dte business advisers

THE NEW UK GAAP : FRS102

FRS 102 will replace all UK Financial Reporting Standards for medium and large non-listed companies. The Impact of its introduction may have a detrimental effect on many businesses as tax liabilities could rise, distributable reserves fall and bank covenants may be breached.

The Financial Reporting Council have replaced the current UK GAAP with FRS 102 – The Financial Reporting standard applicable in the United Kingdom and Ireland.

FRS 102, which is based on the International Reporting Standards for small and medium entities, is a comprehensive accounting standard that will replace all existing UK standards for all medium and large companies. It may also be adopted by small entities.

FRS 102 varies in a number of ways from the existing standards and therefore its introduction will have reporting and tax implications for many businesses.

Key dates

- Adoption will be mandatory for all financial years beginning on or after 1 January 2015.
- Early adoption is allowed.
- Comparative figures will need to comply and therefore the necessary changes will have to be considered when producing the accounts for the year ended 31 December 2014.
- To ensure that the opening position is correct, the company balance sheet as at 31 December 2013 will need to be restated.
- Transitional options and reliefs will be available.
  (please see overleaf for key accounting changes)

Further questions?

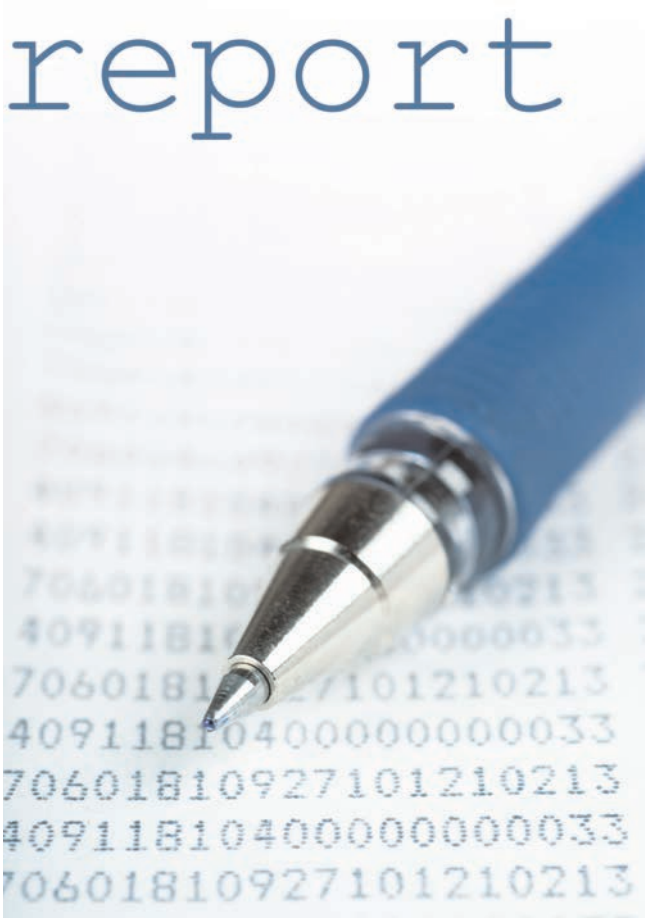
This summary only provides an introduction to the impact of the implementation of FRS 102. If you wish to discuss this further please call Fiona O'Loughlin or Richard Taylor on 0161 767 1200, alternatively, email foloughlin@dtegroup.com or rtaylor@dtegroup.com.

Wider implications

Consideration needs to be given to the wider implications so that these can be reviewed and action taken where required. The changes to reported results as a consequence of the new accounting treatments could result in the following:

- If loan covenants are calculated based on profit or balance sheet values then the changes could impact on the headroom or even lead to breaches of the covenants.
- Changes to reported profits will impact payments made under earn-outs or employee bonus schemes.
- For many companies there will be a cash tax impact where taxable profits rise.
- Accounting adjustments may impact the level of distributable reserves.

To be forewarned of these changes will enable you to make an early assessment of the impact on your company. This will enable you to take steps to manage any adverse effects or to take opportunities to increase distributable reserves where appropriate as a result of the changes.



Key Changes

The format and much of the terminology in the financial statement may change. Key accounting changes are noted below:

UK GAAP	FRS102	IMPACT
Deferred Tax		
The deferred tax element in respect of a re-valued property is disclosed in a note to the financial statements.	The deferred tax element in respect of a re-valued property is provided for within the financial statements through the profit and loss account.	Reduction in the reported profit for the period, net asset position and distributable reserves. Possible impact on financial covenants.
Intangible assets and goodwill		
Maximum life of 20 years but can be ignored if a longer life is justified.	All intangible assets have a finite life and if the length is not readily known then it is limited to 5 years.	Reduction in the net asset position and distributable reserves. Possible impact on financial covenants. Possible adjustment where there are existing amounts which are being written off over a longer period.
Investment properties		
Changes in the market value are reflected in the revaluation reserve and reported on the statement of recognised gains and losses.	Changes in the fair value are recognised in the profit and loss account.	Reported profit will fall or rise. Impact on financial covenants.
Lease Incentives		
Lease incentives such as a rent free period are spread across the period to the first rent review.	Lease incentives are spread over the full term of the lease.	Reduced profit in the period to the first rent free period with an increase thereafter.
Financial instruments		
Financial instruments such as forward exchange contracts are not currently recognised in the balance sheet and only disclosed in the notes to the financial statements.	Financial instruments such as forward exchange contracts will need to be recognised in the balance sheet at fair value and any movements recognised in the profit and loss reserve.	Reported profit may fall or rise. Possible impact on financial covenants.
Employee benefits		
No strict requirement for employees benefits to be accrued for.	All short term employee benefits such as holiday pay are accrued for in the financial statements.	Reported profit may fall. Reduction in distributable reserves. Possible impact on financial covenants.
Leases		
Numeric benchmark that if exceeded results in the capitalisation of a leased asset in the balance sheet.	More subjective and is likely to result in some leases previously treated as operating leases now being treated as finance leases and capitalised.	Reported profit may rise. Possible impact on financial covenants.
Investments in associates and joint ventures by parent companies		
Currently details will be disclosed in the accounts and the amounts will be included at the lower of cost and net realisable value.	The amounts will need to be accounted for using the equity method.	Reported profits may rise or fall. Possible impact on covenants.
Foreign currency transactions		
Transactions during the year can be translated at an average rate.	Transactions should be recorded at the spot rate.	Reported profits may rise or fall. Possible impact on covenants and accounting systems may need to be adapted to allow for the change.