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# Lease Accounting is Changing: What UK Organisations Need to Know Ahead of 2026

# Background

Major changes to lease accounting are on the way for UK businesses applying Financial Reporting Standards (FRS) 102. Following its recent periodic review, the Financial Reporting Council (FRC) has confirmed that most leases will soon need to appear on company balance sheets. This marks a significant step towards alignment with international reporting under IFRS 16.

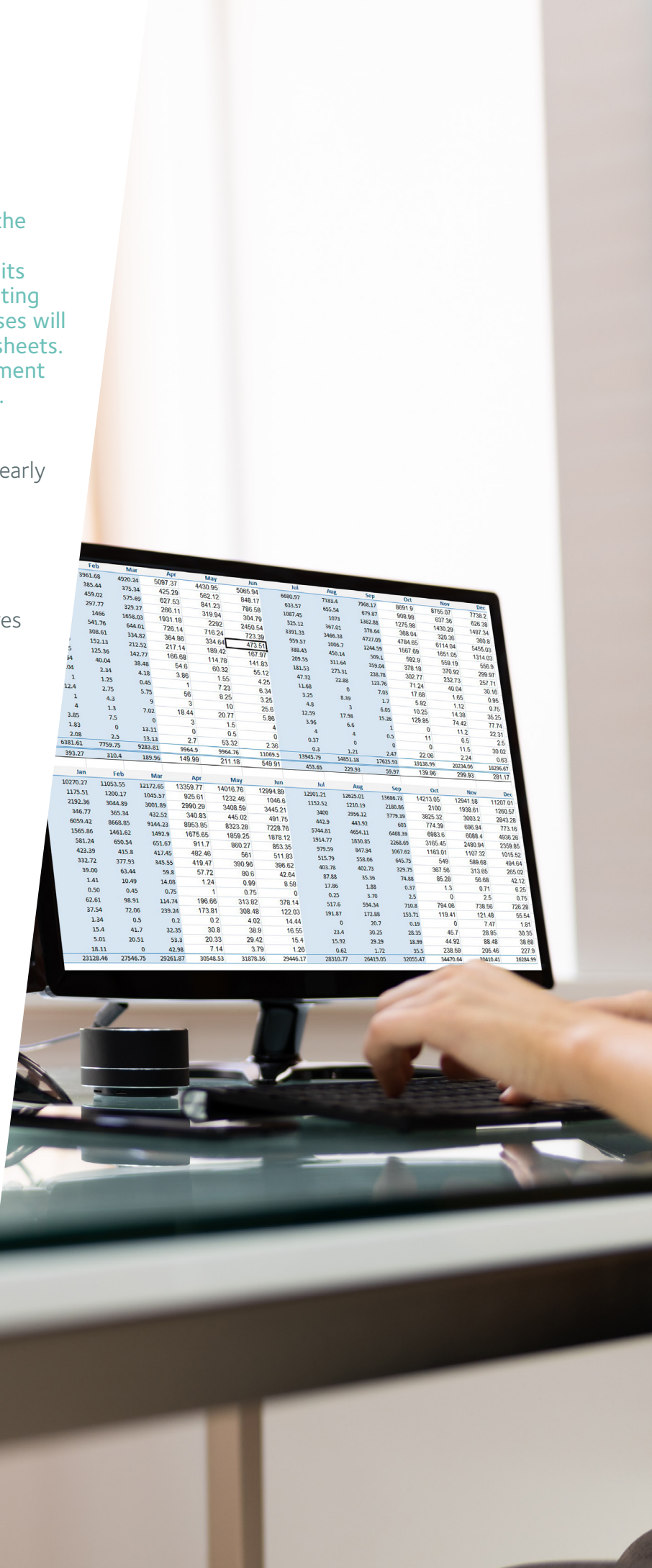
The new rules apply to accounting periods beginning on or after 1 January 2026, with early adoption permitted.

For businesses that rely on leased assets, whether property, vehicles, or equipment, this represents a major shift in financial reporting and how key performance measures are presented.

These changes aim to enhance the quality and transparency of financial reporting, while aligning more closely with International Financial Reporting Standards (IFRS).

The amendments fall into three categories:

- ◆ Fundamental
- ◆ Incremental
- ◆ Minor clarifications



	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
3961.66	4920.24	5097.37	4430.95	5065.94	6680.97	7183.4	7968.17	8691.9	8795.07	7738.2	626.98
385.44	375.34	425.29	562.12	948.17	633.57	455.24	679.87	908.98	637.36	1487.54	360.8
459.02	575.49	627.53	841.23	786.58	1087.45	825.12	367.01	378.64	1275.98	1430.29	5456.03
297.77	329.27	206.11	319.94	304.79	3391.33	3466.38	4727.09	4784.65	6114.04	320.36	1314.03
1466	1658.03	1931.18	2292	2450.54	723.39	959.57	1096.7	1244.59	1567.69	1651.05	568.9
541.76	644.01	728.14	710.24	473.57	388.43	450.14	509.1	592.9	378.18	559.19	299.97
308.61	334.82	364.86	334.64	167.57	209.55	311.64	359.04	378.18	370.92	257.71	30.46
125.36	122.52	217.14	189.42	55.12	47.32	273.31	236.78	302.77	232.73	48.04	0.86
44	40.04	38.48	54.6	60.32	4.25	11.68	0	7.83	17.68	1.65	0.75
1	1.25	0.45	1	7.23	6.34	3.25	0	1.7	5.82	1.12	0.75
12.4	2.34	4.18	3.86	1.55	8.25	3.25	8.39	6.05	10.25	14.36	36.25
1	4.3	5.75	56	8.25	3.25	3.25	0	1	0	11.2	22.31
4	1.3	7.92	18.44	20.77	5.86	12.59	17.98	15.26	129.85	74.42	30.02
3.85	7.5	0	3	1.5	4	4	4	0.5	11	6.5	2.5
1.82	0	13.11	0	0.5	4	0.37	0	0	0	11.5	0.63
2.08	2.5	13.13	2.7	53.32	2.36	0.2	1.21	2.47	22.06	2.24	18296.47
6381.61	7759.75	5283.81	9564.9	9964.76	11069.5	13945.79	14851.68	17625.93	19138.99	20234.06	15296.47
393.27	310.4	185.96	149.59	211.18	549.91	453.85	229.93	39.97	138.96	269.93	281.17

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
10270.27	11051.35	12172.65	13359.77	14016.76	12994.89	12901.21	12659.01	13686.73	14213.05	12941.58	11207.01	11207.01
1175.51	1209.17	1045.57	925.61	1232.46	1046.6	1152.52	1210.19	2180.36	2100	1938.61	1260.57	1260.57
2192.36	3044.89	3001.89	2990.29	3408.59	3445.21	3400	2956.12	3779.39	3625.32	3083.2	2843.28	2843.28
346.77	365.34	432.52	340.83	445.02	491.75	442.9	443.92	603	774.39	699.84	772.16	772.16
6059.42	8668.85	9144.23	8953.85	8323.28	7228.78	5744.81	4654.11	6468.39	6963.6	6088.4	4096.26	4096.26
1565.86	1461.62	651.67	1675.65	1859.25	1878.12	1914.77	1830.65	2268.69	3165.45	2480.94	2359.65	2359.65
581.24	650.54	911.7	860.27	853.35	561	511.83	515.79	558.06	645.75	387.56	313.65	265.02
423.39	415.8	417.45	482.46	590.96	42.64	87.88	17.86	1.88	0.37	1.3	0.71	0.71
332.72	377.93	345.55	419.47	390.96	396.62	403.78	402.73	329.75	387.56	313.65	265.02	265.02
39.00	63.44	59.8	57.72	80.6	42.64	87.88	17.86	1.88	0.37	1.3	0.71	0.71
1.41	10.49	14.08	1.24	0.99	8.58	17.86	1.88	0.37	1.3	0.71	0.71	0.71
0.50	0.45	0.75	1	0.75	0	0.25	3.70	2.5	0	2.5	6.25	6.25
62.61	98.91	114.74	196.66	313.82	378.14	517.6	594.34	710.8	794.06	738.56	726.28	726.28
37.54	72.08	239.24	173.81	308.48	122.83	191.87	172.88	153.71	119.41	121.48	55.54	55.54
1.34	0.5	0.2	0.2	4.02	14.44	0	20.7	0.19	0	7.47	1.91	1.91
15.4	41.7	32.35	30.8	38.9	16.55	23.4	30.25	28.35	45.7	28.95	30.35	30.35
5.01	20.51	33.3	20.33	29.42	15.4	15.92	29.29	18.99	44.92	88.48	38.68	38.68
18.11	0	42.98	7.14	3.79	1.26	0.62	1.72	35.5	238.59	205.46	227.9	227.9
23128.46	27546.75	29281.87	30548.53	31878.36	29446.17	28310.77	26415.05	32055.47	34470.64	30410.41	26284.99	26284.99



# Everything you need to know

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## What's changing?

Currently, under FRS 102, leases are split into:

- ♦ **Finance leases:** which are already capitalised and included within the balance sheet
- ♦ **Operating leases:** which are kept off the balance sheet and charged through the profit and loss account as rental expenses.

From 2026, this distinction will disappear for lessees. Instead, almost all lease arrangements will need to be recognised on the balance sheet as:

- ♦ A right-of-use asset, and
- ♦ A lease liability, measured at the present value of future lease payments.

## Why the change?

The FRC's goal is to bring greater transparency and consistency to financial statements.

Currently, many lease commitments are "off-balance sheet", meaning they are not always obvious to investors, lenders, or regulators. By requiring recognition of lease assets and liabilities, the revised standard provides a clearer picture of a business's financial obligations and overall financial health.

## Who is affected?

The revised lease accounting rules apply to all entities preparing accounts under FRS 102 or FRS 102 Section 1A, including:

- ♦ Small, medium, and large entities
- ♦ LLPs
- ♦ Charities and not-for-profit organisations
- ♦ Academies and other public/educational bodies reporting under FRS 102

These changes apply irrespective of sector. For example, academy trusts, educational bodies, and other public sector organisations preparing accounts under FRS 102 will also be affected.

## Who is exempt?

The changes do not apply to the following:

- ♦ FRS 101 reporters already follow IFRS 16, so no change is required
- ♦ FRS 105 (micro-entities) remains unaffected



# Leases (for lessees)

## Current Treatment

The cost of operating lease are currently expensed through the P&L.

Balance sheet (asset)	Nothing recorded
Balance sheet (liability)	Nothing recorded
Profit or loss	Lease expense

## Future Treatment (01.01.2026 onwards)

Leases will be brought onto the balance sheet, split across both assets and liabilities.

Exceptions to this rule include both low-value and short-term leases.

Balance sheet (asset)	Right-of-use asset
Balance sheet (liability)	Lease liability
Profit or loss	Depreciation + interest expense

## Treatment of comparative balances

No restatement of comparatives required. No need to disclose the impact on prior periods.

# Practical considerations



Potential changes in key metrics: EBITDA, ROCE, interest cover



Impact on loan covenants, bonus schemes, credit insurance



Gross assets may affect company size thresholds



Consider system and process updates for lease tracking



# The impact it will have

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## What does this mean for you?

The revised lease accounting model will have a wide-ranging impact:

- ♦ **Balance sheet growth:** Assets and liabilities will increase as leases are capitalised.
- ♦ **Profit recognition changes:** Rental costs will no longer be a straight-line expense. Instead, leases will be split into depreciation of the asset and interest on the liability, typically leading to higher costs earlier in the lease term.
- ♦ **Key performance indicators:** Measures such as EBITDA, gearing ratios, and loan covenant tests may be significantly affected.
- ♦ **Disclosure:** Businesses will need to provide additional detail about lease terms, assumptions, and maturity schedules in their financial statements.

## When and how to prepare

The revised rules take effect from 1 January 2026, but early adoption is an option. Transition reliefs are also available, including a modified retrospective approach that avoids restating prior year comparatives.

To get ready, businesses should now:

- ♦ Review all lease contracts and commitments
- ♦ Assess systems and accounting processes for capturing lease data
- ♦ Model the impact on KPIs and external reporting
- ♦ Engage stakeholders early, including auditors, lenders, and board members



# How JW Hinks can help you

At JW Hinks, we are already working with clients to prepare for the revised FRS 102 lease accounting model. Our support includes:

- ♦ Assessing the impact on your financial statements
- ♦ Reviewing contracts and identifying affected leases
- ♦ Advising on system and process changes
- ♦ Supporting disclosure requirements and transition choices

The changes may feel complex, but with the right preparation, businesses can adapt smoothly and avoid disruption.



Tailored impact assessments for your organisation



We're here to help ensure you're ready well before 2026



Policy updates, staff training, and transition planning



Revenue & lease modelling support



Ongoing advisory and audit support

**Contact JW Hinks today** to discuss how these changes may affect your organisation and how we can support you through the transition.



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