit?

Activities

What were the charity's main activities during the year?

How do those activities contribute to achieving the charity's aims?

Have there been any significant changes to activities or services?

Strategy and approach

What strategies were in place to achieve the charity's objectives?

How were resources allocated to support those strategies?

How did trustees ensure activities remained aligned with charitable purposes?

Performance and measurement

What criteria or measures are used to assess success?

How did actual performance compare with plans or expectations?

What lessons were learned and how will they influence future plans?

Reserves – SORP 2026

SORP 2026 includes a clear definition of reserves and specifically what should be excluded. Starting with **unrestricted funds, deductions** should be made for fixed assets, designated funds, commitments, investments, restricted funds and endowments.

New requirement to include a **reconciliation** from unrestricted funds to the calculation of reserves (either within the funds note or a separate note) if it is not clear how the charity's reserves tie into the financial statements.

All charities must now **compare** their actual reserves to the reserves policy and explain action being taken to align with the policy. If a charity has designated funds or otherwise committed funds at the year end, then they must explain the expected timing of the expenditure in the future.



Reserves Example – SORP 2026

Note 14 Reserves

	31st March 2027 £	31st March 2026 £
Total unrestricted funds (see note 15 below)	401,590	321,988
<u>Exclude:</u>		
Tangible Fixed assets (including right of use assets)	(432,607)	(309,380)
Lease liabilities for right of use assets	93,147	-
Long term pension deficit	85,000	95,000
Free reserves	147,130	107,608

The reserves policy is based on a range of 3 to 6 months unrestricted expenditure:

Three months	£80,739	£75,361
	to	to
Six months	£161,479	£150,722



Volunteers – SORP 2026

All charities must include an explanation to disclose the **scale and nature** of activities undertaken by different volunteers in their reporting.

Charities in Tier 2 and 3 should also include information on the **number of general volunteers** and **activities supported** by those general volunteers and may include volunteer hours or staff equivalents where practical to do so.

There continues to be a difference in accounting treatment between **general and non-general volunteers**. General volunteers are not included in the income and expenditure numbers whilst specific (non-general) volunteers (such as trades) are included at the value to the charity.

Impact – SORP 2026

All charities must provide a **summary of the main achievements** of the charity and the SORP encourages the use of infographics, statistics and testimonials to demonstrate this and how it **links to charitable expenditure**. There are **two questions** which should be considered when preparing this summary, to help explain the impact that charity is making:

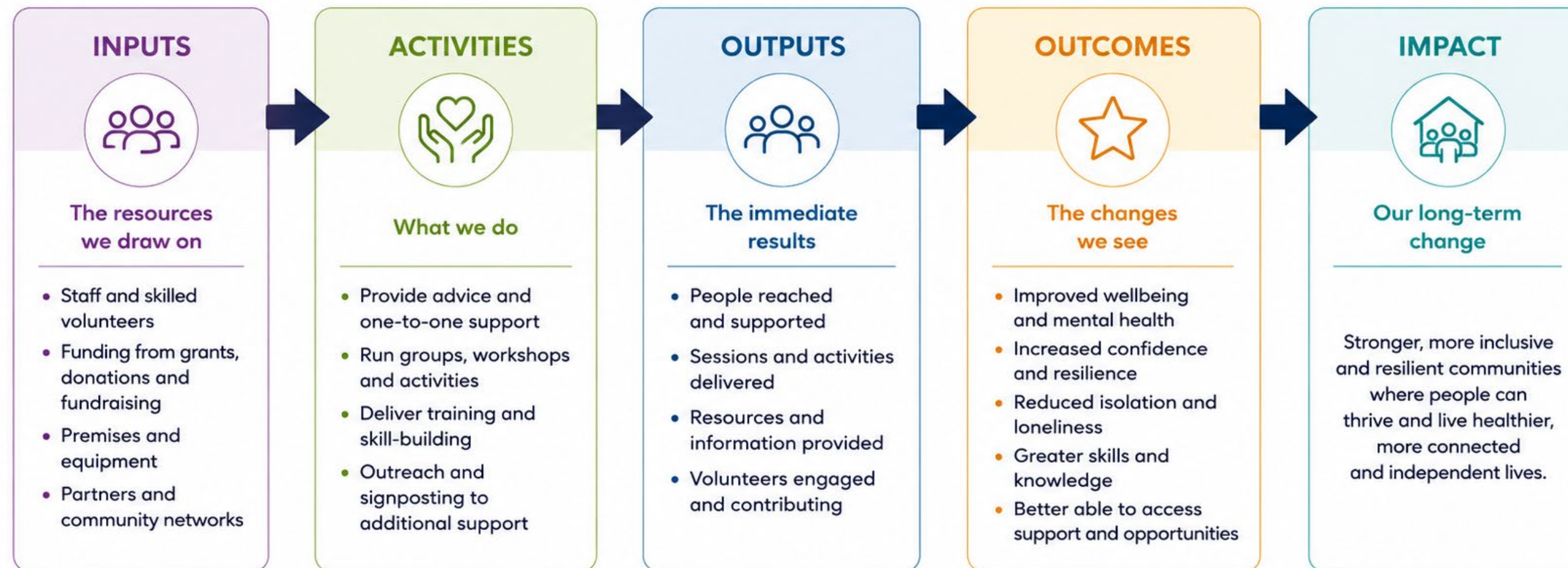
- In what way has the charity's work made a difference to the circumstances of its beneficiaries?
- Has the charity's work provided any wider benefits to society as a whole?

Charities in Tier 2 and 3 must also explain the **long-term effect of its activities on individual beneficiaries and society** as a whole and the use of impact stories is encouraged to communicate this.

Impact – Example

OUR THEORY OF CHANGE

This simple model shows how our resources and activities lead to positive change in our community. It guides our work, helps us measure what matters and demonstrates our public benefit (SORP 2026).



OUR APPROACH | We listen to our community, work in partnership and continuously learn and adapt. We use feedback and data to improve our services and maximise our impact.

Impact – Example

Linked to Expenditure Analysis

In Trustees' Annual Report

Older People	<ul style="list-style-type: none"> • 1,850 attendances at the weekly lunch club by 72 older residents • Weekly wellbeing sessions attended by over 300 older residents
Young People	<ul style="list-style-type: none"> • 96 young people participating in after-school activities • Youth engagement projects involving 180 young people • Employment support resulting in 94 individuals entering work or training
Community	<ul style="list-style-type: none"> • 105 adults attended education sessions • 214 advice appointments resulting in an estimated £148,000 in additional benefits secured • Expansion of volunteer opportunities with 96 active volunteers contributing approximately 3,200 hours • Renovation of the community garden with support from local businesses

In Notes to the accounts

Year to 31st March 2027

	Older adults	Young people	Community	Total
	£	£	£	£
Staff costs	125,432	98,432	38,903	262,767
Direct delivery/project costs	23,755	16,741	19,773	60,269
Premises costs	13,838	8,303	5,535	27,675
Governance costs (see note 6 below)	-	-	12,450	12,450
Support costs (see note 5 below)	69,340	41,604	27,736	138,680
Total	232,365	165,080	104,397	501,841

Income Recognition

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Income Recognition - Changes in approach

Type of income	Examples	Current Recognition	New Recognition
Exchange	Contracts Sales Rental/room hire Business activities	Risk & Rewards (Invoiced with adjustments for deferred & accrued income)	5-step model based on promises/deliverables Emphasis is on control rather than stages of delivery
Non-exchange	Grants Donations Legacies	Entitlement basis	Received/ receivable (e.g. grants & donations) or probable (legacies)

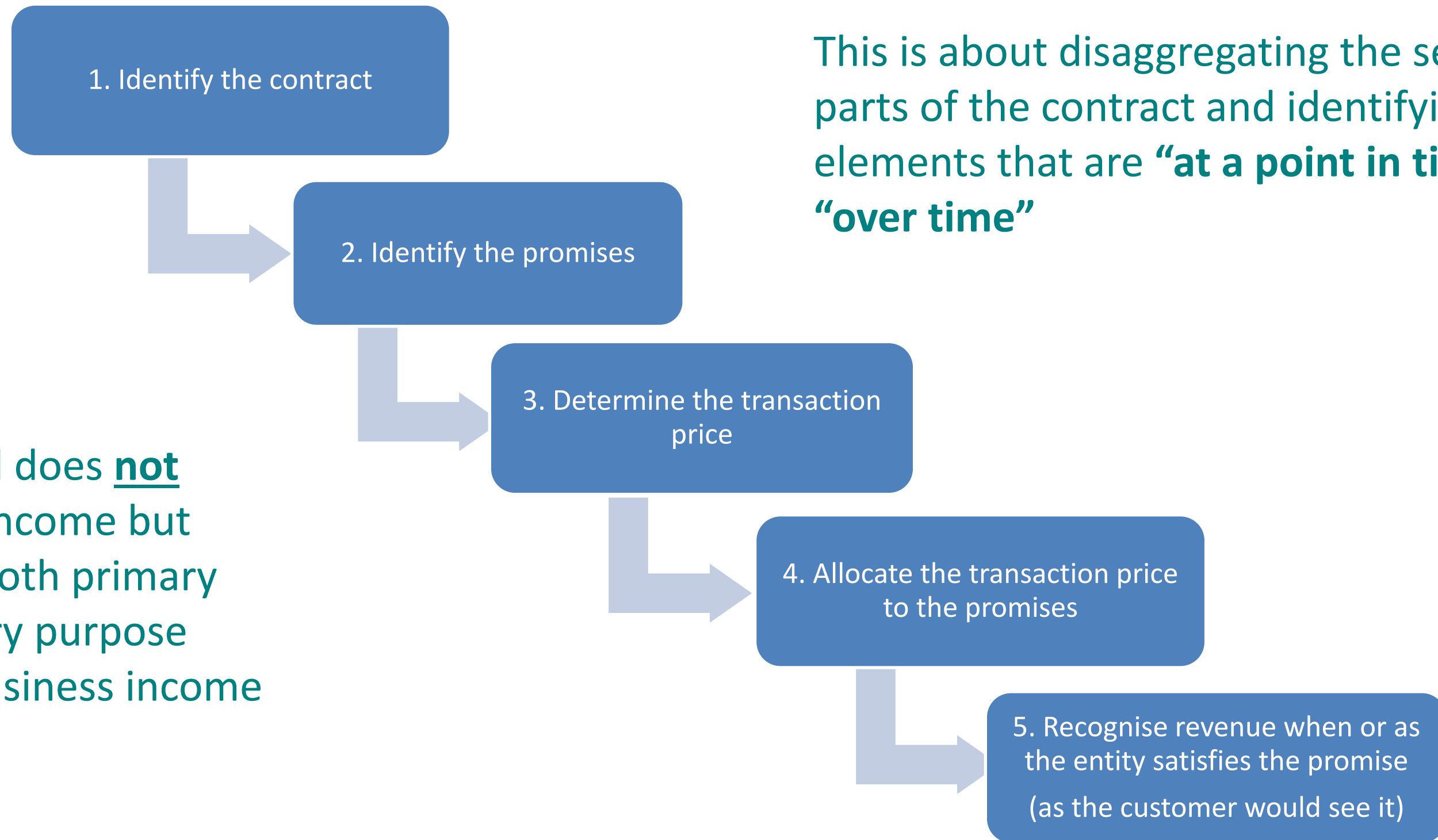
Grants, donations and legacies (non-exchange income)

- **Grants & donations** – based on received/receivable and measurable (~~“entitlement”~~ dropped)
- **Legacies** – based on “probable” and measurable. Recognition is about what economic benefit the charity controls today, not what it expects to receive in the future. Probable will usually happen on probate or notification of the estate accounts. Judgement often needed here.
- **Donated goods** - normally recognised at fair value on receipt. If fair value cannot be measured reliably, or the cost of valuation outweighs the benefit, goods for resale may instead be recognised when sold.
- **Donated services and facilities** - recognised only where the charity would otherwise have purchased them and the value can be measured reliably. They are measured at the **value to the charity**
- **Volunteers** – General volunteers not normally recognised although may be disclosed in the trustees’ annual report. Specialist volunteers (eg a trade service) should be recognised at value to the charity

Grant or Contract?

Contract	Grant
Commissioned service	Existing or new service seeking funding
Specification of services to be provided / IPR generated and owned by the funder	Indication of likely areas of benefit
Based on a price for services	Based on funding of costs incurred
Direct link between service provided and the recipient	Beneficiaries receive the service and a third party funds it
Binding agreement between the parties	Grant is a donation freely given with the timing, amount and frequency usually at the discretion of the donor
Profits can be retained	Unspent amounts to be returned to funder unless agreed otherwise

5-step income recognition model for trading and contract income



This is about disaggregating the separate parts of the contract and identifying elements that are “**at a point in time**” or “**over time**”

This new model does **not** apply to grant income but **does** apply to both primary and non-primary purpose contract and business income

Income Recognition - Changes in approach



Care package

Equipment
Dressings
Weekly visits

Annual membership

Free entrance
Quarterly journal
Annual event

Employment support

Equipment
Training
Transition support

Emergency alarm

Equipment
Monitoring service
Annual service

Income Recognition Example 1

Charity provides an emergency alarm service to vulnerable adults. Price is £25 per month inclusive of equipment, monitoring service and an annual service.

Current Income recognition:

Income is recognised monthly

SORP 2018	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total
Monthly charges	£25	£25	£25	£25	£25	£25	£25	£25	£25	£25	£25	£25	£300



**Emergency
alarm**

Equipment
Monitoring
service

Annual service

Income Recognition Example 1

Charity provides an emergency alarm service to vulnerable adults. Price is £25 per month inclusive of equipment, monitoring service and an annual service.

Current Income recognition:

Income is recognised monthly

SORP 2018	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total
Monthly charges	£25	£25	£25	£25	£25	£25	£25	£25	£25	£25	£25	£25	£300

New FRS102/SORP Income recognition:

Income is recognised in line with fulfilment/delivery (5-step model)

SORP 2026	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total
Equipment/set up	£120												£120
Monitoring/repairs	£10	£10	£10	£10	£10	£10	£10	£10	£10	£10	£10	£10	£120
Annual service												£60	£60
	£130	£10	£10	£10	£10	£10	£10	£10	£10	£10	£10	£70	£300

Any amount not yet able to be recognised will be a **contract creditor** and any amount recognised in advance will be a **contract debtor**



Emergency alarm

Equipment

Monitoring service

Annual service

Income Recognition Example 2

Youth membership costs £50 per year. Benefits include a diary, access to facilities for the year and a ticket to a special summer event.

Current Income recognition:

Income is recognised on renewal

SORP 2018	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total
Annual fee	£50												£50



Annual Youth Membership

- Diary
- Access to facilities
- Ticket to summer member event

Income Recognition Example 2

Youth membership costs £50 per year. Benefits include a diary, access to facilities for the year and a ticket to a special summer event.

Current Income recognition:

Income is recognised on renewal

SORP 2018	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total
Annual fee	£50												£50

New FRS102/SORP Income recognition:

Income is recognised in line with fulfilment/delivery (5-step model)

SORP 2026	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total
Diary	£6												£6
Access to facilities	£2	£2	£2	£2	£2	£2	£2	£2	£2	£2	£2	£2	£24
Summer event					£20								£20
	£8	£2	£2	£2	£22	£2	£2	£2	£2	£2	£2	£2	£50



Annual Youth Membership

Diary

Access to facilities

Ticket to summer member event

Judgements in Income Recognition

Exchange or non-exchange?	In most cases straightforward but sometimes judgement needed between grants and contracts, for example, local authority service agreements
Receivable	Often clear (eg grant offer) but sometimes may need judgement, especially where there are performance obligations or it is in-kind
Value to the charity	Based on what the charity would have paid if it was to purchase the goods or services (this could be of a lower spec)
Legacies	Judgement over when a legacy becomes probable and measurable. A clear policy can help
Separable elements for contracts and sales	Identifying the (separate) promises and attaching a value to them. Deciding on whether integrated supply and could be used by other customers
Point in time or over time	Not always clear about when the promises are fulfilled. Estimates may be needed
General and non-general volunteers	Distinction may now always be clear. Where trades volunteers are recognised, will need to be a value to the charity

Leasing



Leasing changes - Overview

- Removal of distinction between finance and operating leases
- Leases are “capitalised” and included on the balance sheet as an asset (right of use) and a lease liability.
- Present value approach is used, so a discount factor will need to be established
- Complexities around the length of the lease, the value of the lease payments and below market rents. *Judgement could be a significant factor here.*
- Some exemptions apply; below 12-month leases and “low value assets”

Approach to Calculating a Lease (SORP 2026)

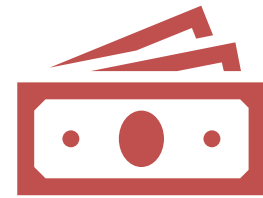


Is there a lease?

A contract is, or contains, a lease if the contract conveys the **right to control** the use of an **identified asset** for a period of time in exchange for **consideration**. SORP sets out a flow chart to help determine treatment, including whether there may be a social donation lease?

Does the lease fall under one of the exemptions – **short term** (less than 12 months) or **low value** (by type)

Is the agreement a peppercorn or nominal value? – if so then could be exempt



Determine lease length

Non-cancellable lease term +
Periods covered by extension options that lessee is **reasonably certain** to exercise +
Periods covered by termination options that lessee is **reasonably certain** to exercise



Identify lease payments

Fixed lease payments (include in substance but deduct leases incentives)
Variable lease payments (based on an index or rate)
Residual value guarantees (amount expected to be paid)
Exercise price of purchase options and any termination penalties



Apply discount rate

Interest rate implicit in the lease (where available)
Incremental or obtainable borrowing rate
Interest otherwise obtainable on deposits (charities/PBEs only and when other options not practicable)

SORP 2026 - Overview of accounting treatment for operating leases for charities

Low value or short-term lease

- Exemptions in FRS102 that allow the current treatment as an expense and disclosures. Short term is less than 12 months.
- Low value is by “type” rather than £, and on a per asset basis

Market rate rental

- Unless it falls under the exemptions, then normal FRS102 “on balance sheet” lease accounting rules apply
- Net of commercial discounts and incentives

Below market rental

- Part lease, part donation (SORP refers to “**Social Donation Leases**”)
- Lease liability based on actual rental payments and right of use asset on this plus in-kind income element at value to the charity

Peppercorn or nominal value

- Treat as a donation in kind (non-exchange transaction)
- Based on the value to the charity

Lease at Market Rent - Example

Midminster Youth has a lease for offices. The lease term is 5-years, and the annual rent payable is £20,000. This is a market rent.

Current accounting treatment of the lease

Rent is recognised as an expense in the income & expenditure account

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
	£	£	£	£	£	£
Income and Expenditure						
Rent	20,000	20,000	20,000	20,000	20,000	100,000
I&E Cost	20,000	20,000	20,000	20,000	20,000	100,000

Lease at Market Rent - Example

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Current accounting treatment of the lease

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	Year 1	Year 2	Year 3	Year 4	Year 5	Total
	£	£	£	£	£	£
Income and Expenditure						
Rent	20,000	20,000	20,000	20,000	20,000	100,000
I&E Cost	20,000	20,000	20,000	20,000	20,000	100,000

New FRS102/SORP treatment of the lease:

The lease is capitalised, with a “right of use” (ROU) fixed asset added to the balance sheet and depreciated over the lease term. The lease liability is treated like a loan with interest charged

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
	£	£	£	£	£	£
Fixed Assets						
ROU Asset	84,247	67,398	50,548	33,699	16,849	84,247
Depreciation	(16,849)	(16,849)	(16,849)	(16,849)	(16,849)	(84,247)
Net Book Value	67,398	50,548	33,699	16,849	-	-
Lease Liabilities						
Opening liability	84,247	69,302	53,460	36,668	18,868	84,247
Annual payment	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)	(100,000)
Financing costs	5,055	4,158	3,208	2,200	1,132	15,753
Closing liability	69,302	53,460	36,668	18,868	-	-

Income and Expenditure						
Depreciation	16,849	16,849	16,849	16,849	16,849	84,247
Financing costs	5,055	4,158	3,208	2,200	1,132	15,753
I&E Cost	21,904	21,008	20,057	19,050	17,982	100,000

Lease length (year)	5
Annual rent	£20,000
Discount rate	6%
Net present value/ ROU Asset	£84,247
Implicit interest	£15,753

Judgements in Leasing

Lease length	Trustees need to consider what is “reasonably certain”. This can change in the future and require updated calculations
Rolling leases	Are they really a lease and if so what is the intention (reasonably certain)?
Peppercorn/below market value	What is the “value to the charity”. Do conditions and restrictions mean a low rent is actually the market rent or is it a social donation lease?
Right of control	Do restrictions and conditions mean the right of control of an asset is not met?
Discount rate	Which method to use and finding an appropriate rate / supporting evidence
Asset provisions	Estimates of costs to be added
Variable elements	Whether related services need or are to be included (eg cleaning, servicing)
Exemptions	Are leases genuinely under 12 months or judgement as to what is low value?

Example SORP 2026 Accounts

Midminster Community Association CIO



Midminster Community Association CIO
Report of the Trustees
for the Year Ended 31 March 2027

The trustees present their report with the financial statements of the charity for the year ended 31 March 2027. The financial statements are prepared in accordance with Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) (effective 1 January 2026) - (Charities SORP (FRS 102)), the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) and the Companies Act 2006

The financial statements have also been prepared in accordance with the accounting policies set out in notes to the accounts and comply with the charity's governing document and the Charities Act 2011.

FRS102/SORP 2026 has been applied from 1st April 2026, and an adjustment to opening reserves has been made using the modified retrospective approach (see note 14), hence comparatives have not been amended. The charity is in Tier 2 for SORP reporting purposes.

Structure, Governance and Management

The charity is a Charitable Incorporated Organisation governed by a constitution adopted on 1 April 2020. Trustees are appointed by members at the Annual General Meeting and may serve for a maximum of two consecutive three-year terms.

The trustees are responsible for the strategic direction and oversight of the charity. Operational management is delegated to the Chief Executive and senior management team. New trustees receive induction training covering governance and legal responsibilities, safeguarding, financial management and the charity's activities.

The board uses a skills matrix system to review and strengthen the range of trustee expertise, ensuring effective support for operational work. The board met six times during the year and maintained oversight through finance, safeguarding and service delivery reports. Trustees also reviewed the charity's principal risks, including funding pressures, staff recruitment and safeguarding matters.

Staff Remuneration and Salary Governance

In line with standard charity practice and sector expectations, Midminster Community Association determines staff salaries by benchmarking roles against comparable positions within the voluntary, youth, and public sectors. Pay levels take into account the experience, qualifications, and responsibilities of each role. All remuneration decisions are reviewed and approved by the Board of Trustees, ensuring alignment with the charity's mission, financial position, and long-term sustainability.

Any salary increases are approved by the trustees following consideration of inflationary pressures, sector trends and the charity's overall financial sustainability.

Volunteers

The charity has 96 active volunteers (excluding the trustees) contributing over 3,200 hours during the year. The volunteers cover a variety of roles, categorized as follows:

Role	Volunteer hours
Community activities (e.g. events and fundraising)	1,200
Adult and older people activities (e.g. lunch clubs & gardening)	650
Youth activities	850
Admin and caretaking support	500
Total	3,200

Trustees estimate that replacing this contribution with paid staff would have cost approximately £80,000.

Case Study - SORP Comparison – SoFA

	SORP 2026	SORP 2019	Change
	Total funds	Total funds	Total funds
	£	£	£
Income from:			
Donations	13,655	13,655	-
Charitable activities	545,230	486,430	58,800
Investment and rental	3,926	3,926	-
Total income	<u>562,811</u>	<u>504,011</u>	<u>58,800</u>
Expenditure on:			
Raising funds	36,755	36,755	-
Charitable activities	501,841	503,505	(1,664)
Pension fund	10,000	10,000	-
Other	15,982	9,860	6,122
Total expenditure	<u>564,578</u>	<u>560,120</u>	<u>4,458</u>
Net income / (expenditure)	(1,767)	(56,109)	54,342
Transfers between funds	-	-	-
Gains/(losses) on investments	2,402	2,402	-
Net movement in funds	635	(53,707)	54,342
Total funds brought forward	452,675	437,674	15,000
Total funds carried forward	<u>453,310</u>	<u>383,967</u>	<u>69,343</u>

Case Study - SORP Comparison – Balance Sheet

	SORP 2026 £	SORP 2019 £	CHANGE £
Fixed Assets			
Tangible fixed assets	432,607	325,917	106,689
Investments	17,642	17,642	-
	<u>450,249</u>	<u>343,559</u>	<u>106,689</u>
Current Assets			
Stock	6,324	6,324	-
Debtors	142,739	66,239	76,500
Cash at bank and in hand	208,442	208,442	-
	<u>357,505</u>	<u>281,005</u>	<u>76,500</u>
Creditors : amounts falling due within one year	<u>(77,297)</u>	<u>(59,597)</u>	<u>(17,700)</u>
Net Current assets / (liabilities)	<u>280,208</u>	<u>221,408</u>	<u>58,800</u>
Creditors: amounts falling due after more than one year	(192,147)	(96,000)	(96,147)
Net assets excluding pension liability	<u>538,310</u>	<u>468,967</u>	<u>69,342</u>
Defined benefit pension liability	(85,000)	(85,000)	-
Total net assets	<u>453,310</u>	<u>383,967</u>	<u>69,342</u>
CHARITY FUNDS			
Unrestricted funds			
General	276,590	207,247	69,342
Pension reserve	85,000	85,000	-
Designated	40,000	40,000	-
	<u>401,590</u>	<u>332,247</u>	<u>69,342</u>
Restricted Funds	51,720	51,720	-
Total Funds	<u>453,310</u>	<u>383,967</u>	<u>69,342</u>

Example Accounts

SORP Comparison – Metrics

Figures from financial accounts		SORP 2026	SORP 2019		Change
Gross assets	£	807,754	624,564		183,189
Total liabilities	£	354,444	240,597		113,847
Net assets	£	453,310	383,967		69,342
Net current assets	£	357,505	281,005		76,500
Net surplus / (deficit) for the year	£	635	(53,707)		54,342
EBITDA	£	82,132	7,842		74,290
Total unrestricted funds	£	401,590	332,247		69,343
Free reserves	£	147,130	91,330		55,800
Current (acid test) ratio		4.63	4.72		-0.09

Exercise 2- Some Review Points

- Trustees' report increased to 5 pages and more notes and disclosures
- More of a focus on impact and volunteers
- More clarity on reserves, reconciliation and comparison with the policy
- Total income increased by £59k to £563k, purely as a result of the income changes. In tier 2 for SORP 2026
- Net surplus of £635 (SORP 26) compared to a reported deficit of £54k (SORP 19)
- No statement of cashflows. New contract debtors and creditors
- Right of use asset of £120k capitalised as well as a lease liability of £93k

A blue-tinted photograph of a line graph on a document. A pen is resting on the graph. The graph shows a line that starts at a low point, rises to a peak, and then falls. The numbers 2.5 and 2.47 are visible on the graph. The text "Transition and accounting policies" is overlaid on the graph.

**Transition and
accounting policies**

Changes to accounting policies

- **Basis of accounts** – Update to FRS102/SORP 2026 and explanation of approach to transition, including any transition adjustment
- **Income recognition**– to reflect changes in the definitions and recognition for grants, donations, legacies and other non-exchange income and the use of the 5-step model for contract and sales income. Explain approaches to judgement.
- **Fixed assets** – Inclusion of right of use assets, depreciation and any approach to valuation.
- **Debtors and creditors** – inclusion and basis for contract debtors and creditors
- **Leasing** – Update to reflect the new on balance sheet requirements for all leases and the approach to assumptions, below market/peppercorn leases, low value exemptions and calculations
- **Other** – As relevant, e.g. social investment, natural classifications, and any other accounting policies that are refreshed at the same time.

Transition – SORP 2026

Implementation date – Accounting periods beginning on or after 1st January 2026. E.g for charities with a 31 March year end, it would mean from 1st April 2026.

Annual Report – Comparative information, such as on reserves and volunteers should be provided where possible

Income recognition – Choice between amending comparatives or an opening reserves adjustment.

Leasing – Opening reserves adjustment with existing lease based on remaining term at the transition date

MIDMINSTER COMMUNITY ASSOCIATION
RECONCILIATION OF OPENING RESERVES AT 1st APRIL 2026

	Note	£	£
UNRESTRICTED FUNDS			
Unrestricted reserves at 31st March 2026	14		321,988
Changes on transition to SORP/FRS102 2026 at 1 April 2026			
Right of use fixed asset	8	120,025	
Lease liability	15	(102,025)	
Diliapidations provision for right of use asset	8	(18,000)	
Contract assets	10	15,000	
Contract liabilities	11	-	
			15,000
Unrestricted reserves at 1st April 2026			336,988

There are no changes to restricted funds as a result of the transition.

Note 8 Tangible Fixed Assets

	Leasehold improvements £	Fixtures and fittings £	Computer equipment £	Right of use assets £	Total £
Cost					
At 1 April 2026	355,000	30,170	15,190	-	400,360
Right of use asset recognised on transition	-	-	-	120,025	120,025
Additions	-	66,086	12,000	-	78,086
As at 31 March 2027	<u>355,000</u>	<u>96,256</u>	<u>27,190</u>	<u>120,025</u>	<u>598,471</u>
Depreciation and impairment					
At 1 April 2026	70,000	13,442	7,538	-	90,980
Depreciation charged in year	35,500	19,251	6,798	13,336	74,885
As at 31 March 2027	<u>105,500</u>	<u>32,693</u>	<u>14,336</u>	<u>13,336</u>	<u>165,865</u>
Carrying amount					
At 31 March 2027	<u>249,500</u>	<u>63,563</u>	<u>12,855</u>	<u>106,689</u>	<u>432,607</u>
At 31 March 2026	<u>285,000</u>	<u>16,728</u>	<u>7,652</u>	<u>-</u>	<u>309,380</u>

The right of use asset is the building lease. A dilapidations provision of £18,000 has been included in the right of use asset cost. See also note 15

Note 15 Operating leases

The charity has entered into lease arrangements for the use of community building and equipment. These leases do not transfer ownership of the asset to the charity and were previously classified as operating leases. Under FRS 102 (2024), the charity has recognised lease liabilities and right-of-use assets in respect of these arrangements on transition as at 1st April 2026. Hence comparatives have not been restated.

	31st March 2027	31st March 2026
	£	
Lease liabilities due within 1 year	15,000	-
Lease liabilities due after more than 1 year	78,147	-
Total lease liabilities	<u>93,147</u>	<u>-</u>

Maturity analysis of lease liabilities (undiscounted):

Payable in:

	£	£
Less than one year	15,000	15,000
One to two years	15,000	15,000
Two to five years	45,000	45,000
Over five years	45,000	60,000
Total	<u>120,000</u>	<u>135,000</u>

The lease liabilities are measured at the present value of future lease payments, discounted using the charity's estimated obtainable borrowing rate, which was assessed to be 6%.

Depreciation on the right of use asset is charged on a straight-line basis over the lease term. Interest on lease liabilities of £6,612 (2026 £Nil) is recognised within support costs.

Short-term and low-value leases:

The charity has elected not to recognise lease liabilities for leases with a term of 12 months or less or where the underlying asset is of low value. The expense related to these leases for the year was £4,200 (2026: £3,900), included within premises and office costs.

**MIDMINSTER COMMUNITY ASSOCIATION
STATEMENT OF FINANCIAL ACTIVITIES
(INCLUDING AN INCOME AND EXPENDITURE ACCOUNT)
FOR THE YEAR ENDED 31 MARCH 2027**

**MIDMINSTER COMMUNITY ASSOCIATION
BALANCE SHEET AS AT 31st MARCH 2027**

	Note	Unrestricted funds 2027 £	Restricted funds 2027 £	Total funds 2027 £	Total funds 2026 £
Income from:					
Donations	2	3,655	10,000	13,655	35,782
Charitable activities	2	377,577	167,653	545,230	489,774
Investment and rental	3	3,926	-	3,926	16,122
Total income		385,158	177,653	562,811	541,678
Expenditure on:					
Raising funds		36,755	-	36,755	43,751
Charitable activities	4	260,221	241,620	501,841	474,120
Pension fund	18	10,000	-	10,000	-
Other	5a	15,982	-	15,982	8,964
Total expenditure		322,958	241,620	564,578	526,835
Net income / (expenditure)		62,200	(63,967)	(1,767)	14,843
Transfers between funds		-	-	-	-
Gains/(losses) on investments	9	2,402	-	2,402	(1,240)
Net movement in funds		64,602	(63,967)	635	13,603
Total funds brought forward		336,988	115,687	452,675	424,071
Total funds carried forward	15	401,590	51,720	453,310	437,674

	Note	2027 £	2026 £
Fixed Assets			
Tangible fixed assets	8	432,607	309,380
Investments	9	17,642	15,240
		450,249	324,620
Current Assets			
Stock	1	6,324	4,119
Debtors	10	142,739	66,567
Cash at bank and in hand		208,442	289,497
		357,505	360,183
Creditors : amounts falling due within one year	11	(77,297)	(38,629)
Net Current assets / (liabilities)		280,208	321,554
Creditors: amounts falling due after more than one year	12	(192,147)	(113,500)
Net assets excluding pension liability		538,310	532,674
Defined benefit pension liability	18	(85,000)	(95,000)
Total net assets		453,310	437,674
CHARITY FUNDS			
Unrestricted funds			
General	15	276,590	186,987
Pension reserve	15	85,000	95,000
Designated	15	40,000	40,000
		401,590	321,987
Restricted Funds	15	51,720	115,687
Total Funds		453,310	437,674

Non-charity not for profit organisations

Using small company or micro entity frameworks

Small Companies (FRS 102/FRS 102 S1A)

- *Most CICs (although not a requirement)*
- *Community Benefit Societies*
- *Companies limited by guarantee*
- *Private companies (if not using FRS105/micro)*

Key Changes:

- Leasing on balance sheet
- New income recognition model
- Some disclosure requirements that were exempted for small companies under section 1A, will now be required (e.g. full related party disclosures and for provisions and contingencies)

Micro Entities (FRS105)

Where below micro entity thresholds:

- *Some CICs*
- *Companies limited by guarantee*
- *Private companies*

Key Changes:

- New income recognition model (some simplifications in initial implementation and for disclosures)

It is not just charities that are impacted by the underlying changes in accounting frameworks. Companies using FRS102 or micro-entities (FRS105) will also be impacted

Approaches for management accounts

Leasing

SORP/FRS102 approach

- Rent replaced with depreciation & interest
- Consistent with year end
- More complex to do and understand

Year end approach

- Rent as expense in management accounts
- Balance sheet only fully up to date at Y/E
- Y/E differences and reconciliation

Hybrid approach

- Post rent payments (for FRS102) leases to “leasing costs” in year and disaggregate at Y/E
- Cost and Y/E adjustment will be clearer to see

Income Recognition

SORP/FRS102 approach

- Use 5-step model and consistent with Y/E
- More complex to do and understand
- May need software functionality/spreadsheets

Year end approach

- Income on invoiced bases (plus deferred)
- Consistency with current approach
- Y/E differences and reconciliation

Hybrid approach

- Use 5-step for major contracts/income in year
- May be less complex to implement
- Adjust at Y/E for other income

FRS 102 and Charities SORP 2026

Software

Current situation

- Current versions of bookkeeping and accounting software do not have any specific functionality to help meet the new requirements, especially for leases and income recognition
- Workarounds such as the use of spreadsheets, adapting the chart of accounts and journals would need to be used. Some audit firms have developed spreadsheet based “calculators” and AI may be help to help with some calculations (but be careful!)

Future Development

- Software companies are generally still at quite an early stage in their understanding and planning for the changes to leasing and income recognition. Many see the new requirements as “year end” in nature, so the first developments of functionality are likely to be in “accounts production” software, meaning a year end adjustments approach. Not much is expected to be available until 2027/8.
- Availability of software for SORP accounts is already quite limited at present and these will need to be updated.
- Longer term, bookkeeping products will include relevant functionality, for example having income recognition embedded in invoices and right of use asset calculations and transactions in fixed asset registers

System changes and entries – step by step

Leasing

- Update chart of accounts; include new codes for right of use assets, lease liabilities, interest
- Use a spreadsheet to calculate the lease liability, right of use asset, depreciation and interest charges (bear in mind the complexities and judgements that may be involved)
- Do a transition journal to set up ROU asset, liability and other adjustments (eg dilapidation provision). Code to relevant analysis codes (e.g. for activities and funds)
- Run monthly, quarterly or annual journals for depreciation and interest (depending on management accounts frequency). Run P&L and balance sheet reports

Income recognition

- Update chart of accounts; include new codes for sales and contract income and for contract debtors and creditors
- Where relevant set up separable elements in “products and services”
- Use a spreadsheet to understand the promises/deliverable of each impacted product line. May need a collective approach where individual sales are low or contract by contract for larger sales. **Most systems do not have functionality to add dates for promises**
- Do a transition journal as may be needed for opening contract debtors/creditors
- May need to amend invoice template to avoid showing separable elements

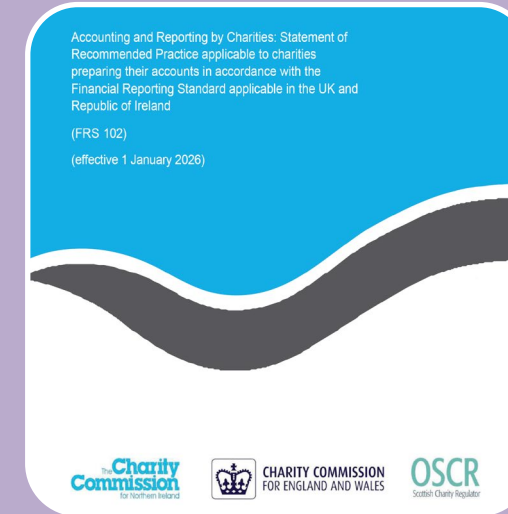
FRS102/SORP – Actions for organisations



Expenditure by Activity

1 March 2024

	Advice Services	Capital Project	Core & Overheads	Counselling	Prem
es	-	605,000	-	-	-
	108,000	-	-	-	-
	20,000	-	1,600	22,000	-
& Donations	-	-	-	9,800	-
ources	128,000	605,000	51,891	31,800	-
	27,500	-	-	-	-
	27,500	-	-	-	-
	100,500	605,000	51,891	31,800	-
sts	4,630	-	1,982	-	-
s	-	570,000	-	-	37
	24,000	-	36,000	27,000	-
Costs	28,630	670,000	37,982	27,000	37
	71,870	35,000	13,929	4,800	-



Identify leases & contracts

Establish whether they meet the definitions

Decisions & Judgement

Exemptions
Assumptions on leases and contracts
Seek professional advice

Bookkeeping records & calculations

Spreadsheets, manual adjustments, Journals, software options

Budgets & management reporting

Adopt new approach? E.g. Rent = rent or depreciation + interest in budgets etc

Annual Report & Accounts

Adopting the new requirements, extra disclosures and transition adjustments

Grant Applications

Impact on eligibility, Explanations needed on changes, differences between year end and management accounts

Think of your users

Trustees

- Explain the changes and impact on the trustees' annual report and material changes to income, assets and liabilities
- Ensure they are clear about your approach to impact measurement, management accounts and budgets
- Consider whether to switch to receipts and payments (where eligible)

Funders, commissioners, lenders, banks and major donors

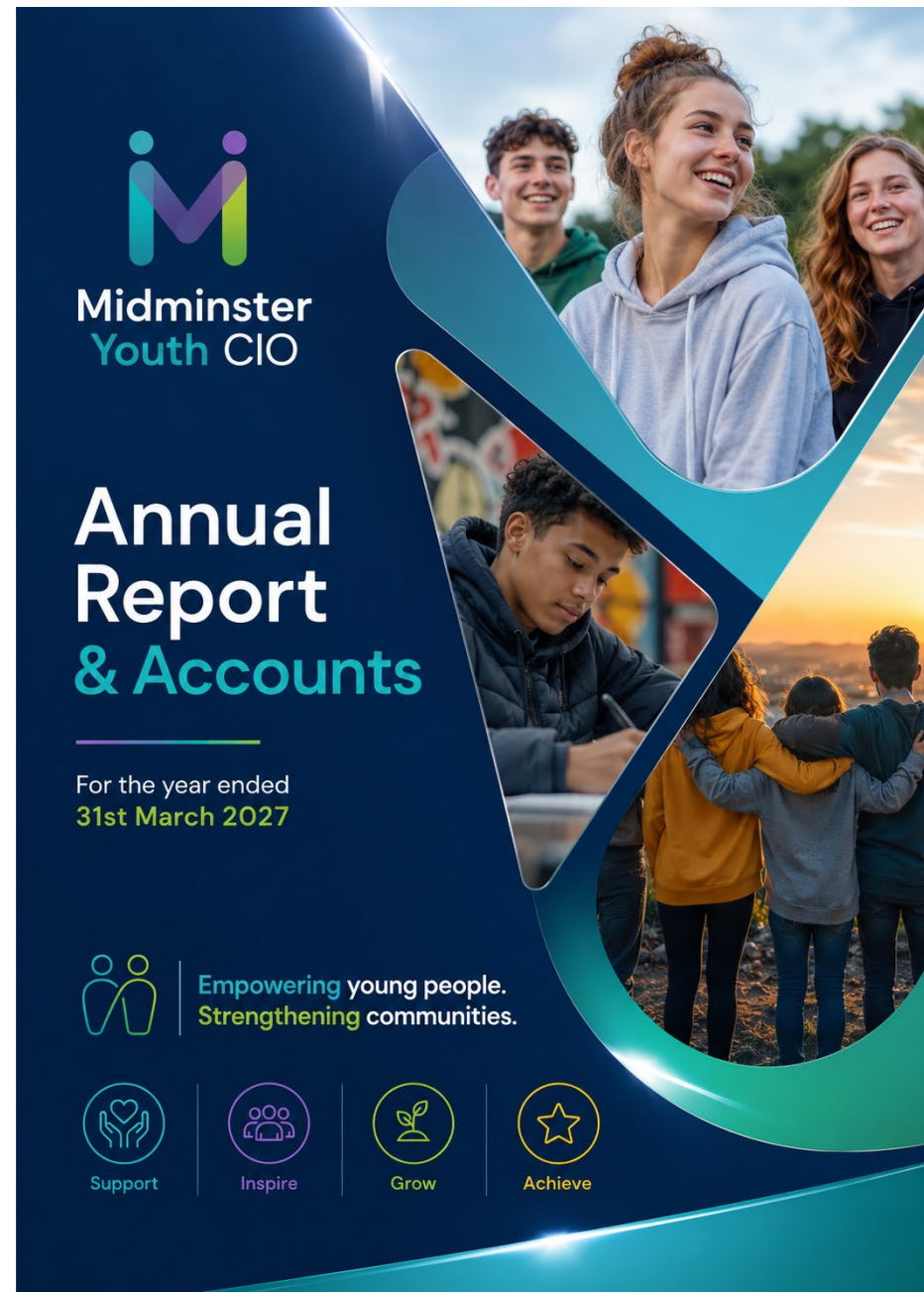
- Explain the changes and impact in the trustees' annual report.
- They may be positive about the extra information on impact, volunteers, sustainability and reserves in the annual report, but confused about the changes to some of the numbers
- Speak with existing funders to explain major changes and differences with management accounts
- Understand if there are any implications for thresholds or eligibility, such as around income, gross assets and liabilities and include relevant explanations in grant returns, applications etc

Other stakeholders

- Take the opportunity to refresh your approach to the annual report, not just the changes

Who reads your accounts?

Typical Example



**Funders &
Local
Authorities**



Donors & members



Media, local people and beneficiaries



Regulators



FRS 102 and Charities SORP 2026

Timelines for users of accounts

Initial adoption/transition accounts

Year end	When likely available
31/12/26	Mid/late summer 2027
31/03/27	Autumn/winter 2027
30/06/27	Early 2028
30/09/27	Spring 2028

- Adoption of new requirements using transition rules including adjustment to opening reserves
- Comparatives not usually (or fully) restated making review and analysis difficult
- Full compliance including Trustees' Annual Report may be variable

Post transition accounts

Year end	When likely available
31/12/27	Mid/late summer 2028
31/03/28	Autumn/winter 2028
30/06/28	Early 2029
30/09/28	Spring 2029

- First year in which all comparatives will be on the same basis
- Compliance likely to improve as years go on but some areas will remain challenging and subject to varying judgement

Final Takeaways

- Start planning now and set out key actions. Ensure trustees are involved and consult your accountant, independent examiner or auditor
- Work through implications for bookkeeping, management reporting and data that needs to be collected
- Consider implications for users, and how you are going to communicate any major changes – use this as an opportunity to improve your reporting

Questions



Contact

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NEAL HOWARD
Growing Social Enterprises