HOW FRED 82 IS TRANSFORMING REVENUE RECOGNITION IN RECRUITMENT FIRMS

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INTRODUCTION

- In the evolving landscape of financial reporting, the Financial Reporting Exposure Draft 82 (FRED 82) brings critical changes to revenue recognition. FRED 82 released by the UK's Financial Reporting Council (FRC), proposes substantial changes to financial reporting standards under UK GAAP. It is part of the wider periodic review of FRS 102 and seeks greater alignment with IFRS, especially IFRS 15 on revenue recognition and IFRS 16 on leases. FRED 82 will come into effect from 1 January 2026, with early adoption permitted.
- Recruitment companies operate via a variety of business model and often have complex and varied customer contracts and invoicing arrangements. The introduction of FRED 82 has the potential to significantly impact revenue recognition in some recruitment businesses.

WHAT IS FRED 82?

- FRED 82 aims to align revenue recognition more closely with the transfer of control in contracts, emphasising performance obligations and timing of revenue. For recruitment firms, this means a shift from traditional milestone-based recognition to a more nuanced approach based on contract terms and candidate placement outcomes.

KEY IMPLICATIONS FOR RECRUITMENT COMPANIES

01

Shift in Timing of Revenue Recognition

Recruitment firms often recognise revenue at placement or invoicing milestones. FRED 82 requires more detailed analysis of when control passes to the client, possibly accelerating or deferring revenue recognition.

02

Enhanced Disclosure Requirements

Firms must provide more transparent disclosures on revenue recognition policies and judgments applied, increasing compliance complexity.

INCOME MODELS WITHIN THE RECRUITMENT SECTOR

Typical income models for recruitment businesses will include:

- Temporary Placements
- Permanent placements which in turn includes:
  - Contingent placements
  - Exclusive contingent placements
  - Retained Searches
  - Subscription/ RPO Hybrid
  - Project Based Consulting

Income recognition for permanent placements is often further complicated by rebate clauses, intended to protect clients from an unsuccessful placement and a candidate leaving in a short time frame.

THE IMPACT OF FRED 82 ON THESE DIFFERENCE MODELS CAN BE SUMMARISED AS FOLLOWS:

Revenue Stream	FRS 102 (Current)	FRED 82 (IFRS 15 aligned)
Temporary placements	Revenue recognised when hours/days are worked (service performed).	No change — performance obligation satisfied as temp staff work. Revenue recognised as service performed.
Permanent – Contingent / Exclusive Contingent	Typically recognised when candidate commences work (though some agencies use acceptance date).	Recognised when candidate starts employment (performance obligation met). If currently recognised at acceptance, timing shifts to later. Subject to variable consideration where rebates apply.
Permanent – Retained search	Retainers often recognised when received; milestone fees at each stage.	Retainers only recognised if tied to distinct services (e.g. role scoping). Otherwise treated as contract liability until performance obligation met. Milestone and completion fees aligned to performance obligations. Subject to rebate/variable consideration rules.
Subscription / RPO Hybrid	Typically straight-line recognition over subscription period.	Treated as a series of services provided over time. Revenue recognised straight-line unless pattern of service effort differs. Minimal change in most cases.
Project-based consulting	Stage of completion (cost-to-cost or milestones) if outcome measurable.	Identify performance obligations: if consultancy is delivered over time, recognise progressively; if value is only at completion (e.g. final deliverable), revenue at a point in time. Potentially more judgment than under FRS 102.
Variable consideration (e.g. rebates)	Often handled by reversing revenue when refund triggered.	Must estimate expected rebates upfront and only include amounts where it is highly probable no significant reversal will occur. Requires probability-weighted or most likely amount methods.

Further detail on each of these models are considered in the following slides.

1) TEMPORARY REVENUE RECOGNITION

For recruitment companies placing temporary workers, revenue typically arises from:

- Invoicing clients for hours worked by temporary staff.
- The fee charged often includes amounts paid to the temporary worker plus a margin.

Under current FRS 102, revenue should be recognised when the service has been provided, i.e., when the temporary worker has worked the hours or days on the client’s site.

Under the changes from FRED 82 the performance obligation will still be providing temporary workers. Therefore, revenue will still be recognised as the service is performed, i.e., as the worker works hours/days. This means there will be no material change to timing of recognising revenue for temporary recruitment.

2) PERMANENT REVENUE RECOGNITION

A) Contingent and Exclusive Contingent fees

Permanent revenue refers to the fee earned by a recruitment agency for successfully placing a candidate into a permanent (or fixed term) position with a client. A contingent assignment or an exclusive contingent assignment will only generate income for the recruiter, once the vacancy has been filled and a candidate has been found.

- It is one-off revenue, as opposed to ongoing (like with temp or contract placements).
- The agency earns the revenue once the candidate accepts and/or starts the job.
- This is also known as “placement fees”, “perm fees”, or “introduction fees”.

Currently under FRS 102 revenue is generally recognised when the candidate commences work. Under the changes from FRED 82, this will not change. The agency will have fulfilled its performance obligations under the contract when the candidate commences work and so this is when the revenue should be recognised.

However, for agencies which are currently recognising revenue on acceptance, there will be a change, with revenue delayed until the candidate starts.

Income recognition of a contingent placement fee becomes more impacted by the introduction of FRED 82 where there is a rebate clause included in the client contract. Refer to “variable consideration” below for more details.

2) PERMANENT REVENUE RECOGNITION

B) Retained search fees

A retainer is a non-refundable or partially refundable upfront fee paid by a client to a recruitment agency, usually to secure exclusive search services, often seen in executive search models.
Typically, the total recruitment fee, broken into stages:

- Initial retainer (upon engagement)
- Progress milestone(s) (e.g. shortlisting)
- Completion fee (when the candidate starts)

Under FRED 82 a retainer is not automatically revenue when received, instead, it's accounted for based on whether a performance obligation is satisfied.

Step 2 in the 5-step model is to identify the performance obligations within a contract. Each stage of a recruitment contract (e.g. search, shortlist, placement) may be a separate performance obligation, depending on how the contract is structured. If the services are distinct and separately valuable, revenue must be allocated to each stage.

If the retainer relates to work done early (e.g. role scoping, market mapping), a portion of revenue may be recognised at that point. If it's just a deposit for future work, it's a contract liability until earned.

Project Milestones and completion fees are likely to be less impacted are more aligned with performance obligations and therefore unlikely to be impacted. However as with contingent fee arrangements retained search fees are also going to be more impacted by the introduction of FRED 82 where there is a rebate clause included in the client contract. Refer to "variable consideration" below for more details.

2) PERMANENT REVENUE RECOGNITION

C) Subscription model/RPO Hybrid

Clients pay a monthly fee [normally as part of a fixed committed period] for ongoing recruitment services. Vacancies are worked on, as they arise. This model is more aligned with having an in-house recruitment team, but aimed at smaller businesses, often startups who cannot justify an in-house team.

Currently under FRS 102 this type of revenue is typically recognised straight line over the subscription period. Under the changes from FRED 82 the promise is not one specific candidate placement, but rather a series of distinct recruitment services that are substantially the same and provided over time (ongoing access to recruitment expertise, candidate sourcing, etc.).

If there is only one performance obligation (the bundle of ongoing services), the full monthly fee is allocated to that. Since the service is delivered over time (the client receives and consumes the recruitment services as they are performed), revenue is recognised over time, on a systematic basis.

In practice: Revenue is recognised evenly (straight-line) over each month of the subscription — unless evidence shows that service delivery is not uniform (e.g. if most effort is upfront, then a different pattern may be more faithful).

2) PERMANENT REVENUE RECOGNITION

D) Project Based Consulting

Rather than a full process, there will be times when the recruitment company is engaged to undertake a specific project, for example sourcing or building a talent pipeline. This work could be invoiced either based on a specific deliverable or on hourly rates.

Under current FRS 102 revenue from services is recognised by reference to the stage of completion if the outcome can be measured reliably.

Under the changes from FRED 82 if the project delivers one integrated consultancy outcome (e.g. a single strategy report), this is one performance obligation. If there are separately identifiable deliverables each may be a separate performance obligation.

In terms of recognising the revenue, if the client receives and consumes benefits as the project progresses (e.g. ongoing consultancy support), revenue is recognised over time. If the obligation is to deliver a final output at the end (e.g. a completed strategy document), revenue is recognised at a point in time (on delivery).

VARIABLE CONSIDERATION

- The more complicated area of permanent revenue is when there is a refund or rebate clauses if the candidate leaves within a probation period. Under the changes from FRED 82 this would meet the definition of variable revenue. Variable revenue should only be included in the transaction price if it is more probable then not that a significant reversal of the revenue will not occur when the uncertainty is resolved.
- If it is determined the variable consideration should be included in the transaction price, the recruiter then needs to estimate the expected rebate either using the expected value method (probability-weighted average) or the most likely amount method (if there’s only one likely outcome).
- If the candidate leaves or passes the rebate period, you adjust revenue at that time. This could result in additional revenue (if no rebate is claimed) or a refund (if one is).

PRACTICAL STEPS FOR RECRUITMENT FIRMS

01

Conduct a thorough review of existing contracts for performance obligations.

02

Train finance teams on FRED 82 principles and new disclosure requirements.

03

Upgrade accounting systems to handle complex revenue recognition scenarios.

04

Engage auditors early to align interpretations and reduce implementation risk.

05

Communicate changes transparently with investors and clients.

CONCLUSION

- FRED 82 represents a significant shift in revenue recognition that recruitment companies can no longer afford to overlook. By embracing the new standard proactively, firms will ensure compliance and ensure the transition process is as smooth as possible.

About the Author

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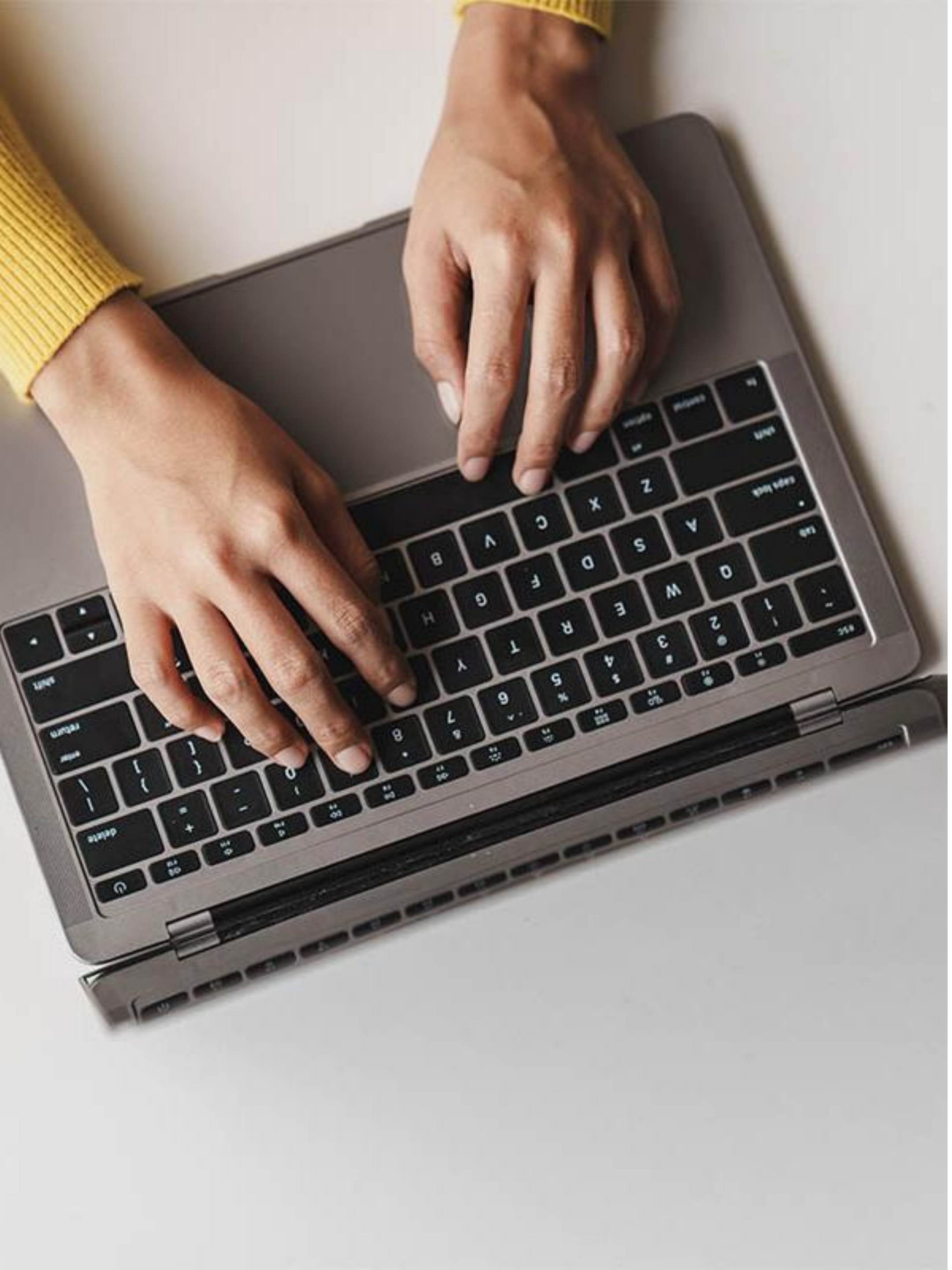

WORKED EXAMPLES

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SCENARIO: PERMANENT PLACEMENT WITH REBATE CLAUSE

A recruitment agency places a Software Engineer at a client company.

- Fee charged: £12,000
- Invoice raised: On the candidate’s start date
- Payment terms: 30 days
- Rebate clause:
  - If the candidate leaves within 8 weeks, the client is entitled to a 100% refund.
  - If the candidate leaves in weeks 9–12, a 50% refund applies.

Step-by-Step FRED 82 Treatment

- Under FRED 82, this fee includes variable consideration due to the rebate clause.
- You cannot recognise the full £12,000 upfront unless you can conclude it's highly probable that no significant reversal will occur.

KEY STEPS UNDER FRED 82

1. Identify contract and performance obligation

- Single performance obligation: placing the candidate.

2. Determine the transaction price

- Base fee = £12,000
- Subject to a potential refund = variable consideration.

3. Estimate the amount of consideration

Based on historical data:

- There’s a 15% chance the candidate leaves in the first 8 weeks
- Another 10% chance they leave in weeks 9–12

Expected rebate:

- 15% × £12,000 = £1,800 (full refund)
- 10% × £6,000 = £600 (50% refund)
- Total expected rebate = £2,400

Expected revenue:

- £12,000 – £2,400 = £9,600

KEY STEPS UNDER FRED 82

4. Recognise revenue at start date

- Dr Trade Debtors £12,000
- Cr Revenue £9,600
- Cr Rebate Provision (liability) £2,400
- This ensures you don't overstate revenue where refund risk exists.

Later Adjustments

If the candidate stays beyond 12 weeks:

- No rebate is claimed. The unused provision is reversed into revenue.
- Dr Rebate Provision £2,400
- Cr Revenue £2,400

If candidate leaves in week 6:

- Full rebate of £12,000 issued.
- Dr Rebate Provision £2,400
- Dr Revenue £9,600
- Cr Trade Debtors / Bank £12,000
- This reverses all revenue because the performance obligation was not satisfied (or failed after recognition)

EXECUTIVE SEARCH CONTRACT EXAMPLE

A recruitment agency is engaged to find a new Chief Financial Officer for a client. The contract fee is £30,000, payable in three stages:

Stage	Trigger	Fee Amount
Stage 1 – Retainer	Upon signing the contract	£10,000
Stage 2 – Shortlist	Upon presenting a shortlist of candidates	£10,000
Stage 3 – Placement	When candidate accepts the job offer and starts	£10,000

- Under FRED 82, each of the three stages is a distinct performance obligation, assuming the client receives value at each step (i.e. role scoping, candidate identification, and final placement are each useful on their own).

KEY STEPS UNDER FRED 82

1. Identify the Contract and Obligations

Contract = £30,000 total

3 distinct deliverables (obligations):

- Initial consultancy/search prep
- Delivery of shortlist
- Successful placement

2. Determine Transaction Price

- £30,000 fixed total fee
- Price is allocated across the three stages — based on standalone selling price or contract terms
- For this example, we have assumed the price is split equally between the sages

KEY STEPS UNDER FRED 82

3. Recognise Revenue as Obligations are Satisfied

See the journal entries below.

Stage 1 – Retainer Received on Signing (Upfront)

Work includes job briefing, role design, and market mapping.

When cash is received:

- Dr Bank £10,000
- Cr Contract liability £10,000

When retainer services performed:

- Dr Contract liability £10,000
- Cr Revenue £10,000

Stage 2 – Shortlist Delivered

Work includes search, candidate screening, interviews, and final shortlist.

On delivery of shortlist:

- Dr Trade debtors £10,000
- Cr Revenue £10,000

KEY STEPS UNDER FRED 82

Stage 3 – Placement Completed

Final stage: offer accepted, and candidate starts the role.

- Dr Trade debtors £10,000
- Cr Revenue £10,000

To summarise:

- Each stage of a recruitment contract would be a separate performance obligation if the stage is distinct
- Retainers should only be recognised as revenue when work is performed.
- The timing of the revenue recognition is linked to delivery of each service, not payment dates.

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