2017 UK GAAP Accounts
This factsheet highlights the new and modified UK GAAP requirements that are mandatory for accounting periods beginning in 2017. It also considers some of the practical implementation issues which have arisen as a consequence of the new regime.

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.

Section 1
Overview

2017 – A stable platform
At the time of writing there are relatively few amendments to UK accounting standards effective for accounting periods beginning on or after 1 January 2017. Small entities will be able to take advantage of the optional interim relief in respect of directors’ loans issued by the FRC in May 2017. In December 2016 the FRC removed the requirement for qualifying entities to notify shareholders of their intention to take advantage of the reduced disclosure framework, but some will only be feeling the benefit of this relaxation in 2017.

As the process of transition to the new regime moves to completion, some common problem areas have emerged. In this factsheet we consider some of the lessons learnt from past experience.

New UK GAAP – Triennial Review 2017
In its first triennial review launched in March 2017, the FRC has proposed a number of simplifications to UK standards, which would be effective 1 January 2019 with early adoption possible. The faculty will keep you abreast of the changes.

Accounting periods beginning before 1 January 2017
Preparers of accounts for accounting periods beginning before 1 January 2017 should refer to the factsheet 2016 UK GAAP Accounts.

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 – 2016 factsheet.
Section 2

Links to regulations

Using the links and margin notes in this document
The margin notes in this factsheet identify relevant sections of standards and other regulations – these sections cannot be considered in isolation when applying them in practice.

You might find it useful to download, or print out, relevant section(s) of the standard(s) so that you can refer to them when using this document.

Make sure that you use the right version of the regulations or standards
Standards and regulations are often updated and amended, and may have transitional provisions. It is important to use the right version, and to make sure that it applies to the relevant time period. The standards below are linked to the faculty’s standards tracker which shows when standards were amended, and when the amendments come into effect. Links are then provided to the version of the standard relevant to specific time periods.

<table>
<thead>
<tr>
<th>Standards</th>
</tr>
</thead>
<tbody>
<tr>
<td>Key standards for this factsheet</td>
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<tr>
<td>FRS 100 Application of Financial Reporting Requirements</td>
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<tr>
<td>FRS 101 Reduced Disclosure Framework</td>
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<tr>
<td>FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland</td>
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<tr>
<td>FRS 103 Insurance Contracts</td>
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<tr>
<td>FRS 104 Interim Financial Reporting</td>
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<tr>
<td>FRS 105 The Financial Reporting Standard applicable to the Micro-entities Regime</td>
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</table>

Other relevant regulations

Overview of the financial reporting framework

Foreword to Accounting Standards

Amendment to FRS 102: Directors’ loans – optional interim relief for small entities

FRED 67 Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Triennial review 2017 – Incremental improvements and clarifications

Triennial Review 2017 – At A Glance

Consultation: Triennial review of UK and Ireland accounting standards – Approach to changes in IFRS

FRC’s 2017/18 Thematic Review – Significant accounting judgements and sources of estimation uncertainty
Section 3
Overview of regime and summary of changes

The UK financial reporting regime
The UK financial reporting regime came into effect for accounting periods beginning on or after 1 January 2015. Small entities that previously adopted the FRSSE (2015) applied the more significant aspects of the new regime for the first time in 2016. After a period of radical change, 2017 brings a period of stability for FRS 102 and FRS 105 reporters. However, further potentially significant changes lie ahead as a result of the FRC’s first triennial review of FRS 102, which is now underway.

Further faculty factsheets
More information on the UK financial reporting framework can be found in the faculty’s factsheet The UK Financial Reporting Regime.

Standards and amendments applicable to accounting periods beginning in 2017

<table>
<thead>
<tr>
<th>Title</th>
<th>Overview</th>
<th>New and revised for 2017</th>
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<tbody>
<tr>
<td>FRS 100 Application of Financial Reporting Requirements (September 2015)</td>
<td>Sets out the financial reporting requirements for UK and Republic of Ireland entities.</td>
<td>A number of narrow scope amendments to EU-adopted IFRSs are effective for accounting periods beginning on or after 1 January 2017. More detailed information is available in the faculty’s factsheet 2017 IFRS Accounts.</td>
</tr>
<tr>
<td>FRS 101 Reduced Disclosure Framework (September 2015)</td>
<td>Sets out an optional reduced disclosure framework for the individual financial statements of qualifying subsidiaries and parents that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRSs.</td>
<td></td>
</tr>
<tr>
<td>Amendments to FRS 101 and FRS 102 – Notification of shareholders (December 2016)</td>
<td>Limited amendments arising from the 2015/16 review to ensure that the reduced disclosure framework maintains consistency with EU-adopted IFRSs.</td>
<td>Notification of shareholders of intention to take advantage of disclosure exemptions is no longer required for accounting periods beginning on or after 1 January 2016 but some entities will feel the benefit only for 2017.</td>
</tr>
<tr>
<td>FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (September 2015)</td>
<td>Sets out the financial reporting requirements for entities that are not applying EU-adopted IFRSs, FRS 101 or FRS 105.</td>
<td>Notification of shareholders of intention to take advantage of disclosure exemptions is no longer required for accounting periods beginning on or after 1 January 2016 but some entities will feel the benefit only for 2017.</td>
</tr>
<tr>
<td>Amendments to FRS 101 and FRS 102 – Notification of shareholders (December 2016)</td>
<td>Requirement to notify shareholders in writing of intention to take advantage of disclosure exemptions removed.</td>
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<tr>
<td>To be read in conjunction with Amendments to FRS 101 – 2015/16 cycle (July 2016); and</td>
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<tr>
<td>Title</td>
<td>Overview</td>
<td>New and revised for 2017</td>
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<tr>
<td><strong>Amendments to FRS 102—Fair value hierarchy disclosures (March 2016); and</strong></td>
<td>Requirements relating to the disclosure of financial instruments based on the fair value hierarchy are simplified and aligned more closely to IFRS 13 Fair Value Measurement.</td>
<td>Amendments simplify the preparation of disclosures about financial instruments for financial institutions and retirement benefit plans. Other entities applying FRS 102 are unaffected by these amendments.</td>
</tr>
<tr>
<td><strong>Amendments to FRS 102: Directors’ loans – optional interim relief for small entities (May 2017)</strong></td>
<td>Permits a loan from a director who is a natural person and a shareholder in a small entity to be measured at the transaction price.</td>
<td>Small entities have the option to measure loans from director-shareholders, or their close family members, initially at the transaction price rather than at present value. The amendment is effective immediately with retrospective application available.</td>
</tr>
<tr>
<td><strong>FRS 103 Insurance Contracts (February 2017)</strong></td>
<td>Consolidates existing financial reporting requirements and guidance for insurance contracts. It applies to entities that have adopted FRS 102.</td>
<td>The revised edition of FRS 103 and the accompanying implementation guidance includes previous amendments, and inserts a paragraph (A4.2A) to reflect a change in legislation and to confirm that there is no requirement for an entity to change the accounting basis to one consistent with Solvency II.</td>
</tr>
<tr>
<td><strong>FRS 104 Interim Financial Reporting (March 2014)</strong></td>
<td>Sets out the financial reporting requirements for interim financial reports. It does not in itself require an entity to prepare an interim financial report.</td>
<td></td>
</tr>
<tr>
<td><strong>FRS 105 The Financial Reporting Standard applicable to the Micro-entities Regime (July 2015)</strong></td>
<td>Sets out the financial reporting requirements for entities that qualify as microentities and choose to apply the micro-entities regime.</td>
<td></td>
</tr>
<tr>
<td><strong>To be read in conjunction with Amendments to FRS 105 – Limited Liability Partnerships and Qualifying Partnerships (May 2016)</strong></td>
<td>Limited amendments to reflect changes to UK law allowing eligible LLPs and qualifying partnerships to prepare micro-entity accounts.</td>
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</tr>
</tbody>
</table>

**Which standard?**

Under the current UK financial reporting regime entities may, in theory at least, choose between EU-adopted IFRSs, FRS 101, FRS 102 (either in full or as adapted for small entities in Section 1A) or FRS 105. However, in practice the choices are limited for many entities according to their circumstances eg, listed entities, size, or other eligibility criteria. There are no restrictions on switching from one UK accounting standard (FRS 101, FRS 102 or FRS 105) to another, subject to the relevant eligibility criteria being met.

An overview of the UK financial regime and the qualifying criteria for each of the standards is available in the FRC’s Overview of the financial reporting framework and the faculty’s FAQ document The UK Financial Reporting Framework.

**Further faculty factsheets**

More information on the legal requirements for company accounts is available in the factsheet UK Regulation for Company Accounts – 2016, and on the financial reporting framework more generally in the factsheet The UK Financial Reporting Regime.
Practical tip: make sure you use the right version of the standards and amendments

The FRC has issued a number of amendments to the new standards since their original publication. Revised versions of FRS 100, FRS 101 and FRS 102 were published in September 2015 which include previous amendments. However, further amendments have been published subsequently. A revised edition of FRS 103 was issued in February 2017 (see above).

The faculty’s UK GAAP standards tracker provides links to the standards and the relevant amendments for different time frames.

Practical tip: further resources for faculty members

The focus of this factsheet is on changes which are mandatory for accounting periods beginning on or after 1 January 2017, and most entities will see little or even no change. However, there have been significant changes for earlier periods. These changes are explained more fully in the following factsheets: 2016 UK GAAP Accounts, An Introduction to FRS 102, Reduced Disclosure Framework, and Micro-entity Accounts: Moving to FRS 105.
Section 4
UK GAAP standards – new and revised for 2017

FRS 101 Reduced Disclosure Framework

Amendments to FRS 101 – Notification of shareholders
FRS 101, as originally issued, required a qualifying entity to notify its shareholders in writing of its intention to take advantage of the disclosure exemptions, and the shareholders must not have objected. In practice there was some uncertainty over how shareholders should be notified of the qualifying entity’s intention, and the appropriate frequency of this notification. Consequently, the FRC removed this requirement in the Amendments to FRS 101 Reduced Disclosure Framework and FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Notification of shareholders (issued December 2016).

The amendments are effective for accounting periods beginning on or after 1 January 2016 but some entities will feel the benefit only for 2017.

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

Amendments to FRS 102 – Notification of shareholders
As for FRS 101, FRS 102 – as originally issued – required a qualifying entity to notify its shareholders in writing of its intention to take advantage of the disclosure exemptions, and the shareholders must not have objected. As noted above, the FRC removed this requirement in the Amendments to FRS 101 Reduced Disclosure Framework and FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Notification of shareholders (issued December 2016).

The amendments are effective for accounting periods beginning on or after 1 January 2016 but some entities will feel the benefit only for 2017.

Amendments to FRS 102 – Fair value hierarchy disclosures
The amendments are effective for accounting periods beginning on or after 1 January 2017, early application of these amendments is permitted.

They simplify the preparation of disclosures about financial instruments for financial institutions and retirement benefit plans. The amendments more closely align the relevant disclosure requirements with those in IFRS 13 Fair Value Measurement. The amendments apply only to financial institutions and retirement benefit plans; other entities applying FRS 102 are unaffected by these amendments.

Amendments to FRS 102 (May 2017): Directors’ loans – optional interim relief for small entities
FRS 102 requires financing transactions to be initially measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument. In subsequent accounting periods the loans are measured at amortised cost with the unwinding of the discount recognised as a finance charge in the profit and loss account.

FRED 67 Draft amendments to FRS 102 – Triennial Review 2017 – Incremental improvements and clarifications includes a proposal to permit small entities to initially measure a loan from a director who is a natural person and a shareholder in the small entity (or a close member of the family of that person) at transaction price. Informal stakeholder outreach has indicated strong support for this proposal.

These proposals are not, however, expected to be finalised until December 2017 and the proposed amendments would be effective for accounting periods beginning on or after 1 January 2019 with early adoption possible. As most entities have nine months within which to finalise their accounts the revised requirements would take effect too late for small entities with December 2016 year ends to benefit from them when preparing their first set of FRS 102 financial statements. However, in contrast, early adoption would be
available to small entities with later year ends, for example adopting FRS 102 for the first time in their (say) June 2017 accounts.

The FRC is concerned about this inequity and understands the frustrations of many small entities that its proposals to address concerns about the accounting for directors’ loans will be finalised too late to avoid them having to measure directors’ loans at present value for one year only.

Therefore the FRC has, by way of interim measure, issued an amendment to FRS 102 which defers, for small entities only, the implementation of this aspect of FRS 102, pending the finalisation of the proposals in FRED 67.

The amendment is effective immediately with retrospective application available. It will be replaced with permanent requirements based on the proposals in FRED 67 after considering the outcome of the consultation process.

**FRS 103 Insurance Contracts**

Revised edition of FRS 103 (February 2017)

The FRC issued a revised edition of FRS 103 and the accompanying implementation guidance in February 2017.

The revised edition of FRS 103 updates the previously published version for:

- amendments issued in respect of Solvency II (issued in May 2016, effective 1 January 2016);
- the insertion of paragraph A4.2A to reflect a change in legislation and to confirm that there is no requirement for an entity to change the accounting basis to one consistent with Solvency II;
- amendments to Appendix V Republic of Ireland (RoI) legal references; and
- some minor typographical or presentational corrections.
Practical problems and possible pitfalls

The not-so-new UK GAAP
All entities reporting under UK GAAP should have moved to one of the standards under the new UK regime before accounting periods beginning on or after 1 January 2017. As the process of transition moves towards completion, some common problem areas have emerged. Below we look at some of the practical issues which have arisen on the application of the new standards and common pitfalls to be avoided. This is not intended to be an exhaustive list.

FRS 102 — disclosure requirements
When transitioning to FRS 102, the key focus of many entities will have been on applying accounting policies in accordance with the new standard, particularly when this resulted in different recognition, classification, measurement and — perhaps to a lesser extent — presentation requirements when compared with old UK GAAP. However, disclosure also plays an important role and it has become evident that some of the disclosures required by FRS 102 have not been fully understood or are difficult to apply in practice. In the table below we have identified some of the more common problem areas. Small entities are not required specifically to give all the disclosures listed below. The disclosures may, however, be encouraged, or indeed be necessary, in order to give a true and fair view (see below).

<table>
<thead>
<tr>
<th>Topic</th>
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<th>Comment</th>
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<tr>
<td>Accounting policies and information about judgements and key sources of estimation uncertainty</td>
<td>FRS 102.8.5 requires the notes to the accounts to disclose a summary of significant accounting policies applied. FRS 102.8.6 requires disclosure of the judgements made by management in the process of applying the entity’s accounting policies, apart from those involving estimations (which are covered by FRS 102.8.7), that have the most significant effect on the amounts recognised in the financial statements. FRS 102.8.7 requires information about assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.</td>
<td>Care should be taken that the accounting policy notes are updated for FRS 102 and are tailored to the specific circumstances of the business. Boilerplate text should be avoided. Only significant accounting policies need be disclosed. Information about judgements and sources of estimation uncertainty should be sufficiently detailed so that their potential impact can be understood. Simply explaining what the key judgements and sources of estimation uncertainty are is not sufficient to meet these requirements. Again, entity-specific information should be provided. These disclosures are required only when they have a significant effect on or a significant risk of material adjustment to the amounts recognised in the accounts. There is no need to provide a long list of all judgements and estimation uncertainties and, furthermore, it is possible to remain silent when no such uncertainties have been identified. For more guidance on the disclosures see practical tip below.</td>
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<tr>
<td>Topic</td>
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<tr>
<td>Financial instruments</td>
<td>FRS 102.11.41 requires a note to the balance sheet analysing the different categories of financial instrument. FRS 102.11.42 requires disclosure of key information to enable users to evaluate the significance of financial instruments (for example, interest rates, repayment schedules, etc.).</td>
<td>The detailed analysis of the different categories of financial instrument is new and there has been some debate as to which items should be included or excluded. Further guidance is available in the faculty’s FRS 102 Update Disclosure of categories of financial assets and financial liabilities. See also the practical tip below. Further detail on the significant features of any financial instruments also needs to be provided.</td>
</tr>
<tr>
<td>Operating lease commitments disclosure by lessees</td>
<td>FRS 102.20.13 requires that the total of the future minimum lease payments is analysed as falling due within one year, within one to five years, and after five years.</td>
<td>The operating lease commitments note is different to old UK GAAP – which required the analysis of the annual payment falling due within each time band as opposed to the total. So care must be taken to ensure that the note is correctly updated.</td>
</tr>
<tr>
<td>Key management personnel compensation</td>
<td>FRS 102.33.7 requires disclosure of key management personnel compensation in total. Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity. Compensation includes all employee benefits, including all forms of consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered (see practical tip below).</td>
<td>Although the definition of key management personnel has not changed, it will still require the exercise of judgement to ensure that all those with the appropriate authority, not just directors, are correctly identified. The disclosures required are not the same as those required by company law for directors of large and medium-sized companies as the disclosure is of the cost to the entity rather just the benefits received by management personnel.</td>
</tr>
<tr>
<td>Transitional disclosures</td>
<td>FRS 102.35.12 requires an entity to explain the effect of the transition to the standard on its accounts.</td>
<td>While entities may be complying with the minimum disclosures required by the standard there are concerns that insufficient narrative description or detail is being provided for the impact of the changes to be understood. See practical tip on HMRC’s findings below. Illustrative examples of the transitional disclosures are available in FRC’s Staff Education Note 13 Transition to FRS 102.</td>
</tr>
<tr>
<td>Errors identified on transition</td>
<td>FRS 102.35.14 requires an entity to distinguish between the correction of errors and changes in accounting policy.</td>
<td>Prior period errors, as opposed to changes in estimates, are adjusted for retrospectively by way of prior period adjustment when material. These adjustments should be distinguished from transitional adjustments to the extent this is practicable.</td>
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</tbody>
</table>
Practical tip: beware of over-reliance on software
When finalising the accounts, care will need to be exercised to ensure that the notes generated by accounting software are adapted to the individual circumstances of the entity. Some of the notes may not be relevant and others will not provide useful information unless information is specifically linked to the reported transactions.

Practical tip: make HMRC your friend
Alison Ring, Advisory Accountant at HMRC, stated the following in her blog New UK GAAP and Tax: ‘HMRC relies on the disclosure in the company accounts in order to establish the correct tax liability... Where disclosures in the accounts are not clear, or where we are not certain, we will need to ask more questions. This will have impacts for both companies, tax agents and HMRC, and could probably be avoided had a full disclosure been included.’

Practical tip: significant accounting judgements and sources of estimation uncertainty
When announcing its thematic reviews for 2017/18 IFRS accounts the FRC stated that it had ‘found too many examples of generic disclosures’. FRS 102 has similar requirements. In order to enhance the quality of financial reporting the FRC has suggested the following improvements:

- clear descriptions of the specific, material judgements made by directors in accounting policies, clearly differentiating these from estimates;
- specific identification of the sources of estimation uncertainty that have the potential to change in the next year, with quantified explanations of the assumptions made about the future and the carrying amounts that are subject to significant risk of material adjustment within the next financial year; and
- where material, supplementary disclosures such as information about the sensitivity of estimates to changes in assumptions, the range of reasonably possible outcomes and changes made to past assumptions during the year.

Practical tip: categories of financial instruments disclosure
FRS 102 Section 11 paragraph 41 requires an analysis of financial assets and financial liabilities distinguishing between those measured at fair value, at amortised cost and at cost less impairment. The categorisation of some items is clear cut; for example a fixed term bank loan classified as basic would be included by the borrower as a financial liability at amortised cost. But it is less clear whether other types of assets and liabilities should be included in this note and – if they are – how they should be classified. However, only items meeting the definitions of financial assets and financial liabilities should be included so the rights and obligations may need careful consideration to establish whether contractual rights (or obligations) exist to receive (or deliver) cash or other financial assets. There are some types of financial instruments which are outside the scope of Sections 11 and 12, and the specific disclosure requirements are found elsewhere in the standard. For example, disclosure requirements for obligations under finance leases are to be found in Section 20 Leases, and there is no requirement to include them as part of the Section 11 paragraph 41 note. Further guidance is available in the faculty’s FRS 102 Update Disclosure of categories of financial assets and financial liabilities.

Practical tip: key management personnel compensation
The amount to be disclosed for compensation includes all employee benefits (including share based payments) paid, payable or provided by the entity or on behalf of the entity. Employee benefits include employer’s national insurance contributions (FRS 102.28.4).
FRS 102 – recognition, classification and measurement
FRS 102 is more closely linked to international accounting standards (IFRSs) than the previous UK GAAP. For some entities, this has given rise to some significant changes in accounting policy and challenges in first-time application of these policies, including those set out below.

<table>
<thead>
<tr>
<th>Topic</th>
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<tbody>
<tr>
<td>Derivatives</td>
<td>Derivatives such as interest rate swaps or forward foreign currency contracts are classified as other financial instruments and generally accounted for at fair value.</td>
<td>Most entities did not recognise derivatives on-balance sheet under old UK GAAP so entities must ensure that processes are in place to identify all such contracts and to obtain the valuations necessary to meet the requirements of FRS 102.</td>
</tr>
<tr>
<td>Classification of debt instruments</td>
<td>FRS 102.11.9 sets out a number of criteria that need to be met for a debt instrument to be classified as basic. Such instruments are generally accounted for at amortised cost. When the criteria are not met, the debt instrument will be classified as another financial instrument and generally be accounted for at fair value through profit or loss.</td>
<td>The criteria to determine whether a debt instrument is basic or other are not always easy to apply in practice. Furthermore, some debt instruments which may be perceived as being relatively straightforward or commonplace in some industries might still be categorised as other by the standard. Further guidance is available in the faculty’s FAQ Basic and other financial instruments.</td>
</tr>
<tr>
<td>Financing transactions</td>
<td>FRS 102.11.13 requires that financing transactions i.e., loans with payment deferred beyond normal business terms or that are financed at a rate of interest that is not a market rate, must be measured initially at the present value of the future payments discounted at a market rate of interest for a similar debt instrument. Subsequently, such loans will be measured at amortised cost using the effective interest rate method. Some intercompany loans and directors’ loans will fall into this category (see practical tip below). Note that small entities now have the option to measure loans from director-shareholders at transaction price (see section 4 of this factsheet).</td>
<td>Establishing an appropriate interest rate can be a challenge, particularly for smaller entities for which alternative sources of finance are not easily available. Guidance on the accounting treatment for intercompany loans, including illustrative examples, is available in the faculty’s FAQ Intercompany loans at non-market rates. Guidance on the rationale behind the treatment, alternatives and factors which might be taken into account when establishing an interest rate is available in the faculty’s FRS 102 Update Loans from director-shareholders under the new UK GAAP.</td>
</tr>
<tr>
<td>Goodwill amortisation</td>
<td>FRS 102.19.23 requires goodwill to be measured at cost less accumulated amortisation and impairment losses. Goodwill is considered to have a finite useful life and must be amortised on a systematic basis over its useful life.</td>
<td>There are no exceptions to the requirement to amortise goodwill. This includes any goodwill brought forward from acquisitions made prior to the transition to FRS 102.</td>
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<tr>
<td>Topic</td>
<td>Requirements</td>
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</table>
| **Investment property**<br>– group properties<br>– recognition of revaluation gain or loss | FRS 102.16.2 defines as investment property any property held to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes, or for sale in the ordinary course of business.  
FRS 102.16.7 requires that investment properties whose fair value can be measured reliably without undue cost or effort must be measured at fair value at each reporting date, with changes in fair value recognised through profit or loss. | Properties let to and occupied by other group entities and therefore classified as property, plant and equipment in the group accounts are not excluded from the definition of investment property and must, therefore, be measured in the owning entity’s individual accounts at fair value unless this cannot be measured reliably without undue cost or effort. In many cases such properties will have previously been measured at cost less accumulated depreciation and impairment.  
All fair value gains and losses arising in the period must be recognised through profit or loss, not OCI.  
The movement in deferred tax should be recognised in profit or loss, to be consistent with the treatment of the movement in fair value. |
| **Contingent revenue** | FRS 102.23.15 says that ‘when a specific act is more significant than any other act, the entity postpones revenue recognition until the significant act is executed’. Unlike UITF 40, this requirement does not explicitly prohibit the recognition of such revenue until such time as the contingency is resolved. | Entities should bear this in mind when determining when contingent revenue is recognised.  
Entities will need to look in detail at the individual facts and circumstances of each case before reaching a conclusion on the appropriate accounting treatment. Significant judgement may well be needed when determining whether there is sufficient evidence to justify the recognition of contingent revenue. |
| **Deferred tax**<br>– timing differences<br>– movements in deferred tax<br>– business combinations | FRS 102.29.6 requires that deferred tax be recognised on all timing differences at the reporting date, with only limited exceptions.  
FRS 102.29.22 requires any changes in a deferred tax liability (or asset) to be presented in the same component of total comprehensive income (ie, profit or loss or other comprehensive income) as the transaction or event that resulted in the movement in deferred tax.  
FRS 102.29.11 requires additional deferred tax to be recognised on the difference between the carrying value of an asset (or liability) recognised in a business combination and the amount recognised for tax purposes. The adjustment to deferred tax is recognised as part of the goodwill calculation. | There are no exceptions to the provision of deferred tax for the timing differences arising on the revaluations of property (investment property or property, plant and equipment). The movement in deferred tax in respect of investment properties should be recognised in profit or loss. When an item of PPE is revalued the movement in deferred tax must be recognised in other comprehensive income (OCI). This treatment ensures consistency with the treatment of the movement in fair value.  
FRS 102.29.10 does not generally permit deferred tax to be provided on permanent differences. However, fair value adjustments arising on a business combination are specifically excluded from the requirements of paragraph 29.10. |
### Practical tip: intercompany loans and loans from directors

Intercompany loans and loans to or from directors are often made on an informal basis. Under FRS 102 the accounting treatment will vary according to whether the loan is repayable on demand and whether interest is charged at commercial rates. It may be necessary to establish the exact terms of any loans and, to avoid any uncertainty, it would make sense that the terms are adequately documented. Further guidance is available in the faculty’s FRS 102 Update *Accounting for directors’ loans under FRS 102*. Note that small entities now have the option to measure loans from director-shareholders at transaction price (see section 4 of this factsheet).

### FRS 102 Section 1A Small Entities

FRS 102 includes a section for entities that qualify for and choose to apply the small entities regime. While a small entity must apply the recognition and measurement provisions of FRS 102, it is not required to produce all the primary statements required of those not applying Section 1A and need produce only specified notes to the accounts. Small entities also have the option to prepare abridged accounts. However, small entity accounts must still give a true and fair view.

<table>
<thead>
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<tr>
<td>True and fairview</td>
<td>Section 1A sets out the minimum requirements for a complete set of small entity accounts and Appendix C to Section 1A sets out the disclosure requirements based on company law. FRS 102.1A.18 and 1AC.1 state that, as a minimum, when relevant to its transactions, other events and conditions, a small entity should provide the disclosures in Appendix C to Section 1A. FRS 102.1A.6 states that the entity may need to provide disclosures in addition to those required by Section 1A in order for the accounts to give a true and fair view.</td>
<td>The level of additional disclosure small entities should give to ensure that accounts give a true and fair view is a matter of judgement. There are some disclosures which are specifically encouraged in Section 1A Appendix D. However, it is advisable to consider all the disclosures in FRS 102 which are relevant to the transactions entered into and to consider whether they would provide useful information to users.</td>
</tr>
<tr>
<td>Abridged accounts</td>
<td>FRS 102.1AA.2 and FRS 102.1AB.2 include the options under the Small Company Regulations(^1) to prepare an abridged balance sheet, abridged profit and loss account, or both, subject to unanimous agreement by the members. The abridged accounts must still give a true and fair view.</td>
<td>More information on abridged accounts is available in the faculty’s FAQs <em>Filing options under the new small companies regime</em>. See also the practical tip below on the distinction between abridged and the old abbreviated accounts.</td>
</tr>
<tr>
<td>Directors’ remuneration and dividends paid to directors</td>
<td>FRS 102.1AC.3S requires disclosure of material transactions with directors and other specified related parties that have not been concluded under normal market conditions. Transactions with directors include directors’ remuneration and dividends paid to directors.</td>
<td>What constitutes normal market conditions may be a matter of judgement and can be particularly hard to establish in the context of a small owner-managed business. FRS 102.1AC.3S points out that disclosing all transactions, whether or not concluded under normal market conditions, would still be compliant with the law.</td>
</tr>
</tbody>
</table>

\(^1\) Small Companies Regulations refers to The Small Companies and Group (Accounts and Directors’ Report) Regulations 2008 (SI 2008/409).
Practical tip: abridged versus abbreviated accounts
Some confusion has arisen as to the distinction between abridged and abbreviated accounts. Abridged accounts, when prepared, will be those presented to members, as well as being those filed at Companies House, whereas abbreviated accounts were a separate set of accounts for filing at Companies House, prepared in addition to the accounts presented to members. There are a number of formalities that have to be met each year before the option to prepare abridged accounts can be exercised.

Practical tip: abbreviated accounts are no longer an option
The option to file abbreviated accounts has been removed. In addition, irrespective of the accounting framework adopted, small companies have the option to omit their profit and loss account and directors’ report from what they file at Companies House. For more information see the faculty’s FAQs Filing options under the new small companies regime.

The first triennial review of new UK GAAP
As a result of its first triennial review, the FRC has identified a number of areas in which simplifications could be made to FRS 102. In March 2017, it published FRED 67 Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Triennial review 2017 – Incremental improvements and clarifications.

While the proposals address some of the issues identified above, it should be noted that – as explained in the FRC’s Foreword to Accounting Standards – an exposure draft is issued for comment and is subject to revision. Until these proposed changes are finalised, the existing requirements of the accounting standards remain in force. Although the FRC has made an early amendment in respect of certain directors’ loans to small entities (see section 4 of this factsheet), it has made it clear in its press release that the amendment should ‘not be applied directly, or by analogy, to any other transaction, event or condition’.

Practical tip: application of the amendments when available
The comment period for FRED 67 closes on 30 June 2017 and the FRC hopes to issue any amendments arising in December 2017. The proposed amendments would be effective for 1 January 2019 with early adoption possible, subject to all the amendments being applied at the same time. Given that the objective of the amendments is to make life easier for most entities, early adoption when finalised will be an attractive option for some. The faculty will keep you updated on the developments.

Practical tip: major changes in IFRS
As noted in the FRC’s consultation Triennial review of UK and Ireland accounting standards - Approach to changes in IFRS further proposals are under consideration to incorporate recent major changes to IFRSs into UK GAAP. Any amendments arising would be expected to be effective for accounting periods beginning on or after 1 January 2022.
Contacts and further help

Factsheets for faculty members
This factsheet is part of a series designed to provide practical help for Financial Reporting Faculty members in exercising their professional judgement.

The faculty cannot offer interpretations of standards or give views on the application of standards to particular entities or transactions.

The faculty’s standards trackers
To double-check for current standards and recent amendments go to the faculty’s standards trackers at: icaew.com/frfstandardstracker.

Factsheets
Topics covered by other factsheets include:
•The UK Financial Reporting Regime
•UK Regulation for Company Accounts - 2016
•2017 IFRS Accounts

A complete list of factsheets can be found here: icaew.com/frffactsheets

Factsheet comments and suggestions
To comment on factsheets, or to suggest topics that you’d like to see covered by factsheets, email us at frfac@icaew.com

The faculty website (icaew.com/frf)
Our website contains details of recent developments, faculty publications, and all the current topics of debate.

Use the faculty’s online community
The faculty’s online community gives members the opportunity to discuss financial reporting issues with their peers, ask questions, and find answers. You can use the blogging facility to ask questions on a specific issue, or search to see if the same topic is already under discussion.

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