Imperial College Union
Finance, Audit and Risk Committee / 12 February 2025

Accounting Standard (FRS 102) update

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Purpose: To start to plan for the impact of new accounting standards
Action(s): To **approve** the proposed approach

1. Introduction

This paper sets out some initial considerations from updates to accounting standards which will come into effect for the Union by FY26/27, including the option for early adoption.

2. Background

As flagged in the Post Audit Report, the Financial Reporting Council has published amendments to FRS 102, the accounting standard under which the Union prepares its statutory year-end accounts. This will be effective for accounting periods beginning on or after 1 January 2026 (so **FY26/27**), but organisations can choose to adopt early.

The Union also prepares its accounts in line with the Charities Statement of Recommended Practice (SORP), which provides guidance on the interpretation of FRS 102 from a Charity perspective. This had been expected to be published in August 2024 but this has been delayed until October 2025.[1]

From review of the guidance [2], key changes can be summarised as mainly relating to:

- Income recognition (particularly around contracts);
- Lease accounting (bringing operating leases on balance sheet); and
- Various other incremental clarifications.

3. Key Considerations

Early adoption requires all reporting standard changes to be applied concurrently. However, given the SORP guidance will not be published until October 2025, it would appear advisable on a practical level to wait so that all relevant guidance can be considered.

In the interim period, charities are encouraged proactive in identifying and understanding how the changes introduced by FRS 102 will impact them.

[1] 20241204-sorp-update-site-1

[2] https://media.frc.org.uk/documents/Amendments_to_FRS_102_and_other_FRSs.pdf

From an initial review the main anticipated impact for the Union will relate to leases. From an initial review, it appears there would be one main lease contract (with Phonophobia, for AV equipment, which involves a £45k annual lease payment), where:

- An asset and liability (calculated net present value of future lease payments) would be created under the future accounting method. Based on figures at August '24, this would potentially increase fixed assets by £200k (at August '24) - i.e. almost doubling the current value - and introducing a new long-term liability line;
- Instead of lease payments being presented as expenditure, these would be posted against the liability, reducing it over the lease period;
- Expenditure would include a (new) "amortisation" charge (reflecting the use of the asset, similar to a depreciation cost) and interest charge (to reflect unwinding of discounted value calculations). These may not be materially different in terms of annual expenditure totals, but will require checking by the auditors due to the slight complexity (and newness) of the calculation; and
- The method of calculating free reserves (normally based on total funds less fixed assets) may need to be tweaked (so that long-term liabilities are also taken into account).

Whilst these will be notable changes in the accounts – providing information on future lease commitments - there would not appear to be a materially compelling case for early adoption at this stage (e.g. in terms of understanding the Union's overall financial position).

4. Proposed Next Steps

The proposed next steps are:

- Review SORP guidance when it is issued in October 2025;
- Finance Team to continue to monitor impact of potentially relevant items e.g. new leases.
- Consultation with auditors on the impact, changes in disclosure requirements and agreement of detailed calculations, prior to **adoption for the FY26/27 financial statements**.

5. Conclusion

Trustees are asked to: **approve** the proposed approach including next steps in terms of handling future changes, and to provide any comments.