<u>**FRS 102: Key Changes for 2026 Year Ends**</u>

**A simple guide to the new disclosure requirements for leases, revenue recognition and related party transactions**

Significant updates to FRS 102 apply for accounting periods beginning on or after 1 January 2026. These changes affect all entities using FRS 102, including small companies applying Section 1A. The four areas clients will notice most are:

(1) related party disclosures (2) going concern disclosures (3) lease accounting and (4) revenue recognition.

## 1. Related Party Transactions – Much More Detail Required

The disclosure requirements for related party transactions have been significantly expanded in that "much more comprehensive disclosures will be required by small entities in the UK".

This will include:
- The nature of the relationship.
- Amounts of transactions, outstanding balances and commitments.
- Terms and conditions, including security and settlement arrangements.
- Guarantees given or received.
- Provisions for uncollectible balances and bad debt expenses.

**What clients should do**
- Speak to Magee Gammon
- Ensure all related party transactions are documented.
- Reconcile director loan accounts.
- Consider formalising informal arrangements (e.g., interest-free loans).
- Prepare for more detailed note disclosures being available on public record.

## 2. Going Concern

A going concern is a business that is expected to continue trading for at least the next 12 months without needing to liquidate or cease operations. Historically, it has been presumed that a small entity (limited companies/LLPs) is a going concern, unless there is a disclosure to the contrary. This approach has been reviewed, requiring a positive disclosure.

Small entities will now need to:
- Disclose that the financial statements are prepared on a going concern basis;
- Confirm that management has considered all available information about the future when making the assessment; and
- Disclose any significant judgements made in assessing the entity's ability to continue as a going concern.

**What clients should do:**
- Speak to Magee Gammon.
- Consider that the entity has the ability to continue trading for at least 12 months (cashflow projections may help quantify).
- Be mindful of events that could impact on the ability to continue trading.

## 3. Lease Accounting – Most Leases Now Go On the Balance Sheet

FRS 102 has been updated so that, as a lessee, nearly all leases must now be recognised on the balance sheet. This means:

- You will show a right-of-use asset and a lease liability for most lease arrangements.
- The old “operating vs finance lease” distinction no longer applies for lessees.
- Profit and loss will show depreciation and interest, not a single rental charge.

**Disclosure requirements for small entities**
Small companies must now provide more detail about their leasing arrangements, including:

- A general description of significant leases.
- Additional information where needed to help users understand the lease terms.
- The expense relating to short-term leases, low-value leases and variable lease payments.

**What clients should do**

- Speak to Magee Gammon.
- Review all lease agreements.
- Identify short-term or low-value leases that may be exempt for reporting purposes.
- Consider whether the new balance sheet impact affects banking covenants, if so discuss with your bank.

## 4. Revenue Recognition – Introduction of the Five-Step Model

FRS 102 now includes a five-step model for recognising revenue from contracts with customers. This will require entities to “carefully assess their revenue recognition accounting policies”.

This affects businesses with:

- staged or milestone-based projects.
- bundled goods and services.
- subscription or service contracts.
- variable pricing or performance-based fees.

**Disclosure requirements for small entities**
Small companies must now disclose information about their performance obligations, including:

- When performance obligations are typically satisfied (e.g., on delivery, over time).
- Payment terms, including whether financing is involved.
- The nature of goods or services promised, including whether the entity acts as principal or agent.

**What clients should do**

- Speak to Magee Gammon.
- Review customer contracts.
- Identify performance obligations and timing of revenue.
- Update accounting policies and internal documentation.

**Next Steps for Businesses**
To prepare for the 2026 changes, we recommend:

1. Review leases and gather the information needed for new disclosures.
2. Map revenue streams to the five-step model.
3. Identify related parties and ensure transactions are properly recorded.
4. Update internal processes to capture the new disclosure data.
5. Discuss the impact early, especially where lenders or auditors are involved.