TRANSITION EXAMPLE

DUNCAN & TOPLIS

Entity Z entered into a contract on 01/09/2025, with a total consideration of £60,000.

The contract has two performance obligations:

- Software license (delivered immediately): allocated £45,000
- Technical support (over 12 months): allocated £15,000.

The entity has a financial year end of 31/12 and transitioned to revised FRS 102 for the year beginning 01/01/2026.

TRANSITION EXAMPLE

DUNCAN & TOPLIS

Under the old FRS 102, the entire £60,000 was recognised as revenue in September 2025, all risks and rewards of ownership had been transferred to the customer.

Upon transition of the revised FRS 102, as noted above, there are two approaches, the cumulative catch-up approach and the full retrospective approach.

TRANSITION EXAMPLE – CUMULATIVE CATCH-UP

DUNCAN & TOPLIS

Remember – comparatives are not restated, with instead there being an adjustment to opening retained earnings at the transition date (01/01/26) the reflect the cumulative difference in the revenue recognised.

The existing position was that the full £60,000 had already been recognised. However, under the five-step process, the performance obligation for the provision of technical support should only have been recognised for the period performed – so from 01/09/25 to 31/12/25.

TRANSITION EXAMPLE – CUMULATIVE CATCH-UP

DUNCAN & TOPLIS

Therefore, to 31/12/25:

- Software: £45,000 in September 2025 would still be recognised under the revised section 23
- Support: Only 4 months were earned (Sept-Dec)
  (£15,000 pa, therefore £1,250 pm × 4 = £5,000)
- Total income to recognise to 31/12/25 = £50,000

As £60,000 had been recognised, we can conclude that revenue has been overstated by £10,000 in 2025

TRANSITION EXAMPLE – CUMULATIVE CATCH-UP

DUNCAN & TOPLIS

To correct for this, using the cumulative catch-up approach:

ACCOUNT	DEBIT (£)	CREDIT (£)
Retained earnings	10,000	
Contract liability (deferred income)		10,000
This reflects the fact that £10,000 of support services are yet to be earned as of the transition date		

TRANSITION EXAMPLE – FULL RETROSPECTIVE

DUNCAN & TOPLIS

Here, prior periods are restated as if the new standard had always been in place.

For the comparative 31/12/25 financial statements therefore:

ACCOUNT	DEBIT (£)	CREDIT (£)
Revenue	10,000	
Contract liability (deferred income)		10,000

TRANSITION EXAMPLE - SUMMARY

DUNCAN & TOPLIS

ITEM	CUMULATIVE CATCH-UP	FULL RETROSPECTIVE
Adjusts comparatives?	No	Yes
Adjustment type	Retained earnings only	Revenue restated in prior year
Adjustment date	1 January 2026	Applied in 2025 (restated)
Contract liability at 1 Jan 2026	£10,000	£10,000 (carried forward)

If your business has lots of unique contracts, you can see how complex this could get.