



FRS 102 & Charities SORP

Technical Deep Dive for Finance Teams

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Agenda for the session

- Context and drivers for change
- Core changes in FRS 102 & Charities SORP
- Wider implications
- Practical considerations and next steps
- Questions



Context and Drivers for change

Why change now?

- FRS 102 has undergone its second triennial review
- Charities SORP must align with FRS 102 to remain relevant
- Sector demands for transparency and consistency are growing



Core Changes in FRS 102 & SORP

Income Module



- **Module split into two sections**
- **Exchange transactions: income for goods and services** (five-step model applicable)
- **Non-exchangeable transactions: income with no exchange for goods or services** (five-step model not applicable)



Core Changes in FRS 102 & SORP

Income Recognition Model



- Shift to performance obligation-based recognition
- Income is recognised when earned, not necessarily received
- Example:
 - Restricted Grants vs Unrestricted Donations



Core Changes in FRS 102 & SORP

Income Recognition Model

Identify contract



Identify performance obligations



Determine the transaction price



Allocate the price between the obligations



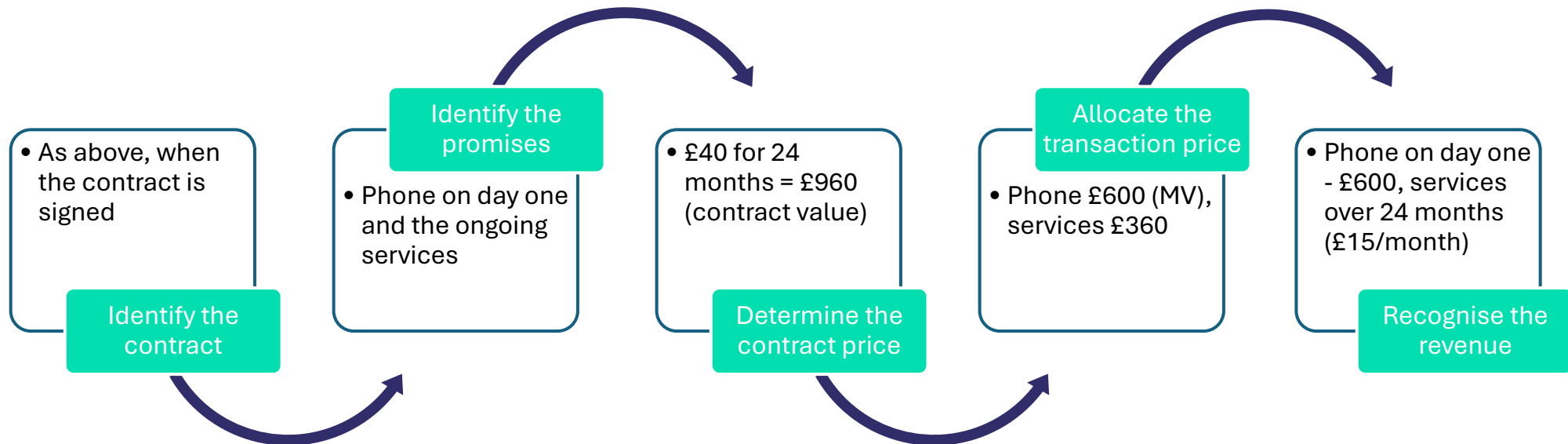
Assess when obligations have been satisfied



Core changes in FRS 102 & SORP

Working example - Mobile Phone

Mobile phone on a 2-year contract, £40 per month, includes unlimited calls, texts and 5GB of data.

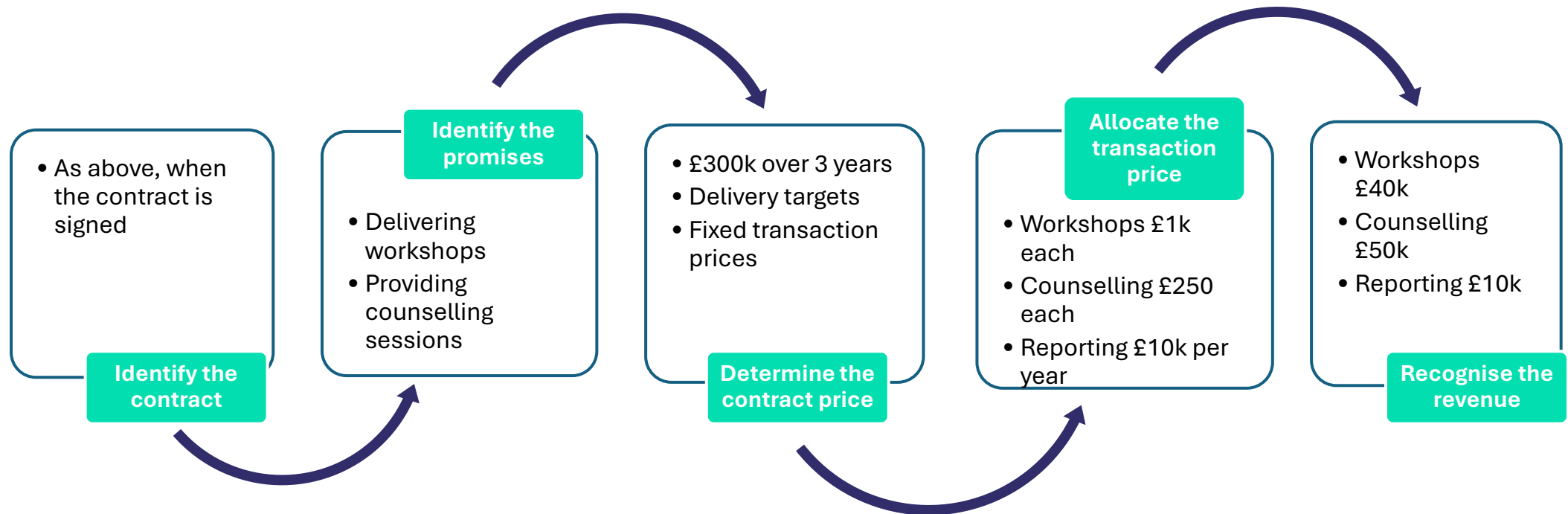




Core changes in FRS 102 & SORP

Working example - Services Contract

£300k contract to deliver mental health workshops and counselling over 3-years. 120 workshops and 600 counselling sessions over the contract. Funding is paid in annual instalments and is contingent on delivery milestones.

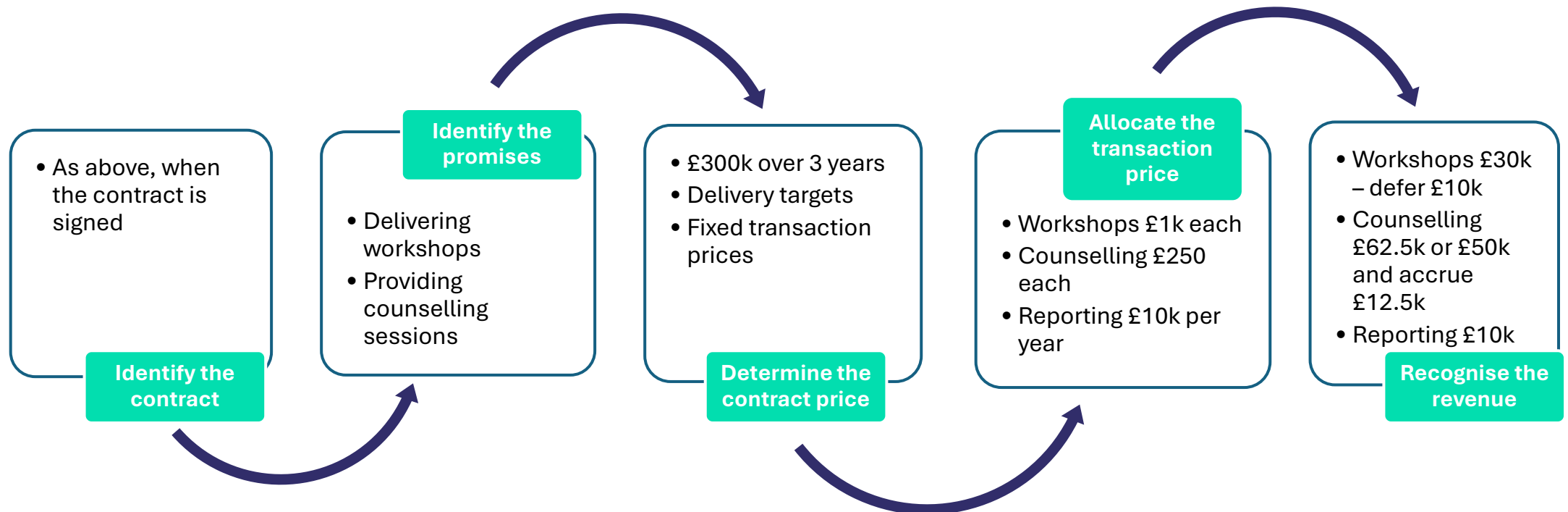




Core changes in FRS 102 & SORP

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Core Changes in FRS 102 & SORP

Lease Accounting



- Previous focus on the type of lease falls away
- Leases now all on the balance sheet (with the exception of short-term and low-value leases)
- Lessors - minimal changes



Core Changes in FRS 102 & SORP

Exceptions from the rule



- Short-term Leases:
 - 12 month or less, no purchase option
- Low Value Assets:
 - 'Value' is not specified, aggregated material lease can be 'low value'
- Treatment:
 - Off-balance Sheet, recognised similarly to previous



Core Changes in FRS 102 & SORP

What is a lease?

- A **contract, or part of a contract**, that conveys the right to use an asset, for a **period of time** in exchange for **consideration**.



Core Changes in FRS 102 & SORP

Leases - key aspects



Separating components - 'part of a contract'

- Non-lease elements of contracts
 - Account for **separately**
 - E.g. Maintenance
- Elections available to bundle together
 - By **class** of assets

Lease Term - 'period of time'

- **Non-cancellable** period (up to break clause)
- **Extension** options **reasonably certain**
- **Termination** options that the lessee is **reasonably certain not to exercise**



Core Changes in FRS 102 & SORP



Example - 4 years where interest rate implicit in the lease:

- Capitalises as Right of Use asset (RoU)
 - Dr FA £50k
- Liability recognised on the balance sheet
 - Cr Creditors £50k
- Asset depreciated over the life of the lease
 - UEL 4 years - £12.5k pa change
- Interest cost recognised as liability repaid (see table)
- Depreciation + Interest = operating lease cost over lease term

Expense comparison:

- Current GAAP Treatment - £14,808 pa charge to P&L
- New FRS 102 -
 - Year 1: £16,452 | Year 2: £15,315 | Year 3: £14,331 | Year 4: £13,042

Cash price	50,000	Deposit		10,000
Quarterly payment	3,077	Purchase option		100
Quarterly interest	2.5%	Finish		Dec-29
	b/f	Interest	Repaid	c/f
Mar-26	50,000	1,250	(13,077)	38,173
Jun-26	38,173	954	(3,077)	36,049
Sep-26	36,049	901	(3,077)	33,873
Dec-26	33,873	847	(3,077)	31,642
Mar-27	31,642	791	(3,077)	29,356
Jun-27	29,356	734	(3,077)	27,012
Sep-27	27,012	675	(3,077)	24,610
Dec-27	24,610	615	(3,077)	22,148
Mar-28	22,148	554	(3,077)	19,624
Jun-28	19,624	491	(3,077)	17,037
Sep-28	17,037	426	(3,077)	14,386
Dec-28	14,386	360	(3,077)	11,668
Mar-29	11,668	292	(3,077)	8,882
Jun-29	8,882	222	(3,077)	6,027
Sep-29	6,027	151	(3,077)	3,100
Dec-29	3,100	77	(3,177)	0



Core Changes in FRS 102 & SORP

Tiered Reporting Framework



- **Tiers based on income and complexity:**
 - Tier 1: Income up to £500,000
 - Tier 2: Income between £500,000 and £15m
 - Tier 3: Income above £15m
- **Smaller charities will benefit from reduced disclosures**
- **Important to assess your tier and prepare accordingly**



Core Changes in FRS 102 & SORP

Tier 1 Reporting - Income up to £500k



- Fewer mandatory disclosures
- Trustees' Annual Report must include:
 - Basic information on activities and achievements
 - Financial reserves and future plans
- Impact reporting is now mandatory, though at a basic level
- No requirement for a statement of cash flow



Core Changes in FRS 102 & SORP

Tier 2 Reporting - Income between £500k and £15m



Comply with Tier 1 requirement plus:

- **Enhanced narrative reporting in Trustees' Annual Report:**
 - Detailed impact reporting
 - Environmental, Social and Governance (ESG) disclosures
 - Governance arrangements and risk management
- **More detailed reporting on activities and financial reserves**
- **Additional disclosures for:**
 - Income recognition
 - Lease accounting



Core Changes in FRS 102 & SORP

Tier 3 Reporting - Income above £15m



Comply with Tier 1 and Tier 2 requirements plus:

- **Enhanced Sustainability reporting Trustees' Annual Report:**
 - How environmental, governance and social matters are managed
 - KPI's for climate-related risks and opportunities
- **Full statement of cash flows**
- **Greater transparency on governance, remuneration and related party transactions**
- **Leadership in ESG reporting and financial sustainability**



Core Changes in FRS 102 & SORP

Transitional Arrangements



- Effective from 1 January 2026
- Some changes are retrospective, others prospective
- Early preparation is key — review policies and engage auditors



Wider Implications

Economic Crime and Corporate Transparency Act

- New requirements around beneficial ownership
- Filing obligations may change
- Governance reporting must be more robust



Wider Implications

Revised Charity Size Thresholds



Requirement	Previous Threshold	New Threshold
Independent examination	Income > £25,000	Income > £40,000
Professionally qualified examiner required	Income > £250,000	Income > £500,000
Receipts and payments *	Income < £250,000	Income < £500,000
Audit required (income threshold)	Income > £1,000,000	Income > £1,500,000
Audit required (asset threshold + income)	Gross assets > £3.26m and income > £250,000	Gross assets > £5m and income > £500,000
Group accounts required	Group income > £1,000,000	Group income > £1,500,000



Wider Implications

Audit Preparation and Reporting



- Auditors will expect stronger documentation and controls
- Trustees must prepare for deeper scrutiny
- Plan for audit timelines and resources needed



Practical Considerations & Next Steps

Getting Ready

- Assess impact and review/update accounting policies
- Train finance teams and trustees
- Consider system and process changes



Practical Considerations & Next Steps

Resources and Support

- FRC, Charity Commission and SORP Committee guidance
- Sector bodies such as CFG AND ICAEW offer resources
- Professional advice may be needed for complex areas



Final note...

International Non-Profit Accounting Standard (INPAS)

- INPAS — globally applicable accountancy framework for NPO's
- Addresses lack of standardised reporting
- Integrates financial and non-financial reporting



Any questions?



Thank you

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