

## FRS 102: Revenue Recognition- What's changing?

As accounting standards evolve, staying informed about the updated [FRS 102](#), particularly in relation to revenue recognition, is crucial for your business. [The Financial Reporting Council](#) has introduced significant amendments to UK GAAP, including a new revenue recognition model. These changes will take effect for accounting periods commencing **on or after January 1, 2026**, although early adoption is permitted. Our experienced team of accounting and financial reporting professionals are here to help you navigate these new revenue requirements to ensure you stay compliant and well-positioned for success.

### Overview of Amendments to FRS 102

The updated [FRS 102](#) introduces a significant change in revenue recognition under UK GAAP, adopting a new five-step model aligned with International Financial Reporting Standards (IFRS 15), with some simplifications. The new approach emphasises recognising revenue when a business satisfies its performance obligations by transferring control of goods or services to the customer, replacing the previous focus on the transfer of risks and rewards.

This update provides more explicit guidance on contract revenue, particularly in situations with multiple performance obligations or long-term contracts. These changes aim to improve how businesses allocate and recognise revenue, offering a more structured process that ensures financial reports are clearer, more accurate, and easier to understand. For companies with more complex customer contracts, this update could have a substantial impact on how revenue recognition is handled.

### The Five-Step Revenue Recognition Model

At the heart of the new guidance is a structured five-step model designed to help businesses systematically recognise revenue as they satisfy performance obligations and deliver goods or services to customers. The steps are:

1. Identify the customer contract(s).
2. Identify the performance obligations within the contract (i.e., the goods or services promised).
3. Determine the transaction price — the amount of consideration expected in exchange for the goods or services being sold.
4. Allocate the transaction price to each performance obligation.
5. Recognise revenue when (or as) each performance obligation is satisfied.

This model provides a methodical framework for revenue recognition, requiring careful assessment at each step, particularly where contracts involve multiple elements or complex terms.

### How Should Revenue Be Recognised Under the Updated FRS 102?

Revenue can be recognised either at a point in time or over time, depending on the nature of the contract and its performance obligations:

- Point-in-time recognition occurs when control of goods or services passes to the customer.
- Over time, recognition applies when performance obligations are satisfied progressively, such as in construction contracts or ongoing service agreements.

Businesses must determine the appropriate revenue recognition method early in the contract lifecycle, especially when multiple performance obligations are involved that may be fulfilled over different periods. While simpler contracts may see little change, more complex agreements will likely require a comprehensive review of existing income recognition processes to ensure compliance with the updated FRS 102.

### Key Differences Between FRS 102 and IFRS 15

The updated revenue recognition model in FRS 102 closely aligns with IFRS 15 but includes several key simplifications designed to reduce complexity and better suit UK GAAP reporting requirements. The main differences are summarised in the table below:

Aspect	FRS 102	IFRS 15
<b>Time Value of Money</b>	Policy choice not to adjust for the time value of advance payments	Must adjust if a significant financing benefit exists
<b>Allocation of Variable Consideration and Discounts</b>	Less prescriptive; more judgment allowed	Detailed criteria for allocation
<b>Costs to Obtain a Contract</b>	Can capitalise or expense costs; costs recoverable within one year may be expensed	Must capitalise incremental, recoverable costs unless amortised within one year
<b>Disclosure Requirements</b>	Simplified, reduced reporting burden	More extensive disclosure requirements
<b>Transition Practical Expedients</b>	Greater use of hindsight is allowed when estimating variable consideration and contract modifications	Practical expedients are available, but more limited use of hindsight

### How Do the Changes in FRS 102 Impact Small Businesses?

For many small businesses, the updated FRS 102 may not result in significant changes to revenue recognition, as contracts tend to be straightforward. However, it remains vital to fully understand the new rules to ensure compliance, especially since the Small Companies Regime within FRS 102 is also being updated.

We recommend that small businesses carefully review their current revenue recognition processes to ensure they align with the revised standards.

### What Disclosures Are Required for Revenue Recognition?

The updated FRS 102 introduces more precise and more detailed disclosure requirements related to revenue recognition from customer contracts. Key disclosures include breaking

down revenue by categories such as type of goods or services, geography, and customer type. Businesses must also disclose contract-related balances like receivables and contract liabilities, explain performance obligations and payment terms, and describe the methods used to recognise revenue over time. Policy choices, such as the treatment of the time value of money, should also be disclosed.

These requirements, along with other detailed provisions, aim to provide users of financial statements with a better understanding of how revenue and contract balances impact a company's financial position under the revised standards.

### **Preparing for the 2025 Transition: Key Steps and Common Pitfalls to Avoid**

With the updated revenue recognition rules set to take effect in 2026, early preparation is crucial to ensure a seamless transition and compliance. To help your business get ready, focus on these critical areas:

- **Review existing customer contracts carefully** to identify all performance obligations clearly. Missing or misidentifying these can lead to incorrect revenue recognition and reporting errors.
- **Assess how contract revenue will be recognised under the new five-step model**, ensuring revenue is recorded accurately when performance obligations are satisfied. Failure to do so can result in misstated income and compliance issues.
- **Update your internal policies and staff training** to reflect the new revenue recognition rules. Misunderstandings regarding transaction price allocation or revenue timing can lead to inconsistencies and inaccuracies in financial statements.
- **Prepare for the enhanced disclosure requirements** introduced by the revised FRS 102. Failing to address these risks can lead to non-compliance and compromise transparency for your stakeholders.

By focusing on these critical areas early, you can ensure compliance with the updated standards and maintain transparent, accurate financial reporting. Our experienced team is ready to guide you through the transition, assisting with understanding the new requirements, updating your processes, and fulfilling your disclosure obligations with confidence.

We are here to help you manage the transition smoothly. If you would like to discuss how these amendments may impact your business or need support in navigating the changes, please contact [Alexandra Wheelan](#) , [Jordan Taylor](#) or your usual AAB adviser.