

## Technical factsheet

### Financial Reporting Council periodic review amendments

#### **Contents**

Introduction	2
Concepts and Pervasive Principles	4
Small entities	9
Share-based payment	19
Uncertain tax treatments	20

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## INTRODUCTION

On 27 March 2024, the Financial Reporting Council (FRC) issued its periodic review amendments. The focus of the periodic review was on FRS 102, *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, but consequently other standards in the suite of UK and Ireland GAAP have seen amendments as well. For clarity, the structure of UK and Ireland GAAP is as follows:

- FRS 100, *Application of Financial Reporting Requirements*
- FRS 101, *Reduced Disclosure Framework*
- FRS 102, *The Financial Reporting Standard applicable in the UK and Republic of Ireland*
- FRS 103, *Insurance Contracts*
- FRS 104, *Interim Financial Reporting*
- FRS 105, *The Financial Reporting Standard applicable to the Micro-entities Regime*

The FRC is required to review and potentially amend UK and Ireland accounting standards at least every five years. Maintaining consistency with international accounting standards is a longstanding policy that has been developed through consultations, and reflects the wider approach taken by the FRC.

The periodic review of UK and Ireland GAAP supports the FRC's overriding objective in standard-setting, which is to enable users of the accounts to receive high-quality, understandable financial reporting that is proportionate to the size and complexity of both the entity and users' information needs. In achieving this primary objective, the FRC develops accounting standards that:

- (a) have consistency with global accounting standards through the application of an IFRS-based solution, unless an alternative clearly better meets the overriding objective
- (b) balance improvement, through reflecting up-to-date thinking and developments in the way businesses operate and the transactions they undertake, with stability
- (c) balance consistent principles for accounting by all UK and Republic of Ireland entities with proportionate and practical solutions, based on size, complexity, public interest and users' information needs
- (d) promote efficiency within groups
- (e) are cost-effective to apply.<sup>1</sup>

This technical factsheet does not consider the new [lease accounting](#) or [revenue recognition](#) requirements. Separate factsheets have been published, which can be accessed by clicking on the hyperlinks. This factsheet considers the other notable amendments arising from the FRC's periodic review, which preparers will need an awareness of.

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<sup>1</sup> FRS 102 Basis for Conclusions, Part A – Development and overarching issues, A.2(a) to (e)

## Effective date

The amendments arising from the periodic review come into mandatory effect for accounting periods commencing on or after 1 January 2026. Early adoption is permissible provided that all the amendments are applied at the same time.

## September 2024 editions of UK and Ireland accounting standards

In September 2024, the FRC issued new editions of the suite of UK and Ireland accounting standards. The September 2024 editions incorporate the amendments arising from the periodic review as well as other amendments made since the 2022 editions were published.

Preparers must bear in mind that until the periodic review amendments come into mandatory effect, or unless the reporting entity early adopts the periodic review amendments, the 2022 editions are still applicable. Care must be taken to ensure that preparers are referring to the appropriate edition of the standard to ensure subsequent accounting treatments and disclosures are correct.

## Supplier finance arrangements

At the same time as finalising the periodic review amendments, the FRC also finalised a separate consultation to introduce new disclosure requirements in the cash flow statement. These additional disclosures are in respect of supplier finance arrangements and the effect that such arrangements have on the entity's balance sheet and cash flows. These disclosures will, of course, only affect those entities that prepare a cash flow statement for inclusion in the annual report. Small entities, for example, are not required to prepare a cash flow statement and hence will not be caught by these new disclosure requirements.

There are now additional disclosure requirements in FRS 102, Section 7 *Statement of Cash Flows* at paragraphs 7.20C. Paragraph 7.20B clarifies what a supplier finance arrangement as follows:

*'Supplier finance arrangements are characterised by one or more finance providers offering to pay amounts an entity owes its suppliers and the entity agreeing to pay according to the terms and conditions of the arrangements at the same date as, or a date later than, suppliers are paid. These arrangements provide the entity with extended payment terms, or the entity's suppliers with early payment terms, compared to the related invoice payment due date. Supplier finance arrangements are often referred to as supply chain finance, payables finance or reverse factoring arrangements. Arrangements that are solely enhancements for the entity (eg **financial guarantee contracts**) or instruments used to settle directly with a supplier the amounts owed (eg credit cards) are not supplier finance arrangements.'*<sup>2</sup>

## Effective date of the supplier finance arrangements disclosures

As the amendments in respect of supplier finance arrangements were subject to a separate consultation, they did not form part of the periodic review amendments (even though they were issued at the same time as the periodic review amendments). The disclosure requirements in respect of supplier finance arrangements have an earlier effective from date being for accounting periods commencing on or after 1 January 2025.

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<sup>2</sup> FRS 102, paragraph 7.20B

## CONCEPTS AND PERVASIVE PRINCIPLES

The FRC has replaced Section 2 *Concepts and Pervasive Principles* in both FRS 102 and FRS 105 with a new set of *Concepts and Pervasive Principles*. This decision was taken so that UK and Ireland GAAP is aligned to the latest *Conceptual Framework for Financial Reporting* issued by the International Accounting Standards Board (IASB).

### Structure of the revised Concepts and Pervasive Principles

The structure of the revised FRS 102, Section 2 is as follows:

#### Scope

The scope section describes the objective of financial statements and sets out the concepts and basic principles that underpin the financial statements of entities within scope of the standard. It also explains the process that must be followed if FRS 102 does not deal with a transaction, event or condition.

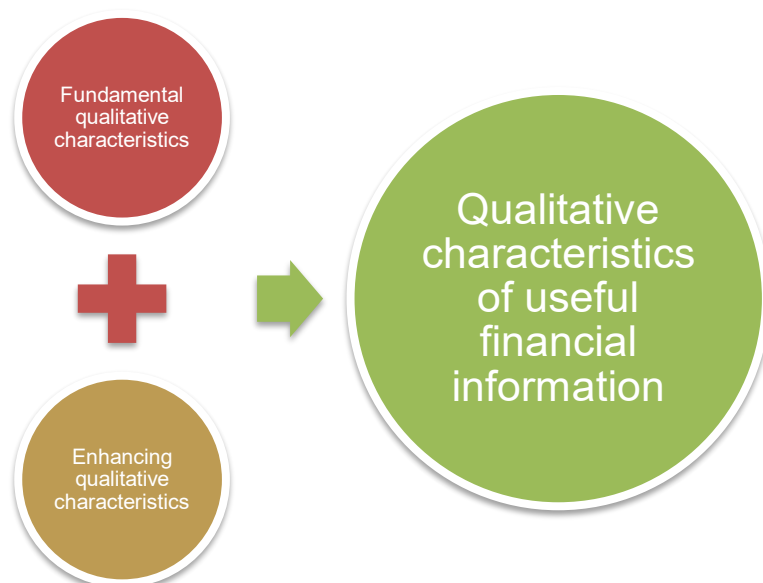
If there are any inconsistencies between Section 2 and the requirements of any other section of FRS 102, the other section prevails. This approach is consistent with the approach in the IASB's *Conceptual Framework for Financial Reporting* (the Framework), which would not prevail over the requirement of an IFRS Accounting Standard as the Framework does not have the force of an accounting standard.

#### Objective of financial statements

This section clarifies that the objective of financial statements is to provide information about the entity that is useful for decision-making by a wide range of users who are not in a position to demand reports tailored to meet their particular information needs. This section then goes on to describe the types of information that users are particularly interested in when it comes to the financial statements.

#### Qualitative characteristics of useful financial information

These are split between:



The **fundamental** qualitative characteristics are **relevance** and **faithful representation**. A sub-set of 'relevance' is 'materiality'. FRS 102, paragraph 2.11 clarifies that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the users of the accounts make on the basis of those financial statements.

### **Relevance**

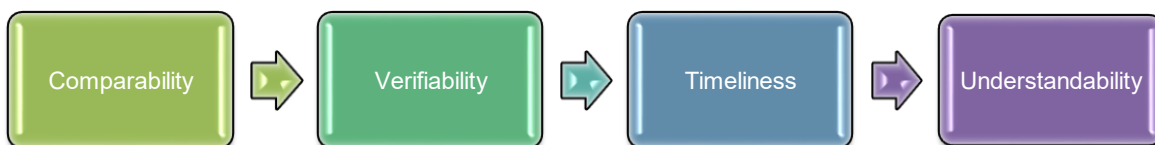
Information contained in the financial statements must be relevant. Information is said to be relevant when it has the capability of influencing the economic decisions of users by helping them to evaluate past, present or future events or confirming, or correcting, their past evaluations.

### **Faithful representation**

Faithful representation means that the financial statements are accurately presented and reflect the condition of a business. Faithful representation should extend to all parts of the financial statements, including the results of operations, financial position and cash flows. Financial statements that faithfully represent these aspects are said to be complete, neutral (ie free from bias) and free from error.

### **Enhancing qualitative characteristics**

There are four enhancing qualitative characteristics as follows:



### **Comparability**

Users must be able to compare the financial statements of an entity through time to identify trends in its financial position and performance. In addition, users must also be able to compare the financial statements of different entities to evaluate their relative financial position, performance and cash flows.

Comparability also allows users to identify and understand variations in, and among, items. For example, an investor looking to invest in one of two companies will inevitably want to see which entity can provide a return on their investment the fastest. Comparing the liquidity and profitability of both entities will enable the investor to arrive at that conclusion.

### **Verifiability**

Verifiability allows different knowledgeable and independent users to reach consensus, albeit not necessarily complete agreement, that a particular depiction is a faithful representation. Verifiability means that information can be verified either directly or indirectly. Direct verification means verifying an amount or other representation through direct observation, such as counting cash. Indirect verification means checking the inputs to a model, formulae or other technique and performing a recalculation using the same techniques (eg recalculating inventory using a first-in, first-out cost methodology).

## Timeliness

To be relevant, financial information must be able to influence the economic decisions of users. This involves providing the information within the decision timeframe.

Where undue delays are encountered, this could impact on the relevance of the financial information. However, it may be that some financial information continues to be timely long after the balance sheet date has passed as some users, for example, may need to identify and assess trends.

### ACCA comment

There is no specific time limit expressed in FRS 102 where timeliness is concerned. However, in the UK, private entities have nine months from the reporting date to file accounts at Companies House (longer for some newly established entities) and six months for entities that are listed. Hence, entities are constrained by other legal requirements to prepare and issue financial statements within certain timescales. The Listing Rules of the London Stock Exchange also specify certain deadlines that must be met for listed entities (eg the requirement to issue half-yearly financial statements to shareholders).

## Understandability

This concept requires the financial information to be presented in a way that makes it comprehensible by users who have a reasonable knowledge of business and economic activities and accounting as well as a willingness to study the information with reasonable diligence. The need for understandability does not allow relevant information to be omitted on the grounds that it may be too difficult for some users to understand.

### ACCA comment

Disclosures for certain transactions, such as defined benefit pension plans and certain financial instruments, are inherently complex. However, this is not a reason to preclude such information in the notes to the financial statements. Where additional guidance is required in respect of complex disclosures, professional advice should always be sought by the user.

## Cost constraint

There is a cost to providing financial information, which must be justified by the benefits of reporting that information. This will involve the use of professional judgement. The *Concepts and Pervasive Principles* recognises that the costs are not necessarily borne by those users who enjoy the benefits, and often the benefits are enjoyed by a broad range of external users.

## Financial statements and the reporting entity

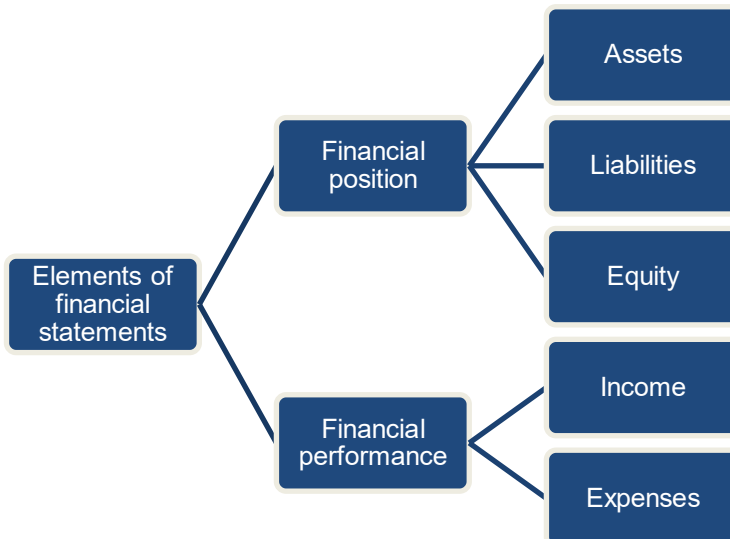
This section deals with:

- the reporting period
- the perspective adopted in the financial statements (ie the provision of information concerning transactions and other events from the perspective of the reporting entity as a whole)
- the going concern assumption

- the reporting entity – either a single entity or a portion of an entity or more than one entity. Where the reporting entity comprises a parent and its subsidiary, the reporting entity’s financial statements are referred to as ‘consolidated financial statements’.

## Elements of financial statements

These comprise:



This section of the *Concepts and Pervasive Principles* also provides the definition of an ‘asset’ and a ‘liability’.

### Unit of account

This is the right(s) or obligation(s) to which recognition criteria and measurement concepts are applied.

### Income and expenses

Although ‘income’ (which includes revenue and gains) and ‘expenses’ are defined in terms of changes in assets and liabilities, information concerning income and expenses is just as important as information concerning assets and liabilities.

This section of the *Concepts and Pervasive Principles* also requires the entity to prepare its financial statements on an accruals basis (with the exception of the cash flow statement).

### Recognition and derecognition

This section describes the recognition process and recognition criteria. Only items that meet the definition of an asset, liability or equity are recognised in the balance sheet. Similarly, only items that meet the definition of income or expenses are recognised in profit or loss.

With regards to the recognition criteria, the *Concepts and Pervasive Principles* also clarifies the following points:

- relevance – paragraph 2.56
- existence uncertainty – paragraph 2.57

- low probability of an inflow or outflow of economic benefit – paragraph 2.58
- faithful representation – paragraph 2.59
- measurement uncertainty and outcome uncertainty – paragraphs 2.60 and 2.61

This section also describes the derecognition process for assets and liabilities in paragraphs 2.62 to 2.64.

### Measurement

Measurement refers to the measurement bases such as historical cost, current value (fair value, value in use for assets and fulfilment value for liabilities) and current cost.

This section also describes factors that should be considered by the entity in selecting a specific measurement basis (ie relevance and faithful representation), and provides a link to the enhancing qualitative characteristics of comparability, understandability and verifiability.

The measurement of equity is not measured directly. The *Concepts and Pervasive Principles* recognises that the carrying amounts of all recognised assets less the total of the carrying amounts of all recognised liabilities equals total equity. However, it also recognises that it may be appropriate to measure directly the carrying amount of some individual classes of equity and some components of equity.

### Presentation and disclosure

This section of the *Concepts and Pervasive Principles* deals with the following:

- classification – sorting of assets, liabilities, equity, income or expenses on the basis of shared characteristics
- offsetting – when the entity recognises and measures both an asset and liability as separate units of account, but groups them into a single amount on the balance sheet. However, measuring assets net of allowances (eg net of a bad-debt provision or stock provision) is not offsetting
- classification of equity – it may be necessary to separately classify equity to comply with company law requirements (eg share capital and share premium).

#### ACCA comment

With regards to the offsetting rules, generally offsetting is not permissible unless specifically allowed by the FRS. For example, offsetting loans receivable and loans payable is strictly prohibited.

Paragraphs 2.100 to 2.101 deal with aggregation. They recognise that aggregation makes information more useful by summarising a large volume of detail but also recognise that aggregation conceals some of that detail. To that end, the entity must strike a balance so that relevant information is not obscured by a large amount of insignificant detail or by excessive aggregation.

### Fair value measurement

The fair value measurement guidance is contained in Section 2A *Fair Value Measurement*, which replaces the Appendix to Section 2 in FRS 102 (January 2022). This fair value measurement

guidance has also been updated so that it is more aligned to the concepts in IFRS 13, *Fair Value Measurement*.

Additional guidance has been provided as fair value measurement is fundamental to the accounting for some transactions (eg financial instruments) but can be subject to significant judgement. This additional guidance should enable preparers to arrive at appropriate conclusions consistently.

## **SMALL ENTITIES**

Many small entities choose to apply the presentation and disclosure requirements of FRS 102, Section 1A *Small Entities*. Section 1A provides a reduced level of presentation and disclosure, although recognition and measurement of amounts is based on full FRS 102 (with the exception of an accounting policy choice specific to small entities in respect of loans to a small business from a director or member of an LLP at paragraph 11.13A).

There are two specific appendices that are relevant to the small entity disclosure requirements in FRS 102, Section 1A:

- Appendix C: *Disclosure requirements for small entities in the UK*
- Appendix D: *Disclosure requirements for small entities in the Republic of Ireland*

There is then Appendix E: *Additional disclosures encouraged for small entities*. It should be noted that under FRS 102 (September 2024), Appendix E is only relevant to small entities in the Republic of Ireland. This is because all the encouraged disclosures in Appendix E have been elevated into Appendix C in FRS 102 (September 2024).

## **Encouraged disclosures**

Company law requires the financial statements of a small entity to give a true and fair view. The mere application of Appendices C and D may not achieve that, and it will require professional judgement on the part of the directors (often in conjunction with the professional accountant) to determine which, if any, additional disclosures should be made to achieve a true and fair view.

As noted above, the FRC has elevated the encouraged disclosures into Appendix C. The FRC has stated that this should reduce the level of professional judgement required, although there will inevitably be some judgement needed on any additional disclosures required to achieve a true and fair view.

The table below provides a comparison of the encouraged disclosures under FRS 102 (January 2022) versus the encouraged disclosures that only apply to small entities in the Republic of Ireland under FRS 102 (September 2024):

FRS 102 (January 2022) Section 1A, Appendix E	FRS 102 (September 2024), Section 1A, Appendix E
<ul style="list-style-type: none"> <li>• A statement of compliance with FRS 102 adapted to refer to Section 1A</li> <li>• A statement that it is a public benefit entity (if applicable)</li> <li>• Disclosures about material uncertainties related to going concern</li> <li>• Dividends declared and paid or payable during the period</li> <li>• Certain transition information on first-time adoption of FRS 102</li> </ul>	<ul style="list-style-type: none"> <li>• A statement that it is a public benefit entity (if applicable)</li> <li>• Disclosures about material uncertainties related to going concern</li> <li>• Certain transition information on first-time adoption of FRS 102</li> </ul>

There are fewer encouraged disclosures for small entities in the Republic of Ireland in FRS 102 (September 2024), as the other requirements are part of Irish company law so are mandatory.

### Changes to the disclosure requirements for small entities in the UK

Following the UK's departure from the EU, the FRC is now able to require more disclosure information for small companies in the UK. Prior to Brexit, the FRC had stated that it was constrained by the requirements of the EU Accounting Directive, but this is no longer the case.

The FRC has made amendments to FRS 102, Section 1A, Appendix C by requiring more disclosures to be made for small entities. The additional disclosure requirements are as follows:

#### *General*

FRS 102, paragraph 1AC.1 has been amended to clarify that a small entity need not provide a specific disclosure set out in Appendix C if the information resulting from that disclosure is not material. The exception would be where the disclosure is required by company law.

### ACCA comment

This additional clarification has been included because the revised Appendix C mandates certain disclosure information that is not required by UK company law (eg disclosures relating to revenue recognition (see below)). However, if disclosure information *is* required by law, it must be made regardless of materiality.

#### *Statement of compliance*

A small entity must make an explicit and unreserved statement of compliance with FRS 102 (adapted to refer to Section 1A) in the notes to the financial statements.

It should be emphasised that a small entity will **not** be able to make such an explicit and unreserved statement of compliance unless the financial statements comply with **all** the requirements of FRS 102 (including Section 1A).

A public benefit entity that applies the 'PBE' prefixed paragraphs must also make an explicit and unreserved statement of compliance that it is a public benefit entity.

### Going concern

A new paragraph 1AC.2C is included, which requires an entity to provide the disclosures set out in paragraphs 3.8A and 3.9 of FRS 102. For clarity, paragraphs 3.8A and 3.9 are reproduced as follows:

*'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 as set out in paragraph 3.8. It shall also disclose, in accordance with paragraph 8.6, any significant judgements made in assessing the entity's ability to continue as a going concern.'*<sup>3</sup>

*'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. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern.'*<sup>4</sup>

#### ACCA comment

To a certain extent, this will help to resolve a problem that became particularly prevalent during the Covid-19 pandemic, where some small entities did not include disclosures about material uncertainties relating to going concern. This was often on the grounds that there was no legal requirement to do so.

While this is true, the fact that they are **material** uncertainties means that a small entity should include such disclosures in the financial statements to achieve a true and fair view. There is still a legal obligation for the directors to ensure the financial statements give a true and fair view.

In addition, ACCA member firms are reminded that they are not allowed to have their names associated with accounts that are misleading. Therefore, any reluctance by the small entity's management to include disclosures about material uncertainties related to going concern would mean the firm may have to resign from the client if the issue cannot be resolved satisfactorily.

### Taxation

Small entities are required to provide the disclosures relating to deferred tax set out in paragraph 29.27(e). For clarity, this paragraph is reproduced as follows:

*'The amount of deferred tax liabilities and deferred tax assets at the end of the reporting period for each type of timing difference and the amount of unused tax losses and tax credits.'*<sup>5</sup>

In addition, FRS 102, paragraph 1AC.32C requires a small entity to provide information relating to current tax and deferred tax, as set out in paragraphs 29.26 and 29.27(b) as follows:

*'An entity shall disclose separately the major components of tax expense (income). Such components of tax expense (income) may include:*

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<sup>3</sup> FRS 102, paragraph 3.8A

<sup>4</sup> FRS 102, paragraph 3.9

<sup>5</sup> FRS 102, para 29.27(e)

- (a) *current tax expense (income);*
- (b) *any adjustment recognised in the period for current tax of prior periods;*
- (c) *the amount of deferred tax expense (income) relating to origination and reversal of timing differences;*
- (d) *the amount of deferred tax expense (income) relating to changes in tax rates or the imposition of new taxes;*
- (e) *adjustments to deferred tax expense (income) arising from a change in the tax status of the entity or its shareholders; and*
- (f) *the amount of tax expense (income) relating to changes in **accounting policies** and **material errors** (see Section 10 Accounting Policies, Estimates and Errors).'<sup>6</sup>*

*'A reconciliation between:*

- (i) *the tax expense (income) included in profit or loss; and*
- (ii) *the profit or loss on ordinary activities before tax multiplied by the applicable tax rate.'*<sup>7</sup>

### *Leasing*

Given the significant changes to lease accounting in FRS 102, it was unsurprising that the FRC included additional disclosure requirements for small entities in the UK concerning a small entity's leasing arrangements as follows:

- (a) Where the small entity is a lessee, provide a general description of its significant leasing arrangements. There is a similar disclosure requirement in FRS 102, paragraph 20.76.
- (b) Where necessary to enable users to understand the small entity's significant leasing arrangement, a lessee must provide additional qualitative and quantitative information. There is a similar disclosure requirement in FRS 102, paragraph 20.77, which requires the following minimum information:
  - (i) information concerning future cash flows to which the lessee is potentially exposed that are not reflected in the measurement of the lease liability
  - (ii) information concerning restrictions or covenants imposed by lessees
  - (iii) the type of discount rate used in the calculation of lease liabilities
  - (iv) specific information concerning sale and leaseback transactions.

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<sup>6</sup> FRS 102, para 29.26

<sup>7</sup> FRS 102, paragraph 29.27(b)

- (c) A small entity must provide the disclosures concerning short-term leases, leases of low-value assets and variable lease payments, as set out in paragraphs 20.80(b) to 20.80(d).

For clarity, paragraphs 20.80(b) to 20.80(d) are reproduced as follows:

*'The expense relating to short-term leases accounted for by applying paragraph 20.6. This expense need not include the expense relating to leases with a lease term of one month or less.'*<sup>8</sup>

*'The expense relating to leases of low-value assets accounted for by applying paragraph 20.6. This expense shall not include the expense relating to short-term leases of low-value assets included in paragraph 20.80(b).'*<sup>9</sup>

*'The expense relating to variable lease payments not included in the measurement of lease liabilities.'*<sup>10</sup>

#### *Provisions and contingencies*

A small entity is required to provide the disclosures concerning provisions and contingencies, as set out in FRS 102, paragraphs 21.14 to 21.17A. For clarity, these paragraphs are reproduced below:

#### *'Disclosures about provisions*

*For each class of provision, an entity shall disclose the following:*

*(a) a reconciliation showing:*

- (i) the carrying amount at the beginning and end of the period;*
- (ii) additions during the period, including adjustments that result from changes in measuring the discounted amount;*
- (iii) amounts charged against the provision during the period; and*
- (iv) unused amounts reversed during the period.*

*(b) a brief description of the nature of the obligation and the expected amount and timing of any resulting payments;*

*(c) an indication of the uncertainties about the amount or timing of those outflows; and*

*(d) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.*

*Comparative information for prior periods is not required.'*<sup>11</sup>

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<sup>8</sup> FRS 102, paragraph 20.80(b)

<sup>9</sup> FRS 102, paragraph 20.80(c)

<sup>10</sup> FRS 102, paragraph 20.80(d)

<sup>11</sup> FRS 102, paragraph 21.14

'Disclosures about contingent liabilities

*Unless the possibility of any outflow of resources in settlement is remote, an entity shall disclose, for each class of contingent liability at the reporting date, a brief description of the nature of the contingent liability and, when practicable:*

- (a) an estimate of its financial effect, measured in accordance with paragraphs 21.7 to 21.11;*
- (b) an indication of the uncertainties relating to the amount or timing of any outflow; and*
- (c) the possibility of any reimbursement.*

*If it is **impracticable** to make one or more of these disclosures, that fact shall be stated.'*<sup>12</sup>

'Disclosures about contingent assets

*If an inflow of economic benefits is probable (more likely than not) but not virtually certain, an entity shall disclose a description of the nature of the contingent assets at the end of the reporting period, and, when practicable, an estimate of their financial effect, measured using the principles set out in paragraphs 21.7 to 21.11. If it is impracticable to make this disclosure, that fact shall be stated.'*<sup>13</sup>

'Prejudicial disclosures

*In extremely rare cases, disclosure of some or all of the information required by paragraphs 21.14 to 21.16 can be expected to prejudice seriously the position of the entity in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset. In such cases, an entity need not disclose all of the information required by those paragraphs insofar as it relates to the dispute, but shall disclose at least the following:*

*In relation to provisions, the following information shall be given:*

- (a) a table showing the reconciliation required by paragraph 21.14(a) in aggregate, including the source and application of any amounts transferred to or from provisions during the reporting period;*
- (b) particulars of each provision in any case where the amount of the provision is material; and*
- (c) the fact that, and reason why, the information required by paragraph 21.14 has not been disclosed.*

*In relation to contingent liabilities, the following information shall be given:*

- (a) particulars and the total amount of any contingent liabilities (excluding those which arise out of insurance contracts) that are not included in the statement of financial position;*
- (b) the total amount of contingent liabilities which are undertaken on behalf of or for the benefit of:*

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<sup>12</sup> FRS 102, paragraph 21.15

<sup>13</sup> FRS 102, paragraph 21.16

- (i) any **parent** or fellow **subsidiary** of the entity;
- (ii) any subsidiary of the entity; or
- (iii) any entity in which the reporting entity has a participating interest,

shall each be stated separately; and

(c) the fact that, and reason why, the information required by paragraph 21.15 has not been disclosed.

*In relation to contingent assets, the entity shall disclose the general nature of the dispute, together with the fact that, and reason why, the information required by paragraph 21.16 has not been disclosed.*<sup>14</sup>

*‘Disclosure about financial guarantee contracts*

*An entity shall disclose the nature and business purpose of the financial guarantee contracts it has issued. If applicable, an entity shall also provide the disclosures required by paragraphs 21.14 and 21.15.’*<sup>15</sup>

*Share-based payment transactions*

The small entity must make disclosures in connection with any share-based payment arrangements it undertakes, as set out in paragraphs 26.18(a), 26.18(b)(i), 26.18(b)(vi), 26.18(b)(vii) and 26.23. These paragraphs are reproduced as follows (although only the disclosure information that is required by small entities in the UK is reproduced):

*‘A description of each type of share-based payment arrangement that existed at any time during the period, including the general terms and conditions of each arrangement, such as vesting requirements, the maximum terms of options granted, and the method of settlement (eg whether in cash or equity). An entity with substantially similar types of share-based payment arrangements may aggregate this information.’*<sup>16</sup>

*‘The number and weighted average exercise prices of share options for each of the following groups of options:*

- (i) outstanding at the beginning of the period;
- (vi) outstanding at the end of the period; and
- (vii) exercisable at the end of the period.’<sup>17</sup>

*‘An entity shall disclose the following information about the effect of share-based payment transactions on the entity’s profit or loss for the period and on its **financial position**:*

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<sup>14</sup> FRS 102, paragraph 21.17

<sup>15</sup> FRS 102, paragraph 21.17A

<sup>16</sup> FRS 102, paragraph 26.18(a)

<sup>17</sup> FRS 102, paragraph 26.18(b), (vi) and (vii)

- (a) *the total expense recognised in profit or loss for the period; and*
- (b) *the total **carrying amount** at the end of the period for liabilities arising from share-based payment transactions.’<sup>18</sup>*

#### *Revenue recognition*

A small entity is required to provide the disclosures relating to its performance obligations in contracts with customers – specifically, the information required by FRS 102, paras 23.135(a) to 23.135(c). The required information from these paragraphs is as follows:

*‘An entity shall disclose information about its performance obligations in contracts with customers, including a description of:*

- (a) *when the entity typically satisfies its performance obligations (eg upon shipment, upon delivery, as services are rendered or upon completion of service);*
- (b) *the significant payment terms (eg when payment is typically due, whether the contract includes a financing transaction, and whether the consideration amount is variable); and*
- (c) *the nature of the goods or services that the entity has promised to transfer, highlighting any promises to arrange for another party to transfer goods or services (ie if the entity is acting as an agent).’<sup>19</sup>*

#### *Related parties*

In contrast to the (limited) disclosure requirements of FRS 102 (January 2022), para 1AC.35, the FRC has redrafted this entire paragraph and instead requires a small entity to provide the disclosures required by paras 33.9 and 33.14 (subject to the provisions of paras 33.1A and 33.11). Much more comprehensive disclosures are required by small entities in the UK under FRS 102 (September 2024) in respect of related parties and transactions with related parties. Paras 33.9 and 33.14 are reproduced as follows:

*‘If an entity has related party transactions, it shall disclose the nature of the related party relationship as well as information about the transactions, outstanding balances and commitments necessary for an understanding of the potential effect of the relationship on the financial statements. Those disclosure requirements are in addition to the requirement in paragraph 33.7 to disclose key management personnel compensation. At a minimum, disclosures shall include:*

- (a) *The amount of the transactions.*
- (b) *The amount of outstanding balances and commitments, and:*
  - (i) *their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and*

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<sup>18</sup> FRS 102, paragraph 26.23

<sup>19</sup> FRS 102, paragraphs 23.135(a) to 23.135(c)

- (ii) details of any guarantees given or received.
- (c) Provisions for uncollectible receivables related to the amount of outstanding balances.
- (d) The expense recognised during the period in respect of bad or doubtful debts due from related parties.

Such transactions could include purchases, sales, or transfers of goods or services, **leases**, guarantees and settlements by the entity on behalf of the related party or vice versa.<sup>20</sup>

*'An entity may disclose items of a similar nature in the aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity.'*<sup>21</sup>

As noted earlier, FRS 102 provides an exemption from disclosing transactions entered into between two or more wholly owned members of a group and the small entity can take advantage of this disclosure exemption. For clarity, FRS 102, paragraph 33.1A is reproduced as follows:

*'Disclosures required by paragraph 33.9 need not be given of transactions entered into between two or more members of a **group**, provided that any **subsidiary** which is a party to the transaction is wholly owned by such a member.'*<sup>22</sup>

Paragraph 33.11 also provides an exemption as follows:

*'An entity is exempt from the disclosure requirements of paragraph 33.9 in relation to related party transactions, outstanding balances, and commitments, with:*

- (a) a government that has control, joint control or significant influence over the reporting entity;  
and
- (b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

*However, the entity must still disclose a controlling party relationship as required by paragraph 33.5.'*<sup>23</sup>

#### *Dividends declared and paid or payable*

A small entity is required to disclose dividends paid or payable during the reporting period.

#### *Transition information*

On first-time adoption of FRS 102 (eg when an entity transitions from FRS 105 to FRS 102, including those that choose to apply the presentation and disclosure requirements of Section 1A), the small entity is required to provide an explanation of how the transition has affected its financial

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<sup>20</sup> FRS 102, paragraph 33.9

<sup>21</sup> FRS 102, paragraph 33.14

<sup>22</sup> FRS 102, paragraph 33.1A

<sup>23</sup> FRS 102, paragraph 33.11

position and performance as required by paragraph 35.13. For clarity, paragraph 35.13 is reproduced as follows:

*'To comply with paragraph 35.12, an entity's first financial statements prepared using this FRS shall include:*

- (a) A description of the nature of each change in accounting policy.*
- (b) Reconciliations of its equity determined in accordance with its previous financial reporting framework to its equity determined in accordance with this FRS for both of the following dates:
  - (i) the date of transition to this FRS; and*
  - (ii) the end of the latest period presented in the entity's most recent annual financial statements determined in accordance with its previous financial reporting framework.**
- (c) A reconciliation of the profit or loss determined in accordance with its previous financial reporting framework for the latest period in the entity's most recent annual financial statements to its profit or loss determined in accordance with this FRS for the same period.'*

24

### **Summary of the additional disclosure requirements for small entities in the UK**

The FRC has moved all the encouraged disclosure requirements from Appendix E to Appendix C and included additional disclosures relating to:

- leasing
- provisions and contingencies
- share-based payment arrangements
- taxation
- revenue recognition.

#### **ACCA comment**

On first-time adoption of the periodic review amendments, UK-based small entities are encouraged to ensure that the disclosures comply with the new reporting requirements and not simply rely on accounts production software, as this could result in errors or omissions. The consequences could be that the financial statements are misleading and do not present a true and fair view. Where appropriate, it may be advisable to use an up-to-date disclosure checklist to ensure the completeness and accuracy of disclosure information.

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<sup>24</sup> FRS 102, paragraph 35.13

## SHARE-BASED PAYMENT

There is additional guidance in FRS 102, Section 26 *Share-based Payment* to clarify that equity instruments issued in a business combination (ie where a parent acquires a subsidiary) in exchange for control are not within scope of Section 26. However, equity instruments granted to employees of the acquiree in their capacity as employees (eg in return for continued service) are within scope.

The cancellation, replacement or other modification of share-based payment arrangements arising as a consequence of the business combination, or other equity restructuring, must be accounted for in accordance with Section 26.

There is also additional clarification on the use of the term 'fair value' because Section 26 uses the term differently in some respects. For the purposes of Section 26, fair value is the amount for which an asset could be exchanged, a liability settled, or an equity instrument granted could be exchanged, between knowledgeable, willing parties in an arm's-length transaction. Section 26 sets out specific guidance for measuring fair value for certain share-based payment transactions.

For example, paragraph 26.14A, which deals with the measurement of cash-settled share-based payment transactions, states:

*'The fair value of the liability shall be measured by reference to the fair value of the cash-settled share-based payment transaction. For example, share appreciation rights are measured by reference to the fair value of the underlying equity instruments measured in accordance with paragraphs 26.10 and 26.11.'*<sup>25</sup>

### *Cash-settled share-based payment transactions*

In addition to paragraph 26.14A above, there are additional paragraphs 26.14B and 26.14C, which relate to vesting conditions. Paragraph 26.14B clarifies that a cash-settled share-based payment transaction may be conditional upon satisfying specific vesting conditions that relate to service or performance. The paragraph then goes on to specify how these conditions are accounted for as follows:

- (a) *Vesting conditions, other than market vesting conditions, shall not be taken into account when estimating the fair value of the cash-settled share-based payment as at the measurement date. Instead, such vesting conditions shall be taken into account in estimating the number of awards expected to vest. The entity shall revise that estimate, if necessary, if subsequent information indicates that the number of awards that are expected to vest differs from previous estimates. On the vesting date, the entity shall revise the estimate to equal the number of awards that ultimately vest.*
- (b) *All market vesting conditions and conditions that are not vesting conditions shall be taken into account when estimating the fair value of the cash-settled share-based payment at each reporting date and at the date of settlement.'*<sup>26</sup>

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<sup>25</sup> FRS 102, paragraph 26.14A

<sup>26</sup> FRS 102, paragraph 24.14B (extract)

New paragraph 26.14C then goes on to clarify that, as a result of applying paragraphs 26.14 to 26.14B, the cumulative amount ultimately recognised for goods or services received as consideration for the cash-settled share-based payment is equal to the cash that is paid.

#### *Counterparty has a choice of settlement*

Where the counterparty has a choice of settlement (ie in cash or equity), paragraph 26.15B states that the share-based payment transaction is accounted for as a wholly cash-settled share-based payment transaction. However, this paragraph has now been expanded to include two exceptions as follows:

- (a) the choice of settlement in cash (or other assets) has no commercial substance because the cash settlement amount (or value of the other assets) bears no relationship to, and is likely to be lower in value than, the fair value of the equity instruments; or*
- (b) the choice of settlement relates only to a new settlement feature and there is an obligation on the entity under tax laws or regulations to withhold an amount for an employee's tax obligation associated with that share-based payment.'*

In the above situations, the entity accounts for the transaction as a wholly equity-settled transaction. However, if the entity withholds an amount of shares that exceeds the monetary value of the employees' tax obligation in (b) above, the entity accounts for the excess shares withheld as a cash-settled share-based payment when this amount is paid in cash or other assets to the employee.

## **UNCERTAIN TAX TREATMENTS**

FRS 102, Section 29 *Income Tax* did not deal with uncertain tax treatments prior to the periodic review. The term 'uncertain tax treatment' is defined as:

*'A tax treatment for which there is uncertainty over whether the relevant taxation authority will accept the tax treatment under tax law. For example, a tax treatment that relies on an interpretation of the law that is not in accordance with the way in which the taxation authority is known to interpret the law.'*<sup>27</sup>

New paragraphs 29.17A to 29.17C have been included in FRS 102, which deal specifically with uncertain tax treatments. An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. In applying this requirement, the entity uses the approach which better predicts the resolution of the uncertainty.

Paragraph 29.17B states that the entity assumes a tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations.

#### *Entity concludes it is probable the tax authority will accept an uncertain tax treatment*

Where the entity concludes it is probable (ie more likely than not) that the tax authority will accept an uncertain tax treatment, the entity determines the taxable profit (loss), tax bases, unused tax

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<sup>27</sup> FRS 102, Glossary: 'Uncertain tax treatment'

losses, unused tax credits or tax rates consistently with the tax treatment used or planned to be used in its tax filings.

*Entity concludes that it is not probable the tax authority will accept an uncertain tax treatment*

Conversely, where the entity concludes that it is not probable that the tax authority will accept an uncertain tax treatment, the entity must reflect the effect of uncertainty in determining the related taxable profit (loss), tax bases, unused tax losses, unused tax credits or tax rates by using either of the following methods, depending on which better predicts the outcome:

- (a) the most likely amount – the single most likely amount in a range of possible outcomes
- (b) the expected value – the sum of the probability-weighted amounts in a range of possible outcomes.

Going forward, the entity treats a change in relevant facts and circumstances as a change in accounting estimate (ie the changes are reflected prospectively – no retrospective restatement is carried out).

APRIL 2026

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