



# FRS102 CHANGES

14 MAY 2026



## Overview of key changes

- Revenue Recognition – 5 Step model
- Accounting for leases – Right of Use assets
- Transition
- Impact

# REVENUE RECOGNITION

Introduction to the Five step model

# Revenue Recognition

## Step 1. Identify the contract

The easiest step!

Things to consider

- Collectability threshold
- Combine contracts?

# Revenue Recognition

## Five-Step Model

Step 1. Identify the Contract

Step 2. Identify the Performance Obligations

# Revenue Recognition

## Step 2. Identify the Performance Obligations

Performance Obligations:

A promise to transfer a “distinct” good or service to a customer

May be multiple within a contract

Identification can be judgemental if only implied not specific

Consider the context rather than just the written contract

# Revenue Recognition

## Step 2. Identify the Performance Obligations - continued

Principal v agent:

Principal recognises gross revenue

Agent recognises revenue based on their fee/commission

Warranties:

Only if an additional service - beyond required by law

# Revenue Recognition

## Five-Step Model

Step 1. Identify the Contract

Step 2. Identify the Performance Obligations

Step 3. Determine the Transaction Price

# Revenue Recognition

## Step 3. Determine the Transaction Price

The total amount to be recognised as revenue

Variable consideration - review at the reporting date

Highly probable constraint

Latest estimate of the total consideration

# Revenue Recognition

## Five-Step Model

Step 1. Identify the Contract

Step 2. Identify the Performance Obligations

Step 3. Determine the Transaction Price

Step 4. Allocate the Transaction Price to the Performance Obligations

# Revenue Recognition

## Step 4. Allocate the Transaction Price to the Performance Obligations

Allocate based on stand alone selling price

If not available – calculate an estimate

- market approach
- cost plus margin
- residual approach – last resort!

# Revenue Recognition

## Five-Step Model

Step 1. Identify the Contract

Step 2. Identify the Performance Obligations

Step 3. Determine the Transaction Price

Step 4. Allocate the Transaction Price to the Performance Obligations

Step 5. Recognise Revenue when (or as) the entity satisfies a Performance Obligation

# Revenue Recognition

## **Step 5. Recognise Revenue when (or as) the entity satisfies a Performance Obligation**

Recognise the allocated revenue from Step 4 when the relevant Performance Obligation is satisfied

Point in time or period of time

Decide the approach at contract inception

# Revenue Recognition

## Step 5. Recognise Revenue when (or as) the entity satisfies a Performance Obligation - continued

Period of time

- Receives and consumes benefits as performed
- Performance enhances an asset the customer controls
- No alternative use for asset and enforceable right to work to date

Measure progress and recognise that proportion

# Revenue Recognition

## **Step 5. Recognise Revenue when (or as) the entity satisfies a Performance Obligation - continued**

Point in time - How to determine?

Indicators of transfer of control

- Right to payment
- Legal title
- Risks and rewards
- Customer has accepted the asset

# Revenue Recognition

## Five-Step Model

Step 1. Identify the Contract

Step 2. Identify the Performance Obligations

Step 3. Determine the Transaction Price

Step 4. Allocate the Transaction Price to the Performance Obligations

Step 5. Recognise Revenue when (or as) the entity satisfies a Performance Obligation

# Revenue Recognition - Example

## Summary

Company selling printers and also provides service and maintenance.

A printer sells for £25,000 with standard warranty

Extended 5 year warranty available for £3,000

Annual service £400

Combined price of £28,000 including 5 year warranty and service package

# Revenue Recognition - Example

## Step 1 - Identify the contract

- Contracts in place for sale, warranty and service.
- Might be covered by separate contracts or all in one.

# Revenue Recognition - Example

## Step 2 - Identify the performance obligations

- Selling a printer, delivered
- Providing additional warranty cover for a set period
- Performing an annual service

# Revenue Recognition - Example

## **Step 3 – Determine the transaction price to the performance obligations**

A combined offer price of £28,000.

# Revenue Recognition - Example

## Step 4 – Allocate the transaction price

- Selling a printer -  $\text{£}25,000/\text{£}30,000 \times \text{£}28,000 = \text{£}23,333$
- Additional warranty cover -  $\text{£}3,000/\text{£}30,000 \times \text{£}28,000 = \text{£}2,800$
- Annual service -  $\text{£}2,000/\text{£}30,000 \times \text{£}28,000 = \text{£}1,867$

# Revenue Recognition - Example

## Step 5 – Recognise revenue

- Printer £23,333 on delivery
- Warranty cover over time yrs 2 to 5 at £58.33pcm/£700pa = £2,800
- Annual service point in time £373.40 each service = £1,867

# ACCOUNTING FOR LEASES

# Accounting for leases

## On balance sheet recognition for operating leases

- Create a new asset category in Fixed Assets – a ‘Right of Use’ asset
- Creates a corresponding liability (current and non-current)
- Original lease cost in P&L (rent etc) removed
- Replaced with depreciation and interest charge

# Accounting for leases

## **Exemptions**

Low value assets

Short term leases < 12 months

Optional

## **Other**

Separate components of a lease

Intra-group arrangements

# Accounting for leases

## Lease term

- Non-cancellable period
- Includes extension options if lessee reasonably certain to exercise
- Includes any rent-free period
- Rolling leases

# Accounting for leases

## Measurement

- Lease payments
- Variable lease payments that depend on an index or rate use rate at commencement date
- Do not include other variable rates – say a turnover adjustment

# Accounting for leases

## Discount Rate

Set at commencement date  
Interest rate implicit in the lease or, if not known...

## Incremental

The rate of interest in order to borrow an amount to obtain an asset with similar value

## Obtainable

The rate of interest in order to borrow a similar amount over a similar term with similar security

# Accounting for leases

## Costs impact

Original lease cost is removed from the P&L

## Depreciation

Depreciate asset on a straight-line basis over period of lease

## Interest charge

Reflects declining liability over period of lease

Net impact is to increase cost in early periods and reduce in later periods

## Accounting for leases - Example

A company entered a lease for a warehouse on 1 January 2022 for ten years at £100,000 per annum paid quarterly.

It has bank loans in place at an interest rate of 4.25% above base (3.75%)

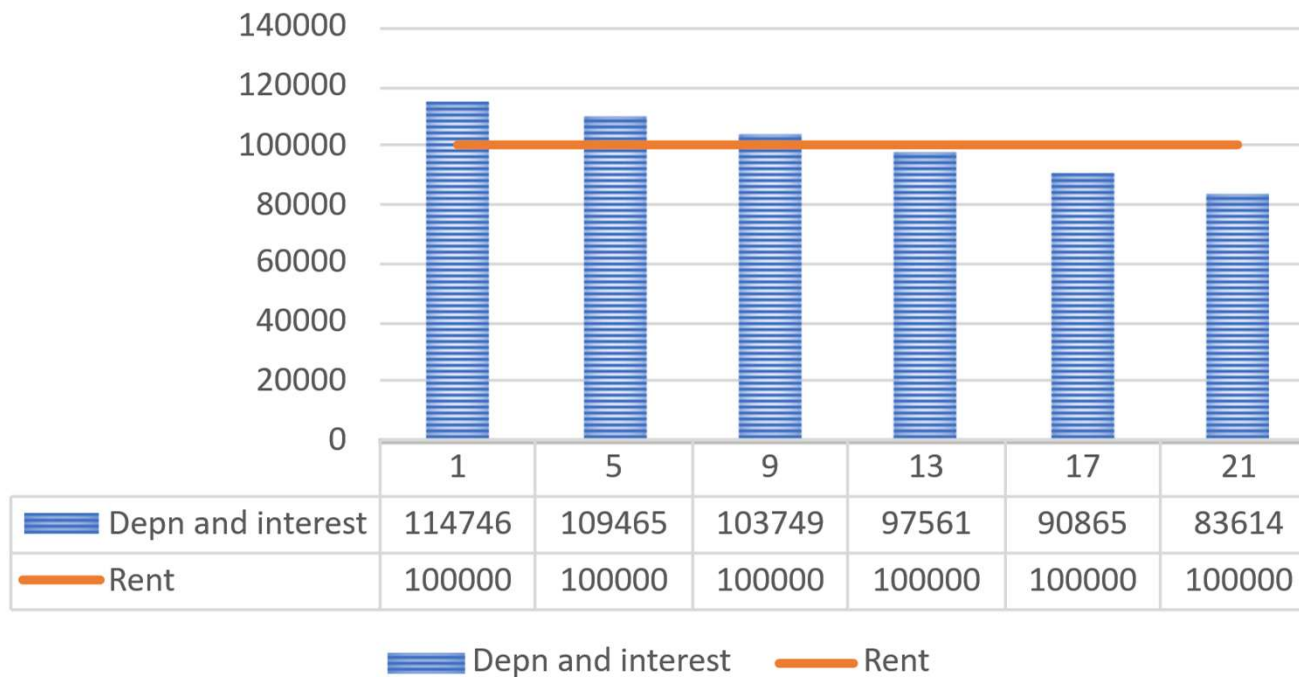
Prepares accounts to 31 December each year

## Accounting for leases - Example

- On 1 January 2026 (transition date) - six years remaining
- Discounted value of six years x £100,000 at 8% is £472,847
- Right of Use asset and creditor value at 1 Jan 2026 are both £472,847
- Depreciation in 2026 is £78,808
- Interest in 2026 is £35,938
- Increasing costs in 2026 by £14,746 – reducing taxable profit!

# Accounting for leases - Example

## PROFIT IMPACT



# Transition Impact



# TRANSITION

**Periods commencing on or after 1 January 2026**

**Revenue Recognition – Choice**

Prior year adjustment

Or just in period of transition

**Lease Accounting**

In period only

# Impacts

## Impacts

- Balance sheet
- Profit and tax
- EBITDA
- Company size thresholds – audit requirements

## Management accounts

# Disclosures



# Disclosures

## Changes to FRS 102 1A

- Related parties
- Tax charge components
- Dividends paid/declared in period
- Share based payments
- Going concern

# Any Questions?



## Queries and contact

**Get in touch with your usual Brown Butler contact or email me directly with specific queries.**

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