

January 2026

## FRS 102 factsheet – Periodic Review 2024

### Small entities – Section 1A



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 1A is a framework for small entities that provides simplified presentation and disclosure requirements while maintaining the same recognition and measurement principles as full FRS 102. Therefore, small entities reporting under FRS 102, section 1A are required to adopt the recognition and measurement changes under the revisions to FRS 102, 2024.

This includes:

#### Revenue:

- Introduction of a five-step model for revenue recognition aligned with IFRS 15.
- Identification of performance obligations, allocation of transaction price and revenue recognition when obligations are satisfied.

#### Leases:

- Lessees adopt a single model based on IFRS 16 which includes the recognition of a right-of-use asset and lease liability on the balance sheet. Operating leases will no longer be off balance sheet.
- Exemptions are available for short-term leases and low-value assets.

These significant changes are covered in separate factsheets.

Disclosure requirements in full FRS 102 have necessarily been updated to reflect the changes in accounting and, as a result, some of these will flow through into section 1A. Small entities should also be aware of new mandatory disclosures which have been added as part of the revisions, unrelated to revenue or leasing, some of which were previously only encouraged rather than required.

In assessing whether a company can apply section 1A, account should be taken of the recent changes to the Companies Act company size thresholds.

These increase the thresholds for small entities meaning that more entities may qualify for the regime, but this should be balanced against any impact of the recognition of right-of-use assets which could increase gross assets, one of the benchmark figures.

### Revised disclosures under Section 1A

#### Changes to encouraged disclosures

Previously section 1A set out a number of required disclosures for small entities and some further disclosures that were encouraged rather than required. These were encouraged where relevant to the transactions of the small entity. They included:

- A statement of compliance with FRS 102, section 1A.
- A statement that it is a public benefit entity, if applicable.
- Disclosures relating to material uncertainties related to events or conditions that cast significant doubt upon the small entity's ability to continue as a going concern.
- Dividends declared and paid or payable.
- Explanation of transition to FRS 102.

For UK entities, these disclosures have been removed from what was Appendix E of FRS 102 and included in Appendix C of Section 1A thus making them mandatory rather than encouraged.

### Revenue

Due to the changes in revenue recognition and measurement under FRS 102, additional information is now required to be disclosed for small entities. Specifically, disclosure is required regarding performance obligations identified under the new 5 step model including:

- When the entity satisfies its performance obligations (eg upon shipment, upon delivery, as services rendered).
- The significant payment terms (eg when a payment is typically due, whether the contract includes a financing transaction, whether the consideration is variable).
- The nature of the good or services that the entity has promised to transfer, highlighting any promises to arrange for another party to transfer goods or services.

## Leases

New, required disclosures for small entities include:

- A general description of significant leasing arrangements.
- Additional qualitative and quantitative information if necessary to enable users to understand significant leasing arrangements. Matters to include are:
  - Information about future cash outflows to which the lessee is potentially exposed that are not reflected in the measurement of lease liabilities eg variable lease payments.
  - Information about restrictions or covenants imposed by leases.
  - The types of discount rate used in calculating lease liabilities and the proportion of the total lease liability calculated using each of those types of discount rate
  - Information about sale and leaseback transactions.
- Where relevant, disclosure is required of short-term and low-value asset lease expense as well as variable lease payments not included in the measurement of lease liabilities.

## Changes to other disclosures

### Share-based payments

Disclosure is now required about share-based payments issued by small entities, to include:

- A description of share-based payment transactions that existed at any time during the year.
- The number and weighted average exercise prices of share options outstanding at the beginning and end of the period and those exercisable at the end of the period.
- Information about the effect of the share-based payment transactions on the profit and loss for the period and financial position (total expenses, carrying amount of any share-based payment liabilities).

## Taxation

New disclosure is required for small entities about deferred tax assets and liabilities at the end of the reporting period for each type of timing difference and the amount of unused tax losses and credits.

The major components of tax expense must be disclosed to include:

- Current and deferred tax expense.
- Prior period adjustments.
- Adjustments due to changes in accounting policies.
- Current tax expense in relation to Pillar Two income tax.

Deferred tax expense should differentiate between that relating to origination and reversal of timing differences, that relating to changes in tax rates and that relating to change in tax status.

A reconciliation between tax expense in the income statement and the profit or loss on ordinary activities before tax multiplied by the applicable tax rate.

## Provisions and contingencies

Enhanced disclosures are required around provisions to include:

- A reconciliation for each class of provision.
- A description of the nature of the obligation and the expected amount and timing of any resulting payments including an indication of any uncertainties arising from these outflows or any reimbursement expected.

For contingent liabilities a description is needed of the nature of the contingent liability including an estimation of the financial effect including uncertainties relating to amount or timing of outflows and any possible reimbursement.

Where contingent assets are disclosed, the financial statements must now include a description of the nature of any contingent assets and where practicable an estimate of their financial effect.

In rare circumstances it may prejudice the position of a dispute to include disclosures, however a reconciliation of provisions in aggregate is still required to be disclosed.

## Related party transactions

Previously small entities, applying Section 1A only had to disclose certain related party transactions ie those that were not entered into on an arm's length basis. The new FRS 102 Section 1A broadens the related party disclosures to align with non-small companies and effectively eliminates the judgement in determining what qualifies as a material transaction that is not concluded under normal market conditions. In effect, all related party transactions must now be disclosed in small company accounts, except where a specific exemption applies.

The exemption for key management personnel compensation remains unchanged, meaning such disclosures are not required in small company accounts.

New mandatory disclosures are required of the nature of related party relationships as well as information about the transactions, outstanding balances and commitments and any provisions or bad debt expense on such balances and transactions.

Exemption is permitted for 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 as well as specific government exemptions.

In respect of transactions with directors there is no explicit requirement for small entities to disclose directors' remuneration, but the Accounting Regulations require disclosure of directors' remuneration not concluded under normal market conditions and there is an overarching requirement for financial statements to give a true and fair view. Therefore, judgement is required as to whether a small entity would need to include this. Any directors' loans have separate disclosure requirements including the amount owed at the reporting date, movements during the year, terms and conditions, security and guarantees and provisions against such balances.

## Interaction of small threshold changes and FRS 102 transition

The timing of the size threshold changes and the FRS 102 amendments does not align, which creates an important planning consideration for entities.

The UK size-threshold uplift applies to periods commencing on or after 6 April 2025 and raises the monetary limits by roughly 50%. Effectively, this means that entities may newly qualify as small for periods starting on or after that date. This reclassification may immediately affect the financial reporting framework and disclosure regime they can use. Entities that now qualify as small under the revised size threshold may wish to adopt the simpler approach in Section 1A of FRS 102.

Company and group size thresholds (net), meeting any 2 of 3				
	Micro		Small	
	Old	New	Old	New
Annual Turnover (£)	≤632,000	≤1 m	≤10.2m	≤15 m
Balance sheet total (£)	≤316,000	≤500,000	≤5.1 m	≤7.5 m
Average employees	≤10	≤10	≤50	≤50
	Medium		Large	
	Old	New	Old	New
Annual Turnover (£)	≤36 m	≤54 m	>36 m	>54 m
Balance sheet total (£)	≤18 m	≤27 m	>18 m	>27 m
Average employees	≤250	≤250	>250	>250

However, the recognition and measurement changes under the 2024 Periodic Review of FRS 102 do not take effect until accounting periods beginning on or after 1 January 2026. Entities considering a move to Section 1A should therefore evaluate the combined impact of these changes, taking into account user needs, transition costs, and the potential for misalignment with stakeholder expectations. Careful planning is essential to avoid unintended consequences.

## FRS 105 reporters (micro-entities)

The most significant amendment to FRS 105 is the introduction of the simplified five-step, control-based revenue recognition model. For micro-entity reporters, the key practical implication of this is to update their revenue accounting policy rather than add extensive revenue disclosures. Further guidance is available in our 'Revenue from contracts with customers' factsheet.

On transition, a micro-entity applies the revised Section 18, Revenue from contracts with customers, prospectively to contracts that begin after the date of initial application; hence, it doesn't change its accounting policy for any contract already in progress at that date.

Lease accounting requirements, however, remain unchanged and lessees continue to classify their leases as finance and operating based on whether substantially all risks and rewards of ownership transfer to the lessee.

In addition to these the headline changes, consequential amendments have been made to maintain consistency with FRS 102. These include a rewritten Section 2, Concepts and Pervasive Principles, and updates to guidance on accounting estimates and errors, financial instruments, provisions and contingencies, share-based payments, impairment of assets, and specialised activities. While the practical impact for micro-entities is limited, these changes modernise definitions, clarify principles, and align terminology across the standard.

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

Step	Action Item	Considerations	Done (✓)	Step	Action Item	Considerations	Done (✓)
1	Confirm entity is within scope of revised FRS 102 (not FRS 105).			10	Update provisions and contingencies disclosures: <ul style="list-style-type: none"> <li>Reconciliation of provision.</li> <li>Nature of obligations.</li> <li>Timing of obligations.</li> <li>Uncertainties.</li> <li>Reimbursement expectations, and Disclose contingent liabilities and assets.</li> </ul>		
2	Confirm entity is still deemed to be a small entity and eligible for FRS 102 Section 1A.	Consider the impact of the updated size thresholds (applicable from 6 April 2025).		11	Update related party disclosures: <ul style="list-style-type: none"> <li>Nature of relationships.</li> <li>Transactions.</li> <li>Balances.</li> <li>Commitments.</li> <li>Provisions or bad debt expense on transactions or balances.</li> </ul>	All related party transactions must be disclosed unless exempt. Apply group and government exemptions where relevant.	
3	Identify first reporting period affected (eg year ending 31 Dec 2026).			12	Review directors' transactions and include the required disclosures: <ul style="list-style-type: none"> <li>Directors' loans with terms</li> <li>Movements in the period.</li> <li>Guarantees.</li> <li>Directors' remuneration if not concluded under normal market conditions.</li> </ul>	Ensure compliance with Accounting Regulations and true and fair view requirements especially in relation to directors' remuneration.	
4	Review new mandatory disclosures under Section 1A and update financial statement disclosure checklists.			13	Disclose that the preparation of the financial statements is on a going concern basis (or the basis of preparation used if not on a going concern basis).		
5	Update accounting policies to reflect new recognition and measurement principles relating to revenue and leases.			14	Disclose any material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, if applicable.		
6	Prepare expanded revenue disclosures: <ul style="list-style-type: none"> <li>Performance obligations under contracts with customers including timing of satisfaction, payment terms and the nature of goods and services promised.</li> </ul>			15	Include an explicit and unreserved statement of compliance with FRS 102 and Section 1A of that standard.		
7	Prepare expanded leases disclosures: <ul style="list-style-type: none"> <li>Separation of right-of use assets within fixed asset note to include additions, disposals, depreciation, impairment and revaluation details relating to right-of-use assets.</li> <li>Separation of lease liabilities or disclosure of the line item in which the lease liabilities are included.</li> <li>General description of a lessee's significant leasing arrangements.</li> <li>Disclosures relating to short-term leases, leases of low-value assets and variable lease payments.</li> <li>Qualitative and quantitative disclosures relating to leasing arrangements to include description of a lessee's cash outflows, restrictions or covenants, types of discount rate used in calculating lease liabilities and information about sale and leaseback transactions.</li> </ul>			16	Where relevant, disclose dividends declared and paid or payable during the period.		
8	Update share-based payment disclosures: <ul style="list-style-type: none"> <li>Describe transactions.</li> <li>Disclose option details.</li> <li>Impact on profit and financial position.</li> </ul>			17	Where relevant disclose that an entity is a public benefit entity.		
9	Update tax disclosures: <ul style="list-style-type: none"> <li>Deferred tax assets/liabilities by timing difference.</li> <li>Unused losses.</li> <li>Major components of tax expense.</li> <li>Pillar Two tax disclosures where relevant.</li> <li>Reconciliation of tax expense to profit/loss multiplied by applicable tax rate.</li> </ul>			18	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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