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SUMER
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FRS 102 Amendments: What the 2026 Changes Mean for Your Business - and How to Prepare



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Significant updates to FRS 102 come into effect for accounting periods beginning on or after 1 January 2026, marking the most wide-reaching overhaul of UK GAAP in a decade. The changes affect revenue recognition, lease accounting, fair value measurement, and broader financial reporting principles. These updates are designed to improve consistency with international standards - but they also introduce operational, financial and compliance implications that businesses should begin preparing now.

This blog summarises the key changes and the practical steps organisations need to take ahead of the 2026 transition.

A More IFRS - Aligned Reporting Landscape

The upcoming amendments bring FRS 102 into much closer alignment with international standards, particularly:

- IFRS 15 - Revenue from Contracts to Customers
- IFRS 16 - Leases
- IFRS 13 - Fair Value Measurement

This means businesses can expect shifts in how revenue is recognised, how leases appear on the balance sheet, how valuations are conducted, and how key financial metrics move as a result.

1. **Revenue Recognition: Introducing the Five - Step Model**

The current risks-and-rewards model is being replaced with a control-based five-step framework for recognising revenue. Businesses must now:

1. **Identify the contact**
2. **Identify performance obligations**
3. **Determine the transaction price**
4. **Allocate the price to performance obligations**
5. **Recognise revenue** when or as obligations satisfied

This is a major shift for service-based organisations and those with long-term or milestone-based contracts. Many may experience:

- Changes in the timing of revenue recognition
- Short-term decreases in reported earnings
- Impacts on KPIs, bonus schemes and distributable reserves
- The need to review and possibly amend contract terms

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Businesses with bundled services, variable consideration, warranties or multiple performance obligations should review their contract structures urgently.

2. **Lease Accounting: Moving Almost All Leases On-Balance-Sheet**

Under the revised standard, nearly all leases will be recognised on the balance sheet as:

- A right-of-use (ROU) asset
- A corresponding lease liability

This replaces traditional "rent expense" treatment for operating leasing and means:

- **EBITDA is likely to increase**, as lease costs shift below the EBITDA line
- **Net debt and gearing ratios will rise**, as lease liabilities become visible
- **Interest cover and covenant ratios may move**
- **Balance sheets will expand**, potentially affecting regulatory reporting, borrowing capacity, and investor perception.

Businesses with a large lease footprint (property, vehicles, equipment) will feel the most impact. Identifying "embedded leases" in service contacts is especially important.

3. **Fair Value Measurement: A Clearer, More Consistent Framework**

A revised Section 2A introduces:

- A **three-level fair value hierarchy**
- A requirement to use **market-based inputs** wherever possible
- Clear definitions of *principal market, most advantageous market* and *market participants*
- Updated valuation technique guidance

These changes will affect:

- Valuation of financial instruments
- Purchase price allocations in acquisitions
- Impairment reviews
- The measurement of unlisted investments and complex assets

Businesses will need to ensure their valuation models, documentation and controls can withstand scrutiny under the updated framework.

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4. Sector Specific Considerations

Financial Services

- Regulatory returns must reflect the new rules immediately from 2026.
- Changes affect capital adequacy calculations, liquidity ratios, and covenant compliance.
- Lease modelling and fair value adjustments will need robust controls and audit-ready evidence.

Construction, Professional Services & Long Term Contract Businesses

- Revenue timing differences could materially affect year-on-year profit recognition.
- Contract reviews and updates may be necessary to ensure performance obligations and pricing components are clear,

M&A- Active Businesses

- Deal structures, valuation multiples, earn-outs and due-diligence processes will need recalibration.
- Changes to EBITDA and net debt will alter valuation bases and negotiation dynamics.

5. The Wider Business Impact

Beyond accounting outputs, organisations should consider the downstream effects:

- **KPI shifts** due to changes in EBITDA, profit and net debt
- **Covenants** potentially breached due solely to accounting changes
- **Reward and bonus schemes** linked to financial metrics may require redesign
- **Dividend planning** could be restricted reserves decrease
- **System and process updates** needed for lease tracking, contract management and revenue modelling
- **Stakeholder communications** to manage expectations around financial performance trends

6. Actions to Take Now

- **Carry out a full impact assessment**

Identify how revenue, leases, valuation items and covenants will be affected. Start modelling outcomes before year-end.

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- **Review all contracts and leases**

Ensure contract terms give enough clarity for performance obligation analysis. Create a complete lease inventory, including embedded leases.

- **Upgrade systems and processes**

Most teams will require system changes for lease accounting, fair value modelling, and revenue analytics.

- **Engage with lenders, boards and investors early**

Communicate expected movements in KPIs, covenants and balance sheet metrics.

- **Train finance teams and operational managers**

Awareness and understanding across the business is key to a smooth transition.

Final Thoughts

The 2026 amendments to FRS 102 represent major evolution in UK financial reporting. While designed to enhance clarity, comparability and transparency, the changes will bring disruption for many organisations if preparation is left too late.

Early impact assessment, proactive planning and clear communication are essential to ensure your business is ready - not just from an accounting perspective, but across governance, financing, valuation and strategic decision - making.

If you'd like help preparing for FRS 102 changes or understanding how it applies to your organisation, we're here to guide you. Please reach out to:

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February 2026