

Upcoming Changes to UK Accounting Standards: What You Need to Know

The Financial Reporting Council (FRC) is updating FRS 102 - the UK's main accounting standards to bring accounting practices closer to international and US accounting standards. These changes apply to accounting periods starting on or after 1 January 2026.

What's Changing?

Revenue:

Revenue Recognition: FRS 102 will now use a five-step model for recognising revenue.

This will especially affect businesses with bundled products and services and/or complex or long-term contracts.

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

Lease Accounting:

- Most leases will now be shown as both assets and liabilities on your balance sheet.
- Previously, many leases (like office rentals) were kept off balance sheet and there was a distinction between operating and finance leases.
- Operating lease rental expenses will be replaced by depreciation on the right of use asset and a finance charge on the lease liability.

What about previous years?

In the vast majority of cases, there will be no need to restate past financial statements. The new rules apply only from 2026 onward, using a "modified retrospective approach."

What does this mean for you?

- **Financial Reporting:** Your reported revenue and profit may change.
- **Key Metrics:** With leases now on the balance sheet, key metrics such as EBITDA will be affected and this may impact any loan agreements or how investors view your business.
- **Internal Systems:** You may need to review your processes and in some cases, consider updating your accounting software.
- **Training:** If you have one, your finance team will need to be familiar with the new rules and understand how this may affect your business.

Other Changes

- Small entities applying Section 1A will have expanded related-party disclosures.
- Additional disclosure updates include changes to financial instruments, business combinations, and share-based payments.
- Starting in 2025, statement of cashflows require additional disclosure in respect of supplier finance arrangements.

What should you do next?

It's important to understand how you'll be affected by these changes:

- Review your customer contracts.
- Review your lease agreements to see if the changes will affect your accounts.
- Understand the impact on your management accounts from January 2026 and your statutory accounts from December 2025.
- Calculate the right of use asset and lease liability.
- Train your team on the new requirements.
- Talk to your lenders.

How can we help?

Our team are on hand to support you with this transition.

We offer a range of services to help you prepare for these changes tailored to the needs of your business.

If you have any questions please contact your usual Blick Rothenberg contact or Mandy Girder.



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