

FRS 102 Explainer: A summary of the Periodic Review 2024 changes for financial statements users



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This explainer is intended to help users of financial statements prepared in accordance with FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* to understand the changes they might see in financial statements that arise from recently-effective amendments to that accounting standard.

When did FRS 102 change?

In March 2024, the FRC published [amendments](#) to FRS 102 (and other FRSs) arising from its second periodic review of UK accounting standards. Most of these amendments are effective for accounting periods beginning on or after 1 January 2026. As described below, not all comparative information will be restated to the new basis.

What are the key changes to FRS 102?

New versions of Section 20 *Leases* and Section 23 *Revenue from Contracts with Customers* and a new Section 2A *Fair Value Measurement* represent proportionate alignment with requirements of international standards IFRS 16 *Leases*, IFRS 15 *Revenue from Contracts with Customers* and IFRS 13 *Fair Value Measurement* and will have a significant impact on some preparers. This increases the level of alignment between FRS 102 and IFRS Accounting Standards.

Other incremental improvements and clarifications were made throughout the standard, based on stakeholder feedback and the FRC's principle of seeking IFRS-based solutions. These should make the requirements easier for preparers to understand and apply consistently, improving the quality and comparability of financial information available to users. They included new disclosure requirements about supplier finance arrangements (effective 1 January 2025) and new requirements on accounting for uncertain tax treatments.

Resources for preparers

Guidance to aid preparers in applying the amendments is available in the FRC's suite of [FRS Factsheets](#).

Get in touch

London office:
13th Floor,
1 Harbour Exchange Square,
London, E14 9GE

Birmingham office:
5th Floor, 3 Arena Central,
Bridge Street,
Birmingham, B1 2AX

+44 (0)20 7492 2300

www.frc.org.uk
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What key changes might users see in FRS 102 financial statements?

Leases

Accounting by lessors remains largely unchanged.

The distinction between operating and finance leases is removed for lessees, who must recognise right-of-use assets and lease liabilities on the balance sheet for most leases. Consequently, entities which previously had operating leases are likely to show:

- Increased assets and increased liabilities;
- Decreased rental expenses and increased depreciation and interest expenses; and
- In the statement of cash flows, cash outflows for the principal portion of the lease liability now classified as financing, and the interest portion classified either as operating or financing (compared with operating lease payments classified fully as operating in the past).

In contrast to the previous straight-line expense accounting for operating leases, the interest expense will typically be front-loaded. As a result, although the timing and amount of lease cash flows will be unchanged, the lease liability balance will typically exceed the right-of-use asset balance during the life of a lease. Key financial metrics such as gearing, interest cover, current ratio and EBITDA may change, and there may be implications in other areas, such as assessment of loan covenant compliance. In some cases, entities may want to renegotiate covenants to reflect the change in accounting.

Two recognition exemptions are available. If taken, the lease remains off-balance sheet with accounting similar to previous operating lease accounting:

- **Short-term leases** (less than 12 months).
- **Leases of low-value assets.** The FRC has made this exemption available more widely under FRS 102 than it is under IFRS 16, provided that the most economically significant leases are recognised on-balance sheet. This is one of a number of accommodations to make the model proportionate for FRS 102 preparers.

Initial application

Preparers must apply a 'modified retrospective' approach: the cumulative effect of initially applying the amendments is recognised as an adjustment to equity at the date of initial application and comparatives are not restated. Comparatives will therefore continue to reflect the previous lease accounting.

Revenue from Contracts with Customers

The new revenue requirements introduce a single five-step model for recognition of all revenue from contracts with customers when, or as, control over the promised goods and/or services is transferred to the customer. This provides a framework for more consistent recognition of revenue across different contracts, between different FRS 102 preparers, and between FRS 102 and IFRS preparers.

Whether any given entity recognises a change in the timing or amount of revenue recognised depends on its particular business model and contracts. Users with experience of IFRS 15 are likely to find that FRS 102 outcomes become more comparable, although there are a number of accommodations to make the five step model proportionate for FRS 102 preparers. The new requirements should also result in more information for users about an entity's revenue recognition.

Initial application

Preparers can choose to apply either a fully retrospective (with relevant comparatives restated) or a 'modified retrospective' approach. Comparatives therefore may or may not continue to reflect the previous revenue accounting, depending on preparers' choices.

Fair value

More guidance on valuation techniques is given and the definition of 'fair value' has been amended. As a result:

- The fair value of a liability is based on its transfer value rather than its settlement value.
- The fair value of a liability reflects the effect of non-performance risk (including 'own credit' risk)¹.
- The use of bid prices to value assets and ask prices to value liabilities is permitted, but not required. When a bid-ask spread exists, the price most representative of fair value in the circumstances shall be used.

In some cases, users may find that the measurement of certain instruments changes as a result of this change in accounting guidance, in the absence of any other changes.

Initial application

The changes in respect of fair value are applied prospectively (i.e. no adjustment on transition or restatement of comparatives). As a result, comparative information may not be fully comparable.

Other incremental improvements and clarifications made throughout the standard may also lead to changes in the financial information reported.

¹ Note that UK company law sets restrictions on presentation of fair value gains and losses and therefore the presentation of associated fair value movements may differ to IFRS – see paragraph A3.12C in Appendix III *Note on legal requirements* to FRS 102.