UK GAAP update

19 March 2020

Webinar will commence shortly ….

Introduction

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Today's presenters

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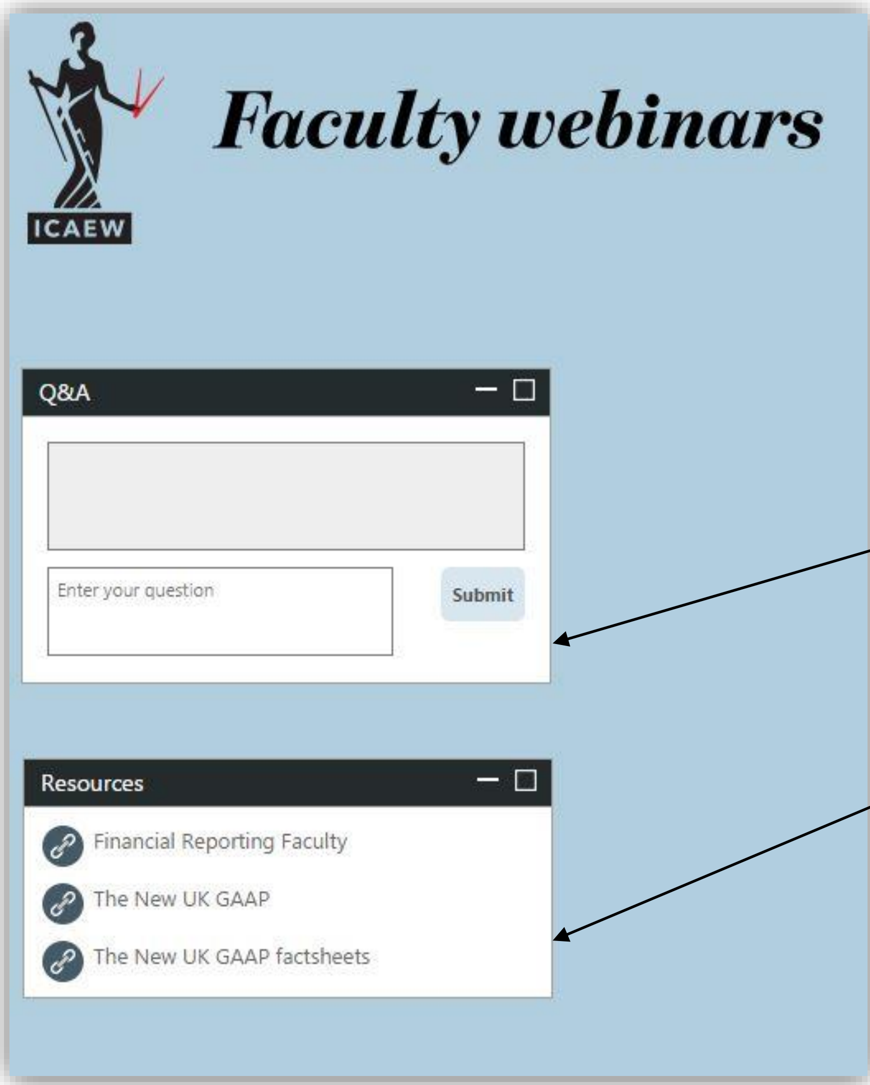
Ask a question



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- Ensure your volume is turned on
- If you experience poor sound quality try refreshing your page.

Ask a question
Type your question into the question box then click submit.

Download resources here

Contents

FRS 102 – Triennial review

- Effective 1 January 2019
- Early adoption permitted
- Quite a few early adopters
- Most of the changes were welcome
- Changes to both the accounting and disclosure regimes

Key accounting change – intangibles in a business combination

- General principle for recognising intangibles(para 18.4):
  - Probable inflow of economic benefits; and
  - Cost or value can be measured reliably
- In a business combination (para 18.8):
  a) Must meet criteria above; and
  b) Intangible arises from contractual or other legal rights; and
  c) Intangible is separable (i.e. can be separated from underlying business and sold or transferred etc)
- Can elect to recognise anyway if a) and either b) or c) are met
- Widely early adopted for practical reasons – reduces complexity and cost!
- Option to recognise not widely used – likely to be more prevalent in some sectors (e.g. tech)

Key accounting change – directors' loans (small companies only)

- Relief from having to discount long term loans at below market rate of interest
- Applies to loans from director who is a shareholder and their close family members (for LLPs – from member who is a person)
- Very much welcomed by companies and widely used in practice
- When ceases to be small – re-measure prospectively at first reporting date entity is no longer small
- Use facts and circumstances either at that date or when arrangement entered into
- Cannot be applied by analogy e.g. to intercompany balances

Key accounting change – undue cost or effort

- Undue cost or effort exemptions – now removed (though exemption for some group situations)
- Removes the potential for abuse of the exemption
- Investment properties - issues if there is an unusual property where it is genuinely difficult to determine fair value
  - Property located in an unusual location where there are few comparable properties
  - Property where there are restrictions over its sale
  - Can cost be deemed equivalent to fair value?

Other accounting changes

- Definition of a financial institution – fewer entities captured by the definition
- A more principles-based approach to determining whether financial instruments are basic or not – allows more instruments to be measured at amortised cost
- Both welcome although relatively niche application in practice

Disclosure changes – medium/ large companies

- Financial instruments analysis – amortised cost no longer required (only ones held at fair value)
- Key management compensation – if only directors, no need for duplicate disclosures
- No longer any need to disclose cost of inventories charged in P&L
- Removes some disclosures which many thought were of limited value to the users of the accounts – so a welcome change

Disclosure changes – cash flow statements

7.22 An entity shall disclose an analysis of changes in **net debt** from the beginning to the end of the reporting period showing changes resulting from:

(a) the cash flows of the entity;

(b) the acquisition and disposal of subsidiaries;

(c) new finance leases entered into;

(d) other non-cash changes; and

(e) the recognition of changes in market value and exchange rate movements.

When several balances (or parts thereof) from the statement of financial position have been combined to form the components of opening and closing net debt, sufficient detail shall be shown to enable users to identify these balances.

This analysis need not be presented for prior periods.

FRS 101 update

- Main impact – IFRS 16
- Major effect on lessees – for lessors nothing much has changed
- A few other changes to IFRS – generally pretty niche
- Application for accounting periods beginning on or after 1 January 2019

IFR S 16: Lessees – the basics

- Leases capitalised by recognising the present value of minimum lease payments as a 'right of use asset' on the balance sheet with a corresponding liability (and interest charged on it)
- No more distinction between operating and finance leases
- Increase in the amount of liabilities and assets recognised
- Limited exemptions – low value and short term leases only
- Higher initial charge to P&L for leases previously classed as operating

IFRS 16: Implementation

- How to adopt for the first time? Full retrospective or use transition option?
- Full retrospective onerous unless have very few leases – modified retrospective seems to be method of choice
- What interest rate to use? Implicit in lease/ incremental borrowing rate?
- Are contracts actually a lease or are they service contracts?
- Do any of the leases qualify for the limited exemptions?
- When is this coming to FRS 102? Good question!

Other changes to IFRS

- IFRIC 23 – accounting for uncertainty in income tax
- Wide application as could apply to any taxes for any entity where there is uncertainty as to whether tax authority will accept it
- Accounting depends on whether tax authority more likely than not to accept it
- If yes – accounting assumes accepted
- If not – increase tax provision (not a provision under IAS 37)
- Some changes in how financial liabilities are re-measured when modified (could affect any entity that does this)
- A few other changes – very niche

Upcoming changes effective in 2020

- Multi-employer defined benefit plans
- Interest rate benchmark reform

Amendment to Standard

Accounting and Reporting

Financial Reporting Council

May 2019

Amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*

Multi-employer defined benefit plans

Change from DC to DB accounting

- If sufficient information not available to a particular employer to use defined benefit accounting, use defined contribution accounting instead (28.11)
- Some plans now providing sufficient information to employers to enable them to apply defined benefit accounting for the first time
- Amendments introduce explicit requirements on how to transition
- Effective for periods beginning on or after 1 January 2020
  - Early application permitted

Amendment to Standard

Accounting and Reporting

Financial Reporting Council

December 2019

Amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*

Interest rate benchmark reform

Changes to hedge accounting where interest rate benchmarks used

- Interest rate benchmarks (such as LIBOR) being reformed
- An entity may be using hedge accounting in respect of an interest rate risk involving a benchmark
- FRS 102 section 12 requires an entity to discontinue hedge accounting if certain criteria no longer met
- If it's not certain what will happen to the benchmark, am I still allowed to hedge account?
  - Yes – assume that the interest rate benchmark will continue until you know otherwise
- Effective for periods beginning on or after 1 January 2020
  - Early application permitted

Exposure Draft

Financial Reporting Council

December 2019

FRED 73

Draft amendments to FRS 101 *Reduced Disclosure Framework*

2019/20 cycle

Minor amendments

- FRS 101 provides an exemption from statement of cash flows
- Some other IFRSs include disclosures related to the statement of cash flows
- FRS 101 should also provide an exemption from these to be consistent

Reporting regulations

- Section 172 reporting
- Streamlined Energy and Carbon Reporting (SECR) requirements

Section 172

- Applies to all large companies
  - Size; or
  - Ineligible (eg plc, certain FS companies, part of an ineligible group)
- No parent or subsidiary exemptions
- May qualify on a consolidated basis – see next slides
- Periods beginning on or after 1 January 2019

Group issues

	Meets conditions?	Prepare s172 statement?
P	No	Yes – group accounts will meet conditions
S	Yes	Yes

Group issues

	Meets conditions?	Prepare s172 statement?
P	No	Yes – if group accounts will meet conditions
S	No	No

What?

- Separate section within strategic report
  - Can cross-refer to avoid duplication
    - Eg new requirements in directors' report on employee engagement and business relationships
  - Also on website

- Directors' existing legal duties
  - How have they considered certain matters in performing their duties?

Directors' duties – things to consider

Act in **good faith** in way **most likely** to promote **success** of company for **shareholders** as a whole

How have you considered:

Likely long-term consequences of decisions

Directors' duties – things to consider

Act in **good faith** in way **most likely** to promote **success** of company for **shareholders** as a whole

How have you considered:

Employees' interests

Directors' duties – things to consider

Act in **good faith** in way **most likely** to promote **success** of company for **shareholders** as a whole

How have you considered:

Need to foster business relationships with

- Suppliers
- Customers
- Others

Directors' duties – things to consider

Act in **good faith** in way **most likely** to promote **success** of company for **shareholders** as a whole

How have you considered:

Impact on

Community

Environment

Directors' duties – things to consider

Act in **good faith** in way **most likely** to promote **success** of company for **shareholders** as a whole

How have you considered:

Desirability of maintaining reputation for high standards of business conduct

Directors' duties – things to consider

Act in **good faith** in way **most likely** to promote **success** of company for **shareholders** as a whole

How have you considered:

Need to act fairly between shareholders

Things to consider

Meaningful and informative for shareholders

Shed light on matters of strategic importance

Consistent with size and complexity of business

- Who are the stakeholders?
- How have you engaged with relevant parties?
- What was the impact on key decisions in the year?
- How have any significant conflicts been balanced?

Emerging issues

- Relevance to strategy
- “Have regard to”
  - Therefore don’t need to cover everything in same detail
- Must cover “how”
- May link to corporate governance reporting
- Subsidiaries need to be careful if cross-referring to parent

Resources

- BEIS Q&A: https://www.gov.uk/government/publications/corporate-governance-new-reporting-regulations
- FRC Guidance on the Strategic Report: https://www.frc.org.uk/getattachment/fb05dd7b-c76c-424e-9daf-4293c9fa2d6a/Guidance-on-the-Strategic-Report-31-7-18.pdf

Streamlined energy and carbon reporting (SECR)

- The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018
- Effective for periods beginning on or after 1 April 2019
- Affects large companies and LLPs
  - Based on size criteria in Companies Act
  - Does not affect companies/LLPs that are small or medium in size but are ineligible
- Exemptions if
  - Information seriously prejudicial
  - Total energy usage under 40,000 kWh
  - Included in a parent's consolidated report for the same or an earlier period

Disclosures for large companies – directors' report

Tonnes of CO_2 equivalent

Tonnes of CO_2 equivalent

Activities for which company is responsible involving
- Combustion of gas; or
- Consumption of fuel for purposes of transport

Purchase of electricity for own use including for provision of transport

Aggregate annual energy consumed in kWh

Disclosures for large companies – directors' report

- Methodologies used to compute figures on previous slide
- At least one ratio expressing annual emissions in relation to a quantifiable factor associated with the company's activities, eg
  - Tonnes of CO_2e per million £ of turnover
  - Kg of CO_2e per package delivered
- Describe principal measures taken to increase energy efficiency, if any
- If not practical to obtain some of the required information, say what is missing and why
- Rules only apply to UK activities
  - There is specific guidance for offshore companies and overseas branches
- More stringent requirements for quoted companies

Disclosures for large LLPs – new report

- Energy and Carbon Report
- Disclosures previously noted for large companies
- Also identifies each of the LLP’s members during the year
- Approved by LLP’s members and signed by a designated member on behalf of LLP
- Included in filed accounts but not subject to audit

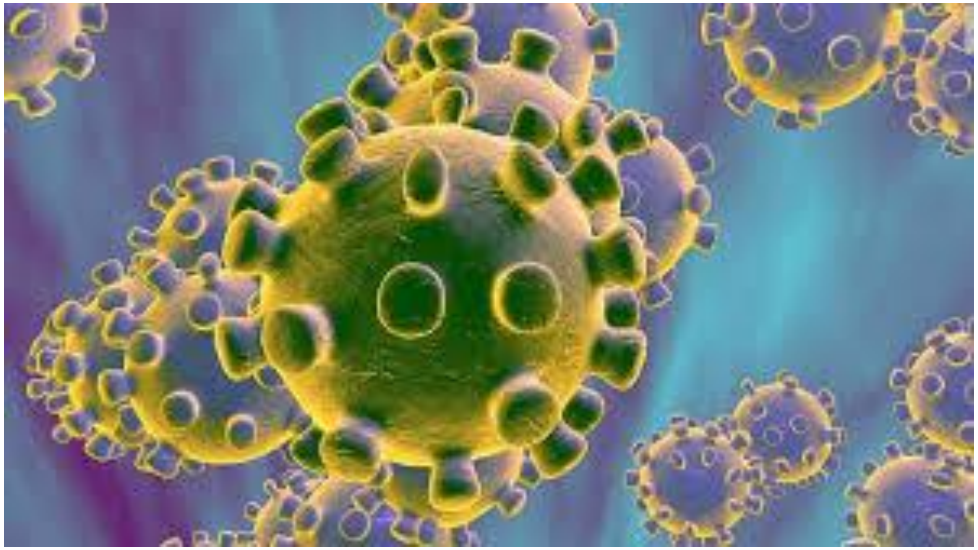
HM Government

Environmental Reporting Guidelines:

Including streamlined energy and carbon reporting guidance

March 2019 (Updated Introduction and Chapters 1 and 2)

Coronavirus – impact on your accounts



Coronavirus – impact on your accounts

- Strategic report – risk disclosures
- Post balance sheet events
- Going concern
- Impairment of assets (financial and non-financial)
- Impact potentially depends on:
  - Where they do business; and
  - What sector the entity operates in

Coronavirus - post balance sheet events and going concern

- For 31 December 2019 year ends – non-adjusting post balance sheet event
  - Tailored disclosure required if impact is material to the accounts
  - Only adjusting if affects going concern basis of preparation
- For going concern – could potentially affect any year end not yet signed off
- Take into account all available information
- Consider period 12 months from date of approval of the financial statements
- Again – tailored disclosure required (not boiler plate!)
- Going concern basis – generally still appropriate unless management intend to liquidate or cease trading, or have no realistic alternative

Impairment of assets

- Will very much depend on what the relevant year end is
- Effect could be on tangible assets, intangible assets or financial assets
- For 31 December 2019 year ends:
  - Amount recognised will depend on conditions at the balance sheet date
  - Therefore, impact of coronavirus should not be taken into account as outbreak did not exist at 31 December
  - However, if impairment subsequent to balance sheet date, consider impact on disclosures
- For (e.g.) 31 March 2020 year ends:
  - Consideration of impairment should take outbreak into account and make any necessary write downs
- Also consider impact on other accounting estimates e.g. stock, fair value measurements, onerous contracts

Brexit – implications for your accounts

What is the impact?

- Still quite hard to tell – given ongoing uncertainty over result of trade talks etc
- Will need to be assessed by entities on a case by case basis
- Main impact for accounts will be on disclosures e.g. PBSE
- However – could impact appropriateness of the going concern basis of preparation (in extreme circumstances)
- Also – strategic report risk disclosures
- Section 1A?

ICAEW and faculty resources

Factsheets (icaew.com/ukgaapfactsheets)

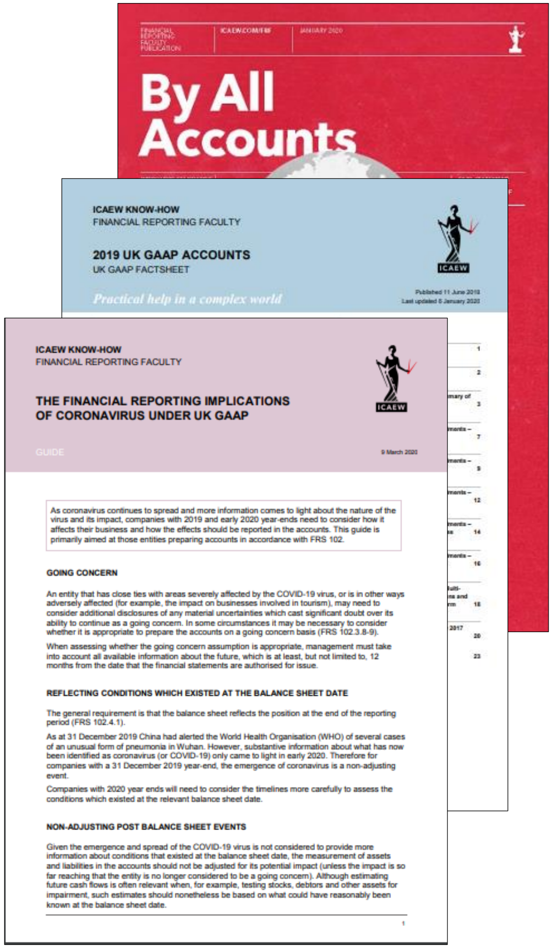
- 2019 UK GAAP accounts
- UK Regulation for Company Accounts
- Preparing and filing UK small entity accounts

Hubs

- icaew.com/triennialreview
- icaew.com/insights/coronavirus
- icaew.com/brexit

By All Accounts (icaew.com/byallaccounts)

Webinar recordings archive (icaew.com/frfwebinars)



Future events

For details, please visit **icaew.com/frfevents**

Webinars

30 April: Energy and carbon reporting – the essentials

Bitesize Briefings

Financial Reporting Conference

20 October 2020

Questions

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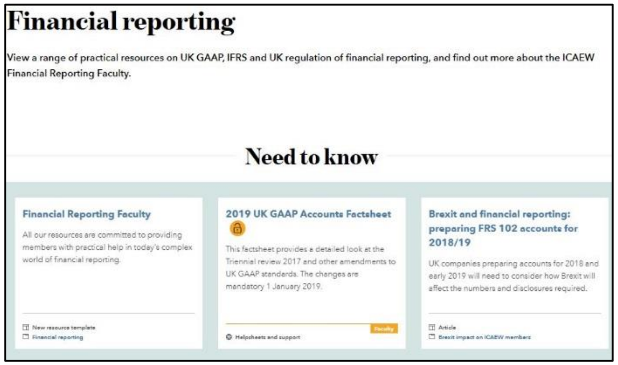
Financial reporting at your fingertips



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