WHAT'S CHANGING?

- Section 23 has been completely rewritten under the Periodic Review 2024.
- Introduces a five-step revenue recognition model for all contracts with customers.
- Expanded disclosure requirements to provide better information on revenue and cash flows.

Scope

Applies to contracts with customers, excluding:

- Lease contracts (Section 20)
- Insurance contracts (FRS 103)
- Financial instruments (Sections 9, 11, 12, 14, 15)
- Certain non-monetary exchanges and public benefit entity transactions.

The Five-Step Model

1. ***Identify the contract(s)***
   Confirm enforceable rights and obligations exist (FRS 102 23.7–23.10).
2. ***Identify performance obligations***
   Determine distinct goods or services promised (23.17–23.35).
3. ***Determine the transaction price***
   Consider fixed and variable elements, constraints, and time value of money (23.41–23.64).
4. ***Allocate the transaction price***
   Allocate based on stand-alone selling prices (23.66–23.77).
5. ***Recognise revenue***
   When (or as) performance obligations are satisfied—over time or at a point in time (23.78–23.112).

Other Key Requirements

- Contract costs: Certain costs to obtain or fulfil contracts may be capitalised (23.113–23.123).
- Contract balances: Guidance on contract assets, liabilities, and receivables (23.124–23.130).
- Contract modifications: Rules for accounting for changes in scope or price (23.13–23.16).

KEY DIFFERENCES BETWEEN FRS 102 AND IFRS

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
Time Value of Money	Policy choice not to adjust for the time value of advance payments	Must adjust if a significant financing benefit exists
Allocation of Variable Consideration and Discounts	Less prescriptive; more judgment allowed	Detailed criteria for allocation
Costs to Obtain a Contract	Can capitalise or expense costs; costs recoverable within one year may be expensed	Must capitalise incremental, recoverable costs unless amortised within one year
Disclosure Requirements	Simplified, reduced reporting burden	More extensive disclosure requirements
Transition Practical Expedients	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 revised FRS 102 may not lead to major changes in how revenue is recognised, as contracts are often straightforward. However, it's still essential to understand the new requirements to remain compliant—particularly because the Small Companies Regime within FRS 102 is also being updated. We strongly encourage small businesses to review their current revenue recognition practices to confirm they align with the revised standard.

Why Act Now?

With the new rules effective in weeks, businesses must:

- Review contracts for compliance with the five-step model.
- Update accounting policies and systems.