



Key changes to FRS 102 arising from the 2024 periodic review

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Background

On 27 March 2024, the Financial Reporting Council (FRC) issued the final version of the amendments to FRS 102 after completion of its second periodic review. The most significant changes arising from the 2024 periodic review apply to Section 20 *Leases* and Section 23 *Revenue from Contracts with Customers* predominantly to align more closely with the IFRS Accounting Standards, notably IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*. A number of improvements have been made in other areas, designed to make it easier for preparers to apply and understand the standard.

The effective date for most amendments is for periods commencing on or after 1 January 2026, with early adoption permitted provided all amendments are adopted at the same time. The amendments to Section 7 *Statement of Cash Flows* of FRS 102 related to supplier finance arrangements are effective for periods commencing on or after 1 January 2025.

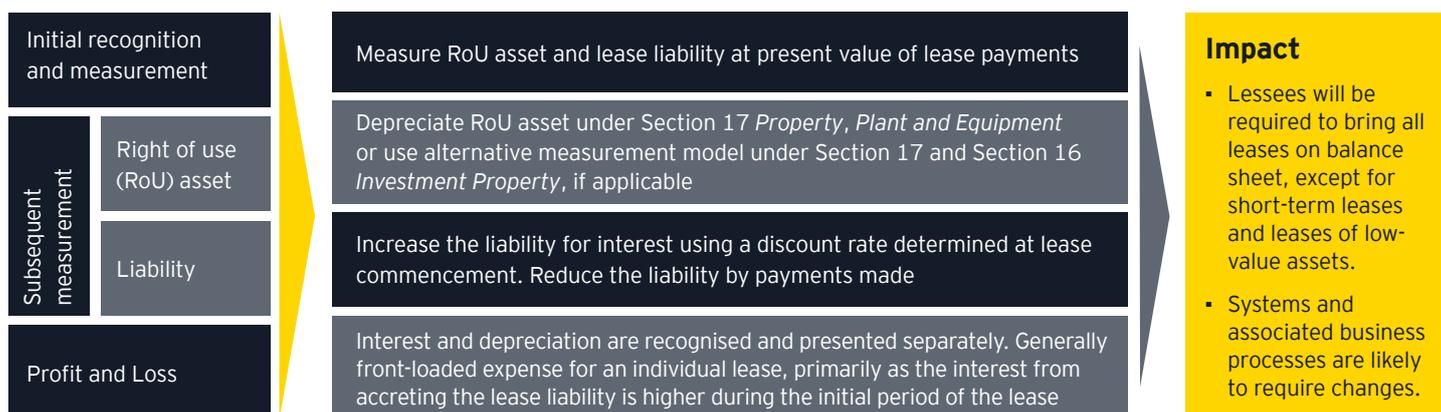
The principal amendments are discussed below.

Leases

1 | What is changing?



2 | Recognition and measurement requirements for lessees



3 | Simplifications compared to IFRS 16

Discount rate

IFRS 16 requires lessees to use their incremental borrowing rate if the interest rate implicit in the lease cannot be readily determined. Under Section 20, if the interest rate implicit in the lease cannot be readily determined, the lessee shall choose to apply either the lessee's incremental borrowing rate or the lessee's obtainable borrowing rate.

Lessee's obtainable borrowing rate is 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. This is a similar concept to the incremental borrowing rate, but the FRC expects it to be simpler to determine.

Lease modifications

IFRS 16 requires a lessee to use a revised discount rate when accounting for lease modifications. For a lease modification that is not accounted for as a separate lease, Section 20 allows lessee to use an unchanged discount rate in the following scenarios:

- The additional consideration from lease modification is insignificant relative to the total consideration of the original lease.
- Lease modification decreases scope of lease by removing right to use one or more assets, and the consideration for the lease decreases by an amount commensurate with the stand-alone price for the decrease in scope.
- Lease modification decreases the consideration payable for the remaining term of the lease, but does not decrease the scope of the lease by removing the right to use one or more underlying assets.

Transition

Restatement of comparatives not permitted.

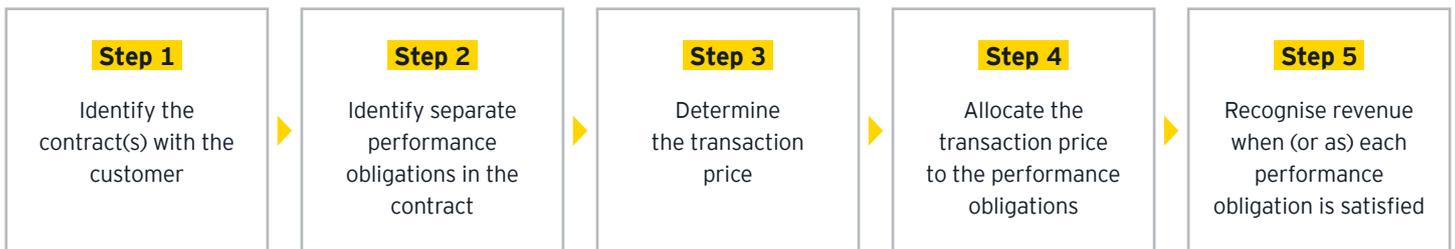
Group entities can elect to use carrying amounts reported for Group reporting (under IFRS) upon transition as opening balances.

Revenue

1 | What is changing?

The amendments to Section 23 are based on the principles of IFRS 15 and introduce a single five-step model for revenue recognition for all contracts with customers. Entities will need to review revenue contracts and apply the five-step model, potentially impacting the timing of revenue recognition.

2 | Recognition and measurement requirements for revenue



3 | Simplifications compared to IFRS 15

- Revised Section 23 only requires that the time value of money is adjusted for payments in arrears and offers a policy choice as to whether an entity adjusts for payments received in advance or not. No such policy choice is available under IFRS 15.
- There has been a simplification to the description of the constraint on estimates of variable consideration in the revised Section 23.
- Revised Section 23 offers a policy choice with regards to cost incurred to obtain a contract, whereby an entity can elect either to capitalise these, or expense them. No such choice is available under IFRS 15.
- IFRS 15 contains explicit criteria to be assessed to determine whether discounts and variable consideration should be allocated to one (or more) but not all of the performance obligations in the contract. In contrast, revised Section 23 does not contain specific criteria and instead requires an entity to consider the basis that best depicts the amount of consideration the entity expects to be entitled to. As a result, revised Section 23 may allow for more judgement to be applied.



Other changes arising from the periodic review

1 | Section 1 Scope

- New section setting out the effective date(s) and transitional arrangement for the amendments.
- Minor amendments to reduced disclosures section.

2 | Section 1A Small Entities

- Greater clarity on which disclosures are necessary in order to give a true and fair view as required by law.

3 | Section 2 Concepts and Pervasive Principles

- Aligned with the IFRS Conceptual Framework but with less detailed discussion of concepts and principles contained within the IFRS.

4 | Section 2A Fair Value Measurement

- The FRC has updated the requirements for fair value measurement to reflect the principles of IFRS 13 *Fair Value Measurement* and to improve reporting consistency and quality in respect of the measurement of fair value. The definition of fair value is now aligned to that in IFRS 13.

5 | Section 7 Statement of Cash Flows

- New disclosure requirements on supplier finance arrangements (applicable for periods beginning on or after 1 January 2025).

6 | Section 35 Transition to this FRS

- Transitional Provisions introduced for first time adopters in connection with lease accounting and revenue recognition.

7 | Sections 11 and 12 Financial Instruments

- Entities no longer permitted to change their accounting policy from applying full Section 11 and Section 12, or a combination of IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement*, to applying IAS 39, unless doing so aligns the entity's accounting policies with the consolidated accounts it is included in.
- Requirements introduced to Section 11 and 12 in respect of the recognition of dividend income.
- Expected credit loss disclosure requirements introduced to Section 11 when electing to apply IFRS 9.
- Rights and obligations within the scope of Section 23 that are financial instruments are excluded, except for receivables and those that Section 23 specifies are accounted for in accordance with this section.

8 | Section 26 Share-based Payments

- Additional guidance added to assist in applying the principles and promote greater consistency with IFRS.

9 | Section 34 Specialised Activities

- Various amendments to subsections covering, Agriculture, Incoming Resources from Non-exchange Transactions, Service Concessions and Heritage Assets.

10 | Section 29 Income Taxes

- Guidance provided on accounting for uncertain tax positions to align to IAS 12 *Income Taxes* and IFRIC 23 *Uncertainty over Income Tax Treatments*.

How EY can help in transition

- Determine and advise on software requirements
- Provide support with controls and processes
- Assistance with chart of accounts and mapping



- Specifically tailored workshops for finance teams explaining the updates arising from FRS 102 to start assessing the impact
- Identify next steps for implementation



- Review your accounting policies and assess how they are impacted by the amendments
- Identify customer contracts and lease portfolios impacted
- Design a transition plan



- Review lease and revenue contracts, extract the data and determine the impact on adoption
- Assist in determining key judgements such as discount rate, performance obligations



- Assist you in drafting accounting policies
- Support you in drafting relevant financial statements disclosures
- Provide narratives on changes to key metrics

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