

INTRODUCTION

FRS 102 is the biggest development in UK accounting for a generation and brings with it significant changes to how UK GAAP accounts will be prepared in the future. There are considerable accounting, commercial and tax implications that need thinking about and acting upon now.

The new standard applies to medium and large companies from 1 January 2015 small companies will come within its scope from 1 January 2016.

This practical guide looks at the significant changes that FRS 102 may bring about and how best to successfully plan for the transition.

It is intended as a useful resource to help company directors and accountants fully prepare for implementation of FRS 102.

For more information please contact our FRS 102 specialists.

Contact details can be found on page 9.



Frequently asked questions

What is FRS 102?

Important changes have been made to UK GAAP with the introduction of Financial Reporting Standard 102 (FRS 102). FRS 102 is the biggest development in UK accounting for a generation and brings with it significant changes to how UK GAAP accounts will be prepared for the future. The precise impact of FRS 102 will differ from one company to another. For some, the impact could be minimal but for many others the devil will be in the detail.

What companies are affected?

The new standard applies to medium and large companies from 1 January 2015 with small companies coming within its scope from 1 January 2016.

Can I continue to apply current UK GAAP?

No, unless you are an eligible entity applying the FRSSE. For other entities, FRS 102 replaces all existing FRSs, SSAPs and UITFs for accounting periods beginning on or after 1 January 2015. Most of the existing SORPs are being updated although some are being withdrawn when the new standards come into effect.

Is early adoption permitted?

Yes, FRS 102 can be adopted early for accounting periods ended on or after 31 December 2012. It may be that introduction of FRS 102 will bring with it significant advantages: for example, it could initially improve tax cash flows.

If you are thinking of starting a new business it may be a good idea to apply the new standards early to avoid changing frameworks within a short period of time.

Can I switch from using EU-adopted IFRS to using FRS 102?

Yes, as long as you are a company that voluntarily prepares their accounts under EU-adopted IFRS and you have not previously switched in the last five years. If you are part of a group, certain consistency criteria must also be met.

What should I do now?

It is extremely important that you start preparing for FRS 102 now, even if you are not planning on adopting early, to ensure a smooth transition to the new standard. We recommend you start planning as soon as you can.

How can Hawsons help?

Hawsons provides FRS 102 advice in our Sheffield, Doncaster and Northampton offices. Our FRS 102 specialists understand the commercial, accounting and taxation changes that the new standards may bring.

Commercial & Accounting

Reported profits could change

Companies will need to assess how the following changes will affect their reported profits and communicate this to affected stakeholders:

- changes in the recognition of certain fair value movements (e.g. investment properties);
- changes in the timing of certain gains and losses (e.g. forward exchange contracts); and
- other changes in the way certain items are recorded in profit or loss (e.g. holiday pay accruals)

The balance sheet position could be significantly affected

FRS 102 has slightly different definitions of what constitutes certain tangible and intangible assets and also changes the way certain assets and liabilities are measured. Furthermore, specific definitions for, and treatment of, financial assets and liabilities are set out for the first time.

FRS 102 requires deferred tax to be recognised on items such as the revaluation of investment properties and certain other assets. Consequently, balance sheets of affected companies could be negatively impacted through the recognition of new deferred tax liabilities.

Effect on banking covenants and other commercial and practical considerations

A change in the recognition criteria of assets and liabilities, as well as profits and losses could have an impact on the credit rating of a company. Additionally, where loan covenants are calculated based on profit or balance sheet measures, the move to FRS 102 could have an impact on the headroom of those covenants.

Where companies pay bonuses out of profit, have profit-related pay schemes, or have earn-out agreements spanning the transition date, the basis of these calculations should be reconsidered.

Also, with changes in fair value being reflected in the profit or loss for the period, companies will need to take more care when determining taxable profits and companies will need to ensure that dividends are paid out of distributable profits.

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Making the change

On adoption of FRS 102 the opening balance sheet carrying values in the majority of these areas will be restated, with adjustments – which effectively represent the cumulative differences there would have been in historical profits if FRS 102 had always been in place – being taken directly to brought forward profit and loss reserves. Restatement of existing operating leases is however optional.

Generally such opening balance adjustments are brought into account as a tax adjustment in the first period of the new treatment, although there are specific alternatives for some cases arising from FRS 102 changes. The tax impact of these adjustments may be able to be spread over 10 years (loan relationships and derivatives) or 6 years (biological assets).

Please contact Hawsons for more information.

Contact details can be found on page 9.



“FRS 102 WILL HAVE A NUMBER OF SIGNIFICANT CHANGES IN REPORTED PROFITS. THOSE REPORTED PROFITS ARE THE STARTING POINT FOR CALCULATING TAX LIABILITIES – AND VERY OFTEN, THOSE CHANGES WILL FLOW THROUGH AND HAVE A DIRECT IMPACT ON THE TAX LIABILITY”

SUMMARY

The precise impact of FRS 102 will differ from one company to another. For some, the impact could be minimal but for many others the devil will be in the detail. We therefore recommend you start planning as soon as you can.

If you have attended one of the Hawsons FRS 102 seminars, watched our “90 second guide to videos” and read this guide then you have made a big step in terms of your preparation. However, to fully prepare for implementation of FRS 102, it is crucial that you seek further advice to ensure you completely understand FRS 102 and the impact it may bring on your particular business.

We advise seeking advice from Hawsons’ FRS 102 specialists to ensure that not only is the transition as smooth as possible, but you take advantage of the significant opportunities available. Our FRS 102 specialists understand both the commercial, accounting and taxation changes that the new standard will bring and can help you to achieve a successful transition for your company.

Hawsons provides FRS 102 advice in our Sheffield, Doncaster and Northampton offices.

Please contact your local specialist for more information.

www.hawsons.co.uk/frs102

Not yet a Hawsons client?

We offer all new customers a free initial, no-obligation consultation.

This consultation will enable you to have a detailed discussion about your business and how Hawsons can help you achieve a successful transition to the new standard.

Please contact your local office for more information.

Contact details on page 9.



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