ACCOUNTANTS GROUP

FRS 102

A practical guide for business preparing accounts under UK GAAP.

Introduction

If your business prepares accounts under UK GAAP, FRS 102 has already changed and further reforms are on the way.

As the implementation period for most of the significant changes began on 1 January 2026, the new rules on revenue recognition and lease accounting are already in force for accounting periods starting on or after that date. There is still time to act if you have not yet prepared, though it is advisable to be fully up to date as soon as possible.

Additional changes will take effect from 1 January 2027 and these will centre on financial statement presentation. These changes were announced by the Financial Reporting Council (FRC) so must be taken seriously.

Understanding all of the changes can feel overwhelming, so we have broken down the key reforms in the form of this helpful guide. Our expert team are on hand if you would like to find out how these changes will affect your business specifically and the ways that you should be preparing.

Get in touch with our experienced team for tailored support and expert guidance.

Revenue recognition

The new five-step model has now replaced the old approach to recognising revenue, based on the transfer of risks and rewards.

A comprehensive rewriting of Section 23 of FRS 102 has resulted in a new five-step control-based model being established, something that closely emulates IFRS 15. Revenue is now recognised when control of goods or services passes to the customer. This is a change from it being recognised when risks and rewards transfer.

Under the new model, you must:

1. Identify the contract with the customer.
2. Pinpoint the performance obligations.
3. Determine the transaction price.
4. Allocate the price to each obligation.
5. Recognise revenue as each is fulfilled.

If your business has complex contracts, staged delivery, bundled goods and services or subscription arrangements, this change is likely to affect how and when revenue appears in your accounts.

All customer contracts need to be reviewed to account for the changes and this should be seen as the highest priority task.

Lease accounting: Almost everything goes on the balance sheet

Section 20 has been rewritten along the lines of IFRS 16, introducing a single model for lease accounting.

Most leases, including those that were previously classified as operating leases and kept off the balance sheet, must now be recognised as a right-of-use asset with a corresponding lease liability.

Instead of a single lease expense running through the profit and loss account, businesses will now record depreciation of the right-of-use asset and interest on the lease liability. This means increased reported assets and liabilities, changes to EBITDA and implications for gearing ratios and borrowing covenants.

> If you lease property, vehicles or equipment, this change to the accounting standards affects you and needs to be understood and addressed.

Conducting a thorough review of your full lease portfolio will help you to identify all the agreements that are affected by the change in rules. Knowing what needs to be addressed will let you calculate right-of-use assets and lease liabilities so that you can better understand the impact of the change on your reported position and any covenant obligations.

Supplier finance disclosures

Additional disclosure requirements have been in place since 1 January 2025 for businesses that use supplier finance arrangements such as reverse factoring.

Under these rules, it is necessary to disclose the nature, terms and liquidity risks of these arrangements in the notes to your accounts.

As this has been established for a while, you should ensure that this is fully addressed if you have not already done so.

Company size thresholds

Updated financial thresholds that determine whether a business is classified as micro, small, medium or large have already taken effect from 1 January 2024 in Ireland and 6 April 2025 in the UK.

While these changes have impacted accounting periods beyond the scope of the rest of the FRS 102 changes, they are still viewed as part of the updates to the accounting standards.

Your classification may have changed in line with the update, so it is worth ensuring that you know your current classification and the associated rights and responsibilities that come with it.

Fair value and conceptual framework

Sections 2 and 2A have also been updated to reflect the IFRS 2018 Conceptual Framework.

By providing a new dedicated section for fair value measurement, the updates work to provide clear and consistent guidance that should make your position more understandable. This will be particularly beneficial if your business uses fair value for investment properties, financial instruments or assets acquired in business combinations.

> The changes also bring additional alignment with IFRS, helping those who have group reporting obligations or international stakeholders.

More changes ahead: 1 January 2027

1 January 2027 is set to bring additional changes to FRS 102 and FRS 105, so accounting periods that begin on or after this date will need to adapt.

These changes will focus on how businesses present financial statements and understanding this early can make the transition a less stressful process. The updates follow the introduction of IFRS 18, which replaces IAS 1 as the international standard on the presentation of financial statements.

UK GAAP will be brought closer into alignment with international standards as a result of the FRC's amendments, but adoption of the full IFRS 18 model has been dropped following a consultation.

What the 2027 amendments involve

The changes apply to entities using updated Companies Act formats and include:

- Revised presentation requirements for businesses applying adapted balance sheet and profit and loss formats.
- Presentation requirements being moved into new appendices within Sections 4 and 5 of FRS 102.
- Updated definitions of current and non-current assets and current liabilities, with additional guidance.

The 2026 reforms will likely remain more impactful than the ones yet to come, but these future changes still require a detailed review of how financial statements are structured and presented.

There is no harm in adopting the new system now to ensure that your business is familiar with the requirements by the time that the changes are fully implemented.

You can plan ahead now before this window of opportunity closes and use the time to minimise the disruption of this transitional period.

What to do now

With the 2026 changes already in force and 2027 on the horizon, here is a practical checklist of what you should be doing now:

- Review customer contracts against the new five-step revenue recognition model.
- Identify and calculate right-of-use assets and lease liabilities for your full lease portfolio.
- Assess the impact of balance sheet changes on gearing ratios, EBITDA and any loan covenant obligations.
- Confirm that supplier finance disclosures are already in place in your notes to the accounts.
- Check your company size classification following the updated thresholds.
- Begin reviewing your financial statement presentation formats ahead of the 2027 amendments.

It takes time and expertise to manage all of these changes and our expert team is here to support you throughout the process.

We will review your systems and processes, ensuring you are compliant with the changes so you can keep focusing on your business.

> Get in touch today to find out exactly how the FRS 102 changes affect your business and what to do next.

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