FINANCIAL REPORTING FACULTY PUBLICATION | ICAEW.COM/FRF | JULY 2020

By All Accounts

SUPPLIER SECURITY
THE RISE OF REVERSE FACTORING IN THE SPOTLIGHT

IT'S A GAS
THE NEW ENERGY AND CARBON REPORTING REGULATIONS

LEADING CHANGE

Sir Jon Thompson on transforming the Financial Reporting Council

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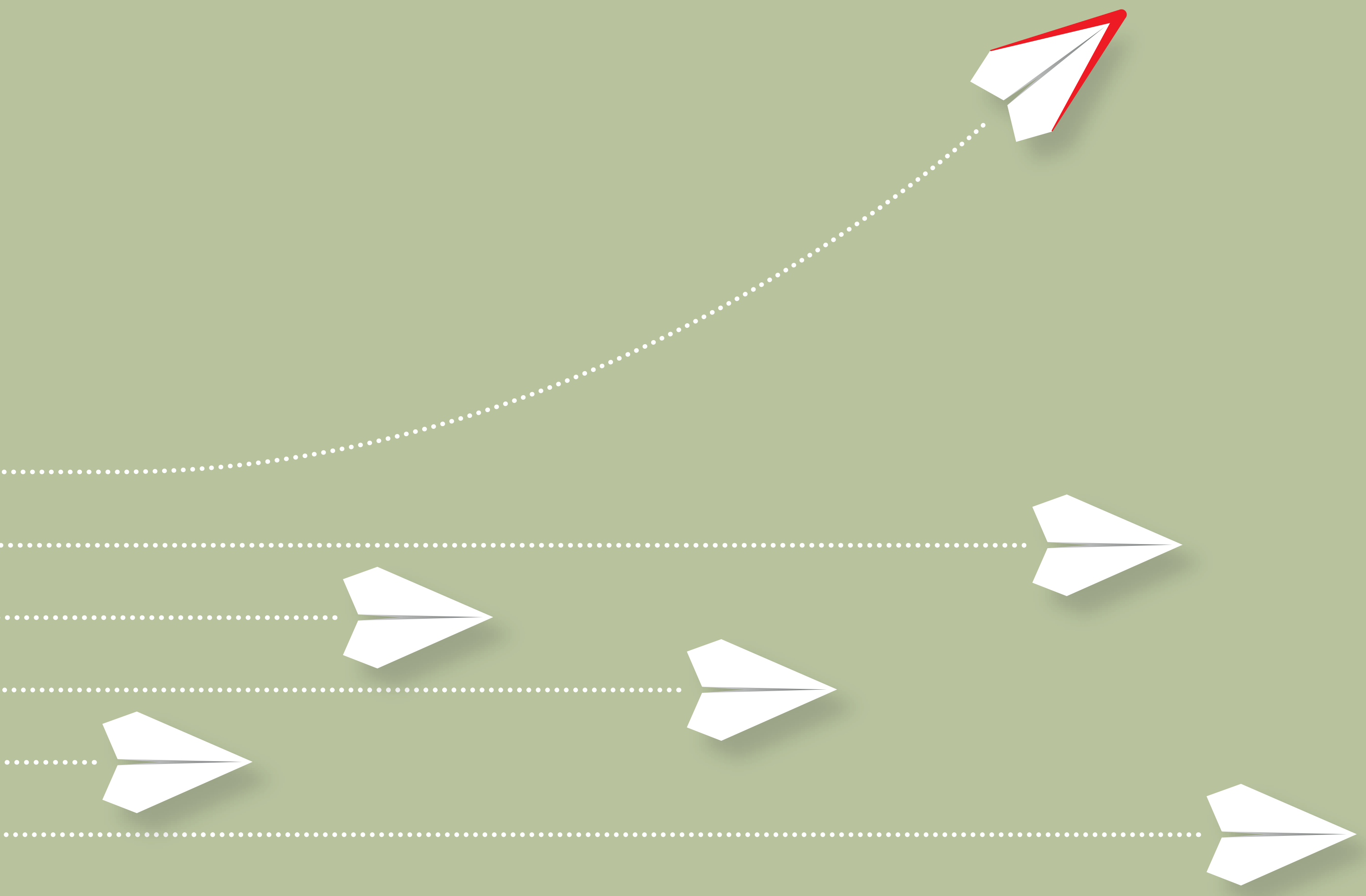

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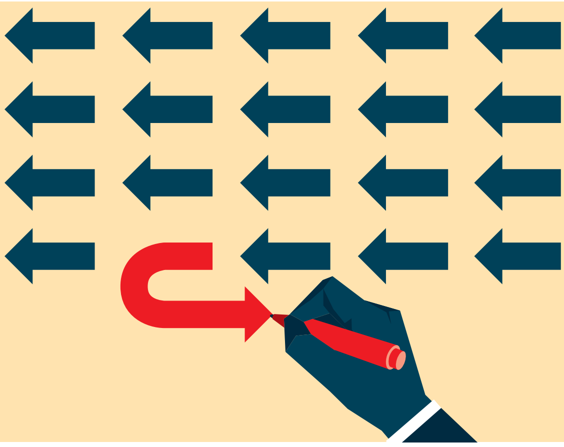
July 2020



COVER PHOTOGRAPHY: LOUIS QUAIL

A changing world

As we rang in 2020 and marked the start of a new decade, I doubt any of us anticipated the changes to our lives that we have experienced in the last few months. First and most importantly, I hope that you and your families, friends and colleagues are safe and well.

Change is a thread running throughout this edition of *By All Accounts*. In our interview feature on pages 8-10 we talk to Sir Jon Thompson, the new Chief Executive of the Financial Reporting Council, about the regulator's transition to the Audit, Reporting and Governance Authority, as well as how corporate reporting, and specifically non-financial reporting, might be reshaped in the future.

Non-financial reporting is an area that has seen considerable transformation in recent years, as shown by the number of non-financial reporting initiatives now in existence. The article on pages 26-27 looks at steps being taken towards developing a single, cohesive framework for the future. Recent changes in reporting requirements have seen the introduction of s172(1) statements and energy and carbon reports. The benefits of co-ordinating content from across the business for s172(1) reporting are discussed on pages 16-17, while on pages 12-13 we explain who and what must be disclosed under the Streamlined Energy and Carbon Reporting regulations.

From an environmental perspective, the COVID-19 pandemic has led to a dramatic reduction in CO_2 emissions. Climate change continues to be a defining issue though, and building it into recovery plans is likely to be a key focus for the future. Reporting climate risk within financial statements is under increasing scrutiny from investors and other stakeholders. The article on pages 22-23 considers how reporting on climate risk might be addressed by UK GAAP reporters.

Proposals for change for IFRS reporters in the IASB's *General Presentation and Disclosures* Exposure Draft are discussed on pages 14-15. We also have articles on transitioning from the small companies' regime to 'full' FRS 102, reverse factoring and Brexit alongside our regular features.

This edition's *And Finally...* on page 30 celebrates positive change and diversity, marking the centenary of women being admitted as members of ICAEW.

The months ahead look set to be full of further changes for both our personal and professional lives and with them will come a variety of challenges. We hope membership of the Financial Reporting Faculty and the resources we provide prove valuable as you chart a route through.

Stay well,

Sally Baker.

Sally Baker FCA
Technical Manager, Financial Reporting Faculty

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FACULTY NEWS

FOCUSING ON WHAT MATTERS: CORONAVIRUS GUIDANCE

Since the extent of COVID-19's impact started to become clear in early spring, we have been focused on publishing timely and relevant guidance in the form of online guides and short webcasts. These include:

- checklists on the preparation of accounts under IFRS, FRS 102 and FRS 105;
- how to distinguish between adjusting and non-adjusting post balance sheet events;
- going concern considerations;
- how to account for specific issues including support schemes; and
- guidance on disclosures.

Throughout the last few months, we've also been listening to the concerns raised by members and volunteers, monitoring developments and raising issues on your behalf with the Financial Reporting Council and other bodies.

All of these resources, plus links to useful guidance from external sources, can be accessed through the dedicated financial reporting and coronavirus hub page icaew.com/coronavirus/financialreporting

We hope that you have found our resources valuable during these uncertain times.

We are always keen to hear your feedback, so if you would like to get in touch please email us at frfac@icaew.com

BUSINESS AS USUAL: WEBINARS AND BY ALL ACCOUNTS

Although our immediate focus has been on supporting members through the pandemic, we have also been working hard to deliver our usual exclusive resources to faculty members, including this edition of *By All Accounts*. Our webinar programme has also continued as planned, with presenters and faculty staff working remotely.

We have brought you our annual UK GAAP update and also covered the new energy and carbon reporting regulations. Our annual IFRS update will be held on 18 June. We've received positive feedback at being able to continue to deliver this service and are grateful for your support.

Recordings of these, and the rest of our archive, are available at icaew.com/frfwebinars. Our upcoming programme for the second half of the year will include webinars on IFRS 16 *Leases*, narrative reporting and more.

To view the programme and register, visit icaew.com/frfevents

GETTY IMAGES

IN THE PIPELINE: FACTSHEETS

We will soon be publishing our annual IFRS and UK GAAP accounts factsheets, which will be updated to reflect coronavirus-related considerations. Factsheets covering defective accounts and financial instruments under FRS 102 are also in the pipeline.

ADAPTING TO CHANGE: CONFERENCE

We are currently reviewing plans for our 2020 Financial Reporting Conference, which would normally take place in the autumn. Together with our colleagues in the Audit and Assurance Faculty, we are currently considering a range of options to bring you an event that's exclusive to faculty members. Details will be published at icaew.com/frfevents as soon as they become available.

DELAYED, BUT NOT FORGOTTEN: CONSULTATIONS

Although the deadlines for some consultations published by the International Accounting Standards Board have been deferred (see page 21 for more detail) we are continuing to consult with stakeholders and develop our responses to these important projects.

NURTURE YOUR GROWTH WITH ICAEW'S ACADEMY OF PROFESSIONAL DEVELOPMENT

Are you looking for practical ways to simplify group accounting? Do you need to refresh your team's IFRS or FRS 102 knowledge? If so, then the ICAEW Academy of Professional Development is the perfect training solution, offering virtual classrooms for easy accessibility to your team, plus members receive a 50% discount.

VIRTUAL CLASSROOMS

Whether you are looking for bespoke training or want to join a public course, ICAEW Academy's virtual classrooms deliver an enriching live learning experience. Collaboration is fostered using breakout sessions, live Q&A, polls, screen sharing and instant feedback. Led by an industry expert, courses range from 2-3 hours with a maximum of 15 learners to ensure individual support and feedback. A computer and headset are all your team needs to develop their skills from any location.

CPD financial reporting courses available:

- IFRS refresher;
- IFRS update (UK) – three changes every accountant needs to know;
- FRS 102 refresher;
- IFRS 16 – managing the risks of first-time adoption;
- Simplifying group accounting;
- US GAAP update – staying on top;
- IFRS 9 – demystifying hedge accounting;
- FRS 102 refresher for the charity sector.

ICAEW and Financial Reporting Faculty members qualify for 75% off all ICAEW Academy financial reporting virtual classroom courses.

For more information, visit icaew.com/virtuallearning or email us at academy@icaew.com or call +44 (0)20 7920 8733.

If you would like to run a bespoke course or want us to run a course to your full team, contact us on the above email or phone number.

ESSENTIALS CPD SPRING PROGRAMME AVAILABLE ON DEMAND

In light of the COVID-19 pandemic, a revised Essentials CPD Spring programme was delivered by live webinar during May and June. Although the live events have finished by the time you read this, members can access recordings of the webinars on-demand. In addition, a 75% discount is available on the individual delegate rate until 31 August, meaning faculty members (including non-ICAEW members) can access these courses for just £25.

Including the ever-popular Accounting and Financial Reporting update course, 15 core titles are available, delivered by leading industry-recognised trainers. Course content, where relevant, has been updated to include guidance on recent changes brought about by COVID-19. Webinars are split into two 50-minute sessions, plus 30 minutes of Q&A with delegates that attended the live event.

To view the programme, please visit icaew.com/essentialscpd

COVID-19: WHAT ARE THE IMPLICATIONS FOR FINANCIAL REPORTING?

Marianne Mau outlines the key considerations for preparers of financial statements

COVID-19 is having a devastating effect on people's health, way of life and on the economy. Many businesses, but not all, are suffering from the consequences of the disease as it affects their ability to trade as normal. Directors will need to consider how to reflect the impact of COVID-19 on not just the numbers but also the disclosures in the financial statements.

GOING CONCERN

The most pressing concern for many businesses is their ability to survive in the current climate. When assessing whether the going concern basis of accounting is appropriate, management must take into account all available information about the future, which is at least, but not limited to, 12 months from the date when the financial statements are authorised for issue. For the purposes of the going concern assessment, directors must take account of the effect of post-balance-sheet events, including the impact of COVID-19.

If the going concern basis is considered appropriate but there are material uncertainties that cast significant doubt upon the entity's ability to continue as a going concern, the details of those uncertainties must be disclosed.

Marianne Mau, Technical Lead, Financial Reporting Faculty

GETTY IMAGES

POST BALANCE SHEET EVENTS

For 2019 year ends there is general consensus that COVID-19 is a non-adjusting event for the vast majority of entities. Non-adjusting events should be disclosed when material.

For years or periods ending in early 2020, greater judgement will be required to determine whether it is an adjusting event, ie, the information on COVID-19 that comes to light *after* the balance sheet date provides more evidence of conditions that existed *at* the balance sheet date. This judgement will be heavily dependent on the reporting year end in question, the entity's own individual circumstances and the particular events under consideration. The amounts recognised in the accounts may need to be altered to reflect events that shine a brighter light on conditions at the balance sheet date.

RECOGNITION AND MEASUREMENT

The effect of COVID-19 on the amounts recognised in the accounts will depend on individual facts and circumstances. Below are some of the issues to consider; it is by no means a comprehensive list.

Impairment of assets – it is a general principle that assets must not be measured at more than their recoverable amount (reflecting conditions that existed at the balance sheet date). For tangible and intangible fixed assets, the effect of COVID-19 might be considered an impairment indicator and assets affected will need to be tested for impairment.

Stock will need to be written down when the estimated selling price, less costs to complete and sell, is less than its carrying value. When there is objective evidence that debtors are not recoverable as at the balance sheet date, they must be written down immediately.

Government assistance – the government has introduced a range of initiatives to help businesses, including the Coronavirus Job Retention Scheme, business rates holidays and grants for certain sectors. Government grants may not be recognised until there is reasonable assurance that the entity will (a) comply with the conditions attaching to them and (b) the grants will be received.

Contracts – a provision will be required for any contracts that have become onerous, for example, construction contracts or short-term rentals of office space. If contracts have been renegotiated as at the balance sheet date, the accounting treatment should reflect the new terms.

DISCLOSURE

In these times of significant uncertainty, it has never been more important to be transparent about risks faced and the assumptions used, and to make the disclosures as specific to the business as possible.

IS THAT IT?

Sadly, no. This article only touches on some of the key considerations. The Financial Reporting Faculty has produced more detailed guidance, which you can find on the COVID-19 financial reporting hub, accessible via ICAEW's main COVID-19 hub at icaew.com/coronavirus ●

THE TRANSFORMER

Sir Jon Thompson, the new Chief Executive at the Financial Reporting Council, talks to Nigel Sleigh-Johnson and Sally Baker about coming change and transformation

Spider-Man. The day Sir Jon Thompson was interviewed for *By All Accounts* he had been given strict instructions to wear his superhero T-shirt by his three-year-old grandson. The chief executive of the Financial Reporting Council (FRC) duly obliged. The Spider-Man T-shirt is not his usual workday attire, but this interview took place via videoconference during the lockdown and the dress code was informal. It's a good fit for Jon, who is reassuringly down to earth despite having held some of the most senior roles in the Civil Service, and having been knighted in 2019.

After qualifying, Jon worked in local government and in practice before joining the Civil Service in 2004 as the first finance director of Ofsted. Since then he has blazed a trail through the Department for Education and Skills, Ministry of Defence (MOD) and HMRC, working his way to the top of the government finance profession and onto the Civil Service Board - and that was before he took the helm of the FRC. "My mantra is to keep learning and work hard, and I think that's served me well over the years," he says, with characteristic understatement.

Jon, who says he built a career on change and transformation, has steered various government departments through some massive financial and organisational challenges. He went to the MOD because it had deep financial problems. The former Chancellor of the Exchequer asked him to take over at HMRC because it needed to go through a significant transformation. There will be more of the same at the FRC. Jon arrived there in October 2019, in time to lead the regulator through its transition into the Audit, Reporting and Governance Authority (ARGA); with all that this will entail.

POWERING CHANGE

Many recommendations for change in Sir John Kingman's independent review of the FRC's role and powers are already under way. "We are trying to be more proactive," Jon says. "We have increased engagement with stakeholders, creating a new communications and stakeholder management function, listening very carefully to stakeholders and flowing that back into the rest of the organisation."

Proactive engagement has been evident in the FRC's response to COVID-19 where, working alongside other regulators, there has been timely and helpful guidance for preparers, auditors and investors on matters such as disclosure of material uncertainties and going concern issues.

Of Kingman's 83 recommendations to make the FRC a more effective regulator, 20 have been fully implemented (largely affecting internal running of the organisation). Another 35 are at various stages of implementation and others will follow, leaving around 25 that cannot proceed without government action.

Should the UK have its own Sarbanes-Oxley system? Should the FRC have new and improved enforcement powers? The government must decide on such matters and then, if necessary, legislate. Jon is keen to press on though with changes that are possible at the FRC using its existing powers, and feels that plenty can be achieved within these boundaries.

"The organisation needs to change but the ecosystem around it also needs to change," says Jon. "There's a giant ecosystem out there, regulating, listening, negotiating, and it intrigued me enormously. That's why I took the job. At the FRC we are trying to raise standards across the board so that in the end, standards of corporate governance, corporate reporting and audit all improve. That is the purpose of our organisation."

FAR AND WIDE

Given the size and scope of Jon's portfolio and how much there is going on at the moment affecting the FRC and the surrounding ecosystem, what are the organisation's key areas of focus in terms of corporate reporting?

"There are three really," says Jon. The main areas where the regulator will be "pushing forward during 2020" are: the FRC's Future of Corporate Reporting project; the new requirement for boards to make a statement with regard to their duty under Section 172 of the Companies Act 2006 to promote the success of the company (a s172(1) statement); and non-financial reporting.

The FRC has been pondering the purpose of the annual report. "The concept for the future of corporate reporting is that you will have a core annual report that's mandatory for all companies, with a series of modules that you can flex," he explains. Manufacturing, retail and transport, for example, are very different. "Do you really need to have a standard set of reporting for all of them," wonders Jon, or can the annual report better reflect the nature of each

"The concept for the future of corporate reporting is that you will have a core annual report that's mandatory for all companies, with a series of modules that you can flex"

business, so that reporting is “more agile” and “more relevant” to businesses and their stakeholders?

There is a widely held view, says Jon, that the annual report is trying to serve too many purposes and stakeholder groups, and risks not serving any of them well. With some corporate annual reports running to six or seven hundred pages, reform is needed. Whether reform can de-bloat the annual report remains to be seen, in light of stakeholder demands and regulatory requirements for more non-financial information. “We’ve been looking at the future of corporate reporting and, in particular, the increased importance of non-financial reporting and what else is in the annual report.”

All companies qualifying as large under the Companies Act 2006 are within scope of the s172(1) reporting requirement to provide visibility of directors’ considerations in the performance of their duty and will be writing the first annual reports including these s172(1) statements during 2020. The Financial Reporting Lab of the FRC will be reviewing those first reports. “It will be interesting to see what people disclose on matters such as the consequences for a company in the long term and the impact on employees, customers, the community and the environment,” says Jon.

Investors and other stakeholders are becoming more engaged with non-financial risks. “Non-financial reporting is increasingly important and the FRC needs to be in this space,” says Jon, noting recommendations in the Brydon Report for the FRC’s new incarnation,

ARGA, to become the standard-setter for non-financial reporting. Also, for more of the non-financial information in annual reports to be assured, with some sort of certification.

"On that project, expect some sort of public manifestation of our thinking in the autumn," he says.

Jon thinks that more needs to be done to improve non-financial reporting, but he also thinks that it will require some significant work over quite a period of time. "There is already a standard for providing assurance over non-financial information in the annual report. The question is, how would that apply on a cyber-audit or a mineral reserves audit or a climate change impact audit?"

More thought is needed about what is to be assured, what level of assurance is required, and who is going to provide that assurance. "Clarity is needed," adds Jon.

There are many types of non-financial information that could potentially be reported on and many voluntary (sometimes overlapping, sometimes competing) non-financial reporting frameworks. "I'm told that 11 exist across the globe and we think that in the end there needs to be a winner," says Jon. "We should provide some rigour around non-financial reporting and demonstrate the impact of a company on various different aspects of society," he adds, such as how the climate is affected by tech giants, or the environmental impacts of those extracting mineral reserves.

BRAVE NEW WORLD

Building a more sustainable global economy, where businesses combine long-term profitability with social justice and environmental protections, may require a single framework to support the disclosure of comparable, reliable and transparent non-financial information. "I think stakeholders, including the general public, are keen to get to a place where they can understand this on a consistent basis," says Jon. "We need something that is almost an IFRS for non-financial reporting, if such a thing were possible. Whether that's a runner or not, I don't know."

"We should provide some rigour around non-financial reporting and demonstrate the impact of a company on various different aspects of society"

Even if it were, how long would it take to develop? At the cusp of 2019/2020, the European Commission said it would be inviting the European Financial Reporting Advisory Group to begin preparatory work, as quickly as possible, on the development of European non-financial reporting standards. Does Jon expect the UK to support this? "I can't pre-empt what ministers will do if the EU has a non-financial reporting directive either in the transition period or immediately after we leave, but at the FRC we would take a good deal of interest in what it says".

It can take years for international standards to come to fruition at the best of times. Meanwhile, says Jon, the FRC can help by being clear what it is in favour of. It has been evaluating possibilities, including Global Reporting Initiative (GRI) standards, reporting recommendations from the Task Force on Climate-related Financial Disclosures (TCFD) and the standards of the Sustainability Accounting Standards Board (SASB), as well as talking to major investors about what they want to see. "People are interested in metrics, they want to see some actual numbers," says Jon.

The board of the FRC has not yet decided its official position, but the FRC chief executive shared his personal perspectives. "I think SASB is very flexible. You pick what kind of industry you are in and then it tailors a set of metrics that are very investor-focussed," says Jon, who leans towards a combination of SASB and GRI that would provide numbers on various dimensions, through which stakeholders could see the impact of a company. "If the FRC can say something in the autumn about what we are in favour of, then you might see companies pick that up and run with it."

Creating clarity despite increasing numbers of non-financial reporting frameworks and standards is just one of the challenges Jon may need to overcome while steering the regulator through its transition to ARGA and beyond. Doing so would not be his first big achievement.

"As an accountant, my proudest moment to date was when Philip Hammond announced in 2012 that the government finally had a grip of MOD finances," says Jon, who had helped to dig the department out of a £38bn budget black hole.

In the world of public sector finance, Jon could be considered a superhero. ●

PHOTOGRAPHY: LOUISE HAYWOOD-SCHIEFER, CAMERA PRESS LONDON

BREXIT TAKES A BACK SEAT, FOR NOW

Marianne Mau looks ahead to a post-Brexit financial reporting landscape

HENDRIK DAHL / IKON IMAGES

Over the past few years Brexit has dominated news in the UK. But in recent months it has been sidelined by the COVID-19 pandemic. Brexit will be back, however, as the current transition period comes to an end on 31 December 2020.

In this article we reflect on what we know, what still needs to be finalised and what we expect the financial reporting landscape to look like on 1 January 2021.

THE TRANSITION PERIOD

Although the UK formally left the EU on 31 January 2020, it continues to be subject to EU rules until the end of the transition period, referred to as the implementation period (IP) in legislation. UK companies will continue to apply either EU-adopted IFRS or UK GAAP in their accounts.

Exemptions that are dependent on EU status will continue to apply, for example, an intermediate parent company can continue to take advantage of the exemption from preparing group accounts (Companies Act 2006 s400) for the time being. Whether these exemptions will continue to be available after the end of the transition period will depend on decisions about accounting equivalence by the UK and the remaining EU 27. The target date for completing these assessments is June 2020.

UK GAAP ACCOUNTS POST-BREXIT

The Financial Reporting Council will make consequential amendments to UK accounting standards necessary to reflect the changes in company law that come into effect at the end of the transition period.

IFRS ACCOUNTS POST-BREXIT

UK companies with accounting periods beginning on or after 1 January 2021 will switch from applying IFRS as adopted by the EU to IFRS as adopted by the UK.

There will be a choice for some companies with earlier accounting periods to apply either EU-adopted IFRS or UK-adopted IFRS. This choice is available for accounting periods:

- beginning before, but ending on or after, IP completion day; or
- ending before the IP completion day, when IP completion day occurs before the end of the period for filing the accounts.

WHAT WILL UK-ADOPTED IFRS LOOK LIKE?

Current legislation provides that all IFRS that have been endorsed by the EU become UK-adopted IFRS when the transition period comes to an end, ie, as at 31 December 2020 UK, and EU-adopted IFRS will be identical.

The Secretary of State will have the power to endorse new or amended standards for use in the UK, and to delegate this responsibility to a body. The UK Endorsement Board is currently being established and is likely to be operational later this year once the appropriate infrastructure, Chair and staff are in place.

After the end of the IP therefore, the UK and EU will be making IFRS adoption decisions independently of each other.

IFRS 17 *Insurance Contracts* has not yet been endorsed by the EU and it is unlikely that it will be by 31 December 2020. There are several narrow-scope amendments to IFRS that have not yet been endorsed and a number of further amendments to be issued by the IASB before the end of the year.

If the UK takes a different view on the endorsement of a standard or amendment, or concludes the process at a different time, it may be that UK and EU-endorsed IFRS diverge.

As well as the FRC's website containing information on UK-endorsement, more information on EU endorsement status is available on the EFRAG website and on expected IFRS amendments at ifrs.org

PRINCIPAL RISKS AND UNCERTAINTIES

At this time it's hard to imagine risks and uncertainties more significant than COVID-19. Nonetheless, Brexit remains a risk for some and for those entities finalising their accounts, it may still be appropriate to consider the impact of possible Brexit scenarios (from no deal to different forms of arrangements with the EU) on measurement and disclosure. ●

Marianne Mau, Technical Lead, Financial Reporting Faculty

STREAMLINED ENERGY AND CARBON REPORTING

Andrew Jones explains who's affected and what needs to be disclosed under the new regulations

Climate change and global warming have become steadily more important to companies of all sizes, driven by, among other things, customer and employee opinion and, for listed companies, investor demand. The UK government is also committed to a lower carbon path.

NEW REPORTING OBLIGATIONS

Regulations requiring quoted companies to report on their greenhouse gas emissions in the directors' report have existed since 2013, and covered around 1,200 companies. Under new regulations, however, *The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018* (the 2018 regulations), the requirements have been extended to also cover certain entities in the unquoted sector. The number of companies reporting on this area is therefore about to increase to more than 11,000, through the inclusion of 'large' private companies and limited liability partnerships (LLPs). These new requirements are effective from 31 March 2020 year ends.

WHO'S IN SCOPE?

The 2018 regulations distinguish between quoted companies, unquoted companies and LLPs with unquoted companies ,and LLPs having simpler reporting requirements.

Unquoted companies and LLPs

Large unquoted companies and large LLPs are in scope of the 2018 regulations, with the thresholds used to determine whether an unquoted company or LLP is large being the same as those in the Companies Act. The 2018 regulations do not, however, include the same ineligibility criteria as the Companies Act (whereby certain entities are ineligible and treated as large even though they meet the medium-sized thresholds). A medium-sized bank, for instance, would not need to report under the 2018 regulations. It is also worth noting that AIM companies, for this purpose, are unquoted.

Exemptions

There are several exemptions from these disclosures available as follows:

- Low use: if a business has a low level of energy use, defined as 40MWh of energy or less, it need not produce this report. It should be noted that this is a low level of usage – an electricity or petrol/diesel bill of £5,000 or more or a gas bill of £1,500 or more is likely to take a company above the threshold.
- Prejudice: the business need not disclose if it would, in the opinion of the directors, be seriously prejudicial to the company's interests.
- Practicality: there is also an option to exclude information if it is impractical to obtain. For example, this may apply if a company is sharing premises and there is no breakdown of the electricity bill available.

Use of the above exemptions requires the company to state, in its directors' report, that it has taken the exemption. In the case that information has been impractical to obtain, the company should also disclose what this applies to and why.

In addition, subsidiaries need not report if they are included in a group report covered under this legislation. The exemptions above apply piecemeal, so any company or amount of emissions in the group which is excluded in a subsidiary due to low energy use, and so on, can also be excluded from the group report.

WHAT TO DISCLOSE?

Possibly the most important reporting difference between quoted and unquoted companies is that quoted companies must report on global energy use and emissions whereas unquoted companies and LLPs only need to report on their UK emissions. Global reporting is nevertheless encouraged for unquoted companies and LLPs by the Department for Business, Energy and Industrial Strategy (BEIS).

What data needs to be disclosed?						
	2020	**{2019}**		**2020**	**{2019}**	
	tCO_2	tCO_2	*Proportion of which are UK emissions*	kWh	kWh	*Proportion of which are UK emissions*
Direct emissions						
Combustion of gas and use of fuel for transport	Y	Y		Y	Y	
Combustion of fuel (excl. gas included above) for any other purpose	Z	Z		Z	Z	
Non-energy-driven emissions from operation of facilities	Z	Z		-	-	
Scope 1	X	X	Z%	X	X	Z%
Indirect emissions (for own use)						
Purchase of electricity	Y	Y		Y	Y	
Purchase of heat, steam and cooling	Z	Z		Z	Z	
Scope 2	X	X	Z%	X	X	Z%

Key:
X Total emissions/energy use to be disclosed by all reporters
Y Components required to be disclosed by all reporters
Z Components required to be disclosed by quoted companies only
{2019} Although the regulations require comparatives, these are optional in the first year

Types of energy and emissions covered

The 2018 regulations require scope 1 and scope 2 emissions to be reported. Scope 1 emissions are those produced by the company itself (eg, through fuel use) and scope 2 emissions are those from purchased energy/heating or cooling.

Businesses must report on emissions in tonnes of carbon dioxide equivalent (tCO_2) and on the energy they use to produce them in kilowatt hours (kWh). Standard tables of conversion factors are published by BEIS each year enabling entities to convert data such as litres of fuel used into carbon emissions.

To reduce administration, unquoted companies and LLPs are only obliged to report on emissions and energy use from burning gas, from fuel used in transport and from the company's electricity usage. This should make collecting the data relatively simple. However, for companies which haven't reported in this way before, it is still likely to require work in advance of the year-end to ensure that, for instance, kWh figures from energy bills and petrol usage for company cars have been collected and accruals worked out to match use to the period.

Quoted companies must additionally include carbon emissions from the operation of any facility and also from their own use of fuel for any purpose, not just transport. As well as electricity use, they must also report on purchased heat, steam or cooling. While, for many businesses, the differences between the two may be small, in industrial businesses they can be large. Like unquoted companies, quoted companies also have to report on the energy use driving those emissions – a new requirement for them.

An example of how the quantitative data may be disclosed is shown in the table above. Alongside this data, the regulations also ask for the following information to be disclosed:

- The methodologies used to prepare the disclosures including standards and conversion factors applied and any areas excluded due to immateriality or exemptions. Any estimates used, where more precise data is not available, should also be disclosed.
- The period covered in the disclosures should be stated if the energy data covers a different period than that of the directors' report.
- One or more intensity ratios should be provided to link energy use to a business activity.
- Any measures taken to increase energy efficiency and the effect of these.

These are minimum compliance requirements. It is worth noting that, in the *Environmental Reporting Guidelines: including streamlined energy and carbon reporting guidance* produced by BEIS, companies are encouraged to voluntarily disclose wider scope information such as, for all reporters, indirect emissions that occur in the value chain of the reporting company (scope 3 emissions), and for unquoted companies and LLPs, global emissions as mentioned earlier.

GOOD PRACTICE

As with financial data, the systems from which emissions data is calculated would ideally form part of the business's core management systems. However, Mazars' recent survey *Greenhouse Gas Reporting* suggests this is not that case. The survey indicates that non-financial reporting systems are currently not well linked to business operations.

Though improving, non-financial systems often lack the maturity of financial systems; the lack of controls and the granularity of data that can be obtained do not currently allow changes to be properly explained and audited. As accountants, we should be enthusiastic supporters of improvements here. Reliable systems are at the core of our skill-set, and are particularly necessary if we're going to be providing assurance on this data in the future.

The faculty's April 2020 webinar also covered the SECR regulations. A recording is available at icaew.com/frfwebinars ●

Andrew Jones,
Narrative Reporting Expert, Mazars

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GENERAL PRESENTATION AND DISCLOSURES

Michael Stewart explores the key proposals for a new accounting standard that will govern the structure and content of financial statements

Currently, IAS 1 *Presentation of Financial Statements* imposes little structure on the content and format of the income statement. Instead, management is left to use significant judgement in deciding how best to present a company's performance.

The International Accounting Standards Board (IASB) is concerned that this lack of structure may be impeding financial statement users from comparing the performance of companies. In response, the IASB is proposing to replace IAS 1 with a new standard that will govern the general structure and content of financial statements. It published its exposure draft (ED), *General Presentation and Disclosures*, in December 2019, with comments due by 30 September 2020.

THE MAIN PROPOSALS

Income statement structure

The ED proposes four new categories into which items of income and expense would be classified. These are:

1. operating;
2. integral associates and joint ventures;
3. investing; and
4. financing.

Categories 2, 3 and 4 are tightly defined but 1 is not. The operating category would be the default for items of income or expense not falling within another category and would contain income and expenses from the company's 'main business activities'. Management would determine what these are and would describe the nature of the company's operations and its main business activities in the notes.

The integral associates and joint ventures category includes income and expenses from such investments. Integral is a new concept; intended to describe operations that are judged to be closely related to the company's main business activities and generating a return "in conjunction with other assets of the company" (another new concept).

This might be through for example, having integrated lines of business, sharing a name or brand, or a supplier or customer relationship which would cause it significant business disruption to replace. To illustrate, in the mining and oil and gas sectors, associates and joint ventures are often used to share the risk in exploration and development activities, and these would probably qualify as integral. However, the integral associates and joint ventures category would be presented separately from the operating category, which is reserved for activities that the company controls.

Investing activities would be used to classify income and expenses, from investments, that are generated "individually and largely independently of other resources of the company". However when these are generated as a main business activity they are operating activities, such as they would be for a bank or investment company. The judgements made in determining a company's main business activities will be important for this category too.

The last of the new categories, financing, is a measure of interest on net debt and includes:

a. income and expenses from cash and cash equivalents;

b. income and expenses on liabilities arising from financing activities; and

c. interest income and expenses on other liabilities.

Financing activities are those involving the "receipt or use of a resource from a provider of finance with the expectation that (i) the resource will be returned to the provider of finance; and (ii) the provider of finance will be compensated through the payment of a finance charge that is dependent on both the amount of the credit and its duration".

When a company's main business activity is providing finance to customers, it could classify either all of (a) and (b) to the operating category, or only that part of them that relates to providing finance to customers, as a policy choice.

Item (c) includes interest expense on provisions, such as warranty and decommissioning provisions, and interest income or expense on a net defined benefit asset or liability. These could be all that is left for some companies, given the policy choice described above.

Aggregation and disaggregation

The IASB proposes guidance that should help companies aggregate items throughout the financial statements on the basis of 'shared characteristics'; the characteristics that management judges should be informative to financial statement users.

Those characteristics could be the nature of the items, their function, their measurement basis, or some other characteristic. Unlike items should not be aggregated and useful information should not be obscured by excessive aggregation or disaggregation. The guidance on aggregation and disaggregation is closely related to the concept of materiality, and similar judgements will be needed.

> **The IASB has tried to balance the need for comparability with the flexibility required "to tell the company's story"**

Unusual income and expense items

Financial statement users claim that they need better information about a company's income and expenses that have limited predictive value; users want to analyse these separately when predicting a company's future cash flows.

The ED proposes that companies disclose, in a single note, each item of income or expense that is 'unusual'. Unusual means it is "reasonable to expect that income or expenses that are similar in type and amount will not arise for several future annual reporting periods".

For each unusual item, a company would disclose the amount, describe the transaction or other event that gave rise to the item, explain why it is unusual and explain where the item is included in the income statement.

MANAGEMENT PERFORMANCE MEASURES

The IASB has decided not to dictate what types of performance measures management may use to communicate a company's performance. Instead, it proposes disclosure requirements for performance measures that meet its definition of a Management Performance Measure (MPM), which is one:

a. used in public communications outside the financial statements;

b. that complements totals or subtotals specified by IFRS; and

c. that communicates to users management's view of an aspect of a company's performance.

An MPM is a subtotal of income and expense, only. Ratios, cash-flow measures or measures based on non-financial information are not MPMs. The disclosure requirement seems to include MPMs published anywhere. Presentations and publications made in support of the release of the annual financial statements, any subtotals published on websites or included in earlier and subsequent presentations to investors, customers, or suppliers would be captured.

Management would need to explain how the MPM communicates its view of performance, how it is calculated, why it is useful and, if it has changed, how and why. A reconciliation would be required for each MPM to the most directly comparable IFRS-defined total or subtotal, along with the tax effect and the effect on non-controlling interests of each reconciling item. The information would be presented in a single note to the financial statements and, consequently, be audited.

PRELIMINARY OBSERVATIONS

It is clear from reading the ED that the IASB has considered how users use financial statements, and has attempted to make financial statements more useful and user-friendly. The IASB has tried to balance the need for comparability with the flexibility required "to tell the company's story". Accordingly, important judgements would include identifying a company's main business activities, whether the activities of some of its associates and joint ventures are closely related to those main business activities, and identifying which items of income and expense have limited predictive value for users, and are therefore unusual.

MPMs that managers choose to communicate the company's performance would still be allowed, but with disclosure that would introduce some much-needed discipline. However, the proposal to capture all MPMs wherever published may cast the net too wide; and could lead to lengthy and, possibly, unhelpful disclosures. Perhaps restricting the requirement to those MPMs published in the annual reporting round; the annual report, results announcements and investor presentations, would bring a better cost/benefit balance.

The Financial Reporting Faculty is in the process of considering the proposals and preparing a response to the IASB. The final response will be publicly available in due course at icaew.com/representations ●

Michael Stewart
Senior Financial Reporting Expert, Huawei Global Finance (UK) Limited

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SECTION 172(1) REPORTING: A CO-ORDINATED EFFORT

Good reporting starts with good content, gathered from sources right across the business. **Mei Ashelford** explains

In the last edition of *By All Accounts*, Amanda Swaffield discussed new stakeholder engagement reporting requirements introduced by *The Companies (Miscellaneous Reporting) Regulations 2018*. One of these requirements is for "large" and "ineligible medium-sized" companies (as defined in the Companies Act) to provide a section 172(1) statement in their strategic report.

Some of the first FTSE annual reports of the 2019/20 reporting season have landed and we are seeing several different approaches to s172(1) reporting. The statements vary in format, detail, length and location; some are fuller, standalone statements while some are simple tables with cross-references to other parts of the annual report (not dissimilar to the approach taken to many non-financial information statements). Most are somewhere in between. As with all things new it will take time for best practice to develop, and no single approach will work for all companies, as much will depend on the overall structure, content and narrative flow of the specific annual report.

Not all the examples of s172(1) reporting that have landed so far are of equal quality - some are better than others. The Financial Reporting Council's *Guidance on the Strategic Report 2018* states that "the s172 duty is consistent with the principle of enlightened shareholder value; recognising that companies are run for the benefit of shareholders, but that the long-term success of a business is dependent on maintaining relationships with stakeholders and considering the external impact of the company's activities." For s172(1) reporting to be of value, the annual report must explain how directors have taken into account the wider long-term impact of the company's activities in their strategic and operational decision-making.

WHAT DOES THIS MEAN IN PRACTICAL TERMS?

Regardless of the presentation of the statement (ie, whether it is a standalone statement of prose, a table of cross-references to other parts of the annual report, or somewhere in between), all good corporate communications must start with good content. And good content must be based on real evidence; evidence that demonstrates how directors have discharged their s172 duty.

The annual report is often owned by one of the investor relations, external communications, finance or company secretarial teams (or a combination thereof). In most instances the owner(s) of the annual report will, however, not be aware of everything that has happened across the business that might provide evidence to support a s172(1) statement. To avoid boilerplate reporting, companies will need to identify evidence that brings their s172(1) reporting to life. An evidence-gathering exercise must therefore be undertaken as an initial first step. This can happen ahead of time, which will help to ease time pressure around the year end.

So how do you go about gathering this evidence and how do you then work out the best way to report it? Here is my recommended four-step process.

1 UNDERSTAND THE S172 DUTY

There is a common misunderstanding that s172 is only about stakeholder engagement; this is not the case. The s172 duty falls under three main themes: engagement, long-term impact and behaviour.

Under s172, directors are duty bound to act in a way that promotes the success of the company and in doing so have regard to:

a. the likely consequences of any decision in the long term;
b. the interests of employees;
c. the need to foster business relationships with suppliers, customers and others;
d. the company's impact on the community and environment;
e. the desirability of the company maintaining a reputation for high standards of business conduct; and
f. the need to act fairly as between members.

In broad terms, only parts (b), (c) and (f) relate to stakeholder engagement. Long-term impacts are particularly drawn out in parts (a) and (d) and corporate behaviour in part (e).

Arguably, impact and behaviour run through all six parts. Early observations indicate that companies have focused heavily on stakeholder engagement to the detriment of the other requirements.

2 GATHER EVIDENCE

Good reporting requires good content. The next step is to gather evidence from across the business on the s172 themes of engagement, impact and behaviour. This requires a co-ordinated effort as there will be multiple teams and individuals involved in, and responsible for, these activities. Here are some questions to consider when gathering evidence:

It can be dangerous to be armed with too much information. Not all information should be included in the annual report

Engagement
Who are your key stakeholders? How do you engage with them, both formally and informally? Who undertakes the engagement? Who is responsible for overseeing it, and collating feedback? Where does that feedback go? What key issues were raised during the year? How did the business respond? How is a stakeholder's voice heard in the boardroom and taken into account in strategic decision-making?

Impact
What impact does your business have on your key stakeholders, both financially and non-financially? What is your impact on the environment and how are you minimising negative impact? What is your impact on society and how are you maximising positive impact? Do you track your impact? What metrics do you use? What successes have you had during the year? What are your priorities for next year?

Behaviour
What is your corporate culture and the associated behaviours? How is this aligned with your strategy and business model? How does the board monitor culture? Has the business changed its behaviours this year? If so, how? What controls, policies and procedures are in place to keep behaviour in check?

3 IDENTIFY WHAT IS MATERIAL

It can be dangerous to be armed with too much information. Not all the information gathered should be included in the annual report. The *Guidance on the Strategic Report 2018* states that the purpose of the annual report is to "provide shareholders with relevant information that is useful for making resource allocation decisions and assessing the directors' stewardship". However, it goes on to add that the annual report "should address issues relevant to... other users where, because of the influence of those issues on the development, performance, position or future prospects of the entity's business, they are also material to shareholders".

An exercise to identify what is material to shareholders, and why, will need to be undertaken. For example, raising money for a charitable cause is most likely not going to be material to shareholders, however if it is part of a much wider social impact strategy, it might be. Once this filtering exercise has been completed, the information left is the "good content" that will provide useful and insightful reporting.

4 DEVELOP A DETAILED STRUCTURE AND CONTENT PLAN

Once the material information that supports the s172(1) statement and brings the story to life has been identified, the next step is to organise it into a logical, connected and flowing narrative. As part of this, you should decide on what format the company's statement should take.

The *Guidance on the Strategic Report 2018* notes that "there will be linkages and overlaps between information contained in the strategic report and that required to be included in the s172(1) statement. Companies are encouraged to avoid repetition, maintain the cohesion of the narrative contained within the strategic report and incorporate information into the s172(1) statement by cross-reference where appropriate".

Section 172 crosses over between governance and reporting, with the execution of the duty demonstrated through governance practices, and the reporting of that activity (ie, the s172(1) statement) appearing in the strategic report.

Producing a detailed structure and content plan will give all content authors sight of where their content will sit within the annual report, how everything links together and the specifics of what they should be writing about.

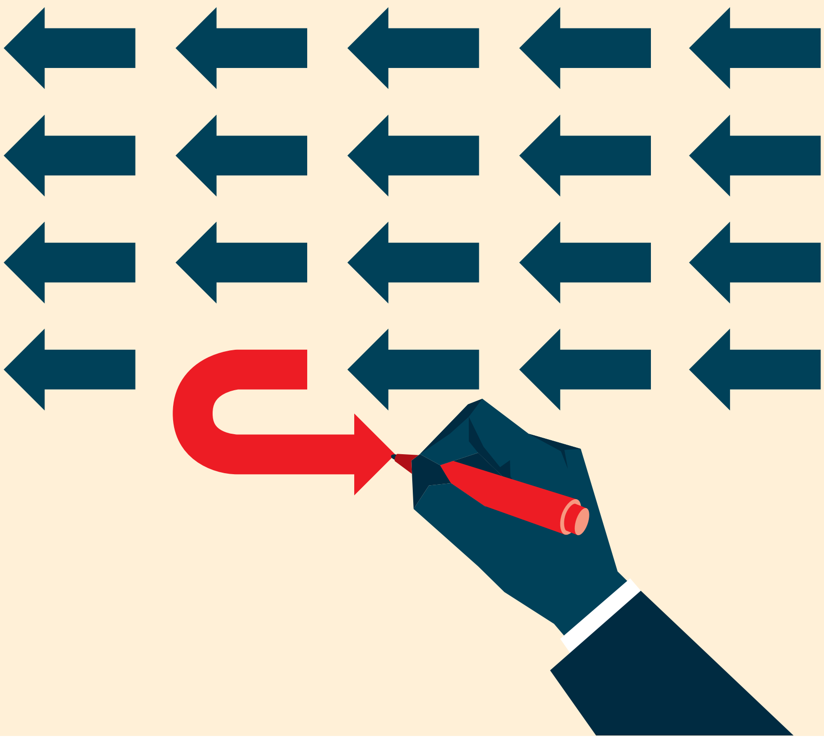
Find out more about the recent changes in governance and reporting regulations including s172(1) statements in Gather's series of Reporting Intelligence white papers available at gather.london/insights. ●

Mei Ashelford is Director of reporting intelligence at Gather

TAYLOR CALLERY / IKON IMAGES

THE RISE OF REVERSE FACTORING

Catriona Lawrie and **James Nayler** discuss the implications of entering into this type of finance arrangement



Many people are familiar with the concept of debt factoring, in which the supplier of goods or services uses the trade debt owed by its customers (ie, the purchasers of those goods or services) as a means to obtain funds from a finance provider such as a bank. Yet people may be less aware of the concept, and implications, of reverse factoring.

Reverse factoring has been the subject of increasing focus by the regulator, the Financial Reporting Council (FRC), in recent years. Back in 2014 the regulator called for greater transparency around such arrangements and in 2018, they published their response to enquiries about the suitability of the accounting applied to reverse factoring by Carillion. In their 2018/19 review of corporate reporting, the FRC noted that it continues "to have concerns about the adequacy of disclosures provided to explain supplier financing arrangements, also known as reverse factoring".

Supply chain financing was also on the agenda at the April 2020 meeting of the IFRS Interpretations Committee ahead of further discussions planned for June.

WHAT IS REVERSE FACTORING?

Traditional debt factoring arrangements can be structured in a variety of ways, with the accounting by the supplier being predominantly driven by the extent to which it has transferred its customer's (ie, the purchaser's) credit risk to the bank.

The purchaser, however, is not a party to the arrangement and so its contractual rights and obligations under the contract with the supplier are unaffected.

Like debt factoring, reverse factoring is an umbrella term used to describe a spectrum of different arrangements. However, unlike traditional debt factoring arrangements, the purchaser is party in some way to the arrangements, typically being the initiator of the arrangement. As shown in the illustration opposite, the purchaser arranges for the bank to pay the supplier on its behalf and then later, pays the bank.

Motivations of the purchaser may be to:

- enable the purchaser to take advantage of any early settlement discount by arranging for the bank to pay the supplier on its behalf earlier than it is otherwise contractually required to;
- in effect, provide the purchaser with a further period of credit by arranging for the bank to pay the supplier in accordance with the original terms of the contract; or
- stabilise the purchaser's supply chain by introducing their supplier to the bank, enabling the supplier to be paid in line with the credit terms originally granted to the purchaser.

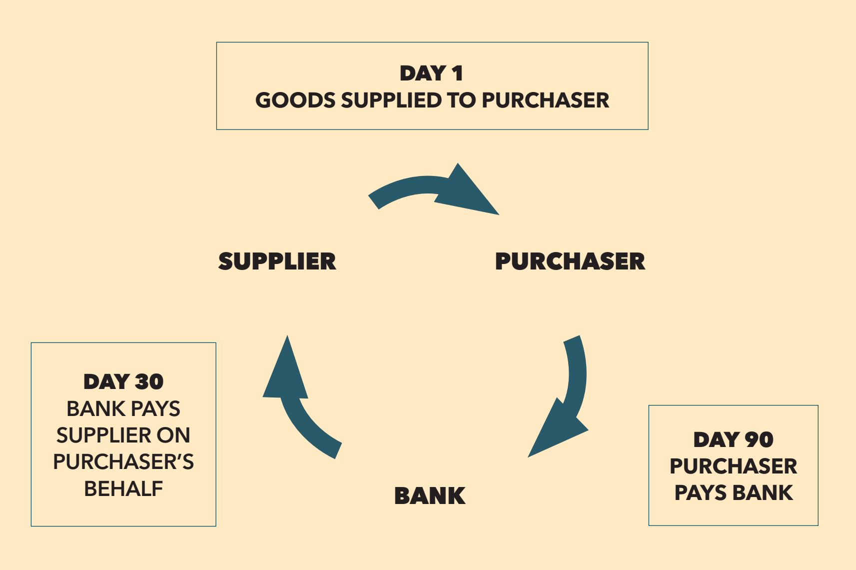
WHY IS IT AN ISSUE?

Reverse factoring has come to the attention of the regulator as the prevalence of this type of financing may significantly outweigh what is apparent from annual reports.

Companies that provide little or no disclosure of their payment practices are not being transparent with investors, and other users of the financial statements, about what may be a material component of the company's working capital. This lack of transparency may also mean that other relevant questions are not appropriately considered, for example:

- whether the use of reverse factoring limits the company's ability to raise further financing at market rates in the future; and
- whether it has an impact on other lines of credit the company holds with the bank.

ILLUSTRATION OF A TYPICAL REVERSE-FACTORING ARRANGEMENT



WHAT ARE THE IMPLICATIONS FOR ANNUAL REPORTS?

Unlike debt factoring, reverse factoring may have an accounting impact for the purchaser. It's clear the purchaser has a liability, but what is less certain is whether the trade payable originally due to its supplier should be reclassified as a financing liability after being settled on its behalf by the bank.

The conclusion reached has a consequential impact on the cash flow statement and statement of profit or loss. The eventual cash payment made by the purchaser will either be presented as an operating or financing cash outflow, and any difference in the cash flows (if any) between the original and subsequent liabilities will be presented in profit or loss as either operating or financing expenses.

Notwithstanding the effect on the financial statements, the use of reverse factoring by a purchaser, as part of its relationship with its creditors, should have implications for the strategic report, liquidity risk disclosures, and the company's section 172(1) statement.

ACCOUNTING REQUIREMENTS

Neither IFRS nor UK GAAP provides specific guidance on how a purchaser should account for reverse factoring arrangements. However, they both require a financial liability to be derecognised when, and only when, it is extinguished (ie, when the obligation specified in the contract is discharged, cancelled or expired). When a purchaser borrows from a bank (cash inflow) to pay a supplier (cash outflow) it usually requires little analysis to conclude that the liability to the supplier should be derecognised, and a new liability to the bank recognised. However, when the bank settles the supplier directly, and there's no immediate cash inflow or outflow from the purchaser's perspective, it may not be so obvious.

If, as a result of a reverse factoring arrangement, the purchaser is in exactly the same position as if it had borrowed from the bank to settle the debt owed to the supplier, it would be appropriate for the financial statements to reflect the liability as a financing transaction. In other situations, however, judgement may be needed to conclude if the purchaser's original liability has been extinguished and replaced with a liability to the bank.

Where there has been a modification of a financial liability, both IFRS and UK GAAP require an assessment of whether the terms of the debt owed are substantially different. IFRS clarifies that this will be the case if the cash flows under the revised arrangement (including fees) are at least 10% different to the original contract. It is also generally accepted that qualitative changes to terms, such as security or guarantee enhancements provided by the purchaser, can also affect the assessment.

Where the purchaser's liability to the supplier is not substantially different, the purchaser would continue to present the liability as a trade payable with the settlement being an operating cash flow. However, where the purchaser's obligation is assessed as substantially different, the existing liability will be derecognised and a new liability recognised. Further factors will then need to be considered to determine whether that new liability continues to be a trade payable or is a financing liability. These factors might include whether:

- the purpose of the arrangement is predominantly to improve the purchaser's or the supplier's working capital position;
- any fees are payable as part of the arrangements and if so, by who and to whom; and
- the purchaser's and supplier's rights and obligations vis-à-vis discounts and refunds for the goods or services supplied has changed.

SUMMARY

For companies considering entering into reverse factoring arrangements, it is important to understand the totality of the contractual arrangements in place between the supplier, the purchaser and the bank. Depending on those contractual arrangements, judgement may then be needed to determine how the purchaser should present the liabilities arising and subsequent cash flows on settlement of those liabilities.

Companies should also consider the need to disclose additional information. Both IFRS and UK GAAP require the judgements that management have made in the process of applying the company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements to be disclosed. We await the next steps of the IFRS Interpretations Committee with keen interest ●


Catriona Lawrie, Director, and
James Nayler, Senior Manager, Mazars.
Views expressed are those of the authors

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GETTING BIGGER AND BETTER…

Sarah Flint explores the common financial reporting issues faced when moving from FRS 102 Section 1A to full FRS 102

EXAMPLES OF DISCLOSURES THAT MIGHT APPEAR AUTOMATICALLY WHEN YOU TURN OFF SECTION 1A EXEMPTIONS IN YOUR SOFTWARE

- A Statement of Comprehensive Income (SOCI*)
- A Statement of Changes in Equity (unless included in SOCI)
- A Statement of Cash Flows
- R&D activities and recommended dividend (directors report*)
- Audit report*
- Audit fees
- Directors' remuneration and possibly highest-paid director note
- Turnover, tax and interest notes
- Key management personnel compensation
- Information about associates and holdings of more than 20%

*No option to remove on filing under full FRS 102

It's great when clients prosper. But for small entities that have previously chosen to apply the small entities regime of FRS 102 Section 1A, growing to become a medium-sized entity that must apply FRS 102 in full requires a step change in financial reporting. Here are some of the more common issues.

MORE DISCLOSURE, MORE DETAIL

FRS 102 requires more bespoke disclosures compared to those in Section 1A. The box, left, contains examples of disclosures that might be added when you switch off Section 1A exemptions in a software package. While software can create the outline, client-specific, tailored narrative must be added and templates, checklists and disclosures from similar companies will only be useful as a starting point. This can be time consuming and the balance between efficiency and quality isn't always easy to achieve.

Now that recognition is a significant audit risk, 'boilerplate' turnover notes need elaboration. Judgements and estimation uncertainty must be disclosed. And notes for related parties, share options and financial instruments will also require more detail.

STRATEGIC REPORT

Medium-sized entities must prepare a Strategic Report, which should be fair, balanced and understandable. A recent example I've seen started with a tongue-in-cheek 'this family-owned business isn't bothered, neither is anyone else, I've ticked through the disclosure checklist, is this enough?' Here's what happened when we took their original comments and discussed it further.

Performance: "Profit in the year was £x, (XX18, £y)"
To make it 'fairer' we added the position at the year end and explained the increase in profits, in this case, due to a significantly improved lead time. The bigger the business, the more detail is likely to be needed.

Risk and uncertainties: "The business faces various risks and uncertainties"
This is too vague! For many businesses, Brexit and COVID-19 are dominant risk areas. Adding this detail and linking it to 'important events occurring since the year end' in the Directors' Report helped, alongside detail on the exposure level and how the risks are being mitigated. Risks and uncertainties are specific for each client so tailored disclosures are needed.

KPIs: "Sales per head are £x (XX18 £y)"
For a machine-intensive manufacturing business, there are more appropriate KPIs. Since the directors use margin-based measures of performance for rewards like bonuses, we discussed including percentage return on fixed assets, stock turnover and lead time changes, plus the current ratio. Although non-financial KPIs are not required for medium-sized companies, they can help.

Future activities: "The directors expect improvements in performance in the coming year"
In light of the coronavirus situation, this highlights the danger of using 'standard' paragraphs. We suggested stating that the impact for this business is not yet known and including specific detail on how shutdowns for the company, its suppliers and customers are likely to affect trading results.

CASH-FLOW STATEMENT

No longer being small also means having to prepare a cash-flow statement. Unfortunately the version that pops out of the software may contain errors. Problem areas include netting off of new debt and debt repaid, errors in payments made on leases, tax and interest, rounding errors and some figures being misposted under 'spare' or 'other'. Even when it seems to balance, differences can be found within line items such as the movement in creditors. It might be worth doing your own!

ICAEW's website has checklists and example accounts that include all of the additional disclosures required when moving from Section 1A to full FRS 102 for the first time. The Financial Reporting Faculty also has online guidance to help companies prepare a Strategic Report. See icaew.com/frs102 and icaew.com/ukregulation ●

Sarah Flint,
Director, Benee Consulting Ltd

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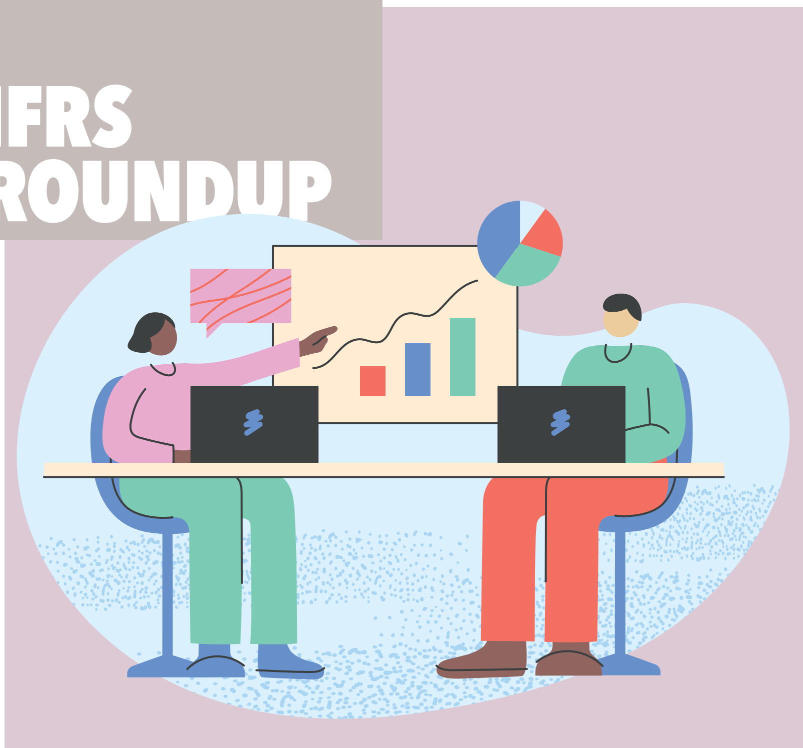
IFRS ROUNDUP



Sally Baker provides a roundup of forthcoming developments in IFRS

Sally Baker,
Technical Manager, Financial Reporting Faculty

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IFRS 16 LEASES

In light of the COVID-19 pandemic, many lessees have been granted rent concessions such as rent holidays and temporary rent reductions. To help lessees apply IFRS 16 *Leases* to the potentially large volume of rent concessions being granted, an amendment to the standard was published in May following a short consultation.

The amendment exempts lessees from having to consider whether particular COVID-19 related rent concessions are lease modifications. By not requiring the changes to be accounted for as lease modifications, timely relief is provided to lessees while still ensuring useful information is provided to investors.

The amendment is available for annual reporting periods beginning on or after 1 June 2020, with early application permitted, including in financial statements not yet authorised for issue at the date the amendment is issued. EU endorsement is also being carried out on a shortened timetable.

Following a recommendation from the IFRS Interpretations Committee, it is intended that IFRS 16 will also be amended in due course to specify how the seller-lessee applies subsequent measurement requirements to the lease liability that arises in a sale and leaseback transaction. An exposure draft (ED) is expected later in 2020.

INTEREST RATE BENCHMARK REFORM

As part of the second phase of the interest rate benchmark reform project, the International Accounting Standards Board (IASB) issued proposed amendments to accounting standards in April 2020. The main amendments relate to modifications to financial instruments, hedge accounting and disclosures. The IASB is working to an accelerated timetable to finalise the amendments which are due to come into effect for annual periods beginning on or after 1 January 2021, with earlier application permitted. EU endorsement is also due to be fast-tracked to enable the amendments to be available for early adoption for 2020 year ends.

CLASSIFICATION OF LIABILITIES

Amendments to IAS 1 *Presentation of Financial Statements* were issued in January 2020, affecting the presentation of liabilities in the statement of financial position. The amendments provide a more general approach to the classification of liabilities based on the contractual arrangements in place at the reporting date. Although issued with an original effective date of 1 January 2022, an ED proposing a delay of one year to annual reporting periods beginning on or after 1 January 2023, as a result of the COVID-19 pandemic, has been published.

IAS 16 PROPERTY, PLANT AND EQUIPMENT

An amendment to IAS 16 *Property, plant and equipment* (PPE) was published in May 2020. The amendment prohibits proceeds from selling items produced while bringing an item of PPE to its location and condition for its intended use being deducted from the cost of that asset. This amendment is effective for annual periods beginning on or after 1 January 2022.

ONEROUS CONTRACTS

An amendment to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* has been issued to specify which costs to include when assessing whether a contract will be loss-making and is also effective for annual periods beginning on or after 1 January 2022.

IFRS 17 INSURANCE CONTRACTS

The IASB expects to issue amendments to IFRS 17 *Insurance Contracts*, which will aid implementation, in June 2020. However, it has been confirmed that the requirements relating to annual cohorts will not be removed or amended.

EXTENDED CONSULTATION PERIODS

Due to COVID-19, the IASB decided to extend the consultation periods by approximately three months for the following consultation documents:

- the *General Presentation and Disclosures* ED issued in December 2019, as part of the Primary Financial Statements project, now extended to 30 September 2020;
- the Discussion Paper on *Business Combinations - Disclosures, Goodwill and Impairment* issued in March 2020, now extended to 31 December 2020; and
- the Request for Information on *Comprehensive Review of the IFRS for SME Standard* issued in January 2020, now extended to 27 October 2020. ●

REPORTING CLIMATE CHANGE AND ENERGY TRANSITION

Anna Malcolm considers how UK GAAP reporters should account for and disclose the effects of climate change under FRS 102

The debate about climate change has been on the increase in recent years. Greta Thunberg and activist groups have brought the issue into focus, while it has also been subject to greater scrutiny from investing and other stakeholder communities. The demand is the same: protect the climate by changing the way the world produces and uses energy.

Increasing numbers of larger or listed companies are reporting climate-related risk in their annual reports. The framework for narrative disclosures developed by the Task Force on Climate-related Financial Disclosures (TCFD) is a useful tool for doing this. For those applying IFRS, the International Accounting Standards Board (IASB) has published an article on accounting for climate change, *IFRS Standards and climate-related disclosures*, but what about UK GAAP? How should smaller businesses account for and disclose the effects of climate change?

DEFINING CLIMATE-RELATED RISKS

It is difficult to envisage the accounting effect of climate-related risks when it is referred to under a single banner such as climate change. By breaking it down into specific risks, for example, physical or transition risks (see tables, right), it's easier to see how it could affect your business and accounting.

All businesses are likely to experience some disruption as the world around us changes and we adapt to the effects of climate change. However, some are likely to be affected more quickly than others with the TCFD identifying the sectors below as higher risk.

BUSINESSES AFFECTED

Non-financial	Financial
Energy	Banks
Transportation	Insurance groups
Material and buildings	Asset owners
Agriculture, foods and forest products	Asset managers

HOW IS IT REPORTED?

Many UK GAAP preparers will be subject to the requirement in UK company law to prepare a strategic report, although much of the forward-looking content is required only of quoted companies, many of which will not be UK GAAP preparers. However, the strategic reports of UK preparers must give a description of the principal risks and uncertainties facing the company, which would include the risks of climate change, if these are material to the business.

ACCOUNTING FOR RISKS

Whether, and to what extent, the risks of climate change should affect a company's financial position is a key question for preparers and presents a complex challenge. Unless your business identifies a likely direct effect in the foreseeable future - for example, a factory in a flood plain that is at risk or a component for petrol engines for which demand might tail off - then the effects can seem indistinct and far off. But it is important to consider plausible scenarios when assessing forward-looking information affecting the financial statements. This might come through in the following ways:

Reductions of asset lives (FRS 102 Sections 17-19)
Broadly speaking, an asset's useful life is the period over which you expect to use an asset in your business. This should be estimated realistically and reviewed at the end of each reporting period when there are indicators that it may have changed. Factors to consider when determining the useful life of an asset might be the asset's expected usage, wear and tear, technical or commercial obsolescence and legal limits placed on the asset's use.

In the context of climate change, asset lives could be reduced because of (among other things):

- lower demand for their output in the transition to a low carbon economy;
- their location in an area under threat of extreme adverse weather conditions; and/or
- regulation prohibiting the future use of equipment that produces high emissions.

PHYSICAL RISKS: RISKS ARISING FROM THE DIRECT PHYSICAL EFFECTS OF CLIMATE CHANGE

Example	Some potential effects
• Floods, storms • Rising sea levels • Chronic heat waves	• Destruction of property • Interruption of supply chains and demand for goods and services • Public health risks • Displacement of labour resources • Water scarcity

TRANSITION RISKS: RISKS ARISING FROM THE TRANSITION TO A LOW-CARBON ECONOMY

Example	Some potential effects
• Government policy and regulatory action • Legal action • Changing technologies • Changing markets • More discerning investors	• Increased operating costs • Fines and penalties for breaches • Reduction/loss of markets for goods and services • Increased research and development costs • Difficulty retaining skilled labour

Impairment calculations (FRS 102 Section 27)
Goodwill, property, plant and equipment (PPE) and intangible assets are tested for impairment when circumstances indicate that an impairment might exist. Indicators of impairment might relate to the assets themselves or to the economic environment in which they are operated.

Generally, preparers are not looking many years in advance to identify impairment indicators. However, it may be appropriate to consider physical and transition risks as indicators, if it is reasonable to foresee that your business may be affected. For some of the industries referred to in the table above, this task might be required sooner rather than later.

If an impairment test is conducted, then the asset's recoverable amount is determined, which is the higher of value in use and fair value less costs to sell. Where a value in use calculation is prepared, it is based on management's assumptions about the future and it may be appropriate to include increased costs, reduced revenues, shorter asset lives and increased discount rates consistent with climate-related risk, either as a base case or plausible downside scenario.

An asset's fair value might also be affected, for example to reflect the expectations of fossil fuel prices or potential changes in laws and regulations. This is equally true whether the fair value is determined for impairment purposes or in a different context (eg, if the asset is carried at fair value under the revaluation model for PPE and intangibles).

Increases in provisions and contingencies (FRS 102 Section 21)
The costs of dismantling and removing an item of PPE and restoring the site on which it is located are part of the asset's initial cost. If the useful life of the asset is reduced because of climate-related risk, then any associated provision could well increase due to increased costs of retirement and/or bringing the cost forward in time.

There could be a greater number of onerous contracts resulting from increased costs or reduced demand, as well as provisions for fines and penalties for non-compliance with regulations. There may also be contingent liabilities for litigation if third parties consider that a company has not upheld its environmental responsibilities.

MATERIALITY

It is important to consider materiality when incorporating climate-related risk into the financial statements, which also means thinking about the information needs of the users of your accounts. For larger, listed clients, the fact that the investor community has been calling for enhanced disclosure of climate-related risk may make some of those risks material by nature, even if the financial effects are not.

By contrast, small private business owners may have access to sources of information beyond financial statements, especially if they also manage the business. In these cases, assuming the quantitative impact is not material, disclosure in the financial statements may not be considered material by nature either.

When it comes to the numbers, assessing materiality will mean forecasting different possible futures for your business. Even if there is no material effect on the carrying amounts of assets and liabilities as of now, the process of considering potential outcomes could be a useful strategic tool.

CAN UK GAAP PREPARERS LOOK TO IFRS FOR GREATER GUIDANCE?

FRS 102 was developed for smaller, less complex businesses than IFRS is intended for, and so it contains less detailed guidance. However, Section 10 of FRS 102 indicates that preparers may consider the requirements and guidance of similar areas in EU-adopted IFRS when developing accounting policies. This could be helpful, and a summary of that guidance, relevant to climate change, is provided in the IASB's November 2019 In-Brief *IFRS standards and climate-related disclosures* available at ifrs.org ●

Anna Malcolm,
Senior Manager, EY Financial Reporting Group

GETTY IMAGES

INTERNATIONAL ROUNDUP

Financial reporting news from around the world

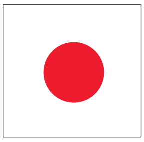
EUROPE: CHANGING PRIORITIES

Reflecting the severity of the coronavirus pandemic's impact on European economies and societies, EU policy and regulatory attention has also significantly shifted focus. Across the continent, the economic effect of the COVID-19 shutdown has affected accounting, reporting and auditing in both public and private sectors, with governments and EU authorities introducing measures to delay publication deadlines, while issuing technical guidance to issuers, preparers and auditors.

Banking authorities and security market supervisors have been particularly attentive to the accounting implications under IFRS 9 *Financial Instruments* of the numerous pandemic-related measures being adopted across the EU. Further to guidance issued by the European Securities and Markets Authority (ESMA), the European Banking Authority and the Basel Committee, the EU has moved rapidly to make necessary amendments to the *Capital Requirements Regulations*. The crisis also saw Europeans call on the International Accounting Standards Board (IASB) to accelerate the IBOR Phase 2 project while temporarily easing up work on other consultations. EU policymaking has continued to move ahead, albeit with some reframing of priorities in light of the pandemic, including its flagship green agenda and sustainable finance plans. The Commission has started to consult stakeholders on the latter, arguing that the pandemic has made it even more vital to chart a path towards sustainable and resilient economic recovery.

With a short extension to the consultation on the review of the non-financial reporting directive, work on this critical issue for the profession has also continued at a slightly reduced pace. While some voices in industry have been calling for regulatory restraint in light of the pandemic, the underlying demand for reliable and relevant disclosures on ESG factors across the broader economy is unlikely to disappear. Indeed, ESMA's annual enforcement report on corporate reporting, published earlier this year, indicated that further efforts from issuers on non-financial statements are needed.

Susanna Di Feliciantonio
Head of European Affairs, ICAEW
Brussels



IASB PROPOSES NEW STRUCTURE TO THE PERFORMANCE STATEMENT

Under Japanese GAAP, line items and subtotals set out in a statement of profit or loss such as operating profit, recurring profit and extraordinary items are presented in a standardised format. Under IFRS however, less information is specifically required, resulting in diverse practice, including between entities in the same industry, which in turn hinders comparability.

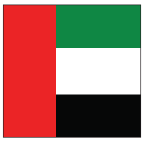
The IASB has responded to calls for this issue to be addressed with the proposals contained in its *General Presentation and Disclosure Exposure Draft* (ED). As explained in more detail in the article on page 14, the ED proposes that income and expenses will be classified into one of four categories: operating, integral associates and joint ventures, investing and financing categories.

We believe the proposed categorisation would provide a more consistent structure to the statement of profit or loss and aid comparability among entities. However, complex judgements will be needed to distinguish between integral and non-integral associates and joint ventures in a consistent manner, as the distinction primarily depends upon the management's business strategy and decisions.

Both practically and from an audit perspective, we do not think it appropriate to have a separate category for integral associates and joint ventures. In addition, there is discussion about whether the equity method is viewed as a one-line consolidation, a measurement basis, or a hybrid of both. We would like to see the conceptual basis of the equity method being addressed before the distinction between integral and non-integral associates and joint ventures is discussed.

JICPA continues to support the IASB's Primary Financial Statements project and looks forward to engaging with the IASB as it considers feedback received in response to the ED.

Takashi Matabe,
Technical Director (IFRS Desk and JICPA research lab), Japanese Institute of Certified Public Accountants



MIDDLE EAST: ESG DISCLOSURES INFLUENCE INVESTOR DECISION-MAKING

Annual reporting has long been a tool for companies to report their value to investors. Traditionally the focus has been on financial value but, increasingly, there is a push to include reporting on environmental, social and governance (ESG) performance.

Stakeholders such as institutional investors, prominent stock exchanges, consumers, and communities are raising the demand for ESG disclosures. ESG factors help in identifying new opportunities and managing long-term investment risks such as climate change, board diversity, and more.

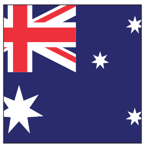
The EY *2018 Global Climate Change and Sustainability Services* study of institutional investors reveals a global consensus that ESG information is now critical to investor decision-making, with 97% evaluating non-financial disclosures.

The UN-led Sustainable Stock Exchanges initiative to enhance ESG reporting and performance has built momentum and now includes the stock exchanges in London, New York and nearly all major Gulf Cooperation Council exchanges. The Dubai Financial Market, Kuwait's Boursa Stock Exchange and Qatar Stock Exchange have all published guidelines on ESG reporting, although they remain voluntary. The Saudi Stock Exchange, Tadawul, has also committed to publishing ESG guidance for listed companies.

Driven by the demand from investors and stock exchanges, prominent companies in the Middle East are reporting on ESG within their annual or sustainability reports. Saudi Aramco for example has disclosed its ESG performance in its latest annual report.

Companies need to prepare for the changing landscape of reporting and can expect to see stronger listing requirements by international stock exchanges, as well as increased pressure on ESG disclosures.

Fadi Al-Shihabi and Maheen Iqbal,
MENA Climate Change & Sustainability Services, EY



GOING DIGITAL DOWN UNDER

Although the option for companies to lodge financial reports digitally in Australia has been available for more than a decade, so far voluntary digital lodgements are at a very round number: zero. Witnesses remarked in a recent parliamentary inquiry into auditing that this points to a "chicken and egg situation" – companies won't go digital until investors demand it, and investors won't demand it until they see companies starting to go digital.

As in the US and now Europe, a movement towards mandating digital reporting has been gradually building pace in Australia and the above-mentioned inquiry has recommended the government takes steps towards making it standard practice.

The benefits of digital reporting being debated include making information easier to compare and analyse for users, regulators, analysts and auditors; improving accuracy of financial reports; processing times and ease of regulatory filings; and rendering the information more efficient to access. All these factors lead to more informed decision-making, improved audit quality and stronger capital markets.

Some of the aspirations, however, require a little more imagination. Digital notionally provides more degrees of freedom compared to pdf or paper, including the ability for users to filter and digest the data in their preferred format. Could this provide new ways to tackle some of the older and harder financial reporting conundrums such as those on the agenda in 2020 – presentation, but also potentially goodwill and impairment?

One thing is for sure, as the rest of the world goes digital, financial reporting in Australia is also now heading in that direction. ●

Amir Ghandar,
Reporting and Assurance Leader, Chartered Accountants Australia and New Zealand

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FROM CONFUSION TO COHESION

Sarah Dunn explains the drive towards a single non-financial reporting framework for sustainability

There currently exists a wide range of frameworks around the world that aim to help organisations report on environmental, social and governance (ESG) matters. These initiatives have emerged and evolved over time, often approaching ESG reporting from a particular perspective.

While there is some overlap between the various ESG reporting initiatives, there is no single framework that offers the complete package. The result is a confused and fragmented landscape, which has arguably contributed to what is referred to as greenwashing, a situation where companies and other organisations can be selective about how or what they report.

So where do we go from here? In this article I examine how stakeholders are starting to grapple with the difficult task of bringing greater cohesion and order to ESG reporting, and consider what the future might hold.

MOVING TOWARDS A SINGLE FRAMEWORK

The idea of a developing a single framework for non-financial reporting is not new. For a number of years those in favour of this approach have advocated the development of a single principles-based framework that could provide direction on non-financial reporting. This framework could be used as the foundation for a common language and consistent measurement bases, with perhaps detailed practical guidance on a sector-by-sector basis on common key performance indicators and their link to strategy and performance.

However, progress so far has been slow. This is perhaps not surprising given the practical challenges involved. But, more fundamentally, there are those that believe a more measured pace of change is in fact desirable. The argument for this is that we should encourage experimentation, allow best practice to emerge and avoid introducing standardisation too soon in the evolution of non-financial reporting practices.

While these concerns warrant proper consideration, in the meantime pressure to improve the ESG reporting landscape has been mounting rapidly. Already in 2020 we are seeing signs that moves towards greater cohesion might be on the horizon. Two of the clearest examples of this are discussed below.

Accountancy Europe

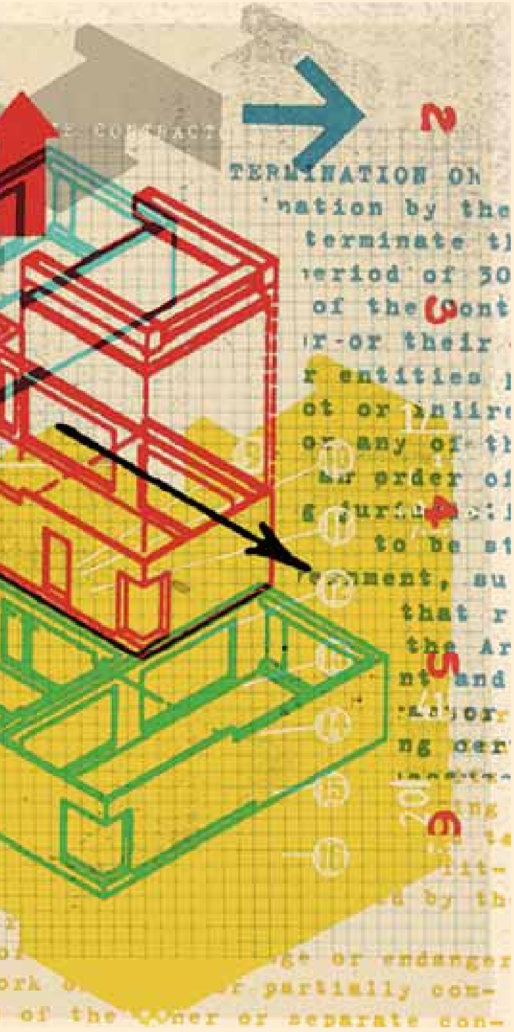
Accountancy Europe recently issued the Cogito paper *Interconnected standard setting for corporate reporting*. The paper sets out four possible approaches to interconnected standard setting, but concludes that the development of a global reporting structure would be the preferred option.

Already in 2020 we are seeing signs that moves towards greater cohesion might be on the horizon

This global reporting structure would involve the creation of a global framework for non-financial reporting standards, set by a new standard setter, which, alongside the International Accounting Standards Board (IASB), would be governed by an enhanced version of the current IFRS Foundation and its Monitoring Board.

European Commission

In January 2020, the European Commission's Executive Vice-President announced that the European Commission (EC) would support a process to develop European non-financial reporting standards. Soon after, the EC issued a public consultation on the EU Non-Financial Reporting Directive, seeking views on a number of matters, including



whether a European non-financial reporting standard should be developed and, if so, which existing frameworks could be used as a basis for such a standard.

Global versus regional

The Accountancy Europe and EC approaches demonstrate two possible solutions to developing greater cohesion in ESG reporting – global and regional. Each has its own merits and drawbacks, and it may be that the path to cohesion falls somewhere in between. Although the final outcome is not clear, what is apparent is the real sense of urgency and backing from stakeholders to start work on finding a solution sooner rather than later.

INTERCONNECTIVITY WITH FINANCIAL REPORTING

Putting the development of non-financial reporting standards aside for a moment, another important factor in the move towards greater cohesion in ESG reporting is the link between non-financial information and the numbers and disclosures in the audited accounts.

Last year, the IASB issued an important article on *IFRS Standards and climate-related disclosures* explaining how climate change risk (and other emerging risks) might be material to investors and so should be integrated into IFRS financial reporting. It sets out how the financial implications of climate change might affect things such as impairment calculations, the useful life of assets, valuations and provisions.

Similarly, the Financial Reporting Council (FRC) this year announced that it will be undertaking a major review of how companies (and auditors) assess and report on the impact of climate change.

Both the announcement from the FRC and the IASB's article emphasise how companies need to consider emerging environmental and social risks in the context of their financial statements, as well as within their non-financial reports. It also demonstrates a growing interest from regulators in how companies are reporting on these matters, which might in turn focus minds further in this respect.

Often there appears to be a disconnect between those focused on sustainability and those preparing the accounts

ESG REPORTING FRAMEWORKS AND INITIATIVES

Some of the key frameworks and initiatives for ESG reporting (not including mandatory reporting that may be required by law, for example, within the strategic report or directors' report in the UK):

TCFD – Task Force on Climate-related Financial Disclosures

CDSB – Climate Disclosure Standards Board

SASB – Sustainability Accounting Standards Board

GRI – Global Reporting Initiative

IIRC – International Integrated Reporting Council

IASB – Management Commentary Practice Statement

NCC – Natural Capital Coalition

ACTIONS SPEAK LOUDER THAN WORDS

Finally, although it may seem an obvious point, it is important to keep in mind that the quality of reporting is often influenced by how an organisation is assessing and integrating ESG factors in relation to its business processes and strategy. Where they have been properly considered and integrated, the reporting tends to flow as a matter of course.

Similarly, the extent to which information is shared within organisations is key. Yet often there appears to be a disconnect between those focused on sustainability matters and those preparing the accounts, which then becomes apparent in the public reporting.

While there are clearly challenges to overcome in creating greater cohesion in the overall ESG reporting landscape, there may be steps that organisations can take now to improve cohesion internally when reporting on ESG matters, within both their non-financial and financial reports. Such steps would be welcomed by investors, and many others. ●

Sarah Dunn,
Technical Manager, Financial Reporting Faculty

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QUESTION CORNER

John Selwood looks at questions on the accounting implications of COVID-19

Many companies are experiencing significant financial distress due to COVID-19. For those applying FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, when is it appropriate to no longer prepare financial statements on a going concern basis?

All companies that have not yet signed their financial statements will need to consider whether preparing those accounts on a going concern basis is appropriate.

Under FRS 102.3.8 an entity is a going concern unless management either:

- intends to liquidate the entity or to cease trading; or
- has no realistic alternative but to do so.

Management must make an assessment as to whether the going concern basis is appropriate as at the reporting date. However, to do this they should take into account all information about the future that is available at the date of approval of the financial statements and must consider at least the next 12 months from that date. Further, FRS 102.32.7A explains that an entity should not prepare financial statements on a going concern basis if management determines after the reporting period that it will liquidate the entity, cease trading or has no other realistic alternative.

Even though it may be in significant financial distress, an entity may still conclude that it is appropriate to prepare the financial statements on a going concern basis.

If, however, when making this assessment, management is aware of material uncertainties that cast significant doubt on the company's ability to continue as a going concern, those uncertainties must be disclosed (FRS 102.3.9).

It is anticipated that more companies will be disclosing such material uncertainties in light of the coronavirus (COVID-19) situation.

For companies applying FRS 102 with a 31 December 2019 year end or later, the COVID-19 pandemic is a post balance sheet event. Is it adjusting or non-adjusting, and what accounting treatment is necessary?

If after the year end, it is determined that it is not appropriate to prepare the accounts on a going concern basis, it is an adjusting post balance sheet event.

Assuming that the financial statements are prepared on a going concern basis however, then the answer will depend on an entity's year end and also its individual circumstances.

Companies will need to consider the extent to which COVID-19 was a condition that existed for them at the reporting date. This may vary depending on the sector in which the company operates and the geography of its operations. For companies that may be benefitting as a result of COVID-19, it is worth noting that both favourable and unfavourable events after the reporting date must be classified as adjusting or non-adjusting.

For those with 31 December 2019 year ends, there is consensus that the pandemic is a non-adjusting event. In this situation, and assuming the pandemic has materially affected the company, the disclosures required by FRS 102.32.10 should be made. Section 32 contains several examples of non-adjusting events that would generally result in disclosure,

Companies will need to consider the extent to which COVID-19 was a condition that existed for them at the reporting date

of which a decline in the market value of investments and abnormally large changes in asset prices may be particularly relevant.

For those with 31 March year ends, as COVID-19 had been declared a pandemic by this point, it is more likely to be an adjusting event. The amounts recognised in financial statements, including related disclosures, must then be adjusted.

For year ends between these points in time, greater judgement will be required.

If the going concern basis is no longer appropriate, how should the financial statements be prepared under FRS 102?

FRS 102 does not explicitly address this situation. The break-up basis that existed under previous UK GAAP does not exist under FRS 102.

Instead FRS 102.3.9 requires only that entities disclose the fact that the financial statements are not prepared on a going concern basis together with the reasons why, and explain the basis on which they have been prepared.

The financial statements must still be prepared on a basis that is consistent with FRS 102 in order to state compliance with the accounting standard. The key features of such financial statements would include:

- assets being written down to their recoverable amount as at the reporting date;
- provisions being recognised in respect of contracts that have become onerous at the reporting date;
- the details of the accounting basis being fully disclosed, prominently in the accounting policy note, in order for the financial statements to show a true and fair view.

Assets and liabilities should still be classified as either current or non-current depending on the circumstances at the reporting date. Non-current assets should only be reclassified to current if their role within the business has changed and non-current liabilities should only be similarly reclassified if, for example, a breach in loan covenant has resulted in them becoming immediately repayable.

Provisions for winding-up costs would also not be recognised unless a present obligation existed at the reporting date; such obligations that might arise after the balance sheet date should be classified as non-adjusting post balance sheet events.

If a small company is applying FRS 102 Section 1A, is there anything different for them to be aware of?

Small companies choosing to apply the small companies regime of Section 1A are subject to virtually identical recognition and measurement requirements as those companies applying 'full' FRS 102. However, under Section 1A, the disclosure requirements are generally much reduced.

The disclosure of material uncertainties that cast significant doubt upon the ability to continue as a going concern is not a mandatory requirement though disclosure is encouraged (see Appendix E to Section 1A). Moreover, Section 1A requires sufficient disclosure to give a true and fair view.

The nature and financial effect of non-adjusting material events arising after the reporting date also need to be disclosed (Schedule 1 Small Companies Regulations and FRS 102.1AC.39).

What if it were a micro company applying the micro-entities regime of FRS 105?

The directors must assess and conclude whether preparing the financial statements on a going concern basis is appropriate (FRS 105.3.3).

Financial statements of a micro-entity prepared in accordance with FRS 105 are presumed to show a true and fair view (CA06 s393) and FRS 105 does not require a micro company to make either going concern or post balance sheet event disclosures.

While there are no requirements to make going concern disclosures, ICAEW members undertaking compilation engagements should be mindful of paragraphs 25 and 28 in the Technical Release *Chartered Accountants' Reports on the Compilation of Financial Information of Incorporated Entities TECH 07/16 AAF* to not be knowingly associated with misleading financial statements.

Can companies extend their filing deadlines at Companies House?

Yes. Companies can apply for a three-month extension to their filing deadline. Although the extension will be granted automatically and immediately, companies must still apply for the extension. Furthermore, the application must be submitted ahead of the company's usual filing deadline.

How do I access more resources on coronavirus?

ICAEW's coronavirus hub can be accessed at icaew.com/coronavirus

It collates all of ICAEW's resources relating to the pandemic, and signposts to those of external parties such as regulators and government.

Resources prepared by the Financial Reporting Faculty are also accessible through our technical resources page at icaew.com/financialreporting or the faculty's homepage icaew.com/frfac

If you've got a question you'd like John to answer, please contact frfac@icaew.com ●

John Selwood, freelance lecturer and writer

MARKING 100 YEARS OF WOMEN IN ICAEW

It's been a century since ICAEW admitted Mary Harris Smith, making her the world's first female chartered accountant

On 5 May 2020, ICAEW celebrated the centenary of Mary Harris Smith becoming the world's first female chartered accountant. Harris Smith had first approached ICAEW in 1891, but was refused entry because the ICAEW Charter referred only to 'his', 'himself' and 'he'. In 1896 Harris Smith wrote to ICAEW's council requesting to sit ICAEW's final examination – an entry route available to certain practitioners – but was again refused.

Eventually, in May 1920, at the age of 75, Harris Smith was admitted as a Fellow following the passing of the *Sex Disqualification (Removal) Act 1919*, which opened the way for women to be admitted into professions including accountancy.

The Act stated: "A person shall not be disqualified by sex or marriage from the exercise of any public function, or from being appointed to or holding any civil or judicial post, or from entering or assuming or carrying on any civil profession or vocation."

A commemorative blue plaque (pictured above) was made in Harris Smith's honour by the City of London Corporation.

An e-book telling the story of the first 100 years of women in chartered accountancy, written by Jane Berney, Business Law Manager at ICAEW, was published in the autumn of 2019.

The e-book, along with more information about the centenary, can be viewed at icaew.com/100years

DENISE NAYLOR (QUALIFIED IN 1979)

"I became treasurer of the Chartered Accountant Student Society of London. When I presented my annual report at Chartered Accountants' Hall, I was told: 'Ladies cannot speak on the stage at Chartered Accountants' Hall.' I replied: 'You can refuse ladies, but not the treasurer.' I made my speech, I believe, as the first woman to speak from that stage."

FIONA WILKINSON, ICAEW PRESIDENT 2019-2020

"Today, we still need to get more women board-ready and into senior roles, as well as becoming role models for those trying to achieve their career aspirations. I am proud to say that ICAEW is driving greater access to the profession, and I am delighted that my time as President will involve celebrating this important moment in ICAEW's history."

STEPHANIE HENSHAW, CHAIR, FINANCIAL REPORTING FACULTY BOARD

"In the centenary of Mary Harris Smith's admission to membership, it seems fitting that not only do we have our third female President, but four out of seven of the ICAEW Faculty Boards are chaired by women. To me, this is a great demonstration of the range of skills and leadership capabilities that women bring to our profession."

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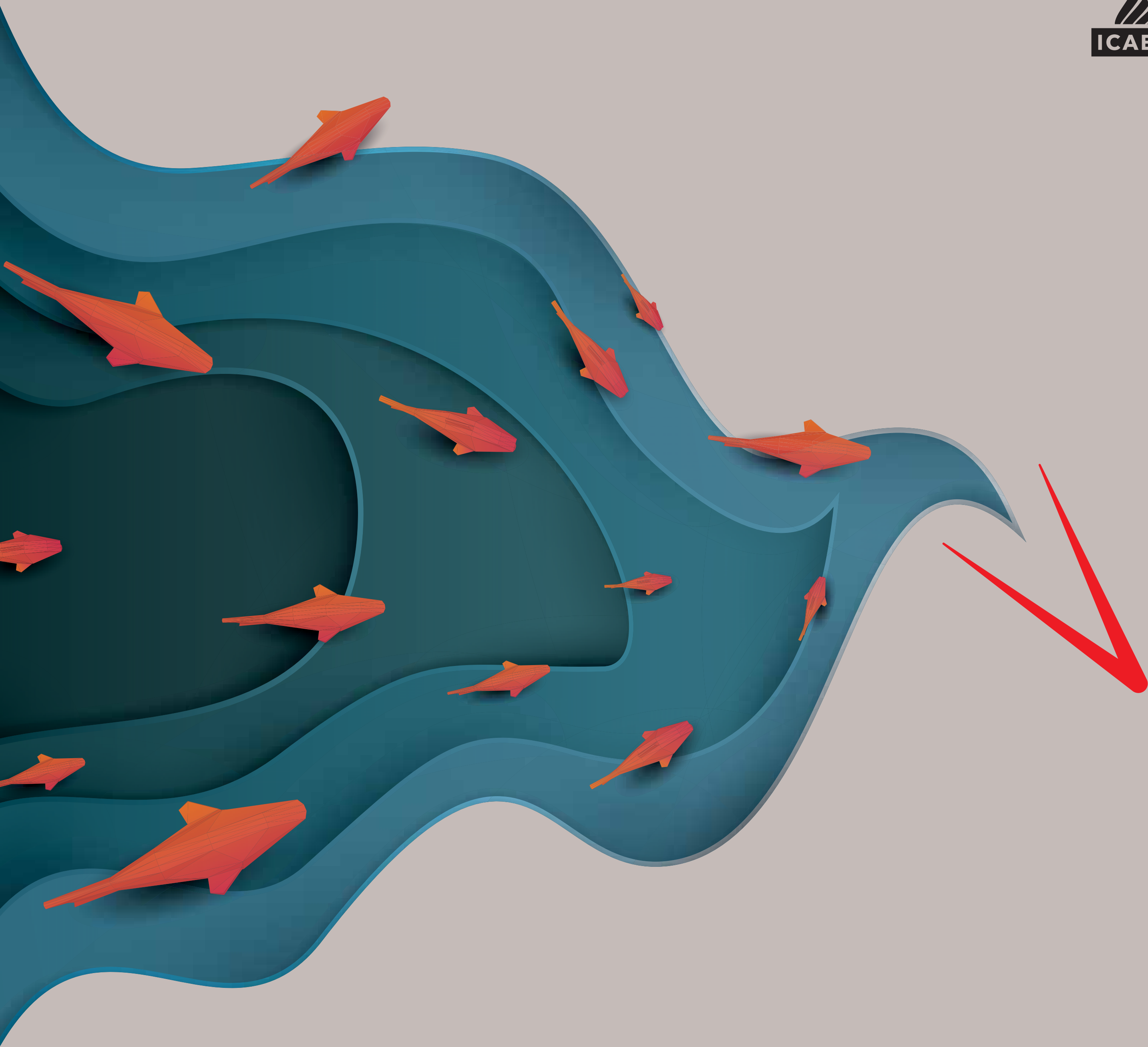

What does climate change mean for your organisation?

What does it mean for your clients?
Are you professionally ready?

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