



Technical update



Department
for Culture,
Media & Sport

Consultation outcome

Consultation on financial thresholds in charity law: government response

Updated 31 October 2025

DCMS Consultation

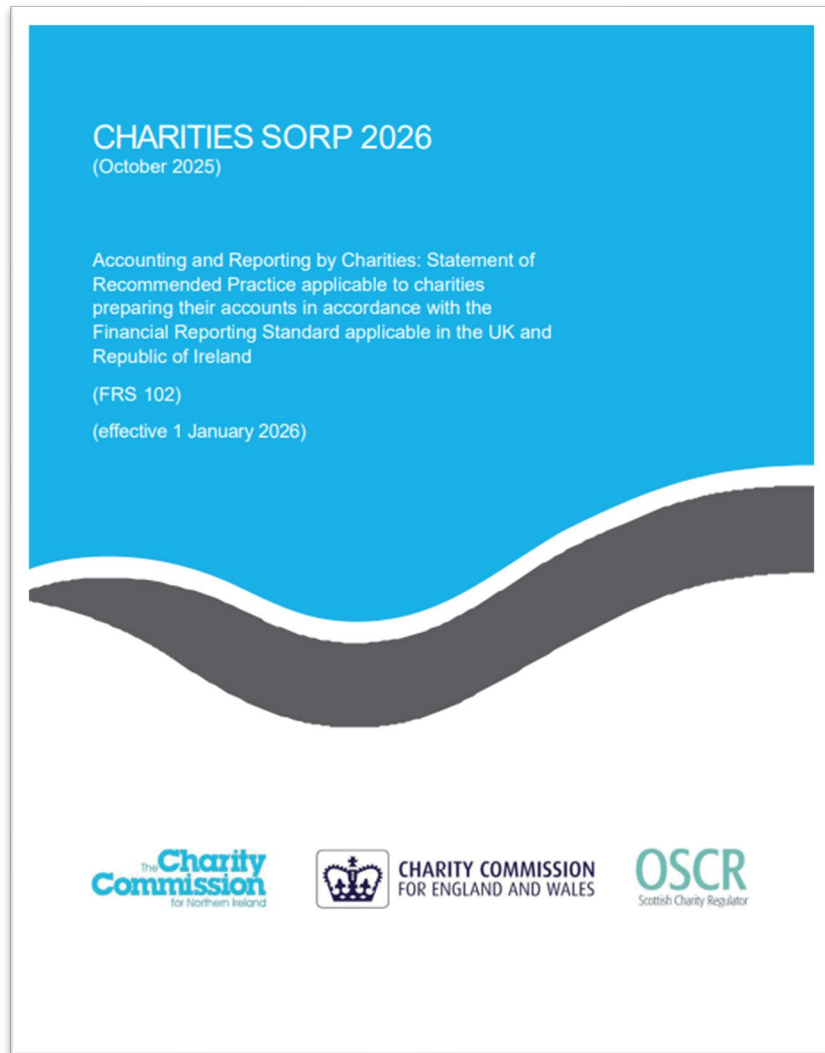
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Financial thresholds

Income thresholds	Current	Revised
Independent Examination	£25,000	£40,000
Qualified Independent Examiner	£250,000	£500,000
Receipts & payments accounts (not companies)	£250,000	£500,000
Audit thresholds – income	£1,000,000	£1,500,000
Audit thresholds – income & – gross assets	£250,000	£500,000
	£3,260,000	£5,000,000
Requirement for group accounts	£1,000,000	£1,500,000

– Expected for FY ending 30 Sept 27

[DCMS Consultation](#)



Charities SORP 2026

Based on Financial Reporting Standard FRS102

Guidance & explanations for charities

Apply to **all** charities preparing accruals accounts

Effective date 1 January 2026

- 31 December 2026
- 31 March 2027
- 30 June 2027

“Modified retrospective approach”

- [Charities SORP 2026](#)

Income

Two broad categories of income



Non exchange transactions

Performance related conditions?

- **Closely specifies** level of output/service to be performed
- Payment is conditional on the output being performed
- Amount payable determined by extent of performance

NO

Recognise when
receivable

YES

Recognise when performance
related conditions met

Other conditions which may limit recognition

- Conditions outside the control of the charity (eg match funding)
- Time conditions – terms specify WHEN funds can be used

Non exchange transactions

Non-exchange

Legacies

- Recognition that there may be valuations and disputes
- Materiality when considering ability to measure
- Life tenants
- Portfolio approach unsuitable for material legacies
- May discount if due >12months

Revenue – exchange transactions

5 step recognition model – exchange transactions



Identify contracts not completed on implementation:
i.e. 1 Jan 2026

SORP Revenue checklist

Review all income streams



Distinguish between exchange & non-exchange



Non exchange: Identify if any performance conditions



Exchange: Identify incomplete contracts and terms



Exchange: Map using the 5-step model



Discuss with auditor/examiner/accountant



Consider impact on financial thresholds



Update accounting policies & consider disclosures



Leases

Section 10B – Clarifies requirements for charities

- Applies to all SORP accounts

- Explain where FRS102 requirements apply

- Examples of situations that charities may encounter

Recognition that requirements may be “difficult to implement”

Overriding FRS102 requirements “not within the gift” of the SORP-making body

Highlights exemptions



Leases – Exemptions

Short term leases

- = term < 12 months at commencement
- = unless purchase option (then exemption not available)
- = applies by class of underlying asset
- = transitional exemption if <12 months left on initial application

Low value

- = underlying asset is of low value
- = NOT cars, vans, plant, land and buildings, production equipment
- = incl personal computers, phones, small items office furniture
- = benefit from use on its own & not dependent on other assets
- = applies on a lease-by-lease basis

What's changed – Leases

Lease Agreements

Vehicle Finance
Plant & Equipment
Long leasehold
property

Finance Lease

**Recognise asset and
corresponding liability**

Operating Lease

**Recognise
rental as paid**

Short leasehold
property
Short term
equipment rental

Leases

Right of Use Asset

Identify the cost of the asset:

- Lease liability
- Pre lease payments
- Costs of taking up lease
- Dilapidations
- Any non-exchange element

Then carry at cost less depreciation

Balance Sheet	2026	2025
Fixed assets	£	£
Property plant & equipment	100,000	120,000
Right of use assets	45,000	-

Current assets		
Stocks	30,000	25,000
Debtors	250,000	124,000

Leases

Lease liabilities

NOT total payments under the lease

Present value of those payments

Using an interest rate

- Rate implicit in lease
- Incremental borrowing rate
- Obtainable borrowing rate
- Rate of interest on deposits

Balance Sheet	2026	2025
Current Liabilities	£	£
Accounts Payable	100,000	120,000
Accruals	20,000	15,000
Lease liabilities	45,000	-
Long term liabilities		
Deferred Revenue	30,000	25,000
Lease liabilities	250,000	-

Leases

Charity shop rental	2026	2027	2028	2029	2030	Total
	£	£	£	£	£	£
Annual rent payable	10,000	10,000	10,000	10,000	10,000	50,000
Time value of money	(385)	(753)	(1,113)	(1,466)	(1,810)	(5,527)
Present value	9,615	9,247	8,887	8,534	8,190	44,473
Interest rate	4%					
Lease liability	44,473	36,253	27,703	18,811	9,563	
Add interest	1,779	1,450	1,108	752	383	
Deduct payments	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	
	36,253	27,703	18,811	9,563	(54)	



Peppercorn Leases

Take the legal form of a lease

But – *unlikely* to meet FRS102 definition as there is no/very small consideration

Such agreements outside the scope

Any nominal payments that are made are treated as an operating expense

BUT – need to consider the benefit being received and how that is measured & accounted for





Social donation Leases

Payments below market rent, but higher than nominal amount

Philanthropic intention of lessor

Contain a non-exchange component

Donation of asset, service or facility – identify and measure

Recognise income & asset



Lease checklist

Identify all lease agreements



Consider exemptions



Identify key dates, terms & any non-exchange elements



Calculate asset and liability



Review income statement presentation



Review disclosures



Assess impact on financial thresholds



Engage with your auditor/examiner/accountant



Other changes

- Statement of cash flows

Cash Flow Statement



	2022	2021
Cash flows from operating activities		
Operating profit/(loss) for the financial year	£11 600,00	
Adjustments for:		
Depreciation of property, plant and equipment	£5 000,00	
Income taxes	£2 900,00	
Cash flow before change in net working capital	£19 500,00	
Change in net working capital		
Increase (-) / decrease (+) of short and long term accounts receivables	£1 000,00	
Increase (-) / decrease (+) in inventory	-£2 500,00	
Increase (+) / decrease (-) of short term interest-free liabilities (accounts payables)	£5 000,00	
Cash flow from operations before financial expenses and taxes	£23 000,00	
Income taxes paid	-£2 900,00	
NET CASH FROM OPERATING ACTIVITIES (A)	£20 100,00	
Cash flows from investing activities		
Proceeds from sales of long-term assets	£2 000,00	
Purchases of property, plant and equipment	£0,00	
Purchases of intangible assets	£0,00	
Interest received	£0,00	
NET CASH FROM INVESTING ACTIVITIES (B)	£2 000,00	
Cash flows from financing activities		
Issue of share capital	£5 000,00	
Capital repayments (including share buy-backs, borrowings)	-£5 000,00	
Interest paid	-£7 500,00	
Dividends paid	£0,00	
NET CASH FROM FINANCING ACTIVITIES (C)	-£7 500,00	
CHANGE IN CASH (A + B + C) INCREASE (+) / DECREASE (-)	£14 600,00	
Cash and cash equivalents at the beginning of year	£22 000,00	
Cash and cash equivalents at the end of year	£36 600,00	
TOTAL	£14 600,00	

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£14 600'00

Cash and cash equivalents at the end of year

£36 600'00

Cash and cash equivalents at the beginning of year

£22 000'00

SORP Action Plan

Governance & Planning

- Identify implementation date
- Identify reporting options
- Identify Tier
- Brief Trustees
- Review policies
- Assign lead

Income Assessment

- Map all income streams
- Categorise as exchange/non-exchange
- Identify any performance obligations

Lease Preparations

- Prepare list of all leases & key information
- Summarise accounting requirements
- Identify applicable interest rate

Trustees' Annual Reports

- Update report structure
- Ensure systems are capturing required data throughout the year

SORP Action Plan

Team & Training

- Provide training to:
 - Finance staff
 - Budget holders
 - Trustees

Audit/Examination

- Discuss changes early
- Agree expectations around lease modelling and key judgments
- Consider thresholds

Communication and stakeholder management

- Prepare explanations for material changes
- Brief funders, donors, partners
- Consider grant terms