**UK Technical Update**

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# Micro entity – changes to accounting requirements

These notes reflect the position at the time they written. It is likely there will have been developments by the time of the presentation. The presentation will update as required.

## Reminder and introduction

Measures to reduce burdensome accounting red tape for micro-businesses were confirmed on 9 September 2013. The effect will be that 1.5 million micro-entities will now be exempt from certain financial reporting requirements. These entities are subject to the same rules as other small companies. However, responses to the consultation in early 2013 showed that this was an unfair burden.

They will now be able to draw up an abridged balance sheet and profit and loss account. They will also continue to be exempt from the requirement to file the profit and loss account with Companies House.

The changes will come into force as soon as possible, and will apply to financial years ending on, or after, 30 September 2013 and related accounts filed on, or after, the date on which the changes come into force. On this basis it is likely the Regulations will be published after that date but will apply to year ends prior to 30 September for entities that have not yet filed with Companies House.

## Criteria

A micro-entity is defined as meeting two of the three following criteria (this has been taken from the BIS announcement on 9 September):

* Balance sheet total: £316,000
* Net turnover: £632,000
* Average number of employees during the financial year: 10 (or fewer)

The exemptions will be optional. It will be for owners and directors of micro-entities to assess the possible effect of reduced disclosures on their company and to decide which form of financial reporting statement – micro, small or full – best meets their needs.

## Requirements

Based on the original consultation the proposals considered the following:

### Abridged balance sheet and profit and loss account.

There would be a choice of balance sheet formats. The abridged balance sheet must consist of at least the following items.

|  |  |
| --- | --- |
| **Format 1** | **Format 2** |
| A. Called up share capital not paid | Assets |
| B. Fixed assets | A. Called up share capital not paid |
| C. Current assets | B. Fixed assets |
| D. Creditors: amounts falling due within one year | C. Current assets |
| E. Net current assets (liabilities) | Liabilities |
| F. Total assets less current liabilities | A. Capital reserves |
| G. Creditors: amounts falling due after more than one year | B. Provisions for liabilities |
| H. Provisions for liabilities | C. Creditors |
| I. Capital and reserves |  |

The abridged profit and loss account will show separately at least the following items, where applicable:

(i) net turnover

(ii) other income

(iii) cost of raw materials and consumables

(iv) staff costs

(v) value adjustments

(vi) other charges

(vii) tax

(viii) profit or loss

Accounts prepared in accordance with the requirements relating to micro-entities will be deemed to give a true and fair view of the undertaking’s financial position. Further consideration will be given to appropriate accounting standards.

### Exemption from the obligation to draw up notes to the accounts

Exempt micro-entities from the requirement to draw up notes to the accounts provided that certain information is disclosed at the foot of the new abridged balance sheet format, as follows.

###### All commitments by way of guarantees of any kind

###### Advances and credits to directors including guarantees and commitments entered into on their behalf

###### Acquisition of own shares

### Exemption from the obligation to file a copy of the annual accounts

The Directive allowed micro-entities to submit financial data in the format that the company thought most appropriate, instead of having to file the information in the fixed form of a copy of the Balance Sheet. This would mean micro-entities would supply only the line items in the new abridged balance sheet preceded by a capital letter.

### Directors’ Report

In the original consultation it was noted that micro-entities would be required to prepare and send a copy of its Directors’ report to members of the company, but not file the Directors’ Report.

### Exemption from the obligation to present “prepayments and accrued income” and “accruals and deferred income”

The Directive explained that the calculation of prepayments and accrued income, and accruals and deferred income can be burdensome for micro-entities. Therefore, micro-entities should be exempt from presenting such items. The announcement from BIS clearly indicates that this proposal **will not be enacted** and that micro entities in the UK will continue to account for these transactions on the basis of current GAAP.

### Exemption from the obligation to recognise “prepayments and accrued income” and “accruals and deferred income”

This would have exempted micro-entities from recognising charges other than the cost of raw materials and consumables, value adjustments, staff costs and tax as “prepayments and accrued income” or “accruals and deferred income”. The announcement from BIS clearly indicates that this proposal **will not be enacted** and that micro entities in the UK will continue to account for these transactions on the basis of current GAAP.

# The Companies Act 2006 (Strategic Report and Directors’ Report) Regulations 2013

## Introduction

These Regulations have effect in respect of financial years ending on or after 30th September 2013. The regulations amend CA 2006 by the introduction of a new chapter – “Chapter 4A Strategic report” placed before Chapter 5 Directors’ report. The regulations require all companies other than those entitled to the small companies exemption to prepare a strategic report.

(A company is entitled to the small companies exemption in relation to the strategic report if it is entitled to prepare accounts for the year in accordance with the small companies regime, or it would be so entitled but for being or having been a member of an ineligible group. This is the same as the small companies exemption concerning the directors’ report which is contained in S415A of CA 2006.)

The strategic report must be approved by the board of directors and signed on behalf of the board by a director or the secretary of the company.

The strategic report replaces the business review and therefore the obvious first impact of these regulations is that S417 dealing with the business review will no longer exist. However, for medium-sized companies there is very little difference between the requirements of S414C and the existing requirements under S417. I have repeated these requirements in the first sub-section below since they are frequently dealt with badly in practice. For quoted companies, the strategic report repeats most of the existing requirements and adds some new requirements. The requirements for quoted companies over and above those for other companies are listed below.

There are some changes affecting all companies including small companies and these are covered in the final sub-section below.

The FRC is expected to issue an exposure draft of guidance on the strategic report in the near future.

## The strategic report for medium-sized companies

The purpose of the strategic report is to inform members of the company and help them assess how the directors have performed their duty under section 172 (duty to promote the success of the company).

The strategic report must contain a fair review of the company’s business, and a description of the principal risks and uncertainties facing the company. The review required is a balanced and comprehensive analysis of the development and performance of the company’s business during the financial year, and the position of the company’s business at the end of that year, consistent with the size and complexity of the business.

The review must, to the extent necessary for an understanding of the development, performance or position of the company’s business, include analysis using financial key performance indicators. “Key performance indicators” means factors by reference to which the development, performance or position of the company’s business can be measured effectively.

As at present, the report must, where appropriate, include references to, and additional explanations of, amounts included in the company’s annual accounts.

In relation to a group strategic report, references to the company have effect as if they were references to the undertakings included in the consolidation.

Nothing in S414C requires the disclosure of information about impending developments or matters in the course of negotiation if the disclosure would, in the opinion of the directors, be seriously prejudicial to the interests of the company.

All of the above are identical to the existing requirements of S417.

S414C(11) adds the comment that the strategic report may also contain such of the matters otherwise required by regulations made under section 416(4) to be disclosed in the directors’ report as the directors consider are of strategic importance to the company.

This sub-section raises the question as to whether companies required to prepare a strategic report might be able to dispense with a directors’ report. However, these hopes are dashed by the amendment to schedule 7 of the accounts regulations for large and medium-sized companies which says in paragraph 1A:

“Where a company has chosen in accordance with section 414C(11) to set out in the company’s strategic report information required by this Schedule to be contained in the directors’ report it shall state in the directors’ report that it has done so and in respect of which information it has done so.”

## The strategic report for large companies

Large companies must meet all of the requirements for medium-sized companies as shown above. In addition, the analysis using key performance indicators must include non-financial key performance indicators, including information relating to environmental matters and employee matters.

## Other changes affecting the directors’ report

With effect from financial years ending on or after 30th September, the directors' report need no longer state:

* The principal activities of the company in the course of the year. Note, however, that paragraph 3.24 of FRS 102 requires disclosure of a description of the nature of the entity’s operations and its principal activities, unless this is disclosed in the business review (or similar statement) accompanying the financial statements.
* The difference between balance sheet value and market value of land.
* The amount of charitable donations.
* The disclosures required where a company purchases its own shares except in the situation where the company is a public company.
* The policy and practice on payment of creditors

Quoted companies will be required to present new disclosures concerning greenhouse gas emissions.

# FRS 100: APPLICATION OF FINANCIAL REPORTING REQUIREMENTS

## The new framework

FRS 100 was published in November 2012. It applies to entities in the United Kingdom and Republic of Ireland and is compulsory for accounting periods beginning on or after 1 January 2015. It may be adopted before then as long as early adoption is disclosed.

On application of FRS100, all existing SSAPs, FRSs and UITF Abstracts are withdrawn except for FRS 27: Life Assurance.

Financial statements (whether consolidated financial statements or individual financial statements) that are required by the IAS Regulation or other legislation or regulation to be prepared in accordance with EU-adopted IFRS, must continue to be prepared in accordance with those requirements. FRS 100 is not relevant to such financial statements.

FRS 100 is consistent with the previous exposure draft (FRED 46) in setting out the following framework for the preparation of financial statements intended to give a true and fair view:

1 An entity eligible to apply the FRSSE, may continue to do so;

2 An entity not eligible to apply the FRSSE (or an entity that is eligible to apply the FRSSE but chooses not to do so) must prepare financial statements in accordance with:

a. FRS 102;

b. EU-adopted IFRS; or

c. if the financial statements are the individual financial statements of a qualifying entity, FRS 101.

The financial statements must contain a statement indicating compliance with one of FRS 101, FRS 102 or FRSSE.

# FRS 101: REDUCED DISCLOSURE FRAMEWORK

## Introduction

The starting point for FRS 101 is the definition of a qualifying entity:

“A member of a group where the parent of that group prepares publicly available consolidated financial statements which are intended to give a true and fair view (of the assets, liabilities, financial position and profit or loss) and that member is included in the consolidation.”

A footnote refers to S474(1) of CA 2006 which indicates that inclusion must be by the method of full consolidation not proportional consolidation.

A charity may not be a qualifying entity.

FRS 101 sets out disclosure exemptions for the individual financial statements of qualifying entities.

The exemptions apply to subsidiaries, intermediate parents and ultimate parents in their individual financial statements. The exemptions are not available in consolidated financial statements be they the group accounts for the entire group or any sub-group even if these group accounts are prepared voluntarily.

## Conditions

There are three conditions that apply to any entity wishing to take advantage of the reduced disclosures in FRS 101:

1. Its shareholders must be notified in writing and do not object to the use of the disclosure exemptions.

2. It otherwise applies as its financial reporting framework the recognition, measurement and disclosure requirements of EU-adopted IFRS.

3. It discloses in the notes to its financial statements a brief narrative summary of the disclosure exemptions adopted and the name of the parent of the group in whose consolidated financial statements its financial statements are consolidated, and from where those financial statements may be obtained.

Notes on above conditions:

1. The immediate parent of the entity may object. Otherwise, objections may be made by a shareholder or shareholders holding in aggregate 5% or more of the total allotted shares in the entity or more than half of the allotted shares in the entity that are not held by the immediate parent.

2. The requirements of EU-adopted IFRS must be amended where necessary in order to comply with CA 2006 and The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. This is necessary because the financial statements prepared by the company under FRS 101 are Companies Act accounts not IAS accounts. Application Guidance in FRS 101 sets out the necessary amendments.

3. A qualifying entity may apply the reduced disclosure framework regardless of whether the financial reporting framework applied in the consolidated financial statements of the group is based on IFRS.

# Transition

## From current UKGAAP to FRS 102

It is not possible to cover all the differences between current UKGAAP and FRS 102. Reference would have to be made to each section. The transition from UKGAAP to FRS 102 is covered in section 35 of FRS 102.

### Scope

Section 35 applies to a first time adopter of the FRS regardless of the previous framework adopted. Therefore it would apply to:

* An entity changing from EU adopted IFRS to FRS 102
* An entity required to adopt FRS 102 from current UKGAAP
* An entity required to adopt FRS 102 as it is no longer eligible to adopt the FRSSE

Therefore this section is not only applicable from 2015, it would be relevant in future periods if there is a change of circumstances.

### Statement of Principles

1 This Statement of Principles for Financial Reporting sets out the principles that the Accounting Standards Board believes should underlie the preparation and presentation of general purpose financial statements.

5 The Statement of Principles is not an accounting standard, nor does it have a status that is equivalent to an accounting standard. It therefore does not contain requirements on how financial statements should be prepared or presented.

FRS 100.15 states that the SoP is withdrawn on adoption of the new standards. Whilst the SoP were not mandatory they were useful in interpreting many aspects of the standards, e.g. definition of an asset, definition of a liability. In future the only guidance will that contained in FRS 102 which in many instances is not as detailed as that currently in the SoP.

### The transition date

The transition date is the beginning of the earliest period for which the entity presents comparative information. In the UK this will be the start of the previous period as generally only one year is shown as comparative information. For example an entity with a December year end, and assuming no early adoption, would have a transition date of 1 January 2014.

FRS102.35.7 requires the entity to prepare an opening statement of position as of the date of transition. There is no requirement for this statement to be presented. Due to the differences between FRS 102 and current UKGAAP it is likely that this opening statement of position will be different to that which existed previously. The follow up to that is that the closing statement of position (balance sheet) will be different to that presented in the previous year. There would also be an impact on the other statements required under FRS 102, namely the statement of comprehensive income (profit and loss account), statement of changes in equity, statement of cash flows and supporting notes. For example, a company with a 31 December year end would have published its financial statements for 2014 under UKGAAP. The corresponding amounts in the 2015 financial statements will be in accordance with FRS 102 and may be different to those previously published.

FRS 102.35.13 requires disclosure relating to accounting policies and reconciliations to be included in the first financial statements prepared under the standard.

**Explanation of transition to this FRS**

35.12 An entity shall explain how the transition from its previous financial reporting framework to this FRS affected its reported financial position and financial performance.

**Reconciliations**

35.13

(a) A description of the nature of each change in accounting policy.

(b) Reconciliations of its equity determined in accordance with its previous financial reporting framework to its equity determined in accordance with this FRS for both of the following dates:

(i) The date of transition to this FRS; and

(ii) The end of the latest period presented in the entity's most recent annual financial statements determined in accordance with its previous financial reporting framework.

(c) A reconciliation of the profit or loss determined in accordance with its previous financial reporting framework for the latest period in the entity's most recent annual financial statements to its profit or loss determined in accordance with this FRS for the same period.

There is no example of how this information should be presented.

From a practical perspective there may be an issue in respect of this. Many software packages carry forward the values from the previous year to the current period. On transition opening values will need to be amended. What may be an issue is that the opening values requiring amendment are not at the start of the current period but at the start of the previous period. This may lead to additional costs.

### Procedures at the date of transition

35.7 Except as provided in paragraphs 35.9 to 35.11B, an entity shall, in its opening statement of financial position as of its date of transition to this FRS (i.e. the beginning of the earliest period presented):

(a) Recognise all assets and liabilities whose recognition is required by this FRS;

(b) Not recognise items as assets or liabilities if this FRS does not permit such recognition;

(c) reclassify items that it recognised under its previous financial reporting 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

(d) Apply this FRS in measuring all recognised assets and liabilities.

35.8 The accounting policies that an entity uses in its opening statement of financial position under this FRS may differ from those that it used for the same date using its previous financial reporting framework. The resulting adjustments arise from transactions, other events or conditions before the date of transition to this FRS. Therefore, an entity shall recognise those adjustments directly in retained earnings (or, if appropriate, another category of equity) at the date of transition to this FRS.

###### Example

Section 29 requires deferred tax to be recognised in respect of all timing differences unless the differences are permanent. For example, if an asset is revalued then there is timing difference in respect of the recognition of the gain and where a tax liability in respect of the profit would arise. This would include investment properties carried at fair value. UKGAAP only requires recognition of this liability if certain conditions are satisfied and as a result the inclusion of deferred tax in this area is very rare. Therefore any entity with revalued assets will need to account for the deferred tax at the transition date. It is likely that such gains are included in a revaluation reserve under UKGAAP and therefore the change may be viewed as simply transferring the tax element from the reserve to deferred tax. SI 410 Sch 1 Reg 35 permits transfers to and from the revaluation reserve in respect of taxation credited or debited to the reserve. However, some companies may have capitalised the reserve by the issue of shares to the members. In this situation there may not be sufficient amounts in the reserve in respect of the deferred tax and therefore retained earnings will need to be used. It should be noted that 35.8 above would permit this as the revaluation reserve is “an appropriate category”. If the statement of financial position is presented in accordance with current practice, i.e. capital and reserves only at the bottom then any movement may impact a third party’s’ view of the financial position of the entity. In the same respect deferred tax assets arising from depreciation being at a rate in excess of tax allowances are recognised under 29.8. Unlike FRS 19 there are no other considerations for this asset.

### Changes which are not permitted

35.9 On first-time adoption of this FRS, an entity shall not retrospectively change the accounting that it followed under its previous financial reporting framework for any of the following transactions:

(a) Derecognition of financial assets and financial liabilities.

Financial assets and liabilities derecognised under an entity's previous accounting framework before the date of transition shall not be recognised upon adoption of this FRS. Conversely, for financial assets and liabilities that would have been derecognised under this FRS in a transaction that took place before the date of transition, but that were not derecognised under an entity's previous accounting framework, an entity may choose:

(i) To derecognise them on adoption of this FRS; or

(ii) To continue to recognise them until disposed of or settled.

(b) Hedge accounting:

An entity shall not change its hedge accounting before the date of transition to this FRS for hedging relationships that no longer exist at the date of transition. For hedging relationships that exist at the date of transition, the entity shall follow the hedge accounting requirements of Section 12 Other Financial Instruments Issues, including the requirements for discontinuing hedge accounting for hedging relationships that do not meet the conditions of Section 12.

(c) Accounting estimates.

(d) Discontinued operations.

(e) Measuring non-controlling interests:

The requirements:

(i) To allocate profit or loss and total comprehensive income between non-controlling interest and owners of the parent;

(ii) For accounting for changes in the parent's ownership interest in a subsidiary that do not result in a loss of control; and

(iii) For accounting for a loss of control over a subsidiary

shall be applied prospectively from the date of transition to this FRS.

### The exemptions

Entities may choose to use these or not.

35.10 An entity may use one or more of the following exemptions in preparing its first financial statements that conform to this FRS:

(a) Business combinations, including group reconstructions

A first-time adopter may elect not to apply Section 19 Business Combinations and Goodwill to business combinations that were effected before the date of transition to this FRS. However, if a first-time adopter restates any business combination to comply with Section 19, it shall restate all later business combinations. If a first time adopter does not apply Section 19 retrospectively, the first-time adopter shall recognise and measure all its assets and liabilities acquired or assumed in a past business combination at the date of transition to this FRS in accordance with paragraphs 35.7 to 35.9 or if applicable, with paragraphs 35.10(b) to (r) except for:

(i) intangible assets other than goodwill – intangible assets subsumed within goodwill shall not be separately recognised; and

(ii) goodwill – no adjustment shall be made to the carrying value of goodwill.

(b) Share-based payment transactions

A first-time adopter is not required to apply Section 26 Share-based Payment to equity instruments that were granted before the date of transition to this FRS, or to liabilities arising from share-based payment transactions that were settled before the date of transition to this FRS. Except that a first-time adopter previously applying FRS 20 (IFRS 2) Share-based Payment or IFRS 2 Share-based Payment shall, in relation to equity instruments that were granted before the date of transition to this FRS, apply either FRS 20 / IFRS 2 (as applicable) or Section 26 of this FRS at the date of transition.

(c) Fair value as deemed cost

A first-time adopter may elect to measure an:

(i) item of property, plant and equipment;

(ii) investment property; or

(iii) intangible asset which meets the recognition criteria and the criteria for revaluation in Section 18 Intangible Assets other than Goodwill

on the date of transition to this FRS at its fair value and use that fair value as its deemed cost at that date.

(d)Revaluation as deemed cost

A first-time adopter may elect to use a previous GAAP revaluation of an:

(i) item of property, plant and equipment;

(ii) investment property; or

(iii) intangible asset which meets the recognition criteria and the criteria for revaluation in Section 18 Intangible Assets other than Goodwill

at, or before, the date of transition to this FRS as its deemed cost at the revaluation date.

(e) [Not used]

(f) Individual and separate financial statements

When an entity prepares individual or separate financial statements, paragraphs 9.26, 14.4 and 15.9 require the entity to account for its investments in subsidiaries, associates, and jointly controlled entities either at cost less impairment or at fair value.

If a first-time adopter measures such an investment at cost, it shall measure that investment at one of the following amounts in its individual or separate opening statement of financial position, as appropriate, prepared in accordance with this FRS:

(i) cost determined in accordance with Section 9 Consolidated and Separate Financial Statements, Section 14 Investments in Associates or Section 15 Investments in Joint Ventures; or

(ii) deemed cost, which shall be the carrying amount at the date of transition as determined under the entity's previous GAAP.

(g) Compound financial instruments

Paragraph 22.13 requires an entity to split a compound financial instrument into its liability and equity components at the date of issue. A first-time adopter need not separate those two components if the liability component is not outstanding at the date of transition to this FRS.

(h) [Not used]

(i) Service concession arrangements – Accounting by operators

A first-time adopter is not required to apply paragraphs 34.12E to 34.16A to service concession arrangements that were entered into before the date of transition to this FRS. Such service concession arrangements shall continue to be accounted for using the same accounting policies being applied at the date of transition to this FRS.

(j) Extractive activities

A first-time adopter that under a previous GAAP accounted for exploration and development costs for oil and gas properties in the development or production phases, in cost centres that included all properties in a large geographical area may elect to measure oil and gas assets at the date of transition to this FRS on the following basis:

(i) Exploration and evaluation assets at the amount determined under the entity's previous GAAP.

(ii) Assets in the development or production phases at the amount determined for the cost centre under the entity's previous GAAP. The entity shall allocate this amount to the cost centre's underlying assets pro rata using reserve volumes or reserve values as of that date.

The entity shall test exploration and evaluation assets and assets in the development and production phases for impairment at the date of transition to this FRS in accordance with Section 34 Specialised Activities or Section 27 Impairment of Assets of this FRS respectively, and if necessary, reduce the amount determined in accordance with (i) or (ii) above. For the purposes of this paragraph, oil and gas assets comprise only those assets used in the exploration, evaluation, development or production of oil and gas.

(k) Arrangements containing a lease

A first-time adopter may elect to determine whether an arrangement existing at the date of transition to this FRS contains a lease (see paragraph 20.3A) on the basis of facts and circumstances existing at that date, rather than when the arrangement was entered into.

(l) Decommissioning liabilities included in the cost of property, plant and equipment

Paragraph 17.10(c) states that the cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period. A first-time adopter may elect to measure this component of the cost of an item of property, plant and equipment at the date of transition to this FRS, rather than on the date(s) when the obligation initially arose.

(m) Dormant companies

A company within the Companies Act definition of a dormant company may elect to retain its accounting policies for reported assets, liabilities and equity at the date of transition to this FRS until there is any change to those balances or the company undertakes any new transactions.

(n) Deferred development costs as a deemed cost

A first-time adopter may elect to measure the carrying amount at the date of transition to this FRS for development costs deferred in accordance with SSAP 13 Accounting for research and development as its deemed cost at that date.

(o) Borrowing costs

An entity electing to adopt an accounting policy of capitalising borrowing costs as part of the cost of a qualifying asset may elect to treat the date of transition to this FRS as the date on which capitalisation commences.

(p) Lease incentives

A first-time adopter is not required to apply paragraphs 20.15A and 20.25A to lease incentives provided the term of the lease commenced before the date of transition to this FRS. The first-time adopter shall continue to recognise any residual benefit or cost associated with these lease incentives on the same basis as that applied at the date of transition to this FRS.

(q) Public benefit entity combinations

A first-time adopter may elect not to apply paragraphs PBE34.75 to PBE34.86 relating to public benefit entity combinations to combinations that were effected before the date of transition to this FRS. However, if on first-time adoption a public benefit entity restates any entity combination to comply with this section, it shall restate all later entity combinations.

(r) Assets and liabilities of subsidiaries, associates and joint ventures

If a subsidiary becomes a first-time adopter later than its parent, the subsidiary shall in its financial statements measure its assets and liabilities at either:

(i) the carrying amounts that would be included in the parent's consolidated financial statements, based on the parent's date of transition to this FRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary; or

(ii) the carrying amounts required by the rest of this FRS, based on the subsidiary's date of transition to this FRS. These carrying amounts could differ from those described in (i) when:

(a) the exemptions in this FRS result in measurements that depend on the date of transition to this FRS; or

(b) the accounting policies used in the subsidiary's financial statements differ from those in the consolidated financial statements. For example, the subsidiary may use as its accounting policy the cost model in Section 17 Property, Plant and Equipment, whereas the group may use the revaluation model.

A similar election is available to an associate or joint venture that becomes a first-time adopter later than an entity that has significant influence or joint control over it.

However, if an entity becomes a first-time adopter later than its subsidiary (or associate or joint venture) the entity shall, in its consolidated financial statements, measure the assets and liabilities of the subsidiary (or associate or joint venture) at the same carrying amounts as in the financial statements of the subsidiary (or associate or joint venture), after adjusting for consolidation (and equity accounting) adjustments and for the effects of the business combination in which the entity acquired the subsidiary (or transaction in which it acquired the associate or joint venture). Similarly, if a parent becomes a first-time adopter for its separate financial statements earlier or later than for its consolidated financial statements, it shall measure its assets and liabilities at the same amounts in both financial statements, except for consolidation adjustments.

(s) Designation of previously recognised financial instruments

This FRS permits a financial instrument (provided it meets certain criteria) to be designated on initial recognition as a financial asset or financial liability at fair value through profit or loss. Despite this an entity is permitted to designate, at the date of transition to this FRS, any financial asset or financial liability at fair value through profit or loss provided the asset or liability meets the criteria in paragraph 11.14(b) at that date.

Goodwill arising before the transition date can continue to apply the UKGAAP requirements. FRS 102 requires that, unless a reliable estimate of the useful life can be made, then the life of goodwill and other intangible assets will not exceed 5 years. Therefore an entity with a December year end that makes an acquisition in 2013 can apply the UKGAAP requirements. Hence if the goodwill had a life of 20 years then this can continue to be applied. Whether this is a reliable estimate in the context of FRS 102 does not need to be considered. However, if the acquisition was made in 2014 then this is after the date of transition. If a reliable estimate can be made the previous estimate can continue to be used. If not then the life cannot exceed five years. This would be adjusted in the corresponding amounts.

The above only applies to goodwill. Other intangible assets are covered in section 18 for which there is no exemption. Therefore if an entity included an intangible separate from goodwill in a previous acquisition then the requirements of section 18 would apply. The inclusion of other intangibles in an acquisition is not normally encountered and for this reason this aspect may impact only a small number of entities.

Revaluation as deemed cost could be considered by any entity which has:

* Not revalued assets previously
* Has included assets at revaluation but wishes to change from a policy of revaluation

To use the exemption the asset has to be revalued before the date of transition. The term “deemed cost” means that the entity has not adopted a policy of revaluation and would apply the historical cost rules. This is similar to the provision that was included when FRS 15 was implemented in 2000. FRS 102 includes no disclosure requirement if this provision is used.

## From FRSSE (2008) to FRSSE (2015)

FRS100.11 states that entities transitioning to the FRSSE apply the transitional arrangements set out in the FRSSE. In practice this may be difficult as there are no specific transitional provisions in the FRSSE, either 2008 or 2015 (based on changes listed in FRS100).

The FRSSE does include transitional provisions in section 19 but these are more related to previous changes since the FRSSE was first introduced in 1997. They include the following:

* Elimination of goodwill against reserves
* Revaluation of fixed assets prior to 2000
* Separation of fixed assets applicable in 2000

FRS 100 indicates no amendment to the above, nor any additional provisions being added.

FRS 102 includes transitional provisions which have the effect of reducing the impact of changing from one framework to the other. For example, an entity using FRS 102 does not have to apply the new requirements in respect of goodwill to that which was acquired before the transition date (unless it chooses to apply the new requirements). Such transitional provisions do not appear to exist for transition from FRSSE 2008 to FRSSE 2015.

The differences between FRSSE 2008 and FRSSE 2015 are largely encompassed in three areas

* Life of intangibles
* Impairment reviews
* Related party definitions

On this basis an entity adopting FRSSE 2015 from FRSSE 2008 would make the necessary adjustments in the first year, and to comparatives if relevant.

### The gap – FRSSE 2008 vs UKGAAP, and FRS 2015 vs FRS 102

Currently the measurement differences between FRSSE 2008 and UKGAAP are restricted to a limited number of areas. In many instances the result under the FRSSE is identical to that under the standards. Entities currently changing form the FRSSE to the all the standards would need to address those changes but the change is unlikely to incur substantial time and expense.

The differences between FRSSE 2015 and FRS 102 are substantial and entities are likely to incur increased costs should this situation arise. This normally arises when the entity is no longer able to use the FRSSE due to it no longer fulfilling the requirements for small under the Cos Act 2006. If this situation is identified then prior planning would be essential as the measurement and disclosure differences will require changes to accounting policies and the comparative information in the first year.

### Life of an intangible asset

FRSSE 2015 indicates that, unless a reliable estimate of the useful life can be made, then the life of an intangible will not exceed 5 years. It is likely that under the previous provisions a longer life may have been used. Provided a reliable estimate can be made the previous estimate can continue to be used.

FRSSE 2015 indicates that all intangible assets have finite life. FRSSE 2008 indicated the same and limited the life to a maximum of 20 years.

FRSSE 2008.6.13 states that goodwill and intangible assets are depreciated over their useful economic lives. Useful economic life was defined as the period over which the entity expects to derive economic benefit from the asset.

# FRS 102: THE FINANCIAL REPORTING STANDARD APPLICABLE IN THE UK AND REPUBLIC OF IRELAND

## Section 3: Financial statement presentation

### Introduction

FRS 102 uses different terminology for financial statement headings but paragraph 3.22 tells us that ‘An entity may use titles for the financial statements other than those used in this FRS as long as they are not misleading’. For example:

* The statement of financial position can still be referred to as balance sheet (which some companies still do under full IFRS) in accordance with The Regulations.
* Where (as is commonly the case in practice) the entity presents two separate statements (Income statement and separate Statement of comprehensive income see below paragraph 5.7) then the first statement can still be called ‘Profit and loss account’ in accordance with The Regulations.

### Fair presentation

This is explained as the faithful representation of the effects of transactions, other events and conditions in accordance with the principles in Section 2. The application of FRS 102, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation of the financial position, financial performance and cash flows of the entity.

### Complete set of financial statements

A complete set of financial statements consists of:

* A statement of financial position as at the reporting date.
* Either:
* a single statement of comprehensive income for the reporting period displaying all items of income and expense recognised during the period including those items recognised in determining profit or loss (which is a subtotal in the statement of comprehensive income) and items of other comprehensive income. If there are no items of other comprehensive income then the ‘bottom line’ of the statement of comprehensive income is labelled ‘profit or loss’.
* or
* a separate income statement and a separate statement of comprehensive income. In this case, the statement of comprehensive income begins with profit or loss and then displays the items of other comprehensive income. If there are no items of other comprehensive income then it is acceptable to present just an income statement.
* A statement of changes in equity for the reporting period. In the circumstance where the only changes to equity during the periods arise from profit or loss, payment of dividends, corrections of prior period errors, and changes in accounting policy, the entity may present a single statement of income and retained earnings in place of the statement of comprehensive income and statement of changes in equity
* A statement of cash flows for the reporting period.
* Notes, comprising a summary of significant accounting policies and other explanatory information.

The financial statements and notes should be clearly identified and should be distinguished from other information in the same document. The following information must be displayed prominently and repeated as necessary:

* The name of the reporting entity and any change in its name since the end of the preceding reporting period.
* Whether the financial statements cover the individual entity or a group of entities.
* The date of the end of the reporting period and the period covered by the financial statements.
* The presentation currency.
* The level of rounding, if any, used in presenting amounts in the financial statements.

The following must be disclosed in the notes:

* The legal form of the entity, its country of incorporation and the address of its registered office (or principal place of business, if different from the registered office).
* A description of the nature of the entity’s operations and its principal activities unless this is disclosed in the business review (or similar statement) accompanying the financial statements.