

# MHA Event – Key Changes in the 2026 SORP Exposure Draft

## Trustees' Annual Report- calculating and disclosing reserves



### 1 Reserve definitions compared

#### Proposed definition - Mandatory all charities

In this SORP the term “reserves” (unless otherwise indicated) describes that part of a charity’s income funds that is freely available to spend on any of the charity’s purposes.

The starting point for calculating reserves is the amount of unrestricted funds held by a charity. However, some or all of the unrestricted funds may not be readily available for spending and may need to be excluded. For example:

- Fixed assets, such as land and buildings, used to carry out the charity’s activities
- Investments for the purpose of achieving the charity’s purposes
- Designated funds if committed for spending
- Commitments that have not been provided for as a liability in the accounts. This definition of reserves normally excludes:
  - Permanent endowment funds
  - Expendable endowment funds; and
  - Restricted funds

However, you may need to consider:

- Where restricted funds are held, the nature of the restriction, as such funds may reduce the need for reserves in particular areas of the charity’s work
- Whether expendable endowment is readily available for spending
- The impact on reserves of having a pension provision, a long-term mortgage or a revaluation reserve in the charity’s accounts

#### Current SORP recommendation - Larger charities only

Paragraph 1.48. The review of the charity’s reserves should:

- State the amount of the total funds the charity holds at the end of the reporting period
- Identify the amount of any funds which are restricted and not available for general purposes of the charity at the end of the reporting period
- Identify and explain any material amounts which have been designated or otherwise committed as at the end of the reporting period
- Indicate the likely timing of the expenditure of any material amounts designated or otherwise committed at the end of the reporting period
- Identify the amount of any fund that can only be realised by disposing of tangible fixed assets or programme related investments

## 2 Reserves disclosure compared

### Proposed disclosures required tier 1 and above

**1.38.** The charity must explain:

- Any policy it has for holding reserves
- State the amount of those reserves and why they are held
- If the trustees have decided that holding reserves is unnecessary, the report must disclose this fact and provide the reasons for this decision

**1.39.** The figure for reserves in the trustees' annual report must be consistent with the accounts and, where this is not evident, the charity must provide a reconciliation, either in the funds note or as a separate note.

**1.40.** The report must:

- Compare the amount of reserves with the charity's reserves policy
- Explain, where relevant, what steps the charity is taking to bring the amount of reserves it holds into line with the level of reserves identified by the trustees as appropriate given their plans for the future activities of the charity

**1.41.** The review of the charity's reserves must:

- Identify and explain any material amounts that have been designated or otherwise committed as at the end of the reporting period
- Indicate the likely timing of the expenditure of any material amounts designated or otherwise committed at the end of the reporting period

**1.42.** Going concern means the ability of an organisation to operate for the foreseeable future and its ability to pay its debts as they fall due (see paragraphs 3.17 to 3.19, module 3 'Accounting standards, policies, concepts and principles, including estimates and errors'). Where a charity has no reserves (or negative net assets on the balance sheet), it must explain why it is still operating as a going concern.

**1.43.** If, at the date of approving the report and accounts, there are material uncertainties about the charity's ability to continue as a going concern, the nature of these uncertainties must be explained.

### Current requirements (all charities)

**Paragraph 1.22.** The charity must explain any policy it has for holding reserves and state the amounts of those reserves and why they are held. If the trustees have decided that holding reserves is unnecessary, the report must disclose this fact and provide the reasons behind this decision.

**Paragraph 1.47 should also explain:** 'the impact, if any, of a material pension liability arising from obligations to a defined benefit pension scheme or pension asset on the financial position of the charity...'

**Paragraph 1.48 should:** 'indicate the likely timing of the expenditure of any material amounts designated or otherwise committed at the end of the reporting period'

**Paragraph 1.48. should:**

- State the amount of reserves the charity holds at the end of the reporting period after making allowance for any restricted funds, and the amount of designations, commitments (not provided for as a liability in the accounts) or the carrying amount of functional assets which the charity considers to represent a commitment of the reserves they hold
- Compare the amount of reserves with the charity's reserves policy and explain, where relevant, what steps it is taking to bring the amount of reserves it holds into line with the level of reserves identified by the trustees as appropriate given their plans for the future activities of the charity

### 3 Focus topic- Income

#### Example of the five-step approach compared to current SORP

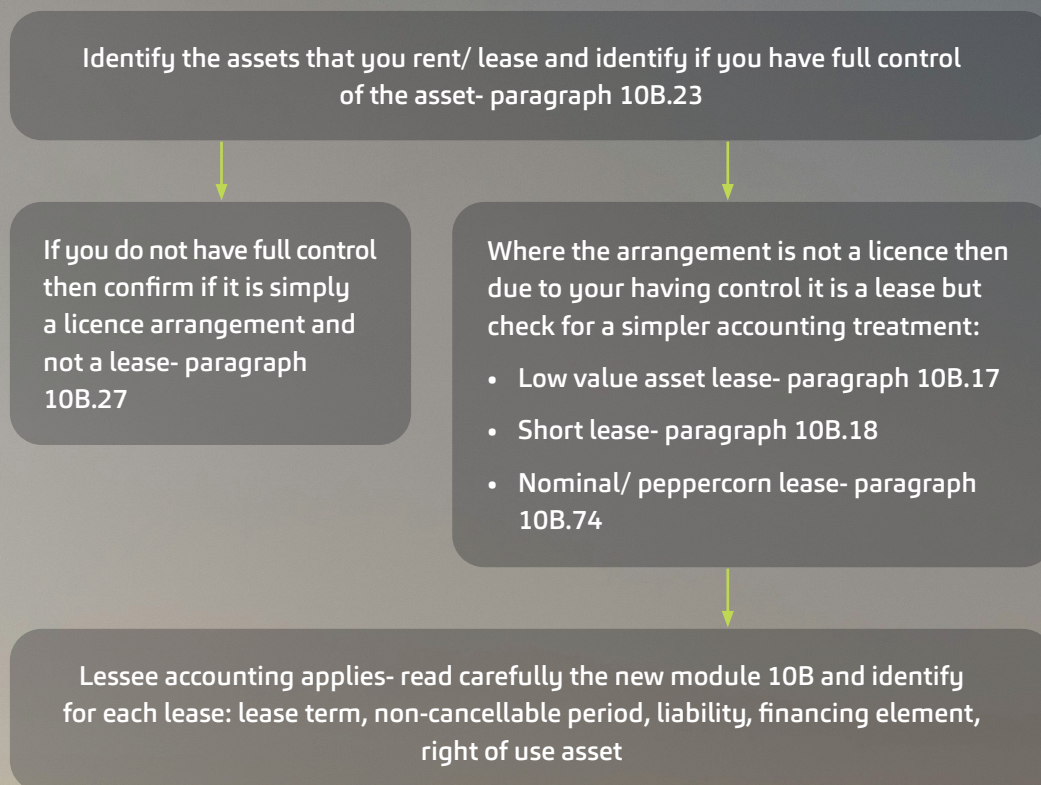
In most cases the end point will be the same but it may require greater clarity in pricing (and costing) activities to support your charity's approach to recognising income. SORP paragraph 5.9 offers examples to which this five-step model applies: 'the provision of educational services by a charity in return for course fees; the sale of educational goods by an art gallery or museum charity; or the provision of serviced residential accommodation by a residential care home in return for payment'

**Illustration:** the sale of bought in goods (excludes donated goods where proceeds of sale are gifted to the charity- paragraph 6.28). In displaying items for sale, a price is assigned and payment taken after the customer has selected items and presented at the till.

Current SORP the three criteria are met on sale- the charity is entitled to payment upon the customer accepting the goods, settlement is probable because payment is taken at the point of sale and the amount can be measured on sale of each item.

**Five step model:** 1. the customer is identified on entering the shop and the obligation is the saleable item(s). 2.the performance is the customer selecting and accepting the item(s). 3. the price is assigned to each item. 4.the price is attributable to an individual item because each has a price tag. 5.the obligation is fulfilled as the customer presents at the till and makes payment and takes possession (control) of the item(s) that they selected.

#### Focus topic- lessee accounting (module 10B)





## 4 Scenario

A charity has use of a parking area which is owned by another unconnected charity. The arrangement is an informal one based on a verbal understanding between the trustees of the two charities with an annual charge of £1,000 made. During the many years this unwritten agreement has been operating the charity making use of the carpark has changed the way it uses this rented space.

Initially the charity put up a sign up saying it was parking reserved for charity members only and put a padlock on the gate which was only removed when the charity was open and operating from its building nearby.

Subsequently the sign was removed and the padlock and gate were also removed and now the charity has use of the carpark but it also now used by the other charity that owns it.

Question- in the case of the charity renting the carpark: Was this arrangement ever a lease and is it now a lease, if not, why not?

Question- the charity that owns and rents out the carpark- in renting out capacity that is unused does the charity escape being a lessor simply because it is not looking to be a commercial property investor. Has the change in the way the carpark is managed also changed the accounting treatment?

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