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# UK GAAP update

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# Biography

Julia is extensively involved with the ICAEW as a volunteer and was the ICAEW President and Chair of the Board in 2022-23. She is also a past chair of the ICAEW Technical Advisory Committee, a former member of the Financial Reporting Faculty Board and of the AAT's audit committee and a past President of the Thames Valley Society of Chartered Accountants.

Julia is a well-known technical author and speaker and has had many articles published in print and online journals such as AccountingWeb UK and Audit and Beyond (the ICAEW Audit Faculty Magazine). Julia revised the Bloomsbury publication *Accounting Principles for Tax Practitioners* and writes regularly for Croner-I and AccountingCPD. She has also worked with networks of accountants providing policies, procedures and training and for software company Inflo, on their audit products.





# Agenda

Minor updates to FRS 102

Supplier finance arrangement disclosures

New 2024 version of FRS 102 (etc) applicable 2026

Leases

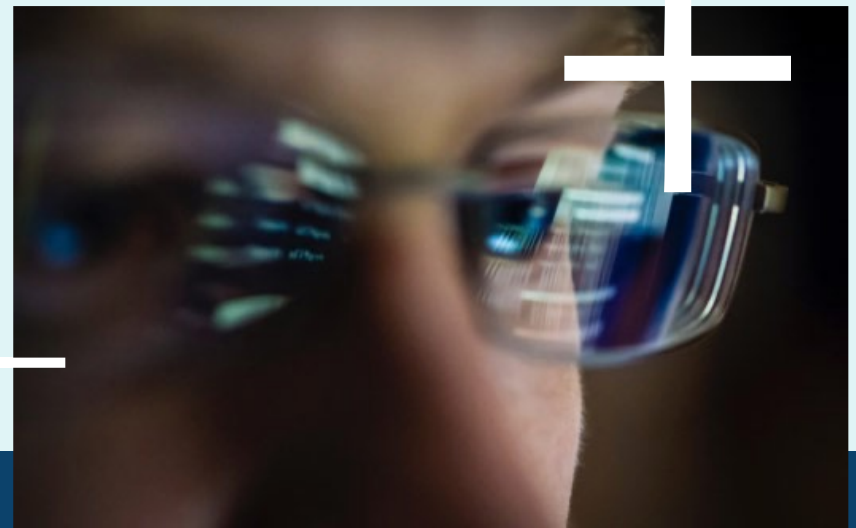
Revenue from contracts with customers

Other changes

Q&A's

# Minor updates

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# Supplier finance arrangements – from APC

## 1/1/25

### What are they?

- Finance providers offer to pay amounts an entity owes to suppliers
- Entity pays finance providers on same date or later than suppliers are paid
- Eg reverse factoring, supply chain finance, payables financing

### FRS 102.7.20C (a)

- Key terms and conditions such as:
- Extended payment terms, interest, security etc

### FRS 102.7.20C (b)

- Carrying amounts and associated line items
- Range of payment due dates on SFA compared to those that are not under SFA, plus explanation if big difference

### FRS 102.7.20C (c)

- Type and effect of non-cash changes on items within SFA eg business combinations, forex differences



## Example – assume already adopted changes

### **Scenario:**

Goods worth £500,000 received on 1 January 2025.

On 1 March 2025, the payable becomes part of a supplier finance arrangement.

Bank pays supplier on 30 April 2025.

30<sup>th</sup> March 2025

Buyer pays bank on 30 June 2025.



## Disclosure note

*"The company participates in a supply chain financing arrangement. Under the terms of this arrangement, the bank agrees to pay amounts to a participating supplier in respect of invoices owed by the company and receives settlement from the company at a later date. The primary purpose of this arrangement is to facilitate efficient payment processing and to enable willing suppliers to receive payments from the bank prior to the invoice settlement date.*

*Interest on outstanding amounts is charged at 1.5% above base rate.*

*The amounts outstanding are secured with a fixed and floating charge over the company's assets"*

## Balance sheet impact

Comparatives  
not required in  
first year of  
adoption

At 30<sup>th</sup> March – disclose in the notes:

Balance of trade creditors that are part of supplier finance arrangements:  
£500,000 [This is presented in trade creditors: Creditors: amounts falling due within one year]

Interest is charged at 1.5% above base rate

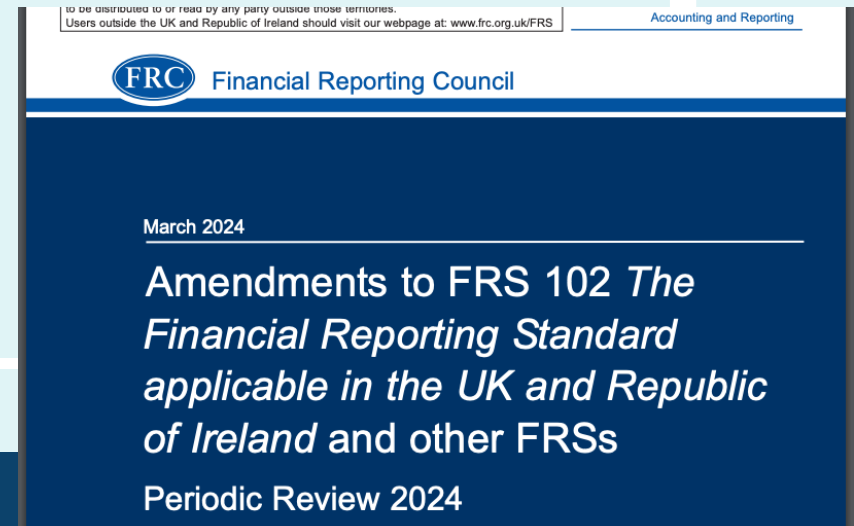
The range of payment due dates for financial liabilities under supplier finance arrangements is x – y days, compared to a-b days for comparable trade creditors that are not part of the arrangements.

There are no material non-cash changes related to the supplier finance arrangements.



# FRS 102 2024

Applicable for APC on or after 1/1/26 with early adoption permitted, if adopted as a whole





## Overview

Updates as part of second periodic review – 2024 amendments

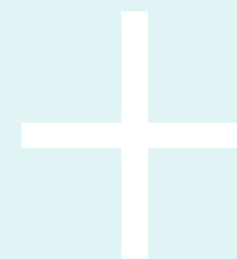
Changes made to leases and revenue recognition to align with IFRS

Conceptual framework in Section 2 updated to align with IFRS version

Section 2A is a revised version of the Appendix to Section 2 which provided Fair Value Measurement information. It is now more aligned with IFRS 13

Small entity disclosures have been enhanced as no longer limited by EU Accounting Directive requirements (these are UK company issues, so not relevant outside of UK)

Other incremental improvements



# Leases

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## Section 20



## Reflecting IFRS 16 in FRS 102

### Lessee accounting

- Bring leases onto the balance sheet
- Right of use asset
- Lease liability

### Simplification exceptions

- Short-term leases
- Leases where the underlying value is low
- Obtainable incremental borrowing rate

### Lessor accounting

- Largely unchanged
- So still have finance lease and operating lease distinction



## Exceptions - Short-term leases

A lease that, at commencement, has a lease term of 12 months or less (and no purchase option)

Instead of bringing right-of-use asset and lease liability onto balance sheet, recognise the lease payments on a straight-line or other systematic basis that is more representative of pattern of benefit

Exception available by class of underlying assets to which the right of use relates



## Exceptions – underlying asset is low value

Can only apply if lessee can benefit from use of the underlying asset on its own, or together with readily available resources and

It is not highly dependent on or highly interrelated with other assets and

The asset is not subleased

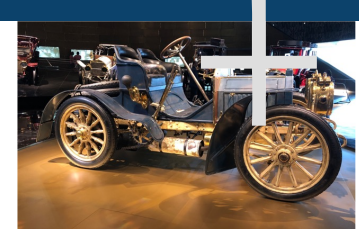
Materiality not relevant

No monetary figure given

But list of assets that are NOT low value is given (see next slide)

Exception available on lease-by-lease basis

## Assets which are not low value



- a) cars, vans, buses, coaches, trams, trucks and lorries;
- b) cranes, excavators, loaders and bulldozers;
- c) telehandlers and forklifts;
- d) tractors, harvesters and related attachments;
- e) boats and ships;
- f) railway rolling stock;
- g) aircraft and aero engines;
- h) land and buildings; and
- i) production line equipment.



# Is the contract a lease/does it contain a lease

Is there an  
identified asset?

Is there the right  
to obtain  
economic  
benefits from use

Is there a right to  
direct the use of  
the asset over  
period of use





## Example

Is there an identified asset?

It knows the licence plate number of a car to be provided in a contract – yes, the asset is identified

A specific item of machinery is delivered to the customer at the inception of the contract – yes, the asset is identified

But

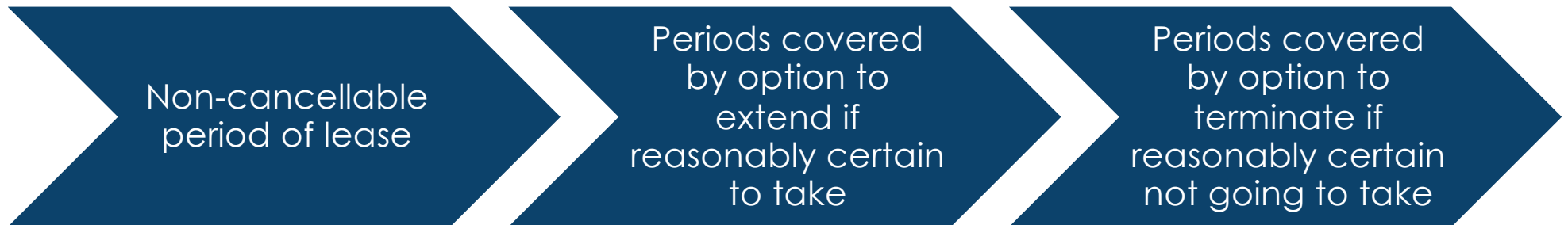
If there is a substantive right of substitution, then there is no identified asset

The supplier has the practical ability to substitute alternative assets throughout the period of use

Would benefit economically from doing so



## Lease term





## Example

The company is considering the lease term for the offices that it occupies

There is a break clause in 3 years – up until that point the lease is non-cancellable, so the minimum term is 3 years.

The company then considers periods covered by extension option if reasonably certain to exercise:

- the contractual terms and conditions compared with market rates;
- significant leasehold improvements expected to have significant economic benefit when the option becomes exercisable;
- the costs relating to the termination of the lease;
- the importance of the underlying asset to the lessee's operations; and
- conditionality associated with exercising the option.

## Initial recognition



### Right of use asset

- Initial measurement of liability
- Any lease payments made at or before commencement less incentives received
- Any direct costs
- +/- Any provisions for dismantling/govt grants

### Lease liability

- Present value of lease payments that are not already paid
- Discount using interest rate implicit in lease if determinable
- If not use lessee's incremental or obtainable borrowing rate (choice available on lease-by-lease basis)



## Subsequent measurement

### Right-of-use asset

- Cost model, or revaluation model per PPE policy
- FV model for investment property

### Lease liability

- Increase carrying amount to reflect interest on lease liability
- Reduce carrying amount for payments made
- Remeasure if reassessments or lease modifications

### Profit or loss

- Depreciation/impairments
- Interest at constant periodic rate of return
- Variable lease payments not included at outset



## Disclosure requirements - lessees

General description of significant leasing arrangements

If necessary to enable users to understand above, provide additional qualitative and quantitative information. As a min, when relevant:

Information about future cash flows not reflected in lease liabilities

Information about restrictions or covenants imposed by leases

Types of discount rate used (implicit/incremental borrowing/obtainable borrowing rate)

Information about sale and leaseback (with further specifics)

Use of practical expedients

Information re lease modification with unused discount rate



## Disclosure requirements - lessees

Interest expense on lease liabilities

Expense relating to short-term leases (but not if one month or less)

Expense relating to leases of low value assets

Expense related to variable lease payments not included in the measurement of lease liabilities

Income from subleasing

Total cash outflow

Gains/losses arising on sale and leaseback



## Disclosure requirements - lessees

Information on right of use assets, by class of underlying asset – the required information is essentially that required for fixed assets eg additions, disposals etc.

Commitments for short-term or low-value assets at period end for:

Not later than one year;

Later than one year and not later than five years; and

Later than five years.

ROU assets that are investment properties disclose per Section 16 instead of Section 20 for certain items

ROU assets which are heritage assets at revalued amounts apply Section 17 disclosures



# Revenue from contracts with customers

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## Section 23



## Five step model

1. Identify the contract with customer



2. Identify performance obligations



3. Determine transaction price



4. Allocate transaction price



5. Recognise revenue when or as...



## Performance obligations

A performance obligation is each promise to transfer to the customer either:

A distinct good or service (or bundle thereof); or

A series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer

A distinct good or service is one where:

The customer can benefit from it on its own or together with readily available resources

The promise to transfer the good/service is separate from other promises in the contract



## Example

A company sells a mobile phone together with a contract for access to the network in terms of minutes of talk time, texts and data

The customer could buy the phone separately and easily obtain a contract for the minutes/texts/data elsewhere if it wished (ie these are readily available resources)

The entity's promise to provide both can easily be separated and there is no significant integration required or a good or service that would be regarded as the result of highly integrated services/goods. Therefore:

the mobile phone provision is one promise

the minutes/text/data is another promise



## As or when

Revenue is recognised when, or as, the entity satisfies a performance obligation by transferring a promised good or service to a customer

Transfer of a good/service is when, or as, the customer obtains control

Goods and services are assets when they are received and used

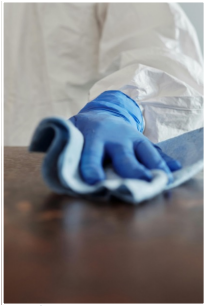
Control of an asset refers to the ability:

to direct the use of and

obtain substantially all of the remaining economic benefits that may flow from the asset



## Over time (as)



Customer simultaneously receives and consumes the benefits (eg cleaning)



The entity's performance creates or enhances an asset the customer controls (eg an extension)



The entity's performance does not create an asset with alternative use to the entity AND it has an enforceable right to payment (eg an audit, maybe)



## At a point in time

If performance obligation not satisfied over time (ie as revenue is earned)  
it is satisfied at a point in time (ie when revenue is earned)

The point in time is when the customer obtains control

Indicators of control include:

Entity has a present right to payment

Customer has legal title to the asset

Customer has physical possession of the asset

Customer has the significant risks and rewards of ownership and

Customer has accepted the asset

## Example



An entity is building a block of flats and will sell these on the open market  
The customer will be each individual purchaser of one of the flats

The customer will not get control until the contract is completed after which they will have substantially all of the risks and rewards of ownership

Revenue is recognised at the point in time when the control of the flat passes to the customer, so when each flat is sold

(Note the difference compared to an extension to an existing house, or building something to order on the customer's own land, where the customer has immediate control of the asset and the benefits of what has been built so far. Here revenue would be recognised over time)





## Simplifications vs IFRS 15

No requirement (just an option) to adjust for time value of money on payments received in advance

Flexibility in allocating discounts or variable consideration to the contract

Accounting policy choice on whether to capitalise costs to obtain a contract with a customer

Greater use of hindsight when estimating variable consideration and evaluating contract modifications when an entity applies the new standard for the first time

Simpler disclosures



## Disclosures

The standard has extensive disclosure requirements including disaggregation of revenue into categories that reflect how revenue and cash flows are affected by economic categories such as:

Types of good or service (eg major product lines)

Geographic market

Market or type of customer (eg government or non-government customers)

Timing of transfer of goods or service (eg over time or point in time)

Revenue earned as agent or principal



## Disclosures

Information linking to any IFRS 8 Operating Segment disclosures

Revenue recognised from contracts with customers (separately from any other revenue)

Any impairment losses recognised on receivables or contract assets

Opening and closing balances of receivables and contract asset/liability balances and movements in the year (eg revenue recognised)



# Disclosures

Information about its performance obligations including:

When the entity typically satisfies its performance obligations (eg on shipment, delivery, as services rendered or on completion of service)

Significant payment terms

Nature of goods/services that entity has promised to transfer

Obligations for returns, refunds etc

Types of warranty and related obligations

If satisfied over time the method used to recognise revenue

Further information for long-term contracts etc.



## Current UK GAAP policy - example

### (ii) Sale of goods – internet-based transactions

*The Group sells goods via its websites for delivery to the customer. Revenue is recognised when the risks and rewards of ownership of the inventory is passed to the customer. For deliveries to the customer this is the point of acceptance of the goods by the customer.*

### (iii) Sale of cloud software subscriptions or similar

*The group sells licences via Westcoast Cloud. Revenue is recognised for perpetual licences when the licence is available. Revenue for cloud licences is recognised when the risks and rewards of ownership of the license is consumed by the customer. Transactions are settled by direct debit.*

# FRS 105 - micro entities

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## FRS 105

FRS 105 has also been amended with those amendments generally taking effect for APC on or after 1 January 2026

The standard has been amended for IFRS 15 with a simplified version of the five-step approach to revenue recognition

It has not been amended for leases, so the old approach of only recognising assets/liabilities for finance leases for lessees continues.

Other more minor amendments have also been made.

# Practical implications of new versions of UK GAAP

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## Practical issues

Identification of lease contracts – AI may be able to help in trawling files for contracts that potentially contain a lease, though note that a contract could be a lease, even if not called a lease

Determination of performance obligations in revenue from contracts with customers

Are there a few large contracts which can be individually analysed?

Do you need to consider the lots of different types of contract where you need to determine performance obligations?

Consider when performance obligation met – eg on delivery/receipt etc

Consider pricing and allocation of pricing

# FRS 101 Reduced disclosure framework

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## Amendments 2023/24 cycle

Latest full edition is 2024 one – this takes effect for periods beginning on or after 1 January 2026.

Early adoption available if all amendments applied at same time and disclosed.

### 23/24 amendments

Supplier finance arrangements equivalent to FRS 102, if included in consolidated FS don't need to give them in qualifying entity.

Minor amends re right of use assets comparative information equivalent to FRS 102 have also been made.



## Amendments 24/25 cycle

Requirement that entities applying FRS 101 shall not apply IFRS 19 *Subsidiaries without Public Accountability*.

IFRS 18 amendments, which take effect on adoption of IFRS 18:

Cross-references to IAS 1 are updated to IFRS 18 (or other standards where relevant).

Updated disclosure requirements based on IFRS 18 instead of IAS 1.

Updated cross references to IAS 8 where title has changed to *Basis of Preparation of Financial Statements*.

An additional exemption from providing reconciliations of fixed assets for the prior period (immediate effect)

# Thematic review of large private company accounts

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FRC review



## Key observations

To enable users to fully understand a business, disclosures should explain nature of its operations and how it fits into wider group structure

Explaining elements of development, performance and position that are key for understanding a company in a clear, concise and understandable way helps users

Accounting policies for complex transactions were often untailored, but needed to be entity-specific, especially for revenue

Better examples of judgement and estimate disclosures included details of specific judgement and rationale for conclusion. Sensitivities helped with understanding the significance of estimates



## Key observations

Material provisions needed more on nature of obligation and associated uncertainty so users can fully understand the risks affecting the company

Disclosure of financial instruments risks (eg liquidity risk) were generally too generic, not explaining why risks were relevant for an entity. Better examples explained the specific nature of the risk and quantified the exposure and sensitivity to future changes

Top tip

Carry out a critical review of the annual report and accounts prior to finalisation.

Are they clear, concise, understandable, with only material info included?



# FRC Factsheets

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## FRC FRS 102 Factsheets

The following factsheets/ were issued or updated in November 2024

3. Statement of cash flows
4. Financial instruments
5. property: FV measurement
6. Business combinations
7. Transition to FRS 102
8. Initial application of the periodic review 2024 amendments
9. Revenue from contracts with customers
10. Lease accounting for lessees

# Questions





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# Resources

1. [FRC Reporting by the UK's largest private companies](#)
2. [FRS 102 2024](#)
3. [FRS 101 2024](#)
4. [FRS 105 2024](#)



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