



UK/Irish GAAP Periodic Review – Preparing for the changes

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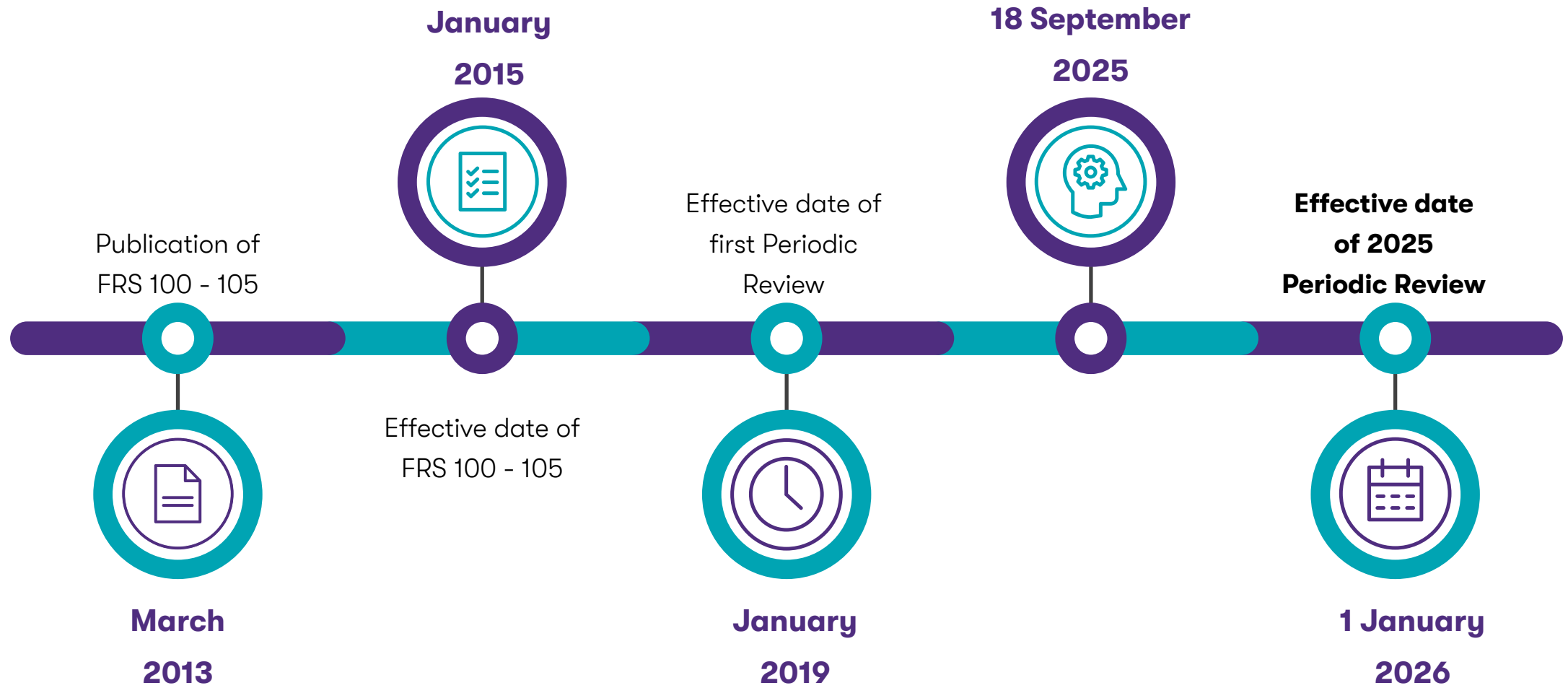
18 September 2025

Agenda

- 1 Setting the scene
- 2 Accounting for revenues
- 3 Accounting for leases
- 4 Section 1A changes
- 5 Other changes
- 6 Practical considerations
- 7 Q&A and close

1 Setting the scene

Setting the scene



FRS 102 & 105 periodic review

- Overall concept of FRS 102 – alignment with IFRS, with simplifications
- Introduced concept of micro accounting framework – FRS 105
- Periodic Review published 27 March 2024
- Applies periods beginning **1 January 2026**
 - Early adoption available, provided all provisions adopted at the same time
- Exception – Supplier finance arrangements (FRS 102)– p/b **1 January 2025**

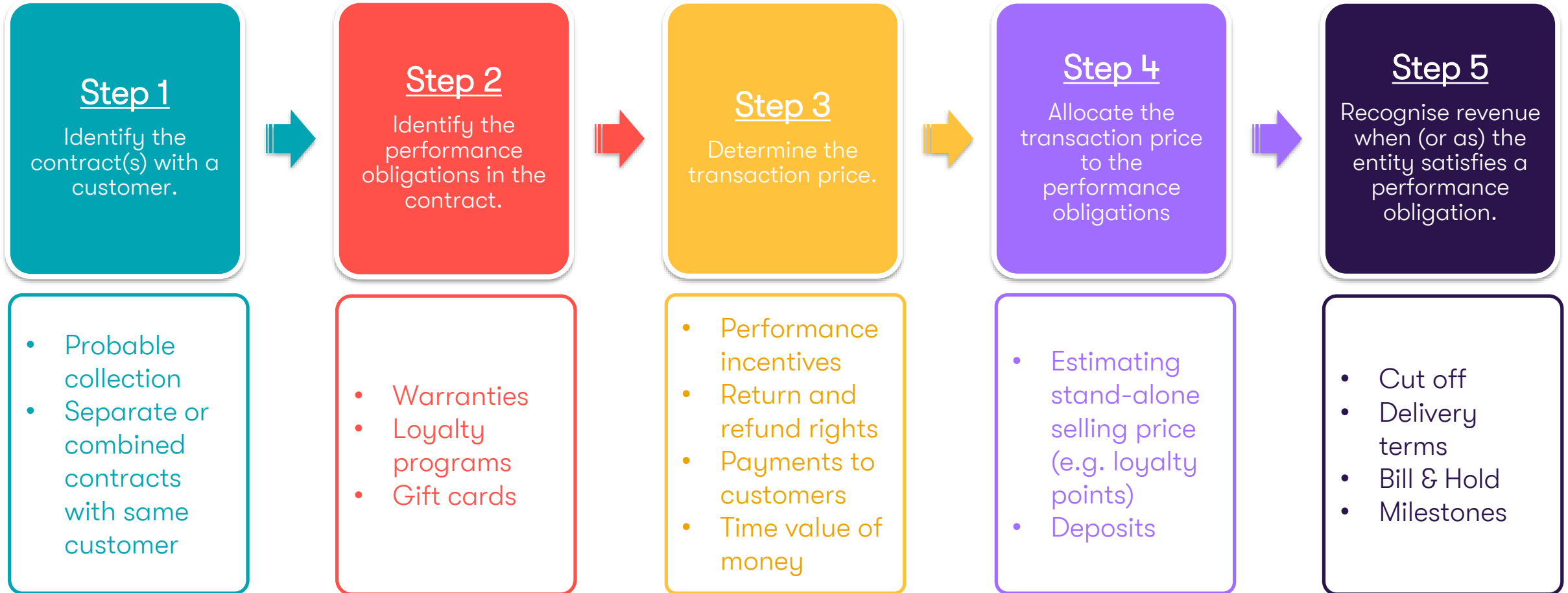
Key changes

- Revenue – new 5-step model
- Leases (FRS102 only) – most leases now on-balance sheet
- UK FRS 102 section 1A – more prescriptive disclosures

2 Accounting for revenues

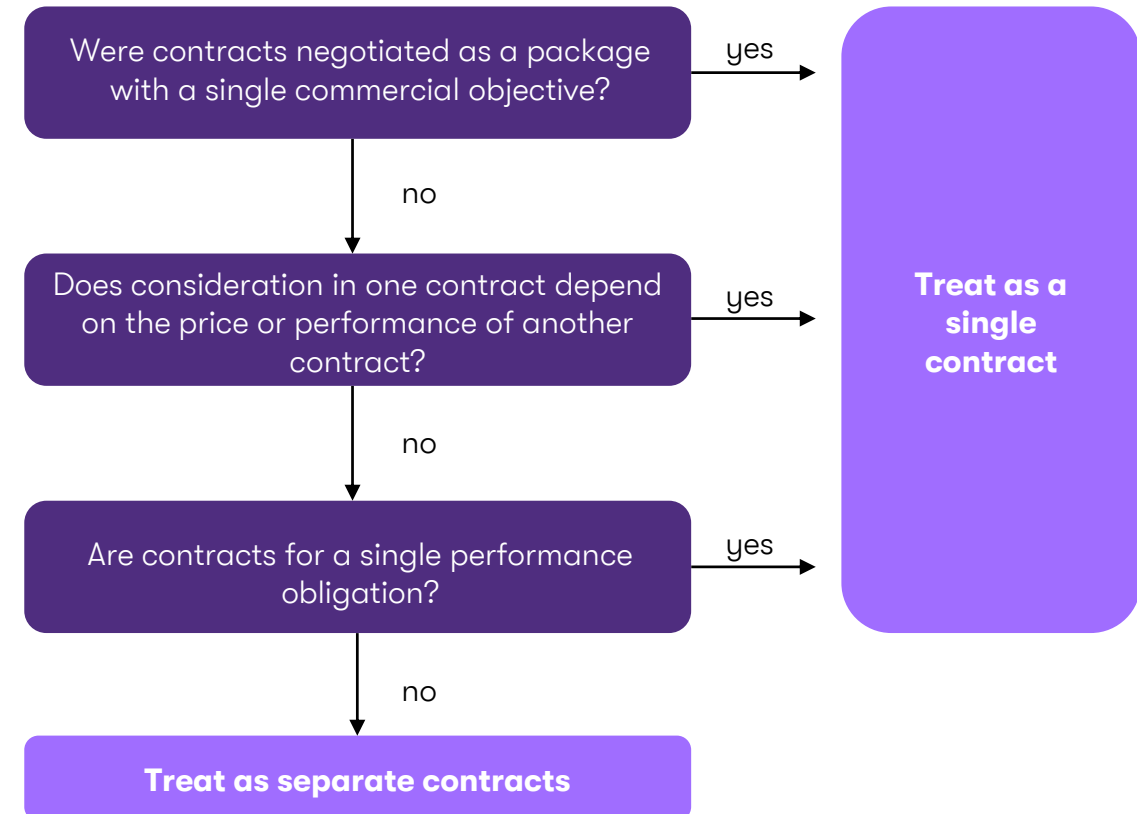
Revenue 5-step model

DOES apply to FRS 105

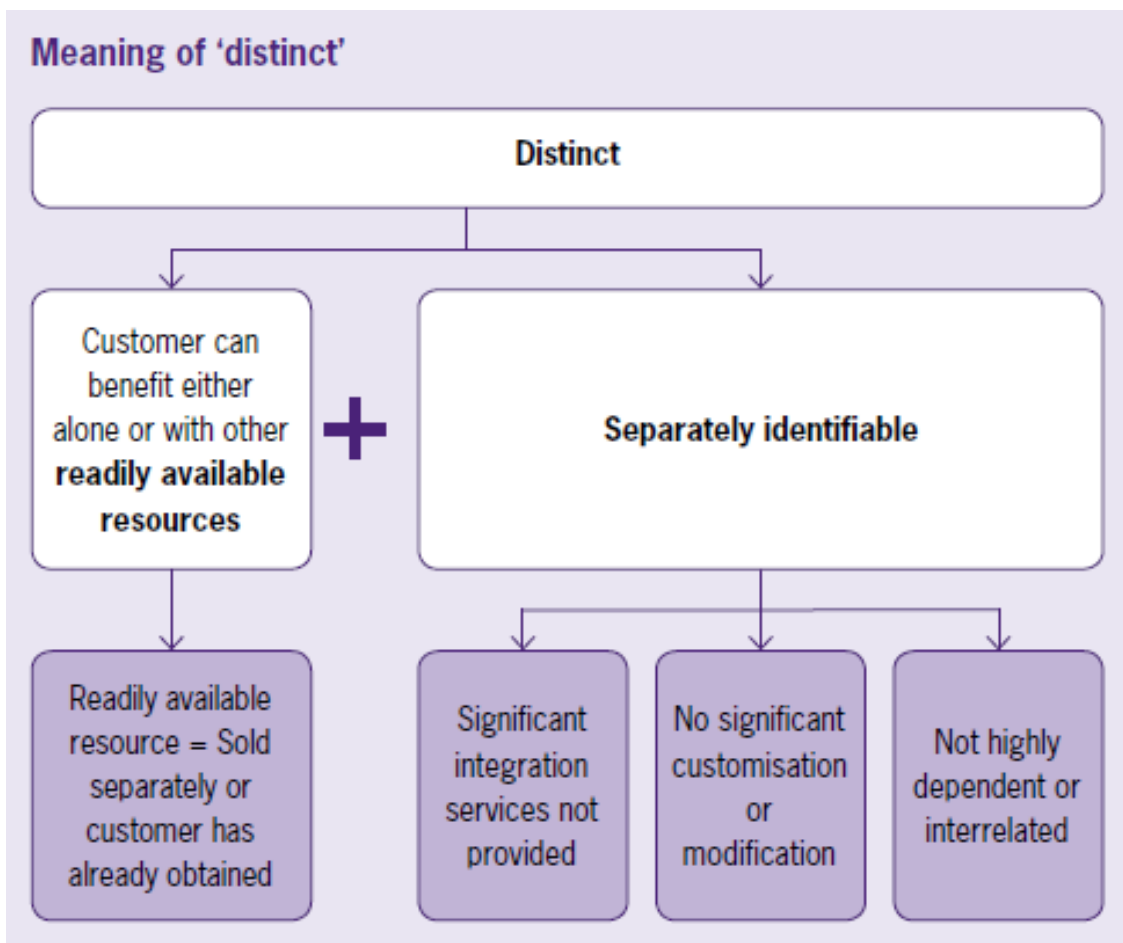


Step 1: Identify the contract(s) with a customer

- Contract exists when:
 - All parties have accepted the contract / committed to obligations
 - All parties' rights are clearly identified
 - Clear payment terms exist
 - Contract has commercial substance
 - Probable the customer will have ability/intention to pay consideration when due
- Only reassess when indication of significant change in relevant facts / circumstances



Step 2: Identify the performance obligation(s) in the contract



Performance obligation – promise to transfer to the customer either:

- Distinct good/service or
 - Series of distinct goods/services that are substantially the same and have the same pattern of transfer
-
- Identify **all** distinct performance obligations in a contract
-
- Distinct:
 - Customer can benefit from the goods/services on its own or in conjunction with other readily available resources; AND
 - Entity’s promise to transfer the good/service is separate from other promises

Step 3: Determine the transaction price

Transaction price = amount of consideration to which an entity expects to be entitled (excl. amounts collected for third parties e.g., sales taxes)

- Consider the impact of:
 - Variable consideration
 - Sales- or usage-based royalties
 - Refund liabilities
 - Right of return
 - Time value of money
 - Non-cash consideration
 - Consideration payable to customers

IFRS 15 simplifications:

- Time value of money – no need to discount for payments received in advance
- Assets arising from a right of return are classified as inventory

Variable consideration

An entity shall apply one method consistently throughout the contract when estimating the amount of variable consideration (para 23.45).

Variable consideration is included in the transaction price only if it is **highly probable** that the uncertainty associated with the variable consideration is subsequently resolved (sometimes referred to as the “*variable consideration constraint*”) i.e., that it is highly probable the entity will be entitled to the cumulative revenue (para 23.46).

The estimate of variable consideration should be updated at the end of **each reporting period** to reflect any change in circumstances (para 23.47).

Example: Determine the transaction price

Example: Company B agrees to carry out a service for a customer. The contract has a single PO that is satisfied over time and the transaction price consists of a €50k fixed element and a €25k variable element to which B will be entitled if it meets specific performance criteria.

At the end of the first reporting period, B measures its progress towards completion of the performance obligation at 90%. B also assesses that the amount of variable consideration it will be entitled to is the full amount, because it may fulfil the performance criteria.

B initially estimates the amount of variable consideration to which it will be entitled to be €25k, which gives a total transaction price of €75k. Using that transaction price would suggest that B would recognise €67,500 as revenue ($90\% \times €75k$) at the end of the first reporting period. However, B must also consider the variable consideration constraint.

How should B account for this revenue?

Example: Determine the transaction price

B considers it “may” meet the performance criteria -need to consider whether it is “highly probable”

If B did not meet performance criteria – only entitled to €50k at end of contract:

End of Year 1:

- Variable constraint limited to €0
- B recognises revenue of €45k (90% x €50k) only

End of Year 2 (contract now complete):

- No performance criteria achieved – recognise remaining €5k (bringing cumulative revenue to €50k)
- Performance criteria achieved – recognise €30k (€5k plus €25k variable revenue) – brings total revenue to €75k cumulatively

Step 4: Allocate the transaction price to the POs

- Transaction price allocated to each PO – in proportion to stand-alone selling prices of goods/services underlying each PO
- Where observable prices are not available, use an estimation method:

Method	Description
Adjusted market assessment approach	Involves evaluating the market in which the entity sells goods or services and estimating the price that customers in that market would pay for those goods or services. An entity might also consider price information from its competitors and adjust that information for the entity's particular costs and margins.
Expected cost plus margin approach	An entity would forecast its expected costs to provide goods or services and add an appropriate margin to the estimated selling price.
Residual approach	Involves subtracting the sum of observable stand-alone selling prices for other goods and services promised under the contract from the total transaction price to arrive at an estimated selling price for a performance obligation. This method is permitted only if the entity: <ul style="list-style-type: none">• sells the same good/service to different customers (at or near the same time) for a broad range of amounts; or• has not yet established price for the good/service and the good/service has not previously been sold on a stand-alone basis.

Example: Allocate the transaction price to the POs

Example: Entity X determines the transaction price of a contract to be €15k.

The contract contains three POs, with stand-alone selling prices of €4k, €8k and €5k respectively = total of €17k.

How does X allocate the transaction prices across the performance obligations?

Allocate based on transaction price based on relative stand-alone selling prices.

$$\text{PO 1: } (\text{€}4\text{k} / \text{€}17\text{k}) \times \text{€}15\text{k} = \text{€}3,529$$

$$\text{PO 2: } (\text{€}8\text{k} / \text{€}17\text{k}) \times \text{€}15\text{k} = \text{€}7,059$$

$$\text{PO 3: } (\text{€}5\text{k} / \text{€}17\text{k}) \times \text{€}15\text{k} = \text{€}4,412$$

$$\text{TOTAL} \quad \quad \quad \text{€}15,000$$

Example: Allocate the transaction price to the POs

Example: Company Z enters into a contract with a customer to sell products A, B and C for €100 (in total). Company Z will satisfy the POs for each of the products at different points in time. Z regularly sells product A separately, and therefore the stand-alone price of €50 is directly observable. The stand-alone prices of products B and C are not directly observable.

- Need to estimate stand-alone prices for products B and C.
- For example:

Product A	€50	Directly observable
Product B	€20	Based on equivalent product sold by competitor
Product C	<u>€45</u>	Based on “cost plus”
TOTAL	€115	

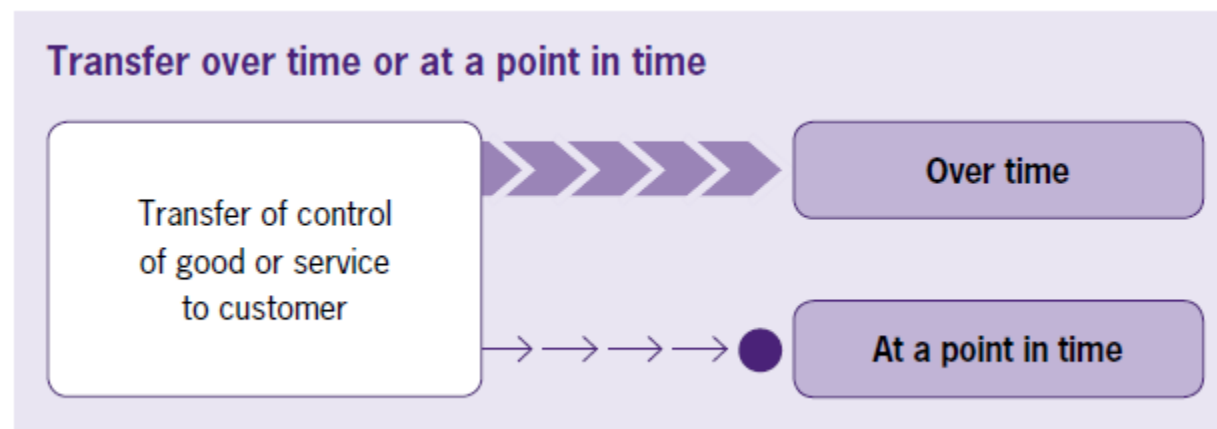
Step 5: Recognise revenue when/as POs satisfied

- PO is satisfied when control of underlying goods/services is transferred to customer

Over time – at least one of:

- Customer simultaneously receives & consumes benefits as the entity performs
- Entity's performance creates/enhances an asset that the customer controls as the asset is created/enhanced
- Entity's performance does not create an asset with an alternative use to the asset and entity has enforceable right to payment for performance to date

Use a measure of progress such as output method (e.g., units delivered) or input method (e.g., measure of time elapsed)



Example: Recognise revenue when/as POs satisfied

Entity D enters into a contract with a customer with a transaction price of €10k, which is paid in advance. The contract contains a single PO that is satisfied over time.

At the end of Year 1, the PO is 60% complete.

At the end of Year 2, the PO is 100% complete.

How does D recognise account for this contract?

Example: Recognise revenue when/as POs satisfied

At start of contract:

Dr Cash	€10,000	
Cr Contract Liability		€10,000
Being cash received in advance		

At the end of Year 1:

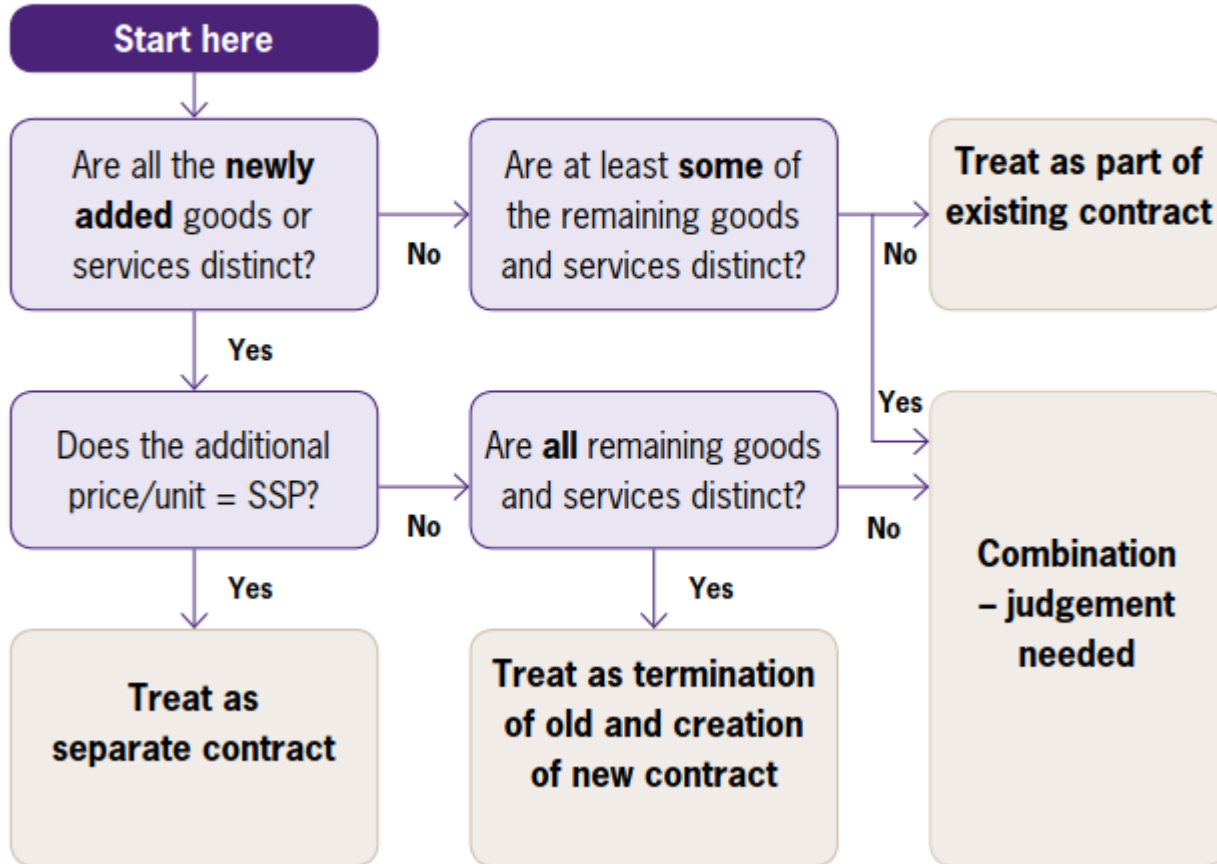
Dr Contract Liability	€6,000 (60% x €10,000)	
Cr Revenue		€6,000

At the end of Year 2/Completion of contract:

Dr Contract Liability	€4,000	
Cr Revenue		€4,000

Contract modifications

Treatment of contract modifications



- Contract modification – parties approve a change in scope and/or price of a contract
- Accounting – depends on whether modification is deemed to be a separate contract

Transition and disclosure

- Effective periods beginning 1 January 2026
 - early adoption available, provided all FRS102 amendments applied at same time
- Choice of transition – **modified retrospective vs full retrospective**
(micro = prospective for contracts after implementation date)
- Some practical expedients available
- Significant additional disclosures including:
 - Information about POs
 - Analysis of contract balances (receivables, assets, liabilities)
 - Methods used to recognise revenue over point in time
 - Quantitative/qualitative explanation of significant unsatisfied POs
- Some exemptions under UK Section 1A and Reduced Disclosure Framework (s1.12)

Consider estimates and judgements

3 Accounting for leases

Section 20: Leases

Applies to FRS102 only

Headlines:

- Minimal changes to lessor accounting
- Significant changes to lessee accounting
- New definition of a lease
- New guidance on sale & leaseback
- Additional disclosures



Lease exemptions

Short-term leases

- Total lease term < 12 months, at date of commencement
- Election made by class of underlying asset
- Cannot be short-term if
 - contains a purchase option

Low-value assets

- Lease-by-lease basis
- Based on value of asset *new* – regardless of age of leased asset
- No consideration of materiality
- Examples – computers, mobile phones, photocopiers
- Cannot be low-value if:
 - Highly dependent on other assets
 - Where there is a sublease in existence, head lease cannot be low value
- Note – no \$5k suggested threshold

Recognised as an expense on straight-line or other systematic basis representative of lessee's benefit

Example: Short-term and low-value assets

Short-term, low-value or leased assets?

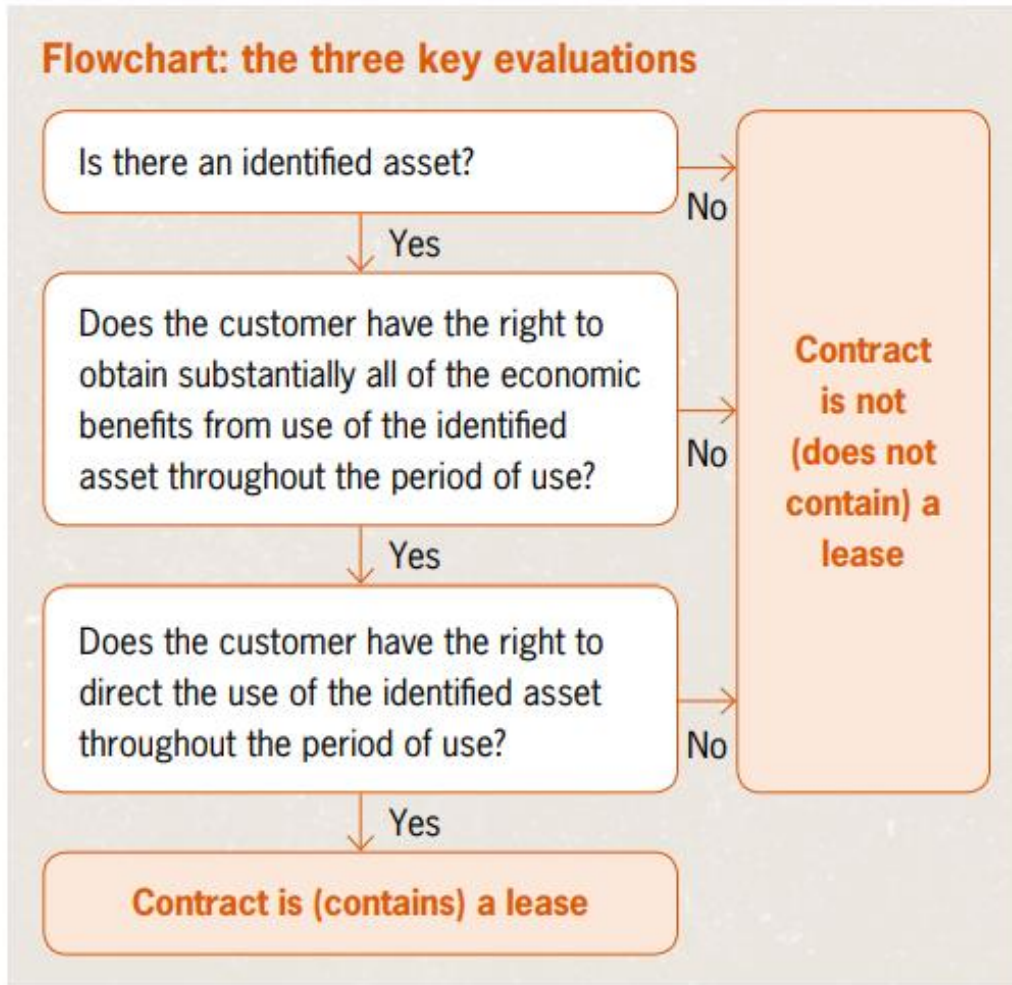
A company leases-

- **Machinery** – a variety of machines to support its primary operations, each costing £1k - £3k, which are highly dependent on other, owned, machinery
- **Laptops** – 42 laptops under one contract, each costing €750
- **Motor vehicles** – four cars for use by senior management, leased over a period of c. 3 years
- **Office equipment** – a photocopier for 12 months and renewed each year
- **Property** – a floor of an office building for 12 months and renewed each year

Assets that are not low-value

- Include, but not limited to (s20.11)
 - Cars, vans, buses, coaches, trams, trucks and lorries
 - Cranes, excavators, loaders and bulldozers
 - Telehandlers and forklifts
 - Tractors, harvesters and related attachments
 - Boats and ships
 - Railway rolling stock
 - Aircraft and aero engines
 - Land and buildings
 - Production line equipment

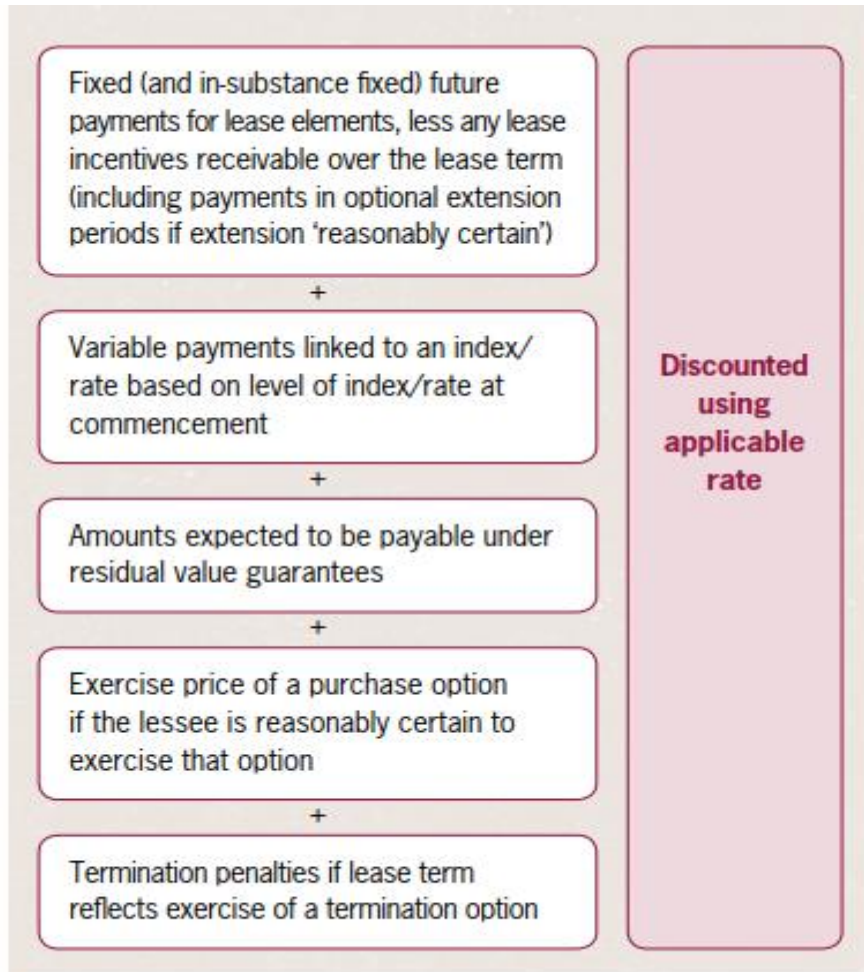
Definition of a lease



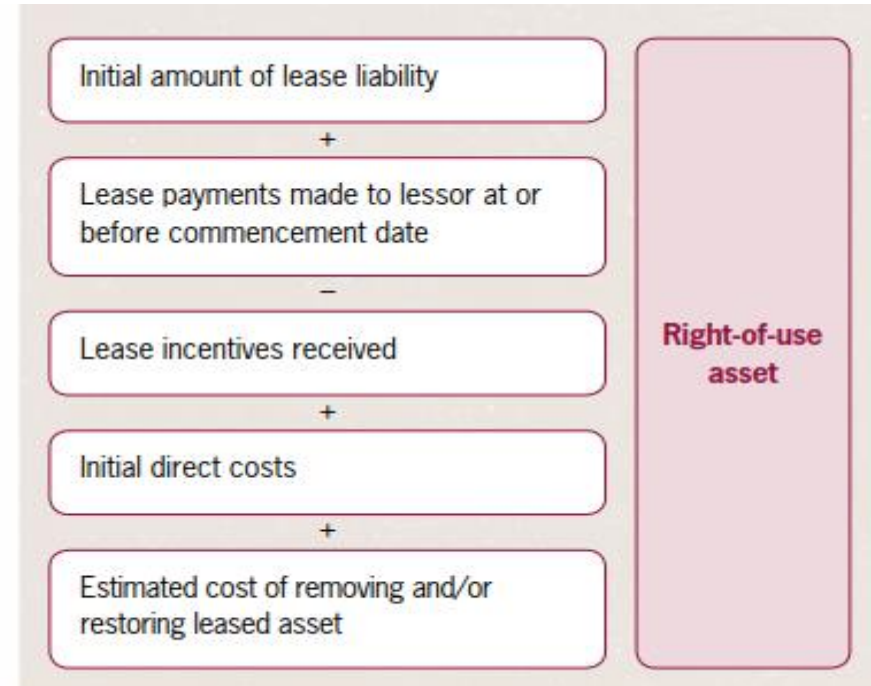
- May result in some contracts previously recognised as leases no longer qualify, and vice versa

Initial recognition

Lease liability



Right-of-use asset



Example: Initial recognition & subsequent measurement

Example: On 1 January 2026, Company A enters into a three-year lease of office premises. The rentals are €10k per year, payable at the **end** of each year. There are no services or other non-lease elements. No initial costs are incurred or incentives received. The applicable discount rate is 5%.

Initial measurement of lease liability is present value of future payments =

$$\text{Year 1} = 10,000 / 1.05$$

$$\text{Year 2} = 10,000 / 1.05^2$$

$$\text{Year 3} = 10,000 / 1.05^3$$

$$\text{Total} = \text{€}27,232$$

Example: Initial recognition & subsequent measurement

Assuming straight-line depreciation over three years:

Cash flow and P&L	1/1/26 €	31/12/26 €	31/12/27 €	31/12/28 €
Lease payments (cash)	-	10,000	10,000	10,000
Depreciation expense	-	9,077	9,077	9,078
Interest expense	-	1,362	930	476

Balance sheet	1/1/26 €	31/12/26 €	31/12/27 €	31/12/28 €
ROU asset	27,232	18,155	9,078	-
Lease liability	27,232	18,594	9,524	-

Example: Initial recognition & subsequent measurement

Initial recognition	Dr €	Cr €
ROU asset	27,232	
Lease liability		27,232

Subsequent measurement	Dr €	Cr €
Depreciation expense	9,077	
Interest expense	1,362	
Lease liability	8,638	
Cash		10,000
ROU asset depreciation		9,077

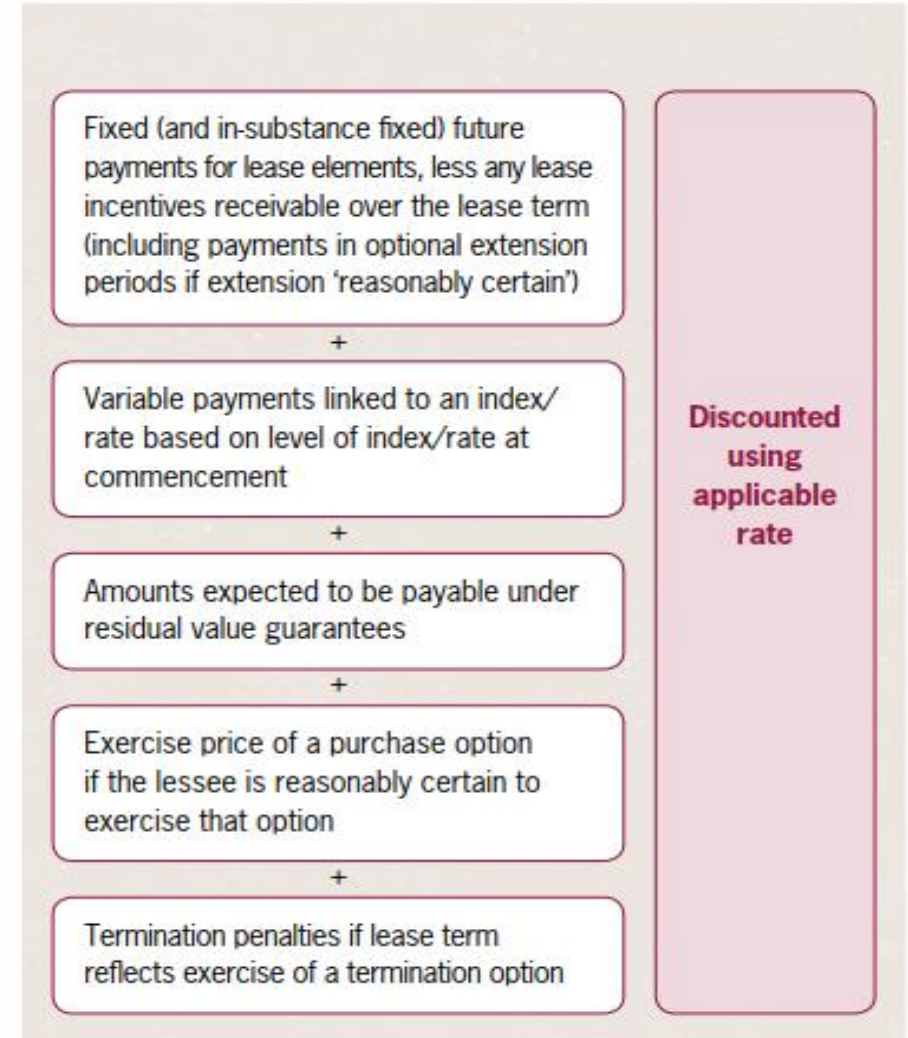
Example: Calculation of lease liability

Example: On 1 January 2026, Company B enters into a five-year property lease, with:

- Annual payments of €10k, payable in **advance**
- A six-month rent-free period
- A lease incentive of €3k received at the start of the lease (as opposed to receivable in the future)

The lease also includes an additional turnover rent, payable in arrears, of 5% of the sales made by the lessee using the leased property.

What lease payment(s) are reflected in the calculation of the lease liability? (*ignore discounting for the purposes of this example*)



Example: Calculation of lease liability

Lease payments to be included in calculation of lease liability:

Date	Lease payment (€)
1 JULY 2026 (incorporates six-month rent free period)	5,000
1 January 2027	10,000
1 January 2028	10,000
1 January 2029	10,000
1 January 2030	10,000

Not included:

- Turnover rent excluded from liability calc as variable lease payment not dependent on rate/index
- Cash incentive excluded from liability calc but *is* deducted from ROU asset measurement

Discount rates

3 options:

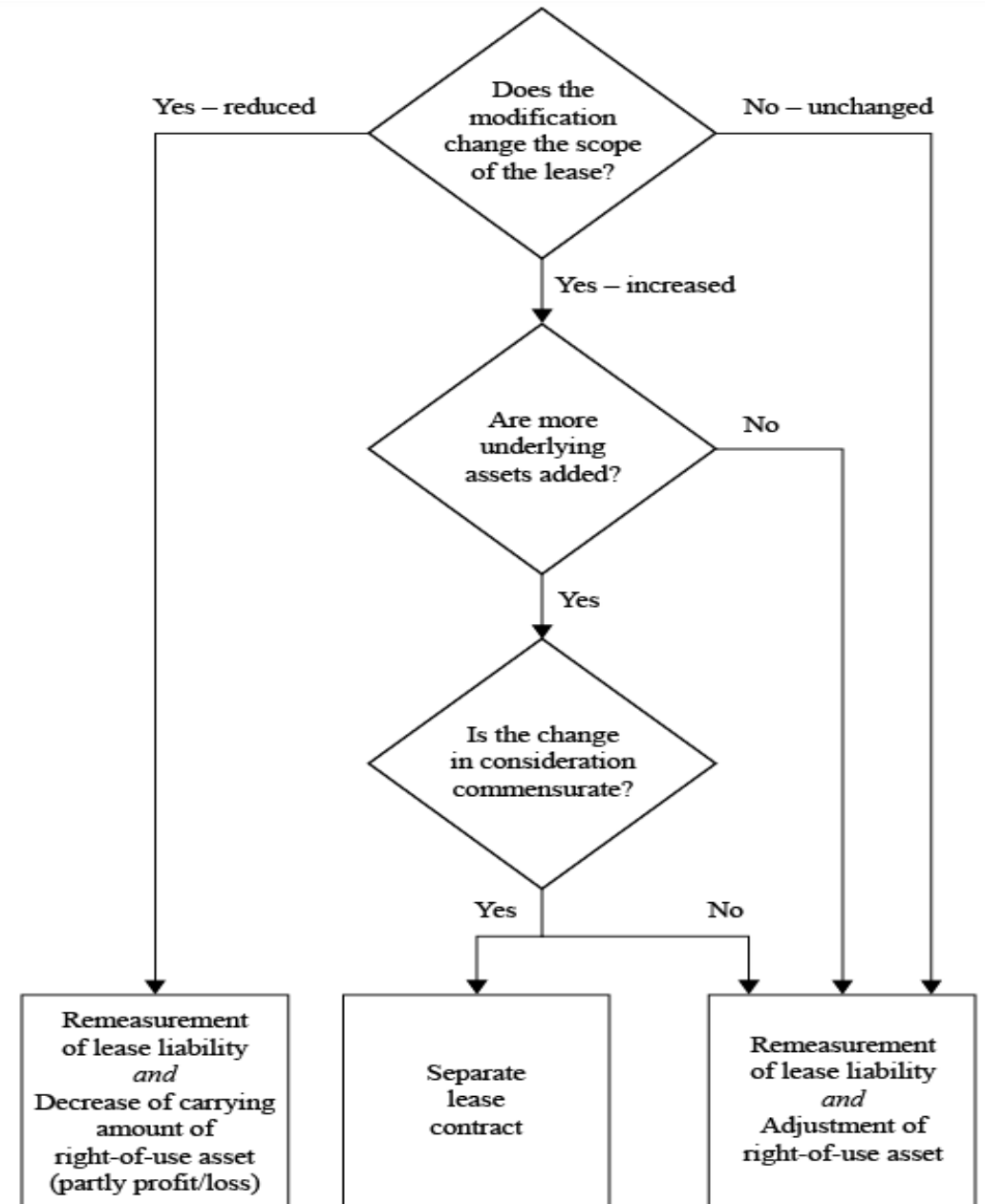
- 1) **Interest rate implicit in the lease:** if readily determinable – rate that:
PV of lease payments + unguaranteed residual value = FV of underlying asset + any direct costs to lessor
- 2) **Incremental borrowing rate:** rate to be paid to obtain a loan of similar terms to obtain asset of similar value to ROU
- 3) **Obtainable borrowing rate:** rate to borrow a similar amount to total undiscounted lease payments

Simplification in
FRS 102

Lease modifications

Discount rates

- Generally – revised discount rate for modifications that are not separate leases
- FRS102 offers certain exemptions from this



Transition and disclosure

- Effective periods beginning 1 January 2026 – early adoption available, provided all FRS102 amendments applied at same time
- Mandatory **modified retrospective**
- Some practical expedients available
- Significant additional disclosures including:
 - Description of significant leasing arrangements – including both quantitative and qualitative information
 - Total cash outflows, variable lease payments not included in lease liability etc
 - Details of lease modifications
 - Additional information for ROUs held at revalued amounts
- Some exemptions under UK Section 1A and Reduced Disclosure Framework (s1.12)

Consider estimates and judgements

4 (UK) Section 1A changes

Small companies – FRS 102 Section 1A

- Aim of revisions: provide clarity around disclosures required in order to meet overriding requirement for accounts to give a true & fair view (1A.5)
- **Irish small companies** – no change – disclosures in Appendix 1D of s1A based on Schedule 3A of CA2014
 - Clarifies “an entity need not provide a specific disclosure set out in this appendix if the information resulting from that disclosure is not material, except when required by the Companies Act 2014 regardless of materiality” (1AD.1)

UK Small companies – FRS 102 Section 1A

- UK companies – significant additional disclosures
 - Clarifies “an entity need not provide a specific disclosure set out in this appendix if the information resulting from that disclosure is not material, except when required by the [Companies Act 2006] regardless of materiality” (1AC.1)
- New mandatory disclosures:
 - Explicit and unreserved statement of compliance with FRS 102 (1AC.2A)
 - **Going concern basis** disclosed, along with confirmation management have considered information about the future, including any significant judgements made. Any material uncertainties should be disclosed (1AC.2C)
 - Deferred tax – amount of DT liabilities & assets at YE for each type of timing difference, including expiry date of any unused tax losses/credits (1AC.11A)
 - ROU assets reconciliation – depreciation b/f, charge for year, c/f etc (1AC.13)

UK Small companies – FRS 102 Section 1A

- New mandatory disclosures (cont.):
 - **Leases** – general description of leasing arrangements (1AC.31A)
 - If necessary to allow users to understand significant lease arrangements – additional quantitative and qualitative information as per s20.77 (1AC.31B)
 - short-term leases, low-value leases and variable lease payments as required by full FRS102 (paras 20.80(b) – (d)) (1AC.32A)
 - Provisions & contingencies – all disclosure requirements of full FRS102 (paras 21.14 – 21.17A) (1AC.31C)
 - Certain share-based payment disclosures (1AC.31D)

UK Small companies – FRS 102 Section 1A

- Related parties – removal of “not under normal market conditions” requirement – will mean more related party transactions will fall within scope (1AC.35)
 - Directors’ rem?

UK small entities – related party disclosures

For accounting periods beginning on or after 1 January 2026, FRS 102 requires (in paragraph 1AC.35) a UK small entity to provide disclosure about related party transactions by applying paragraphs 33.9 and 33.14, but not paragraph 33.7 (which requires disclosure of key management personnel compensation). Paragraphs 33.7 and 33.9 are intended to be complementary, not duplicative. Accordingly, there is no explicit requirement in FRS 102 for a UK small entity to disclose directors’ remuneration. However:

1. Directors’ remuneration not concluded under normal market conditions would require disclosure by law (paragraph 66 of Schedule 1 to *The Small Companies and Groups (Accounts and Directors’ Report) Regulations 2008* (SI 2008/409)).
2. Section 393 of the *Companies Act 2006* requires the financial statements of a company to give a true and fair view. In order to comply, a small entity may need to provide disclosures in addition to those explicitly required by FRS 102. This could in principle apply to directors’ remuneration; judgement may be required.
3. Transactions with directors that fall outside the definition of key management personnel compensation, and therefore outside the scope of paragraph 33.7, are expected to require disclosure under paragraph 33.9.

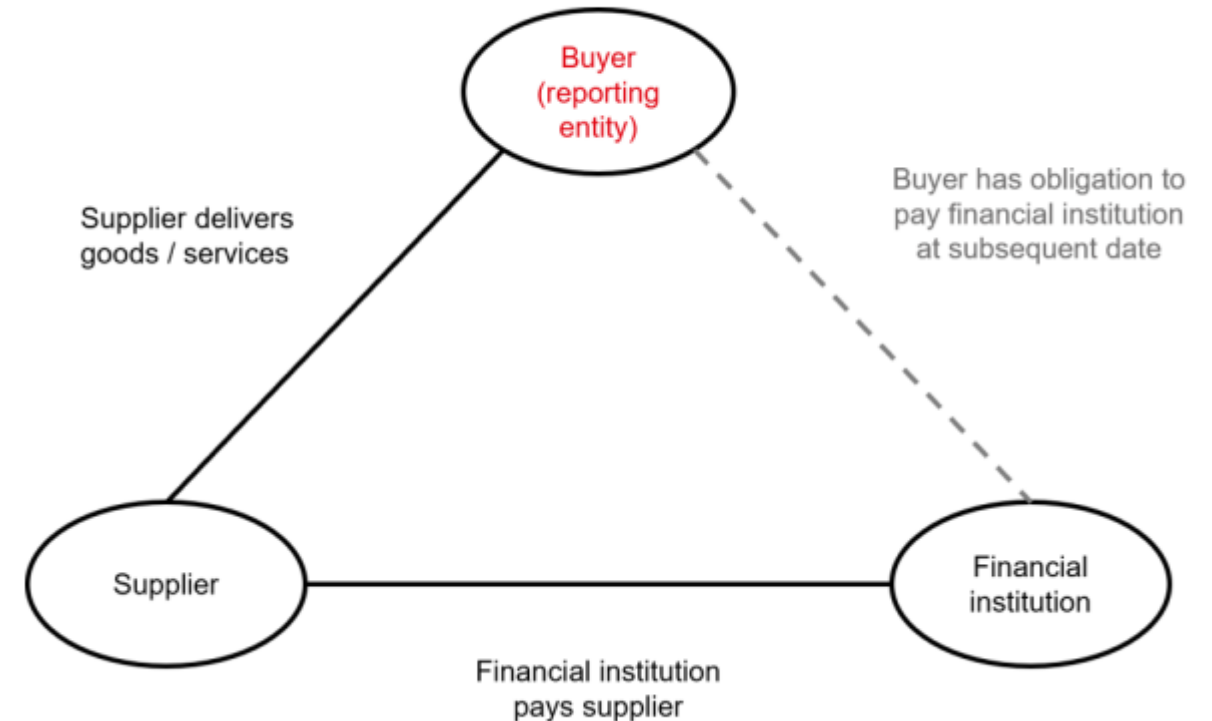
5 Other changes

Other changes : Section 7 – Statement of cash flows

Supplier finance arrangements - effective 1 January 2025

- Entity uses finance provider to pay creditors. Either
 - Creditor gets paid quicker / gets better terms, or
 - Entity gets extended credit terms
- Disclosures required:
 - Key terms and conditions
 - Carrying amounts / associated line items
 - Range of due dates
 - Type & effect of non-cash changes
- Part of S7 – covered by cash flow exemptions for qualifying / small entities

Illustration: how a typical supplier finance arrangement works



Applies to FRS102 only

Other changes : Section 2 – Concepts and pervasive principles

Applies to FRS102 and FRS105

Materiality – information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the users of general- purpose financial statements make on the basis of those financial statements

Asset – an asset is a **present economic** resource controlled by the entity as a result of past events (old: from which future economic benefits are expected to flow to the entity). **An economic resource is a right that has the potential to produce economic benefits.**

Liability – For a liability to exist, three criteria must all be satisfied:

- The entity has an obligation
- the obligation is to **transfer an economic resource**
- The obligation is a present obligation that exists as a result of past results

Other changes : Section 2A – Fair value measurement

New definition of FV:

Old	New
The amount for which an asset could be exchanged	The price that would be received to sell an asset
A liability settled, or an equity instrument granted could be exchanged	Or paid to transfer a liability
Between knowledgeable, willing parties in an arm's length transaction	In an orderly transaction between market participants at the measurement date

Requires one of three valuation techniques:

- Market approach
- Cost approach
- Income approach

Applies to FRS102 only

Other changes : Section 3 – Financial statement presentation

Going concern:

- Mandatory going concern policy/note –
 - NEW - When an entity prepares financial statements on a going concern basis, it shall disclose that fact, together with **confirmation that management has considered information about the future**...It shall also disclose...any significant judgement made in assessing the entity's ability to continue as a going concern.
 - When management is aware, in making its assessment, of material uncertainties related to events or conditions that **may** cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties.

Applies to FRS102 only

Other changes : Section 8 – Notes to the financial statements

- ~~Significant accounting policies~~ –
material accounting policy
information
- Note that a conclusion that
accounting policy information is
immaterial does not affect the
related disclosure requirements

Applies to FRS102 only

Other changes : Section 19 – Business combinations & goodwill

- Primarily clarification in nature
- Identifying acquirer – additional appendix added to assist
- New disclosure requirements, including:
 - Primary reasons for business combination
 - Description of how acquirer obtained control
 - Amount of any NCI
 - Additional information on contingent consideration arrangements
 - Non-recognised contingent liabilities

Applies to FRS102 only

Other changes : Section 26 – Share-based payments

- Primarily clarification in nature
- Clarifies:
 - Equity instruments issued in a business comb. in exchange for control are not within scope
 - Introduces “fair value” definition that is different from S2A and sets out guidance on how to measure, including when measuring cash-settled SBPs
 - Transactions involving transfer of cash when measuring equity-settled SBPs

Applies to FRS102 only

Other changes : Section 29 – Income tax

Uncertain tax treatments:

- Assume tax authority will examine all amounts it has a right to examine and have full knowledge of all related information
- If not probable tax authority will accept treatment:
 - Most likely amount method, or
 - Expected value method
- Consider requirements of paras 8.6 and 8.7

Applies to FRS102 only

6 Practical considerations

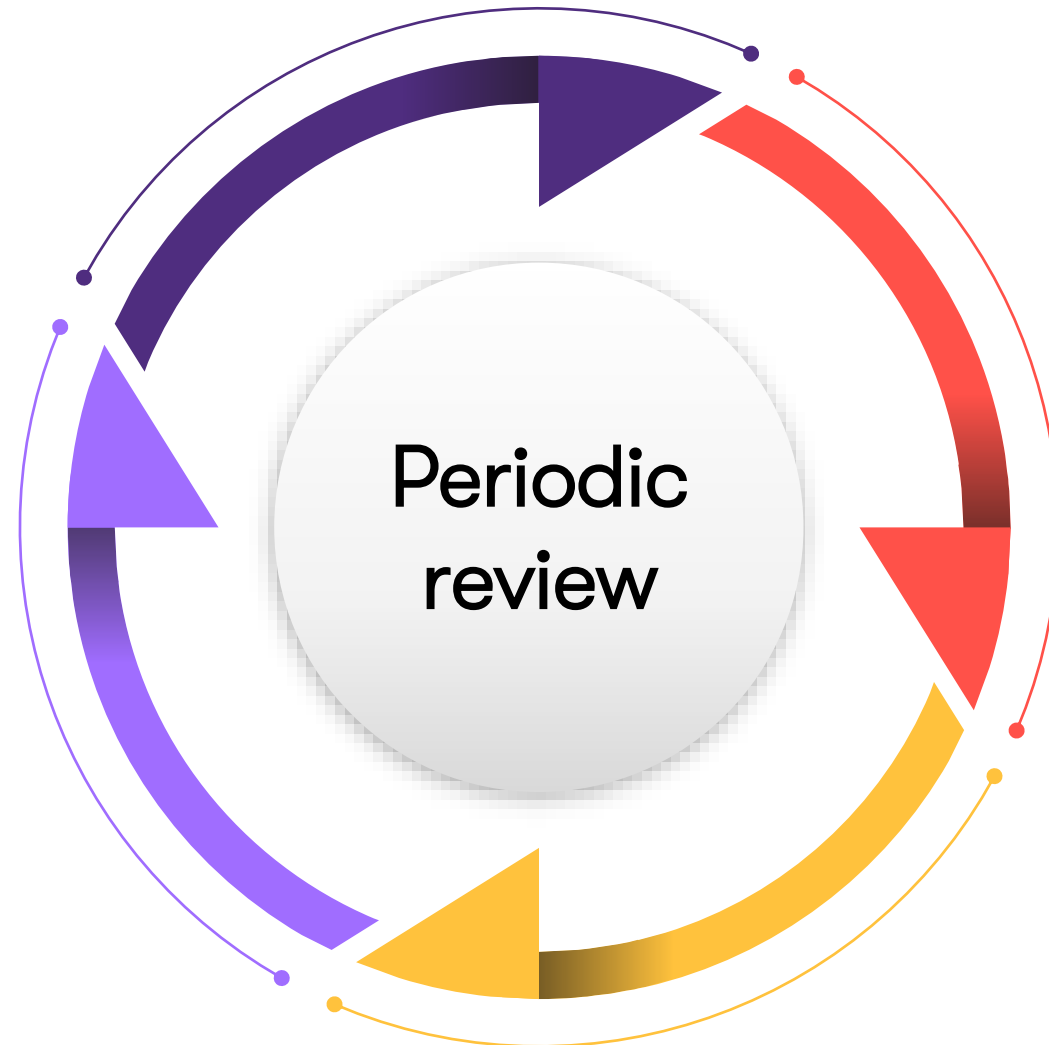
Practical considerations - generally

Interaction with other updates

- Company size changes – option to transition to FRS 105 or 102 S1A?

Client education

- Are clients preparing in advance? Do they know what to expect?



Transition exemptions available

- Modified vs full retrospective (revenues only)
- Examples:
 - Use of IFRS 16 group reporting figures
 - Only applying revenue stds to contracts incomplete at date of implementation

Additional disclosures

- Supplier finance – 1 Jan 2025
- Key judgements
- Fin Stats may take longer to prepare

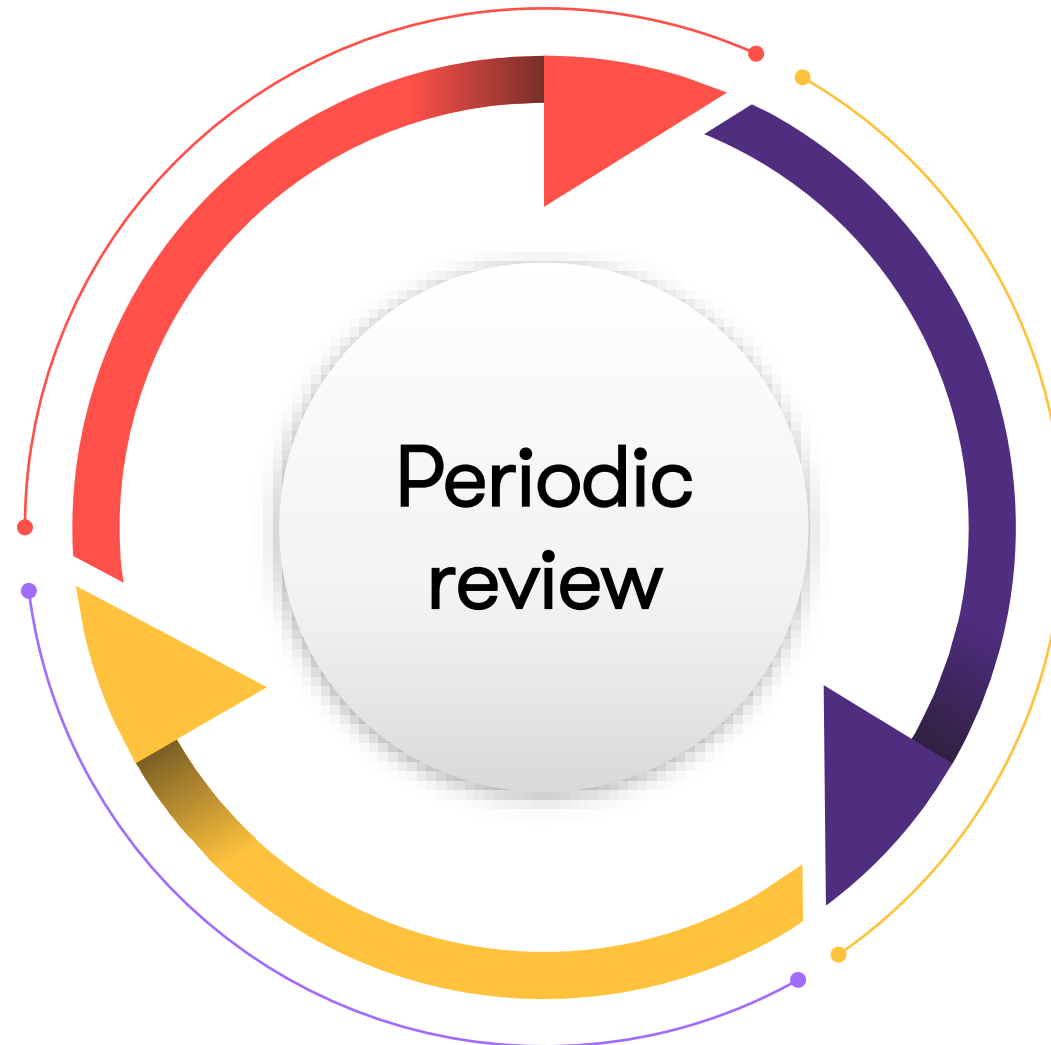
Practical considerations - Revenues

Formal agreements

- Ensure formal contracts / T&Cs exist
- Intergroup transactions – defined terms?

“Red flags”

- For example – gift cards, loyalty points, warranties, time value of money, bill & hold transactions



Variable consideration

- “Variable consideration constraint”
- Will require judgement

Practical considerations - leases

Covenants

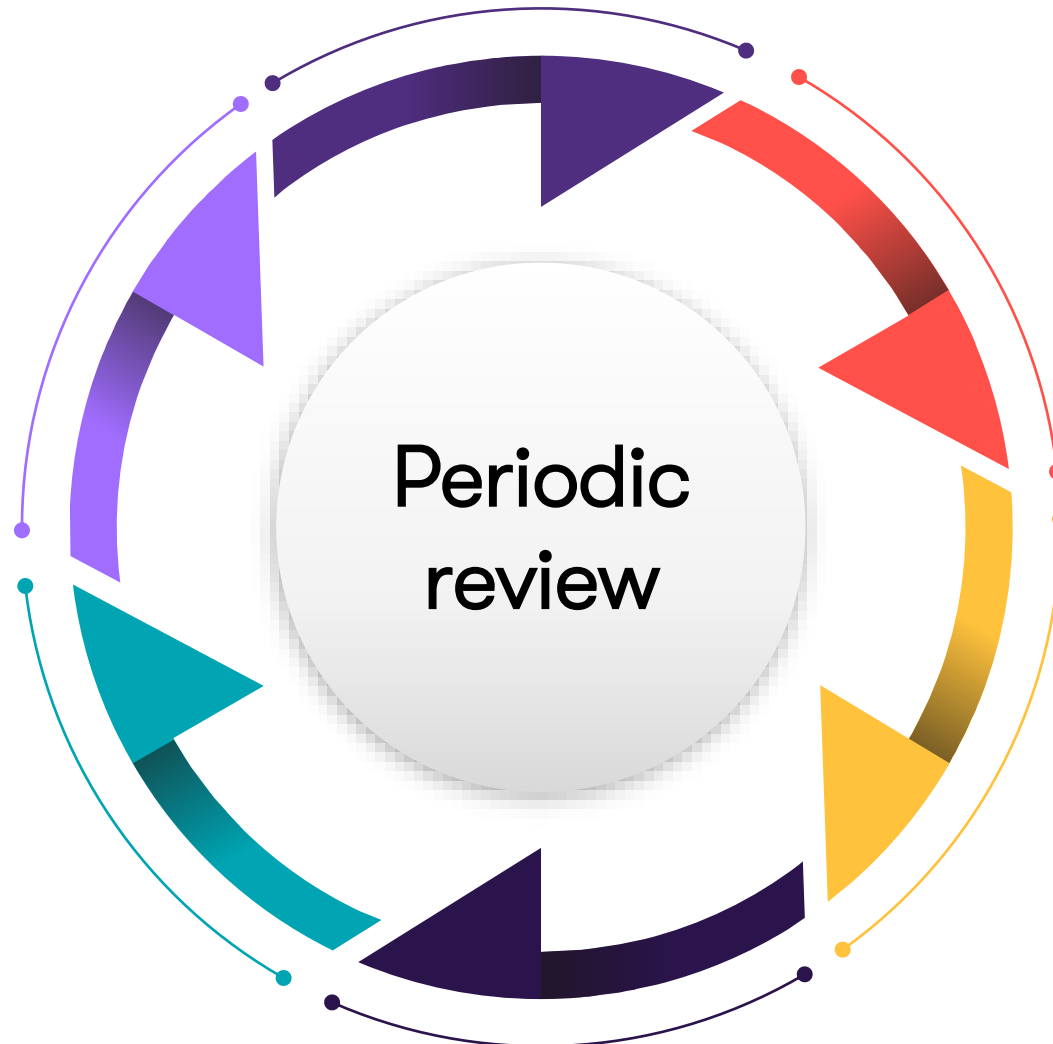
- Impact of additional liabilities on balance sheet

Formal agreements

- Ensure all agreements captured

Software required?

- May be beneficial if significant number of leases



Discount rates

- Determination of rates
- Applicability across different leases – credit ratings, economic environment, assets leased

Availability of exemptions

- Maximise use of short-term and low-value exemptions

Intergroup agreements

- Often not formally documented

7 Q&A and close

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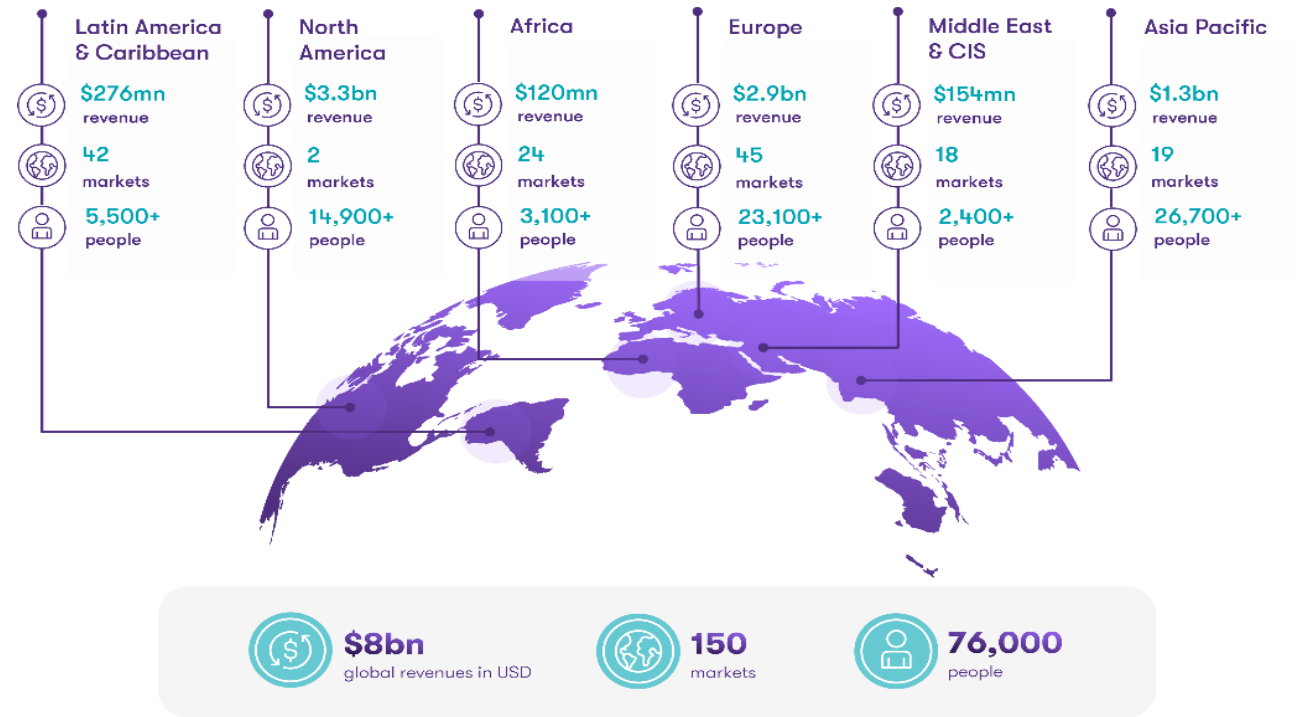
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