The new UK GAAP

A major change in financial reporting

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Introduction

Major change will soon be upon us! The new UK GAAP in the form of FRS 102 and related standards will be mandatory for accounts periods commencing no later than 1 January 2015. For a company with a 31 December year-end, this means a transition date of 1 January 2014, now less than six months away! Companies will need to review assets and liabilities at this date, both as regards recognition as well as measurement.

This review needs to establish whether full retrospective application will be required, or whether transition exemptions may be available.

In addition, groups will need to consider the reduced disclosure requirement options for the individual financial statements of the parent company and its subsidiaries.

The three new FRSs under new UK GAAP

FRS100 sets out the new financial reporting framework for the UK and Republic of Ireland, and lists the existing FRSs, SSAPs and UITF Abstracts which will eventually be superseded by the new UK GAAAP.

FRS 101 sets out disclosure concessions for the individual accounts of certain parents and subsidiaries - this is further referred to below. Note that this FRS is optional.

FRS 102 is effectively a set of 35 'mini-standards' dealing with all the key reporting areas, for example inventories, business combinations, financial instruments, and deferred tax.

The Regulations to CA 2006

The Regulations to Companies Act 2006 (The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008)) will apply to the new UK GAAP to the same extent as they apply to existing UK GAAP. This will affect financial statement formats as well as note disclosures.

When does the new UK GAAP come into effect?

For all entities within its scope – including both commercial organisations and 'Public Benefit Entities' (PBEs) – the new standards will become mandatory for accounting periods beginning on or after 1 January 2015. However, earlier adoption is permitted in most cases. In the first period of adoption, comparatives will need to be restated in accordance with the new requirements.

What will happen to existing accounting standards?

All existing standards will be withdrawn and replaced by the new UK GAAP, with two exceptions:

- FRS 7, Life assurance, will be retained until the proposed FRS 103 is finalized;
- The Financial Reporting Standard for Smaller Entities will be available in revised form – FRRSE (effective January 2015) for those small companies who wish to adopt it.

Although all other standards and UITF Abstracts will be withdrawn in their existing form, several elements of existing requirements will be incorporated within parts of FRS 100 and FRS 102.

What about Statements of Recommended Practice (SORPs)?

Most existing SORPs will be retained subject to updating and revision to ensure compatibility with FRS 102.

Who will be affected by the changes?

The new UK GAAP will eventually have to be adopted by a potentially diverse range of entities, unless they choose to adopt EU-endorsed International Financial Reporting Standards (IFRS), including:

- Medium-sized companies and groups;
- Large companies and groups;
- Unlisted financial institutions;
- Small companies who do not adopt the FRSSE;
- Public Benefit Entities (PBEs).

IFRS will continue to be mandatory for consolidated financial statements of fully-listed and AIM-listed entities, but not for the individual accounts of parent companies and subsidiaries within those groups.

How different will it be compared with existing requirements?

Large parts of FRS 102, dealing for example with inventories, property, plant and equipment and business combinations, are broadly similar to existing GAAP. However, there are many parts of FRS 102 which will bring in changed or new requirements, for example the sections dealing with financial instruments, deferred tax, investment properties and specialised activities.

What will become clearer once different entities have assessed the likely impact of the new requirements is the extent to which different entities are affected. Many entities with relatively straight-forward business transactions may find the impact slight, possibly extending only to changed format and disclosure requirements. On the other hand, some large groups with complex overseas operations and complex financial instruments will need to study the new requirements very carefully.

In summary, the likely impact of the new regime will vary according to size, nature and complexity of the particular business or entity.

What concessions will be available to individual accounts of parents and subsidiaries?

Disclosure concessions fall into two categories – the choice between the two will depend on several factors, including whether the relevant consolidated financial statements are prepared on the basis of UK GAAP or EU-endorsed IFRS.

The two alternative reduced disclosure requirement options are:
- FRS 102, Section 1
- FRS 101.

In both categories, disclosure concessions are available to 'qualifying entities' – essentially parent companies and subsidiaries which are part of groups which prepare and present consolidated financial statements which are publicly-available.

Each set of concessions is available irrespective of whether group consolidated financial statements are prepared on the basis of K GAAP or EU-endorsed IFRS, but the extent of the concessions depends on whether or not the qualifying entity is a financial institution.

FRS 102, Section 1

The main disclosure concessions, including exemption from presenting a cash flow statement, and financial instruments disclosures may be attractive to two types of groups:

- Groups which currently adopt UK GAAP for the consolidated accounts, as well as for the individual accounts of parent company and subsidiaries;
- Groups which currently adopt IFRS for the consolidated accounts (either on a mandatory or voluntary basis) but which currently adopt UK GAAP for the individual accounts of parent and subsidiaries.

The recognition and measurement requirements for the group and for individual members of the group will be based on those in FRS 102.

FRS 101

The main disclosure concessions are different in detail from those under FRS 102, but follow a broadly similar approach.

These concessions may be attractive to some groups which currently adopt EU-endorsed IFRS throughout the group.

FRS 101 allows groups to have broadly consistent recognition and measurement policies throughout the group, but these are based on IFRS. Qualifying parents and subsidiaries will be able to benefit from reduced disclosure requirements.

Note that FRS 101 is regarded as part of UK GAAP – it is modified IFRS, not EU-endorsed IFRS. So the group's consolidated financial statements must comply with EU-endorsed IFRS, and so be drawn up on the basis of IAS 1. Individual financial statements prepared in accordance with FRS 101, however, must comply with the format requirements of the Regulations to CA 2006.

What issues are likely to cause particular difficulties?

The following are examples of some of the areas where FRS 102 may cause problems due to differences compared with existing UK GAAP:

- Financial instruments;
- Deferred tax;
- Investment property;
- Agriculture;
- Useful lives of goodwill and intangibles;
- Public benefit entities ;
- Foreign currency translation;
- Transitional arrangements.

Will the financial statements look different? And will there be more to disclose?

There will be some changes to the presentation of the financial statements, but not as much as first envisaged. The formats for the balance sheet (statement of financial position) and profit and loss account (statement of comprehensive income and income statement) must comply with the requirements of the Regulations to CA 2006, as well as the particular requirements of Sections 3 to 6 of FRS 102.

The format of the statement of cash flows is quite different from that in FRS 1. In addition, the statement under FRS 102 should reconcile to cash and cash equivalents, as opposed to cash under FRS 1.

For many entities, the total amount of disclosure may not be significantly greater as compared with existing UK GAAP. However, several of the disclosure requirements are different in detail from the equivalent under existing UK GAAP, for example those relating to inventories and leasing commitments.

Actions!

Start preparing now! If you have a 31 December year-end and you do not adopt early, your first set of accounts under new UK GAAP will be for 2015. Comparatives for 2014 will need to be restated and carrying amounts of assets and liabilities at transition date (I January 2014 in this case) will need to be re-assessed in accordance with the new requirements. Section 35, Transition to FRS 102, will require particular attention.

More information

Get more information on this and a host of other current topics by attending the CCH annual *Update for the Accountant in Industry and Commerce* (AIC). Running over 2 days, this intensive update is both ACCA & CIMA accredited, providing a focussed and comprehensive summary of the key issues in tax, financial reporting and company law. Visit www.cch.co.uk/aic for all the details.

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