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FRS 102: What you need to know now

A practical guide for businesses preparing accounts under UK GAAP

If your business prepares accounts under UK GAAP, FRS 102 has already changed and further reforms are on the way.

The implementation period for the most significant round of changes began on 1 January 2026.

That means the new rules on revenue recognition and lease accounting are now in force for accounting periods starting on or after that date.

If you haven't already begun preparing, the time to act is now.

A further set of amendments, focused on financial statement presentation, has since been announced by the Financial Reporting Council (FRC) and takes effect from 1 January 2027.

To help you stay on top of these changes, we've broken down every key reform in plain English to give you an idea of the practical implications for your business.

If you want to talk through what these changes mean for your business specifically, our expert team is here to help.

Contact us for tailored support and guidance.

Changes now in force

For accounting periods beginning on or after 1 January 2026, the following new rules apply under FRS 102.

Revenue recognition: a new five-step model

The old approach to recognising revenue, based on the transfer of risks and rewards, has been replaced.

Section 23 of FRS 102 has been comprehensively rewritten, adopting a five-step control-based model drawn from IFRS 15.

Revenue is now recognised when control of goods or services passes to the customer, not simply when risks and rewards transfer.

Under the new model, you must:

- Identify the contract with the customer
- Pinpoint the performance obligations within it
- Determine the transaction price
- Allocate the price to each obligation
- Recognise revenue as each obligation is fulfilled

If your business has complex contracts, staged delivery, subscription arrangements or bundled goods and services, this change is likely to affect when and how revenue appears in your accounts.

Customer contracts should already be under review now to account for these changes. If this hasn't been completed yet, then it is important that you do so at the earliest opportunity.

Lease accounting: almost everything goes on the balance sheet

Section 20 has been rewritten along the lines of IFRS 16, introducing a single model for lease accounting.

Most leases, including those that were previously classified as operating leases and kept off the balance sheet, must now be recognised as a right-of-use asset with corresponding lease liabilities.

Instead of a single lease expense running through the profit and loss account, businesses will now record:

- Depreciation of the right-of-use asset
- Interest on each lease liability

This means increased reported assets and liabilities, changes to EBITDA and potential implications for gearing ratios and borrowing covenants.

If you lease property, vehicles or equipment, this change to the accounting standards affects you and needs to be understood and addressed.

You should now review your full lease portfolio and identify all agreements that fall within the new rules, calculate right-of-use assets and lease liabilities and assess the impact on your reported position and any covenant obligations.

Fair value and conceptual framework

Sections 2 and 2A have also been updated to reflect the IFRS 2018 Conceptual Framework.

These updates provide clearer, more consistent guidance on fair value measurement and have been consolidated into a new dedicated section.

If your business uses fair value for investment properties, financial instruments or assets acquired in business combinations, this provides more structure and clarity.

It also means greater alignment with IFRS, which matters if you have group reporting obligations or international stakeholders.

Supplier finance disclosures

If your business uses supplier finance arrangements such as reverse factoring, additional disclosure requirements have been in place since 1 January 2025.

You are required to disclose the nature, terms and liquidity risks of these arrangements in the notes to your accounts.

If you haven't already addressed this, it should be treated as an immediate priority.

Company size thresholds

Updated financial thresholds that determine whether a business is classified as micro, small, medium or large have already taken effect from 1 January 2024 in Ireland and 6 April 2025 in the UK.

These form part of the wider update within FRS 102, even thought they will have affected accounting periods prior to the rollout of the new accounting standards.

Your business may have moved category and your filing obligations, audit requirements and the format of your accounts may have changed as a result.

You should be aware of this already, but it doesn't hurt to check your current classification if you have not already done so.

Further changes ahead: 1 January 2027

The FRC has announced a further round of amendments to FRS 102 and FRS 105, focused on how businesses present their financial statements. These changes take effect for accounting periods beginning 1 January 2027.

The updates follow the introduction of IFRS 18, which replaces IAS 1 as the international standard on the presentation of financial statements.

The FRC's amendments bring UK GAAP into closer alignment with international standards, though after consultation the FRC stopped short of adopting the full IFRS 18 model.

What the 2027 amendments involve

The changes apply to entities using updated Companies Act formats and include:

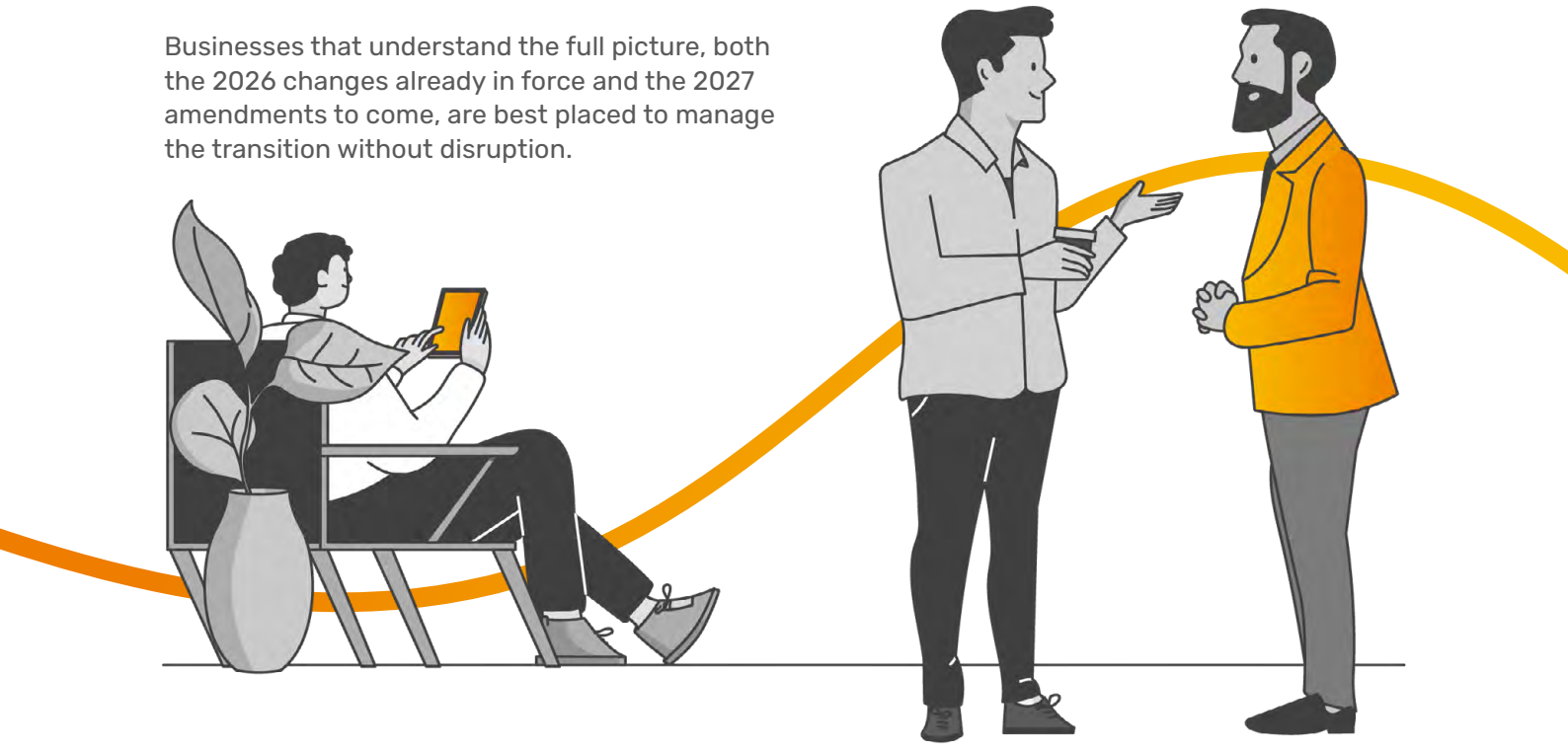
- Revised presentation requirements for businesses applying adapted balance sheet and profit and loss formats
- Presentation requirements being moved into new appendices within Sections 4 and 5 of FRS 102
- Updated definitions of current assets, non-current assets and current liabilities, together with additional application guidance

While these changes are less operationally disruptive than the 2026 reforms, they do require businesses to review how their financial statements are structured and presented.

Businesses using adapted formats under company law should start familiarising themselves with the new requirements now.

The window before the 2027 changes take effect is an opportunity to plan ahead.

Businesses that understand the full picture, both the 2026 changes already in force and the 2027 amendments to come, are best placed to manage the transition without disruption.



What to do now

With the 2026 changes already in force and 2027 on the horizon, here is a practical checklist:

- Review customer contracts against the new five-step revenue recognition model
- Identify and calculate right-of-use assets and lease liabilities for your full lease portfolio
- Assess the impact of balance sheet changes on gearing ratios, EBITDA and any loan covenant obligations
- Confirm that supplier finance disclosures are already in place in your notes to the accounts
- Check your company size classification following the updated thresholds
- Begin reviewing your financial statement presentation formats ahead of the 2027 amendments

Keeping on top of these changes takes time and expertise. Our team is here to take the technical complexity off your plate so you can focus on running your business.

Get in touch today to find out exactly how the FRS 102 changes affect your business and what you need to do next.

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