CHARTERED ACCOUNTANTS
GROUP

Are you ready for New UK GAAP?

Our technical team at GMcG can help you prepare

As 2014 draws to a close, financial reporting prepares to undergo the largest overhaul in the last 40 years. At present, accounts are prepared under what is commonly known as UK GAAP, made up of a number of different accounting standards. These will be replaced by one accounting standard - FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland.

The new standard is compulsory for accounting periods beginning on or after 1 January 2015. However, with comparatives being required under the new rules, the transitional year is effectively for periods beginning on or after 1 January 2014.

So what does the implementation of FRS 102 mean for you? Well, you can expect financial statements to look different to those presented under current UK GAAP. The extent to which companies will have to restate their accounts will depend on the nature and complexity of their operations and the policies or valuation methods they currently adopt. Areas where the majority of changes are expected to be seen are:

- Investment properties
- Useful life of goodwill and intangibles
- Identification of intangibles on acquisition
- Defined benefit pension schemes
- Holiday and sickness pay accruals
- Complex financial instruments
- Deferred tax

More importantly perhaps, the new standard brings accounting changes that may have real commercial implications, including the quantum of tax payable and potential dilution of distributable profits. Careful planning is essential to ensure proper consideration is given to the period of transition to New UK GAAP.

Firstly, as a minimum you will need to consider where your company stands in relation to the new standard. Most companies, with the exception of those companies that prepare their financial statements under the financial reporting standard for small entities (FRSSE), will be affected by the change. Even where FRSSE is available for use, there is nothing to prevent a company choosing to adopt FRS 102. You should therefore consider if adopting FRS 102 will provide your company with any benefits not otherwise available under FRSSE.

Secondly, if changing to FRS 102, you will need to make some policy decisions as there are some one-off choices in accounting treatment available only when applying the new standard for the first time. By way of example:

- Property, plant and equipment, and investment properties can be revalued to fair value and this can be a one-off if you wish, replacing historic cost but with no ongoing requirement to obtain valuations.
- Leases in place on transition can either continue with existing treatment or adopt FRS 102 treatment, which may reclassify operating leases as finance leases.
- Lease incentives can also continue existing treatment or adopt FRS 102 treatment, which would require incentives, such as rent free periods, to be spread over the entire lease period rather than just to the first rent review of break clause.
- Business combinations can be restated to be split into constituent parts and amortised over their own useful life or existing treatment may be retained.

Accounting policies need careful consideration and any wider implications should be well thought-out so that potential opportunities are not missed, especially if there may be cash or tax advantages to adopting certain policies. Of course, choice in accounting policy is not always possible, but even where this is the case it is important to know the impact the adoption of the new standard will have on your financial statements. As a case in point, any borrowing arrangements such as banking covenants need to be reviewed to make sure there is no condition which is likely to be endangered by the accounting requirements of FRS 102.

Thirdly, you will need to find out if there are any changes to the kind of information that may need to be collected in advance of preparing accounts under FRS 102. For instance, the requirement to accrue holiday or sickness pay means that you will have to keep more detailed records to allow the accrual to be calculated. Further information may also be required for new disclosures introduced by FRS 102. You will need to review your systems to see if this information is being gathered and make necessary arrangements if needed.

Overall, it is very likely that the transition to FRS 102 will require extra time from management and therefore time needs to be set aside to consider all of the implications of FRS 102. We would recommend that a clear action plan that covers the following points is prepared so that issues are resolved in a timely manner.

1. Determine your transition date
2. Review all assets and liabilities for recognition, de-recognition or re-measurement at the transition date
3. Identify any prohibited restatements
4. Select any exemptions available
5. Prepare and present the required reconciliations and disclosures.

Would you like to discuss how we can help in your preparation?

Our technical team at GMcG are ready to guide you through the transition to FRS 102. We can carry out a review and help you assess the impact of FRS 102 on your company, ensuring you are aware of any potential benefits and helping to mitigate against any negative effects the new standard may have on your accounts.

Contact Kay Collins for further information at collinsk@gmcgca.com or on 028 9031 1113.