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UK GAAP - Top 10 Countdown

21 March 2019

Introduction

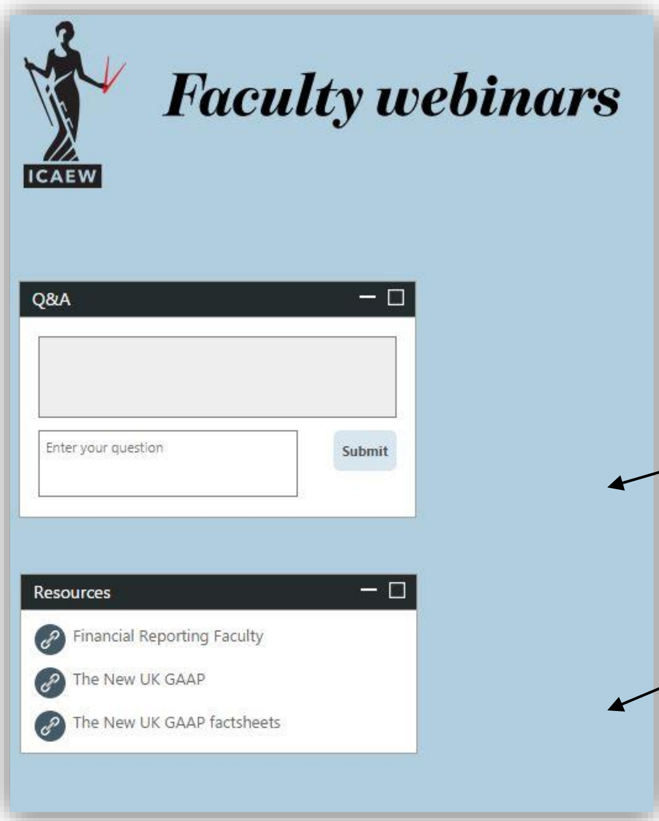
Marianne Mau
Technical Lead
ICAEW

Today's presenters

Danielle Stewart, OBE
Partner
RSM

Jake Green
Technical partner
Grant Thornton

Ask a question



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UK GAAP - Top 10 Countdown

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Tax relief on gift aid payments

Tax relief on Gift Aid payments

- Triennial review amended FRS 102 S29.14A
- Tax can now be stated net of relief from gifting up profits of a charity’s sub
- As long as gift is probable within 9 months & would be tax deductible
- ICAEW distributable profits guidance clarified this is a distribution
- So gift itself cannot be accrued except under a deed of covenant
- Effective 1/1/19, early adoption permitted separately from other TR changes

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Financial institutions

Financial Institutions: Narrowing the "catch all"

- 'Financial institutions' as defined have to give additional disclosures of financial instruments set out in S34
- Definition includes banks, building societies, and credit unions etc
- 'Catch all' added "any other entity whose principal activity is to generate wealth or manage risk through financial instruments" and also said:
- 'this is intended to cover entities that have business activities similar to those listed above but are not specifically included in the list above'
- Last para now amended to remove 'generate wealth' and 'manage risk'

8 Accounting policies

Accounting policies – should be bespoke

- FRC constantly comment on poor quality of policy drafting
- Their 2017 and 2018 letters to Audit Committee Chairs and FDs referred to policies being out of date, irrelevant, immaterial or based on boilerplate text from the standard
- They urge that disclosures should be tailored to specific circumstances
- Revenue is often singled out – the policy should cover each business stream

7

Basic v Non-basic

Basic versus non-basic

- Conditions in FRS 102.11.9
- Rules based – now augmented with a principal too
- How well do you know the rules?

1. An entity takes out a loan for £1m that is repayable in 5 years' time. Interest on the loan is 2 times LIBOR.
2. What if the rate was 10% p.a. minus LIBOR?
3. An entity takes out a loan for £1m that is repayable in 5 years' time. However, repayment is also triggered by a change in control of the entity.

Poll - Instrument 1

An entity takes out a loan for £1m that is repayable in 5 years' time. Interest on the loan is 2 times LIBOR.

Poll -Instrument 2

An entity takes out a loan for £1m that is repayable in 5 years' time. Interest on the loan is 10% p.a. minus LIBOR?

Poll - Instrument 3

An entity takes out a loan for £1m that is repayable in 5 years' time. Repayment is also triggered by a change in control of the entity.

Basic versus non-basic – does the principle help?

An instrument is basic "…if it gives rise to cash flows on specified dates that constitute repayment of the principal advanced, together with reasonable compensation for the time value of money, credit risk and other basic lending risks and costs (eg liquidity risk, administrative costs associated with holding the instrument and lender's profit margin). Contractual terms that introduce exposure to unrelated risks or volatility (eg changes in equity prices or commodity prices) are inconsistent with this."

6

Intangible assets

Changes to recognition of intangible assets

- Previously UK GAAP only recognised tangible assets and ‘hard’ intangibles
- Currently, value ‘soft’ intangibles too, eg, brands; customer lists; trade names.
- There were complaints about the new rules (cost and difficulty)
- Triennial review has more or less gone back to old UK GAAP ie,

Separate intangibles from goodwill when they:

Arise from contractual or other legal rights; <u>and</u>

They are separable.

- Option to separate more, but must be applied consistently to the class

5

Deferred tax

Tax under FRS 102: Timing difference plus approach

Timing differences

Transactions recognised in different periods for tax and accounting purposes

✓ Deferred tax*

Permanent differences

Transactions recognised only in tax or only in accounting profits

X No Deferred tax *

* Subject to certain specific exemptions

Exceptions to the permanent difference rule :

Exceptions to the permanent difference rule reflect the ‘plus’ in the timing difference plus approach

Exception requires you to record deferred tax on assets and liabilities (other than goodwill) recognised in a business combination if:

- The amount that can be deducted for tax for an asset recognised in a business combination is different to the value at which is it recognised
- There is a difference between a liability recognised in a business combination and the amount of the liability that will be assessed for tax.

4

Revaluation of assets

Revaluation of assets

- This is a surprisingly complex area, even for UK GAAP experts!
- There are three main aspects we will consider:
  - Investment properties
  - PPE held at fair value under the revaluation model
  - The Companies Act Alternative accounting rules

Investment properties

Initial recognition at cost

Thereafter at fair value with changes in fair value recognised in profit or loss

- Undue cost or effort exemption no longer allowed
- To balance this, there is now a choice for investment property rented to other group entities between FVTPL and PPE cost model.

Transitional choice

- There is the option to use fair value as deemed cost on transition

Property plant and equipment held under the revaluation model

Initial recognition at cost

Thereafter a choice of cost model or revaluation model

- Under the revaluation model, an item of PPE whose fair value (FV) can be measured reliably is carried at FV less subsequent accumulated depn & impairment losses.
- A revaluation increase is recognised in OCI and accumulated in reserves, subject to some exceptions
- FRS 102 does not require a separate revaluation reserve in equity.

Companies Act

There are two sets of valuation rules under CA 2006.

Alternative accounting rules

- The alternative accounting rules apply when PPE is revalued. These rules specify that a revaluation reserve is required

Fair value accounting

- For investment properties, the fair value accounting rules apply, originally designed for financial instruments. No revaluation reserve is required

3

Judgements and estimates

Judgements and Estimates

English limited company…

…could do better

Judgements and estimates

Judgement and estimates are different things

ABC plc

Significant judgements and estimates

Revenue recognition... judgement around whether the group is acting as agent or principal in certain transactions... and in relation to measurement of sale or return provisions.

Includes both judgements and estimates

Judgements and estimates

Challenge when a significant estimate disclosure is included and there is **NOT** a significant risk of a material adjustment

Provisions - provision uncertainty in relation to land remediation and certain customer claims... which are not expected to be resolved for at least 5 years...

Impairment testing... goodwill and indefinite-lived intangible assets are tested for impairment annually. Discounted cashflow valuations are a key area of estimation uncertainty.

Does the estimate have a significant risk of material adjustment to carrying value **in the NEXT YEAR?**

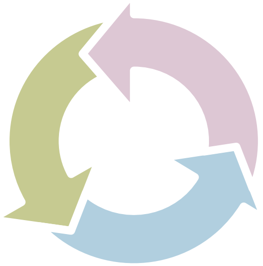
2

Income statement, OCI or SOCIE

Poll - Which of the following items would be reported as other comprehensive income?

Select all that apply

Income statement, OCI and SOCIE-where to classify items in the first instance?



Income statement

- Fair value gains/losses on foreign exchange contracts
- Revaluation of investment property
- Share based payments

SOCIE

- Share issues
- Dividends
- Share based payments

OCI

- Currency translation differences on foreign operations
- Revaluation of land and buildings
- Actuarial gains/(losses) on defined benefit plans

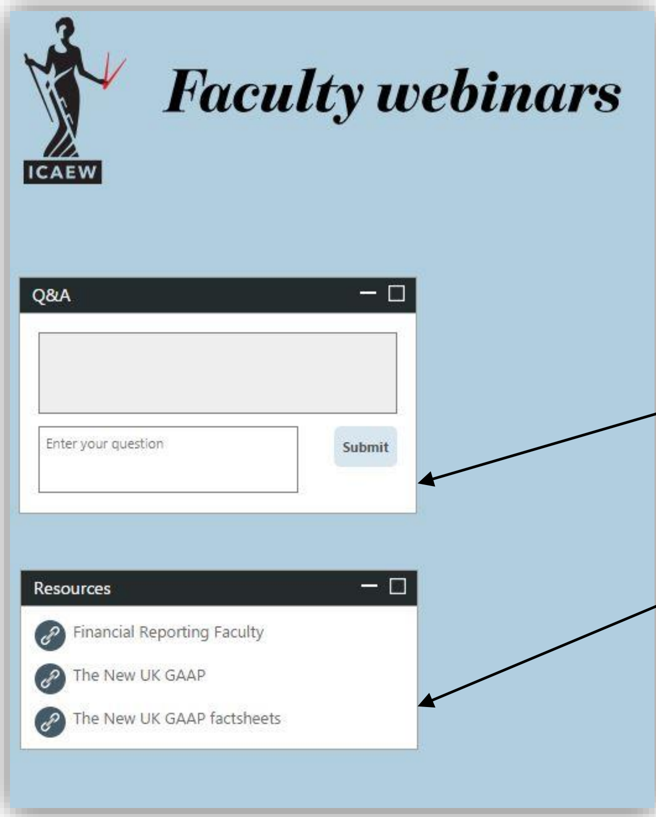
1

Cash flow statements

Classification of cash flows

Category	Description
Investing	Relates to acquisition/disposal of long term assets and investments. Only expenditure that results in recognising an asset
Financing	Result in changes in the size and composition of the contributed equity and borrowings of the entity
Operating	Principally related to revenue activities of the company. Also cash flows not classified as investing or financing

Ask a question



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Faculty resources

UK GAAP FAQs icaew.com/ukgaapfaqs

- available to all ICAEW members

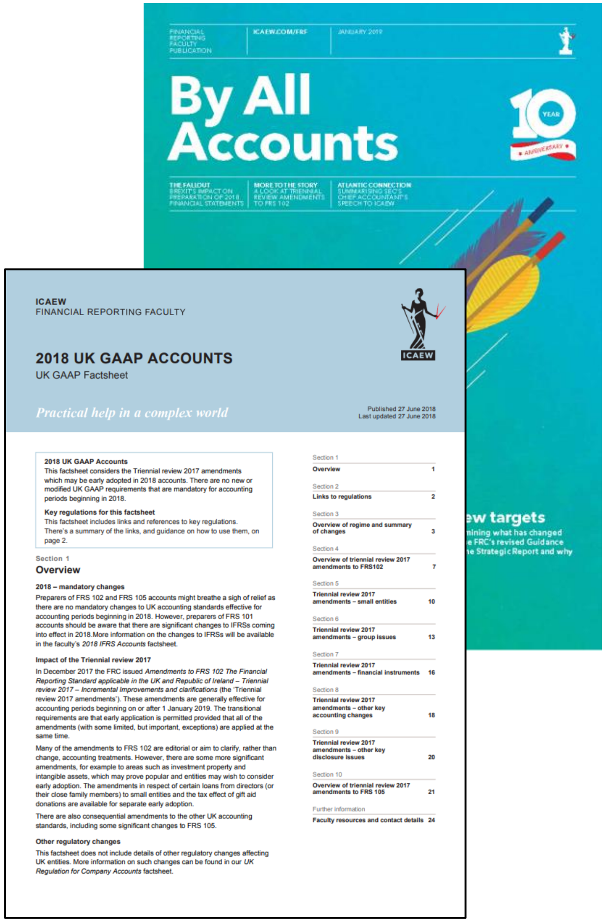
Factsheets icaew.com/ukgaapfactsheets

- 2018 UK GAAP accounts
- Preparing and filing UK small entity accounts

Past webinar recordings icaew.com/ukgaapwebinars

- UK GAAP update (March 2018)
- FRS 102 Triennial review
  – beyond the headlines (October 2018)

By All Accounts articles icaew.com/byallaccounts



Questions

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Contact the Financial Reporting Faculty

+44 (0)20 7920 8533

frfac@icaew.com

icaew.com/frf

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