

Accounting and reporting by charities: the statement of recommended practice (SORP) – scope and application

Introduction

1. This Statement of Recommended Practice, applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and the Republic of Ireland (the SORP), is issued by the Charity Commission for England and Wales, the Charity Commission for Northern Ireland and the Office of the Scottish Charity Regulator in their role as the joint SORP-making body, recognised by the Financial Reporting Council.
2. This SORP provides guidance for charities on how to apply FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ('FRS 102'). It is important for preparers of accounts to make reference to this standard when preparing accounts and in making the required disclosures.
3. The introduction to each module identifies the section(s) in FRS 102 relevant to the issues addressed by that module. This SORP provides guidance on how to apply FRS 102 to charity accounts and it should be noted that in the hierarchy established in accounting standards, FRS 102 requirements and legal requirements take precedence over the SORP. Therefore, should an update to FRS 102 or a change in relevant legislation be made after the publication of this SORP, any of the provisions of this SORP that conflict with the updated FRS 102 or relevant legislation cease to have effect.
4. Where FRS 102 allows an accounting policy choice, the SORP will identify whether a particular treatment is required or whether charities can exercise a choice. The preparer should refer to the relevant SORP module to determine whether a particular policy is specified by the SORP as being more appropriate in the circumstances of a charity.
5. This SORP sets out how charities are expected to apply FRS 102 to their particular activities and transactions and explains how charities should present and disclose their activities and funds within their accounts. Preparers should also refer to FRS 102 as the disclosures listed in this SORP are not exhaustive. Note, this SORP does not permit the use of Section 1A Small Entities of FRS 102. The SORP sets out the content of the trustees' annual report which accompanies the accounts (financial statements). The trustees' annual report provides the context for, and a narrative explanation of, the financial information contained in the accounts and there must be consistency between the trustees' annual report and accounts.

6. This SORP includes charity-specific requirements that are additional to those of FRS 102. In particular, requirements relating to the trustees' annual report, fund accounting, the format of the statement of financial activities and additional disclosures aimed at providing a high level of accountability and transparency to donors, funders, financial supporters and other stakeholders. This is considered particularly important due to the public interest in the charitable sector. The phrase 'this SORP requires' is used to distinguish the additional disclosures required by the SORP which are not specifically required by FRS 102.
7. Before applying this SORP, the following sections should be read which explain the scope and application of this SORP:
 - [The intended user of the SORP](#)
 - [Objectives of the SORP](#)
 - [The intended user of the trustees' annual report and accounts](#)
 - [Scope of the SORP](#)
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 - [Choice of accounts preparation methods](#)
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The intended user of the SORP

8. The SORP is developed primarily to assist those involved in the preparation of the accounts and trustees' annual report of a charity. The SORP is also relevant to charity auditors, independent examiners and accountancy practitioners who are involved in the scrutiny of charity accounts or in advising on the application of accounting standards in the context of charities.
9. It is anticipated that users of this SORP will be familiar with accounting concepts, principles and terminology and possess a reasonable knowledge of accounting practice.
10. The SORP is only relevant to charities who prepare their accounts on an accruals basis. Charities must prepare their accounts on an accruals basis if any of the following apply:
 - the charity is registered in England and Wales or Northern Ireland and gross income exceeds £250,000 for the year
 - the charity is registered in Scotland and gross income for the year is £250,000 or more
 - the charity is a company registered with Companies House
 - the charity's governing document requires accounts to be prepared on the accruals basis.
11. If none of the situations listed in a) to d) above apply, charities may be eligible to opt to prepare receipts and payments accounts. In such circumstances, the

trustees should assess, in accordance with their own circumstances, whether the receipts and payments basis or the accruals basis is more useful to the users of their accounts. Where charities elect to prepare receipts and payments accounts, this SORP does not apply.

Objectives of the SORP

12. The recommendations of the SORP are intended to achieve the following objectives:
 - improve the quality of financial and non-financial reporting by charities
 - enhance the relevance, comparability and understandability of the information presented in charity accounts
 - provide clarification, explanation and interpretation of accounting standards and their application to charities and to sector specific transactions
 - assist those who are responsible for the preparation of the trustees' annual report and accounts

The intended user of the trustees' annual report and accounts

13. The objective of the trustees' annual report (the report) and accounts is to provide information about a charity's financial performance and financial position that will be useful for decision-making by a wide range of stakeholders. Such information includes information about:
 - the economic resources of the charity, claims against the charity and changes in those resources and claims
 - the trustees' stewardship and management of charitable funds
 - the mission, objectives and service performance of the charity
14. Although past, current and potential funders, donors and financial supporters of a charity may be the primary audience for the information contained in a charity's report and accounts, the preparer should also be aware that interest in this information may also extend to a charity's service users and other beneficiaries.
15. The report and accounts should not be viewed simply as a statutory requirement or a technical exercise. The report and accounts, when read together, should help users of the information to understand:
 - what the charity is set up to do
 - the resources available to it
 - how these resources have been used
 - what has been achieved as a result of its activities
16. However, general purpose financial statements do not and cannot provide all the information that users need. Users also need to consider information from other

sources, for example, general economic conditions and expectations, political events and the political climate.

Scope of the SORP

17. Except where an alternative reporting framework is set out in legislation or regulation, or if another SORP applies, the accounting recommendations of this SORP apply to all charities in the UK that prepare accounts on the accruals basis to give a true and fair view of a charity's financial position and financial activities regardless of their size, constitution or complexity. In the Republic of Ireland this SORP sets out recommended good practice.
18. Where a separate SORP exists for a particular class of charities (for example, SORPs applicable to Registered Social Housing Providers or to Further and Higher Education Institutions, or to Common Investment Funds), those charities should adhere to that SORP.
19. Charities applying this SORP may also be subject to specific regulations or legal requirements based on how they are constituted or their jurisdiction(s) of formation, operation or registration. For example, charities constituted as companies will need to meet the reporting requirements of company law. Whilst this SORP has been prepared to be consistent with the requirements of company and other relevant law and regulation, charities will need to ensure that any particular accounting requirements and disclosures applicable to them are also met.
20. Charities preparing receipts and payments accounts are not required to apply the accounting recommendations of this SORP. Such charities must refer to the regulatory requirements of their jurisdiction(s) of registration regarding the format and content requirements for receipts and payments accounts and the trustees' annual report.

The effective date of commencement

21. This SORP is applicable to the accounts of relevant charities for reporting periods beginning on or after 1 January 2026. Early adoption is permitted. 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.

Transitional arrangements

22. Section 35 of FRS 102 sets out a number of simplifications for the preparation of the opening balance sheet and comparative figures when reporting under FRS 102 for the first time. Comparative information must be restated as far as practicable on

a like-for-like basis. Charities moving from preparing receipts and payments accounts to applying this SORP will be applying FRS 102 for the first time.

- 22A. Section 1 of FRS 102 sets out how charities should apply new or amended requirements of FRS 102 for the first time to ease the introduction of the new requirements.
23. Charities with a principal activity similar to those listed in the FRS 102 definition of a financial institution must make the additional disclosures required by Section 34 of FRS 102. This is likely to include charitable incorporated friendly societies. It excludes those charities which make social investments including concessionary rate finance, unless such lending is the charity's principal or sole charitable activity.
- 23A. For charities applying a requirement of this SORP for the first time that does not originate from FRS 102, comparative information must be restated as far as practicable on a like-for-like basis.

Choice of accounts preparation methods

24. Charities in the UK and the Republic of Ireland must apply FRS 102 when preparing their accounts on an accruals basis. Charities preparing cash-based receipts and payments accounts are not required to apply FRS 102 or this SORP.
25. The disclosure exemption in paragraph 33.1A of FRS 102 in relation to transactions entered into between two or more members of a group are not available to charities applying this SORP. This SORP requires charities applying this SORP to make the disclosures required by the SORP module '*Disclosure of trustee and staff remuneration, related party and other transactions*'.

How to use the modular SORP

26. For a charity to state that it has prepared its accounts and trustees' annual report in accordance with this SORP, it must adhere to the SORP's requirements for the preparation of both the accounts and the trustees' annual report.
27. The accounts of a charity comprise the following:
- a statement of financial activities (SoFA), which provides an analysis of a charity's income and expenditure and movement in funds in the reporting period For charities that are companies, an income and expenditure account included either within the SoFA, or as a separate summary income and expenditure account in addition to the SoFA where necessary to meet the reporting requirements of company law
 - a balance sheet, which sets out a charity's assets and liabilities and retained funds at its reporting date
 - a statement of cash flows, if required (paragraph 14.1, Module 14 '*Statement of cashflows*')

- notes to the accounts that explain the accounting policies, provide more detail of how the income and expenditure is made up, and provide extra information about particular assets and liabilities, or about particular funds or transactions
28. The SORP has a number of core modules to which all charities must refer when preparing their accounts and report. Supplementing these core modules, there are additional modules (grouped in four selections) that apply only when a charity:
- undertakes a specific type of transaction (selection 1: modules 15 -17)
 - needs to recognise, measure or disclose a specific asset or liability in a particular way (selection 2: modules 18 - 19)
 - has particular forms of investment (selection 3: modules 20 - 22)
 - adopts a particular legal form or group structure (selection 4: modules 23 - 29)
29. When preparing their accounts, charities must refer to the index of modules to ensure that they identify all of the SORP’s recommendations that apply to their transactions, assets and liabilities. This should be done for each reporting period and whenever a charity undertakes a new type of transaction. In particular, charities must select those modules that apply to their specific transactions and circumstances.
30. This SORP provides guidance to charities on the application of FRS 102 and also provides recommendations on accounting and reporting of charity-specific transactions that are not addressed within FRS 102.
31. The SORP also offers advice on how a charity may disclose particular issues or provides examples or suggested layouts of particular notes which a charity may choose to follow.
32. See SORP module 3 *‘Accounting standards, policies, concepts and principles, including the adjustment of estimates and errors’* for details of the SORP compliance statement that a charity must provide within its accounting policy note and the additional disclosures that it must make in the event of a departure from the SORP’s provisions.

Tiering

33. The reporting requirements are split between three tiers to reflect the range of sizes of charity that are present in the sector. The euro (€) amounts are relevant for charities in the Republic of Ireland applying this SORP.

Tier 1	All charities applying accruals accounts and with a gross income of not more than £500,000 (€500,000).
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Tier 2	All charities with a gross income falling above the tier 1 threshold and with a gross income of not more than £15 million (€15 million).
Tier 3	All charities with a gross income falling above the tier 2 threshold.

34. Charities in tier 1 must comply with the requirements in tier 1; charities in tier 2 must prepare accounts on an activity basis and comply with the requirements in tier 1 and tier 2; and charities in tier 3 must prepare accounts on an activity basis and comply with the requirements in tier 1, tier 2 and tier 3.
35. The tier 2 threshold of £15,000,000 currently aligns with the turnover criteria for defining a small company as defined in company law. The criteria for defining a small company also align with the definition of a small entity in FRS 102. However, it should be noted that the additional criteria for defining a small company (i.e. employee numbers and total assets) are not considered in determining the thresholds for the SORP tiers. Therefore, charities in tiers 1 and 2 will need to also consider if they meet the other small company criteria to determine if they are exempt from certain requirements as permitted by FRS 102, for example, the preparation of a cash flow statement, see SORP module 14 '*Statement of cash flows*' for more information.

Use of the terms 'must', 'should' and 'may'

36. This SORP uses different terms to distinguish those requirements that must be followed in order to comply with the SORP from other recommendations which charities can opt to follow when preparing the trustees' annual report and accounts.
37. In many cases, a 'must' requirement in the SORP may be a requirement of FRS 102. This SORP also uses the term 'must' to indicate those elements that are important to the reader of the trustees' annual report that must be included within the report or to identify particular accounting treatments, disclosures or presentational requirements that are likely to affect the ability of the accounts to give a true and fair view if not applied to material transactions or items. Where this SORP states that a recommendation is one which must be followed, non-adherence to that recommendation is a departure from this SORP.
38. This SORP uses the term 'should' for an item in the trustees' annual report or the accounts for those recommendations aimed at advancing standards of financial reporting as a matter of good practice. While charities are encouraged to follow all the SORP's recommendations, a failure to follow a 'should' recommendation with respect to the report or the accounts is not regarded as a departure from this SORP.

39. This SORP uses the term 'may' for an item in the trustees' annual report or an approach to a particular disclosure that a charity may choose to adopt or identifies that an alternative accounting treatment or disclosure of a transaction or event is allowed by the SORP. Charities may choose whether such examples or alternative treatments are adopted at their discretion.

Approval of a charity's accounts

40. This SORP refers to accounts being approved by the charity trustees where relevant. FRS 102 refers to accounts being 'authorised for issue'. For the avoidance of doubt, the references in this SORP to accounts being approved should be taken to mean that they have been authorised for issue.