AAT Webinar

- Hello and welcome to this CPD webinar on New UK GAAP FRS 101/102 Update
- We are due to start at 19:00. You should not have any sound at this stage. We will be doing a sound check at 18:55
- Please check your sound is working by selecting 'Meeting' in the top left corner and 'Audio setup wizard'
- If you have any questions during the webinar please use the Q&A panel on the right hand side and direct your questions to 'all panellists'.

Forthcoming events:

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New UK GAAP
FRS 101/102 Update

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Webinar overview

- UK GAAP now and in the future
- Main features of FRS 101 *Reduced Disclosure Framework*
- FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* – notable differences
- How to prepare for a transition to FRS 102

UK GAAP now and in the future

- UK GAAP undergoing sweeping changes as we move onto IFRS-based frameworks.
- FRS 102 for medium-sized and large companies comes into mandatory effect for accounting periods **commencing on or after** **1 January 2015** (earlier adoption permissible).
- Listed and AIM-listed companies will still report under EU-adopted IFRS.

UK GAAP now and in the future

- UK GAAP this year will be structured as follows:
  - FRS 100 *Application of Financial Reporting Requirements*
  - FRS 101 *Reduced Disclosure Framework*
  - FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*
  - FRS 103 *Insurance Contracts*
  - FRS 104 *Interim Financial Reporting*
  - FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime*

Main features of FRS 101

- FRS 101 offers a reduced disclosure framework for qualifying subsidiaries reporting under IFRS.
- Qualifying entity is one which:
  - Is a member of a group where the parent prepares publicly available consolidated accounts which are intended to give a true and fair view; and
  - The subsidiary is included in the consolidated accounts.
- Charities may not take advantage of FRS 101.

Main features of FRS 101

- Disclosure exemptions under FRS 101 in the subsidiary accounts include:
  - Cash flow statement
  - Share-based payment transactions
  - IFRSs issued but not effective
  - Impairment
  - Business combinations
  - Discontinued operations
  - Financial instruments
  - Fair value measurement
  - Related parties
  - Comparative information
  - Capital management

Main features of FRS 101

- For disclosures which the subsidiary takes exemption, equivalent disclosures must be made in the group accounts.
- Objective, therefore, is to reduce the disclosure levels in the individual financial statements of the subsidiary.

FRS 102 – notable differences

- FRS 102 is based on *IFRS For SMEs*.
- Introduces new accounting methodologies and disclosure requirements.
- Small entities are to be brought under the scope of FRS 102 (with disclosure reductions) for accounting periods **commencing on or after** **1 January 2016.**
- Notable differences between ‘old’ GAAP and FRS 102 include:

FRS 102 – notable differences

- Cash flow statement
- Deferred tax
- Investment properties
- Financial instruments
- Stock
- Employee benefits

FRS 102 – notable differences: cash flow statement

- FRS 1 contains 9 cash flow cash classifications.
- Section 7 of FRS 102 only contains 3 classifications, being:
    - Operating activities
    - Investing activities
    - Financing activities
- Hence significant presentational differences – e.g. corporation tax paid = operating activities unless some of the corporation tax can be attributed to investing/financing activities.

FRS 102 – notable differences: deferred tax

- The timing difference approach to deferred tax calculations is carried over into FRS 102 but under a timing difference plus approach.
- The 'plus' part builds on existing deferred tax requirements but removes some of the exemptions contained in FRS 19, hence under Section 29 deferred tax will now be applied to:
  - Revaluations of non-monetary assets (including investment property)
  - Fair values in business combinations
  - Unremitted earnings

FRS 102 – notable differences: investment property

- Fair value gains and losses on investment property go straight to P&L rather than a revaluation reserve.
- Deferred tax is calculated on revalued investment property.
- No exemption from treating property rented out to group members in FRS 102 as is found in SSAP 19.
- Can treat investment property as property, plant and equipment if obtaining fair values results in 'undue cost or effort' although this is likely to be rare.

FRS 102 – notable differences: financial instruments

- Two sections in FRS 102: Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instruments Issues*.
- Basic loans will be accounted for using the amortised cost method and effective interest rate method (different than under current methods).
- Complex instruments (e.g. derivatives) are recognised on the balance sheet under FRS 102, hence a company entering into forward foreign currency contracts will need to recognise a derivative on the balance sheet (not done under current GAAP).

FRS 102 – notable differences: stock

- Lower of cost and NRV principles still carried over into FRS 102 (although NRV = estimated selling price less costs to complete and sell).
- LIFO method of stock valuation is prohibited under FRS 102 and hence an alternative method needs to be used by a reporting entity adopting this method.

FRS 102 – notable differences: employee benefits

- Accruals need to be made for short-term employee benefits accrued by the balance sheet date but not paid until the subsequent accounting period.
- Typical example of this = unpaid holiday pay.

How to prepare for a transition to FRS 102

- Understand the main differences between ‘old’ and ‘new’ GAAP.
- Undertake an impact assessment for your clients, including:
  - Reviewing accounting policies to ensure they are FRS 102-compliant
  - Considering the impact of a transition on previously declared dividends
  - Considering any loan covenants which may be in existence
  - Considering the tax implications (HMRC Overview Paper)

How to prepare for a transition to FRS 102

- FRS 102 must be applied as far back as the **date of transition**.
  - 31 December 2015 = year-end
  - 31 December 2014 = comparative year
  - 1 January 2014 = start of the comparative year
  - 1 January 2014 = date of transition
- Prepare an opening FRS 102 balance sheet as at 1 January 2014 (e.g. essentially adjusting the 2013 closing trial balance).

How to prepare for a transition to FRS 102

- Smaller companies which will be affected by FRS 102 Section 1A and FRS 105 will also have to apply the new standards as far back as the DOT.
- Need to advise clients going to be affected that previously reported accounts are likely to change as a result.
- Understand the tax implications of a transition.
- Any errors noted during the transition CANNOT be corrected as a transitional adjustment – must be distinguished from transitional adjustments.

How to prepare for a transition to FRS 102

- Within Section 35 *Transition to this FRS* are four mandatory exemptions from retrospective application which must be applied.
- In addition there are 18 optional exemptions from retrospective application and you can take advantage of all, none or some of them (e.g. revaluation as deemed cost on transition).

Additional information

- Monthly articles on FRS 102 and the new small companies' regime are written in the AAT's *CPD Interactive* zone on the website.
- Small company FRS 102 related issues are being covered in the Annual Conference on Friday 15 May 2015 by myself.

Webinar close

Thank you for attending this webinar, this webinar has been recorded are will be available to watch on CPD Interactive shortly.

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