


# UK GAAP update 2026

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ICAEW CHARTERED ACCOUNTANTS

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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 was the joint author revising *A Practical Guide to UK Accounting and Auditing Standards.* She has also worked with networks of accountants providing policies, procedures and training and for software company Inflo, on their audit products.




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# Agenda

FRS 102 changes

FRS 102 small entity disclosures

FRS 105


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# Updated FRSs





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# FRS 102 2024




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


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# Overview

Updates as part of second periodic review – 2024 amendments

Changes made to leases and revenue recognition to align with IFRS

Small entity disclosures have been enhanced as no longer limited by EU Accounting Directive requirements (these are UK company issues, so less relevant outside of UK, but designed to give true and fair view)

Other incremental improvements


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# Leases



Section 20


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# 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


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# Exceptions - Short-term leases

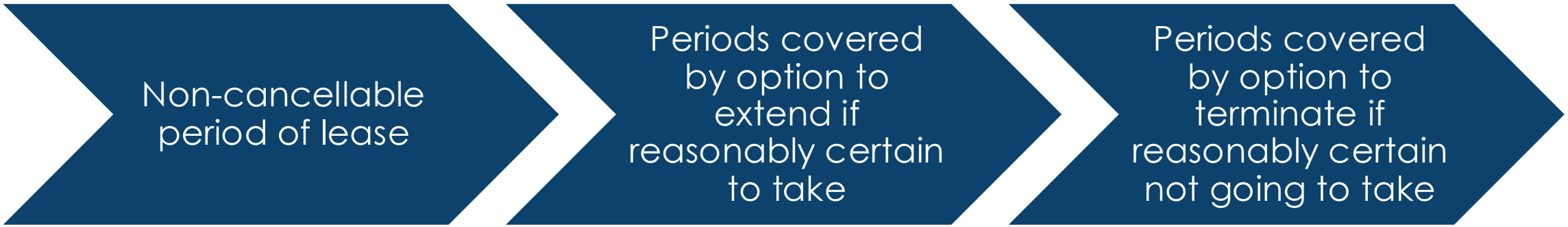
A lease that, at commencement, has a lease term of 12 months or less (and no purchase option)

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


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# Lease term





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# 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


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# 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.


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# 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


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# 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)


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# 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


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# Transition

Recognise cumulative effect of applying the new standard in relation to leases as an adjustment to the opening balance of retained earnings (or other equivalent equity) at the date of initial application.

So comparatives are not restated, but the opening balances for first year of application are restated.

Work will be needed to identify the leases and the figures associated with them, especially the relevant discount rate.


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# Revenue from contracts with customers




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# 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…


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# 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


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# Example

A car dealer sells a car, with a warranty for three years.

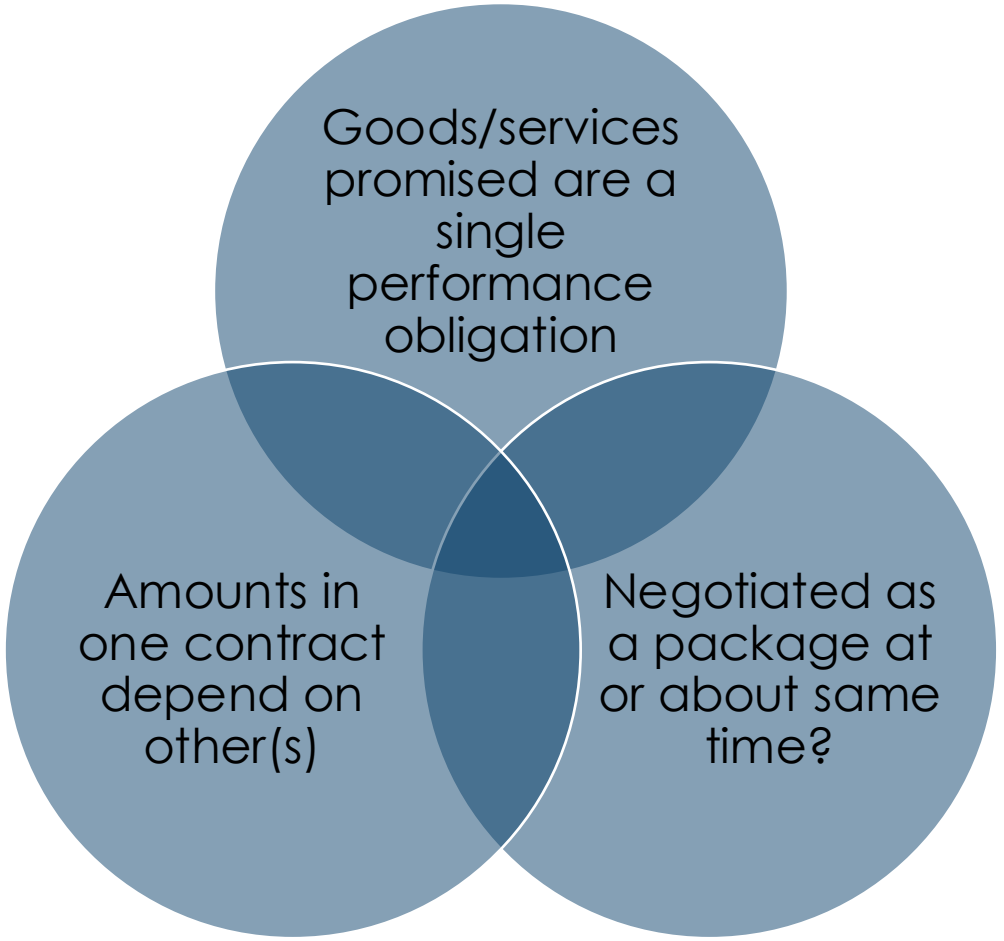
There are two promises, or performance obligations within this contract, a promise to deliver a car, which will be satisfied at the point that the car is handed to the customer, and a promise to deliver a warranty, which is satisfied over the three-year warranty period.

Revenue will therefore be recognised in two parts, for the car, at a point in time and for the warranty, over time


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# Combine contracts?




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# Is it distinct?





Customer can benefit from good or service on its own

Customer can benefit from good or service with readily available resources

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# 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:

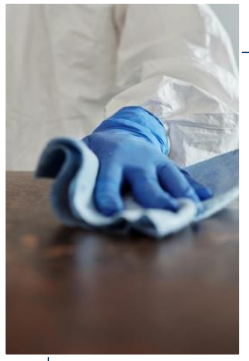
to direct the use of and

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


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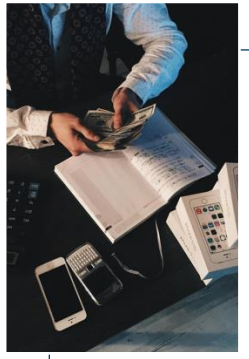
# Over time (as)



Customer simultaneously receives and consumes the benefits (e.g. cleaning)



The entity's performance creates or enhances an asset the customer controls (e.g. 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 (e.g. an audit, maybe)


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# At a point in time

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

The point in time is when the customer obtains control

Indicators of control are shown on the next slide.


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# Indicators of customer control

- Entity has a present right to payment
- Customer has legal title to the asset
- Customer has physical possession of the asset
- Customer has significant risks and rewards of ownership
- Customer has accepted the asset


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# Contract modifications - revenue

This is a change in scope or price or both

If both parties have approved a change in scope but not yet determined price, the entity estimates the change in price using guidance for estimating variable consideration

Contract modifications are accounted for as a separate contract if:

Modification increases scope because of additional goods/services that are distinct from those in existing contract; and

Modification increases price of existing contract by an amount that reflects entity's stand-alone selling price of the additional goods/services and any appropriate adjustments to this for the contract


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# Joining fees

Customer pays joining fee for professional body

There is no immediate transfer of a good or service to the customer – therefore this is not a performance obligation

The customer is allowed to continue as a member, subject to paying further annual fees

The period over which the joining fee is recognised as revenue is the period of expected membership (usually an average is used)


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# Licensing

## Right to access

- Customer has access to updated IP
- Recognise over time

## Right to use

- Customer has the right to use the IP in its condition at point of sale
- Recognise at point in time


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# Transition

Either:

Retrospectively apply the changes with the cumulative effect of initially applying the new standard recognised as an adjustment to the opening balance of retained earnings at the date of initial recognition or

Fully retrospectively adjust (including changing comparatives)


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# Revenue transition example - simplified

**The contract**

Customer joins on **1 July 2025**

- Joining fee: **£500**
- Annual subscription: **£1,200**
- Joining activity does **not** transfer a distinct service
- Expected membership period: **5 years**
- Revised FRS 102 first applied: **1 January 2026**

| Revenue recognised to 31/12/25 | Previous policy £ | Revised Section 23 £ |
|---|---|---|
| Joining fee | 500 | 50 |
| Subscription | 600 | 600 |
| **Total revenue** | **1100** | **650** |
| | | |
| Joining fee spread over 5 years i.e. 500/10 x 6/12 months | | 50 |


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# Revenue transition example

| Adjustment at 1 January 2026 | £ |
|---|---|
| **Previous revenue recognised** | £1,100 |
| **Revised revenue recognised** | £650 |
| **Revenue recognised too early** | £450 |
| **Transition journal** | |
| **Dr Opening retained earning** | £450 |
| **Cr Contract liability** | £450 |

Cash is unchanged.

The revised model changes the timing of revenue because the joining fee does not represent a separate performance obligation.

Over time the contract liability will be released to the P&L


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# Section 1A


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# Section 1A – Small entities

- Statement of compliance with FRS 102 1A and PBE if relevant
- Related party transaction disclosure for all RPT
- Statement re Going Concern
- Tax reconciliation and disclosures re deferred and current tax
- Dividends declared, payable/paid disclosures
- Provisions and contingency disclosures and share based payment if relevant
- May need SOCE, SIRE, SOCI


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# Related party disclosures

## Transactions 33.9

- Nature of related party relationship
- Amount
- Balances / commitments incl. terms and any guarantees
- Provisions
- Expense for bad debts

## Aggregation 33.14

- May disclose similar items in aggregate unless separate disclosure needed for a proper understanding

## Subject to 33.1A, 33.11

Exempt from 33.9:

- if RPT between two members of a group where sub(s) wholly owned
- if RPT between two entities that are controlled, jointly controlled or subject to significant influence from same government


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# Going concern - 1AC.2C

## Comply with para 3.8A

Disclose:

- That accounts on GC basis
- That management has considered issue
- Any significant judgements re GC

## Comply with para 3.9

Disclose

- Any material uncertainties that cast significant doubt upon entity's ability to continue as GC
- If not on GC basis, what basis used


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# Tax reconciliation between…

The tax expense included in P/L and → The profit or loss on ordinary activities before tax… → multiplied by the applicable tax rate (29.27(b))


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# Tax disclosures - 29.26

| Item | £ |
|---|---|
| Current tax | x |
| Any adjustments recognised in the period for current tax of prior periods | x |
| The amount of deferred tax expense/income relating to the origination and reversal of timing differences | x |
| The amount of deferred tax expense/income relating to changes in tax rates or the imposition of new taxes | x |
| Adjustments to deferred tax expense/income arising from a change in the tax status of the entity or its shareholders | x |
| The amount of tax expense/income relating to changes in accounting policies and material errors | x |
| Current tax expense/income relating to pillar two income tax | x |


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# Deferred tax – 1AC.11A

## Disclosures cross-referred to para 29.27e



Amount of deferred tax liabilities and assets…



For each type of timing difference (e.g. accelerated capital allowances)



Amount of unused tax losses and credits


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# Disclosure changes - Leases

Expenses for s-t and low-value asset leases (20.8 (b)-(d))

Description of significant leasing arrangements (1AC.31A, 20.76)

Extra qualitative or quantitative information if needed for T&F view (1AC.31B, 20.77)

Right-of-us asset disclosures like those for PPE


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# Disclosures - revenue

## Performance obligations in contracts with customers (23.135 (a)-(c))

- when PO satisfied (e.g. on delivery)
- significant payment terms
- nature of goods/services promised and any promise to be fulfilled by another party (i.e. acting as agent)


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# 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.


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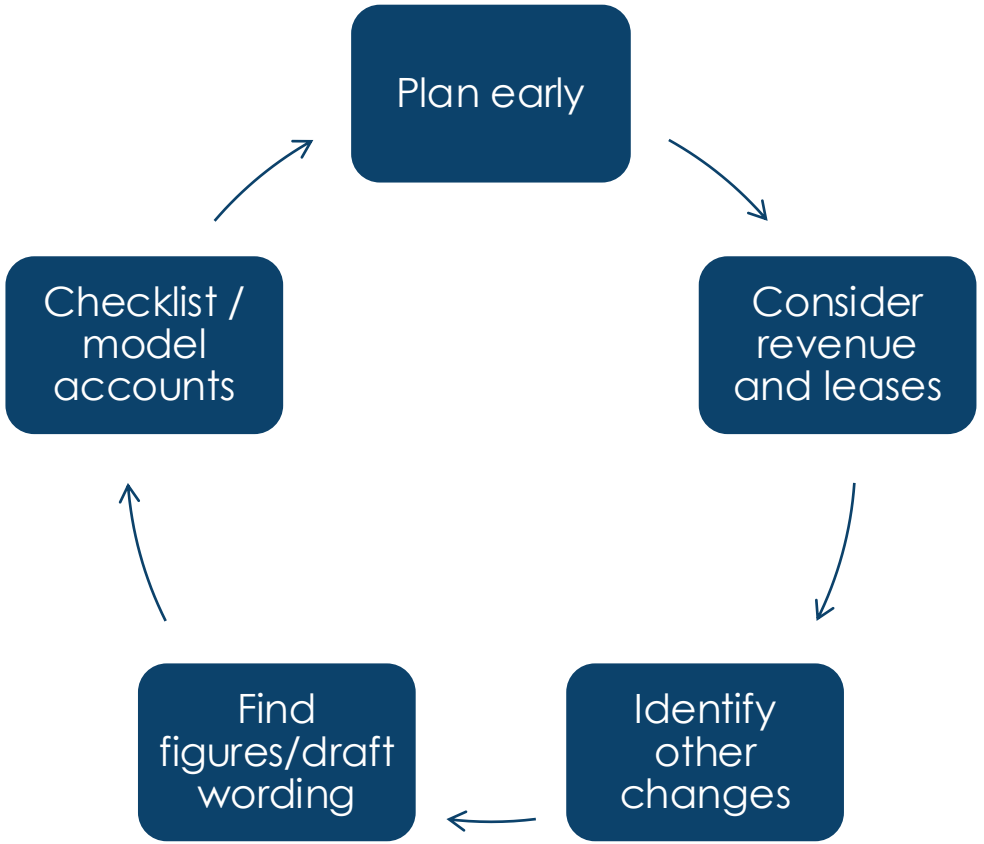
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# Practical tips


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# Practical tips – FRS 102

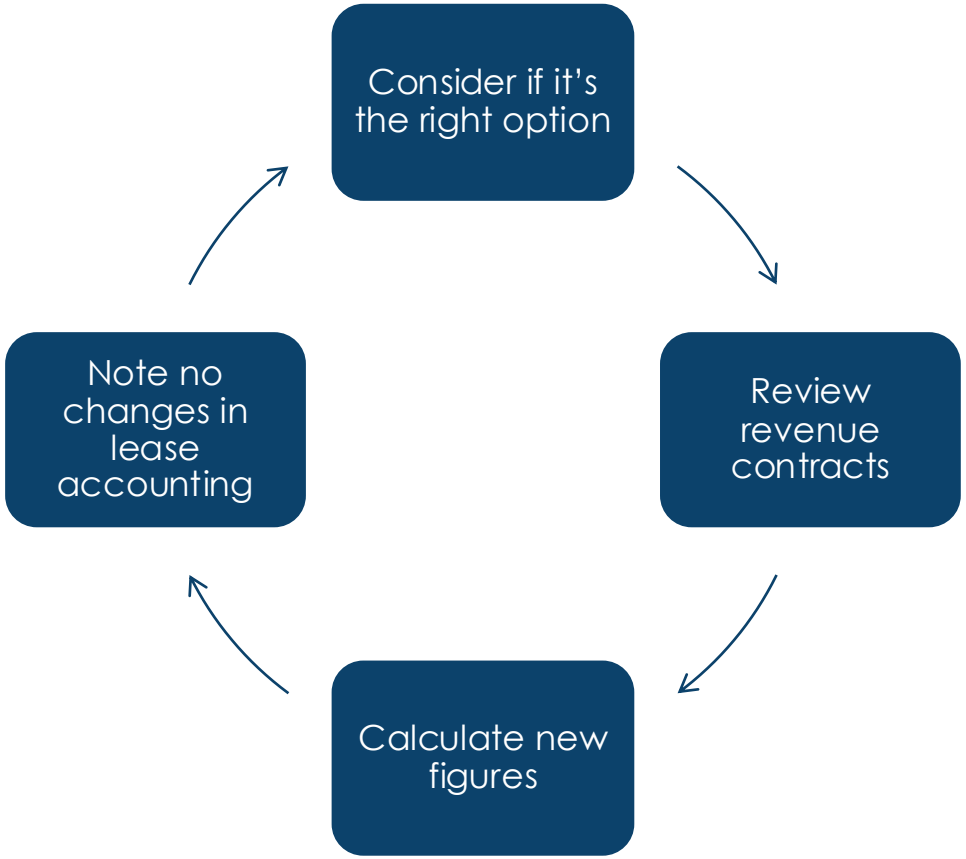




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# Practical tips FRS 105





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# FRS 101Reduced 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.

## 25/26 amendments

None – except for minor drafting improvements in para 7 and A2.9A

No updates made in respect of nature dependent electricity amendments in IFRS 9 and IFRS 7


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# Questions




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