FRS 102 Masterclass:

Navigating Compliance and Key Technical Changes.

3 September 2026

pem.

Your speaker.

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Chartered accountant and independent training consultant.

Companies House reform

Economic Crime and Corporate Transparency Act 2023

Government Bill

Originated in the House of Commons, Session 2022-23

Last updated: 27 October 2023 at 10:34

Commons — Lords — Final stages

See full passage

Bill passage

Bill started in the House of Commons

- 1st reading
- 2nd reading
- Committee stage
- Report stage
- 3rd reading

Bill in the House of Lords

- 1st reading
- 2nd reading
- Committee stage
- Report stage
- 3rd reading

Final stages

- Consideration of amendments
- Royal Assent

Key Complete · In progress · Not applicable · Not yet reached

Economic Crime and Corporate Transparency Act 2023

Royal assent 26 Oct 2023

Approx 50 statutory instruments to implement!

ACSPs - timeline

~~25 Feb 2025~~

- ~~ACSPs can apply~~

Autumn 2025

- ID verification starts

~~Spring 2026?~~

- ~~Mandatory for third party filings~~

ACSPs - timeline

Autumn 2025

- ID verification started

November 2027

- Mandatory for third party filings

Changes to accounts and filing

~~From 1 April 2027.~~

- Software filing only
- **Micro-entities** will be required to file a balance sheet and profit and loss account
- **Small companies** will be required to file a balance sheet, directors' report, auditor's report (unless exempt) and profit and loss account
- Companies will no longer be able to prepare and file 'abridged' accounts
- A company will have to provide a business reason if they want to shorten the period more than once within 5 years

Changes to accounts and filing

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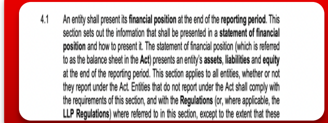
Highlights


4.1 An entity shall present its **financial position** at the end of the **reporting period**. This section sets out the information that shall be presented in a **statement of financial position** and how to present it. The statement of financial position (which is referred to as the balance sheet in the **Act**) presents an entity's **assets, liabilities** and **equity** at the end of the reporting period. This section applies to all entities, whether or not they report under the Act. Entities that do not report under the Act shall comply with the requirements of this section, and with the **Regulations** (or, where applicable, the **LLP Regulations**) where referred to in this section, except to the extent that these

FRS 102 v FRS 105

On balance sheet lease accounting

Accounting for a sublease

Revenue recognition – points to consider

Restoration and dilapidation

FRS 102 v FRS 105

Size thresholds for PC 6 April 2025

Company and group size thresholds (net) for accounting years commencing on or after 6 April 2025				
2 out of 3 of:	**Micro**	**Small**	**Medium**	**Large**
Annual turnover (£)	≤1m	≤15m	≤54m	>54m
Balance sheet total (£)	≤500k	≤7.5m	≤27m	>27m
Average number of employees	≤10	≤50	≤250	>250

FRS 105 Micro Entity Standard

Simplifications

- Deferred tax
- Revaluations
- Share based payments
- DB Pensions plans
- Forex
- Borrowing & development costs
- Government grants
- Financial instruments
- Financing instruments
- Intangibles and acquisition accounting
- Hyperinflation
- Leasing
- Revenue recognition

Remember 2 out of 3!

2 out of 3 of:	**Micro**
Annual turnover (£)	$\leq$1m
Balance sheet total (£)	$\leq$500k
Average number of employees	$\leq$10

FRS 105 Micro Entity Standard - Disclosures

- Off-balance sheet arrangements
- Employee numbers
- Advances, credits and guarantees granted to directors
- Financial commitments, guarantees and contingencies

Lease accounting under FRS 102 Sept 2024

FRS 102 Periodic review

Periodic review

PC 1 January 2026

Previous FRS102 approach and ongoing FRS 105 approach

Operating lease

*A **lease** that does not transfer substantially all the risks and rewards incidental to ownership. A lease that is not an operating lease is a **finance lease**.*

Finance lease

A **lease** that transfers substantially all the risks and rewards incidental to ownership of an **asset**. Title may or may not eventually be transferred. A lease that is not a finance lease is an **operating lease.**

Limited impact on lessors

All leases go on balance sheet! – Except:

Short lease (by class)

- *‘A **lease** that, at the **commencement date** has a **lease term** of 12 months or less. A lease that contains a purchase option is not a short-term lease.’*

Low value assets

- Full requirements do not need to be applied for low value assets

Periodic review – **lease accounting - transition**

Paragraph 1.47 of FRS 102 states:

- *A lessee shall not restate comparative information. Instead, it shall recognise the cumulative effect of initially applying the Periodic Review 2024 amendments to Section 20 as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application.*

Example

Example – Initial application

Sleep Ltd has a yearend of 31 December 2026. At 1 January 2026, Sleep had a lease agreement in place to rent some offices for £50,000 per annum (i.e a total lease commitment of £150,000 remaining). If Sleep Ltd were to take out a loan for £150,000 on 1 January 2026, it would pay interest at a rate of 7% per annum.

Example

Step 1: Calculate the present value of the remaining lease payments

Year to	Calculation £	Present value £
31.12.2026	£50,000 / 1.07^1	46,729
31.12.2027	£50,000 / 1.07^2	43,672
31.12.2028	£50,000 / 1.07^3	40,815
Present value of lease liability at 01.01.2026		**131,216**

Hence, on 1 January 2026, Sleep Ltd will:

Dr Right-of-use asset	£131,216
Cr Lease liability	£131,216

Example

Step 2: Make an adjustment (if necessary) for any lease payments in profit or loss

Some clients may have posted all the lease payments to profit or loss over the year in which the periodic review amendments take effect. Hence, a journal may be needed to:

- Dr Lease liability
- Cr Lease rentals (profit or loss)

Example

Step 3: Measure the lease liability using the amortised cost method

The lease liability is subsequently measured using the amortised cost method in FRS 102, Section 11 *Basic Financial Instruments* as follows:

Year	Opening balance	Cash flow	Interest (7%)	Closing balance
	£	£	£	£
31.12.2026	131,216	(50,000)	9,185	90,401
31.12.2027	90,401	(50,000)	6,328	46,729
31.12.2028	46,729	(50,000)	3,271	0

Example

Step 4: Depreciate the right-of-use asset

The right-of-use asset is depreciated in accordance with FRS 102, Section 17 *Property, Plant and Equipment*. However, if the lease term transfers ownership of the underlying leased asset to the lessee by the end of the lease term, or if the cost of the right-of-use asset reflects that the lessee will exercise a purchase option, the lessee depreciates the asset from the commencement date to the end of the asset's useful life. Otherwise, the lessee depreciates the asset from the commencement date to the **earlier** of the end of the useful life or the end of the lease term.

Example - impact

Impact on profit and loss (FRS 102 (September 2024))		Impact on profit and loss (FRS 102 (January 2022))	
Depreciation charge	£43,739	Lease rental expense	£50,000
Finance cost	£9,185		
Total impact	£52,924	Total impact	£50,000

Impact on balance sheet (FRS 102 (September 2024))		Impact on balance sheet (FRS 102 (January 2022))	
Reduction in cash	(£50,000)	Reduction in cash	(£50,000)
Lease liability	(£90,401)		
Right-of-use asset (NBV)	£87,477		
Net impact on balance sheet	(£52,924)	Net impact on balance sheet	(£50,000)

FRS 102 Periodic review

Periodic review

PC 1 January 2026

Lease accounting - transition

Paragraph 1.51(a) states that the lessee shall recognise a lease liability at the date of initial application at the **present value** of the remaining lease payments, discounted using:

- The lessee's incremental borrowing rate; or
- The lessee's obtainable borrowing rate.

Not the rate implicit in the lease!

Accounting for a sublease

FRS 102 Periodic review

Periodic review

PC 1 January 2026

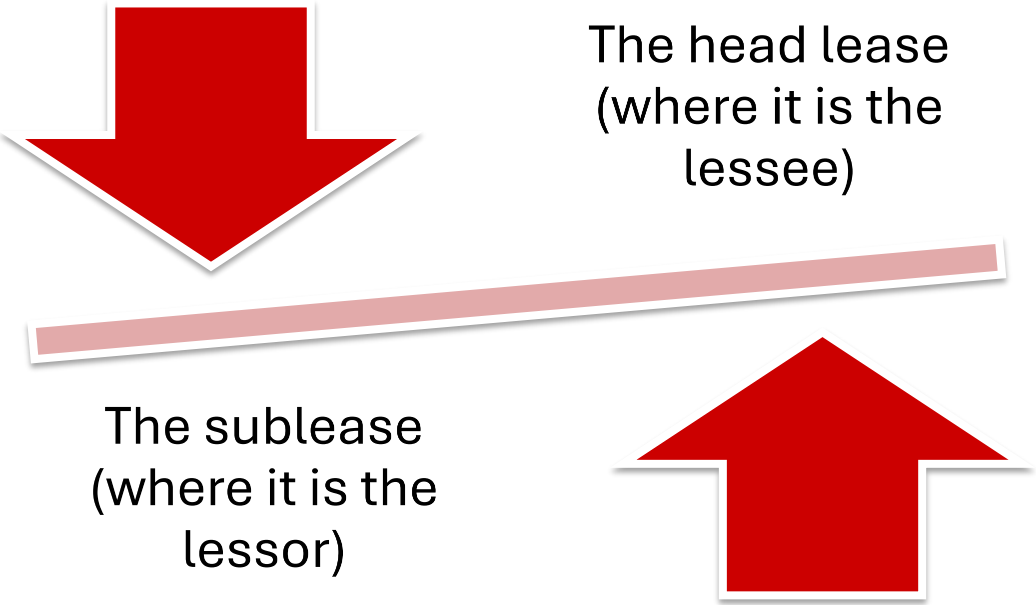
On-balance sheet lease accounting for lessees

- FRS 102 only
- No prior year adjustments
- Exemption only for short-term leases and leases of assets of low value

Revenue recognition

- Both FRS 102 and FRS 105
- Five-step model approach to revenue recognition
- Likely to impact entities with new revenue recognition profiles

Lessor accounting



FRS102 - lessor accounting

Operating lease

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

Finance lease

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset.

Therefore, limited impact on lessors

What does this mean

Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

(a) the lease transfers ownership of the underlying asset to the lessee by the end of the lease term;

(b) the lessee has the option to purchase the underlying asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception date, that the option will be exercised;

(c) the lease term is for the major part of the economic life of the underlying asset even if title is not transferred;

(d) at the inception date, the present value of the lease payments amounts to at least substantially all of the fair value of the underlying asset; and

(e) the underlying asset is of such a specialised nature that only the lessee can use it without major modifications.

Accounting for a sublease

Step 1

Account for the head lease

Dr Right-of-use asset

Cr Lease liability.

Accounting for a sublease

Step 2

Account for the sub lease

Operating or finance lease?

The sublease is classified by reference to the right-of-use asset arising from the head lease, **not** by reference to the underlying asset.

Example

Example – Sub-lease classification

Curry Ltd leases a building from a landlord for ten years.

Two years into the lease agreement, Curry Ltd subleases the majority of the building to Barker Ltd for seven years. There are eight years remaining on the head lease.

Curry Ltd compares the seven-year sublease with the remaining eight-year right-of-use asset.

As the sublease transfers most of the remaining economic benefits of the ROU asset, the sublease is classified as a finance sublease.

Example – finance leases

Example – Sublease is a finance lease

Continuing with the example of Curry Ltd above, assume the following information is relevant:

- Carrying amount of the ROU asset is £80,000
- Curry has transferred 100% to Barker Ltd
- The net investment in the sublease is £85,000

Example

On initial recognition of the sublease:

Curry Ltd derecognises the portion of the ROU asset transferred and recognises a net investment in the sublease. The journals to record this transaction are as follows:

	£
Dr Net investment in sublease	85,000
Cr ROU asset	(80,000)
Cr Gain on disposal of ROU asset	(5,000)

The head lease liability remains.

Example

Subsequent measurement:

- Interest income is recognised in profit or loss on the net investment.
- Interest expense continues to be recognised in profit or loss on the head lease liability.

Example – operating leases

Example – Sublease is an operating lease

The ROU asset is not derecognised.

Subsequent measurement:

- Continue depreciating the ROU asset.
- Continue recognising interest on the head lease liability.
- Recognise sublease income, typically on a straight-line method.

Journal:

- Dr Cash / receivable
- Cr Sublease income

Revenue recognition – technical points to consider

Revenue recognition – 5 step model

Step 1

- Identify the contract

Step 2

- **Performance obligations – distinct goods and services**

Step 3

- Determine the transaction price

Step 4

- Allocate the transaction price

Step 5

- Recognise revenue as promises satisfied – **point in time/over time**

Revenue recognition

When is a good or service distinct?

When both the following criteria are met:

(a) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer

and

(b) the entity's promise to transfer the good or service is separate from other promises in the contract.

The assessment is not always straightforward

Example

Example – Identifying performance obligations in a contract

Johnston Ltd is a bookkeeping software developer. It enters into a three-year contract with its customer to provide a licence to access the bookkeeping software. The contract stipulates that Johnston will provide periodic software updates and technical support throughout the duration of the contract.

The bookkeeping software is delivered electronically prior to installation, updates and technical support and is functional without the updates and/or technical support. This means the customer benefits from each good or service individually. Johnston has also determined that the licence, installation, updates and technical support are all separately identifiable. Hence, in this scenario there are four performance obligations in the one contract:

- The licence to supply bookkeeping software
- The installation
- Updates to the software
- Technical support

Revenue recognition

When is a good or service distinct?

When both the following criteria are met:

(a) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer

and

(b) the entity's promise to transfer the good or service is separate from other promises in the contract.

Nature of promise

Important issues

If the customer is buying several, separate things, they are separately identifiable.

If the customer is buying one combined solution or output, they are not separately identifiable.

Three key issues

One or more might be present:

- Significant integration: You are integrating many items into one output.
- Significant modification: One item significantly modifies another.
- High interdependence: The items are so dependent on each other that one is not useful without the other in the context of the contract.

Example

Example (Part 1): Significant integration

Lawless Ltd contracts with A Ltd to fit out their new offices, providing:

- Flooring
- Lighting
- Partitions
- Electrical work
- Project management

The contract stipulates that the customer wants a completed office, not five separate items.

Conclusion: not separately identifiable → one performance obligation.

Example

Example (Part 2): Significant integration

Lawless Ltd also contracts with A Ltd to supply the following pieces of office furniture:

- 20 desks
- 20 chairs
- Delivery

These are usually separately identifiable because there is no significant integration into a combined output.

Question?

Question

A vendor contracts with its customer for software products and an installation service. The software is to be substantially customised, as part of the installation, in order to add significant new functionality to enable the software to interface with other software already being used by the customer. The customised installation service can be provided by a number of unrelated vendors.

Is the software and installation service distinct?

Three key issues

One or more might be present:

- Integration
- Modification
- Dependence

Example

Example
Richter Ltd supplies specialised machinery with unique software control. The machine has little functionality without the software and the software is designed only for that machine. The performance obligations are not separately identifiable.

Warranties

Step 1

- Identify the contract

Step 2

- Performance obligations – **distinct goods and services**

Step 3

- Determine the transaction price

Step 4

- Allocate the transaction price

Step 5

- Recognise revenue as promises satisfied **– point in time/over time**

Revenue recognition

Warranties

An entity shall account for the warranty in accordance with Section 21 *Provisions and Contingencies* unless the warranty, or part of the warranty, provides the customer with an additional service. An additional service is a service in addition to the assurance that the product complies with agreed-upon specifications. In assessing whether a warranty provides the customer with an additional service, an entity shall consider:

Revenue recognition

Warranties

(a) Whether the warranty can be purchased separately – if the entity provides the customer with the option to purchase a warranty separately, the warranty provides the customer with an additional service.

(b) Whether the warranty is required by law – if the entity is required by law to provide a warranty, the warranty does not provide the customer with an additional service.

(c) The length of the warranty coverage – the longer the coverage period, the more likely it is that the warranty provides the customer with an additional service.

(d) The nature of the tasks that the entity promises to perform – if it is necessary for an entity to perform specified tasks to provide the assurance that a product complies with agreed-upon specifications (eg a return shipping service for a defective product), then those tasks are unlikely to provide the customer with an additional service.

Example

Example – Manufacturer of luxury vehicles

Luxury Limousines Ltd manufactures two types of limousine:

- Standard Deluxe
- Prestigious Deluxe

The company provides a three-year warranty on its Standard Deluxe vehicles and a five-year warranty on its Prestigious Deluxe vehicles.

Revenue recognition

Vouchers

Where a supplier provides customers with vouchers, coupons, loyalty points, or similar rights that can be used for future purchases, the key question is whether the voucher gives the customer **a material right** (ie, a meaningful discount or free item they would not otherwise receive).

Example

Example – Vouchers provided for future use

Naveratte Ltd operates a pizza restaurant chain. The company carries out a promotional campaign giving customers a voucher entitling them to 50% discount off their next purchase (valid until 30 June 2027) if they spend more than £50 in a single transaction during December 2026.

The following information is relevant:

- 10,000 vouchers are issued based on an average spend of £60
- 25% of the vouchers are expected to be used in 2027
- The average predicted spend in 2027 when the voucher is used is £80

Example

The stand-alone predicted value of the voucher is £80. The discount is 50% and 25% of the vouchers are expected to be used in 2027. Hence:

£80 x 50% x 25% = £10.

The cost of the meal (£60) and the voucher (£10) are pro-rata'd. £8.57 is attributed to the voucher and £51.43 is attributed to the meal:

	£
Dr Cash	60.00
Cr Revenue	(51.43)
Cr Deferred income	(8.57)

Revenue recognition

Royalty income

An entity shall not apply paragraphs 23.44 to 23.47 to a sales-based or usage-based royalty provided in exchange for a licence of intellectual property when the licence of intellectual property is the sole or predominant item to which the royalty relates. Instead, an entity shall recognise revenue for such royalties when (or as) the later of the following events occurs:

(a) the subsequent sale or usage takes place; and

(b) the performance obligation to which some or all of the sales-based or usage-based royalty has been allocated has been satisfied (or partially satisfied).

Example

Question

Curry Ltd agrees to allow Barker Ltd to use its branding in its coffee shops in return for 10% of sales, for the next 5 years. Barker Ltd forecasts sales of £10m over that period.

How should the transaction price be determined?

Leasing - Restoration and dilapidation provisions

Restoration and dilapidation provisions

Key issues

- These are accounted for as PROVISIONS! – The Periodic Review of FRS 102 does not change this
- Restoration provisions are capitalised as part of the right of use asset, when they are incurred at the commencement date and subsequently

Restoration and dilapidation provisions

Example – Property alterations

Williamson Ltd took out a 25-year lease on a property on 1 January 2027. The terms of the lease require all damage caused to the property to be rectified. Williamson Ltd made alterations to the property during the first year of the lease which cost £180,000. The best estimate of the cost to reinstate the property to its original condition at the end of the lease is £120,000.

How should the financial statements for the year ended 31 December 2027 reflect these matters?

- Your future, our focus.

FOR GENERAL INFORMATION ONLY

Please note that this presentation is not intended to give specific technical advice. It is designed to highlight some of the key issues rather than provide an exhaustive explanation of the topics. Professional advice should always be sought before action is either taken or refrained from as a result of information contained herein.

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