



Technical Update for Career Breakers

SIZING UP THE NEW UK FINANCIAL REPORTING REGIME

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The UK financial reporting regime

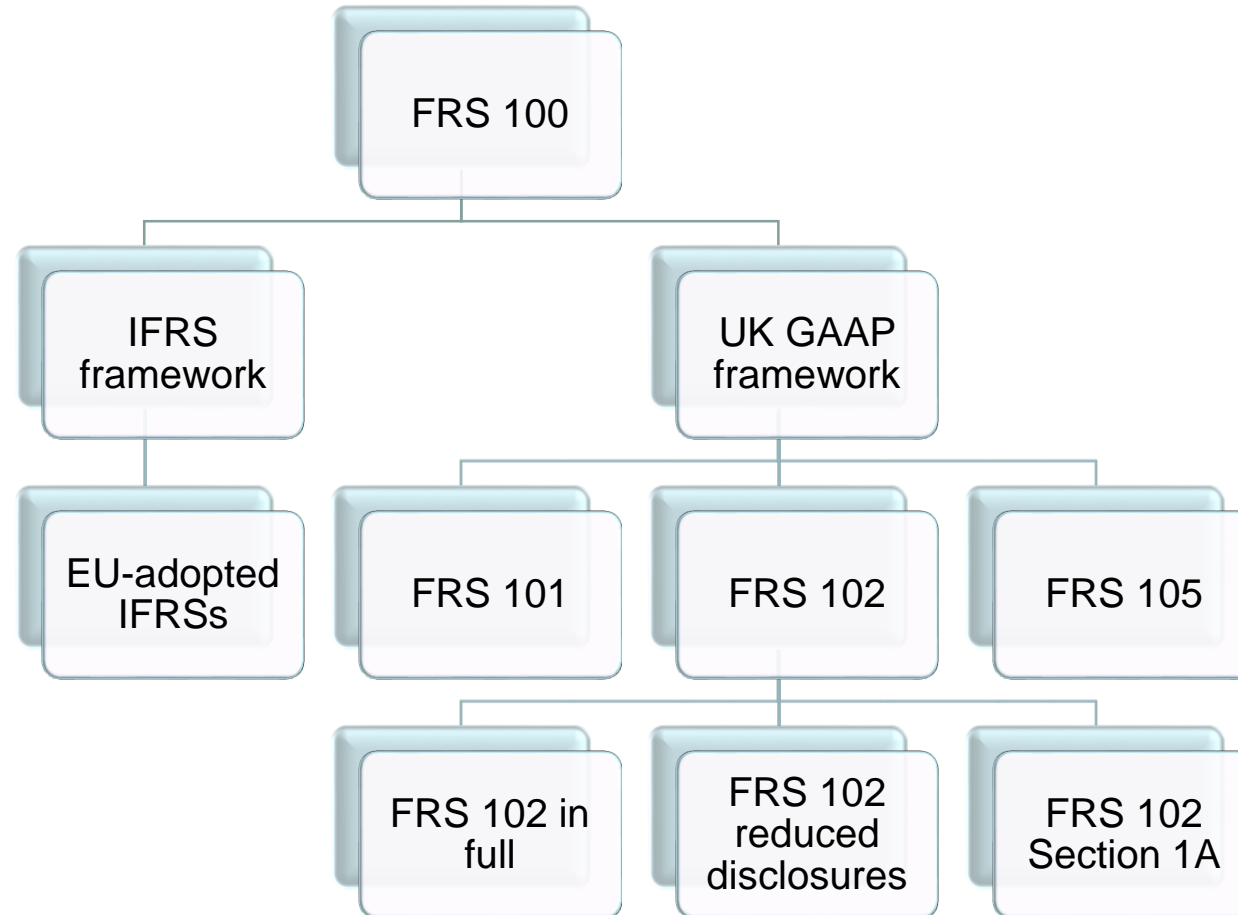
FRS 102 Section 1A Small Entities

FRS 105 – micro-entities

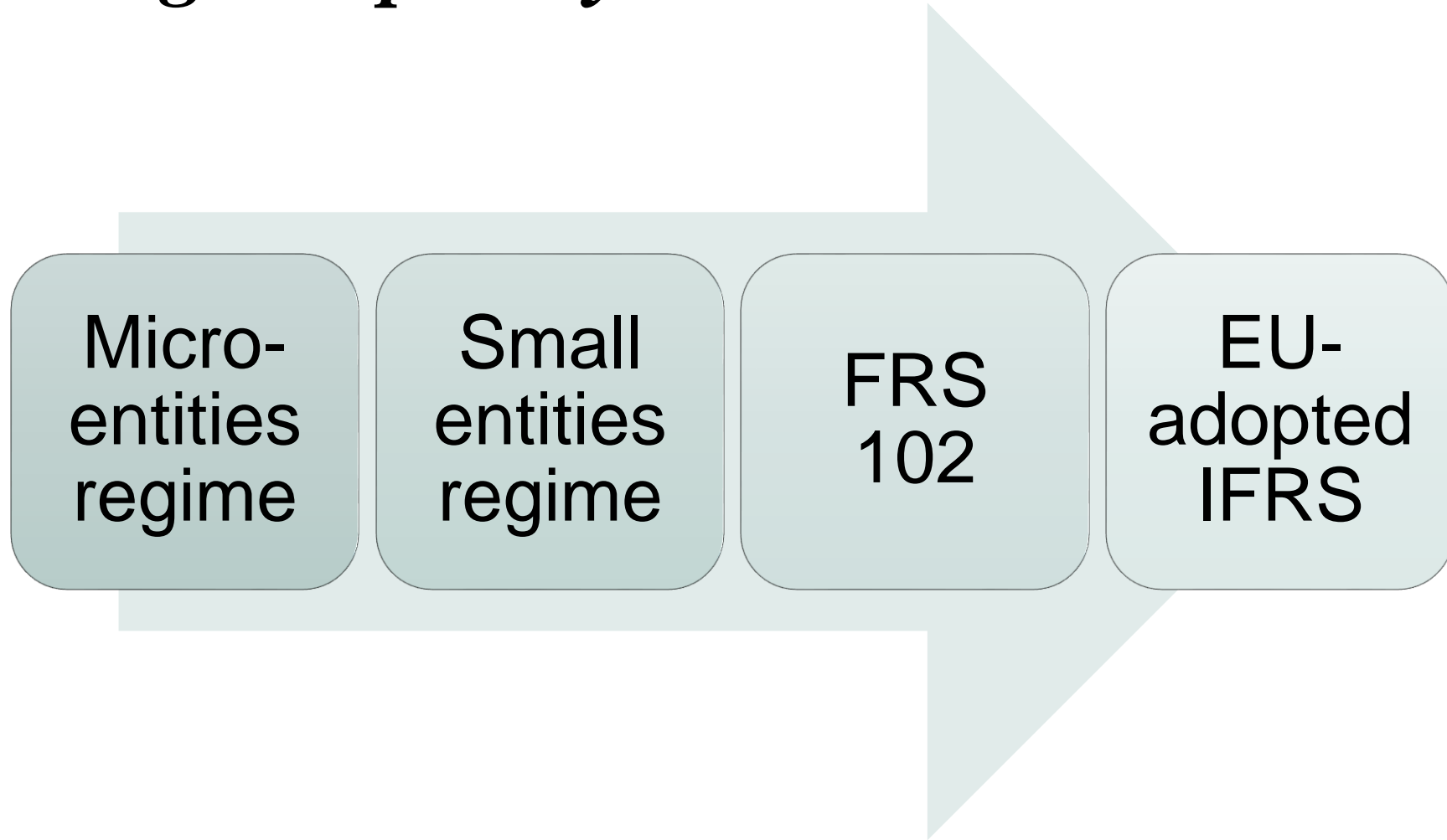
Developments in IFRSs

Resources

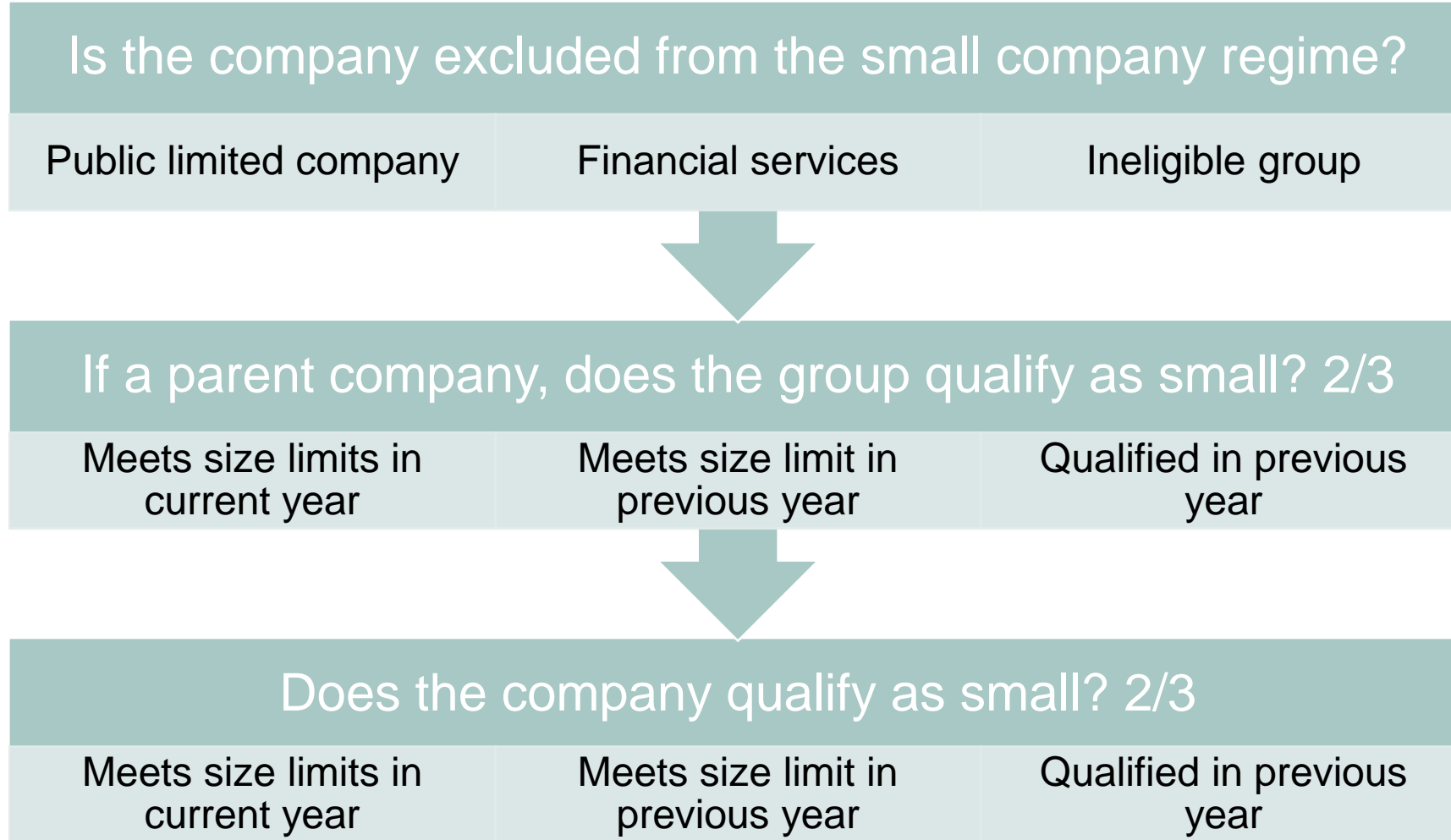
The UK Financial Reporting Regime



Increasing complexity



Qualifying for the small company regime

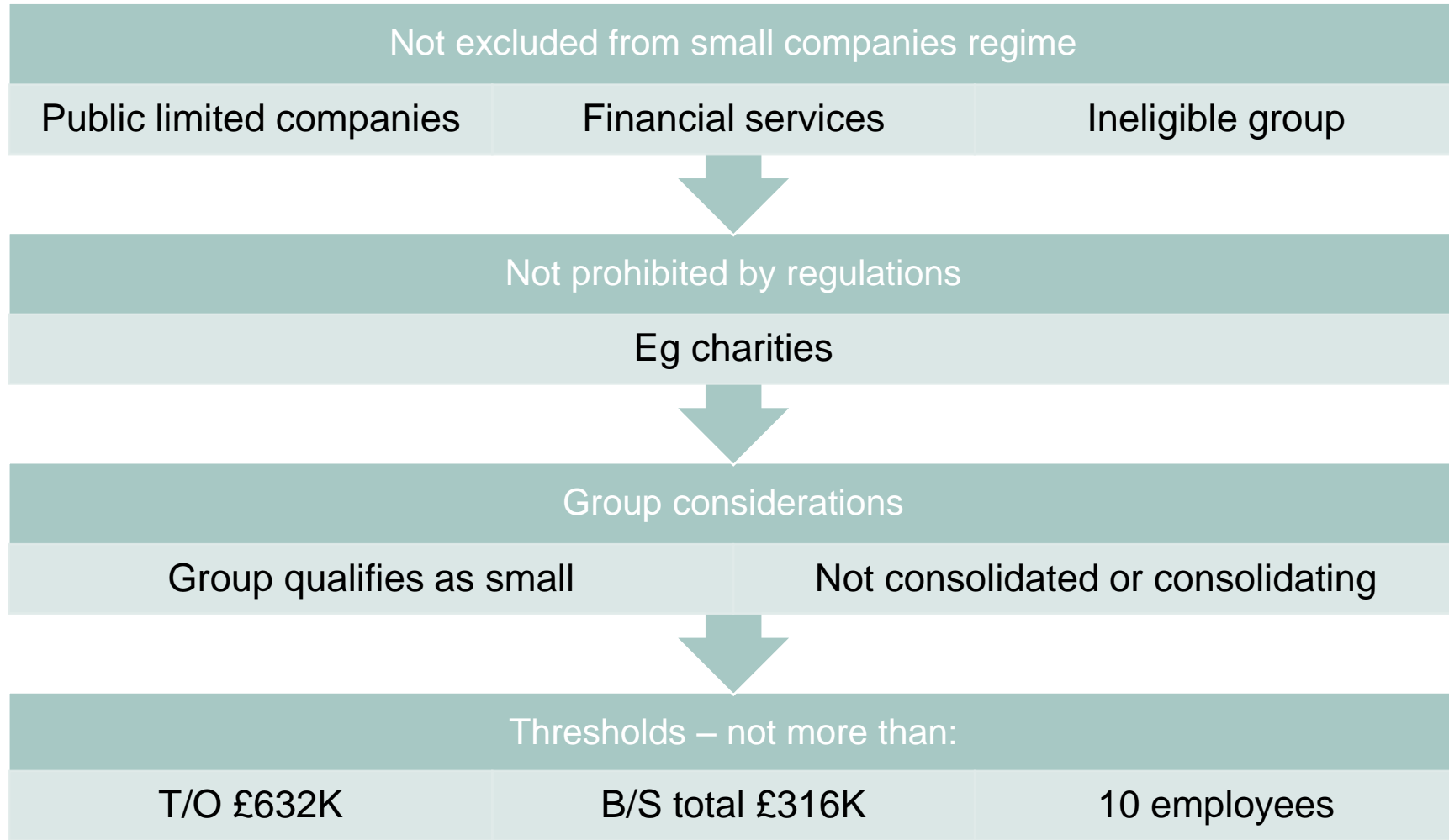


New small company size limits

Individual company	
Turnover	£10.2m (previously £6.5m)
Balance sheet total	£5.1m (previously £3.26m)
Average employees	50 (no change)

Group (gross)	
Turnover	£12.2 million (previously £7.8m)
Balance sheet total	£6.1 million (previously £3.9m)
Average employees	50 (no change)

Qualifying for micro-entity accounting exemptions



Options for standalone and group companies

	FRS 105	FRS 102		FRS 101	EU-adopted IFRS
		Applying Section 1A	Not applying Section 1A		
Micro-entities*	✓				
Small entities		✓	✓	✓	✓
Non small, non listed entities			✓	✓	✓
Listed entities					✓

*Entities that are eligible for and choose to apply the micro-entities regime

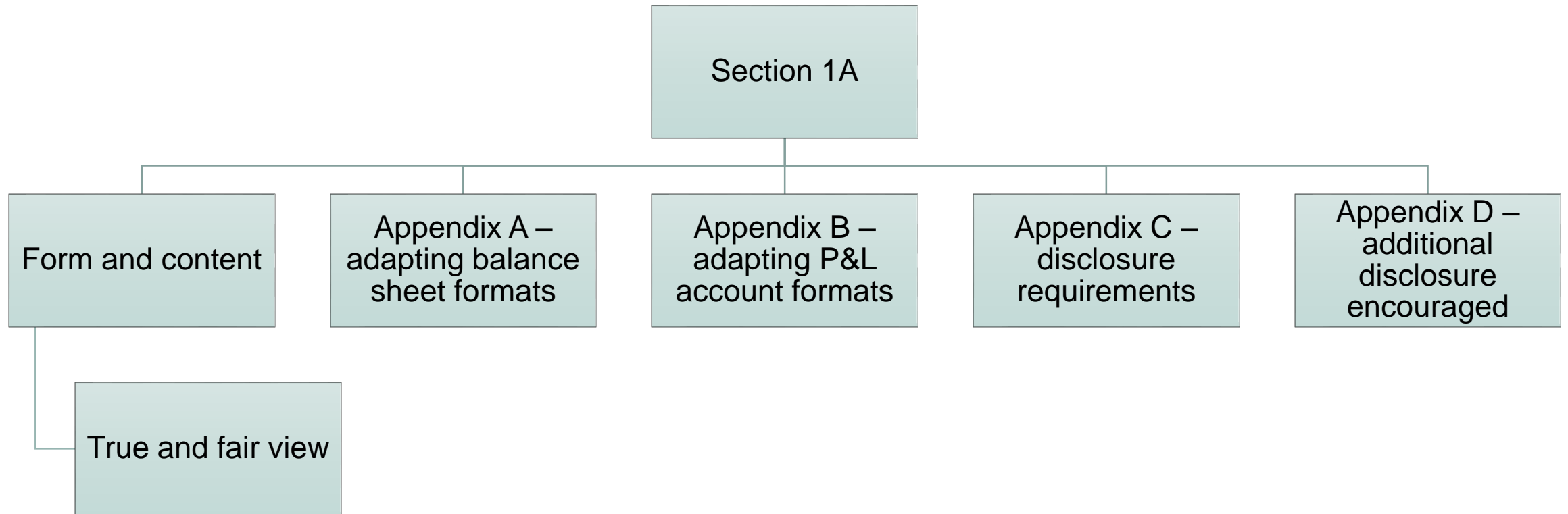
When does FRS 102 Section 1A apply?

Small company or LLP under CA 2006
or would be if were a company

AND

- Choose to apply Small Entities Regime
- Unless statutory framework does not permit

FRS 102 Section 1A – structure



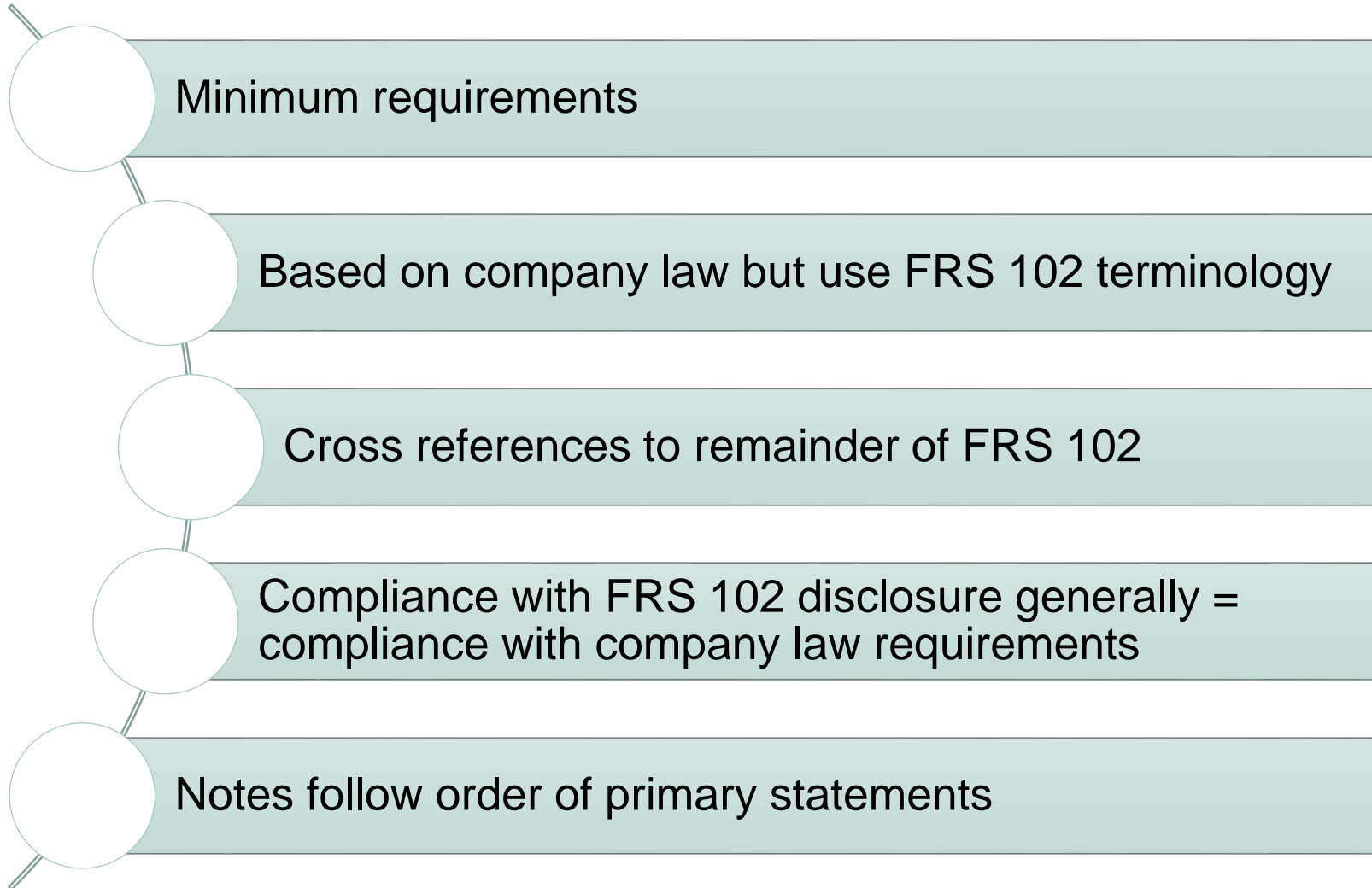
A complete set of accounts under Section 1A

FRS 102	Section 1 A
Profit and loss account	Profit and loss account
Other comprehensive income	Encouraged if other gains and losses
Balance sheet	Balance sheet
Cash flow statement	Not required
Statement of changes in equity	Encouraged if transactions with equity holders
Notes to the accounts	Restricted notes, subject to overriding requirement to give a true and fair view
Consolidated financial statements	Not required

Adapting the formats

- Available to all entities
 - Greater flexibility in account formats provided:
 - At least equivalent to what otherwise would have been required
 - In accordance with generally accepted accounting principle or practice
- Available to small entities
 - Abridged balance sheet and/or profit and loss account
 - Agreed by all shareholders each year
 - Accounts must still give T&FV and comply with small company disclosures required by law
 - Note: small companies still have the option not to file a copy of the P&L account and/or directors' report

Appendix C: Disclosure requirements



Minimum disclosure – business as usual (1)

Legal requirement	Notes
Accounting policies	FRS 102 – information about judgements may be useful
Fixed assets movements – amortisation, depreciation, impairment	
Revaluation table and supporting information	
Information on financial instruments or other assets measured at fair value	More likely to be relevant than under the FRSSE
Amounts due or payable after more than five years/security given	
Commitments, guarantees and contingencies	

Minimum disclosure – business as usual (2)

Legal requirement	Notes
Advances and credits to, and guarantees on behalf of, directors	
Exceptional items	
Post balance sheet events	
Details of parent of smallest group drawing up group accounts	
Statutory information – registered number, office etc	

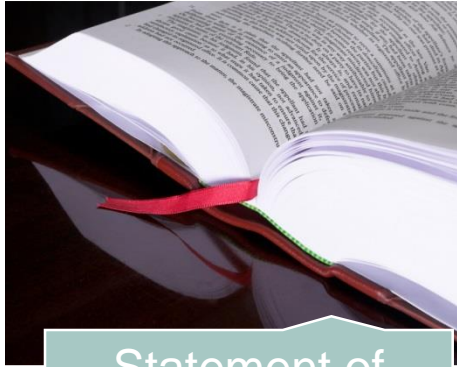
Minimum disclosure – some differences

Legal requirement	Notes
Related party transactions not concluded under normal market conditions	Details of directors remuneration no longer specifically required in law. However remuneration and dividends paid to directors are related party transactions FRS 102 does not require the names of related parties to be disclosed, only the nature of the relationship. Related party transactions under normal market conditions may be disclosed
Off balance sheet arrangements	Disclosures mostly required by the FRSSE in practice but term not used.

Minimum disclosure – new

Legal requirement	Notes
Average number of employees	

Disclosure encouraged by Section 1A Appendix D



Statement of compliance



Going concern



Dividends



Transitional impact



Public benefit entity

Major differences to 'old' UK GAAP

Financial instruments

Business combinations

Goodwill and intangibles

Investment properties

Lease incentives

Holiday pay accruals

Deferred tax

Equity-settled share-based payment (from FRSSE)

Triennial review 2017 – proposed amendments

Directors' loans

- small entity exemption for loans from director-shareholders

Intangible assets acquired in a business combination

- fewer intangibles to be recognised separately from goodwill

Investment property rented to another group entity

- choose between cost and fair value model

Classification of financial instruments

- new principles-based description

Definition of a financial institution

- changes to the definition

FRS 105 The Financial Reporting Standard applicable to the Micro-entities Regime



Based on FRS 102 but amended for the legal requirements of the micro-entities regime and further simplified to reflect the smaller size and simpler nature of micro-entities.

Format and content of micro entity accounts

Choice of two balance sheet formats

- vertical or horizontal (eight or ten line items only respectively)

One profit and loss account format

- Eight line items only

All line items prefixed by a letter

- Cannot change names or combine
- Must appear on the face and in order

Option to include additional line items on the face

No notes but some disclosures at the foot of the balance sheet

- Directors' advances, credit and guarantees
- Details of other guarantees and financial commitments

Major differences to the FRSSE

Investments in shares

Property, plant and equipment

Investment properties

Goodwill and intangibles

Development costs

Trade and asset acquisitions

Lease incentives

Borrowing costs

Deferred tax

Defined benefit pension plans

FRS 102 and FRS 105 compared

FRS 102

- No recognition and measurement simplifications for small entities
- Flexibility in presentation and disclosure
- Financial statements must give T&FV

FRS 105

- Recognition and measurement based on FRS 102 with some simplifications
- No flexibility in formats and very limited disclosures
- Presumed to give T&FV

Major changes



Revenue from contracts with customers

- IFRS 15 - comprehensive framework for determining when revenue should be recognised and how it should be measured
- Effective 1 January 2018



Financial Instruments

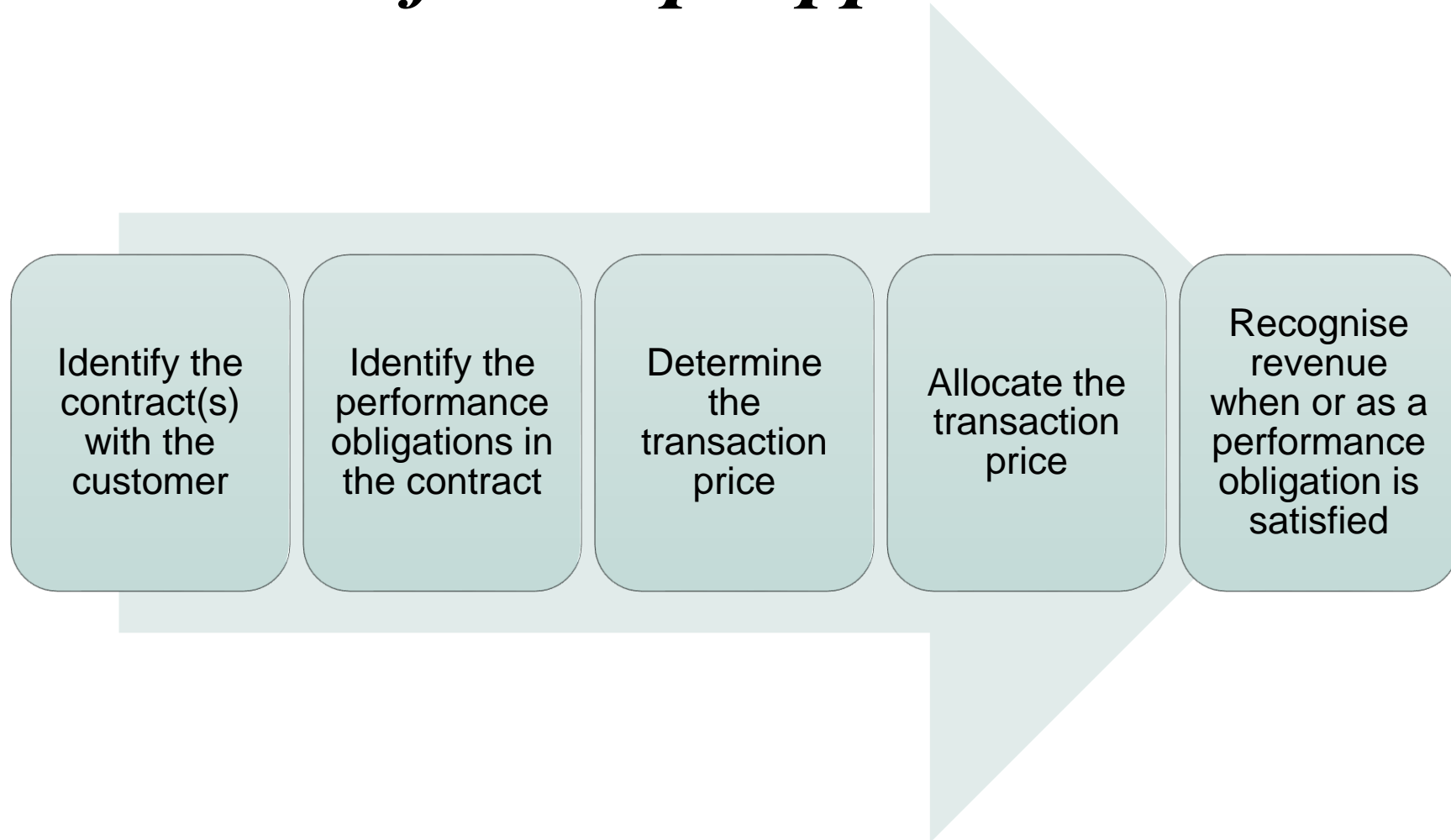
- IFRS 9 – brings together classification and measurement, impairment and hedge accounting phases of its project to replace IAS 39
- Effective 1 January 2018



Leases

- IFRS 16 – introduces a single lessee accounting model that requires assets and liabilities for almost all major lease arrangements to be recognised on-balance sheet
- Effective 1 January 2019

IFRS 15 – The ‘five step’ approach



Who will be affected and to what extent?



For some entities – timing of revenue and profit recognition may be significantly affected



For most entities – need to consider impact on existing systems and processes



Don't underestimate implementation / transition and disclosure challenges

IFRS 9 - Overview

Classification & measurement

Three categories of financial assets

Based on 'business model' and 'contractual cash flow characteristics of financial assets'

Impairment

From 'incurred loss' to 'expected loss'

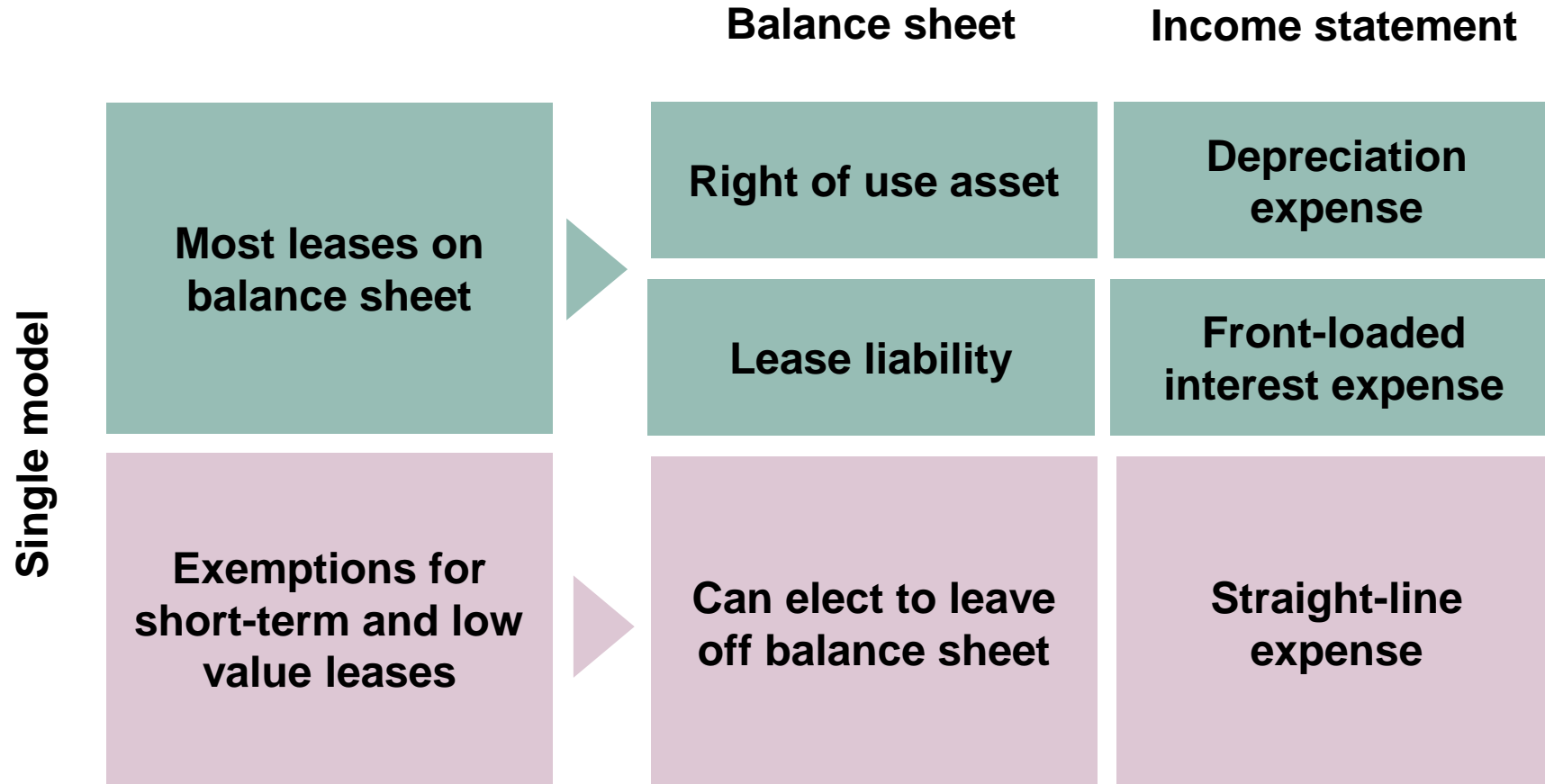
Impairment based on either 12-month expected credit losses or lifetime expected credit losses

Hedge accounting

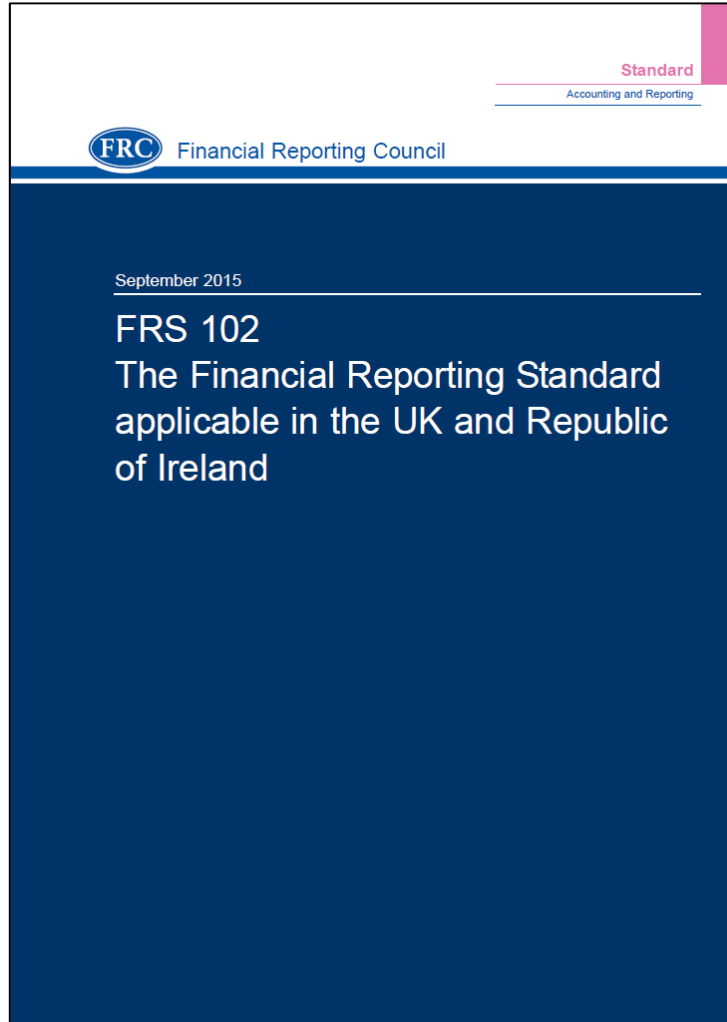
Align hedge accounting more closely with risk management strategies

Separate project on macro hedging

IFRS 16 – The new lessee accounting model



FRC website – new UK GAAP

















- Electronic versions of the standards
- Staff Education Notes
- Editorial amendments and clarification statements
- Status of SORPs
- Latest developments

icaew.com/newukgaap

The new UK GAAP

A new financial reporting framework in the UK is effective for accounting periods beginning on or after 1 January 2015.

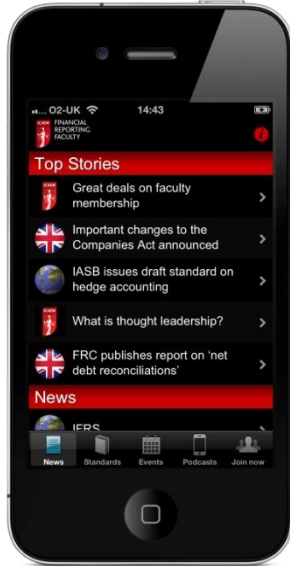
The UK's Financial Reporting Council (FRC) has published five standards which together form the basis of the new UK regime. The Financial Reporting Standard for Smaller Entities (FRSSE) has been withdrawn and small entities brought within the scope of FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland for accounting periods beginning on or after 1 January 2016. For more information on the changes to small company reporting visit icaew.com/smallcompanyreporting

 <p>UK Reporting framework</p> <p>FRS 100 Application of Financial Reporting Requirements sets out the new reporting regime.</p> <p>More info</p>	 <p>Small entity reporting</p> <p>A new financial framework for small and micro entities is effective from 1 January 2016.</p> <p>More info</p>	 <p>Reduced disclosures</p> <p>FRS 101 Reduced Disclosure Framework available to certain UK IFRS reporters.</p> <p>More info</p>	 <p>The reporting standard</p> <p>FRS 102 The Financial reporting Standard applicable in the UK and Republic of Ireland.</p> <p>More info</p>
 <p>Insurance contracts</p> <p>FRS 103 Insurance Contracts - requirements and guidance for insurance contracts.</p> <p>More info</p>	 <p>Interim Financial Reports</p> <p>FRS 104 Interim Financial Reporting for entities that apply FRS 102.</p> <p>More info</p>	 <p>The micro-entities regime</p> <p>FRS 105 The Financial Reporting Standard applicable to the Micro-entities Regime.</p> <p>More info</p>	 <p>Factsheets</p> <p>Practical online guidance written exclusively for faculty members by experts.</p> <p>More info</p>
 <p>Publications and eBooks</p> <p>Access a selection of practical texts, many available for loan or download.</p> <p>More info</p>	 <p>Articles</p> <p>A selection of articles on topical UK GAAP issues selected from the faculty's journal.</p> <p>More info</p>	 <p>Webinar and event recordings</p> <p>Access the recordings and download the slides from recent webinars on UK GAAP issues.</p> <p>More info</p>	 <p>New UK GAAP FAQs</p> <p>Answers to initial questions on the new regime, with signposts to additional information.</p> <p>More info</p>
 <p>Helpsheets and support</p> <p>Guidance on new UK GAAP from the Technical Advisory Service for all ICAEW members.</p> <p>More info</p>	 <p>Library & Information Service</p> <p>Handpicked resources from across the profession, including model accounts and eBooks.</p> <p>More info</p>		

FAQs – available to all



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