



# *FRS 102 Triennial review - beyond the headlines*

*18 October 2018*

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# *FRS 102 Triennial review - beyond the headlines*

*18 October 2018*

# *Introduction*

Marianne Mau  
Technical Manager  
ICAEW



# *Today's presenters*

Matthew Howells  
Partner  
Smith & Williamson



Sally Baker  
Technical Manager  
ICAEW



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# *Contents*

Intangible assets in business combinations

Investment properties

Debt for equity swaps

Other FRS 102 issues

FRS 105

SORPs

## *Poll question*

Which of the following best describes your current position in relation to the Triennial review amendments?

# *Intangible assets in business combinations*

## *– pre Triennial review*

Intangible assets must be identifiable

- Separable; *or*
- arises from contractual or other legal rights

General recognition criteria

- Probable expected future benefits will flow to entity
- Cost or value can be reliably measured

Intangibles as part of a business combination

- Recognise separately from goodwill unless cannot be reliably measured



# *Intangible assets in business combinations – Triennial review amendments*

**Must  
capitalise**

- Separable; **and**
- Arises from contractual or other legal rights.

**May  
capitalise**

- Separable; **or**
- Arises from contractual or other legal rights.
- Accounting policy choice per class of asset
- Consistently applied to all business combinations

# *Intangible assets in business combinations – Triennial review amendments*

Amendments are  
applied prospectively

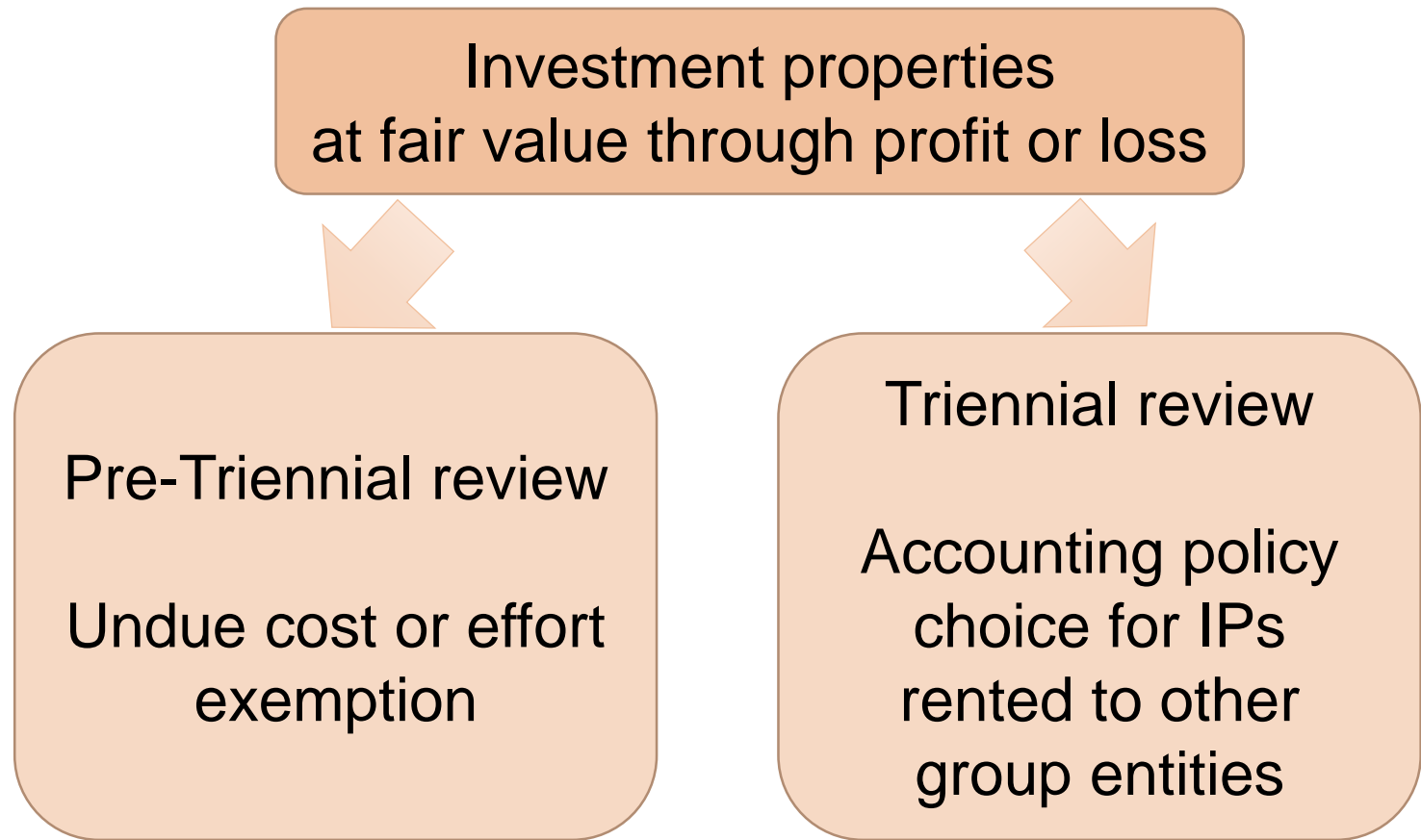
Previously  
recognised  
intangibles are not  
subsumed within  
goodwill

## *Examples*

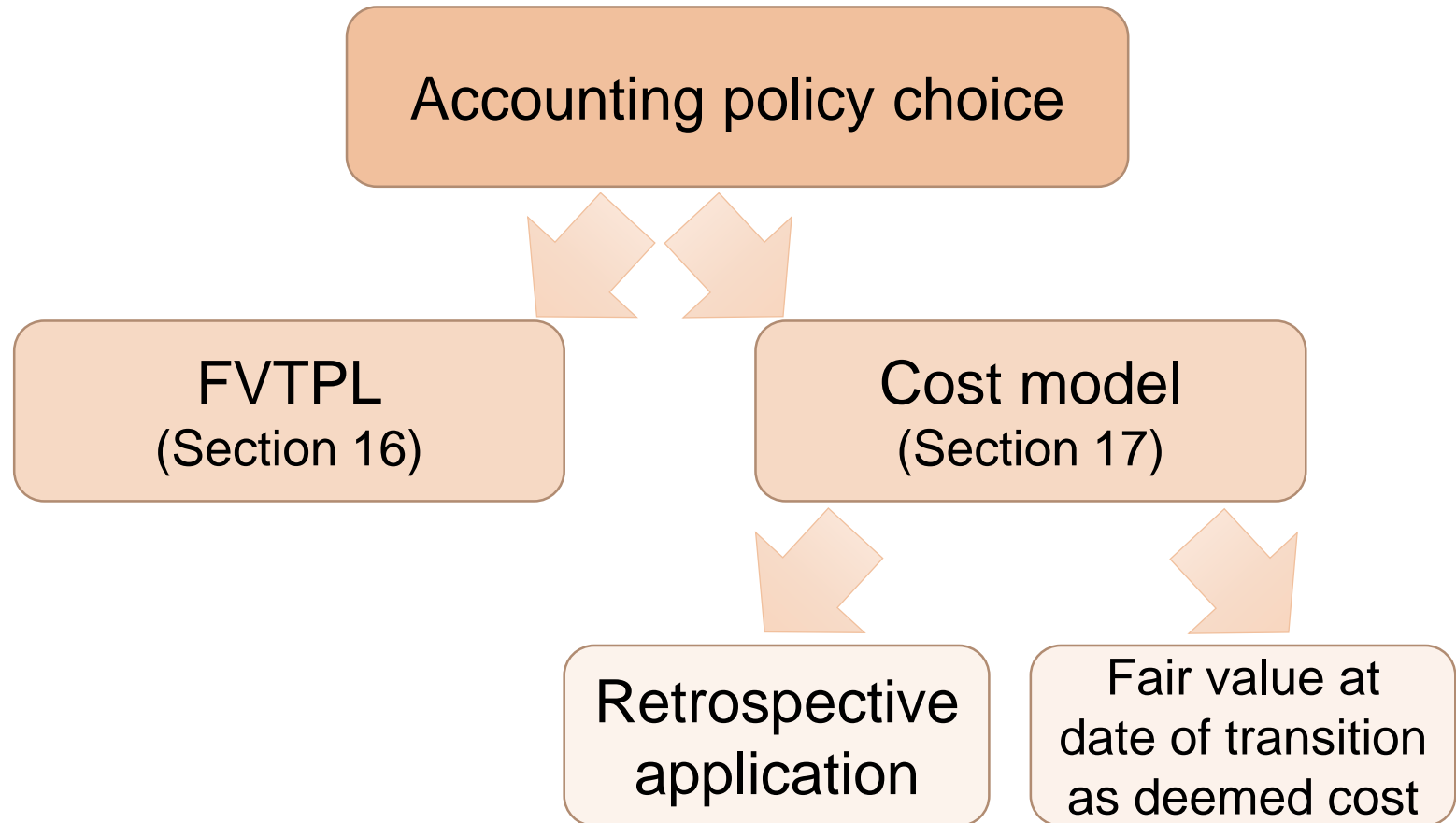
Type of intangible	Contractual or other legal rights?	Separable?	Capitalise?*
Trademarks	✓	✓	Must
Customer lists	X	✓	May
Customer contracts	✓	If transferable	Must if transferable
Construction permits	✓	If transferable	Must if transferable
Unpatented technology/ software	X	✓	May

\* As long as probable expected future economic benefits and reliable cost/value

# *Investment properties*



# *Investment properties rented to other group entity*



# *Investment properties rented to other group entity*

## *– cost model*

### Retrospective application

- Restate to original cost at date of purchase
- Reverse fair value gains/losses since date of purchase
- Adjust for depreciation from date of purchase
- Adjust deferred tax

### Deemed cost

- Reverse fair value gains/losses since date of transition
- Adjust for depreciation from date of transition
- Adjust deferred tax
- Revaluation reserve for fair value uplift between date of purchase and date of transition

# *Example*

- Year end 31 December
- 1 January 2014, investment property purchased for £1m
- Rented to another group entity
- Useful economic life estimated at 20 years
- FRS 102 applied from 2015
- Fair values of property:

31 Dec 2015 and 1 Jan 2016	£1.6m
31 Dec 2016 and 1 Jan 2017	£2.2m
31 Dec 2017 and 1 Jan 2018	£2.4m
- Ignore deferred tax

*Year ended 31 December 2018*

Adopt Triennial Review 2017  
amendments



Change accounting policy to  
account for property at cost



Date of transition:

1 January 2017



# *1. Apply new accounting policy retrospectively*

Restate opening reserves (as at 1 January 2017)

Reverse out accumulated  
fair value gain

$$£2.2\text{m} - £1\text{m} = £1.2\text{m}$$

Dr Retained earnings £1.2m  
Cr Property £1.2m

Recognise accumulated  
depreciation

$$£1\text{m} / 20\text{yrs} \times 3\text{yrs} = £0.15\text{m}$$

Dr Retained earnings £0.15m  
Cr Property £0.15m

Similar types of adjustments as at  
31 December 2017

## *2. Use FV at date of transition as deemed cost*

As at 1 January 2017

£2.2m fair value will now become 'cost'

Transfer accumulated fair value gain to a revaluation reserve  
 $£2.2m - £1m = £1.2m$

Dr Retained earnings £1.2m  
Cr Revaluation reserve £1.2m

Only start recognising depreciation from 1 January 2017  
'Cost' £2.2m / remaining UEL 17yrs = £0.129m

## *2. Use FV at date of transition as deemed cost*

As at 31 December 2017

£2.4m fair value needs to be reduced to £2.2m 'cost'

Dr Retained earnings £0.2m

Cr Property £0.2m

Recognise a year's worth of depreciation

## *2. Use FV at date of transition as deemed cost*

For 31 December 2018 and future periods  
until property disposed

Additional disclosures required (as for all revalued assets)

See FRS 102.17.32A

## *Investment properties - Transfers*

### IP to PPE / Inventory

- Fair value at date of change becomes deemed cost for treatment under Section 17 / Section 13

### PPE to IP

- Charge depreciation up to date of change, then revalue under Section 17, then transfer to IP

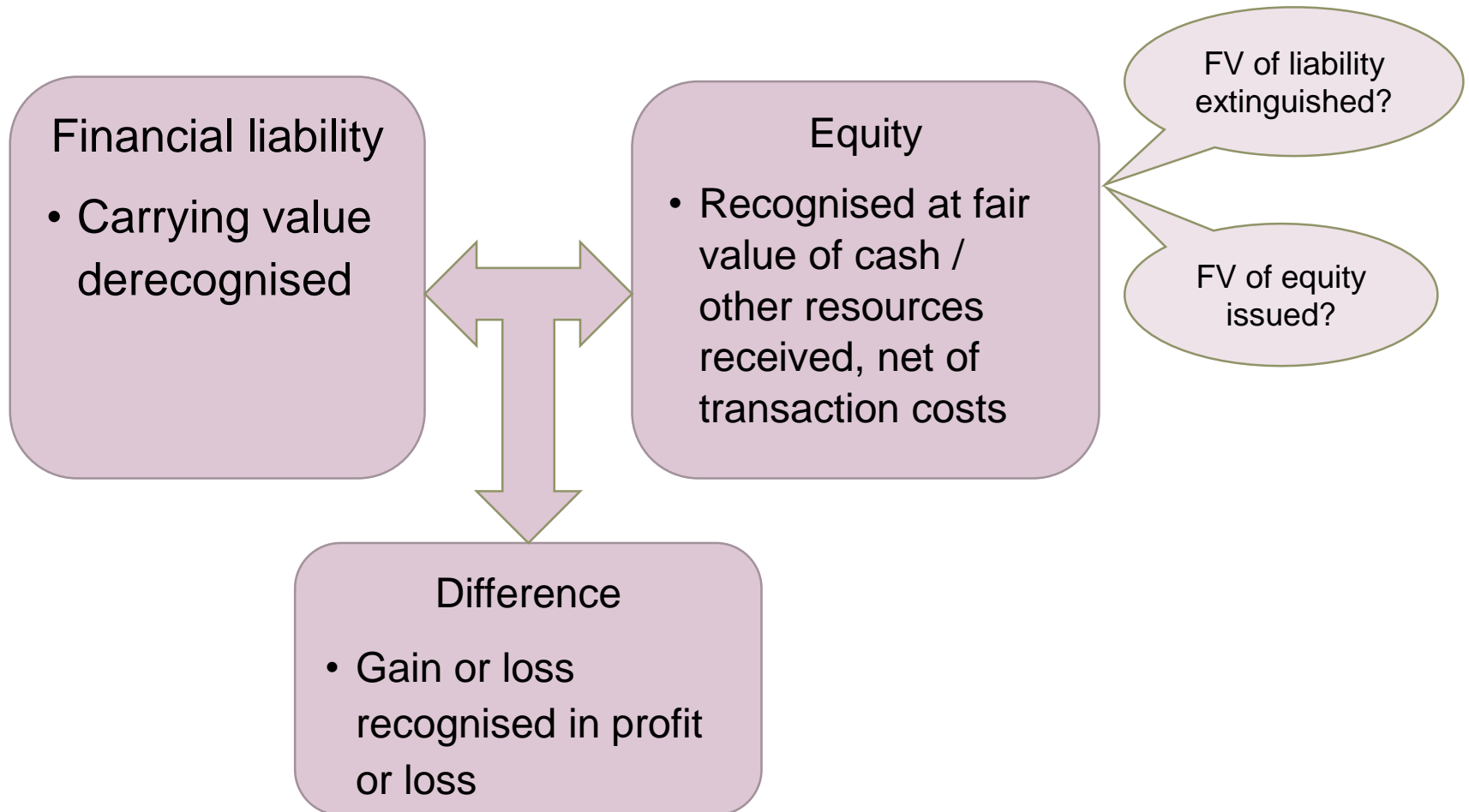
### Inventory to IP

- At date of change, difference between carrying value and fair value is taken to profit or loss

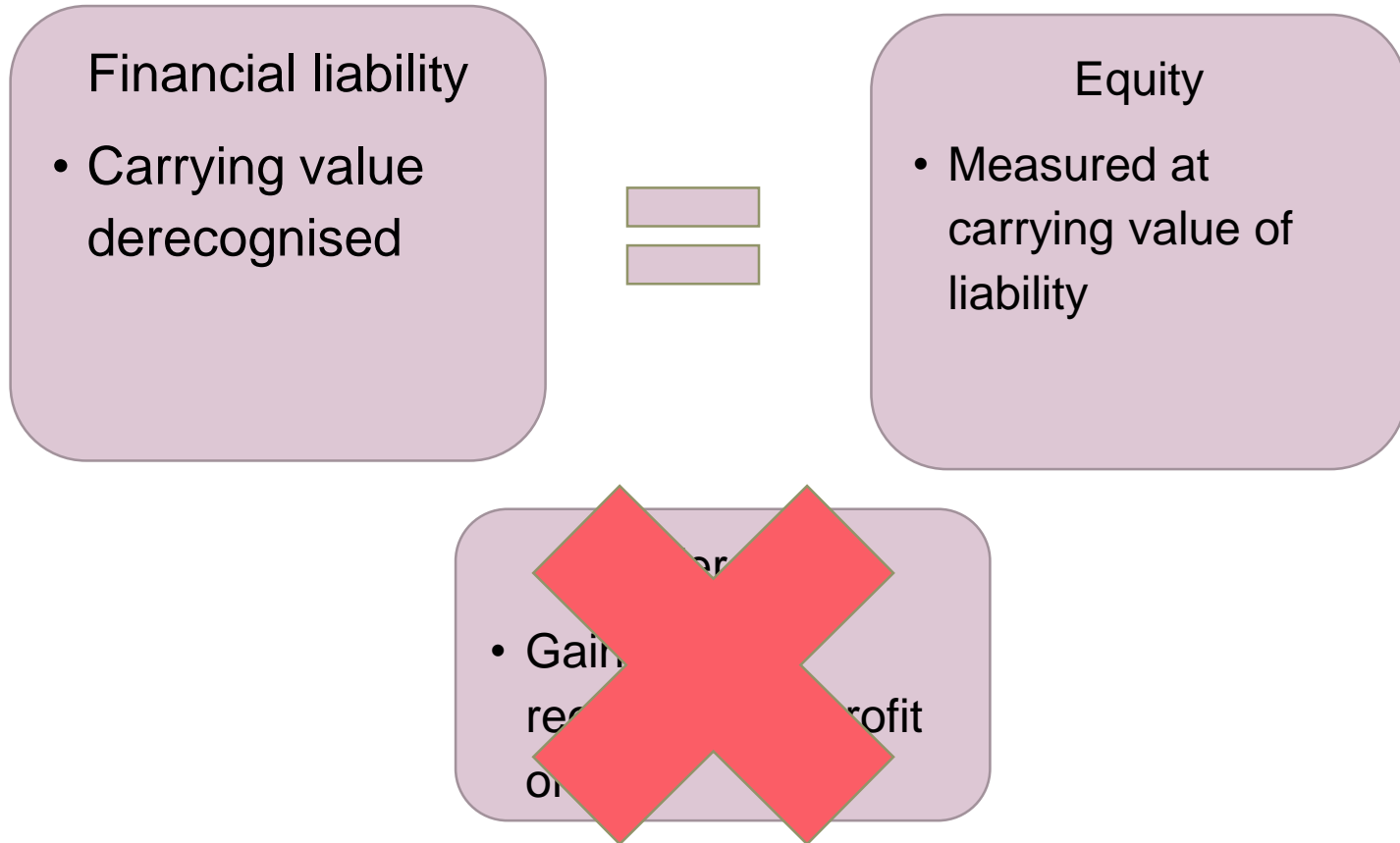
## *Poll question*

Which of the following choices are you likely to take / recommend to clients in respect of investment properties rented to other group entities?

# *Debt for equity swaps – general requirements*

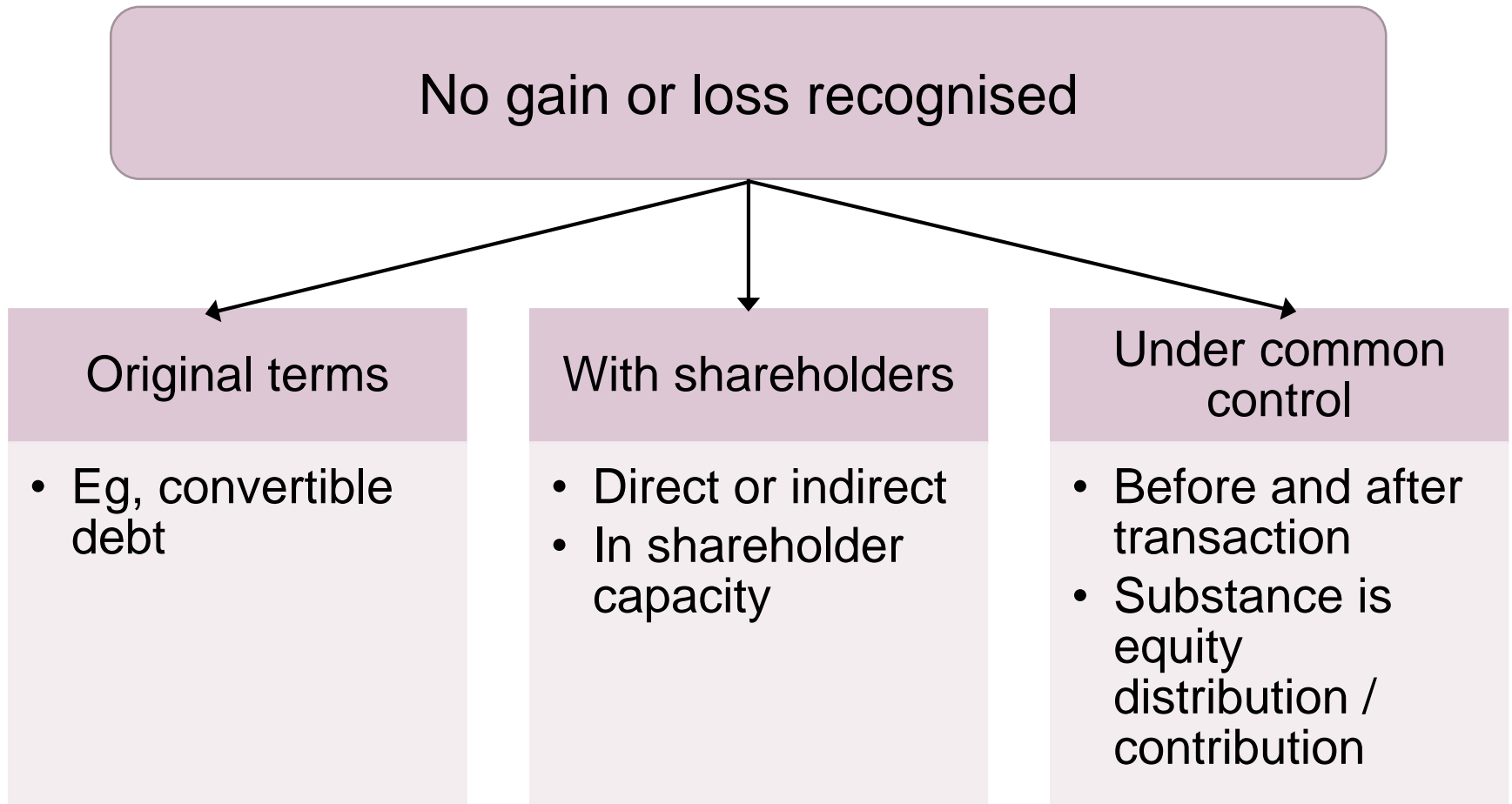


# *Debt for equity swaps – exceptions to general requirements*





# *Debt for equity swaps – Triennial review*



## *Example 1 – transaction with a shareholder*

- Issue ordinary shares with FV of £50m to extinguish liability to ultimate parent
- Such a settlement was not envisaged in the original loan terms
- Amortised cost and carrying value of liability is £55m

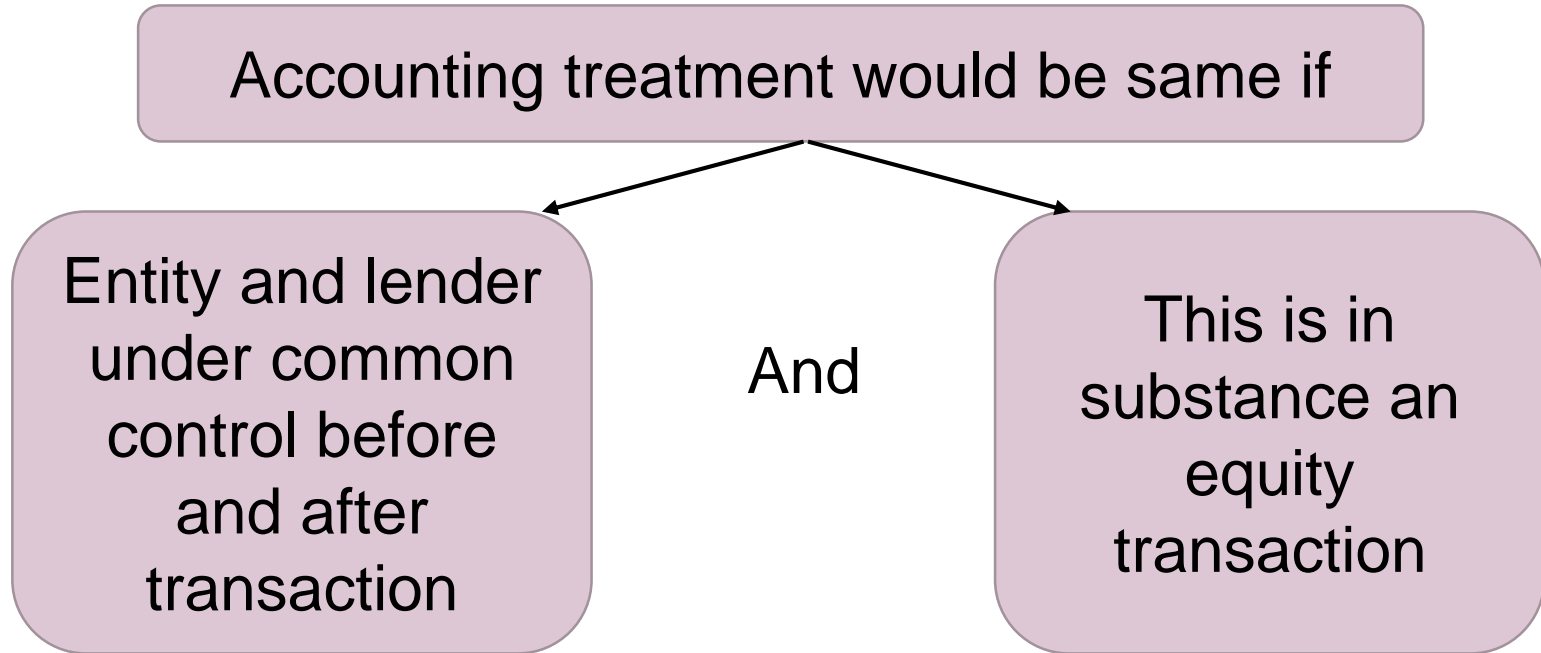
## *Example 1 - solution*

- Lender is an indirect shareholder
- So even though this is not a conversion in accordance with the original loan terms, the Triennial review amendments will apply


Dr Liability	£55m
Cr Equity	£55m

- Note that the fair value of the shares makes no difference to this double entry

## *Example 1 – under common control*



# *Recognition in equity*



Depends on redemption amount of liability at settlement date (the 'liquidated sum' or face value)

As a matter of UK law, this is the amount that must be credited to share capital and premium

This might not be the same as the carrying amount or the fair value

Review supporting documentation and obtain legal advice if liquidated sum is not clear

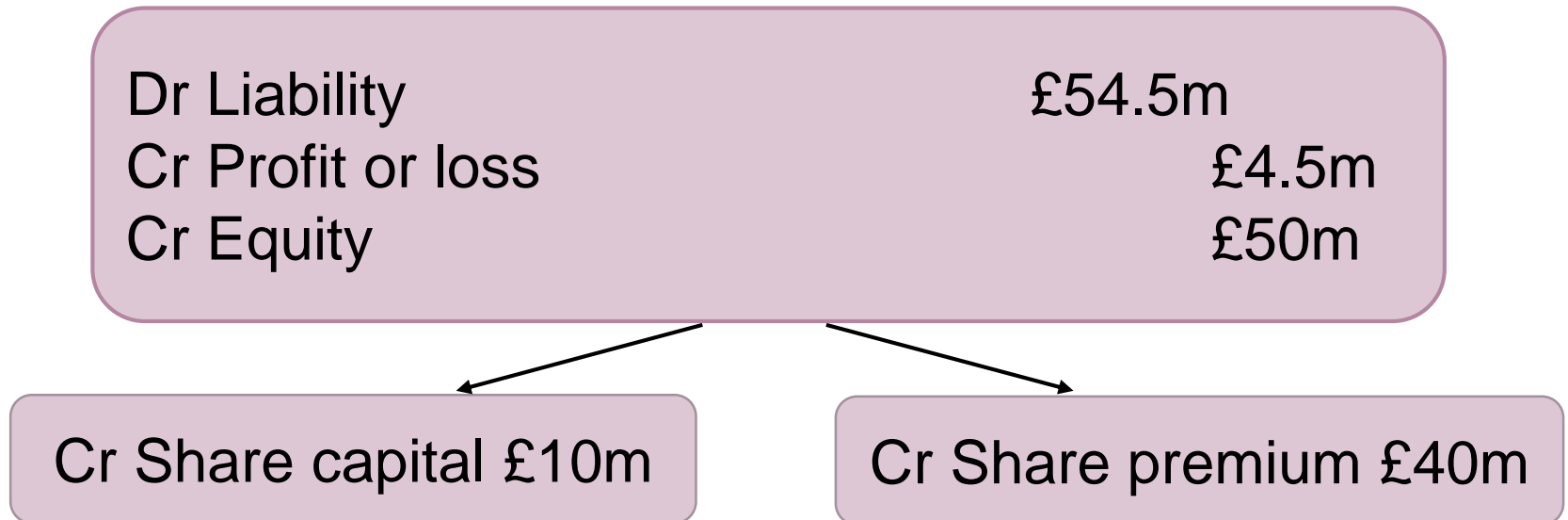
## *Example 2*

- Issue ordinary shares with FV of £50m to extinguish liability to an unrelated third-party lender
- Such a settlement was not envisaged in the original loan terms
- Transaction costs on the loan of £1m
- Loan is (approximately) half way to maturity, so half the transaction costs have been amortised ie, amortised cost and carrying value of loan at extinguishment was £54.5m

## *Example 2 – continued*

- Loan was originally for £55m
- Bullet repayment at maturity
- No interest outstanding at extinguishment
- No early termination penalty
- Nominal value of shares issued is £10m

## *Example 2 – solution*



But....

The total credit to equity needs to equal the liquidated sum of £55m (ie, the face value, not the carrying value)



## *Example 2 – solution (continued)*

- So...

Dr Retained earnings (£45m - £40m)	£5m
Cr Share premium	£5m

- Net debit of £500k to retained earnings, representing the unrecognised transaction costs

## *Example 2 – solution (continued)*

### Statement of changes in equity (extract)

	Share capital	Share premium	Retained Earnings	Total
Profit for the year	-	-	4.5	4.5
Conversion of loan	10	45	(5.0)	50
	10	45	(0.5)	54.5

## *Other FRS 102 issues*

- Net debt reconciliation
- Key management personnel disclosures
- Revenue: agent or principal
- Contract costs on construction contracts
- Small companies
- Key disclosure removals

# Net debt notes – FRS 1

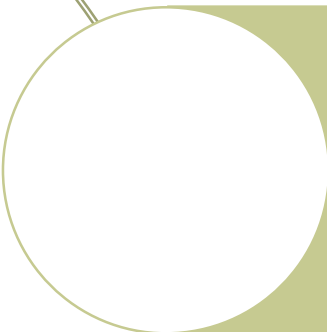
27	<b>Reconciliation of net cash flow to movement in net debt</b>	<b>2014</b>	<b>2013</b>
		<b>£000</b>	<b>£000</b>
	Decrease in cash in the year	(750)	(1,810)
	Cash outflow from decrease in debt	1,500	1,500
	Change in net debt reflows	750	(310)
	Other non-cash New finance		(1,000)
	<b>Movement</b>		(1,310)
	Net debt at		(8,190)
	<b>Net debt</b>		(9,500)
28	<b>Analysis of</b>	<b>At 31</b>	<b>December</b>
		<b>2014</b>	<b>2014</b>
		<b>£000</b>	<b>£000</b>
	Cash in hand, and overdrafts	-	1,000
		-	(250)
		-	750
	Debt due after 1 year	-	-
	Debt due within 1 year	-	(9,000)
	Finance leases	(1,000)	(1,500)
	<b>Total</b>	<b>(9,500)</b>	<b>(9,750)</b>

# *Net debt reconciliation – FRS 102*

Not quite the same thing!

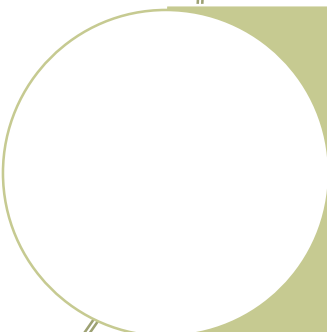
	At 1 Jan	Cash flows	New finance lease	Acquisition of subsidiary	Movements in market value and foreign exchange	Other non-cash changes	At 31 Dec
Overdraft	(150)	(63)	-	-	-	-	(213)
Bank borrowings due within 1 year	(4,000)	4,000	-	-	-	(4,500)	(4,500)
Bank borrowings due in more than 1 year	(19,900)	-	-	-	-	4,450	(15,450)
Finance leases	(8,426)	2,726	(1,239)	(404)	-	-	(7,343)
Cash	7,412	845	-	132	(746)	-	7,643
Cash equivalents	2,847	(204)	-	-	-	-	2,643
Net debt	(22,217)	7,304	(1,239)	(272)	(746)	(50)	(17,220)

# *Key management personnel compensation disclosures*



Exemption from disclosing key management personnel compensation in the following circumstances:

- The entity is subject to a legal or regulatory requirement to disclose directors' remuneration (or equivalent), e.g. the Companies Act 2006 requirements for UK companies; and
- The key management personnel and directors are the same.



Other transactions with directors will still need to be disclosed (Section 33) apart from share based payment arrangements

# *Revenue: agent or principal*

Based on the guidance included in IAS 18 Revenue

Acting as principal if has exposure to significant risks and rewards, for example:

- Primary responsibility for providing goods or services to the customer or fulfilling the order
- Has inventory risk before or after the customer order, during shipping or on return
- Latitude in establishing prices
- Bears the customer credit risk on the receivable



## *Revenue: agent or principal*

Acting as agent if **do not** have exposure to significant risks and rewards

- Amount entity earns is predetermined – fixed fee or stated percentage

# *Contract costs*

## Costs incurred in securing a contract

Included as part of contract costs if:

- Relate directly to the contract
- Separately identifiable and capable of reliable measurement
- Probable the contract will be obtained

# *Small companies*

Accounts not prepared on a going concern basis

Departure from principles set out in company law

Disclose

- Particulars of departure
- Reasons for it
- Its effects

## *Small companies*

### Disclosure of loans from directors and from shareholders with a participating interest

In the basis for conclusions on the Amendments, the FRC notes that if such loans are at non-market rate, the disclosure requirements of 1AC.35 apply. Certain particulars about such loans must therefore be given in the notes.

## *Disclosure removals*

### 5. SHARE CAPITAL

	2016 £	2015 £
<b>Allotted, called up and fully paid</b>		
138,839,291 ( <del>2015: 131,893,199</del> ) Ordinary shares of £0.001 each	<u>138,840</u>	<u>131,893</u>

During the year 6,946,092 Ordinary £0.001 shares were issued for total consideration of £746,010.

## *Disclosure removals*

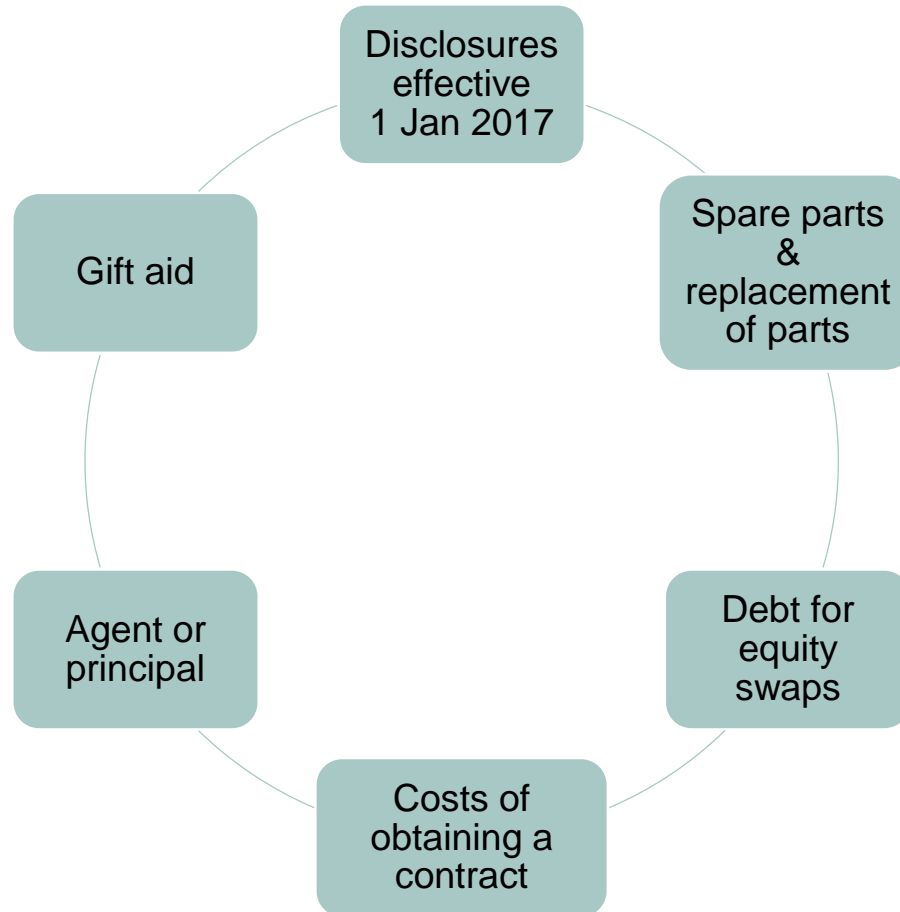
### 12. STOCKS

	<b>31 December 2016 £</b>	<i>31 March 2016 £</i>
Raw materials and consumables	<b>524,670</b>	595,471
Finished goods and goods for resale	<b>8,453,828</b>	5,149,441
	<b><u>8,978,498</u></b>	<u>5,744,912</u>

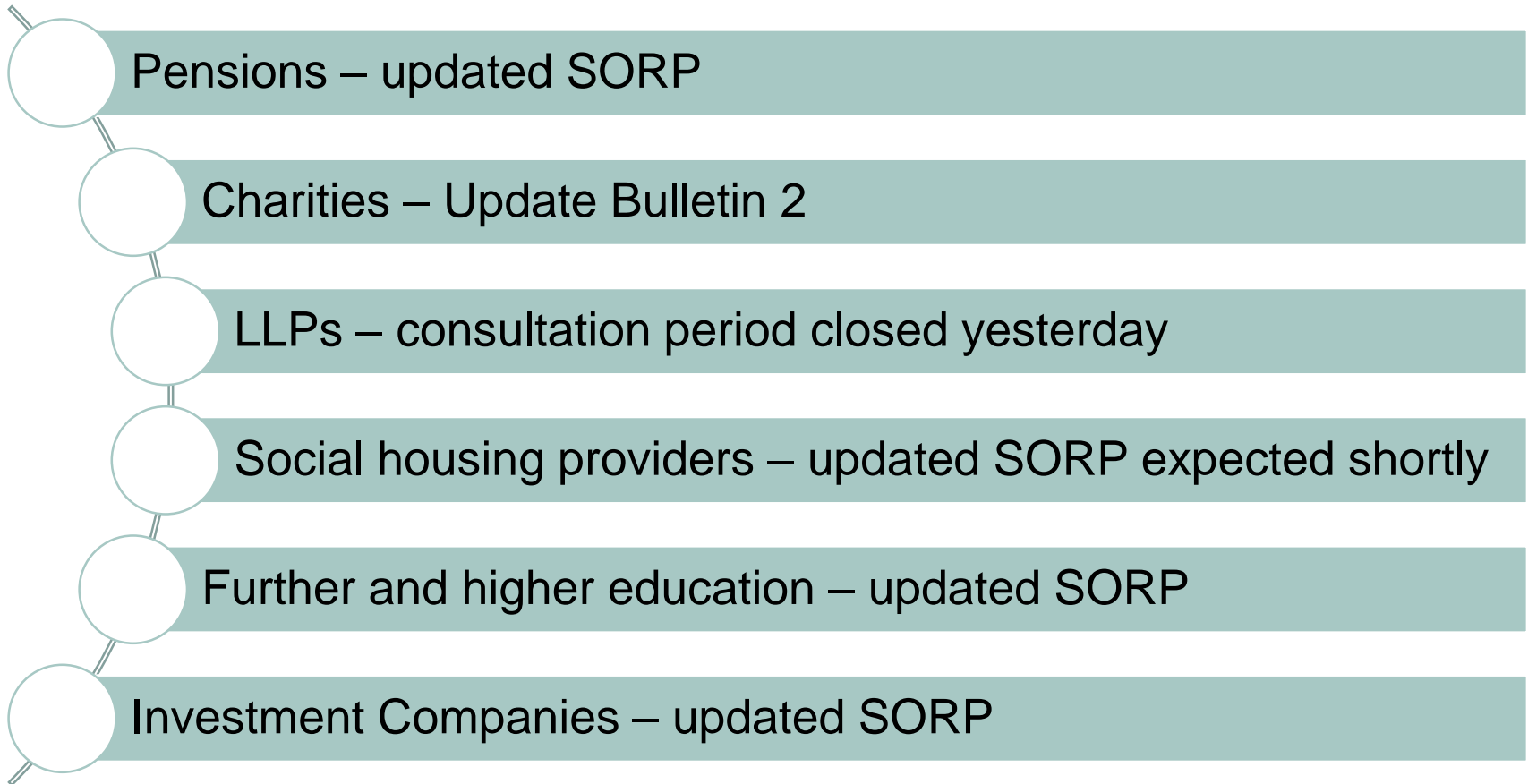
Stock recognised in cost of sales during the period as an expense was £19,701,555 (31 March 2016: £20,339,913).

An impairment charge/(credit) of £323,883 (31 March 2016: £(99,605)) was recognised in cost of sales in relation to the movement in provision against stock during the period due to slow-moving and obsolete stock.

# *FRS 105 Micro-entity accounts*

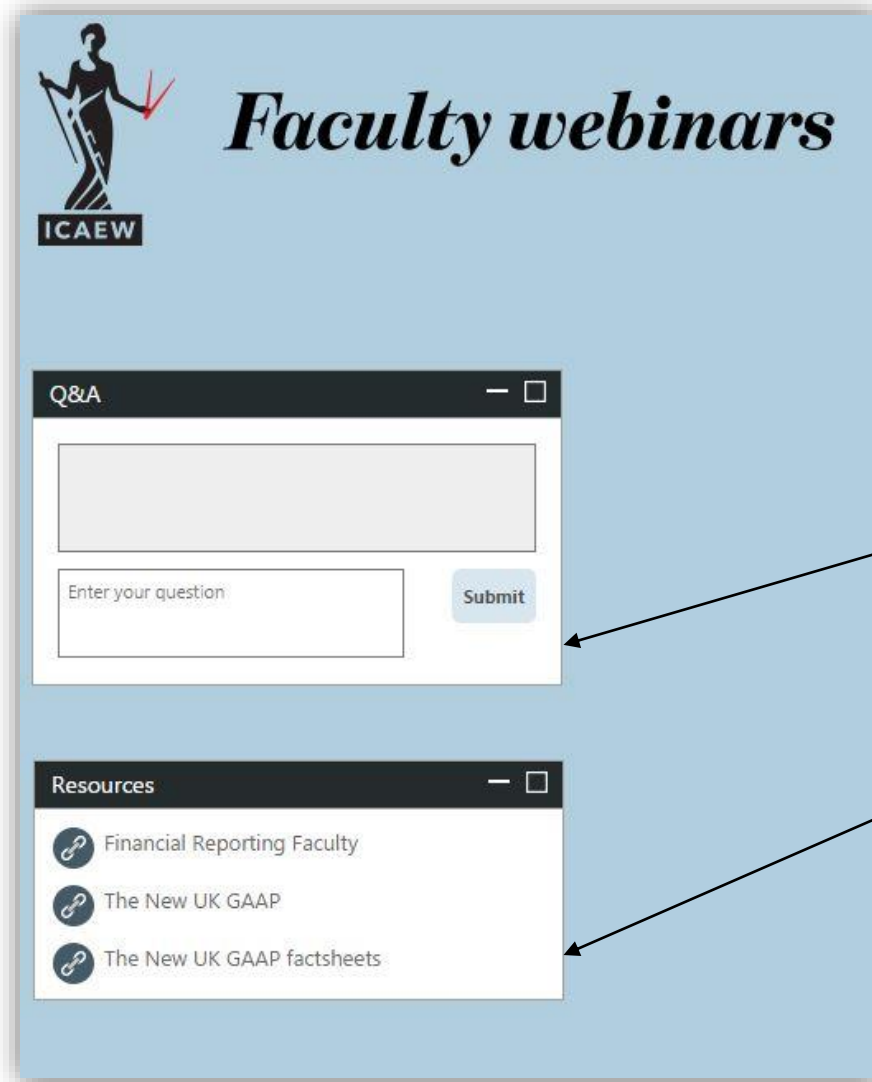


# *Consequential amendments to SORPs*

- 
- Pensions – updated SORP
  - Charities – Update Bulletin 2
  - LLPs – consultation period closed yesterday
  - Social housing providers – updated SORP expected shortly
  - Further and higher education – updated SORP
  - Investment Companies – updated SORP



# Ask a question



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## 2018 UK GAAP ACCOUNTS

UK GAAP Factsheet

*Practical help in a complex world*

Published 27 June 2018  
Last updated 27 June 2018

**2018 UK GAAP Accounts**  
This factsheet considers the Triennial review 2017 amendments which may be early adopted in 2018 accounts. There are no new or modified UK GAAP requirements that are mandatory for accounting periods beginning in 2018.

**Key regulations for this factsheet**  
This factsheet includes links and references to key regulations. There's a summary of the links, and guidance on how to use them, on page 2.

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**2018 - mandatory changes**  
Preparers of FRS 102 and FRS 105 accounts might breathe a sigh of relief as there are no mandatory changes to UK accounting standards effective for accounting periods beginning in 2018. However, preparers of FRS 101 accounts should be aware that there are significant changes to IFRSs coming into effect in 2018. More information on the changes to IFRSs will be available in the faculty's 2018 IFRS Accounts factsheet.


**Impact of the Triennial review 2017**  
In December 2017 the FRC issued Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland - Triennial review 2017 - Incremental improvements and clarifications (the 'Triennial review 2017 amendments'). These amendments are generally effective for accounting periods beginning on or after 1 January 2019. The transitional requirements are that early application is permitted provided that all of the amendments (with some limited, but important, exceptions) are applied at the same time.

Many of the amendments to FRS 102 are editorial or aim to clarify, rather than change, accounting treatments. However, there are some more significant amendments, for example to areas such as investment property and intangible assets, which may prove popular and entities may wish to consider early adoption. The amendments in respect of certain loans from directors (or their close family members) to small entities and the tax effect of gift aid donations are available for separate early adoption.

There are also consequential amendments to the other UK accounting standards, including some significant changes to FRS 105.

**Other regulatory changes**  
This factsheet does not include details of other regulatory changes affecting UK entities. More information on such changes can be found in our UK Regulation for Company Accounts factsheet.

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## DEBT FOR EQUITY SWAPS

IFRS Factsheet

*Practical help in a complex world*

Published 5 March 2018  
Last updated 5 March 2018

**Debt for Equity Swaps**  
This factsheet explains how to account for 'debt for equity swaps' in accordance with IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments. These requirements will usually result in a profit (or less commonly a loss) when debt is renegotiated on terms which provide for an issue of equity instruments. In addition, the factsheet considers the impact of company law for UK companies extinguishing debt with equity.

**Key regulations for this factsheet**  
This factsheet includes links and references to key regulations. There's a summary of the links, and guidance on how to use them, on page 2.

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**Section 4**  
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**Accounting requirements**  
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments addresses the accounting requirements for entities that issue equity instruments to extinguish all or part of a financial liability. These transactions are often referred to as 'debt for equity swaps'. Such transactions are more common when the borrower is in financial difficulties and the lender agrees to forgive amounts due in return for receiving equity in the borrower, but IFRIC 19 is not limited to such situations.

**Legal requirements for UK companies**  
UK companies will also need to consider the legal requirements when a company effectively issues shares at a premium and therefore the amount that must be transferred to the share premium account.

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## FRS 102 UPDATE

FRS 102 UPDATE

FRS 102 TRIENNIAL REVIEW 2017 AMENDMENTS – What are the changes?

June 2018

In December 2017 the UK's FRC issued amendments to UK GAAP standards arising from its Triennial review. Although many of the amendments aim to clarify rather than change accounting treatments, there are significant changes to some areas. In this Financial Reporting Faculty FRS 102 Update, we answer some of the frequently asked questions on the changes to the standards.

- What are the Triennial review 2017 amendments?**  
The Triennial review amendments were issued in December 2017 and are primarily changes to FRS 102 The Financial Reporting Standard applicable in the UK and the Republic of Ireland. There are also consequential amendments to the other UK accounting standards, including some significant changes to FRS 105 The Financial Reporting Standard applicable to the Micro-Entities Regime. The amendments are largely as proposed in FRED 67 Draft amendments to FRS 102 – Triennial review 2017 although some differences exist in the final publication. Additionally, the amendments incorporate the proposals of FRED 68 Draft amendments to FRS 102 – Payments by subsidiaries to their charitable parents that qualify for gift aid.
- Are the changes significant?**  
Although many of the amendments aim to clarify rather than change accounting treatments, there are significant amendments in some areas (see question 3).
- What areas do the more significant amendments to FRS 102 relate to?**  
The individual circumstances of a particular entity will determine which of the amendments will have the most significant impact. However, there are some more significant amendments which may prove popular, for example in relation to investment property, directors' loans to small entities, intangible assets acquired in a business combination and the tax effect of gift aid donations from subsidiaries to charitable parents (see questions 7 to 11). The amendments include other changes which may be significant to those entities affected by them. Care will need to be taken to understand and assess the impact of the amendments on individual entities.
- When do the changes to FRS 102 apply from?**  
The amendments must be applied for accounting periods beginning on or after 1 January 2019.
- Is early adoption of the amendments permitted?**  
Yes, provided that all the amendments are applied at the same time. As many of the changes are designed to make application of FRS 102 easier, early adoption may be an attractive option to some. The amendments in respect of certain loans from directors (or their close family members) to small entities and the tax effect of gift aid donations are available for separate early adoption.

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# *Questions*

Matthew Howells  
Partner  
Smith & Williamson



Sally Baker  
Technical Manager  
ICAEW



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## Webinars

- 22 Nov - IFRS Accounts – topical issues
- 13 Dec - UK GAAP- untangling the knots
- Visit [icaew.com/frfevents](http://icaew.com/frfevents) for details of our upcoming webinars



## Events

- From 26 Sept - Financial Reporting Essentials Roadshows
- 27 Nov – Financial Reporting Conference
- Visit [icaew.com/frfevents](http://icaew.com/frfevents) for details of upcoming events

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+44 (0)20 7920 8533

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