Periodic review of FRS 102

Significant changes to UK GAAP becoming effective 1 January 2026

FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland, is the financial reporting standard applied by businesses in the UK that do not report under IFRS or the micro-entities regime.

The standard is subject to periodic reviews to ensure it remains relevant, effective and aligned with evolving financial reporting needs. This review is the most extensive amendment to the standard since it was issued and is effective for accounting periods beginning on or after **1 January 2026**. Transition is retrospective with some exemptions available.

Certain sections of FRS 102 were completely replaced, whilst others were updated for new requirements or clarifications. The amount of work involved in assessing the impact and implementing changes should not be underestimated. Entities must carefully assess any additional disclosure requirements introduced to ensure compliance.

What we'll cover:

- Areas of impact
- Implications for your business
- Practical considerations
- How we can help

Areas of impact

Revenue recognition

A new 5-step model for revenue recognition may change how much revenue you recognise and when. The model completely replaces the existing section of FRS 102 and is aimed to align revenue recognition with IFRS 15 "Revenue from Contracts with Customers". Entities have a choice to apply the changes retrospectively or using cumulative catch-up approach.

Key areas of challenge include:

- **Identifying performance obligations.**
- **Contract modifications and variable consideration.**
- **Over time or point in time revenue recognition.**
- **Provisions and contract balances.**

Lease accounting

Lessee accounting will undergo a significant change in line with IFRS 16 "Leases". Most leases will be brought onto the balance sheet by creating a right-of-use asset and a corresponding lease liability. Exemptions are available for low-value and short-term leases. Rental expense will be replaced with depreciation and interest expense and will no longer be recognised on a straight-line basis. Changes can only be applied prospectively (in the first period commencing on or after 1 January 2026) which could result in lack of comparability. Entities already reporting under IFRS 16 (not US GAAP) for consolidation purposes can use these numbers at transition.

Key areas of challenge include:

- **Identifying lease contracts in scope of new definition of a lease.**
- **Measurement and reassessment complexity.**
- **Automating calculations and establishing relevant inputs.**

Other changes

Some other changes include, but are not limited to:

- **Supplier finance arrangements disclosures (effective 1 January 2025).**
- **Business combinations.**
- **Changes to fair value measurement.**
- **Uncertain tax treatments.**
- **Share-based payments.**
- **Software assets classification.**
- **Losses on associates and joint ventures.**
- **Onerous contract provisions.**

Implications for your business

- Key performance metrics, such as EBITDA, net debt and gearing ratios or return on capital employed.
- Compliance with loan covenants and negotiation of new finance.
- Earn out calculations.
- Employee bonus and share schemes conditions.
- Availability of distributable profits.
- Adjustments to budgeting process and forecasts.

Practical considerations

- Establish transition timeline.
- Assess staff resourcing and training needs.
- Commence information gathering and calculations.
- Formalise new accounting policies and make transition elections.
- Determine significant estimates and judgements.
- Consider additional software requirements.
- Review management reporting and internal controls.
- Evaluate impact on taxation.
- Agree audit and accounts preparation timetable.
- Analyse the effect of new company size thresholds (effective from 6 April 2025).
- Plan for additional costs associated with implementing the change.

How we can help

Impact assessment report

Using our bespoke tool we will identify areas of impact for your business, the choice of accounting policies available and additional disclosures required in your financial statements.

Revenue recognition

We can assist with analysing your contracts and identifying revenue recognition change, including new balances to be recognised, and calculating impact for all revenue streams at transition date and retrospectively (if elected).

Lease accounting

- Analysis of lease contracts for the purpose of capitalisation requirement.
- Assessment of inputs into the calculations for each lease and estimates required for these inputs (e.g. lease term and discount rates).
- Calculation of lease balances at transition date.
- Maintaining calculations for the following reporting periods.

Preparation of new disclosures for financial statements

Tailored training for your staff

Ad-hoc advisory and review

We can support on accounting application for specific transactions, accounting policy papers or review of your workings.

Tax impact assessment

Our tax team can assist with evaluating impact on current and deferred tax, including guidance on the new rules for uncertain tax treatments.

Our team

Our Financial Reporting Advisory team has over 20 years of experience in helping organisations of all sizes manage their financial reporting needs.

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