

January 2026



FRS 102 factsheet – Periodic Review 2024

Revenue from contracts with customers

The Periodic Review 2024 amendments to FRS 102 are applicable for accounting periods beginning on or after 1 January 2026. Early application is permitted, provided that all amendments are applied at the same time.

Note that amendments in respect of supplier finance arrangements published at the same time are applicable from 1 January 2025.

Summary

FRS 102 Section 23 now adopts a structured five-step approach aligned with IFRS 15, replacing the old “risks and rewards” model. This may result in a substantial change in the timing of revenue recognition for many entities. The amendments also introduce more prescriptive requirements on areas such as variable consideration, contract modifications, and principal vs agent arrangements, aiming to enhance consistency and comparability in financial reporting.

Revised accounting

The new five-step model which focuses on the transfer of control, requires entities to:

1. Identify the contracts with a customer which must meet specific criteria,
2. Identify performance obligations, being distinct goods or services, or a series of distinct goods/services with the same transfer pattern,
3. Determine the transaction price, including estimates of variable consideration, and adjusted for the time value of money if material,
4. Allocate the transaction price to performance obligations based on relative stand-alone selling prices, and
5. Recognise revenue when or as performance obligations are satisfied. Over-time or point-in-time recognition is determined based on specific criteria relating to control and benefit transfer.

Key areas of judgement

Contract existence

The following conditions should all be met for a customer contract to be accounted for in accordance with the Section 23 revenue recognition model:

- Approval and commitment: The parties have approved the contract in writing, orally, or by customary business practice, and are committed to perform their obligations.
- Identifiable rights: The entity can identify each party’s rights regarding the goods or services to be transferred.
- Identifiable payment terms: The entity can identify the payment terms for the goods or services to be transferred.
- Commercial substance: The contract has commercial substance, ie expected to change the risk, timing or amount of the entity’s future cash flows.
- Probable collectability: It’s probable that the customer will have the ability and intention to pay the consideration when it is due.

If these conditions are not met, any consideration received is recorded as a liability until the criteria are satisfied or the contract is terminated with non-refundable consideration. Judging collectability and commercial substance often involves significant estimation and documentation.

Contract modifications

When there is a contract modification, the key judgment lies in determining whether the modification should be treated as a separate contract or as part of the existing one. If the additional goods or services are distinct and the price reflects their stand-alone selling price, the modification is accounted for as a separate contract. If not, it’s treated as an adjustment to the original contract.

When a modification is accounted for within the existing contract, management must decide whether to apply the change prospectively, affecting only future performance obligations or retrospectively, adjusting revenue for goods or services already delivered. This decision depends on whether the modification alters the transaction price or the nature of the remaining obligations. In addition, the entity must reassess performance obligations to determine if they remain distinct or need to be combined, and update the allocation of the transaction price accordingly.

Identifying performance obligations

At contract inception, management must exercise judgment to identify which promised goods or services constitute performance obligations. This involves assessing all explicit and implicit promises and determining whether they are distinct or form part of a combined obligation.

The concept of “distinct” is central and requires two tests:

1. The good or service must be capable of being distinct, meaning the customer can benefit from it on its own or with other readily available resources, and
2. It must be distinct within the context of the contract, which requires evaluating whether the promise is separately identifiable rather than part of a combined output.

In practice, goods or services are not distinct within the contract if one or more of these indicators is present (non-exhaustive):

- Significant integration: The entity is providing a major service of integrating multiple items into a single combined output.
- Significant modification or customisation: One promise substantially modifies or customises another.
- High interdependence or interrelation: The items are so interdependent that one significantly affects the other’s ability to deliver benefit as promised.

If either part fails, the entity must combine the good or service until it identifies a bundle of goods or services that is distinct. In some cases, this will result in the entity accounting for all the goods or services in a contract as a single performance obligation

When contracts include non-refundable upfront fees, such as membership charges, activation fees, or set-up costs management must also assess whether the upfront fee provides a distinct good or service to the customer. If the fee only grants access to future goods or services (for example, a gym membership or SaaS subscription), it does not represent a separate performance obligation.

In such cases, the fee is allocated across the contract term and recognised as revenue over time as the underlying services are delivered. Conversely, if the upfront fee covers a distinct service, such as a one-off installation that the customer can benefit from independently it may be recognised when that service is completed.

Judgment is also needed when contracts terminate early. If the upfront fee is non-refundable and the entity has no remaining obligations, revenue may be recognised at that point. However, entities must carefully evaluate whether any residual obligations exist and ensure that recognition aligns with the transfer of control principle.

Customer options and warranties

When customers are granted options to purchase additional goods or services, either free or at a discount, the critical judgment is whether these options create a material right. A material right exists if the option gives the customer a benefit they wouldn’t get without the original contract, typically when goods or services can be purchased at a price significantly below their stand-alone selling price. When a material right exists, part of the transaction price must be allocated to the option and deferred until the goods or services are delivered or the option expires.

This judgment is particularly relevant in industries such as retail, travel and hospitality, software, and telecoms, where loyalty programs, promotional vouchers, renewal options, and bundled discounts are common.

Judgement is also needed to determine whether warranties are a separate performance obligation. If the warranty can be purchased separately (a service-type warranty), it’s treated as a distinct performance obligation. In this case, part of the transaction price is allocated to the warranty and recognised as revenue over the coverage period. Conversely, if the warranty is required by law (an assurance-type warranty), it doesn’t provide an additional service and is accounted for as a provision under Section 21, with no allocation of consideration.

In assessing whether the warranty is an additional service, the following factors should be considered:

- If the warranty can be bought on its own, it provides an additional service.
- If the warranty is legally mandated, it doesn’t provide an additional service.
- The longer the coverage period of the warranty, the more likely it is that the warranty provides the customer with an additional service
- Tasks that only assure compliance (eg, return shipping for defects) don’t provide an additional service.

Principal vs agent arrangements

Determining whether an entity acts as a principal or an agent is critical because it affects whether revenue is recognised on a gross or net basis. The main judgment is whether the entity’s promise is to provide goods or services itself (principal) or arrange for another party to provide them (agent).

The most decisive factor is control, does the entity control the goods or services before they are transferred to the customer? Indicators of control include being primarily responsible for fulfilling the promise, bearing inventory risk before transfer, and having discretion in setting prices. If these indicators are present, the entity is likely a principal.

If not, and the entity’s role is limited to arranging delivery, it is an agent and should recognise only its fee or commission as revenue.

Determining the transaction price

The transaction price is the amount of consideration to which the entity expects to be entitled in exchange for transferring goods or services promised to a customer, excluding amounts collected on behalf of third parties.

Determining the transaction price requires judgment in assessing whether adjustments for the time value of money are necessary. This applies when there is a significant timing difference between performance and payment, generally more than 12 months or when payment terms are outside normal business practice or financed at a non-market interest rate. In such cases, the entity must adjust consideration for financing effects and present interest income or expense separately from revenue.

Judgment is also needed when applying the practical expedient, which allows entities to ignore time value adjustments if the gap between performance and payment is 12 months or less. Additionally, when payment is received in advance, entities have an accounting policy choice to adjust or not for time value, requiring consistent application and disclosure.

Further judgement is required when the transaction price includes:

Variable consideration

If the consideration includes a variable amount, the entity must estimate the amount using either the expected value or most likely amount method. It then applies the constraint, including variable amounts only if it's highly probable that revenue recognised will not reverse when the uncertainty is resolved. Common sources of variability include discounts, rebates, refunds, price concessions, rights of return, penalties, and performance bonuses.

Refund liabilities

Entities must judge when to recognise a refund liability, which arises when consideration has been received but some or all may need to be refunded, such as price protection guarantees, retrospective discounts, service credits for performance failures, money-back promises, or cancellable contracts. The liability is measured at the amount the entity doesn't expect to be entitled to, and estimates must be updated at each reporting date to reflect changes in circumstances.

Sales with a right of return

When customers have the right to return goods for cash or non-identical products, entities must judge how to account for the return rights. This involves:

- Recognising a refund liability for consideration expected to be returned.
- Recognising a refund asset (eg inventory) for goods expected to be returned, measured net of recovery costs and impairment.
- Applying the variable consideration constraint to revenue for goods expected not to be returned.

Judgment is also needed to distinguish true returns from simple exchanges (eg size or colour swaps), which do not require refund liabilities or assets and allow revenue to remain recognised at the original sale date.

Consideration payable and non-cash consideration

For consideration payable to a customer, management need to determine whether payments (cash, credits, vouchers) reduce the transaction price or represent payment for a distinct good or service received by the entity. If they reduce revenue, the timing of recognition must be assessed, either when related revenue is recognised or when payment is promised.

For non-cash consideration, the key judgment is how to measure it. Normally, this is at fair value; if fair value cannot be reliably estimated, use the stand-alone selling price of the promised goods or services. Entities must also evaluate whether the non-cash item forms part of the transaction price based on the facts and circumstances of the arrangement.

Allocation of transaction price

In general, the transaction price must be allocated to each performance obligation identified in the contract based on their relative stand-alone selling price basis. The stand-alone selling price is the price at which an entity would sell a good or service promised in a contract separately to a customer.

If a stand-alone selling price is not directly observable, an entity must estimate it using a suitable method which includes:

- a. Adjusted market assessment approach,
- b. Expected cost plus a margin approach and
- c. Residual approach.

A discount or variable consideration should be allocated to all the performance obligations based on their relative stand-alone selling price basis. This is unless such basis does not depict the amount of consideration to which the entity expects to be entitled in exchange for satisfying each performance obligation.

In this case, the entity must allocate that discount or variable consideration using a method that reflects such an amount (eg a variable payment may be allocated entirely to one performance obligation in the contract if the terms of that variable payment relate specifically to the entity's efforts to satisfy that performance obligation).

If after contract inception, an entity's estimate of the amount of consideration to which it expects to be entitled to changes, judgment is required to allocate adjustments on the same basis as originally determined, without re-estimating standalone selling price. For obligations already satisfied, adjustments are recognised as revenue or reduction of revenue in the period of change.

Timing of revenue recognition

An entity shall recognise revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service to a customer. Judgment is required to determine when control of goods or services transfers to the customer. Indicators of control include:

- The right to payment,
- Legal title to the asset,
- Physical possession of the asset,
- Transfer of risks and rewards, and
- Customer acceptance.

A critical judgment is whether a performance obligation is satisfied over time or at a point in time. Over-time recognition applies if:

- The customer simultaneously receives and consumes benefits,
- The customer controls an asset as it is created, or
- If the asset has no alternative use and the entity has an enforceable right to payment for work completed.

If none of these apply, revenue is recognised at a point in time, often requiring careful review of shipping terms and bill-and-hold arrangements.

For obligations satisfied over time, entities must select and consistently apply a method to measure progress that faithfully depicts performance, such as output methods (units delivered, surveys) or input methods (costs incurred, labour hours). Choosing the most appropriate method involves significant judgment and impacts revenue timing.

Licensing arrangements also require judgment to determine whether revenue is recognised over time or at a point in time:

- Revenue is recognised over time when the license provides ongoing access to intellectual property (IP) and the entity's activities significantly affect the IP during the license period. This applies if:
 - The licensor performs activities that affect the IP,
 - Those activities are not a separate good or service, and
 - The customer is exposed to the effects of those activities.
- Revenue is recognised at a point in time when the license grants rights without any ongoing obligation to change, maintain, or support the IP during the license term.

Contract costs

Under Section 23 of FRS 102, entities must decide whether to capitalise or expense costs to obtain a contract, as there is an accounting policy choice. Capitalisation is permitted only if the costs would not have been incurred without obtaining the contract and are expected to be recovered. This policy must be applied consistently, except where the amortization period is less than one year, in which case costs may be expensed even if capitalisation is chosen.

Judgment is also required for costs to fulfil a contract. These can only be capitalised if they are directly related to a specific contract (or anticipated contract), generate or enhance resources for future performance, and are expected to be recovered. Entities must also assess whether other sections of FRS 102 (eg inventory, PPE, intangibles) apply; if those sections prohibit capitalisation, the costs must be expensed even if Section 23 criteria are met.

Transition choices

When the entity first applies the Periodic Review 2024 amendments to Section 23, they shall apply either of the following:

- Full retrospective approach: Restate comparatives with the detailed effects of the adjustments presented for the immediate prior period.
- Modified retrospective approach: Comparatives are not restated and any cumulative effect of initially applying the amendments is presented as an adjustment to opening balances at the start of the current year.

These two approaches covered in more detail in a separate factsheet.

Step-by-step checklist for transitioning to the new revenue model under FRS 102

Step	Action Item	Considerations	Done (✓)
1	Confirm entity is within scope of revised FRS 102 (not FRS 105).		
2	Identify first reporting period affected (eg year ending 31 Dec 2026).		
3	Decide on transition elections: <ul style="list-style-type: none"> • Full retrospective (restating comparatives) or, • Modified retrospective (cumulative adjustment to opening equity). 	Document all policy choices clearly.	
4	Compile a full list of contracts with customers.		
5	For each contract assess whether the contract meets Section 23 criteria: <ul style="list-style-type: none"> • Approval, • Rights, • Payment terms, • Commercial substance, and • Probable collectability. If not, treat consideration as liability until criteria met.		
6	Identify contract modifications and determine whether they create a separate contract (distinct goods/ services at standalone selling price) or adjust existing contract. Decide on prospective vs retrospective treatment.	Document all policy choices clearly.	
7	Identify performance obligations using the two-part test for distinct goods: <ul style="list-style-type: none"> • Capable of being distinct, and • Distinct in context. 	Consider whether non-refundable fees, customer options or warranties are present.	
8	Calculate transaction price (fixed and variable consideration, refund liabilities and returns).	Adjust for time value of money if timing difference >12 months or financing terms unusual.	
9	Allocate transaction price to the performance obligations (standalone selling price, market assessment, cost-plus margin or residual approach).	Consider whether there are any discounts or variable considerations which need to be allocated	

Step	Action Item	Considerations	Done (✓)
10	Decide timing of revenue recognition (over time or at a point in time).	For over-time recognition, select and apply a consistent progress measure (input/output methods).	
11	Evaluate contract costs and document the policy choice for costs to obtain contracts (capitalize or expense costs to obtain contracts).		
12	Update systems and processes to ensure they can handle five-step model, standalone selling price estimation, variable consideration, and disclosure requirements.		
13	Embed controls for new/ modified contracts to be assessed and accounted for under revised model.		
14	Prepare new revenue disclosures: <ul style="list-style-type: none"> • Nature/timing of obligations, • Transaction price allocation, • Significant judgments, and • Contract balances. Consider other areas of the financial statements such as accounting policies, key sources of estimation uncertainty and front half narrative.		
15	Model impact on key metrics <ul style="list-style-type: none"> • EBITDA. • Covenants. • Remuneration targets. Also consider tax impact including modelling any amendments to cash payments in respect of tax as a result of the amendments.	Document judgements and assumptions for audit readiness.	
16	Communicate with governance, lenders, and stakeholders ahead of year-end.		

This factsheet is based on regulations and law as of 16 January 2026 and professional advice should always be taken.

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