ICAEW FINANCIAL REPORTING FACULTY

UPDATED FAQ

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THE NEW UK GAAP

The Financial Reporting Faculty answers your initial questions on the new regime

The Financial Reporting Council (FRC) has published three new standards: FRS 100 *Application of Financial Reporting Requirements*, FRS 101 *Reduced Disclosure Framework* and FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, ushering in a new reporting regime for UK entities.

1. What are the new standards?

The FRC has published three standards:

- FRS 100 *Application of Financial Reporting Requirements*;
- FRS 101 *Reduced Disclosure Framework*; and
- FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

FRS 100 sets out the overall framework for financial reporting, explaining:

- which standards apply to which types of entity;
- when an entity can apply the reduced disclosure framework; and
- when an entity should follow a SORP.

It also includes certain transition arrangements.

FRS 101 sets out a reduced disclosure framework. Certain qualifying entities, which otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRSs, can elect to apply this reduced disclosure framework when preparing their individual financial statements.

FRS 102 introduces a single standard based broadly on the IFRS for SMEs.

2. How will the new regime affect me?

Under the new regime the reporting landscape will be very different, with financial reporting requirements depending on the nature and size of an entity. The greatest impact is likely to be for those entities formerly reporting under current UK GAAP.

Companies and other entities will need to consider where they fit within the new reporting regime, the options available to them, and the degree of change to their current reporting requirements.

The options available are summarised below:

	FRSSE	FRS 102	EU-adopted IFRS
Entities eligible for small companies regime	✓	✓	✓
Entities not small and not required to apply EU-adopted IFRS		✓	✓
Entities required to apply EU-adopted IFRS			✓

The majority of large and medium-sized UK entities will in future apply FRS 102 when preparing their annual financial statements. More specifically, the new standard will apply to all entities that are neither required nor elect to apply EU-adopted IFRSs, FRS 101's reduced disclosure framework or the FRSSE. Eligible entities will include public benefit entities, retirement benefit plans and financial institutions.

The new regime does not require any additional entities to report under EU-adopted IFRSs.

3. Are all existing UK standards withdrawn?

No. FRS 27 *Life Assurance* will be retained for the time being while the FRC undertakes a separate consultation on the future of insurance accounting. A separate standard, FRS 103, will address this area.

The FRSSE will continue to be available for small entities for the foreseeable future. It will, however, be reconsidered in the light of finalisation of the European Commission's proposals for small and micro companies. Its future is therefore uncertain.

4. Will FRS 102 bring UK GAAP in line with EU-adopted IFRSs?

No – but it will bring UK GAAP closer to EU-adopted IFRSs.

FRS 102 is based on the IFRS for SMEs, although the text has been amended in some significant respects, meaning that, in some ways, FRS 102 is not be as radically different from current UK GAAP as was originally expected. Nonetheless, some significant differences will arise.

5. What are the biggest differences between FRS 102 and current UK GAAP?

Which differences on transition will have the biggest impact will depend on the individual circumstances of each entity. Some of the key differences include:

- Introducing a new regime for financial instruments, in particular bringing all derivatives on balance sheet at fair value.
- Introducing new requirements for defined benefit pension plans, including bringing group plan deficits onto the balance sheet of at least one individual entity.
- Requiring investment properties to be carried at fair value with revaluation gains and losses recognised in profit or loss whenever fair value can be measured reliably without undue cost or effort.
- Requiring more intangible assets to be recognised separately from goodwill when there is a business combination.
- Requiring additional deferred tax to be recognised, for example on business combinations and on revaluations of property, plant and equipment and investment properties.
- Presuming that the useful life of goodwill and intangible assets shall not exceed five years when no reliable estimate can be made.
- Permitting merger accounting only for group reconstructions and certain business combinations involving public benefit entities.

6. Can I switch from using EU-adopted IFRS to using the new UK GAAP?

Yes – so long as you voluntarily apply EU-adopted IFRSs. If you are part of a group, certain consistency criteria must also be met.

7. How will small entities that currently apply the FRSSE be affected?

The FRSSE will continue to be available for those that qualify to use it and it will remain fundamentally unaltered for the time being. However, a number of consequential amendments to the FRSSE were made by FRS 100.

8. Will there be a separate standard for public benefit entities?

No. The FRC decided that requirements for ‘for profit’ entities and public benefit entities should be placed in a single standard. It no longer intends to publish a separate standard for public benefit entities.

9. What will happen to the SORPs?

Many of the existing SORPs will be updated to provide guidance on the application of FRS 102. However, some SORPs will be withdrawn when the new regime becomes effective.

10. Will there be any transitional relief on first-time adoption of FRS 102?

Yes. FRS 102 contains a number of exemptions that an entity can choose to apply on first-time adoption. These are designed to make the transition from current UK GAAP or EU-adopted IFRSs to the new standard more straightforward.

11. What is the reduced disclosure framework?

The new regime introduces an option for certain qualifying entities – which will include many subsidiaries and parent entities – that wish to apply the recognition and measurement requirements of EU-adopted IFRSs in their individual financial statements to take advantage of the new reduced disclosure framework. Similar disclosure exemptions are available for qualifying entities that adopt FRS 102.

12. When does the new regime apply?

The new standards are effective for periods beginning on or after 1 January 2015. Early adoption is generally permitted. However, early application of FRS 102 is restricted to accounting periods ending on or after 31 December 2012.

13. Are the new standards available online?

Yes. FRS 100, FRS 101 and FRS 102 can be downloaded from the FRC’s website.

14. Where can I find out more information?

More information can be found on the FRC’s website.

Further faculty resources on the new UK GAAP are available and others are under development. Details can be found at icaew.com/newukgaap.

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