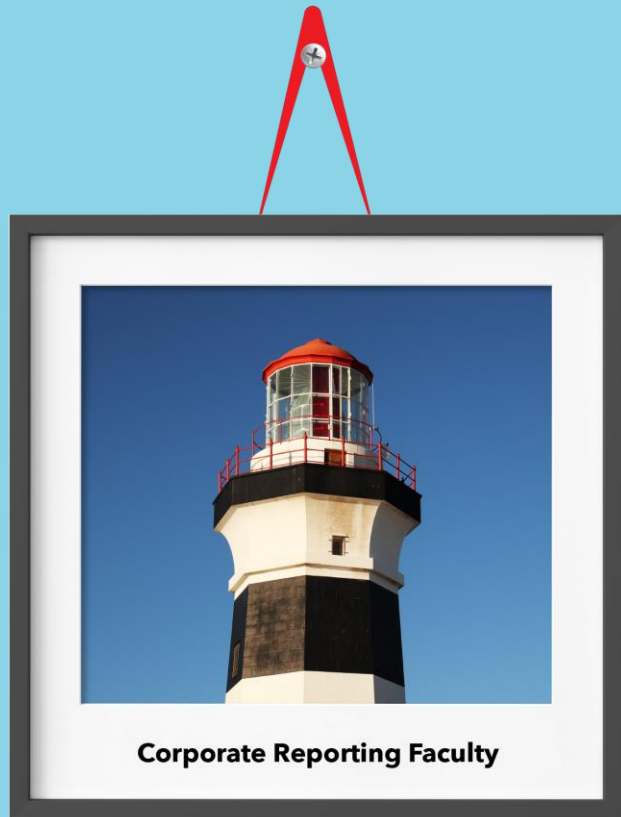




ICAEW KNOW-HOW
CORPORATE REPORTING FACULTY



UK GAAP – a new revenue model

3 APRIL 2025

THIS WEBINAR WILL
COMMENCE SHORTLY

Introduction



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Technical Manager, Corporate Reporting Faculty, ICAEW

Today's presenters

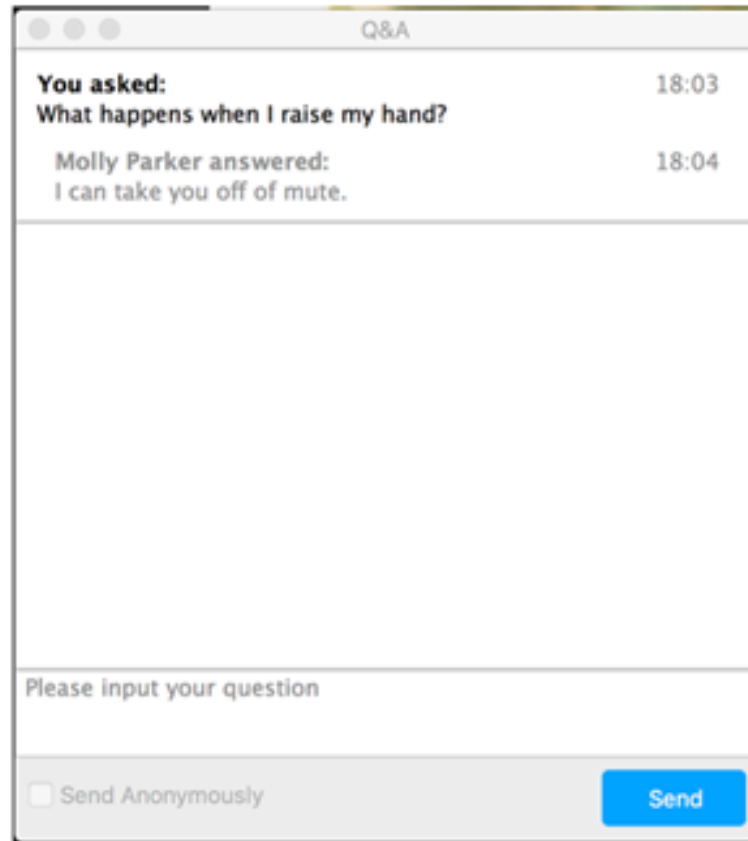


Simon Kettlewell
Technical Director
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Alex Davies
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PKF Francis Clark

Ask a question and access resources



The screenshot shows a Q&A interface with a header 'Q&A'. It displays a question: 'You asked: What happens when I raise my hand?' with a timestamp of 18:03. Below it is an answer: 'Molly Parker answered: I can take you off of mute.' with a timestamp of 18:04. At the bottom, there is a text input field with the placeholder 'Please input your question', a checkbox labeled 'Send Anonymously', and a blue 'Send' button. An arrow points from the 'Send' button to the text 'press send.' in the adjacent text block.

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To ask a question

Click on the **Q&A** button in the bottom toolbar to open the question box.

Type in your question and press **send**.

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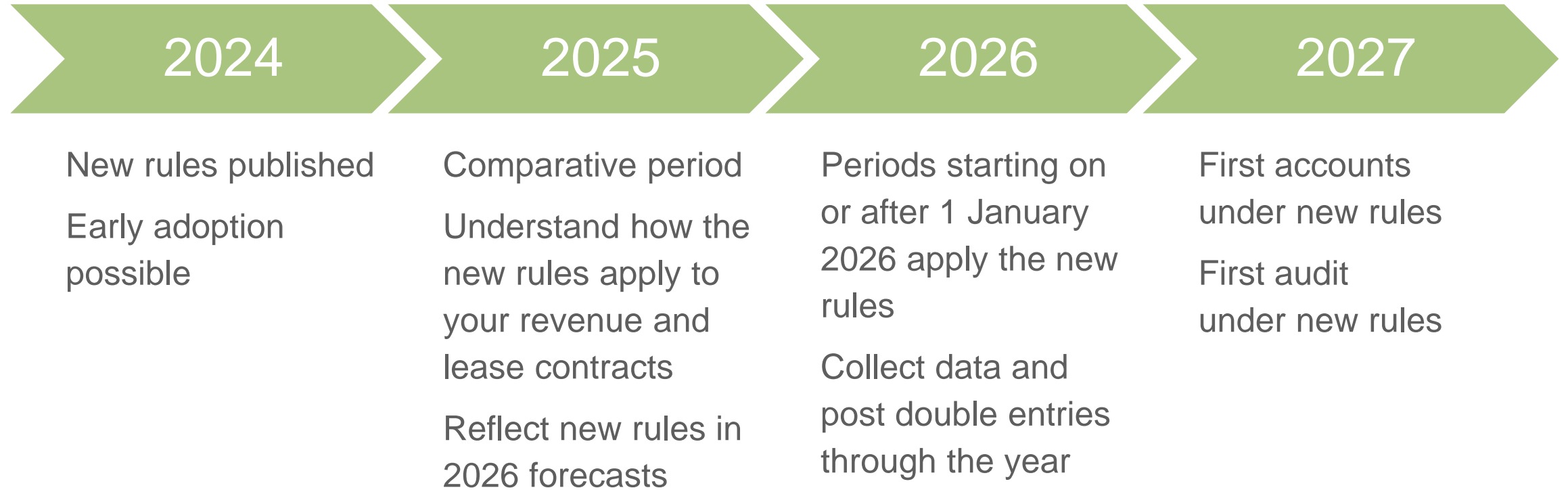
Example 2 – Big Larry’s Lorries Limited

Implementation challenges

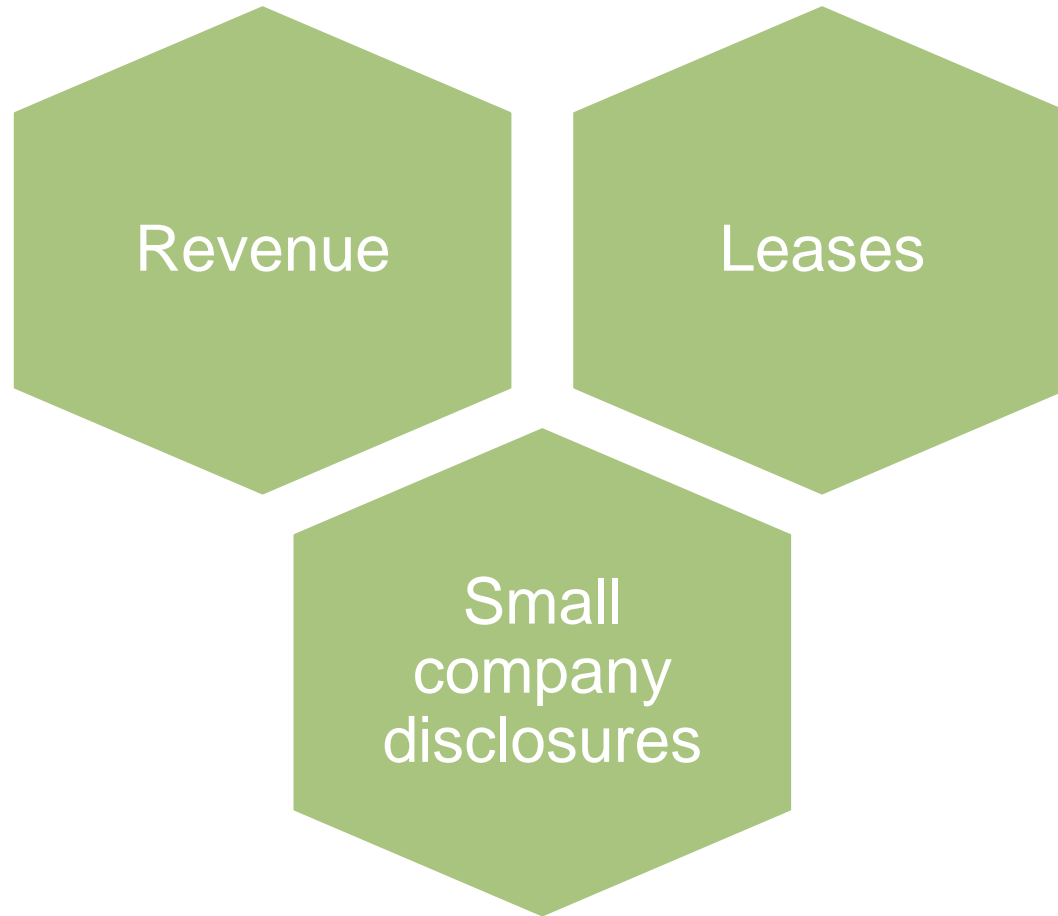


How we got here

FRS 102 periodic review timeline



2026 changes





The Revenue Recognition model

The 5 step Revenue Recognition model

Step 1

- Identify the contract(s) with the customer

Step 2

- Identify the performance obligations in the contract

Step 3

- Determine the transaction price

Step 4

- Allocate the transaction price to the performance obligations

Step 5

- Recognise revenue when or as a performance obligation is satisfied

The 5 step Revenue Recognition model

- For some entities, the new model will not result in any change to revenue recognition
 - E.g. retailers with no customer incentive or loyalty programmes, or entities who simply buy and sell goods
- For others, the changes will be much more substantial
 - Entities that have “bundled” contracts (e.g. selling of software and related maintenance)
 - Contracts with variable consideration (e.g. discounts, refunds, performance bonuses)
 - Contracts with warranties (which provide an additional service)
 - Contracts that provide options for additional goods/services (e.g. free or discounted goods in a loyalty scheme)
- **All entities** need to go through an impact assessment to determine the extent to which the new requirements will affect them
 - Do not simply dismiss this; the size of entity is not a determining factor in how significant the impact may be...

What about FRS 105?

- Section 18 of FRS 105 has also been updated
 - Shares the five-step model from FRS 102
 - Results in a consistent revenue recognition model for all entities following UK GAAP
 - However, it is a much-simplified version of the new Section 23 in FRS 102 (56 paragraphs compared to 139)
- The key differences between the FRS 105 requirements and the FRS 102 requirements include:
 - Para 18.6 covers simpler contracts and contracts that are complete within one reporting period
 - Some of the more complicated matters (e.g. contract modifications and customer options for goods/services) are excluded
 - Removal of any accounting policy options and instead mandating the simplest option
- Reminder: there are 3.2m micro entities in the UK, and this will increase by a further 113k when the increased size criteria come into effect

Whistle-stop tour of the 5 step model

Step 1

- Identify the contract(s) with the customer

- A contract is an agreement between two or more parties that creates enforceable rights and obligations
 - Whilst not explicit in new Section 23, a contract can be written, oral or implied by business practice (per IFRS 15)
- Contract criteria are set out in para 23.7 and include:
 - The parties have approved the contract
 - Each party's rights re: goods/services are identifiable
 - It is probable that the customer has the ability and intention to pay
- Contracts are combined if qualifying criteria per 23.12 are met
- Contract modifications covered in 23.13 – 23.16

FRS 105 states that if a contract is complete and the customer has paid, its usually clear that the contract criteria have been met

Whistle-stop tour of the 5 step model

Step 2

- Identify the performance obligations in the contract

- A performance obligation is a promise to transfer:
 - distinct goods or services to the customer; or
 - a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer
- The determination of whether goods / services are distinct will not always be easy
 - Can the customer benefit from the good or service either on its own or together with other resources that are readily available to the customer?
 - Is the promise to transfer goods / services separate from other promises?

Whistle-stop tour of the 5 step model

Step 2

- Identify the performance obligations in the contract

- There is detailed guidance in new Section 23 on the following areas:
 - Warranties
 - If the warranty provides an additional service = separate performance obligation
 - Non-refundable up-front fees
 - Often do not result in the transfer of a promised good/ service, therefore simply an advance payment for future goods/services
 - Customer options for additional goods/services
 - E.g. sales incentives or customer reward points. If these provide a material right to the customer that it would not receive without entering into that contract, the option gives rise to a separate performance obligation
 - Principal vs agent considerations
 - An entity is a principal if it controls the good/ service before it is transferred to the customer

Whistle-stop tour of the 5 step model

Step 3

- Determine the transaction price

- The amount of consideration to which the entity expects to be entitled, in exchange for transferring goods or services promised to a customer
- The transaction price may be affected by:
 - Variable consideration (e.g. discounts, rebates, refunds, penalties or performance bonuses) but only if “highly probable” to be entitled to this
 - Refund liabilities (e.g. for sales with right of return)
 - Time value of money, but only if payment is > 12 months from date of transfer of goods
 - Non-cash consideration (measure at FV)

Whistle-stop tour of the 5 step model

Step 4

- Allocate the transaction price to the performance obligations

- If there is only one performance obligation, the entity can ignore most of step 4
- However, where there are multiple performance obligations, the transaction price is allocated to each performance obligation on a relative stand-alone selling price basis
 - How much would that good/service be sold for separately?
 - If a discount is offered (e.g. in a bundled contract with multiple performance obligations), this is usually allocated to all of the performance obligations on a relative stand-alone selling price basis

Performance obligation	Stand-alone selling price (A)	Allocation of discount (B)	Allocated transaction price (A-B)
Obligation 1	4,000	$4,000/13,500 \times 1,500$	3,555
Obligation 2	7,500	$7,500/13,500 \times 1,500$	6,667
Obligation 3	2,000	$2,000/13,500 \times 1,500$	1,778
TOTAL	13,500		12,000

Whistle-stop tour of the 5 step model

Step 5

- Recognise revenue when or as a performance obligation is satisfied

- Revenue is recognised when the performance obligation is satisfied, which is when the promised good/service has been transferred to the customer
 - This is the point at which the customer obtains control
- Revenue is recognised either over time or at a point in time
 - Over time is based on meeting one of the three criteria in para 23.81
 - If recognised over time, can use output method or input method to measure progress towards satisfying the performance obligation
 - If these aren't met, revenue is recognised at a point in time

Disclosure requirements

- Significant uplift in requirements compared to existing FRS 102:

OLD FRS 102 (23.30 to 35)

- Accounting policy explaining revenue recognition
- Breakdown of revenue by category (eg sale of goods, royalties, commissions)
- Construction contract specific disclosures



NEW FRS 102 (23.131 to 139)

- Disaggregate revenue by economic factors (e.g. types of goods/services, by geographical market, over time vs point in time)
- Description of performance obligations (when the entity settles its performance obligations, the significant payment terms, nature of goods/services promised to be transferred)
- If performance obligations settled over time, what method is used
- Explanation of significance of unsatisfied performance obligations and when they are expected to be settled
- Contract balances and movements thereof

Example 1 – “Don’t call it a shed” limited



Garden room design & build company – “Don’t call it a shed” Limited

- Design, ship and build the parts for fancy garden buildings – office space, extra bedrooms
- £2,000 to £12,000 to design, build and ship the room
- Installation costs extra £1,000 to £4,000 – foundations through contractor
- Optional extras: wood treatment, accessories, guttering



Garden room design & build company – “Don’t call it a shed” Limited

Step 1

- Identify the contract(s) with the customer

Step 2

- Identify the performance obligations in the contract

Step 3

- Determine the transaction price

Step 4

- Allocate the transaction price to the performance obligations

Step 5

- Recognise revenue when or as a performance obligation is satisfied

***Poll question:
Which step will have the hardest /
most impactful decision?***

Garden room design & build company – “Don’t call it a shed” Limited

Step 1

- Identify the contract(s) with the customer

- Paperwork generated by website or sent by sales team
- Possible to buy ‘extras’
- Can’t modify core contract

Garden room design & build company – “Don’t call it a shed” Limited

Step 2

- Identify the performance obligations in the contract

Design

Ship

Extras

Build

Install

Garden room design & build company – “Don’t call it a shed” Limited

Step 2

- Identify the performance obligations in the contract

A good or service promised to a customer is distinct if both

- The customer can benefit from the good or service, either on its own or together with other resources available to the customer; and
- Delivering each of the goods or services separately will satisfy the contract.

Can you take the shed design, and get someone else to build it?

Garden room design & build company – “Don’t call it a shed” Limited

Step 3

- Determine the transaction price

- £2,000 to £12,000 to design, build and ship the room
- Installation costs extra £1,000 to £4,000 – foundations through contractor

Step 4

- Allocate the transaction price to the performance obligations

- Split of prices set by website based on cost/value – not subject to negotiation
- Allocation straightforward

Garden room design & build company – “Don’t call it a shed” Limited

Step 5

- Recognise revenue when or as a performance obligation is satisfied

- ‘Design and build’ satisfied on delivery
- ‘Ship’ satisfied on delivery
- ‘Installation’ satisfied as it progresses over 2-3 days

Garden room design & build company – “Don’t call it a shed” Limited

Step 1

- Identify the contract(s) with the customer

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- Identify the performance obligations in the contract

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Step 4

- Allocate the transaction price to the performance obligations

Step 5

- Recognise revenue when or as a performance obligation is satisfied

***Key decision was to ‘bundle’ design, build and ship –
Meant they were all recognised on delivery***

Example 2 – Big Larry’s Lorries Limited



Haulage company – Big Larry's Lorries Ltd

- Transport services for companies
- Framework contracts set out standard terms
- Separate order for each delivery – price based on weight and mileage – delivery date agreed as order is placed
- Largest customer has a different contract:
 - Retainer of £10,000 per month to have a driver stationed at their premises so there is always capacity to make quick deliveries
 - Service Level Agreement which says Larry's Lorries will pay penalties if they are not able to complete a delivery within 2 days of the request.

Haulage company – Big Larry’s Lorries Ltd

Step 1

- Identify the contract(s) with the customer

Step 2

- Identify the performance obligations in the contract

Step 3

- Determine the transaction price

Step 4

- Allocate the transaction price to the performance obligations

Step 5

- Recognise revenue when or as a performance obligation is satisfied

Which step will have the hardest / most impactful decision?

Haulage company – Big Larry's Lorries Ltd

Step 1

- Identify the contract(s) with the customer

- Revenue contract exists when you have framework + order
- Modifications to framework (eg fuel/mileage rates)?

Haulage company – Big Larry’s Lorries Ltd

Step 2

- Identify the performance obligations in the contract



Delivery



'Stand ready'

Haulage company – Big Larry's Lorries Ltd

Step 3

- Determine the transaction price



Haulage company – Big Larry's Lorries Ltd

Step 3

- Determine the transaction price

- If consideration includes a variable amount (eg because of discounts, bonuses or penalties), an entity shall **estimate the variable amount**
- Either expected value
($90\% \times \text{£nil} + 10\% \times \text{£1,000} = \text{£100}$ expected)
- Or most likely value
(most likely to be £nil)
- Take that off the total for each contract with the service level agreement.



Haulage company – Big Larry's Lorries Ltd

Step 4

- Allocate the transaction price to the performance obligations

- Set price per delivery

Step 5

- Recognise revenue when or as a performance obligation is satisfied

- Deliveries: point in time – standard consideration of risk vs reward – Incoterms
- Retainer: over time

Haulage company – Big Larry’s Lorries Ltd

Step 1

- Identify the contract(s) with the customer

Step 2

- Identify the performance obligations in the contract

Step 3

- Determine the transaction price

Step 4

- Allocate the transaction price to the performance obligations

Step 5

- Recognise revenue when or as a performance obligation is satisfied

Key was step 3: variable consideration due to penalties for breaching SLA



Implementation challenges

Implementation challenges: Transition

- Two options under FRS 102:

FULL RETROSPECTIVE APPROACH

- Recalculate comparative information for prior periods to earliest practicable date
- Don't need to restate contracts that begin and end in the same reporting period
- Don't need to restate contracts that were complete at the beginning of earliest period presented (typically 1 Jan 2025)

MODIFIED RETROSPECTIVE APPROACH

- No restatement of comparatives
- Cumulative effect of initial application is recognised as an adjustment to opening reserves
- Apply new Section 23 requirements only to contracts not complete at date of initial application (1 Jan 2026)
- Couple of practical expedients available

Under **new FRS 105**, there are no choices; para 1.11 states that the new requirements are applied PROSPECTIVELY to contracts that start after the date of initial application (1 Jan 2026)

Implementation challenges: what was learnt from IFRS 15?

- IFRS 15 became effective for periods commencing on/after 1 January 2018
 - Lengthy period over which feedback on implementation has been gathered
- IASB *IFRS 15 Post-implementation Review* (September 2024) (<https://bit.ly/4hbNPL6>)
 - IFRS 15 transition was “challenging and costly, particularly for industries such as telecommunications, construction and software”
 - Application challenges include the determination of distinct goods or services where bundled arrangements exist, and the judgements involved with variable consideration.
- EFRAG “*Intended and Unintended Consequences of IFRS 15 Adoption*” (November 2023) (<https://bit.ly/4bYl42c>) states the most affected industries were Telecommunications, Construction, Public administration and defence, Aerospace, and Engineering & Industrials.

Implementation challenges: what was learnt from IFRS 15?

- ICAEW Corporate Reporting Faculty “*FRS 102 Periodic Review 2024 Amendments*” factsheet (published 7 March 2025) <https://bit.ly/4hpZmXu>:
 - *“It is difficult to generalise about the extent to which the new revenue recognition requirements will change the amount and timing of an entity’s revenue recognition, because this will depend not only on the nature of the entity’s contracts with customers but also how it has previously applied FRS 102 to those contracts (...). All entities will need to look carefully at the new requirements and ensure that they are applying the five-step approach going forwards; it would be wrong for an entity simply to assume that its previous revenue recognition policies will be unaffected.”*
- FRC’s IFRS 15 Thematic Review “*Review of Disclosures in the First Year of Application*” (October 2019) <https://bit.ly/41yrKRh> and “*A follow-up thematic review*” (September 2020): <https://bit.ly/3DO9KdA>
 - Lots of examples of inadequate disclosure (much of which is based on the previous requirements) and examples of better disclosure: resources such as this should be used to help with the drafting of disclosure which meets the new requirements

Implementation challenges for preparers

Internal needs

- Upskilling teams
- Reviews of contracts
- Accounting systems, processes and controls / information capture may need to change
- Consider standardised contracts / amendments to existing terms / impact on product pricing decisions

Financial Reporting

- Profit-related remuneration and share-based payments could be affected
- Tax implications
- Profit-related deferred consideration
- Dividend policies
- Enhanced disclosures
- More judgement involved / estimation uncertainty

Borrowings

- EBITDA is going to be affected – potential impact on bank covenants
- If entity looking to borrow in the future, cash flow projections should be based on new FRS 102
- Discussions with lenders needed sooner rather than later
- Warnings about lost comparability

Other matters

- Internal budgeting and reporting will have to change
- Early adoption is possible, but only if all other changes are adopted at the same time (ie no cherry picking)
- Consider deferral through change of year end?

Implementation challenges for auditors

- Who is going to do the work? Smaller entities are likely to lean heavily on their auditors for assistance
 - Ethical conflict likely to arise in the same way as when FRS 102 was first introduced
 - Separate teams will need to be involved (and separate engagement letter needed)
 - Are your teams ready to be able to provide the necessary support?
- Transition work may have needed to commence three months ago!!
- Some entities will be looking to early adopt (e.g. if looking to enter into a new loan agreement):
 - Are you ready?
 - When will your software be ready?
- There will be more judgement / Estimation Uncertainty in determining performance obligations, which presents enhanced audit risk
- Don't assume that clients won't be affected!!



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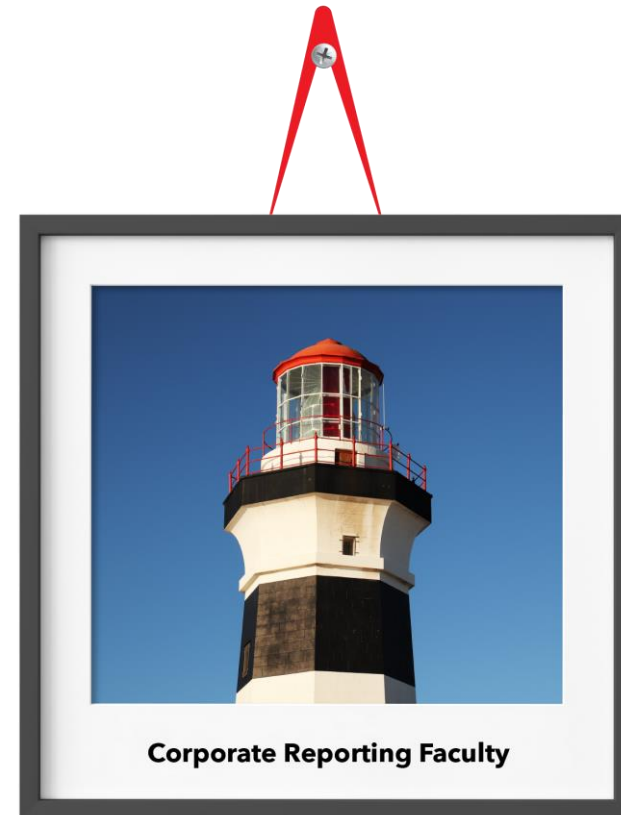
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ICAEW resources

- [Periodic review of UK GAAP hub page](#)
- [Factsheets](#) – corporate reporting factsheet
 - [Factsheet: FRS 102 Periodic Review 2024 Amendments](#)
 - [IFRS 15 Revenue from contracts with customers](#)
- [By All Accounts](#) faculty magazine:
 - [Five-step revenue recognition model: what you need to know](#)
- [Technical Advisory Helpsheets: Implementation of the changes to FRS 102](#)
 - [Revenue recognition helpsheet](#)
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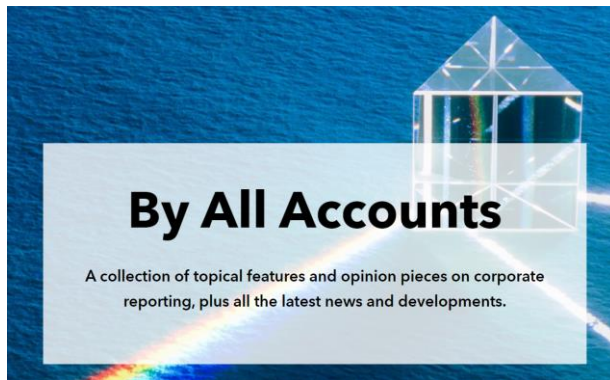
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Questions



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Thank you for attending



- Please take the time to fill out our short survey.



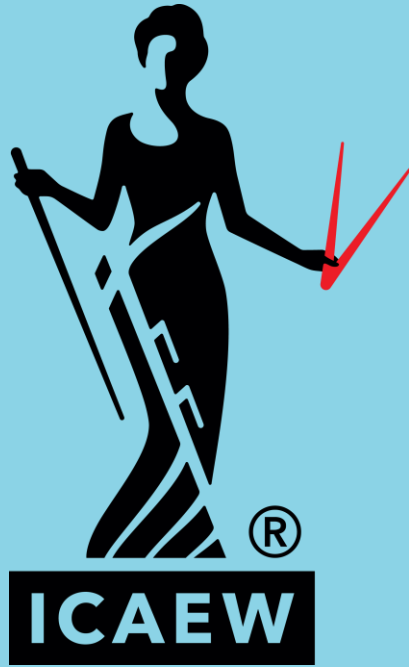
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