



# ***UK GAAP: periodic review proposals***

26 January 2023

This webinar will commence shortly .....

# *Introduction*



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# *Today's presenters*



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# Ask a question and access resources

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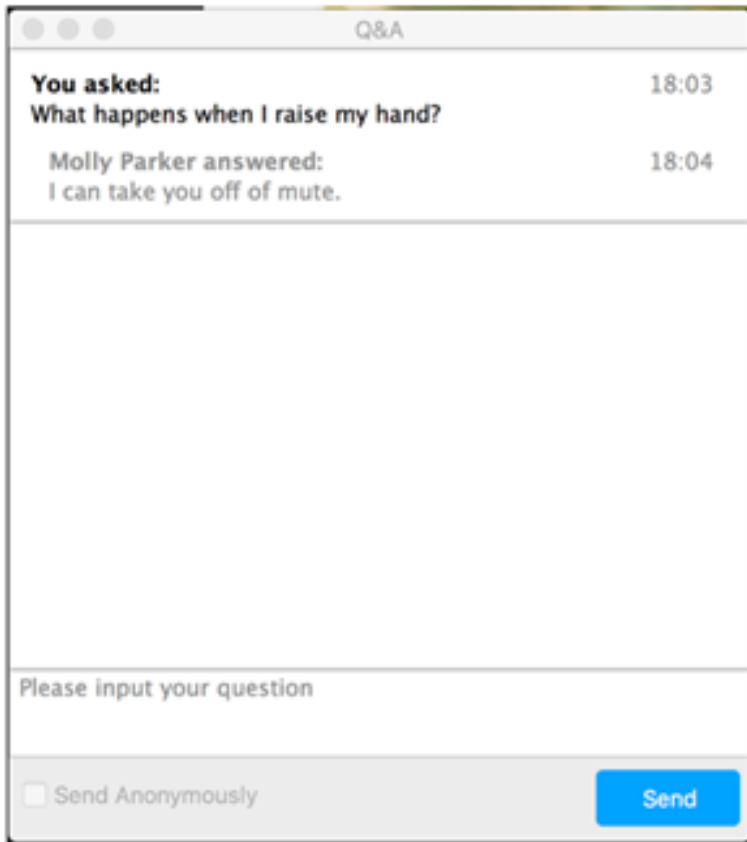
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The screenshot shows a Q&A window with a title bar containing three window control buttons and the text 'Q&A'. The main content area displays a question and answer:

**You asked:** 18:03  
What happens when I raise my hand?

**Molly Parker answered:** 18:04  
I can take you off of mute.

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# ***Contents***

Introduction to FRED 82

Revenue recognition

Lease accounting

Fair value measurement

Concepts and principles

Small entity disclosures

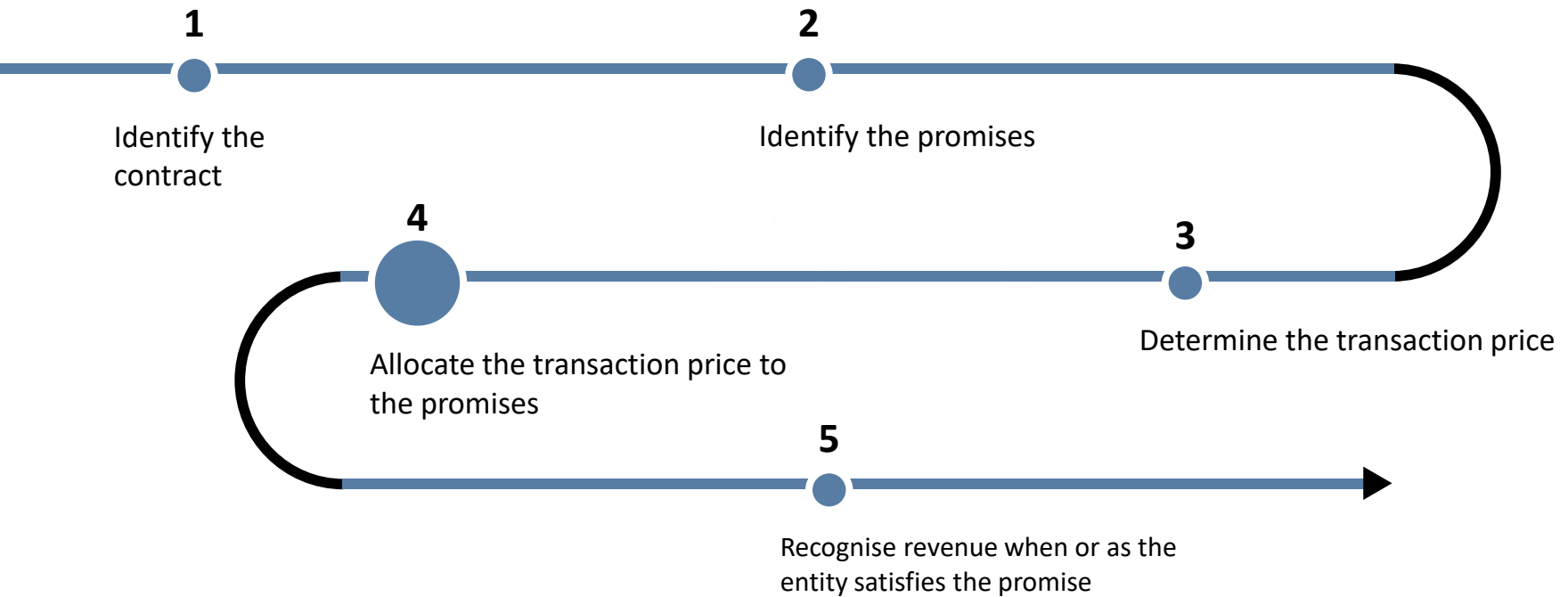
# FRS 102 & OTHER FRSs – PERIODIC REVIEW

## OVERVIEW

- **Second periodic review of FRS 102**
- **Consultation phase to 30 April 2023**
- **Main changes are revenue recognition and lease accounting models**
- **Effective date periods on or after 1 January 2025**
- **Transitional provisions for major changes**

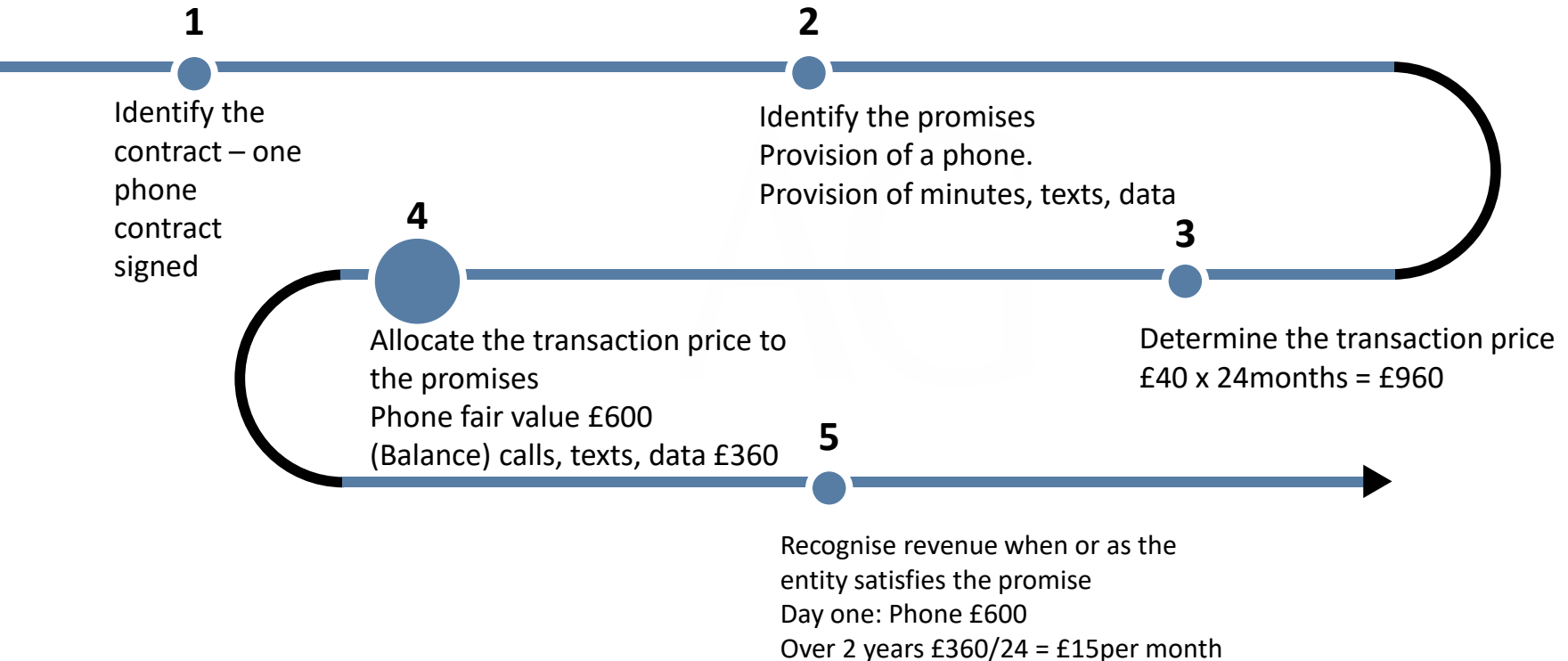
# Revenue Recognition Model

Scope: All contracts with customers except: Leases, financial instruments and FRS 103



# Revenue Recognition Model

Sale of a phone on a two-year contract for £40 per month without an upfront fee. The contract includes unlimited calls, texts and 2GB of data per month.



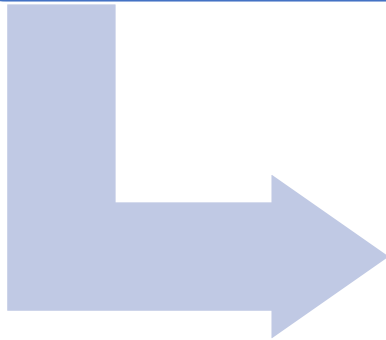


# Step 1 – Identifying the customer



## Step 2 – Identify the promises in the contract

Assess the goods and services promised



Distinct goods or services

- If have a series of goods and are substantially the same, treat as one promise, provided:
  - Control is passed; and
  - Progress to completion is measured in the same way
- Customer can benefit from the good or service
- The entity's obligation to transfer the good or service is separate

## Step 3 – Determine Transaction Price

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Amount the entity expects to be entitled in exchange for goods or services



Variable amounts should be estimated based on the amount expected to be due:

- Expected value
- Most likely amount

## Step 4 – Allocate transaction price to the promises

### Allocate stand alone selling price

- Determine at inception
- Allocate based on standard sales price
- Estimate if not evident
  - Adjusted market research
  - Expected cost plus a margin
  - Residual approach

### Variable consideration

- Relative stand alone basis or a method which reflects this
- Allocate to all distinct goods and services

## Step 5 – Recognise revenue on promise satisfaction

Promises  
satisfied  
over time

Customer receives and consumes benefits provided

Work does not need substantial reperformance

Performance creates or enhances an asset the customer controls

Performance creates an asset that can not be used by another customer and there is an obligation for payment

Promises  
satisfied at  
a point in  
time

The entity has the present right to payment for the asset

The customer has the legal title to the asset

The customer has the physical possession of the asset

The customer has significant risks and rewards of ownership of the asset

The customer has accepted the asset

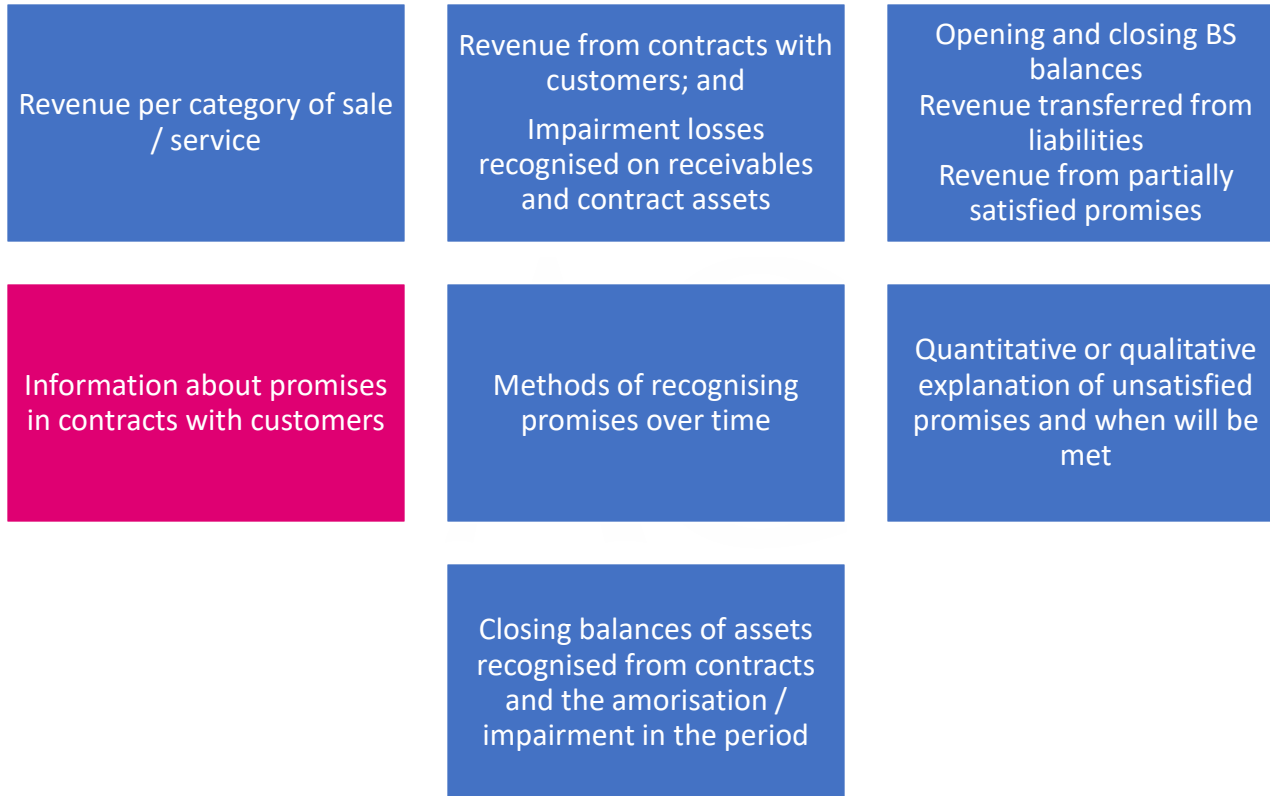
Measuring  
progress

2 common methods: Based on value to customer of the goods or service; or the entity's efforts or inputs to date

Other common methods

- Surveys of work completed
- Units delivered
- Time elapsed
- Costs incurred
- Labour hours

# Disclosure



# Lease Accounting



# Lease accounting: Overview

- Significant changes for lessees - the IFRS 16 model of “all leases on balance sheet” is being introduced
- Exemptions available for short term leases and those where the underlying asset is of low value
- Not much of an impact for lessors
- There are a number of practical expedients
- Significant increase in the level of disclosures required
- Important point to note: this model is NOT being introduced in FRS 105.



# Lease accounting: The basics

20.17 At the **inception date**, an entity shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

- There is no “identified asset” if the supplier has the substantive right to substitute alternative assets throughout the period of use
- Lease term = non cancellable period plus periods covered by options to extend (if reasonably certain to exercise) or terminate (if reasonably certain not to exercise)

# Lease accounting: Measurement and recognition

## Right of use (ROU) asset =

- + Lease liability
  - + Payments made at or before commencement
  - Lease incentives received
  - + Direct costs
  - + Rectification costs
- 
- Hold at cost less depreciation/impairment or at revalued amounts

# Lease accounting: Measurement and recognition

**Lease liability** = PV of future lease payments

- Lease payments comprise:
  - Fixed payments less any lease incentives receivable
  - Variable lease payments that depend on an index or rate
  - Amounts expected to be payable under residual value guarantees
  - Exercise price of a purchase option
  - Payments of penalties for terminating the lease
- Discounted using the interest rate implicit in the lease or incremental borrowing rate or obtainable borrowing rate or the gilt rate

# Lease accounting: An example

- 5 year lease on a property
- Rental charge: £200k per annum, payable in advance
- Initial direct costs: £25k
- Obtainable borrowing rate: 6%

## INITIAL RECOGNITION

Lease liability = PV of lease payments not paid = £693,021

Right of use Asset = lease liability + payments made in advance  
(£693,021 + £25,000 + £200,000) = £918,021

## SUBSEQUENT MEASUREMENT

The lease liability is adjusted by the interest charged and payments made

The ROU asset is depreciated over the lease term

# Lease accounting: Exemptions

- Short term leases
  - “A lease that, at the commencement date, has a lease term of 12 months or less”
- Leases for which the underlying asset is “low value”
  - No monetary threshold, unlike IFRS 16

Typically considered “low value”	Not considered “low value”
<ul style="list-style-type: none"><li>• Tablet computers</li></ul>	<ul style="list-style-type: none"><li>• Cars, vans, trucks and lorries</li></ul>
<ul style="list-style-type: none"><li>• Personal computers</li></ul>	<ul style="list-style-type: none"><li>• Cranes, excavators, loaders and bulldozers</li></ul>
<ul style="list-style-type: none"><li>• Home printers / photocopiers</li></ul>	<ul style="list-style-type: none"><li>• Telehandlers and forklifts</li></ul>
<ul style="list-style-type: none"><li>• Mobile / desk phones</li></ul>	<ul style="list-style-type: none"><li>• Tractors, harvesters and related attachments</li></ul>
<ul style="list-style-type: none"><li>• TV’s</li></ul>	<ul style="list-style-type: none"><li>• Boats and ships</li></ul>
<ul style="list-style-type: none"><li>• Small items of furniture</li></ul>	<ul style="list-style-type: none"><li>• Aircraft</li></ul>
<ul style="list-style-type: none"><li>• Portable power tools</li></ul>	<ul style="list-style-type: none"><li>• Land and buildings</li></ul>

# Lease accounting: First time adoption

- Requirement to use the “modified retrospective” approach
  - No changes to comparatives
  - Lease liability = PV of remaining lease payments at date of initial application
  - Set the ROU asset equal to the lease liability (adjusted for any previously recognised prepayments or accruals of lease payments)
  - Any P&L impact is shown as an adjustment to opening reserves
- Not required to re-assess whether a contract is, or contains, a lease at the date of initial application
- For group entities where IFRS has been used for the consolidation, the ROU asset and lease liability can be recognised at the amounts previously recognised under IFRS 16
- Several other practical expedients set out in para 1.46

# Lease accounting: Disclosures

- There are lots of disclosure requirements:

- Depreciation charge for ROU assets
- Interest expense on lease liabilities
- Expense relating to short-term leases
- Expense relating to leases of low-value assets
- Expense recognised in P&L relating to variable lease payments
- Income from subleasing right-of-use assets
- Gains or losses arising from sale and leaseback transactions

- General description of significant leasing arrangements
- Any practical expedients chosen
- Total cash outflows for leases
- Lease commitment note for short term and low value leases
- Detail on sale and leaseback transactions

- Present ROU assets separately from other assets
- Additions to ROU assets
- NBV of ROU assets at the B/S date

- No separate presentation of lease incentives/ premiums or prepaid/accrued rentals
- No provisions for onerous leases

# Some other changes





# Fair Value

- In the extant FRS 102, the Appendix to Section 2 deals with Fair value measurement
  - Simply sets out the methodology to estimate FV
- FRED 82 proposes amendments to align FRS 102 with the FV principles from IFRS 13
  - Updated definition of FV
  - There is much more guidance:
    - Fair value is a market-based measurement, not an entity-specific measurement
    - FV measurement assumes the transaction takes place in the principal market or most advantageous market
    - Non-financial assets – consider highest and best use
    - The valuation methodology from FRS 102 is retained

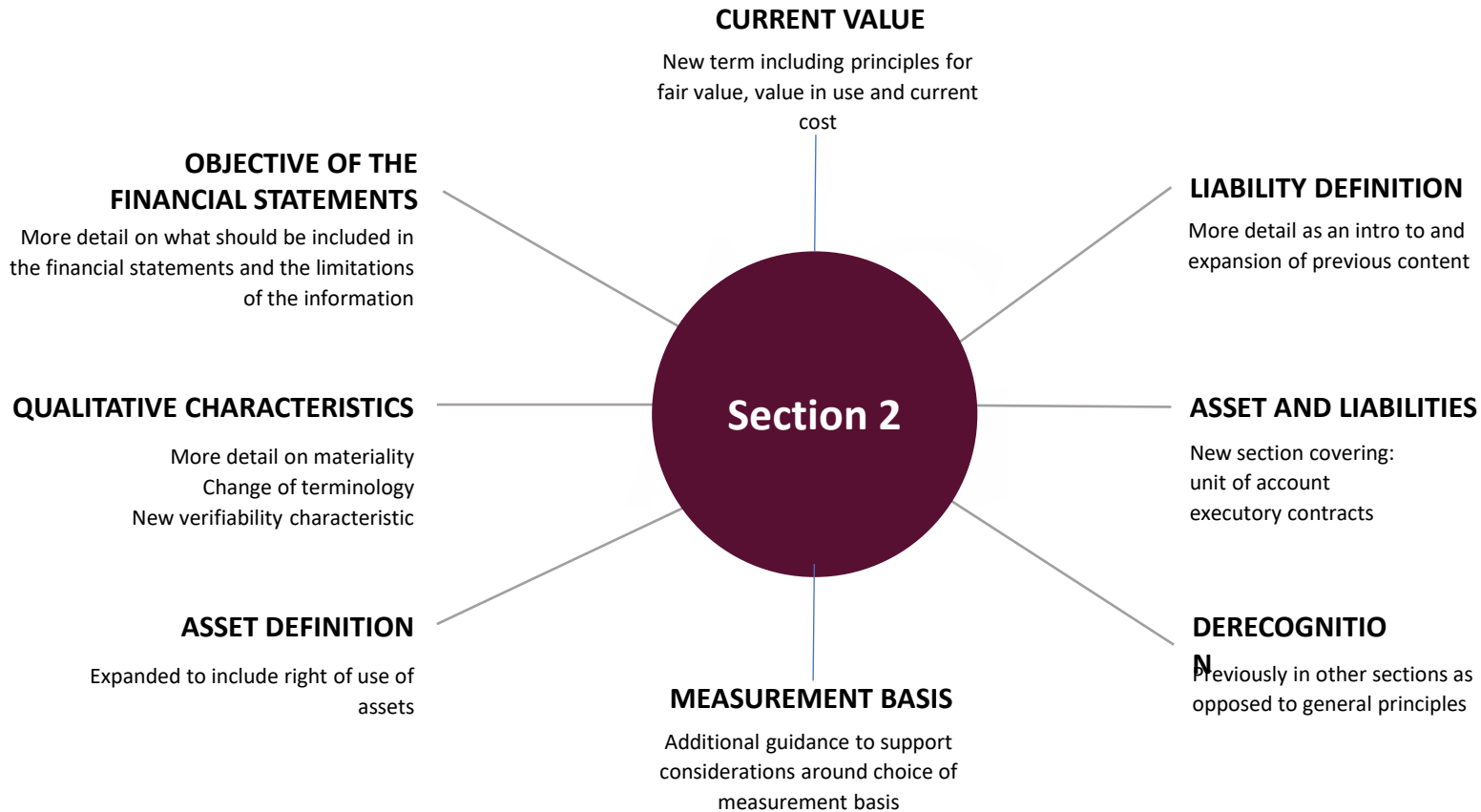
# Financial Instruments

- The Expected Credit Loss (ECL) model from IFRS 9 is NOT being introduced
- FRS 102 provides entities with a choice of either:
  - Applying Section 11 and 12 of FRS 102 in full; or
  - Applying the measurement and recognition principles of IAS 39; or
  - Applying the measurement and recognition principles of IFRS 9.
- The IAS 39 option will remain in FRS 102 until a decision is made on whether the ECL model is to be introduced or not
  - FRED 82 proposes to prevent an entity from newly adopting the IAS 39 option

## A few other minor changes

- Going concern disclosure – explicit requirement to confirm use of GC basis and that information about the future has been considered . Also need to disclose any significant judgements made in assessing the ability to continue as a GC (section 3)
- Additional guidance on the distinction between contingent consideration and remuneration for ongoing services in a business combination (section 19)
- Additional guidance on identifying an acquirer in a business combination (Section 19)
- Additional guidance on the existence of significant influence by an investor (Section 14)
- *NB: no changes are proposed at this stage to deal with the Economic Crime and Corporate Transparency Bill*

# Concepts and Pervasive Principles



# Small Entity Changes

## Recognition and Measurement as per full FRS 102

### Previous Appendix E

All encouraged disclosures move to mandatory:

- Statement of compliance
  - PBE statement
  - Going concern
    - Dividends
- First time adoption

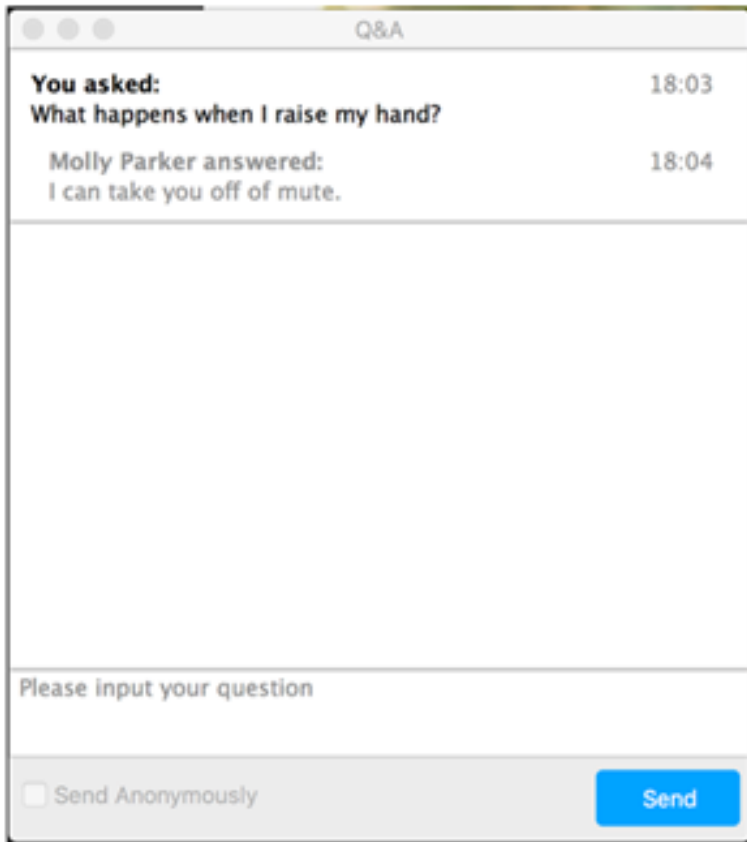
### Leasing

- Application of fixed asset disclosures to right of use assets
  - Off BS arrangements
  - Lessee arrangements
- Short term & low value lease

### New

Off balance sheet arrangements:  
Provisions and contingencies  
Share Based Payments  
Promises with contracts with customers  
Deferred tax

# Ask a question and access resources



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- Periodic review hub ([icaew.com/ukgaapreview](https://icaew.com/ukgaapreview))
- UK GAAP ([icaew.com/ukgaap](https://icaew.com/ukgaap))
- Small and micro entities

## Factsheets ([icaew.com/frffactsheets](https://icaew.com/frffactsheets))

- UK GAAP annual factsheets
- FRS 102 factsheets

## Online guidance

- Topical issues
- FRS 102 and FRS 105



Home > Resources > Financial reporting > UK GAAP > Periodic review of UK GAAP

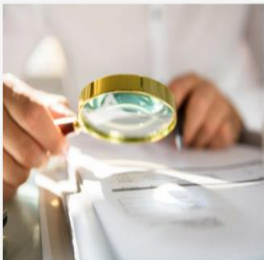
## Periodic review of UK GAAP

The Financial Reporting Council (FRC) has issued proposed changes to UK GAAP for public consultation. Although the main focus is on FRS 102, the proposals impact all UK GAAP accounting standards. Find out more about what is included in Financial Reporting Exposure Draft 82 and how entities might be affected.

Contents

- FRC consultation
- Insights and articles
- 2021 Request for views
- Helpsheets and resources

[Back to top](#)



INSIGHTS NEWS

### FRC seeks views on periodic review of UK GAAP

The Financial Reporting Council (FRC) has published draft amendments to UK GAAP standards for comment. The consultation is open until the end of April 2023.

[Read more](#)

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# Questions



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# *Thank you for attending*



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