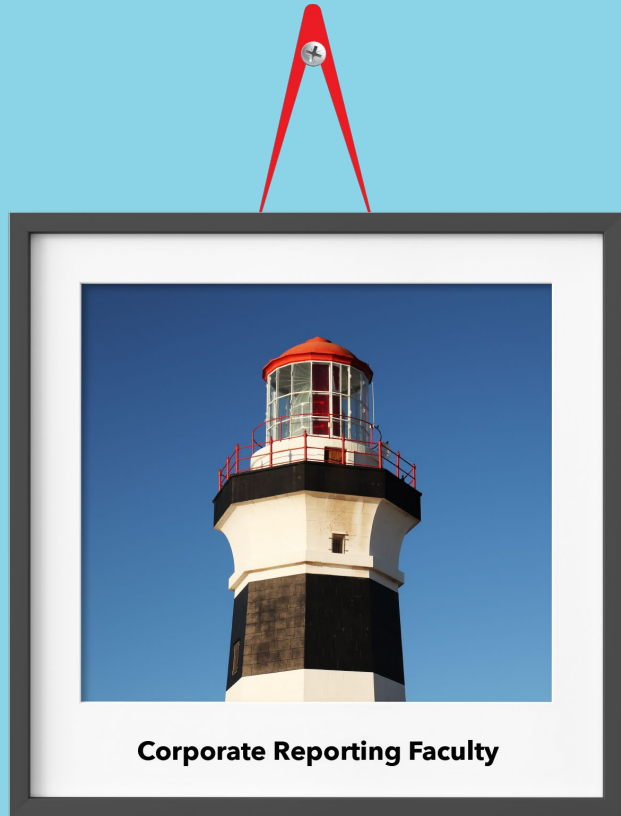




ICAEW KNOW-HOW
CORPORATE REPORTING FACULTY



FRS 102 Leases – a deeper dive

25 SEPTEMBER 2025

**THIS WEBINAR WILL
COMMENCE SHORTLY**

Introduction

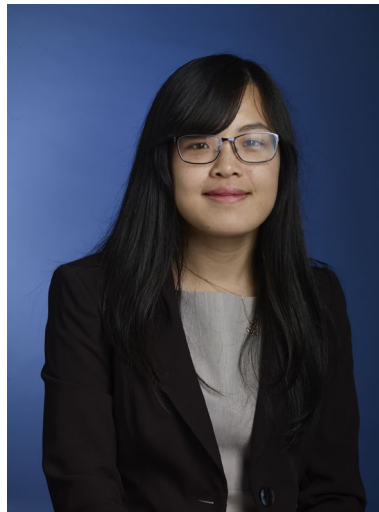


Amy Trappe
Technical Manager, Corporate Reporting Faculty, ICAEW

Today's presenters



Simon Cooper
Partner
Accounting Advisory
Services, KPMG

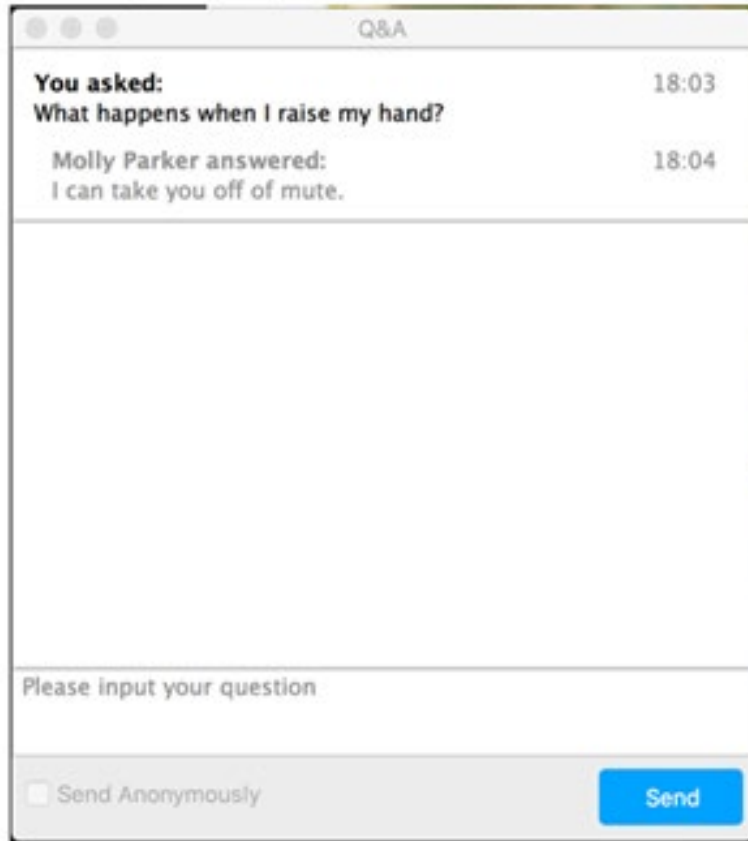


Shuk Fan Chan
Senior Manager
Accounting Advisory
Services, KPMG



Mark Woodland
Senior Manager
Accounting Advisory
Services, KPMG

Ask a question and access resources



The screenshot shows a Q&A interface with a title bar 'Q&A'. It displays a question and answer history:

Text	Time
You asked: What happens when I raise my hand?	18:03
Molly Parker answered: I can take you off of mute.	18:04

Below the history is a large empty text area for asking a question. 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 in the text to the 'send' text in the adjacent text block.

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FRS 102 Amendments *Leases as a lessee – a deeper dive*



ICAEW Webinar – 25 September 2025

Content

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Identifying leases

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Initial application of amendments

Subsequent measurement and ongoing changes

Q&A

Your presenters



Simon Cooper

Partner
Accounting Advisory Services



Shuk Fan Chan

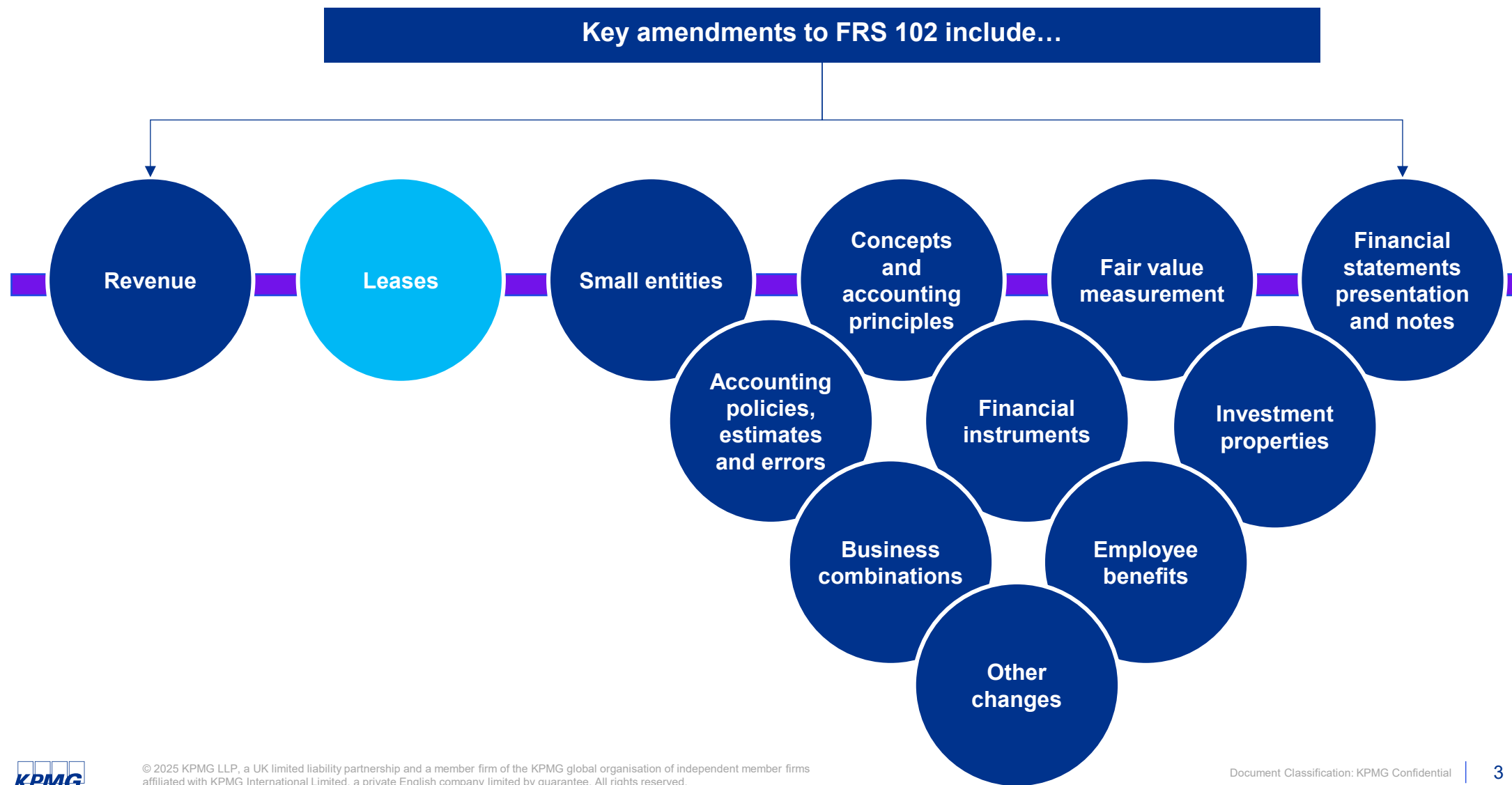
Senior Manager
Accounting Advisory Services



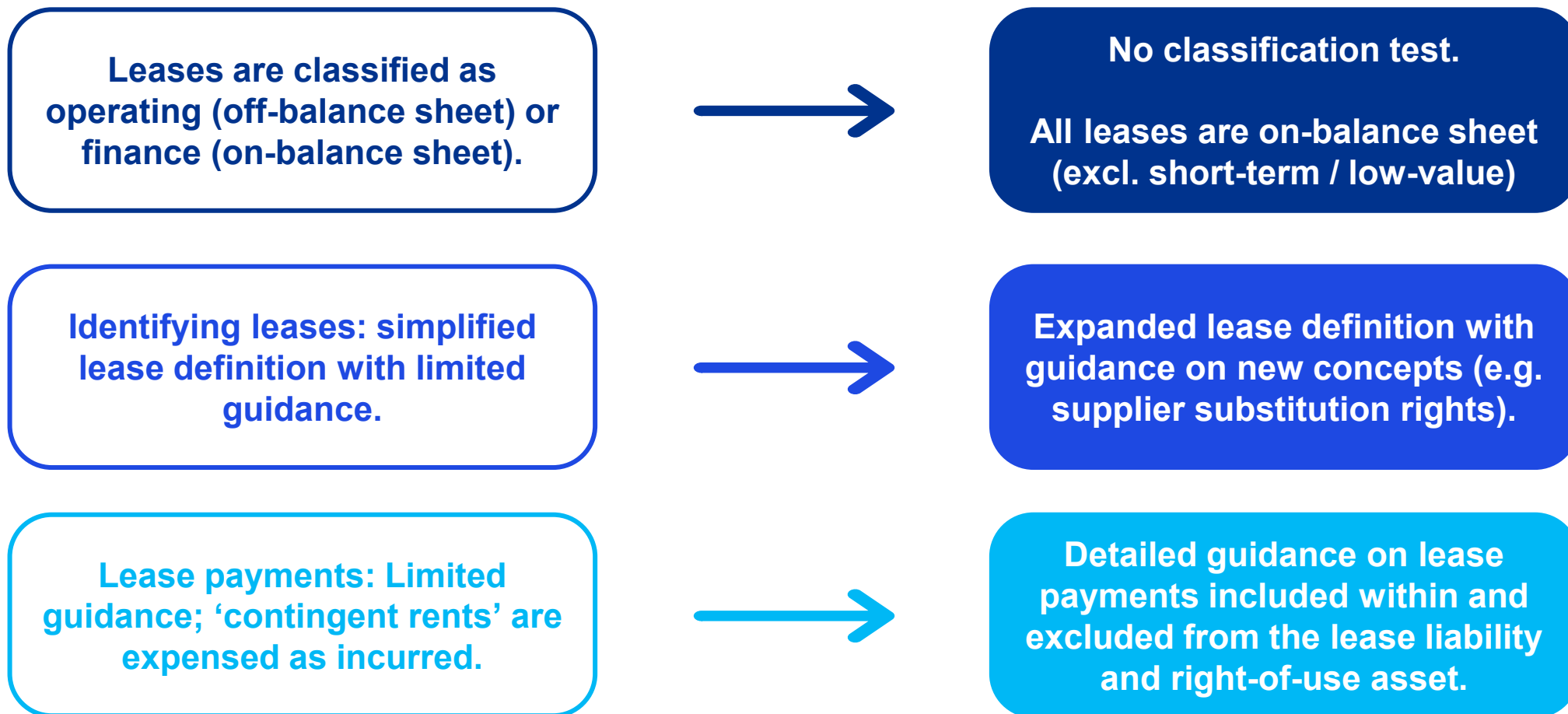
Mark Woodland

Senior Manager
Accounting Advisory Services

Overview of the amendments



Leases as a lessee: Overview of the key changes



Lessee accounting

Balance Sheet



Asset

= 'Right-of-use' of asset

Liability

= Lease liability

Income Statement



Lease Expense

Depreciation

+ Interest expense

= Front-loaded total lease expense

Cash Flow Statement



Operating activities

- Variable lease payments not included in the lease liability
- Payments for short-term & low value leases

Financing activities

- Cash payment for principal and interest* portions of lease liability

Optional exemption for short-term leases and leases of low value assets

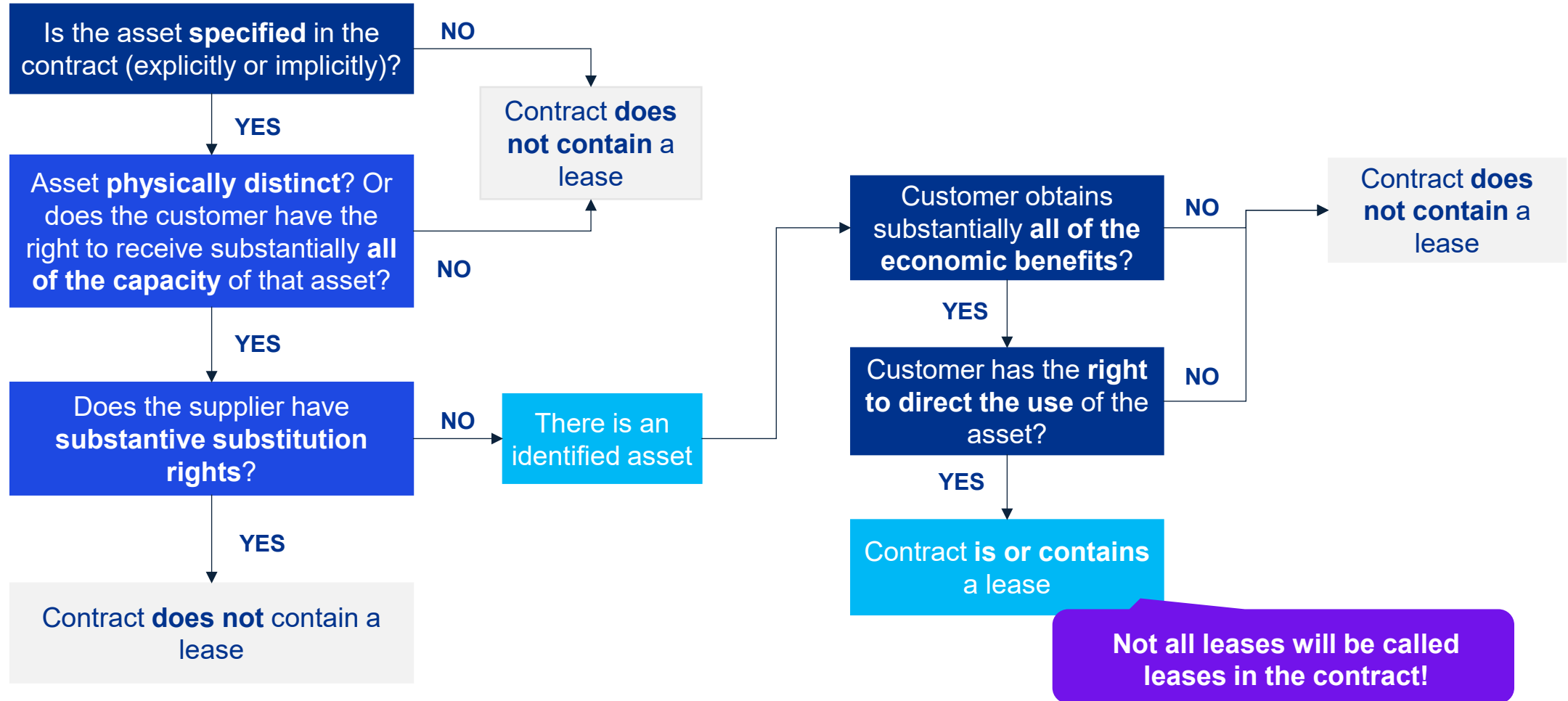
**Cash payments for the interest portion are classified in accordance with other interest paid.*

01

Identifying leases

Lease definition – test

The expanded definition increases focus on who controls the asset and may change which contracts are leases



Example – identifying leases

In a logistics contract, a supplier agrees to provide a number of vehicles to service the delivery of goods for a customer.

Whether these vehicles meet the definition of leases depends on the contractual terms and structure of the arrangement.

Key terms:

- The contract does not specifically identify the vehicles from the supplier's pool that will service the delivery contract (e.g. by registration number)
- The supplier can choose any vehicle from its fleet to respond to individual delivery requests, based on whichever vehicle has the most optimal location / specification

Does this arrangement contain a lease?

A

Yes, the customer has a right to use these vehicles.

B

No, there is no identified asset.

Example – identifying leases

Let's adjust the previous example of a logistics contract, whereby a supplier agrees to provide a number of vehicles to service delivery of goods for a customer.

Key terms:

- The contract identifies 5 specific vehicles (with registration numbers in the contract).
- The vehicles will be used solely to deliver the customer's deliveries and will not be used for any other customer deliveries.
- The supplier can substitute the vehicles, however, must first obtain consent from the customer.
- Although the supplier's personnel drive the vehicles, the customer instructs the supplier which locations the vehicles should drive via delivery schedules.

Does this arrangement contain a lease?

A

Yes, the customer has a right to use these vehicles.

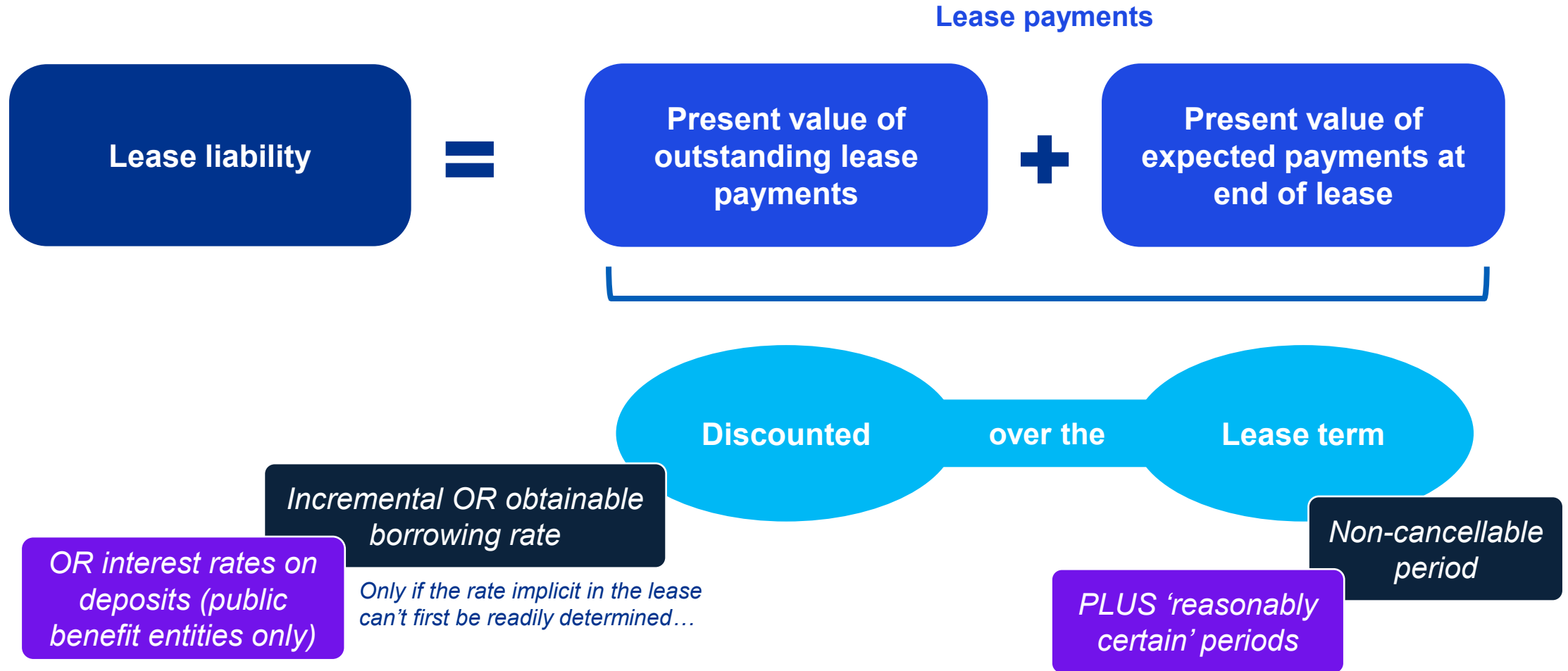
B

No, there is no identified asset.

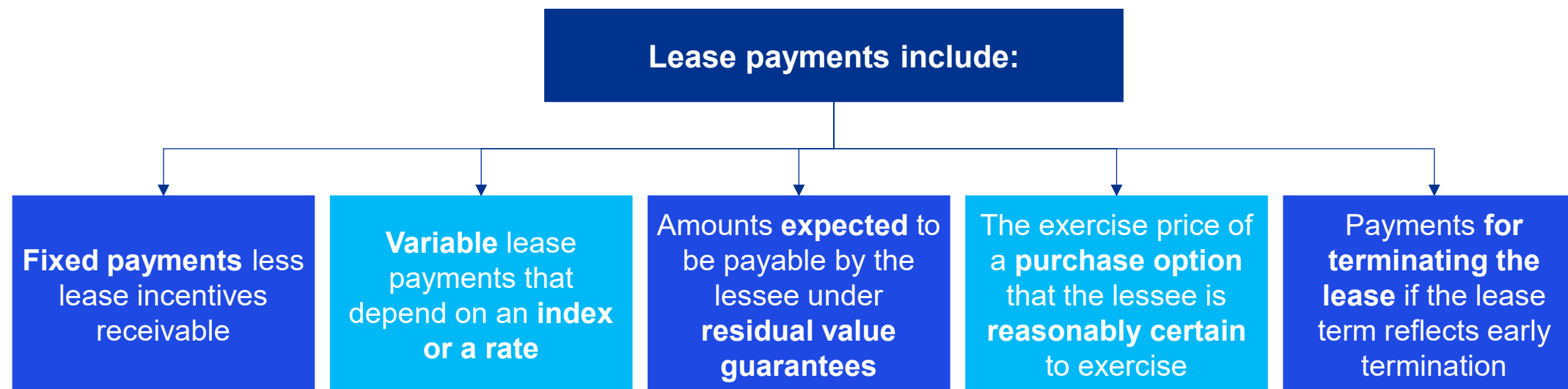
02

Calculating the lease liability and right-of-use asset

Recognising the lease liability – overview



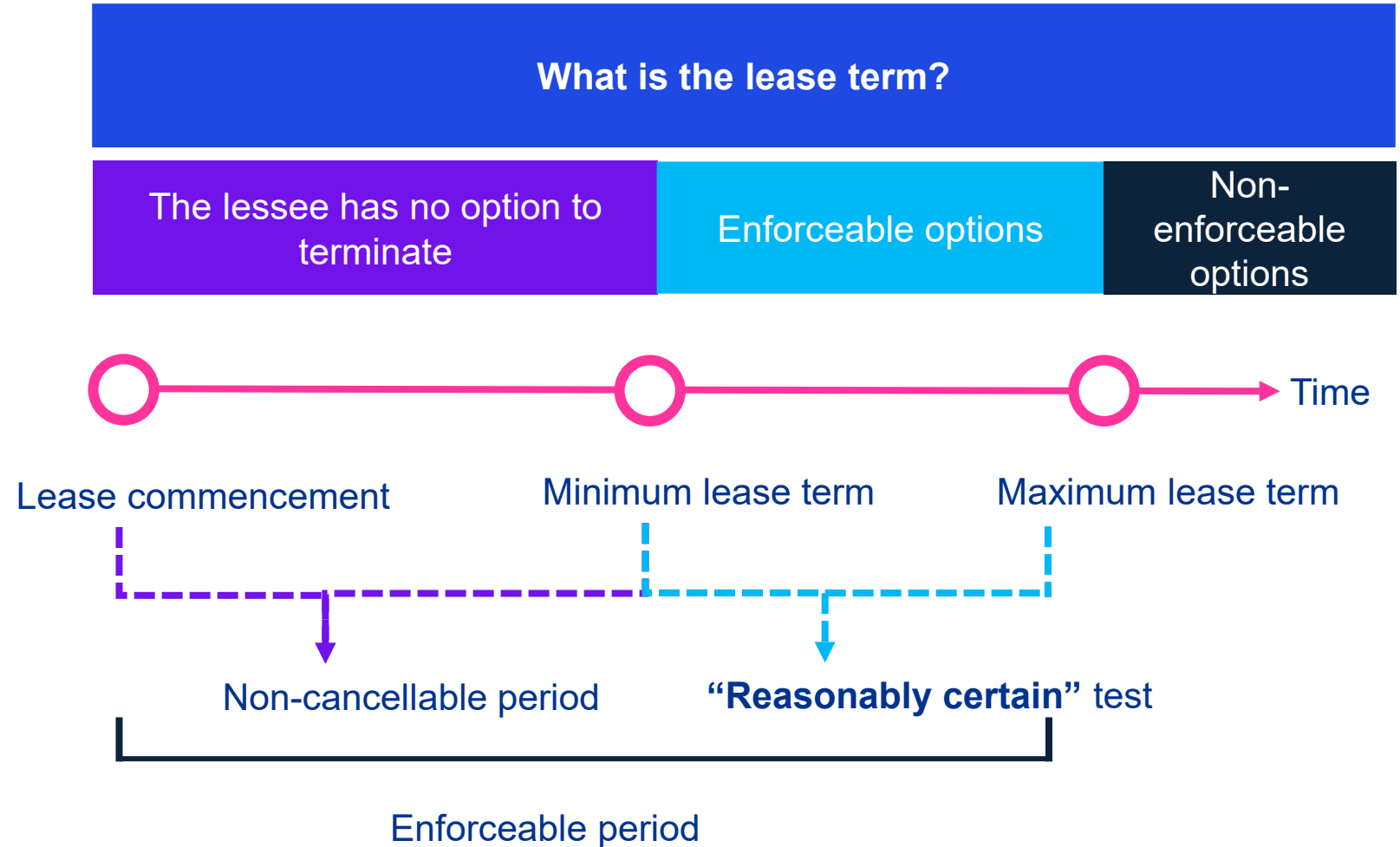
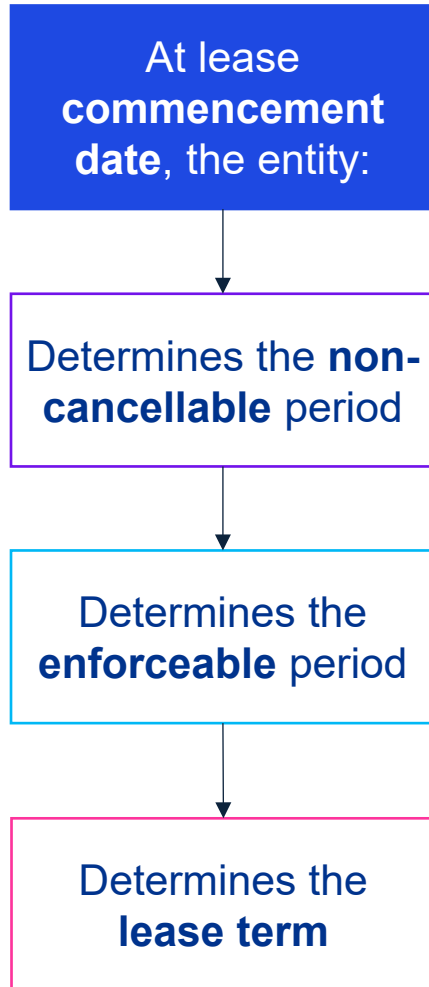
Recognising the lease liability – Lease payments



Excluded from the lease liability

- non-lease components (for example, payment for services), unless the lessee elects to combine non-lease components with a lease component.
- Variable lease payments that depend on sales or usage of the underlying asset.

Recognising the lease liability – Lease term



Recognising the right-of-use asset



Initially recognised at cost, represented by:

Initial measurement of the lease liability

+

Prepaid lease payments

+

Initial direct costs

+

Dismantling or restoration costs (excluding wear and tear which is recognised and expensed as damage occurs)

+

Lease components that represent a government grant or non-exchange transaction (primarily below-market rentals)

—

Lease incentives received

Example – recognising liabilities and assets

A property lease involves the following terms:

- **Term:** Initially 3 years
- **Extension options:** 2 years (to year 5). A large penalty is payable if the first 2-year extension is not exercised.
- **Payment terms:**
 - Upfront payment of £25k.
 - Fixed annual rent of £100k per annum.
 - Fixed rent is subject to annual increases at the higher of 2% and RPI
 - Additional rent payable at 2% of turnover.
- **Other conditions:** Significant unremovable leasehold improvements will be spent on the property and it is in a key operating location based on strategic 5-year business plan.

A bank has quoted an interest rate on a £500k 5-year loan (equivalent to lease term) at 3% which will be used as the obtainable borrowing rate.

Lease Term

3 years + ‘reasonably certain’ extension options.
The first extension option is likely to be included due to economic disincentives to not extend.

Lease payments

Include fixed annual rentals of £100k + 2% increases within lease liability.
Expense turnover rent.
Include upfront payment within right-of-use asset.

RPI increases above 2% are included in the lease liability via remeasurement at a later date, once known.

	Discount rate	3%
Year	Payments	Present value
1	100,000	97,087
2	102,000	96,145
3	104,040	95,211
4	106,121	94,287
5	108,243	93,371
	Lease liability	476,102
	Upfront / advance payments	25,000
	Right-of-use asset	501,102

03

Initial application accounting

Leases – initial application requirements

Option A – IFRS group reporting expedient

- FRS 102 preparers that report into an IFRS consolidation can use the lease liabilities and ROU assets calculated under IFRS 16 for group reporting purposes. Any difference is recognised in equity.
- The revised FRS 102 requirements should be applied in subsequent periods and to new leases.

Option B – Leases previously classified as operating leases

- Recognise a lease liability at the present value of the remaining lease payments.
- Recognise a ROU asset at an amount equal to the lease liability, adjusted for any prepaid or accrued lease payments immediately before the initial application date.
- Assess the ROU asset for impairment unless the lessee chooses to adjust the ROU asset by the onerous lease provisions recognised immediately before the initial application date (optional).

Leases previously classified as finance leases

- Recognise a ROU asset and lease liability at the carrying amount of the leased asset and finance lease liability immediately before the initial application date.
- This avoids the need to establish a new discount rate on the date of initial application.
- Subsequently, apply the revised lease requirements.

Example – initial application

As at 1 January 2026, the date of initial application, an entity has a property lease as a lessee. The term of the lease is 1 January 2024 to 31 December 2028, a 5-year term with 3 years remaining.

Annual rental payments for the next 3 years are £500k per annum.

The lease is currently accounted for as an operating lease. Due to a rent-free period at the start of the lease, a £50k accrual liability is present on the balance sheet at 31 Dec 2025.

An onerous lease provision associated with the property of £25k is present on the balance sheet at 31 Dec 2025.

The entity has a consolidating parent that prepares IFRS financial statements and currently shows this lease as a £1,400,000 lease liability and £1,350,000 right-of-use asset 31 Dec 2025.

Option A: IFRS 16 exemption

Apply parent's IFRS 16 numbers on 1 Jan 2026.
Derecognise existing assets / liabilities.
Recognise any difference in equity.

Option B: remaining term and payments

Account for the lease liability and right-of-use asset using the remaining lease term and payments.
Adjust the existing accrual and onerous provision liabilities (assuming the impairment expedient is applied)

Option A

Recognise parent balances:

Dr ROU Asset £1,350,000
Cr Lease Liability £1,400,000

Derecognise existing assets/liabilities:

Dr Accrual Liability £50,000
Dr Onerous Lease Provision £25,000

Recognise balancing adjustment in equity:

Cr Equity £25,000

Option B

Discount rate 5%

Year	Payments	Present value
1	500,000	476,190
2	500,000	453,515
3	500,000	431,919
Cr Lease Liability		1,361,624
Dr Accrual Liability		50,000
Dr Onerous Lease Provision		25,000
Dr Right-of-use asset		1,286,624

Leases – expedients and other requirements

Prospective lease definition	<ul style="list-style-type: none">Do not have to reassess lease definition prior to the date of initial application, i.e. entities can assume current leases continue to be leases, and therefore only apply new lease definition prospectively for new leases entered into on or after 1 Jan 2026.
Don't restate comparatives	<ul style="list-style-type: none">Not allowed to restate comparatives – recognise cumulative effects as an adjustment to the opening balance of retained earnings at the date of initial application.
Recognition exemptions	<ul style="list-style-type: none">Exemptions available for short-term (12 months or less) and low-value assets leases.
Portfolio Discount rates	<ul style="list-style-type: none">May apply a single discount rate to a portfolio of leases with similar characteristics on initial application, e.g. similar remaining lease term, class of underlying asset, and economic environment.
Use of hindsight	<ul style="list-style-type: none">May use hindsight on initial application, such as determining the lease term if the contract contains options to extend or terminate the lease.

04

Subsequent measurement and ongoing changes

Subsequent measurement

Lease liability

- Amortised cost using the effective interest method.

ROU Asset (cost model)

- Adjusted for any remeasurement of the lease liability from reassessments and subsequent changes in the estimates to dismantling or restoration costs.
- Adjusted for modifications to scope or price.
- Depreciated in accordance with Section 17 *Property, Plant & Equipment*.
- Depreciation period is the shorter of lease term and useful life of the asset.
- Impairment testing under Section 27 *Impairment of Assets*.

ROU Asset (alternative models)

- Fair value model under Section 16 *Investment Property*.
- Revaluation model under Section 17 *Property, Plant & Equipment*.
- Adjusted for remeasurements (reassessments and modifications).



Subsequent measurement

Opening lease liability: £500,000.
 Annual payments: £115,000 per annum.
 Discount rate: 4.85%

		<i>Discount rate</i>		4.85%				
Year	<i>Lease Liability</i>				<i>Right-of-use asset</i>			
	Opening Liability	Interest (P&L)	Payments (cash)	Closing Liability	Opening Asset	Depreciation (P&L)	Closing Asset	
1	500,000	24,236	115,000	409,236	500,000	100,000	400,000	
2	409,236	19,836	115,000	314,072	400,000	100,000	300,000	
3	314,072	15,224	115,000	214,296	300,000	100,000	200,000	
4	214,296	10,387	115,000	109,683	200,000	100,000	100,000	
5	109,683	5,317	115,000	-	100,000	100,000	-	

Remeasurement of lease liability (non-modification)

Remeasure liability to reflect changes in:

<ul style="list-style-type: none">▪ Expected amount payable under a residual value guarantee▪ Index or rates (e.g. RPI, rent review)	A
<ul style="list-style-type: none">▪ Lease term judgements*▪ The assessment of purchase options▪ Lease payment changes due to floating interest rates	B

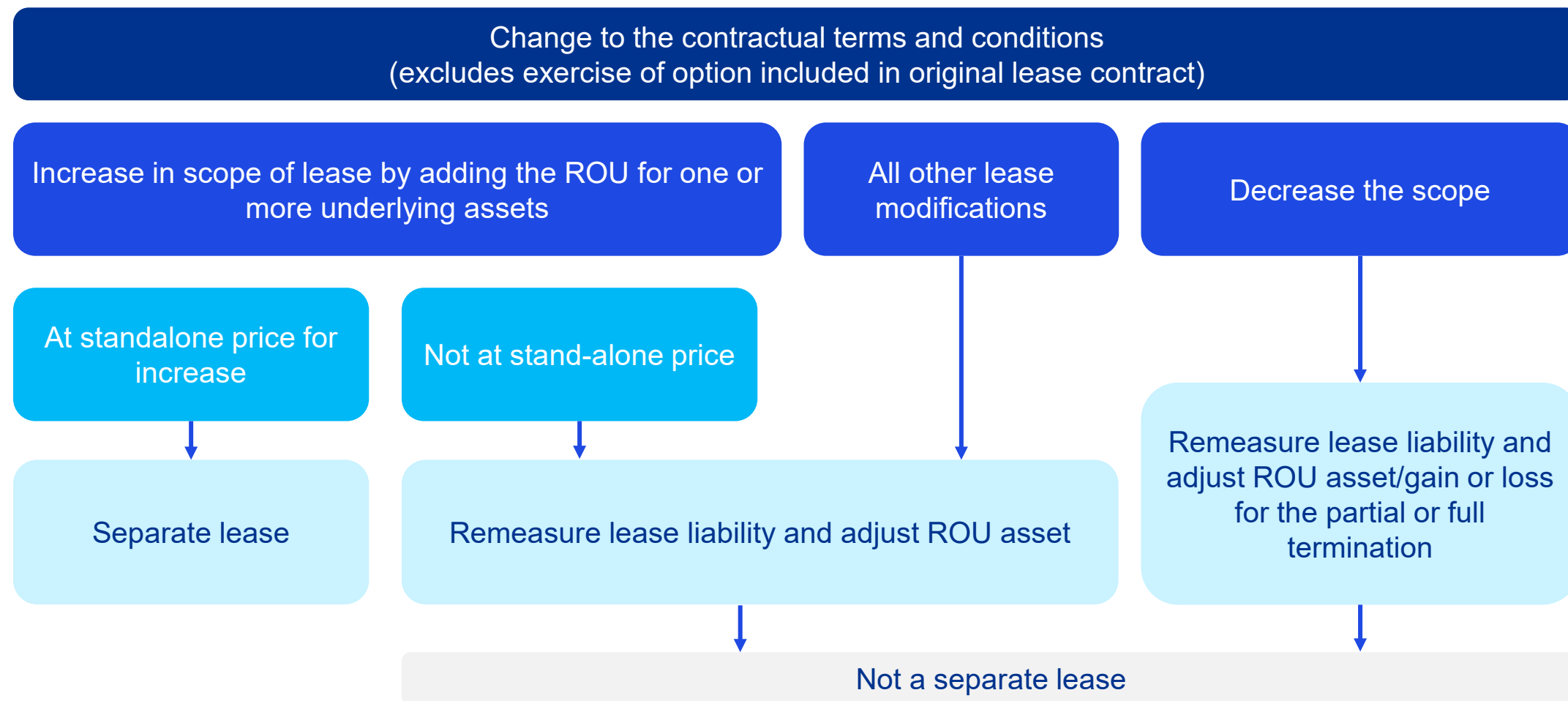
Discount rate applied:

Unchanged discount rate

New discount rate

****Lease term judgements are reassessed only when there is a significant event or change in circumstances that is within the control of the lessee.***

Lease modifications

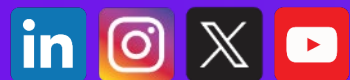


Q&A





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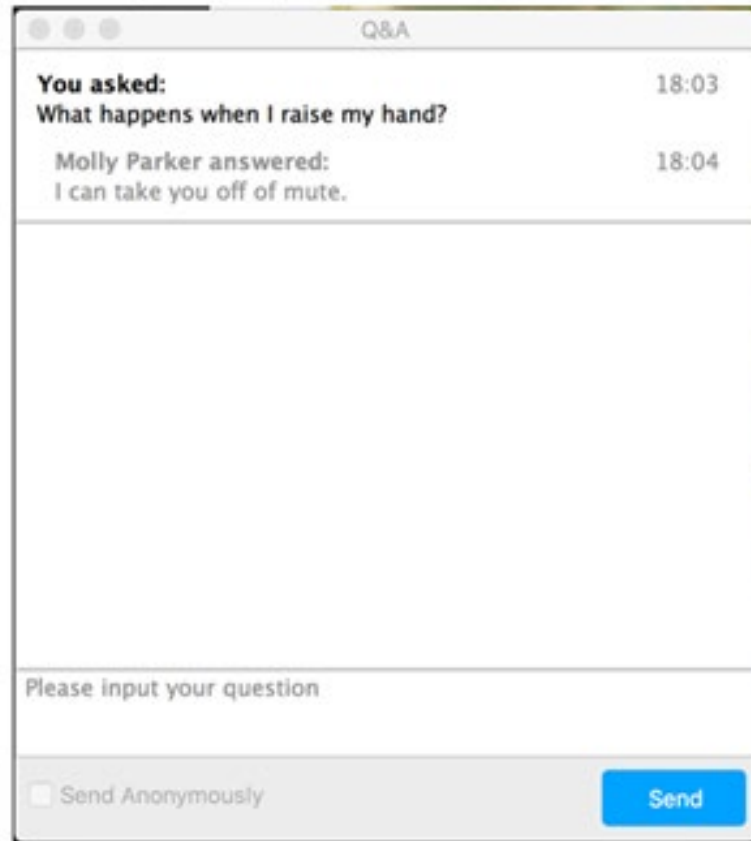
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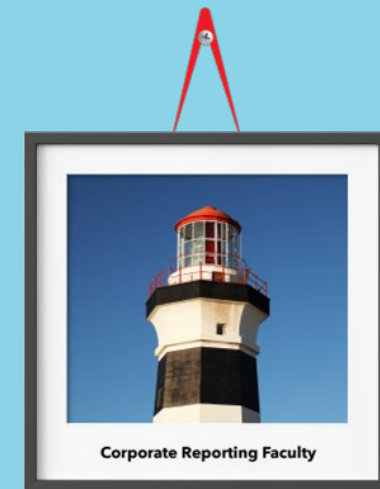
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- Webinar and event recordings:
 - [FRS 102 Leases – the countdown to change](#) – overview of new lease accounting requirements
 - [Corporate Reporting Faculty Conference 2025](#) – more detailed lease accounting sessions, including examples
- Online hub:
 - [Periodic review of UK GAAP](#)
- Factsheets:
 - [FRS 102 Periodic Review 2024 Amendments](#)
 - [FRS 102 Revenue from Contracts with Customers](#)
- Technical Advisory Service helpsheets:
 - [Implementation of the changes to FRS 102](#)
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<https://events.icaew.com/pd/31722/what-makes-good-sustainability-reporting?>

Questions



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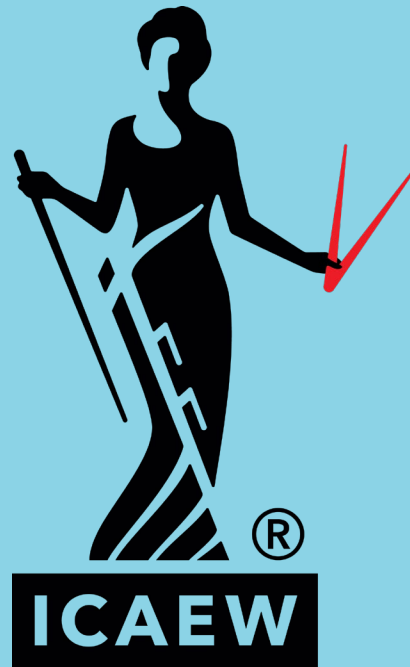
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