



TRUSTEES' SHORT GUIDE SERIES

Income recognition SORP 2026 – accounting for non-exchange transactions.

Basic charity governance
and accounting.

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pem.



Income may be received either on an exchange or non-exchange basis depending on whether the giver of the income is receiving something of equal value in the arrangement. Where the income is a non-exchange transaction it must be accounted for in accordance with SORP 2026 which reflects the Public Benefit Entity requirements labelled 'PBE' of FRS 102.

What are non-exchange transactions?

Donations of money, goods, facilities or services which are given freely to the charity by a donor. Grants are a form of non-exchange transaction where the grant-maker awards a grant without receiving equal value in exchange.

Membership income can also be accounted for as a non-exchange transaction depending on the nature of the agreement. Grants may be presented in either donations or income from charitable activities, where the payment is made to secure the provision of particular goods or services.

Recognition principles

Until SORP 2026, there were three general criteria for income recognition: entitlement, probability and measurement. Under the new SORP the principle of entitlement now only applies to recognition of dividends and in the definition of a performance related condition. SORP 2026 now states:

SORP 2026 5.64.

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.

The existence of a restriction around the use of resources is distinct from a condition. A restriction limits the use of the resources to a particular activity but a condition will require a specific level of performance or output from the charity.

A restriction does not prevent recognition unless there are other conditions within the agreement.



Identifying terms and conditions of performance

The recognition principles described are called the 'performance model'. It is important for trustees and management to understand whether there are specific performance or output measures in the grant or whether there are other terms that may limit recognition. This will help Trustees' determine when income should be recognised.

Terms that may limit recognition

Where a grant is dependent on something outside the recipient charity's control, for example, conditional on obtaining matched funding, or subject to a planning consent, it would only be recognised when there is reasonable assurance that the grant will be received.

If the terms of the grant control the period when the grant must be spent; and it is not in the charity's control to delay or advance the use of funds, the grant may not be recognised until the time condition is met.

Grants and donations with terms and conditions **not wholly within the charity's control** should be recognised as a contingent asset, if receipt of the grant is probable once the conditions are met; or, where the grant funding is received in advance of meeting those terms, then the income should be deferred.

Terms that do not limit recognition

The SORP states specifically that the following factors do not limit recognition:

- terms or conditions relating to the submission of accounts or certification of expenditure;
- timing of cash receipt;
- the grant being related to capital rather than revenue (a grant for a capital item is recognised in full and not deferred over the life of the asset); or
- a clawback provision requiring any unexpended grant to be returned (the charity would separately make a provision should it become necessary).

General recognition principles by income stream

Non-exchange income will typically be recognised when receipt is probable and can be measured reliably and any performance conditions or other terms are satisfied. Some of the key considerations by income stream are set out on the next page.

Income stream	Recognition
Donations	On receipt, unless there are performance conditions or terms limiting recognition as discussed above
Legacies	When: ▪ probate has been granted (in Scotland a grant of confirmation); ▪ executors have established that there are sufficient assets (this may be evidenced by estate accounts or other correspondence); and ▪ the conditions attached to the legacy are within the control of the charity or have been met (e.g. a life interest would prevent recognition until the death of the life tenant). Legacy balances must be adjusted for events occurring after the end of the reporting period, for example when: ▪ a payment is no longer probable (e.g. the will is contested) ▪ a payment is received or notified as receivable after the reporting date but before the accounts are authorised for issue but it is clear that the payment was agreed by the executors period to the end of the reporting period
Donated goods, facilities and services	When received or receivable, at the value of the donation to the charity. Effectively the price the entity would pay on the open market for an identical or comparable resource. As a practical measure goods for resale may be recognised when they are sold.
Grants	When the formal offer of funding is communicated in writing to the charity, unless there are performance conditions as discussed above.
Interest and third party dividends	Interest income is recognised using the effective interest method; and dividends are recognised when the right to receive payment is established (which may be earlier than the cash receipt).
Intra group dividends/ distributions and gift aid	Income may be accrued in the parent charity when the gift aid payment is made under a legal obligation (e.g. a deed of covenant) otherwise gift aid is recognised on receipt of the cash.
Insurance claims	When receipt of reimbursement is virtually certain and the amount can be measured reliably.



Next Steps

Whilst the removal of entitlement as a recognition criteria for income does not seem to be a significant change, there could be potential delay in the timing of recognition.

Some donation and grant arrangements can be complicated and the terms and conditions nuanced. Management and Trustees should ensure that where performance conditions are identified at the start of an arrangement (or indeed while it is being negotiated); they are then tracked through the life of the contact so that income recognised appropriately.

Legacies are also an area of judgment and therefore should be subject to continual review and challenge. The requirement to adjust post balance sheet means that values can fluctuate as charities prepare their accounts.

Monitoring correspondence and conditions around income recognition is therefore particularly important where a charity is near a threshold and recognition, or not, of a legacy, grant or donation may have an impact on the size of the charity against a threshold.

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

- [Charities 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 Reporting requirements by type of charity](#)

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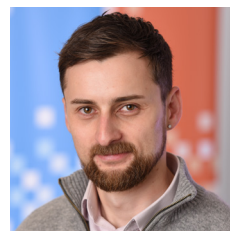
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