

Appendix 4: Basis for conclusions

Introduction

- B.1. This appendix outlines the main issues considered by the joint SORP-making body in producing the Exposure Draft of the Charities SORP 2026. It summarises the deliberations of the joint SORP-making body in developing this Exposure Draft of the SORP which has been driven by the need to maintain consistency with FRS 102 and a desire for improvement for both users of the SORP and users of charity annual reports and accounts. The development of this SORP has been informed by input from volunteer SORP engagement partners and the advisory Charities SORP Committee.

Background

- B.2. In 2018-19, the joint SORP-making body carried out a Governance Review of the process used to develop the Charities SORP. The aim of the review was to improve the SORP for both users of the SORP (preparers of accounts) and users of the resulting charity annual reports and accounts. As a result of the Review, a new SORP Committee and over 70 volunteer engagement partners were recruited to help the SORP-making body in its work.
- B.3. The engagement partners assisted the work of the SORP-making body by identifying areas and issues that needed to be addressed for the benefit of both user groups. Fifteen areas were identified by the engagement partners and their feedback on these areas was discussed by the SORP Committee. This provided clarity on the issues being experienced and allowed exploration of the potential solutions to deal with these.
- B.4. In 2021, the Financial Reporting Council (FRC) commenced a Periodic Review of FRS 102. This resulted in publication in March 2024 of Periodic Review Amendments to FRS 102 which take effect for accounting periods starting on or after 1 January 2026. This Exposure Draft SORP contains updates that are necessary to ensure consistency with FRS 102 for accounting periods starting on or after 1 January 2026.
- B.5. Throughout the Exposure Draft SORP, minor changes were made to the drafting and some paragraphs were re-organised to provide incremental improvements and clarity to users of the SORP. Some minor changes were also made to include additional content from FRS 102 to provide some context to charities. These amendments were not intended to change the requirements of the SORP, but to improve the usability of the SORP.
- B.6. In developing the Exposure Draft SORP, the SORP-making body has focused on explaining the requirements set out in the SORP in a way that is simple and easy to understand to support good quality financial reporting by all charities applying the SORP. The SORP-making body has sought to think about the needs of smaller

charities in particular when drafting the SORP and have drafted the SORP text with this in mind including relevant examples where necessary to help illustrate requirements.

Changes made in this SORP as a result of amendments to FRS 102

B.7. This section outlines the main changes that have been made in the Exposure Draft SORP as a result of amendments made to FRS 102, which were published in 2024 following the FRC's Periodic Review of FRS 102. Every SORP must maintain consistency with UK Generally Accepted Accounting Practice under the FRC's Policy on Developing SORPs. As a result, changes made to FRS 102 necessitate corresponding amendments to the Charities SORP.

Leasing

- B.8. The amendments to FRS 102 introduce new requirements for lease accounting which affect both entities leasing assets to others and those leasing assets from another entity. A new module has been introduced to the Exposure Draft SORP that explains the relevant requirements for charities in both situations.
- B.9. The module is designed to allow preparers to understand where the requirements of section 20 of FRS 102 apply and where they do not as well as where there are recognition exemptions and what these mean in practice. The recognition exemptions apply to short term leases and leases of low value assets.
- B.10. The new lease accounting module provides more examples of situations that charities may encounter in comparison to other modules. This is to help illustrate the explanations and requirements of the module and support good quality reporting of such transactions.

Revenue recognition

- B.11. FRS 102 has been updated to include new accounting requirements for revenue recognition based on the five-step model set out in IFRS 15 *Revenue from Contracts with Customers*. The underlying principle of this model is that revenue is recognised according to when the entity transfers to the customer, control of the good or service that it has promised to provide. For charities, this change will impact on income that is derived from exchange transactions.

Other changes made in the SORP

Tiered reporting

- B.12. One of the recommendations from the SORP Governance Review was that the needs of smaller charities should be better served by the SORP and reporting requirements made more proportionate where possible. The needs of smaller charities have been considered when developing the SORP against the need for charity reports and accounts to provide adequate information to stakeholders.
- B.13 A simpler receipts and payments framework is available to unincorporated charities and charitable incorporated organisations with income below £250,000. Research shows that some charities eligible to prepare receipts and payments accounts will opt to voluntarily produce accrual accounts which requires them to follow the SORP requirements. In developing the SORP, the SORP-making body have sought to include further guidance on the option available for smaller charities to produce receipts and payments accounts. Outside of the SORP, the SORP-making body is considering further options for promoting the receipts and payments option.
- B.14. Section 1A of FRS 102 sets out the presentation and disclosure requirements that are specific to small entities choosing to apply the small entities regime. It sets out the minimum requirements that small entities under FRS 102 are required to provide. The SORP-making body believes that the public have different transparency and accountability expectations of charities compared to for-profit entities, meaning that more information is required about how charities operate. The SORP-making body previously considered whether using Section 1A of FRS 102 as a starting point, the SORP could be developed to reduce any burden of reporting on smaller charities. This consideration included the partial drafting of a SORP based on Section 1A of FRS 102 which was discussed with the Charities SORP Committee. The conclusion from that work was that there would be very little practical benefit arising for charities from developing a SORP on the basis of Section 1A of FRS 102 as the requirements set out in Section 1A of FRS 102 would require significant additions to meet the transparency and accountability expectations of relevant stakeholders. Consequently, the SORP-making body have concluded that the Section 1A of FRS 102 regime is not suitable for charities and therefore the SORP continues not to permit the use of Section 1A of FRS 102.
- B.15 The SORP-making body have sought to develop the requirements of the SORP proportionately for smaller charities within the constraints of FRS 102 and applicable law but without using Section 1A of FRS 102 for the reasons stated above at B12. In considering proportionality, the SORP-making body took into account a number of factors including:
- the number of requirements that entities have to meet
 - the needs of users of charity annual reports and accounts
 - the changing operating environment for charities
 - the ease of fulfilling reporting requirements.

- B.16. The SORP-making body are also committed to advancing financial reporting for charities as this positively contributes to public trust and confidence in charities. The Exposure Draft SORP proposes to add requirements for information to be included within the Trustees' Annual Report for all charities, but it is expected that this information is already available to the charity trustees in governing the charity appropriately. The SORP-making body therefore considers the reporting requirements to be proportionate, taking into account all relevant factors.
- B.17. Previously, the Charities SORP differentiated some requirements for smaller and larger charities, defining larger charities as those with income over £500,000. The main areas where there were differences for smaller and larger charities in the SORP related to the Trustees' Annual Report, the reporting of the charity's expenditure on the basis of natural classification or activities, the preparation of a cash flow statement and some disclosures in relation to trustee remuneration.
- B.18. This Exposure Draft of the SORP proposes to introduce three tiers:
- Tier 1 - charities with gross income of not more than £500,000 (EUR 500,000)
 - Tier 2 - charities with gross income above the tier 1 threshold but not more than £15 million (EUR 15 million)
 - Tier 3 - charities above the tier 2 threshold
- B.19. The threshold selected to distinguish tier 3 from tier 2 only takes into account the gross income criteria used in defining a small company in company law and a small entity in FRS 102. The additional criteria for defining a small company (employee numbers and total assets) were not selected to try to avoid confusion for smaller charities about the requirements that apply to them and to be consistent with the approach in the extant SORP. Similarly, the upper threshold for tier 1 maintains consistency with the upper threshold for smaller charities in the extant SORP.
- B.20. To take advantage of the flexibility that the SORP-making body has to differentiate the requirements for different sizes of charity, the modules of this Exposure Draft SORP where different requirements apply depending on which tier the reporting charity is in are:
- Module 1 – Trustees' Annual Report
 - Module 4 – Statement of Financial Activities
 - Module 8 – Allocating costs by activity
 - Module 9 - Disclosure of trustee and staff remuneration, related party and other transactions
 - Module 14 – Statement of cash flows
- B.21. For all other modules in the Exposure Draft SORP tiering does not apply and those modules will be applied in full to all charities, where applicable. The SORP-making body cannot provide an exemption from a requirement of FRS 102 but it introduce additional requirements and apply those on a tiered basis. There are also areas of the SORP where the reporting requirements are considered by the SORP-making body to be critical to the understanding of the charity's finances, operations and

governance for users of the annual report and accounts and so are applied to all charities regardless of size.

- B.22. The different reporting requirements for the tiers in each of these modules is further explained below.

Changes made in each module of the SORP

Scope and Application

- B.23. Preparers can early adopt the 2024 Periodic Review amendments to FRS 102, and this Exposure Draft SORP will also be available for early adoption. Note, FRS 102, including the Periodic Review amendments 2024, must be applied at the same time as this SORP. In those jurisdictions where the applicable SORP under which accounts are prepared is specified in regulations, this SORP cannot be adopted until the new regulations are made allowing its use.

Module 1 - Trustees' Annual Report

- B.24. This module has been largely rewritten with the aim of helping charity trustees to understand the narrative reporting requirements placed on them and to encourage trustees to link the narrative information to the financial detail in the accounts. Recognising that this module is the one that charity trustees are most likely to engage with, the module has been restructured to support clarity as to the requirements for the reporting charity.
- B.25. Narrative reporting is not covered by FRS 102, meaning the SORP-making body has some latitude about what the requirements should be in the SORP. However, there are some specific reporting requirements outlined in the relevant regulations for charities in England and Wales, Scotland and Northern Ireland and these are incorporated into module 1.
- B.26. The reporting requirements included for the Trustees' Annual Report focus on information that is of greatest interest to users of charity annual reports and accounts. Input from engagement partners allowed consideration of the information provided under the requirements of the extant SORP and how it is most commonly used, to help inform decisions about how that information should be presented and who should be required to present it.

Impact reporting

- B.27. Charities are increasingly required to explain the impact they are making. As all charities exist to provide public benefit, it follows that they should be able to communicate the benefit provided to the beneficiaries that the charity exists to serve and support. To facilitate this, prompt questions have been included in module 1 for charities to consider and answer within their Trustees' Annual Report. This approach was supported by the Charities SORP Committee. The engagement

process highlighted a strong desire for charities to report on the difference they are making and consequently, the charity's impact on the wider environment also now forms part of the considerations that charity trustees must make and report on.

Sustainability reporting

B.28. It was acknowledged in the engagement process that stakeholders are increasingly interested in how charities are responding to environmental, governance and social issues. To reflect this and to advance reporting in this area in a proportionate manner, the Exposure Draft SORP proposes that charities in tiers 1 and 2 are **encouraged** to explain how the charity is responding to and managing environmental, governance and social matters. Charities within tier 3 are **required** to explain how the charity is responding and managing environmental, governance and social matters.

Volunteers

B.29. Volunteers help charities carry out their activities and achieve their purposes. It is often difficult to produce financial information on volunteers and to obtain a reliable measurement of volunteer time for recognition in the financial statements but the SORP-making body consider this information to be important in telling the charity's story. The extant SORP requires all charities to disclose in the notes to the accounts a description of the role played by general volunteers (Module 6, Donated goods, facilities and services, including volunteers). With support from the Charities SORP Committee, some of the disclosure requirements have been relocated from module 6 of extant SORP and instead included in the requirements for all charities in the Trustees' Annual Report. In addition, the Exposure Draft SORP extends the application of the existing requirement for larger charities to provide a narrative explanation of the scale and nature of activities undertaken by volunteers to charities in all tiers. This should aid clarity in reporting and make it easier for those using charity annual reports and accounts to locate and use the information about volunteers that they require.

B.30. In relation to general volunteers, the SORP-making body propose that charities in Tiers 2 and 3 should provide information on the number of volunteers and where practicable, the contribution of volunteers may be expressed in terms of full-time equivalent hours. These disclosures are considered helpful to a user of the accounts in telling the charity's story and in addressing the difficulty of producing financial information on volunteers and/or obtaining a reliable measurement of volunteer time for recognition in the financial statements. The SORP-making body believes that as this kind information is provided as part of the annual return process to each charity regulator, that there would be minimal cost associated with including this information.

Reserves

B.31. Charity reserves are an area of interest for stakeholders but there is sometimes a

lack of understanding about the meaning of reserves from a charity perspective. This issue was clearly identified in the early engagement activity undertaken and it was agreed that improvements needed to be made to how reserves are defined in the SORP and how the disclosure requirements are explained. The Exposure Draft SORP proposes an updated definition of reserves in the glossary and more clarity about the relevant disclosure requirements for the Trustees' Annual Report. Other issues identified by engagement with stakeholders included the perceived isolation of the reserves figure in the Trustees' Annual Report from figures in the statements of account and from the consideration of going concern. The Exposure Draft SORP now includes requirements to address these points.

- B.32. In the extant SORP, there is a requirement for larger charities to provide a summary of the charity's plans for the future. This requirement has now been extended to charities in all tiers. The SORP-making body is of the view that future plans would need to be considered by charities in all tiers when considering whether the charity is operating as a going concern so it would not increase the reporting burden for smaller charities to include this information in the Trustees' Annual Report. The SORP-making body believes that this information would be beneficial to encourage transparency and allow relevant stakeholders to be informed of the charity's future plans.

Going concern

- B.33. Module 3 of the Exposure draft SORP outlines the disclosures that must be made in relation to going concern in the accounting policies note. In particular, where there are no material uncertainties about the charity's ability to continue to report on a going concern basis, this judgment should be disclosed. When the trustees are aware, in making their assessment, of material uncertainties related to events or conditions that may cast significant doubt on the charity's ability to continue as a going concern, the charity must disclose those uncertainties.
- B.34. The extant SORP requires that all charities, where at the date of approving the report and accounts there are uncertainties about the charity's ability to continue as a going concern, the nature of these uncertainties should be explained. This requirement has been included as a 'must' in the Exposure draft SORP to align with module 3 and FRS 102. A new requirement has also been included such that where a charity has no reserves (or negative net assets on the balance sheet), it must explain why it is still operating as a going concern.
- B.35. The SORP-making body is of the view these changes would not increase the reporting burden charities as they already need to produce and consider this information to comply with module 3.

Legacies

- B.36. A new requirement has been included for tier 2 and tier 3 charities, to provide a narrative explanation of how legacies are included in the accounts. The aim of this

requirement is to help users of the accounts to understand that a legacy may be recognised as income before the resources are received. The difficulty regarding recognition of legacies in charity accounts arose in discussions with engagement strands and the SORP-making body included this requirement to help address this issue.

Module 2 - Fund accounting

- B.37. Fund accounting is an important area of charity accounting and charities must ensure that different classes of funds are accounted for and reported on correctly in the accounts. Feedback provided to the SORP-making body and charity regulatory experience indicated that further clarification on fund accounting in the SORP would be helpful. This module has been updated to give more guidance for users to assist with appropriate stewardship of the funds with further guidance being included on restricted funds. The Exposure Draft SORP proposes to require charities to disclose the details of the legal power(s) used to remove the capital restrictions or amend the purposes of a restricted fund.
- B.38. The module has been updated for changes to the Charities Act 2011 updated. Text has been added to clarify that trustees can remove the designation on designated funds and trustees are now required to disclose this fact when disclosing the details of material designated funds. The content on tangible fixed assets has been moved to its own section, this amendment intends to improve the clarity of the provisions, make them easier to understand and avoid any unintended consequences which might arise from it previously being included in the restricted funds section.
- B.39. The funds note was considered by the engagement strands and SORP Committee who felt that the funds note was an important note. Taking account of feedback the example funds note at table 1 in the module has been updated and now illustrates the different funds. This change has been made to assist charities in producing the note.

Module 3 – Accounting policies

- B.40. Relevant updates have been made to this module stemming from changes made to FRS 102. Greater explanation has been added to module 3 about principles underlying the preparation of accounts that charities should be aware of, in particular how to consider the usefulness of information for stakeholders to ensure their needs are being met.
- B.41. The going concern basis of preparation is now explained in more detail within module 3, with reference to where material uncertainties exist about the charity's ability to continue to report on a going concern basis.
- B.42. Similarly, more explanation is now provided about the concept of materiality and how it applies to the preparation of charity accounts, clarifying that materiality is entity specific and how a preparer of charity accounts should determine if information is material or not.

Module 4 - Statement of Financial Activities

- B.43. The structure of the Statement of financial activities (SoFA) has been retained. There was support for retaining the two approaches for reporting on activities in the SoFA being the 'natural classification' for smaller charities and the 'activity-based' reporting basis for larger charities. Therefore, the Exposure Draft SORP has retained the requirement for tier 2 charities to report on an activity basis.
- B.44. In supporting smaller charities making a choice as to whether they wish to report on an activity basis or use natural classification, module 4 has been updated to make clearer how the SoFA will appear depending on the basis of reporting selected. An example table 2a has been included to illustrate how the reporting on a natural basis could look in the SoFA. The module has also been updated to reflect the requirements of FRS 102 more closely and setting out that joint ventures and associates must be presented as a separate line.
- B.45. A further illustrative table 3 has been included in this module to assist charities with presenting support costs and the basis for apportionment of the costs.
- B.46. The Exposure Draft SORP proposes to retire the terms programme related and mixed motive investments (see module 21 below). Consequential amendments have been made to module 4 in terms of the gains and losses on social investments. This module now sets out the requirement that gains and losses on social investments must be presented in the investment gains and losses line heading of the SoFA.

Module 5 - Recognition of income

- B.47. As explained in paragraph B.11 above, module 5 has been updated to include the new accounting requirements for revenue recognition for exchange transactions based on the five-step model in FRS 102. To accommodate the extra detail on exchange transactions and to assist users of the SORP to identify the paragraphs relevant to them, the module has been split into two main sections: section one deals with exchange transactions and section two deals with non-exchange transactions.
- B.48. Following on from the division of the module into two main sections, it was necessary to make other changes to the format and structure. As in the extant SORP, all the accounting disclosures are at the end of the module.
- B.49. In the extant SORP, income can only be recognised when three criteria are met; these are entitlement, probable and measurement.
- B.50. The approach to income recognition in the Exposure Draft SORP is that income is recognised in the statement of financial activities (SoFA) when the relevant criteria that apply to a particular type of income are met. Different criteria apply to recognising income from exchange transactions to those that apply for non-exchange transactions. For example, for exchange transactions, there are now five

stages in income recognition.

- B.51. The approach to recognising income in the Exposure Draft SORP more closely aligns with FRS 102 and consequently, the three existing income recognition criteria are no longer relevant. The terms 'entitlement', 'probable' and 'measurement' are used in the Exposure Draft SORP only when they are the relevant criteria for recognising a particular type of income. The effect of this is that the term 'entitlement' is only used in relation to the recognition of dividend income and in the definition of a 'performance related condition'.
- B.52. The recognition of income from legacies has been revised in accordance with the principles in FRS 102 and to reflect feedback received from engagement strands that there were issues with understanding the accounting treatment and lack of consistency in charity reporting on this matter. Additional guidance has been included on the information sources available to charities when developing their accounting policy for recognising income from legacies.
- B.53. Finally, the section on 'Disclosures and notes to the accounts' contains some additional disclosure requirements that have come from FRS 102.

Module 6 – Donated goods and services

- B.54. Minor updates have been made to this module to reflect the new lease accounting requirements within module 10B so that charities are clear on how to account for the non-exchange component of a lease arrangement where the lease arrangement also contains a donation.
- B.55. Some of the disclosure requirements in module 6 of the extant SORP relating to the role played by general volunteers are now included in the Trustees' Annual Report as explained in module 1. In addition, the Exposure Draft extends the application of the existing requirements for larger charities to provide a narrative explanation of the scale and nature of activities undertaken by volunteers to charities in all tiers. This should aid clarity in reporting and make it easier for those using charity annual reports and accounts to locate and use the information about volunteers that they require. Module 6 still requires the notes to the accounts to include information about the contribution of unpaid general volunteers.

Module 7 – Recognition of expenses and liabilities

- B.56. In reviewing the extant SORP and considering how improvements could be made to aid preparers of accounts, it was identified that it would be advantageous to minimise duplication in the SORP and to make more use of cross references between modules where appropriate. The SORP Committee considered this point in relation to module 7 in particular and the relationship with module 10. A decision was taken to create a new module on provisions and liabilities that modules 7 and 10 could refer to, ensuring that all requirements and explanations relating to that topic are in one place to avoid confusion.

- B.57. Module 7 therefore no longer contains explanations of how to account for and disclose provisions or how to treat commitments that are not provisions or liabilities all such matters are now dealt with in the new module 10A.
- B.58. A key terminology change in module 7 is the switch to refer to 'expenses' instead of 'expenditure' which has been introduced to fall into line with terminology used in FRS 102. The meaning of the term is unchanged for preparers however. The module now contains greater explanation of when an obligation arises which is a key component that must be present for a liability to be recognised in the charity's accounts.

Module 8 - Allocating costs by activity in the Statement of Financial Activities

- B.59. Activity based reporting is mandatory for charities with income above £500,000 (that is, those in tiers 2 and 3) which is unchanged from the extant SORP. In order to support a more informed choice for charities in tier 1, more detail has been provided in this SORP about what the option for natural classification means in practice. Corresponding changes have been made to module 4 so that an illustrative SoFA on a natural classification basis is now also included. The majority of engagement partners supported increasing the visibility of the natural classification option in the SORP.
- B.60. To support charities in tier 1 that elect to report on an activity basis and charities in tiers 2 and 3, module 8 has been amended to highlight the importance of charities being clear about the activities that are significant in their organisation and using those to drive how the charity reports in both the trustees' annual report and also the accounts.
- B.61. Greater explanation has also been provided in the module about what support costs are. This is in response to engagement input which indicated that the understanding of what support costs are in a charity has been mixed in the past, with some viewing such costs as 'bad' or undesirable. Such costs are incurred by a charity to enable the delivery of some or all of a charity's activities and to aid greater understanding of this, amendments have been made to how such costs are described in module 8. Again, corresponding changes have been made to module 4, in particular the movement of the illustrative table providing an analysis of support costs from module 8 to module 4.

Module 9 - Disclosure of trustee and staff remuneration, related party and other transactions

- B.62. The disclosure requirements set out in this module are important for transparency. Research and regulatory experience show that there is a potential lack of understanding and awareness of the disclosure requirements for related party transactions. Updates to this module have been made to clarify existing requirements of the SORP and FRS 102. Information has been added to highlight

that consideration must be given to the timing of a transaction when considering its substance. FRS 102 requires outstanding balances with related parties to be disclosed. In setting out the transactions with related parties that do not require disclosure the extant SORP did not refer to the fact outstanding balances needed to be disclosed. This module has been updated to reflect this point.

- B.63. To ensure consistency with other guidance and the legal position the section on ex-gratia payments has been updated to reflect more clearly the glossary definition of ex-gratia payments.
- B.64. The Exposure Draft SORP proposes to remove the option to aggregate ex-gratia payments and related party transactions. This has been removed to improve transparency over these transactions.

Module 10 - Balance sheet

- B.65. Amendments in this module are primarily related to the requirements of FRS 102, with additional information now included in this module to reflect the new lease requirements within FRS 102. Although the detailed considerations of lease accounting are included in the new leasing module, module 10B, further information and cross-reference to the new leasing module has been added to provide clarity for users. This includes reference to right of use assets in paragraph 10.20, the leasing of items of property, plant and equipment at paragraph 10.30 and disclosure requirements set out at paragraphs 10.90 - 10.91.
- B.66. Other amendments to this module include:
- removal of provisions, contingent liabilities and contingent assets and funding commitments, which are now included as a new module, module 10A. (See more information on this at section B.68 below)
 - clarity provided in relation to the recognition of intangible assets with additional information provided including determining when internally generated intangible assets should be recognised
 - additional information relating to the accounting for the derecognition of property, plant & equipment including how to account for any gain/loss on disposal
 - additional information to assist in accounting for the revaluation of property, plant and equipment, including guidance on when assets should be reviewed for revaluation purposes
 - references to social investments have been removed except for a cross reference to the relevant SORP module
 - clarity has been provided on the measurement of stock for goods which are provided as part of a charitable activity
 - additional disclosure requirements have been introduced for investments and investment properties to ensure consistency with FRS 102
- B.67. The remaining amendments to this module are included to ensure consistency with FRS 102 or to assist users understanding and usability of the module by including additional explanatory text or by providing specific cross references to sections of

Module 10A - Provisions, contingent liabilities and contingent assets and funding commitments

B.68. The creation of this module has been to aid preparers to understand what provisions, contingent liabilities and contingent assets are more clearly and how transactions that commonly arise in charities must be dealt with in this area. The wording removed from module 7 on these matters was used to develop the new module, with amendments where necessary to ensure consistency with FRS 102.

Module 10B – Lease Accounting

B.69. The development of this module has been to aid preparers of charity accounts following updates to lease accounting as set out in section 20 of FRS 102, in particular the removal of the distinction between operating and finance leases for lessees, with more leases now being recognised in the balance sheet. This will be a significant change in accounting treatment for those charities with operating leases.

B.70. It should be noted that not all arrangements entered into by the charity for the use of assets will meet the definition of a lease, and therefore the leasing requirements will only apply when they do meet the definition of a lease as set out in FRS 102.

B.71. As many of these requirements will be new for charities with lease arrangements, a detailed approach has been taken to this module, providing charity specific clarity on the requirements and accounting treatment, where possible. Some of the key terms that preparers need to be familiar with to understand the reporting requirements are set out in the body of the module as well as in the Exposure Draft SORP glossary to support the ease of reading and understanding the module.

B.72. The navigation of the module is key to helping charities understand:

- if the new requirements apply to the arrangements they have
- if they do apply, whether a recognition exemption is applicable, and if not
- how to account for the arrangements that are in place

B.73. The module is therefore designed in a logical way to help charities easily understand what is relevant for them and what they need to do to help focus their attention on the applicable parts. The distinct sections of the module that deal specifically with the requirements applicable to lessees and lessors are also geared towards easier navigation.

B.74. The SORP-making body considered in great detail how charities are required to account for lease arrangements where the payments due by the lessee are significantly lower than market rates as it is considered that this is an arrangement which would apply to charities. While FRS 102 provides some requirements and guidance in this area, it does not provide significant detail.

- B.75. FRS 102 states using information readily available to it, a lessee must determine whether it is in receipt of incoming resources from a non-exchange component of a lease arrangement. This is likely to arise where the payments made under the arrangement are significantly below market rate because the lessor has the intention of supporting the charity in delivering on its charitable purposes. The Exposure Draft SORP aims to provide further guidance on the application of FRS 102 in this area.
- B.76. The SORP-making body consider that what is being received in a non-exchange transaction will most likely be classed either as an asset or a facility/service. The SORP within module 6 already explains that the measurement of a donated asset is at fair value and a donated facility or service is at value to the reporting entity, in line with the requirements of FRS 102 and this remains unchanged. It then follows that the nature of what is being received is critical to the measurement of any non-exchange component that is present in a lease arrangement so that the SORP sets out a consistent accounting treatment for the donation of assets, facilities and services to charities regardless of whether they form part of a lease arrangement or not. The module provides a way for charities to determine the substance of the arrangements they are party to which in turn determines the accounting treatment.
- B.77. In considering the disclosure requirements of FRS 102 in relation to lease accounting, the SORP-making body identified a need to introduce a specific disclosure requirement in relation to social donation leases, both for charities as lessees and lessors in such arrangements. This disclosure requirement seeks to ensure that users of charity accounts are able to properly understand these types of lease arrangements that the charity is party to and the impact of such arrangements on the charity's finances in future periods.

Module 11 – Accounting for financial assets and financial liabilities

- B.78. The amendments made to this module were primarily minor and aimed at improving usability and ensuring consistency with FRS 102. It also provides more clarity on what is a financial instrument.

Module 12 – Impairment of assets

- B.79. This module has been updated to reflect the updates to FRS 102 and a new section has been included to cover impairment of inventories. The module has been slightly restructured and the section on indicators of impairment has been moved higher in the module to improve the flow of the module.

Module 13 – Events after the reporting period

- B.80. There have been no changes made to this module in terms of requirements. Amendments have been made, however, to support better understanding about those events that require adjustments to be made to the accounts and those events

that do not require adjustments to be made. In addition, new text has been included that cross refers to further information that is provided in module 3 about how a charity should consider whether it is a going concern or not when preparing its accounts. More charities have experienced severe financial challenges following the pandemic, meaning assessment of going concern is often an issue that arises more commonly than before.

Module 14 – Statement of cash flows

- B.81. The key change in this module relates to the threshold at which charities are required, under the Exposure Draft SORP to prepare a statement of cash flows following the proposed introduction of three tiers as outlined at section B.12 above.
- B.82. The requirement within the previous SORP was that all charities with income over £500,000, preparing their accounts in line with the SORP, were required to prepare a statement of cash flows. The Exposure Draft SORP proposes to increase this income threshold to £15m (tier 3). Section 7 of FRS 102 allows an exemption for small entities, applying full FRS 102, from the requirement to prepare a statement of cash flows. The Exposure Draft SORP proposes that only tier 3 charities will be required by this SORP to prepare a statement of cash flows. Tier 1 and 2 charities may be exempt from providing a statement of cash flows when they are eligible for the exemption for small entities in FRS 102.
- B.83. The additional criteria for defining a small entity (employee numbers and total assets) are not considered in the threshold of the SORP tiers. It should be noted that the small entity definition applies to all entities, not just those constituted as companies. Tier 1 and 2 charities, who meet the small entity criteria in FRS 102, are not required to prepare a statement of cash flow but may wish to do so.
- B.84. The SORP-making body, in its considerations of how the requirements of the SORP could be as proportionate as possible for the wide variety of charities that prepare their accounts in line with it, decided to relieve those charities in tier 2 from the requirement to prepare a statement of cash flows when eligible; meaning only the very largest charities are required to prepare the statement, consistent with all companies of the same size. The SORP-making body believes this change will have a positive impact as it will reduce the reporting requirements for more charities.
- B.85. Whilst the SORP-making body recognises that some users of charity accounts may find the statement of cash flows helpful in allowing them to understand more about the charity's finances, it is unlikely that this is relevant for all charities in tier 2. Where a user does require this information, it is likely to be as a result of a funding or other relationship where the user is likely to have the power to request that information from the charity in any case so information needs can be better met on a more targeted basis.
- B.86. Another significant amendment to this module stems from Section 7 of FRS 102, which includes information on accounting for supplier finance arrangements. As a

small number of charities may be party to supplier finance arrangements paragraphs 14.21 to 14.24 have been introduced to the SORP to provide information on this section of FRS 102.

- B.87. The final significant amendment to this module relates to the template cash flow statement provided at Table 8. The previous SORP included a separate Reconciliation of net income/(expenditure) to net cash flow from operating activities (Table 9). This information has now been amalgamated into Table 8 to assist users understanding and usability of the template.
- B.88 The remaining amendments to this module are included to ensure consistency with FRS 102 or to assist users understanding and usability of the module by including additional explanatory text or by providing specific cross references to sections of FRS 102.

Module 15 – Charities established under company law

- B.89. Amendments in this module are minimal but the key amendment relates to the disclosure of equity in the balance sheet section, specifically at paragraph 15.20 which now highlights that charitable companies with share capital need disclose information in accordance with paragraph 4.12 of FRS 102.
- B.90. Other minor amendments to this module are included to ensure consistency with FRS 102 or to assist users understanding and usability of the module by including additional explanatory text or by providing specific cross references to sections of FRS 102.

Module 16 – Presentation and disclosure of grant-making activities

- B.91. Little change has been made to this module as a result of the limited feedback received from engagement partners about issues in this area. The SORP-making body considered that it would be helpful to provide more clarity about when a grant is made to an institution as opposed to an individual and have made changes to reflect this.

Module 17 – Retirement and post-employment benefits

- B.92. The module's original title, 'Retirement and post-employment benefits,' suggested broader coverage than it provided, as the primary focus is on pensions. To better reflect its content, the title has been amended to 'Retirement benefits.' Users seeking information on other post-employment benefits, such as termination benefits or long-term employee benefits, are directed to Section 28 of FRS 102. References within the module to 'post-employment benefit plans' have also been updated to 'retirement benefits' for consistency with the revised title.

Module 18 – Accounting for heritage assets

- B.93. The main amendments to this module relate to providing clarity to users of the SORP on the measurement of heritage assets which have been donated, with further information included in paragraphs 18.18 - 18.19. Additional clarity has also been added in relation to several heritage asset disclosure requirements.
- B.94. Amendments have also been made to include reference to heritage assets which may be held by a lessee as a right of use asset, although it is acknowledged that this scenario is likely to be uncommon.
- B.95. Other minor amendments to this module are included to ensure consistency with FRS 102 or to assist users understanding and usability of the module by including additional explanatory text or by providing specific cross references to sections of FRS 102.

Module 19 – Accounting for funds received as agent or as a custodian trustee

- B.96. The amendments made to this module were primarily minor and aimed at improving usability. Specifically, the module now includes references to related modules in the SORP to make it easier for preparers to navigate the document. These minor amendments align with the overall aim of the SORP revision process, which is to enhance clarity, usability, and consistency while maintaining compliance with FRS 102.

Module 20 – Total return (investments) – (England and Wales only)

- B.97. This module has been updated for changes arising in the Charities Act 2022. Section 104AA(2) of the Charities Act 2022 gives trustees a power, once they have made a section 104A(2) resolution, to then resolve to use permanent endowment to invest the total return fund, or part of it, in social investments with a negative or uncertain financial return, provided that any losses are offset by gains made elsewhere in the relevant fund.
- B.98. No additional disclosures are required by the legislation but the SORP-making body have included three new disclosures to help users of the accounts to understand the effect of making such investments and to give assurance that any losses made on such investments are covered by gains in the fund.

Module 21 – Accounting for social investments

- B.99. The Exposure Draft has retired the terms programme related and mixed motive investments and now uses the term 'social investment' to cover both terms. This is to align the definition of social investments in SORP with the definition in the Charities Act 2011 definition. The Exposure Draft SORP proposes that all gains

and losses on social investment will be presented in the SoFA as gains and losses on investments whereas in the extant SORP, a gain on a programme related investment is included within 'other income'. It is thought that this change will simplify the requirements for charities that have social investments. This change may result in a change in accounting practice for some charities and may result in charities being required to adjust comparatives.

B.100. The structure of the module has been amended and a new section on social investment loans has been included. This section more clearly aligns with FRS 102 requirements for concessionary loans. The section also sets out information on social investment loans that are not concessionary loans.

Module 22 – Accounting for charities pooling funds for investment

B.101. The wording in this module has been clarified to reflect that Common Investment Funds (CIFs) and Common Deposit Funds (CDFs) should consider the charity specific reporting requirements set out in the applicable jurisdiction and that the regulations also currently require CIFs and CDFs to consider the Investment Association SORP.

B.102. A section has been added to this module setting out that a Charitable Authorised Investment Fund (CAIF) must follow the Investment Association SORP. A CAIF is a form of collective investment scheme which is authorised by the Financial Conduct Authority and is also registered with the Charity Commission England and Wales. CAIFs are similar to CIFs and CDFs but they are authorised by the FCA which is why they are required to follow the Investment Association SORP.

Modules 23 – 29 – Overview of charity combinations and related modules

B.103. There has been little feedback on modules 23 to 29 during the SORP development process. As a result, only minor amendments have been made to these modules to ensure consistency with FRS 102 or to assist users understanding and usability of the modules by including additional explanatory text or by providing specific cross references to sections of FRS 102.

Appendix 1 – Glossary

B.104. The Glossary has been updated to reflect changes in FRS 102 and legislation. It has also been updated where the SORP definition has been amended to provide clarification on particular terms.