Bourner Bullock

Chartered Accountants

FRS 102

The Financial Reporting Standard applicable in the UK and Ireland

Earlier this year saw the publication of FRS 102 which is set to replace existing UK accounting standards (UK GAAP) and will lead to significant changes in many UK Companies' accounts.

What Is FRS102?

FRS 102 is the new accounting standard recently issued by the Financial Reporting Council (FRC) which will replace existing UK GAAP for all medium and large non-listed companies with periods beginning on or after 01 January 2015. It is applicable to public benefit entities such as charities as well as other entities; not just to companies.

The standard aims to provide entities with succinct financial reporting requirements based on the International Accounting Standards Board's (IASB) International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs).

It encompasses many elements of UK accounting standards you are already familiar with but it also contains important changes which may have a significant impact on the way you present your accounts.

Why Consider This Now?

The introduction of FRS 102 will lead to changes in the presentation of your accounts as well as the disclosures and figures presented within them. This may have implications beyond simply the accounts. For example where banking covenants are based on profit or balance sheet figures, changeover to FRS 102 could have both a positive or negative impact on these covenants.

Adoption of FRS 102 requires that all comparative figures be restated. The transitional provisions of the standard state that the opening balance sheet of the comparative period will be the transition date. In essence for accounts prepared to 31 December 2015 you need to consider how the impact of the new standard affects you as soon as 31 December 2013.

Early adoption is permitted and awareness of the changes now will allow you to plan for transition effectively.

What Are The Changes?

Some of the more significant changes cover areas including:

- ### Investment Properties

Under SSAP 19 all revaluation gains and most revaluation losses go directly to reserves. However under FRS 102 this type of reserve accounting is prohibited and all movements in investment property values will pass through the Profit and Loss Account.

Contact us and speak to a Partner for more information

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- ### Intangible Assets

Current UK GAAP requires intangible assets and goodwill to be amortized over a maximum of 20 years unless management can justify a longer useful life. The new standard requires that intangibles always have a finite life. If no reliable estimate can be made, then the useful life is subject to a maximum of just 5 years.

- ### Lease Accounting

Classification of a lease as a finance lease under current UK GAAP presumes that the present value of the minimum lease payments amounts to at least 90% of the value of the asset. This rule is not included in the new standard, which instead lists eight factors which may be indicative of a finance lease. This may mean the classification of some leases may change. Disclosures of finance leases will be enhanced with the requirement to give a narrative description of the arrangements contained within significant finance leases.

- ### Lease Incentives

FRS 102 requires lease incentives to be spread over the lease term which the company is expected to take advantage of, regardless of any break clauses included in the lease.

- ### Deferred Tax

Deferred tax remains to be calculated on a timing difference approach. However, FRS 102 also requires deferred tax to be provided on all revaluations and fair value adjustments on business combinations. This may be a subtle change, but it is likely to make the calculation of deferred tax more complex.

- ### Foreign Exchange and Forward Contracts

FRS 102 requires recognition of financial instruments that previously under current accounting standards are subject to disclosures only. A foreign exchange forward contract will be recognised on the balance sheet with the associated debtor or creditor being revalued at the year end.

- ### Inter-Company Loans

Where loans are provided at a reduced or discounted rate they will have to be discounted based upon a rate that you would pay on a similar instrument.

Contact us and speak to a Partner for more information

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