



# Implementing the latest FRS 102 and FRS 105 changes: Navigating the practicalities

## Questions not covered on the webinar held on 11 September 2025

### Question1

What is deemed under normal market conditions? It's normal for directors to take a salary of say £12k and the rest as dividends - is this deemed normal market conditions.

### Response

Under the latest Periodic review amendments to Section 1A of FRS 102 *The Financial Reporting Standard applicable in the UK and the Republic of Ireland*, companies no longer need to determine whether or not transactions with directors have been undertaken under normal market conditions. These must now be disclosed if they are material regardless of whether or not they have been undertaken under normal market conditions.

Section 1A was amended to simplify the disclosure requirements due to the challenges faced by small companies in determining whether or not related party transactions, particularly those with directors, were made under normal market conditions. Company law still contains the more limited requirement to disclose related party transactions not made under normal market conditions only, but, on this matter, Section 1A takes precedence as it is now stricter than company law.

This means that judgement will need to be applied to determine whether or not transactions with directors are material and, if so, whether or not it is appropriate to disclose these in aggregate in order for the accounts to give a true and fair view.

Under FRS 102 and company law, dividends paid to directors fall within the definition of directors' remuneration and are therefore related party transactions with directors.

For reference, Schedule 1, paragraph 66, of The Small Companies and Groups (Accounts and Directors' Report) Regulations 2008 (SI 409/2008) sets out the disclosure requirements for material related party transactions not concluded under normal market conditions. As referred to above, the revised Section 1A requirements have been strengthened and therefore take precedence over company law on this point.

Also, while there is an overarching requirement for the accounts to give a true and fair view, both FRS 102 and the 2008 Regulations, require preparers to consider this specifically in relation to the aggregation or disaggregation of related party disclosures, which includes the disclosure of directors' remuneration:

- An entity may disclose items of a similar nature in the aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity (FRS 102.33.14).
- Information about individual transactions may be aggregated according to their nature, except where separate information is necessary for an understanding of the effects of the related party transactions on the financial position of the company. (2008 Regs, Sch 1, para 66).



The FRC recently published a clarification about the disclosure of related party transactions by small UK entities on its [website](#), positioned below the links relating to the edition of FRS 102, applying to accounting periods beginning on or after 1 January 2026. This clarification statement is as follows:

#### **“UK small entities – related party disclosures**

For accounting periods beginning on or after 1 January 2026, FRS 102 requires (in paragraph 1AC.35) a UK small entity to provide disclosure about related party transactions by applying paragraphs 33.9 and 33.14, but not paragraph 33.7 (which requires disclosure of key management personnel compensation). Paragraphs 33.7 and 33.9 are intended to be complementary, not duplicative. Accordingly, there is no explicit requirement in FRS 102 for a UK small entity to disclose directors’ remuneration. However:

1. Directors’ remuneration not concluded under normal market conditions would require disclosure by law (paragraph 66 of Schedule 1 to *The Small Companies and Groups (Accounts and Directors’ Report) Regulations 2008* (SI 2008/409)).
2. Section 393 of the *Companies Act 2006* requires the financial statements of a company to give a true and fair view. In order to comply, a small entity may need to provide disclosures in addition to those explicitly required by FRS 102. This could in principle apply to directors’ remuneration; judgement may be required.
3. Transactions with directors that fall outside the definition of key management personnel compensation, and therefore outside the scope of paragraph 33.7, are expected to require disclosure under paragraph 33.9.”

#### **Question 2**

Do you think that these changes and the revision to size thresholds may see more moving to the micro entity regime.

#### **Response**

The size threshold changes under The Companies (Accounts and Reports) (Amendment and Transitional Provision) Regulations 2024 apply to financial years beginning on or after 6 April 2025.

‘Smoothing provisions’ under the Companies Act 2006 mean that an entity only changes size classification if it meets the size thresholds for two consecutive years. In the first year the changes are effective, the new thresholds are applied retrospectively for those calculations, which means a company could change size classification in the first year it applies the new thresholds.

This also means that the revised thresholds will apply to a company or LLP by the time the Periodic review amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and the Republic of Ireland* and FRS 105 must be applied for periods beginning on or after 1 January 2026.

We think it is likely that some entities which meet the micro-entity criteria following the latest increases in the size thresholds will decide to apply FRS 105 rather than FRS 102. The introduction of the single lease accounting model for accounting by lessees to FRS 102, and not to FRS 105, may be a factor in this decision. Additionally, some entities may just decide to move to FRS 105 to benefit from the wider more limited accounting and reporting requirements it contains.



However, a decision to move from applying FRS 102 to FRS 105 should involve careful consideration of any related business issues which may arise. For example, the expectations of the entity's bank, other providers of finance, including shareholders, and major customers and suppliers who will be used to having access to more comprehensive reporting than FRS 105 would provide.

Also, for a business on a growth trajectory, which may exceed the micro-entity size threshold in a few years' time, the pros and cons of moving to FRS 105 now would need to be weighed against the possibility of having to move back to FRS 102 in the near future, which would entail complying with the lease accounting changes.

Discussions among accountancy advisers indicate that entities have been slow in their preparations to implement the Periodic review amendments. This means that those entities which may be in a position to move from FRS 105 to FRS 102 may not yet have made a decision about which standard to follow. The message of our webinar is that there is probably a lot for entities still to do and that steps to comply with the Periodic review amendments need to be progressed and related decisions should be being made.

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