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FRS 102 guide

What you need to know
about the changes

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Introduction

Imagine it is late January, your year end close is nearly finished, and you are already looking ahead to the next budget. A new lease lands in your inbox, and it seems routine. It's a short contract, a payment schedule, and a renewal option that feels years away. In the past, you would have filed it, booked the rent each month, and moved on.

Now, instead of filing, you're asking tougher questions. Does it meet the new lease definition? What's the true term when renewal options are factored in? How will this impact our net debt and covenants?

That is what the FRS 102 amendments for accounting periods beginning on or after 1 January 2026 are about. Leases that used to be recorded simply as operating expenses will often move onto the balance sheet. At the same time, revenue recognition is being updated, and there are a few other changes that may matter for your reporting.

This guide gives a practical overview of what is changing, who is affected, and how to get ready.

What FRS 102 is and why it matters

FRS 102 is the main accounting standard for companies and other organisations in the UK and Republic of Ireland that do not use IFRS. It sits within UK and Irish GAAP and covers most accounting topics in one place.

FRS 102 is based on IFRS for SMEs, but tailored to the UK and Republic of Ireland. It aims to give good quality reporting without the full complexity of IFRS.

The Periodic Review 2024 amendments are significant because they update two big areas:

- Lease accounting for lessees in Section 20.
- Revenue recognition in Section 23, moving to a clearer five step model aligned with IFRS 15 principles, but simpler.

There are also other updates, such as new disclosure requirements in specific areas. These are smaller than leases and revenue, but still worth being aware of.

These changes take effect in the new reporting period of 2026, with early adoption allowed if the full set of amendments is applied at the same time.



What is changing under the new amendments

Leases

For lessees, the split between operating and finance leases largely goes away. Most leases will be recognised on the balance sheet as a right-of-use asset and a lease liability.

There are exemptions for short term leases and low value asset leases.

Revenue

Section 23 is replaced with a new model. Revenue will be recognised based on the transfer of goods or services to customers, using a structured five step approach:

1. Identify the contract with the customer.
2. Identify performance obligations.
3. Determine the transaction price.
4. Allocate the price to obligations.
5. Recognise revenue when or as obligations are satisfied.

The model gives a consistent way to recognise revenue, but keeps the rules practical for FRS 102 reporters.

Other changes

The review also includes smaller amendments across the standard.

For example:

- Some extra disclosures in areas like supplier finance arrangements.
- Clarifications in financial instruments and other sections.

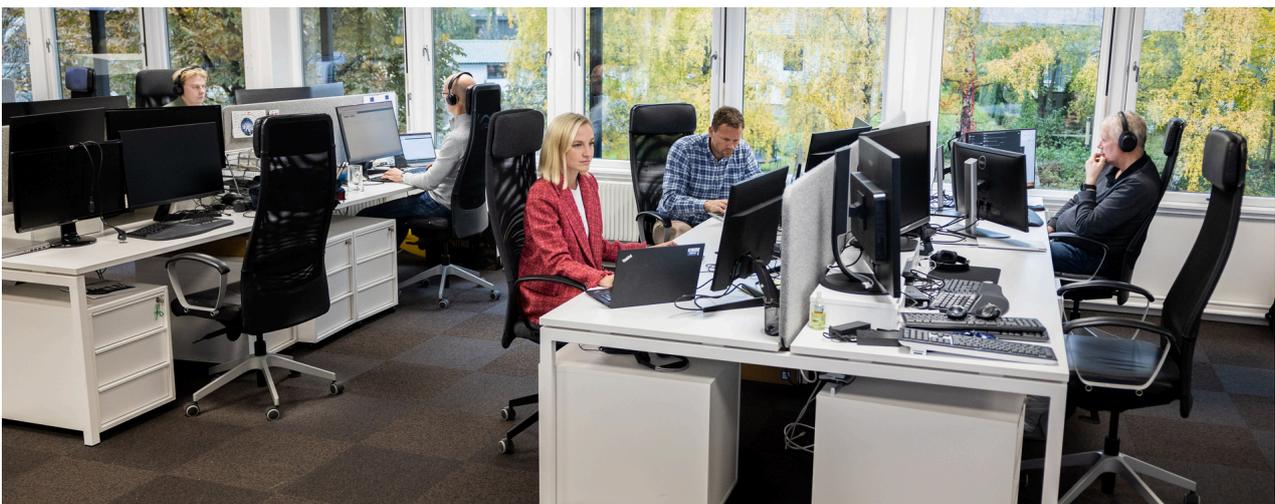
These are not expected to affect most entities as much as leases or revenue, but they can still require updates to notes or policies.

New lease accounting in FRS 102

From 2026, lessees will normally bring leases onto the balance sheet. The accounting is based on a right-of-use model:

- At commencement, recognise a lease liability equal to the present value of future lease payments.
- Recognise a right-of-use asset, usually equal to the liability adjusted for items like incentives, initial direct costs, or restoration obligations.
- Over the lease term, recognise interest on the liability and depreciation of the right-of-use asset.

This changes both the balance sheet and the pattern of expense in profit and loss.



Exemptions

Short term leases: You can keep a lease off balance sheet if the lease term is 12 months or less at commencement and it does not include a purchase option. You recognise the payments as an expense over the term.

Low value asset leases: You can also keep leases off balance sheet when the underlying asset is low value when new. This assessment is based on the asset itself, not the size of the lease payments. There is no fixed monetary threshold, so judgement is required. Typical examples might include small office equipment.

If a lease does not meet one of these exemptions, it is usually on the balance sheet.

Lease term and options

Lease term includes:

- The non cancellable period.
- Renewal periods you are reasonably certain to take.
- Periods after a break option if you are reasonably certain not to break.

Getting this judgement right matters because it affects the liability, the asset, and depreciation periods.

Lease and non lease components

Contracts often include both lease and service elements. For example, a property lease might include maintenance or utilities.

Under revised FRS 102, you generally separate lease and non lease components and allocate the consideration between them. This is similar in principle to IFRS 16.

However, FRS 102 allows a practical expedient, if certain conditions are met, to treat the whole contract as a single lease. If you do this, you do not separate out services, but your lease liability will be larger. The choice should be applied consistently to similar contracts and documented.

Discount rate

You discount future lease payments using either:

- The interest rate implicit in the lease, if you can readily determine it.
- Otherwise an incremental borrowing rate.
- An obtainable borrowing rate.

The obtainable borrowing rate is a helpful option in FRS 102. It is meant to be a realistic rate your entity could get for a similar borrowing, without requiring a highly complex model.

Whichever rate you use, the key is that it is supportable and applied consistently.



Remeasurement and modifications

After commencement, you remeasure the lease liability when certain events happen.

Examples include:

- A lease modification that changes scope or consideration.
- A change in lease term due to a reassessment of options.
- Changes in payments linked to an index or rate.

FRS 102 includes practical expedients that may reduce the burden in some cases, but the ongoing work will still be meaningful for entities with regular changes.

How FRS 102 compares to IFRS 16

If you already know IFRS 16, much will feel familiar, as the overall lessee model is close.

The key differences are mostly about proportionality rather than a different direction. IFRS 16 is only about leases and is used mainly by listed and international groups. On the other hand, FRS 102 is a full GAAP framework used by a wide range of UK and ROI entities, often with smaller finance teams.

FRS 102 aims to keep the model workable for smaller entities. Examples include:

- The obtainable borrowing rate option.
- Practical expedients on separating components in some cases.
- Reduced disclosure requirements compared with IFRS 16.

These help, but they do not remove the need for careful data gathering, judgement, and audit evidence.

FRS 102 disclosures are shorter than IFRS 16, especially for Section 1A entities. Still, you will need new lease notes, including maturity analysis and expense information for exempt leases.

Who the changes affect

Any organisation applying FRS 102 with lease contracts will be affected. That includes private companies, housing providers, education providers, and any other entity under UK or Irish GAAP that uses FRS 102.

The level of effort depends on your lease volume and complexity. A small portfolio might be handled with a structured spreadsheet, while large or complex portfolios may need dedicated tools and more project time.

Revenue changes will affect all entities with customer contracts, and the impact varies by sector and contract type. If you have bundled services, long term arrangements, variable consideration, or significant contract modifications, you may see bigger changes.



Transition options and practical steps

Transition for leases

FRS 102 provides transition choices so entities do not need to rebuild full history for every lease.

You will need to:

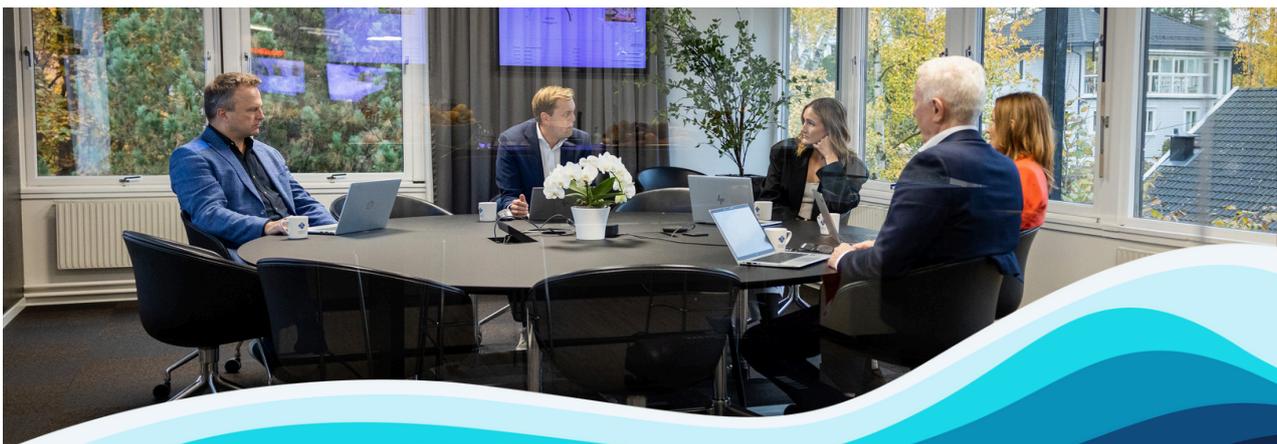
- Choose a transition approach allowed by the standard.
- Measure opening lease liabilities and right-of-use assets at the transition date.
- Adjust opening reserves as required.
- Provide the required transition disclosures.

The standard includes practical expedients, such as using a single discount rate for portfolios of similar leases, if appropriate.

We recommend early discussion with auditors so you are confident your choices are supported.

Transition for revenue

Revenue transition will also require you to determine how to apply the new Section 23 to existing contracts at the transition date.



Main tasks include:

- Mapping contract types to performance obligations.
- Reviewing how you set and allocate transaction prices.
- Checking current timing of revenue recognition against the new model.
- Deciding on the permitted transition method.
- Preparing new disclosures.

Even if the numbers do not change much, documenting the assessment matters.

A practical project path

Most organisations will follow a similar flow:

1. Build a complete lease and contract inventory.
2. Identify key judgements and policy choices.
3. Gather and validate data.
4. Run calculations and test samples.
5. Prepare openings, disclosures, and audit trail.
6. Assess KPI and covenant impacts and plan communications.

How this affects daily work

Better data discipline

Lease accounting now depends on accurate contract data. Many finance teams set up clearer processes for:

- New leases and renewals
- Modifications
- Tracking options and indices

Different monthly numbers

Your profit and loss will shift from a single rent line to depreciation and interest. That changes EBITDA and operating profit patterns.

Revenue tracking becomes more structured

The new five step model encourages consistent thinking about obligations, pricing, and timing. That often improves collaboration with sales, operations, and legal teams who draft contracts.

How to prepare effectively

Step 1: Map your leases and contracts

Create a full list of leases and revenue contracts. Identify where the data is held and any gaps.

Step 2: Decide policy choices early

For leases, this includes exemptions, component practical expedients, lease term judgements, and discount rate method. For revenue, this includes performance obligation approach, variable consideration treatment, and transition method.

Step 3: Engage auditors early

Walk through your planned approach and key judgements, which reduces late surprises.

Step 4: Use a strong, reliable solution to set up a calculation method

Use a solution that keeps you away from messy spreadsheets and lets you update and rerun the numbers easily.

Step 5: Understand KPI and covenant effects

Run scenarios so boards and lenders are not surprised.

Step 6: Plan disclosures and documentation

Keep a clear audit trail, as clear evidence makes sign off easier.

The opportunity behind the change

Despite the extra work, many organisations will find they gain:

- Clearer visibility of lease commitments and financial risk.
- Better contract discipline and ownership.
- More consistent revenue reporting.
- Stronger forecasting and planning.
- Smoother audits in future years.

If you treat this as a planned upgrade, not just a compliance job, it is easier to keep the team engaged.



Conclusion

The 2026 FRS 102 amendments are a meaningful shift for UK and ROI reporters.

Leases move onto the balance sheet for most lessees, using a right-of-use model with short term and low value exemptions. Revenue recognition moves to a clearer five step approach aligned with IFRS 15 principles. Other smaller amendments may add disclosures or clarify practice.

The main message is preparation. If you map your leases and contracts early, make supportable policy choices, and keep a good audit trail, you can transition smoothly. Once the change is in place, you should have more reliable data, clearer reporting, and better insight into your business.





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