Reynolds
TRADE CREDIT

HART SHAW
Incorporating Atkin Macredie & Co
Chartered Accountants & Business Advisers

# Welcome to the

# Sheffield City Region Breakfast Club

**Tuesday 18th February 2014**

HART SHAW
Incorporating Atkin Macredie & Co

Chartered Accountants & Business Advisers

# TRANSITION FROM UK GAAP

# TO FRS 102

HART SHAW
Incorporating Atkin Macredie & Co
Chartered Accountants & Business Advisers

Presented by Martin Wharin

martin.wharin@hartshaw.co.uk

# Overview of the most common matters



Not meant to be a technical lecture

But an attempt to provide the answer to:

The 3 W’s

Who

When

What

# Overview of the most common matters

Applies to:

Medium and large companies

Which are defined currently as any company where two of the following three tests are breached:

Turnover > £6.5m (may be £10m by 2015)

Gross assets > £3.26m (may be £5m by 2015)

Employees >50

# Overview of the most common matters

HART SHAW
Incorporating Atkin Macredie & Co
Chartered Accountants & Business Advisers

When does it apply:

Mandatory for all accounting periods commencing after 1st January 2015 (y/ends 31/12/2015)

But:

Comparatives will be required so need to think about impact for 31st December 2014 year end.

Worse:

Because these size companies have cash flow statements, will need to think about the impact on the December 2013 balance sheet

# Overview of the most common matters

HART SHAW
Incorporating Atkin Macredie & Co
Chartered Accountants & Business Advisers

There are three areas of potential impact of moving from UK GAAP to FRS

The accounts themselves

Taxation, as in general tax treatment follows accounting treatment

Impact on lending covenants

# Overview of the most common matters

HART SHAW
Incorporating Atkin Macredie & Co
Chartered Accountants & Business Advisers

The biggest change in UK financial reporting in a generation?

Replaces nearly 40 SSAP’s and FRS’s so in that respect

YES

# Overview of the most common matters

HART SHAW
Incorporating Atkin Macredie & Co
Chartered Accountants & Business Advisers

The biggest impact in UK financial reporting in a generation?

Probably not

Mostly the treatment required by the previous standards are also required by the new FRS

# Overview of the most common matters

So what is different about FRS 102 and what is the likely impact on your accounts

Most common areas:

Investment properties

Fair value accounting (effectively show at market value), provided no undue cost or effort, and all changes to fair value to go through the profit and loss account and not the STRGL.

There will no longer be a revaluation reserve for investment properties.

# Overview of the most common matters

HART SHAW
Incorporating Atkin Macredie & Co
Chartered Accountants & Business Advisers

Investment properties – continued

Any gains on “revaluation” are still classed as “non distributable” and so you will have to track the amount of non distributable reserves included in the Profit and Loss account, to ensure an illegal distribution is not made.

The previous restriction that a company could not itself occupy or let to and be occupied by another group company has been removed. Therefore there may be more properties classed as investment properties than before

Deferred tax  will have to be provided on revaluations.

# Overview of the most common matters

Intangible Assets

There is a default, maximum period for amortisation of goodwill and intangibles, of 5 years, if a company can not reliably estimate the useful economic life.

Currently this is a maximum of 20 years.

Negative goodwill will need to be written off to the profit and loss account rather than held on the balance sheet

# Overview of the most common matters

Holiday Pay accruals

Back to the future?

The FRS makes this accrual a requirement as short term absences are often accumulated and carried forward for use in the future.

Pulling this information together for the first time may be time consuming and cumbersome, especially for larger organisations who may not have this information in a central location.

# Overview of the most common matters



Leases

The classification of a finance lease is based on whether the risks and rewards of ownership of the asset have been transferred.

Similar to current standards, except the test of the present value of the minimum lease payments amounting to 90% of the fair value of the asset, is no longer required.

Therefore more judgment as to whether finance lease or operating lease.

The operating lease commitment note will be total of future minimum lease payments, and not the annual lease commitment as currently applies.

# Overview of the most common matters

HART SHAW
Incorporating Atkin Macredie & Co
Chartered Accountants & Business Advisers

Lease incentives

FRS 102 they are spread over the lease term, which may be a longer period than under current UK GAAP, which is to the period to the first rent review, assuming this is when the rent is reset to market rates.

Deferred tax

Major difference is that FRS 102 requires provision on items such as the revaluation of property.

# Overview of the most common matters

Format Changes – Profit and Loss account, Balance sheet, Cash flow.

The profit and Loss and Balance Sheet still have to comply with Company's Act 2006 and so any changes are minimal. The major changes being in the titles.

The Profit and Loss will be known as “The statement of comprehensive income and income statement”

The Balance Sheet will be known as “ The statement of financial position”

# Overview of the most common matters

Format Changes – Profit and Loss account, Balance sheet, Cash flow. - continued

The Cash Flow Statement

This format is quite different and you are required to reconcile to cash and cash equivalents as opposed to just cash.

Cash investments will normally qualify as cash equivalents when they have a short maturity date (3 months or less from acquisition)

# Overview of the most common matters

HART SHAW
Incorporating Atkin Macredie & Co
Chartered Accountants & Business Advisers

Less common matters:

Investment in listed shares – at market value

Basic financial instruments – no change

Complex financial instruments – foreign exchange forward contracts, complex loan arrangements – will be at fair value with changes through Profit and Loss account

Defined benefit pension scheme deficits – similar treatment but FRS 102 requires recognition of a liability in respect of payments under a funding agreement even if multi employer scheme.

# Overview of the most common matters

HART SHAW
Incorporating Atkin Macredie & Co
Chartered Accountants & Business Advisers

Transitional Accounting arrangements

Section 35 of the FRS describes in detail the transitional arrangements – nearly 7 pages long.

In brief: at the transition date, a company should recognise all assets and liabilities as required by the standard and any changes to accounting policies will need to be adjusted.

The FRS specifies no retrospective adjustment for certain items and you may choose to use exemptions for certain other matters.

# Overview of the most common matters

HART SHAW
Incorporating Atkin Macredie & Co
Chartered Accountants & Business Advisers

## Transitional Accounting arrangements

In the first set of accounts to be prepared under the FRS extensive disclosures are required.

The company must explain how the transition has affected its reported financial position and performance and produce a comprehensive reconciliation.

# Overview of the most common matters

HART SHAW
Incorporating Atkin Macredie & Co
Chartered Accountants & Business Advisers

Transitional Accounting arrangements

This reconciliation must include:

A description of the nature of each change in accounting policy

A reconciliation of the profit as it would have been under UK GAAP

Reconciliations of what the net assets would have been under UK GAAP for both the current and comparative periods

# Overview of the most common matters

HART SHAW
Incorporating Atkin Macredie & Co
Chartered Accountants & Business Advisers

What is the transition date :

Stated as the beginning of the earliest period for which the company presents full comparative information. For a non early adopter with a December year end this will be 1 January 2014.

So as already mentioned, the impact on the balance sheet at 31 December 2013 needs to be considered.

# Overview of the most common matters

HART SHAW
Incorporating Atkin Macredie & Co
Chartered Accountants & Business Advisers

One of the most important aspects of making the change to FRS 102 will be the potential impact on tax payable.

HMRC have in January produced a paper entitled “FRS 102 Overview of tax implications” This paper is 40 pages long. You can obtain a copy from HMRC website

In general the tax treatment follows the accounting treatment.

However, some items are ignored, such as the revaluation of property and certain financial instruments. But some financial instruments will be taxed on the fair value basis and so day 1 adjustment could result in a large tax bill.

# Overview of the most common matters

Impact on lending covenants.

You will need to go back to your agreements and review the covenants against any of the accounting changes.

This may result in the need to open discussions with your lenders, and sooner rather than later.

# Overview of the most common matters

HART SHAW
Incorporating Atkin Macredie & Co
Chartered Accountants & Business Advisers

In summary start thinking about the potential consequences now.

Calculate any changes to the balance sheet for December 2013 and consider the potential tax and other implication

Talk to your auditors. They will need to be thinking about the audit evidence they need in connection with December 2013.

# Overview of the most common matters

Is this the biggest change in accountancy for years?

Or is it much a do about nothing?

# Overview of the most common matters

HART SHAW
Incorporating Atkin Macredie & Co
Chartered Accountants & Business Advisers

I hope this has been informative and not too detailed, but provided food for thought.

Thank you.

Any questions?

I will be around for a while if you prefer to ask one to one.

HART SHAW
Incorporating Atkin Macredie & Co
Chartered Accountants & Business Advisers


**Hart Shaw**

Europa Link, Sheffield Business Park,
Sheffield S9 1XU

Telephone: **0114 251 8850**

Facsimile: **0114 251 8851**

**info@hartshaw.co.uk**

**www.hartshaw.co.uk**

Reynolds TRADE CREDIT

HART SHAW
Incorporating Atkin Macredie & Co
Chartered Accountants & Business Advisers

**Contacts:**

**Martin Wharin – Business Services Partner at Hart Shaw**
**T: 0114 251 8850, Email: martin.wharin@hartshaw.co.uk**

**Steve Hamstead – Director at Reynolds Trade Credit**
**T: 0114 280 0169, Email: shamstead@reynoldsinsure.com**