

FRS 102 Periodic Review 2024: What is changing?

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Introduction

On 27 March 2024, the Financial Reporting Council (FRC) issued "Amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* and other FRSs – Periodic Review 2024" (the amendments or Periodic Review 2024 amendments). The amendments will, in most cases, be effective for accounting periods beginning on or after 1 January 2026, with early adoption permitted (as long as all these amendments, excepting the new supplier finance arrangements disclosures, are early applied at the same time). The new supplier finance arrangements disclosures became effective for accounting periods beginning on or after 1 January 2025, with early adoption permitted.

The amendments introduce some significant changes to FRS 102, generally to provide closer alignment between FRS 102 and IFRS Accounting Standards (IFRS). The most significant changes have been made to Section 20 *Leases* and Section 23 *Revenue from contracts with customers*, to align those requirements more closely to IFRS 15 and IFRS 16. The FRC have also made a number of improvements and clarifications with the aim of making the standard easier to apply and understand.

This publication outlines:

- The key changes to FRS 102 arising from the amendments.
- For the areas of most significant change – leasing and revenue – details of the key differences between the current edition of FRS 102 (issued in January 2022 updated for amendments applicable for periods beginning on 1 January 2024) and FRS 102 following the Periodic Review 2024 amendments (new FRS 102). For those two areas, a high-level summary of the remaining differences between new FRS 102 and IFRS is also included.

This publication is designed to help entities identify some of the more common accounting differences between the current edition of FRS 102 and new FRS 102 that may affect their financial statements when implementing the revised requirements; however, it does not provide an exhaustive list of all possible differences. The impact of the changes on an entity's financial reporting depends on an entity's specific industry, the nature and extent of its transactions and its accounting policy elections. Accordingly, this publication should be viewed as a starting point for analysing potential accounting differences between the existing requirements of FRS 102 and the revised requirements. The full text of the amendments should be referred to and can be accessed [here](#).

Structure of this publication

This publication contains the following sections:

1. **Executive summary:** Provides a high-level summary of the changes arising from the periodic review, by FRS 102 section.
2. **Key changes to FRS 102 lease accounting:** Summarises the key changes made to FRS 102's lease accounting requirements.
3. **Key changes to FRS 102 revenue recognition:** Summarises the key changes made to FRS 102's revenue recognition requirements.
4. **Practical considerations:** Practical considerations relevant to the implementation of the revised lessee accounting and revenue recognition models.
5. **Incremental changes and clarifications to other sections:** Summarises the more notable changes to other sections of FRS 102 arising from the Periodic Review 2024 amendments.

01

Executive summary

The table below summarises the headline amendments to FRS 102 arising from the Periodic Review 2024 amendments and provides a red/amber/green rating (RAG) designed to signpost the significance of the changes made to the requirements in that area. The RAG rating should be interpreted as follows:

	Reserved for wide reaching and significant changes to the section, which can be expected to have a significant impact on recognition, measurement or disclosure.
	Indicates either: <ul style="list-style-type: none">A change or changes have been made which could have a significant recognition, measurement or disclosure impact, but the changes are less pervasive than items rated as red. orWidespread changes or redrafting has taken place such that the detail will need to be referred to in order to analyse the impact, but where nonetheless fewer significant recognition, measurement or disclosure changes are anticipated in practice.
	Indicates that limited (or no) changes have been made to the section. It must, however, be noted that a “green” rating is not necessarily indicative of no change – it simply means that for most entities the changes are likely to be less significant or wide reaching.

As set out in the introduction, the areas of most significant change are Section 20 *Leases* and Section 23 *Revenue from contracts with customers*. Implementation of those changes may require significant effort and may require input and involvement from a number of functions within the organisation including IT, legal, commercial and sales teams. Further discussion of the practical considerations is provided at [part 4](#) of this publication.



An overview of the wider changes and anticipated impact by FRS 102 Section is provided below:

Section	Accounting topic	Overview	RAG rating
1	Scope	Main change relates to the introduction of a new section setting out the effective date(s) and transitional arrangements for the amendments, for example various practical expedients which have been introduced for major changes, such as to the revenue and leases sections. Minor amendments have been made to the reduced disclosures exemptions for qualifying entities, principally to introduce certain exemptions from disclosure requirements in the amended revenue and leases sections.	
1A	Small Entities	Main changes are to provide greater clarity on which disclosures are expected to be necessary in order to give a true and fair view as required by law. These changes are designed to reduce the amount of judgement required of preparers, but may result in an increased volume of disclosures for small entities.	
2	Concepts and Pervasive Principles	Section has been aligned with the IFRS <i>Conceptual Framework for Financial Reporting</i> , published in 2018, but with less detailed discussion of concepts and principles.	
2A	Concepts and Pervasive Principles – Appendix (Fair value measurement)	Definitions have been updated to align with the definitions contained in IFRS 13 <i>Fair Value Measurement</i> and provide additional guidance. This may result in changes to fair value measurement for UK and Irish GAAP reporters. This does not amend when the use of fair value is required, but how it is measured. Instances in which fair value is used under FRS 102 (which could therefore be impacted by this change) would include PP&E under the revaluation model, investment properties measured at fair value, financial instruments in the scope of Section 12 and associates and joint ventures accounted for at fair value.	
3	Financial Statement Presentation	Additional going concern disclosure requirements have been introduced. Requirement to present significant accounting policies replaced by the requirement to disclose material accounting policy information, to bring this section in line with the requirements of IAS 1 <i>Presentation of Financial Statements</i> .	
4	Statement of Financial Position	No major changes to this section.	
5	Statement of Comprehensive Income and Income Statement	No major changes to this section.	
6	Statement of Changes in Equity and Statement of Income and Retained Earnings	New disclosure introduced in respect of dividends paid where an entity has more than one class of share capital.	
7	Statement of Cash Flows	New disclosure requirements have been introduced about supplier finance arrangements, promoting consistency with new requirements applicable to IFRS reporters. This part of the amendments had an earlier effective date than all others in FRS 102, and became effective 1 January 2025.	
8	Notes to the Financial Statements	New guidance introduced about how a reporting entity might assess if accounting policy information was material.	
9	Consolidated and Separate Financial Statements	No major changes to this section. Changes comprise minor clarifications.	
10	Accounting Policies, Estimates and Errors	No major changes to this section. Changes comprise small additions and minor clarifications.	
11, 12	Financial Instruments	A number of changes and clarifications have been made. Entities are no longer permitted to change their accounting policy from applying Section 11 and Section 12 or a combination of IFRS 9 <i>Financial Instruments</i> and IAS 39 <i>Financial Instruments: Recognition and Measurement</i> to applying IAS 39 except to make the policies consistent with consolidated financial statements in which the entity is included. Requirements introduced to both Sections 11 and 12 in respect of the recognition of dividend income. Expected credit losses (ECL) disclosure requirements introduced to Section 11 for entities electing to apply IFRS 9. Rights and obligations within the scope of Section 23 that are financial instruments, except for receivables and those that Section 23 specifies, are excluded from Sections 11 and 12.	
13	Inventories	No major changes to this section. Certain minor changes and clarifications made, largely to reflect amendments made to other sections of FRS 102.	
14	Investments in Associates	No major changes to this section. Minor changes to add guidance on how significant influence is evidenced and to align requirements to recent amendments to IAS 28 <i>Investments in Associates</i> and <i>Joint Ventures</i> regarding long-term interests that, in substance, form part of the investor's net investment in the associate.	
15	Investments in Joint Ventures	No major changes to this section. Certain minor changes and clarifications made, largely to reflect amendments made to other sections of FRS 102 or align FRS 102 more closely with IFRS.	

Section	Accounting topic	Overview	RAG rating
16	Investment Property	No major changes to this section. Certain minor changes and clarifications made, largely to reflect amendments made to other sections of FRS 102 or align FRS 102 more closely with IFRS.	
17	Property, Plant and Equipment	No major changes to this section. Minor changes and clarifications have been made.	
18	Intangible Assets other than Goodwill	No major changes to this section. Certain minor changes and clarifications made, largely to reflect amendments made to other sections of FRS 102 or align FRS 102 more closely with IFRS.	
19	Business Combinations and Goodwill	No major changes to this section. Minor changes and clarifications made, largely to reflect amendments made to other sections of FRS 102 or align FRS 102 more closely with IFRS. These include, distinguishing contingent consideration from remuneration for ongoing services, subsequent measurement of contingent liabilities.	
20	Leases	Introduction of a new model for lessee accounting for lease arrangements, removing the distinction between operating and finance leases for lessees. Under the revised model, lessees will be required to bring all leases on balance sheet, except for short-term leases and leases of low-value assets. New model brings FRS 102 closer to IFRS, but there are differences in the detailed application (as well as less guidance) when compared to IFRS 16 <i>Leases</i> .	
21	Provisions and Contingencies	No major changes to this section. Changes are generally clarifications and updates to the examples in the Appendix to Section 21.	
22	Liabilities and equity	No major changes to this section. Certain minor changes largely to reflect amendments made to other sections of FRS 102.	
23	Revenue (retitled under the amendments to Revenue from Contracts with Customers)	Introduction of a single comprehensive five step model for revenue recognition for all contracts with customers, similar to the model under IFRS 15 <i>Revenue from Contracts with Customers</i> . Model brings FRS 102 closer to IFRS, but there are differences in the detailed application and less guidance when compared to IFRS 15.	
24	Government Grants	No major changes to this section. Certain minor changes largely to reflect amendments made to other sections of FRS 102.	
25	Borrowing Costs	No major changes to this section. Certain minor changes to align FRS 102 more closely with IFRS.	
26	Share-based Payment	Additional guidance has been added to assist in applying the principles and promote greater consistency with IFRS.	
27	Impairment of Assets	No major changes to this section. Certain minor changes and clarifications made, largely to reflect amendments made to other sections of FRS 102 or align FRS 102 more closely with IFRS.	
28	Employee Benefits	No major changes to this section. Minor changes to provide additional clarification and disclosure.	
29	Income Tax	Guidance has been provided on accounting for uncertain tax positions to align to IAS 12 <i>Income Taxes</i> and IFRIC 23 <i>Uncertainty over Income Tax Treatments</i> . Note, previous amendments to FRS 102 to align to the IAS 12 Amendments <i>International Tax Reform – Pillar Two Model Rules</i> ¹ had already been made prior to the 2024 amendments and are therefore not addressed in this publication.	
30	Foreign Currency Translation	No changes to this section.	
31	Hyperinflation	No major changes to this section.	
32	Events after the End of the Reporting Period	No major changes to this section.	
33	Related Party Disclosures	No major changes to this section.	
34	Specialised Activities	Various amendments and clarifications have been made in this section ² , particularly to the subsections covering Agriculture, Incoming Resources from Non-exchange Transactions, Service Concessions (particularly to reflect changes in Section 23 and Section 20) and Heritage Assets.	
35	Transition to this FRS	New transitional provisions have been introduced for first time adopters in connection with lease accounting and revenue recognition. Some additional disclosure requirements explaining the impact of transition to FRS 102 and the elections taken have been introduced. In addition, first time adopters will no longer be able to elect to apply IAS 39 unless doing so would make the entity's accounting policies consistent with the consolidated financial statements in which the entity is included.	

¹ [Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and FRS 101 Reduced Disclosure Framework – International tax reform – Pillar Two model rules.](#)

² Section 34 Specialised Activities – Retirement Benefit Plans: Financial Statements is outside the scope of this publication.

02

Key changes to FRS 102 for lease accounting

2.1 Overview

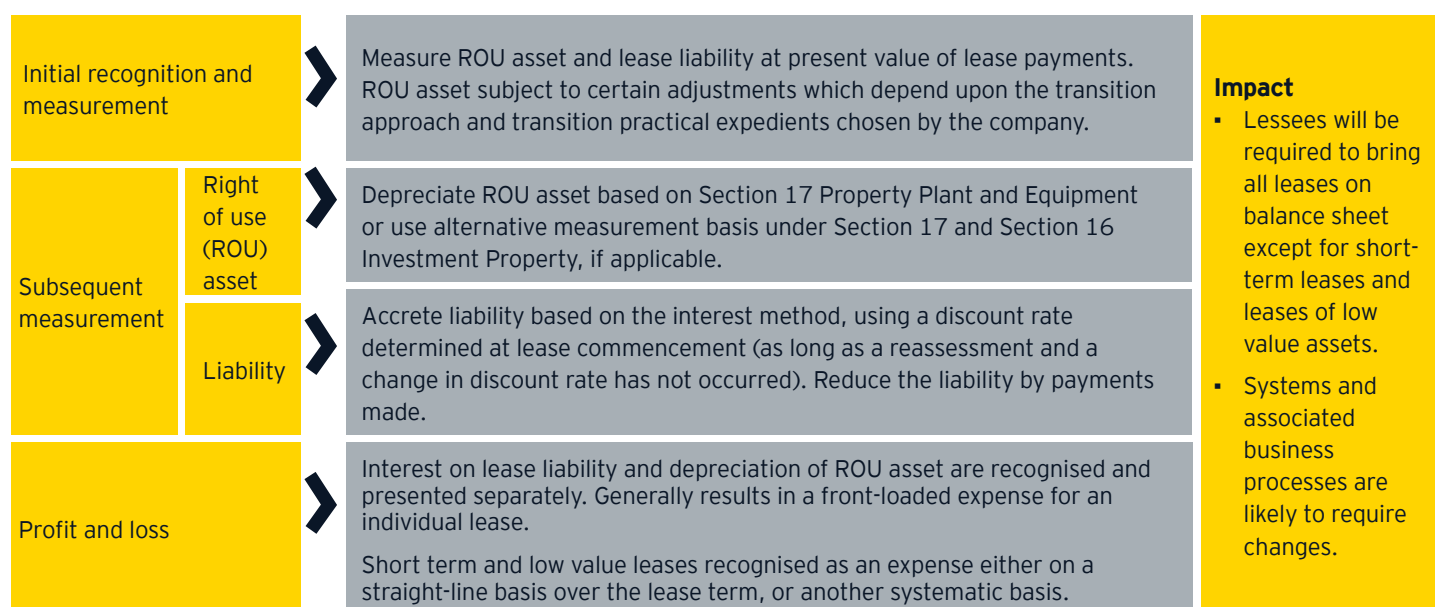
Section 20 *Leases* (Section 20) prescribes the accounting requirements for the recognition, measurement, presentation and disclosure of leases and applies to both lessees and lessors. Following the Periodic Review 2024 amendments, the previous lease accounting model for lessees which involved distinguishing between “operating leases” and “finance leases”, is replaced with a model which is more closely aligned to IFRS 16 *Leases*. What this means is, for lessees, leases are accounted for based on a “right-of-use model”. The model reflects that, at the commencement date of the lease, a lessee has a financial obligation to make lease payments to the lessor in exchange for its right to use the underlying asset during the lease term. Lessor accounting is substantially unchanged by the amendments.

What you need to know – headlines

- Revised Section 20 requires lessees to recognise most leases on their statements of financial position, applying a single accounting model for all leases, with certain exemptions.
- The right-of-use model in revised Section 20 is a substantial change from the “operating” and “finance” lease model required by the previous version of Section 20. Considerable effort can be involved in identifying leases, gathering data, making required judgements and performing the calculations to transition to the new model, therefore early preparation is highly recommended.
- Lessors continue to classify leases as operating or finance leases depending on whether the risks and rewards incidental to ownership of the underlying asset are transferred to the lessee, and account for the lease accordingly.

2.2 Summary of the revised FRS 102 lessee accounting model

The diagram below provides an overview of the revised lessee accounting model and potential impact:



Key aspects of the revised model can be summarised as follows:

What you need to know – revised lessee accounting model

- **Model:** Lessees are required to apply a single accounting model (right-of-use model) to most leases, by recognising the lease on balance sheet as a right-of-use asset and a lease liability. A distinction between operating and finance leases is no longer made by a lessee.
- **Recognition exemptions:** Lessees can choose not to apply the right-of-use model to short-term leases (election by class of underlying asset) and leases where the underlying asset is of low value (election made on a lease-by-lease basis). **(GAAP difference to IFRS 16 (see 2.6))**
- **Components of a lease contract:** Lease components and non-lease components within a contract are accounted for separately unless the lessee applies the practical expedient (election made by class of underlying asset) and instead accounts for each lease component and non-lease component as a single lease component.
- **Initial measurement of the lease liability:** At lease commencement, a lessee measures the lease liability at the present value of the lease payments not yet paid, discounted using the interest rate implicit in the lease, if that rate can be readily determined. If not, the lessee chooses on a lease-by-lease basis to apply either:
 1. The incremental borrowing rate (IBR), defined as the rate of interest that a lessee would have to pay to borrow, over a similar term and with similar security, the funds necessary to obtain an asset of a similar value to the cost of the right-of-use asset in a similar economic environment.
 - or
 2. The obtainable borrowing rate (OBR), defined as the rate of interest that a lessee would have to pay to borrow, over a similar term, an amount similar to the total undiscounted value of lease payments to be included in the measurement of the lease liability.

The FRC explained that whilst OBR represents a broadly similar concept to IBR, the lessee's OBR is expected to be simpler to determine. **(GAAP difference to IFRS 16 (see 2.6))**

- **Initial measurement of the right-of-use asset:** At lease commencement, a lessee measures the right-of-use asset at cost. Cost comprises the amount of the initial measurement of the lease liability, adjusted for:
 1. Any lease payments made at or before the commencement date, less any lease incentives received.
 2. Any initial direct costs incurred by the lessee.
 3. An estimate of costs to be incurred by the lessee for dismantling and restoration for which a provision must be recognised at lease commencement.
- **Subsequent measurement:** The lease liability is subsequently measured by increasing the liability for interest accrued and reducing it for lease payments made. The right-of-use asset is generally subsequently measured at cost less accumulated depreciation and any accumulated impairment losses (unless the entity is applying an alternative measurement basis under Section 17 or Section 16). Depreciation is determined in accordance with Section 17 *Property, plant and equipment* and is typically charged on a straight line basis.
- **Reassessment of lease liability:** After commencement, the lease liability is remeasured to reflect any changes to the lease payments that are within the terms of the original lease (for example, changes arising from market rent reviews, or changes in the assessment of lease term). Depending on what caused the remeasurement, a revised discount rate may need to be used. The amount of the remeasurement is recognised as an adjustment to the right-of-use asset (provided this does not reduce the asset below zero).

What you need to know – revised lessee accounting model

- **Modifications:** Section 20 now provides specific guidance on lease modifications. The accounting by both lessee and lessor for a lease modification depends upon the nature of the modification, including: **(GAAP difference to IFRS 16 (see 2.6))**
 1. Whether it results in a new and separate lease, or modifies the accounting for the existing lease.
and
 2. Whether the modification decreases the scope of the lease.
- **Sale and leaseback:** The accounting for sale and leaseback transactions is based on whether the transfer of the underlying asset satisfies the requirement of [Section 23 Revenue from Contracts with Customers](#) to be accounted for as a sale. If the sale criteria are not met, the transaction is accounted for as a financing transaction. A policy choice exists with respect to the measurement of the right-of-use asset in a sale and leaseback. **(GAAP difference to IFRS 16 (see 2.6))**
- **Government grant and non-exchange components:** Guidance is provided on accounting for these types of incoming resources that can be found in lease contracts with the government or public benefit entities.

2.3 Limited changes to lessor accounting under revised FRS 102

Limited changes have been made to lessor accounting, as follows:

What you need to know – lessor accounting

- **Model:** Lessor accounting is substantially unchanged. Lessors continue to classify leases as either “operating” or “finance” leases and account for them according to their classification.
- **Sublease arrangements:** Sublease arrangements are classified by lessors as finance or operating leases by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset, unless the short-term lease exemption has been applied to the head lease in which case the sublease is recognised as an operating lease.
- **Lease modifications:** Section 20 now contains specific guidance for accounting for lease modifications, which was not previously provided for either lessors or lessees.

2.4 Transition to revised Section 20

Transitional rules and disclosure requirements on transition have been introduced in [Section 1 Scope](#) to help lessees and lessor transition to revised Section 20. The key transitional requirements are as follows:

What you need to know – transition

- Section 1 requires entities transitioning to revised Section 20 to apply a “modified retrospective approach”, whereby the cumulative effect of initially applying the amended requirements is recognised as an adjustment to the opening balance sheet retained earnings at the date of initial application. Comparative information is not restated.
- On transition, an entity is not required to reassess if a contract is, or contains, a lease.
- In the period the entity first applies the revised Section 20, an entity must disclose the nature of the changes in accounting policy. In addition, to the extent practicable, the entity discloses the adjustment to profit or loss for the effect of applying revised Section 20 (and must provide an explanation if it is impracticable to determine the adjustment to profit or loss).

What you need to know – transition

Lessee transition

- As a practical expedient, a lessee that has already calculated lease balances under IFRS 16 *Leases*, for the purposes of inclusion in IFRS consolidated financial statements, may transition to revised Section 20 by recognising the IFRS 16 carrying values of its lease liabilities and right-of-use assets at the date of initial application for all its leases.
- For those entities not applying the above practical expedient to use IFRS 16 balances, the modified retrospective approach involves:
 - Recognising the lease liability measured at the present value of the remaining lease payments, discounted using the lessee's IBR or OBR for each lease at the transition date.
 - Recognising the right-of-use asset measured at an amount equal to the lease liability adjusted for prepaid or accrued lease payments and any previously recognised favourable or unfavourable terms of an operating lease acquired as part of a business combination.
- For leases previously classified as operating leases, a number of practical expedients are available on transition, including:
 - An entity may apply a single discount rate to a portfolio of leases with reasonably similar characteristics.
 - An entity may apply the use of hindsight in determining the lease term.
 - A lessee can choose not to recognise a lease liability and right-of-use asset for leases where the underlying asset is of low value.
 - A lessee can choose not to recognise a lease liability and right-of-use asset for leases for which the lease term ends within 12 months of the date of initial application.
 - Instead of applying Section 27 *Impairment of Assets* to right-of-use assets at the date of initial application, the lessee may rely on the assessment of whether leases are onerous made immediately before the date of initial application, applying Section 21 *Provisions and Contingencies*. If the practical expedient is applied, the right-of-use asset is adjusted by the amount of any provision recognised immediately before the date of initial application.
 - Entities are not required to reassess sale and leaseback transactions before the date of initial application on whether the sale satisfies the requirements of Section 23. The transitional rules also set out the required accounting for sale and leaseback transactions which occurred prior to transition, which depend upon whether the sale and leaseback had originally been accounted for as a sale and finance leaseback or a sale and operating leaseback.
- For leases previously classified as finance leases, the lessee recognises a right-of-use asset and lease liability at the date of initial application at the carrying amount of the leased asset and finance lease liability immediately before that date.

Lessor transition

- Key features of the modified retrospective approach in Section 1 to be applied by lessors at the date of initial application, mainly relate to intermediate lessors and include:
 - The requirement for the intermediate lessor to reassess and determine whether each sublease should be classified as an operating lease or a finance lease, on the basis of the remaining contractual terms and conditions of the head lease and sublease at that date.
 - For subleases previously classified as operating leases that are reclassified as finance leases on applying the Periodic Review 2024 amendments, account for the sublease as a new finance lease entered into at the initial date of application.

2.5 Summary of key differences between previous lease accounting and revised requirements

The key differences between Section 20 of the January 2022 edition of FRS 102 and Section 20 of revised FRS 102 (effective 1 January 2026) are set out in the table below:

	Previous Section 20	Revised Section 20
Lessee accounting model	Lessee accounting is driven by whether the lease is classified as an operating lease or a finance lease.	The lessee accounting model has been entirely replaced, resulting in significant changes to the accounting for leases previously classified as operating leases. Lessees are required to apply a single accounting model (right-of-use model) to most leases, by recognising the lease on-balance sheet as a right-of-use asset and a lease liability. The approach is similar to the requirements that previously applied only to finance leases.
Lessee recognition exemptions	No exemptions provided, but under the model only finance leases as lessee result in on-balance sheet accounting.	Optional exemptions from on-balance sheet accounting are available for short-term leases (to be made by class of asset) and low value leases (to be made on a lease-by-lease basis).
Lessee discount rate	For operating leases, the issue of discount rates is not applicable as such leases are not brought onto balance sheet. For finance leases, the discount rate applied to measure lease liability is the interest rate implicit in the lease, if the rate can be readily determined. If not, the lessee's incremental borrowing rate is used.	Discount rates are required for all leases (other than those for which the recognition exemptions above apply) in order to measure the lease liability. At lease commencement, a lessee measures the lease liability at the present value of the lease payments not yet paid discounted using the interest rate implicit in the lease, if the rate can be readily determined. If not, the lessee chooses on a lease-by-lease basis to apply either: <ul style="list-style-type: none"> ▪ The lessee's incremental borrowing rate. or ▪ The lessee's obtainable borrowing rate.
Lessee accounting for leases containing a non-exchange component	No specific guidance provided on leases containing a non-exchange component.	A lessee in receipt of incoming resources from a government grant or, for a public benefit entity with a non-exchange component, recognises the incoming resources as part of the right of use asset. The incoming resources are measured applying Section 24 <i>Government Grants</i> or Section 34 <i>Specialised Activities: Incoming Resources from Non-Exchange Transactions</i> .
Lessee accounting – presentation	Assets held under finance leases presented in the same line item as that within which the corresponding underlying assets would be presented if they were owned. Assets held under operating leases are not recognised on balance sheet.	Lessee has the option to present right of use assets separately in the balance sheet or include in the same line item as that within which the corresponding underlying assets would be presented if they were owned.

	Previous Section 20	Revised Section 20
Lessee accounting – disclosures	Limited disclosures, focused on future minimum lease payments, for operating and finance leases. Time brackets to be disclosed include: not later than one year, later than one year and not later than five years, and later than five years. In addition, the Companies Act requires, for an aggregate of all creditors, disclosure of amounts payable after five years.	Section 20 contains an overarching disclosure objective and detailed disclosure requirements including both quantitative and qualitative disclosures to enable users to understand its significant leasing arrangements. Lease commitment disclosed separately for short-term leases and low value leases, in similar time brackets as those under current FRS 102. The Companies Act requires, for an aggregate of all creditors, disclosure of amounts payable after five years.
Lessor accounting – leases of land and buildings	Silent about separating the land and buildings elements of leases.	Continues to be no explicit guidance with regards to separation of land and buildings. However, general rules in revised FRS 102 are clear that each lease component within a contract is accounted for as a lease separately from non-lease components.
Lessor accounting – disclosures	The undiscounted lease payments under finance and operating leases disclosed for the following time brackets; not later than one year, later than one year and not later than five years, and later than five years. Also requires disclosure of a general description of the lessor’s significant leasing arrangements.	Maturity analysis of lease payments under finance and operating leases showing undiscounted lease payments to be received on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years. A lessor should disclose a general description of its significant leasing arrangements, including, if necessary to enable users to understand those arrangements, information about variable lease payments, renewal or purchase options and escalation clauses, subleases, and restrictions imposed by lease arrangements. If necessary to enable users to understand its significant leasing arrangements, a lessor should disclose additional qualitative and quantitative information.
Portfolio application	No practical expedient provided.	This section specifies the accounting for an individual lease and provides examples of leases with similar characteristics as those with a similar lease term for a similar class of underlying asset in a similar economic environment. If accounting for a portfolio, an entity shall use estimates and assumptions that reflect the size and composition of the portfolio.
Combination of contracts	No specific guidance.	An entity is required to combine two or more contracts entered into at or near the same time with the same counterparty (or related parties of the counterparty), and account for the contracts as a single contract if one or more of the specific criteria set out in the standard are met.

	Previous Section 20	Revised Section 20
Definition of Lease payments – in-substance fixed lease payments	No specific guidance.	The definition of “Lease payments” in Section 20 includes, “in-substance fixed” lease payments. These are payments that may, in form, contain variability, but that, in substance, are unavoidable. For lessees, Section 20 contains guidance on subsequent measurement to reflect revised in-substance fixed lease payments. For lessors, there is no such guidance.
Lease modifications	No specific guidance in respect of lease modifications.	Section 20 now provides specific guidance on lease modifications. A lessor accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease. For other lease modifications, the accounting by both lessee and lessor depends upon whether the modification is considered to give rise to a separate lease or a change in the accounting for the existing lease.
Sale and leaseback accounting	The accounting for a sale and leaseback transaction by a seller-lessee depends upon whether the leaseback is classified as a finance lease or an operating lease. If the leaseback is classified as an operating leaseback, the accounting further depends upon whether the transaction is established at fair value	The accounting for sale and leaseback transactions is based on whether the transfer of the underlying asset satisfies the requirement of Section 23 to be accounted for as a sale, rather than whether the leaseback is classified as a finance or operating lease. A policy choice exists whereby entities must select one of two possible approaches in determining the measurement of the resulting right-of-use asset and the treatment of the gains or losses arising from a sale and leaseback. If the sale criteria are not met, the transaction is accounted for as a financing transaction.
Subleases – accounting by intermediate lessor	Section 20 provides no specific guidance in respect of subleases. The accounting by an intermediate lessor therefore depends upon whether the sublease is classified as an operating lease or a finance lease, based on the extent to which risks and rewards incidental to ownership of the leased asset are passed to the sub-lessee.	Sublease arrangements are classified by lessors as finance or operating leases by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset, unless the short-term lease exemption has been applied to the head lease in which case the sublease is recognised as an operating lease.

2.6 Key differences between revised Section 20 and IFRS 16

We are aware that many preparers may have some familiarity with IFRS, and therefore we have included below a table showing the most significant differences between revised Section 20 and IFRS 16. This has been limited to the most notable differences, but a more comprehensive list will be available in our UK GAAP 2026 publication (publication expected in the first half of 2026):

	FRS 102	IFRS
Lessee recognition exemptions – low value assets	Similar to IFRS 16 with an optional low-value lease exemption available on a lease-by-lease basis, however, FRS 102 provides examples of assets that are not low-value.	Optional low value lease exemption available on a lease-by-lease basis. IFRS 16 does not provide examples of assets that are not low-value, instead only provides examples of low-value assets in the Basis for Conclusions.
Lessee discount rate	<p>An additional option is provided on determining the discount rate when compared to IFRS 16.</p> <p>If the interest rate implicit in the lease, cannot be readily determined, the lessee chooses on a lease-by-lease basis to apply either the lessee's incremental borrowing rate or the lessee's obtainable borrowing rate.</p> <p>If a public benefit entity is unable to readily determine any of the three discount rates mentioned above, they should use the rate of interest on deposits held with financial institutions.</p>	Discount rate applied to measure lease liability is the interest rate implicit in the lease, if the rate can be readily determined. If not, the lessee's incremental borrowing rate is used.
Lessee accounting for leases containing a non-exchange component	<p>A lessee in receipt of incoming resources from a government grant or, for a public benefit entity with a non-exchange component, recognises the incoming resources as part of the right-of-use asset.</p> <p>The incoming resources are measured applying Section 24 or Section 34.</p>	No specific guidance provided on leases containing a non-exchange component.
Lessee accounting – disclosures	<p>Similar detailed disclosures to IFRS 16.</p> <p>However, lease liability maturity analysis is not a prescribed disclosure in Section 20. Instead, the Companies Act requires, for an aggregate of all creditors, disclosure of amounts payable after five years.</p> <p>Lease commitment disclosed separately for short-term leases and low value leases.</p> <p>No requirement to present all lease disclosures in a single note or separate section of the financial statements.</p>	<p>IFRS 16 contains a disclosure objective and detailed disclosure requirements including both quantitative and qualitative disclosures. No prescribed time brackets for the maturity analysis of lease liabilities.</p> <p>Lease commitment disclosure is required for short-term leases committed at the reporting date if the portfolio of leases is dissimilar to the portfolio of short-term lease expense incurred in the period.</p> <p>In addition to detailed disclosure requirements, lessees are required to disclose additional qualitative and quantitative information necessary to meet the disclosure information within the standard.</p> <p>Lessees must present all disclosures required by IFRS 16 in a single note or separate section in the financial statements.</p>

	FRS 102	IFRS
Lessor accounting – straight-line basis for lease payments	If lease payments increase annually by fixed increments intended to compensate for expected annual inflation over the lease period, the fixed minimum increment that reflects expected general inflation will be recognised as income as incurred. Otherwise, similar to IFRS.	All operating lease receipts are recognised as income on a straight-line basis, unless another systematic basis is more appropriate.
Lease modifications	For a lease modification that does not give rise to a separate lease, FRS 102 permits the lessee to use an unchanged discount rate in some circumstances.	When a lease is modified and the modification does not give rise to a new lease, the lessee remeasures the lease liability using a revised discount rate at the effective date of the lease modification.
Sale and leaseback accounting	For a seller-lessee in a sale and leaseback transaction, if the transfer of the underlying asset satisfies the requirements of Section 23 to be accounted for as a sale, a policy choice exists in determining the measurement of the resulting right-of-use asset and the treatment of the gains or losses arising from the leaseback – either applying a similar principle to IFRS 16, or measuring the right-of-use asset arising from the leaseback at cost.	If the transfer of the underlying asset satisfies the requirements of IFRS 15 to be accounted for as a sale in a sale and leaseback transaction, the transaction will be accounted for as a sale and leaseback by both the seller-lessee and buyer-lessor. The seller-lessee measures the right-of-use asset from the leaseback at the portion of the previous carrying amount of the asset that relates to the right of use retained.



03

Key changes to FRS 102 for revenue recognition

3.1 Overview

Similar to Section 20 *Leases*, Section 23 *Revenue from Contracts with Customers* (Section 23) has been substantially re-written as part of the Periodic Review 2024 amendments to align more closely to IFRS. Prior to the amendments, Section 23 was titled "Revenue" and was based on IAS 11 *Construction Contracts* and IAS 18 *Revenue*, these IFRS standards that have now been superseded by IFRS 15 *Revenue from Contracts with Customers*.

Revised Section 23 provides accounting requirements for all revenue arising from contracts with customers. It affects all entities that enter into contracts to provide goods or services to their customers, unless the contracts are in the scope of other sections of FRS 102, such as those for leases. Revised Section 23 also specifies the accounting for costs an entity incurs to obtain and fulfil a contract to provide goods or services to customers. It also provides a model for the measurement and recognition of gains and losses on the sale of certain non-financial assets, such as property, plant or equipment (through consequential amendments to other sections of FRS 102).

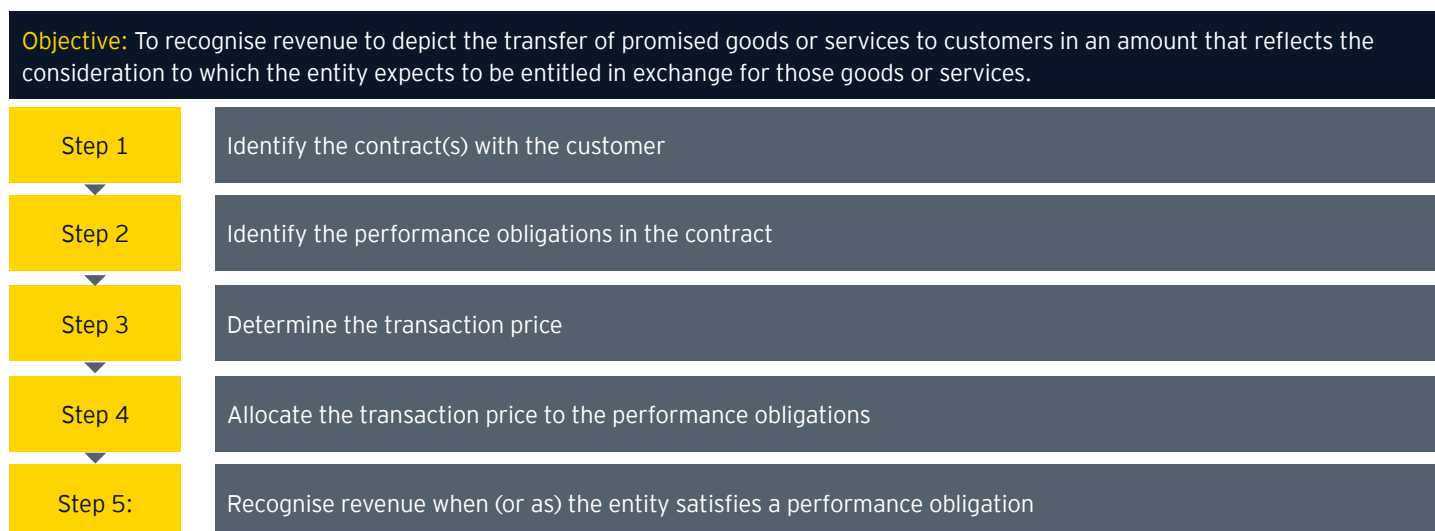
Section 23 describes the principles an entity must apply to measure and recognise revenue and the related cash flows. The core principle is that an entity recognises revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.

What you need to know – headlines

- Section 23 provides a single source of revenue requirements for all entities in all industries. Revised Section 23 is based on the principles of IFRS 15, but contains some simplifications and considerably less detailed guidance. This represents a significant change when compared with the previous version of Section 23, which was based on the superseded IFRS standards, IAS 18 and IAS 11.
- Revised Section 23 introduces a single comprehensive five-step model for revenue recognition for all contracts with customers, aligned to the overall model contained in IFRS 15.
- Revenue recognition under revised Section 23 is based on the concept of the transfer of control of goods or services at an amount that reflects the consideration to which the entity expects to be entitled, rather than the current principle of a risk and rewards approach.
- Section 23 applies to revenue from contracts with customers, unless explicitly excluded from the scope (e.g., leasing contracts, financial instruments).
- Section 23 is principles-based and includes detailed application guidance. The lack of bright lines requires the use of judgement.
- Section 23 also specifies the accounting treatment for certain items other than revenue, such as certain costs associated with obtaining and fulfilling a contract and the sale of certain non-financial assets.
- Based on experience from the implementation of IFRS 15 by companies reporting under IFRS, considerable effort can be involved in transitioning to the revised revenue recognition model. Drivers of additional complexity would include a higher volume of bespoke contracts, long term contracts and varied revenue streams. Early preparation to identify impacts is highly recommended.

3.2 Summary of the revised FRS 102 revenue recognition model

The following diagram provides an overview of the revised revenue recognition model:



Key aspects of the revised model can be summarised as follows:

What you need to know – revised revenue recognition model

- **Accounting model:** Revised Section 23 introduces a single comprehensive five-step model for the recognition of revenue from all contracts with customers.
- **Step 1 – Identify the contract with a customer:** A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations. Step 1 of revised Section 23 sets out criteria which must be met in order for a revenue contract to exist. This step also introduces specific criteria for when contracts with the same customer or related parties, entered into at or near the same time, should be combined. In addition, this step introduces guidance on how to account for contract modifications.
- **Step 2 – Performance obligations:** Under revised Section 23, the “performance obligation” is the unit of account for revenue recognition. A performance obligation is a promise to provide a distinct good or service (or distinct bundle of goods or services) or a series of distinct goods or services to a customer. Step 2 of the model provides guidance on how to determine whether a good or service is distinct, which involves assessing whether it is capable of being distinct; and whether it is separate from other promises in the contract. This guidance is more detailed and prescriptive than the existing requirement to separate components where necessary to reflect the substance of a transaction.

Step 2 of the model also contains guidance on assessing whether an entity is acting as principal or agent in a revenue transaction, with that assessment being based on whether the seller controls the promised goods or services before they are transferred to the buyer.

- **Step 3 – Determine the transaction price:** Once the performance obligations have been identified, the total transaction price must be determined. The transaction price is the amount of consideration to which the entity expects to be entitled in exchange for transferring goods or services, excluding amounts collected on behalf of third parties. It must take into account variable consideration, time value of money, consideration paid or payable to a customer and non-cash consideration.

As part of the requirements for determining the transaction price, Step 3 provide guidance on estimating variable consideration. Examples of sources of variable consideration include some discounts, rebates, refunds, penalties or performance bonuses. Variable consideration must be estimated using either the expected value method or the most likely amount method. Entities must then apply a constraint to ensure variable consideration is included in the transaction price only to the extent that the entity will be entitled to the cumulative amount of revenue recognised when the uncertainty is subsequently resolved. Prior to the amendments, Section 23 did not provide entities with any guidance on estimating variable consideration, whereas revised Section 23 sets out a clear framework. These revised requirements may result in a change to when entities recognise variable consideration when compared with existing Section 23.

What you need to know – revised revenue recognition model

- **Step 4 – Allocate transaction price:** Once the transaction price has been determined it must be allocated to performance obligations on the basis of their relative standalone selling prices. Exceptions to this general principle apply to discounts and variable consideration in certain circumstances. **(GAAP difference to IFRS 15 (see 3.5))**
- **Step 5 – Recognise revenue:** Under revised Section 23, revenue is recognised when the entity transfers control of the good or service to the customer. For each performance obligation, an entity needs to determine whether control of the promised good or service is transferred to the buyer over time or at a point in time. Revenue is only recognised over time if one or more of three set criteria is met. For performance obligations satisfied over time, the entity must select a measure of progress which faithfully depicts the pattern of transfer of the good or service to the customer.

Step 5 also contains guidance on licencing agreements and how to determine whether revenue is recognised over time or at a point in time.
- **Other measurement and recognition issues** – Contract costs must be recognised as an expense as incurred unless criteria to recognise them as an asset has been met. The contract costs guidance in Section 23 provides guidance on the accounting for costs to obtain and costs to fulfil a contract, including capitalisation criteria and amortisation requirements. Section 23 allows an accounting policy choice on whether to expense or capitalise its incremental costs to obtain a contract with a customer that the entity expects to recover. **(GAAP difference to IFRS 15 (see 3.5))**

3.3 Transition to revised Section 23

Transitional rules and disclosure requirements on transition have been introduced in [Section 1 Scope](#) to help entities transition to revised Section 23. The key transitional requirements are as follows:

What you need to know – transition

An entity has a choice of two transition methods when it first applies the new Section 23:

1. Applying retrospectively with the cumulative effect of initially applying the new Section 23 recognised as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application.
 - Comparative information is not restated.
 - The entity applies the new Section 23 retrospectively only to contracts that are not “completed contracts” at the date of initial application.
 - There are certain practical expedients available in relation to completed contracts that have variable consideration, and contracts modified before the date of initial application.
 - In the period the entity first applies the revised Section 23, an entity must disclose the nature of the changes in accounting policy. In addition, to the extent practicable, the entity discloses the adjustment to revenue and profit or loss together with reasons for significant changes (and must provide an explanation if it is impracticable to determine the adjustment to revenue and profit or loss).
2. Applying the new Section 23 retrospectively to comparative information for periods to the earliest date which is practicable as if the new Section 23 had always been applied.
 - There are four practical expedients available that are related to restatement of completed contracts, completed contracts that have variable consideration, contracts modified before the date of initial application and disclosure of information on unsatisfied performance obligations for prior periods presented.
 - The entity must disclose the information required by paragraph 10.13 of FRS 102 (which includes disclosure of the nature of the policy change and the amount of the adjustment for each financial statement line item affected), with the exception being that the adjustment to each line item affected is disclosed only for the immediately preceding period.

Where an entity makes use of any practical expedients upon first application of the new Section 23, the expedients must be applied consistently to all contracts and periods presented, and their use disclosed.

3.4 Summary of key differences between previous revenue recognition requirements and revised requirements

The key differences between Section 23 of the January 2022 edition of FRS 102 and Section 23 of revised FRS 102 (effective 1 January 2026) are set out in the table below:

	Previous Section 23	Revised Section 23
Core principles and scoping		
Revenue recognition model	Based on the principles in superseded IAS 18 and IAS 11 that were essentially based on the principle of risks and rewards.	Based on transfer of control which is the core principle and includes more detailed guidance than in legacy standards. The principles in IFRS 15 are applied using a single comprehensive five-step model: <ol style="list-style-type: none"> 1. Identify the contract(s) with a customer. 2. Identify the performance obligations in the contract. 3. Determine the transaction price. 4. Allocate the transaction price to the performance obligations in the contract. 5. Recognise revenue when (or as) the entity satisfies a performance obligation.
Scope	Includes in its scope revenue arising from the use by others of entity assets yielding interest or dividends.	Recognition and measurement requirements for interest and dividends are in scope of Section 11 <i>Basic Financial Instruments</i> .
Scope	Accounting for costs an entity incurs to obtain and fulfil a contract to provide goods or services to customers costs are out of scope of the current Section 23.	Revised Section 23 specifies the accounting for the incremental costs of obtaining a contract with a customer and for the costs incurred to fulfil a contract with a customer if those costs are not within the scope of another standard.
Revenue contracts		
Identify contracts with customers	No specific guidance.	Revised Section 23 provides five criteria and all must be met to be considered as a contract with a customer within the scope of the model in the standard: <ol style="list-style-type: none"> a. The parties have approved the contract and are committed to perform their respective obligations. b. Each party's rights regarding the goods or services to be transferred can be identified. c. Payment terms can be identified. d. The contract has commercial substance. e. It is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

	Previous Section 23	Revised Section 23
Arrangements that do not meet the definition of a contract under the standard	No specific guidance.	Section 23 specifies how to account for arrangement with customers that do not meet the five criteria (see "Identify contracts with customers" above) to be considered as a contract with customer under the standard.
Contract combination	The current Section 23 provides combination guidance particular to construction contracts. It allows an entity to combine construction contracts with several customers provided all the criteria for combination are met.	The contract combination requirements in revised Section 23 only apply to contracts with the same customer or related parties of the customer provided at least one of the criteria for combination are met.
	One of the criteria for contract combination is that contracts are performed concurrently or in a continuous sequence.	Revised Section 23 requires that contracts be entered into at or near the same time.
	A group of construction contracts are treated as a single construction contract when all of the following are met: <ul style="list-style-type: none"> a. The group of contracts is negotiated as a single package. b. The contracts are so closely interrelated that they are, in effect, part of a single project with an overall profit margin. c. The contracts are performed concurrently or in a continuous sequence. 	Section 23 explicitly requires an entity to combine contracts if one or more of the following are met: <ul style="list-style-type: none"> a. The contracts are negotiated together with a single commercial objective. b. The consideration to be paid for one contract is dependent on the price or performance of another contract. c. The goods or services promised in the contracts are a single performance obligation.
Segmentation of a construction contract	When a contract covers a number of assets, the construction of each asset shall be treated as a separate construction contract when: <ul style="list-style-type: none"> a. Separate proposals have been submitted for each asset. b. Each asset has been subject to separate negotiation, and the contractor and customer are able to accept or reject that part of the contract relating to each asset. and <ul style="list-style-type: none"> c. The costs and revenues of each asset can be identified. 	No specific guidance on segmentation of a construction contract. Instead, revised Section 23 provides guidance on identification of performance obligation(s) in a contract.
Portfolio application	No practical expedient provided.	Revised Section 23 specifies the accounting for an individual contract with a customer but provides a practical expedient that permits an entity to apply the standard to a portfolio of contracts (or performance obligations) with similar characteristics, only if the entity reasonably expects that the accounting would not materially differ. When accounting for a portfolio, an entity uses estimates and assumptions that reflect the size and composition of the portfolio.

	Previous Section 23	Revised Section 23
Contract modifications	No specific guidance.	Revised Section 23 specifies the accounting and provides detailed guidance to determine whether to treat a change in contractual terms (scope or price or both) as a separate contract or a modification to an existing contract.
Unit of account		
Distinct goods and services	Provides limited guidance on separating identifiable components of a single transaction and on combining two or more transactions together to reflect the substance of the transaction.	Revised Section 23 provides more guidance to assist in identifying the performance obligations in the contract i.e., a distinct good or service (or a distinct bundle of goods or services) or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.
Warranties	No specific guidance	The application guidance in revised Section 23 specifies when a warranty is a liability to the entity (i.e., assurance-type warranty) and when it is a performance obligation (i.e., service-type warranty).
Customer options for additional goods or services	No detailed application guidance on how to distinguish between an option to acquire additional goods or services and a marketing offer, nor to address how to account for such options that provide a material right. However, it explicitly requires customer loyalty award credits that may be redeemed in the future for free or discounted goods or services to be treated as separately identifiable component of the initial sales transaction.	Revised Section 23 provides application guidance in determining whether a customer option to acquire additional goods or services is a separate performance obligation (i.e., if it provides a material right to the customer that the customer would not receive without entering into the contract), thus distinguishing it from a marketing offer.
	The fair value of the consideration received or receivable in respect of the initial sale is allocated between the award credits and the other components of the sale. The consideration allocated to the award credits is measured by reference to their fair value, i.e., the amount for which the award credits could be sold separately.	Revised Section 23 requires an amount of the transaction price to be allocated to each performance obligations on a relative stand-alone selling price basis. Revised Section 23 provides specific guidance in estimating the stand-alone selling price of a customer option.
Principal vs. agent considerations	Provides limited guidance in determining whether an entity is acting as principal or as an agent in a sale transaction.	Provides more detailed application guidance in determining whether an entity is a principal or an agent when transferring a specified good or service to a customer.
	An entity bearing the customer's credit risk for the amount receivable from the customer is a feature that can indicate the entity is a principal.	Customer's credit risk is not an indicator of the entity controlling goods or services before it is transferred to the customer.
	When an entity has entered into a contract as an undisclosed agent, it is normally acting as principal.	There is no assumption that when an entity is an undisclosed agent, it is acting as principal.

	Previous Section 23	Revised Section 23
Consideration received or receivable from a customer		
Variable consideration	No specific guidance.	An entity estimates the variable consideration and includes it in the transaction price but “only to the extent that it is highly probable that that it will be entitled to the cumulative amount of revenue recognised when the uncertainty associated with the variable consideration is subsequently resolved.”
	No specific guidance on estimation and recognition of variable consideration. However, two of the conditions in revenue recognition are that the amount of revenue can be measured reliably and that it is probable that the economic benefits associated with the transaction will flow to the entity. For contingent payments, revenue is normally recognised when the contingent event has occurred, or when uncertainty is resolved or when payment is received.	Subject to estimation and constraint (as per above), a portion of variable consideration is included in the total transaction price that is recognised at a point in time or over time. Transaction price, which includes constraint on variable consideration, is updated at each reporting period to reflect any changes in circumstances.
Sales-based or usage-based royalties	No detailed application guidance. Royalties are recognised on an accrual basis in accordance with the substance of the relevant agreement when the inflow of economic benefits is probable and the amount can be measured reliably. See also “Licensing” below.	Revised Section 23 provides application guidance on the recognition of revenue for sales-based or usage-based royalties on licences of intellectual property, which differs from the requirements that apply to other revenue from licences. Royalties received in exchange for distinct licences of intellectual property (or where licence is the dominant component of a distinct bundle) are recognised at the later of when: <ul style="list-style-type: none"> a. The subsequent sale or usage occurs. b. The performance obligation to which some or all of the sales-based or usage-based royalty has been allocated is satisfied (or partially satisfied).
Sale with a right of return, refund liability and return/ refund asset	Where an entity sells goods with a right of return and the entity can reliably estimate the level of expected returns, the entity recognises the revenue in full and a provision for the expected returns would be recognised (in accordance with Section 21 Provisions and Contingencies) against revenue for the expected level of returns. There is no requirement to adjust cost of sales and an asset for the value of corresponding goods expected to be returned.	In some contracts, an entity might transfer control of a product to a customer but grant the customer a right of return. The customer might receive a full or partial refund of any consideration paid. In such situations revised Section 23 requires an entity to recognise: <ul style="list-style-type: none"> a. Revenue for the amount to which the entity expects to be entitled through to the end of the return period (considering expected product returns). b. A refund liability for the amount received or receivable that is expected to be returned. c. A return asset (and corresponding adjustment to cost of sales) based on the former carrying amount of the goods expected to be returned by the customer, less any expected costs to recover the goods, including potential decreases in the value of the returned goods.
	No requirement to recognise a return/refund asset.	A “refund asset” recognised for products expected to be returned is classified as inventory.

	Previous Section 23	Revised Section 23
Time value of money	If payment is deferred beyond normal business terms or is financed (by the entity) at a rate of interest that is not market rate, the arrangement constitutes a financing transaction. No practical expedient is available	If payment is deferred beyond normal business terms or is financed (by the entity) at a rate of interest that is not market rate, the arrangement constitutes a financing transaction. A practical expedient is available, whereby an entity need not account for the effects of the time value of money if, at contract inception, the period between the transfer of good or service promised to a customer and when the customer pays for that good or service is expected to be 12 months or less.
	No requirement or option to account for effects of time value of money for payments received in advance.	If payment is received in advance, an entity is not required (i.e., policy choice) to adjust the promised amount of consideration for the effects of the time value of money and recognise the resulting interest expense.
Non-cash consideration	Provides guidance on transactions involving exchanges of goods or services (i.e., barter transactions).	While revised Section 23 does not contain specific requirements for barter transactions, it provides guidance when an entity receives, or expects to receive, non-cash consideration i.e., the fair value of the non-cash consideration is included in the transaction price.
Consideration payable to a customer	No specific guidance.	Revised Section 23 requires consideration payable to a customer to be treated as a reduction of the transaction price and, therefore, of revenue unless the payment to the customer is in exchange for a distinct good or service that the customer transfers to the entity.
Allocation of consideration received or receivable		
Basis of allocation	Revenue is required to be measured at the fair value of the consideration received or receivable. No specific guidance on how this should be allocated to the identified components. However, for sale transactions that include grants of loyalty award, the consideration allocated to the award credits is measured by reference to their fair value, i.e., the amount which the award credits could be sold separately.	Revised section 23 generally requires an entity to allocate the transaction price to the performance obligations in proportion to their observable stand-alone selling prices (i.e., on a relative stand-alone selling price basis) at contract inception.
	Guidance in determining fair value is covered in the Appendix to Section 2 <i>Concepts and Pervasive Principles</i> .	If a stand-alone selling price is not directly observable, an entity shall estimate the stand-alone selling price.
Allocation of a discount or variable consideration	Revenue is measured at the fair value of the consideration received or receivable. This fair value takes into account the amount of any trade discounts, prompt settlement discounts and volume rebates. However, no specific guidance on how discount or variable consideration should be allocated to the identified components.	Allocation requirements for discounts and variable consideration are combined into a single requirement. This requirement refers to the allocation objective, that is, to depict the amount of consideration to which the entity expects to be entitled in exchange for satisfying each performance obligation in the contract.

	Previous Section 23	Revised Section 23
Revenue recognition		
“Over time” vs. “At a point in time” revenue recognition	<p>Revenue is recognised if the two general recognition criteria are met:</p> <ul style="list-style-type: none"> ▪ It is probable that any future economic benefit associated with the transaction will flow to the entity. ▪ The amount of revenue can be measured with reliability. <p>However, there are further criteria for sale of goods (point in time recognition) separate to the criteria for the rendering of services (over time recognition) that need to be met before revenue is recognised.</p>	<p>An entity needs to determine whether its performance obligation is satisfied over time by evaluating whether any one of the three criteria for over time recognition is met.</p> <ul style="list-style-type: none"> ▪ The customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs. ▪ The entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. ▪ The entity's performance does not create an asset with alternative use to the entity, and the entity has an enforceable right to payment for performance completed to date. <p>If an entity does not meet any one of the three criteria for over time recognition, the performance obligation is satisfied at a point in time.</p>
Bill and hold arrangements	<p>In a “bill and hold” sales, revenue is recognised when the buyer takes title, provided:</p> <ol style="list-style-type: none"> a. It is probable that delivery will be made. b. The item is on hand, identified and ready for delivery to the buyer at the time the sale is recognised. c. The buyer specifically acknowledges the deferred delivery instructions. <p style="padding-left: 20px;">and</p> <ol style="list-style-type: none"> d. The usual payment terms apply. <p>Revenue is not recognised when there is simply an intention to acquire or manufacture the goods in time for delivery.</p>	No specific application guidance.
Repurchase agreements	Provides limited guidance.	Revised Section 23 provides application guidance for agreements which include repurchase provisions, either as part of a sales contract or as a separate contract that relates to the goods in the original agreement or similar goods.
Measuring progress	No practical expedient available when using output method.	Revised Section 23 provides a practical expedient for an entity to recognise revenue in the amount for which it has the right to invoice. This only applies if using an output method to measure progress towards completion of a performance obligation that is satisfied over time, provided that an entity can demonstrate that the invoiced amount corresponds directly with the value to the customer of the entity's performance completed to date.

	Previous Section 23	Revised Section 23
Adjustment to measure of progress when using the input method based on costs incurred.	No specific guidance.	Input method based on costs incurred may be appropriate when the method includes costs that reflect an entity's performance to date and contribute to the entity's progress in transferring control of goods or services promised to customer.
Licensing	<p>No detailed application guidance. Provided that there is probable inflow of economic benefits that is reliably measurable, the licensor recognises fees and royalties paid in accordance with the substance of the agreement. As a practical matter, this may be on a straight-line basis over the life of the agreement.</p> <p>If a licence fee or royalty is contingent on the occurrence of a future event, revenue is recognised only when it is probable that the fee or royalty will be received, which is normally when the event has occurred.</p> <p>See also "Sales-based or usage-based royalties" above.</p>	<p>Revised Section 23 provides application guidance for recognising revenue from distinct licences of intellectual property that differs in some respects from the general revenue recognition requirements for other promised goods or services (including licences that are not distinct).</p> <p>Revenue recognition depends on the classification of licences. Under revised Section 23 a distinct licence (or where licence is the dominant component of a distinct bundle) provides either:</p> <ol style="list-style-type: none"> A right to access the entity's intellectual property throughout the licence period, which results in revenue that is recognised over time. or A right to use the entity's intellectual property as it exists at the point in time in which the licence is granted, which results in revenue that is recognised at a point in time.
Contract costs		
Capitalisation of costs to obtain a contract	No specific guidance as to capitalisation of costs to obtain a contract.	An entity has an accounting policy choice on whether to expense or capitalise its incremental costs to obtain a contract with a customer that the entity expects to recover. Where an entity adopts a policy of recognising costs to obtain a contract as an asset, as a practical expedient, an entity may recognise the incremental costs of obtaining a contract as an expense when incurred if the amortisation period of the asset that the entity otherwise would have recognised is one year or less.
Capitalisation of costs of fulfilling a contract	Unless in the scope of other sections in FRS 102 (e.g., costs that can be capitalised as inventories or equipment), there is no specific guidance on capitalisation of costs of fulfilling a contract.	If the costs incurred to fulfil a contract are not within the scope of another standard, an entity capitalises such costs only if they meet all of the specific criteria set out in revised Section 23.
Measurement after recognition – impairment of capitalised contract costs	No specific guidance.	Revised Section 23 contains guidance for estimating recoverable amount of contract costs, and for guidance on impairment, refers to Section 27 <i>Impairment of Assets</i> .

	Previous Section 23	Revised Section 23
Contract balances		
Customers' unexercised rights or "breakage"	No specific guidance.	Unexercised rights or "breakages" arise when customers do not exercise all of their contractual rights arising from non-refundable prepayments. The application guidance on breakages requires an entity to recognise the expected breakage amount as revenue in proportion to the pattern of rights exercised by the customer if the entity expects to be entitled to a breakage amount. Otherwise, the entity recognises the expected breakage amount as revenue when the likelihood of the customer exercising its remaining rights becomes remote.
Disclosure		
Overall	Limited disclosures, focused on accounting policies on revenue recognition, amounts of revenue recognised during the period and disclosures relating to revenue from construction contracts.	The disclosure requirements are based on IFRS 15, but at a reduced level to provide proportionate and practical solutions that are cost effective to apply. Certain disclosure exemptions are available to qualifying entities.
Amount of revenue recognised during the period	At a minimum, the amount of revenue recognised for the period is required for each category arising from the sale of goods, rendering of services interest, royalties, dividends, commissions, grants and "other significant types" of revenue. In addition, an entity is also required to disclose the amount of contract revenue recognised as revenue in the period.	Revised Section 23 requires disclosure of revenue recognised from contracts with customers separately from its other sources of revenue. It also requires quantitative and qualitative information by providing disaggregated revenue from contracts with customers into categories that depict how revenue and cash flows are affected by economic factors.
Segmental disclosures	Entities within the scope of (or voluntarily applying) IFRS 8 <i>Operating Segments</i> are required to disclose segmental information in line with the disclosure requirements of IFRS 8. Among others, these include revenues from external customers, intra-segment revenues, revenue that is 10% or more of the combined revenue of all operating segments and a reconciliation of the reportable segments' revenues to the total entity revenue.	In addition to the disclosure requirements of IFRS 8, entities within the scope of (or voluntarily applying) IFRS 8 are also required to disclose sufficient information to enable users of financial statements to understand the relationship between the disclosure of disaggregated revenue and revenue information that is disclosed for each reportable segment.
Illustrative examples	Includes Appendix to current Section 23 which provides examples of revenue recognition under the principles in current Section 23.	No illustrative examples provided.

3.5 Key differences between revised Section 23 and IFRS 15

We are aware that many preparers may have some familiarity with IFRS, and therefore we have included below a table showing the most significant differences between revised Section 23 and IFRS 15. This has been limited to the most notable differences, but a more comprehensive list will be available in our UK GAAP 2026 publication (publication expected in the first half of 2026.)

	FRS 102	IFRS 15
Scope		
Interactions with other sections (or accounting standards)	<p>If a component of the arrangement is covered by another section of FRS 102 (for example, Section 20, Section 11 or Section 12) and that other section specifies how to separate and/or initially measure that component, an entity needs to first apply that section of FRS 102. Otherwise, the entity shall apply Section 23 to separate or initially measure those parts of the contract.</p> <p>The scope of such requirements is applicable only to Section 23's interactions with other sections of FRS 102; it is not applicable to contracts that might be partially within the scope of Section 23 and partially with other FRSs (e.g., FRS 103). An entity would need to apply the requirements in Section 10 to develop an accounting policy to determine how to separate the parts of the contract between Section 23 and the other FRSs.</p>	<p>If a component of the arrangement is covered by another adopted IFRS that is listed in IFRS 15.5, i.e.:</p> <ul style="list-style-type: none"> ▪ IFRS 16 <i>Leases</i> ▪ IFRS 17 <i>Insurance Contracts</i> ▪ IFRS 9 <i>Financial Instruments</i> ▪ IFRS 10 <i>Consolidated Financial Statements</i> ▪ IFRS 11 <i>Joint Arrangements</i> ▪ IAS 27 <i>Separate Financial Statements</i> ▪ IAS 28 <i>Investments in Associates and Joint Ventures</i> <p>And that other adopted IFRS specifies how to separate and/or initially measure that component, an entity needs to first apply that standard. Otherwise, the entity applies IFRS 15 to separate or initially measure those parts of the contract.</p> <p>The scope of such requirements is narrow and not applicable to all contracts that might be partially within the scope of IFRS 15 (i.e., the requirements are applicable only to IFRS 15's interactions with adopted IFRS listed above). An entity would need to apply the requirements in IAS 8 to develop an accounting policy to determine how to separate the parts of the contract between IFRS 15 and the other adopted IFRS.</p>
Time value of money	<p>If payment is deferred beyond normal business terms or is financed (by the entity) at a rate of interest that is not market rate, the arrangement constitutes a financing transaction.</p>	<p>An entity considers all relevant facts and circumstances in assessing whether a contract contains a financing component and whether that financing component is significant to the contract, including:</p> <ul style="list-style-type: none"> ▪ The difference, if any, between the amount of promised consideration and the cash selling price of the promised goods or services. ▪ The combined effect of the expected length of time between the transfer of the goods or services and the receipt of consideration and the prevailing market interest rates. <p>The assessment of significance is made at the individual contract level – this requires application of judgement.</p>

	FRS 102	IFRS 15
Time value of money	<p>A practical expedient similar to IFRS 15 is available if payment is deferred and the arrangement constitutes a financing transaction, an entity need not account for the effects of the time value of money if, at contract inception, the period between the transfer of good or service promised to a customer and when the customer pays for that good or service is expected to be 12 months or less.</p> <p>Absent the use of the practical expedient, no other factors or situations which may preclude accounting for the financing component.</p>	<p>As a practical expedient, an entity need not adjust the promised amount of consideration for the effects of a significant financing component if the entity expects, at contract inception, that the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.</p> <p>In addition to above, IFRS 15.62 includes several situations which do not provide the customer or the entity with a significant benefit of financing, and therefore, no adjustment for financing component is required.</p>
	<p>If payment is received in advance, an entity is not required (i.e., policy choice) to adjust the promised amount of consideration for the effects of the time value of money and recognise the resulting interest expense.</p>	<p>No overall exemption from accounting for the effects of a significant financing component arising from advance payments.</p>
Allocation of consideration received or receivable		
Application of residual approach	<p>Application of the residual approach allows an entity to estimate the stand-alone selling price by reference to the total transaction price less the sum of the observable or estimated stand-alone selling prices of other goods or services promised in the contract.</p>	<p>Application of the residual approach allows an entity to estimate the stand-alone selling price of a promised good or service as the difference between the total transaction price and the observable (i.e., not estimated) stand-alone selling prices of other promised goods or services in the contract.</p>
Allocation of a discount or variable consideration	<p>Allocation requirements for discounts and variable consideration are combined into a single requirement. This requirement is less prescriptive than IFRS 15 and refers to the allocation objective, that is, to depict the amount of consideration to which the entity expects to be entitled in exchange for satisfying each performance obligation in the contract.</p>	<p>IFRS 15 provides two exceptions to the default method of allocating transaction price based on relative stand-alone selling price method. The two exceptions relate to allocation of discount and variable consideration. The criteria that must be satisfied to apply the allocation exception to variable consideration are different from the criteria set out in the context of discounts. Where the respective criteria are met, discount and variable consideration must be entirely allocated to one or more, but not all, performance obligations in the contract.</p>
	<p>No hierarchy for allocation is established.</p>	<p>IFRS 15 establishes a hierarchy for allocation. An entity identifies and allocates variable consideration first. The general guidance related to allocation of transaction price to performance obligations on a relative stand-alone selling price basis and the specific requirements related to allocation of a discount are then applied to allocate the remaining amount of the transaction price that does not meet the criteria related to allocation of variable consideration. However, when an entity meets the specified criteria and applies a discount to one or more performance obligations, the discount is allocated first before using the residual approach to estimate the stand-alone selling price of a good or service.</p>

	FRS 102	IFRS 15
Contract costs		
Capitalisation of costs to obtain a contract	<p>An entity has an accounting policy choice on whether to expense or capitalise its incremental costs to obtain a contract with a customer that the entity expects to recover. However, practical expedient similar to IFRS 15 is available where an entity adopts a policy of recognising costs to obtain a contract as an asset.</p> <p>The criteria an entity is required to satisfy, if it selects to capitalise such costs, is similar to IFRS 15.</p>	<p>An entity recognises as an asset the incremental costs of obtaining a contract with a customer if the entity expects to recover those costs. However, as a practical expedient, an entity may recognise the incremental costs of obtaining a contract as an expense when incurred if the amortisation period of the asset that the entity otherwise would have recognised is one year or less.</p>
Disclosures		
Overall	<p>The disclosure requirements are based on IFRS 15, but at a reduced level to provide proportionate and practical solutions that are cost effective to apply.</p> <p>In addition, FRS 102 provides certain disclosure exemptions to qualifying entities.</p>	<p>IFRS 15 requires a comprehensive and coherent set of revenue recognition disclosures. It contains a disclosure objective and detailed disclosure requirements including both quantitative and qualitative disclosures.</p>



04

Practical implementation considerations

Beyond understanding the financial reporting requirements, the implementation of the revised lessee accounting and revenue recognition models presents a number of practical challenges entities will need to navigate. In the cases of lease accounting, the scale of impact is typically driven by the volume and value of leases and whether they contain multiple components. The impact of the revised revenue recognition model on a business is affected by the nature and volume of the entity's contracts with its customers, presenting a greater challenge for businesses with complex, varied or long-term customer contracts. The diagram below summarises a number of the drivers of complexity relevant to the implementation of the revised models to assist preparers in understanding the potential effort involved in transitioning to the revised requirements:

Section 20 Leases

Less complex

- Majority of current leases classified as finance leases
- Contracts less than one year and leases of low-value assets
- Lease contract data readily available and easily accessible
- Centralised operations and processes
- Contracts do not contain both lease and non-lease components
- Lease portfolio contains similar assets, terms and conditions
- Standard, straightforward lease contract terms and consideration

More complex

- Majority of current leases classified as operating leases
- Long-term contracts, such as commercial property
- Lease contract data not readily available, e.g., stored manually, in multiple locations
- Decentralised operations and processes
- Lease contracts contain both lease and non-lease elements
- Lease portfolio contains dissimilar assets, terms and conditions
- Lease contracts contain variable consideration and renewal, purchase and termination options

Section 23 Revenue from contracts with customers

Less complex

- Shorter revenue cycle
- Single line of business
- Domestic operations only
- Highly centralised
- Well-controlled process, currently provides revenue estimates
- No change to existing performance obligations
- One global ERP
- Strong organisational change management
- Standardised contracts

More complex

- Long-term contracts
- Multiple, diverse businesses
- Global operations
- Decentralised
- Limited experience of making estimates under current revenue recognition process
- Change in the number of performance obligations under new model
- Multiple, disparate IT systems
- Organisation struggles to implement change
- Customised contracts

Questions preparers should consider early in the implementation project include:

- What is management's plan to perform an assessment of the impact of the changes on your business?
- When is the impact assessment expected to be complete?
- Are there inter-relationships between the revenue and leasing changes that need to be considered?
- Have you made a decision on the transition method for the transition to revised Section 23 (fully retrospective approach or modified retrospective approach)?
- Have you decided which practical expedients you intend to apply on transition to the revised requirements?
- Has all of the relevant guidance and factsheets issued by the FRC been considered?
- What is the process to monitor and consider the activities of the FRC and your peers?

In addition, there are various ongoing considerations, including:

- What is the anticipated effect on your business, processes and financial reporting?
- How, and to what extent, will your accounting processes and controls be affected or need to be changed?
- What are your plans for communicating with stakeholders?
- What is the expected timing of the implementation project?
- Do you have sufficient resources for effective implementation?
- Have you considered impacts beyond the financial reporting – for example, impacts on covenants, performance-based remuneration and key performance indicators?

More than an accounting change



05

Other incremental changes and clarifications

In addition to the major changes made to Section 20 and Section 23, the FRC made a number of incremental changes and clarifications to other sections. Below we have provided a high level summary of those other changes, by accounting topic.

5.1 Section 1 Scope

Section 1 *Scope* explains the scope of FRS 102 including how the financial reporting standard should be applied. It also sets out a reduced disclosure framework for subsidiaries and parents which is available in individual financial statements of a qualifying entity. The transitional arrangements applying to FRS 102 on original issue and subsequent amendments are also found within Section 1.

What you need to know

- Section 1 has been amended to set out the transitional arrangements and effective dates for the Periodic Review 2024 amendments. The transitional arrangements for leases and revenue have similarities with those for the transition to IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*, but are not exactly the same. Further details on the transitional rules for these sections are provided at parts 2 and 3 of this publication above.
- Section 1 has also been updated to introduce certain new disclosure exemptions under the reduced disclosure framework, in connection with the Periodic Review 2024 amendments.

5.2 Section 1A Small entities

Section 1A sets out the presentation and disclosure requirements for the financial statements of a small entity that chooses to apply the small entities regime in FRS 102. Section 1A is optional, so small entities can choose to apply Section 1A or full FRS 102 (excluding Section 1A).

What you need to know

- The main change to Section 1A is an extension of specifically required disclosures in Appendix C for UK small entities (some but not all of which were previously encouraged disclosures in Appendix E, which now applies only to small entities in the Republic of Ireland). The changes increase the minimum level of disclosure required in order for accounts to provide a true and fair view.
- Other requirements have been rephrased and clarified for a small entity in the Republic of Ireland and for the UK including an emphasis on the requirement for small entity financial statements to give a true and fair view.
- Certain disclosure requirements from other sections of FRS 102 have been added relating to: going concern (such as: use of the going concern basis (including significant judgements), material uncertainties over going concern, and use of a non-going concern basis); leases; provisions and contingencies; share-based payment transactions; performance obligations in contracts with customers; and current and deferred tax. UK small entities must also give related party disclosures covering the same categories of related parties as in full FRS 102 and all transactions, subject to the exemptions available to all FRS 102 reporters
- These new disclosures go beyond those set out in the Small Companies Regulations but are considered (where material) by the FRC to be necessary for financial statements to give a true and fair view.

5.3 Section 2 Concepts and pervasive principles

Section 2 *Concepts and Pervasive Principles* describes the objectives of the financial statements of entities within the scope of FRS 102 and sets out the concepts and basic principles underlying those financial statements. Financial statements prepared under FRS 102 by UK companies are subject to the requirements of the Companies Act 2006 and supporting regulations. Section 2 is FRS 102's equivalent of the IASB's *Conceptual Framework for Financial Reporting* (the Conceptual Framework).

What you need to know

- Section 2 has been re-written and aligned more closely with the Conceptual Framework published in 2018. Much of the detailed discussion of concepts and principles contained within the Conceptual Framework has not been brought across, but given the close alignment, users of Section 2 are able to refer to the detailed discussion as required.
- The wording of the definition of assets and liabilities has been aligned with the definitions in the Conceptual Framework and certain parts of the explanatory material from that framework have been introduced. In particular, guidance has been added on the meaning of "control". Given the previous lack of guidance on the definition of "control", it is possible that some entities may have developed a different definition, based on risks and reward, rather than on a present ability to direct the use of an economic resource. In such cases, those entities may need to revisit certain accounting policies.

5.4 Section 2A Fair value measurement

A number of sections of FRS 102 permit or require entities to measure or disclose the fair value of assets, liabilities or equity instruments. Prior to the periodic review, Section 2 *Concepts and Pervasive Principles – Appendix* defined "fair value" and contained the methodology for measuring items at fair value when specific guidance is not given in other sections of FRS 102. This has been replaced following the periodic review with a new Section 2A *Fair Value Measurement*, which provides principles-based guidance on how to measure fair value under FRS 102.

What you need to know

- The Appendix to Section 2 is replaced and a new Section 2A *Fair Value Measurement* has been added to FRS 102.
- The definition of fair value and the guidance on fair value measurement in Section 2A is aligned with IFRS 13 *Fair Value Measurement*. Fair value is now defined as "The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." This is an exit price notion.
- Fair value is determined based on assumptions made by market participants, including considerations of the asset's condition, location and any restrictions on its sale or use. Asset specific characteristics are considered rather than those that are transaction specific.
- For non-financial assets, fair value measurement considers the asset's highest and best use.

5.5 Section 7 Statement of cash flows

Section 7 *Statement of Cash Flows* sets out the information that is to be presented in a statement of cash flows and how to present it. The statement of cash flows provides information about the changes in cash and cash equivalents of an entity for a reporting period, showing separately changes from operating activities, investing activities and financing activities.

What you need to know

- New disclosure requirements have been introduced in respect of supplier finance arrangements. The requirements are a subset of the disclosures brought into IFRS through the recent amendments to IAS 7 *Statement of Cash Flows* and include the requirement to disclose the terms and conditions of the arrangements, the balances involved and the range of payment due dates. In the reporting period in which an entity first applies these new disclosures the analysis does not need to be presented for the comparative periods.
- The effective date of this specific amendment is periods beginning on or after 1 January 2025 (12 months earlier than the principal effective date for the other amendments to FRS 102), with early application permitted.

5.6 Sections 11 and 12 Financial instruments

Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instruments* Issues contain the accounting and disclosure requirements for financial instruments under FRS 102.

What you need to know

The key changes affecting Sections 11 and 12 can be summarised as follows:

- Rights and obligations within the scope of Section 23 that are financial instruments are excluded from the scope of Sections 11 and 12, other than where Section 23 specifies otherwise.
- Entities can no longer change their accounting policy for recognition and measurement from applying full Section 11 and Section 12 or a combination of IFRS 9 and IAS 39 to applying IAS 39 except to make the policies consistent with consolidated financial statements in which the entity is included.
- The criteria for recognition of dividend income has been added.
- New disclosure requirements have been added to explain the inputs, assumptions and estimation techniques used to determine expected credit losses for those entities electing to apply IFRS 9.

5.7 Section 26 Share based payment

Section 26 *Share-based Payment* prescribes the accounting requirements for the recognition, measurement, and disclosure of share-based payment transactions. The section applies when an entity enters into a share-based payment transaction; that includes an entity receiving goods or services in a share-based payment arrangement, or incurring an obligation to settle the transaction in a share-based payment arrangement when another group entity receives the goods or services.

What you need to know

- The amendments provide clarifications and additional guidance in a number of areas, aligning the guidance more closely with IFRS 2 *Share-based payments*.
- Consistent with IFRS 2, Section 26 clarifies that equity instruments issued in a business combination in exchange for control of the acquiree are not in scope of Section 26. However, where equity instruments are issued, cancelled or modified to employees of the acquiree in their capacity as employees then these are in scope of Section 26. Previously Section 26 was silent on this topic.
- Guidance is inserted on the treatment of an equity settled share-based payment settled in cash. Consistent with IFRS 2, the payment made should be accounted for as a deduction from equity, except to the extent that the payment exceeds the fair value of the equity instruments that would otherwise have been issued, measured at the settlement or repurchase date. Any such excess is recognised as an expense.
- There is new guidance on share-based payment transactions that contain a net settlement feature related to employee's tax obligations. Where equity-settled share-based payments contain a net settlement feature and there is an obligation on the entity under tax laws or regulations to withhold an amount for an employee's tax obligation associated with that share-based payment, the transaction is accounted for as wholly equity-settled (for the amount that relates to the employee's tax obligation and no more) rather than cash-settled.

5.8 Section 29 Income taxes

Section 29 *Income Tax* applies to accounting for income tax, value added tax (VAT) and other similar sales taxes which are not income taxes.

What you need to know

- The amendments to FRS 102 introduce guidance on accounting for uncertain tax positions bringing it in line with IFRS reporting.
- Entities are required to assess whether it is probable that the taxation authority will accept an uncertain tax treatment. If it is probable, the entity determines the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings.
- If it is not probable that the taxation authority will accept an uncertain tax position, the entity reflects the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses unused tax credits or tax rates by using either the most likely amount method or the expected value method, depending on which better predicts the resolution of the uncertainty.
- The amendments should be applied retrospectively in accordance with paragraph 10.12 of FRS 102, if that is possible without the use of hindsight; or retrospectively with the cumulative effect of initially applying the amendments recognised at the date of initial application. If an entity selects the latter transition approach, it does not restate comparative information.

5.9 Section 34 Specialised activities

Section 34 *Specialised Activities* (Section 34) covers the following:

1. Agricultural Activities
2. Extractive Activities
3. Service Concession Arrangements
4. Financial Institutions
5. Retirement Benefit Plans: Financial Statements
6. Heritage Assets
7. Funding Commitments
8. Incoming Resources from Non-Exchange Transactions
9. Public Benefit Entity Combinations
10. Public Benefit Entity Concessionary Loans

What you need to know

Agricultural activities

- The amendments have clarified that, prior to harvest, agricultural produce is not distinguished from the biological asset to which it is related. After harvest, such produce is accounted for in accordance with section 13 Inventories or another applicable section.
- The specific guidance on fair value measurement has been removed from this section and a cross reference made to Section 2A, where the general guidance on fair value measurement is contained. The section notes that the application of measurement techniques may include sector benchmarks and gives two examples.
- Guidance has been added on what constitutes the elements of cost of a biological asset.

Service concession arrangements (SCAs)

- The underlying accounting for SCAs has not changed, but the section has been updated to reflect the new requirements of Sections 20 *Leases* and 23 *Revenue from Contracts with Customers*. The section clarifies that the nature of the consideration received determines its subsequent accounting treatment (either as a financial asset or as an intangible asset). Regardless of the subsequent accounting, both types of consideration are classified as a contract asset during the construction or upgrade period in accordance with Section 23.

What you need to know

Heritage assets

- The standard now clarifies that management judgement is required to assess the characteristics of an asset and whether it is held and maintained principally for its contribution to knowledge and culture. An asset with characteristics of a heritage asset, but which is used by the entity itself are accounted for in accordance with other applicable sections of FRS 102. However, an entity is still encouraged to provide the disclosures specified in Section 34.
- If a heritage asset is acquired in a non-exchange transaction, the entity usually measures the asset at fair value on initial recognition. If, in exceptional cases, the fair value of such a heritage asset cannot be reliably measured, the entity should state the reason for this.

Incoming resources from non-exchange transactions

- Appendix B of Section 34 previously specified aspects of recognition for legacies and services and set out requirements relating to performance conditions and measurement. This appendix has been deleted, and the requirements have been incorporated in paragraphs PBE34.67 to PBE34.74. The changes made are not intended to alter practice but rather to make the standard easier to apply.
- The amendments articulate whether and when incoming resources from non-exchange transactions are recognised and the measurement requirements. The amendments also clarify guidance on legacies.

5.10 Section 35 Transition to FRS 102

Section 35 *Transition to this FRS* addresses the first-time adoption of FRS 102. The guidance in Section 35 is a simplified version of IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The underlying principle in Section 35 is that a first-time adopter should prepare financial statements applying FRS 102 retrospectively. However, Section 35 sets out a number of optional exemptions and mandatory exceptions that allow or require a first-time adopter to deviate from this principle in preparing an opening balance sheet position at the date of transition (i.e., at the beginning of the earliest period presented). Section 35 also sets out the disclosures required to explain the transition to FRS 102.

What you need to know

- As set out above, Section 35 provides first-time adopters certain optional exemptions from full retrospective application of FRS 102, and under the amendments, certain new exemptions have been introduced for first-time adopters in connection with lease accounting and revenue recognition. The exemptions are not the same as the transitional provisions offered to existing FRS 102 reporters but offer similar reliefs.
- Additional disclosure requirements have been introduced requiring first-time adopters to state which optional exemptions have been applied in the transition to FRS 102, and to provide an explanation of material changes to reported financial position that are not presented in the reconciliations of profit or loss and equity.
- First-time adopters will no longer be able to elect to apply the recognition and measurement provisions of IAS 39 unless doing so would make the entity's accounting policies consistent with those adopted in the consolidated financial statements in which the entity is included.

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