JAMES COWPER KRESTON
Accountants & Business Advisers

Key Changes to FRS 102

From 1 January 2026

The Financial Reporting Council (FRC) has announced significant changes to FRS 102, effective for accounting periods beginning on or after 1 January 2026.

These updates are designed to bring UK GAAP closer in line with international accounting standards and introduce important new requirements for revenue and lease accounting.

Businesses will need to understand and prepare for these changes to ensure continued compliance and accurate financial reporting.

These changes aim to bring UK GAAP closer to international standards, particularly IFRS 15 (Revenue from Contracts with Customers) and IFRS 16 (Leases).

The revised framework introduces new principles for revenue recognition and lease accounting, which will have wide-ranging implications for entities preparing financial statements under FRS 102.

We have summarised the key amendments in this document.

Lease Accounting (Section 20):

All substantial leases must now be capitalised as right-of-use assets and lease liabilities, rather than simply expensed.

Only short-term or low-value leases are exempt. Short term being 12 months or less without a purchase option and low value assets being laptops, mobile phones or office furniture.

As a result, earnings before interest, tax, depreciation and amortisation (EBITDA) may improve as leases are removed from operating expenses, whilst the rise in current liabilities could potentially worsen liquidity ratios.

Revenue Recognition (Section 23):

One of the most significant changes is the introduction of a five-step model for revenue recognition, replacing the previous risks-and-rewards approach. This model is designed to provide a more consistent and transparent framework for recognising revenue across different industries and contract types.

A new five-step model (similar to IFRS 15) replaces prior revenue guidance:

Step 1: Identify the contract with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when or as the entity satisfies a performance obligation

This model introduces a more nuanced and principle-based approach to revenue recognition, which may significantly affect entities with complex or long-term contracts. Businesses will need to reassess their existing arrangements and ensure that their accounting systems and processes can support the new requirements.

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Actions points:

There are a number of actions that you can take now to prepare for the transition to the new framework on 1 January 2026:

Leases

- Identify all leases
- Determine which leases qualify for exemption
- For those leases that are not exempt, calculate the lease liability and right-of-use asset to be recognised on 1 January 2026
- Prepare to post accounting entries in respect to depreciation on the right-of-use asset and interest charge on the lease liability

Revenue

- Review customer contracts in detail, particularly those that span the transition date of 1 January 2026
- Apply the five-step model to all revenue contracts from 1 January 2026
- Choose a transition method (fully retrospective or modified retrospective approach)
- Revise revenue recognition policies to reflect the new model

Commercial Considerations

- Assess systems and processes to capture information
- Identify any changes to key financial metrics
- Consider the impact to any financial covenants or remunerations schemes
- Engage in early discussions with lenders and key stakeholders

Disclosures:

Other amendments include clarification and updates to disclosures, which will impact the disclosures included in your accounts for the year ended 31 December 2026 or earlier if early adopted:

- Related parties - the exemption for transactions conducted under normal market conditions is no longer available
- Going concern - disclosures have been strengthened; a statement of compliance is now needed and management's consideration of future information
- There are also increased disclosures around provisions, taxes, dividends, leases and revenue

Contact Us

For further information or to discuss your specific circumstances in more detail, please get in touch with **James Pitt** or your usual contact at **James Cowper Kreston**.

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