

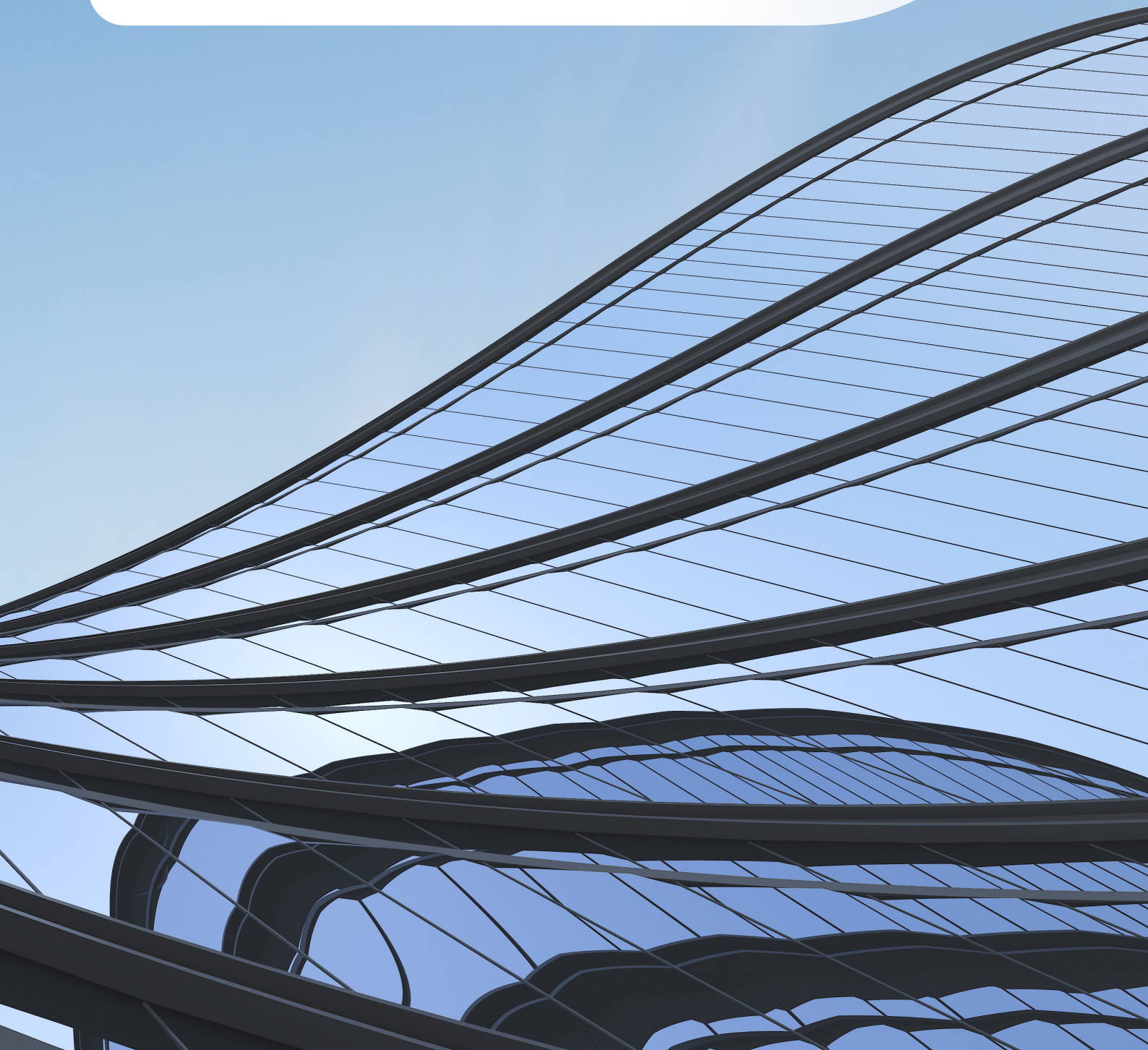


FRS 102 periodic review — Section 23

Revenue from contracts with customers

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Summary

The FRC has issued **FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs – Periodic Review 2024**, concluding its second periodic review of the standard. One of the key changes in this periodic review is a complete revision of accounting for revenues. Section 23 Revenue from Contracts with Customers introduces a comprehensive five-step model for revenue recognition.

Under the previous model, revenue was recognised by an entity largely when the risks and rewards of ownership transferred to the customer. Under this new 5-step model, revenue is recognised as and when the entity satisfies the performance obligation(s) within any contract. The transfer of risks and rewards of ownership is now only one of several criteria that need to be considered when determining the amount and timing of revenues to be recognised.

This may mean substantial changes in the timing and profile of revenue recognition for many entities.

The effective date for the amendments is periods beginning on or after **1 January 2026**, with early adoption permitted, provided that all amendments made to FRS 102 as a result of the periodic review are applied at the same time. Entities can choose to apply the amendments relating to revenues fully retrospectively or to use a modified retrospective approach, both of which are discussed later in this document.

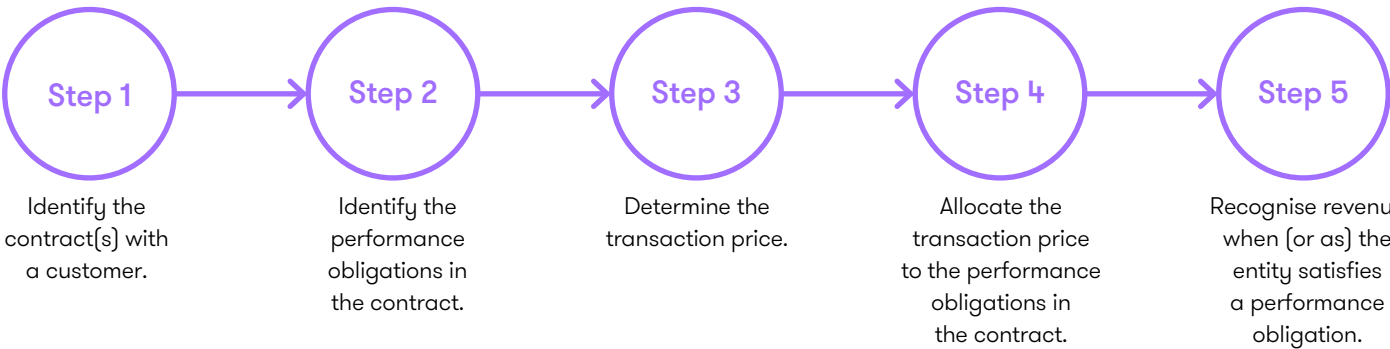
The changes to FRS 102 in respect of revenue accounting also apply to micro entities applying FRS 105.

Practical insight:

Some industries will be more affected than others. Some of the industries that will be most affected by the changes to revenue recognition include:

- **Supply chain shifts:** Where multiple deliverables are commonplace and current practice is mixed. Mobile phone businesses that account for a “free” handset as a marketing cost will need to change this policy and instead allocate revenues based on relative stand-alone selling prices.
- **Asset management, legal & professional services and other sectors** Where performance-based on contingent fees are commonplace – under the new model, variable payments are accounted for on a best-estimate basis subject to a constraint.
- **Retail:** Accounting for rights of return, customer loyalty schemes and warranties could be affected.

Other areas that could be affected include deferred and advanced payments, licensing arrangements, breakage and non-refundable up-front fees.



Situation	Details
Who is affected?	All entities that enter into contracts with customers, with few exceptions
	Entities affected will need to reassess their revenue recognition policies and may need to revise them
What is the impact?	The timing and amount of revenue recognised may not change for simple contracts with a single deliverable, but most complex arrangements will be affected to some extent
	The revised standard requires more disclosures in the financial statements
When are the changes effective?	Accounting periods beginning on or after 1 January 2026
	Early adoption is permitted



The five-step revenue recognition model

Step 1 — Identify the contract(s) with a customer

The new revenue accounting provisions apply to all contracts that meet the following conditions:

- All parties approve the contract and are committed to perform their respective obligations;
- Each party's rights to goods or services are clearly identified;
- There are clear payment terms;
- The contract has commercial substance; and
- It is probable that the customer will have the ability and intention to pay the consideration to which the entity will be entitled when it is due.

Contracts with the same customer may be combined in certain circumstances.

Contracts not meeting the criteria

If a contract with a customer does not meet the criteria mentioned above, the entity shall recognise any consideration received from the customer as a liability and continue to reassess the contract until the criteria are met.

If a contract never meets the criteria, the entity recognises the consideration received as revenue when:

- The entity's performance is complete, substantially all of the consideration has been collected and is non-refundable, or
- The contract has been terminated and the consideration received is non-refundable.

Step 2 — Identify the performance obligations in the contract

At contract inception, an entity should identify the distinct performance obligations (sometimes called "unbundling") in the contract.

A performance obligation is a promise in a contract with a customer to transfer a distinct good or service (or a distinct bundle of goods or services), OR a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

A good or service is distinct if both of the following criteria are met:

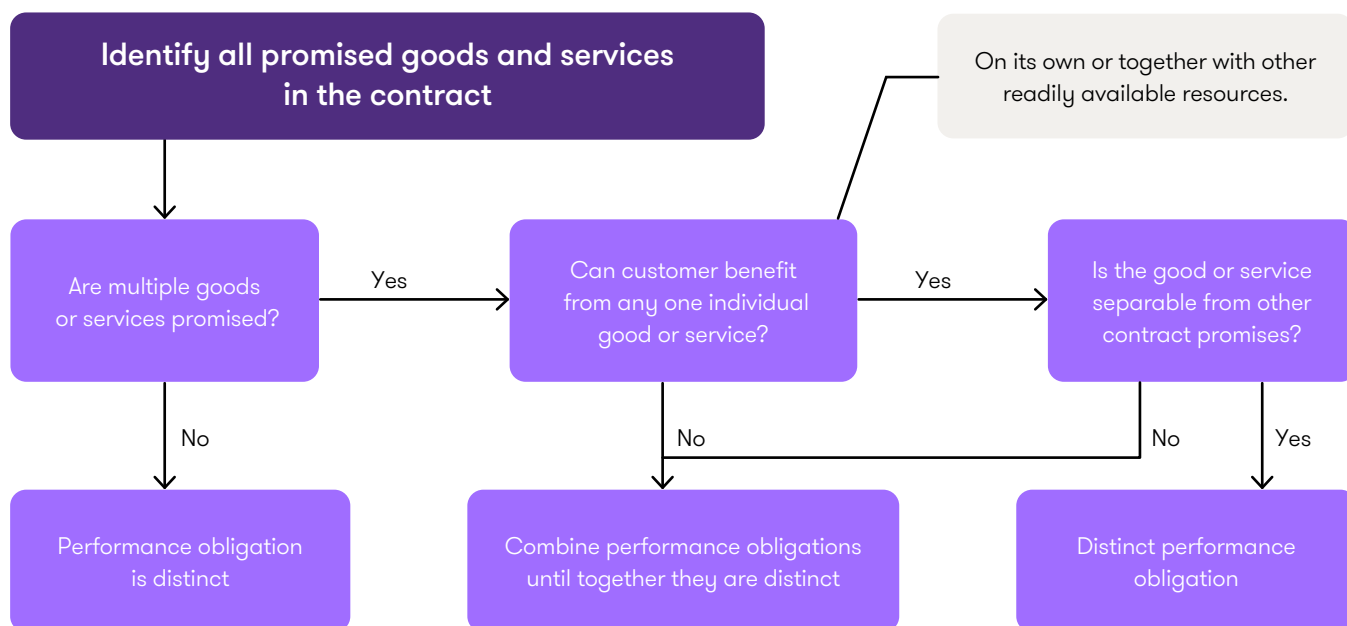
- The customer can benefit from the good or services on its own or in conjunction with other readily available resources; and
- The entity's promise to transfer the good/service is separate from other promises (see further guidance below).

The diagram below illustrates how to identify the distinct performance obligations in a contract. The assessment is not always straightforward and may require judgement by management to determine the correct accounting treatment.

Key differences from IFRS 15

There are certain areas where Section 23 has less prescriptive guidance than IFRS 15. The main example of this is the explicit guidance in IFRS 15 that states contracts can be written, oral or implied by an entity's customary business practices. Section 23 has no similar explicit guidance. However, given the FRS 102 definition of a contract as being an agreement that creates enforceable rights and obligations (the same as IFRS 15), we expect the IFRS position to be equally applicable under FRS 102.

There are no significant differences between the guidance in this area under Section 23 when compared to IFRS 15; as such, we do not anticipate that this would create any differences in practice.



Applying the third condition above – that is, determining whether a promised good or service is separable from other promises in a contract – requires judgement based on the specific facts and circumstances of any contract. Factors indicating that a promised good or service is not separate from other promises include, but are not limited to:

- The entity provides a significant service of integrating the good or service with other goods or services promised in the contract into a bundle that represents a combined output.
- The good or service significantly modifies or customises another good or service promised in the contract.
- The good or service and the other promised goods or services in the contract are highly interdependent or highly interrelated.

Comparison to IFRS 15

Although there are some minor changes, the guidance in this area is broadly consistent with IFRS 15, and of a similar level of detail; hence, we do not expect to create a significant difference in practice. Minor changes to note are:

- **Criteria for a performance obligation to be considered distinct:** IFRS 15 states that the fact that goods or services are regularly sold separately is an indicator that the good or service is capable of being distinct (that is, the first criterion in the assessment of whether a distinct performance obligation exists). Under Section 23, if the goods or services are regularly sold separately then it would be concluded that the good or service is 'capable of being distinct'. In practice, we would only expect this to have the potential to create a difference between IFRS and FRS 102 in limited situations.
- **Warranties required by law:** Both IFRS 15 and FRS 102 Section 23 require that where a warranty can be purchased separately, it is accounted for as an additional service (and therefore treated as a separate performance obligation with consideration being allocated to it and recognised as revenue). However, a difference arises in the instance of a warranty that is required by law. Under IFRS 15, whether a warranty is required by law is an indicator that the promised warranty is not a performance obligation, and this fact forms part of the overall assessment alongside the other indicators. In contrast, if a warranty is required by law, Section 23 is clear that the warranty does not provide the customer with an additional service. Therefore, no consideration is allocated to it, and it is considered within the scope of the recognition and measurement guidance under Section 21 Provisions and Contingencies.

Step 3 — Determine the transaction price

The transaction price is amount of consideration to which the entity expects to be entitled, excluding amounts collected on behalf of third parties (e.g. some sales taxes). For the purposes of determining the transaction price, an entity shall assume that the goods or services will be transferred to the customer in accordance with the existing contract and that the contract will not be cancelled, modified or renewed.

Step 3 contains detailed guidance on accounting for variable consideration, which may be complex.

Variable consideration occurs when consideration for a contract includes variable amounts (such as...)

If the consideration includes variable amounts (such as discounts, rebates, refunds, penalties or performance bonuses), an estimate should be made of the variable amount using the expected value or most likely amount, depending on which method better predicts the amount of consideration to which it will be entitled:

a The expected value — the sum of probability-weighted amounts in a range of possible consideration amounts.

An expected value may be an appropriate estimate of the amount of variable consideration if an entity has a large number of contracts with similar characteristics.

b The most likely amount — the single most likely amount in a range of possible consideration amounts. The most likely amount may be an appropriate estimate of the amount of variable consideration if the contract has only two possible outcomes (e.g. an entity either achieves a performance bonus or does not).

An entity shall apply one method consistently throughout the contract when estimating the amount of variable consideration, but different methods may be applied to different contracts, depending on the circumstances.

Variable consideration is included in the transaction price only to the extent that it is highly probable the entity will be entitled to the cumulative amount of revenue once the uncertainty is resolved.

The estimate of variable consideration should be updated at the end of each reporting period to reflect any changes in circumstances.

Variable consideration - specific circumstances

1 Sales or usage-based royalties

When a licence of Intellectual Property (IP) is the sole or predominant item to which a royalty relates, an entity recognises the royalty revenue when (or as) the later of the following occurs:

- The subsequent sale or usage takes place; or
- The performance obligation to which royalty relates has been satisfied (or partially satisfied).

2 Refund liabilities

Refund liabilities are recognised when an entity expects to refund some/all of the consideration received from a customer. For example, the terms of a fixed-price service contract may require a customer to pay upfront and may provide the customer with entitlement to a full refund if the customer is dissatisfied with the service at any time.

A refund liability is measured at the amount of consideration received to which the entity does not expect to be entitled; that amount should not be included in the overall transaction price. At the end of each reporting period, an entity shall update the estimate of the refund liability (and transaction price) to reflect any relevant changes in circumstances.

3 Sales with a right of return

In some contracts, an entity may transfer control of a product to a customer, whilst also granting the customer the right to return the product for various reasons (such as dissatisfaction with the product). The customer may be entitled to, for example, a full or partial refund of any consideration paid, a credit against amounts owed, or another product in exchange.

In such circumstances, revenue is recognised only for products expected not to be returned. A refund liability is recognised for the consideration relating to expected returns and a refund asset, classified as inventory, is recognised for returned products (with corresponding adjustment to cost of sales).

A refund asset recognised by an entity shall initially be measured at the former carrying amount of the product (e.g. inventory), less:

- Any expected costs to recover those products; and
- Allowances for potential decreases in the value to the entity of those products (e.g. because of damage, obsolescence or declining selling prices).

Section 23 contains detailed requirements for specific situations that could affect the calculation of the transaction price, including:

Time value of money

When the payment under a contract is deferred beyond normal business terms or is financed by the entity at a rate of interest that is not a market rate, the effects of the time value of money are considered by adjusting the transaction price and recognising interest over the financing period, as relevant, separately from revenue from contracts with customers.

If payment is received in advance, then accounting for the time value of money is optional and the entity can make an accounting policy choice about whether to account for its effects.

Consideration for the effects of the time value of money is not required if the period between the transfer of goods or services and payment (whether in advance or in arrears) is less than 12 months.

Non-cash consideration

Non-cash consideration is measured at fair value. If the fair value cannot be estimated, the consideration is measured indirectly based on the stand-alone selling price of the goods/services promised to the customer in exchange for that consideration.

Consideration (cash or non-cash) payable to customers

Consideration payable to a customer includes cash amounts that an entity pays, or expects to pay, to the customer. It can also include credit or other items (e.g. a coupon or voucher) that can be applied against amounts owed to the entity (or to other parties that purchase the entity's goods or services from the customer).

Such consideration is accounted for as a reduction of the transaction price, unless it is for a distinct good or service the customer provides. If it is a distinct good/service provided by the customer, then it is accounted for as a separate transaction, under the standard provisions of Section 23.

The reduction in revenue is accounted for when (or as) the later of either of the following events occurs:

- The entity recognises revenue for the transfer of the related goods or services to the customer; or
- The entity pays or promises to pay the consideration (even if the payment is conditional on a future event).



Comparison to IFRS 15

Accounting policy choice – time value of money:

IFRS 15 requires that the effects of the time value of money are adjusted for regardless of whether payments are received in advance or in arrears. In comparison, Section 23 only requires that the time value of money is adjusted for payments in arrears and offers a policy choice as to whether an entity adjusts for payments received in advance or not.

In addition to the policy choice above related to accounting for the time value of money, there are certain areas where there are minor changes or simplifications. These include the following:

- **Variable consideration constraint threshold:** There has been a simplification to the description of the constraint on estimates of variable consideration in Section 23, but we do not anticipate that it will create a difference in practice.
- **Assets arising from a right of return:** The accounting requirements for rights of return are consistent between IFRS 15 and Section 23. However, IFRS 15 is not explicit on how to classify the asset that arises for the right to recover products from customers on settling the refund liability. Section 23 is clear that this asset is classified as inventory.
- **Financing components:** Under IFRS 15, a financing component need only be considered if it is significant at the contract level. Section 23 does not contain the same concept of significance and, therefore, entities might make a different judgement under FRS 102 about whether financing needs to be accounted for.

Certain guidance is also less prescriptive than what is present in IFRS 15, for example;

- **Significant financing components:** There is prescriptive guidance in IFRS 15 around situations where a significant financing component would not exist. No similar guidance exists in Section 23; however generally we anticipate that entities may be able to form similar arguments under Section 23 as to why the time value of money guidance might not apply in certain situations.
- **Discount rates:** Under IFRS 15, there is explicit guidance on determining the discount rate to apply where there is a significant financing component. Section 23 contains no similar explicit guidance, but rather refers to Section 11 and Section 12 relating to financial instruments. We do not expect this to create a difference in practice.
- **Variable consideration qualitative factors to consider:** IFRS 15 outlines qualitative factors to consider in assessing the constraint on variable consideration. Section 23 does not include these; however, in practice we would expect entities to consider similar factors in their assessments of the variable consideration constraint.
- **Changes in fair value of non-cash consideration payable to a customer:** IFRS 15 is clear that changes that are due to the form of the consideration are not subject to the constraint on variable consideration, whereas Section 23 contains no guidance on how to deal with changes in the fair value of non-cash consideration due to the form of the consideration.
- **Payments to customers:** IFRS 15 contains explicit guidance on needing to assess whether the amount paid for distinct goods or services received from the customer represents their fair value, and that if more than the fair value, the excess represents a payment to a customer. No similar guidance exists in Section 23; however, we believe the same principles would apply.

Entities should look to the general guidance on selection and application of accounting policies in Section 10 of FRS102, which allows management to consider the requirements and guidance of IFRS in dealing with similar and related issues.

Step 4 — Allocate the transaction price to the performance obligations in the contract

When a contract contains more than one distinct performance obligation in accordance with Step 2 above, the transaction price is allocated to each performance obligation in proportion to the stand-alone selling prices of the goods/services underlying each performance obligation.

If a contract contains a single performance obligation, or if all performance obligations in a contract are satisfied at the same point in time, the entity does not usually need to allocate the transaction price, because any allocation would make no difference to the accounting outcome. The entire consideration is allocated to the single performance obligation (or the satisfaction of all performance obligations simultaneously).

The stand-alone selling price is the price at which an entity would sell a good or service separately to a customer, without any additional goods or services attached. This may be an observable price (e.g., the entity regularly sells a particular product as a stand-alone product, and has a set price for that product), or an estimation method may need to be used to calculate an appropriate selling price to be used. The estimation method should take into account all information reasonably available to the entity at the time of the contract. Available methods include, but are not limited to:

- **Adjusted market assessment:** An entity estimates the price that a customer in the market would be willing to pay for the good or service.
- **Expected cost plus margin:** An entity forecasts its expected costs and adds an appropriate margin.
- **Residual approach:** An entity subtracts the stand-alone selling prices of all the other goods or services from the total transaction price, leaving a balancing figure. This is only permissible when the stand-alone selling price of the good or service is highly variable or uncertain.

When estimating the stand-alone selling price for options, discounts, or variable consideration, management will need to consider factors such as customer discounts and the likelihood of the customer exercising options. Such prices will need to be allocated to performance obligations based on relative stand-alone selling prices unless another method better reflects the entity's entitlement to consideration.

Changes in the transaction price are allocated to performance obligations at contract inception and are not remeasured. Consequently, an entity cannot reallocate the transaction price to reflect changes in stand-alone selling prices after contract inception. Amounts allocated to a performance obligation that has been satisfied shall be recognised as revenue, or as a reduction of revenue, in the period in which the estimate of the transaction price changes.

Changes due to contract modifications are dealt with separately, with adjustments made to performance obligations based on the nature of the modification.

Comparison to IFRS 15

The guidance in this area is broadly consistent with IFRS 15, and of a similar level of detail. There is one area where a significant simplification has been undertaken in relation to allocating discounts or variable consideration. IFRS 15 contains explicit criteria to be applied in determining whether discounts and variable consideration should be allocated to one (or more) but not all of the performance obligations in the contract. In comparison, Section 23 is not as prescriptive. Rather, Section 23 requires an entity to consider the basis that best depicts the amount of consideration the entity expects to be entitled to and, therefore, may allow more judgement to be applied under FRS 102. The outcome is likely to be that whilst the same conclusion may be reached under FRS 102 and IFRS, there could be more instances under FRS 102 where discounts and variable consideration might be allocated to one (or more) but not all performance obligations in the contract.

There is also less prescriptive guidance in Section 23 than what is present in IFRS 15 pertaining to variable or uncertain stand-alone selling prices.

IFRS 15 provides prescriptive guidance on allocating the transaction prices where two or more of those goods or services have highly variable or uncertain stand-alone selling prices. We believe that whilst other approaches might also be acceptable, it would generally be appropriate to apply the same principles under Section 23.

Step 5 — Recognise revenue when (or as) the entity satisfies a performance obligation

A performance obligation is satisfied when control of the underlying goods or services (the “asset”) for the particular performance obligation is transferred to the customer. “Control” is defined as “the ability to direct the use of, and obtain substantially all of the remaining economic benefits that may flow from, the asset” underlying the good or service. A performance obligation may be satisfied at a specific point in time (e.g., the purchase of a product in a retail outlet) or satisfied over a period of time (e.g., a 12-month subscription to an online streaming service).

A performance obligation is satisfied over a period of time when at least one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the entity’s performance as the entity performs;
- The entity’s performance creates or enhances an asset that the customer controls as the asset is created or enhanced (e.g. in the case of a construction contract in which the customer controls the work in progress); or
- The entity’s performance does not create an asset with alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

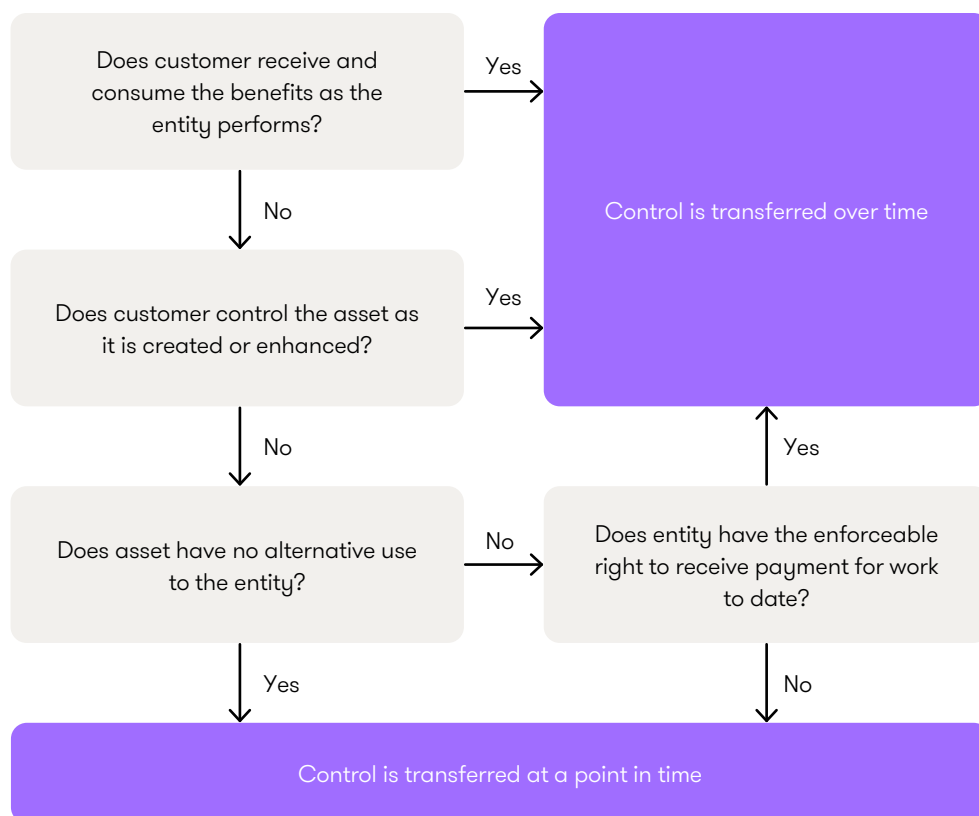
For performance obligations satisfied over time, an entity recognises revenue by applying a measure of progress. The entity should select the most appropriate single method (and apply that method consistently to similar performance obligations and in similar circumstances) for measuring progress that reflects the value transferred to the customer and the entity’s efforts/inputs relative to the total expected inputs. Two possible methods of carrying out such an allocation include:

- An **output method**, such as surveys of work completed, or counts of units delivered; or
- An **input method**, such as measures of time elapsed or of costs incurred.

If a performance obligation is not satisfied over time, an entity satisfies the performance obligation at a point in time. The point in time for revenue recognition is determined by assessing when control of the asset passes to the customer. The following non-exhaustive list of control indicators may be considered in assessing when control passes to the customer:

- The entity has a present right to payment for the asset.
- The customer has legal title to the asset.
- The entity has transferred physical possession of the asset.
- The customer has the significant risks and rewards of ownership of the asset.
- The customer has accepted the asset.

Point in time versus Over time



Comparison to IFRS 15

The guidance in this area is broadly consistent with IFRS 15, and of a similar level of detail, although there is one area where a significant simplification has been undertaken and this is in relation to Licenses.

Both IFRS 15 and Section 23 require an entity to assess whether the nature of a license is that of a **'right to access'** (with revenue being recognised over time) or **'right to use'** (with revenue recognised at a point in time). In both, the assessment looks at whether the entity undertakes activities that significantly affect the benefits to the customer. This assessment excludes those activities that result in the transfer of a good or service to the customer as they are assessed separately from the license. However, the criteria to make this assessment has been simplified in Section 23. Section 23 outlines that if the entity expects to undertake activities that affect the benefit the customer obtains from the intellectual property, either by changing its substance or by exposing the customer to the positive or negative effects of those activities, then the license is considered to be a right to access license.

There is also less prescriptive guidance in Section 23 than in IFRS 15 pertaining to:

- **Uninstalled materials:** There is no explicit guidance for uninstalled materials in Section 23 whereas IFRS 15 contains explicit guidance. Given the principles around over-time recognition methods depicting the transfer of control are the same under both IFRS 15 and Section 23, we are not anticipating that this will create a difference in practice.
- **Bill and hold:** IFRS 15 contains prescriptive guidance around criteria to assess control under a bill and hold arrangement. FRS 102 contains no such specific guidance in this area. Entities should look to the general guidance on selection and application of accounting policies in Section 10 of FRS 102.



Other accounting considerations

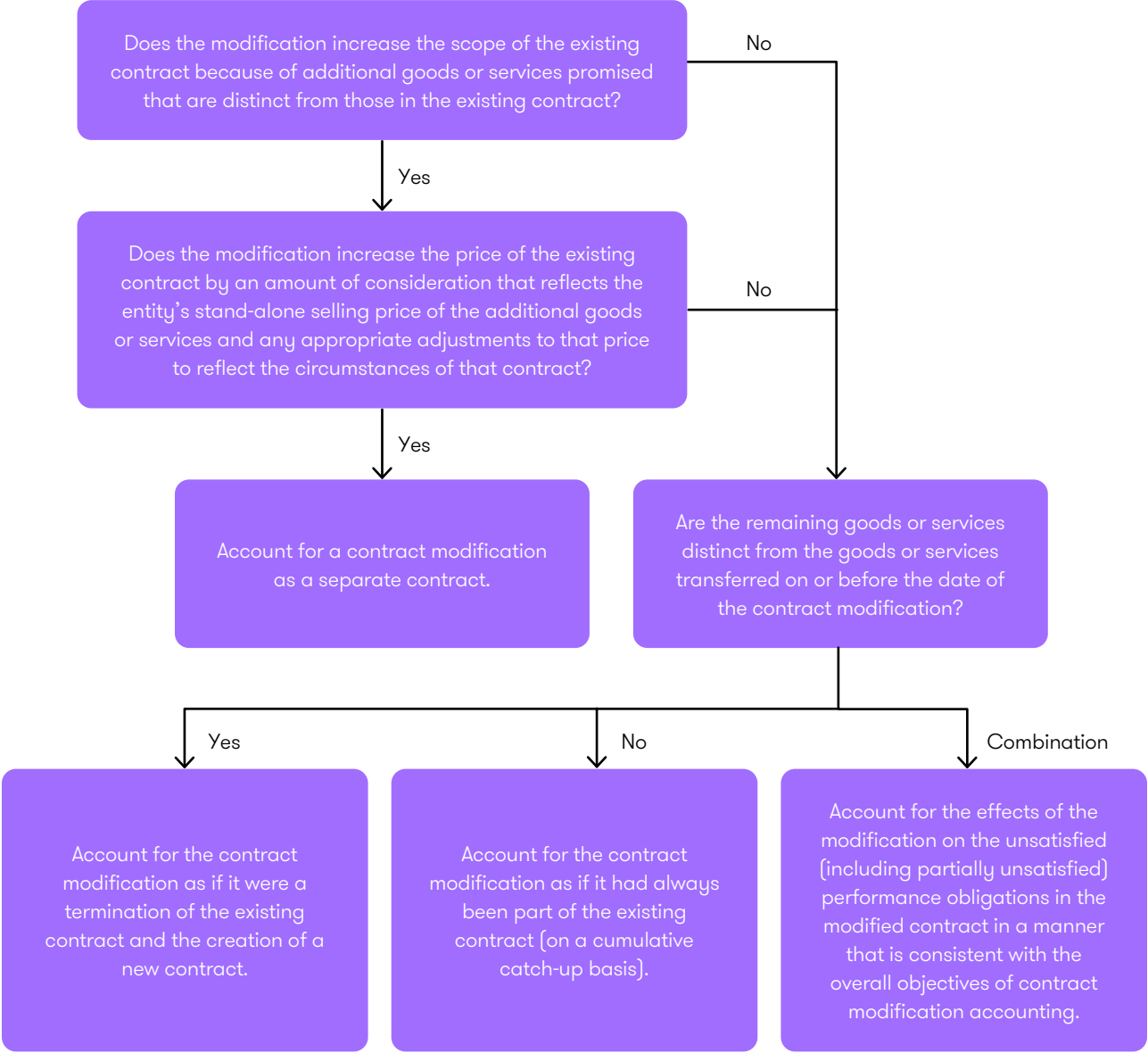
Contract modifications

A contract modification is a change in scope or price, or both, of a contract that is approved by all parties to the contract. There are two possible accounting treatments, depending on the nature of the modification that takes place:

- **Separate contract:** The modification is treated as a new contract, separate from the original contract. This applies when both:
 - 1 The only change to the existing contract is the addition of promised goods or services that are distinct from those in the existing contract, and
 - 2 The price of the existing contract increases by an amount of consideration that reflects the entity’s stand-alone selling price of the additional goods or services and any appropriate adjustments to that price to reflect the circumstances of that contract.

- **As part of the existing contract:** In all other instances, the modification is treated as an adjustment to the original contract. In many cases, the impact is accounted for prospectively, by allocating the remaining revised transaction price to the remaining goods or services in the contract. However, there may be certain instances where the impact is accounted for retrospectively, which results in a cumulative catch-up adjustment to revenue being recognised in the period in which the modification occurs.

The diagram below shows the different approaches to accounting for different types of contract modification.



Warranties

Warranties are accounted for under Section 21 Provisions and Contingencies unless they offer the customer additional services, in which case that additional service is treated as a separate performance obligation under Section 23.

In assessing whether the warranty is an additional service, the following matters, among others, should be considered:

- Whether the warranty can be purchased separately;
- Whether the warranty is required by law;
- The length of the warranty coverage; or
- The nature of the tasks that the entity promises to perform.

If a warranty meets the definition of a performance obligation, it is accounted for in accordance with the provisions relating to revenues from contracts with customers under Section 23. Otherwise, it is accounted for as a provision.

Non-refundable upfront fees

Some contracts will require customers to pay an upfront fee (e.g. joining fees in health club membership contracts, set-up fees in some service contracts and initial fees in some supply contracts). In many cases, even though a fee is paid upfront, the fee relates to services that have not yet been provided by the company, and so doesn't represent the provision of goods or services at that stage. Therefore, in most circumstances, the revenue is recognised when those future goods or services are provided, being treated initially as advanced consideration received. As discussed above, FRS102 offers a simplification in that the time value of money relating to consideration received in advance does not need to be accounted for.

If the non-refundable upfront fee relates to the transfer of a specific good or service, consideration should be given as to whether this is a distinct performance obligation and accounted for as such.

Customer options for additional goods/services

In some contracts, customers are granted the option to acquire additional goods or services at a discount, such as exclusive sales incentives or customer reward points. Such an option may meet the definition of a **material right**, being a promise embedded in a contract that the customer would not otherwise receive without entering into that contract. Effectively, the customer is paying the entity in advance for future goods or services.

Material rights are accounted for as separate performance obligations, and the entity will recognise revenue when [or as] those future goods or services are transferred, or when the option expires.

Principal vs agent considerations

An entity determines whether it acts as a principal or agent based on the nature of its promise to provide the goods/ services and whether it controls the specified good or service before it is transferred to a customer. The accounting guidance relating to principal vs agent considerations has been enhanced in the revised Section 23, but the fundamental principles remain unchanged from the previous version of the Standard.

Management judgement may be required in determining whether an entity is acting as a principal or an agent. Section 23 provides three principal indicators to support the assessment; however, the indicators do not override the assessment of control and should not be viewed in isolation. Such indicators are:

- The entity is primarily responsible for fulfilling the promise to provide the specified good or service;
- The entity has inventory risk before the specified good or service has been transferred or after transfer of control to a customer (e.g. if the customer has a right of return); or
- The entity has discretion in establishing the price for the specified good or service.

An entity that is a principal recognises revenue based on the gross amount of consideration, whilst an entity that is an agent recognises revenue based on its fee or commission. Amounts collected on behalf of another party are not revenue for the agent.

Bill and hold arrangements

Bill and hold arrangements arise when a customer is billed for goods that are ready for delivery, but the entity does not ship the goods to the customer until a later date. In such circumstances, an assessment is required to determine whether the holding of goods constitutes a separate performance obligation. This will be driven by consideration as to whether the customer has obtained control of the product. This assessment should consider whether the product is physically ready for immediate transfer, whether the seller is restricted from using the product either for its own benefit or for selling to another party, and whether the product is separately identifiable as belonging to the customer.

When a seller has transferred control of the goods, it should consider whether the custodial services constitute a separate performance obligation. Where this is the case, the relevant proportion of the transaction price should be allocated to this performance obligation.

Consignment arrangements

Consignment arrangements arise when an entity ships goods to another party, such as a dealer or distributor, but retains control of the goods until a predetermined event occurs, such as a customer purchasing a product from that dealer or distributor. Revenue is not recognised on the passing of the goods to the second party (the dealer/distributor), but rather is recognised when control passes to the final customer, in line with the 5-step model discussed above.

Customer acceptance clauses

Customer acceptance clauses allow a customer to cancel a contract, or require a seller to take remedial action if a good or service does not meet the agreed-upon parameters.

If an entity can objectively determine (i.e. determine based on information available to the entity) that control of a good or service has been transferred to the customer in accordance with the agreed-upon specifications in the contract, then customer acceptance is a formality that would not affect the entity's determination of when the customer has obtained control of the good or service. However, if an entity cannot objectively determine that the good or service provided to the customer is in accordance with the agreed-upon specifications in the contract, then the entity would not be able to conclude that the customer has obtained control until the entity receives the customer's acceptance.

Repurchase agreements

A repurchase arrangement arises when an entity sells an asset to a customer, but also promises (or has the option) to repurchase the asset. The repurchased asset could be the same asset or an equivalent asset that is substantially the same as the original asset. Revenue is recognised when the customer obtains control of the underlying asset.

There are three types of repurchase right:

- A seller's obligation to repurchase the good, known as a forward option;
- A seller's right to repurchase the good, known as a call option; or
- A customer's right to require the seller to repurchase the good, known as a put option.

Revenue recognition principles will vary, depending on the type of option within the contract, as follows:

- **Forward or call option:** If an entity has an obligation or right to repurchase an asset, a customer does not obtain control of the asset and the entity shall not recognise revenue from a sale of a good or service. Instead, the entity shall account for the contract as either:
 - a A lease in accordance with Section 20, if the entity can or must repurchase the asset for a lower amount than the original selling price; or
 - b A financing arrangement, with a financial liability, in accordance with Section 11 if the entity can or must repurchase the asset for an amount equal to, or higher than, the original selling price.
- **Put option:** If a customer has the unconditional right to require an entity to repurchase an asset, the customer obtains control of the asset unless the customer has a significant economic incentive to exercise that right. An entity shall assess at contract inception whether the customer has a significant incentive to exercise its right.
 - a If the customer does not have a significant economic incentive to exercise its right, the entity shall account for the agreement as if it were the sale of a product with a right of return.
 - b If the customer has a significant economic incentive to exercise its right, an entity shall account for the contract as either a lease or a financing arrangement (refer to guidance under call option).

Licensing arrangements

To determine whether a licence of Intellectual Property (IP) transfers over time or at a point in time, the entity should consider whether the licence provides the customer with a **right to use** the IP, or a **right to only access** the IP. A licence provides a customer with a right to only access an entity's intellectual property if the entity expects to undertake activities that either:

- Will significantly affect the benefit the customer obtains from the IP by changing the substance of the intellectual property; or
- Could significantly affect the benefit the customer obtains from the IP by directly exposing the customer to any positive or negative effects of those activities.

Where the customer has the right to only access the IP, revenue is recognised over time, and the entity should select an appropriate method to determine its progress in satisfying the performance obligation over that time.

Where the customer has the right to fully use the IP, revenue is recognised at the point of time when the license is granted. The entity will use the standard methods of determining when control passes to the customer to determine the point in time when revenue is recognised.

Contract costs

Where an entity incurs costs in obtaining a contract with a customer, an entity may choose as an accounting policy to recognise an asset for such costs if they are directly attributable to the contract and the costs are expected to be recoverable. Costs directly attributable to the contract would include direct labour and materials, costs that are explicitly chargeable to the customer, and other costs that the entity incurs only because it entered into the contract, and wouldn't have otherwise incurred. General and administrative costs, wasted materials and labour or other resources not reflected in the contract price are not directly attributable costs and should be expensed as incurred.

If an entity adopts a policy of recognising such costs to obtain a contract as an asset, that policy shall be applied consistently to all costs that meet the criteria. Costs not meeting these criteria should be expensed. Costs that will be fully amortised within one year may be expensed when incurred.

Costs of fulfilling a contract within the scope of other sections of FRS 102 should be accounted for in accordance with that relevant section (for example, Section 17 Property, Plant and Equipment). Only those costs that are not within the scope of another section should be recognised as an asset in accordance with Section 23, provided that the costs directly relate to the contract, generate or enhance resources used to fulfil future performance obligations, and are expected to be recoverable. Costs that relate to satisfied or partially satisfied performance obligations are expensed.

Contract cost assets are measured at cost less amortisation and impairment losses, with amortisation based on the pattern of transfer of goods or services to the customer. When assessing whether the contract asset is impaired, the entity shall calculate the recoverable amount of that asset and compare it to the current carrying value. The recoverable amount of a contract costs asset is:

- The remaining amount of consideration that the entity expects to receive in exchange for the goods or services to which the asset relates; less
- The costs that relate directly to providing those goods or services and that have not been recognised as expenses.

Contract liabilities and assets

Contract liabilities arise when consideration is received before the transfer of goods/services to the customer. When (or as) the entity transfers those goods or services to the customer, the entity shall derecognise the contract liability (or part of a contract liability) and recognise revenue.

When an entity transfers goods/services before receiving consideration, a contract asset or trade receivable will be recognised.

A contract asset is a right to consideration in exchange for goods/services transferred that is conditional on something other than the passage of time (e.g. the entity is required to transfer other goods or services promised in the contract before the consideration is due). An entity shall assess a contract asset for impairment, and recognise any impairment loss, in accordance with Section 11, Basic Financial Instruments.

Conversely, a trade receivable is an unconditional right to consideration if only the passage of time is required for payment to be due; for example, when a customer has 30 days to settle an invoice. If an entity has a contract asset, and the additional conditions are met, the contract asset is derecognised and replaced with a trade receivable.

Unexercised rights (also referred to as ‘breakage’)

Where a customer has rights or options in a contract, and does not exercise those rights or options, this is known as breakage. Examples are loyalty points or gift vouchers that are not expected to be redeemed or utilised.

If an entity expects to be entitled to **breakage** (i.e., a retailer has a history of a percentage of loyalty points never being exercised), the associated amounts paid are treated as variable consideration and the entity should recognize as revenue in proportion to the pattern of rights exercised by the customer (that is by comparing the goods or services delivered to date with those expected to be delivered overall).

However, such amounts are only recognised when it is highly probable that the customer will not exercise their rights or options. This is known as the variable consideration constraint, and limits the amount that is excluded from the total revenue recognised at point of sale.

If the entity does not expect to be entitled to a breakage amount, it should recognize a liability for the full amount of unexercised rights (e.g., the total amount of gift cards sold) until the likelihood of the customer exercising their rights becomes remote.

Comparison to IFRS 15

The guidance in this area is broadly consistent with IFRS 15, and of a similar level of detail, except for the policy choice regarding costs to obtain a contract.

Under IFRS 15, if costs incurred to obtain a contract are incremental and recoverable then an asset is recognised for these costs. Section 23 instead offers a policy choice, and an entity can elect either to capitalise these, or expense them. If the policy choice to capitalise is taken, this is applied consistently to all costs that meet the criteria, unless the amortisation period would be less than one year, in which case they can be expensed even when a policy of capitalisation has been chosen. Also, costs to obtain a contract that would have been incurred regardless of whether the contract was obtained are recognised as an asset if those costs are explicitly chargeable to the customer regardless of whether the contract is obtained.

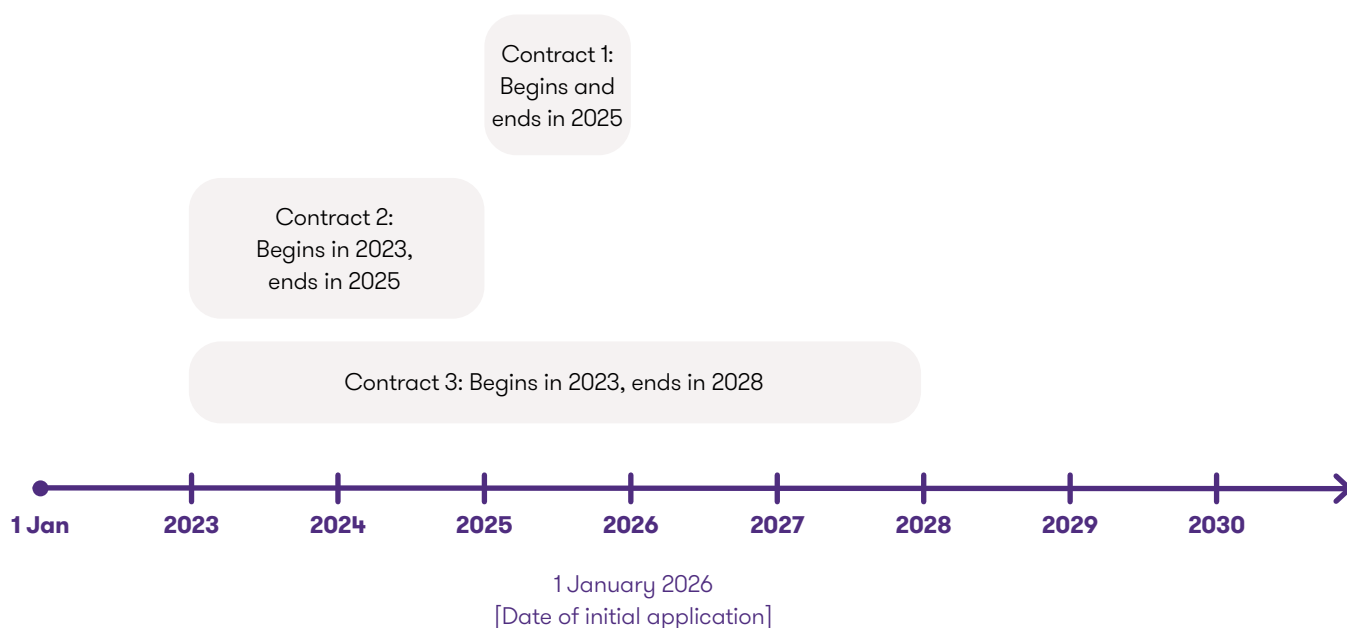


**Transition to the
new standard**

An entity can choose to apply a modified retrospective approach (i.e., no restatement of prior year figures, with any adjustments posted to current year opening reserves only) or a fully retrospective approach (i.e., restatement of prior year figures, including prior year opening reserves) on initial application of the new requirements. The date of initial application is the first day of an entity's accounting period that falls **on or after 1 January 2026**, unless the entity elects to early adopt the new Standard.

Modified retrospective approach	Full retrospective approach
<p>Transition and implementation:</p> <ul style="list-style-type: none"> Does not require any comparative information to be restated - to recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings at the date of initial application. Where a contract is completed at the date of initial application, no adjustments are made in respect of that contract. Only contracts that are ongoing over the initial application date are considered. <p>Disclosures:</p> <ul style="list-style-type: none"> For the current period, to the extent practicable, the amount of the adjustment to revenue and to profit or loss and an explanation of the reasons for significant changes, when compared to how revenue would have been recognised under the previous standard. An explanation if it is impracticable to determine the amounts to be disclosed in accordance with the above. If an entity applies any of the expedients below, disclose that fact. <p>Practical expedients [optional, but when taken must be applied consistently to all contracts]:</p> <ul style="list-style-type: none"> For contracts that were modified before the date of initial application, an entity need not retrospectively restate the contract for those contract modifications. Instead, an entity may reflect the aggregate effect of all of the modifications that occurred prior to the initial application date as an adjustment to opening reserves in the current year when: <ul style="list-style-type: none"> Identifying the satisfied and unsatisfied performance obligations; Determining the transaction price; and Allocating the transaction price to the satisfied and unsatisfied performance obligations. 	<p>Transition and implementation:</p> <ul style="list-style-type: none"> Comparative information is recalculated for prior periods to the earliest date which is practicable, as if the new Section 23 had always been applied. <p>Disclosures:</p> <ul style="list-style-type: none"> To the extent practicable, the amount of the adjustment to each financial line item for both the current year and each prior year presented. If an entity applies any of the expedients below, disclose that fact. <p>Practical expedients [optional, but when taken must be applied consistently to all contracts]:</p> <ul style="list-style-type: none"> For contracts with variable consideration which are completed by the reporting date, the entity may use the transaction price at the date the contract was completed, rather than estimating amounts of variable consideration in comparative periods. For contracts that were modified before the date of initial application, an entity need not retrospectively restate the contract for those contract modifications. Instead, an entity may reflect the aggregate effect of all of the modifications that occurred before the beginning of the earliest period presented as an adjustment to opening reserves of the earliest period presented when: <ul style="list-style-type: none"> Identifying the satisfied and unsatisfied performance obligations; Determining the transaction price; and Allocating the transaction price to the satisfied and unsatisfied performance obligations. An entity does not need to restate contracts that begin and end in the same reporting period, or that were completed contracts at the beginning of the earliest period presented. When including disclosures around the qualitative and quantitative information of unsatisfied performance obligations, no information is required to be disclosed in relation to the prior period(s) presented.

The following diagram illustrates how three different contracts would be treated on transition using both methods permitted in Section 23 (assume the entity uses the calendar year for its accounting period).



Contract	Modified retrospective approach	Fully retrospective approach
Contract 1	Contract completed before date of initial application – there is no impact as a result of transition and the new standard is not applied to this contract.	<p>Begins and ends in same annual reporting period</p> <ul style="list-style-type: none"> • Practical expedient available to allow an entity to not restate such a contract. • If practical expedient is not taken, refer to contracts 2 and 3 below.
Contract 2	Contract completed before date of initial application – there is no impact as a result of transition and the new standard is not applied to this contract.	Adjust opening balance of each affected component of equity for earliest prior period presented (1 January 2025).
Contract 3	Apply new Section 23– adjust opening balance of each affected component of equity at date of initial application i.e., 1 January 2026. Make specific required disclosures. Financial year 2025 figures are not restated.	Adjust opening balance of each affected component of equity for earliest prior period presented (1 January 2025).

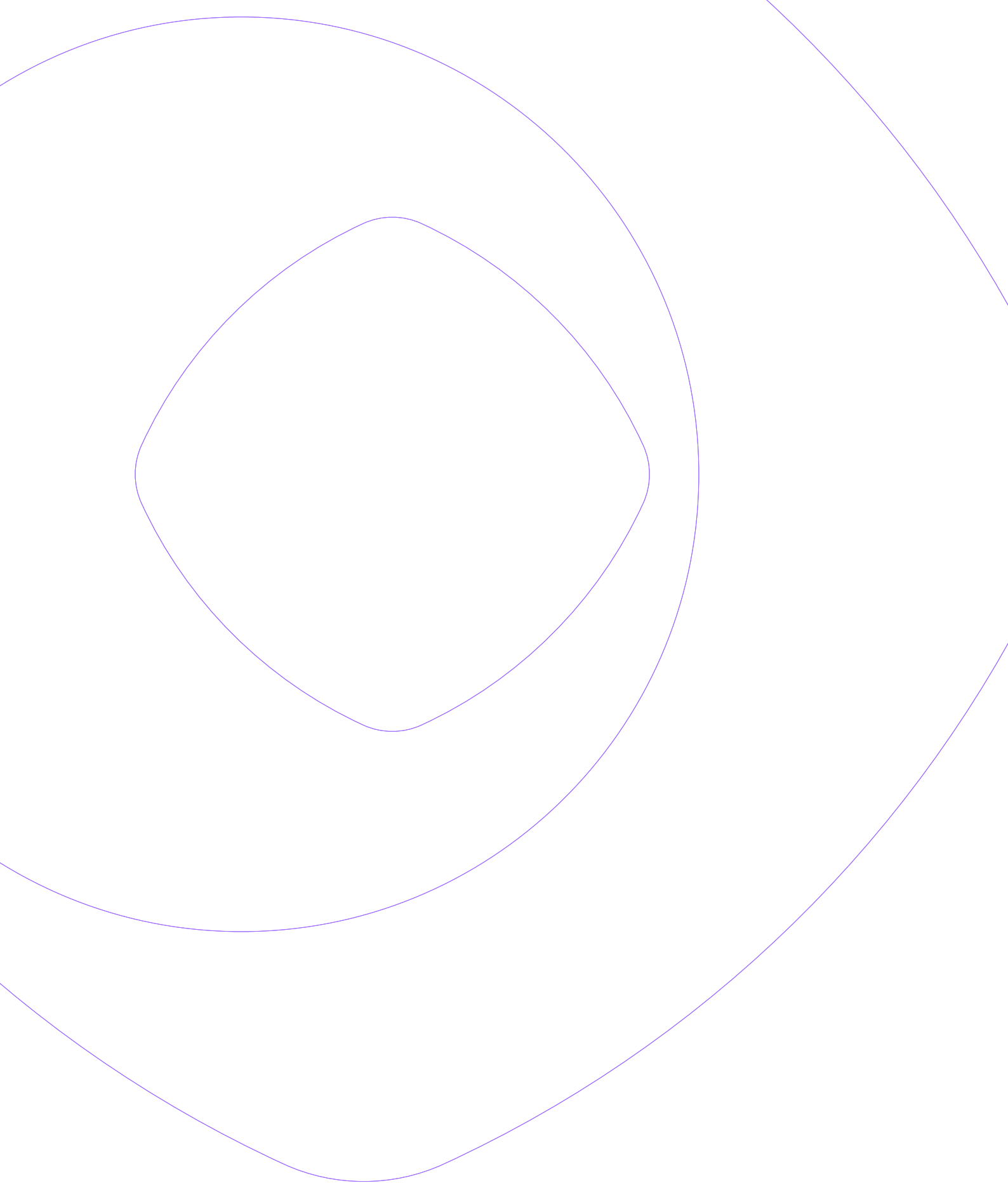


Disclosure requirements

Disclosures required under the revised Section 23 will be more extensive than under the current version of FRS 102 and are mostly aligned to the requirements of IFRS 15. These disclosures are in addition to any that might be required under company law or other regulation. Exemptions from some disclosures are available under Section 1A and paragraph 1.12 of FRS 102.

Entities must disclose detailed information about their revenue from customer contracts, including:

Presentation and disclosure	Disaggregation of revenue recognized from contracts with customers into categories that depict how its revenue and cash flows are affected by economic factors (e.g., types of goods/services, geographic markets, customer types, timing of transfer of goods or services, agent/principal).
	Information to enable users to understand the relationship between disaggregated revenue disclosures and revenue information for each reportable segment where IFRS 8 Operating Segments applies.
	Any revenue recognised from contracts with customers separately from other sources of revenue and any impairment losses on any receivables or contract assets, in aggregate, separately from impairment losses from other contracts.
	Contract balances (receivables, contract assets and contract liabilities) including where relevant the opening and closing balance and information relating to movements during the period.
	Information about performance obligations, including description of: <ul style="list-style-type: none"> a when the entity typically satisfies its performance obligations (eg upon shipment or delivery); b significant payment terms; c the nature of the goods and services the entity has promised to transfer; and d any obligations such as those for returns and refunds or warranties.
	For over time revenue recognition, the methods used to recognise revenue – for example, a description of the output methods or input methods used and how those methods are applied.
	Quantitative/qualitative explanation of significant unsatisfied performance obligations and when they are expected to be satisfied.
	Contract cost balances by main category of asset (eg costs to obtain contracts with customers, pre-contract costs and set-up costs) and the amount of amortisation and any impairment losses recognised.
	Information about accounting policy elections taken in relation to time value of money and costs to obtain a contract.



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