

THE FINANCIAL REPORTING STANDARD APPLICABLE IN THE UK AND REPUBLIC OF IRELAND

# FRS 102

Major, incremental and minor updates

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# 01 Leases

FRS 102 Section 20 updates

## 01 LEASES

# FRS 102 | Section 20 | Leases

- **Alignment with IFRS 16 principles:** Section 20 now adopts a model more closely aligned with IFRS 16, introducing updated guidance on lease accounting for lessees and lessors.
- **Elimination of operating vs. finance lease distinction for lessees:** the focus shifts to a right-of-use model, providing greater transparency of lease obligations.
- **Single lessee accounting model:** most leases are now recognised on the balance sheet. Lessees must record a right-of-use asset and a lease liability for all leases, except for short-term and low-value leases.
- **Measurement and initial recognition:** enhanced requirements for the initial and subsequent measurement of lease assets and liabilities, including guidance on determining the lease term and discount rate.
- **Disclosure requirements:** expanded disclosure requirements for both lessees and lessors, including information on the nature of leasing activities, maturity analysis of lease liabilities, and the impact on financial statements.
- **Transitional provisions:** new transition options and exemptions for first-time adopters, including practical expedients to ease initial application.
- **Guidance for business combinations:** clarified rules for handling leases in the context of business combinations, particularly where the acquiree is the lessee.

## Points to consider

- Review current lease agreements and prepare to recognise the related right-of-use (ROU) assets and lease liabilities.
- Enhance accounting systems, processes, and policies to meet updated measurement and disclosure requirements.
- Develop a transition approach and apply practical expedients/exemptions where they are available and appropriate.
- Engage early with your auditors to ensure alignment and avoid surprises as significant changes are implemented.

### EFFECTIVE DATE FOR FRS 102 UPDATES TO LEASES (SECTION 20):

#### MANDATORY APPLICATION:

The updates to Sections 20 are effective for accounting periods beginning on or after 1 January 2026.

#### EARLY ADOPTION:

Early adoption is permitted for entities wishing to implement the changes ahead of the mandatory date, provided all relevant amendments are adopted together.

## 01 LEASES

# Preparation roadmap

General guidance for FRS 102 Section 20 updates

[Continue to steps 5-7 >](#)

## 01



### Impact Assessment

#### Inventory existing contracts

- Catalogue all lease agreements, noting terms, payment schedules, and renewal options.

#### Quantify impact

- Model the expected changes to recognition, measurement, and disclosure under the new requirements.
- Assess effects on key financial metrics (e.g., EBITDA, debt covenants).

## 02



### Policy and Process Review

#### Update accounting policies

- Revise policies for lease to align with the updated standard.

#### Redesign processes and controls

- Modify workflows for contract management, data capture, and reporting.
- Strengthen internal controls over new calculations and disclosures.

## 03



### Systems and Data

#### Upgrade systems

- Ensure accounting software can handle the right-of-use asset and liability calculations.

#### Data collection

- Gather necessary data points (e.g., discount rates, contract terms, performance obligations) to support the revised accounting.

## 04



### Training and Stakeholder Engagement

#### Staff training

- Provide targeted training for finance, contract management, and business development teams.

#### Stakeholder communication

- Inform board members, auditors, and key stakeholders of expected changes and timelines.

## 01 LEASES

# Preparation roadmap

General guidance for FRS 102 Section 20 updates

## 05



### Transition Planning

#### Select transition approach

- Evaluate and document whether to adopt the full retrospective or modified retrospective method.
- Consider available practical expedients and exemptions.

#### Prepare opening balances

- Calculate adjustments to opening balances and ensure proper documentation.

## 06



### Disclosure Preparation

#### Draft enhanced disclosures

- Prepare sample disclosures for leases, including maturity analyses, nature of arrangements, and reconciliation statements.

#### Review disclosure controls

- Test controls over the new disclosure requirements for accuracy and completeness.

## 07



### Ongoing Monitoring

#### Monitor regulatory updates

- Stay informed of further guidance from the FRC or other regulatory bodies.

#### Review after implementation

- Conduct post-implementation reviews to identify areas for improvement.

## 01 LEASES

# How we can support your team through transition\*

Successfully managing change requires a structured and comprehensive approach.

Our team offers end-to-end support to help your business navigate the transition, with services including:

## 01 Impact Assessment

We evaluate the implications of upcoming changes on your revenue streams and lease arrangements, identify affected financial metrics, and design tailored transition strategies to ensure business continuity.

## 02 Targeted Training and Workshops

Our experts deliver customised training sessions and workshops for your finance and operations teams, focusing on new requirements and their specific application to your business context.

## 03 Accounting Policy Development and Documentation

We assist in drafting and reviewing revenue recognition accounting papers and policies and provide guidance on critical accounting judgements to ensure compliance and consistency.

## 04 Model Review

Our team can review your financial models that incorporate the new accounting requirements, ensuring your lease contracts are accurately reflected.

## 05 Systems, Processes, and Controls Assessment

We analyse your current systems, business processes, and internal controls to identify required updates, ensuring seamless integration of new standards.

## 06 Disclosure Compliance

Our professionals determine the impact of regulatory changes on your disclosures and assist with updating existing reporting to align with the latest requirements.

**\*BDO audit clients:**

*For our audit clients any advice and support will be provided subject to independence and a review of ethical requirements.*

# 02 Revenue

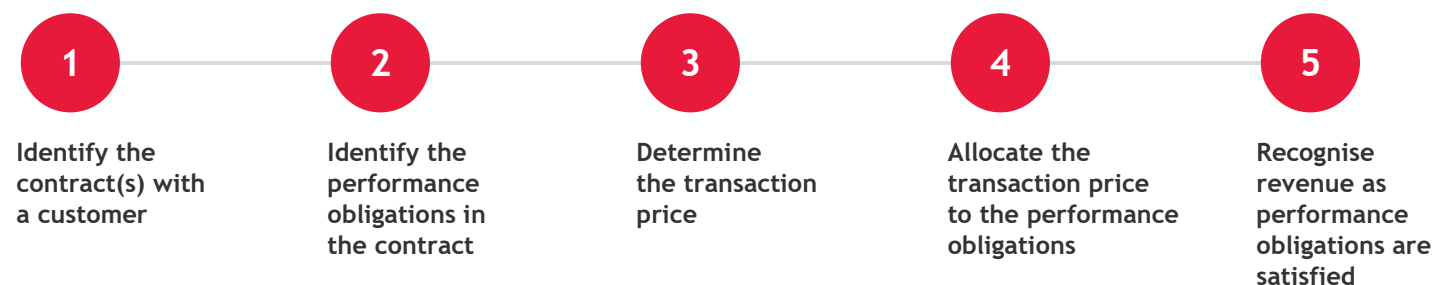
FRS 102 Section 23 updates

## 02 REVENUE

# FRS 102 | Section 23 | Revenue

Section 23 has been substantially updated to reflect the IFRS 15 five-step model for revenue recognition, focusing on the transfer of control rather than risks and rewards.

## THE FIVE-STEP REVENUE RECOGNITION MODEL



## OTHER KEY CHANGES

- Clearer requirements for separating and recognising revenue from distinct goods and services within a contract.
- New guidance for estimating variable consideration and accounting for significant financing components in contracts.
- Expanded guidance on how to account for contract changes and relevant updates.
- **Principal vs agent clarification:** improved criteria to distinguish when an entity is acting as a principal or agent in a transaction.
- Entities must provide more detailed disclosures on the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

## Points to consider

- Review and revise revenue recognition policies to align with the new five-step model.
- Evaluate customer contracts to identify performance obligations, variable consideration, and any significant financing components.
- Get ready for expanded financial statement disclosures, including the new qualitative and quantitative requirements.
- Coordinate early with your auditors to ensure alignment and address any significant changes proactively.

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## 02 REVENUE

# Preparation roadmap

General guidance for FRS 102 Section 23 updates

[Continue to steps 5-7 >](#)

## 01



### Impact Assessment

#### Inventory existing contracts

- Review all customer contracts, focusing on multiple element arrangements, variable consideration, and contract modifications.

#### Quantify impact

- Model the expected changes to recognition, measurement, and disclosure under the new requirements.
- Understand the performance obligation(s) in the contracts.
- Assess effects on key financial metrics (e.g., EBITDA, debt covenants).

## 02



### Policy and Process Review

#### Update accounting policies

- Revise policies for revenue recognition to align with the updated standard.

#### Redesign processes and controls

- Modify workflows for contract management, data capture, and reporting.
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### Systems and Data

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- Ensure accounting software can handle the five-step revenue recognition model.

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- Gather necessary data points (e.g., discount rates, contract terms, performance obligations) to support the revised accounting.

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### Training and Stakeholder Engagement

#### Staff training

- Provide targeted training for finance, contract management, and business development teams.

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- Inform board members, auditors, and key stakeholders of expected changes and timelines.

## 02 REVENUE

# Preparation roadmap

General guidance for FRS 102 Section 23 updates

## 05



### Transition Planning

#### Select transition approach

- Evaluate and document whether to adopt the full retrospective or modified retrospective method.
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### Ongoing Monitoring

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- Stay informed of further guidance from the FRC or other regulatory bodies.

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## 02 REVENUE

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We assist in drafting and reviewing revenue recognition accounting papers and policies and provide guidance on critical accounting judgements to ensure compliance and consistency.

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Our team can review your financial models that incorporate the new accounting requirements, ensuring your revenue contracts are accurately reflected.

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# 03 Other updates

Incremental enhancements and minor wording updates

### 03 OTHER UPDATES

## Sections with incremental enhancements

The majority of the amendments take effect for accounting periods commencing on or after 1 January 2026. However, the enhanced disclosure requirements for supplier finance arrangements apply to accounting periods beginning on or after 1 January 2025. Early adoption of these amendments is permitted.

#### SECTION 1

##### Scope

Section 1 establishes the scope of FRS 102, detailing the effective dates for the recent amendments and outlining the associated transitional arrangements.

Key updates include transitional provisions in response to amendments affecting the following areas:

**SECTION 2A**  
Fair value  
measurement

**SECTION 7**  
Supplier finance  
arrangements

**SECTION 19**  
Business combinations  
and goodwill

**SECTION 20**  
Leases

**SECTION 23**  
Revenue recognition

**SECTION 29**  
Uncertain tax  
treatments

#### NEW EXEMPTIONS

##### Reduced disclosures for qualifying entities

New exemptions have been introduced for leases and revenue, specifically for qualifying entities opting for reduced disclosure requirements.

##### Leases

- A qualifying lessee is exempt from disclosing the total cash outflow related to leases.
- A qualifying lessor may omit disclosure of:
  - Selling profit or loss
  - Finance income
  - Variable lease payment income for finance leases
  - Lease income, including variable payments, for operating leases

##### Revenue

- A qualifying entity may exclude certain disclosures, such as:
  - Disaggregation of revenue
  - Details regarding the satisfaction of performance obligations
  - Other related information

## 03 OTHER UPDATES

# Sections with incremental enhancements

[Continue >](#)

## SECTION 2

## Concepts and Pervasive Principles

Section 2 has been updated to better align with the IASB's 2018 Conceptual Framework.

- This section defines the core concepts and principles that underpin the preparation of financial statements.
- The fundamental qualitative characteristic of faithful representation has been introduced, alongside the enhancing qualitative characteristic of verifiability.
- Additional guidance has been incorporated on unit of account, derecognition, classification and aggregation, with further expansion on existing concepts and principles.

## SECTION 2A

## Fair Value Measurement

Section 2A introduces notable updates to the principles and guidance for fair value measurement:

- The fair value definition in the FRS 102 glossary has been revised to closely align with the corresponding definition under IFRS 13.
- Additional guidance on implementing the updated definition has been provided, which is largely consistent with the approach set out in IFRS 13.
- These changes apply whenever other sections of FRS 102 require or permit fair value measurement, with the exception of Section 26 (Share-based Payment) and Section 20 (Leases).

## SECTION 7

## Statement of Cash Flows

Amendments include:

- Refined guidance: certain paragraphs have been updated to provide specific examples that illustrate classification as either operating or financing cash flows within the primary financial statement.
- Enhanced disclosure requirements: new rules mandate disclosure for supplier finance arrangements. The critical consideration is understanding the structure of the arrangement to assess whether it meets the criteria for the new disclosure requirements.
- Exclusions: credit enhancements (such as financial guarantees or instruments similar to credit cards used for direct settlement) are explicitly excluded from these new disclosure requirements.

## 03 OTHER UPDATES

# Sections with incremental enhancements

[Continue >](#)

## SECTIONS 11 &amp; 12

## Financial Instruments

Key updates include:

- Prohibitions on switching to IAS 39, except for consistency with consolidated financial statements. For first-time adoption of FRS 102 (including newly incorporated entities):
  - IAS 39 can only be applied if it aligns accounting policies with those in the consolidated financial statements in which the entity is included.
- An exclusion for Section 23 financial instruments was added; it outlines criteria for recognising dividend income.
- Amendments to some paragraphs addressing fair value guidelines and clarification to certain disclosure requirements.

## SECTION 19

## Business Combinations and Goodwill

Amendments include:

- The section now explicitly states that it does not apply to the formation of joint ventures within the joint venture's own financial statements, nor to the acquisition of assets that do not constitute a business.
- Enhanced guidance has been provided to determine the acquirer, generally identified as the entity that transfers cash, assets, incurs liabilities, or issues equity instruments.
- The guidance also addresses scenarios involving newly formed entities and highlights that, in certain cases, the legal acquiree may be regarded as the acquirer (reverse acquisition).
- Costs that remunerate employees or former owners and are contingent on future service provision are excluded from the cost of the business combination. Whether such payments are part of the business combination or separate transactions (e.g., remuneration) should be based on the nature and substance of the arrangement.
- Further clarification has been added regarding the recognition of liabilities, contingent liabilities, and intangible assets acquired in a business combination.
- Lease amendments in line with updates to Section 20, with additional disclosures being introduced.

## 03 OTHER UPDATES

# Sections with incremental enhancements

[Continue >](#)

## SECTION 26

## Share-based Payment

Updates include:

- Equity instruments issued to obtain control in business combinations are excluded from Section 26.\*
- Additional guidance has been introduced for equity-settled share-based payments that are ultimately settled in cash or other assets, and on the measurement of cash-settled share-based payments.
- New guidance addresses classification of share-based payment arrangements where the counterparty may choose the settlement method, particularly in relation to employee tax obligations.

*\*However, equity instruments granted to employees for services, as well as modifications or replacements of existing share-based payment arrangements due to business combinations, remain within scope.*

## SECTION 29

## Income Tax

- Minor updates provide further clarification on recognising deferred tax in business combinations.
- New requirements specify that entities must assume tax authorities will scrutinise uncertain tax positions, providing clear guidance on how to address such scenarios.

## SECTION 35

## Transition to this FRS

- Clarifies that Section 35 applies to all first-time adopters of FRS 102, regardless of their previous reporting framework, and specifically includes entities transitioning from FRS 101 and FRS 105.
- Introduces new requirements for the treatment of borrowing costs, development costs, and financial instruments during transition.
- Restriction on the IAS 39 option.
- Provides new exemptions for transition related to decommissioning liabilities included in right-of-use assets, development costs, leases, and revenue from contracts with customers.
- Expanded disclosure requirements: mandates disclosure of transitional exemptions and any material changes not otherwise addressed in reconciliations.

## 03 OTHER UPDATES

# Sections with minor wording updates

[Continue >](#)

The following sections of FRS 102 were updated with minor wording changes, mainly to incorporate the impact of Section 20 (Leases) and Section 23 (Revenue from Contracts with Customers).

**SECTION 3****Financial Statement Presentation**

- “Significant accounting policies” replaced with “material accounting policy information”.
- Organisations must disclose whether their financial statements have been prepared using the going concern assumption. Additionally, management must confirm that they have evaluated relevant future information and have made significant judgements regarding the entity’s capability to remain a going concern.

**SECTION 4****Statement of Financial Position**

- The term “receivables arising from accrued income not yet billed” has been updated to “accrued income” when adapted formats are applied.
- Disclosures now require reporting “the carrying amounts of the assets and liabilities within the disposal group” rather than “the underlying assets and liabilities”.

**SECTION 6****Statement of Changes in Equity and Statement of Income and Retained Earnings**

- Disclose dividends paid separately – both in aggregate and on a per share basis – for each class of share capital.
- Other minor wording changes and amendments affecting small entities.

**SECTION 8****Notes to the Financial Statements**

- The guidance emphasises providing entity-specific information rather than relying on generic, standardised descriptions.
- Immaterial accounting policy information should not be disclosed, except where required by statutory Regulations or LLP Regulations.
- Other changes to align with Section 3.

## 03 OTHER UPDATES

# Sections with minor wording updates

[Continue >](#)

## SECTION 9

## Consolidated and Separate Financial Statements

- The primary amendment concerns the explicit inclusion of the accounting treatment for changes in a parent's controlling interest in a subsidiary, without a loss of control – previously addressed in Section 22. The modification clarifies the guidance but does not alter the existing accounting treatment.

## SECTION 10

## Accounting Policies, Estimates and Errors

- The amendments clarify that when an entity having biological assets and agricultural produce switches from the cost model to the fair value model, this constitutes a change in accounting policy.
- New guidance has been added on developing accounting estimates. Accounting estimates may be revised when new information emerges or circumstances change.
- The amendments further clarify that changes in inputs or measurement techniques are considered changes in accounting estimates – unless they result from the correction of a prior period error.

## SECTION 13

## Inventories

- The updates remove the previous scope exclusion for work in progress from construction contracts due to changes in Section 23.
- Entities are now required to apply the presentation and disclosure requirements of Section 13 to refund assets that represent expected product returns.
- It is clarified that depreciation and maintenance of right-of-use assets involved in production are examples of fixed production overheads.
- Agricultural produce harvested from an entity's biological assets must be measured at initial recognition (at the point of harvest) either at:
  - Fair value less estimated costs to sell, or
  - The lower of cost and estimated selling price less costs to complete and sell, in accordance with Section 34.

## 03 OTHER UPDATES

# Sections with minor wording updates

[Continue >](#)

## SECTION 14

## Investments in Associates

- Expanded guidance on significant influence: potential voting rights are also considered if they are currently exercisable or convertible.
- Clarification of interest in an associate: the equity-method carrying amount and any financial instruments that are part of the net investment.
- Financial instruments expected to remain unsettled are included, and losses exceeding ordinary share investments are allocated to other components based on liquidation priority.
- The entire carrying amount of the interest in an associate must be tested for impairment as a single asset under Section 27. Goodwill is tested as part of the overall investment, not separately. Before this assessment, Sections 11 or 12 should be applied to the relevant financial instruments, excluding adjustments from this Section.

## SECTION 16

## Investment Property

- Updates to reflect the new guidance in Section 2A Fair Value Measurement and the revised leasing model in Section 20.
- New guidance on whether acquiring investment property qualifies as an asset acquisition or a business combination under Section 19.
- Separation of property components.
- Measurement and classification of investment property by lessees under Section 20.
- Clarification of when transfers into or out of investment property occur.

## SECTION 17

## Property, Plant and Equipment

- Entities must exercise judgement to determine if acquiring property, plant, and equipment represents a single asset, a group of assets, or a business combination, requiring reference to Sections 17 and 19.
- Anticipated declines in selling prices of items produced with the asset may indicate technical or commercial obsolescence.
- The disposal date is now defined as the point when control transfers to the recipient, aligning with Section 23's guidance on satisfying performance obligations.

## 03 OTHER UPDATES

# Sections with minor wording updates

[Continue >](#)**SECTION 18****Intangible Assets other than Goodwill**

- Exclusion of certain assets from the application of Section 18.
- Judgement in asset acquisition: single assets vs a group of assets or a business combination.
- When assets possess both intangible and tangible components, entities should apply judgement to decide whether Section 17 (Property, Plant and Equipment) or Section 18 (Intangible Assets) is applicable.
- Definition of 'asset': a resource controlled by the entity as a result of past events, from which future economic benefits are expected to flow.
- Expenditure that does not meet the recognition criteria for internally generated intangible assets must be expensed.

**SECTION 21****Provisions and Contingencies**

- Definition of liability clarified: a present obligation resulting from past events, where settlement is expected to lead to an outflow of resources with economic benefits.
- Onerous contract costs updated.
- Amendment to discount rate guidance.
- Example on refunds policy removed.

**SECTION 22****Liabilities and Equity**

- Liability definition clarified, as above in Section 21.
- Change in parent control accounting moved to Section 9.

**SECTION 24****Government Grants**

- The scope now excludes government assistance provided as reliefs and deductions and replaces references to 'benefits' with 'government assistance'.
- Under the performance model, grants received before satisfying performance-related conditions must be recognised as a liability.
- The accrual model now specifies that it applies to "a grant, or each part of a grant". For grants related to right-of-use assets, recognition must occur systematically over the asset's expected useful life.

## 03 OTHER UPDATES

# Sections with minor wording updates

## SECTION 25

## Borrowing Costs

- Updated borrowing costs definition to align with the changes in Section 20 on Leases.
- Borrowings used specifically for acquiring other qualifying assets are treated as general borrowings only after the activities needed to prepare the asset for use or sale are substantially complete.

## SECTION 27

## Impairment of Assets

- Aligns its scoping requirements with those in the amended Section 23, Revenue from Contracts with Customers.
- Fair value references added.
- Right-of-use asset disclosures aligned with the updated Section 20 on Leases.

## SECTION 28

## Employee Benefits

- Alignment with fair value guidance to ensure consistency with updated fair value requirements.
- It is now specified that “national” government bond yields should be used to discount defined benefit obligations in certain cases.
- Management costs must be deducted from the return on plan assets when remeasuring the net defined benefit liability.
- Disclosure changes for defined benefit pension plans have been introduced to provide users with more relevant and useful information.

## SECTION 33

## Related Party Disclosures

- The exemption from disclosure for transactions between wholly owned group members now applies only to disclosures required by paragraph 33.9; all other disclosures, such as those regarding controlling party relationships, remain mandatory.
- Disclosures about related party transactions must now include information on commitments, not just transactions and balances.
- Refined wording and terminology.

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