



# *UK GAAP Update*

22 October 2021

This webinar will commence  
shortly .....

# *Introduction*

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## *Today's presenters*

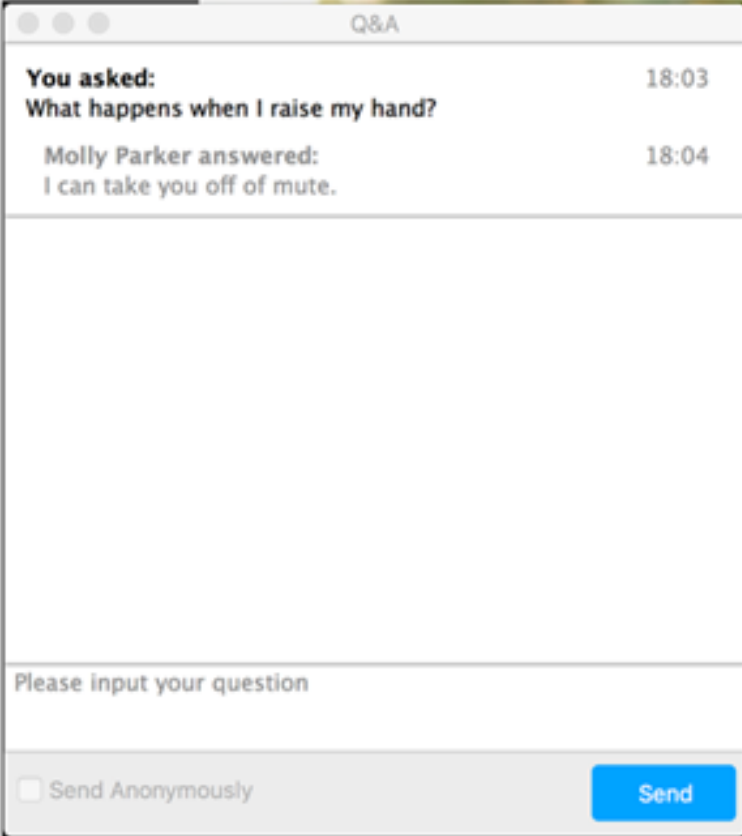


Eunice McAdam  
Partner  
Saffery Champness



Matt Howells  
Partner  
Smith and Williamson

# Ask a question and access resources



The screenshot shows a Q&A window with the following content:

- You asked:** 18:03  
What happens when I raise my hand?
- Molly Parker answered:** 18:04  
I can take you off of mute.

Below the answer is a large empty text area. At the bottom of the window, there is a text input field with the placeholder text "Please input your question". To the left of the input field is a checkbox labeled "Send Anonymously". To the right is a blue "Send" button.

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## *Key Brexit implications*

# Preparation and filing of accounts for PBOOA 1 January 2021 (mostly)

Ineligible groups	Intermediate parents	Changing to UK GAAP from IFRS	Accounting reference period	Parental guarantees <ul style="list-style-type: none"><li>• Dormant subsidiaries</li><li>• Audit exemption</li></ul>
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# *Ineligible groups*

Consequence:  
no UK group  
company can  
use the small  
companies  
regime

Previous  
definition: shares  
traded on an  
EEA regulated  
market

New definition:  
shares traded on  
a UK regulated  
market

If group is now  
eligible, consider  
small exemptions  
for accounts  
preparation and  
filing (and audit!)



# *Intermediate UK parents*

## Previously

- Exempt from preparing group accounts if it and its subsidiaries consolidated into an EEA parent

## Now only exempt if consolidated into

- A UK parent
- A non-UK parent whose accounts are prepared in an “equivalent manner”

## For non-UK parents

- Consider equivalence
- Change disclosure in individual accounts of intermediate UK parent

# *Change in accounting framework*

Switching from IFRS to UK GAAP

- “Relevant change of circumstance”

Previously included

- Ceasing to be traded on an EU regulated market
- Ceasing to be a subsidiary of an entity traded on an EU regulated market

Now only includes

- Ceasing to be traded on a UK regulated market
- Ceasing to be a subsidiary of an entity traded on a UK regulated market

5-year rule

- Continues unchanged

# *Accounting reference period*

## General rule

- Can't extend period more than once every 5 years

## Previous exemption

- Parent or subsidiary of EEA undertaking could change year end to match that undertaking

## New exemption

- Only parent or subsidiary of UK undertaking can change year end to match that undertaking

## In effect now

- From 2300 on 31 December 2020

## *Parental guarantees: dormant subsidiaries*

### General rule

- Exempt from preparing or filing individual accounts as long as certain conditions met

### Previous condition

- Statutory guarantee by EEA parent

### New condition

- Statutory guarantee by UK parent

## *Parental guarantees: subsidiary audit exemption*

### General rule

- Exempt from audit as long as certain conditions met

### Previous condition

- Statutory guarantee by EEA parent

### New condition

- Statutory guarantee by UK parent

## *Interest rate benchmark reform*

# “IBOR reform”

## Accounting consequences

### FRC amendments

- Modifications to basic financial instruments and leases
- Hedge accounting

## *Accounting consequences*

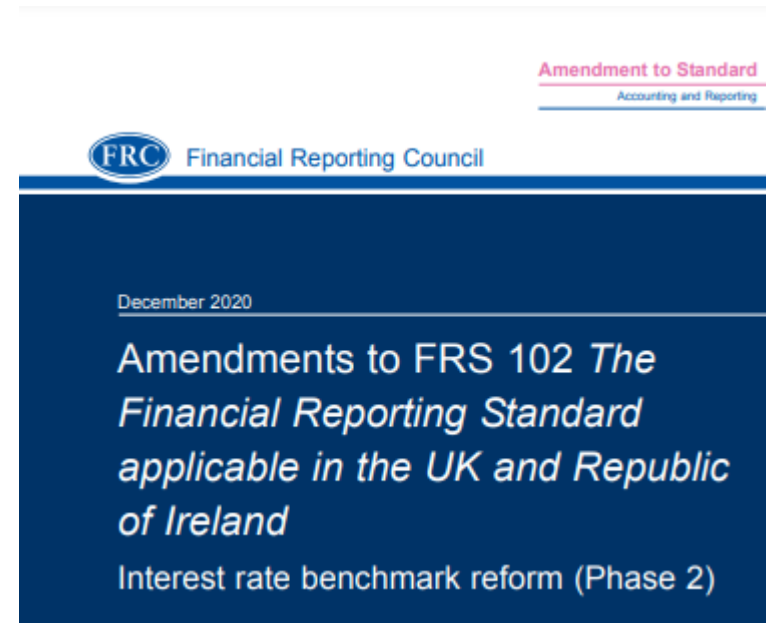
References to benchmarks like LIBOR in eg variable rate loan agreements, interest rate swaps, some lease arrangements

Replacement of LIBOR could lead to unhelpful accounting consequences if “normal” rules about modifications were followed

# *FRC amendments*



Phase 1: PBOOA 1 January 2020  
Pre-replacement issues



Phase 2: PBOOA 1 January 2021  
Replacement issues



# *Replacement issues: modifications to basic financial instruments and leases*

If

- Modification is direct consequence of benchmark reform; and
- New basis is “economically equivalent”

Required to treat modification as change to effective interest rate

- Therefore no change to carrying value and no immediate gain/loss

If other modifications made at same time

- Deal with those arising from benchmark reform first
- Then apply “normal” requirements to the rest

Number of disclosure requirements

Same expedient for finance lease liabilities

# *Replacement issues: hedge accounting*

Hedge  
documentation

Cash flow  
hedge reserve

Groups of  
items

Risk  
components

# *Hedge documentation*

Hedge accounting not discontinued if changes to documentation solely required by benchmark reform

- Specifying alternative benchmark; and/or
- Amending description of hedged item and/or hedging instrument

If additional changes, consider those first

Update by end of relevant reporting period

- First-time application – extended to date financial statements authorised for issue

## *Cash flow hedge reserve*

Don't reclassify amounts to profit or loss solely as a result of benchmark reform

Cumulative amount in reserve deemed to be based on new benchmark

## *Groups of items*

If benchmark is changed for some items in group before others

- Allocate hedged items to relevant subgroups

## *Risk components*

Must be “separately identifiable”

- May be problematic if market in new benchmark undeveloped

Deemed to be separately identifiable if reasonable expectation that it will be so within 24 months

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# *COVID-19-related rent concessions*



## **Recap :**

“...recognise payments under operating leases as an expense over the lease term...”

## **Amendments: October 2020 /June 2021**

- Recognise changes in operating lease payments that occur as a direct consequence of the COVID -19 pandemic on a systematic basis over the periods the change in lease payments is intended to compensate.
- Conditions:
  - a) The change results in revised consideration that is less than the consideration for the lease immediately preceding the change
  - b) Any reduction affects only payments originally due on or **before 30 June 2022**
  - c) There is no other significant change to other terms and conditions of the lease.



# *Example*



## **Scenario**

- Year ended 31 March 2021
- 6-year operating lease commencing 1 April 2019.
- £4,000 per month lease payments (£48,000 pa).
- Forgiven lease payments from 1 April 2020 to 30 June 2020 (£12,000 reduction) as a result of the COVID-19 pandemic.
- From 1 July 2020, the usual monthly lease payments of £4,000 resumed.

## **Previous treatment**

- Spread the reduction in payments on a straight line basis over the remainder of the lease term (i.e. £12,000 over remaining 60 months of the lease = £200 per month)

## **New treatment**

- Reduction is recognised over the periods it is intended to compensate.
- No rental charge for the period 1 April to 30 June
- Charge to the profit or loss for the year is £36,000 (£48,000 less the £12,000 reduction)

## *Other points to note*



- If the rent reduction goes beyond June 2022 the rent concession **in its entirety** would not meet the conditions and the new accounting requirements would not apply.
- Judgement is required as to whether other changes are significant.
- Where rental payments are simply deferred this does not result in reduced consideration for the lease and therefore the concession would not apply.
- A lessor would similarly recognise any change in lease income arising from rent concessions that meet the criteria over the periods that the change in lease payments is intended to compensate.

# *Government grants*



## Recap

### **Government grant (FRS 102 glossary)**

“Assistance by government in the form of transfer of resources to an entity in return for past or future compliance with specified conditions relating to the operating activities of the entity.”

### **Coronavirus Job Retention Scheme (CJRS)**

Cash payments from government to compensate employers for part of the wages, associated national insurance contributions (NICs) and employer pension contributions of employees who have been placed on furlough.

**= Government Grant (FRS 102: Section 24)**

# *Government grants*



## **Accounting – FRS 102**

- **Performance model**
- **Accruals model**
- Result will generally be that CJRS grant income is recognised on a straight line basis over the furlough period
- FRS 102 **does not allow** the netting of the grant income against the wages and salaries cost
- IFRS allows the income to be shown separately or netted **BUT** FRS 101 is UK GAAP and does not allow the netting
- FRS 105 not required but could choose to disclose

# *Other government support schemes*



<b>Government Grant</b>	<b>Not a government Grant</b>
Coronavirus Job Retention Scheme (CJRS)	Business rates holiday
Small business grant fund (SBGF), Hospitality and leisure grant fund (RHLCGF) and Discretionary fund	VAT deferral and time to pay
Statutory sick pay (SSP) rebate scheme	

## **Coronavirus business interruption loan scheme (CBILS) and Bounce back loan (BBL)**

- Combines a bank loan, a government-backed guarantee and a business interruption payment
- There will be some element of government grant representing the business interruption payment

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# *Impairment of assets*

Considerations

Reversals

Post balance sheet events

## *Poll question*

Are any impairments expected in your upcoming 2021/22 accounts, or those of your clients?

- Yes, more than the previous year
- Yes, about the same as the previous year
- Yes, but less than the previous year
- No



## *Impairment considerations*

### Objective evidence of impairment at year end

- Based on conditions which existed at that date
- This is not to say that you assume nothing will change in the future
- Draw on past experience

## *Poll question*

Are any impairment reversals expected in your upcoming 2021/22 accounts, or those of your clients?

- Yes, a substantial amount / number
- Yes, but not a substantial amount / number
- No

# *Impairment reversals*

## Impairment decreases

- Related objectively to an event after impairment recognised

Reverse some or all of previously recognised loss (except goodwill)

Can't increase carrying amount above what it would have been had asset not been impaired

## *Post balance sheet events*

Adjusting or non-adjusting?

- Did the condition exist at the year end?

Can be tricky in an evolving situation

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# Going concern



## Key points

- FRS 102 para 3.8 requires management to assess going concern
- FRS 102 para 3.9 requires an entity to disclose material uncertainties

## Disclosure

- FRS 102, s1A – small entities are encouraged to disclose material uncertainties relating to going concern (1AE.1 c)
- FRS 105 –no requirements to disclose material uncertainties however...



# *Going concern and coronavirus*

- Responsibilities of management do not change but disclosure of material uncertainties may be more likely
- Ensure forecasts are reviewed and updated regularly until the financial statements are authorised for issue
- Key judgements and assumptions must be supportable
- A greater range of scenarios may need to be assessed
- Disclosures on material uncertainties should be specific to the circumstances.

# *Climate*



## **Current UK reporting requirements:**

- Non-small companies - Strategic Report principal risks & uncertainties
- Large companies – S172 statement
- Quoted companies and public listed with > 500 employees - Strategic Report environmental matters
- Large companies, quoted companies and large LLPs - SECR reporting
- Impact on financial statements?



# *Climate*



## **Task Force on Climate-related Disclosures (TCFD)**

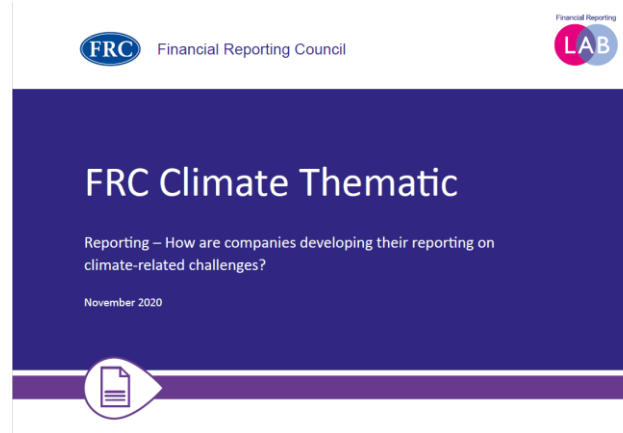




# Climate

## Further support :

- ICAEW Climate Hub
- FRC's Financial Reporting Lab Report on climate-related reporting (Oct 2019)
- FRC Climate Thematic (Nov 2020)
- FRC Thematic Review: Streamlined Energy and Carbon Reporting (Sep 2021)



# *Periodic review*



## **Background**

- UK and Ireland accounting standards subject to period reviews at least every five years
- Last review –the Triennial Review 2017 – effective date 1 January 2019
- FRC starting the next periodic review of FRS 102 (focusses on FRS 102 and 105 although comments welcome on other UK standards)
- Changes will be subject to consultation likely in 2022
- Effective date expected to be 1 January 2024
- Request for views [ukfrsperiodicreview@frc.org.uk](mailto:ukfrsperiodicreview@frc.org.uk) by 31 October 2021

# *Periodic review*



## **Principles**

- Are consistent with global standards through an IFRS- based solution (full or IFRS for SMEs), unless an alternative is clearly better
- Balance improvements, with stability
- Balance consistent principles for all entities, with proportionate and practical solutions
- Promote efficiency within groups
- Are cost-effective to apply

## **On the agenda**

- Improvements required including - feedback from stakeholders, new issues
- Changes in international standards – major changes in IFRS (eg IFRS 15,16,9 and second comprehensive review of IFRS for SMEs)
- Wider developments including – restoring trust in audit and corporate governance

## *Poll question*

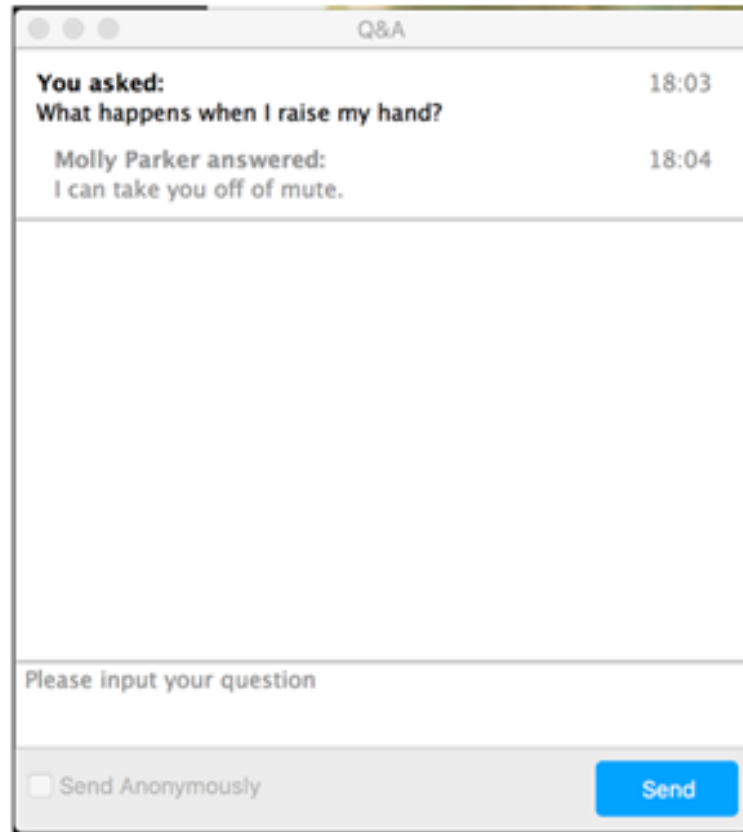
Of the following changes on the horizon for UK GAAP reporters, which do you anticipate being the most challenging to deal with? You may select more than one.

- Increased climate-related reporting
- Implications from the BEIS White Paper on Audit and Corporate Governance reform

Potential periodic review changes arising from:

- IFRS 9 *Financial Instruments*
- IFRS 15 *Revenue from Contracts with Customers*
- IFRS 16 *Leases*

# Ask a question



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# Faculty resources

## [icaew.com/financialreporting](https://www.icaew.com/financialreporting)

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

- 2021 UK GAAP Accounts
- 2020 UK GAAP Accounts (updated)

### Webinar recordings ([icaew.com/frfwebinars](https://www.icaew.com/frfwebinars))

- Climate risk and corporate reporting
- 2020/21 reporting: Going concern and impairment
- Top tips for s172(1) statements and other narrative reporting

### Articles ([icaew.com/byallaccounts](https://www.icaew.com/byallaccounts))

- Periodic review of UK GAAP
- Private companies: s172(1) statements and dividends



## *Future events*

For details, please visit [icaew.com/frfevents](https://icaew.com/frfevents)



### **Webinars**

18 November - Streamlined Energy and Carbon Reporting

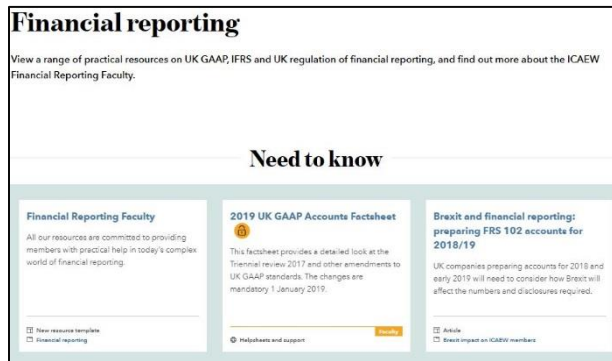


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# *Questions*



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Matt Howells  
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# *Thank you for attending*



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