FRS 102 Factsheet 9

Initial application of the Periodic Review 2024 amendments

Financial Reporting Council

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This factsheet has been prepared by FRC staff to aid preparers in applying the *Periodic Review 2024 amendments* to FRS 102. It should not be relied upon as a definitive statement on the application of the standard nor is it a substitute for reading the detailed requirements of FRS 102.

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1. Introduction

The Periodic Review 2024 was the second periodic review of FRS 102, following the Triennial Review 2017. It concluded with the publication of *Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs – Periodic Review 2024*[1] in March 2024.

These amendments to FRS 102 are generally effective for accounting periods beginning on or after 1 January 2026, with the exception of paragraphs 7.20B and 7.20C, in relation to supplier finance arrangements, which are effective for accounting periods beginning on or after 1 January 2025. The amendments in general will need to be applied retrospectively, however there are also some exceptions to full retrospective application.

Transitional requirements are set out in Section 1 *Scope*: paragraphs 1.36 to 1.68 set out the requirements in respect of the *Periodic Review 2024 amendments*.

This factsheet illustrates how some transactions may be dealt with on initial application of the *Periodic Review 2024 Amendments*, including those being accounted for under the new Section 20 *Leases* or the new Section 23 *Revenue from Contracts with Customers*.

Separate factsheets in relation to these two sections (excluding transitional matters) are also available, which highlight the new requirements, to assist preparers and their advisors in getting ready for implementation.

Preparers will need to consider all the changes made to FRS 102 to identify which are applicable to them.

Principal changes to FRS 102

Preparers will need to familiarise themselves with the new requirements of FRS 102, and how they differ from the previous requirements, to be able to present a set of financial statements that is compliant with those new requirements, once they are effective.

The key changes to FRS 102 are:

- A new version of Section 20, in which the distinction between operating and finance leases for lessees has been removed, such that more leases will now require recognition of an asset and a liability on the balance sheet; recognition exemptions permit short-term leases and leases of low-value assets to remain off-balance sheet.
- A new version of Section 23, in which a single comprehensive five-step model for revenue recognition has been introduced for all contracts with customers, based on identifying the distinct goods or services promised to the customer and the amount of consideration to which the entity will be entitled in exchange.

[1] https://www.frc.org.uk/news-and-events/news/2024/03/frc-revises-uk-and-ireland-accounting-standards/

Alongside these are a number of incremental improvements and clarifications designed to make it easier for preparers to understand and apply the standard, including but not limited to:

- A new version of Section 2 *Concepts and Pervasive Principles*, updated to align to the latest international framework.
- A new Section 2A *Fair Value Measurement* (replacing the previous appendix *Fair value measurement* to Section 2), which differs from the previous appendix as it has been aligned to the latest international standard and provides additional guidance.
- New disclosure requirements about supplier finance arrangements added to Section 7 *Statement of Cash Flows*.
- Improvements to Section 19 *Business Combinations and Goodwill* to clarify requirements and add guidance on identifying an acquirer.
- Additional guidance to aid application of the principles in Section 26 *Share-based Payment* in certain situations.
- Additional guidance on accounting for uncertain tax positions in Section 29 *Income Tax*.
- Various improvements and clarifications to Section 34 *Specialised Activities* to clarify existing requirements and make consequential changes to reflect other amendments. These include changes made to the requirements for public benefit entities, particularly in relation to *Incoming Resources from Non-Exchange transactions*.

Date of initial application

This factsheet uses the term 'date of initial application' when discussing the transitional requirements. This is defined as the beginning of the reporting period in which an entity first applies the *Periodic Review 2024 amendments*.

Example 1

An entity with a year-end of 31 March does not choose to early-adopt the *Periodic Review 2024 amendments*. It is required by paragraph 1.37(b) to apply the amendments for its first accounting period beginning on or after 1 January 2026. The first accounting period for which it applies the amendments is therefore the period ending 31 March 2027, and 1 April 2026 is the date of initial application.

2. General requirements

	Key FRS 102 references
Effective date	
Paragraphs 7.20B and 7.20C, relating to Supplier Finance Arrangements, shall be applied for accounting periods beginning on or after 1 January 2025. All other amendments shall be applied for accounting periods beginning on or after 1 January 2026.	1.37
Early application	
Paragraphs 7.20B and 7.20C can be applied earlier than 1 January 2025. All other amendments can be applied earlier than 1 January 2026, provided that they are all applied at the same time.	1.37
Method of application	
The *Periodic Review 2024 amendments* shall be applied retrospectively in accordance with paragraph 10.12, except when a specific transitional provision allows or requires otherwise. These provisions are discussed in the subsequent sections of this factsheet.	1.39
Disclosures	
Section 10 of FRS 102 sets out disclosure requirements when there is a change in accounting policy, and these should be considered when there are changes to the requirements of FRS 102.	10.13[2] & 10.14
Section 1 also sets out specific disclosure requirements and exceptions for the changes made to FRS 102 as part of the *Periodic Review 2024 amendments*.	1.38, 1.42, 1.44, 1,45, 1.48, 1.50, 1.53, 1.62-1.66

[2] An entity may limit its disclosure under paragraph 10.13 to amendments that are effective in the current period, and exclude those that will not be effective until a future period. As a result, when an entity has not yet applied an amendment to FRS 102 because it is not yet effective, no disclosure is required.

3. Transitional provisions relating to Section 20 *Leases*

	Key FRS 102 references
General requirements	
The new Section 20 must be applied retrospectively with the cumulative effect of initially applying the new requirements recognised as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application (the modified retrospective approach). The comparative information therefore remains as previously presented, with operating leases off-balance sheet.	1.47
Lessors	
The transitional requirements for leases discussed in this factsheet principally relate to lessees. An entity makes no adjustment on initial application for leases in which it is a lessor (except that an intermediate lessor reassesses subleases that were previously classified as operating leases), and applies the revised Section 20 from the date of initial application.	1.56 to 1.57
Disclosures	
Section 10 includes certain disclosure requirements for when there is a change in accounting policy, which apply in respect of the changes made to Section 20; however, on initial application, an entity is exempt from the disclosure requirements of paragraphs 10.13(b) to 10.13(d), and shall make the alternative disclosures set out in paragraph 1.44.	1.44

## Practical expedient	
In applying the new Section 20, an entity must determine whether each of its contracts is, or contains, a lease. However, a practical expedient is available for contracts which exist at the date of initial application. If an entity applies this practical expedient, it does not reassess whether contracts that exist at the date of initial application are, or contain, leases. Instead, the new lease accounting requirements are applied to contracts that were previously identified as containing a lease, and not applied to contracts that were not previously identified as containing a lease. This practical expedient is sometimes referred to as 'grandfathering'. It must, if adopted, be applied to all contracts and the entity must disclose that it has been adopted. It is important to note that this practical expedient determines which existing contracts the new lease accounting model will apply to, and which will be accounted for under other sections of the standard. It does not allow the entity to continue to apply the old lease accounting model.	1.45
## Measurement at date of initial application	
### Leases previously classified as finance leases	
An entity shall recognise a lease liability and a right-of-use asset equal to the carrying amount of the leased asset and finance lease liability immediately prior to the date of initial application. There will therefore be no adjustment to retained earnings at the date of initial application in respect of leases previously classified as finance leases. However, depending on the circumstances of the lease, subsequent measurement of leases previously classified as finance leases may differ from that which would have been measured using the old lease accounting model, for example if there are lease modifications after the date of initial application.	1.55
### Leases previously classified as operating leases	
An entity shall recognise a lease liability and a right-of-use asset at the date of initial application, unless applying one of the recognition exemptions. The lease liability is equal to the present value of remaining lease payments, discounted using the lessee's incremental borrowing rate or lessee's obtainable borrowing rate (or, for a public benefit entity, a deposit rate in accordance with paragraph PBE20.50) for each lease at the date of initial application. The right-of-use asset is equal to the lease liability, adjusted for any accrued or prepaid lease payments; any non-exchange element shall be recognised and measured at the date of initial application and the right-of-use asset adjusted accordingly.	1.51

IFRS 16 option	
Alternatively, if calculations have been prepared for an entity's lease accounting for group reporting purposes under IFRS 16, it may use the carrying amounts of the lease liabilities and right-of-use assets calculated for that purpose to measure its lease liabilities and right-of-use assets under FRS 102 at the date of initial application. This option therefore applies to leases previously classified as finance leases or as operating leases.	1.48
Calculations made 'for the purposes of including the entity in consolidated financial statements prepared in accordance with IFRS Accounting Standards' would generally include calculations made which are then subsequently eliminated on consolidation, and so the existence of leases which are eliminated on consolidation would not necessarily preclude the use of the IFRS 16 option.	
Exceptions	
Short-term leases and leases where the underlying asset is of low value	
If a lease relates to an underlying asset which is of low value, as set out in paragraphs 20.9 to 20.11 of FRS 102, an entity may apply the recognition exemption in paragraph 20.6 in respect of that lease and hence not recognise it on the balance sheet; in this case it is not required to make any adjustment for the lease on initial application.	1.52(a)
If a lease ends within 12 months of the date of initial application, as a practical expedient, an entity may account for it in the same way as a short-term lease in accordance with paragraph 20.6.	1.53(c)
Accounting for short-term leases and leases where the underlying asset is of low value is discussed further in Factsheet 11 *Lease accounting for lessees*.	
These options may be applied on a lease-by-lease basis.	1.53, 20.7
Investment property	
Leases previously accounted for as investment property, applying the fair value model as set out in Section 16 *Investment Property*, do not require any adjustment on initial application. This may apply if, for example, an entity generates rental income from a property that it is itself leasing. The lessee shall account for the right-of-use asset and the lease liability arising from those leases applying Section 16 and the revised Section 20, respectively, from the date of initial application.	1.52(b)
For leases previously accounted for as operating leases, but which will be accounted for as investment property from the date of initial application, the right-of-use asset shall be measured at that date at fair value.	1.52(c)

Practical expedients	
The following practical expedients apply to leases previously classified as operating leases, and may be applied on a lease-by-lease basis:	
• A lessee may apply a single discount rate to a portfolio of similar leases at the date of initial application.	1.53(a)
• Hindsight may be used in assessing the terms of a lease, such as in assessing whether an extension or termination option is likely to be exercised when determining the lease term.	1.53(d)
• Instead of applying Section 27 to right-of-use assets at the date of initial application, in line with paragraph 1.51(c), an entity may rely upon its previous assessment of whether leases are onerous (applying Section 21 *Provisions and Contingencies*) immediately before the date of initial application. If applying this practical expedient, an entity may adjust the right-of-use asset by the amount of any onerous lease provision recognised immediately prior to the date of initial application.	1.53(b)
Impairment	
At the date of initial application, and unless applying the expedient set out in paragraph 1.53(b), any right-of-use assets should be considered for impairment according to the requirements of Section 27 *Impairment of Assets*.	1.51(c)
Sale and leaseback	
Transitional provisions are also set out for sale and leaseback transactions entered into before the date of initial application.	1.58 to 1.60

4. Transitional provisions relating to Section 23 *Revenue from Contracts with Customers*

	Key FRS 102 references
General requirements	
The new Section 23 must be applied either:	1.61
• retrospectively with the cumulative effect of initially applying the section recognised as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application (modified retrospective approach); or	
• retrospectively in accordance with paragraph 10.12 (full retrospective approach).	
Modified retrospective approach	
The modified retrospective approach requires an entity to recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings at the date of initial application. It therefore does not require any comparative information to be restated.	1.61(a) 1.62(a)
When applying this option, an entity must apply the new Section 23 only to contracts that are not already completed at the date of initial application.	1.62(b)
Practical expedients	
Two practical expedients are available to entities applying the modified retrospective approach, which must be applied consistently to all contracts and disclosed:	1.62(c), 1.66
• To account for contracts with variable consideration which are completed by the reporting date, the entity may use the transaction price at the date the contract was completed, rather than estimating amounts of variable consideration in comparative periods.	1.65(b)
• Contract modifications that occurred prior to the date of initial application (e.g. for an entity with a 31 December year-end, 1 January 2026) need not be retrospectively restated, and instead the aggregate effect of all of the modifications that occurred before the beginning of the earliest period presented (e.g. 1 January 2025) or before the date of initial application (depending on the transitional approach taken) may be reflected when identifying the satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price to the satisfied and unsatisfied performance obligations.	1.65(c)

Disclosures	
Section 10 includes certain disclosure requirements when there is a change in accounting policy, which apply in respect of the changes made to Section 23; however, when applying the modified retrospective approach on initial application, an entity is exempt from the disclosure requirements of paragraphs 10.13(b) to 10.13(d), and shall make the alternative disclosures set out in paragraph 1.63.	1.63
Full retrospective	
For the full retrospective approach, in accordance with Section 10, comparative information is recalculated for prior periods to the earliest date which is practicable, as if the new Section 23 had always been applied.	10.12
Practical expedients	
The practical expedients described above for the modified retrospective approach are also available when applying the full retrospective approach, which must be applied consistently to all contracts and periods presented, and disclosed.	1.65, 1.66
In addition, an entity does not need to restate contracts that begin and end in the same reporting period, or that were completed contracts at the beginning of the earliest period presented.	1.65(a)
An entity taking this approach is also not required to make the disclosures required by paragraph 23.137 in respect of any prior periods presented.	1.65(d)
Example 2	
An entity has a year-end of 31 December and does not elect to apply the new requirements early. The date of initial application is therefore 1 January 2026. In its financial statements for the period ending 31 December 2026, the entity presents a single comparative period.	
The entity therefore needs to restate the 31 December 2025 statement of financial position, for comparative purposes, and restate the 1 January 2025 statement of financial position, in order that the income statement in respect of 2025 can be restated. The 1 January 2025 statement of financial position does not however need to be presented in the financial statements.	
Therefore the earliest period presented is the period which commenced on 1 January 2025 (as the 2025 income statement is presented), and any contracts completed prior to this date do not need to be restated.	

Disclosures Section 10 includes certain disclosure requirements when there is a change in accounting policy, which apply in respect of the changes made to Section 23; however, on initial application, when applying the full retrospective approach, an entity is only required to make the disclosure requirements set out in paragraph 10.13(b) for the period immediately preceding initial application.	1.64

5. Other transitional provisions

	Key FRS 102 references
Fair value measurement	
The requirements of the new Section 2A are applied prospectively from the date of initial application (in the same way as a change in accounting estimate).	1.41
Supplier finance arrangements	
When it first applies the supplier finance arrangements disclosure requirements, an entity is not required to disclose comparative information in respect of the disclosure requirements set out in paragraphs 7.20C(a), 7.20C(b)(ii) or 7.20C(c).	1.42
Business combinations and goodwill	
Section 19 was amended by the *Periodic Review 2024 amendments*. An entity shall not reassess the accounting for any business combination which took place prior to the date of initial application, unless the initial accounting was incomplete at that date, as set out in paragraph 19.19.	1.43
Uncertain tax treatments	
An entity may apply new paragraphs 29.17A to 29.17C either: • retrospectively in accordance with paragraph 10.12, provided that it can do so without the use of hindsight (full retrospective approach); or • retrospectively with the cumulative effect of initially applying the new paragraphs recognised as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application (modified retrospective approach).	1.68
Amendments to Section 35	
Once an entity has applied FRS 102 for the first time, and applied Section 35 *Transition to this FRS*, it does not need to revisit Section 35 when changes are made to that section, for example the removal of any of the transitional provisions set out in paragraph 35.10 (as has been done as part of the *Periodic Review 2024 amendments*).	

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