

TRUSTEES' SHORT GUIDE SERIES

Income recognition SORP 2026 – identifying exchange and non-exchange transactions.

Basic charity governance and accounting.

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Income is one of the key metrics in a charity's accounts and many of the requirements around charity accounting and reporting are determined by the level of income. Therefore it is important that charities account for their income correctly so that trustees' can make judgments around filing requirements, audit exemptions, and the applicable tier of SORP 2026.

This guide focuses on the revised income recognition requirements under SORP 2026 and therefore applies for periods commencing on or after 1 January 2026 (year ends 31 December 2026 and after).

There are broadly two types of income: income from non-exchange transactions; and income from exchange transactions which can also be categorised as income from contracts.

The accounting treatment is different for each type of transaction therefore it is important to identify whether there is an exchange or contract in place.

Income from exchange transactions

Income from exchange transactions is received by the charity for goods or services supplied under contract with third parties. The income reflects consideration which the charity expects to be entitled to in exchange for providing goods or services. An example of this could be income from a local authority under a contractual arrangement in exchange for providing residential care services.

A Contract (definition from FRS 102) is an agreement between two or more parties that creates enforceable rights and obligations.

Key indicators set out in the SORP include:

- Whether the receipt of income is subject to fulfilling performance-related conditions.
- Who receives the benefit of the arrangement.

Some types of transaction will be more challenging for charities to categorise. For example:

Transaction	Exchange	Non-exchange
Grant	Income is received in exchange for the transfer of goods or services and there is a contract between the parties.	Income is received and the grant-maker does not directly receive equal value in exchange.
Membership	Income buys the right to goods and services.	Income is akin to a donation.

The SORP states that a charity must apply the revenue recognition model to account for a contract with a third party only when all of the following criteria are met:

- The parties to the contract have approved the contract and are committed to perform their respective obligations
- The charity can identify each party's rights regarding the goods or services to be transferred
- The charity can identify the payment terms for the goods or services to be transferred
- The contract has commercial substance (i.e. the risk, timing or amount of the charity's future cash flows is expected to change as a result of the contract)
- It is probable that the third party will have the ability and intention to pay the consideration to which the charity will be entitled when it is due.

These requirements reflect the changes to FRS 102 and charities must apply the five step model introduced by FRS 102 to their contract income, or income from exchange transactions.

Income arising from contracts is typically unrestricted unless the contract specifies that unspent income is to be returned or can only be spent on a specific purpose.

Income from non-exchange transactions

Income from a non-exchange transaction is where the charity receives value from the donor, who may be an individual or an entity, without directly providing equal value in exchange. An example of this could be a donation received from a member of the public.

For transactions without a contract, charities must account for the income as non-exchange transaction income. Under SORP 2026 the accounting remains similar, however the terminology has changed, amounts can only be recognised when the amount is considered receivable and reliably measurable.

The SORP requires that non-exchange transactions only be recognised using the performance model, rather than allowing an 'accrual model' option. As a result a charity must recognise income from non-exchange transactions as follows:

- Transactions that do not impose specified future performance-related conditions on the recipient are recognised in income when the resources are received or receivable
- Transactions that do impose specified future performance-related conditions on the recipient are recognised in income only when the performance-related conditions are satisfied
- When resources are received or receivable before the performance-related conditions are satisfied, a liability is recognised.

Non-exchange transactions should be classified as either restricted or unrestricted depending on the requirements of the donor.

The existence of a restriction on the use of the resources does not prohibit a non-exchange transaction from being recognised as income when received or receivable.





Next steps

Once a charity has identified whether income is from an exchange transaction or contract, or a non-exchange transaction, it will need to appropriately follow the five step model or public benefit entity non-exchange accounting for those transactions.

Trustees should consider the implications for accounting and reporting with their advisers or please contact any member of our Charities & Not-for-profit team.

Further reading

- Charity SORP 2026
- FRS 102 (2024 Edition)
- FRS 102 Factsheet 10 - Revenue from Contracts with Customers
- PEM Guide Income recognition SORP 2026 – accounting for exchange transactions
- PEM Guide Income recognition SORP 2026 - accounting for non-exchange income

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