

Hot topics for FRS 102 reporters

What's new for 2025 accounts?



Tariffs, and economic or political instability

Entities may face increased costs, supply chain disruptions, and volatile demand, requiring careful reassessment of revenue recognition, inventory valuation, and asset impairment. Revenue recognition may be affected by contract modifications, cancellations, or penalties, and onerous contract provisions may need to be recognised. Tariff costs may need to be capitalised into inventory, impacting cost of sales and margins and affecting budgets and forecasts. Sudden changes in trade policy or sanctions may trigger impairment indicators for non-financial assets and also lead to impairment assessment for financial assets, while borrowers may need to look more closely at the debt covenants and potential breaches.

Going concern assessment is critical in periods of economic and political instability, as significant uncertainty may cast doubt on an entity's ability to continue as a going concern. Entities need to evaluate all available information, including the impact of tariffs, loan modifications, covenant breaches, and market volatility, and provide clear disclosures if material uncertainties exist that could affect the entity's ability to continue operating for the foreseeable future.

Hyperinflation – what's changed?

While Ethiopia is no longer considered hyperinflationary, Burundi is deemed as such for periods ending on or after 30 June 2025. Nigeria, although not currently hyperinflationary, should be closely monitored and may be considered as such by year-end if inflation trends persist. Ghana, Sierra Leone, Suriname, and Laos also show improving inflation and may cease to be hyperinflationary by December 2025 if current trends continue. Angola, Egypt, Yemen, and Sri Lanka aren't hyperinflationary but remain on the watchlist for 2025 and 2026. Entities operating in these economies should monitor developments closely for changes in status. All other economies that were hyper-inflationary in 2024 remain hyper-inflationary in 2025.

When a reporting entity's functional currency is from a hyperinflationary economy, Section 31 of FRS 102 mandates restatement of financial statements using a general price index that reflects changes in purchasing power.

Matters of continuing relevance



Accounting impact of macro-economic uncertainty and climate-related developments

As macroeconomic conditions stabilise across key regions, including falling inflation and interest rates in the United States and the UK, entities must remain vigilant in assessing the accounting implications. Lower interest rates and improved labour markets may signal recovery, but weak productivity and geopolitical tensions continue to pose risks. These shifts affect impairment testing, fair value measurements, estimation of provisions and may trigger reassessment of asset-useful lives, residual values and update of sensitivity analyses to reflect evolving economic scenarios. Entities must also incorporate forward-looking information into impairment and ECL models, and ensure disclosures accurately capture the effects of economic and political developments on financial position and outlook. Hyperinflation remains a concern in several jurisdictions.

The business review in the Strategic Report should take into consideration how the current economic conditions affect the business performance and position. The impact on principal risks and uncertainties, KPIs, and the s172 statement should be considered.

Climate-related risks continue to influence both financial and narrative reporting. Financial impacts may include increased costs of compliance, insurance, and investment in sustainable practices, as well as asset impairments and revenue shifts due to changing market demands. Provisions and contingent liabilities may be required (eg, environmental remediation, climate-related litigation or compliance with new environmental regulation). The strategic report should reflect how climate risks affect business models, strategy, performance and, where appropriate, be included in the principal risks and uncertainties disclosure.

2026 and beyond: prepare for what's coming



Amendments to FRS 102

On 27 March 2024, the Financial Reporting Council (FRC) issued '[FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland \(September 2024\)](#)', concluding its second periodic review of the financial reporting standard. Most amendments are effective for accounting periods beginning on or after 1 January 2026, with earlier adoption permitted. Entities must consider the wide-reaching commercial impacts that these amendments may have on key financial metrics, remuneration structures, distributable reserves, and covenant compliance.

The most significant changes are to revenue (Section 23, now renamed Revenue from Contracts with Customers) and leases (Section 20):

- The new Section 23 aligns revenue recognition with IFRS 15 Revenue from Contracts with Customers, with minor simplifications. Entities will need to reassess the accounting treatment of most revenue contracts, especially those with bundled goods/services, variable consideration, warranties, customer options, and significant financing components. Principal v agent assessments and 'over time' revenue recognition may also change. The amendments apply retrospectively, with the cumulative effect adjusted in the opening balance of retained earnings. Restatement of comparatives isn't required, but full retrospective application is permitted as per Section 10.
- The new Section 20 introduces an on-balance sheet lease accounting model based on IFRS 16 Leases, with certain practical exemptions. Most lessees will now recognise leases, except short-term or low-value ones, on the balance sheet without distinguishing between operating and finance leases. The amendments must be applied retrospectively, adjusting the opening balance of retained earnings at the date of initial application, without restating comparatives. Various simplifications are available for transition. Accounting by lessors is largely unchanged.

FRC clarification – related party disclosures for UK small entities

The FRC clarified in March 2025, that as part of the amendments to FRS 102 (September 2024 edition), entities qualifying as small entities won't be required to disclose key management personnel compensation ([UK small entities – related party disclosures](#)). The entities will however still be required to adhere to the requirements to disclose related-party transactions.

FRC Factsheets

Throughout 2025, the FRC issued '[FRS Factsheets](#)' to assist preparers applying FRS 102. In March, it updated Factsheet 8 to reflect changes in climate-related narrative reporting. In September, it published Factsheet 12, outlining presentation options for financial statements, and Factsheet 13, offering practical guidance for small companies and micro-entities on going concern assessments and disclosures. These follow the November 2024 release of updated Factsheets 3 to 7 and new Factsheets 9 to 11, which support implementation of the periodic review 2024 amendments effective from 1 January 2026.

Changes to company size thresholds and directors' report effective from 6 April 2025

'[The Companies \(Accounts and Reports\) \(Amendment and Transitional Provision\) Regulations 2024](#)' have increased the monetary-size thresholds for micro, small, and medium-sized companies enabling more entities to qualify for reduced reporting requirements. For example, a medium-sized company reclassified as small may now benefit from audit and consolidation exemptions and apply Section 1A of FRS 102 for simplified disclosures; a large entity redesignated as medium, other than entities excluded from qualifying as medium-sized under Section 467 of the Companies Act 2006 such as a public company, a FCA-regulated entity, an e-money issuer, an insurance market participant, a master trust scheme funder, and a member of an ineligible group, is no longer required to include a Section 172 statement in the strategic report.

A company's size classification will only change if it meets the new thresholds for two consecutive financial years. While early adoption isn't permitted, in the first year the regulations take effect (ie, for periods beginning on or after 6 April 2025), the thresholds may be applied to the previous year, allowing a company to change classification immediately if the criteria are met.

These changes also apply to LLPs.

While these regulations have raised company-size thresholds, this new legislation doesn't modify the thresholds for Streamlined Energy and Carbon Reporting (SECR). Therefore, a company now classified as 'medium' may still exceed SECR company size quantitative thresholds and will be required to include SECR disclosures in the directors' report.

Additionally, certain narrative reporting requirements for the directors' report of large and medium-sized entities are being removed to avoid duplication, or they were considered obsolete. These include information about:

- employment of disabled persons (also removed for small companies)
- financial instruments
- post-balance sheet events
- future developments
- research and development activities
- overseas branches
- employee and stakeholder engagement.

Amendments as a result of the changes to company size thresholds

In March 2025, the FRC issued [‘Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and FRS 105 The Financial Reporting Standard applicable to the Micro-entities Regime’](#) to reflect the increased thresholds introduced by the UK Statutory Instruments 2024 No.1303 which apply for financial years beginning on or after 6 April 2025.

Changes to directors’ remuneration report disclosures effective from 11 May 2025

[‘The Companies \(Directors’ Remuneration and Audit\) \(Amendment\) Regulations 2025’](#) which applies to periods commencing on or after 11 May 2025 have introduced some changes to the disclosure requirements for directors’ remuneration reports which are mainly applicable to quoted companies (ie, those with shares listed on a UK or EU regulated market). The changes include the removal of the requirement to disclose the subtotal of total fixed and variable remuneration in the single total figure table and the removal of the requirement to provide information regarding changes to the exercise price or date for share options awarded to directors. The regulation also removes the requirement for unquoted traded companies to produce a directors’ remuneration report and policy.

Electronic payments and receipts

FRS 102 reporters that have opted to apply IFRS 9, should also apply the [‘Amendments to IFRS 9 and IFRS 7 - Amendments to the Classification and Measurement of Financial Instruments’](#) issued by the IASB in May 2024. These changes clarify when financial assets and liabilities should be derecognised and are effective for periods commencing 1 January 2026. For financial assets (eg, trade receivables), derecognition now occurs only when the cash has cleared into the entity’s bank account. This change affects common practices such as recognising receipts at the point of customer payment initiation. For financial liabilities (eg, trade payables), derecognition typically occurs at settlement date, unless an optional exception is applied for certain electronic payment systems that meet strict criteria.



Other FRC publications



Annual Review of Corporate Reporting 2024/25

This publication issued on 30 September 2025, provides a summary of the FRC's monitoring activities and expectations for the next review cycle. While overall reporting quality across FTSE 350 companies remains strong, with fewer substantive queries and restatements; smaller listed companies continue to show a higher incidence of reporting deficiencies, prompting the FRC to launch a thematic review focused on this group. The most frequently raised issues include impairment of assets, particularly around cash generating units (CGU) allocation, discount rate consistency, and sensitivity disclosures, classification errors in cash flow statements, and deficiencies in financial instrument disclosures such as offsetting and embedded derivatives. The FRC urges companies to enhance internal consistency, clarity, and pre-issuance review processes to improve the usefulness and reliability of financial statements.

Guidance on the Going Concern Basis of Accounting and Related Reporting, including Solvency and Liquidity Risks

The updated guidance issued on 25 February 2025 replaces the 2016 edition and now covers both entities that follow the UK Corporate Governance Code as well as entities that don't apply it. The guidance brings together requirements from company law, accounting and auditing standards, and the UK Corporate Governance Code, reflecting recent changes in the reporting environment and evolving best practice. It provides more guidance on disclosure requirements, especially where significant judgement is involved or where there are no material uncertainties and offering additional techniques to support the assessment process.

Thematic review: Climate-related Financial Disclosures (CFD) by AIM and Large Private Companies

The review, published on 21 January 2025, found that while most entities in scope met the climate-related financial disclosures (CFD) requirements, the quality and detail of disclosures varied widely. Many entities provided only high-level or generic information, with scenario analysis, governance, and climate-related targets often lacking specificity or integration with broader risk management. The report sets out examples of good practice and encourages entities to move beyond boilerplate language and provide clearer entity-specific disclosures, especially in scenario analysis and the use of climate-related metrics, which reflect their actual climate risks and opportunities as reporting practices mature.



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