



In the know: FRS 102 changes

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Helping you prosper



In the know is our ongoing series designed to keep you up to speed with the latest regulatory updates, tax developments and policy changes that could impact you or your organisation. From evolving legislation to shifts in compliance requirements, we will highlight what is changing, why it matters and what action, if any, you need to take. Timely, relevant and clearly explained, these updates will ensure you stay informed and prepared.

Big changes are coming to UK Generally Accepted Accounting Practice (GAAP), and businesses need to act now to avoid being caught out. Time is on your side for now, but the window to prepare is closing.

Following the Financial Reporting Council's (FRC) periodic review, the Financial Reporting Standard 102 (FRS 102) been updated for accounting periods beginning on or after 1 January 2026. Early adoption is possible before this date, but only if all changes are taken together.

The reforms encompass several areas, including fair value and business combinations, as well as the conceptual framework and uncertain tax positions.

But the most significant changes, and those likely to have the greatest practical impact, are the move to bring most leases onto the balance sheet (as a right-of-use asset and lease liability) and the introduction of a clearer five-step model for revenue recognition, bringing GAAP closer to International Accounting Standards.

From Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) optics and bank covenants to systems, data and disclosures, these changes will reshape how results are presented and understood. In the latest edition of 'In the know', we consider what's changing, why it matters and the practical steps you should take now, as well as how UHY can support you with a seamless transition.

At a glance

What's changing?

Lease accounting

Most leases will now move onto the balance sheet, with right-of-use assets and matching liabilities recognised. The old operating vs finance lease split is removed.

Revenue recognition

A new five-step model is introduced, requiring businesses to identify performance obligations and recognise revenue at the correct time.

Fair value measurement

Updated guidance to bring valuations into line with the International Financial Reporting Standard 13 – Fair Value Measurement (IFRS 13).

Business combinations

Principles updated in line with international Financial Reporting Standard 3 Business Combinations (IFRS 3), clarifying how acquisitions are recognised and measured.

Conceptual framework

Section 2 refreshed to reflect the International Accounting Standard Board's (IASB) latest thinking on definitions, recognition and measurement.

Tax and uncertain positions

New requirements to recognise provisions where tax treatments are uncertain and challenge by HMRC is likely.

Supplier finance

Additional disclosure rules for supplier finance arrangements, effective from January 2025.

The key dates you need to know

When does it start?

The new rules apply for accounting periods beginning on or after 1 January 2026. For most businesses, that means your December 2026 year-end will be the first set of accounts prepared under the new standard.

Do you have to adopt early?

No, but if you choose to, you must adopt all the changes at once.

What about last year's numbers?

2025 comparative figures are typically not restated; changes will appear as a "step change" in 2026 with disclosures to explain the change.

Leases

For leases a modified, retrospective application is used. Comparatives are not restated, but a one-off adjustment will be made to opening reserves for any cumulative effect of initially applying the amendments.

Revenue

For revenue, there is a choice:

1. Full retrospective application – restating the comparatives and disclosing the effects of the adjustment, or
2. Modified retrospective application – comparatives are not restated, but a one-off adjustment will be made to opening reserves for any cumulative effect of initially applying the amendments.

Is there anything sooner?

Yes, new disclosure rules for supplier finance arrangements apply a year earlier, from January 2025.

While a number of areas are affected, the most significant changes, and those likely to have the greatest practical impact, are to lease accounting and revenue recognition. These will be the main areas of focus in this edition of In the know. However, if you are affected by any of the other issues mentioned above, please get in touch and we can support you.

The big shift: lease accounting

What's changing for leases?

Operating leases capitalised: The old split between operating and finance leases is removed.

On the balance sheet: Most property, vehicle and equipment leases must now be recognised as right-of-use assets with matching lease liabilities.

Profit and loss impact: Rental expenses replaced by depreciation and interest. This lifts EBITDA but increases financing costs.

More disclosure: Businesses must provide further disclosures, including maturity schedules and explanations of transition.

The first major shift to consider is leases, and the changes here are significant. Under the new rules, the long-standing distinction between operating and finance leases disappears. Instead, almost all leases, whether for property, vehicles or equipment, will need to be brought onto the balance sheet. Each arrangement will be recognised as both a right of use (RoU) asset and a corresponding lease liability.

This change has a number of knock-on effects:

1. **EBITDA will appear stronger**, as rental expenses disappear from administrative costs and are replaced by depreciation and interest.
2. **Overall profit levels may change**, and the presentation of results looks very different.
3. **Balance sheets will grow**, with higher reported assets and liabilities, and some charges will be more front-loaded.
4. **Key ratios and covenants may shift**, particularly gearing, net debt and bonus schemes linked to EBITDA. It is important to note that bank/lending covenants are impacted, which may impact borrowing facilities.

For many organisations, this will be one of the most significant accounting changes they have ever had to implement. The impact will be felt across finance teams, systems, lender relationships and even bonus schemes, so taking this seriously from day one is crucial.

There are, however, some important exemptions and judgement calls within the new rules, for example, around short-term arrangements, low-value assets, sub-leases and sale and leaseback transactions and variable payments. Getting these right is vital, as they can significantly affect the numbers you report. We can work with you to assess which exemptions apply and ensure your treatment is both compliant and efficient.

More complex arrangements, including sub-leases and sale-and-leaseback transactions, will require additional care and judgement, with the accounting treatment determined on a case-by-case basis.

For example:

A business leases office space for five years. Previously, only the annual rental expense appeared in the accounts each year. Under the new rules, the lease is recognised as a right-of-use asset and a liability, increasing both assets and liabilities on the balance sheet. The expense profile shifts to depreciation and interest, impacting EBITDA and key ratios.

Adopters of similar standards, such as the International Financial Reporting Standard 16 Leases (IFRS 16) found that data gaps and system limitations were common. Starting early allows time to address these issues and avoid last-minute disruption.

A new five-step model for revenue recognition

The second major change is to revenue recognition. Section 23 of the Financial Reporting Standard 102 (FRS 102) now introduces a structured, five-step model, closely aligned with the Revenue from Contracts with Customers (IFRS 15).

The aim is to bring greater consistency and transparency to how revenue is reported, particularly where contracts are more complex.

The five steps are as follows:

Step one	Step two	Step three	Step four	Step five
Identify the contract with a customer – there must be a clear, enforceable agreement.	Identify performance obligations – specify what goods, services or deliverables are agreed	Determine the transaction price – including fixed and variable elements.	Allocate the price to performance obligations – based on standalone selling prices.	Recognise revenue – as and when each obligation is satisfied, either over time or at a point in time.

For many businesses, such as those selling goods or providing what is considered simpler services, the end result will look similar to current practice. However, the new framework requires all businesses to formally document their assessments and judgements. This additional scrutiny will be particularly relevant where contracts include multiple elements, variable pricing or staged delivery.

While the technical detail sits within the standard, the real impact is practical: businesses will need to review existing contracts, ensure that obligations are clearly defined and update their systems and controls to capture the correct information. For some sectors, the changes could alter the timing of revenue recognition and therefore affect reported profit patterns.

For example:

A software company sells a package with installation and support. Under the new model, revenue is split between the software, installation, and support, and recognised as each service is delivered—not just when the invoice is raised. i.e. it requires revenue to be separated/recognised based on distinct performance obligations.

Adopters of similar standards (IFRS 15) noted that contracts with multiple elements or variable pricing will require careful review and documentation. Businesses should update systems and controls now to capture the right information early.



Preparing for change

Perhaps one of the biggest challenges with these changes is how they will first appear in your accounts. Comparatives for 2025 will not normally be restated, so the 'step change' will land suddenly in your 2026 accounts. RoU assets and lease liabilities will appear on the balance sheet for the first time, and revenue may be recognised and presented differently. For many businesses, this will make year-on-year comparisons difficult and could raise questions from boards, lenders and other stakeholders and extra disclosures will be required in the accounts.

From experience of IFRS 15 and IFRS 16 adoption, businesses that start early are better placed to avoid disruption and explain the impact clearly. Early preparation is therefore essential. The first step is understanding the likely impact on your balance sheet and profit profile; modelling this early will give you valuable insight and highlight any data gaps before they become a problem.

From there, businesses will need to make sure their lease and revenue data is complete and accessible, review their systems and processes, and consider how the new numbers will affect covenants, management reporting and tax.

This is where UHY can step in. We can help you run the calculations, get your data and disclosures statutory accounts-ready and guide you through the transition with minimal disruption. The sooner you start, the smoother the process will be.

The lesson from early adopters is clear: these projects take longer than expected and data is rarely as complete as hoped. Starting early, testing assumptions and embedding changes into your processes now will make for a smoother, more robust transition.

The next step

Start the conversation early

The most important first step is to speak to us at UHY. We can help you understand how the changes are likely to affect your numbers, support you with the calculations and make sure you are fully ready well before audit time.

Run an impact assessment

Once you have started the conversation, we can help you model a handful of leases and/or revenue contracts to see the scale of change and highlight any data gaps before they become a problem.

Locate and clean your data

Finally, ensuring your lease and revenue contracts are complete, signed and accessible will put you in a strong position to implement the changes smoothly and confidently.



The lesson from early adopters is clear: these projects take longer than expected and data is rarely as complete as hoped.



Tax considerations

While the FRS 102 changes are primarily accounting reforms, they will inevitably flow through into your taxable profit. In many areas, the tax treatment follows the new accounting entries, but there are several exceptions and adjustments to watch out for. An awareness and understanding of these now will help avoid surprises in your first compliance cycle.

How the FRS 102 changes affect tax in practice

Right of use (RoU) depreciation and interest

Unlike normal depreciation, which is added back for tax, the depreciation of RoU assets will generally be deductible, as will the related interest.

Dilapidations

Estimated restoration costs capitalised within the RoU asset are not immediately deductible; they can only be claimed when the spend actually occurs.

High-emission vehicles

The 15% disallowance still applies, even though rental expenses no longer appear in the accounts. Businesses will need to continue tracking lease payments.

Transitional adjustments

Most will be taxed or relieved in the year of adoption, although lease-related adjustments may need to be spread over the remaining lease term.

Uncertain tax positions

A new requirement means provisions must be recognised where HMRC challenge is probable (more than 50% likelihood).

Corporate interest restriction (CIR)

Groups caught by CIR must still distinguish between leases that would previously have been finance vs operating leases.

While the mechanics of accounting are changing, tax compliance remains closely linked, but not identical. Clear documentation, impact assessments and early conversations with tax advisers will be essential to ensure a smooth transition.

The next step

It is in your best interests to act now. Early preparation reduces the risk of last-minute disruption, compliance issues or even covenant breaches, and ensures you're fully ready for audit time. Even if you don't legally need an audit, you may still have other reporting requirements, including statutory accounts. In this case, it's better to be safe than sorry.

Why it matters

The forthcoming changes to FRS 102 are among the most significant in recent years. By bringing most leases onto the balance sheet and introducing a structured five-step model for revenue recognition, the changes will alter how financial statements look, and importantly, how they are interpreted by stakeholders.

When approached proactively, the transition is an opportunity to improve transparency, strengthen processes and give investors and boards greater confidence in reported numbers.

When it applies

The revised standard applies to accounting periods beginning on or after 1 January 2026. For many businesses with a 31 December year-end, that means the first FRS 102 (revised) accounts will be December 2026. However, a March year-end, for example, will adopt from 1 April 2026, and so on. Comparatives, for example 2025 figures in your 2026 accounts, generally will not be restated, so the change will appear as visible step change in the 2026 financial statements.

We're here for you

At UHY, we make the complex simple, and we're here to guide you through every stage of transition. Our experts can:

- Carry out lease calculations and impact modelling
- Review revenue contracts, in line with the five step model and advise on practical implications and support with new revenue calculations
- Provide tax insight on dilapidations, high-emission vehicles and transitional adjustments
- Draft compliant disclosures and communication plans

Don't wait until 2026 is upon you. By then it could be too late to avoid disruption. Speak to UHY now and let us help you get ahead, so you can approach 2026 with confidence rather than panic.

With the right preparation, and the right advisers, you can approach 2026 with clarity. If you would like tailored support or advice on any of the topics discussed within this update, contact **Priti Mistry**, our Director leading Financial Reporting Services, or your local UHY expert. We can guide you through the changes, support with calculations and disclosures, and make sure you're fully prepared well before audit time.



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