The IRIS FRS 102 Lease Accounting Readiness Report

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The revised FRS 102 lease accounting standard, coming into effect on 1st January 2026, marks one of the most significant shifts in financial reporting for UK businesses in recent years.

With less than 10 months to go, organisations should be well into their preparation – yet our latest survey reveals a **stark reality**: many are still in the early stages, risking last-minute compliance challenges and missed opportunities for financial optimisation.

To understand the state of readiness, we surveyed over 500 **in-house accountants** across a range of industries. The results highlight a surprising lack of awareness of the new standard among finance departments, as well as the perceived challenges that businesses will face in meeting compliance requirements.

Nearly a quarter of businesses are unaware of the incoming changes, raising concerns about last-minute scrambles to comply. Adoption progress is slow, with **only 3% of businesses having completed implementation** and the majority still assessing the impact of the new standard.

The transition is expected to bring **significant operational challenges**, with respondents citing **process changes, technical accounting complexities, and data management** as key hurdles. Technology will play a critical role in overcoming these issues, and **more than half (54%) plan to invest in lease accounting software**. However, many businesses have yet to fully engage their key stakeholders, including auditors and lessors – creating additional risks to a smooth transition.

With the deadline fast approaching, businesses must act now to accelerate their transition. Proactive planning, stakeholder engagement, and investment in the right tools are critical – not just to ensure compliance, but to unlock significant benefits, including enhanced lease portfolio visibility, stronger governance, and cost efficiencies.

This report explores key readiness insights, challenges, and practical steps to help organisations navigate the transition with confidence.

Mark Chambers,

Managing Director,
IRIS Accountancy

At a glance: the updated FRS 102 leasing standard

When does it come into effect?

1st January 2026.

What is the updated standard designed to do?

1) Improve transparency

2) Make financial statements more comparable with one another.

What will lessees need to do?

Include all leases on the balance sheet, with exemptions for short-term leases and low-value assets.

Which companies does this affect?

All businesses that engage in asset leasing and report under UK GAAP FRS 102.

What are the possible commercial implications?

It might affect the gearing ratio, current ratio, asset turnover, interest cover, EBIT, EBITA, operating profit, net income, EPS, ROCE, ROE, and operating cash flows. It might also influence considerations around debt and pension covenants, remuneration structures, bonus schemes, share option programs, and dividend payments.

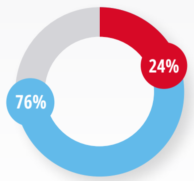
PART ONE
- The survey results

About our results

For some questions, we provided several options, and we have highlighted the most important results in this report. This emphasis means that the graphs and figures you see here will not add up to 100% on some occasions.

Q1.

Are you aware of the changes to the FRS 102 leasing standard, due to come into effect on January 1, 2026?

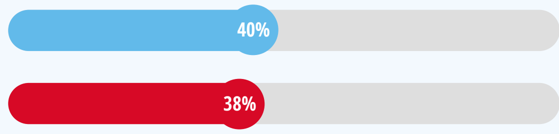


76% of respondents are aware of changes... meaning about a quarter **(24%)** are not.

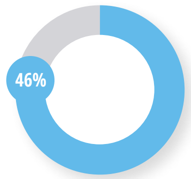
Q2.

*Net response.

What impact, if any, do you expect the changes to the FRS 102 leasing standard to have on the following areas (business risk, time, cost, financial and KPI impact) concerning your financial reporting?



Respondents expect the changes to have more of a negative than positive impact on the cost of financial reporting (**40% vs 38%**).*

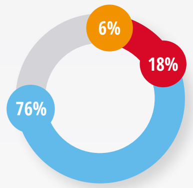


46% say the changes will positively affect their financial and KPI impact.

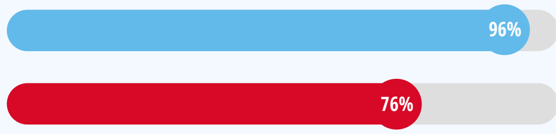
*Net response.

Q3.

To what extent do you agree or disagree with the following statement: *"The amends to the FRS 102 leasing standard will require significant changes in the way we produce financial reporting."*



76% of those aware of the changes agree that financial reporting will significantly change. **18%** neither agree nor disagree. **6%** disagreed.

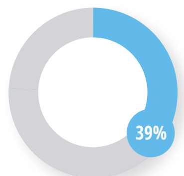


Almost all (**96%)** intermediate-level staff say significant changes will occur. They are 1.8 times more likely than senior management (**76%)** to say so, suggesting a disconnect between levels of seniority and understanding of the work required.

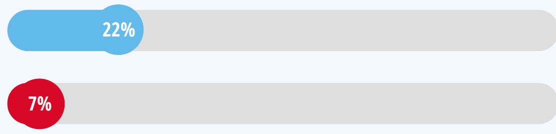
Q4.

*Multiple choice. Most significant results shown.

Which of the following best describes your organisation's FRS 102 lease accounting adoption status?



39% of organisations are still assessing the impact; only 3% of businesses have completed its adoption.

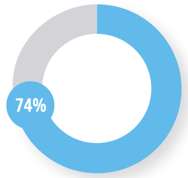


Firms with a lease population between 1 and 25 are 3.14 times more likely to say they haven't started adopting FRS 102 (**22% versus a 7% average**).

Q5.

Multiple choice. Most significant results shown.

Which department/function leads, if any, will oversee the adoption project for FRS 102 Leases?

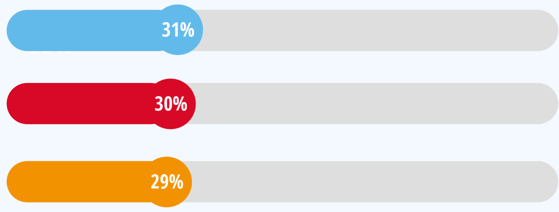


74% say the finance and accounting team will lead the adoption project.*

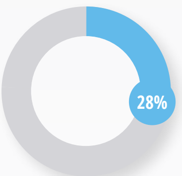
Q6.

Respondents could select up to 3

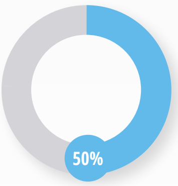
What do you consider being the most challenging aspects, if any, of implementing FRS 102 Leases?



Implementing changes to processes, controls and accounting policies is the biggest challenge (**31%**), followed by technical accounting and judgements (**30%**) and data collation, abstraction and validation (**29%**).



28% said software selection and system implementation will be the most challenging aspect.

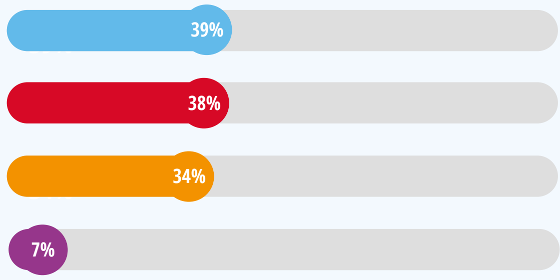


Intermediates are the most likely to say that software selection and implementation will be the most challenging aspect (**50%**); they were 1.79 times more likely to say so than average and 2.5 times more likely than senior management.

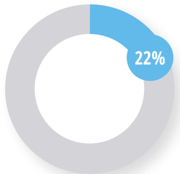
Q7.

Respondents could select all that apply.

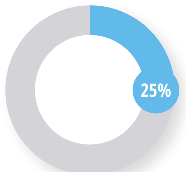
Beyond compliance, what business benefits do you expect from implementing the revised FRS 102 leases standard, if any?



Greater lease portfolio visibility is expected to be the biggest benefit of change (**39%**), followed by enhanced leasing governance, processes and controls (**38%**) and cost savings (**34%**). **7%** don't expect any benefits.



22% of firms with a lease population of 1 and 25 don't expect any business benefits – which is 3.14 times more likely than average.

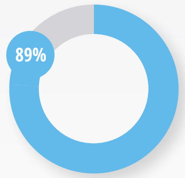


Only a quarter (**25%**) of firms with a lease population between 1 and 25 expect to find cost savings.

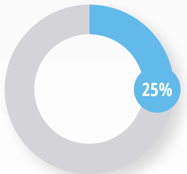
Q8.

*Net response

Will the introduction of the revised FRS 102 leasing standard impact your organisation's leasing strategy?



89% of respondents expect that their leasing strategy will be impacted. 51% said that their strategy will change moderately.

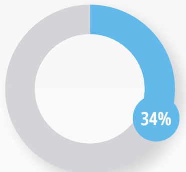


A quarter (**25%**) of firms with a lease population between 1 and 25 say their strategy will remain unchanged – 2.5 times more likely than average.

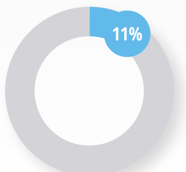
Q9.

Multiple choice. Most significant results shown.

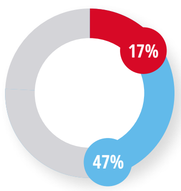
Have you engaged and communicated with stakeholders (audit committee members, external, lessors, shareholders) about the implications of the revised FRS 102 lease accounting standard?



34% said they haven't begun considering the impact on stakeholders.



Only **11%** have initiated engagement with stakeholders.

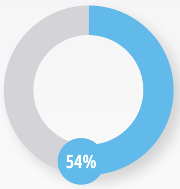


17% of 1 to 25 lease population firms have engaged stakeholders on the implications – they are 1.5 times more likely than average to do so. Mid-sized firms are least likely to have initiated engagement with stakeholders. **47%** of firms between 51-100 leases haven't begun to consider the impact on stakeholders.

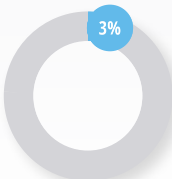
Q10.

Respondents could select all that apply. Most significant results shown.

What tools or systems, if any, do you plan to use to manage the FRS 102 lease accounting requirements?



54% plan to purchase a lease accounting software solution, 38% plan to use in-house desktop apps like spreadsheets, and 34% plan to use a third party/auditor spreadsheet .

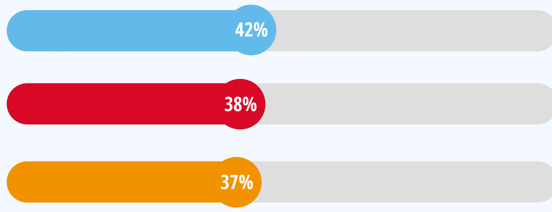


Only **3%** are still undecided.

Q11.

Respondents could select all that apply.

Which categories of underlying assets make up your lease portfolio?

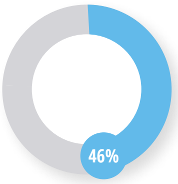


Business equipment is the most common asset making up the lease portfolio (**42%**), followed by IT equipment (**38%**) and real estate/property (**37%**).

Q12.

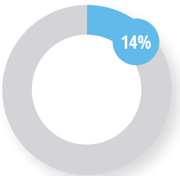
**Respondents could select all that apply.*

Where is your lease data and contract information currently stored?

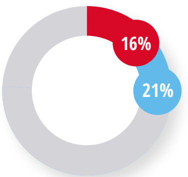


Most respondents (46%) store data and contract information in desktop tools (such as spreadsheets).

But **28%** say it is stored in PDFs, **26%** say data is scattered across multiple locations, and **21%** are still using a paper filing system.



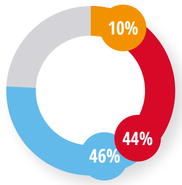
Firms with a 1 to 25 lease population are the most likely to say they're not sure where their data is currently stored (**14%**) – that's 3.5 times more likely than average.



But those same firms are also the least likely to operate a paper filing system (**16% vs 21% on average**).

Q13.

Do you know what contracts/leases are in existence or will fall under the scope of FRS 102?



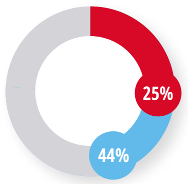
Most have some idea where contractors or leases are in existence or will fall under the scope of FRS 102 (**46%**), with **44%** having full transparency of all contracts and leases held on a dedicated repository. **10%** were unsure

Businesses with a lease population of 1 to 25 are three times more likely to say they don't know what contracts will fall under the scope of FRS 102. The larger the lease population, the more likely they will say they have full transparency.

Q14.

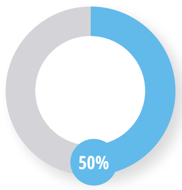
**Multiple choice. Not all results shown.*

Which of the following practical expedients or exemptions is your organisation considering adopting when implementing FRS 102 Leases?



44% are considering adoptingshort-term leases (<12 months), with **25%** considering low-value assets.

Businesses with a lease population of 1 to 25 are 2.6 times more likely than average to say they're undecided on how they'll expedite or explore exemptions.

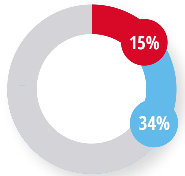


50% of firms with more than 500 leases plan to adopt short-term leases.

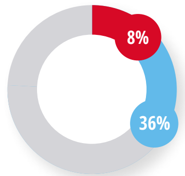
Q15.

**Multiple choice. Most significant results shown.*

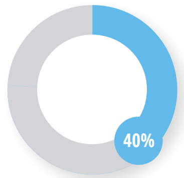
How far advanced are you, if at all, in identifying a lease accounting solution?



34% are researching potential vendors, while **15%** haven't started.

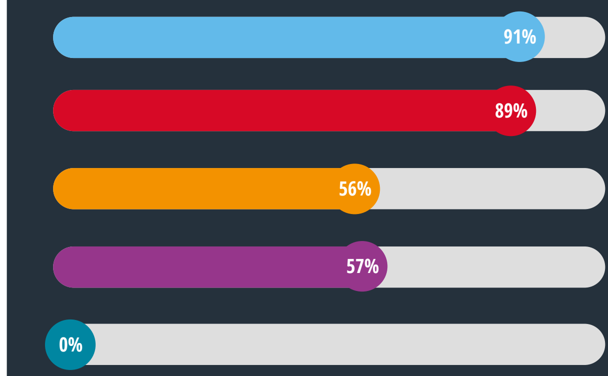


Only **8%** have already chosen a system, while **36%** intend on developing their own internal system.



40% of businesses with a lease population of 1 to 25 have not yet started identifying a solution – 2.7 times more likely than average.

Which industries were the most aware of the FRS 102 changes?



It's perhaps no surprise that Aerospace & Defence and Real Estate were the two of the most aware when it came to lease changes (**91% and 89%, respectively**). Those with the lowest include IT, Retail and Wholesale (**56%, 57% and 0%, respectively. However, Wholesale had a smaller sample size**).

PART TWO: How recent history helps us approach FRS 102

As organisations transition to the amended FRS 102 lease accounting standard, **lessons can be learnt** from the experiences of those who made a similarly sized move to IFRS 16. Both have similar requirements when it comes to leases.

Tip #1

– Start early and allocate adequate resources

One of the most critical lessons is the necessity of **starting the transition process early**. The changes imposed by the FRS 102 amendments have far-reaching implications on business processes, systems, and controls. The data requirements under the amended standard are substantially larger, bringing almost all leases "on balance sheet." This requires specialised software and significant resources.

Many IFRS 16 adopters underestimated this transition's complexity and scope, leading to delays and pressure on implementation timelines.

With the updated FRS 102, it is therefore essential to begin the process as early as possible, establish appropriate procedures, and allocate sufficient resources to address the challenges that will arise.

Tip #2

– Gather and validate lease data

Gathering and collating the necessary lease **data is a challenging, time-intensive task**. While implementing IFRS 16, businesses found it difficult to locate and extract relevant lease data from contracts or systems across multiple departments and sites.

This process was further complicated by the need to validate and analyse the information.

FRS 102 adopters are likely to face similar challenges when the amendments come into force. Establishing robust controls and practices for finding, standardising, extracting, validating, and maintaining the necessary data is imperative.

Tip #3

– Determine the incremental borrowing rate

Another challenge faced by IFRS adopters was determining the incremental borrowing rate (IBR) for discounting lease payments.

This involved multiple considerations such as lease term, credit risk, borrowing amount, and economic environment. **Determining the IBR separately** for each lease added complexity for many.

The updated FRS 102 introduces some simplifications, such as using the lessee's obtainable borrowing rate. Nevertheless, attention should be paid to the challenges faced by IFRS 16 adopters when determining discount rates, and appropriate controls and methodologies should be established to minimise complications.

Tip #4

– Maintain lease data post-transition

Post-transition, the **ongoing maintenance of lease data** is crucial. IFRS 16 adopters realised that modifications to leases, such as terminations, extensions, and changes in payments, required continuous attention and accurate accounting. FRS 102 preparers should implement suitable controls, systems, and processes to deal with these ongoing requirements. Leveraging lease accounting software that efficiently handles modifications and remeasurements, along with providing a complete audit trail, is advisable.

Tip #5

– Select suitable lease accounting software

Choosing **the right lease accounting software** vendor is vital for ensuring compliance. Many IFRS 16 adopters found that existing systems or spreadsheets were inadequate for handling the complexities of the new standard. FRS 102 preparers should consider implementing lease accounting solutions designed for the new requirements. It is important to thoroughly evaluate vendors and ensure that the chosen solution meets the technical accounting requirements of the new standard.

Tip #6

– Engage with auditors early

Engaging with external auditors early in the transition process can help address the increase in accounting judgments and disclosure requirements. IFRS adopters found that **scenario modelling, deliberation, and auditor assistance** were necessary to interpret and apply key judgments. FRS 102 preparers should discuss transition options, judgments, and assumptions with auditors at the earliest opportunity to avoid project delays and ensure appropriate commercial decisions.

FRS 102 made simple, thanks to our FREE guide

Read our guide to FRS 102, which covers how the updated standard will affect your business, the barriers to compliance and how you can prepare.

CLICK HERE TO DOWNLOAD

The research in this guide was conducted by Censuswide, among a sample of 500 in-house accountants. The data was collected between 22nd – 27th January 2025.