SORP 2026

Made Simple.

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MAKING IT COUNT

Contents

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Introduction

This guide is designed for people who may be new to the charity sector or otherwise need to understand charity accounts.

Charities have to prepare accounts in accordance with the Statement of Recommended Practice (SORP) also known as the Charities SORP.

The SORP provides guidance for charities on how to apply FRS102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS102).

The most recent version of the SORP was issued in October 2025 and as it applies for financial periods commencing on or after 1 January 2026, it is known as SORP 2026.

This guide is primarily for charities registered in England & Wales. Charities registered in Scotland, Northern Ireland and the Republic of Ireland follow the SORP, but also have to follow local legislation.

The SORP does not apply to charities preparing receipts and payments accounts. Receipts and payments accounts are a choice available to non-company charities with annual income below £250,000, this threshold is due to increase to £500,000, it is the government's intention that the new thresholds will come into force on 1st October 2026. See further information on Receipts and Payments accounts at the end of this guide.

How are charity accounts different to commercial accounts?

The SORP tries to get away from the concept of profit as the measure of success or failure. The profit concept is not appropriate to charities, as charity law requires them to use all funds to further the charitable objects.

The income and expenditure account is therefore replaced by a Statement of Financial Activities (SoFA). The SoFA brings together all the resources available to the charity and shows how these have been used to fulfil the charity's objectives. For example:

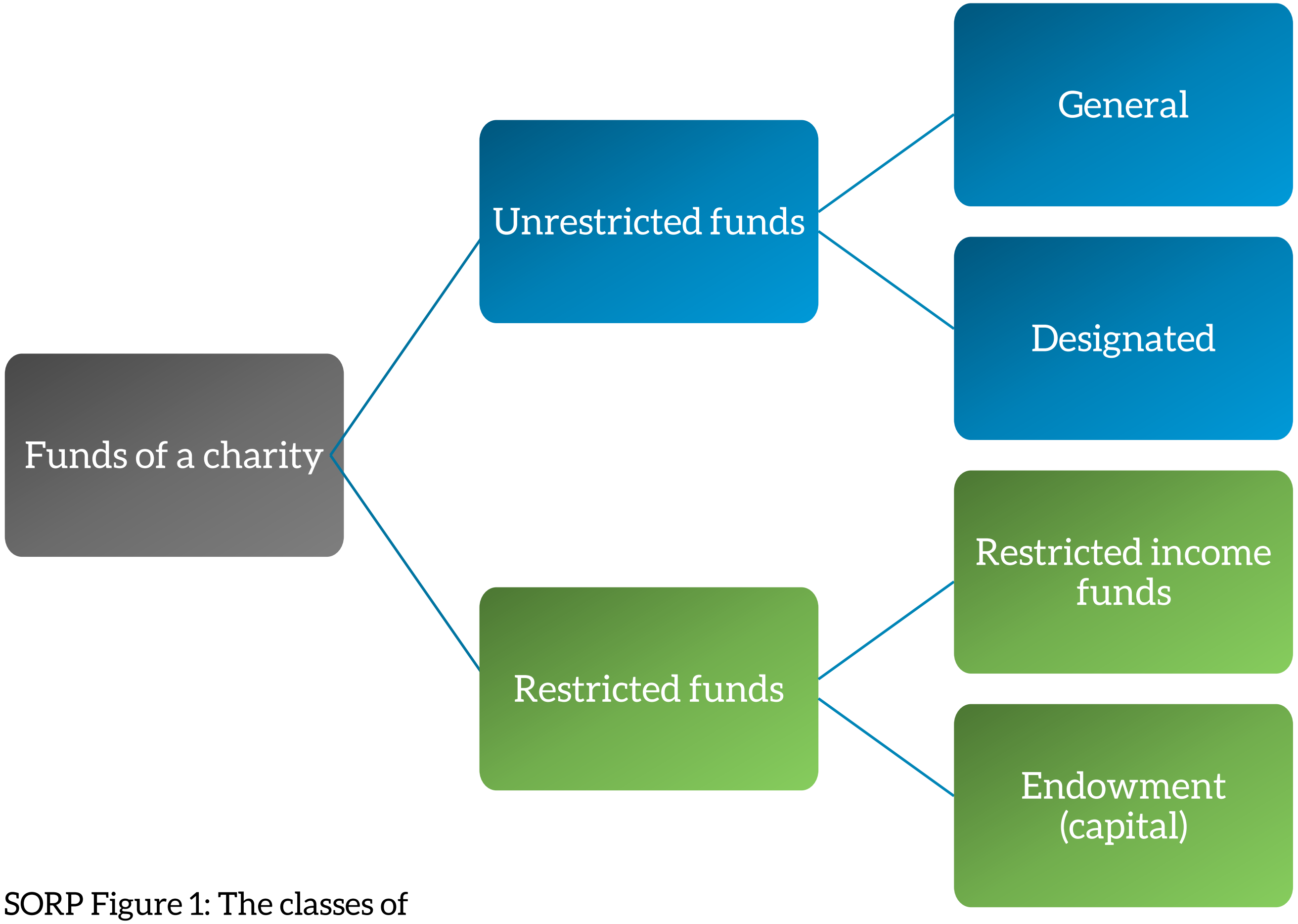
- Income will include new endowments received by the charity, even though these are new capital to the charity.
- Donated assets and services are also brought into a SoFA, whereas commercial accounts would not include them.

Fund accounting

One of the main differences to commercial accounts is the format of charity accounts requiring all income, expenses, assets and liabilities to belong to a fund.

It is necessary to track income and expenses on each fund through the accounts, to show the amounts received, expended and the balances on each fund. The different types of funds are described below.

A charity may have many restricted funds so these can be summarised in the SoFA, with details given in the notes to the accounts.



SORP Figure 1: The classes of charitable funds

The different types of funds are:

- **Unrestricted funds** are funds available for the purposes of the charity, to be spent as the trustees see fit.
  - **General funds** are unrestricted funds which have not been earmarked and may be used generally to further the charity's objects.
  - **Designated funds** are unrestricted funds that have been earmarked for a particular purpose by the trustees. The notes to the accounts should explain the purpose of designated funds.
- **Restricted funds** are funds subject to special trusts specified by the donor. This might be income raised through a public appeal for a specific purpose, or gifts of grants or donations. It may also include land, buildings or other assets donated to a charity. The trustees will be in breach of trust if they use restricted funds other than for the specified purpose. Unless specified, interest or other investment income on a restricted fund will be added to the fund. Significant restricted funds have to be separately disclosed in the notes to the accounts.
  - **Restricted income funds** are to be spent or applied within a reasonable or specified period from their receipt to further a specific purpose of the charity, which is to further one or more but not all of the charity's charitable purposes.
  - **Endowment funds** are gifts of capital to hold rather than income to spend and may be permanent or expendable:
    - **Permanent endowment funds** are donations that have been given to a charity to be held as capital with no power to convert the funds to income. Funds may be cash or other assets but are normally invested to maintain the value of the capital and to earn income.
    - **Expendable endowment funds** are donations that have been given to a charity to be held as capital, where the trustees do have a discretionary power to use the funds as income.

Reserves

The term reserves describes that part of a charity's funds that is freely available to spend on any of the charity's purposes. The term therefore normally excludes endowments and restricted funds, and also any part of unrestricted funds not readily available for spending, e.g. fixed assets.

Reserves are held for the following purposes:

- To protect the **continuity** of the charity's work in the event of a shortfall in income.
- To protect the **charity's funds** from loss in value eg. market investments.
- To provide the **capital** needed to finance expansion of the charity.
- To provide the **funds needed** to replace assets.

In essence, charities should retain reserves to manage continuity and to minimise the risk that charitable programmes will be jeopardised because of a fall in income. Trustees need to form a policy on the level of reserves they need to manage the identified risks. This is usually expressed as a number of months of regular running costs and may be stated as a range. Separate guides in this series explain how to develop a reserves policy and how to undertake a risk assessment for your charity.

Tiering

The reporting requirements of the SORP are split between three tiers based on gross income*:

Tier 1: all charities applying accruals accounts and with a gross income of not more than £500,000

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

Tier 3: all charities with a gross income falling above the tier 2 threshold.

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.

Charities in tier 3 must prepare accounts on an activity basis and comply with the requirements in tier 1, tier 2 and tier 3.

* Gross income: In England and Wales, gross income is the total income as shown in the Statement of Financial Activities for all funds but excluding the receipt of any endowment and including any amount transferred to income funds during the year from endowment funds in order to be available for spending.

Content of accounts	Tier 1	Tier 2	Tier 3
Trustees' annual report	Yes	Yes	Yes
Statement of financial activities - natural classification basis	Yes	No	No
Statement of financial activities – activity basis	If chosen	Yes	Yes
Balance sheet	Yes	Yes	Yes
Statement of cash flows	If chosen or if not a small entity	If chosen or if not a small entity	Yes
Notes to the accounts	Yes	Yes	Yes

Trustees' annual report

All charities must prepare a trustees' annual report to provide a narrative account of what the charity has done in the financial period and help explain the numbers in the financial statements. Good reporting explains what the charity is set up to do, how it is going about it, and what is achieved as a result of its work.

Charitable companies should ensure that the trustees' annual report makes it clear that it also contains a directors' report as required by company law.

All charities in England and Wales that are subject to audit must disclose information on fundraising practices in their trustees' annual report. These requirements are in the Charities (Protection and Social Investment) Act 2016.

The reporting requirements for the trustees' annual report increase with the tier of the reporting charity, although the contents for all charities follow the same broad headings:

- Objectives and activities
- Achievements and performance
- Financial review
- Plans for future periods
- Structure, governance and management
- Reference and administrative details
- Sustainability

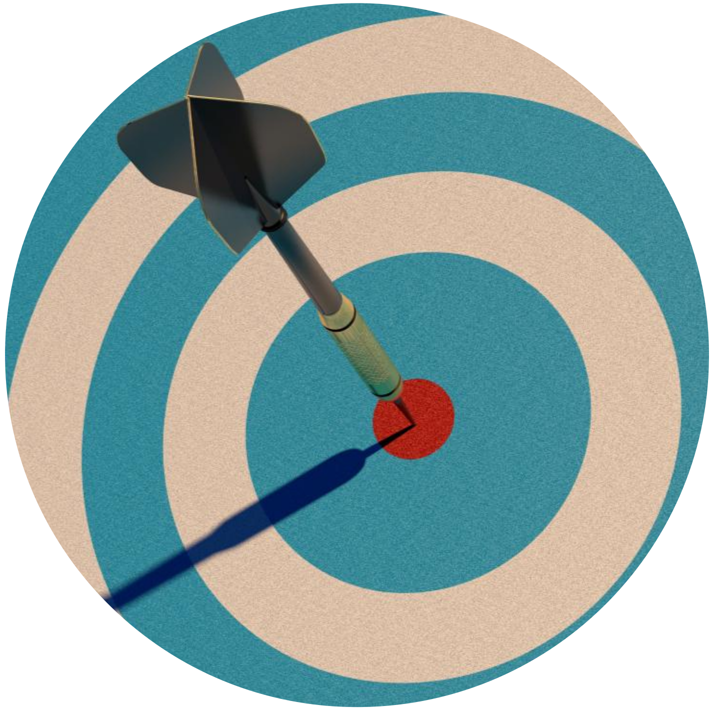
Objectives and activities

The report must explain what the charity's objects are and what it does in order to achieve them. All charities have to state the objects of the charity as set out in its governing document. This section should explain the activities, projects or services described later in the report and these should be consistent with the analysis of activities reported in the accounts.

Charities also have to explain the public benefits that arise from the charitable aims and the steps taken by the charity to ensure that the benefits from its activities continue to relate to the aims of the charity. Trustees also need to confirm that they have referred to the Charity Commission's guidance on public benefit when reviewing the charity's aims and objectives and planning future activities.

Charities in tiers 2 and 3 must also provide:

- Additional information on the charity's aims, including issues to be tackled, how its activities will make a difference, how achieving these aims will contribute towards the charity's legal objects, strategies to achieve the aims and objectives and how success will be measured.
- Details of significant activities such as main programmes, projects, or services provided, how they contribute to the achievement of the objectives, providing an understanding of short term and longer term aims and objectives.
- Social investment policy when this significantly contributes to charitable or investment activities, and how those investments contributed to the achievement of aims and objectives.
- Grant making policies where this is a significant activity.
- Information about the role and contribution of volunteers, such as the number of volunteers and the activities that volunteers help provide. Charities may wish to quantify the contribution in terms of volunteer hours or staff equivalents, where possible.



Achievements and performance

All charities have to provide a summary of the main achievements of the charity during the year. The reporting should explain how the charity's work made a difference to the beneficiaries and wider benefits to society as a whole.

Charities in tiers 2 and 3 must also:

- Set out how the charity, including any subsidiaries, delivered its activities and how well the achievements met the aims and objectives set for the reporting period
- report the impact the charity is making and the long term effect of its activities
- review the performance of investments held

Charities in tier 3 must report on the performance of fundraising activities against objective set and explain the effect of fundraising expenditure.

Financial review

The report must contain a review of the financial position of the charity at the end of the financial period. If a fund or subsidiary is materially in deficit, the report must explain the circumstances giving rise to the deficit and the steps being taken to eliminate the deficit.

All charities must explain their policy to hold reserves, the amount of reserves held and why they are held. If the trustees have decided that holding reserves is unnecessary, the report must disclose this and explain the reasons for this decision. The report must compare the amount of reserves held with the policy level, and explain steps being taken to align the reserves level with the policy. If the charity has designated funds, the report should identify and explain the purposes of these funds and indicate the likely timing of the anticipated expenditure.

The report must explain any concerns about the charity's ability to continue to operate in future periods and what these concerns are. If there are no reserves, the charity must explain why it is still operating as a going concern.

Charities in tier 2 must additionally provide an explanation of:

- the financial effect of any significant events.
- the principal sources of income and how they have been spent
- the investment policy and objectives where significant financial investments are held.
- the principal risks and uncertainties facing the charity and how these will be managed.
- the impact of any material pension liability
- the impact of material legacy income recognised prior to the resources being received.

Charities in tier 3 must also explain future factors that may affect financial performance.

Plans for the future

All charities must provide a summary of the charity's plans for the future.

Charities in tiers 2 and 3 must also explain the aims and key objectives it has set for future periods together with details of any activities planned to achieve them. The report should also set out how the trustees' see the future direction of the charity and how current experiences lead to better decisions on how to apply future resources.

Structure, governance and management

This section must explain how the charity is constituted, its organisational structure and how the charity's decision-making processes operate.

All charities must provide details of:

- the nature of the governing document e.g. trustee deed, articles of association etc.
- how the charity is constituted eg. trust, company limited by guarantee etc.
- how trustees are recruited and appointed.

Tier 2 and 3 charities must additionally explain:

- the organisational structure of the charity and any subsidiaries
- the policies and procedures adopted for the induction and training of trustees
- how the charity is constituted in terms of governance and management, including:
- how decisions are made
- how remuneration of the key management personnel is set and reviewed
- if the charity is part of a wider network (for example charities affiliated within an umbrella group), how this impacts on the operating policies adopted by the charity.
- the relationships between the charity and related parties, including its subsidiaries and with any other charities and organisations with which it co-operates.

Reference and administrative details

The report must provide the following reference and administrative information about the charity and its trustees:

- The registered name of the charity and any other name it uses, the charity number for the jurisdiction(s) in which it is registered, company number if registered, and address of the principal office and registered office is also a company.
- The names of the trustees who served during the period of the report and up to the date the report was approved.
- The names of the directors of any corporate trustee on the date the report was approved.
- The names of any trustee who holds title to a property on behalf of the charity on the date the report was approved or who held this position during the reporting period.

Charities in tiers 2 and 3 must also provide:

- the name of the Chief Executive or other senior management personnel to whom day-to-day management was delegated during the financial period and when the report was approved
- the names and addresses of advisors such as bankers, solicitors, auditors and investment managers.

Sustainability

This is a new section for the trustees' report introduced for SORP 2026.

Charities in tiers 1 and 2 are not required to report on sustainability, but are encouraged to explain how the charity is responding to and managing environmental, governance and social matters.

Tier 3 charities must provide a summary of how the charity is responding to and managing environmental, governance and social matters. This may include:

- key performance indicators used for climate related risks and opportunities
- details of social opportunity, privacy and data security, board diversity and business ethics

This information should either be provided in the trustees' report or the report can provide a link to where this information is provided on the charity's website.

Charitable companies that fall within the scope of the Energy and Carbon Report 2018 regulations will also be required to provide the disclosures required under those regulations

Strategic report

Charitable companies that are not small as per the relevant definitions under the Companies Act 2006 will need to incorporate the additional requirements of the "strategic report" required by company legislation. The strategic report must be presented as a distinct section of the trustees' annual report.

The strategic report should provide context for the related financial statements, analysis of past performance and insight into the main objectives and strategies, and the principal risks the charity faces and how these might affect future prospects. The Companies Act requirements will be satisfied by grouping the trustees' annual report sections on achievements and performance, financial review and plans for future periods into a section headed Strategic Report.

Statement of financial activities

The statement of financial activities (SoFA) is a single financial statement to include all income, expenses, gains and losses recognised for the reporting period. It provides the user with an analysis of the income and endowment funds received and the expenses incurred by the charity and presents a reconciliation of the movements in a charity's funds for the reporting period.

The SoFA should be prepared using a columnar format where the charity has more than one type of fund. Income and expenses should be separated between restricted and unrestricted funds, and endowment funds where the charity has them. A single column is permitted where only one class of fund is material.

Comparative figures are required for all amounts presented in the SoFA. The comparative information for the total funds must be on the face of the SoFA. The comparative information for the classes of funds can be shown either on the face of the SoFA or in the notes to the accounts. Any discontinued operations must also be shown in a separate column.

The SoFA shows the net income/expenditure and net movement in funds instead of surplus or profit – these are resources that are carried forward and have to be spent to further the charity's objects in future accounting period.

- Tier 1 charities may report using natural classification or on an activity basis. Tier 2 and 3 charities must adopt an activity basis for reporting.
- A natural classification allows the charity to choose its own line descriptors for the analysis of income and expenditure. For example, expenditure can be analysed as salary costs, premises costs, grants made etc.
- An activity basis means showing how the charity has used its resources to further its charitable aims. The charitable activities should mirror those described in the trustees' report. The SORP section 4.28 provides the following examples:
    - a charity selling donated goods through a shop could use the description 'Shops' within 'Income from other trading activities' and 'Expenses incurred on raising funds'
    - a charity running a care home could use the description 'Residential care fees' within 'Income from charitable activities' and 'Residential care costs' under 'Expenses incurred on charitable activities'
    - an arts charity providing a mix of paid-for and free services could use the description 'Admission fees for galleries and exhibitions' under 'Income from charitable activities' and use the line description 'Operation of art gallery and touring exhibitions to schools and community' under 'Expenses incurred on charitable activities'
    - an endowed grant-making charity mainly making grants to advance education could use the description 'Investment income' under 'Income from investments' and 'Grants to education and research institutions, student bursaries and other grants' under 'Expenses incurred on charitable activities'.

The SoFA should be presented in line with one of the following formats:

Example SoFA using natural classification (optional for tier 1 charities only)

SORP table 3: Statement of financial activities – Natural classification basis of reporting (note that this presentation is an option available to tier 1 charities only)

	Unrestricted funds	Restricted income funds	Endowment funds	Total funds	Prior period Total funds
	£	£	£	£	£
Income and endowments from:					
(e.g.) Donations and legacies					
(e.g.) Charitable activities					
(e.g.) Other trading activities					
(e.g.) Investments					
(e.g.) Other					
Total					
Expenses incurred:					
(e.g.) Salary-related costs					
(e.g.) Premises-related costs					
(e.g.) Grants made					
(e.g.) Interest expense					
(e.g.) Depreciation					
(e.g.) Impairment charges					
(e.g.) Other expenses					
Total					
Net gains/(losses) on investments in JCE and Associates					
Other net gains/(losses) on investments					
Net income/(expenditure)					
Transfers between funds					
Other recognised gains/(losses):					
Gains/(losses) on revaluation of fixed assets					
Actuarial gains/(losses) on defined benefit pension schemes					
Other gains/(losses)					
Net movement in funds					
Reconciliation of funds:					
Total funds brought forward					
Total funds carried forward					

	Unrestricted funds	Restricted income funds	Endowment funds	Total funds	Prior period Total funds
	£	£	£	£	£
Income and endowments from:					
Donations and legacies					
Chantable activities					
Other trading activities					
Investments					
Other					
Total					
Expenses incurred on:					
Raising funds					
Charitable activities					
Other					
Total					
Net gains/(losses) on investments in JCE and Associates					
Other net gains/(losses) on investments					
Net income/(expense)					
Transfers between funds					
Other recognised gains/(losses):					
Gains/(losses) on revaluation of fixed assets					
Actuarial gains/(losses) on defined benefit pension schemes					
Other gains/(losses)					
Net movement in funds					
Reconcillation of funds:					
Total funds brought forward					
Total funds carried forward					

Example SoFA using activity basis (required for tier 2 and 3 charities and optional for tier 1)

SORP table 4: Statement of financial activities - Activity basis of reporting (this presentation is required for tier 2 and tier 3 charities and applicable to those charities in tier 1 who choose to use the activity basis of reporting)

For the activity basis SoFA:	
Income and endowments from:	**Should include:**
Donations and legacies	Donations, legacies, all gifts on a voluntary basis and grants given with no significant benefit to the donor in return.
Charitable activities	Grants and fees received to undertake activities to further the charity's objects. Can include charitable trading, performance related grants, and the letting of non-investment property where it is in furtherance of charitable objectives. Use appropriate sub-headings for charity's particular activities and ideally link back to activities described in the trustees' annual report.
Other trading activities	Various fundraising activities such as events, charity shops, catalogues, sales of merchandise and sponsorship. Can include non-charitable trading including activities undertaken by trading subsidiaries.
Investments	Dividends, bank interest, rents earned from investment properties.
Other	Use only where income falls outside the normal charity activities eg. profit on disposal of a fixed asset.

Expenses incurred on:	Should include
Raising funds	Subheadings may include fundraising costs, fundraising trading, and investment management costs, if these costs are significant.
Charitable activities	Ideally, these should correspond to the charitable activities described in the trustees' report.
Other	Use only where expenditure falls outside the normal charity activities.

For both Natural classification and Activity basis SOFA:	Should include:
Net gains/(losses) on investments	Under FRS102, any changes to the value of financial investments or investment properties must be taken through the SoFA, so this is shown above the net income/(expenditure) sub-heading. This includes both realised and unrealised gains and losses.
Transfers between funds	Used when capital funds are released to an income fund from expendable endowment*, or when unrestricted funds need to be used to fund shortfall of restricted funds, etc. All transfers between funds must net to nil. *The conversion of endowment funds to income may be shown as a transfer or under other income (we recommend the latter).
Gains/(losses) on revaluation of fixed assets	Revaluation gains or losses on fixed assets. These remain below the net income/(expenditure) subheading.
Actuarial gains/(losses) on defined benefit pension schemes	Actuarial gains and losses also remain below the net income/(expenditure) subheading.
Other gains and losses	Any other gains and losses not included above such as on a hedging instrument or foreign exchange losses on non-monetary assets.
Reconciliation of funds	The result for the year will be added onto the reserves brought forward from last year. The total will then agree to the balance sheet.

Income

There are two broad categories of income: income from exchange transactions and income from non-exchange transactions. It is important for charities to distinguish between the two as they are recognised differently in a charity's accounts.

Income from exchange transactions is received for goods or services supplied, so the income should be recognised as those promised goods or services are transferred to the third party.

There is a five-step model to determine when the income from exchange transactions should be recognised, in accordance with FRS102 section 23 Revenue from Contracts with Customers.

Income from non-exchange transactions is when value is received from a donor without any direct value being provided in return. This may include money, goods, facilities or services which are given freely to the charity by a donor. Grants will be non-exchange transactions when the grant-maker awards a grant without receiving equal value in exchange.

A charity must recognise income from non-exchange transactions as follows:

- when received or receivable if there are no future performance related conditions; or
- when any performance related conditions are satisfied.

There are some specific items in charities which you will not often see in commercial entities and the treatment of which may differ from normal accounting practices.

Legacies

These are included as income in the SoFA when it is probable that the legacy will be received and its value can be measured reliably.

Legacy administration can be slow and so even when probate has been granted, there may still be questions over the probability of receipt. For example, it may not be clear which charity was intended as the recipient or there may be a dispute with the relatives.

Frequently, charities are entitled to a residual legacy, such as the remainder of an estate. This can make it difficult to measure the value of the legacy until all assets have been sold and debts paid. It is not always possible to determine if there will be anything left to pass to the charity and the timing is very uncertain until the administration is close to an end.

Consequently, the SORP recommends that legacies should be recognised as income when probate has been granted, when the executors have confirmed that the estate's assets are sufficient to pay the legacy and when any conditions have either been met or are under the control of the charity.

When a charity receives a significant number of legacies, it may wish to adopt a portfolio approach. This is an estimation technique to calculate the income to be recognised based on past performance using a mathematical formula. Charities that receive legacies infrequently will need to consider each legacy on an individual basis.

A legacy should be included within a charity's income for the year if payment had been agreed with the executors prior to the balance sheet date and the payment is either received before the accounts are approved or is notified as receivable and receipt is considered probable. This is an example of an adjusting post balance sheet event in section 13 of the SORP.

Donated goods, facilities and services

Charities sometimes receive goods as donations, rather than cash. The value placed on donated goods, facilities and services included in the SoFA should be the estimated value to the charity of the gift received. Current value to the recipient charity will usually be the price that it estimates it would have to pay in the open market for an equivalent item. Where donated goods, facilities and services are recognised, an equivalent amount should be included as expenditure under the appropriate heading in the SoFA.

Donated goods, facilities and services can take several forms:

- Buildings and major equipment donated for the charity's own use – these are tangible fixed assets and need to be shown as an addition to fixed assets and depreciated in the same way as assets bought by the charity. As well as recognising the asset, the charity would recognise the same amount as income in the SoFA in the same accounting period. If the asset forms part of a restricted or designated fund of the charity, the depreciation would be charged against the fund.
- Equipment or supplies for the charity's own use – smaller items of equipment or supplies to be used in operational activities. For example, a company may donate food normally sold in its stores to a charity helping homeless people.
- Goods donated to charity shops or similar – the income should be recognised at fair value at the point of receipt, so at the sales price less any costs to be incurred to sell the item. If it is not practicable to value donated goods when they are received, the charity should wait and account for the cash received once the goods have been sold.

- Goods for distribution – such as overseas development charities receiving donated goods which they then distribute to beneficiaries overseas. Again, these should be recognised at fair value at the point of receipt unless not practicable to do so and should be recognised on the balance sheet as stock with the corresponding entry as a donation. When the goods are distributed, the stock is removed from the balance sheet and expensed in the SoFA.

Donated facilities and services should be included in the SoFA as both income and expenditure where it is a facility or service that the charity would otherwise have purchased. The value will be the price the charity would have paid for a service or facility of equivalent utility, which may be lower than the market price. Where the charity would not have paid for the facility or services had it not been donated, the value to the charity is expected to be nil.

Volunteer time must not be recognised as income and expenditure in charity accounts, due to the absence of a reliable measurement basis.   However, the nature and scale of the role played by general volunteers should be explained in the trustees' annual report.

Expenses

Expenses incurred (natural classification analysis)

Charities in tier 1 that choose the natural classification basis for reporting will analyse expenses by their nature e.g. salaries, premises, grants made etc. The headings below are not required but may be useful.

Expenses incurred on raising funds

These are the costs which are associated with generating incoming resources from all sources other than from undertaking charitable activities. The main components of costs within this category are:

- costs of generating donations and legacies
- costs of fundraising trading, including cost of goods sold and other associated costs
- costs of managing investments, both to generate income and to maintain the value of capital (including investment management fees)
- any other expenditure on raising funds.

Expenses incurred on raising funds should not include costs associated with delivering or supporting the provision of goods and services in the furtherance of the charity's objects; nor the costs of negotiating the terms of a contract or performance-related grant relating to the provision of such services.

Expenses incurred on raising funds should include an appropriate proportion of support and governance costs.

Expenses incurred on charitable activities

This heading covers all expenses incurred directly relating to the objects of the charity. It should include grants payable and the direct costs of supporting charitable activities and projects (eg. salaries, office, communications and other costs identifiable as an integral part of the cost of carrying out those charitable activities or projects), as well as depreciation of fixed assets were used wholly or mainly for charitable activities.

The charity should describe the main charitable activities and attribute expenses to them to give an indication of the way resources are expended. This should mirror the activities shown under the incoming resources categories as far as possible and should be consistent with the activities described in the trustees' annual report. A note to the accounts will give further analysis of the expenses incurred.

Expenses incurred on charitable activities should include an appropriate proportion of support and governance costs.

Support costs

In undertaking any activity there may be support costs incurred that, while necessary to deliver an activity, do not themselves produce or constitute the output of the charitable activity. Similarly, costs will be incurred in supporting income generation activities such as fundraising, and in supporting the governance of the charity.

Support costs include the central or regional office functions such as general management, payroll administration, budgeting and accounting, information technology, human resources, and financing.

Support costs do not, in themselves, constitute an activity, instead they enable output-creating activities to be undertaken. Support costs are therefore allocated to the relevant activity cost category they support. This enables the total cost of an activity to be disclosed in the SoFA. Support costs do not appear as a heading in the SoFA.

The notes to the accounts should provide details of the total support costs incurred and of material items or categories of expenses included within support costs. Where support costs are material, an explanation should be provided in the notes of how these costs have been allocated to each of the activity cost categories disclosed in the SoFA or the supporting notes to the accounts. The explanation may include percentages or amounts allocated, details of the methods of apportionment used or a table showing the detailed allocations.

Governance costs

These are the costs associated with the governance arrangements of the charity . These costs will normally include internal and external audit, legal advice for trustees and costs associated with constitutional and statutory requirements e.g. the cost of trustee meetings and preparing statutory accounts.

Governance costs are not reported in the SoFA but should be disclosed in the notes. Governance costs should be allocated to activities along with support costs.

Allocation of costs

A reasonable and consistent approach to cost allocation should be adopted, but a charity should also consider the materiality of the amounts involved and the cost/benefit advantages of the approach, in that greater accuracy may on occasions only be achievable at a high incremental cost.

In attributing costs between activity categories, the following principles should be applied:

- Where appropriate, expenses incurred should be allocated directly to an activity cost category.
- Expenses incurred to contribute directly to the output of more than one activity cost category, for example, the cost of a staff member whose time is divided between a fundraising activity and working on a charitable project, should be apportioned on a reasonable, justifiable and consistent basis.

- Depreciation, amortisation, impairment or losses on disposal of fixed assets should be allocated in accordance with the same principles.
- Support costs may not be attributable to single activity, but rather provide the organisational infrastructure that enables output-producing activities to take place. Such costs should therefore also be apportioned on a reasonable, justifiable and consistent basis to the activity cost categories being supported.

There are a number of bases for apportionment that may be applied, such as proportion of direct costs, staff numbers, floor area or staff time. The bases for apportionment adopted by a charity should be appropriate to the cost concerned and to the charity's particular circumstances and applied consistently. The accounting policy notes should explain the policy adopted for the apportionment of costs between activities and any estimation technique(s) used to calculate their apportionment.

Charity balance sheets

Normal rules apply for most balance sheet items, eg. buildings used for the charity's work and equipment are tangible fixed assets on the balance sheet and depreciated. There are a few areas where the charity treatment of balance sheet items is different.

Heritage assets

Heritage assets are tangible or intangible assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained for their contribution to knowledge and culture. Heritage assets advance the preservation, conservation and educational objectives of charities and through public access contribute to the nation's culture and education either at a national or local level. Such assets are central to the achievement of the purposes of such charities and include the land, buildings, structures, collections, exhibits or artefacts that are preserved or conserved and are central to the educational objectives of such charities.

Newly purchased heritage assets should be initially measured and recognised at cost. Donated heritage assets should be recognised at their fair value, estimated using recent market-based evidence. Where no market-based evidence exists, fair value should be based on an estimate of depreciated replacement cost.

If, in exceptional cases, the fair value cannot be measured reliability at a cost commensurate with the benefits to the users of the accounts, the heritage asset shall not be recognised on the balance sheet. However, the notes must explain the reasons why the heritage assets are not recognised on the balance sheet, describe the nature of and significant of the assets and disclose information to help the reader assess the value of the assets.

Information on heritage assets should be given in the notes to the accounts. If further detail is given in the trustees' annual report, then a cross reference to this should be given in the note. The notes should contain an analysis or narrative that enables the user to appreciate the age, scale and nature of the heritage assets held and the use made of them. The policy for managing heritage assets should also be disclosed along with details of the charity's records of such assets and the extent to which the assets can be accessed by the public.

Where a charity does recognise heritage assets, any movements between the opening and closing amounts must be reconciled, such as details of any additions or disposals of heritage assets during the year. All charities recognising heritage assets must also provide a five-year summary of heritage asset transactions.

Investments

Investment assets (including stocks, shares, investment properties and cash held for investment purposes) are a separate category within fixed assets. Investments should be shown at their fair value at the balance sheet date, with changes in value being shown in the gains and losses on investment assets section of the SoFA.

For investment property, the SORP does not require valuations to be carried out by an independent expert although the accounts must disclose if any valuation carried out is not an independent valuation. Note investment property is not depreciated.

The SORP also requires investment property that is used for both investment purposes and operational use to be classified as mixed use investment property with the fair value of the property apportioned between the two activities. If this apportionment of the fair value of the investment property component cannot be measured reliably, the entire property should be treated as a tangible fixed asset.

Social investments

Social investments are made for both a financial return and to further the investing charity's purpose. They may include provision of property, making loans, providing a guarantee or buying shares in a private company. Social investments were previously described as programme related investments and mixed motive investments.

A charity making social investments needs to consider carefully the nature of the arrangement and account for the substance of the arrangement. To do so, the charity must identify the financial elements of the investment and also the charity's motive for acquiring the investment.

SORP section 21 is dedicated to social investments. The basis of recognition will depend on the type of social investment but should ordinarily be recognised at fair value. Where social investments are held at cost or amortised cost, they must be assessed for impairment at the end of each reporting period.

An impairment loss arising on a social investment should be recognised as an expense within 'expenditure on charitable activities' in the SoFA. Any gain on the disposal of a social investment must be recognised as 'other income' in the SoFA after offsetting any prior impairment loss.

Grant commitments

Normal rules apply to recognising liabilities where a charity makes a legally binding commitment to fund the work of other organisations. However, grants are not often documented in formal legal agreements as they are freely given with the timing and amount at the discretion of the grant maker. Consequently, a constructive obligation may arise rather than a legal obligation. In these circumstances, the grant award should be recognised as a liability on the awarding charity's balance sheet.

A constructive obligation arises where there is a specific commitment to provide grant funding and this fact is communicated directly to the grant recipient. If, however, an irrevocable commitment has not been made, then the liability would not be shown on the balance sheet, but should be explained in a note to the accounts. For example, the grant-making charity may specify that certain conditions have to be met before further instalments of the grant will be made.

Charities with grant-making activities should consult section 16 of the SORP on how these activities should be presented and the disclosures required.

Lease accounting

Charities reporting under SORP have to follow FRS102 section 20 for leases. This requires assets leased by a lessee under an operating lease to be recognised on the balance sheet as a right of use asset. The corresponding total liability under the operating lease has to be recognised as a liability. There are some exemptions for short term leases and leases of low value assets.

Peppercorn or nominal consideration leases may have the legal form of a lease but are unlikely to meet the definition of a lease under FRS102 as the payments due are very small or nil. Such leases are outside the scope of FRS102 section 20. However a charity as lessee would need to consider if there is a donated asset or service to recognise as a donation in kind.

Social donation leases are lease arrangements below market rate for philanthropic purposes. Social donation leases contain a non-exchange component which may need to be recognised as part of the right of use asset and income for the lessee.

The SORP (section 10B) has examples of lease arrangements and how they should be accounted for. The SORP also includes a flowchart as Diagram 1 in section 10B to help identify which accounting treatment is appropriate for the type of lease held, as follows:

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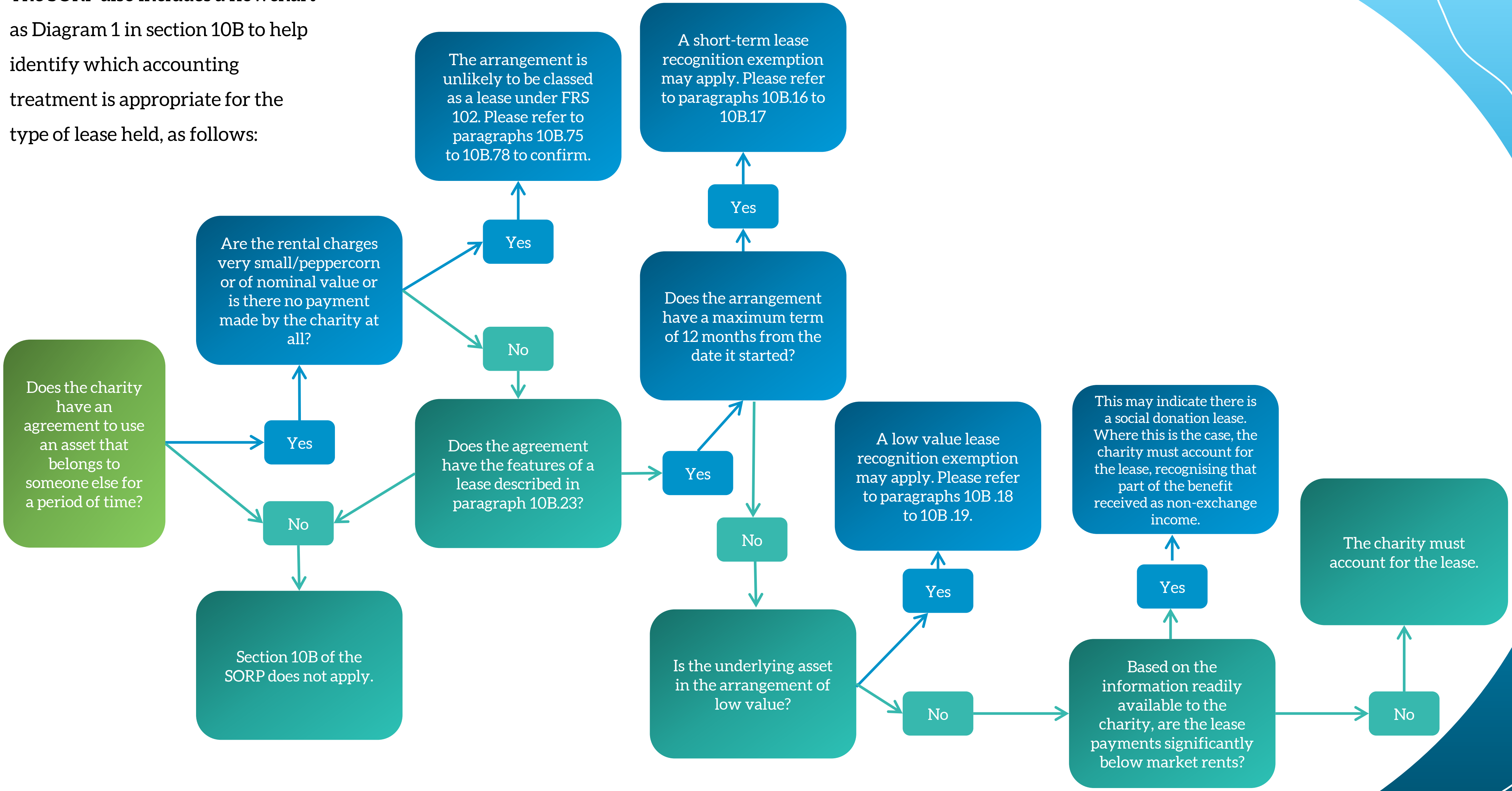

Pension scheme liability

For some charities, where they are part of a multi-employer defined benefit pension scheme, the SORP may require a pension liability to be recognised on the balance sheet. Where it is not possible to identify an employer's share of the scheme's assets and liabilities. but an employer has agreed a deficit contribution funding plan, a liability should be recognised on the balance sheet which will be the total of all future contributions due to be made under the funding plan. This may need to be discounted as described below.

Long-term assets and liabilities

Where assets and liabilities are due in more than one year, where the effect is material, it will be necessary to discount these items back to a net present value in cash terms. This means recognising what the asset or liability is actually worth to the charity in today's money.

Statement of cash flows

Tier 1 and tier 2 charities are not required to provide a statement of cash flows, provided they meet the definition of a small entity under FRS102. Tier 3 charities must provide a statement of cash flows.

The statement of cash flows will provide information about the changes in cash and cash equivalents of a charity for a reporting period, showing separately changes from operating activities, investing activities and financing activities.

Operating activities – the principal revenue producing activities which have been recognised as income and expenditure in the SoFA, such as:

- Receipts from raising funds (excluding endowment funds) or income from charitable activities.
- Payments to suppliers, to and on behalf of employees.
- Grant payments.
- Payments or refunds of gift aid and income tax.
- Receipts and payments from investments, loans and other contracts where they were made in furtherance of the charity's objects.

Investing activities – the acquisition and disposal of long-term assets and other investments not included in cash equivalents, such as:

- Income received from investment assets such as interest, dividends or rental income from investment properties.
- Payments to acquire or receipts from the sale of property, plant and equipment, intangible assets and other long-term assets.
- Receipts from the repayment of loans by a non-charitable trading subsidiary.

Financing activities – the activities that relate to borrowing and movements on endowment funds which are considered to be capital, such as:

- Receipts of donations of endowment or cash received relating to an increase in expendable endowment.
- Proceeds from new borrowing, including loans and mortgages, or repayments of amounts borrowed.
- Payments by a lessee for the reduction of the outstanding liability relating to a finance lease.

Cash equivalents are short term, highly liquid investments that are readily convertible to cash. This would include an investment with a short maturity of three months or less from the date of acquisition.

Bank overdrafts are normally considered financing activities similar to borrowings. They will form part of cash and cash equivalents if they are repayable on demand and form an integral part of an entity's cash management.

Section 14 includes a template for the statement of cash flows and related notes.

Notes to the accounts

In addition to the notes that provide additional analysis of the numbers presented in the SoFA and balance sheet, the SORP requires charities to provide additional narrative disclosures to help the readers of the accounts have a better understanding of the organisation. This includes details of transactions with related organisations and other stakeholders such as trustees and employees.

Trustee remuneration, benefits and expenses

All charities must disclose details of any remuneration or benefits received by trustees from the charity or a related entity or state if there were none. The note may choose to distinguish between remuneration and benefits received for services as a trustee as opposed to an employee. For each trustee this applies to, the charity must provide information about the nature of the payment or benefits, the name of the trustee and details of why the remuneration or other benefits were paid.

All charities must disclose whether one or more trustees have received expenses or state that no trustees have received expenses from the charity. Where expenses have been incurred, all charities must disclose the total amount reimbursed or paid, the nature of the expenses incurred and the number of trustees reimbursed or who had expenses paid on their behalf.

Related party transactions

A charity must identify who its related parties are and this will always include trustees, their close family members and any entities within a charitable group. Where there are transactions with related parties, it is important for the reader of the accounts to be able to understand why these transactions were in the best interests of the charity. If there have been no related party transactions, this fact must be stated. Otherwise, all charities must disclose:

- A description of the relationship between the parties and the transaction that occurred between them.
- The amounts involved including any balances at the reporting date and any amounts written off during the reporting period.
- Any terms and conditions between the parties to include security and guarantees.
- In addition, the SORP requires the names of the related parties to be disclosed.

Staff remuneration

All charities must disclose the number of employees receiving employee benefits (excluding employer national insurance and pension contributions) above £60,000 in the reporting period, showing the number of employees within each band of £10,000 over this limit. If no employees received employee benefits exceeding £60,000 then this fact must be stated.

Key management personnel

All charities must disclose the aggregate amount of employee benefits received by key management personnel for services to the charity. The term key management personnel refers to those persons with authority and responsibility for planning, directing and controlling the activities of the charity, directly or indirectly, including any director (whether executive or otherwise) of the charity. This group will include the trustees and senior management.

When calculating employee benefits for this purpose, this must include employer national insurance and pension contributions. Where key management personnel have been employed in post for part of a financial year this should be disclosed alongside the amounts.

Further information

SORP microsite: www.charitysorp.org

SORP: https://www.charitysorp.org/download-a-full-sorp

FRS 102: www.frc.org.uk

FRS102 Factsheets: //www.frc.org.uk/library/standards-codes-policy/accounting-and-reporting/uk-accounting-standards/frs-factsheets/

Receipts and payments accounts pack (CC16): www.gov.uk

Sayer Vincent "made simple" guides relevant to accounting:

- Grants & contracts made simple
- Related parties made simple

Made Simple guides

Made Simple guides are aimed at finance professionals and other managers working in charities. They cover technical areas such as tax and VAT treatments as well as information management areas and aim to provide practical guidance to busy managers and trustees in charities.

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MAKING IT COUNT

Made to measure

Sayer Vincent is a firm of chartered accountants working solely with charities and social enterprises. Through tailored audit and advice services, we provide trustees and managers with the assurance that their charity is managing its resources effectively.

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