



# BOURNER BULLOCK

Chartered Accountants

114 St Martin's Lane  
Covent Garden  
London  
WC2N 4BE  
Tel: +44 (0) 20 7240 5821

**Web:** [www.bournerbullock.co.uk](http://www.bournerbullock.co.uk)

**Email:** [bb@bournerbullock.co.uk](mailto:bb@bournerbullock.co.uk)



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A collection of colorful spheres, some with the Union Jack (UK flag) and others with the Irish tricolor (green, white, orange), arranged in a cluster.

## Revisions to UK and Ireland Accounting Standards

## **From time to time the Financial Reporting Council (FRC) undertakes a periodic review of accounting standards. Following an extensive consultation period, it has issued comprehensive amendments to the financial reporting standards which apply in the UK and Republic of Ireland.**

The amendments are designed to enhance the quality of UK financial reporting and help support access to capital and growth of the businesses applying them.

The revisions were published on 27 March 2024, and the majority apply for periods commencing on or after 1 January 2026, with early adoption permitted (provided all amendments are early adopted).

### **Entities reporting under FRS 102**

The revisions to FRS 102 are extensive, although the most significant areas of change relate to leases and revenue recognition.

### **Leases**

The distinction between operating leases and finance leases is being removed for lessees. This means that with minimal exceptions, all leases will be 'on balance sheet', closely aligning FRS 102 with IFRS in this regard.

This means that most current operating leases (e.g. where rentals are simply recognised as an expense over the lease term) will be affected. Where an entity leases an office, for example, its right to use the office will be presented as an asset on the balance sheet and its obligations for future lease payments will be recognised as a liability on the balance sheet.

The balance sheets of entities which currently have substantial leasing arrangements are likely to show significantly higher levels of assets and liabilities as a result of this change, and the income statement will show higher levels of depreciation and finance costs in place of the former operating lease expense. This could have an impact on entities with loan covenants linked to a measure of financial performance such as EBITDA (Earnings before

Interest, Tax, Depreciation and Amortisation) which may necessitate loan agreements being reviewed. Cash flow statements, where one is presented, shouldn't be affected though by this change of approach as the underlying cash transactions of the lease are of course unchanged, although more work may be required to ensure that the cash flow statement is correctly presented.

There are exceptions for leases of low value assets (e.g. tablet computers, small items of office furniture, telephones etc.) and short-term leases (broadly leases of 12 months or less).

### **Revenue recognition**

A single, comprehensive five-step model has been introduced for revenue recognition for all contracts with customers (including sale of goods, provision of services and construction contracts). The model is based on IFRS, with a number of simplifications.

The steps are:

1. Identify the contract(s) with the customer.
2. Identify the performance obligations (promises) in the contract.
3. Determine the transaction price.
4. Allocate the transaction price to the performance obligations in the contract.
5. Recognise revenue when (or as) the entity satisfies a performance obligation.

Whilst many entities will not see any significant changes in the timing of revenue recognition, for others there will be quite fundamental changes. Entities will therefore have to carefully work through contracts to assess the impact of the revisions.

## Small entities

Small entities in the UK will still be able to take advantage of a reduced level of disclosures compared to larger entities but will be required to make a number of additional disclosures than before, some of which were previously only encouraged disclosures. These include disclosing:

- a statement of compliance with the standard
- details of material uncertainties in relation to going concern
- dividends declared and paid or payable during the period
- details of provisions and contingencies
- details of share-based payment transactions
- related party transactions for which the 'normal market conditions' exception was previously taken.

Many small entities have already been making at least some of these disclosures.

## Other changes

The revisions also introduce a number of other minor changes to the standard, although these are of less significance and will have less of a practical impact. Such changes include:

- revisions to concepts and pervasive principles to align more closely with the latest international framework;
- updated definitions and guidance on fair value measurement
- additional guidance on recognising and measuring share-based payment arrangements
- the introduction of guidance on accounting for uncertain tax positions
- various improvements and clarifying amendments with respect to certain specialised activities.

## Entities reporting under FRS 105

The revisions to FRS 105 are much more limited. Unlike entities applying FRS 102, micro entities reporting under FRS 105 will not be required to bring all leases on balance sheet.

## Revenue recognition

For micro entities reporting under FRS 105, the biggest change will be the change to revenue recognition. Such entities will be required to follow the same five-step revenue recognition model as set out above, albeit with a few minor simplifications.

## Other changes

Other changes to FRS 105 include:

- revisions to concepts and pervasive principles to align more closely with the latest international framework
- various improvements and clarifying amendments with respect to agricultural activities.

## Specialist entities

Many entities operating in specialist areas such as charities, limited liability partnerships and pension schemes are also required to comply with the accounting requirements set out in that sector's Statement of Recommended Practice (SORP). Some of these SORPs may need to be revised to ensure that they remain consistent with the requirements of FRS102, and where relevant, consultations on necessary changes to SORPs may be required.

## Preparing for the changes

Although the revisions to the standards do include transitional provisions, which will aid in applying the changes for the first time, preparation is still needed to ensure compliance with the new requirements.

In particular, it's important to start looking at contracts with customers, and to begin to assess whether the timing of revenue recognition will need to change as a result of implementing the five-step revenue recognition model.

Additionally, it will be important for those preparing FRS 102 financial statements to collate clear information about all leasing arrangements in place to ascertain the potential impact of bringing the leases onto the balance sheet.

## What's not changing

These amendments do not introduce an expected credit loss model for financial asset impairment (like IFRS 9).

Additionally, these amendments do not introduce any alignment with IFRS 17 Insurance Contracts.

The FRC may, however, look to introduce such changes in a future set of amendments.

## We can help

We can help you to prepare for these changes and assist you in ensuring you comply with the revisions when they come into force.