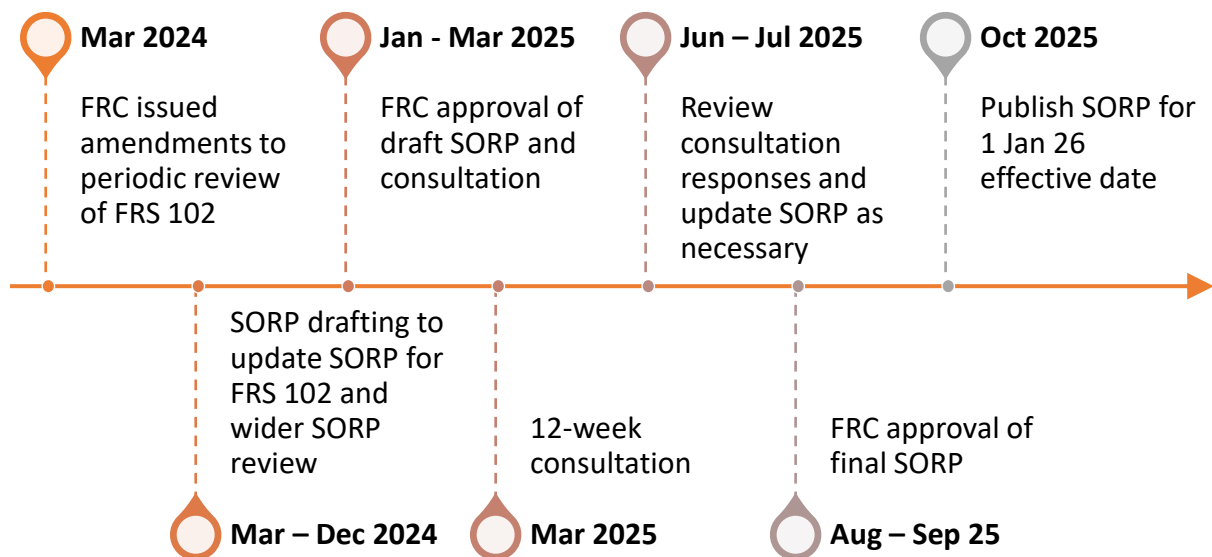


## Changes to UK accounting rules that will impact charities

The SORP-making body, supported by its advisory SORP Committee, are working with the Financial Reporting Council (FRC) to finalise the drafting of the next Charities SORP. The SORP is being updated to reflect changes in UK and Ireland GAAP and other SORP updates.

The SORP-making body will submit the draft SORP to the FRC in January 2025 for the FRC's approval ahead of the public consultation on the SORP. The public consultation will run for 12 weeks and is expected to be issued no later than March 2025. The current project plan expects an updated SORP to be issued in Autumn 2025. The effective date of the SORP will align with FRS 102 and will be effective 1 January 2026. Figure 1 sets out the SORP development timeline.

Figure 1: SORP timeline



## Changes to UK and Ireland GAAP

The FRC is responsible for UK accounting standards. Between 2021 and 2024 the FRC conducted a periodic review of Financial Reporting Standard FRS 102. FRS 102 is the accounting standard that charities preparing their accounts on an accrual basis need to comply with. The Charities SORP provides guidance on FRS 102 from the charity sector perspective. The SORP also sets requirements for charities

that are sector specific requirements which are not set out in FRS 102. The SORP cannot override FRS 102 and the FRC must approve the SORP and in doing so ensure that it accurately reflects FRS 102.

The updated SORP will not be published until Autumn 2025 so it is imperative that charities are proactive in identifying and understanding how the changes introduced by FRS 102 will impact them.

The SORP will provide guidance however, there is information available in FRS 102 that will assist charities in their readiness for the changes.

There are two significant changes in FRS 102 that will be applicable to charities and will be introduced as new requirements in the SORP. These changes relate to lease accounting and revenue recognition, set out below are points charities should be considering now in relation the FRS 102 changes in these areas.

### **Lease accounting**

The current FRS 102 allows charities account for operating leases as an expense. The new FRS 102 will require charities to account for most operating leases on the balance sheet. FRS 102 has moved to this approach as it continues to align with international accounting standards. As a result, charities that lease assets, will see an increase in assets and liabilities on the balance sheet. There will also be changes to how a charity presents expenses relating to the lease in the statement of financial activities.

The SORP-making body acknowledge that this will be a challenging area for charities to understand and to make the necessary changes. In addition, it recognises that this will introduce additional cost for charities. In responding to the FRC's consultation on updating FRS 102, the SORP-making body suggested simplification and exemption be provided to charities. However, the FRC concluded that all entities applying FRS 102 will be required to follow section 20 (Leases) of FRS 102 with some simplifications available. Charities must now consider how the changes impact them and apply the changes as necessary to all leases.

In readiness for the changes introduced by FRS 102 charities should:

- Refer to FRS 102 and resources provided by the FRC
- Review current lease arrangements
- Establish whether current leases would qualify for any simplification i.e. short term of low value lease (see section 20 FRS 102)
- Identify what leases will need to be accounted for on balance sheet (see section 20 FRS 102)



- Identify and understand the approach that will need to be taken to identify the value for the leases and relevant transactions
- Consider what record keeping would be helpful to implement now to assist with future preparation of financial statements
- Consider whether the change in asset position on the balance sheet will impact any current borrowing or financial arrangements/covenants or planned future financial arrangements/covenants –
- Consider whether any potential changes in balance sheet asset value will result in the charity needing to have an audit
- Seek professional advice if needed and consider speaking with auditors or independent examiners

As FRS 102 is bringing in new requirements to lease accounting, the SORP will be reflecting the new FRS 102 requirements and a new module on lease accounting will be introduced to the SORP. The new SORP module will provide examples to assist charities and will also provide further detail on charity specific issues such as peppercorn leases. The SORP cannot override the standard so the new changes introduced by FRS 102 will also be set out in the SORP.

### **Revenue recognition**

The new FRS 102 Section 23 will introduce a five-step revenue recognition model for income from exchange contracts. This will mean that charities will need to recognise income from exchange contracts differently under the new FRS 102. Charities will need to carefully assess their revenue recognition accounting policies to ensure they are compliant with the new requirements.

In readiness for the changes introduced by FRS 102 charities should:

- Refer to FRS 102 and resources provided by the FRC
- Review current contracts and income streams
- Identify both the amount and timing of income using the new 5 step model
- Consider what record keeping would be helpful to implement now to assist with future preparation of financial statements
- Consider whether the change will impact any current borrowing or financial arrangements/covenants or planned future financial arrangements/covenants
- Seek professional advice if needed and consider speaking with auditors or independent examiners



CHARITY COMMISSION  
FOR ENGLAND AND WALES

OSCR  
Scottish Charity Regulator

The Charity  
Commission  
for Northern Ireland

As FRS 102 is bringing in new requirements on revenue recognition, the SORP will be reflecting the new FRS 102 revenue requirements. The SORP will provide examples to assist charities. The SORP cannot override the standard so the changes introduced by FRS 102 will also be set out in the SORP.

As stated above the SORP will also be updated for non FRS 102 requirements. The current project plan anticipates that the SORP exposure draft will be subject to public consultation in March 2025.

Update provided on 3 December 2024