



UHY Ross Brooke
Chartered Accountants

In the know: FRS 102 changes

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Helping you prosper

The big shift: lease accounting

What's changing for leases?

Operating leases capitalised: The old split between operating and finance leases is removed.

On the balance sheet: Most property, vehicle and equipment leases must now be recognised as right-of-use assets with matching lease liabilities.

Profit and loss impact: Rental expenses replaced by depreciation and interest. This lifts EBITDA but increases financing costs.

More disclosure: Businesses must provide further disclosures, including maturity schedules and explanations of transition.

The first major shift to consider is leases, and the changes here are significant. Under the new rules, the long-standing distinction between operating and finance leases disappears. Instead, almost all leases, whether for property, vehicles or equipment, will need to be brought onto the balance sheet. Each arrangement will be recognised as both a right of use (RoU) asset and a corresponding lease liability.

This change has a number of knock-on effects:

1. **EBITDA will appear stronger**, as rental expenses disappear from administrative costs and are replaced by depreciation and interest.
2. **Overall profit levels may change**, and the presentation of results looks very different.
3. **Balance sheets will grow**, with higher reported assets and liabilities, and some charges will be more front-loaded.
4. **Key ratios and covenants may shift**, particularly gearing, net debt and bonus schemes linked to EBITDA. It is important to note that bank/lending covenants are impacted, which may impact borrowing facilities.

For many organisations, this will be one of the most significant accounting changes they have ever had to implement. The impact will be felt across finance teams, systems, lender relationships and even bonus schemes, so taking this seriously from day one is crucial.

There are, however, some important exemptions and judgement calls within the new rules, for example, around short-term arrangements, low-value assets, sub-leases and sale and leaseback transactions and variable payments. Getting these right is vital, as they can significantly affect the numbers you report. We can work with you to assess which exemptions apply and ensure your treatment is both compliant and efficient.

More complex arrangements, including sub-leases and sale-and-leaseback transactions, will require additional care and judgement, with the accounting treatment determined on a case-by-case basis.

For example:

A business leases office space for five years. Previously, only the annual rental expense appeared in the accounts each year. Under the new rules, the lease is recognised as a right-of-use asset and a liability, increasing both assets and liabilities on the balance sheet. The expense profile shifts to depreciation and interest, impacting EBITDA and key ratios.

Adopters of similar standards, such as the International Financial Reporting Standard 16 Leases (IFRS 16) found that data gaps and system limitations were common. Starting early allows time to address these issues and avoid last-minute disruption.

A new five-step model for revenue recognition

The second major change is to revenue recognition. Section 23 of the Financial Reporting Standard 102 (FRS 102) now introduces a structured, five-step model, closely aligned with the Revenue from Contracts with Customers (IFRS 15).

The aim is to bring greater consistency and transparency to how revenue is reported, particularly where contracts are more complex.

The five steps are as follows:

Step one	Step two	Step three	Step four	Step five
Identify the contract with a customer – there must be a clear, enforceable agreement.	Identify performance obligations – specify what goods, services or deliverables are agreed	Determine the transaction price – including fixed and variable elements.	Allocate the price to performance obligations – based on standalone selling prices.	Recognise revenue – as and when each obligation is satisfied, either over time or at a point in time.

For many businesses, such as those selling goods or providing what is considered simpler services, the end result will look similar to current practice. However, the new framework requires all businesses to formally document their assessments and judgements. This additional scrutiny will be particularly relevant where contracts include multiple elements, variable pricing or staged delivery.

While the technical detail sits within the standard, the real impact is practical: businesses will need to review existing contracts, ensure that obligations are clearly defined and update their systems and controls to capture the correct information. For some sectors, the changes could alter the timing of revenue recognition and therefore affect reported profit patterns.

For example:

A software company sells a package with installation and support. Under the new model, revenue is split between the software, installation, and support, and recognised as each service is delivered—not just when the invoice is raised. i.e. it requires revenue to be separated/recognised based on distinct performance obligations.

Adopters of similar standards (IFRS 15) noted that contracts with multiple elements or variable pricing will require careful review and documentation. Businesses should update systems and controls now to capture the right information early.



Preparing for change

Perhaps one of the biggest challenges with these changes is how they will first appear in your accounts. Comparatives for 2025 will not normally be restated, so the 'step change' will land suddenly in your 2026 accounts. RoU assets and lease liabilities will appear on the balance sheet for the first time, and revenue may be recognised and presented differently. For many businesses, this will make year-on-year comparisons difficult and could raise questions from boards, lenders and other stakeholders and extra disclosures will be required in the accounts.

From experience of IFRS 15 and IFRS 16 adoption, businesses that start early are better placed to avoid disruption and explain the impact clearly. Early preparation is therefore essential. The first step is understanding the likely impact on your balance sheet and profit profile; modelling this early will give you valuable insight and highlight any data gaps before they become a problem.

From there, businesses will need to make sure their lease and revenue data is complete and accessible, review their systems and processes, and consider how the new numbers will affect covenants, management reporting and tax.

This is where UHY can step in. We can help you run the calculations, get your data and disclosures statutory accounts-ready and guide you through the transition with minimal disruption. The sooner you start, the smoother the process will be.

The lesson from early adopters is clear: these projects take longer than expected and data is rarely as complete as hoped. Starting early, testing assumptions and embedding changes into your processes now will make for a smoother, more robust transition.

The next step

Start the conversation early

The most important first step is to speak to us at UHY. We can help you understand how the changes are likely to affect your numbers, support you with the calculations and make sure you are fully ready well before audit time.

Run an impact assessment

Once you have started the conversation, we can help you model a handful of leases and/or revenue contracts to see the scale of change and highlight any data gaps before they become a problem.

Locate and clean your data

Finally, ensuring your lease and revenue contracts are complete, signed and accessible will put you in a strong position to implement the changes smoothly and confidently.



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