FRS 102 Triennial update May 2024

In Spring 2024 the FRC issued a major update to accounting standards used by most UK entities. In this guide we look at the implications, alongside a number of associated changes to company law and reporting.

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FRS 102 - Triennial Update

Virtually all non-micro UK companies, LLPs, and other entities will need to recognise numerical changes for periods beginning on or after 1 January 2026.

The two major variations will both substantially align with International Financial Reporting Standards and are as follows:

Area	Key changes	Transition
Leases	• On inception of any new lease, assets are recognised at the present value of lease payments, plus other costs, with the present value being determined by the incremental borrowing rate (or observable borrowing rate) of a company. This will be a new key accounting estimate for many companies. • Assets will increase — this could affect size limits and push some companies into audit thresholds. Note: a right-of-use asset is generally included as part of tangible fixed assets. • Liabilities will increase — generally these would be classed as debt, which may impact finance covenants where these relate to net debt or borrowings. • “Rent” — which previously would have been expensed in the P&L on a straight-line basis, is now removed and split into depreciation, and interest. Both sit below EBITDA, so EBITDA will increase for many companies. • Care will be needed for EBITDA multiples, something often used for valuations or post-deal metrics. • As we have an interest expense, this may impact interest covenants. *Tax computations will also be amended to claim tax relief differently.*	• Comparatives are not restated. Instead, the asset recognised is equal to the liability on transition. • If group reporting is done under IFRS 16, there is a narrow scope exemption to push these values into the company instead. • Any cumulative effect of initially applying this is recorded as an adjustment to opening equity.
Revenue	Revenue recognition will now be similar to the 5-step model of IFRS 15. This is: **1.** Identify a contract with a customer. **2.** Identify performance obligations in that contract. **3.** Determine the transaction price. **4.** Allocate the transaction price to the performance obligations. **5.** Recognise the revenue for each performance obligation as they are delivered. This means that: • Entities will need to review revenue contracts on transition. • Likely sources of change are the treatment of bundled contracts with goods/services, variable consideration, warranties, and significant financing components. • A portfolio approach can be applied to similar contracts. • Some principal vs agent treatments are clarified. *Industry sectors most affected are typically asset management, building/construction, contract manufacturers, healthcare, media, real estate, software, and telecommunications providers.*	• As leases, there is no restatement of comparatives. • Guidance is applied to contracts open at the transition date only.

Other notable changes include:

- Disclosure requirements for supplier finance arrangements.
- New help to align the concept of fair value measurement.
- Guidance around uncertain tax positions.
- Clarification on whether contingent consideration in a business combination is recognisable as goodwill, or (similar to IFRS 3) may result in a remuneration expense in certain circumstances.

Notably, FRS 102 amendments can be early adopted (but only in their entirety) for any year end date for which financial statements have not yet been finalised. This could even include December 2023 year ends, for example, if there is a key commercial driver to change.

Impact on FRS 105

For micro-entities, the changes to revenue are broadly carried through to FRS 105. However, there is no requirement to recognise leases on balance sheet, which will create a material differential between micro and small companies.

This may create a much stronger driver to choose FRS 105 over FRS 102 for micro-companies (subject to other changes noted below).

Small company disclosures

A set of small company accounts will now need to include:
(Traffic light rated for the likely commercial impact on a typical small owner-managed business).

Details of the current tax charge, including a total tax reconciliation, and details of the deferred tax provision.

Disclosures for dividends paid and payable in the period.

Disclosures around leases of low-value assets and variable lease payments that have not been recognised as part of the lease liability.

Going concern disclosures.

Disclosures for share-based payment transactions.

Details of performance obligations for contracts with customers.

Disclosures for movements on provisions.

Enhanced commitment and off-balance sheet disclosures.

Increased disclosures around assets that have been revalued.

A description of significant leasing arrangements, including (if applicable) key qualitative and quantitative information.

There are some significant changes in the above, most notably around tax and dividends, which may include information that small companies are not accustomed to including. This may add commercial sensitivities for small owner-managed businesses in particular, which could be reflected in adjusted remuneration strategies such as paying greater salary and dividends in the future.

Companies House filings

One area of ongoing uncertainty is around the final position arising from the Economic Crime and Corporate Transparency Act (ECCTA), which removed the option for companies to prepare abridged accounts entirely, as well as the option not to submit the Directors' Report and Profit and Loss Account to Companies House. However, these are pending further government consultation.

Depending on the outcome, it's notable that small companies will have to submit a P&L and add significant new disclosures around P&L metrics such as tax and dividends, where these previously didn't need to be disclosed. We await confirmation of when this comes into force.

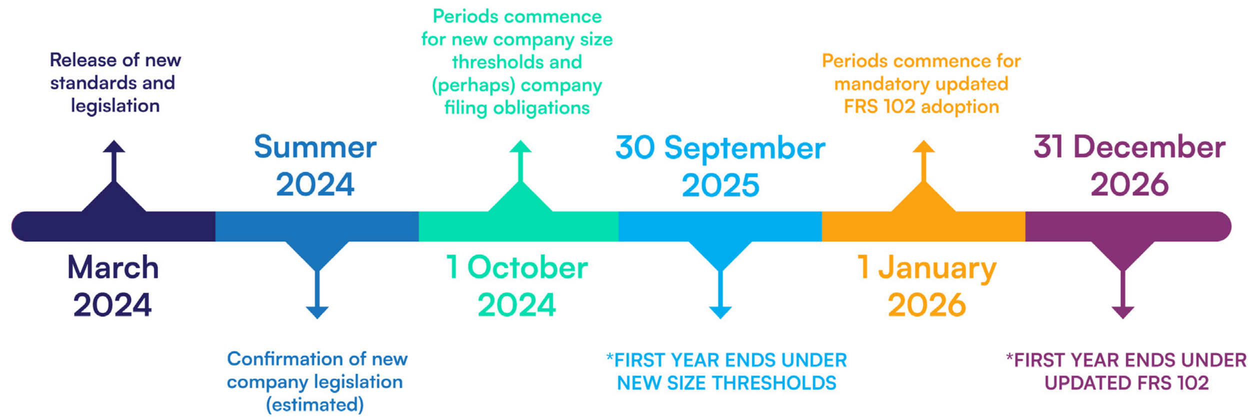
Size thresholds

Thresholds have been proposed to change as per the table below. However, proposals were made prior to the announcement of a General Election with plans to lay before parliament over the summer, thus timings and thresholds may well change from those announced. We await further news after July, and have included this as general indicator only to illustrate the financial reporting changes that are provisionally coming down the line.

Metric [1]	Current Threshold (up to)	New Threshold (up to)
Micro companies		
Turnover	**£632,000**	**£1,000,000**
Gross assets	**£316,000**	**£500,00**
Employees	**10**	**10**
Small companies		
Turnover	**£10.2m**	**£15m**
Gross assets	**£5.1m**	**£7.5m**
Employees	**50**	**50**
Medium companies [2]		
Turnover	**£36m**	**£54m**
Gross assets	**£18m**	**£27m**
Employees	**250**	**500** [3]

(1) Broadly, if 2 of 3 are breached for 2 years running then an entity must report under increased size thresholds. (2) Medium thresholds predominantly drive narrative reporting requirements, especially around ESG and carbon emission reporting. (3) Pending, subject to further government consultation.

Predicted timeline



*shorter periods would be impacted earlier as legislation refers to periods beginning on/after

Please get in touch with **Alex Hird** or **Adam Sutcliffe** for any initial discussions and queries around this topic. **Read more about our Financial Reporting, Advisory and Valuations team.**

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