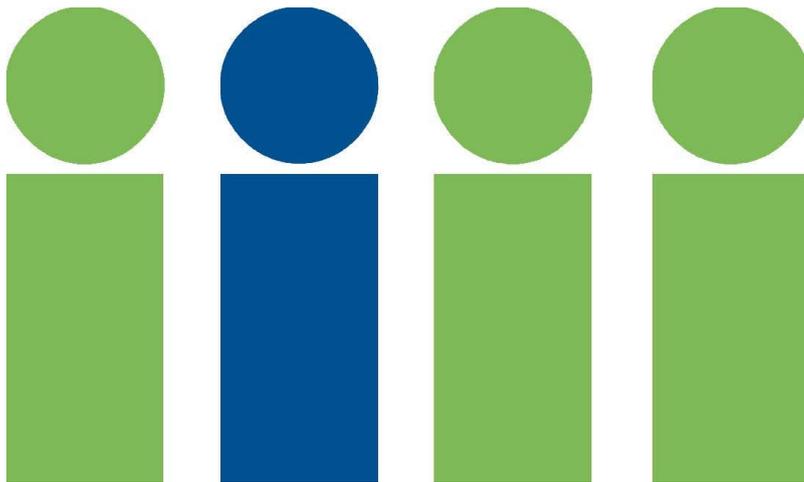


Technical Bulletin

TR 168/15

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Recent changes to UK GAAP

Timetable for implementation of the recent changes to UK GAAP and key implications of early adoption

Overview - Introduction and purpose of the bulletin

When the new UK GAAP was first published back in November 2012, the profession was warned that the new standards may be amended prior to the date of mandatory implementation. This has certainly turned out to be true - as an example, we have now reached the third edition of FRS 102 despite the majority of entities (with December 2015 year ends) still not having implemented it.

During this time we also have seen the publication of FRSs 103, 104 and 105 supplementing the original suite of standards, and the consequential withdrawal of others.

Determining which financial reporting regimes are available to a particular entity for a given accounting period, and which version of the relevant standard(s) applies has become increasingly difficult. Early adoption only makes the problem even more complex, as does the recent publication of Statutory Instrument 2015/980.

This Bulletin aims to summarise the key transition dates and looks at some of the key issues which may influence both the choice of GAAP and the decision whether or not to adopt early.

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<p>INTRODUCTION</p>	<p>FRSs 100 and 101 were first published back in November 2012, with FRS 102 following on in March 2013. At that time, the profession was warned that the new standards may be amended prior to the date of mandatory implementation. This has certainly turned out to be true - as an example, we have now reached the third edition of FRS 102 despite the majority of entities (primarily those with December 2015 year ends) still not having implemented it.</p> <p>During this time we also have seen the publication of FRSs 103, 104 and 105 supplementing the original suite of standards, and the consequential withdrawal of others.</p> <p>Determining which financial reporting regimes are available to a particular entity for a given accounting period, and which version of the relevant standard(s) applies has become increasingly difficult. Early adoption possibilities only make the problem even more complex, and the situation is further compounded by the publication of Statutory Instrument 2015/980 which changes both the company size limits and disclosure requirements.</p> <p>This Bulletin aims to summarise the key transition dates and looks at some of the key issues which may influence both the choice of GAAP and the decision whether or not to adopt early.</p>
<p>OVERVIEW</p>	<p>A summary of the key implementation dates and early adoption possibilities for all the various financial reporting regimes is included at Appendix A to this Bulletin.</p> <p>The sections below look at some of the key accounting and financial reporting implications of adopting early. Further Bulletins will follow, looking at each new regime in detail.</p>
<p>MICRO-ENTITIES</p>	<p>Micro-entities are defined as companies that do not exceed at least two of the following three thresholds in relation to a financial year (the “two year rule” also applies):</p> <ul style="list-style-type: none"> • Turnover not exceeding £632,000 per annum pro-rata • Balance sheet total not exceeding £316,000 • Average number of employees not exceeding 10 <p>LLPs, charitable companies, investment undertakings, financial institutions, consolidated subsidiaries and parent companies that prepare group accounts are all excluded.</p> <p>Micro-entities have optionally been able to apply a significantly reduced reporting regime since 2013 when the regulations were incorporated into both the 2008 and 2015 versions of the FRSSE. Most of the key disclosure reductions and accounting changes were introduced at this point e.g. removal of the option to account for fixed assets at a valuation.</p> <p>FRS 105 was published in July 2015 as the new standalone accounting and reporting standard for micro-entities for periods beginning on or after 1 January 2016, coinciding with the withdrawal of the FRSSE. The key new simplifications introduced by FRS 105 are the removal of:</p> <ul style="list-style-type: none"> • Accounting for deferred taxation and share based payment;

	<ul style="list-style-type: none"> • The requirement to prepare a directors' report. <p>This reduction in complexity alone might be enough to encourage many micro-entities to move straight to FRS 105 as soon as possible, let alone any benefit to the balance sheet from no longer having to account for a deferred tax liability. Entities that are currently carrying a deferred tax asset may feel differently, of course!</p> <p>Since relatively few eligible entities have already adopted the micro-entity regime, switching straight to FRS 105 will also need to include the original accounting changes such as the removal of the option to revalue fixed assets. This, plus the removal of deferred tax and share based payment accounting, will necessitate a prior year adjustment in the year of changeover. Reversion to the historical cost basis for fixed assets will also require detailed historical cost information to be available.</p>
<p>SMALL ENTITIES</p>	<p>Entities eligible for the small companies regime have two changes of standard – the introduction of FRSSE 2015 and its subsequent replacement by section 1A of FRS 102.</p> <p>FRSSE 2015 is mandatory for periods beginning on or after 1 January 2015, but can be adopted early. The key changes introduced were:</p> <ol style="list-style-type: none"> a) The presumed maximum UEL of goodwill and intangible was reduced from 20 to 5 years where a reliable estimate cannot be made. b) An annual assessment for indicators of impairment must now be performed. c) The definitions of related parties and close family members were updated and expanded; and d) An exemption was given for disclosure of intra-group related party transactions where any subsidiary party to the transaction is 100% owned by the group. <p>For some entities, (c) meant significantly more disclosure. However, (a) made the most significant adverse impact on the accounts.</p> <p>Section 1A of FRS 102 (September 2015) replaces the FRSSE for periods beginning on or after 1 January 2016. As this increases the maximum UEL from 5 years up to 10 years, some small entities may therefore be interested in adopting the new regime early, thus bypassing FRSSE 2015 altogether if they have not already adopted it.</p> <p>It should be noted that FRS 102 (September 2015) incorporates the new company law changes included in SI 2015/980, and thus one cannot be adopted early without the other. The contents of the Statutory Instrument are covered in more detail in Bulletin 165/15, but the two key changes affecting small entities are:</p> <ul style="list-style-type: none"> • A substantial increase to the small company thresholds; and • A reduction in the maximum number of mandatory notes to 13. <p>If adopted early, the new thresholds will immediately apply to the size assessment for eligibility to apply the small companies regime for that earlier period. However, the parallel increase to the audit thresholds cannot be adopted early and will therefore not apply until 2016 when the Statutory</p>

	<p>Instrument mandatorily comes into force.</p> <p>As noted in Bulletin TR 165/15, the Government has been reflecting on whether to allow the higher small company limits to be adopted early for the purpose of determining audit exemption, but at date of writing, there is no indication of a change in policy and they are rapidly running out of time to make such a change. It therefore appears that early adopters must contend with a year of different small company and audit thresholds, and that the new audit exemption thresholds will indeed come into force for periods beginning on or after 1 January 2016.</p> <p>The new thresholds do not apply to LLPs in any respect. However, it is unlikely that neither this nor the delay to the implementation of the audit threshold increase will pose an obstacle to adopting the new regime early, and indeed are likely to encourage it.</p> <p>The other related change implemented by SI 2015/980 is the replacement of abbreviated accounts with “abridged accounts”. This change comes into force when the rest of the Statutory Instrument is adopted. Section 444(1)(b) of Chapter 15 of Part 10 of the Companies Act 2006 remains unchanged, so it appears that the P&L and directors’ report may still be omitted when filing at Companies House. Abridged accounts will be covered in more detail in a separate Bulletin.</p>
<p>MEDIUM AND LARGE ENTITIES</p>	<p>FRS 102 was first published in March 2013, with a view to it replacing UK GAAP for periods beginning on or after 1 January 2015. Since then, we have seen a number of changes published, incorporated into the August 2014 version and then the September 2015 version. Those that have already adopted FRS 102 early are the only entities that will ever use the March 2013 version.</p> <p>Those entities intending to drop the old UK GAAP only when it is mandatory to do so will have a choice:</p> <ul style="list-style-type: none"> a) adopt the August 2014 version first, probably only for one accounting period, then move onto the September 2015 version; or b) move straight to the September 2015 version. <p>The September 2015 version includes the rest of the changes published in July that do not have to be implemented if opting for the August 2014 version, plus the changes brought in by the aforementioned SI 2015/980.</p> <p>Again, one of the key issues affecting the decision whether or not to adopt the newest version of FRS 102 early is the UEL of goodwill and intangible assets. The August 2014 version contains the 5 year maximum where a reliable estimate of UEL cannot be made, whereas the September 2015 version contains the higher 10 year cap.</p>
<p>EU-ADOPTED IFRS WITH REDUCED DISCLOSURES</p>	<p>FRS 101 gives limited disclosure exemptions to subsidiaries applying IFRS that are consolidated in publicly available group accounts.</p> <p>There was no predecessor to FRS 101, so unless an entity has already adopted the standard early, it will currently be applying either UK GAAP or EU-adopted IFRS. So the first decision is whether to apply FRS 101 at all, (as this requires the entity to use IFRS), and then to consider whether to</p>

	<p>adopt the September 2015 version early.</p> <p>The main difference between the two versions of FRS 101 is the impact of the aforementioned SI 2015/980. As noted in Bulletin TR165/15, there has been some recent relaxation of the layouts required providing the information given is at least equivalent to that required by the standard formats. This change is implemented in the September 2015 version, which can be adopted early for periods beginning on or after 1 January 2015 provided the Statutory Instrument is early adopted as well.</p>
EU-ADOPTED IFRS	Bulletin TR 166/15 gives a high level overview of recent changes to IFRS standards and interpretations.
ACTION	Those charged with governance should discuss with their auditors the various financial reporting regime options available to them, and the pros and cons of adopting the newest version of that regime early.
SOURCES	<p>FRS 100, 101, 102, 105 and FRSSE 2015</p> <p>Statutory Instrument 2015/980: The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015</p>

Appendix A - Summary of the key implementation dates and early adoption possibilities for UK financial reporting regimes

Periods beginning	Micro entities	Small entities	Medium and large entities	EU-adopted IFRS with reduced disclosures	EU-adopted IFRS
Prior to 1 January 2015	FRSSE 2008 as applicable to micro-entities (Note A) No early adoption permitted	FRSSE 2008	Old UK GAAP		EU-adopted IFRS See individual standards for early adoption permissibility
On or after 1 January 2015	FRSSE 2015 as applicable to micro-entities Early adoption permitted for periods ending on or after 30 September 2013 and filed on or after 1 December 2013	FRSSE 2015 Early adoption permitted	FRS 102 v Aug 2014 (Note B) Early adoption permitted for periods ending on or after 31 December 2012 (Note C)	FRS 101 v Aug 2014 (Note B) Early adoption permitted (Note E)	
On or after 1 January 2016	FRS 105 v Jul 2015 Early adoption permitted (Note D)	S1A of FRS 102 v Sep 2015 Early adoption permitted for periods beginning on or after 1 January 2015 (Note D)	FRS 102 v Sep 2015 Early adoption permitted for periods beginning on or after 1 January 2015 (Note D)	FRS 101 v Sep 2015 Early adoption permitted for periods beginning on or after 1 January 2015 (Note D)	

Notes:

(A) Only for periods ending on or after 30 September 2013 and filed on or after 1 December 2013.

(B) Plus certain July 2015 and other interim amendments.

(C) Entities adopting FRS 102 early prior to the publication of the August 2014 version would have applied the March 2013 version.

(D) SI 2015/980 must also be adopted early at the same time for entities subject to company law. This also contains the new small company size limits, but these cannot be applied early as regards audit threshold limits. Implementation of the SI will also trigger the replacement of abbreviated accounts by abridged accounts.

(E) Entities adopting FRS 101 **early** prior to the publication of the August 2014 version would have applied the November 2012 version.

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