



Upcoming changes to Charity Accounting

Key changes ahead

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What's changing?

When and how will this impact you

The Charities Statement of Recommended Practice (SORP) 2026 introduces significant updates aligned with changes to FRS 102. These apply to financial periods starting on or after 1 January 2026 and aim to improve proportionality, clarity, and transparency in charity reporting. In summary, changes we'll cover in this document include;

- A new three-tier reporting framework
- Operating leases to be recognised as right-of-use assets with corresponding liabilities on balance sheet
- Income recognition – new five step model
- Trustees annual report – expanded requirements
- Revisions to social investments, provisions and contingencies
- Other disclosure points and changes on the horizon

We'll take each of these areas, stepping you through the changes and how they may impact your charity.

1. New Three-Tier Reporting Framework

Charities will now report under one of three tiers based on income:

- Tier 1: Income up to £500,000
- Tier 2: Income between £500,000 and £15 million
- Tier 3: Income over £15 million

A Statement of Cashflows will only be required if the charity falls into Tier 3. As a result, a number of charities will no longer be required to prepare a Statement of Cash Flows, though they may choose to do so voluntarily. If the charity is a charitable company, the requirements of FRS 102 must still be followed and exemption from the preparation of a Statement of Cashflows can only be claimed if the charitable company is a small company.

2. Lease Accounting

Charities must now recognise most operating leases on the balance sheet as right-of-use assets with corresponding liabilities. This change may significantly affect reported assets and liabilities. We have already provided communication on this topic as part of our FRS 102 updates, and more information can be found in our news article [here](#).

3. Income Recognition- New Five-Step Model

The previous “entitlement, probable, measurement” approach has been replaced with a five-step model for exchange transactions:



Charities must assess whether obligations are fulfilled over time or at a point in time and, apply consistent measurement methods. It is our recommendation that a grant register is used so this assessment can be done and applied consistently during the course of each grant agreement.

4. Trustees' Annual Report – Expanded Requirements

All charities must now ensure the narrative links clearly to the financial statements and is fair, balanced, and understandable.

- Tier 1: Must align activity reviews with expenditure analysis.
- Tier 2 & 3: Must provide more detail on short- and long-term objectives; volunteer contributions (including hours or staff equivalents); environmental, governance and social matters/impact reporting; and legacy recognition. These changes aim to improve relevance and accessibility for stakeholders.

We will be providing clients with a more in-depth guide on the changes to the Trustees Report in the near future.

5. Social Investments, Provisions & Contingencies

- Social investments: Simplified definitions and disclosures aligned with the Charities Act 2011.
- Provisions and contingencies: Revised guidance to improve clarity and consistency across the sector.

6. Trustees' Annual Report – Expanded Requirements

The updated SORP also includes a number of additional disclosure and presentation changes. These have been made with a view to assist the users understanding of the financial statements; which we will be assisting our clients with as part of the year end accounts preparation process.

7. Threshold Changes – On the Horizon

From 1 October 2026, subject to final confirmation, to assist smaller charities reduce the regulatory burden, the thresholds applicable to the financial statements will be changing:

Requirement	Current Threshold	New Threshold (from 30 September 2026)
Accounts must be independently examined	Income over £25,000	Income over £40,000
Examination must be by a professionally qualified Independent Examiner	Income over £250,000	Income over £500,000
Non-company charities can choose to produce receipts and payment accounts	Income below £250,000	Income below £500,000
Accounts must be audited	Income over £1,000,000 Assets over £3,260,000	Income over £1,500,000 Assets over £5,000,000

Next Steps

Charities should begin reviewing leases, income streams, and reporting practices now to prepare for the transition. We will be more than happy to provide you with tailored advice on all aspects of these changes and the accompanying calculations. Therefore, please contact your usual adviser for more information and assistance.



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