



SORP 26 for Trustees

What's changing, why it matters,
and how to get year-end ready

VERSION : OCTOBER 2025

Disclaimer: This guide is for general information only and is not accounting, tax or legal advice. Please speak to your adviser about your charity's specific circumstances

Executive summary

The charity reporting rulebook is being refreshed. A draft Charities SORP 2026 was issued for consultation in March 2025, with feedback reflected in the new SORP 2026. It will apply to accounting periods starting on or after 1 January 2026, and it aligns with the updated FRS 102 (March 2024)

For most charities, the impact clusters into three areas

1

Leases come onto the balance sheet.

The old split between operating and finance leases goes for lessees. Expect recognition of a **right-of-use asset** and **lease liability** for most property, vehicle and equipment leases.

Knock-ons: audit thresholds, loan covenants, and KPIs may shift.

2

Income from exchange contracts follows a 5-step model.

You'll identify performance obligations, set the transaction price and recognise income as you meet those obligations. Non-exchange income (e.g. grants) is broadly unchanged.

3

Tiered reporting requirements.

A new three-tier framework calibrates what you must include in your Trustees' Annual Report (TAR) and accounts. All charities still report on impact; larger ones add more indicators, sustainability and KPIs.

What to do now

Build a clean list of leases, map your income streams against the 5 steps, and check what tier you're in so you can plan your TAR and disclosures. If you start early, transition should be smooth and you may even tighten governance and year-end timetables along the way.

Key facts at a glance

Timeline

Draft issued Mar 2025 → SORP 2026 issued October 2025 → Effective for accounting periods from 1 Jan 2026.

Standards alignment

SORP 26 aligns to FRS 102 (Mar 2024)

Leases

Operating vs finance lease distinction removed for lessees; most leases on-balance sheet (asset + liability). Possible effect on audit thresholds and bank covenants

Income (exchange)

New 5-step model
(contract → obligations → price → allocate → recognise as delivered)

Income (non-exchange)

Grants/donations unchanged in principle: recognise on receipt (no performance conditions) or when performance conditions are met.

Tiers

- Tier 1: income < £500k: reduced reporting.
- Tier 2: £500k–£15m: moderate reporting.
- Tier 3: > £15m: most extensive reporting.

TAR highlights

All charities report impact; Tiers 2–3 explain performance indicators by activity. Volunteer contributions described by all; sustainability disclosures encouraged for Tiers 1–2 and mandatory with KPIs for Tier 3. Reserves policy to be stated by all (and variance explained).

Leases: what changes and what to check

What's Changing

Under SORP 26, the familiar “operating lease expense” line largely disappears for lessees. Instead, most leases will be recognised on the balance sheet as a right-of-use asset with a matching lease liability. Expense recognition shifts towards depreciation (for the asset) and interest (on the liability). This aligns charity reporting with broader practice and improves transparency over long-term commitments.

Why it matters

Bringing leases onto the balance sheet can increase total assets and liabilities. For some charities that can:

- Tip you across an audit threshold based on asset values; and/or
- Affect bank covenants that reference balance-sheet ratios.
- It may also change internal KPIs (e.g., EBITDA-style metrics) and how trustees interpret year-on-year movements.

Actions to take now

1. Make a lease inventory

Capture all property, vehicles, equipment, printers, and embedded leases in contracts. Note start/end dates, options, escalators and break clauses.

2. Model the impact

Estimate the likely right-of-use asset and liability, and test any covenants.

3. Talk to auditors and lenders early

Avoid surprises at year-end; agree an approach to materiality and disclosures.

4. Update policies & controls

Refresh accounting policies and trustee papers so approvals reflect the new treatment.

Trustee takeaway

Expect the balance sheet to grow. That's not a bad thing it's a clearer picture but plan the comms in your TAR so readers understand the shift.

Income: the 5-step model (exchange)

What's Changing

Where you have an exchange contract (you provide goods/services and receive consideration), SORP 26 aligns with a five-step model

1. **Identify the contract with your customer/funder.**
2. **Identify distinct performance obligations (what exactly are you promising to deliver?).**
3. **Determine the transaction price (what are you entitled to?).**
4. **Allocate the price to each performance obligation.**
5. **Recognise income as you deliver those obligations.**

What's not changing

For non-exchange income (e.g., many grants and donations), recognition is broadly as now

- If there are no performance-related conditions, recognise income when received.
- If there are performance conditions, recognise as and when those conditions are met.

What to do now

Make a lease inventory

List your income streams and tag them as exchange or non-exchange

For exchange items (e.g., service level agreements), write down the promises you've made and when you'll consider them met

Check timing

Some income may move between years depending on delivery milestones.

Trustee takeaway

You're aiming for a consistent, documented approach. For many charities, the amount and timing won't change much but the discipline of how you document it will.

Tiered reporting & the Trustees' Annual Report (TAR)

Three tiers, proportionate effort

SORP 26 introduces Tier 1 (< £500k), Tier 2 (£500k–£15m) and Tier 3 (> £15m) to better match Companies Act small/medium/large. The aim is simpler reporting for smaller charities and clearer expectations for larger ones. For example, a statement of cash flows is only required where you breach small company thresholds.

What everyone must still do

All charities continue to explain impact in the TAR, the difference your activities make, and to set out a clear reserves policy (including the desired level of reserves and, if you're off-target, the steps to get back on plan). All must also describe the contribution of volunteers (narrative only not quantified).

What scales with size

Tiers 2–3

explain the indicators used to assess performance and provide more detail by activity.

Sustainability

Tiers 1–2 are encouraged to discuss environment/social matters; Tier 3 must do so and include KPIs against sustainability goals

Trustee takeaway

Check your tier now and draft your TAR outline early. It's far easier to collect the right evidence throughout the year than to retrofit it at year-end.



Your 10-step readiness checklist (start this quarter)

- 1 Name an owner**
for SORP 26 transition (FD or trustee with finance lead).
- 2 Compile lease schedules**
and assess right-of-use assets/liabilities; brief the board on covenant/audit-threshold implications
- 3 Map income streams**
to exchange vs non-exchange and apply the 5-step logic where relevant.
- 4 Draft accounting policies**
updates (leases, revenue)
- 5 Set your tier**
and outline your TAR sections, including volunteer contribution and reserves policy narrative
- 6 Decide your sustainability approach**
(encouraged for Tiers 1–2; mandatory with KPIs for Tier 3)
- 7 Educate budget-holders**
short briefing for managers on lease decisions, service contracts and evidence you'll need
- 8 Engage auditors early**
to agree materiality and disclosure expectations
- 9 Update board reporting templates**
(e.g., add lease metrics; adjust KPIs where definitions change).
- 10 Plan your communication**
a short plain-English note in the TAR explaining the transition effects on the numbers.

How we can help

If you're reading this, you're already ahead. The next step is to turn good intentions into a clean first year under SORP 26.

Our recommended path

1

A Charity Year-End Readiness Health-Check (15 minutes) to triage leases, income streams and TAR requirements

2

A short, practical SORP 26 transition plan tailored to your tier: what to change, who does it, and when

3

Optional support to build a trustee-friendly board pack, case studies for your Annual Report, and a communications note to explain the numbers



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Prepared by Myers Clark's charity specialists. If you'd like a walk-through of the draft SORP and what it means for your charity, we're happy to help.