



Technical Alert

FRS 102 periodic review amendments



Overview

Introduction

In 2024, the FRC published amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs (the periodic review). This introduced changes to FRSs, notably with significant changes to FRS 102, including key changes to Section 1A Small entities. In some cases, similar changes are made to FRS 105.

This publication provides a summary of key amendments arising from the periodic review. It does not contain an exhaustive list of all amendments.

Effective date

The disclosure changes to Section 7 Statement of cash flows in respect of supplier finance arrangements are effective for periods beginning on or after 1 January 2025. Earlier application is permitted. The remainder of the periodic review amendments are effective for periods beginning on or after 1 January 2026. Earlier application is permitted, provided that all remaining amendments are applied together. If an earlier application date is adopted, this fact must be disclosed. Most periodic review requirements are applied retrospectively, however there are several exceptions which are detailed in the sections below.

The amendments are categorised as follows:

New or significantly revised requirements (Section 1)

- Section 20 Leases
- Section 23 Revenue from contracts with customers

Incremental clarifications or changes (Section 2)

- Section 1A Small entities
- Section 2 Concepts and pervasive principles
- Section 2A Fair value measurement
- Section 7 Statement of cash flows – Supplier finance arrangements
- Section 26 Share-based payment
- Section 29 Income tax
- Section 34 Specialised activities

Other amendments (Section 3)

1. New or significantly revised requirements

1.1 Section 20 Leases

The amendments to Section 20 Leases remove the distinction between finance and operating leases for lessees and introduces a single model based on IFRS 16 Leases, with simplifications. This model requires lessees to recognise all leases on balance sheet, except for short-term leases with a lease term of less than 12 months and leases of low value assets. There is no numerical threshold for identifying low value assets. The amendments include examples of assets that would not be considered low value assets, such as cars, vans, lorries and land and buildings. Lessor accounting remains largely unaffected, as there is still a distinction between operating and finance leases. The new requirements for lessees are summarised below.

a) Identifying a lease

The amendments provide a revised approach to identifying a lease. At the inception date, the contract should be assessed for whether it contains a lease. A lease exists where the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. The right to control the use is evidenced when, throughout some or all the contract life, the customer can direct the right to use the identified asset and has the right to obtain substantially all economic benefits from that use.

b) Initial recognition and measurement

At the commencement of the lease, the following is recognised on balance sheet in the lessee's accounting records:

- A right-of-use asset (ROU asset), which represents the lessee's right to the use the leased asset
- A lease liability, which reflects the obligation to make lease payments

The ROU asset is initially measured at cost which is based on:

- The initial lease liability measurement
- Initial payments made before or at commencement of the lease, less lease incentives
- Initial direct costs incurred by the lessee
- Costs to dismantle, remove or restore the leased asset per Section 21 Provisions and contingencies

The lease liability is measured at the present value of the lease payments, discounted at the interest rate implicit in the lease, or if not readily determinable, the lessee's incremental or obtainable borrowing rate.

c) Subsequent measurement

The ROU asset is subsequently measured at cost, less accumulated depreciation and impairment losses, adjusted for lease liability remeasurements (except leased investment property and leased property, plant and equipment held at fair value). The lease liability is adjusted for the following:

- Interest (generally using the borrowing rate determined at initial recognition)
- Lease payments made
- Remeasurements arising from lease modifications, reassessments and revised in-substance fixed lease payments (i.e. payments that may contain variability but are in substance unavoidable)

d) Initial application of the periodic review

Comparatives are not restated on initial application. Instead, any cumulative effect of applying the amendments is recorded as an adjustment to opening retained earnings on the balance sheet.

Several practical expedients are available. A key practical expedient permits an entity to use the carrying amounts of ROU assets and lease liabilities previously calculated under IFRS 16 leases for group reporting purposes or in their own accounts. These amounts can be used as the opening balances at the date of initial application of the amendments or at the date of transition to FRS 102, where applicable.



S&W Observations

The recognition of a ROU asset and lease liability may result in significant changes to balance sheet and statement of profit or loss financial metrics. For example, an increase in liabilities recognised on the balance sheet may impact financial metrics such as gearing or may impact debt covenants. Consequently, metrics such as EBITDA would also increase, as interest and depreciation are adjusted for.

1.2 Section 23 Revenue from Contracts with Customers

The amendments to Section 23 Revenue from contracts with customers introduce a new five-step revenue recognition model that is based on IFRS 15 Revenue from contracts with customers (with some simplifications). Revenue recognised under the previous Section 23 Revenue was based on a risks and rewards model for sale of goods and a stage of completion model for services and construction contracts. The revised Section 23 is based on a single control model, where the transfer of risks and rewards is one indicator for determining the transfer of control. The new model provides a more detailed framework and prescriptive guidance than the previous Section 23, which may mean changes to the timing and profile of revenue recognition. In addition to the five-step model, the revised standard introduces new disclosure requirements.

The five-step model is summarised below, along with guidance regarding the initial application of the periodic review amendments.

a) The five-step model



b) Initial application of the periodic review

An entity has an accounting policy choice to apply either the modified retrospective approach or full retrospective approach on initial application of the revised Section 23. The full retrospective approach requires restatement of comparatives, with certain simplifications and optional expedients available.

The modified retrospective approach entails an adjustment to the opening balance of retained earnings for open contracts at the date of initial application, without the need to restate comparative information. Other practical expedients, such as those relating to contracts which are completed by the end of the reporting period, are available under this approach.



S&W observations

The previous Section 23 provided limited guidance on how and when to recognise revenue, and consequently, there was diversity in practice. The new requirements will likely not result in a change in aggregate revenue recognition over the life of the contract. However, entities need to assess the five-step model carefully as the timing or measurement of revenue recognition in a reporting period during the contract may change. Additionally, new or revised data may be required to identify separate performance obligations and allocate the transaction price to these, as well as to meet the revised disclosure requirements. Where new or revised data is required, this may also require updates to existing accounting and other systems.

Incremental
clarifications
or changes



2. Incremental clarifications or changes

2.1 Section 1A Small entities

Entities applying the small companies regime are entitled to apply Section 1A of FRS 102 which includes different presentation and disclosure requirements. The periodic review amendments set out in this publication (unless specifically excluded in Section 1A) apply for such entities.

Specific application for UK entities

True and fair view

Financial statements prepared in accordance with Section 1A are required to provide sufficient disclosures to give a true and fair view. The previous standard required judgement in considering which non-mandated disclosures were necessary to provide a true and fair view. Whilst judgement is still required, the periodic review amendments specify additional minimum disclosure requirements for UK entities to give a true and fair view. Materiality is still relevant in deciding whether disclosures are required, other than where the Companies Act 2006 mandates disclosure regardless of materiality. These disclosure requirements are detailed in Appendix C to FRS 102 Section 1A and the previous Appendix E has been amended to only apply to entities in the Republic of Ireland.

Going concern

The presumption that a small entity is a going concern, unless disclosed otherwise has been removed. Mandatory further disclosures related to going concern have been introduced as follows:

- Disclosure of the fact that the entity's financial statements have been prepared on a going concern basis (where applicable), together with a confirmation that management has considered all available information about the future when making this assessment
- Disclosure of any significant judgements made in assessing the entity's ability to continue as a going concern

The following key amendments are also relevant for all Section 1A reporters in the UK.



S&W observations

Whilst the minimum specific disclosure requirements set out in Appendix C (and Appendix E for small entities in Republic of Ireland) have increased, these should not be treated as a checklist. It is still necessary to consider whether the financial statements contain all disclosures necessary to give a true view. Where applicable, this assessment may require disclosures beyond the minimum requirements.

Area	Key amendment
Related party transactions	<p>The scope of related party transactions disclosures is increased, where paragraphs 33.9 and 33.14 (subject to the provisions of paragraph 33.1A and 33.11) apply.</p> <p>The requirements of paragraphs 33.9 include disclosures related to:</p> <ul style="list-style-type: none"> - The nature of the related party relationship - Information about the amount of the transactions and outstanding balances and commitments - Terms and conditions and details of any guarantees given or received - Provisions for any uncollected receivables, and expenses related to bad or doubtful debts due from related parties <p>Paragraph 33.14 permits an entity to disclose items of a similar nature in aggregate except where separate disclosure is required to understand the effects of the related party transactions. The previous exemption from disclosing related party transactions under normal market conditions is removed leaving just an exemption for transactions with wholly owned group companies.</p>
Leases	<p>Increased disclosure requirements for lessees with significant leasing arrangements is required, including the following:</p> <ul style="list-style-type: none"> - Information about restrictions or covenants imposed by lessors - The type of discount rate - Sale and leaseback transactions - Right-of-use assets <p>Short-term leases and low-value leases not accounted for on balance sheet, along with the associated expense and commitments must also be disclosed.</p>
Revenue	<p>Additional disclosures arising from the revised Section 23 are required, including:</p> <ul style="list-style-type: none"> - The nature of promised goods or services, highlighting where the entity is acting as an agent - When the entity satisfies performance obligations - Significant payment terms
Share-based payments	<p>New requirements include disclosures of the following:</p> <ul style="list-style-type: none"> - Nature and extent of the share-based payment scheme, such as description of each type of share-based payment arrangement, and its general terms and conditions - The number and weighted average exercise prices of the share options outstanding at the beginning and end of the period, and those exercisable at the end of the reporting period - The effect of the share-based payment transaction on the entity's profit or loss
Provisions and contingencies	<p>Additional disclosures as set out in Section 21 Provisions and contingencies are required the same as for non-small entities. For each class of provision, disclosures include a reconciliation of provisions, a description of the obligation, uncertainties about outflows and any expected reimbursements.</p>
Current and deferred tax	<p>Certain disclosures of Section 29 Income tax apply to small entities, namely paragraphs 29.26, 29.27 (b) and (e). These requirements include:</p> <ul style="list-style-type: none"> - Separate disclosure of the major components of the tax expense - A reconciliation of the tax expense included in profit or loss; and profit or loss on ordinary activities before tax multiplied by the applicable tax rate - The amount of deferred tax liabilities and deferred tax assets at the end of the reporting period for each type of timing difference and unused tax losses and tax credits

2.2 Section 2 Concepts and pervasive principles

The periodic review amendments align with the Conceptual Framework for Financial Reporting (as issued by the International Accounting Standards Board - the IASB) and help entities to develop accounting policies for transactions, other events or conditions that are not specifically addressed by FRS 102.

The key changes include:

- Update to the definition to include the concept that information is material if obscuring it could influence users' decisions based on the financial statements
- Amended definitions of assets and liabilities shift the focus onto rights or obligations rather than the flow of expected economic benefit. The definition of an asset now emphasises control and includes guidance to determine control. Pre-existing definitions for some sections of FRS 102 are retained

2.3 Section 2A Fair value measurement

The periodic review amendments introduce an updated definition of fair value and additional guidance related to measuring fair value. For liabilities, the amended measurement basis uses the price to transfer a liability, rather than the amount to settle it. Additionally, the fair value must reflect non-performance risk, such as the risk that the entity will not fulfil its obligation (i.e. an adjustment for the entity's own credit risk). The previous definition of fair value has been retained in Section 26 Share-based payment and Section 20 Leases. For non-financial assets, the fair value considers the highest and best use of the asset, with the amendments providing additional guidance to make this assessment.

Initial application of the periodic review

Transitional provisions require existing FRS 102 reporters to apply Section 2A Fair value measurement prospectively from the date of initial application. There are no transitional provisions for first-time adopters of FRS 102.



2.4 Section 7 Statement of cash flows – Supplier finance arrangements

Supplier finance arrangements, often referred to as reverse factoring, supply chain finance or payables finance, involve finance providers paying amounts owed by an entity to its suppliers. The entity then settles these amounts with finance providers, normally at a later date, resulting in extended payment terms. Arrangements that are solely credit enhancements (e.g. financial guarantee contracts) or instruments used to settle directly with the supplier (e.g. credit cards) are not supplier finance arrangements.

The amendments add new disclosure requirements for entities with these arrangements.

a) Overview of disclosure requirements

An entity shall disclose the following in aggregate for its supplier finance arrangements:

- Key terms and conditions of the arrangement (e.g. extended payments terms, interest charges, and security or guarantees provided). Arrangements with dissimilar key terms and conditions need to be disclosed separately
- The balances related to supplier finance arrangements included in the statement of financial position and notes
- The range of payment due dates (e.g. 30-40 days after the invoice date) for payables subject to the supplier finance arrangements and those that not subject to such arrangements
- Further explanations when the ranges of payment due dates are wide
- The type and effect of non-cash changes in the carrying amounts of the financial liabilities that are part of the arrangement

b) Initial application of the periodic review

Whilst these amendments were published as part of the periodic review, they are effective for periods beginning on or after 1 January 2025, with earlier application permitted.

Full retrospective application is required for the balances related to supplier finance arrangements, whilst comparative information for the other requirements listed above are not required on initial application.

2.5 Section 26 Share-based payment

The periodic review provides clarifications and additional guidance in several areas.

a) Scope clarifications

- The scope of this section clarifies that equity instruments issued in a business combination in exchange for control of an acquiree is not within the scope of Section 26
- Equity instruments granted to employees in return for continued service of the acquiree are within the scope of Section 26

b) Clarifications related to equity and cash settled share-based payments

- New guidance aligns with the requirements of IFRS 2 Share-based payment
- The previous FRS 102 definition (see section 2.3 above) of fair value applies to transactions within Section 26
- These provide clarifications on the treatment of equity settled share-based payments settled in cash (or other assets) instead of equity instruments, and the measurement of cash-settled share-based payments
- Additional clarification is also provided where the counterparty has a choice of settlement in cash (or other assets) or equity





2.6 Section 29 Income tax

Section 29 includes more specific guidance on how to account for uncertainty over whether the applicable tax authority will accept a tax treatment under tax law.

a) Overview

The periodic review amendments require the entity to assess whether it is probable or not that the tax authority will accept the uncertain tax treatment. This assessment assumes that the tax authority has all available information. If it is probable that tax authority will accept the uncertain treatment, the financial statements should reflect consistent information as shown in the entity's tax filings. If it is uncertain whether the tax authority will accept the uncertain treatment, financial statements should reflect an estimate based on the most likely amount or expected value method.

b) Initial application of the periodic review

The amendments can be applied retrospectively, provided the entity does not use hindsight. An entity may, alternatively, apply a modified retrospective approach where the cumulative effect is recognised at the beginning of the reporting period where the amendments are first applied.

2.7 Section 34 Specialised activities

Clarifications have been made to this section, along with various amendments to reflect changes to other sections of FRS 102 as part of the periodic review.

a) Agricultural activities

The key amendments include:

- Clarification that agricultural produce is not distinguished from its biological asset prior to harvest. Post harvest, the asset is accounted for under Section 13 Inventories (or other relevant FRS 102 section)
- Additional guidance regarding the elements of cost when measuring the cost of biological assets

b) Heritage assets

The periodic review includes additional guidance on the identification, measurement and disclosures of heritage assets. The revisions also positively encourage disclosures under Section 34 for assets that have characteristics of heritage assets, even if they accounted for under other sections of FRS 102.

c) Service concession arrangements

Clarity on accounting for service concession arrangements includes:

- For operators, revenue from services (including construction, upgrades and operations) must be recognised and measured using the five-step revenue recognition model per Section 23 (see section 1.2 above). The subsequent accounting treatment depends on the nature of the consideration
- For grantors, their interest in the infrastructure is recognised as property, plant and equipment, with a corresponding lease liability (see section 1.1. above) per Section 20

Other
amendments

3. Other amendments

The table below provides a summary of other amendments. These are all effective for periods beginning on or after 1 January 2026, with earlier application permitted if all amendments are applied together.

Section	Summary of amendments
Section 1 Scope	Section 1 details the scope of FRS 102 and the effective dates for the amendments along with the transitional arrangements. The key implementation dates guidance is included in sections 1 and 2 above.
Section 3 Financial statement presentation	There is a new requirement to disclose that the financial statements have been prepared on a going concern basis, along with a confirmation that management have considered all available information about the future in assessing whether the going concern assumptions is appropriate. Additionally, any significant judgements made related to the going concern assessment must be disclosed.
Section 4 Statement of financial position	Where the adapted formats are used, minor wording amendments are made: <ul style="list-style-type: none"> - Accrued income instead of receivables arising from accrued income not yet billed - With reference to disposal groups, the carrying amount of assets and liabilities within the disposal group instead of underlying assets and liabilities
Section 6 Statement of changes in equity and statement of retained earnings	Where an entity has multiple share classes, dividends must be disclosed separately for each class of share and in total.
Section 8 Notes to the financial statements	An incremental change requires companies to disclose material, rather than significant accounting policies. Accounting policy information is material if, when considered together with other information included in the financial statements, it can reasonably be expected to influence decisions made by users on the basis of the financial statements. This change focusses on removing boiler-plate accounting policy information.
Section 9 Consolidated and separate financial statements	Guidance related to a reduction in an interest in a subsidiary, without the loss of control, is included in this section (previously this was included in Section 22). The guidance clarifies that when a parent changes its interest in a subsidiary, without the loss of control, this is treated as a transaction between the parent and the non-controlling interest and is recorded in equity. The difference between the fair value of the consideration exchanged and change in interest in the subsidiary's net assets is recognised in equity attributable to the parent. No gain or loss is recognised, nor any change to goodwill.
Section 10 Accounting policies, estimates and errors	Additional guidance is provided on accounting estimates, with clarifications to distinguish an accounting estimate from a change in accounting policy
Section 11 Basic financial instruments and Section 12 Other financial instruments	The option to elect IAS 39 for the first time is prohibited, unless it aligns the entity's accounting policies with those of consolidated accounts that the entity is included in.

Section	Summary of amendments
Section 13 Inventories	The scope exclusion for work in progress arising from construction contracts is removed following the amendments to Section 23. The presentation and disclosure requirements of Section 13 apply to refund assets representing expected product returns. Depreciation and maintenance of right-of-use assets are included as examples of fixed production overheads.
Section 14 Investments in associates	Additional guidance on determining significant influence is included. Financial instruments, such as long-term loans, which are considered part of a net investment in an associate must be considered when recognising losses that exceed the investment.
Section 16 Investment property	The amendments clarify that judgement is necessary to assess whether the acquisition of an investment property constitutes the acquisition of an asset, group of assets or a business combination (per Section 19). Additionally, where a lessee measures a ROU asset under the fair value model, new guidance clarifies that the ROU asset is measured at fair value, rather than the underlying property.
Section 17 Property, plant and equipment	The amendments clarify that judgement is necessary to determine whether acquiring property, plant and equipment constitutes the acquisition an asset, a group of assets or a business combination (per Section 19). Additional guidance includes expected future reductions in the selling price of an item as a potential indicator of obsolescence. The disposal date of an asset is clarified to be the date that control is transferred to the recipient, based on the guidance per Section 23 of when a performance obligation is satisfied.
Section 18 Intangible assets and goodwill	Similar amendments to those in Section 16 and 17 are included in applying judgement to determine whether the acquisition of an intangible asset constitutes an acquisition of an asset, group of assets or business combination.
Section 19 Business combinations and goodwill	<p>Scope clarifications exclude the formation of a joint venture in the financial statements of the joint venture itself. The scope clarifications also exclude the acquisition of an asset or group of assets that do not constitute a business.</p> <p>Additional guidance provides clarifications on:</p> <ul style="list-style-type: none"> - Whether contingent payments to selling shareholders should be evaluated as compensation for future services or as part of the business combination - How to identify the acquirer in a business combination. This information is detailed in a new appendix to Section 19 - The recognition of liabilities, contingent liabilities and intangible assets acquired in a business combination - Accounting treatment where the acquirer is the lessee (as a consequence of the updates to Section 20) <p>Updated disclosure requirements are also included.</p>
Section 21 Provisions and contingencies	<p>The definition of a liability for the purpose of this section remains unchanged. Whilst this definition is different to the definition of a liability per the glossary to FRS 102, it is not expected to have a substantive effect.</p> <p>The appendix examples include clarifications related to the cost of fulfilling a contract; namely that such costs include both the incremental costs directly related to that contract and a share of other costs that are directly tied to fulfilling the contract. Other minor amendments to examples 4 and 5 are also made.</p>
Section 22 Liabilities and equity	Similar to Section 21, the definition of a liability for the purpose of this section remains unchanged. Whilst this definition is different to the definition of a liability per the Glossary to FRS 102, it is not expected to have a substantive effect.

Section	Summary of amendments
Section 24 Government grants	<p>The scope clarifies that government assistance is in the form of reliefs and deductions, rather than benefits.</p> <p>Under the performance model, grants received before satisfying the performance related condition is recognised as a liability. The requirements under the accrual model clarify that a grant, or part of a grant, is relevant when applying this model. Additionally, grants relating to ROU assets must be recognised on a systematic basis over the expected life of the asset.</p>
Section 25 Borrowing costs	<p>The recognition requirements have been updated to clarify that borrowing specifically for the purpose of obtaining other qualifying assets (as defined in the FRS 102 glossary) are included in general borrowings only once substantially all the activities necessary to prepare that other asset for its intended use or sale are complete.</p>
Section 27 Impairment of assets	<p>Minor amendments are made to align with other section changes, notably Section 23, Section 2A and Section 20.</p>
Section 28 Employee benefits	<p>When measuring the net defined benefit liability, the revisions clarify that management costs are deducted from the return on plan assets. Additional disclosures are included for defined benefit pension plans.</p>
Section 33 Related party disclosures	<p>Updates to the scope requirements clarify that disclosures required per paragraph 33.9 (see section 2.1) are not required between two or more members of the same group, provided that any subsidiary which is party to the transaction is wholly owned. The disclosure requirements include disclosures about commitments. The exemptions from applying paragraph 33.9 are updated to refer to related party transactions, outstanding balances and commitments with a government rather than a state.</p>
Section 35 Transition to this FRS	<p>Several amendments for first-time adopters of FRS 102 include changes related to:</p> <ul style="list-style-type: none"> - Transitional provisions for the accounting requirements of Sections 20 and 23 accounting requirements - Accounting policies for borrowing costs, development costs, and financial instruments - Measurement of goodwill - Decommissioning liabilities included in the cost of right-of-use assets - Removal of the option to use previous GAAP accounting policies for service concession arrangements



S&W observations

The periodic review is the biggest change since the implementation of FRS 102 and the initial application requires detailed consideration, along with potential changes in systems, chart of accounts and controls. Two of the largest differences with IFRS are now aligned and these changes will require a review of both revenue and lease contracts. The impact of the change to accounting for revenue will vary depending on the complexity of contracts with customers and the industry. The revised accounting for leases will result in a larger balance sheet and an increased EBITDA. Additionally, entities will need to carefully consider estimating an appropriate discount rate to account for the lease liability. Beyond accounting for leases and revenue, the periodic review introduces changes throughout including, increased disclosures for Section 1A Small entities preparers in the UK.

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