2013 Budget
forensic accounting
business record checks
pension auto-enrolment
P11Ds
HMRC
Assurance Engagements
capital allowances
payroll
Real Time Information
employers
Iris

Growth through innovation

Tax
online filing
FRSME
statutory residence test
Sage
IR35
public sector
Real Time Information
online filing
Sage
Company Law
payroll
Tax
Anti-Money Laundering
Assurance Engagements
technology
forensic accounting
business record checks
capital allowances

Members' Weekender 2013

Manchester 17-18 May

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IFRS and UK GAAP Update

Lisa Weaver BA FCA

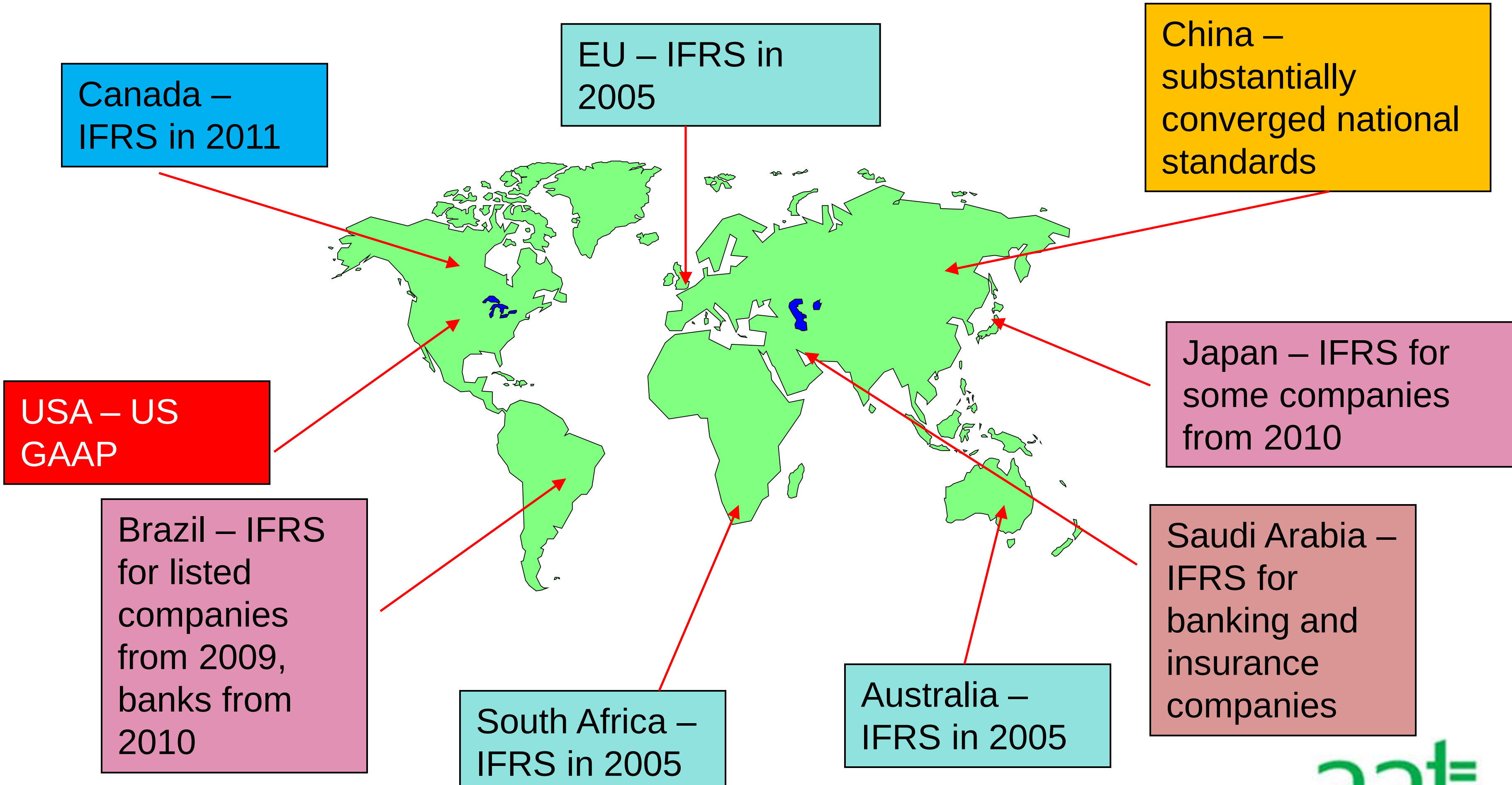
Overview of the session

- IFRS update covering all recent major changes in international reporting
- UK GAAP update including FRSs 100 to 102 – the latest position and timeframe
- The wider implications of the transition to the new reporting framework

IFRS – where are we now?

- IASB issued up to IFRS 13
- Global acceptance of IFRS gathering pace
- Discussions with US continuing
- Several important projects on-going….

Global acceptance of IFRS



IFRS and the US

- A common set of high quality global reporting standards remain the priority of IASB and FASB
- IFRS and US standard setters worked together since 2002 on a number of major projects
- Key decisions made in 2007 to further harmonisation
- 2012 – SEC issued a report on IFRS possible incorporation into US financial reporting regime, some of the issues highlighted:
  - Governance and funding
  - Remaining differences between US GAAP and IFRS
  - Industry specific guidance
  - Education and training issues and costs of transition

- A "condorsement" approach is now being favoured

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Recent IFRS issued

IFRS 9	Financial Instruments
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement

IFRS 9 Financial instruments

- IASB project to replace current financial instrument standard IAS 39
- Will be effective from 1 January 2015
- Project is part complete – IFRS 9 issued 2009 and revised 2010 and 2011
- Sections dealing with impairment and hedge accounting remain to be finalised

Group accounting standards revised and replaced – IFRS 10,11,12

- All effective from 1 January 2013
- At the same time IAS 27 and 28 were revised
- Changes are largely to do with definitions and consolidation concepts
  - Clarification of how the control of a subsidiary is determined
  - Joint ventures meeting certain a certain definition accounted for in same was as associates
  - IFRS 12 is a disclosure standard focussing on the nature of risks associated with interests in other entities

IFRS 13 Fair value

- IFRS 13 issued May 2011, effective 1 January 2013
- IFRS 3:
  - applies when another IFRS requires or permits fair value measurements or disclosures
  - defines fair value
  - sets out in a single IFRS a framework for measuring fair value
  - requires disclosures about fair value measurements.

- 'Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.' i.e. Fair value based on exit value
- A hierarchy is used to arrive at fair value

IFRS 13 Fair value

Level one inputs

- Unadjusted quoted prices in active markets for items identical to the asset or liability being measured.
- e.g. Prices quoted on a stock exchange

Level two inputs

- Inputs other than quoted prices that are either directly or indirectly observable for the asset or liability being measured.
- e.g. Interest rates which underpin a valuation.

Level three inputs

- Unobservable inputs, to be used as a minimum
- e.g. Cash flow forecasts may be used to value an entity that is not listed

Other recent changes / amendments to IFRS

- Revision to IAS 19 Employee Benefits – major revision to the requirements, effective 1 Jan 2013
  - Treatment of actuarial gains and losses (re-measurements)
  - Presentation of items taken to profit or loss / comprehensive income

- Other less significant changes as part of the Improvements to IFRSs project

Update on major on-going projects 1 Revenue recognition

- IASB and FASB joint project to clarify the principles for revenue recognition
- The project aims to create an accounting standard that will replace IAS 18 and IAS 11
- March 2013 – IASB and FASB deliberated the final proposed standard and tentatively agreed effective date 1 January 2017
- Standard due out very soon!

Update on major on-going projects 2 Lease accounting

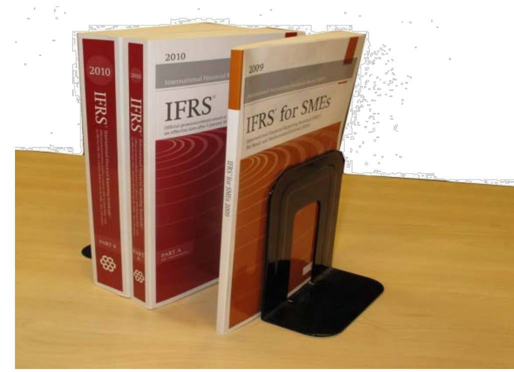
- IASB and FASB joint project to consider lease classification and accounting and replace IAS 17
- Key issue is accounting for operating and finance leases – current treatment has many drawbacks
- A new model “right of use accounting” has been proposed
- Many deliberations on the application of the model delayed development of the standard
- A revised exposure draft is due 2nd quarter 2013

Other on-going projects

- Conceptual framework
- Narrow scope amendments
- Post implementation reviews
  - IFRS 8 Operating Segments
  - IFRS 3 Business Combinations

The IFRS for SMEs

- 230 pages (full IFRSs are 3,000+)
- Simplified IFRSs
- Completely stand-alone
- Designed specifically for SMEs considering user needs
- Final standard issued July 2009



The New UK GAAP – why change?!

- Not a new issue – the future of UK GAAP has been under consideration for 10 years
- Existing UK GAAP is a mixture of old SAAPs, FRS based on international equivalents, FRSSE etc
- Standards are inconsistent and the regime overly complicated
- Standards not up to date with business practice

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Overview of the changes

- All UK FRS and SSAPs to be replaced with a single financial reporting standard
- The FRSSE will remain in existence but will be subject to some changes
- A reduced disclosure framework is being introduced for qualifying parent and subsidiary accounts applying the recognition and measurement aspects of IFRS

Benefits of replacing current UK GAAP

- The new UK GAAP should result in financial reporting standards that:
  - Are broadly consistent with IFRS
  - Reflect up to date thinking
  - Are efficient and cost effective to apply
  - Contain consistent principles

The FRC acknowledges that transitional costs will be incurred but this should be offset by the simplification of financial reporting.

The new financial reporting standards

FRS 100 *Application of Financial Reporting Requirements*

- Which standard to apply
- Options available

FRS 101 *Reduced Disclosure Framework*

- Disclosure exemptions for qualifying entities
- Applicable in group situations

FRS 102 *The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland*

- Replacement of UK SSAPs and FRSs
- Simplified financial reporting

The reporting options explained

EU-IFRS

EU listed consolidated accounts

Any entity voluntarily

FRS 101 or FRS 102

FRS 101 for qualifying entities part of a group

FRS 102 for other reporting entities

FRSSE

Small entities only

Considerations relevant to the options available

- Entities that are eligible to use the FRSSE but currently do not do so may wish to consider adopting the FRSSE rather than moving to apply FRS 102

- Entities that have voluntarily adopted EU-IFRS may wish to move back to UK GAAP to benefit from the simplified accounting rules of FRS 102

Effective dates and transition

- FRS 100,101 and 102 effective for periods beginning on or after 1 January 2015

FRS 101 The reduced disclosure framework

- Accounts prepared using recognition and measurement rules of EU-IFRS but without the full disclosure requirements
- Who can use the reduced disclosure framework?
  - Can be used in the individual financial statements of qualifying entities i.e. members of a group that prepares publically available consolidated financial statements
  - Charities are excluded and cannot use FRS 101
- What are the benefits?
  - Disclosure exemptions covering many different areas including financial instruments, share-based payment, impairment, fair values, related parties
  - The disclosure exemptions are taken on an individual basis

FRS 102 The Financial Reporting Standard The basics

- To be used by the majority of large and medium sized reporting entities
- FRS 102 is NOT the complete adoption of the IFRS for SMEs in the UK
- However it is a step closer to aligning UK GAAP to IFRS
- It is a simplified version of UK GAAP, in one volume, easy to understand and navigate

FRS 102 The Financial Reporting Standard Relationship with IFRS for SME

- Additional content in FRS 102 for issues not covered in IFRS
- FRS 102 has more options than the IFRS for SMEs
- Includes issues of relevance to public benefit entities
- Additional content for matters anticipated to be changed in the IFRS for SMEs in the future
- Formats cross referenced to CA 2006
- Requirement to consolidate and exclusions based on CA 2006

IFRS 102 The Financial Reporting Standard Differences from current UK GAAP

Investment properties

- to be carried at fair value with gains / losses recognise in profit

Intangible assets

- to be recognised separately from goodwill in a business combination

Goodwill and intangibles

- Useful life will not exceed 5 years when no reliable estimate can be made

Lease classification

- will not be subject to the “90% rule”

Deferred tax liabilities

- New liabilities likely to arise and amended measurement basis

IFRS 102 The Financial Reporting Standard Differences from current UK GAAP

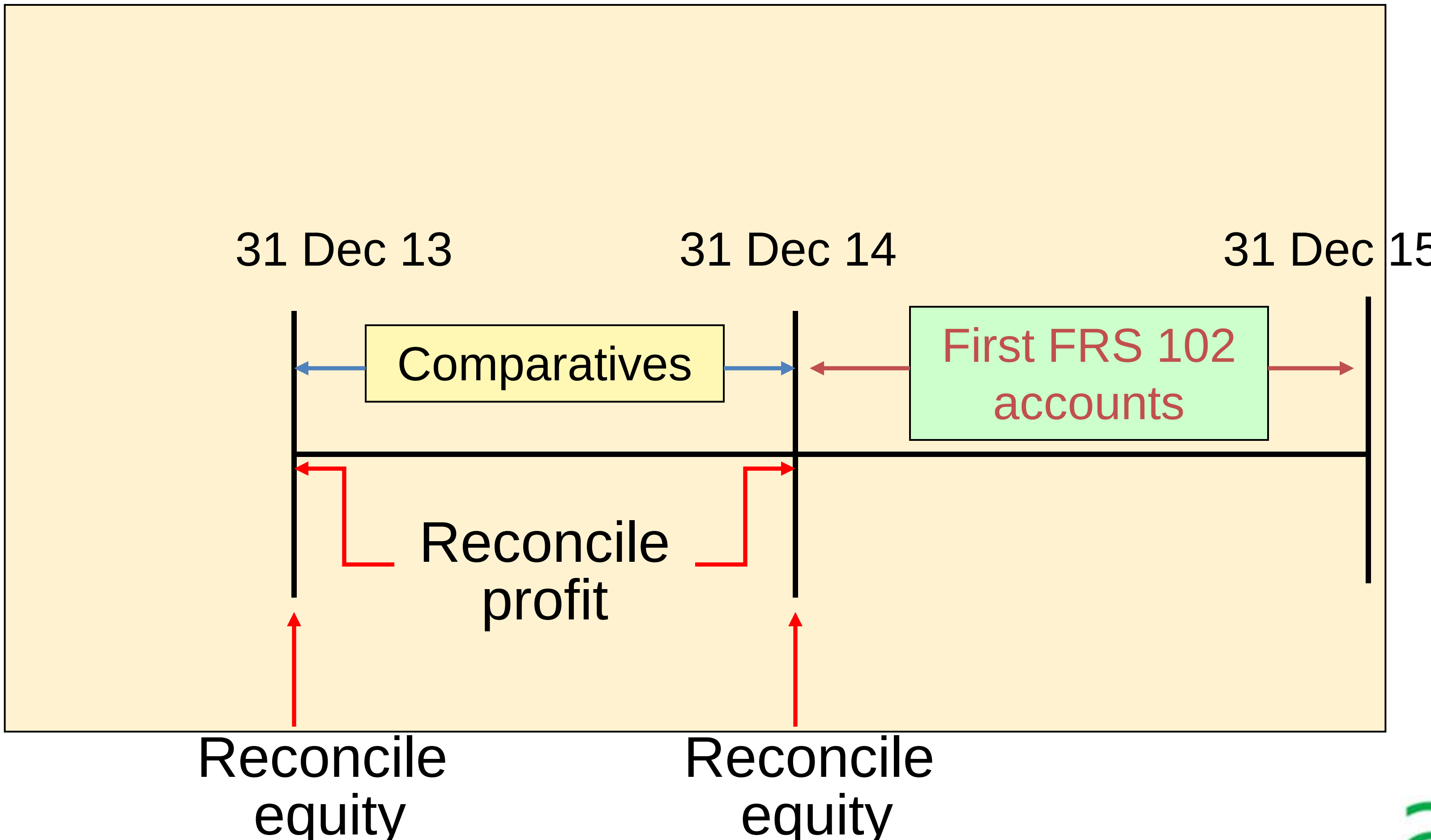
- Balance Sheet = Statement of Financial Position
- Profit and Loss Account = Statement of Comprehensive Income/Income Statement/Statement of Profit or Loss
- Statement of Recognised Gains and Losses = Statement of Changes in Equity
- Cash Flow Statement = Statement of Cash Flows
- Minority Interests = Non-Controlling Interests

FRS 102 The Financial Reporting Standard First time adoption

- First thing to do is to identify the ‘date of transition’.
- Date of transition is the *start* of the *earliest* period reported in the financial statements

Effective dates and transition

Additional disclosures are required in the first FRS 102 compliant accounts

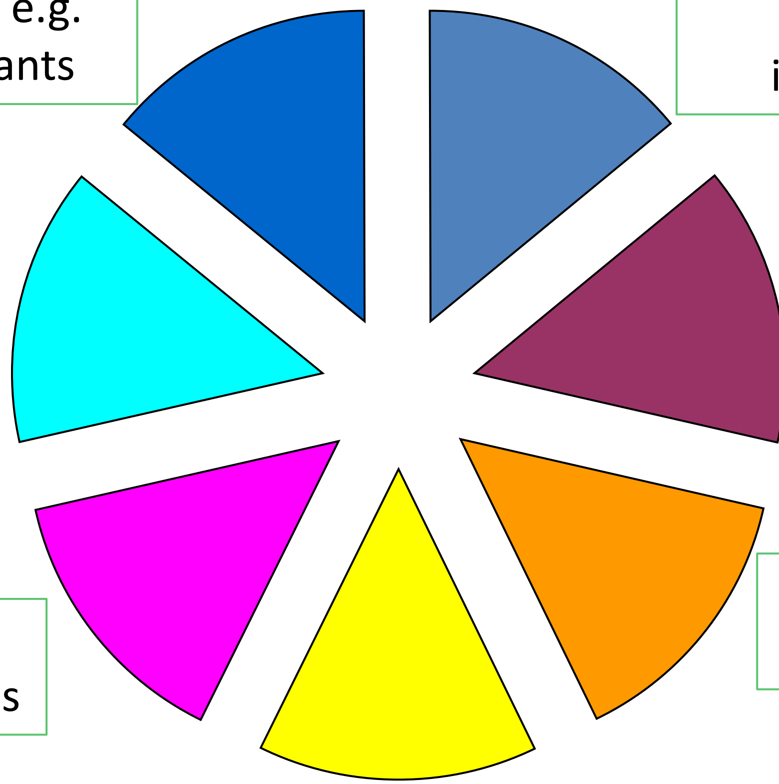


FRS 102 First time adoption

Process of first-time adoption involves:

- Recognising all assets and liabilities whose recognition is required by this FRS.
- Not recognising items as assets and liabilities if this FRS does not permit such recognition.
- Reclassifying items that it recognised under its previous FR framework as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity under this FRS; and
- Applying this FRS in measuring all recognised assets and liabilities.

FRS 102 First time adoption Practical matters to consider



Other issues to be aware of

The future of the FRSSE

Simpler financial reporting for Micro-entities

Any questions?

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